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Joseph Paul Valentino

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NOTES

Customer Lists as Trade Secrets in Ohio

Although competition is the cornerstone of the free enterprise system, it can, if not reasonably restrained, be extremely detrimental to the functioning of society. One effective method of control has been established through the law of trade secrets which satisfied the need of the business community to delineate acceptable methods of competition. Litigation in this area has steadily increased as society has become technically complex and the working populace extremely mobile.

Many employers attempt to protect their trade secrets by inserting restrictive covenants in their employment contracts.¹ However, if an employer does not use employment contracts or fails to insert a restrictive covenant when such contracts are used, he must seek judicial relief in order to prevent his secrets from being disclosed by a former employee who has either engaged in a similar business or is employed by a competitor.

The purpose of this article is to analyze the development of trade secret law in Ohio with respect to the duty owed by a former employee to his former employer. The discussion will entail: (1) defining the term trade secret; (2) analyzing the criteria used by the Ohio courts in determining whether a trade secret exists in a particular situation; (3) determining the status of customer lists to illustrate the apparent conflict as to what constitutes a trade secret; and (4) suggesting reforms Ohio courts could adopt in order to clarify the area and prevent the piracy of trade secrets.

The area is complicated by the fact that in each case conflicting rights are involved. The employee has a right to change jobs and enhance his socio-economic status, while the employer has a right to insist that information he disclosed in confidence be kept confidential. Both of these rights are inherent in our free enterprise system; the decision as to which should dominate is not easily made. The courts generally approach the area by balancing the right of the employer against the potential subjection of the employee to a form of industrial servitude.

¹ See generally Note, *Validity and Enforceability of Restrictive Covenants Not To Compete*, 16 W. RES. L. REV. 161 (1964). For a comprehensive list of cases and materials, see the citations in *Arthur Murray Dance Studios, Inc. v. Witter*, 105 N.E.2d 685, 687-88 (Ohio C.P. 1952).

I. TRADE SECRET: WHAT DOES IT MEAN?

In *Cincinnati Bell Foundry Co. v. Dodds*,² "trade secret" was defined as that "which is not well enough or exactly enough known by any person but the inventor or owner as to enable other persons to make use of it in trade."³ The court emphasized that the secret "does not lose its character by being confidentially disclosed to agents or servants, without whose assistance it could not be made of any value . . ."⁴ Also, the patentability of the secret is of no consequence if the discoverer keeps the process secret, since "a secret may be property even though it is not patentable."⁵

A more specific definition was given in *National Tube Co. v. Eastern Tube Co.*,⁶ in which the plaintiff sought to enjoin the defendant company from using certain patterns which were converted by the plaintiff's former employee. The court defined a trade secret as

a plan or process, tool, mechanism, or compound, known only to its owner and those of his employes to whom it is necessary to confide it, in order to apply it to the uses for which it is intended. It is not protected by patent, for the secret then is made public, . . . while, as soon as anyone fairly and honestly discovers a trade secret, either by examination of the manufactured products sold or offered for sale to the public, or in any other honest way, that person discovering it has full right to use the same. That is the risk the owner takes, and if he would have further protection, he must seek it in a patent.⁷

Ohio traditionally has adhered to this definition.⁸ Recently, how-

² 10 Ohio Dec. Reprint 154 (Super. Ct. 1887).

³ *Id.* at 157. The court, quoting from *Peabody v. Norfolk*, 98 Mass. 452, 458 (1868), stated:

[H]e [who] invents or discovers, and keeps secret, a process of manufacture, whether a proper subject for a patent or not, . . . has a property in it, which a court of chancery will protect against one who in violation of contract and breach of confidence undertakes to apply it to his own use, or to disclose it to third persons. *Id.* at 154.

See generally Barton, *A Study in the Law of Trade Secrets*, 13 U. CINC. L. REV. 507 (1939), for a discussion of the development of trade secret law.

⁴ 10 Ohio Dec. Reprint at 157.

⁵ *Ibid.*

⁶ 3 Ohio C.C.R. (n.s.) 459 (Cir. Ct. App. 1902), *aff'd*, 69 Ohio St. 560, 70 N.E. 1127 (1903).

⁷ *Id.* at 462.

⁸ See, e.g., *Soeder v. Soeder*, 82 Ohio App. 71, 77 N.E.2d 474 (1947); *Inboden v. Hawker*, 41 N.E.2d 271 (Ohio Ct. App. 1941); *Case v. Thomas*, 5 Ohio L. Abs. 308 (Ct. App. 1927); *Cleveland Worm & Gear Co. v. Noyes*, 17 Ohio N.P. (n.s.) 529 (C.P. 1915).

ever, the Ohio courts have demonstrated a tendency to liberalize and expand their concept of "trade secret," as evidenced by present definitions:⁹ "[A]lmost anything and everything useful or advantageous in business activity that is not generally known or easily or immediately ascertainable to members of the trade."¹⁰

The adoption of such a broad definition suggests that the Ohio courts have concluded that the term "trade secret" is incapable of definition. A like conclusion was reached by the drafters of the *Restatement of Torts* who, after defining the term, expressly stated that an "exact definition of a trade secret is not possible."¹¹

However, the difficult nature of the term has not restrained the courts from deciding whether a trade secret exists in any given case. Approaching the problem on a case by case basis, the courts have formulated certain legal guidelines in order to ascertain whether the article, process, formula, or information can be classified as a trade secret. An analysis of the elements and factors which Ohio courts have considered in determining the existence of a trade secret should clarify the term and consequently enable one to ascertain the existence *vel non* of a trade secret in a particular factual situation.¹²

⁹ In *B. F. Goodrich Co. v. Wohlgemuth*, 117 Ohio App. 493, 192 N.E.2d 99 (1963), the court partially adopted the definition of a trade secret given in RESTATEMENT, TORTS § 757, comment *b* at 5 (1939):

A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers. . . . Generally it relates to the production of goods, as, for example, a machine or formula for the production of an article. *B. F. Goodrich Co. v. Wohlgemuth*, *supra* at 498-99, 192 N.E.2d at 104.

The *Restatement* continued: "It may [also] . . . relate to a list of specialized customers." RESTATEMENT, TORTS § 757, comment *b* at 5 (1939).

¹⁰ *Albert B. Cord Co. v. S & P Management Servs., Inc.*, 194 N.E.2d 173, 175 (Ohio C.P. 1963), *rev'd on other grounds*, 2 Ohio App. 2d 148, 207 N.E.2d 247 (1965).

¹¹ RESTATEMENT, TORTS § 757, comment *b* (1939).

¹² *Ibid.* Six factors enumerated in the *Restatement of Torts* are to be considered in determining whether the subject matter can be classified as a trade secret:

- (1) the extent to which the information is known outside of his business;
- (2) the extent to which it is known by employees and others involved in the business;
- (3) the extent of measures taken by him to guard the secrecy of the information;
- (4) the value of the information to him and his competitors;
- (5) the amount of money expended by him in developing the information;
- (6) the ease or difficulty with which the information could be properly acquired or duplicated by others. *Ibid.*

The Ohio courts have used all of the preceding factors. See notes 15-56 *infra* and accompanying text.

A. Secrecy

In *B. F. Goodrich Co. v. Wohlgemuth*,¹³ an Ohio appellate court stated that "the subject matter of a trade secret must be secret, and matters of public knowledge or of general knowledge in an industry cannot be classified as trade secrets."¹⁴ Generally, when referring to "secrecy," the courts consider the subject matter as a property right.¹⁵ Therefore, there can be no property or protection right in a process if it is of common knowledge, since these rights disappear if discovered by fair means.¹⁶ Because there is no presumption of secrecy, the plaintiff has the burden of proving that the subject matter is a trade secret of his particular industry.¹⁷ The proof that is offered must be substantially more than a mere showing of the plaintiff's method of doing business, since it has been stated that "labeling it 'my method' does not make it secret."¹⁸ Therefore, if the plaintiff fails to prove that the subject matter is a secret of his particular industry, it cannot be classified as a trade secret, since the "right to protection begins and ends with the life of secrecy."¹⁹

It appears that, in addition to proving secrecy, the plaintiff must also establish that he has taken adequate security measures to guard and protect his secret.²⁰ In *Cleveland Worm & Gear Co. v. Noyes*,²¹ an Ohio court emphasized the fact that the plaintiff, in assembling a new machine, purchased the component parts from a variety of places, so that no person other than the proprietors and their immediate employees would ever see a complete machine in operation.²² Therefore, it would seem that the more evidence the

¹³ 117 Ohio App. 493, 192 N.E.2d 99 (1963).

¹⁴ *Id.* at 499, 192 N.E.2d at 104. See also note 12 *supra*.

¹⁵ See, e.g., *National Tube Co. v. Eastern Tube Co.*, 3 Ohio C.C.R. (n.s.) 459 (Cir. Ct. 1902), *aff'd*, 69 Ohio St. 560, 70 N.E. 1127 (1903); *Cincinnati Bell Foundry Co. v. Dodds*, 10 Ohio Dec. Reprint 154 (Super. Ct. 1887); *Cleveland Worm & Gear Co. v. Noyes*, 17 Ohio N.P. (n.s.) 529 (C.P. 1915). *But see* *E. I. DuPont de Nemours Powder Co. v. Masland*, 244 U.S. 100 (1917).

¹⁶ *Cincinnati Bell Foundry Co. v. Dodds*, *supra* note 15, at 155.

¹⁷ *Arthur Murray Dance Studios, Inc. v. Witter*, 105 N.E.2d 685, 709 (Ohio C.P. 1952).

¹⁸ *Ibid.*

¹⁹ *Dollac Corp. v. Margon Corp.*, 164 F. Supp. 41, 59 (D.N.J. 1958), *aff'd*, 275 F.2d 202 (3d Cir. 1960).

²⁰ E.g., *B. F. Goodrich Co. v. Wohlgemuth*, 117 Ohio App. 493, 192 N.E.2d 99 (1963). See also note 12 *supra*.

²¹ 17 Ohio N.P. (n.s.) 529 (C.P. 1915).

²² *Id.* at 546-47. The court also emphasized that employees were restricted from those areas of the plant in which they did not work. *Ibid.*

plaintiff can produce showing the secrecy of subject matter, the greater will be the probability that the court will classify the information as a trade secret.

B. Novelty

Some degree of novelty is required for the establishment of a trade secret in a process or machine.²³ Generally, however, the courts have found it difficult to establish a definite standard as to the degree of novelty required. In *Sarkes Tarzian, Inc. v. Audio Devices, Inc.*,²⁴ a federal district court stated that "while they [trade secrets] need not amount to invention, in the patent law sense, they must, at least, amount to discovery."²⁵ The distinction between "discovery" and "invention" was expressed by the Sixth Circuit in *A. O. Smith Corp. v. Petroleum Iron Works Co.*:²⁶

Quite clearly discovery is something less than invention. Invention requires genius, imagination, inspiration, or whatever is the faculty that gives birth to the inventive concept. Discovery may be the result of industry, application, or be perhaps merely fortuitous. The discoverer, however, is entitled to the same protection as the inventor.²⁷

Apparently, the Ohio courts are in conflict concerning the degree of novelty required of trade secrets in processes and machines. An illustrative case is *National Tube Co. v. Eastern Tube Co.*,²⁸ in which the court defined "duplication" in light of the principle that if reproduction could be achieved by a skilled workman with the result of no functional differences between the products, a trade secret could not have been involved. The court stated that "there might be a flange here or a flare there, but the idea, the central, main idea has been in use . . . for at least seventeen years."²⁹ Therefore, it appears that the plaintiff must not only demonstrate that he has employed creative faculties in his process or machine but also that it is more than a mere mechanical advancement.³⁰ However, in *Cleve-*

²³ In *Boop v. Ford Motor Co.*, 278 F.2d 197 (7th Cir. 1960), the court stated that "some degree of novelty was required, otherwise plaintiff could not have had a property right which he could enforce as against Ford or anyone else." *Id.* at 200.

²⁴ 166 F. Supp. 250 (S.D. Cal. 1958).

²⁵ *Id.* at 265.

²⁶ 73 F.2d 531 (6th Cir. 1934).

²⁷ *Id.* at 538.

²⁸ 3 Ohio C.C.R. (n.s.) 459 (Cir. Ct. 1902).

²⁹ *Id.* at 466.

³⁰ In *Victor Chem. Works v. Iliff*, 299 Ill. 532, 132 N.E. 806 (1921), the court stated that "a mere mechanical advance in the use of a process is not a new process or

land Worm & Gear Co. v. Noyes,³¹ the court, in conceding that the subject matter itself was not a trade secret, established that "the process of making a more serviceable and efficient drive may well be secret or involve a series of secrets."³² The *Noyes* case indicates that a mechanical improvement of an existing idea may be a trade secret if there has been a novel application of the idea.³³ By analyzing these two cases, it can be concluded that in order to obtain relief, the plaintiff must establish some degree of novelty; yet the degree of novelty required by the Ohio courts is uncertain.

C. Means of Procurement

Generally, when considering the ease or difficulty of duplication, the courts examine the manner in which the secret was disclosed or appropriated.³⁴ In *Cleveland Worm & Gear Co. v. Noyes*,³⁵ the court stated that "because this discovery may be possible by fair means . . . it would not justify a discovery by unfair means."³⁶ In *A. O. Smith Corp. v. Petroleum Iron Works Co.*,³⁷ the court held that even though discovery of the machine would be made obvious by inspection, the value of the discovery is not destroyed when one "by unfair means . . . obtains the desired knowledge without himself paying the price in labor, money, or machines expended by the discoverer."³⁸ This position was adopted by an Ohio court in *Fremont Oil Co. v. Marathon Oil Co.*,³⁹ in which it was stated: "Admitting that some of this information might have been available from other sources, it could only have been available after prolonged research and long hours of observation and 'spy-

discovery. To be a new process or discovery there must be employed creative faculties in originating it amounting to a meritorious discovery or invention." *Id.* at 546-47, 132 N.E. at 812.

³¹ 17 Ohio N.P. (n.s.) 529 (C.P. 1915).

³² *Id.* at 539.

³³ RESTATEMENT, TORTS § 757, comment *b* at 6-7 (1939) adopted a similar position.

³⁴ *E.g.*, *B. F. Goodrich Co. v. Wohlgenuth*, 117 Ohio App. 493, 192 N.E.2d 99 (1963); *Cincinnati Bell Foundry Co. v. Dodds*, 10 Ohio Dec. Reprint 154 (Super. Ct. 1887); *Albert B. Cord Co. v. S & P Management Servs., Inc.*, 194 N.E.2d 173 (Ohio C.P. 1963), *rev'd on other grounds*, 2 Ohio App. 2d 148, 207 N.E.2d 247 (1965); *Fremont Oil Co. v. Marathon Oil Co.*, 192 N.E.2d 123 (Ohio C.P. 1963); *Cleveland Worm & Gear Co. v. Noyes*, 17 Ohio N.P. (n.s.) 529 (Ohio C.P. 1915).

³⁵ 17 Ohio N.P. (n.s.) 529 (C.P. 1915).

³⁶ *Id.* at 545, quoting from *Tabor v. Hoffman*, 118 N.Y. 34, 36 (1889).

³⁷ 73 F.2d 531 (6th Cir. 1934).

³⁸ *Id.* at 539.

³⁹ 192 N.E.2d 123 (Ohio C.P. 1963).

ing.'"⁴⁰ These cases suggest that even though the subject matter is capable of duplication, it would necessitate an expenditure of time and money. Therefore, the one seeking duplication should bear the burden of such expense rather than resort to improper methods of procurement.

D. Value and Expenditures

The factors of value and expenditure are present in all cases, because classification as a trade secret implies that the secret is of value to the plaintiff and that his competitors do not possess such information.⁴¹ Ohio's definition of a trade secret clearly states that the alleged secret must be of value to the possessor.⁴² Thus, the court in *B. F. Goodrich v. Wohlgenuth*,⁴³ while emphasizing the years of experimentation, the degree of scientific knowledge and advanced technology required in research, and the amount of money expended, stated that "there are . . . countless secrets which one must either create or acquire from someone who has already done so."⁴⁴ Therefore, if plaintiff can show that the secret, if disclosed, would destroy any advantage he has gained over his competitors and that he has expended a vast sum of money and considerable time in developing the secret, the probability that the court will grant injunctive relief is greatly enhanced.

E. Breach of Confidence

In recent years, the courts have rejected the concept of a trade secret as a "property right"⁴⁵ and have instead approached the prob-

⁴⁰ *Id.* at 127. *But see* *Curry v. Marquart*, 133 Ohio St. 77, 11 N.E.2d 868 (1937); *Commonwealth Sanitation Co. v. Commonwealth Pest Control Co.*, 178 N.E.2d 518 (Ohio Ct. App. 1961); *Pestel Milk Co. v. Model Dairy Prods. Co.*, 52 N.E.2d 651 (Ohio Ct. App. 1943); *Hance v. Peacock*, 169 N.E.2d 564 (Ohio C.P. 1960).

⁴¹ See notes 4-14 *supra* and accompanying text.

⁴² See notes 9-11 *supra*.

⁴³ 117 Ohio App. 493, 192 N.E.2d 99 (1963).

⁴⁴ *Id.* at 495, 192 N.E.2d at 102.

⁴⁵ In *E. I. DuPont de Nemours Powder Co. v. Masland*, 244 U.S. 100 (1917), the Court stated that

The word property as applied to trade-marks and trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some *rudimentary requirements of good faith*. Whether the plaintiffs have any valuable secret or not the defendant [firm's employee] knows the facts, whatever they are, through a special confidence that he accepted. *The property may be denied but the confidence cannot be*. Therefore the starting point . . . is not property . . . but that the defendant stood in confidential relations with the plaintiffs *Id.* at 102. (Emphasis added.)

lem by determining whether a confidential relationship existed between the parties. If such a relationship were discovered, relief would be granted on the basis of either breach of trust or confidence or on an implied quasi-contract existing between employer and employee to the effect that the employee would not divulge any trade secrets.⁴⁶ Thus, "the basis for equitable intervention is the employee's wrongful conduct in violating the confidence."⁴⁷ Under this philosophy, the courts not only consider the factors previously discussed but also analyze the following additional elements: the nature of the employee's position in the plaintiff's company;⁴⁸ the employee's degree of access to the information alleged to be a trade secret;⁴⁹ specific statements and activities of the employee prior to leaving the company;⁵⁰ the employee's knowledge and experience

⁴⁶ The duty of a former employee concerning trade secrets was expressed in *Perfect Measuring Tape Co. v. Notheis*, 93 Ohio App. 507, 114 N.E.2d 149 (1953), in which the court stated:

[W]hen it is made to appear that particular trade practices and trade secrets of the employer, as distinguished from general secrets of trade, have been entrusted to an employee in confidence, in the course of his employment, the law implies an obligation on such employee not to disclose such trade secrets or use them to his own advantage in any manner which would amount to a breach of confidence or of good faith. On the other hand, in the absence of such implied obligation or any restrictive covenant, an employee who has quit the service of his employer may use in his own business or in the business of another, his experience, skill, acumen, memory and general knowledge. *Id.* at 513, 114 N.E.2d at 152.

See also RESTATEMENT (SECOND), AGENCY § 396 (1958); Marcuse, *The Protection of Trade Secrets: Theory and Practice*, 36 CONN. B.J. 348 (1962).

⁴⁷ *B. F. Goodrich Co. v. Wohlgenuth*, 117 Ohio App. 493, 500, 192 N.E.2d 99, 105 (1963).

⁴⁸ *E.g.*, *B. F. Goodrich Co. v. Wohlgenuth*, 117 Ohio App. 493, 192 N.E.2d 99 (1963) (head of research division); *Soeder v. Soeder*, 82 Ohio App. 71, 77 N.E.2d 474 (1947) (plant manager); *Fremont Oil Co. v. Marathon Oil Co.*, 192 N.E.2d 123 (Ohio C.P. 1963) (truck drivers). *But see* *Curry v. Marquart*, 133 Ohio St. 77, 11 N.E.2d 868 (1937) (truck driver).

⁴⁹ In *Soeder v. Soeder*, 82 Ohio App. 71, 77 N.E.2d 474 (1947), the court emphasized that the defendant employee

was given and exercised authority to order materials, supervise employees, [and] contact customers . . . [D]uring the absence of the plaintiffs, he was in full charge of the business and was directly in charge of and responsible for the operations of the company. *Id.* at 74, 77 N.E.2d at 476.

⁵⁰ In *B. F. Goodrich Co. v. Wohlgenuth*, 117 Ohio App. 493, 192 N.E.2d 99 (1963), the court placed particular emphasis on the fact that when the employee was informed that what he was about to divulge was of a confidential nature and belonged to the plaintiff company, he replied that "loyalty and ethics had their price; insofar as he was concerned, International Latex was paying the price. . . . Once he was a member of the Latex Team, he would expect to use all of the knowledge that he had to their benefit." *Id.* at 498, 192 N.E.2d at 104. See also *Fremont Oil Co. v. Marathon Oil Co.*, 192 N.E.2d 123 (Ohio C.P. 1963) (secret meetings of employees prior to terminating their employment).

prior to this employment by the plaintiff;⁵¹ knowledge by the employee that what he is about to disclose is a trade secret;⁵² and similarity between the position that the employee held with the plaintiff and the position that he is now holding.⁵³ These factors, essential to the granting of relief by a court, are the most difficult to prove. The problem becomes critical where the employee is a professional man or, prior to his employment with the plaintiff, occupied a similar position. The courts are faced with the difficult problem of balancing these factors in order to decide which of them should control in a given case. The employer customarily asserts that he has developed a trade secret through years of experimentation, expense, and research and that the employee, who has learned of the process only by reason of his confidential position, is about to destroy the employer's competitive advantage by divulging the secret. The employee, on the other hand, customarily asserts that he has a right to practice his lawful occupation and that the knowledge he possesses, claimed by the employer to be a trade secret, is merely knowledge and experience which he has gained during the years of his employment.⁵⁴ Since much of the litigation in this area has involved the soliciting and disclosure of customer lists, an analysis of the customer list cases will be useful to illustrate the apparent conflict as to what constitutes a trade secret and how the Ohio courts have attempted to resolve this conflict by applying the previously discussed factors in cases with similar factual situations.

II. THE STATUS OF CUSTOMER LISTS

When approaching customer list cases, the courts generally make one of two determinations: (1) whether a customer list is a trade secret; and (2) whether a confidential relationship existed between the employee and his former employer. There is a split of authority as to whether a customer list can be classified as a trade secret. Some authorities state that it would be an act of unfair competition to improperly disclose a customer list, since it is a trade

⁵¹ *E.g.*, *Inboden v. Hawker, Inc.*, 41 N.E.2d 271 (Ohio Ct. App. 1941); *National Tube Co. v. Eastern Tube Co.*, 3 Ohio C.C.R. (n.s.) 459 (Cir. Ct. 1902); cases cited note 50 *supra*. The plaintiff must show that the employee gained the knowledge as a result of his confidential relationship and not by years of experience in performing his job.

⁵² See note 50 *supra*.

⁵³ See note 48 *supra*.

⁵⁴ *Inboden v. Hawker, Inc.*, 41 N.E.2d 271, 276 (Ohio Ct. App. 1941).

secret.⁵⁵ Jurisdictions following this theory would enjoin an employee from disclosing confidential knowledge of customer lists which he has acquired during the course of his employment, even though there is no restrictive covenant in the employment contract.⁵⁶ However, other courts state that in the absence of a restrictive covenant, fraud, or a trade secret, the use of customer lists is permissible.⁵⁷

The conflict is most evident when the list itself is not illegally appropriated but the employee has memorized the names appearing on the list. Some jurisdictions hold that this distinction is immaterial,⁵⁸ while others state that since a customer list is not a trade secret, no confidential relationship has been breached.⁵⁹ Apparently, the conflict of authority in this area is a result of the failure of courts to use a uniform definition for the term "trade secret." In general, those courts which define trade secret in relation to a "property right" base their determinations on whether the list was physically taken by the employee.⁶⁰ If it can be shown that the employee appropriated the list, relief will be granted on the theory that the employer has been wrongfully deprived of his property. Conversely, those jurisdictions which define "trade secret" in relation to a "breach of confidence" base their decisions on whether a confidential relationship existed between the parties at the time the

⁵⁵ E.g., RESTATEMENT, TORTS § 757, comment *b* (1939), which provides that "it [a trade secret] may . . . relate to . . . a list of specialized customers . . ." RESTATEMENT (SECOND), AGENCY § 396(b) (1958), provides that "the agent . . . has a duty to the principal not to . . . disclose . . . trade secrets . . . [or] written lists of names . . ."

⁵⁶ In *Aetna Bldg. Maintenance Co. v. West*, 39 Cal. 2d 198, 246 P.2d 11 (1952), the court stated that in order to obtain relief against a former employee the following circumstances must be shown:

- (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. *Id.* at 204-05, 246 P.2d at 15.

See also *Blake, Employee Agreements Not To Compete*, 73 HARV. L. REV. 625, 653 (1960); *Hays, The California Law of Unfair Competition Takes a Turn — Against the Employer*, 41 CALIF. L. REV. 38 (1953).

⁵⁷ E.g., *Edwin L. Wiegand Co. v. Harold E. Trent Co.*, 122 F.2d 920 (3d Cir. 1941), *cert. denied*, 316 U.S. 667 (1942); *Abalene Exterminating Co. v. Elges*, 137 N.J. Eq. 1, 43 A.2d 165 (Ch. 1945); *Spring Steels, Inc. v. Molloy*, 400 Pa. 354, 162 A.2d 370 (1960).

⁵⁸ See note 56 *supra*.

⁵⁹ See cases cited note 57 *supra*.

⁶⁰ See discussion of cases in text accompanying notes 69-71 *infra*.

employee secured the list.⁶¹ These courts, in regarding the taking of the list itself as immaterial, concern themselves solely with determining the existence of a confidential relationship between the parties.

A. *The View Taken by Ohio Courts*

Curry v. Marquart,⁶² the only customer list case that has been considered by the Ohio Supreme Court, established that

in the absence of an express contract, on taking a new employment in a competing business an employee may solicit for his new employer the trade or business of his former [employer's] customers and will not be enjoined from so doing at the instance of his former employer.⁶³

However, the court emphasized that "disclosures of trade secrets by an employee secured by him in the course of confidential employment will be restrained by the process of injunction" and that the proscribed disclosure would extend to "lists of customers regarded as confidential."⁶⁴ The court held that the case involved no question of trade secrets or confidential information, and although the decisions are conflicting, stated that "no well considered case has gone so far as to hold that one may be enjoined from *seeking to do business with friends, though they become such in the course of and as a result of previous employment.*"⁶⁵

It was emphasized that to rule otherwise "would tend to destroy the freedom of employees and to reduce them to a condition of industrial servitude."⁶⁶ The Ohio Supreme Court did not directly consider the proposition that a route salesman could be in a confidential relationship with the employer even though he acquired the names of the customers during his employment; instead, the court indirectly disposed of this argument by stating that such services did not require any special knowledge, skill, or ability.⁶⁷ It was further asserted that "there was no confidential list of customers or other information of a confidential character,"⁶⁸ thus raising the implica-

⁶¹ See, e.g., *Curry v. Marquart*, 133 Ohio St. 77, 11 N.E.2d 868 (1937).

⁶² 133 Ohio St. 77, 11 N.E.2d 868 (1937).

⁶³ *Id.* at 79, 11 N.E.2d at 869.

⁶⁴ *Id.* at 80, 11 N.E.2d at 869.

⁶⁵ *Ibid.* (Emphasis added.)

⁶⁶ *Id.* at 80, 11 N.E.2d at 869, quoting from *Fulton Grand Laundry Co. v. Johnson*, 140 Md. 359, 362, 117 Atl. 753, 754 (1922).

⁶⁷ 133 Ohio St. at 80, 11 N.E.2d at 869.

⁶⁸ *Id.* at 79, 11 N.E.2d at 869.

tion that in order for a customer list to be classified as a trade secret, the employee must have taken the actual written list. Therefore, the *Curry* decision indicates that in order for a customer list to be classified as a trade secret, the property of the employer must have been wrongfully appropriated, such property being the physical list itself. The *Curry* case was heard by the supreme court on a motion to certify the record on the basis of a claim by the court of appeals that its decision was in conflict with the case of *French Bros. Bauer Co. v. Townsend Bros. Milk Co.*⁶⁹ The latter case held:

If a written list of the route customers was kept by plaintiff company, and the employes, or the defendant company, took the list and used the same, it is a well-recognized rule that injunctive relief would be proper. While there is no written list of such customers, the former employes knew and had in mind every such customer, and the reason for the rule is just as pertinent under these circumstances as though there had been a written list.⁷⁰

In its opinion the court in the *Curry* case never mentioned the *Bauer* decision but simply concluded that there was no trade secret or confidential relationship involved.⁷¹ Therefore, the precise status of an unwritten customer list was not determined in *Curry*, since it neither overruled nor distinguished the *Bauer* case.

However, in *Pestel Milk Co. v. Model Dairy Prods. Co.*,⁷² in which evidence was introduced that the employee had *copied a portion of the list* before terminating his agency, the court of appeals cited *Curry* as controlling and denied relief.⁷³ It was stated that as a "general proposition the activities of these two men could not, in our judgment, be classified as confidential."⁷⁴ The court justified its decision by concluding that "there is scarcely a business in which there is competition, where one does not seek to acquire information or even the services of former employees so as to promote one's business, probably at the expense of his rival."⁷⁵ On application for rehearing,⁷⁶ the court distinguished the *Bauer* case by classifying it as an action "for injunction on the ground of unfair competi-

⁶⁹ 21 Ohio App. 177, 152 N.E. 675 (1925).

⁷⁰ *Id.* at 180, 152 N.E. at 676.

⁷¹ *Curry v. Marquart*, 133 Ohio St. 77, 11 N.E.2d 868 (1937).

⁷² 52 N.E.2d 651 (Ohio Ct. App.), *application for rehearing & certificate of conflict denied*, 52 N.E.2d 659 (Ohio Ct. App. 1943).

⁷³ *Id.* at 658.

⁷⁴ *Ibid.*

⁷⁵ *Ibid.*

⁷⁶ *Pestel Milk Co. v. Model Dairy Prods. Co.*, 52 N.E.2d 659 (Ohio Ct. App. 1943).

tion,"⁷⁷ whereas the case at bar was a contract action which would be controlled by the ruling of *Curry*.⁷⁸ It can reasonably be concluded that the *Pestel* case interpreted *Curry v. Marquart*⁷⁹ to mean that customer lists per se are not trade secrets and that if the action is in tort, the customer list is a trade secret, whereas if the action is in contract or quasi-contract, the list is not a secret.

B. *The Conflict Created by Curry v. Marquart*

In 1947, four years after the *Pestel* decision, the court of appeals in *Soeder v. Soeder*⁸⁰ enjoined the defendant employees from soliciting the plaintiff's customers. The defendant had been engaged in a wholesale dairy business which went into bankruptcy and was purchased by the plaintiff company. Prior to the sale in bankruptcy, the defendant entered the employ of the plaintiff and turned over to the plaintiff a list of customers from the then-bankrupt company. After working four years, the defendant had authority to order materials, supervise employees, and had full access to all phases of the plaintiff's business. The court, citing *Curry*, stated that the defendant, "while free to engage in a competitive business, may not solicit . . . those customers of plaintiffs of which he learned during the time he was employed in a confidential capacity."⁸¹ However, the defendant was free to solicit those customers whom he had brought to the plaintiff company when he began his employment, since these customers were not acquired in a confidential capacity.⁸² The language of the court indicates that it is irrelevant whether the list was memorized rather than physically appropriated. The important fact was that disclosure of the list to the defendant was in confidence; as a result of this relationship, the customer list could be classified as a trade secret.

This view was adopted in *Hance v. Peacock*,⁸³ in which it was stated that "lists of customers are regarded as trade secrets or confidential information."⁸⁴ The *Pestel* and *Curry* cases (customer lists are not trade secrets) were summarily distinguished through the court's statement that an employment contract was involved in the

⁷⁷ *Id.* at 660.

⁷⁸ *Ibid.*

⁷⁹ 133 Ohio St. 77, 11 N.E.2d 868 (1937).

⁸⁰ 82 Ohio App. 71, 77 N.E.2d 474 (1947).

⁸¹ *Id.* at 76, 77 N.E.2d at 476.

⁸² *Ibid.*

⁸³ 169 N.E.2d 564 (Ohio C.P. 1960).

⁸⁴ *Id.* at 566.

case at bar,⁸⁵ whereas none was involved in the two above mentioned cases; however, this distinction does not seem valid, since the employment contract did not contain a restrictive covenant.⁸⁶ The *Hance* decision was, instead, predicated upon the *Bauer*⁸⁷ case (customer list is a trade secret), as relief was granted with emphasis on the inconsistent statements of *Curry*.⁸⁸

However, in *Commonwealth Sanitation Co. v. Pest Control Co.*,⁸⁹ the court of appeals denied an injunction, stating that "the list of customers, so far as the evidence before us discloses, was not copied and carried away from Commonwealth."⁹⁰ It appears that the court utilized a "property concept approach," implying that a customer list could not be classified as a trade secret since the customers' names could be obtained through a city directory or telephone book and therefore were not secret.⁹¹ The fact that *Soeder v. Soeder*⁹² was in full accord with *Curry v. Marquart*⁹³ was noted in the opinion;⁹⁴ yet the results of the two cases are different. In comparing the *Soeder* case (customer list is a trade secret) to the *Curry* case (customer list is not a trade secret), the court cited only the first premise of *Curry*,⁹⁵ ignoring the statement that "disclosures of trade secrets by an employee secured by him in the course of confidential employment will be restrained by the process of injunction. . . . [Such disclosures would include] lists of customers regarded as confidential."⁹⁶ It appears that it was upon this premise and not the one quoted by the court in the *Commonwealth* case that *Soeder* was decided. Apparently, the court, in failing to consider whether the employee owed a confidential duty to his employer, reverted to the "property concept" of a trade secret as enunciated in the *Curry* case.

⁸⁵ *Ibid.*

⁸⁶ *Id.* at 565.

⁸⁷ *French Bros. Bauer Co. v. Townsend Bros. Milk Co.*, 21 Ohio App. 177, 152 N.E. 675 (1925).

⁸⁸ *Hance v. Peacock*, 169 N.E.2d 564 (Ohio C.P. 1960).

⁸⁹ 178 N.E.2d 518 (Ohio Ct. App. 1961).

⁹⁰ *Id.* at 521.

⁹¹ *Ibid.*

⁹² 82 Ohio App. 71, 77 N.E.2d 474 (1947).

⁹³ 133 Ohio St. 77, 11 N.E.2d 868 (1937).

⁹⁴ *Commonwealth Sanitation Co. v. Pest Control Co.*, 178 N.E.2d 518, 520 (Ohio Ct. App. 1961).

⁹⁵ See text accompanying note 63 *supra*.

⁹⁶ *Curry v. Marquart*, 133 Ohio St. 77, 80, 11 N.E.2d 868, 869 (1937).

In *Albert B. Cord Co. v. S & P Management Servs., Inc.*,⁹⁷ the court of common pleas held that

the information available to the defendants . . . was confidential information and was the property of the plaintiff The defendants were confidential employees entrusted with information, in the regular course of their employment, of such a nature that it was not necessary that there be a written customer list for an injunction to issue. The defendants are men of high intelligence and this Court concludes *that their memories are as good as any written list*.⁹⁸

The court reached its decision by considering the particular factors of the case instead of making a technical distinction as to whether the list was written or memorized. It appears that the court, in adopting a hybrid approach to the problem, concluded that the plaintiff still had a property right in the information and, further, that the defendants were in a confidential relationship when the information was obtained.⁹⁹ The opinion indicates that there can be no valid distinction drawn between a list that was written and taken by the employee and one that is memorized by the employee.¹⁰⁰ However, on appeal the decision was reversed,¹⁰¹ the appellate court holding that "the evidence . . . does not disclose any trade secrets or confidential information relative to plaintiff's business."¹⁰² It was further stated that the case at bar "comes clearly within the rule laid down in *Curry v. Marquart*."¹⁰³ The reversal of the trial court's "memory" decision was simply phrased: "This is not the law. If it were, then no salesman or any other employee could leave his employer and go into business . . . for surely he would have some 'memory' of what he had learned in his employer's business."¹⁰⁴

The *Cord* case illustrates that the status of a customer list as a trade secret is presently in a state of confusion. There is a desperate need for clarity as to which view Ohio considers as controlling. The conflicting decisions have resulted in either an application of the general principle of law found in *Curry v. Marquart*,¹⁰⁵ without

⁹⁷ 194 N.E.2d 173 (Ohio C.P. 1963), *rev'd on other grounds*, 2 Ohio App. 2d 148, 207 N.E.2d 247 (1965).

⁹⁸ *Id.* at 176. (Emphasis added.)

⁹⁹ *Id.* at 176.

¹⁰⁰ *Ibid.*

¹⁰¹ *Albert B. Cord Co. v. S & P Management Servs., Inc.*, 2 Ohio App. 2d 148, 207 N.E.2d 247 (1965).

¹⁰² *Id.* at 149, 207 N.E.2d at 247.

¹⁰³ *Id.* at 150, 207 N.E.2d at 248.

¹⁰⁴ *Ibid.*

¹⁰⁵ 133 Ohio St. 77, 11 N.E.2d 868 (1937).

regard to the particular facts of the case, or the court searching for technical distinctions between the *Curry* case and their instant case in order to grant relief.

III. SUGGESTED PROPOSALS FOR CLARIFICATION

A. Proposed Test

The most urgent proposal to be suggested is that Ohio reconsider the underlying legal philosophy which should govern trade secret cases. It has already been suggested that there are at least six theories of law on the basis of which protection is given to the owner of a trade secret: (1) property right, (2) breach of confidence or trust, (3) implied contract, (4) unfair competition, (5) tortious invasion of privacy of a specialized nature, and (6) enforcement of contracts.¹⁰⁶

When faced with flagrant violations of duty, the Ohio courts have customarily adopted the theories of implied contract and breach of confidence.¹⁰⁷ However, as evidenced by the customer list cases, when the violation of the employee's duty was not flagrant, the courts have labeled trade secrets as "property rights."¹⁰⁸

It is submitted that a better practice would be for the courts to consider both the "property" and "breach of confidence" theories in any given case. Thus, in deciding a trade secret case, there would be a determination of at least two issues of fact: (1) Is this information a trade secret? and (2) Did the employee acquire knowledge of the information while in a confidential relationship? This proposed test was enunciated in Judge Taft's analysis of the facts in the case of *Cincinnati Bell Foundry Co. v. Dodds*.¹⁰⁹ The adoption of such an approach would require the courts to consider both, and not simply the first, of the above questions. When the Ohio courts have ruled that a trade secret does not exist, the confidential relationship aspects of the case have normally been ignored.

¹⁰⁶ See generally Marcuse, *The Protection of Trade Secrets: Theory and Practice*, 36 CONN. B.J. 348, 351 (1962); Stedman, *Trade Secrets*, 23 OHIO ST. L.J. 4, 22 (1962).

¹⁰⁷ E.g., *B. F. Goodrich Co. v. Wohlgemuth*, 117 Ohio App. 493, 192 N.E.2d 99 (1963); *Perfect Measuring Tape Co. v. Notheis*, 93 Ohio App. 507, 114 N.E.2d 149 (1953); *Soeder v. Soeder*, 82 Ohio App. 71, 77 N.E.2d 474 (1947); *Fremont Oil Co. v. Marathon Oil Co.*, 192 N.E.2d 123 (Ohio C.P. 1963).

¹⁰⁸ E.g., *Curry v. Marquart*, 133 Ohio St. 77, 11 N.E.2d 868 (1937); *Albert B. Cord Co. v. S & P Management Servs., Inc.*, 194 N.E.2d 173 (Ohio C.P. 1963), *rev'd on other grounds*, 2 Ohio App. 2d 148, 207 N.E.2d 247 (1965); *Commonwealth Sanitation Co. v. Commonwealth Pest Control Co.*, 178 N.E.2d 518 (Ohio C.P. 1961).

¹⁰⁹ 10 Ohio Dec. Reprint 154 (Super. Ct. 1887).

In applying the suggested test, the Ohio courts would no longer base their decisions solely on the fact that what was taken was not a trade secret but would also consider whether the disclosure or threatened disclosure would constitute a breach of confidence by the employee. The courts would approach the problem by considering the factors previously discussed and from these factors make the ultimate determination as to whether the employee appropriated a trade secret or breached a confidential relationship. Rather than general principles of law determining the outcome, the facts and circumstances of the particular case would control.

B. *Criminal Sanctions*

Some writers have suggested that criminal sanctions be adopted to deter the piracy of trade secrets.¹¹⁰ New York¹¹¹ and New Jersey¹¹² have statutory provisions which make it a misdemeanor to disclose trade secrets or confidential information. Although Ohio does not have a specific statute that is directly applicable, section 2923.29 of the Ohio Revised Code can be utilized in a specific circumstance. It provides:

No person employed as a stenographer shall furnish to a person other than his employer, without the consent of such employer, a transcript or copy . . . of any matter taken by him while so employed or read it to or permit it to be read by a person other than his employer, without such employer's consent, or disclose it . . . to any person. . . .

Whoever violates this section shall be fined not less than twenty-five nor more than five-hundred dollars or imprisoned not more than six months, or both.¹¹³

Although this statute deals only with stenographers, it does illustrate Ohio's concern over the severity of a breach of confidence. On the basis of section 2923.29, a criminal sanction is already a part of the existing penal law of Ohio. Therefore, if this section were amended by the phrase, "any person disclosing any confidential information entrusted to him," it would seem that the statute could

¹¹⁰ Stedman, *supra* note 106, at 30.

¹¹¹ N.Y. PEN. LAW § 439(1); N.Y. PEN. LAW § 553(6) (customer list statute).

¹¹² N.J. REV. STAT. § 2A: 170-88(1) (Supp. 1953).

¹¹³ OHIO REV. CODE § 2923.29. See also OHIO REV. CODE § 3715.52 which prohibits "the using by any person to his own advantage [of] . . . any information acquired . . . concerning any information which as a trade secret is entitled to protection." However, this section is under Ohio Revised Code chapter 3715 entitled "Pure Food and Drug Law." The applicability of the section is limited to the area of food and drug, and the lack of a criminal sanction for the first offense would seem to reduce its effectiveness as a deterrent.

apply in most trade secret cases involving employers and former employees.

If the Ohio Legislature were to adopt a criminal sanction, it would serve a twofold purpose. First, it would act as a deterrent to employees against divulging trade secrets or breaching their confidential relationships. Secondly, a criminal sanction would force the employee to inquire as to whether the information he is about to disclose could be classified as a trade secret. In this respect, a penal statute would serve as a preventive measure by encouraging negotiations between the employer and employee; they could, in many cases, decide the status of the information without petitioning the court for a judicial determination.

Other writers have suggested the adoption of a national trade secret law.¹¹⁴ While such an act would create a uniform trade secret policy and serve as a deterrent to piracy,¹¹⁵ it would still be impossible under any uniform act to determine if in fact a trade secret existed in any given case or if there were a breach of confidence. The classification of the information as a trade secret or the establishment of a confidential relationship cannot extend beyond the facts and circumstances of the particular case.

IV. CONCLUSION

Although there is a manifest conflict as to what constitutes a trade secret, it is an accepted principle that this phase of business competition must be regulated. As our society becomes vastly complex and our working populace continue to develop into skilled technicians, the subtle distinction between trade secrets and general secrets of trade becomes more difficult to draw. The courts are faced with the delicate task of balancing the interests of both parties in attempting to obtain an equitable result.

The employer who has spent thousands of dollars in research and experimentation is threatened with the loss of his entire investment by one former employee disclosing in a matter of minutes what has taken years of research to develop. The employee, on the other hand, is threatened with being subjected to a form of industrial servitude after the years of education, training, and experience that enabled him to become proficient in his chosen occupation or profession. Coupled with these conflicting interests are those of the

¹¹⁴ E.g., Klein, *The Technical Trade Secret Quadrangle: A Survey*, 55 NW. U.L. REV. 437, 465 (1961); Stedman, *supra* note 106, at 32.

¹¹⁵ *Ibid.*

general public which deserves better products yet may be denied them by the creation of a legal monopoly under the guise of a trade secret.

Resolution of the trade secret conflict can best be achieved by an analysis of the facts and circumstances surrounding each individual case, for this manner of approach offers the greatest probability of attaining a uniformly just result.

JOSEPH PAUL VALENTINO