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PERSPECTIVE

Trade secrets are key in customer list cases

By James Hardin and Tyler Woods

When a party seeks a preliminary injunction for misappropriation of a "customer list," the main fight is usually over whether an injunction should issue. But an equally important fight is over the proper scope of an injunction. The plaintiff often seeks a categorical prohibition on the defendant "doing business" with customers of the plaintiff which, if granted without qualification, can cause severe damage to the profitability or viability of a targeted business.

However, California trade secret law has certain inherent limitations that should preclude a party from obtaining a "doing business" injunction. Among other things, courts have indicated that an injunction is overbroad to the extent it purports to bar: (1) "all solicitation" of the plaintiff's customers — as opposed to solicitation *by using* a legally protectable customer list; (2) use of "confidential information" or "trade secrets" to solicit customers where those terms are defined too broadly; (3) solicitation of customers whose names are readily available to the public; (4) accepting business from customers who initiated contact; or (5) defendant's general marketing activities. Thus, to best protect a client's business prospects, litigants opposing a request for a "doing business" injunction should wield these limitations to narrow the scope of any injunction that may issue.

The Proper Scope

If a claimant establishes a likelihood of prevailing on a trade secret claim, satisfying the remaining elements for obtaining an injunction — (1) irreparable harm; (2) balance of hardships; and (3) public interest — is probable. See, e.g., *TMX Funding, Inc. v. Impero Techs., Inc.,* No. C 10-00202 JF (PVT) (N.D. Cal. March 18, 2010) ("California courts have presumed irreparable harm when proprietary information is misappropriated"); *Farmers Ins. Exch. v. Steele Ins. Agency, Inc.,* No. 2:13-cv-00784-MCE-DAD (E.D. Cal. May 16, 2013) ("Courts have found that the balance of hardships tips in favor of a plaintiff seeking an injunction which would 'merely prohibit [the d]efendants from misappropriating the trade secrets of [the p]laintiff.'") (citing *Merrill Lynch, Pierce Genner & Smith Inc. v. Chung*, No. CV 01–00659 CBM RCX (C.D. Cal. Feb. 2, 2001); *Wyndham Resort Devel. Corp. v. Bingham*, No. 2:10-cv-01556 (E.D. Cal. July 8, 2010) ("It is in the public interest that trade secret customer lists be protected.").

Next is the proper scope of the injunction. In general, an injunction must be narrowly tailored. See, e.g., *Gallagher Benefits Servs., Inc. v. De La Torre*, 283 F.App'x 543, 546 (9th Cir. 2008) ("Where injunctive relief is warranted, the order must be narrowly tailored to remedy only the specific harms shown by the plaintiffs, rather than to enjoin all possible breaches of the law.") (internal citations omitted); *Stormans, Inc. v. Selecky*, 586 F.3d 1109, 1119 (9th Cir. 2009) ("because '[i]njunctive relief ... must be tailored to remedy the specific harm alleged ... [a]n overbroad injunction is an abuse of discretion.") (internal citations omitted).

In that vein, courts regularly approve injunctions that: (1) require the destruction of all documents, data, or other tangible items embodying the customer list-related information. See, e.g., *Pyro Spectaculars North, Inc. v. Souza*, 861 F.Supp.2d 1079, 1094 (E.D. Cal. 2012); (2) prohibit any use, disclosure, or dissemination of the customer list, see, e.g., *PSC Industrial Outsourcing, LP v. Kodysz,* No. 1:13-cv-0964 (E.D. Cal. July 3, 2013); Wyndham; or (3) prohibit copying or summarizing any trade secret information from a customer list. See *Farmers Ins. Exch*.

However, courts have been reluctant to broadly enjoin defendants from doing business with customers of the plaintiff employer. See *Morlife, Inc. v. Perry*, 56 Cal. App. 4th 1514, 1524 (1997). There are several doctrinal bases for such reticence.

First, it has long been considered "fair competition" for an employee to merely "announce" his departure and then discuss business with clients if invited to do so (rather than "soliciting" clients). See *Aetna Bldg. Maint. Co. v. West,* 39 Cal. 2d 198, 203-04 (1952).

Second, California law has refused to presume that trade secrets will be "inevitably" disclosed. See *Whyte v. Schlage Lock Co.*, 101 Cal. App. 4th 1443, 1463-64 (2002).

Third, the fundamental rationale of the customer list cases, as distilled by the leading case of *Retirement Group v. Galante*, 176 Cal. App. 4th 1226, 1237 (2009), is that the crux of the wrongful conduct in a customer list case is the "misuse of a trade secret [customer list]" rather than the act of soliciting customers. This dictates that an injunction should be limited to barring *use of the customer* list to solicit customers, as opposed to more broadly barring all solicitation of existing customers. See, e.g., *Thompson v. Impaxx, Inc.,* 113 Cal. App. 4th 1425, 1432 (2003) ("in the absence of a protectable trade secret, the right to compete fairly outweighs the employer's right to protect clients against competition from former employees.").

Fourth, a defendant will usually be permitted to continue to engage in general marketing activities within the industry. See, e.g., *Richmond Technologies* (court issued TRO prohibiting use of customer list information but specifically noted that "Defendants may engage in marketing efforts directed at the [ ] market as a whole, such as attending trade shows").

Accordingly, a blanket prohibition on the defendant doing business with the plaintiff's customers will likely be deemed overbroad. See, e.g., *Pyro Spectaculars*, 861 F.Supp.2d at 1096 ("the court will not impose the overbroad restriction proposed by [the plaintiff], enjoining defendant 'from doing business with any [ ] customer [of plaintiff] he learned of through his employment at [plaintiff]."); see generally *Thompson*, 113 Cal. App. 4th at 1429 ("Antisolicitation covenants are void as unlawful business restraints except where their enforcement is necessary to protect trade secrets.").

"Doing Business"

Moreover, courts have rejected efforts to obtain somewhat narrower "doing business" limitations, including injunctions purporting to prohibit: (1) "all solicitation" of the plaintiff's customers — rather than solicitation *by using* a protectable customer list, see, e.g., *Farmers Ins. Exch.* ("an injunction prohibiting all solicitation of [the plaintiff's] customers is too broad"); (2) solicitation of customers whose names are readily available to the public, see, e.g., *PSC Industria*; (3) responding to and accepting business from a customer [if the customer] initiated contact, *Pyro Spectaculars*, 861 F.Supp.2d at 1097 (In issuing a nonsolicitation injunction, the court carved out exception "if a [] customer [of the plaintiff] initiates contact with defendant, defendant shall be permitted to respond to and accept business from the customer."); *Robinson v. Jardine Ins. Brokers Intern. Ltd*., 856 F.Supp. 554, 558-59 (N.D. Cal. 1994) (clause in noncompete agreement "prohibit[ing] Plaintiff from doing any business with Defendant's clients, regardless of who initiates contact" is likely invalid under section 16600); or (4) the "misuse" of "confidential information" or "trade secrets" — but where "confidential information" or "trade secrets" are defined too broadly. See, e.g., *Dowell v. Biosense Webster, Inc.*, 179 Cal. App. 4th 564, 577-78 (2009) (court invalidated noncompete and nonsolicitation clauses that prevented use of "confidential information" regarding customers because they weren't limited to use of trade secrets).

Thus, the guiding rule is that any prohibition on doing business with customers must directly correlate with the use of protectable trade secrets. See, e.g., *Gallagher Benefit Services, Inc.*, 283 Fed. Appx. at 546-47 (2008) ("California courts have approved of orders prohibiting former employees from 'doing business with' customers of their former employers only where there is evidence that wrongful solicitation [i.e., use of trade secrets] has occurred") (emphasis added).

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