

A Refreshing Look at Protecting Your Customer/Client Lists

By Matthew C. Sgnilek & Farinaz Cohen

Dr. John S. Pemberton's formula for Coca-Cola has been kept a secret since its development in 1886. Only a select few individuals have ever been privy to the Coca-Cola formula, which is currently stored in a vault in Atlanta, GA. Today's entertainment companies strive to protect their proprietary trade secret protected information just as Coca-Cola has done for 129 years. Of course proprietary information, particularly in Hollywood, is far more diverse than a single formula. Entertainment companies must protect not only tangible items and creations but also intangible information such as client and customer information. The obstacles in protecting proprietary information are compounded by the increased employee turnover, not to mention the advent of technology which makes the distribution of a trade secret all the easier.

Complicating matters even further, California strictly regulates the use of restrictive covenants in any agreement that it views as being intended to restrain employee mobility and business completion. California is one of a handful of states where non-compete agreements are void as against public policy.

However, employers are not without an arrow in their quiver. Through the adoption of the Uniform Trade Secrets Act, California makes it illegal for employees to misappropriate trade secrets from a former employer and to use those trade secrets to solicit customers of the former employer. California courts have held that a former employee may be barred from soliciting existing customers to redirect their business away from the former employer and to the employee's new business if the employee is utilizing trade secret information to solicit those customers and clients. California employers may preclude their former employees from using trade secret information to solicit customers/clients.

Entertainment companies might also be able to establish their customer/client lists themselves are trade secrets if two conditions are met. First, the company must routinely make efforts to maintain the secrecy of the client/customer information, and second, the information must derive independent economic value from not being generally known to the public. To satisfy the first requirement, internal policies should make it unequivocally clear that

customer/client lists are a trade secret and are not to be disseminated. This policy should be communicated in writing regularly to your employees. Customer/client lists should be marked confidential with access limited to only those who “need to know.”

Entertainment companies should also be able to establish the trickier second requirement of establishing the independent economic value of their customer/client lists. It is more likely that a California Court will find a customer/client list is a trade secret if it can be demonstrated that (1) the customer list identifies buyers of services/goods that are inherently difficult to sell; (2) the list contains specialized information on each customer such as discounts offered and purchase history; and (3) the customers’ purchase decisions are influenced primarily by its special needs or susceptibilities, as opposed to more generic factors such as price, quality, reliable delivery and efficient service.

As part of a best practices approach, entertainment companies should have their employees sign agreements and/or acknowledge policies establishing that they will not misappropriate trade secrets or utilize trade secrets to solicit customers/clients. In the event, a former employee is believed to misappropriate a trade secret, there are several potential courses of action. These actions include sending a cease and desist letter, seeking a temporary injunction and permanent injunction as well as filing a lawsuit to recoup monetary damages. Counsel should be sought in the drafting of such agreements to better ensure their enforceability.

While California may not make it easy, by following these best practices, entertainment companies may be able to keep their trade secrets as secret as the Coca-Cola formula.

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