

Trade Secret Status for Business Customer Lists Under the Defend Trade Secrets Act

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I. INTRODUCTION

Trade secret law is designed to protect a business’s secret or confidential information so as to maintain a competitive advantage in the business’s marketplace.¹ Business customer lists can be protected as trade secrets, but not all customer lists qualify for this protection.² To qualify for trade secret status under federal law, a customer list must meet the requirements of the Defend Trade Secrets Act (DTSA).³

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1. Eric Lindberg, *United States: The UTSA and the DTSA: Making a Federal Case Out of Trade Secrets*, MONDAQ (Feb. 14, 2018), <http://www.mondaq.com/unitedstates/x/673502/Trade+Secrets/The+UTSA+and+the+DTSA+Making+a+Federal+Case+out+of+Trade+Secrets>.

2. See, e.g., *CH Bus Sales, Inc. v. Geiger*, Case No. 18-cv-2444 (SRN/KMM), 2019 WL 1282110, at *9 (D. Minn. Mar. 20, 2019). The phrases “business customer lists” and “customer lists” are used interchangeably throughout this Article. Both phrases are defined herein as lists of previous purchasers of goods or services from a company. See *Customer List*, FINANCIAL DICTIONARY (Mar. 21, 2019), <http://financial-dictionary.thefreedictionary.com/Customer+List>. The content of these lists vary based on the information needed by the company to continue the business relationship.

3. Defend Trade Secrets Act of 2016, Pub. L. No. 114-153, 130 Stat. 376 (codified at 18 U.S.C. § 1836).

Since the DTSA's enactment in 2016, there has been limited precedent applying it to trade secret protection for customer lists.⁴ Rather courts will refer to case law using the Uniform Trade Secrets Act (UTSA) to determine whether a trade secret is protectable under the DTSA.⁵ The DTSA does not replace the UTSA or state laws regarding trade secrets, thus, courts will typically distinguish between the two acts because they are so similar.⁶

DTSA case law is still developing, so it is helpful to explore cases applying state UTSA as a means of establishing trade secret status for business customer lists under the DTSA. This Article presents a guide to establishing trade secret status for business customer lists following the enactment of the DTSA.⁷ Specifically, this Article will compare both DTSA and UTSA cases by first examining DTSA cases in which courts address trade secret status for business customer lists. Then, this Article will focus on that comparison in relation to federal and state precedent under the UTSA.⁸

II. TRADE SECRET STATUS

A business's customer list qualifies for trade secret protection under federal law if it meets the requirements of the DTSA.⁹ Under the DTSA, a trade secret is defined as the following:

4. Much of the DTSA case law to date has addressed motions to dismiss under Federal Rule of Civil Procedure 12(b)(6) for failure to state a plausible claim for trade secret misappropriation. FED. R. CIV. PROC. 12(b)(6). Very few cases have addressed the merits of the claim. For a discussion of plausibility concerns under the DTSA, see generally Michelle Evans, *Plausibility Under the Defend Trade Secrets Act*, 16 J. MARSHALL REV. INTELL. PROP. L. 188 (2017).

5. Lindberg, *supra* note 1.

6. *Id.*; see, e.g., *Source Prod. & Equip. Co., Inc. v. Schehr*, Civil Action No. 16-17528, 2017 WL 3721543, *2 (E.D. La. Aug. 29, 2017) (stating "both the House and Senate committee reports suggest that the DTSA largely conforms with state trade secrets law"; therefore, "existing state law on trade secrets inform[ed] the Court's application of the DTSA"); *Veronica Foods Co. v. Ecklin*, Case No. 16-cv-07223-JCS, 2017 WL 2806706, at *13 (N.D. Cal. June 29, 2017).

7. This Article is expected to be useful to legal studies instructors. For a case study illustrating a hypothetical company's efforts to protect its secrets according to the Uniform Trade Secrets Act that can be used equally well to introduce students to the new DTSA, see generally Michelle Evans, *Trade Secrets in the Legal Studies Curriculum—A Case Study*, 29 J. LEGAL STUD. EDUC. 1 (2012).

8. Defend Trade Secrets Act of 2016, Pub. L. No. 114-153, 130 Stat. 376 (codified at 18 U.S.C. § 1836); Uniform Trade Secrets Act §§ 1-11 (amended 1985), 14 U.L.A. 538 (2005). For a list of statutory citations for states that have adopted the Uniform Trade Secrets Act, see *Unif. Trade Secrets Act Refs & Annos* (amended 1985), 14 U.L.A. 529 (2005).

9. 18 U.S.C. § 1839(3).

All forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if: (A) the owner thereof has taken reasonable measures to keep such information secret; and (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information.¹⁰

The DTSA definition is overly broad, allowing for a wide range of information to be protected by the statute.¹¹ Thus, although customer lists are not expressly included in this definition, interpreters of the statute have referred to them under the DTSA definition as business information including compilations.¹²

When applying for trade secret status, a company must comply with the requirements of parts (A) and (B) of the definition, discussed above.¹³ Under the DTSA definition, a customer list qualifies as a trade secret if it: (1) has independent economic value, actual or potential; (2) is not generally known to another person who can obtain economic value from it; (3) is not readily ascertainable through proper means; and (4) is the subject of reasonable measures to maintain secrecy.¹⁴ The DTSA substantively follows the language used in the UTSA; therefore, the comments contained in the UTSA provide a useful guide for federal courts to refer to when interpreting the DTSA.¹⁵ Federal courts may also examine fact-based cases to assist in any interpretation.¹⁶ Both the UTSA

10. *Id.*

11. *Explaining the Defend Trade Secrets Act*, AM. BAR ASS'N (June 29, 2017), http://www.americanbar.org/groups/business_law/publications/blt/2016/09/03_cohen/.

12. See H.R. REP. 114-529, at 2 (2016), reprinted in 2016 U.S.C.C.A.N. 195, 197; John Cannan, *A (Mostly) Legislative History of the Defend Trade Secrets Act of 2016*, 109 LAW LIBR. J. 363, 364 (2017). See, e.g., *ITR Am., LLC v. TREK, Inc.*, Civil Action No. 3:16-cv-703-WHB-JCG, 2017 WL 5244715, at *7 (S.D. Miss. Sept. 26, 2017) (concluding a customer list that qualified for trade secret status under the state UTSA would qualify for trade secret status under the DTSA).

13. 18 U.S.C. § 1839(3).

14. Adapted from a list of subfactors for the UTSA trade secret definition provided in Michelle Evans, *Determining What Constitutes a Trade Secret Under the New Texas Uniform Trade Secrets Act (TUTSA)*, 46 TEX. TECH. L. REV. 469, 473-74 (2014).

15. See H.R. REP. 114-529, at 14.

16. See, e.g., *Bay Fasteners & Components, Inc. v. Factory Direct Logistics, LLC*, Case No. 17-CV-03995, 2018 WL 1394033, at *3 (N.D. Ill. Mar. 20, 2018); *Kuryakyn Holdings, LLC v. Ciro, LLC*, 242 F. Supp. 3d 789, 797 (W.D. Wis. 2017).

and UTSA precedent are considered to be persuasive authority for any and all DTSA litigation.¹⁷

III. THE INFORMATION PROVIDES INDEPENDENT ECONOMIC VALUE

When establishing trade secret status for a business's customer list, a court must first determine the list's value in the company as well as in the company's marketplace.¹⁸ Specifically, the DTSA requires that the information "derive independent economic value, actual or potential."¹⁹ Current value is preferred when establishing trade secret status.²⁰ A customer list may only retain value for a few months.²¹ Some courts have found it useful for a plaintiff to provide evidence of what its competitor considers valuable.²² For example, in *Ukrainian Future Credit Union v. Seikaly*, a credit union filed a claim against its former employee after the employee's use of improperly obtained customer lists.²³ The plaintiff proposed to amend its original complaint by adding a DTSA claim stating that the trade secret was valuable.²⁴ The District Court for the Eastern District of Michigan denied the proposed amendment because the plaintiff

17. See, e.g., *Dichard v. Morgan*, Civil No. 17-CV-00338-AJ, 2017 WL 5634110, at *2 (D. N.H. Nov. 22, 2017).

18. In fact, a business's client or customer list may be the most valuable asset to a company. See generally Byung-Cheol Kim & Jay Pil Choi, *Customer Information Sharing: Strategic Incentives and New Implications*, 19 J. ECON. & MGMT. STRATEGY 403, 407 (2010) (discussing the acquisition of CDNow by Bertelsmann for \$117 million because of its customer list of 3.29 million people with no other substantial physical assets).

19. 18 U.S.C. § 1839(3)(B) (2016). This requirement is the same in the UTSA definition.

20. See, e.g., *CH Bus Sales, Inc., f/k/a/ CH Trading Co. v. Duane Geiger*, Case No. 18-cv-2444 (SRN/KMM), 2019 WL 1282110, at *9 (D. Minn. Mar. 20, 2019) (ruling on a motion to dismiss claims based on the DTSA and state UTSA, the court noted that customer lists are not considered trade secrets where they would be of little use to a competitor); *Quality Sys., Inc. v. Warman*, 132 F. Supp. 2d 349, 356 (D. Md. 2001) (finding the company's recruiting database was not a trade secret under the UTSA because, among other things, the information had no current economic value). For a discussion of trade secret valuation methods, see generally R. Mark Halligan & Richard F. Weyand, *The Economic Valuation of Trade Secret Assets*, J. INTERNET L., Feb. 2006, at 19; Jennifer McCollough, *The Basics in Valuation of Intellectual Property Assets*, FED. LAW., Aug. 2017, at 8.

21. See, e.g., *WEG Elec. Corp. v. Pethers*, Civil No. 16-471(DSD/LIB), 2016 WL 1441793, at *3 (D. Minn. Apr. 12, 2016).

22. For cases applying individual state UTSA's, see, for example, *Pyro Spectaculars North, Inc. v. Souza*, 861 F. Supp. 2d 1079, 1089 (E.D. Cal. 2012) (finding that the information contained a "virtual encyclopedia" of specific company customer, operator, and vendor information at a competitor's fingertips); *Bridgestone/Firestone, Inc. v. Lockhart*, 5 F. Supp. 2d 667, 681 (S.D. Ind. 1998) (noting that the company's sales information, among other things, specifying customer, salesperson, and region could be helpful to a competitor).

23. *Ukrainian Future Credit Union v. Seikaly*, No. 17-CV-11483, 2017 WL 5665960, at *10 (E.D. Mich. Nov. 27, 2017).

24. *Id.*

failed to measure and provide sufficient evidence demonstrating the competitor's value of the list.²⁵

Additionally, it is important for a company to demonstrate to the court how much money marketing companies would be willing to pay for customer information.²⁶ This is particularly useful when establishing a market value for a customer list.²⁷ Further, it may be helpful for the trade secret owner to show a court any customer lists that were used as collateral for bank loans.²⁸ Since there is no office that formally reviews trade secrets for validity, lenders will independently assess whether the collateral satisfies the trade secret definition, along with its value, before making these loans.²⁹

Courts interpreting both the DTSA and UTSA have found that a customer list containing only customers' names and addresses does not retain independent value to a business owner and, therefore, is not protectable as a trade secret.³⁰ To strengthen the protectability of a customer list as a trade secret, a business should include additional information specific to each listed customer, such as the product history or service needs of a customer.³¹ Maintaining detailed customer lists is useful

25. *Id.*

26. For cases applying individual state UTSAAs, see, for example, *Fred's Stores of Mississippi, Inc. v. M. & H. Drugs, Inc.*, 725 So. 2d 902, 910 (Miss. 1998) (finding the company's customer list had independent economic value because marketing companies, among others, were willing to pay money for it); *Newmark Group, Inc. v. Avison Young (Canada) Inc.*, Case No.: 2:15-cv-00531-RFB-GWF, 2018 WL 5886531, at *3 (D. Nev. Nov. 9, 2018).

27. For further discussion of the market value approach to valuing customer lists, see generally *Valuation of Customer-Related Assets*, MERCER CAP. (Jan. 11, 2016), <https://mercercapital.com/financialreportingblog/valuation-of-customer-related-assets/>; Lisa H. Tran & Irina Vrublevskaia, *Methods for Valuing Customer Relationships: Use of the Multi-Period Excess Earnings Method or the Distributor Method?*, INSIGHTS (Spring 2016), http://www.willamette.com/insights_journal/16/spring_2016_10.pdf.

28. See Gail Bernstein, *Viewing Assets More Expansively Can Benefit Borrower and Lender Alike*, 9 J. PRIV. EQUITY 94 (2006) (discussing the tendency of asset-based lenders to look to customer lists as well as hard assets when lending).

29. See, *How to Use Trade Secrets as Collateral for a Loan*, MELWANI & CHAN, LLP, <http://melwanichan.com/resources/how-to-use-trade-secrets-as-collateral-for-a-loan/> (last visited Mar. 21, 2019).

30. See, e.g., *KeyCorp v. Holland*, Civil Action No. 3:16-CV-1948-D, 2017 WL 345645, at *4 (N.D. Tex. Jan. 24, 2017) (finding that a mere listing of names, companies, and email addresses was insufficient to constitute a trade secret under the DTSA); *Steenhoven v. Coll. Life Ins. Co. of Am.*, 460 N.E.2d 973, 974-75 (Ind. Ct. App. 1984).

31. Compare *G.W. Henssler & Assocs., Ltd. v. Marietta Wealth Mgmt., LLC*, Civil Action File Number 1:17-cv-2188-TCB, 2017 WL 6996372, at *4 (N.D. Ga. Oct. 23, 2017), with *Conseco Fin. Servicing Corp. v. N. Am. Mortg. Co.*, 381 F.3d 811, 819 (8th Cir. 2004); *Dial Temp. Help Serv., Inc. v. Shrock*, 946 F. Supp. 847, 854 (D. Or. 1996); *Steve Silveus Ins., Inc. v. Goshert*, 873 N.E.2d 165, 179 (Ind. Ct. App. 2007); *U.S. Land Servs., Inc. v. U.S. Surveyor, Inc.*, 826 N.E.2d 49, 64 (Ind. Ct. App. 2005).

for a company to present as evidence to a court strengthening the likelihood of achieving trade secret status for that list.³²

IV. THE TRADE SECRET MUST NOT BE GENERALLY KNOWN TO ANOTHER PERSON

Once an individual or company demonstrates to a court the independent economic value of its customer or client list, they will then need to provide sufficient evidence demonstrating that the list is not “generally known to . . . another person who can obtain economic value from the disclosure or use of the information.”³³ Proving this DTSA element may be difficult because it requires the business owner to prove a negative.³⁴ Therefore, a business owner will typically introduce direct testimony by employees, any circumstantial evidence concerning measures taken to protect the information, and expert testimony by industry professionals.³⁵

One important aspect of this DTSA requirement to consider is a court’s interpretation of “another person.”³⁶ According to prior case law applying individual state UTSA, information is public knowledge if a business owner makes mandatory disclosures to government agencies or if the information is already in the public domain.³⁷ For example, information is considered in the public domain if it is posted online or

32. *Compare* East v. Aqua Gaming, Inc., 805 So.2d 932, 934 (Fla. Dist. Ct. App. 2001) (finding trade secret status under the UTSA where, among other things, the company had created its customer list from larger lists of potential customers for the company’s specific business), *with* Templeton v. Creative Loafing Tampa, Inc., 552 So.2d 288, 289 (Fla. Dist. Ct. App. 1989) (concluding the list of potential customers was not a trade secret under the UTSA where, among other factors, the list was not a reduction of a larger list).

33. 18 U.S.C. § 1839(3)(B) (2016). In comparison to the UTSA, the DTSA uses the phrase “another person” in place of “other persons”; however, these phrases are not intended to be meaningfully different. *See* Uniform Trade Secrets Act § 1 (amended 1985), 14 U.L.A. 538 (2005); H.R. REP. 114-529, at 14 (2016), *reprinted in* 2016 U.S.C.C.A.N. 195, 197.

34. For further discussion of the difficulty in proving negative claims, see generally Kevin W. Saunders, *What Logic Can and Cannot Tell Us About Law*, 73 NOTRE DAME L. REV. 667, 677-78 (1997-1998).

35. *See Trade Secret Infringement*, JUSTIA, <http://www.justia.com/intellectual-property/trade-secrets/infringement/> (last visited Mar. 21, 2019); *see, e.g.,* Graham Capital Mgmt., L.P. v. Bongiovanni, 3:18-cv-01665-WWE, 2019 WL 632287, at *4 (D. Conn. Feb. 14, 2019); Hill v. Best Medic. Intern., Inc., Civil Action Nos. 07-1709, 08-1404, 09-1194, 2011 WL 5082208, at *14 (W.D. Pa. Oct. 25, 2011); Mattel, Inc. v. MGA Entm’t, Inc., No. CV 04-9049 DOC (RNBx), 2011 WL 3420571, at *9 (C.D. Cal. Aug. 4, 2011); Confianza Moving, Inc. v. De Oliveira, Case No.10-23035-CIV-MORENO/TORRES, 2011 WL 13269500, at *5 (S.D. Fla. Jan. 24, 2011).

36. 18 U.S.C. § 1839(3)(B).

37. For further discussion of protecting disclosures made to government agencies, see generally Taylor M. Norton, *Protecting Subcontractors’ Intellectual Property in Government Contracts: Trades Secrets and Proprietary Data*, FED. LAW., Oct. 2010, at 38.

included in an article or book.³⁸ Any open disclosures by the company may also be considered by a court to be public knowledge.³⁹ Further, a customer list may not be protected as a trade secret if the customer's information is generally known within the company's industry.⁴⁰

An owner attempting to obtain trade secret status should avoid disclosing any relevant information to members of the public or to those in the same industry to prevent the information from becoming part of the public domain.⁴¹ If a business owner has to disclose the customer information in the ordinary course of business, the owner should do so with confidentiality restrictions in place.⁴² These restrictions may include a nondisclosure agreement that the company's employees are required to sign or encrypting certain confidential files contained on company computers.⁴³ These steps are important because if another company misappropriates the protected list, the list's owner must demonstrate to the court that they took reasonable steps to protect the confidential information.⁴⁴

A business owner may risk protecting customer information by disclosing the information to outside vendors or companies.⁴⁵ This is

38. See *Trade Secret Infringement*, *supra* note 35.

39. *Id.*

40. The UTSA suggests that if these "other persons" can obtain an economic benefit from the trade secret and they are aware that they can obtain that benefit, then trade secret status may not be achieved. Uniform Trade Secrets Act § 1 cmt. (amended 1985), 14 U.L.A. 538 (2005); *Cy Wakeman, Inc. v. Nicole Price Consulting, LLC*, 284 F. Supp. 3d 985, 996 (D. Neb. 2018). Compare *Art & Cook, Inc. v. Haber*, No. 17-cv-1634 (LDH) (CLP), 2017 WL 4443549, at *3 (E.D.N.Y. Oct. 3, 2017) (concluding the plaintiff's contact list was not a trade secret under the DTSA where the contacts could be obtained by hiring representatives, attending trade shows, meeting buyers from various companies, and using simple Internet searches), with *CDI Energy Servs., Inc. v. West River Pumps, Inc.*, 567 F.3d 398, 402 (8th Cir. 2009) (finding the customer list was not protectable as a trade secret under the UTSA where the potential customers were a small group of easily identifiable locally operated oilfield companies that would be easily obtainable by those in the local oilfield service and equipment industry), and *Hydraulic Exch. & Repair, Inc. v. KM Specialty Pumps, Inc.*, 690 N.E.2d 782, 786 (Ind. Ct. App. 1998) (concluding that even though the customers were known within the company's niche market, the customer list was still a trade secret under the UTSA because it included additional information such as profits, sales, and special suppliers that were specific to each customer that the company kept confidential).

41. See, e.g., *Frontrange Sols. USA, Inc. v. Newroad Software, Inc.*, 505 F. Supp. 2d 821, 837 (D. Colo. 2007) (concluding the customer list was not a trade secret under the UTSA because, among other factors, the competitor was able to obtain the information without restriction at trade shows and from other independent sources).

42. See, e.g., *Hecny Transp., Inc. v. Chu*, 430 F.3d 402, 404 (7th Cir. 2005); *Wyatt v. PO2, Inc.*, 651 So.2d 359, 363 (La. Ct. App. 1995).

43. See *Trade Secret Infringement*, *supra* note 35.

44. See *id.*

45. See, e.g., *VBS Distribution, Inc. v. Nutrivita Labs., Inc.*, Case No.: SACV 16-01553-CJC(DFM), 2018 WL 5274172, at *7 (C.D. Cal. Sept. 10, 2018).

particularly a concern if the business owner fails to take specific measures to ensure third-party confidentiality of any business-related information.⁴⁶ A business that includes its customers' names and contact information on sales reports or confidential information in meeting minutes will not be seen by the courts as ensuring third-party confidentiality.⁴⁷ Confidentiality requirements established in nondisclosure agreements protect an owner if they find it necessary to disclose the customer information to these outsiders.⁴⁸ These additional precautions are helpful in preventing any confidential company from becoming public knowledge.

V. THE TRADE SECRET MUST NOT BE READILY ASCERTAINABLE THROUGH PROPER MEANS

The DTSA further provides that a company or business's customer list must not be "readily ascertainable through proper means" if the list is to achieve protection as a trade secret.⁴⁹ The phrase "readily ascertainable" is not defined in the DTSA.⁵⁰ However, courts generally conclude that information obtained from public sources is readily ascertainable,⁵¹ particularly when that information is available on the Internet.⁵²

46. See, e.g., *id.* (finding the customer list was not a trade secret under the DTSA where the list was disclosed to vendors without an agreement that the list be kept confidential); *Marc Maghsoudi Enter., Inc. v. Tufenkian Import/Export Ventures, Inc.*, 2009 WL 3837455, at *2 (N.D. Ill. 2009). Thomas J. Scott, Jr. & Eleanor M. Hynes, *Reducing Your Risk as a Licensor or Licensee in Patent and Technology Licensing—The Important Terms to Consider*, 28 LICENSING J. 6 (2008). See generally Thomas J. Oppold, *Top 10 Ways to Help Protect Your Franchise's Trade Secrets*, 35 FRANCHISING WORLD 57 (2003).

47. *VBS Distribution, Inc.*, 2018 WL 5274172, at *8.

48. See, e.g., *Home Paramount Pest Control Cos., Inc. v. FMC Corp./Agric. Prods. Grp.*, 107 F. Supp. 2d 684, 693 (D. Md. 2000); *Hildreth Mfg., L.L.C. v. Semco, Inc.*, 785 N.E.2d 774, 785-86 (Ohio App. Ct. 2003).

49. 18 U.S.C. § 1839(3)(B) (2016).

50. *Id.* § 1839.

51. This is consistent with section 1 of the UTSA comments, which provide that "information is readily ascertainable if it is available in trade journals, reference books, or published materials." Uniform Trade Secrets Act § 1 cmt. (amended 1985), 14 U.L.A. 538 (2005); see, e.g., *Mosiman v. Madison Cos., LLC*, Civil Action No. 17-1517-CFC, 2019 WL 203126, at *5 (D. Del. Jan. 15, 2019); *Way.com, Inc. v. Singh*, Case No. 3:18-cv-04819-WHO, 2018 WL 6704464, at *10 (N.D. Cal. Dec. 20, 2018); *Curtis 1000, Inc. v. Suess*, 843 F. Supp. 441, 451-52 (C.D. Ill. 1994); *Lasermaster Corp. v. Sentinel Imaging*, 931 F. Supp. 628, 637 (D. Minn. 1996).

52. See, e.g., *PrimeSource Bldg. Prods., Inc. v. Huttig Bldg. Prods., Inc.*, Nos. 16 CV 11390 and 16 CV 11468, 2017 WL 7795125, at *14 (N.D. Ill. 2017) (finding the plaintiff's supplier list and contact information were not a trade secret under the DTSA where the information was publicly available through Internet resources); *Wachovia Ins. Servs., Inc. v. Fallon*, 682 S.E.2d 657, 663 (Ga. Ct. App. 2009) (concluding the customer list was not a trade secret under the UTSA where the information was available on the website entitled "freeERISA.com"); *Brown v. Rollet*

A court will also consider the time, effort, and expense it took for the company to develop the information, as well as the ease of duplicating that information.⁵³ Some courts interpreting both the DTSA and individual state UTSA's will examine the information beyond its availability to the public but may rather deny trade secret status when little or no time, effort, or expense is spent to develop the list from the publicly available information.⁵⁴ For example, in *PEO Experts CA, Inc. v. Engstrom*, an insurance company owner claimed its former manager and sales agents misappropriated one of the company's trade secrets.⁵⁵ The trade secret included its customer's identities, contact information, prior purchase history, and its client's habits and specifications with the company.⁵⁶ The District Court for the Eastern District of California considered the essence of the company in the market as well as the amount of time and resources it took the company to develop the list.⁵⁷ The court concluded that the former manager and agents had misappropriated the company's trade secret because the information "form[ed] the very foundation" of the company.⁵⁸

Bros. Trucking Co., Inc., 291 S.W.3d 766, 777-78 (Mo. Ct. App. 2009) (concluding the customer list was not a trade secret under the UTSA where the information could be obtained from an industry specific website); *Stark v. Gov't Accounting Sols., Inc.*, No. 08AP-987, 2009 WL 3161485, at *6 (Ohio Ct. App. Sept. 30, 2009) (noting the customer list was not a trade secret under the UTSA where the information was available on the state's Secretary of State website).

53. Compare *Liberty Am. Ins. Grp., Inc. v. WestPoint Underwriters, LLC*, 199 F. Supp. 2d 1271, 1287 (M.D. Fla. 2001) (concluding the company's park list and park data file were readily ascertainable under the UTSA because they consisted of publicly available information, could be observed by any park visitor, and the list could be compiled in two days from the available information), and *Hamer Holding Grp., Inc. v. Elmore*, 560 N.E.2d 907, 918 (Ill. Ct. App. 1990) (finding the customer list information was readily ascertainable from the Secretary of State's website information, even though it cost the company \$60,000 to condense the information from the website), with *Fireworks Spectacular, Inc. v. Premier Pyrotechnics, Inc.*, 147 F. Supp. 2d 1057, 1066 (D. Kan. 2001) (finding the company's customer lists and notes were not readily ascertainable under the UTSA, even though they could be developed from public sources, where the company invested a great amount of time, effort, and expense in developing the information, including hundreds of hours of cold-calling).

54. Compare *PEO Experts CA, Inc. v. Engstrom*, No. 2:17-cv-00318-KJM-CKD, 2017 WL 4181130, at *6 (E.D. Cal. Sept. 21, 2017), and *Elmer Miller, Inc. v. Landis*, 625 N.E.2d 338, 342 (Ill. App. Ct. 1993) (noting that a telephone directory can be useful for creating a preliminary list of potential customers; however, developing a list of repeat customers for the business cannot be easily duplicated without a significant expenditure of time, effort and expense), with *Xpert Automation Sys. Corp. v. Vibromatic Co., Inc.*, 569 N.E.2d 351, 354 (Ind. Ct. App. 1991) (concluding the customer list was not a trade secret under the UTSA even though it would have been difficult and expensive to develop the information from existing sources).

55. *Engstrom*, 2017 WL 4181130, at *6.

56. *Id.*

57. *Id.*

58. *Id.*

Furthermore, some courts interpreting both the DTSA and a state UTSA permit trade secret protection for an entire customer list even where parts of the list are publicly available.⁵⁹ In *Mickey's Linen v. Fischer*, a business brought an action against its former employee for trade secret misappropriation under the DTSA and the UTSA.⁶⁰ The trade secret in question was a list identifying the business's top 150 customers, including customers that produced the highest revenue.⁶¹ The court found that despite the availability of customers' identities, the information contained in the list was highly confidential and put the customers' livelihood at risk.⁶² The court concluded that because of that risk, the list was a valid trade secret; therefore, the former employee had misappropriated the list.⁶³

VI. REASONABLE MEASURES BY THE BUSINESS OWNER TO MAINTAIN SECRECY

Finally, trade secret status under the DTSA requires a trade secret owner to "take reasonable measures to keep such information secret."⁶⁴ Courts have struggled in defining "reasonable measures."⁶⁵ Intending to keep customer information a secret is not enough, rather active steps must

59. See, e.g., *Mickey's Linen v. Fischer*, No. 17 C 2154, 2017 WL 3970593, at *9 (N.D. Ill. Sept. 8, 2017); *Haggard v. Spine*, Civil Action No. 09-cv-00721-CMA-KMT, 2009 WL 1655030, at *9 (D. Colo. June 12, 2009) (alleging that an outsider could not develop the same type of information about the customers in the territory from a phone book or website alone was sufficient for purposes of the UTSA claim even though the information could be obtained from public sources like a phone book or the Internet); *Paramount Tax & Accounting, LLC v. H&R Block E. Enters., Inc.*, 683 S.E.2d 141, 147 (Ga. Ct. App. 2009) (finding that even though the names and addresses of the company's potential customers were available from a telephone directory, the company's customer list contained specific information about actual customers, which could only be obtained from the company's database).

60. *Mickey's Linen*, 2017 WL 3970593, at *9.

61. *Id.*

62. *Id.*

63. *Id.*

64. 18 U.S.C. § 1839(3)(A) (2016). This sub-element is substantively similar to the UTSA definition. According to the UTSA definition, the information "is the subject of efforts that are reasonable under the circumstances to maintain its secrecy." Uniform Trade Secrets Act § 1 (amended 1985), 14 U.L.A. 538 (2005). Due to this similarity, the UTSA comments and cases applying state UTSA's can be helpful.

65. For further discussion about what should be considered "reasonable," see generally Jonathan Green, Comment, *Trade Secrets and Data Security: A Proposed Minimum Standard of Reasonable Data Security Efforts When Seeking Trade Secret Protection for Consumer Information*, 46 CUMB. L. REV. 181 (2015); Jermaine S. Grubbs, *Give the Little Guys Equal Opportunity at Trade Secret Protection: Why the "Reasonable Efforts" Taken by Small Businesses Should Be Analyzed Less Stringently*, 9 LEWIS & CLARK L. REV. 421 (2005).

be taken by the business owner to maintain the secrecy of the list and to ensure continuous protection.⁶⁶

Reasonable measures may include using passwords on company computers to restrict access.⁶⁷ Additionally, a company can actively reduce the risk of confidential documents ending up in the hands of the public or the company's competitors by enforcing in-company document destruction policies.⁶⁸ This can be accomplished by placing restrictions on printing customer information as well as by placing restrictions on taking any confidential information outside of the office.⁶⁹

Another measure is to limit the number of employees who are aware or have knowledge of the protected information.⁷⁰ This can be achieved by limiting access to customer lists on the company's computer networks, maintaining control over any confidential documents, or requiring confidentiality agreements with the employees.⁷¹ However, one of the more reliable actions a company can take to preserve confidentiality of a customer list is through written agreements or verbally alerting employees

66. See, e.g., *Logansport Mach. Co., Inc. v. Neidlein-Spannzeuge GmbH*, Cause No. 3:12-CV-233 JD, 2012 WL 1877854, at *11 (N.D. Ind. May 22, 2012); *Allied Erecting & Dismantling Co. v. Genesis Equip. & Mfg., Inc.*, 649 F. Supp. 2d 702, 712 (N.D. Ohio 2009); *GTAT Corp. v. Ferro*, CV 17-55-M-DWM, 2017 WL 2303973, at *4 (D. Mont. May 25, 2017) (concluding that the plaintiff failed to show a likelihood of success on the merits in a DTSA case, even though the plaintiff presented sufficient evidence of reasonable measures to protect its trade secrets, where there was evidence that those measures were not regularly enforced).

67. See, e.g., *Blindlight, LLC v. Cubbison*, No. LA CV17-03497 JAK (PLAx), 2017 WL 4769460, at *11 (C.D. Cal. July 3, 2017) (finding that reasonable measures were taken by the plaintiff to protect customer information under the DTSA by password protecting its computers as well as other factors).

68. See, e.g., *Allen v. Johar, Inc.*, 823 S.W.2d 824, 827 (Ark. 1992) (concluding reasonable efforts were taken by the company for purposes of satisfying the UTSA where, among other efforts, old customer list printouts were destroyed).

69. See, e.g., *Paramount Tax & Accounting, LLC v. H & R Block E. Enters., Inc.*, 683 S.E.2d 141, 148 (Ga. Ct. App. 2009) (concluding the company made a reasonable effort to maintain the secrecy of its customer database in a UTSA case where, among other factors, the company limited access to its customer database to certain employees and even those employees allowed to access the database were not allowed to print out the information or take the information home).

70. See, e.g., *Avery Dennison Corp. v. Kitsonas*, 118 F. Supp. 2d 848, 854 (S.D. Ohio 2000). For further discussion of trade secret protection with employees, see generally David R. Hannah, *Should I Keep a Secret? The Effects of Trade Secret Protection Procedures on Employees' Obligations to Protect Trade Secrets*, 16 ORG. SCI. 71 (2005); Elizabeth Rowe, *Trade Secrets, Data Security and Employees*, 84 CHI.-KENT L. REV. 749 (2010).

71. See, e.g., *Abrasic 90 Inc. v. Weldcote Metals, Inc.*, No. 18 C 05376, 2019 WL 1044322, at *9 (N.D. Ill. Mar. 4, 2019) (applying both the DTSA and state UTSA); *Medidata Sols., Inc. v. Veeva Sys. Inc.*, 17 Civ. 589 (LGS), 2018 WL 6173349, at *3 (S.D.N.Y. Nov. 26, 2018) (applying the DTSA); *UTStarcom, Inc. v. Starent Networks, Corp.*, 675 F. Supp. 2d 854, 866 (N.D. Ill. 2009); *Saturn Sys., Inc. v. Militare*, 252 P.3d 516, 522 (Colo. App. 2011).

to confidential restrictions on specific company information.⁷² Although common, confidentiality agreements are not always required to demonstrate to a court continuous protection as long as other measures are taken to protect the confidential information.⁷³ Yet, a confidentiality agreement alone may not be enough to ensure trade secret status for a customer list, particularly if the agreement is not enforced.⁷⁴

In addition to confidentiality agreements and verbal agreements, trade secret status for business customer lists may be established through a company's employee handbook.⁷⁵ A company can require its employees to accept certain terms of employment contained in its employee handbook.⁷⁶ Unfortunately, these provisions do not necessarily prevent an employee from gaining general skills and knowledge that may be acquired while working for the company.⁷⁷

There are a variety of methods a business owner may use to protect its customer lists. However, for both the DTSA and the UTSA, the more

72. Compare *Express Scripts, Inc. v. Lavin*, No. 17CV01423 HEA, 2017 WL 2903205, at *6 (E.D. Mo. July 7, 2017) (finding reasonable measures were used in a DTSA case where employee nondisclosure agreements, among other things, were in place), and *Stampede Tool Warehouse, Inc. v. May*, 651 N.E.2d 209, 216-217 (Ill. App. Ct. 1995) (finding the customer list was a trade secret under the UTSA where, among other factors, the company required employees to sign confidentiality agreements), with *J.J. Orr & Assocs., Inc. v. Weinschenk*, No. CivA 04CA0041, 2004 WL 3017219, at *3 (Ohio Ct. App. 2004) (concluding the customer list was not a trade secret under the UTSA where, among other factors, the company did not ask employees to sign confidentiality agreements and did not verbally instruct employees about the list's confidentiality). For additional discussion of ensuring confidentiality with employees, see generally Douglas E. Dexter & Jessica Beckett-McWalter, *Protecting Trade Secrets: Best Practices from Hiring to Terminating and Everything in Between*, 26 LICENSING J. 1 (2006); Jeffrey S. Klein et al., *Drafting Employment Related Agreements*, 762 PLI/LIT 143 (2007); Marguerite S. Walsh, *The Top Ten Reasons Employers Lose Trade Secret Cases—And How to Prevent Them*, 15 INTELL. PROP. & TECH. L.J. 1 (2003).

73. See, e.g., *PEO Experts CA, Inc. v. Engstrom*, No. 2:17-cv-00318-KJM-CKD, 2017 WL 4181130, at *7 (E.D. Cal. Sept. 21, 2017) (concluding a confidentiality agreement was not necessary to establish trade secret status for the customer lists under the DTSA where other measures were used).

74. See, e.g., *Equifax Servs., Inc. v. Examination Mgmt. Servs., Inc.*, 453 S.E.2d 488, 493 (Ga. Ct. App. 1995).

75. See, e.g., *Sterling Computers Corp. v. Haskell*, 4:17-CV-04073-KES, 2018 WL 671210, at *1 (D. S.D. Feb. 1, 2018); *Alltech Commc'ns, LLC v. Telworx Commc'ns, LLC*, No. 08-CV-210-TCK-FHM, 2010 WL 3732150, at *5 (N.D. Okla. 2010).

76. See, e.g., *Haskell*, 2018 WL 671210, at *1; *Alltech Commc'ns, LLC*, 2010 WL 3732150, at *5.

77. See, e.g., *T&S Brass & Bronze Works, Inc. v. Slanina*, Civil Action No. 6:16-3687-MGL, 2016 WL 11201768, at *7 (D. S.C. Dec. 20, 2016); *McKesson-Med. Surgical, Inc. v. Micro Bio-Medics, Inc.*, 266 F. Supp. 2d 590, 593-94 (E.D. Mich. 2003); *DiGiorgio v. Megabyte Int'l, Inc.*, 468 S.E.2d 367, 369 (Ga. 1996).

precautions taken by the business owner, the greater the likelihood of customer information being considered by courts to be a trade secret.⁷⁸

VII. CONCLUSION

In conclusion, business customer lists can be protected as trade secrets, but not all customer lists qualify for this status.⁷⁹ In order to qualify for trade secret status under federal law, customer lists must meet the requirements of the DTSA.⁸⁰ With limited DTSA case law available, courts are attempting to define the scope of customer lists as trade secrets. Additionally, courts will use case law, applying a state-specific UTSA to make a trade secret determination under the DTSA.⁸¹ While application of DTSA case law continues to develop and expand the scope of trade secret law, it is providing businesses with new information about how to protect customer lists.⁸²

78. See, e.g., *H.Q. Milton, Inc. v. Webster*, No. 17-cv-06598-PJH, 2017 WL 5625929, at *4 (N.D. Cal. Nov. 22, 2017) (concluding reasonable measures were taken by the plaintiff under the DTSA, specifically the plaintiff reiterated, and employees acknowledged, its policy that any work done in the office or on company time was company property and employees could not use contacts, photos or anything else owned by the company without the company's consent; the plaintiff did not share cost, final sale or profit margin information outside the company; customer information was kept in a password protected electronic file; and customer information was only shared with company employees for purposes of conducting company business with the company's permission); *Fred's Stores of Miss., Inc. v. M. & H. Drugs, Inc.*, 725 So.2d 902, 910 (Miss. 1998) (concluding reasonable efforts were used to protect the company's trade secret information under the UTSA where the customer list was on the computer and password protected, the list was only printed once a year and kept in one location, the physical location for the list had limited access, the information was not disclosed outside the business, employees had limited access to the list, and the list was only available on a need to know basis).

79. See, e.g., *CH Bus Sales, Inc. v. Geiger*, Case No. 18-cv-2444 (SRN/KMM), 2019 WL 1282110, at *9 (D. Minn. Mar. 20, 2019).

80. Defend Trade Secrets Act of 2016, Pub. L. No. 114-153, 130 Stat. 376 (codified at 18 U.S.C. § 1836).

81. See, e.g., *Source Prod. & Equip. Co., Inc. v. Schehr*, Civil Action No. 16-17528, 2017 WL 3721543, at *2 (E.D. La. Aug. 29, 2017) (stating "both the House and Senate committee reports suggest that the DTSA largely conforms with state trade secrets law"; therefore, "existing state law on trade secrets inform[ed] the Court's application of the DTSA).

82. See, e.g., *Dichard v. Morgan*, Civil No. 17-CV-00338-AJ, 2017 WL 5634110, at *2 (D. N.H. Nov. 22, 2017).