

# EXHIBIT B

Brief of the Defendant-Appellant  
*Triangle Sheet Metal Works v. Silver,*  
154 Conn. 116 (1965)

STATE OF CONNECTICUT

**Supreme Court**

HARTFORD COUNTY

SUPERIOR COURT

OCTOBER TERM, 1965

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(5865)

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TRIANGLE SHEET METAL WORKS, INC. *et al.*

*vs.*

JACOB M. SILVER *et al.*

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BRIEF OF DEFENDANT-APPELLANT

*To be argued by:*

MILTON SOBOKIN

## ISSUES

Can there be a trade secret in a structural feature apparent on inspection in a product marketed nationally, installed in public buildings and described in detail in trade literature?

Can a statement of opinion as to one's own product, personnel and operations constitute a willful misrepresentation against a competitor sufficient to support an award of exemplary damages?

Does competition by a former employee, after termination of employment, to supply materials per plans and specifications of independent architects on jobs open for competitive solicitation constitute willful acts of unfair competition sufficient to support an award of exemplary damages?

In a case for injunctive relief and compensatory damages, can an award of exemplary damages be sustained when compensatory damages were denied and when no wanton or malicious conduct and no intent to injure the plaintiffs were established?

## FACTS

Defendant Leonard R. Phillips was hired in 1960 by plaintiff Triangle Sheet Metal Works. F. 10, R. 65, F. 35, R. 68. At that time Phillips, a 60 year old graduate engineer, had wide and versatile experience in the sheet metal field and had spent the bulk of his professional life in sheet metal work connected with heating and air conditioning. F. 1, R. 64. His specialty was the technical know-how and experience necessary to design new products suitable for modern production techniques and the standardization of parts; his skills included estimating costs of new products before production, establishing prices and making surveys to determine the economic and sales feasibility of a design as well as the design, development and production of many new items including under-window enclosures. F. 7, 8, 9, R. 65.

As early as 1943, Phillips had been listed on the President's Roster of Technical Men. F. 3, R. 64. Indeed, it was through this listing that Phillips obtained employment with the Anemostat Corporation of America. After two years with them, he was appointed their Director of Research and Development, a position he held for fourteen years. F. 2, R. 64. Upon leaving Anemostat, Phillips went with the plaintiff. Prior to his employment by the plaintiffs, Phillips had obtained forty patents, all of which were held by his former employers. F. 4, R. 64-65. Having held for some years a position in which he was in charge of a large and elaborate laboratory (F. 5, R. 65), Phillips was not interested in a job solely because of its remuneration or position. F. 16, R. 66. Indeed, Triangle had no research or laboratory facilities at that time. F. 17, R. 66. Rather, Phillips was interested in obtaining a position which would enable him to enjoy the exploitation of the items he would develop. F. 15, 16, R. 66; F. 37, R. 68.

At that time Triangle was looking for just such an expert as Phillips — someone to work on standardization of parts, utilization of modern production techniques, the development of new products and sales. F. 10, R. 65; F. 33, R. 68. Triangle knew that Phillips was already working in this vein. F. 33, R. 68. In the summer of 1960, Phillips accepted an eighteen-month employment contract with Triangle, based upon the express representation of Triangle's officers contained in a letter drafted by Triangle's attorney that he would have an equity position which would enable him to enjoy the benefits of the items he developed. F. 13, 14, 16, R. 66; F. 37, R. 68.

Phillips was employed to head Triangle's Special Projects Division, to design and develop products using Phillips' acknowledged skills — products suitable for manufacturing by production rather than custom methods, and products having a national market. F. 38-40, R. 68-9. Late in 1960, or early in 1961, it was decided to develop an enclosure under the Special Products Division. F. 45, R. 69. Phillips designed a new enclosure for the plaintiff in the spring of 1961. F. 59, R. 71; F. 91, R. 75.

While Triangle manufactured enclosure structures prior to 1960 (F. 29, R. 67), it had faced problems and failures on these jobs even as late as December 1960. F. 26, R. 67. However, Triangle was awarded the Pan American Building contract for Triangle's Phillips-designed enclosure in the early spring of 1961. F. 69, R. 73. The contract was undertaken more than a year before the tooling, costs, packaging and installation methods were determined (F. 76, R. 74), and some months before price lists were finalized (F. 85, R. 75). Machinery for the plaintiffs' enclosure was not even delivered until nearly a year later (F. 78, R. 74). Plaintiffs' new enclosures were installed on the Pan-American and Bankers Trust Company Buildings in New York City, among others. F. 70, R. 73.

Phillips made application for a patent in October 1961 and assigned the patent to Triangle. F. 90-91, R. 75. In February 1962, Modulaire, also a plaintiff, was organized as the sales company, but Triangle withheld from Modulaire the sales territory of New York City. F. 87, R. 75.

Phillips resigned his employment by letter dated June 18, 1963. F. 96, R. 76. Phillips had never received any equity interest in either of the plaintiffs' corporations which own the patent application nor any remuneration other than his salary. Thereafter, on August 7, 1963, Phillips Air Devices, Inc., a Connecticut corporation, was organized as a manufacturing company. F. 103, R. 76. Air Devices made its first bid on enclosures on September 17, 1963. F. 157 f, R. 82. On October 14, 1963, Renzel L. Byus, also a graduate engineer, was hired as the second executive employee. F. 140, R. 80. Byus had worked for the plaintiffs for a total of one year and nine months, first as a salesman and subsequently as Sales Manager. F. 135-7, R. 79-80. There is no finding that either Phillips or Byus received any increment in salary from Air Devices. Byus had no employment contract with plaintiffs and was not subject to any restrictive covenants.

### *Trade Secrets*

Enclosures are rectangular metal structures installed along the interior perimeter of a building to conceal and cover heating and air conditioning pipes and units running along that perimeter. F. 30, R. 67. They consist of a rear stool, a piece of metal on the top that runs along the wall at the rear of the enclosure; and a front stool, a piece of metal on the top at the front of the enclosure, running parallel to the wall. The stools are generally separated by a grille through which the warm or cool air passes into the

room. A front panel covers the front side of the enclosure. A stiffener is a piece of metal used for support.<sup>1</sup>

The court found that Triangle had no trade secrets in its 1960 enclosures (F. 24, R. 67), which featured a separate front stool and a separate rear stool fastened by welding (F. 19, R. 66), a stiffener bolted into place in pre-punched holes (F. 20, R. 66), a vertical adjustment at the base by means of a slotted hole (F. 23, R. 67), all made by conventional brake and shear fabrication. F. 22, R. 67. The court found that the plaintiffs had trade secrets not in a specific enclosure but in the idea of a system of "interchangeable" parts based upon "common tooling" for "many" areas. F. 63, R. 71. No particular "interchangeability" or "tooling" or "areas" were specified or found. *Ibid.* The court also found as trade secrets the ideas of field assembly, elimination of transporting large pieces, adjustments to irregularities in construction; use of the "theory" of the enclosure system to design and produce variations — all without any particular description. *Ibid.* parts c-d, f. The court did not grant any relief in the judgment as to these "secrets." R. 45-6; F. 269, R. 99. In addition to the idea secrets, the court found five "special features" as trade secrets: front and rear stools, both of which are separate and removable; vertical adjustment at the base of the structure with a bolt and wing nut or similarly adjustable fastening; a grille clamp; movable, removable, or adjustable stiffeners; a leveling adjustment at the top front of the structure. F. 63 e, R. 72. As to these "special features", the court granted injunctive relief to the plaintiffs but with the further limitation that a part is not separate, movable or removable if it is welded or riveted in place. F. 269, R. 100; R. 46. However, the

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<sup>1</sup> The lower court made no finding of fact which describes either plaintiffs' or defendants' enclosure. For the convenience of this court a summary of the features is contained in Appendix G, p. 9a.

defendants were not permitted to use pop or blind rivets under the injunction even though the plaintiffs did not use such methods.

The court further concluded that the plaintiffs had unnamed and unidentified secrets in manufacturing, costing, selling, pricing, bidding practices (F. 92, R. 75), production, methods of packaging, shipping to the jobs, distribution of materials, installation and "know-how." F. 198, R. 91. There were no subordinate findings of fact to support these findings.

Although the court found that plaintiffs' "secrets" in general principles and special features were not known to or used by others in the trade (F. 64, R. 73), plaintiffs' chief executive, Seymour Zwerling, testified that as soon as plaintiffs started installing enclosures on the Pan-American building, their competitor, Brandt, was on the job copying details of plaintiffs' enclosure. D.F. 150, R. 51; App. A, para. 2, p. 1a. Brandt's enclosure thereafter featured a separate and removable rear stool and a separate and removable front stool and panel. D.F. 154, R. 52; App. C, para. 2, p. 5a; App. D, p. 6a. Brandt had copied plaintiffs' "secret" self-assembly, quick-fit design and was installing it for almost two years before the trial. D.F. 151, R. 51; D.F. 155, R. 52; App. A, para. 2, p. 1a; App. C, para. 4, p. 5a.

In addition, plaintiffs' "secrets" were depicted in detail on data sheets and brochures which the plaintiffs prepared and distributed to the trade. D.F. 178-181D, R. 53; App. A, para. 4, p. 1a. In 1962 alone plaintiffs distributed 815 sets of the data sheets. D.F. 178, R. 53; App. A, para. 5, p. 2a. Sales kits in the form of exact replicas of plaintiffs' enclosures were made up for loan and demonstration to third parties. App. A, para. 6, p. 2a. Even independent architects incorporated features of plaintiffs in plans and specifications which were made available

to competitors and the trade. D.F. 171, R. 52; App. A, para. 7, p. 3a; App. B, para. 2, p 4a.

### *Misrepresentation.*

Based only upon five letters<sup>1</sup> and with no evidence whatever as to the effect upon or opinions of the recipients of the letters, the court determined that the defendants, in describing the personal background of Phillips, their own product, their own personnel and making representations that their products would be union-made, (F. 157, R. 82), had willfully and intentionally interfered with plaintiffs' business expectancies. F. 170, R. 88; F. 258, R. 98. The court also found that the letters constitute both a passing off and a disparagement. F. 256-7, R. 98.

### *Competitive Solicitation.*

The court further decided that defendants' competition with plaintiffs on construction jobs open for competitive solicitation to supply enclosures according to the plans and specifications of independent architects were willful acts of unfair competition. F. 259-260, R. 98. The basis for this determination was the fact that Phillips and Byus had "worked on" (F.169 a, R. 88) ten jobs (F. 159, R. 83) for plaintiffs. This work consisted of examining the plans of independent architects on these jobs, estimating costs for plaintiffs on these jobs and submitting quotations for plaintiffs on these jobs. There was not one finding among the numerous ones relating to the ten jobs (F. 159-169, R. 83-88), to indicate that the defendants competed, with knowledge of plaintiffs' price, on any job on which the plaintiffs had not already disclosed their price to third parties. Nor was there any finding that indicated defendants' prices were the same or related to plaintiffs' prices.

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<sup>1</sup> The sixth letter, Exhibit 5-S is the same as Exhibit 00. F. 157, R. 82.

### *EXEMPLARY DAMAGES.*

The original complaint did not include a claim for exemplary damages. R. 2. After the trial was started and well underway, the judge requested that the plaintiffs file a substituted complaint for the purpose of narrowing the issues. It was agreed that no new issues were to be included in the substituted complaint. F. 274, R. 101. Thereafter, the plaintiffs filed a substituted complaint including a prayer for reasonable attorney's fees with a supporting allegation of willful and fraudulent misconduct. Fourth Count, R. 19. The defendants objected and moved to expunge the request on the ground that the matter was new. The plaintiffs claimed the request for exemplary damages came within the purview of a request for general equitable relief. F. 274, R. 101. The court accepted the new complaint over the defendants' objections and, subsequently, awarded \$12,500 attorney's fees as exemplary damages on Counts Three and Four for the alleged misrepresentations and unfair competition.<sup>1</sup> F. 263, R. 98. However, the third count did not contain an allegation of willful or fraudulent misconduct.

### *PROHIBITION OF STATE STREET BANK JOB*

At the conclusion of the trial on June 4, 1964, the court issued a temporary injunction prohibiting the defendants from manufacturing an enclosure with five enumerated features. R. 27-29. The restraint as to the enumerated features was the only one to which the defendants were subject. On July 15, 1964, Air Devices entered into a contract for the State Street Bank job. D.F. 367, R. 60-61, A.E. 10, R. 128. On August 29, 1964, the court issued a permanent

<sup>1</sup> The memorandum of decision stated that the exemplary damages were awarded for misappropriation of "trade secrets" [Count One]. Mem. of Desic., R. 43, para. 3. There were no allegations of willful misconduct in connection with Count One.

injunction which restrained Air Devices from performing the State Street Bank job and others. Judgment, Pt. II, R. 46.

The court concluded that the plaintiffs had "failed to establish their right to money damages" (Mem. Decis., R. 43, para. 2) but had nevertheless been "severely" damaged. F. 265, R. 99; F. 232, R. 95. There was no subordinate finding of fact which supported the damage conclusion and the court refused to award compensatory damages. F. 265, R. 99.

On the Second Count, involving a conspiracy among the defendants to appropriate trade secrets, the lower court ruled for the defendants. F. 266, R. 99.

The court issued a permanent injunction for one year which prohibited the defendants from manufacturing or selling an enclosure with any one of the five features enumerated therein and further prohibited the performance of any job "worked on" by Phillips or Byus while in the plaintiffs' employ. The defendants have appealed, seeking a reversal of the decision on counts One, Three and Four, reversal of the exemplary damages award and a vacating of the injunction.

## ARGUMENT

## II. THE COURT ERRED IN FINDING A TRADE SECRET IN A STRUCTURAL FEATURE APPARENT ON INSPECTION IN A PRODUCT MARKETED NATIONALLY AND DESCRIBED IN DETAIL IN TRADE LITERATURE.

The instant case presents the question, for the first time in Connecticut, of whether or not the features of a finished product apparent on inspection may be the subject of a trade secret. To establish a protectible trade secret the plaintiff must prove that (a) the claimed secret is in fact secret, (b) the defendant is copying plaintiff's secret and (c) the defendant is making use of information acquired in the plaintiff's employ. *Rabinowitz v. Dasher*, 82 N.Y.S. 2d 431, 435-6 (1948), *Allen Manufacturing Co. v. Loika*, 145 Conn. 509 (1958). If the alleged secret is known in the industry it is not a secret. Rest. Torts § 757 b, p. 5-6. If the alleged secret is completely disclosed by the marketed goods themselves, it is not secret. *Ibid*. Indeed, the defendants have not been able to find any cases in which features apparent in the finished product, as marketed, have been determined a trade secret. Courts have granted protection to processes, formulae and intricacies of production machinery, but not to the design or structure of the finished product. *Allen Manufacturing Co. v. Loika, supra* (warm heading process); *Minnesota Mining and Manufacturing v. Technical Tape Corp.*, 192 N.Y.S. 2d 102, 110 (1959) (formula); *Rabinowitz v. Dasher, supra* (special machinery).

A. *Plaintiffs' Enclosure Is Not Secret*

The plaintiffs' alleged secret is in the design of the special features of their enclosure. F. 63e, R. 72. These features are included in each and every finished product.

The exploitation of the alleged secret necessitated the sale and installation of plaintiffs' finished product. Indeed, the plaintiffs' product was installed in at least two large and well-known commercial buildings which were open to public and competitive inspection. F. 70, R. 73. While the court made findings to show the plaintiffs took reasonable steps to insure secrecy *in their factory* (F. 202, 203, R. 91-2; F. 241, R. 96) of production, installation and marketing, the trade secret which the court found and protected (F. 269, R. 99) was in the special features of the *marketed product*. Secrecy in the factory is wholly irrelevant to the issue when the protection sought is for the features which appear in every enclosure on every floor along the entire perimeter of the Pan American Building, the largest office building in the world.

The soundness of this proposition — that there are no secrets in the marketed goods — is apparent from the experience of the plaintiffs. No sooner had they started installing their product on the Pan American job than their main competitor, Brandt, was on that job examining its features and copying details. D.F. 150, R. 51. App. A, para. 2, p. 1a. Nor should the plaintiffs have been surprised or outraged by Brandt's conduct. The plaintiffs themselves, when faced with problems and failures in their own enclosure (F. 26, R. 67) had conducted similar inspections of competitive products. F. 50, R. 70. Nor could, nor should the courts protect enclosure manufacturers against such examinations in the market place. The young lawyer who before drafting his first will goes to the probate court to examine wills drawn by his more experienced colleagues is not to be censured for seeking the ideas of others who have worked long and hard to achieve their skill, but commended for his industry. So too the manufacturer who keeps his product abreast of the latest developments freely available in the open market without infringing on the patent rights of others is rewarded by

our society. *Sears Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964).

After examining plaintiffs' enclosure on the Pan American job, Brandt produced a new enclosure with separate and removable parts which fit together without any conventional fastening. D.F. 154, R. 52. App. A, para. 2, p. 1a; App. C, para. 2, p. 5a. Brandt took its ideas from plaintiffs "secret" two years before the trial, copying details of plaintiffs' "secret system." D.F. 151, R. 51; App. A, para. 2, p. 1a; App. C, para. 2, 4, p. 5a. Although Brandt obtained plaintiffs' secrets free, it did not choose to make a mirror-image copy. Rather, it carried plaintiffs' secret system of standardization of parts and easy installation one step further by combining the front stool and the front panel into one piece that was held in place in the enclosure by the force of gravity alone. App. C, para. 2, p. 5a.

Not only were the alleged trade secrets contained in the marketed goods of the plaintiffs, but their special features were also disclosed in brochures and data sheets, (D.F. 178-181D, R. 53; App. A, para. 4, p. 1a), in exact replica sales kits made up for loan and demonstration to third parties (App. A, para. 6, p. 2a) and the plans, specifications and drawings of independent architects distributed to the trade. D.F. 171, R. 52; App. A, para. 7, p. 3a; App. B., para. 2, p. 4a. The plaintiffs distributed more than 1600 copies of their data sheets in the two years before Phillips left their employ. App. A, para. 5, p. 2a.

Even the finding that the defendants were prepared to incorporate in their enclosures any feature of design specified by an architect merely substantiates the fact that there are no secrets in the field of enclosures. F. 118, R. 78. The nature of the business is such that architects design the enclosures in their plans, drawings and specifications. These documents are circulated to the trade in

order to enable suppliers to give competitive prices on the job. Obviously, in such designs, there are no trade secrets. Modulaire was specified on jobs (F. 119, R. 78), the Modulaire enclosure was shown on architects' plans for jobs (F. 120, R. 78), Modulaire's features were incorporated in the specifications on jobs (F. 121, R. 78), and Modulaire's special features were incorporated in the architects' plans for the jobs. F. 122, R. 78.

The thrust of those findings (118-122) was intended, of course, not to show that the items were published, but to indict the defendants for bidding on them. However, their real meaning and significance is in support of the defendants' position. Certainly, the plans and specifications distributed to the trade and drawn up by independent architects for owners of a variety of different construction jobs open to competitive solicitation are not in the control or subject to any restrictions of confidentiality of the plaintiffs. Plaintiffs' special features were published to the trade and available to all.

The plaintiffs have no secrets in their enclosure.

#### *B. Defendants Did Not Copy Plaintiffs Enclosure*

Nor do the plaintiffs stand on any firmer ground in connection with the requirement that they show the defendants were copying their "secret." In this respect the finding is deficient on a number of serious points. There is no finding which factually describes the plaintiffs' product or the defendants'. This weakness makes the handling of the appeal unnecessarily complicated, but more important leaves the conclusion that the defendants mockups (samples or models) constituted a use of plaintiffs' trade secrets (F. 249, R. 97) wholly unsupported by any subordinate findings of fact which show what this conclusion is based upon. See, *Town & Country House & Homes Service, Inc. v. Evans*, 150 Conn. 314, 321 (1963).

Furthermore, the subordinate findings that were made directly contradict the conclusion. Thus the court found that at the time of the trial the defendants had *no specific* enclosure (F. 117, R. 78) and had *not produced any* enclosures. F. 114, R. 78. From such facts no conclusion of copying can be drawn.

The court also found that defendants were prepared to build any type of enclosure containing any type of feature or design that was specified by an architect. F. 116, R. 78. As a matter of law such features or designs are not trade secrets of the plaintiffs. If the feature is contained in an architect's specification it obviously is not secret. If defendants produce such a feature they are not copying plaintiffs' trade secret, but the architect's specification. Apparently this finding was designed to show that Phillips would produce a feature specified by an architect even if it was one of the five special features found by the court as plaintiffs' trade secret. Even apart from the fact that there was no secrecy in these marketed features, Phillips testified that he would not produce plaintiffs' enclosure because of his connections with them. App. B., para. 1, p. 4a.

Nor do the findings directed to the difficulty facing a competitor who tried to copy the plaintiffs' measurements aid the plaintiffs in their burden to show that the defendants copied their secrets. The court found it would take half a day and a variety of tools simply to measure their enclosure and its parts. F. 206-8, R. 92-3. However, the court did not find that the defendants were even copying these measurements. Nor did it find that these precious and would-be well-hidden measurements and toolings were trade secrets. F. 63, R. 71-2; F. 269, R. 99.

Also, the conclusion (F. 112, R. 77) that the thirty-four drawings made by Phillips for Air Devices enclosure program show "features propriety to Modulaire" is unsupported by any subordinate findings or by the drawings

themselves. App. K, p. 16a. The court accorded protection to five special features. F. 269, R. 99. It would have been an easy matter to include in the findings items which showed that those five features were contained in the drawings. It did not. Rather it stated that the drawings showed a "slightly modified enclosure" — that is, not the five features. F. 111, R. 77. To overcome this difficulty the court found the modified enclosure objectionable not because it contained the special features but because it was "based on" the principles of "separate parts produced by standardized methods, easy to adjust to job conditions and to assemble and disassemble at the job." F. 111, R. 77. The finding attempts to monopolize these basic engineering principles — standardized production, ease of adjustment, and ease of assembly — for Modulaire, but, of course, such a view is wholly without basis in law or logic. In the first place these goals and principles cannot belong to anyone — plaintiffs, defendants or even engineering professors. They are the chief asset of the American economy. Conceivably the plaintiffs might have a particular method of producing standardization in their plant — perhaps they have invented some special machinery or some special process — but they did not present it to the court. The position of the finding that the drawings were based upon a system of standardized production methods (query how drawings of features show a system of standardized production methods) and *therefore* contained features proprietary to plaintiffs is absurd. Most important, such a view deprives Phillips of his arduously acquired and highly sophisticated skills. Phillips, with forty patents behind him and a life time in the sheet metal industry, was an expert in these very matters — standardization of parts, mass production and designing new products. F. 7, R. 65. Phillips was hired by the plaintiffs for the very reason that he had these skills. (F. 10, R. 65) and the plaintiffs cannot obtain a proprietary interest in any "system"

which has nothing more to it than these generalized goals and skills.

There are no subordinate findings which support the court's conclusion (F. 249-251, R. 97) that defendants copied, used, disclosed, or appropriated plaintiffs' trade secrets.

C. *No Use Of Secret Information Acquired in Plaintiffs Employ*

The plaintiff's position is similarly deficient in the effort to establish the trade secret requirement that the defendants are making use of information acquired in the plaintiffs employ. The court found that the plaintiffs have "other secrets" in manufacturing, production, packaging, shipping to the jobs, distribution of material, costing, pricing, installation, selling and know-how. F. 92, R. 75; F. 198, R. 91. Not only is this sweeping statement wholly unsupported by any subordinate finding as to what were the plaintiffs' secrets in these items, but there is no finding as to what the defendants' methods were on these items. Furthermore, there is no finding that the defendants unstated methods copied the plaintiffs undescribed items.

Nor is the substance of these items susceptible of being a trade secret. These are methods which every business in America must use. The methods may vary and certainly there may be a particular secret in a particular way of manufacturing or producing as was found in the *Allen Manufacturing* case, *supra* — in the particular method of combining the coolants, lubricants, temperatures and wiring. But there can be no trade secret in the bare fact that plaintiffs manufacture. Shipping may be by public carrier or private conveyance — hardly, without more findings, a trade secret. Packaging may be in containers or wrappings or both — not a trade secret without more.

Most important, however, these skills were held by Phillips before he ever met the plaintiffs. The court found that he was an acknowledged expert in these matters before he was hired. F. 7-10, R. 65. Phillips brought these skills to plaintiffs and is entitled to take them when he leaves. He is not in the position of the academically trained young man who gains experience with one company and markets that experience at a higher level with another. *B. F. Goodrich Co. v. Wohlgemuth*, 192 N.E. 2d 99 (1963). Nor is he in the position of the factory worker who after many years has acquired a degree of professional skill under the aegis of his employer. *Allen Manufacturing Co. v. Loika*, *supra*.

There is no basis for a conclusion that the defendants were using any trade secrets acquired while in the plaintiffs' employ.

#### D. *Conflict Between The Judgment And The Finding*

The most striking feature of this case is the large gap between the finding of fact relating to trade secrets (F. 63, R. 71) and the judgment of the court to protect trade secrets by injunction. Judg. Pt. I, R. 45-6. The injunction prohibits the defendants from using for one year any of five enumerated items: front and rear stools, both of which are separate and removable; adjustments at the base or by a combination of slots, bolt and wing nut or similarly adjustable fastening in lieu of bolt and wing nut; a grille clamp; movable or removable stiffeners; any adjustable feature at the top front. *Ibid*. As a limitation on these five items the injunction provides that an enclosure part is not separate, movable or removable after it has been welded or riveted into the structure provided however that riveting does not include pop or blind rivets. R. 46. The finding of fact (F. 63, R. 71-2) of the plaintiffs

trade secret did not contain this riveting limitation. Furthermore, the conclusion in the finding, para. 269 (R. 99-100) setting forth the relief afforded contained the added limitation of requiring riveting to be done "at the shop and before shipping." R. 100. The significance of the gap between the Finding and the Judgment lies not in the difference, for it has already been demonstrated that the plaintiffs had no protectible trade secret, but rather in illuminating the misconception on which the determination of a protectible trade secret rests.

For example, front and rear stools, *both* of which are separate and removable were found a trade secret feature; but plaintiffs' 1960 enclosure which the court found contained no trade secrets (F. 24, R. 67) also had separate front and rear stools. F. 19, R. 66. It would seem, therefore, that the trade secret, if any, must lie in the removability. The finding of fact accords protection not to any particular method, formulae or process for making a stool removable, but to the *idea* of removability. While trade secret cases have traditionally granted protection to specific processes or methods kept within the factory, they have not accorded protection to general ideas or principles. Thus the *Allen Manufacturing* case, *supra*, afforded no protection to ideas and information in the public domain — what this court called the "common ingredients" — for these were not secret. It did give protection to the "recipe" — the specific method of putting the common ingredients together.

As if in unspoken recognition of this doctrine, the judgment (R. 46) and the Conclusion (F. 269, R. 100) seeks to find such a recipe by stating that if the parts are welded or riveted (but not by pop or blind rivets) there is no trade secret. But this proviso has no bearing on the plaintiffs' recipe and it grants no protection to any

process or method of theirs. There is no finding that the plaintiffs' system included pop or blind rivets — for the simple reason that it did not.

The thrust of the injunction was that it prohibited the defendants from making any parts, no matter how achieved, that could be easily removed. Thus fastenings such as bolts, screws, pop rivets, pins, bolt and wing nuts — all are prohibited under the wording; but the plaintiffs did not use these.

Indeed an examination of plaintiffs' Exhibits KKK and LLL indicates that no rivets or fastenings whatever are used to assemble the enclosure. App. G, p. 9a. Rather the enclosure is held together with a group of self-contained fittings — grooves and projections — the distinctive feature of plaintiffs' enclosure for which no projection as a trade secret was sought (the defendants did not use it). The method of making those self-contained fittings might have been the plaintiffs' recipe, but what the court afforded protection to was not any recipe but the common ingredients — the idea of removability, no matter how achieved.

Furthermore, the finding's Conclusion (F. 269, R. 100), but not the Judgment (R. 46), decrees the place of fastening. If the riveting is done outside the shop — on the job site — plaintiffs "secret" is infringed; but if those very same rivets are applied in the shop — in the confines of the *defendants'* factory — plaintiffs' secret is not violated. This further limitation appears to have been directed at the prohibition of field assembly, banning not any particular method used by the plaintiffs, but banning the *idea* or principle of field assembly itself. F. 63c, R. 72. If manufacturers can obtain trade secrets in such basic ideas — really goals of convenience — the toy, furniture and do-it-yourself industries, among others, will be crippled.

E. *No Secrets In Engineering Ideas.*

Nor if one is to overlook the judgment and test the case solely on the basis of the finding of fact are the plaintiffs on any safer ground. The alleged trade secret is a series of *any* interchangeable parts. F. 63, R. 71. At no point in the finding is there any attempt to describe any special method, formula, or device by which the goal of interchangeability of parts is achieved. Nor is the series of parts defined — numerically, functionally or in any other way unique to the plaintiffs. To suggest that the plaintiffs have a trade secret in the idea that greater efficiency or economy is achieved by making the parts of a manufactured product interchangeable offends not only the law of trade secrets but the entire basis of our economy.

The hallmark of American engineering and production, at least since the era of Henry Ford, has been to increase productivity and lower costs by adopting standardized parts which are interchangeable and can be mass produced. Like the wheel of a car which can be removed and placed upon any other car of the same model, or the light bulb which fits a dozen different lamps, the *idea* that a part of an enclosure should fit another enclosure is not an item of trade belonging to the plaintiffs. An inventor, such as Phillips must be free to apply basic principles to any product. He might design a dozen different enclosures, or can openers or mouse traps, all of which accomplish the ultimate goal and all of which utilize the same techniques and principles but each of which is a different, particular design. Without reference to a particular method, formula or process of achieving the end product which distinguishes the plaintiffs methods from others, there can be no trade secret.

Nor does the addition of "based upon common tooling for many areas" add anything to the alleged trade secret in the *idea* of interchangeable parts. F. 63, R. 71. There

is no finding as to the nature of the tooling or what areas the tooling applies to or, for that matter, what makes it common. Certainly, the *idea* that economy is achieved by using the same machinery and the same dies or forms as often as is feasible is hardly proprietary, although the particular dies or forms may be. But no trade secrets as to dies or forms were found. Nor was there any showing that defendants' dies or forms were copied from the plaintiffs.

So, too, there can be no trade secret in the *idea* that when an enclosure is installed, some provision should be made to take into account the irregularities of construction that inevitably occur on a job site. F. 63 d, R. 72.

These findings as to "secrets" in basic engineering principles are the heart of the court's finding that the plaintiffs had protectible trade secrets. F. 63, R. 71; F. 242, R. 96.

Similarly, under the finding there is no trade secret in an enclosure in which only the front stool is separate and removable or in an enclosure in which only the rear stool is separate and removable. F. 63 e (1), R. 72. Thus the defendants were free to make (in any manner) and enclosure of two stools, one of which was separate and removable. It is obvious that the alleged trade secret lies not in the know-how or manufacturing process of a separate and removable stool, or even in the principle of such a stool, but rather in the *idea* that it might be convenient if either one of the two stools were removable, to make both removable.

In the last analysis, the conclusion that the plaintiffs had trade secrets and that the defendants used them must fall as a matter of law. Neither the ideas or abstract principles of the "system" nor the "special features" of the design were secret from the trade, copied by the defendants

or acquired by the defendants while in the plaintiffs' employ. The defendants respectfully request that the decision of the court as to trade secrets be reversed, that the injunction be vacated and the award of exemplary damages (Mem. Decis., R. 43, para. 3) be reversed.

II. PLAINTIFFS REPUDIATED THE CONFIDENTIAL RELATIONSHIP UPON WHICH THE EMPLOYMENT RELATIONSHIP WAS BASED AND THEREFORE HAVE NO CAUSE OF ACTION FOR TRADE SECRETS.

The lower court concluded that Phillips stood in a confidential relationship to Plaintiffs. F. 239, R. 96. In its finding of subordinate facts to support that conclusion the court determined that Phillips would not have entered the employ of the plaintiffs and would not have designed their new product but for the express promise of the executive officers of the plaintiffs. F. 16, R. 66; F. 37, R. 68. These promises therefore are the basis of the confidential relationship on which the plaintiffs rest their claim for trade secrets in the enclosure product. However, the court made no finding that these express promises were fulfilled — for the simple reason that they were not — and without such a finding the conclusion of a confidential relationship stands unsupported. The defendants raised these issues in their Substituted Answer, Eighth Special Defense (para. 2, 4, R. 25-6), in their claims of Law (para. 28, R. 126), and in their trial brief and trial claims of law. D.F. 378-9, R. 62. The burden was upon the plaintiffs to meet this issue. They did not.

What happened here, in essence, was that Phillips refused the usual employer-employee relationship. Prior to Phillips' signing of the employment agreement (F. 12, R. 66) and as a bargained-for inducement for his employment, the plaintiff Triangle's officers, members of the

Zwerling family, executed a written letter of intent drafted by their attorney (R. 13-15, R. 66) which bound them to permit Phillips to buy out of salary increases, if feasible, over a five-year period, twenty per cent of the stock in a corporation to be organized by them for the purpose of having the *exclusive* right to sell products developed by Phillips. F. 13-16, R. 66; F. 37, R. 68; App. H, p. 12a. The purpose of the requirement was to grant Phillips an equity interest in any products he developed. Phillips fully performed. He designed an enclosure which became an outstanding engineering and commercial success. He assigned the patent application to plaintiffs. F. 91, R. 75. The contemplated sales corporation, Modulaire, was in fact organized in February 1962. F. 87, R. 75. With this action the only two things which had been left open in the original understanding were established — the product and the price of the stock. The stage was set for the fulfillment of the very contractual representations which had induced Phillips to accept the employment and which Triangle's officers were in good faith required to meet. But the plaintiffs refused — they withheld from Modulaire all sales in the burgeoning construction market of New York City. F. 87, R. 75. This was a clear repudiation of the express term of the letter of intent — the "exclusive right" to sell the items developed by Phillips — and a repudiation of the contractual basis of employment. 4 Corbin, On Contracts (1951) § 954, 958. Having repudiated the basis of the employment relationship, the plaintiffs cannot now have its contractual feature as to trade secrets in the enclosure — whether express or implied — enforced. One who repudiates a contract cannot require the other party to perform. *Humphrey v. Showalter*, 283 S.W. 2d 91 (Tex. 1955).

Phillips, having no taste for litigation, did not care to pursue his remedies for damages in the courts. App. I. Nor is he obligated to do so. But the plaintiffs, to maintain

this trade secret action must set up the existence of the confidential relationship. The court found the basis of the employment, F. 16, R. 66, but did not find that it had been fulfilled. The conclusion that the confidential relationship existed falls in the absence of subordinate findings that the representations were fulfilled.

The letter of intent forms an essential part of the legal basis for the relationship of Phillips and the plaintiffs. While at the time it was drawn two terms were as yet unknown — the product and the price of the stock — it was nonetheless, a contract, executory in character. Phillips relied upon it and made a very substantial and irrevocable change of position based upon it. He literally gave to the plaintiffs the principal asset of their million dollar a year business. Plaintiffs Exh. 5-K.

The annals of the law of trade secrets are replete with cases where employees have not honored the faith of their employers. But we know of no case in any jurisdiction where an employer took from the employee a successful work product without compensating him as agreed and then sued him when he sought to use his acknowledged expertise in designing a different competing product for his own business. The confidential basis of the employment having been repudiated, the plaintiffs had no basis for a claim of protection of alleged trade secrets. Their unclean hands in connection with the subject matter for which they seek equitable relief precludes any right to such relief.

### III. THE COURT ERRED IN AWARDING EXEMPLARY DAMAGES

The court erred in awarding attorney's fees because (a) the request for attorney's fees was improperly raised, (b) such an award was beyond the discretion of the court to grant in this case, and (c) such an award in this case is contrary to the established law of this state.

### A. *Plaintiffs' Procedural Problems*

After a number of days of trial, the court sought to narrow the issues by having the plaintiffs file a substituted complaint. F. 274, R. 101, A.E. 9, R. 128. It was agreed that no new issues would be raised in the new complaint. F. 274, R. 101. Nevertheless, the plaintiffs were able over the defendants' objections to claim as an additional prayer of relief an award of attorney's fees. Plaintiffs claimed that they were merely specifying what they meant in their original complaint by "such other and further relief as the court may deem just and equitable." F. 274, R. 101.

However, attorneys fees are a form of exemplary or punitive damage awarded to punish outrageous conduct. Rest. Torts, § 908, *Maisenbacker v. Society Concordia*, 71 Conn. 369, 378 (1899); *Hull v. Douglass*, 79 Conn. 266, 271 (1906). Such awards afford extraordinary, not incidental, relief and, therefore, cannot be encompassed by a catchall prayer for equitable relief. Indeed, a basic doctrine of equity is that it does not punish but seeks to grant only such relief as is just and fair. The plaintiffs and the lower court misconceived the breadth of the original request for general equitable relief as including exemplary damages. It does not. The substituted complaint in its request for attorney's fees raised a new issue and therefore the lower court erred in denying the defendants motion to expunge the request for attorney's fees.

### B. *Plaintiffs' Discretionary Problems*

Where compensatory damages are denied, there is no basis for exemplary damages; in Connecticut, even at law, exemplary damages are awarded in addition to compensatory damages, not in lieu thereof. *Maisenbacker v. Society Concordia*, *supra*; *Hull v. Douglass*, *supra*. In a case such as this where the court determined that "plaintiffs have failed to establish their right to money damages as re-

quired by our law" (Mem. of Decis., R. 43), there is no basis for awarding exemplary damages. Even the statement in the finding that the plaintiffs were "severely damaged . . . but failed to prove with sufficient particularity their monetary damages" adds nothing to the situation. F. 265, R. 99. This effort to save the exemplary damages is unrelated to any count or to any particular claim of the plaintiffs. The lower court had no discretion to award exemplary damages in this case.

### C. *Plaintiffs' Substantive Problems*

Even if we assume that the trial court was correct in considering the request for attorney's fees, it committed error in granting the award. It is true that a court may award exemplary damages, in Connecticut, in the form of attorney's fees. *Maisenbacker v. Society Concordia, supra*. However, legal principles rigorously circumscribe the kinds of cases in which such awards may be made. 22 AM. JUR. 2d Damages, § 236, p. 322. This is because of the fundamental principle that every litigant must bear his own expenses. *Peterson v. Norwalk*, 152 Conn. 77 (1964). Only if the action of the defendant is malicious or wanton may exemplary damages be awarded. *Maisenbacker v. Society Concordia, supra* ("malicious or wanton misconduct"); *Shupack v. Gordon*, 79 Conn. 298, 303 (1906) ("malice premeditated or wantonness"); *Infeld v. Sullivan*, 151 Conn. 506 (1964) ("wanton misconduct"); 22 AM. JUR. 2d Damages § 236, p. 322; Restatement of Torts § 909; Prosser, ON TORTS, (3rd ed.) § 2, p. 9.

The thread running through all of the Connecticut cases permitting attorneys fees as exemplary damages is conduct of an extreme and offensive nature. *Infeld v. Sullivan, supra* (evading responsibility and driving under the influence of liquor); *Amellin v. Leone*, 114 Conn. 478 (1932) (alienation of affection suit); *Craney v. Donovan*, 92

Conn. 236 (1917) (slanderous and libelous charge of adultery); *Doroszka v. Lavine*, 111 Conn. 575 (1930) (criminal conversation and malicious prosecution); *Ives v. Carter*, 24 Conn. 391 (1856) (false representation as to property sold by defendant to plaintiff); *Wynne v. Parsons*, 57 Conn. 73 (1889) (libelous charge against a lawyer in his professional capacity); *Hassett v. Carroll*, 85 Conn. 23 (1911) (slanderous and libelous charge of criminal activity made in a Sunday sermon to congregation); *Hull v. Douglass, Supra* (injury by "large bull of vicious disposition accustomed to attack men and do mischief"); *Shupack v. Gordon*, 79 Conn. 298 (1906) (wanton assault). Even the case relied upon by the plaintiffs in the lower court involved conduct of a malicious nature—the shooting of plaintiff's dog when he was off the defendant's property. *Soucy v. Wysocki*, 139 Conn. 622 (1953).

The kind of acts described in the lower court's findings as to the third and fourth counts as the basis for the award of attorneys fees do not come even close to satisfying any of the standards referred to in any case in Connecticut in which exemplary damages were awarded.

#### *D. The Fourth Count—No Basis for Exemplary Damages.*

On the 4th count, the lower court's conclusion rests, on a strained and distorted interpretation of five letters<sup>1</sup> out of literally hundreds of business papers. Even the most casual reading of the letters, written in response to inquiries about the new company, clearly shows that the defendants were not trying to hurt the plaintiffs or even to comment upon them, but rather to describe the defendants' own company, its own employees and its own product. F. 157, R. 82 para. a-g, 1st sentence of each. The letters contain not a shred of malicious or offensive matter.

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<sup>1</sup>The sixth letter, Exhibit 5-S is the same letter as Exhibit 00; F. 157, R. 82.

Furthermore, the letters contained no misstatements. *Ibid.* Phillips in fact had been listed in *Who's Who in the East* in 1948.<sup>1</sup> F. 6, R. 65. The statement that Phillips founded Modulaire was written by a layman who indeed clearly fit the definition of a founder as contained in *Webster's New International Dictionary* (2nd ed., 1960, p. 997), one who lays the basis for something or originates it.<sup>2</sup> As the inventor of plaintiffs' enclosure and head of the Special Products Division, Phillips certainly met this test. F. 9, R. 65; F. 16, R. 66; F. 38, 39, R. 68; F. 59, R. 71. But for the requirements of the employment arrangement under which plaintiffs were obligated to afford Phillips an equity position in the products he developed, Modulaire might never have been organized. Likewise, it is true that Phillips was the only inventor named in the Modulaire enclosure patent. F. 90, R. 75. Inasmuch as the letters clearly indicated that Phillips had left the plaintiffs', formed a new company to market a new, entirely different enclosure, anything further would have been redundant.

Neither the "Who's Who" nor the "founder" or "inventor" statements merit significant attention. They were made in good faith to describe Phillips' personal qualifications. At worst, they were harmless self-aggrandizement. As a matter of law, the statements were not actionable misrepresentations, much less malicious and wanton misconduct designed to injure the plaintiffs.

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<sup>1</sup>"Who's Who" is essentially an English publication of Adam & Charles Black, London. In the United States, the A. N. Marquist Company produces the so-called Who's Who directories: *Who's Who in America*, *Who's Who in the East*, *Who's Who in American Women*, etc.

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<sup>2</sup>*Webster's New International Dictionary* defines *found* as "to lay the basis of . . . to establish upon a basis, literal or figurative, . . . to take the first steps or measures in erecting or building up . . . to begin to raise. 2nd edition p. 997.

The letters also stated that the defendants would sell a "new, entirely different and improved" enclosure. F. 157d, R. 82. The context and reference was to defendants' own products. Such words, when applied to the sale of a product—whether it be toothpaste, butter or enclosures—can hardly be considered a misrepresentation. The product was new if for no other reason than that the source was new. Clearly it was different—it contained none of the tongue and groove self-assembly features. The word *improved* is obviously of an opinion nature stated by the seller about his own product. There is no basis whatever for the strained and artificial conclusion that the defendants offer of a new, different and improved enclosure was an offer to make an "improved Modulaire" enclosure. F. 158, R. 83. Certainly the words are devoid of any wanton, malicious or willful intent to injure plaintiffs. See conclusions in F. 254-258, R. 97-98.

So too, the statement that the new company was staffed with key personnel who formerly were associated with Modulaire is true. Phillips and Byus were, in fact, the key personnel of Air Devices; indeed, the Finding makes no reference to any other employees of Air Devices at all. The letters said nothing whatever about Modulaire's key personnel. See F. 157 d, R. 82.

The statement relating to the State Street Bank job like the "who's who" statement has no bearing upon the plaintiffs whatever. Whether the defendants did or did not have the State Street Bank job had no effect upon the plaintiffs' legitimate business interests in the absence of anything showing that they had it. Furthermore, the statement was made in reliance upon a verbal commitment which was subsequently confirmed.<sup>1</sup> In addition, the letters refer to

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<sup>1</sup>The defendant, Air Devices, executed a contract for the State Street Bank job with the general contractor, the Gilbane Construction Co., on July 15, 1964.

the State Street Bank job (F. 157 f, 1st sentence, R. 82) but the court's findings as to the date and amount bid and the citation of Exhibit 5-G refer to the State Office Building job.<sup>2</sup>

Finally, the statement that Air Devices had an agreement with the Union was an accurate representation of defendants' plans for operating. Phillips had met with local union officials and believed they would organize Air Devices as soon as production employees were hired. D.F. 222-224, R. 55; App. C, para. 1, p. 5a. The statement was made in good faith and was in accord with the practices that unions customarily follow.<sup>3</sup> Here again, however, the statement was of importance only to the recipient (who did not complain) and affords the plaintiffs no cause of action, much less a basis for exemplary damages. The Union label does not belong to the plaintiffs. See F. 130, 131, 134, R. 79). The defendants' materials did not carry the plaintiffs' particular number.

These few sentences constitute the heart of the trial court's determination that the letters were written willfully and with intent to interfere with the plaintiffs' business expectancies, and that plaintiffs are entitled to exemplary damages on Count Four. See F. 225-6, R. 94; F. 170, R. 88; F. 258, 263, R. 98. The statements, in the light of ordinary business practice, are reasonable and true. Whether or not the letters could have been more artfully written or with greater care to nuance or detail is of no legal moment. They were made in good faith and are in no sense mis-

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<sup>2</sup>The finding (F. 157 f, R. 82) makes an obvious error in confusing the exhibits relating to the two Boston jobs — State Street Bank and the State Office Building — two different buildings with different general contractors and different owners.

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<sup>3</sup>When production employees were hired, the Sheet Metal Union, A.F.L. organized them and executed a contract with Air Devices on July 1, 1964.

representations — willful, fraudulent or otherwise. Even more important, not a scintilla of evidence was produced to show that any recipient of the letters was misled in any way. Nor are there any findings that any recipient relied on the statements to the detriment of the plaintiffs.

Nor would such proof avail the plaintiffs. In order for the plaintiffs to recover exemplary damages, the acts of the defendants must be done with the specific purpose of harming the plaintiffs. Not only must the defendants' acts be intentional, but the consequences of harm to the business interests of the plaintiffs must be intended in order for the standard of willful injury to be met. *Roger v. Doody*, 119 Conn. 532 (1935). No facts whatever appear in the finding to indicate any intent on the part of the defendants to harm the plaintiffs; no claim was made nor are there any findings of fact to support the conclusion that the purpose of making the statements was to damage the plaintiffs. Lastly, the conclusion that the plaintiffs were "severely damaged" but could not show how, leaves the decision on fraudulent misrepresentation without any support whatever. F. 265, R. 99. Furthermore, in the face of this ambiguity in the Finding, if one turns to the Memorandum of Decision to determine why the plaintiffs could not prove their damages with sufficient particularity to justify any award whatever, one finds that the court determined that the plaintiffs failed to establish their "right" to damages. Under these facts the award of exemplary damages must fall.

*E. No Cause of Action for Disparagement or Passing Off*

The court also concluded, from the same two sentences in the same five letters that these words, in addition to being a willful misrepresentation also constituted a "disparagement" and a "passing off." F. 256, 257, R. 98. The elements of neither action were established.

Disparagement has three essential elements: (1) the publication of a disparaging statement of fact that is unquestionably false, (2) which has played a material and substantial part in inducing others not to deal with the plaintiffs and (3) incurring for the plaintiffs actual special damage which has been proved. Restatement, Torts, § 760; Prosser, ON TORTS, 3rd. ed., p. 943. All three elements are wholly unsatisfied; there are no findings of fact to fill these requirements. The conclusion that the defendants disparaged the plaintiffs' product or business is error as a matter of law.

Nor do the plaintiffs stand on any firmer ground in their efforts to support the decision in their favor on passing off. An action for passing off requires (1) a fraudulent misrepresentation as to the source of goods, (2) inducing a purchaser to rely thereon, and (3) to the damage of the plaintiffs. Rest. Torts. § 760. The five letters clearly indicate that the source of the goods is Air Devices and no one else. As to the second and third elements, there is no finding whatever. Indeed, no witnesses or evidence were produced to show that any recipient of a letter or any other person relied thereon or were misled thereby to the detriment of the plaintiffs.

The five lonely business letters are incapable of supporting the entire finding of *seven* separate fraudulent and willful misrepresentations (F. 157, R. 82; F. 258, R. 98) an action of disparagement (F. 256, R. 98), an action for passing off (F. 257, R. 98), and an award of exemplary damages. The defendants respectfully request that the ruling on the fourth count and the award of attorney's fees under it be reversed.

*F. The Third Count—No Basis for Exemplary Damages*

Like the findings on the fourth count, those which purport to support the award of exemplary damages on the

third count fall far short of even a suggestion of malicious or willful misconduct designed to injure the plaintiffs. Indeed, such conduct is not even alleged in the Third Count. Substit. Complaint, para. 20-27, R. 18-19. Despite this vital deficiency the court awarded exemplary damages on the third count. F. 263, R. 98.

There is no question in this case of competition or disloyalty by Phillips or Byus while they were in the employ of the plaintiffs. See, *Town & Country House & Homes Service, Inc. v. Evans, supra*; *Minnesota Mining & Manufacturing Co. v. Technical Tape Corp., Supra*. The sole question raised now is the extent to which courts can or should limit the competition of former employees after termination of their employment in matters relating to sales of goods, in a case in which the former employer neither sought nor obtained a covenant not to compete.

The majority rule and the law of Connecticut is that upon the termination of agency and in the absence of a restrictive agreement, the agent can properly compete with his principal in matters for which he had been employed. *Town & Country House & Homes Service, Inc. v. Evans, supra* at 317. Indeed, upon termination of employment he may immediately compete. *Ibid.* Rest. (2nd) Agency § 393, comment e. It is this very basic proposition which insures the mobility of employees and the opportunity of employees to secure the benefits of the American policy of freedom of employment. Yet this is the very proposition rejected by the court in its judgment prohibiting the defendants from performing any contract obtained on any job "worked on" by Phillips or Byus while employed by the plaintiffs. Judg., R. 46; F. 270, R. 100. An employee who honors the obligations of his employment necessarily works on the business of his employer. If that business is the sale of manufactures for large commercial structures and if that employee is a salesman or a sales manager he

necessarily works on those large commercial jobs. To say that he may *never* compete for the contracts on those jobs after he leaves the employer is to prohibit him from participating in the kind of competition which this very court just recently approved in the *Town & Country House* case.

Furthermore, such a rule would mark a radical departure from the established law of the land. The sales representative of a shoe manufacturer may sell his company's product to a variety of department stores and specialty shops. If he performs his job intelligently he learns the kinds of shoes, the qualities, the construction and the prices which his customer requires. He bids in competition with others for the business. He acquires the art of competing in the shoe business. He becomes acquainted with the buyers of the various stores. In some instances it is his personal relationship with the buyer or his art of salesmanship, which insures the sale. In others, it is the employer's product or the prices which determine the getting of contracts. For the courts to decree that this shoe salesman may never sell to those same stores again when employed as a salesman by a competing manufacturer is to freeze that salesman in his job or force him to start at the bottom in a new sales field. The skills and know-how he had so laboriously cultivated in the sales of shoes must be discarded. Such a result would destroy the signal feature of American employment opportunity—freedom of choice.

The thrust of the lower court's decision in this case is that *all* the information, data and activity connected with selling a particular enclosure customer is secret and confidential. The prohibition covers *every* job "worked on" by Phillips and Byus while in the plaintiffs' employ. F. 270, R. 100. The objectionable activity includes handling negotiations, (F. 160 a, R. 83; F. 161 a, R. 84); consulting with architects (F. 162 a, R. 84; F. 168 c, R. 87); pricing and estimating (F. 160 b, R. 83; 163 a, R. 85); quoting and

bidding (F. 160 a, R. 83; F. 161 b, R. 84; F. 164 b, R. 85; F. 166 b, R. 87; F. 168 d, R. 87); familiarity with the job (F. 162 g, R. 84); access to (but not use of) files (F. 165 b, R. 86) familiarity with all enclosure bids, four to five months before competing (F. 166 a, R. 87). The real basis of the court's determination can be seen in finding 169, concerning the Memphis job. There the court stated only that Phillips and Byus had "worked on" the job for Modulaire, and that Air Devices bid on the job. Based on these facts the court determined that Air Devices bid was based on secret and confidential information. F. 159(9), R. 83. In essence, by the mere performance of the duties of employment the employee forever forfeits his right of competing with the employer *after* the employment is terminated. Under the lower court's ruling, doing work for an employer is tantamount to signing a covenant not to compete.

Nor can the plaintiffs' position be retrieved by pointing to the subject matter of the work as secret and confidential. The names of the customers — whether these be the individual buildings themselves, the architects, or the general contractors — are not secret. Nor are they a special market created by the plaintiffs as may have been the case in the *Town & Country House* litigation. Rather the buildings themselves are well-known both in the trade and out. Even if they were not, the fact that construction is going to take place is publicized by both the contractors and the owners or their representatives for it is in their interest to obtain competing prices.

Similarly, the items to be supplied, the actual subject matter of the contracts, is neither secret nor confidential. It is specified by the architect and distributed or made available to the trade in the form of drawings, plans and specifications. In these matters clearly the plaintiffs have no confidential interest for which they are entitled to protection from the judiciary against anyone.

Furthermore, the ability to determine prices for a manufactured item is a skill which belongs to the employee. *Hahn & Clay v. A. O. Smith Corp.*, 320 F. 2d 166 (1963). Pricing involves a judgment as to costs of raw materials, labor, rent, salaries and other overhead, transportation and profit. While such matters may be foreign to a doctor or lawyer, they are the stock in trade of engineers and salesmen. In the instant case, however, the matter of pricing need not be left to the general rules of law relating to the skills of the employee. Phillips before he was hired by the plaintiffs was skilled and experienced in establishing prices and estimating the costs of new products before production. F. 8, R. 65. The skills that were sought by the plaintiffs and which enabled them to bid — before they established their prices, machinery, costs, etc. (supra p. 4) — on the Pan American job are the same skills which Phillips used in his own business. The pricing of Air Devices goods was not, in fact or law, a confidential secret of the plaintiffs.

Indeed, the court did not even find that the defendants used the same prices as the plaintiffs. The reason for this is obvious. Defendants costs and profits are necessarily different from plaintiffs. A new business operates on a shoe-string. Its executives receive moderate salaries; its offices and equipment are simple; its machinery may be used. An old and established company may reward its executives handsomely, and provide for elaborate facilities. The defendants here in Connecticut are in a very different labor market from the plaintiffs' New York plant. The transporting costs, both of raw materials and finished products are different.

The realities of the business world dictate that the new, untried company must be prepared to sell its goods for a significantly smaller margin of profit than the old, established, well-known company. The fact that its overhead

may be less is not enough, for if the price difference is not substantial, the new company will not be chosen to receive a contract. Particularly is this true in the construction industry where competing prices are traditionally sought and received, as opposed to the professions, where the source of the service is more important than the price. The finding ignores completely the issue of what the prices of the parties were. The reason is that they were neither the same nor related; as a matter of business necessity they were different.

Furthermore, the striking feature of the contracting process disclosed by the finding is that, unlike other industries where one price is given in a sealed bid to be opened at an appointed time along with all other competing bids, the enclosure industry bidding process is a long, drawn-out but persistent solicitation. One may submit a quotation in June, but the following November the bidders are asked for new prices. F. 160 c, e, R. 83. In the meantime, "negotiations" are carried on. F. 160 a, R. 83. Furthermore, some bidders bid at one time, and others at another. Compare finding 160 e, R. 83 with F. 160 f, R. 84. Similarly, where a written bid was submitted by one competitor on August 3rd, the general contractor was still looking for and receiving competing bids some three months later. See, F. 161, R. 84. Unlike other "bidding" situations — one-time propositions — the process here is one of a continued competitive solicitation.

However, even the bid figures themselves cannot be the basis for the court's ruling, for in no instance did the court find the amount of the bids on the jobs, who was low bidder, or how many enclosure manufacturers bid. Indeed, in no instance in the supporting findings on the ten jobs is there a single reference to a bid of plaintiffs that had not been previously disclosed to third parties. While a proposed bid, confined to the seclusion of the bidder's office

may well be confidential, no such bid was found here. F. 160 c, R. 83; F. 161 b, R. 84; F. 162 f, R. 84; F. 163 a, R. 85; F. 165 b, R. 86; F. 166 a, R. 87; F. 167 b, R. 87; F. 168 d, R. 85; F. 169 a, R. 88. Upon disclosure, the bids lose their confidential status.

Yet the plaintiffs claimed and the court found that these solicitations, these prices, *after* disclosure to the general contractors, and therefore, when they were no longer subject to the confidentiality of the plaintiffs' office, are the secret data which require prohibition of any competition by the defendants for these open jobs. To reach such a conclusion, the underlying assumption of the court must be that the general contractor does nothing and says nothing during the solicitation process; with the passivity of a sphinx he merely "receives" secret prices but neither discloses nor repeats them nor uses them to influence other competitors. Such an assumption is a repudiation of business reality — for it presupposes that a general contractor, patiently awaits the price he would like, without indicating, stating or suggesting it. As a practical matter the part that the biddee, the general contractor, plays is a significant one. Like the proprietor of a Venetian bazaar he receives bids, he negotiates, he urges reductions, suggests desirable prices, revises the subject matter and seeks new bids again until he obtains one that meets his business requirements. The Finding conveniently skipped over the entire question of the nature of the "secret and confidential" data and the character of the solicitation process. In the absence of subordinate findings, the conclusion cannot stand.

The homespun covenant not to compete which the lower court grafted on to the basic law that an employee may compete after termination of employment not only violated that basic law but failed to meet the tests of geography, time and reasonableness to which such covenants are rigorously subjected, even when bargained for. There was no

geographical limit whatever—indeed, the lower court found contacts which would justify prohibition of competition on jobs as far flung as Boston, Chicago and Washington, D.C. F. 270, R. 100. Like the non-existent geographical limitation, the time limit was also absent. Thus, where a span of one and one-half years intervened between the plaintiffs' quotation (F. 160 c, R. 83) and the defendants' (F. 160 f, R. 84), the covenant could still remain in effect. Even a change in the subject matter of the competition — architectural revisions in the enclosure plans themselves after both Byus and Phillips had left plaintiffs were not sufficient to free the defendants from the judicially endorsed covenant not to compete. See F. 160 d, R. 83; F. 164 h, R. 86.

The most extreme example of the misconception of the plaintiffs and the lower court, in this regard, can be seen in the decision prohibiting the defendants from performing the State Street Bank job. Phillips did not participate in any of the bidding for the plaintiffs on the State Street Bank job. F. 164, R. 85-6. Phillips bid the State Street Bank job for Air Devices *prior* to plaintiffs' bid. F. 164 d (164 b), R. 85-6. He made his own personal take-off for Air Devices in Providence at the office of the general contractor. F. 164 c, R. 85. Just as occurs in many jobs, there were revisions of the specifications. A competing manufacturer, Brandt, had its name specified in place of plaintiffs in the specifications after both the plaintiffs and the defendants had submitted bids. F. 164 h, R. 86. In March 1964, changes in the subject matter of the job were made requiring new offers by the enclosure competitors. Rebids were solicited for these changes. F. 164 i, R. 86; D. F. 320, R. 59-60. These changes in what the owners and contractors required for the job occurred after Byus came to work for Air Devices. Because of the revisions, there was no "work" on the job while Byus was with the plaintiffs. In

this sequence of events there is no malfeasance of any kind by the defendants. Even the supporting references to Exhibits 5 F and 5 G (F. 164 k, R. 86) are incorrect — they do not even relate to the State Street Bank job. Yet, Air Devices, who had contracted to do the job after the completion of the trial and after the issuance of the temporary injunction was prohibited by the judgment and the permanent injunction from carrying out the contractual undertaking. F. 270, R. 100.

Having failed to establish any improper inducement to Byus by the other defendants (Subst. Complaint, para. 23, R. 18), or any bid figures not disclosed to third parties, or any similarity in bids, or any methods of sale, pricing and estimating that were not part of the general skills of the former employees, or any evidence as to who would have obtained the contracts if Air Devices had not bid, the plaintiffs are left with the bare conclusion that the mere competition of the defendants on open, competitive jobs was unfair. Such competition is proper and within the framework of our system. *Town & Country House & Home v. Evans, supra*. Where a former employee competes with a former employer, there are bound to be some personal resentments and tensions, but the judicial system cannot be used to grant the vain hopes of a businessman to limit new competition.

Even if this court should now conclude that such competition was unfair, there is no basis for the conclusion, essential to the award of exemplary damages, that the competition of the defendants was willfully and maliciously done with intent to injure the plaintiffs. At worst, the defendants were operating in an ill-defined area of the law, with no thought of the plaintiffs, but only of soliciting contracts for their own enterprise. There was no basis for the holding in favor of the plaintiffs on the Third Count and there is not even a pretense of a finding of subordinate

facts as to willful or malicious misconduct in relation to the ten jobs enumerated. A. E. No. 7, R. 128.

The lower court erred in ruling for the plaintiffs on the third count and in awarding exemplary damages under it. The defendants respectfully request that the judgment be reversed.

#### IV. THE LOWER COURT ERRED IN PROHIBITING THE DEFENDANTS FROM PERFORMING THE CONTRACT ON THE STATE STREET BANK JOB.

One of the most unusual features of this case is the prohibition, contained in the judgment (Pt. II, R. 46), and the permanent injunction (F. 270, R. 100), of performance of the State Street Bank job as well as others "worked on" by Byus and Phillips while in the employ of plaintiffs. Despite the unusual nature of the prohibition and its extreme creation of a covenant not to compete, the matter was not referred to in the Memorandum of Decision. Nevertheless, the court so ruled and refused to permit the defendants to include the matter in the appeal. See F. 275, R. 102, and D. F. 367, R. 60-1. The defendants claim it. A. E. No. 10, R. 128. Our practice makes provision for claiming as error matters which occur after the conclusion of the trial. Conn. Prac. Bk., § 652.

The interference by injunction with the contracts of the defendants with third persons who were not parties to the suit, coming as it did, after the issuance of the temporary injunction was wholly unjustified. 19 AM. JUR.; Equity § 128 p. 129-30. The plaintiffs had their remedies in contempt for any breach of the temporary injunction and at law for damages and or an accounting if the acceptance of the contract had been improper.

Furthermore, the failure of the court to define "worked on" or to list all the jobs from which the defendants were to be prohibited subjected the defendants to a vague and uncertain requirement which cast an unreasonable, unfair and onerous burden upon them. A. E. No. 14, R. 129.

### CONCLUSION

For the reasons stated, the defendants respectfully request that the judgment and award of exemplary damages be reversed and that the injunction be vacated.

Respectfully submitted,

THE DEFENDANTS

*by*

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