A Balanced Approach to Employer-Employee Trade Secrets Disputes in California

Diane Louise Wear
A Balanced Approach to Employer-Employee Trade Secrets Disputes in California

By Diane Louise Wear*

The concept of a trade secret is an elusive one at best.1 Because of the ever-expanding variety of business transactions, the types of information, methods, processes, and designs that conceivably could be trade secrets are virtually limitless. For this reason, an exact definition of a trade secret has been declared by the Restatement of Torts to be "not possible."2 Nevertheless, as the Restatement illustrates, the outlines of subject matter protectible as trade secrets are perceivable. The Restatement extends trade secret protection to "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."3 Accordingly, any subject matter

* A.B., 1977, University of California at Berkeley. Member, Third Year Class.

1. The difficulty of ascertaining the exact nature of a trade secret is illustrated by the debate over whether a trade secret is "property." Milgrim considers trade secrets to be property and cites several California cases supporting this view. 12 BUSINESS ORGANIZATIONS, R. MILGRIM, TRADE SECRETS §§ 1.0[1]-.01[2] (1978) [hereinafter cited as MILGRIM]. Whether or not trade secrets are property in the ordinary sense is not so vital a question in the employer-employee relationship, with which this Note is concerned. As was said by Justice Holmes in his oft-quoted opinion in E.I. du Pont de Nemours Powder Co. v. Masland, 244 U.S. 100 (1917): "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 knows the facts, whatever they are, through a special confidence that he accepted. The property may be denied, but the confidence cannot be." Id. at 102.


that is used continuously in one's business, is relatively secret, and is sufficiently novel to give its possessor a competitive advantage in business, may be considered a trade secret.

Any employer who possesses trade secrets may find it necessary or desirable during the course of business operations to disclose those

4. The Restatement makes it clear that information not continuously used in one's business cannot be a trade secret, Restatement of Torts § 757, Comment b (1939), although it may constitute "confidential information" which may be protectible. Compare Restatement of Torts § 757 (1939) with Restatement of Torts § 759 (1939).

5. Although arguably only information that is absolutely secret should be protectible as a trade secret, the view adopted by the Restatement is that only a "substantial element of secrecy must exist." Restatement of Torts § 757, Comment b (1939). Information that is generally known in the trade or easily discoverable does not meet even this relative standard. Id. See also 2 R. Callmann, The Law of Unfair Competition, Trademarks and Monopolies § 52.1 (3d ed. 1968) [hereinafter cited as Callmann]; 12 Milgrim, supra note 1, § 2.07[1]. It is interesting to compare the standard of the Restatement with the degree of secrecy required by California Penal Code § 499c (theft of trade secrets), which provides that "a trade secret shall be presumed to be secret when the owner thereof takes measures to prevent it from becoming available to persons other than those selected by the owner to have access thereto for limited purposes." Cal. Penal Code § 499c(a)(3) (West Supp. 1979). This presumption has withstood constitutional attack. People v. Serrata, 62 Cal. App. 3d 9, 133 Cal. Rptr. 144 (1976).

6. The Restatement definition, which California has adopted, see note 2 supra, does not require that a trade secret be comprised of patentable subject matter. Restatement of Torts § 757, Comment b (1939). See also 2 Callmann, supra note 5, § 52.1; 12 Milgrim, supra note 1, § 2.08. In Sarkes Tarzian, Inc. v. Audio Devices, Inc., 166 F. Supp. 250 (S.D. Cal. 1958), aff'd per curiam, 283 F.2d 695 (9th Cir. 1960), the court, applying California law, required proof that the claimed trade secret was not obvious to one "skilled in the art," which is the patentability standard. Id. at 258. See 35 U.S.C. § 103 (1976). Sarkes has been criticized for imposing this standard in trade secrets cases, see 12 Milgrim, supra note 1, § 2.08[3] n.18, and has not been followed in California. For a comparison of the protections afforded by patents and trade secrets see 12A Milgrim, supra note 1, § 8.02[8]; Mahon, Trade Secrets and Patents Compared, 50 J. Pat. Off. Soc'y 536 (1968).

secrets to an employee. The employer who does so has a significant interest in maintaining the competitive advantage which the trade secrets afford and for this reason will seek to insure that the employee neither uses the secrets for his or her own benefit nor discloses them to others. Many employers seek such insurance through contractual arrangements in which the employee agrees not to use or disclose the employer's trade secrets.\(^7\) Such agreements have been enforced, provided the information is found to be in fact a trade secret.\(^8\) Even absent an express contract, however, an employer who has disclosed trade secrets to an employee is not entirely without protection should that employee later seek to use those secrets; the tort theory of breach of confidential relationship long has been applied to allow recovery against the employee.\(^9\)

The employee to whom trade secrets have been disclosed also has an interest to protect. An employee who leaves his or her employer's business and subsequently competes with that former employer, either as an independent business or as an employee of an established firm, has a great interest in being able to market the skills and knowledge acquired during previous employment. So long as such skills and knowledge are general, the virtually uniform rule is that the former employee is entitled to use them in competition.\(^10\) When the former employee's knowledge includes information that is a trade secret, however, the former employee's interest in employment mobility and the former employer's interest in protection of the trade secret conflict sharply.\(^11\)

The California courts frequently have been asked to determine the rights of former employers and employees to information, claimed to be a trade secret, which has been disclosed to the former employee. If the claims are litigated on the basis of an express contract not to use trade secrets, the court must determine whether that contract validly restrains the employee from using the information in question.\(^12\) If the

\(^7\) Callmann, supra note 5, § 51.2(c); 12 Milgrim, supra note 1, §§ 3.01–05[5]. See also Hays, Unfair Competition—Another Decade, 51 Calif. L. Rev. 51, 69-73, 77-78 (1963).

\(^8\) See note 74 infra.

\(^9\) See notes 25-41, 103-06 & accompanying text infra.

\(^10\) Callmann, supra note 5, § 54.2(a).

\(^11\) See, e.g., 2 Callmann, supra note 5, § 54.2.

\(^12\) Employment contracts often are subject to attack under § 16600 of the California Business and Professions Code, which provides that, absent statutory exception, "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 (West 1964). See, e.g., Fortna v. Martin, 158 Cal. App. 2d 634, 323 P.2d 146 (1958); Morris v. Harris, 127 Cal. App. 2d 476, 274 P.2d 22 (1954). However, the California courts have not considered contracts restraining use of trade secrets to be within this prohibition and generally have upheld such contracts, as in Gordon v. Landau, 49 Cal. 2d 690, 321 P.2d 456 (1958); Golden State Linen Serv., Inc. v. Vidalin, 69 Cal. App. 3d 1, 137 Cal. Rptr. 807 (1977); State Farm Mut. Auto.
claims litigated are not based on contract, the court's task becomes more difficult. The court then must formulate and apply a standard for determining liability under the tort theory of breach of confidential relationship. Ideally, such a standard should set forth explicitly what the former employer must prove to recover for use of secret information.

In seeking to define such a tort standard, the California courts often implicitly distinguish the "customer list" trade secret, where the claimed trade secret is a list of customers or information pertaining to them, from all other types of trade secrets. This distinction arose out of the 1952 California Supreme Court decision in \textit{Aetna Building Maintenance Co. v. West}. In \textit{Aetna} the court enumerated five elements establishing liability in employer-employee customer list cases not governed by express contractual provisions. \textit{Aetna} is the California Supreme Court's latest word on customer lists, and the majority of appellate court decisions since that case have interpreted \textit{Aetna} as requiring proof of all five elements before recovery is allowed in a list trade secrets case. In non-list trade secrets cases, however, appellate courts largely have ignored \textit{Aetna} and have applied less stringent standards.

\begin{footnotesize}
13. Commentators have suggested that liability also may be based on an implied contract not to use trade secrets. \textit{See}, \textit{e.g.}, 2 \textsc{callmann}, supra note 5, § 54.1; 12 \textsc{milgrim}, supra note 1, § 4.02.

14. Some courts have held that the identities of customers are not trade secrets if they are generally known or easily ascertained. This is often the situation in cases involving lists naming wholesale customers. \textit{See}, \textit{e.g.}, Continental Car-Na-Var Corp. v. Moseley, 24 Cal. 2d 104, 148 P.2d 9 (1944); Avocado Sales Co. v. Wyse, 122 Cal. App. 627, 10 P.2d 485 (1932). Consequently, the term "customer list" as used in this Note refers to retail customer lists or cases in which retail list principles have been held applicable.

For a general background on the situations where the identity of customers are too well known to constitute trade secrets see 2 \textsc{callmann}, supra note 5, § 54.2(c)(2); 12 \textsc{milgrim}, supra note 1, § 2.09[7]. See notes 35-41 & accompanying text infra.

15. The California courts have held that, even when the identities of the customers are not secret, if the customer list contains additional information regarding customers, such additional information may constitute a trade secret. \textit{See}, \textit{e.g.}, Scavengers Protective Ass'n v. Serv-U-Garbage Co., 218 Cal. 568, 24 P.2d 489 (1933) (use of knowledge of "preferred list" of customers, business from whom was particularly profitable, enjoinable); Dairy Dale Co. v. Azevedo, 211 Cal. 344, 295 P. 10 (1931) (use of "friendly contact" with customers enjoinable); Pasadena Ice Co. v. Reeder, 206 Cal. 697, 275 P. 944 (1929) (use of knowledge of "peculiar likes and fancies" of customers enjoinable). See notes 25-34, 38-41 & accompanying text infra.

16. For a discussion of non-list trade secrets and the liability standard applied in litigation involving such trade secrets see notes 95-115 & accompanying text infra.


18. \textit{See} text accompanying note 60 infra.

\end{footnotesize}
This Note analyzes the *Aetna* decision and, based on a consideration of case law leading up to *Aetna*, concludes that *Aetna* was not intended to mandate proof of all five elements in list trade secrets cases, but rather was intended to indicate five different types of unfair competition claims arising in customer list litigation. The Note rejects the interpretation of *Aetna* found in list trade secrets cases that requires proof of all five elements to support a list trade secrets claim, arguing that such an interpretation may deprive employers of trade secret protection to which they should be entitled. The Note then considers standards set forth in non-list cases and suggests that the balancing standard set forth in the California Court of Appeal case of *Diodes, Inc. v. Franzen*,\(^\text{20}\) which permits courts to weigh expressly the competing interests of former employers and employees, provides an appropriate standard to be applied in both list and non-list trade secrets cases. Thus, while a proper interpretation of *Aetna* would provide an adequate standard in list trade secrets cases, the Note concludes that a balancing approach to trade secrets protection would be superior. An additional advantage to the *Diodes* test is that the adoption of such a standard would provide uniformity in the area of trade secrets and would lend certainty to the employer-employee relationship by more clearly delineating rights and duties with respect to trade secrets.

**Customer List Trade Secrets**

The type of trade secret most frequently the subject of litigation between a former employer and employee in California is the customer list. Such lists are disclosed to an employee primarily to assist in sales or deliveries along specific routes serviced by the employer.\(^\text{21}\) Prior to the decision in *Aetna Building Maintenance Co. v. West*,\(^\text{22}\) courts did not focus on determining a standard to apply in list trade secrets cases; in these cases the courts at least implicitly recognized that a former employer, to establish liability, need only prove an employer-employee relationship, the existence and use of a trade secret disclosed to an employee, and resulting damage.\(^\text{23}\) Rather, the courts focused on the problem of defining a trade secret.\(^\text{24}\) After *Aetna*, however, the courts...


\(^{21}\) Although customer list cases most frequently arise in connection with sales or delivery routes, they also may involve other types of customers with whom an employee deals, for example, advertisers whom an employee calls upon to solicit business for an employer. *See* Reid v. Mass Co., 155 Cal. App. 2d 293, 318 P.2d 54 (1957).\(^\text{22}\)

\(^{22}\) 39 Cal. 2d 198, 246 P.2d 11 (1952).

\(^{23}\) *See* notes 40-41 & accompanying text *infra*.

lost sight of the need to define trade secrets and, by focusing on the Aetna five elements, also lost sight of the previous standard. By applying all five elements to list trade secrets claims, the courts effectively adopted a new standard which had no basis in prior trade secrets case law. A review of the major list trade secrets cases up to Aetna illustrates this point.

The Development of List Trade Secrets Protection

The first case to deal with the typical list situation was Empire Steam Laundry v. Lozier. In Empire, the California Supreme Court enforced an express contract between a former employer and employee not to solicit the plaintiff employer's customers, whose names were found to be a trade secret. In dicta, the court noted that even absent the contract an injunction would have issued, for "[e]quity always protects against the unwarranted disclosure and unconscionable use of trade secrets and confidential business communications." Because the customers' names were a trade secret, the court indicated that the defendant's use of those names would have been sufficient in and of itself to justify an injunction.

Over the next several years, the courts expanded the scope of list matter considered to be a trade secret. In Pasadena Ice Co. v. Reeder, for example, the supreme court affirmed an injunction against former employees of plaintiff, prohibiting them from soliciting plaintiff's customers-buyers whose names could be ascertained easily without resort to plaintiff's list and therefore could not be a trade secret. The court held, however, that knowledge of plaintiff's customers' "peculiar likes and fancies and other characteristics,. . . which would greatly aid. . . in securing and retaining the business of said former customers," could constitute a trade secret; hence use of such knowledge could be enjoined. Finding such knowledge of "peculiar likes and fancies," and finding use of that knowledge, the court affirmed the issuance of the injunction.

Two years after Pasadena Ice, the supreme court, in Dairy Dale Co. v. Azevedo, again addressed the question of what constitutes a trade secret. The defendant employee in Dairy Dale had received a
customer list from plaintiff showing names, addresses, and purchasing requirements of customers and had solicited those customers for a rival company. The supreme court affirmed the trial court’s prohibition of such solicitation. Although recognizing that plaintiff’s customers were generally known, the court nevertheless concluded a trade secret existed in the “friendly contact” established with those customers. Because defendant had used this “friendly contact,” the court found liability.

Thus, the Empire, Pasadena Ice, and Dairy Dale cases were concerned with defining a list trade secret. These cases combined show that a list may represent any one of several trade secrets: the names of customers; “peculiar likes and fancies” of those customers; or “friendly contact” with those customers. A former employee’s use of any one of these trade secrets can be enjoined. As the appellate court decision in Avocado Sales Co. v. Wyse illustrates, however, a list does not always embody a trade secret. In Avocado Sales the court refused to issue an injunction against the former employee’s solicitation of plaintiff’s customers because the customers were generally known and sales to them did not depend on knowledge of “peculiar likes and fancies” or “friendly contact.”

Avocado Sales exemplifies the treatment typically given lists that embody only names of customers generally known.

The year after Avocado Sales, the supreme court, in Scavengers Protective Association v. Serv-U-Garbage Co., clarified somewhat when a trade secret exists. The defendant former employee in Scavengers argued that the names of plaintiff’s customers were generally known and that under an Avocado Sales rationale plaintiff’s customer list was not a trade secret. Although the court found that the names were not well known and thus were a trade secret, it indicated that the list would have been protectible anyway, because the defendant knew which customers’ business was particularly valuable. The court’s decision in Scavengers highlights the distinction between lists that em-

33. The “generally known” exception is frequently applied to wholesale customer lists. See note 14 supra. Milgrim suggests that the true basis for denial of relief in such situations is that the former employee prevented from selling to wholesalers effectively would be foreclosed from competition. 12 Milgrim, supra note 1, § 2.09[7][b].
34. 211 Cal. at 345, 295 P. at 10.
36. Id. at 634, 10 P.2d at 488-89.
37. See, e.g., Continental Car-Na-Var Corp. v. Moseley, 24 Cal. 2d 104, 148 P.2d 9 (1944). In Continental Car-Na-Var the plaintiff manufacturer of cleaning compounds had obtained an injunction against defendant former employee forbidding defendant’s use of trade secrets, including a customer list. The California Supreme Court reversed, holding there was “no showing that in the normal course of events, plaintiff would have continued to sell to any of its customers on the list.” Id. at 109, 148 P.2d at 12.
38. 218 Cal. 568, 24 P.2d 489 (1933).
39. Id. at 572-73, 24 P.2d at 491-92.
body trade secrets and those that do not. If the lists contain names of customers not generally known, or contain valuable information pertaining to the customers, they are a trade secret.

The distinction between the *Empire, Pasadena Ice,* and *Dairy Dale* line of cases and the *Avocado Sales* line of cases thus was strictly factual. Both lines endorsed the basic proposition that equitable protection could be invoked to prevent a former employee from using trade secrets of the former employer. In the former group of cases, the courts found a trade secret; in the latter they did not. At this point, then, the courts were not focusing on the elements of proof necessary to recover against a former employee for use of a list trade secret. Rather, both lines of cases recognized that the plaintiff must prove only: (1) an employer-employee relationship; (2) the existence of a trade secret; (3) disclosure to the employee of that secret in confidence; (4) use of that secret by the employee after leaving the employ of the employer; and (5) resulting damage. In the typical route cases in which recovery was allowed, as exemplified by *Empire, Pasadena Ice,* and *Dairy Dale,* the plaintiff had established these elements. In the *Avocado Sales* type of case the plaintiff had failed to establish the second element: the existence of secret information. Although *Scavengers* clarified somewhat the distinctions between these two lines of cases, a case which set more explicit guidelines for determining when a list or related information fell within a particular line of cases was needed. Instead, the case of *California Intelligence Bureau v. Cunningham* was decided.

In *California Intelligence Bureau* plaintiff compiled and distributed informational brochures to subscribers. Defendant was employed to solicit new subscribers and was furnished copies of the brochures and lists of names of current and prospective subscribers. Upon his discharge, defendant successfully solicited patronage from 80 of the 125 customers he had obtained for plaintiff. The trial court's injunction prohibiting defendant's solicitation of customers and use of brochures was affirmed in substance by the appellate court.

40. A trade secrets claim also may be asserted against those who, although not in the employer-employee relationship, do stand in a confidential relationship with the trade secret proprietor. See, e.g., George v. Burdusis, 21 Cal. 2d 153, 130 P.2d 399 (1942) (seller and buyer of business), and cases cited note 99 infra.

41. Information that does not reach the status of a trade secret nonetheless may be protectible. See note 4 supra. See *Fidelity Appraisal Co. v. Federal Appraisal Co.,* 217 Cal. 307, 18 P.2d 950 (1933); Ernst & Ernst v. Carlson, 247 Cal. App. 2d 125, 55 Cal. Rptr. 626 (1966). An analysis of these situations is beyond the scope of this Note.

42. 83 Cal. App. 2d 197, 188 P.2d 303 (1948).

43. *Id.* at 199-200, 188 P.2d at 304-05.

44. The court affirmed the injunction but limited its application to customers served by plaintiff during defendant's employ. The court also struck down a further provision in the injunction forbidding use of a questionnaire similar to plaintiff's. *Id.* at 204-05, 188 P.2d at 307-08.
Although the court in *California Intelligence Bureau* easily could have affirmed the injunction by relying on list trade secrets cases such as *Empire*, *Pasadena Ice*, and *Dairy Dale*, the court appeared to deliver a far more expansive opinion. This may have been in part an attempt to answer the defendant's contention on appeal that there was "no evidence to support a claim that he engaged in unfair trade practices or competition." As "unfair trade practices or competition" include more than use of trade secrets and, for example, encompass such tortious conduct as interference with business relations and fraud, perhaps the court interpreted defendant's contention to require an analysis of unfair competition claims in general, of which use of trade secrets was one type. At any rate, the court reached beyond list trade secrets in its discussion of liability and concluded that a "claim of unfair competition" against the defendant could be upheld if the facts fell within the "line of cases exemplified by" *Empire*. This "line of cases" cited by the court was comprised of cases finding liability for unfair competition on several distinct theories. The line included the *Empire* and *Pasadena Ice* cases, which based liability on use of list trade secrets. However, it also included *Gloria Ice Cream & Milk Co. v. Cowan*, in which plaintiff's customer list specifically was held not to be a trade secret yet the defendant was enjoined from soliciting customers from that list solely because he had done so with the intent to injure the plaintiff. Also within this line were cases in which the claimed trade secret was not a list.

The court thus considered the *Empire* line as embodying cases which, either on a trade secrets basis or on another basis, upheld an

45. *Id.* at 201, 188 P.2d at 305.
46. See RESTATEMENT OF TORTS § 766 (1939).
48. The Restatement provides several examples of the various types of unfair competition claims. See RESTATEMENT OF TORTS §§ 757 (wrongful use of trade secrets); 759 (wrongful use of confidential information); 760 (misrepresentations as to competitor's goods); 761 (false advertising); 766 (interference with contract or business relations) (1939). See also RESTATEMENT (SECOND) OF AGENCY § 396 (1958) (agent's duty not to use trade secrets or confidential information after termination of agency).
50. 2 Cal. 2d 460, 41 P.2d 340 (1935).
51. See Riess v. Sanford, 47 Cal. App. 2d 244, 117 P.2d 694 (1941) (claimed trade secret was phonograph needle made from particular species of cactus; injunction granted).
unfair competition claim involving retail sales or delivery routes. The court characterized this line as imposing liability when:

(1) The former employee is in possession of trade or business secrets or confidential information, or the like, not readily accessible to others; (2) the former employee solicits the customers of his former employer in a competing business with intent to injure his former employer's business; (3) the former employee solicits the customers of his former employer, who comprise a list of preferred customers whose trade is profitable to a supplier of a service, knowledge of whom is a trade secret and confidential; (4) one concern is usually patronized by a customer and the lists and names and addresses of the customers are considered secret and have the character of property; (5) there is an established business relationship between the customer and the former employer which, unless interfered with, normally continues.52

As one commentator previously has pointed out,53 and as the foregoing discussion indicates, the cases on which the appellate court relied to reach its conclusions do not contain each and every one of the five enumerated elements. The court, however, failed to state clearly that this characterization was a synthesis of the various independent situations in which an unfair competition claim would stand and not a statement of five factual circumstances all of which need be present to support a trade secrets claim.

In affirming the issuance of the injunction the court distinguished those cases not imposing liability, reasoning that the claim against the defendant could not stand if the facts fit within the line of authority represented by *Avocado Sales.*54 As cited by the court, this line of authority consisted of cases denying relief in all types of unfair competition cases, not only in trade secrets cases.55 Thus, the distinction drawn

---

52. 83 Cal. App. 2d at 202, 188 P.2d at 306.
55. The court typified the second line of cases, which denied trade secret protection, as requiring a showing that “(1) the customers solicited (a) do not constitute a trade secret, or confidential information, or a confidential list in which a proprietary interest might be claimed, or (b) are commonly known to the trade and are called upon by salesmen for various companies, or are wholesale buyers whose names appear in directories and are so few in number that anyone might readily discover them, and the list of them is not secret or confidential; (2) the former employer is in open competition with others engaged in similar business, selling in an open, competitive market; (3) the former employee was a salesman of his former employer in a commercial field where there was no assurance of an order unless he could satisfy his customer that his product was better, cheaper, or more salable than that of his competitor, where the customer usually desired to examine, inspect and compare the product and prices offered to him and each sale was a distinct transaction, not necessarily implying that another will follow; (4) no secret or trust reposed in the former employee in
by the court was not between lists amounting to trade secrets and those not trade secrets, but between cases granting relief for unfair competition, of which use of list trade secrets was one type, and those denying relief. The court, in discussing and citing to cases outside the list trade secrets area, simply went beyond the needs of the case. Its characterization of the Empire line of cases accordingly should be considered merely a listing of the types of situations in which an unfair competition claim may be viable.

The Aetna Decision

The California Intelligence Bureau decision was soon followed by the California Supreme Court decision in Aetna Building Maintenance Co. v. West. In Aetna the court relied on the unfair competition analysis found in California Intelligence Bureau to enumerate five “principles governing the rights of the parties in connection with retail delivery routes.” A careful reading of the Aetna decision shows that the court, in adopting California Intelligence Bureau, understood California Intelligence Bureau to be merely a generalized discussion of situations in which a potential unfair competition claim existed and not a standard to be applied to list trade secrets claims only. Unfortunately, because the court failed to acknowledge that proposition expressly, Aetna has been and is now interpreted as requiring proof of all five elements to establish the liability of a former employee for use of a list trade secret.

In Aetna the defendant, West, was a former salesman and supervisor for plaintiff's janitorial service. When West began competing against plaintiff, plaintiff sought an injunction, claiming its customer lists, methods of estimating prices, and janitorial methods were trade secrets which defendant could not use. The trial court granted an injunction prohibiting use of plaintiff's pricing and janitorial methods and forbidding solicitation of plaintiff's customers.

The California Supreme Court reversed the lower court decision and, relying on California Intelligence Bureau, set forth five principles “governing the rights of the parties” in retail route cases:

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

the course of his employment is violated and no trade or business secret or confidential information is used by the former employee.” 83 Cal. App. 2d at 202-03, 188 P.2d at 306.

For commentary on this statement by the court, see Hays, The California Law of Unfair Competition Takes a Turn—Against the Employer, 41 CALIF. L. REV. 38, 53 (1953).

57. Id. at 204-05, 246 P.2d at 15.
58. See note 73 & accompanying text infra.
59. 39 Cal. 2d at 204, 246 P.2d at 15.
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.  

The court then proceeded to detail the factual inadequacies of the case at hand, showing it did not fall within any of the five principles. What the court failed to state expressly was that had the case fallen within any one enumerated area, the injunction would have been affirmed. For example, if the court had concluded that the list was a trade secret, it could have relied on cases supporting its third element—"[t]he former employee sought out certain preferred customers whose trade is particularly profitable and whose identities are not generally known to the trade" to find liability. Similarly, if the court had concluded that another type of unfair competition were present, for example, interference with business relations, it could have relied on cases supporting its fifth element—"[t]he established business relationship between the customer and the former employer would normally continue unless interfered with" to find liability. Unfortunately, the court failed to provide such clarification. Nevertheless, the fact that the court approved California Intelligence Bureau shows that its enumeration of principles, like those in California Intelligence Bureau, should be read as a generalized statement of types of unfair competition claims which could arise in a route case, not as a standard to be applied in its entirety in list trade secrets cases. This intention is further evidenced by two statements made by the Aetna court. The first such statement is found in the court's discussion of trade secrets. The court remarked that "even in the absence of solicitation, Aetna is entitled to protection against West's use, or disclosure in competition with it, of trade secrets given to him only for the purpose of carrying on his employer's business." One of the court's five elements requires solicitation with intent to injure. If this element were required to support a trade secrets claim, the court's statement that a trade secret is protectible "even in the absence of solicitation" would be inconsistent. If the five elements are read only as examples of areas in which unfair competition claims may arise, however, the court's re-
marks are entirely consistent. Such a reading is particularly appropriate in light of the court's failure to apply the five elements as a whole to the non-list trade secrets in the case (the pricing and janitorial methods). 68

The second pertinent statement made by the court concerned unfair competition. The court noted that "equity will not enjoin a former employee from soliciting business from his former employer's customers, provided his competition is fairly and legally conducted."69 This statement implies that an injunction may issue if the reverse is true, i.e., if an employee's solicitation of business from his or her former employer's customers is not "fairly or legally conducted." An ex-employee may use unfair or illegal tactics without using an employer's trade secrets. The court itself details one such possible tactic: a "suggestion to an Aetna customer that it cancel Aetna's contract and give him [defendant] the business."70 Presumably such an illegal tactic in and of itself would be sufficient to find liability.71 The five elements, if applied as a whole, would indicate otherwise. Yet if applied separately, either the second element, solicitation of customers with intent to injure, or the fifth element, "[t]he established business relationship between the customer and the former employer would normally continue unless interfered with,"72 would be a sufficient basis of liability.

Thus, both in its discussion of trade secrets specifically and unfair competition generally, the Aetna court indicated that the five enumerated elements taken from California Intelligence Bureau were statements of distinct situations in which potential unfair competition claims would arise.

The Application of Aetna

Despite the apparent intent of the Aetna majority disclosed by a careful reading of the decision, the majority of California appellate courts have interpreted Aetna as requiring proof of all five elements to establish an unfair competition claim based on use of list trade secrets; however, most such decisions shed little light on the problems of proof posed by such a requirement.73 Several appellate court decisions do

68. Id. at 206, 246 P.2d at 16.
69. Id. at 203, 246 P.2d at 14.
70. Id.
71. Cf. Restatement of Torts § 766 (1939) (interference with business relations); Restatement (Second) of Torts § 766A (1977) (interference with another's performance of contract).
72. 39 Cal. 2d at 205, 246 P.2d at 15.
73. Indeed, many of the decisions simply restate the five elements of Aetna and review the facts showing all or none of the elements to be present. See, e.g., Nalley's Inc. v. Corona Processed Foods, Inc., 240 Cal. App. 2d 948, 50 Cal. Rptr. 173 (1966) (granting of preliminary injunction not an abuse of discretion where evidence of all five Aetna elements pres-
merit attention, however, as they illustrate creative judicial responses to *Aetna* and to the harsh results that could flow from reading that case as requiring proof of all of the enumerated elements.

The first customer list case after *Aetna* that did not involve an express contract\textsuperscript{74} was *Alex Foods, Inc. v. Metcalfe*.\textsuperscript{75} In *Alex Foods*, the plaintiff manufacturer and distributor of specialty food items obtained

---

\textsuperscript{74} It is interesting to note the increase in the number of cases involving customer list trade secrets between an employer and employee that were litigated on the basis of an express contract in which the employee agreed not to utilize trade secrets, rather than on the basis of the tort of breach of confidential relationship. The courts in contract cases do not apply the *Aetna* requirements. Although nothing indicates the increase in contract cases was due to the difficult *Aetna* proof requirements, the number of cases involving such express contracts is significant in light of the fact that only one case prior to *Aetna-Empire* was litigated on the theory of express contract: *Greenly v. Cooper*, 77 Cal. App. 3d 382, 143 Cal. Rptr. 514 (1978) (court not required to consider validity of contract because evidence showed all five *Aetna* elements satisfied); *Golden State Linen Serv., Inc. v. Vidalin*, 69 Cal. App. 3d 1, 137 Cal. Rptr. 807 (1977) (contract not to solicit customers not void under § 16600 of the California Business and Professions Code but no solicitation found); *State Farm Mut. Auto. Ins. Co. v. Dempster*, 174 Cal. App. 2d 418, 344 P.2d 821 (1959) (contract not to use information disclosed by plaintiff to defendant agents upheld); *Fortna v. Martin*, 158 Cal. App. 2d 634, 323 P.2d 146 (1958) (contract not to solicit customers held void under § 16600 of the California Business and Professions Code because of lack of evidence that customer information was confidential); *Gordon v. Landau*, 49 Cal. 2d 690, 321 P.2d 456 (1958) and *Gordon v. Wasserman*, 153 Cal. App. 2d 328, 314 P.2d 759 (1957) (contracts with plaintiff's employees not to solicit customers of plaintiff held valid); *Morris v. Harris*, 127 Cal. App. 2d 476, 274 P.2d 22 (1954) (contract not to solicit or accept business void under California Business and Professions Code § 16600). For a discussion of employment contracts see *Hays, Unfair Competition—Another Decade*, 51 CALIF. L. REV. 51, 69-73, 77-78 (1963).

\textsuperscript{75} 137 Cal. App. 2d 415, 290 P.2d 646 (1955).
a preliminary injunction against its former employee who had left to work for a competitor and had solicited business from plaintiff's customers. Plaintiff's customers were food markets, restaurants, and cafeterias, and the majority of the customers solicited by the defendant did not discontinue buying plaintiff's line of goods, but merely stocked defendant's line in addition.

On appeal, the defendant in *Alex Foods* contended that the injunction was issued improperly because *Aetna*'s five element test had not been met. The appellate court was not convinced that proof of all five elements was required, but in response to defendant's contention, concluded:

As to [the fourth element of the *Aetna* test], it is clear that the requirement that the business be such that a customer will ordinarily patronize one concern is not established as to most of the customers in dispute. In fact the evidence shows that a great portion of these customers were food markets carrying competitive lines, and that they do not ordinarily patronize only one concern. As to the fifth element, although proof of a contrary finding might be supported, it does appear that plaintiff's business with only a few of these customers would have necessarily continued unless interfered with.

Thus, only solicitation of a few customers potentially fell within the five part test. Despite expressly noting this absence, as to some customers, of elements of the *Aetna* test, the court affirmed the injunction as to those customers who "had been solicited by [defendant], and who quit taking plaintiff's products because of such solicitation, and to whom he was then selling his competitor's products." The court in so doing effectively rejected *Aetna* and formulated another test for determining liability for use of a list trade secret:

Regardless of the classification into which the facts herein mentioned bring this case, it is clear that if the continuance of an employer's trade depends on keeping secret the names of customers or other valuable information known to such employer, his employee, having gained knowledge of such secrets in the course of his employment, cannot thereafter utilize such knowledge to the prejudice of his former employer.

This test, remarkably similar to the pre-*Aetna* standard found in cases such as *Empire, Pasadena Ice*, and *Dairy Dale*, requires only that a customer list contain secret information, that the list be disclosed to

---

76. The defendant had not copied or physically taken the list, but had remembered the names of plaintiff's customers. The court held this to be sufficient. *Id.* at 425, 290 P.2d at 653.
77. *Id.* at 423, 290 P.2d at 652.
78. *Id.* at 426, 290 P.2d at 653.
79. *Id.* at 425, 290 P.2d at 653.
80. *Id.*
81. *Id.* at 427, 290 P.2d at 654.
82. *Id.* at 426-27, 290 P.2d at 654.
and used by the former employee, and that the former employer be prejudiced by such use. The court in effect isolated the only *Aetna* consideration relevant in a list trade secrets case, that the employee sought out customers "whose identities are not generally known." 83 Quite properly it did not consider other types of unfair competition claims.

In *Southern California Disinfecting Co. v. Lomkin*, 84 *Aetna* again was not applied. In *Lomkin*, the defendant former salesman had been given a route book listing plaintiff's customers. During his employ by plaintiff, defendant simultaneously solicited these customers for a competitor. Plaintiff obtained an injunction prohibiting such solicitation.

On appeal, defendant argued that the judgment should be reversed because plaintiff had failed to establish all five elements in *Aetna*. The court, although noting that all five elements potentially could be found, concluded that such a finding was unnecessary because "[t]here 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." 85 The court's statement that there was much more in *Lomkin* than in *Aetna* emphasizes that an unfair competition claim against a former employee does not necessarily have to have its basis in trade secrets law, even if based on unlawful use of customer lists. The court recognized that when a former employee is guilty of "fraud, deceit, breach of contract and deception," an employer may have a cause of action for unfair competition, even absent a protectible trade secret. Thus, although in *Lomkin* plaintiff's customer list was found to be a trade secret, the court did not find it necessary to rely on that theory of liability to protect plaintiff. Had the court adopted the usual interpretation of the *Aetna* test, however, the plaintiff might not have recovered, since not all five elements were established. In consequence, serious anticompetitive conduct would have continued.

In *Whitted v. Williams*, 86 the court of appeal did rely on a trade secrets theory to protect the plaintiff, but it too refused to require all five *Aetna* elements. In *Whitted*, the defendant former employee delivered ice along a specified route. Upon defendant's employment by a competitor, plaintiff obtained an injunction against his solicitation of business from plaintiff's customers. 87 The appellate court, in affirming

---

83. See text accompanying note 60 supra.
84. 183 Cal. App. 2d 431, 7 Cal. Rptr. 43 (1960).
85. Id. at 447, 7 Cal. Rptr. at 53.
87. The trial court's injunction also prohibited defendant from soliciting business from customers who made purchases at plaintiff's public dock. The court of appeal reversed this portion of the injunction, finding the identities of such customers not secret or confidential. Id. at 58, 37 Cal. Rptr. at 696-97.
this portion of the judgment, reviewed customer list cases up to and including *Aetna*. The court viewed *Aetna* as a “summarization of factors”\(^8\) to be used as “‘a guide in the determination of what constitutes unfair competition by a former employee.’”\(^8\) The Whitted court relied on *trade secrets cases* only, which it concluded “supported in full measure”\(^9\) its judgment, to affirm the injunction. Again, had *Aetna* been applied and the five elements required, the plaintiff might have been denied recovery, with disastrous consequences to his business.

The *Alex Foods*, *Lomkin*, and Whitted cases unfortunately are atypical of the treatment of customer list problems since *Aetna*. By far the majority of decisions at least implicitly have required all five *Aetna* elements in a list trade secrets case.\(^9\) For example, as recently as 1978, in *Greenly v. Cooper*,\(^9\) the court restrained former employees from soliciting customers of a mortgage loan brokerage business only after finding all five *Aetna* elements present.\(^9\) Such a misapplication of *Aetna* could work substantial harm on a business. If *Aetna* were interpreted correctly, the potential for harm would be reduced somewhat. By adopting in trade secrets cases the balancing test advocated below, however, there would be even less potential for such harsh results. *Aetna* would then be, as originally intended, a “‘guide in the determination of what constitutes unfair competition by a former employee.’”\(^9\)

Non-List Trade Secrets

In contrast to the extensive case law regarding the rights of former employers and employees in customer list trade secrets disputes, there is little authority in California involving trade secrets which are not customer lists. Because this area of trade secrets law can embrace designs, methods, processes, and a variety of other information or de-

---

\(^8\) Id. (quoting Reid v. Mass Co., 155 Cal. App. 2d 293, 301, 318 P.2d 54, 60 (1957)) (emphasis added).

\(^9\) Id.
vices, for convenience this Note terms such trade secrets "non-list" trade secrets.

Prior to the 1952 Aetna decision only one California case had addressed the issue of the protectibility of non-list trade secrets, and it applied the same proof requirements as did the list cases. The non-list cases after Aetna continued to apply this same standard. Accordingly, there has been no revolution in the elements of proof for non-list cases corresponding to that worked by the Aetna decision on list trade secrets cases. Those changes that have occurred reflect an effort to accommodate to a greater degree the equitable nature of a trade secret claim by expressly considering the competing interests of the former employer and employee and do not represent a radical departure from earlier decisions.

The General Approach to Non-List Trade Secrets

The first non-list trade secrets case between a former employer and employee to hold that such a trade secret was protectible was Riess v. Sanford. In Riess the plaintiff manufactured phonograph needles

95. For a discussion of the definition of a trade secret see notes 1-6 & accompanying text supra.
96. The California Supreme Court, for example, has never addressed this issue directly. The closest it has come to such a discussion is in Bancroft-Whitney Co. v. Glen, 64 Cal. 2d 327, 411 P.2d 921, 49 Cal. Rptr. 825 (1966) (fiduciary liable for wrongful use of confidential information).
98. See notes 103-06 & accompanying text infra.
99. 47 Cal. App. 2d 244, 117 P.2d 694 (1941). Eleven years earlier, in Germo Mfg. Co. v. McClellan, 107 Cal. App. 532, 290 P. 534 (1930), the court of appeal in dicta indicated that an employer could obtain relief against a former employee utilizing non-list trade secrets of the employer. In Germo, the plaintiff had sued a former employee to enjoin use of secret antiseptic compound formulas, receipts, labels, and other information. The appellate court, in reversing the trial court's dismissal of the complaint on procedural grounds, stated in dicta: "If the allegations of appellant's complaint are true, there can be no doubt about the action being a proper one for equitable relief. Injunction is a proper remedy to enjoin those who, having as former trusted employees gained confidential information from the employer, seek to use such information for their own private gain in competing with the employer's business, or in behalf of a rival concern." Id. at 541, 290 P. at 538 (citations omitted). The California Supreme Court also had addressed the issue of the protectibility of non-list trade secrets in Hollywood Motion Picture Equip. Co. v. Furer, 16 Cal. 2d 184, 105 P.2d 299 (1940), a case which did not involve an employer-employee relationship. In Hollywood Motion Picture, plaintiff had developed a microphone and other sound devices and had contracted with defendant for the manufacture of such devices. Upon the defendant's appropriation of the devices, plaintiff sued, and the California Supreme Court, reversing the lower court's decision, held such use enjoinable, not because the information constituted a trade secret but because the defendant stood in a contractually imposed confidential relationship. Id. at 188-89, 105 P.2d at 301. For examples of trade secrets in confidential relationships other than that of employer-employee, see Show Mgmt. v. Hearst Publishing Co., 196 Cal. App. 2d 606, 16 Cal. Rptr. 731 (1961) (advertiser-newspaper; relief
from cactus spines, the species of which was known only to plaintiff. Defendant entered plaintiff's employ "with the secret intention of gathering such information for the purpose of using it in future competition with plaintiff." The court of appeal, in affirming the lower court's award of damages and issuance of an injunction, found the controlling law to be

that no agent or employee having been intrusted in the course of his employment with secret and valuable information known only to his employer may thereafter utilize this secret knowledge against the interests or to the prejudice of his employer. . . . This principle . . . is carried into the State Labor Code, section 2860 reading: "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."

This statement by the court indirectly sets forth the proof requirements in non-list trade secrets cases: a former employer-employee relationship; the existence of secret and valuable information "intrusted" to the employee "in the course of his employment"; and use of such information "against the interests or to the prejudice of his employer." In essence, the court required proof of the confidential relationship, existence and use of a trade secret, and resulting damage. Significantly, Riess drew support for its standard from previously-decided customer list cases, citing the Empire line of cases. Thus, Riess suggests that, at least at that time, the courts agreed on the standard of liability in trade secrets cases and agreed that such a standard was applicable to list and non-list trade secrets alike. Only after Aetna did the proof elements for list and non-list cases begin to diverge.

Seventeen years elapsed after the Riess decision before a non-list case between a former employer and employee again reached the ap-

---

100. 47 Cal. App. 2d at 245, 117 P.2d at 695.
101. Id. at 246-47, 117 P.2d at 695 (citations omitted). California Labor Code § 2860, cited by the court, is still in force. However, it has not been relied upon as the basis of liability in an employer-employee trade secrets case. Similarly, although the courts have cited to § 396 of the second Restatement of Agency, they have never expressly relied on it. That section provides in part: "Unless otherwise agreed, after the termination of the agency, the agent . . . has a duty to the principal not to use or to disclose to third persons, on his own account or on account of others, in competition with the principal or to his injury, trade secrets, written lists of names, or other similar confidential matters given to him only for the principal's use or acquired by the agent in violation of duty." Restatement (Second) of Agency § 396 (1958).
102. See notes 25-41 & accompanying text supra.
pellate court level. The decision in *By-Buk Co. v. Printed Cellophane Tape Co.* exemplifies the standard now generally applied in non-list trade secrets cases. In *By-Buk* plaintiff had obtained an injunction against several co-partners and a former employee prohibiting defendants' assembly and use of machinery which plaintiff claimed as a trade secret. In affirming that portion of the injunction against the former employee, the court of appeal concluded that trade secrets disclosed to an employee are "property of the employer and the employee holds that property in trust for the employer and cannot use it in violation of his trust." The court's authority in support of this proposition included two California cases: *Empire*, the first list case and *Riess*, the first non-list case. *Aetna* was not mentioned.

The Diodes Approach to Non-List Trade Secrets

As *By-Buk* illustrates, in cases involving non-list trade secrets litigation between former employers and employees the courts generally have required proof of a previous employer-employee relationship, the existence and use of a trade secret disclosed pursuant to that relationship, and resulting damage. The conflicting equitable demands of the parties have been noticed by the courts, but the decisions have not focused on an approach that expressly weighs these competing interests. In *Diodes, Inc. v. Franzen*, however, the court of appeal explicitly recognized the various equitable concerns of the parties and adopted a balancing approach to trade secrets protection.

In *Diodes*, the plaintiff corporation brought an action against former directors, officers, and employees of plaintiff. Plaintiff apparently contended that defendants had misappropriated a secret process for manufacturing a type of semi-conductor. The trial court's dismissal of plaintiff's third amended complaint for failure to state a cause of action was affirmed by the court of appeal, with the court noting plaintiff had failed to plead facts sufficient to show the existence of a trade secret.

103. Several cases on non-list secrets in actions involving a confidential relationship other than that of employer-employee were decided in the interim, however. See note 99 supra.


105. Id. at 164, 329 P.2d at 151.


107. See notes 7-11 & accompanying text supra.


110. Id. at 251, 67 Cal. Rptr. at 23.
The court set forth in its opinion the elements to be pleaded and proved in a trade secrets case between a former employer and employee:

(1) The existence of subject matter which is capable of protection as a trade secret; (2) the secret was disclosed to the defendant, or to a person for whose conduct a defendant is liable, under circumstances giving rise to a contractual or other legally imposed obligation on the part of the disclosee not to use or disclose the secret to the detriment of the discloser; and (3) if the defendant is an employee or former employee of the plaintiff or if the defendant is charged with having received the secret from an employee or former employee, the facts alleged must also show that the public policy in favor of the protection of the complainant's interest in maintaining the secret outweighs the interest of the employee in using his knowledge to support himself in other employment.\(^{111}\)

The court noted that plaintiff's complaint sufficiently set forth the confidential relationship between plaintiff and defendants, but went on to conclude that plaintiff had failed to allege sufficiently the trade secret status of its process. Thus, although plaintiff had adequately pleaded disclosure of information to the defendants in confidence, the second element of the court's test, it had not shown the information to be a trade secret, the first element. As a result, the court unfortunately did not reach a detailed discussion of its balancing test.

Although the defendants in *Diodes* were directors and officers as well as employees of the plaintiff corporation, the court in *Diodes* did not specifically restrict its decision to cases involving a fiduciary relationship rather than an employer-employee relationship. While such a restriction theoretically could be asserted, *Cal Francisco Investment Corp. v. Vrionis*\(^ {112}\) makes the distinction, at least in a non-list trade secrets case, unimportant in practice. In *Cal Francisco* the plaintiff sought an injunction against a former employee with whom it did not stand in a fiduciary relationship. Plaintiff's four-count complaint included allegations of use of plaintiff's trade secrets by defendant, a former salesman for plaintiff. The lower court's dismissal of plaintiff's complaint was affirmed by the appellate court, which concluded that plaintiff did not possess any trade secrets. Importantly, the court cited the *Diodes* test as controlling.\(^ {113}\)

The balancing approach to trade secrets litigation between a former employer and employee adopted by the court of appeal in *Diodes*, and extended in *Cal Francisco*, was an important refinement of the proof requirements in non-list cases. The test explicitly incorporates as an element of proof the competing equitable interests of a former employer and employee, interests which were recognized in previous trade

\(^{111}\) *Id.* at 250, 67 Cal. Rptr. at 22.

\(^{112}\) 14 Cal. App. 3d 318, 92 Cal. Rptr. 201 (1971).

\(^{113}\) *Id.* at 321-22, 92 Cal. Rptr. at 204.
secrets cases.\textsuperscript{114} \textit{Diodes} additionally is important because the decision is not restricted to non-list trade secrets, but ostensibly applies to any "subject matter which is capable of protection as a trade secret."\textsuperscript{115}

\section*{Comparison of the Aetna and Diodes Tests}

The elements found in \textit{Aetna} and \textit{Diodes} are strikingly different; their distinctions are even more pointed when it is remembered that the courts are addressing in essence the same problem: the protectibility of an employer's trade secrets from use by a former employee. Indeed, the separate treatment of list trade secrets required by courts interpreting \textit{Aetna} has no basis in precedent.\textsuperscript{116} The \textit{Aetna} test as interpreted enlarges the proof requirements and can operate to deprive a former employer of a significant business asset. Further, a court conceivably could confuse the standards in list and non-list cases and apply \textit{Aetna} to a non-list trade secret. Because an employer could meet the \textit{Aetna} requirements only rarely in such a situation, this too would deprive an employer of a valuable asset. Even were \textit{Aetna} to be interpreted correctly, however, its test would not be applicable to non-list cases. Thus, if a uniform standard is to be adopted, the \textit{Diodes} test is more appropriate. A comparison of three differences between \textit{Aetna} as currently interpreted and \textit{Diodes} exemplifies both the inadequacies of the \textit{Aetna} test and the superiority of the \textit{Diodes} test in trade secrets litigation.

The first difference is the requirement of "intent to injure" found in the \textit{Aetna} test, which mandates a showing that "[t]he former employee solicited the customers of his former employer with intent to injure him."\textsuperscript{117} In contrast, \textit{Diodes} does not predicate relief upon a finding of a specific intent. Logically, the intent requirement found in \textit{Aetna} has no place in a trade secrets case. If a former employee enters into competition with intent to injure a former employer, that employee should be liable for unfair competition even absent a trade secret.\textsuperscript{118} Generally, the basis of a trade secrets claim against a former employee is breach of a confidential relationship, \textit{i.e.}, an abuse of trust by a former employee by the use of secrets disclosed to him or her by the employer. To require specific intent before establishing liability is

\begin{itemize}
  \item \textsuperscript{114} See note 108 & accompanying text \textit{supra}.
  \item \textsuperscript{115} 260 Cal. App. 2d at 250, 67 Cal. Rptr. at 22.
  \item \textsuperscript{116} See notes 25-41 & accompanying text \textit{supra}.
  \item \textsuperscript{117} 39 Cal. 2d at 204, 246 P.2d at 15.
  \item \textsuperscript{118} See Southern Cal. Disinfecting Co. v. Lomkin, 183 Cal. App. 2d 431, 7 Cal. Rptr. 43 (1960). The distinction between the two bases of liability is set forth in Annot., 28 A.L.R.3d 7 (1969), which states that unfair competition claims fall into two broad categories, "those relating objectively to the nature and characteristics of the information sought to be protected [\textit{e.g.}, trade secrets or confidential information], and those relating to the knowledge, motives, intentions, and conduct of the parties [\textit{e.g.}, intent to injure]." \textit{Id.} at 19.
\end{itemize}
comparable to requiring specific intent in a case involving breach of contract.\textsuperscript{119} In a trade secrets case, the breach is use of the secret, not its use with specific intent. The damage sustained by a former employer as a result of the breach is as great in the one instance as it is in the other. The \textit{Diodes} test quite properly omits such a requirement.

A second difference between the \textit{Aetna} and \textit{Diodes} tests is that the former requires proof of solicitation of customers,\textsuperscript{120} while the latter requires proof of "use" of trade secrets.\textsuperscript{121} While solicitation of customers is an appropriate limitation on liability in list cases\textsuperscript{122}—solicitation essentially being the means of gauging use—it is completely inapplicable in non-list cases. Thus \textit{Aetna}, even if properly interpreted, would not be an appropriate uniform standard to apply in all trade secrets cases. The use requirement in \textit{Diodes}, on the other hand, is readily adaptable to list cases.

A final difference between the \textit{Aetna} and \textit{Diodes} tests is that the latter takes a balancing approach to trade secrets problems. Such an approach acknowledges the policy considerations behind trade secrets protection by explicitly recognizing as a specific element of proof the competing interests of former employers and employees which earlier cases recognized only implicitly.\textsuperscript{123} Under a standard that does not allow for explicit consideration of such interests, the courts are forced to devise legal reasons for decisions which in essence are founded upon equitable principles.

A more rational approach would be to establish guidelines for determining when subject matter is or is not a trade secret, as \textit{Scavengers} in part attempted to do years ago.\textsuperscript{124} If a court found a trade secret existed, but determined the interests of the former employer in the trade secret to be less than the interests of the employee in employment, the court could deny protection despite the trade secret.\textsuperscript{125} The court, in making such a determination, could consider such factors as the extent to which the defendant employee was foreclosed from competition, the monetary value of the claimed trade secret, and the extent to which

\textsuperscript{119} The aptness of this analogy is highlighted by the fact that liability may be based on breach of an implied contract of employment. See note 13 supra.

\textsuperscript{120} 39 Cal. 2d at 204, 246 P.2d at 15.

\textsuperscript{121} 260 Cal. App. 2d at 250, 67 Cal. Rptr. at 22.

\textsuperscript{122} \textit{See, e.g.,} New Method Laundry Co. v. MacCann, 174 Cal. 26, 161 P. 990 (1916) (prohibiting solicitation of customers but not the receiving of unsolicited business from those customers).

\textsuperscript{123} See note 108 & accompanying text supra.

\textsuperscript{124} See notes 38-39 & accompanying text supra.

\textsuperscript{125} Such an approach is entirely supported by the fact that possession of a trade secret does not confer an absolute property right, but only a proprietary right enforceable to prevent improper discovery or use. \textit{See, e.g.,} Futurecraft Corp. v. Clary Corp., 205 Cal. App. 2d 279, 283, 23 Cal. Rptr. 198, 207 (1962).
continuation of the former employer's business depended upon the secrecy of the information. Thus, if the employee would be absolutely foreclosed from competition while the employer losing the trade secret would be minimally damaged, the court could deny trade secret protection. Conversely, if loss of the trade secret would mean financial ruin to a former employer's business, while the employee had other avenues of entry into competition, trade secret protection could be granted. Without a balancing approach, the court in these situations might have to manipulate the definition of trade secrets to achieve the same result. A resort to such fictitious distinctions is unnecessary when an explicit recognition of the equitable considerations involved would provide a fair means of achieving the desired end. The Diodes test, with its express recognition of the policy basis of trade secrets decisions, is a far more sensible approach to trade secrets problems and the equitable considerations they necessarily entail.

By adopting the Diodes test as the uniform standard to be applied in all trade secrets litigation between a former employer and employee, the courts could eliminate Aetna as currently interpreted, thus removing proof requirements which may unfairly deny the owners of trade secrets protection to which they should be entitled. This also would merge the list and non-list areas of trade secrets law, eliminating the potential for confusion of the two standards in trade secrets cases. And, by choosing Diodes over a corrected Aetna, the courts could look to the Diodes balance to deal honestly with the equitable problems in trade secrets cases.

Conclusion

A trade secret is potentially one of the most valuable assets of a business. A California employer whose business depends on the continued secrecy of that asset and who has expended substantial time, effort, and money in developing it, understandably will seek to prevent its use by an employee to whom the trade secret has been disclosed, should that employee enter into competition with his or her former employer. So long as the employee's employment mobility and usable knowledge are not limited unfairly, the courts should protect the trade secret.

The California courts have recognized the necessity of protecting information, processes, or the like when their claimed trade secret status is justified. However, by interpreting Aetna as requiring proof of five separate elements before liability is established in a list trade secrets case, and by failing to formulate a standard of proof applicable to all types of trade secrets litigation between former employers and employees, the courts have lent unnecessary uncertainty to California trade secrets law and, at a more basic level, to the employer-employee
relationship. By adopting the elements of proof set forth in *Diodes, Inc. v. Franzen*\(^1\)\(^2\) as a uniform standard, much of this uncertainty could be alleviated. Under such a formula, application of incorrect proof requirements would be less likely, perhaps allaying the fears of litigating employers. Further, under the balancing approach in *Diodes*, employees to whom trade secrets are disclosed should not need to fear that they will not be allowed to find employment in their field of expertise after leaving their former employers’ business. *Aetna*, even if correctly applied, cannot boast such an express equitable approach. The adoption of the *Diodes* balancing test in all employer-employee trade secrets cases thus is vitally important.

\(^{126}\) 260 Cal. App. 2d 244, 67 Cal. Rptr. 19 (1968).