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by Bonnie Katubig

In ***Morlife, Inc. v. Lloyd Perry*, 66 Cal. Rptr. 2d 731 (Cal. Ct. App. 1997),** a California Court of Appeal held that former employees who used business cards, obtained during the course their employment, to solicit business in direct competition with their former employer violated California's Uniform Trade Secrets Act ("UTSA"), CAL. CIV. CODE §3426 (West 1996).

Former Employees Solicited Morlife's Customers

Defendant Lloyd Perry ("Perry") worked for Morlife as a sales representative, and Defendant Carl Bowersmith ("Bowersmith") was Morlife's production manager. Both Perry and Bowersmith held "key-positions" at Morlife and had "intimate knowledge" of its business. While a Morlife employee, Perry signed an agreement not to use confidential customer information upon termination of his employment at Morlife. Perry and Bowersmith resigned from Morlife to form Burlingame Builders ("Burlingame"), which competed directly with Morlife in the commercial roofing business. Upon his resignation, Perry took the customer business cards he amassed during his employment with Morlife. These business cards reflected 75 to 80 percent of Morlife's customer base. Using these cards, Defendants contacted Morlife customers and solicited business for Burlingame.

Morlife filed suit claiming Defendants unfairly competed with Morlife by misappropriating its confidential customer information in direct violation of the UTSA and California's Unfair Competition Act, CAL. BUS. & PROF. CODE §§ 17200 - 17209 (West 1996). The trial court held that Defendants violated the UTSA and granted Morlife damages for unjust enrichment. In addition, the court permanently enjoined Burlingame from doing business with the unfairly-solicited former Morlife customers. The court also enjoined Defendants from soliciting any Morlife customer they discovered while employed at Morlife. Finally, the court refused to grant additional relief to Morlife under the Unfair Competition Act because such recovery would have duplicated that available under the UTSA. Similarly, the appellate court only considered the UTSA claim, and did not examine Plaintiff's Unfair Competition Act claim.

California Adopted the UTSA

Over forty states have adopted some version of the Uniform Trade Secrets Act. By enacting the UTSA, California determined that "the right to free competition does not include the right to use confidential work product of others." Under California's version of the act, a litigant establishes a violation of the act by showing that the information: (1) constituted a "trade secret" under the UTSA; and (2) another party "misappropriated" this trade secret. "Trade secret" and "misappropriation" are defined by the statute and case law.

Confidential Compilations of Customers' Names Are "Trade Secrets" Under the UTSA

Section 3426.1 of the UTSA defines "trade secret" as "information . . . that: (1) [d]erives independent economic value, actual or potential, from not being generally known to the public . . . ; and (2) [i]s the subject of efforts that are reasonable under the circumstances to maintain its secrecy." In analyzing this case under the two-pronged definition of a trade secret, the court first examined whether the customer information Perry obtained from Morlife had independent economic value because it was unknown to the public.

Information has independent

economic value if "the secrecy of this information provides a business with a substantial business advantage." Specifically, the court found that a customer list has independent economic value if its disclosure would enable competitors to solicit customers who have already demonstrated an interest in a unique product. The UTSA protects customer lists as trade secrets when former employees could use the information to cater to the individual needs of their former customers. Customer lists provide a competitive advantage by enabling former employees to "solicit both more selectively and more effectively."

The court held that the compilation of customer names had independent economic value for four reasons. First, Morlife expended great effort and incurred great expenditure in compiling and maintaining the list. The court found that the list, developed over a period of years, was valuable because it specifically identified customers in need of Morlife's unique services, rather than simply listing names. Second, Morlife's customers "were not readily ascertainable, but only discoverable with great effort, and the expenditure of considerable time and money" in telemarketing, advertisements, expensive mailings, and personal visits. Third, Morlife maintained specific knowledge of its customers' needs. This information would be unknown to the public. Fourth, Morlife restricted access to these records by requiring employees, through employment agreements and handbooks, to limit the circulation of customer information. Given Morlife's substantial investment in compiling its customer list, the court held that the customer list Perry obtained from Morlife satisfied the first prong of the UTSA's definition of "trade secret."

The court next considered the second prong of the UTSA's definition of trade secret by examining whether Morlife made reasonable efforts to maintain the secrecy of its customer information. In this case, Morlife called its customer information a trade secret. The court recognized that calling something a trade secret does not necessarily make it a trade secret under the UTSA. However, in this case, the court found that Plaintiffs went beyond merely labeling its customer list a trade secret. Plaintiff expended considerable time and resources to keep the list secret. The court's conclusion that Morlife maintained the secrecy of the list hinged on three key pieces of evidence. First, Morlife's president referred to the customer list as the company's "main asset." As a result, the company restricted computer access to the list. Second, Perry's employment contract barred him from using Morlife's customer names and telephone numbers to compete with the company. Third, Morlife's employee handbooks expressly prohibited employees from using or disclosing confidential information, including customer list, upon termination. Based on these efforts and expenditures, the court was convinced that Morlife took reasonable steps to maintain the information's secrecy. Accordingly, the court held that Morlife's customer list constituted a trade secret under the UTSA.

Misappropriation Defined by Statute and Case Law

Once a plaintiff proves that a customer list constitutes a trade secret under the UTSA, the plaintiff must next prove that the former employee misappropriated the list in an attempt to gain an unfair advantage. Section 3426.1 of the UTSA defines "misappropriation," in pertinent part, as the nonconsensual "disclosure or use of a trade secret." The court relied upon California case law to affirm the lower court's decision that Burlingame misappropriated Morlife's customer list, a trade secret, by using it to solicit customers without Morlife's consent.

The court first explained that "cases decided before and after the adoption of the UTSA . . . equated acts of solicitation with 'use' or 'misappropriation' of protected information." For example under *Aetna Bldg. Maintenance Co. v. West*, 246 P.2d 11 (Cal. S.Ct. 1952), solicitation includes appealing, applying, and asking for something, but "merely informing customers of one's former employer of a change in employment, without more, is not solicitation." Relying on *Aetna*, the court stated that if Defendants merely informed Morlife's previous customers of Burlingame's formation, their conduct would not amount to "misappropriation." However, Defendants went further than merely informing past customers, and the court relied on *American Credit Indemnity Co. v. Sacks*, 262 Cal. Rptr. 92 (Cal. Ct. App. 1989) to support this holding.

The *Sacks* court held that a former employee misappropriated a customer list when she sent letters to her former customers, announced her new competitive business, and invited them to contact her. In the instant case, the court found the *Sacks* holding persuasive for three reasons. First, the customer lists, used in both the *Sacks* case and the instant case, had value because they allowed former employees to focus solicitation efforts on customers who had already demonstrated a need for a particular type of service. Second, in both cases, the former employers took reasonable precautions to protect the secrecy of their lists by requiring specific employee confidentiality agreements. Third, Defendants in both cases went beyond merely announcing their new businesses and actually solicited business from their former customers. Based on these three similarities between the *Sacks* case and the instant case, the court found the *Sacks* precedent persuasive.

In addition, the court rejected Defendants' argument that the controlling case on the issue was *Moss, Adams & Co. v. Shilling*, 179 Cal. App. 3d 124 (Cal. Ct. App. 1986). The *Moss* court held that a former employee's personal relationship with past customers cannot be protected as a trade secret because that employee cannot be expected to forget the details of the relationship. In the instant case, the court reasoned that the *Moss* court failed to recognize that even when an employee establishes a personal relationship with a customer, the employee renders services for the benefit of the employer, who deserves protection against misappropriation of this information. Furthermore, the *Moss* court's decision pre-dated the enactment of the UTSA, and thus its decision was not based on the UTSA's definition of "misappropriation." Therefore, the court found the *Moss* decision unpersuasive and held that Defendants in this case misappropriated Morlife's trade secrets in violation of the UTSA.

Injunction and Unjust Enrichment Damages Were Appropriate Remedies

After affirming the district court's opinion that Defendants violated the UTSA, the court affirmed the lower court's award of both injunctive relief and monetary damages. In addressing the injunctive relief, the court stated that the relief overall was not overly broad and was authorized by the UTSA. Moreover, the court held that the injunctions conformed with similar court restrictions in the past. The court reasoned that the injunctions "correctly [draw] that line," leaving Burlingame free to solicit customers whose identities are not trade secrets of Morlife. The injunctions did not cover potential customers with whom Defendants had no contact while at Morlife.

Specifically, the court upheld the duration of the first injunction to eliminate the advantage Burlingame obtained by acquiring the Morlife customers who transferred their business to Burlingame. The UTSA authorizes an injunction to continue if necessary to eliminate any commercial advantage derived from the misappropriation. The court also upheld the scope of the second injunction because the injunction is limited and restricts solicitation of the customers that Perry and Bowersmith received confidential information on during their employment at Morlife.

In addition to upholding the injunctions, the court addressed the monetary damages awarded to Plaintiffs. Defendants had argued that their payment of royalties to Morlife for using the customer information was the correct measure of damages, as allowed under §3426.3 of the UTSA. The court rejected Defendants's argument for two reasons. First, Defendants did not provide sufficient evidence to determine reasonable royalties in this situation. Furthermore, under the UTSA, an award of royalties is only appropriate when a court can compute neither actual damages to the holder of the trade secrets nor unjust enrichment to the trade secret misappropriator.

In this case, the lower court was able to compute unjust enrichment damages. The court calculated these damages based on Defendants' salaries for the first six months of Burlingame's operations multiplied by 33% — the percentage of Burlingame's business acquired from former Morlife customers. The court reached a total damages amount of $39,293.47. The appellate court held that this amount was a "reasonable approximation" of the unjust enrichment received by Burlingame. Because the lower court was able to compute unjust enrichment damages in this case, the court upheld the unjust damages award and rejected Defendants' plea for royalties.

In sum, the court held that Morlife's customer list constituted a "trade secret" because the list had independent economic value and Morlife took reasonable efforts to keep the list secret. The court further held that Burlingame misappropriated the customer list when it used the list to solicit former Morlife customers. Furthermore, the court upheld the trial court's award of injunctive and monetary relief.

Concurring Opinion Questioned Factual Conclusions and Injunctive Relief

Judge Haerle concurred with the majority decision but expressed reservations about the trial court's factual conclusions and injunctive awards. He stated that Perry only took a collection of customer business cards, not a "customer list" or information from the computer files on restricted access. Haerle further noted that other former employees in *American Paper and Packaging Products Inc. v. Kirgan*, 228 Cal. Rptr. 518 (Cal. Ct. App. 1986) had done "similar things" without incurring liability under the UTSA. Judge Haerle also challenged the trial court's finding that all of the customers who transferred their business from Morlife to Burlingame had been solicited by Defendants when only three of the four former Morlife customers testified that they were solicited. However, he conceded that the appellate court is to defer to the trier of fact.

In questioning the permanent duration of the primary injunctive relief, Judge Haerle agreed with the *Kirgan* court that an injunction should only last as long "as is necessary to eliminate the commercial advantage that a person would obtain through misappropriation." He suggested that the appropriate time period was satisfied with the initial injunction of the lower court which eliminated any advantage Burlingame had enjoyed.

Eighth Circuit Denies Jaw Implant Recipients Relief From Dow Chemical

by Wendy K. Davis

In ***Temporomandibular Joint Implant Recipients v. Dow Chemical Co.*, 113 F.3d 1484 (8th Cir. 1997)**, the Eighth Circuit Court of Appeals affirmed the trial court's grant of summary judgment in favor of Defendant, Dow Chemical Company ("Dow Chemical") and against Plaintiffs, recipients of silicone-based temporomandibular joint ("TMJ") implants manufactured by Dow Corning, a subsidiary of Dow Chemical. Plaintiffs sought damages from Dow Chemical, a parent corporation of Dow Corning. The Eighth Circuit held that: (1) the district court did not grant summary judgment prematurely; (2) Dow Chemical's preliminary silicone testing and trademark agreements with Dow Corning did not constitute an "undertaking" for purposes of triggering Dow Chemical's duty of reasonable care to Plaintiffs; (3) Dow Chemical did not "aid and abet" Dow Corning's allegedly tortious activities; and (4) Dow Chemical was not liable for fraudulent concealment, fraudulent misrepresentation, or conspiracy regarding Dow Corning and the TMJ implants.

Plaintiffs Allegedly Injured by Jaw Implants Sue in Product Liability

The TMJ connects the upper and lower jaws. Plaintiffs received TMJ implants, which are surgically inserted prosthetic devices made in part of silicone that replace dysfunctional TMJs. Plaintiffs claimed that their TMJ implants "deteriorated" after they were implanted, which caused, among other things, "surrounding jaw bond disintegration, serious autoimmune responses, and severe head and neck pain." Plaintiffs sought damages for their