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Special Feature

Business Litigation

***50 THE LAUNDRY ROUTE CASES AND HOW NOT TO GET TAKEN TO THE CLEANERS**[Jason E. Goldstein \[FNa1\]](#)

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Introduction

Information about the customers who purchase a particular type of good or use a particular type of service is of immeasurable value to those who produce those particular goods or provide that particular type of service. Competitors and former employees know the value of this hard earned business information and are sometimes willing to take any means necessary to acquire this information-- including stealing it. These unscrupulous persons have no remorse for their illegal acts and will attempt to take their competitor or former employer to the proverbial cleaners in the process. Nonetheless, whether the customer information involves the patrons of a laundry route visited by a driver on horse and buggy in the early 1900s, or the customers who purchase rubber rollers for use on assembly line, the law recognizes the value of this information. As long as an employer has acquired this information as the result of time, effort and expense, as opposed to mere reference to telephone books and trade directories which are known to all, and the customer information is the subject of reasonable efforts to protect its secrecy, it will be afforded trade secret status entitled to protection under both civil and criminal law. (See [California Penal Code § 499c](#) (criminal misappropriation) and [18 U.S.C. § 1832](#) (Economic Espionage Act).)

The Laundry Route Cases

In the seminal case of *Empire Steam Laundry v. Lozier* (165 Cal. 95 (1913)), the California Supreme Court affirmed the trial court's entry of a perpetual injunction prohibiting a former employee who had misappropriated his former employer's trade secret customer list from *soliciting* or *receiving* business from any of his former employer's customers that were on the laundry route the former employee had serviced on a horse and buggy. The former employee, who had agreed in writing not to solicit the customers of his then employer, both during and after the cessation of his employment, unsurprisingly quit his job and immediately went to work for a competitor and commenced stealing his former employer's customers. The California Supreme Court held that the former employer's customer list, although partly prepared by the employee, was the absolute property of the former employer, was a valuable part of the former employer's property, and that neither reasoning nor authority could leave one in doubt that the information sought to be protected was a trade secret. (*Id.* at 99 - 101.) The customer list deserved trade secret protection because it was compiled and maintained pursuant to the expenditure of large sums of money by the former employer and it enabled the former employer to keep track of its business.

The California Supreme Court followed the lead it set in *Empire Steam Laundry* when it decided the case of *New Method Laundry Co. v. MacCann* (174 Cal. 26 (1916))--a case with a factual scenario almost identical to that in *Empire Steam Laundry*. In *New Method Laundry Co.*, the trial court had entered a permanent injunction against a former employee which prohibited the former employee from soliciting laundry work from his former employer's customers that were on the laundry route he had serviced, *but not from receiving* work from these customers. Despite the former employer's protestations that the former employee should also be prohibited from receiving work from the customers on the laundry route that had been serviced by the former employee, the California Supreme Court affirmed the trial court's decision on the ground that the former employee did not utilize the former employer's customer list in violation of an employment contract, but instead merely used his prior knowledge of the customers he had previously serviced in the effort to take their business from the former employer. In contrast, in *Empire Steam Laundry*, the former employee was subject to an employment contract which covered the employer's customer lists. *51 Without the bad act of utilizing the former employer's customer list in violation of an employment contract, the California Supreme Court held that it was precluded from prohibiting the former employee from accepting business from former clients that sought him out since, "[t]he constitutional guaranties of liberty include the privilege of every citizen to freely select those tradesman to whom he may desire to extend his patronage, and equity cannot invade or take away this right, either directly or indirectly." (*Id.* at 32.)

Nonetheless, the California Supreme Court made it abundantly clear that it would not stand for any game playing with the no-solicitation injunction and the readily apparent game of *I call you and then you call me back so it appears that no solicitation took place*: "The decree expressly forbids defendant from in any manner soliciting or attempting to induce, directly or indirectly, such customers to withdraw their patronage from plaintiff. Clearly, conduct on the part of the defendant, his agent, or others in his behalf, such as suggested would be *contra bonos mores* and a deliberate invasion of the injunction issued to plaintiff." (*Id.* at 35.)

The lessons imparted by the laundry route cases appear to be that, if a former employee steals a former employer's customer list, the former employee will be prohibited from soliciting or receiving business from any of the customers on the stolen list. However, if a former employee attempts to use the trade secret customer information that the former employee had only obtained as a result of being employed by the former employer without violating an employment contract, the former employee will be prohibited from soliciting business from any of those customers, but not from receiving this business at the express request of the former customer. As discussed above, game playing will not be tolerated in the latter situation.

The Modern Cases and the UTSA

California enacted the Uniform Trade Secrets Act ("UTSA"), codified as [California Civil Code section 3426.1 et seq.](#), in 1984 and the UTSA became effective in 1985. In the event of a conflict between prior case law and the UTSA, the UTSA controls. (*American Credit Indemnity Co. v. Sacks*, 213 Cal.App.3d 622, 630 (1989).)

Decisions under the UTSA have consistently affirmed the proposition that a valuable customer list that is the result of time, effort and expense on the part of an employer, and is the subject of reasonable measures to protect its secrecy, will be afforded trade secret protection under California law. For example, in *Abba Rubber Co. v. Seaquist* (235 Cal.App.3d 1 (1991)), the Court of Appeal succinctly explained why a customer list can constitute a trade secret by holding, among other things, that, "[b]y itself, the knowledge of the identities of the businesses who buy from a particular provider of goods or services is of no particular value to that provider's competitors.

However, that information is valuable to those competitors if it indicates a fact which they previously did not know: that those businesses use the goods or services which the competitors sell.” (*Id.* at 19.) Similarly, in *Morlife, Inc. v. Perry* (56 Cal.App.4th 1514 (1997)), the Court of Appeal affirmed a permanent injunction against a former employee who had misappropriated his former employer's trade secret customer list on the grounds that the former employee should be enjoined from any further use and enjoyment of the former employer's trade secret customer list and that an injunction can be properly limited to customers of whom the former employee obtained knowledge while working for the former employer. (*Id.* at 1528.)

How to Establish a Trade Secret

What is a trade secret? “In short, the test for a trade secret is whether the matter sought to be protected is information (1) that is valuable because it is unknown to others and (2) that the owner has attempted to keep secret.” (*DVD Copy Control Ass'n v. Bunner*, 116 Cal.App.4th 241, 251 (2004).)

The *unknown-to-others* portion of the trade secret test is perhaps the most argued by former employees who attempt to get away with stealing their former employer's trade secrets. Nonetheless, it is important to note that the unknown-to-others requirement does not mean that trade secret protection is barred if the information sought to be protected is readily ascertainable because the UTSA adopted by California *omits* any mention of a readily ascertainable defense. (*Abba Rubber Co.*, 235 Cal.App.3d at 21.) Instead, the unknown-to-others requirement appears to mean that the customer information sought to be protected must be comprised of information that has been winnowed down from a large universe of potential customers into a smaller list of customers or potential*52 customers that utilize the particular product or service sought to be sold or provided. For example, in *American Credit Indemnity Co.*, the Court of Appeal found that a trade secret customer list existed when it was the result of time, effort and expense incurred to winnow down a large universe of potential customers to the 6.5% of the customers that actually utilized the service sought to be provided. (*American Credit Indemnity Co.*, 213 Cal.App.3d at 630-631.)

The secrecy requirement appears to be a little more straightforward. Courts have held that requiring employees to sign a confidentiality agreement is a reasonable step to ensure the secrecy of a proposed trade secret. (*Whyte v. Schlage Lock Co.*, 101 Cal.App.4th 1443, 1454 (2002).) However, equity can restrain the misappropriation of trade secrets independent of any contract regarding the proposed trade secret. (*Pasadena Ice Co. v. Reeder*, 206 Cal. 697, 702 (1929).) Courts have also held that advising employees of the existence of the trade secret, limiting access to the trade secret to only those persons that *need to know*, and controlling plant access, are also reasonable steps to ensure secrecy. (*Courtesy Temporary Services, Inc. v. Camacho*, 222 Cal.App.3d 1278, 1288 (1990).)

Steps to Take After the Misappropriation of Trade Secrets

In this electronic age where the information contained in an entire computer system can be transferred anywhere in the world with the click of a mouse, or downloaded onto a removable storage device and whisked away without drawing any attention, immediate action must be taken to protect the misappropriated trade secrets upon discovery of their theft. This is because, once information is disseminated to the general public, it may lose its trade secret protection since the information sought to be protected would no longer be unknown to others.

The UTSA authorizes courts to enjoin actual or threatened misappropriation of trade secrets. (See *California*

[Civil Code § 3426.2\(a\)](#).) This relief can be obtained as long as the information sought to be protected is valuable because it is unknown to others and reasonable steps have been taken to ensure the secrecy of this information. If these requirements are satisfied, the proper steps have been taken to immediately file suit upon the discovery of the misappropriation and to seek the entry of a temporary restraining order and the issuance of an order to *53 show cause why a preliminary injunction should not be granted. Obtaining a temporary restraining order followed by a preliminary injunction will provide the victimized former employer with a tool to protect its misappropriated trade secrets from being further disseminated. The possibility of a contempt judgment will hang over the head of the recalcitrant former employee and all of the persons or companies that would seek to use this ill-gotten information.

Moreover, prompt injunctive relief can be critical to a misappropriation of trade secret case since money damages are normally not the end game of such a lawsuit. Instead, the most sought after end game is normally the protection of the valuable customer information and to prevent its unauthorized use and dissemination by third parties. As stated in [Vacco Industries, Inc. v. Van Den Berg](#) (5 Cal.App.4th 34, 55 (1992)), the fact that “the compensatory damages from defendants' willful and malicious misappropriation were not substantial may only reflect that they had not yet been successful in financially injuring the plaintiffs and that the injunctive relief, interposed to prevent such harm, was the most significant relief which the plaintiffs sought or obtained.”

Conclusion

Although the Laundry Route Cases were decided almost a century ago, the legal principles for which they stand still resonate as strongly today as they did in the 1900s. Following the guidance of the Laundry Route Cases, and by properly protecting trade secret customer information as detailed above, the legal mechanisms provided by the UTSA can be utilized to keep a company from being taken to the proverbial cleaners by the bad acts of its former employees and competitors.

[FN1]. *Jason E. Goldstein is an Associate with Buchalter Nemer in Irvine, California. He focuses his practice exclusively on litigation matters which include, among other things, misappropriation of trade secrets, secured lending (real and personal), fraud, business related matters, and RICO. Mr. Goldstein can be reached at 949.224.6235 and at jgoldstein@buchalter.com.*

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