



Who Really Owns Your Rolodex?

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In the world of business, it's all about who you know. So when an employee, sales representative, or even business partner leaves the company, who owns the rolodex (or in today's world, the electronic "contacts" stored in a cell phone or Microsoft Outlook)? Businesses and individuals are constantly faced with this question, and incorrectly answering the question can land one or all parties in a lawsuit for misappropriation of trade secrets. The issue is important not only for the departing individual and former employer, but also for the company hiring the departing employee. Therefore, whether you are advising an employee, sales representative, business partner, or company, it is critical to evaluate who really owns the rolodex.

ARE CUSTOMER LISTS TRADE SECRETS?

The California Uniform Trade Secret Act ("CUTSA") defines a trade secret as "information, including a formula, pattern, compilation, program, device, method,

technique, or process, that: (1) Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and (2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy."¹ Although customer lists are not specifically included in the statutory definition of a trade secret, customer lists, including business cards and customer contact information, may nonetheless constitute a protectable trade secret depending on several factors, including the nature of the business and the characteristics of the customer base.

Independent Economic Value

The requirement that the information have independent economic value "has been interpreted to mean that the secrecy of the information provides a business with a 'substantial business advantage'."² In the case of a customer list, the list can be found to have independent economic value if "its disclosure would allow a competitor

to direct its sales efforts to those customers who have already shown a willingness to use a unique type of service or product as opposed to a list of people who only might be interested ... Its use enables the former employee 'to solicit both more selectively and more effectively.'"³ Courts are reluctant to protect customer lists that embody information which is "readily ascertainable" through public sources, like a business directory. However, where the employer has expended considerable time and effort in identifying customers with particular needs or characteristics, courts are more likely to prohibit the former employee from using the information to capture a share of the market. "As a general rule, the more time and resources expended by an employer in gathering [the information], the more likely a court will find such information constitutes a trade secret."⁴

By way of example, the following customer lists were found to constitute a protectable trade secret:

Continued on page 14

- the customer list of a commercial roofing service because its customers were not readily ascertainable, but only discoverable with great effort and expenditure of time and money⁵
- a computer manufacturer's customer database because it identified people who used particular computer systems needing service and software⁶
- the customer list of a rubber rolling company because the names on the list were not generally known by competitors to be purchasers of the product⁷
- the customer list of an insurance company that sold an obscure type of insurance that protected against certain excessive bad debts, which only a very small percentage of companies ever purchased and which the plaintiff spent considerable time and efforts to locate prospective customers⁸

By contrast, in the following cases, the court found that the customer list did not constitute a protectable trade secret:

- the customer list of a paper and packaging products manufacturer because the names were generally known in the trade and already used by good faith competitors⁹
- a janitorial service company's customer list because prospective customers were widely known, business was highly competitive, and patronage depended on efficiency of service rather than personal relationships¹⁰

Reasonable Steps to Protect

To obtain CUTSA protection, the owner of the information must also take reasonable steps to protect the information from disclosure. Therefore, the plaintiff must show that it made reasonable efforts under the circumstances to prevent the inadvertent disclosure or unintended discovery of the trade secret.¹¹ Not only does a trade secret cease to be protected if it is no longer secret, but this result is

presumed absent a showing of reasonable efforts to keep the information a secret.¹² The mere intention to keep a customer list (or other information) secret, without any outward manifestation of that intention by making some effort to keep the information secret, will prevent protection under the CUTSA.¹³ In short, the court will not place any higher value on the information or give it greater protection after the loss of the information's secrecy than the company did before the loss.¹⁴

The CUTSA does not, however, require that the plaintiff create impenetrable security for its private information and customer lists. It must only take reasonable steps under the circumstances to protect the information from disclosure. Such reasonable steps include storing the information securely, restricting access to the information, and use of confidentiality agreements and provisions in employment contracts and handbooks that preclude employees from using or disclosing the information. If a company fails to take reasonable steps to protect the customer list, even if it may have constituted a trade secret, then the plaintiff is not entitled to protection under the CUTSA.

PROTECTING AGAINST MISAPPROPRIATION OF CUSTOMER LISTS

Because CUTSA protection of customer lists requires an individualized analysis of the particular customers and circumstances unique to each business, businesses seeking to obtain CUTSA protection of their customer lists should take steps to increase the likelihood that the court finds the CUTSA applies. The following business practices are recommended to demonstrate that sufficient protection efforts were made: (1) require all employees to execute a confidentiality agreement that specifically provides that customer information is confidential and constitutes a trade secret, (2) create policies in the employee handbook identifying customer information as a trade secret, (3) label customer lists and client contact information as "confidential", for example by stamp or other identifier, (4) limit access to the information by password protection or locked filing cabinets, (5)



create policies that prevent employees from using their personal email addresses and cell phones to contact customers or store information about customers, (6) take steps following departure of an employee to remind the employee of his or her ongoing confidentiality obligations and demanding the immediate return and/or destruction of customer information in the employee's possession, including on their cell phone and personal computer. By taking one or all of the above-mentioned steps, the court is more likely to find the customer information constitutes a trade secret and thus entitled to protection under the CUTSA.

LIMITING EXPOSURE TO LAWSUITS BY A FORMER EMPLOYER

By the same token, it is equally important for the new employer to monitor information that a new employee brings to or utilizes at the new company. If, for example, an employee leaves Company A to go work for its competitor Company B, the employee can potentially expose Company B to a lawsuit from Company A for misappropriation of trade secrets if the employee uses Company A's confidential information or trade secrets at Company B. Therefore, a company hiring an employee from a competitor should be mindful of any ongoing contractual

Continued on page 15

obligations the new employee owes to the former employer. To limit exposure to a lawsuit by the former employer, the new employer should require the employee to provide copies of any contracts and confidentiality agreements signed between the employee and former employer. The employer should also institute policies that prohibit use of former employer's trade secrets or confidential information, and require that each new employee sign such an agreement. Furthermore, if a potential issue is anticipated, the new employer should evaluate whether, absent contractual agreements, the customer list or client contacts would constitute a protectable trade secret when considering the uniqueness of the business and client information and the steps taken by the prior employer to prevent disclosure of the same.

CONCLUSION

Employees often leave a company for a new employer thinking that the customers and client contacts in their rolodex are theirs and not their former employer's property. Such an assumption can create

a legal nightmare for both the employee and the new employer. However, a simple assessment of the circumstances can provide the answer of whether or not the information in question is a trade secret. Once it is determined that the information in question does not constitute a trade secret and that the employee is not contractually bound to keep the information secret, then the new employer can safely give the employee the green light to start calling on his or her customers. ☐

ENDNOTES

- 1 Cal. Civ. Code §3426.1(d).
- 2 *Morlife, Inc. v. Perry* (1997) 56 Cal.App.4th 1514, 1522.
- 3 *Ibid.*
- 4 *Ibid.*
- 5 *Morlife, Inc. v. Perry*, supra, 56 Cal.App.4th 1514.
- 6 *MAI Systems Corp. v. Peak Computer, Inc.* (1993) 991 F.2d 511.
- 7 *ABBA Rubber Co. v. Seaquist* (1991) 235 Cal.App.3d 1.

- 8 *American Credit Indemnity Co. v. Sacks* (1989) 213 Cal.App.3d 622.
- 9 *American Paper & Packaging Products, Inc. v. Kirgan* (1986) 183 Cal.App.3d 1318.
- 10 *Aetna Building Maintenance Co. v. West* (1952) 39 Cal.2d 198.
- 11 Cal. Civil Code § 3426.1(d)(2).
- 12 *See Morton v. Rankam., Inc.* (1993) 812 F. Supp. 1062, 1075; *In Re Providian Credit Card Cases* (2002) 96 Cal. App. 4th 292.
- 13 *VFD Consulting, Inc. v. 21st Fervs.* (2006) 425 S. Supp. 2d 1037, 1048.
- 14 *Sarkes Tarzian, Inc. v. Audio Devices, Inc.* (1958) 166 F. Supp. 250.



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