1980

Microbiological Research Corp. v. Nadeem M. Muna : Brief of Respondents

Utah Supreme Court

IN THE SUPREME COURT OF THE STATE OF UTAH

MICROBIOLOGICAL RESEARCH CORPORATION, a Delaware Corporation,	)	
Plaintiff-Respondent,	)	
vs.	)	
NADEEM M. MUNA,	)	
Defendant-Appellant.	)	

BRIEF OF RE

Appeal from the Judgment of the
in and for Salt
Honorable J. Duff

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Clerk, Supreme Court, Utah

IN THE SUPREME COURT OF THE STATE OF UTAH

MICROBIOLOGICAL RESEARCH CORPORATION, a Delaware Corporation, Plaintiff-Respondent, vs. NADEEM M. MUNA, Defendant-Appellant.	)	No. 16643

BRIEF OF RESPONDENT

Appeal from the Judgment of the Third District Court
in and for Salt Lake County
Honorable J. Duffy Palmer, Judge

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BRIEF OF RESPONDENT

NATURE OF THE CASE

This is an action commenced by Plaintiff against its former president and general manager for injunctive relief prohibiting Defendant from competing with Plaintiff as to products developed during Defendant's employment, prohibiting Defendant from utilizing Plaintiff's customer lists, and seeking compensatory and punitive damages.

DISPOSITION IN LOWER COURT

A temporary restraining order was issued by the Honorable J. Duffy Palmer on September 28, 1978 enjoining Defendant from soliciting Plaintiff's customers or from making use of Plaintiff's methods of manufacturing. Subsequently, a preliminary injunction was issued by the lower court restraining Defendant from soliciting Plaintiff's customers, using Plaintiff's methods of manufacture, competing with Plaintiff in the sale of four specified medical test kits, and assisting any competitors of Plaintiff in the production of such kits.

After a full trial on the merits the court issued a permanent injunction restraining Defendant from soliciting Plaintiff's customers, from competing with the plaintiff in any of its present product lines or services for a period of two years, and requiring an accounting for any profits derived from Plaintiff's customers.

RELIEF SOUGHT ON APPEAL

Respondent requests that the permanent injunction granted by the trial court be sustained.

STATEMENT OF FACTS

Respondent does not seriously dispute the majority of the statements made in "Appellant's Statement of Facts." (Appellant's brief, pp. 2-9). Respondent believes, however that Appellant has made certain implications in this Statement which is not supported by the record or which is speculation on his part. Respondent MRC shall address these factual inaccuracies during the Argument portion of this Brief.

It is Respondent's position that the findings of the lower court both adequately outline the factual context of this case and are also supported by competent evidence. It is a fundamental rule of this Court that findings supported by clear and convincing evidence will not be disturbed on appeal. McMahon v.

Tanner, 249 P.2d 502 (Utah 1953).

A review of the facts in light of the evidence as believed by the Trial Court, reasonably supports the Trial Court's factual findings. Brady v. Fausett, 546 P.2d 246 (Utah 1976). The findings of the trial court (R. Vol. II, pp. 12-15) and evidence supporting such findings are as follows:

"1. Plaintiff is a corporation incorporated under the laws of the State of Delaware with its principal offices and place of business located in Bountiful, Davis County, Utah." (R., pp. 1, 23).

"2. Defendant Nadeem M. Muna is a resident of Davis County, State of Utah." (Transcript of July 10 and July 11, 1979 hearing, hereinafter Tr., p. 129).

"3. That Defendant Nadeem M. Muna was employed by the plaintiff Microbiological Research Corporation as its president and chief executive officer from September, 1968, until February, 1978." (Tr., pp. 17, 136).

"That as president of Plaintiff's corporation Defendant Nadeem M. Muna was in a position to learn and did learn Plaintiff's confidential, proprietary and secret methods of operation such as clientele lists, combinations of chemicals, methods of production, all of which were used by Plaintiff during Defendant's employment with Plaintiff.

"It was necessary and unavoidable that Defendant Muna should learn in confidence all of the foregoing confidential, proprietary and secret information of Plaintiff." (Tr., pp. 39, 61, 137, 164; Mawod Depo., pp. 46-50).

"4. That the foregoing confidential, proprietary and secret property of the plaintiff was and continues to be of substantial and significant value to the plaintiff in the successful conduct of its business." (Tr., pp. 22, 23, 38, 61, 91, 120, 229; Exhibits 8, 19, 33).

"5. That in the manufacture of Herpes I and II test kits, Antinuclear Binding Antibody test kits, toxoplasmosis test kits, and the infectious mononucleosis test kits, the plaintiff has trade secrets that are of importance and confer upon Plaintiff an advantage in the marketplace." (Tr., pp. 7, 77, 79, 135, 163; Exhibits, 13, 36).

"6. That said trade secrets were developed by Defendant for the plaintiff's benefit while Defendant was an employee of Plaintiff and while Defendant was charged by the plaintiff with the responsibility of developing these human diagnostic test kits to which said trade secrets now apply." (Tr., pp. 12, 29, 75, 79, 92, 93, 187, 190).

"7. That Plaintiff's process for the test kits referred to in paragraph 5 above, taken as a whole, is not known to the industry and is guarded by Plaintiff's security precautions. (Tr., pp. 22, 23, 25, 26, 75, 79, 82, 111, 225, 229).

"8. That Plaintiff uses certain formulations of chemicals and nutrients in the propagation of its cell lines as well as certain techniques and chemical formulations in the manufacturing process that are known only to the plaintiff and are of value and confer a competitive advantage to Plaintiff." (Tr., pp. 45, 76, 77, 80, 85, 86, 88, 91, 111, 117, 120, 123, 149, 155, 157, 160, 167, 243; Exhibits 1, 11, 15).

"9. That the formulation referred to in paragraph 8 above was developed for Plaintiff by Defendant while Defendant was in Plaintiff's employ." (Tr., pp. 29, 92, 117, 132, 135, 136, 159, 161, 164).

"10. That in February of 1978, Defendant lost his bid for reelection as president of Plaintiff corporation and thereinafter on or about the 28th day of February, 1978, entered into a second employment agreement with Plaintiff." (Tr., pp. 18, 63, 179; Exhibit 23).

"11. That on or about the 4th day of September, 1968 the defendant Nadeem M. Muna for good and sufficient consideration entered into an employment contract with the plaintiff's predecessor Microbiological Sciences, Inc. and that at all times during Defendant's employment with Plaintiff up to and including July 28, 1978, said contract was in full force and effect and valid and binding upon Defendant." (Tr., p. 16; Exhibits 22, 32, pp. 6-8).

"12. That on February 28, 1978 the plaintiff through its officers and directors had no knowledge of the existence of the employment contract under the date of September 4, 1968, and that Defendant knew of this contract and further knew that Plaintiff did not know of this contract and with this knowledge Defendant wholly failed and refused to reveal the existence of this contract and further deliberately concealed its existence while negotiating a separate employment contract on February 28, 1978." (Tr., pp. 14, 19; R., pp. 162-163; Exhibit 32, pp. 6-8).

"13. That the September 4, 1968 employment contract between Plaintiff and Defendant contained conditions limiting Defendant's right to compete with Plaintiff. (Exhibits 22; 32, p. 8).

"14. That unless restrained by this Court, it is likely that the defendant Nadeem M. Muna will solicit Plaintiff's customers that became known to him while in Plaintiff's employ and said Defendant will appropriate to his own use or for the use of others the secret and proprietary information of Plaintiff and that by using such information, Plaintiff will suffer irreparable damage, the amount of which is not capable of exact proof and which no adequate remedy at law exists." (Tr., pp. 37, 38, 183, 186, 192, 194; Exhibits, 26, 27).

"15. That Defendant has solicited Plaintiff's customers and has been in competition with the plaintiff." (Tr., pp. 183, 194; Exhibits 26; 27; 32, p. 9).

This action was commenced in September, 1978 shortly after Defendant resigned from the company. (R., pp. 1-7).

A temporary restraining order was issued by the trial court on September 28, 1978. (R., pp. 20-21).

An evidentiary hearing was held on October 26, 1978 at which time the trial court granted Plaintiff a preliminary injunction against Defendant. Defendant was restrained from soliciting customers of Plaintiff, using Plaintiff's methods of manufacturing, competing with Plaintiff in the sale of four specified medical kits, and in rendering services or advice to any competitor. (R., pp. 36-37; Ex. 32).

A full trial was held on July 10, 1979 and July 11, 1979 before the Honorable J. Duffy Palmer. The court took the case under advisement and rendered a memorandum decision approximately one month after the hearing. (R., pp. 190-191). The court granted Plaintiff a permanent injunction against Defendant from soliciting Plaintiff's customers for the sale of products presently manufactured by Plaintiff whose identity Defendant learned of during his employment and also enjoined Defendant from competing with Plaintiff in any of Plaintiff's present product lines or services for a period of two years. The court required defendant to render an accounting of any profits made from Plaintiff's customers and ordered return of any customer lists. (R., pp. 190-191).

It is from the memorandum decision and the preliminary injunction that this appeal is taken. (R., p. 194).

ARGUMENT

THE PERMANENT INJUNCTION ISSUED BY THE TRIAL COURT WAS PROPER.

The trial court after carefully reviewing the evidence presented to it at the hearing and prior to the hearing determined that Defendant should be restrained from soliciting customers of the plaintiff whose identity and location Defendant learned of during the course of his employment with Plaintiff, should be enjoined from competing with Plaintiff in any of its product lines for a period of two years, and should make an accounting as to any sales previously made to Plaintiff's customers. (R., p. 190). The court denied Plaintiff's claim for compensatory damages, punitive damages, and attorney's fees. (R., p. 191).

This Court is constrained to look at the whole of the evidence in light favorable to the trial court's findings, including any fair inferences to be drawn from the evidence and all circumstances shown, and the trial court's findings should not be disturbed unless the evidence is such that all reasonable minds would be persuaded to the contrary. Hanover Ltd. v. Fields, 568 P.2d 751 (Utah 1977); Howarth v. Ostergaard, 515 P.2d 442 (Utah 1973).

Respondents submit that the findings of the trial court were supported by competent evidence and were firmly based upon two separate legal theories: first, that there existed an express contract between the parties prohibiting the conduct enjoined by the trial court; and, second, that there is an implied obligation for an employee not to reveal trade secrets or other confidential information.

A. The Defendant Was Contractually Restrained From Divulging Information Obtained During His Employment with Plaintiff and from Competing with Plaintiff for Five Years After Termination of Employment.

Two separate agreements were introduced by the parties at trial. The first was an agreement entitled, "Management Contract" dated September 4, 1968 (Ex. 22). The second was an agreement entitled "Employment Agreement" dated February 25, 1978. (Ex. 23).

Appellant argues that the 1978 agreement was the only controlling document since it was a novation of the first agreement or, in the alternative, its terms were inconsistent with the first agreement therefore negating by law the terms of the 1968 contract. (Appellant's brief, pp. 10-22). Both of these contentions are erroneous.

1. The 1968 Contract is Controlling in that the 1978 Contract was Obtained by Defendant's Failure to Disclose Material Facts to the Plaintiff Corporation.

Appellant maintains that because paragraph 1 of the 1978 agreement states that "all previous employment agreements and understandings are mutually terminated and settled" that this language eliminates the viability of the previous agreement. (Appellant's brief, p. 10). This contention, however, cannot stand careful scrutiny.

Respondent maintained throughout the trial that this second agreement was void since the defendant had failed to disclose the existence of the prior employment agreement which was a material fact in the formulation of the second contract. The undisputed evidence shows that the corporation had no knowledge of the existence of the 1968 agreement prior to the execution of the latter agreement. (Tr., pp. 14-19). Plaintiff's president stated that the purpose of paragraph 1 was to show that Defendant was no longer to be considered the president, general manager and chairman of the board of directors and that it was not the intent of the parties to specifically revoke prior unknown agreements. (R., pp. 162-163).

Appellant maintains that he had no affirmative obligation to notify the company of this prior agreement since he was no longer an officer of the corporation and because of numerous alleged indications eliminating a fiduciary duty to the corporation. (Respondent's brief, pp. 23-28). Respondent maintains, however, that a fiduciary duty did in fact exist and that the failure of Defendant to inform the corporation of the prior agreement justified the trial court's conclusion that the 1978 agreement was void. (R., p. 191).

It is elementary that a person who is elected as an officer or director of a corporation accepts a fiduciary responsibility to serve the interests of those who elect him which he must discharge with fidelity and which he should not desert for his own personal gain. Cox v. Slagle, 431 P.2d 575, 577 (Utah 1967); Branch v. Western Factors, 502 P.2d 570 (Utah 1972). Thus, if Defendant had still retained his status as an officer of the corporation at the time the second contract was presented to him it would have been his affirmative duty to notify the company of the prior agreement when it was obvious that the new management was unaware of its existence.

The fact that Defendant was no longer an officer in the corporation does not alter this result. It was to Defendant's benefit to induce the plaintiff's corporation into entering in a second contract for the purpose of revoking the prior 1968 agreement which contained numerous restrictions upon Defendant's conduct. Thus, while the 1978 contract was made after Defendant was no longer an officer in the corporation one of its purposes (as now argued by Defendant in his brief) was to allegedly void a prior agreement entered into during Defendant's tenure as both officer and director. For this reason the general rule cited by Respondent that severance of official relationships terminates fiduciary duties of former officers to a corporation has no application in this case. (Appellant's brief, p. 27).

This Court in Glen Allen Mining Company v. Park Galena Mining Company, 296 P. 231 (Utah 1931) addressed this problem. In that case officers of a corporation engaged in conduct prior to their resignation which had an adverse effect upon the existence on the corporate entity. This Court stated:

> The defendants seek to avoid liability on the ground that they had in fact ceased to act as officers of the company when the contract for the purchase of the mortgage rights and the agreement with the creditors to force

a sale of the company's property by execution were entered into. But that alone is not enough to relieve them. They learned of the prospective values of the property and added to the financial embarrassment of the plaintiff while they were officers. During that time they developed and put in motion the plans that resulted in each of those contracts. . . .Under such conditions, an officer cannot avoid responsibility for violating his duties as a fiduciary merely by delaying the final execution of a contract until the expiration of his relations. The rule governing such a situation is well stated in Trice v. Comstock (C.C.A.) 121 F. 620, 625, 61 L.R.A. 176, as follows:

> Nor is it any defense to the suit to enforce this trust that the agency had terminated before the confidence was violated. The duty of an attorney to be true to his client, or of an agent to be faithful to his principal, does not cease when the employment ends, and it cannot be renounced at will by the termination of the relation. It is as sacred and inviolable after as before the expiration of its terms. Id. at 239. (Emphasis added).

This same principle was supported by a New York court when it said, "Were the rule otherwise, the fiduciary obligation would disintegrate by resignation of the fiduciary whenever the attraction of personal gain at the expense of the cestui que trust proved stronger than what would then be an unenforceable moral obligation." Albert A. Volk Company v. Fleschner Bros., 60 N.Y. S.2d 244 (N.Y. Sup. Ct. 1945).

The trial court heard evidence that the new management was unable to locate any prior employment agreement with the defendant. The Board of Directors decided that an agreement should be reached with the defendant. (Tr., p. 18). The plaintiff corporation was completely dependent upon the representations of Defendant and his honesty to inform the president and other members of the management as to whether or not there was any prior existing management or employment agreement. The defendant did not at any time inform the officers of the corporation of the prior agreement. (Tr., p. 14; R., pp. 162-163).

Regardless of any animosity, bad feelings, or "battles" Defendant had with Plaintiff corporation he was still under an obligation to inform the corporation of any prior agreement before executing an agreement which allegedly terminated all such agreements since the effect of any latter agreement would alter the agreement entered into during his fiduciary relationship as an officer and director.

Appellant maintains, however, that Plaintiff corporation should have known of this agreement since it eventually produced the agreement during the first preliminary injunction hearing. Appellant states, "This Court should not permit one party to a contract to avoid searching its files and exercising reasonable diligence in ascertaining facts pertinent to the contract under negotiation." (Appellant's brief, p. 30).

In fact, however, the undisputed testimony is that a search was made of the corporate files by the new president and that no agreement was found. It was only by contacting a <u>prior attorney</u>

who had a copy of the agreement in his files that the 1968 agreement was ever found. (Tr., p. 16). Thus, the 1968 agreement was missing from the corporate file at the time the second agreement was entered into--such files having been previously maintained by the defendant. (Tr., p. 136). The corporation was diligent in performing its duties and the failure of the corporation to obtain the documents from an outside source cannot be used against it as argued by Defendant.

As stated by one court with reference to this type of argument:

> When once it is established that there has been any fraudulent representation by which a person has been induced to enter into a contract, it is no answer to his claim to be relieved from it to tell him that he might have known the truth by proper inquiry. He has a right to retort upon his objector: "You, at least, who have stated what is untrue for the purpose of driving me into a contract cannot accuse me of want of caution because I relied implicitly upon your fairness and honesty. Barren G. Collier v. Connelley, 116 S.W.2d 849 (Tex. Ct. App. 1938).

Appellant also argues that as a matter of law Plaintiff corporation should have been charged with notice of the existing agreement. Respondent does not dispute the general statement of law that notice to a corporate officer or employer is notice to the corporation. These rules, however, were derived for the benefit of third parties dealing with a corporation and not for the benefit of corporate employees themselves who may choose not to notify a corporation of an event for the agent's own benefit. The Enterprise Foundry and Machinery Works case cited by Appellant illustrates this example since the plaintiff in that case was a third party corporation seeking enforcement of a contract with the defendant corporation. (Appellant's brief, p. 31).

The law is clear that even an innocent misrepresentation on which one rightly relies may invalidate a contract where it relates to a material matter. 17 C.J.S., Section 147, p. 902, Contracts. Likewise, in the case of persons occupying a fiduciary or confidential relation, contracts prejudicial to the interest of the subordinate party are ordinarily condemned as presumptively or constructively fraudulent, so that actual fraud ordinarily need not be shown. The requisite relation exists in any case where there is confidence deposed on one side and a resultant domination and influence on the other. C.J.S., supra, at p. 910.

Plaintiff corporation had no reason to believe that Defendant would not inform it of all material facts relating to the formulation of a new contract including the prior employment agreement. Even after the proxy battle and the obvious hard feelings generated by it (as noted in Appellant's brief, p. 24) all indications were that Defendant was going to cooperate and help the company in any way he could. (Tr., p. 29). Plaintiff's president stated that right after the proxy battle Defendant and the president went to a restaurant and Defendant told the president that he would let bygones be bygones and that he would help the company in any way he could. (Tr., p. 66). This testimony was substantiated by Defendant himself. (Tr., p. 178).

In summary, the trial court was correct in finding that Defendant had a fiduciary duty during the negotiations of the 1978 agreement to inform the plaintiff of the existence of the 1968 agreement and that this concealment made a nullity of the second contracts. (R., Vol II, p. 15). This finding is supported because of the continuing fiduciary duty Defendant owed to the company regarding any previous transactions while Defendant was an officer and director, the inability of Plaintiff corporation to learn of the existence of such contract by ordinary means, and by the statements of Defendant to the Plaintiff corporation that he would cooperate and help the corporation whenever possible.

For these reasons the result of voiding the 1978 agreement was to make the 1968 agreement controlling including paragraph 6 which prohibited Defendant from competing with Plaintiff for five years after leaving the company or disclosing any information which was the property of the company. (Exhibit 22). This express contract, therefore, was enforced by the trial court by granting injunctive relief to the plaintiff.

2. Even Assuming Arguendo that the 1978 Contract Remained Valid There was Still no Novation of the 1968 Contract and its Consistent Terms Regarding Competition are Enforceable.

Appellant argues that paragraph 1 of the 1978 agreement stating that all previous employment agreements and understandings are mutually terminated and settled nullifies the 1968 agreement. (Appellant's brief, p. 10). This paragraph, however, makes no specific reference to the 1968 agreement. Neither does it speak in terms of a "management contract" which was the title given to the previous contract. The trial court was, therefore, justified in determining the intent of the parties concerning any ambiguity existing in that paragraph. Lynch v. Spilman, 431 P.2d 636 (Cal. 1967).

Plaintiff's president testified that at the time he executed the 1978 agreement he was not aware of any prior written agreement in existence. (Tr., pp. 14, 17). He further stated that the purpose of paragraph 1 was to show that Defendant was no longer to be considered the president, general manager and chairman of the board of directors and that it was not the intent of the parties to specifically revoke prior unknown agreements. (R., pp. 162-163).

Respondent has argued that a novation occurred substituting the latter agreement for the former agreement. It is fundamental, however, that whether or not a novation has been accomplished depends upon the intention of the parties. As stated by one legal authority:

> Whether or not a novation has been accomplished depends upon the intention of the parties. This intent is the controlling element in determining the question, and,

> unless the transaction was intended to extinguish the old obligation by substituting the new one therefor, a novation is not effected. Intention may be determined from the facts and circumstances of the transaction and the conduct of the parties. 66 C.J.S., Section 18, p. 703. Novation.

The requisites of a novation are a previous valid obligation, an agreement of all the parties to the new contract, consideration, extinguishment of the old obligation and the validity of the new one. The preexisting obligation must be extinguished or there is not a novation. "A mere modification will not suffice; anything remaining of the original obligation prevents a novation." Lampley v. Celebrity Homes Inc., 594 P.2d 605 (Colo. App. 1979).

Furthermore, the burden of proof as to a novation rests upon the party claiming it. D.A. Taylor Company v. Taulson, 552 P.2d 1274 (Utah 1976).

Because the evidence is undisputed that Plaintiff was unaware of the prior obligation it can hardly be said that the parties intended the 1968 contract to be substituted for the 1978 agreement. The most Appellant can claim is that Plaintiff waived and relinquished all unknown contractual obligations existing between the parties. This supposition is both illogical and is contradicted by the uncontroverted statement of Plaintiff's president.

Defendant next asserts that even if a novation did not occur a substitution of inconsistent terms would be required and the latter agreement would control. (Appellant's brief, pp. 13-21).

Once again, Respondent does not dispute the general legal principle asserted by Appellant. However, as applied to this situation it is clear that there is no inconsistency in the non-competition clauses.

The 1968 agreement states the following:

> Muna agrees that during the terms of this agreement he will not engage in any other commercial activity in any way competitive with the business of the company, or its affiliated companies, and that, for a period of five years after leaving the employ of the company, he will not engage in any way, directly or indirectly, in any business competitive with the company or its affiliated companies (in) any state in which any of them do business. Muna further agrees that he will not disclose to any other person any information which is the property of the company or its affiliated companies. (Ex. 22) (Emphasis added).

The latter 1978 agreement states the following:

> During the term of this Agreement Muna shall not act as a consultant for, or accept employment from any competitor of Micro. (Ex. 23).

Both agreements state that Muna will not compete with the company during the term of each agreement. In addition, however, the 1968 agreement requires Muna not to compete after leaving the company and restricts him from disclosing information which is the property of the company. Thus, there is no inconsistency between the two agreements in that the latter agreement does not specifically negate nor even address the question of termination of employment or disclosure of information.

The case of Rosenberg v. D. Kaltman and Co., 101 A.2d 94 (N.J. Super. 1953) is extremely similar to the instant case. In that case a contract was entered into between the plaintiff and defendant corporation in 1950 when Plaintiff was a sales supervisor for the company. One of the paragraphs expressly provided that the plaintiff could not compete against the defendant in certain states for a period of one year after termination of the contract.

Thereafter in 1953 the plaintiff ceased to be a sales supervisor for Defendant but was employed as a salesman. A second contract was entered into which also restricted Plaintiff's ability to compete but reduced the geographical area so restricted.

The plaintiff in Rosenberg contended that the restrictive covenant contained in the 1953 agreement superseded the 1950 agreement. A situation identical to the instant case.

The court first noted that it is primarily a question of the intention of the parties to be ascertained from the contracts themselves whether the earlier contract is discharged and superseded by a new contract. The terms of the second contract must be so inconsistent with those of the former contract that they cannot stand together. Id. at 96. The court therein stated:

> The two covenants could have a concurrent existence, the first and greater to expire by its own terms one year after the date of Plaintiff's termination of employment as sales manager, and the second, one year after the termination of his employment as salesman. If there were any reasonable basis for

> the defendant to require this protection in the original contract for one year after the termination of employment thereunder by reason of complete disaffiliation of the plaintiff with the defendant, there is no sound reason for imputing an intent to waive such protection from the fact that although the employment in one capacity was terminated, the plaintiff continued to be affiliated with the defendant in a limited capacity and in a limited territory. Id. at 97.

This same reasoning is applicable here. If there was any valid reason for restricting Defendant after leaving the company or from disclosing information obtained from the company, that reason did not terminate merely because Defendant changed his job status.

A fair reading of the two agreements reveals that the non-competing clauses are not inconsistent. Both agreements prohibit Defendant from competing during his employment but the 1968 agreement, in addition, requires that he not compete for five years after leaving his employment and that he not divulge information which is the property of the company. Therefore, regardless of what other inconsistencies may be present as to other clauses contained in the two contracts there is no inconsistency in the non-competitive clauses and the 1968 agreement must be given full force and effect.

B. Even Assuming Arguendo that there was no Express Contractual Provision Relating to Competition and Disclosure of Secrets, there Remains an Obligation Implied by Law Not to Injure Defendant's Former Employer.

Even if it is assumed arguendo, that the provisions in the

1968 contract are not binding upon the defendant the trial court was still justified in restraining Muna from competing or divulging confidential information based upon an implied obligation of employment. As stated by the 8th Circuit Court of Appeals:

> The law is well settled that one of the implied terms of a contract of employment is that the employee will hold sacred any trade secrets or other confidential information which he acquires in the course of his employment, and that therefore an employee who has left his employment is under an implied obligation not to use trade secrets or other confidential information which he has acquired in the course of his employment, for his own benefit or that of a rival, and to the detriment of his former employer. Tlapek v. Chevron Oil Company, 407 F.2d 1129, 1133 (8th Cir. 1969).

Likewise, the Restatement of Agency also establishes an implied obligation. It states:

> Unless otherwise agreed, after the termination of the agency, the agent:
>
> * * *
>
> (b) 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 or names, or other similar confidential matters given to him only for the principal use or acquired by the agent in violation of duty. . .. Restatement (2d) of Agency, Section 396 (1958).

The violation of a trade secret is based upon the violation of a confidential relationship and breach of trust rather than on the theory that the plaintiff might have a property right in the trade secret. Stimson v. Lawrence-David, Inc. 356 P.2d 84 (Or. 1960). As stated by the United States Supreme Court:

> 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. E.I. Du Pont De Nemours Powder Company v. Masland, 244 U.S. 100 (1917).

Thus, an employee may be restrained from revealing information even though technically it does not arise to the definition of a "trade secret" if such information was obtained through confidence and through the employee's status in the company.

In the instant case, however, the evidence supports the trial court's findings that "Plaintiff's formulation of chemical and nutrients used in the propagation of sales and used in the manufacture of its diagnostic test kits are proprietary information and trade secrets owned by the plaintiff."

1. The Evidence Supports the Finding of Trade Secrets and Confidential Information.

Appellant has defined "trade secret" in terms of the Restatement of Torts, Section 757 (Appellant's Brief, p. 32). Respondent agrees with this definition and supplements comment "b" with the following sentence omitted in the quotation of Appellant. "It may be a formula for a chemical compound, a process of manufacturing. . .preserving materials, a pattern for a machine or other device or a list of customers."

Appellant asserts that under the Restatement of Torts definition the processes and material comprising Plaintiff's test kits do not constitute trade secrets and therefore, are not deserving of protection. (Appellant's brief, pp. 31-35). This argument is without merit.

First, a trade secret is not only the ingredients that go into making the product but also consists of the correct amounts of each ingredient and the particular procedures for mixing them. Morton v. Rogers, 514 P.2d 752 (Ariz. Ct. App. 1973). The fact that one or more of the ingredients or procedures used in the test kits are not unusual does not negate the fact that the entire process can itself be a trade secret utilizing these materials.

Second, and most important, Defendant has attempted to make an argument based upon testimony and evidence favorable to his position while ignoring contrary evidence presented by Plaintiff. As stated by this court in Brady v. Fausett, 546 P.2d 246 (Utah 1976):

> In appealing this case, Brady seems to enjoin this Court with a principle to the effect that the evidence should be reviewed by taking as true everything he would do, to the exclusion of any evidence admitted at the behest of his opponents, irrespective of its weight, credibility, or admissibility-- to which thesis we cannot prescribe. Id. at 248.

Appellant devotes some 11 pages in his brief to the analysis of each process or ingredient which Appellant claims may have been considered by the trial court to constitute a secret. (Appellant's brief, pp. 31-42). While it is no doubt true, for example, that there is evidence in the record showing that specific items such as isopropyl alcohol is commonly used as a fixative, the segregation of each of these items by themselves distorts the findings of the trial court.

As noted by the trial court, the plaintiff's process "taken as a whole" is not known to the industry and is guarded by Plaintiff's security precautions. (R., Vol. II, p. 13). Likewise, the record must be examined as a whole to determine whether there is support for the trial court's conclusions--even though they may be contrary to the arguments and evidence raised by Defendant.

Plaintiff's president, Edward Mawod, testified that in 1969 when the company was started, there were no commercial companies marketing the ANA test kit. (Tr., p. 11). He testified that the defendant repeatedly told him not to utilize outside consultants since they would not be qualified to assist in that the work was unique. (Tr., p. 12). He related that it took over one year to commercially develop a test for toxoplasmosis. (Tr., p. 21).

He explained the security precautions taken by the company. All files are locked in a fireproof vault with the president and Dr. Golden, the director of the laboratory, having the only keys. (Tr., p. 22). No person is employed with the company until he or she signs an employment agreement of confidentiality.

Any visitor must also sign a log and a non-disclosure statement. (Tr., p. 23). All letters leaving the office had to be screened personally by Mr. Mawod. (Tr., p. 30). Although some of these procedures were instituted after Mawod became president, others were in existence prior to that time as evidenced by the 1968 employment agreement with Defendant. (Tr., p. 65).

Plaintiff called Albert Laibovitz, a professional consultant of microbiology, who had been involved in tissue cultures for 23 years. (Tr., pp. 69-70). This witness testified that the use of cookie jars and Saran Wrap was highly unusual in his experience. (Tr., p. 75). He stated that by Plaintiff making a slide which had a shelf life of over one year (using mere refrigeration rather than freezing) a unique product had been produced. (Tr., p. 76). This witness made the following pertinent remark after having been examined as to individual ingredients:

> But, I think when you look at a technique, you have to look at a technique as a composite method, and so the method of rinsing, fixing, and storage and the cells and then the slide are stored in phosphate buffered saline in the refrigerator up to a period of one year, and the method of storage, I think all is very unusual and I hadn't seen anything like that before. (Tr., p. 78). (Emphasis added).

Likewise, after noting that many of the ingredients used in the test kits were commonly utilized in the scientific community Mr. Laibovitz then said:

> Now all of these ingredients have been used in a large number of different medium, but not in this combination. <u>And so this combination is a unique combination being used in MRC</u>. (Tr., p. 79). (Emphasis added).

The witness stated that with the large number of different possible combinations available in development of a kit that the chances were 99 out of 100 that the same process would never be duplicated by him even with all of his experience. (Tr., p. 82). He stated that given six months he could perhaps develop a test kit but that it would never be any better than that developed by MRC. (Tr., p. 87). The witness stated that the addition of tryptos phosphate broth and a buffer solution gives MRC's product an advantage over products of other companies. (Tr., p. 85). He also stated, that while other cell lines could be used, those employed by MRC made the product superior. (Tr., p. 86).

Dr. Carol Golden, Plaintiff's laboratory director with a degree in microimmunology, also gave her expert opinion as to the methods employed by the plaintiff company. She stated, for example, that using 27 slides in a baking dish was a unique idea and that she was not aware that Saran Wrap could autoclave. (Tr., p. 111). She also was unaware that tape could be used to hold the slides from floating to the top and she thought the tape would be toxic and would cause damage to the cells. (Tr., p. 112). When Dr. Golden first arrived at MRC, she did not understand why yeast extract, lactalbumen hydrolsate and tryptos-phosphate broth were added to the normal media formula. After experimenting, she discovered that the product quality diminished when these ingredients were removed. She now uses them for the manufacturing process even though she did not know exactly what effects the additives produced. (Tr., p. 117). She stated that she would never have chosen that combination of ingredients. (Tr., p. 118).

She noted that even with her experience, she would have a great deal of difficulty in devising methods to produce in mass quantities tests for ANA, toxoplasmosis, and herpes. (Tr., p. 120). She related that she had obtained kits from the major competitors, Virgo and Meloy and found that the location of the cells on the slides were different and that human cells were not used in their kits thus making them inferior. (Tr., p. 120).

Even the testimony of Defendant himself supports the confidentiality and trade secret claim of the plaintiff. Defendant admitted that the company promoted the kits through costly advertising. He also admitted that the company paid for several visits throughout the country promoting the kits and even for trips to Canada, Europe, and Costa Rica for promotion of the kits. (Tr., pp. 137-139).

Defendant acknowledged the interview with the Utah Daily Record where he stated that MRC had a unique product. (Tr., p. 146; Exhibit 36).

He also acknowledged that he had made statements in the past that a unique feature of the kits was the human cells being used rather than rat cells which allowed for more uniform testing. (Tr., p. 155; Exhibit 1).

Appellant attempts to discredit Exhibits 1, 5, and 15 which were letters written by Defendant to various people praising the use of human cells in the various kits. Appellant asserts that he was only praising a certain line of cells which existed between 1970 through 1974. (Appellant's brief, p. 5). However, Exhibit 9 is a letter written by Defendant in 1976, two years after the extinguishment of the special human cells, in which he stated, "It is my scientific opinion and conclusion that the human amnion cell gives the most reproducible results." It was stipulated that Plaintiff is the only commercial producer, known to the parties, of ANA test kits which use the human amnion cells.

Defendant was asked to read Exhibit 5 which is an article for a trade journal written by him in 1974. When asked why he referred to the ANA test kit as being superior he replied, "Because I made it." (Tr., p. 161).

While claiming that he had developed several techniques prior to his employment with MRC he admitted that at the time of the incorporation he received 20,000 share of common stock "in consideration of the services performed and to be performed and processes developed and to be developed" by him. (Tr., p. 132; Exhibit 28). Thus, Appellant was handsomely compensated for any knowledge or techniques which he claimed to have developed prior to his entry with the company and such techniques should inure to the benefit of Plaintiff regardless of the general rule that prior techniques are not the property of a company. (Appellant's brief, p. 36).

Dr. Muna also stated that it took over a year and a half to develop the toxoplasmosis kit and that Dr. Wentz was hired specifically to assist in this production at an annual salary of at least $18,000. (Tr., pp. 164-166). Appellant attempts to argue that his 1966 article in the American Journal of Clinical Pathology states precisely the same technique which he developed for the plaintiff in the manufacturing of ANA kits. (Appellant's brief, p. 2). However, he admitted that the cells used in that article were not human amnion cells, that ether alcohol was used rather than isopropyl alcohol, that sodium bicarbonate was not used as a fixing agent and that petri dishes were used for the article rather than pyrex. (Tr., pp. 199, 222). Finally, the defendant admitted that there may well be over 1,000 different components for the making of nutrient media for cell cultures. (Tr., p. 225).

After the testimony of Defendant, Plaintiff's president, Ed Mawod, was recalled and stated that he had attempted to find the formulas of the medias and techniques used by competitors but that he was told by them that they were trade secrets. (Tr., p. 229).

The preceding recital of facts introduced into trial shows that unquestionably there was sufficient evidence to sustain the findings of the trial court that Plaintiff utilized processes and formulas which constituted trade secrets and confidential information. Even though Appellant may have introduced evidence to the contrary, the trial court was at liberty to decide the credibility and weight of the evidence. This court has stated that an appellate court will not reverse a trial court when the evidence is such as to sustain the findings made and the judgment rendered is based upon the facts found and is in accordance with the law of the case. Branch v. Western Factors, Inc., 502 P.2d 570 (Utah 1972).

This same principle applies to the court's order concerning customer lists. Mr Mawod testified that the customer list is compiled by keeping a list of people doing business with the company. Each time a new customer orders a product, their name is put on the list. (Mawod deposition, pp. 47-48). Thus, this list is not a general mail order type of listing but is actual customers who use Plaintiff's product. Such lists are entitled to injunction protection by a court. In Re Uniservices, Inc., 517 F.2d 492 (7th Cir. 1975); 28 ALR 3d 7.

Thus, all of the findings by the trial court are supported by competent, credible evidence even though, as noted in Appellant's brief, there is evidence and inferences to the contrary.

2. Even if All of Plaintiff's Ingredients or Processes Were Known to the Public, a Trade Secret Could Still Exist.

Appellant vigorously argues throughout the last portion of his brief that many of the ingredients and processes are generally known in the scientific community and found in the literature. This same argument was advanced in Elcor Chemical Corporation v. Agri-Sul, 494 S.W.2d 204 (Tex. Ct. App. 1973). The court there noted that Appellants had argued that the process involved in that case was not really a secret but was something that could have been obtained by reading articles and trade magazines. The court then noted some 15 cases in which similar arguments were advanced. The court stated:

> In each of these cases the court rejected the argument now advanced by appellee by pointing out that whereas information could have been obtained from other sources the point is that such was not done. This knowledge was a product of their work, the combination of apparatus and equipment, materials and procedures which made up the trade secret that should have been protected by virtue of the confidential relationship between the parties. Id. at 212-213.

The court then made an important distinction which is often overlooked in cases involving trade secrets. The court said:

> It must be born in mind and reiterated that the Agri-Sul process is not a patent but a trade secret. The essence of ELCOR's action is not infringement but the breach of obligation of good faith imposed by contract. It does not matter that Miller and Kruse could have gained their knowledge from a study of books and magazines. The fact is that they did not do so. Instead, they gained this

> knowledge from ELCOR by way of their confidential relationship and in so doing they incurred a duty not to use it to ELCOR's detriment. This duty was breached by them and because of this breach, we are compelled by equity to extend to ELCOR adequate injunctive relief. Id. at 213. (Emphasis added).

This same principle was reiterated in Nucor Corporation v. Tennessee Forging Steel Service, 476 F.2d 386 (8th Cir. 1973) where the court held that even though an engineer could have prepared plans for a plant without the use of the existing plans for another company's plant, this did not minimize the breach of trust by the plant owner's former employee who used the plans for a competitor.

Likewise, in Stimson Lumber Company v. Laurence David, Inc. 356 P.2d 84 (Or. 1960) the court noted that even if a formula used by the plaintiff was commonly known and could be used by others, this still would not justify its use by the defendant if he confidentially acquired the information. The court there quoted the Restatement of Torts which states:

> Although given information is not a trade secret, one who receives the information in a confidential relation or discovers it by improper means may be under some duty not to disclose or use that information. Because of the confidential relation or the impropriety of the means of discovery, he may be compelled to go to other sources for the information. Id. at 87.

In summary, even if it were assumed for purposes of argument that all of the ingredients and processes used by Plaintiff were known in portions of the scientific community and even if it were assumed that the exact processes and procedures were also used in the scientific community, Defendant would still be restrained from using the methods obtained through his employment if he acquired such information during a confidential relationship. The law does not allow a defendant to begin searching for other sources of information in the general scientific community to justify knowledge which he has in fact obtained solely from his employment.

For these reasons, the trial court could properly enjoin Defendant from competing with Plaintiff in the same product line and from utilizing Plaintiff's customer list even if it is found that no express contractual prohibition exists.

In closing, it should also be observed that while Appellant claims that the injunction is overly broad and ambiguous this question was never presented before the trial court in order that any clarification could be made. The practice of urging on appeal what can be perhaps cured in the lower court should not be favored.

The trial court has considerable discretion in granting injunctive relief to an aggrieved party. In this case the court could easily justify a two-year injunction against competition based upon the smallness of the plaintiff corporation, the prior conduct of Defendant in soliciting Plaintiff's customers, and the availability of work for Defendant which would not compete with Plaintiff. The injunction was correctly entered.

CONCLUSION

The express 1968 contract forbade Defendant from competing with Plaintiff after termination of employment. This agreement is controlling since the latter agreement was void, or, in the alternative, the non-competition clause was never modified by the latter agreement.

In addition, there exists an implied obligation not to utilize or divulge trade secrets acquired through employment. The evidence justified both a finding of trade secrets and a breach by Defendant.

The imposition of a two-year injunction was not unreasonable in that Defendant could still perform other work and would be allowed to compete against Plaintiff at the termination of the injunction.

The decision of the trial court should be affirmed.

Respectfully submitted,

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