

THE
NATIONAL LAW REVIEW

Customer Lists as Trade Secrets

Wednesday, December 30, 2009

A customer list can be among an enterprise's most valuable assets. Protecting that asset is possible under trade secret law. However, as unwary business owners have discovered, protecting a trade secret can be expensive and may not always be possible. In Illinois and other states, a customer list must satisfy particular criteria to be considered a trade secret, and thus entitled to protection flowing from trade secret designation.

Customer lists are one kind of trade secret, but there are an almost limitless universe of property interests that may qualify for trade secret protection. A trade secret doesn't need to be a patentable invention or an intellectual creation qualifying for copyright protection. A system for calculating a bid for construction contracts is an example of a trade secret, as is an undisclosed plan for entering a new market.

A recent Illinois Appellate Court decision highlights the pitfalls that can await a business that might expect customer lists to be entitled to trade secret protection. In *System*

Development Services, Inc. v. Haarmann, the Court applied the rule that a trade secret must be something kept from the general public and not susceptible to common knowledge. Not surprisingly, secrecy is one of the elements of a trade secret. In this case the plaintiff was engaged in providing computer network services to businesses in and around Effingham County, Illinois. The Court determined on the basis of the evidence that the plaintiff's customer lists were "merely a listing of names, addresses, and telephone numbers" of potential customers, which because of the wide use of such services included almost all businesses, and that list could have been easily obtained from telephone and chamber of commerce directories, the internet, and a variety of other sources. Thus, the plaintiff's customer lists weren't sufficiently secret to qualify for protection.

The Illinois Uniform Trade Secrets Act provides the legal framework for protecting trade secrets by setting out three requirements: (1) the information must have economic value, (2) it must not be generally known or be easily assembled, i.e., it must be secret, and (3) the owner must make reasonable efforts to keep the information a secret.

A list of one's social friends does not usually have economic value. But if all the social friends happen to be purchasing agents in the same industry to which a company sells its products, a list of family birthdays, anniversaries, unlisted phone numbers and similar information might have significant economic value and give its owner a competitive edge.

One element courts recognize in determining whether a secret has economic value, is the extent of time, money and human resources its owner devoted to the creation of the information sought to be protected and the difficulty a competitor would have in matching it.

Information may be a trade secret if even if it is not permanently secret or valuable. Thus the competitors of the construction company with a secret formula for pricing bids may by trial and error and spending a great deal of time and money eventually figure out how it's done. But until that happens, the originator has a valuable and protectable trade secret.

Protecting the secrecy of information requires planning and persistence. The first step is that if the information is reduced to writing or is saved on a computer server, it must be available only to individuals with "need to know" status and that protection must be policed. Passwords should be changed periodically and whenever an



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employee with permitted access leaves the employment. Also, anyone who is authorized to have the information should be bound by a written agreement not to disclose the information during and after employment. The employment contract for a salesperson who builds a customer list and all the information on it, should provide a tight nondisclosure agreement, including an acknowledgement by the employee that she created the customer list as part of her duties and that she has no property rights in it. The non-disclosure agreement is usually part of a non-compete agreement. While a non-compete agreement may not necessarily contain a non-disclosure agreement (not all employees possess secret information, but may still become dangerous competitors), the reverse is not true. Proving a breach of a non-disclosure agreement against a former employee who is legally working for a competitor can be very difficult.

A company should impose its secrecy practices in the earliest practicable stage of development. Once the customer list has been compiled or the bidding formula perfected, it may be too late to decide it is a secret worth protecting; too many people may have crucial information. A business should establish a written general policy defining what it considers to be trade secrets, who may have access to the information, and how and under what circumstances it may be used. Such a policy should apply to the confidential information provided to a company under contracts with customers and suppliers who may impose restrictions in purchase orders and other agreements. While such a policy is a helpful fact in pursuing or defending a case in court, it cannot be relied upon alone; there must be evidence that in fact the information was kept as secret as is reasonably possible.

Most states have enacted the Uniform Trade Secret Act with some changes which may be important, and should be reviewed. However, the basic principles of trade secret law as contained in the Illinois Act and amplified by its court decisions are widely applicable.

A brief listing of the of the remedies and sanctions available to businesses whose trade secrets have been or are threatened with appropriation include temporary and permanent injunctions, damages which may require extensive expert economic opinions, and even in rare cases, the payment of royalties for future use of the secrets in the infringer's business. A full discussion of remedies is beyond the scope of this article, but for more particular analysis and information, please contact the author or the attorney with whom you work.

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