SUPERIOR COURT OF CALIFORNIA

COUNTY OF SANTA CLARA

FREED & FREED, INC.,

Plaintiff,

VS.

PREMIER ARTS, JUNE GAMBLE,

(and DOES I THROUGH XX)

Defendants.

No. 8332

PREMIER ARTS AND JUNE GAMBLE'S DEMURRER TO COMPLAINT FOR MISAPPROPRIATION OF TRADE SECRETS – CUSTOMER LIST

ATTORNEY FOR JUNE GAMBLE

No. 7 (Sriranga Veeraraghavan)

INTRODUCTION

The complaint filed by plaintiff Freed & Freed, Inc., hereinafter Freed, claims that Gamble misappropriated its client list, a trade secret, by sending an employment change announcement to its clients. This demurrer is filed pursuant to Cal. Civ. Proc. Code § 430.10(e) (Deering 2005) because the complaint does not state facts sufficient to support Freed's claim. The facts alleged fail to show that the list is a trade secret under Cal. Civ. Code § 3426.1(d) (Deering 2005) or that Gamble's use was a solicitation falling outside of the professional announcement exception to misappropriation.

STATEMENT OF FACTS

Freed employed Gamble as a graphic designer from 10 April 2000 to 1 January 2005. Prior to joining Freed, Gamble spent two months compiling part of Freed's client list by looking through phone directories and electronics trade magazines. In September 2002, Gamble bought a laptop for completing work at home. Gamble's supervisor permitted her to copy client information to this laptop. Two months after leaving Freed, Gamble sent a handwritten note, reproduced in the complaint, to fifteen of Freed's clients. The note briefly mentioned the services offered by and the contact information for her new company, Premier Arts, hereinafter Premier.

ARGUMENT

I. FREED'S CLIENT LIST DOES NOT MEET THE REQUIREMENTS FOR A TRADE SECRET SPECIFIED IN § 3426.1(D).

Section 3426.1(d) provides trade secret protection only for information that "(1) [d]erives independent economic value … from not being generally known" and "(2) [i]s the subject of efforts that are reasonable under the circumstances to maintain its secrecy." Freed's client list does not qualify as a trade secret because the facts alleged in the complaint do not show that the value of the information in the list was based on not being generally know or that sufficient steps were taken to keep the list secret.

A. Freed's Client List Does Not Satisfy § 3426.1(d)(1) Because Its Value Is Not Based On Being Generally Known.

Section 3426.1(d)(1) only protects information whose value comes from not being generally known. Courts have found client lists have independent economic value if they allow competitors "to distinguish proven consumers" from "potential customers." ABBA Rubber Co. v. Seaquist, 235 Cal. App. 3d 1, 19 (1991). The value of such lists to competitors is clear - obtaining information about an existing pool of customers avoids the "expenditure of

considerable time and money" needed to compiling their own list. Morlife, Inc. v. Perry, 56 Cal. App. 4th 1514, 1522 (1997).

In ABBA Rubber, the court ruled that plaintiff's list of businesses interested in rubber rollers had value because competitors "could not duplicate" the list without spending years "winnowing down … a general[] list of companies" which might need rubber rollers into a "discrete listing of a … limited number of existing and potential customers." ABBA Rubber, 235 Cal. App. 3d at 20. Similarly in Morlife, the court held that the client list of a commercial roof repair service had economic value because this list could only be developed through years of "investment" in marketing, sales, "referrals and research." Morlife, 56 Cal. App. 4th at 1522.

Based on these examples, the value of Freed's list could be established by showing the difficulty in either ascertaining which businesses need advertising or obtaining the advertising contact information for such businesses. The facts alleged do not show that either difficulty was present.

Freed's clients are companies that advertise in electronics trade magazines. Potential competitors who design advertising can easily determine which companies might be interested in their services by opening up a magazine and looking at the ads. In fact, the complaint states that

Gamble was able to assemble "part [of] the customer list" in just two months by looking through phone directories and trade publications. Spending two months leafing through phone books and magazines cannot be compared to years of "telemarketing, sales visits, mailings, … referrals and research" that the plaintiff in Morlife needed to construct its client list. Morlife, 56 Cal. App. 4th at 1522. Thus, the independent economic value requirement in § 3426.1(d)(1) is not satisfied and the list cannot be treated as a trade secret.

B. Freed Did Not Use Reasonable Efforts To Keep Its Client List Secret.

Section 3426.1(d)(2) only protects information if reasonable efforts are used to maintain its secrecy. Courts have held that reasonable efforts include "advising employees of the existence of a trade secret, limiting access … on 'need to know basis', and controlling [access]." Courtesy Temp. Serv., Inc. v. Camacho, 222 Cal. App. 3d 1278, 1288 (1990).

In Morlife, the court held that storing customer information "on [a] computer with restricted access" in addition to confidentiality statements in the employment contract and employee handbook reasonably "protect[ed] the information." Morlife, 56 Cal. App. 4th at 1523. Corporate policies that limit employee access to client information as needed to "carry out … specific duties" and inform employees "of the confidential and proprietary

nature" of the information when revealed also "satisf[y] the secrecy requirement." Courtesy Temp. Serv., 222 Cal. App. 3d at 1288.

These examples indicate that Freed could have established that reasonable efforts were taken to secure its client list by showing that there was a confidentiality agreement covering the list, or that Gamble was told of the confidential nature of client information before it was disclosed to her or that access to the information was restricted.

The complaint does not allege the presence of a confidentiality agreement covering the list or that Gamble was ever told that the list was confidential. Freed's only claims that it restricted access to the list by divulging to each designer, client information for those clients they personally serviced. While this policy seems to similar to that of the plaintiff in Courtesy Temp. Serv., the crucial difference is that Freed's policy did not require informing employees that client information was confidential. Absent notice employees cannot know that client information is secret.

In addition, Gamble's supervisor allowed her to copy client information and work projects to her laptop in order to work on them at home. When the laptop left Freed's offices, the information it contained was no longer controlled and could have fallen into competitors hands. Despite this,

Gamble's supervisor allowed her to take the laptop home for more than two years apparently without ever telling her that client information should be kept secret.

Additionally, Freed has not alleged that was stored on a restricted computer system as used by the plaintiff in Morlife. Morlife, 56 Cal. App. 4th 1522. Even if a restricted computer system was not feasible, Gamble's supervisor could easily have prevented her from copying the information to her laptop. Freed's failure to take steps to prevent even this shows that reasonable care was not used to keep the client list secret, therefore the list should not be protected as a trade secret.

II. GAMBLE DID NOT MISAPPROPRIATE FREED'S CLIENT LIST BECAUSE THE PROFESSIONAL ANNOUNCEMENT EXCEPTION COVERS HER USE OF FREED'S LIST.

Misappropriation, as applied to trade secrets, is defined in § 3426.1(b). In the context of client lists, courts usually define misappropriation as § 3426.1(b)(2)(B)(ii). Am. Credit Indem. Co. v. Sacks, 213 Cal. App. 3d 622, 633 (1989). This part of the definition of misappropriation "proscribes 'disclosure or use' of a trade secret … [obtained] under circumstances giving rise to a duty to maintain secrecy or limit use." Id.

Common law recognized a professional announcement exception to misappropriation, which allowed employees to use trade secret client information to announce job changes. Moss, Adams & Co. v. Shilling, 179 Cal. App. 3d 124, 127 (1986). In Am. Credit Indem., the court held that this exception, which allows employees to "announce a new affiliation, even to trade secret clients of a former employer", continued to exist under § 3426.1(b). Am. Credit Indem., 213 Cal. App. 3d at 636.

Unless an employee's announcement solicits business, courts do not treat it as misappropriation. Morlife, 56 Cal. App. 4th at 1524. In Hilb, Rogal & Hamilton Ins. Servs. Of Orange County, Inc. v. Robb, 33 Cal. App. 4th 1812, 1821 (1995), the defendant notified several clients he personally serviced, about an impending job change. Subsequently, some clients asked to have their accounts moved to his new firm. Id. at 1822. The court held that the job change notice fell within the professional announcement exception and was not "convert[ed] … into prohibited solicitation" just because clients voluntarily asked the defendant to move their accounts. Id.

In Courtesy Temp. Serv., the court held that the defendant's job change notice was more than a simple announcement because it urged clients to accept the best service that defendant "ha[d] to offer" from his new location.

Courtesy Temp. Serv., 222 Cal. App. 3d at 1283. The letter was also intended to mislead clients into thinking that plaintiff had "either relocated or was being taken over." Id. at 1284. In addition, the defendant personally contacted several of plaintiff's clients "about getting … business from them." Id. 1290. *See* also Morlife, 56 Cal. App. 4th at 1524 (holding that phone calls and visits plus a letter stating that defendant's new firm could "prevent or minimize … headaches and costs" constituted solicitation.)

In contrast to Courtesy Temp. Serv. and Morlife, Gamble's conduct did not reach the level of solicitation. Gamble never telephoned or visited any of Freed's clients. Her contact was limited to a single job change note. Just like in Hilb, Gamble's note was sent to the few clients with whom she had personally dealt. Though Gamble may have later accepted businesses from some of these clients, this is not proof of solicitation as she was free to accept business from anyone who voluntarily contacted her.

Furthermore the tone and content of Gamble's note indicates that she wanted to announce her new affiliation rather than solicit business. The bulk of the note is devoted to disclosing the name, address and phone number of Premier. She never states that Premier provides better or alternative services from Freed. Though it is tempting to read the phrases "We … would be

happy to see you" and "hope to hear from you soon" as solicitations, they cannot be considered solicitation because such phrases are widely used in informal business communications and are generally discounted by readers.

The allegation that Gamble's handwritten note was intended to mislead clients into believing that Freed had relocated or changed its name is also unsupported. First, the statement "June Gamble (formerly Freed & Freed)" was an honest mistake in the master copy that was not spotted until the notes had been sent. Second, the statement "in our new circumstances" would generally be read as referring just to Gamble. Moreover, the holding in Courtesy Temp. Serv. that a similar statement constituted solicitation was based on the fact that the defendant personally made similar statements to clients. Courtesy Temp. Serv., 222 Cal. App. 3d at 1284. The complaint does not allege that Gamble ever made such statements.

Since Gamble's note did not solicit business, she did not misappropriate Freed's client list by using it for announcing her new job. Therefore Freed has not stated a cause of action for misappropriation of a trade secret.

CONCLUSION

For the foregoing reasons the defendant, Gamble, respectfully requests that the court grant her demurrer and dismiss Freed's complaint.