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TRUSTS - CONSTRUCTIVE TRUSTS - PROTECTION OF TRADE SECRETS AND LIKE CONFIDENTIAL INFORMATION

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TRUSTS — CONSTRUCTIVE TRUSTS — PROTECTION OF TRADE SECRETS AND LIKE CONFIDENTIAL INFORMATION — Plaintiff hired a seismograph company to make surveys of certain land for the purpose of locating oil and gas. The results of the survey were favorable. An employee of the seismograph company communicated the results to the defendant who thereafter leased the land. Plaintiff brought suit to have defendant declared constructive trustee of the land for plaintiff. *Held*, that the relief could not be granted since defendant might have leased the land without such information. *Ohio Oil Co. v. Sharp*, (D. C. Okla. 1942) 45 F. Supp. 969.

It would not seem an undue extension of the term to call information obtained by such a survey a trade secret.[1] There can be no doubt that secrecy was intended and that the information was considered as a possible source of profit. Equity has quite generally afforded protection to trade secrets when it has been feasible to do so.[2] Thus when an employee communicates a trade secret of his employer to a third party who has notice of the employee's breach of duty, or who does not pay value, equity will enjoin the third party from using the information.[3] This being so, there would seem to be no good reason for refusing

[1] In the usual case the trade secret is a secret process, Harvey Co. v. National Drug Co., 75 App. Div. 103, 77 N. Y. S. 674 (1902), or a customer list, Stevens & Company v. Stiles, 29 R. I. 399, 71 A. 802 (1909). See 42 HARV. L. REV. 254 (1928) for an attempt at definition.

[2] 23 COL. L. REV. 164 (1923); 42 HARV. L. REV. 254 (1928); 37 YALE L. J. 1154 (1928).

[3] Stewart v. Hook, 118 Ga. 445, 45 S. E. 369 (1903); Elaterite Paint & Mfg. Co. v. S. E. Frost Co., 105 Minn. 239, 117 N. W. 388 (1906); Eastern Extracting Co. v. Greater New York Extracting Co., 126 App. Div. 928, 110 N. Y. S. 738 (1908).

relief simply because the person to whom the trade secret was communicated has already used the information to his advantage, providing that it is practical to give relief under such circumstances. This was recognized in one decision requiring the defendant to account to the plaintiff for profits realized from the trade secret.[4] While the relationship of the parties in the principal case was not that of employer and employee, their respective duties would seem to be the same. Once it has been decided that relief should be granted in such a case there would seem to be no valid objection to using the constructive trust device for this purpose. Defined broadly, a constructive trust is a remedial device used by equity to compel one who unfairly holds a property interest to convey it to another who is entitled thereto.[5] The fact that there are no precedents for the use of the device under the circumstancs of the instant case would seem of little significance since the courts have refused to define the limits of the remedy.[6] Moreover, constructive trusts have often been used to prevent unjust enrichment resulting from the breach of a fiduciary duty, whether the enrichment accrues to the fiduciary [7] or to a third party who has knowledge of the breach of duty.[8] An employee is generally regarded as a fiduciary with respect to the trade secrets communicated to him by his employer,[9] and an employee of the survey company would seem equally a fiduciary with respect to confidential information obtained for a client. However, before a constructive trust can be imposed under such circumstances as presented by the principal case, it would seem necessary to decide two fact questions to determine whether the defendant actually does hold a property interest which in equity and good conscience should belong to the plaintiff. First, would the plaintiff have leased the property but for the action of the defendant? The most troublesome consideration on this question would seem to be the possibility that the lessor might refuse to lease to the plaintiff. Second, would the defendant have leased the property but for the information he received through the employee's breach of duty? If so, then the relief should, of course, be denied because the defendant's enrichment did not result from the employee's breach of duty. The presence of these fact questions would not seem to make the problem so speculative that the courts would be justified in refusing to consider such applications for relief.[10] In protecting trade

[4] Vulcan Detinning Co. v. American Can Co., 75 N. J. Eq. 542, 73 A. 603 (1909).

[5] Englestein v. Mintz, 345 Ill. 48, 177 N. E. 746 (1931); Jackson v. Jefferson, 171 Miss. 774, 158 So. 486 (1935); Teuscher v. Gregg, 136 Okla. 129, 276 P. 753 (1929); 3 BOGERT, TRUSTS AND TRUSTEES, § 471 (1935).

[6] See Gilpatrick v. Glidden, 81 Me. 137, 16 A. 464 (1888).

[7] Meinhard v. Salmon, 249 N. Y. 458, 164 N. E. 545 (1928); Housewright v. Steinke, 326 Ill. 398, 158 N. E. 138 (1927).

[8] Parlin v. McClure, 169 Ga. 576, 150 S. E. 835 (1929); Jones v. Jones, 297 Mass. 198, 7 N. E. (2d) 1015 (1937).

[9] Westervelt v. National Paper & Supply Co., 154 Ind. 673, 57 N. E. 552 (1900); Maas & Waldstein Co. v. Walker, 102 N. J. Eq. 328, 140 A. 921 (1928); 37 YALE L. J. 1154 (1928).

[10] This seemed to be the attitude of the court in the instant case, the principal reason for its decision being that the defendant might have leased the property even

secrets by means of injunctions, the courts must decide the very similar questions whether the defendant discovered the secret independently or whether it was wrongfully communicated to him.[11] Therefore the real problem seems to be the desirability of extending the policy of protecting trade secrets to such cases, and this should not be difficult to answer once it is conceded that the policy itself is sound.

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though it did not know of the results of the survey. It is submitted that a definite finding of fact should have been made on this question.

[11] Herold v. Herold China & Pottery Co., (C. C. A. 6th, (1919) 257 F. 911; Witkop & Holmes Co. v. Great Atlantic & Pacific Tea Co., 69 Misc. 90, 124 N. Y. S. 956 (1910).