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PERSPECTIVE

Are your client lists trade secrets?

By Angelique Kaounis

On May 4, a California-based law firm brought an action against several former partners and their new firm for trade secret misappropriation, breach of fiduciary duty, and unfair competition. *Adelson, Testan, Brundo, Novell & Jimenez v. Misa Stefen Koller Ward LLP*, 30-2016-00850385-CU-BT-CJC (Orange Super. Ct.). The complaint alleged that the former partners planned their new firm while still employed at the plaintiff firm, using its resources and client lists, and marketed to clients at the plaintiff firm's expense. This is not the first time we've seen a law firm sue former partners or associates for trade secret misappropriation, nor is it likely to be the last.

Despite their lack of prevalence — which those in the legal profession should take as a good sign — law firm trade secret claims are not particularly unique. Law firm plaintiffs often advance the theory that the firm's client list, and client-related information, is a trade secret. *See, e.g.*, *Reeves v. Hanlon*, 33 Cal. 4th 1140, 1155 (2004) (CUTSA is violated "when an individual misappropriates a former employer's protected trade secret client list, for example, by using the list to solicit clients."); *see also WHGC v. Van Loben Sels*, G051302 (Cal. Ct. App. Jan. 16, 2016) (claiming as trade secrets "the firm's clients, the names of contacts within each client, the cases for which the clients retained [] services, a history of past and current services provided for the clients ... and financial information concerning each client").

As with any trade secret claim, whether a "compilation" of information such as a client list is protectable under California's Uniform Trade Secrets Act (CUTSA) will turn on whether the information: (1) derives independent economic value from not being generally known; and (2) is subject of efforts that are reasonable under the circumstances to maintain its secrecy.

These issues in turn may implicate questions as to whether a firm's representation of a particular client (or clients) is publicly known, either through the routine filing of pleadings, or the use of particular client names or cases for marketing purposes. *Compare Steinberg Moorad & Dunn Inc. v. Dunn*, 136 Fed.Appx. 6, 2005 WL 712487, at *12 (Cal. 2005) (where sports firm "client list information was available to all agents" it was not a protectable trade secret), with *Morlife Inc. v. Perry*, 56 Cal. App. 4th 1514, 1523 (1997) (customer identities not generally known to the industry were trade secret protected). Also pertinent to secrecy efforts are (1) how the information was stored, (2) who has access to the information, and (3) whether the information was subject to confidentiality provisions in attorney and other employee contracts. *Morlife*, 56 Cal. App. 4th at 1523 (customer information "stored on computer with restricted access" that was subject to "a confidentiality provision expressly referring to [] customer names and telephone numbers" was protectable).

As for value, "[a]s a general principle, the more difficult information is to obtain, and the more time and resources expended ... in gathering it, the more likely ... such information constitutes a trade secret." *Id.* at 1522. Therefore, if a client list would be difficult or time consuming to compile — for example, because it identifies clients with particular needs or characteristics — it may have independent economic value.

Moreover, to the extent that client lists also contain confidential rate (i.e., pricing) information, there is ample precedent for protecting such data: *Brocade Communications Systems Inc. v. A10 Networks Inc.*, 873 F.Supp.2d 1192, 1214 (N.D. Cal. 2012) (under CUTSA, "confidential customer-related information including customer lists and contact information, pricing guidelines, historical purchasing information, and customers' business needs/preferences ... is routinely given trade secret protection"); *Hilderman v. Enea TekSci Inc.*, 551 F.Supp.2d 1183, 1200 (S.D.Cal. 2008) (applying California law: "information regarding pricing differences among ... customers arguably would derive independent economic value from not being generally known"); *Whyte v. Schlage Lock Co.*, 101 Cal. App. 4th 1443, 1455-56 (2002).

A lawsuit filed in Orange County alleges that the former partners of a California-based firm planned their new firm while still employed at the plaintiff firm, using its resources and client lists, and marketed to clients at the plaintiff firm's expense.

Ownership of the alleged trade secret also must be established to bring a claim. *Steinberg Moorad & Dunn Inc. v. Dunn*, 2002 WL 31968234, at *23 (C.D.Cal. Dec. 26, 2002). Much like an invention assignment agreement may be relevant to ownership issues in the technology industry, in the law firm context, ownership of trade secrets may be affected by the contractual relationship — such as a partnership agreement — between the departed attorney and the firm. A court may also examine whether an attorney-client relationship existed between the departed attorney and an individual client before that attorney came to the plaintiff law firm.

After these hurdles have been met, then actual misappropriation may be shown, for example, if trade secret-protected client information is improperly used to solicit clients. *MAI Systems Corp. v. Peak Computer Inc.*, 991 F.2d 511, 521 (9th Cir.1993); *see Brocade Communications Systems*, 873 F.Supp.2d at 1216 (citing MAI Systems); *Hanger Prosthetics & Orthotics Inc. v. Capstone Orthopedic Inc.*, 556 F. Supp.2d 1122, 1137 (E.D.Cal.2008) (applying California law). Above all, however, the decision to file such a claim should be made after a considered calculus. This should take into account the sometimes fact-intensive nature of establishing misappropriation; the potential need for forensics and other experts; public-relations issues; client relations and the possible burden of taking discovery from clients; potential privilege issues; and concerns about precedent-setting in a world where lateral moves are ever present and the ability to "start up" new firms is perhaps easier than ever before.

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