RESTRICTIVE EMPLOYEE COVENANTS
IN CALIFORNIA

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I. INTRODUCTION

Technology-based companies compete among themselves not only for rights to the latest razor-thin advance in a given scientific field, but also for the more mundane, but equally essential customers and employees. Competition for the best and brightest workers and the relative ease of new entries in many segments of the industry have caused legitimate concern among employers who want to protect their staffs and customer goodwill from "raiding" by former employees who have left to form or join a competing enterprise.

California is remarkable among the states in the solicitious attitude of its legislature and judiciary toward the right of individuals to pursue the American Dream. This philosophy is reflected in part in Business and Professions Code § 16600, which invalidates all contracts that restrain a person's ability to earn a livelihood. Like most policies, however, this one is subject to exceptions, and employers have attempted over the years to create enforceable noncompetition covenants against their former employees. These efforts have met with mixed, but mostly negative, results.

An alternative and less drastic measure used by employers to protect against competition by ex-employees is a covenant restricting solicitation of customers and employees for a period of time following employment. This approach has been more generally accepted, since it seeks to satisfy the employer's legitimate needs in a more focused fashion that, in the view of most courts, does not inappropriately interfere with an employee's rights.

In this article we will examine recent decisional law affecting noncompetition and nonsolicitation employee covenants. We will attempt to analyze critically the recent decisions, looking for trends

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and guideposts, and suggesting approaches that might be used in formulating enforceable restrictions.

II. NONCOMPETITION AGREEMENTS

Business and Professions Code §§ 16600-16602 is the statutory embodiment of California’s policy declaring unenforceable contracts which limit one’s right to pursue a trade or profession. California differs from the majority rule which upholds restrictive employee covenants if they are found by the courts to be “reasonable” in subject matter, duration, and territorial coverage.

The difference in perspective is a real one, as illustrated in the case of Frame v. Merrill, Lynch, Pierce, Fenner & Smith, Inc. There the former employee of a New York Stock Exchange member firm complained of a provision in his employment contract which caused a forfeiture of benefits in the event that he left to work for a competitor. The agreement called for application of the law of the State of New York, where the brokerage firm had its headquarters. The California court identified its own state’s significant policy interest in the question, refused to apply New York law, and invalidated the forfeiture clause as contrary to Business and Professions Code § 16600.

Despite the California courts’ antipathy toward noncompetition covenants, their potential effectiveness as a means of post-ter-

1. The complete text of California Business and Professions Code §§ 16600 and 16601 are as follows:

§ 16600. Unauthorized contracts
Except as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void.

§ 16601. Sale of goodwill or corporate shares
Any person who sells the goodwill of a business, or any shareholder of a corporation selling or otherwise disposing of all his shares in said corporation, or any shareholder of a corporation which sells (a) all or substantially all of its operating assets together with the goodwill of the corporation, (b) all or substantially all of the operating assets of a division or a subsidiary of the corporation together with the goodwill of such division or subsidiary, or (c) all of the shares of any subsidiary, may agree with the buyer to refrain from carrying on a similar business within a specified county or counties, city or cities, or a part thereof, in which the business so sold, or that of said corporation, division, or subsidiary has been carried on, so long as the buyer, or any person deriving title to the goodwill or shares from him, carries on a like business therein. For the purposes of this section, “subsidiary” shall mean any corporation, a majority of whose voting shares are owned by the selling corporation.

2. See Rest. Contracts 2d, § 188, 45-47; Blake, Employee Agreements Not to Compete, 73 Harv. L.R. 625 (1960).

mination control of an ex-employee's activities has led California employers to devise creative employment agreements meant to satisfy the exact terms of the statute (if ignoring the policy which underlies it). We will now turn to a recent opinion in which such an approach was successfully challenged.

A. *Bosley Medical Group v. Abramson*[^4]

L.P. Lee Bosley, M.D., founder and president of the Bosley Medical Group, had established a practice specializing in hair transplantation and male pattern reduction surgery. Abramson was an experienced physician practicing cosmetic facial surgery and making about $80,000 a year. Bosley solicited him to join the practice, telling him he could make a million dollars over five years. Abramson accepted and began working with Bosley's organization in May 1980. After two weeks, Bosley presented him with an "independent contractor agreement" and told him that he would have to sign it and a stock purchase agreement in order to remain with the firm.

The stock purchase agreement obligated Abramson to buy 9% of the stock in Bosley's corporation for $10,000, which would be paid by a promissory note. It also included a provision that, upon termination of employment, Abramson would sell and Bosley would buy back the same shares at the same price, plus 10% per year. Finally, the contract included a noncompetition clause prohibiting Abramson from engaging in a similar practice within designated counties for a three year period after termination.

Abramson's earnings (apparently set by Bosley) did reach the predicted level, but Bosley himself kept most of what the business generated. During the two years Abramson remained with the Bosley group, Bosley (who retained 73% of the stock) paid himself over $800,000 per year, leaving distributable profits of $20,000-$50,000 per year for the remaining shareholders. Abramson's profit share each year, in the form of dividends, was less than the interest payment on his promissory note.

At the end of 1982, Abramson had acquired a great deal of experience in the medical technique practiced by Bosley. As of the time he arrived, he had performed only one scalp reduction and approximately 10 hair transplants. When he left to open his own competing practice, he advertised that he had completed more than 75,000 grafts and 450 scalp reductions.

Bosley sought and was granted a preliminary injunction en-

forcing the noncompetition covenant. On appeal from the order, the court of appeal reversed, holding that the agreement was "a sham devised to circumvent our state policy against agreements which prevent the practice of a business or profession . . . ."\(^5\)

In a brief review of the history behind Business and Professions Code § 16600, the court noted that California's rule was atypical:

Although at common law and in many states, a restraint on the practice of a trade or occupation, even as applied to a former employee, is valid if reasonable [citations], the so-called rule of reasonableness was rejected by this state in 1872. That year Civil Code sections 1673-1675 — the predecessor sections to Business and Professions Code §§ 16600-16602 — were enacted. At least since 1872, a noncompetition agreement has been void unless specifically authorized by section 16601 or 16602.\(^6\)

The court observed that, until 1945, only a partner in a dissolving partnership or one who sold all the goodwill in a business could enter into an enforceable agreement not to compete. In that year, the legislature amended the section to apply to a "shareholder" who sold "all his shares." It was this language on which Bosley relied in seeking enforcement of his agreement with Abramson.

However, the court examined the legislative history of the 1945 amendment to determine whether the statute was susceptible of such a literal interpretation, and concluded that it was not. Quoting from a letter and memorandum to the relevant committee from one of the legislators who had sponsored the bill, the court noted that the benefits of the change in the law were intended primarily for the stockholder in relatively small corporations. . . where the customers have become used to and appreciate the personal service of the vendor stockholder . . . " In brief, the purpose of the 1945 amendment was to permit the "owner" of a small corporation to agree not to compete in connection with selling his entire interest in that corporation [so that he could achieve a fair price for the business].\(^7\)

Based on this analysis, the court concluded that the statute was intended to permit noncompetition agreements "only in situations in which the transfer of 'all' of the owner's shares involves a substantial interest in the corporation so that the owner, in transferring 'all' of his shares, can be said to transfer the goodwill of the corpo-

\(^5\) Id. at 288, 207 Cal. Rptr. at 479.

\(^6\) Id. at 288, 207 Cal. Rptr. at 480.

\(^7\) Id. at 290, 207 Cal. Rptr. at 481.
ration.’’8 The literal interpretation argued by Bosley, the court pointed out, could easily lead to “mischievous and absurd” results. “Literally applied, Section 16601 would permit a major public corporation to require any employee to purchase one of several million shares and to enter into an agreement not to work for a competitor.”9

Bosley had argued that the purpose of the stock transaction, as recited in the documents, was to provide an “incentive” to Abramson, and to “achieve a professional relationship.” On the latter point, the court observed that control of the relationship was assured by the strict standards of conduct in the “independent contractor agreement” and by its provision allowing Bosley to terminate Abramson on five days’ notice.10 As to the former, it was hardly appropriate to call this agreement an “incentive,” the court explained, given its mandatory nature and the hopeless prospects for any real gain on the “investment.”11 Because the transaction was artificial, with Bosley maintaining effectively complete control, the court concluded that it was a sham, “devised to permit plaintiffs to accomplish that which the law otherwise prohibited: an agreement to prevent defendant from leaving plaintiff medical group and opening a competitive practice.”12

The Bosley case is significant in part because it is the first appellate opinion to address the “sham” model which, in the author’s experience, has been used by a number of other California employers in recent years (although typically with more substance to the transaction than the Bosley design). It is also the first case to address the applicability of Business and Professions Code § 16601 to a truly “minority” shareholder. In virtually every other case decided under this statute, the selling shareholder has been the individual “owner,” or described as one of only a few “owners,” of a relatively small business.13

8. Id.
9. Id. at 291, 207 Cal. Rptr. at 482.
10. Id.
11. Id.
12. Id.
B. Mandatory Employee Stock Purchase Agreements

In the face of *Bosley*, is it possible to require employees to acquire stock in the employer company, subject to a repurchase at some point in the future, which in turn will support a noncompetition clause? Before we address the theoretical question, it is important to recall that the statute requires that the selling shareholder subject to the noncompetition clause sell “all” of his shares. Pursuant to most employee stock acquisition agreements, the absolute right to retain the shares will typically “vest” in increments over a period of time. The question we have posed, then, assumes that one can find prospective employees who are otherwise sufficiently compensated so that they would be willing to enter into a contract requiring a resale of all their stock at termination.

The factors which affected the *Bosley* court’s decision included the mandatory nature of the purchase, the lack of any realistic benefit that might flow to the employee, and the fact that the stated purpose (“incentive”) made no sense. These problems could be overcome in a hypothetical transaction in which, for example, the employer simply granted stock to the employee, subject to a repurchase at some price tied to performance, such as aggregate earnings over time. This approach would provide some real incentive, while still giving the employer an opportunity to control the amount eventually paid for the stock. Distribution of profits should typically not be an issue in most closely held firms, which reinvest their earnings. In any event, it is safe to assume that the *Bosley* court was more influenced by the lack of any real investment objective than by the circumstances of Dr. Bosley’s retaining control over the corporation.

The practical problems inherent in creating an enforceable post employment noncompetition agreement at the outset of the rela-


14. The defendant had raised other defenses — adequacy of consideration and alleged duress in execution of the documents — which the court did not need to address in view of its determination on the validity of the restraint. However, it is useful to keep in mind that Business and Professions Code § 16600 is only one of several hurdles that a restrictive covenant might have to clear in order to achieve enforceability.
tionship are so pervasive that we are unlikely to face the issue frequently. But such covenants are relatively common in connection with mergers and acquisitions, in which a number of employees of the acquired company part with all their stock and are required to execute a contemporaneous noncompetition agreement. Are such contracts enforceable against all employees who sign them?

One issue that was not articulated fully in *Bosley* was the nature of the employee's ownership interest, as reflective of his ability to influence the disposition of the company's assets. After all, a primary justification for the exception codified in Business and Professions Code § 16601 is that the seller of a business is uniquely positioned to divert to himself the very assets which he has just sold to the buyer. This idea seems easily straightforward in the business environment existing when the statute was first enacted; most enterprises were small by today's standards, and the typical firm was owned by the person who ran it.

The statutory assumption has been that it is not "fair" for a selling owner to compromise the value of that which he has sold. Viewed from the historical perspective, the statute therefore also assumes that the person sought to be restrained has had some influence on whether the business would be sold and on what terms. Stated another way, it would also not be "fair" to permit someone without a significant degree of control to be restrained. Otherwise, a prior agreement to sell back a minority ownership might be used as the platform for a squeeze-out by the majority that would leave the former minority stockholder unfairly disadvantaged.

Applying this approach to today's employee-stockholder, the statute should apply to uphold a noncompetition covenant when the extent of the employee's holdings are such that the conclusion is fairly compelled that he could exercise substantial influence over the terms of a sale of a business. Conversely, in cases where the percentage ownership is quite small, enforcement should be denied absent proof of other circumstances demonstrating that the employee was part of a group with significant control over the enterprise. As the *Bosley* court pointed out, a literal interpretation of the statute can lead to absurd and mischievous results. Since we are dealing here with a statute meant to effectuate an important public policy, it should be implemented in a way that is consistent with its underlying assumptions. In practical terms, the noncompetition agreement should find scarce application in California to employees
who are not part of the first level of a company's management.15

III. NONSOLICITATION AGREEMENTS


As we have seen in our analysis of Bosley Medical Group v. Abramson, agreements that expressly limit the sort of business that one can pursue are void unless predicated on specific, narrow statutory exceptions.16 A lesser form of restriction commonly found in employment agreements seeks not to restrain the employee's ability to compete, but rather to "delimit" how that competition may be conducted. Of course, the distinction is more easily stated than achieved. A number of California court opinions deal with agreements restricting an employee's right to use information gained during the term of employment, or to solicit customers or employees of the former employer. Often the courts have struck down or severely limited such covenants through interpretation, in an effort to square them with the policy underlying Business and Professions Code § 16600; that is, to prevent the employer from achieving through indirection what it could not do directly. This portion of the article will focus on the nonsolicitation covenant, which has been the subject of several recent California appellate decisions.

In reviewing these opinions, it will be useful to understand the background of case law against which they were written. The general rule, articulated by cases such as Aetna Building Maintenance Co. v. West17 and Bancroft-Whitney Co. v. Glen,18 is that the California employee is entitled to leave and compete with his former employer, so long as no trade secrets are used, and so long as the employee meets any fiduciary obligations imposed upon him by virtue of any special position of trust.

In general, then, a former employee is privileged to accept the business of a former employer's customers or clients, and to hire its employees. It is just as clear that the employer is entitled to protection against the former employee's misappropriation of its confidential business information that might be used to give him an unfair advantage in obtaining customers or employees. Depending on the

15. The same analysis may be applied to a nonmanagerial "partner" in a large organization, whose real status in practical terms is closer to that of an employee. See, e.g., Caruso v. Peat, Marwick, Mitchell & Co., 644 F. Supp. 144 (S.D.N.Y. 1987).
16. Bosley Medical Group v. Abramson, supra note 2, at 291, 207 Cal. Rptr. at 482.
nature of the business, the employer's list of "preferred" customers and information concerning their needs and preferences may constitute the most valuable sort of trade secret. In other cases an employee may be left free to solicit in an industry where the customers are all well known and dispense their patronage based on objective criteria such as price and quality of goods.

An issue that finds a great deal of play in recent cases is the role of the employment contract in such situations. Given the strong public policy which underlies Business and Professions Code § 16600, the courts will examine carefully any contract which appears to restrict an ex-employee's ability to earn a living in his chosen profession. But because the cases in this area are determined largely by principles of equity, and because the results are very fact-driven, the existence of a contract that acknowledges the employer's "proprietary rights" to information concerning its customers and employees may have a significant effect on the outcome. Thus, where the technical matters in issue are extremely complex, and a departing officer is caught in what appears to be an egregious violation of his fiduciary responsibilities, the courts may turn to his employment contract as defining the parties' rights and responsibilities concerning trade secrets.\(^\text{19}\)

On the other hand, some cases appear to state a definitive rule that the parties to a contract cannot by their agreement make a protectable trade secret what the law would not otherwise treat as such.\(^\text{20}\) Picking up on this concept, more recent decisions, including one of the opinions that will be examined in depth here, have concluded that the parties to an employment contract are powerless to bargain for any restrictions that would not be available to the employer under common law and equitable principles, in the absence of any contract.\(^\text{21}\)

Several recent California appellate decisions have examined and commented upon these principles, seeking to confirm, clarify or constrict them. The results have been uneven. In the remainder of this article, we will attempt to critique these decisions and synthesize a set of rules that is consistent with the results obtained and prior decisional law.

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B. American Paper & Packaging Products, Inc. v. Kirgan22

The defendant salesmen had signed written agreements with the plaintiff containing a restriction against "calling on or soliciting" any customer which the salesmen had called on or become acquainted with or learned of during their employment, the restriction to continue for three years after termination. The contract also prohibited disclosure to any third party, during the same period, of names, addresses, telephone numbers, or any other information about these customers. All customer lists were to be surrendered at termination.

After a dispute arose over commissions, the defendants were terminated, and then went to work for a competitor. Plaintiff sought an injunction enforcing the restrictions of the contract. Defendants denied that any customer information was ever given to them by plaintiff (except for three specific customers), and detailed the "cold-calling" method they had used to develop their current business, using only public sources of information.

Defendants argued that the business was very sensitive to price, quality of product and speed of delivery, and that loyal relationships did not exist, customers typically ordering such material from more than one company at a time. Plaintiff argued that success depended on understanding the particular needs of the customer, and that 95% of its customers had given them repeat business.

A requested injunction was denied by the trial court, and the court of appeal affirmed on the basis that the information was readily available, while holding as a preliminary matter that a customer list can qualify as a trade secret under the Uniform Trade Secrets Act ("UTSA").23 The court also noted that the "five-prong" test of Aetna24 and the "three-prong" test of Hollingsworth25 were promulgated.

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24. See infra note 40 and accompanying text.
25. See supra note 19, at 1332-34: "[1] whether the information is readily accessible to a reasonably diligent competitor ... [2] whether the customer's decision to purchase is influenced primarily by considerations such as price, quality, reliable delivery, and efficient service, as contrasted with considerations such as special needs or effort, has knowledge ... [3] whether, in addition to manifesting an intent to take business away from the plaintiff, the salesman or competitor has a purpose to injure the plaintiff's business."
gated before the enactment of the UTSA, which now controls the
definition of a trade secret.\textsuperscript{26} Using the broader statutory definition,
a list of the type developed by plaintiff could qualify. However, the
court pointed out, plaintiffs must still prove that the list (1) derives
independent value from not being generally known and (2) was and
is the subject of reasonable protection efforts.\textsuperscript{27}

In arguing that it had met its burden of showing the value of
the information, the employer referred to language of the employ-
ment contract, which contained a recital that “the foregoing mat-
ters are important, material, and confidential and gravely affect the
effective and successful conduct of the business . . . .”\textsuperscript{28} Rejecting
this argument, the court explained:

Appellant’s reliance on the language of the employee agreements
is not helpful. An agreement between employer and employee
defining a trade secret may not be decisive in determining
whether the court will so regard it.\textsuperscript{29}

Moreover, the court reasoned, the contractual recitals to the
effect that a large body of useful data had been made available to
the defendants by plaintiff were expressly denied by defendants, and
on review they were entitled to the most favorable interpretation of
the evidence.\textsuperscript{30} Viewing the evidence in this fashion, the court con-
cluded that in this particular business, all competitors knew who
the potential customers were, and to the extent that they might
know the precise identification, it was “readily ascertainable” by the
“cold-calling” process described by the defendants.\textsuperscript{31}

The impact of American Paper is somewhat limited, since it
arose on appeal from the denial of a preliminary injunction. Be-
cause factual issues on conflicting points are resolved in favor of the
respondent, virtually anything that the defendant had presented to
negative the showing of the plaintiff would have carried the day.
Therefore, it would be a mistake to read out of context the court’s
comment that the contractual language was “not helpful.” Cer-

\textsuperscript{26} \textsc{Cal. Civ. Code} § 3426.1(d) (Deering 1984) provides: “Trade secret” means information, including a formula, pattern, compilation, program, device, method, technique, or process, that (1) Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and (2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

\textsuperscript{27} American Paper & Packaging Prod. v. Kirgan, 183 Cal. App. 3d 1318, 1324, 228 Cal. Rptr. 713, 716.

\textsuperscript{28} \textit{Id.} at 1325, 228 Cal. Rptr. at 717.

\textsuperscript{29} \textit{Id.}

\textsuperscript{30} \textit{Id.} at 1326, 228 Cal. Rptr. at 717.

\textsuperscript{31} \textit{Id.}
tainly in a trial court the recitals of an otherwise valid employment agreement have evidentiary significance.\textsuperscript{32} However, as reflected in this decision, any presumption created by such recitals is easily rebutted.

In commenting on the qualifications of the plaintiff’s customer list as a trade secret, the court observed that the information was “readily ascertainable” since the “compilation process in this case is neither sophisticated nor difficult nor particularly time consuming.”\textsuperscript{33} Unfortunately, the opinion does not reflect exactly how much time and sophistication would be required to create an equivalent list. Certainly it should not be read to hold that simply because a compilation can be made through use of publicly available information, it is “readily available.” Indeed, the California version of the Uniform Trade Secrets Act reflects a particular concern about precisely this question.

The language of the Uniform Act requires that the plaintiff prove that the value of the information at issue is derived “from not being generally known to, and not being readily ascertainable by proper means by, another person who can obtain economic value from its disclosure or use.”\textsuperscript{34} This section was changed in enacting the California statute to read “from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use.”\textsuperscript{35} Dropping the phrase “readily ascertainable” was proposed by the California State Bar in reaction to an Indiana case which held that a list of insurance policyholders and related information could not qualify as a trade secret because it could have been compiled from interviewing the policyholders.\textsuperscript{36} However, the change did not eliminate the “readily ascertainable” standard, but only removed it from the definition of a “trade secret” that the plaintiff must prove, thereby shifting the burden of proof; official comments to the enactment make it clear that the defendant may present evidence on the issue.\textsuperscript{37}

It seems reasonable that the \textit{American Paper} court saw in this case a compilation process that was unsophisticated and not particularly time consuming, and inferred — consistently with the re-

\begin{itemize}
\item \textsuperscript{32} See \textit{Cal. Civ. Code} § 1639 (Deering 1971).
\item \textsuperscript{33} American Paper & Packaging Prod. v. Kirgan, 183 Cal. App. 3d at 1326, 228 Cal. Rptr. at 717.
\item \textsuperscript{34} \textit{Uniform Trade Secrets Act}, § 1(4)(i), 14 U.L.A. 541, 542 (1980).
\item \textsuperscript{35} See supra note 24.
\item \textsuperscript{37} Id.
\end{itemize}
quirement to view the evidence most favorably to the respondent — that all companies in this industry had developed basically the same “list.” It then followed, the court reasoned, that because this information is already in use “by good faith competitors, it is not a protectable trade secret.” Here again, however, the language used by the court must be viewed in context, and it should not be read as saying that simply because a plurality of companies within an industry possess the same information, it cannot be a trade secret as to those that have it

(38) unless it becomes, as it seems to have become here, notoriously open and widespread).

A final note of unnecessary uncertainty was injected by the court through its reference to what it called the “five prong test” of Aetna and the “three prong test” of Hollingsworth. The language in the opinion suggests that Aetna and Hollingsworth set down standards which have been rejected by the Uniform Trade Secrets Act, putting the viability of their holdings in question. However, an examination of the cited cases demonstrates that, properly construed, they remain good law.

In Aetna Building Maintenance Co. v. West, the California Supreme Court reversed a decision in favor of the former employer plaintiff arising from the alleged solicitation of its customers. In finding that the facts would not warrant imposition of liability, the Court identified five factors as critical to the granting of relief in customer list cases: (1) the information is confidential and not readily accessible to competitors; (2) the former employee solicited customers with an intent to injure the plaintiff; (3) the former employee sought out “preferred customers” not generally known to the trade; (4) the industry is characterized by single sources of supply; and (5) the customer relationship would normally continue unless interfered with.

The Aetna court found that none of those factors were present in the case before it, and neglected to explain whether it intended the list to be expressed in the disjunctive, or as a requirement that plaintiff meet all five “tests” before relief would be available. The former explanation was suggested as the clearly preferred one in a law review article which has since been cited frequently on the sub-

40. Id. at 1324, 228 Cal. Rptr. at 716.
42. Id. at 204, 246 P.2d at 15.
The same view was stated by the court in *Hollingsworth*.

As to the three primary "factors" identified in *Hollingsworth*, the court specifically stated that it was relating considerations "which California courts have found relevant," but did not intend "an exhausted compilation." Therefore, it is not appropriate to view either *Aetna* or *Hollingsworth* as presenting a strict "test" with any number of "prongs," and the equitable considerations identified by the courts in those opinions continue to be important under the formulation of the Uniform Trade Secrets Act.

C. *Loral Corporation v. Moyes*

Moyes (an officer of a Loral subsidiary) had signed a termination agreement with Loral that provided continued salary for a period of time, as well as other benefits. It also contained a promise that Moyes would "not now or in the future disrupt, damage, impair or interfere with the business of [the company] whether by way of interfering with or raiding its employees, disrupting its relationships with customers, agents, representatives or vendors or otherwise."

As soon as he left Loral, Moyes joined a competitor, where "he then breached the agreement by offering employment with his new employer to two key [former] employees . . . Ultimately a large number of people left [the company] and it spent over $400,000 recruiting new employees" and was hampered in finishing an important project.

Based on these facts as recited in plaintiff's opening statement, the trial court granted defendant a nonsuit, finding that the contractual restriction was an unlawful restraint of trade and therefore unenforceable. The court of appeal reversed, asserting that no California court had previously dealt with such a promise not to

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44. *See supra* note 19, at 1331.
45. *See supra* note 23.
46. *See supra* note 19, at 1332.
47. *E.g.*, a trial court's decision to issue an injunction made available by the terms of the Uniform Act is still subject to the "balance of equities" applicable to any injunction application. In that context, the defendant former employee's intent to injure could well be a significant factor in determining the availability of any meaningful remedy. In addition, such intent is made expressly relevant to determinations under the Uniform Act concerning liability for punitive damages and attorney's fees.
49. *Id.* at 274, 219 Cal. Rptr. at 840.
50. *Id.*
"disrupt" or "raid," which it characterized as a "non-interference agreement."\textsuperscript{51}

The court cited \textit{State Farm Mutual Automobile Insurance Co. v. Dempster}\textsuperscript{52} for the proposition that "an agreement between employer and employee defining a trade secret may not be decisive in determining whether the Court will so regard it."\textsuperscript{53} However, in what appears to be a significant misreading of precedent, it stated that "cases suggest that when permissible solicitation of an employer's customers is at issue, a contract may prohibit more than the law of the marketplace otherwise would."\textsuperscript{54} In support, it cited \textit{Continental Car-Na-Var Corporation v. Moseley}\textsuperscript{55} and quoted from \textit{Aetna} as follows:

In the absence of an enforceable contract containing negative covenants to the contrary, equity will not enjoin a former employee from soliciting business from his former employer's customers, provided his competition is fairly and legally conducted.\textsuperscript{56}

From this authority the \textit{Loral} court concluded that "contractual restrictions may have more impact in a non-solicitation case than a nondisclosure case."\textsuperscript{57}

The \textit{Loral} court therefore saw the question before it as "whether a noninterference agreement not to solicit former co-workers to leave the employer is more like a noncompetition agreement which is invalid, or a nondisclosure or nonsolicitation agreement which may be valid."\textsuperscript{58} In trying to answer that question, the court considered the passage from \textit{Hollingsworth} which stated that California law would not permit parties to contract between themselves for greater restrictions than the law would impose in the absence of contract.\textsuperscript{59} However, it distinguished \textit{Hollingsworth} on the ground that the Ninth Circuit had applied its Business and Professions Code analysis only to "nonsolicitation and nondisclosure" cases, while the contract before it involved "noninterference promises."\textsuperscript{60}

\begin{itemize}
\item \textsuperscript{51} Id. at 275, 219 Cal. Rptr. at 840.
\item \textsuperscript{52} 174 Cal. App. 2d 418, 344 P.2d 821 (1959).
\item \textsuperscript{53} Loral Corp. v. Moyes, 174 Cal. App. 3d at 275, 219 Cal. Rptr. at 840.
\item \textsuperscript{54} Id.
\item \textsuperscript{55} Loral Corp. v. Moyes, 174 Cal. App. 3d at 275, 219 Cal. Rptr. at 841.
\item \textsuperscript{56} Id.
\item \textsuperscript{57} Id. at 276, 219 Cal. Rptr. at 841.
\item \textsuperscript{58} See supra note 19.
\item \textsuperscript{59} Id. at 277, 219 Cal. Rptr. at 842.
\end{itemize}
Having thus disposed of Hollingsworth, the court turned to a pair of Georgia cases, *Lane Co. v. Taylor* [61] and *Harrison v. Sara Coventry, Inc.* [62] In both cases a proscription against "pirating" of employees (by inducing them to leave) had been found to be reasonable as necessary to protect the employer's interest. Following the balancing or "reasonableness" approach applied by these cases, the court observed that the agreement signed by Moyes appeared to be no more restrictive than a ban on solicitation of customers or on disclosure of confidential information. [63]

Continuing to employ a balance-of-interest analysis, the court observed that the restriction under review only slightly affected the interest of the "third party" employees of plaintiff who might be interested in working with Moyes. "All they lose is the option of being contacted by him first." [64] Restating the non-solicitation rule of *Aetna* in terms of employees, the court emphasized that hiring, without more, is protected activity: "Equity will not enjoin a former employee from receiving and considering applications from employees of his former employer, even though the circumstances be such that he should be enjoined from soliciting their application." [65]

The opinion in *Loral* suffers from inadequate disclosure of significant facts. No specific acts of "solicitation" were alleged, or at least they do not appear in the opinion. In fact, all one can discern from the opinion is that the defendant hired the employees in question. Unless the court felt that an inference of solicitation was justified from the fact that a number of employees left quickly, it appears only that the defendant engaged in activity (hiring) which the court acknowledged is absolutely protected, just as the *Aetna* court had acknowledged that employees were absolutely privileged to accept business from their former employer's customers.

Indeed, close study of the opinion leads one to conclude that the court may have been stretching to help the plaintiff overcome an insufficient factual showing. It would have been easy enough simply to cite *Hollingsworth* for the proposition that contractual restric-

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63. The court was careful to point out that its conclusion applied only to the facts of the case before it. "We need not and do not decide whether this noninterference contract would unreasonably and illegally restrain trade if applied to other conduct at another time." 174 Cal. App. 3d at 279, 219 Cal. Rptr. at 844.
64. *Id.* at 279, 219 Cal. Rptr. at 844.
65. *Id.*; Note that the plaintiff here did not pursue an argument based on *Bancroft-Whitney Co. v. Glen*, supra note 16, that the "abilities and salaries of its employees were trade secrets" a proposition which the *Loral* court nevertheless found to be "interesting." 174 Cal. App. 3d at 280, 219 Cal. Rptr. at 844, fn. 6.
tions may go no further than the common law; and that the activity complained of did not fall within common law proscriptions. However, keeping the plaintiff in court required finding a way around *Hollingsworth*, by elevating the importance of the contract that Moyes had signed. The reasoning followed by the court in getting to that point is tortuous and unfairly characterizes earlier case law.

First, there is no indication in the *Aetna* or *Continental* opinions that one may by contract prohibit conduct that is not proscribed otherwise. In *Aetna*, for example, the "nonsolicitation" contract was found by the trial court to be too ambiguous for enforcement, and the employer therefore relied on common law restrictions (apparently what the *Loral* court referred to as the "law of the marketplace"). Therefore, there can be no "suggestion" inferred into *Aetna* that a contract can "prohibit more" than the common law. In fact, the contract in *Aetna* prohibited "serving" or "catering to" customers, and the court held there that equity would not restrain the receipt of business.

Therefore, if one were to speculate on what the *Aetna* court would have said on the issue, it would have more likely reached a conclusion opposite to that ascribed to it by the *Loral* court. This is especially apparent when reading the dissent in *Aetna*, which focused on the contract as a document that, even if unenforceable for vagueness, nevertheless "contained statements that constituted admissions" of the defendant that the list of names and addresses of its customers was an important asset of the plaintiff company.

*Continental Car-Na-Var* was also incorrectly characterized by the *Loral* court. In fact, there was no restrictive covenant at issue in the case. It was in the *Continental Car-Na-Var* opinion that the Supreme Court had offered the quote about "contrary negative covenants" which was picked up in *Aetna*, and eventually used in *Loral*. The court in *Continental Car-Na-Var* stated:

> [P]ublic policy and natural justice require that equity should also be solicitous for the right inherent in all people, not fettered by negative covenants upon their part to the contrary to follow any of the common occupations of life.

The similar language in *Aetna* read:

> In the absence of an enforceable contract containing negative covenants to the contrary, equity will not enjoin a former employee from soliciting business from his former employer’s cus-

66. Id. at 275, 219 Cal. Rptr. at 840.
67. See supra note 53.
68. Id. at 110, 148 P.2d at 12.
tomers, provided his competition is fairly and legally conducted.\(^69\)

As noted earlier, it was from these authorities that the *Loral* court concluded that “contractual restrictions may have more impact in a nonsolicitation case than a nondisclosure case.”\(^70\) However, this conclusion rested on an assumption that the “negative covenants” referred to by the *Continental* and *Aetna* courts were nonsolicitation covenants. In *Continental*, the phrase “negative covenants” unmistakably refers to the right described immediately thereafter “to follow any of the common occupations of life;” in other words, a noncompetition covenant. Even in the slightly expanded version appearing in *Aetna*, the most that can be said is that the court referred to a contract (1) with a covenant prohibiting solicitation even where competition is otherwise “fairly and legally conducted” and (2) which is “enforceable.” Only a covenant restraining competition, enforceable under the exceptions provided in Business and Professions Code §§ 16601 or 16602, meets these two criteria.

Another necessary premise to the *Loral* court’s dictum is that there is a meaningful distinction between “nonsolicitation” and “nondisclosure” agreements on the one hand, and “noninterference” agreements on the other. Thus, the court formulated its central inquiry as follows:

> Our question then is whether a noninterference agreement not to solicit former co-workers to leave the employer is more like a noncompetition agreement which is invalid, or a nondisclosure or nonsolicitation agreement which may be valid.\(^71\)

The first fallacy is the court’s assumption that a noncompetition agreement “is invalid.” Strictly speaking, such agreements “may be” invalid, since they also may be enforceable under the exceptions of Business and Professions Code §§ 16601 and 16602. This is not so trivial a point as it might seem, since it is connected to the court’s misinterpretation of the *Aetna* passage concerning “negative covenants to the contrary.”

The second problem with the court’s approach is that there is no analysis of why nondisclosure or nonsolicitation covenants are more likely to be enforced than are noncompetition covenants. The answer to that question — that the first two serve exclusively to

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70. 174 Cal. App. 3d at 275, 219 Cal. Rptr. at 841.
71. *Id.* at 276, 219 Cal. Rptr. at 841.
A third failing of the court's opinion in this regard is that it did not explain how in this context "noninterference" differs from "nonsolicitation." In fact, the court's statement of the issue uses the terms together in such a way as to blur any distinction that might exist ("a noninterference agreement not to solicit"). If the outcome of this case hinged on drawing a distinction between these two terms, presenting the issue in this fashion was not particularly useful.

Finally, the question was never answered by the court. In part perhaps this is because the "more like" standard it chose was too vague to begin with. Perhaps the reason was that to answer it would have exposed the faulty logic behind its analysis. In any event, there was nothing presented by the court that would explain how for these purposes "noninterference" is any different than "nonsolicitation."

As noted earlier, a necessary step in the court's reasoning was to distinguish Hollingsworth, since its language on the effect of contract would have disposed of the issue in a different way. However, the court's attempt to avoid Hollingsworth fell short of the mark. It is not precisely true that the "interference" ruling of the Hollingsworth court was not concerned with the Business and Professions Code. What that court did say was that (1) interference with customers or employees is not actionable unless some trade secret violation is involved, and (2) a contract against solicitation of customers would violate the statute if construed beyond the proscriptions of common law.

The other argument employed by the Loral court in distinguishing Hollingsworth is that it focused on a nonsolicitation covenant, as opposed to one which specified a promise not to "interfere."

The court applied the statute to promises of nonsolicitation and nondisclosure as the California state courts have done, and the
case goes no further than that. It does not apply the statute to any noninterference promises.\(^{72}\)

Of course, Loral’s suggestion — not necessary to the result in the case — that a “noninterference covenant” somehow can expand the scope of employee restrictions that are otherwise imposed by law — rests on the premise that there is a meaningful difference in the term “interference” as compared to “solicitation.” As we have seen above, it never explained or justified such a distinction, and none appears in the Hollingsworth opinion. Indeed, the Hollingsworth court seemed to use the terms interchangeably.\(^{73}\)

Nor do the Georgia cases relied on by the Loral court support its position on the supposed distinction between the terms. In fact, neither case treats a “noninterference” clause as such.

Lane Co. v. Taylor\(^{74}\) arose on review of a trial court’s grant of summary judgment to an employee subject to a variety of restrictive covenants. The lower court had held the entire contract void because it contained no territorial limitations. The appellate court reversed, holding that this deficiency voided only the customer solicitation provision.

Loral refers to Lane as dealing with covenants against “pirating.” In fact, the contract went much further. The employee promised for a year after termination not to “hire or attempt to hire for any other employer any employee of Employer or directly or indirectly cause any such employee to leave his employment in order to work for another.” Such a restriction against hiring was acknowledged by the Loral court to be unlawful in California.\(^{75}\) Moreover, the term “interfere” was not used at all in the contract.

Apart from the fact that Lane addressed a body of law significantly different from California’s, the Loral court mischaracterized its holding when it reported that the Lane court found that “the limited restriction on ‘pirating’ of employees was reasonable and ‘needed to protect legitimate business interests.’”\(^{76}\)

In the first place, the restriction was not “limited,” but in effect extended to the simple act of hiring, whether or not there was solicitation. Second, and more important, the Loral court’s characterization gives the clear impression that the Georgia appellate court was giving its imprimatur to the enforcement of such restrictions in gen-

\(^{72}\) Loral Corp. v. Moyes, 174 Cal. App. 3d at 278, 219 Cal. Rptr. at 842.

\(^{73}\) See Hollingsworth Solderless Terminal Co. v. Turley, supra note 19, at 1337.

\(^{74}\) See supra note 58.

\(^{75}\) Loral Corp. v. Moyes, 174 Cal. App. 3d at 278, 219 Cal. Rptr. at 843.

\(^{76}\) Id.
eral, as "needed to protect legitimate business interests." However, the *Lane* court simply reversed a summary judgment ruling, noting that under Georgia law there was a litigable question of fact whether the restriction was necessary.

The language of this subparagraph is circumscribed by a one year limitation, and it restricts only the actions of the property manager. The covenant is not too broad in its scope to sustain a finding that it was needed to protect legitimate business interests.\(^7\)

*Harrison v. Sarah Coventry*\(^7\) also is not quite what the *Loral* court said it was. In that case, the court dealt with an appeal from an order granting a preliminary injunction and denying a motion to dismiss, where the defendants, as in *Lane*, had argued that the restrictive covenant lacked territorial limitations. The court there held that Georgia law did not require such limitations if the employee was free to compete, and found that the restriction against solicitation of employees satisfied that requirement.

Significantly, the agreement itself did not mention "interference." The employee agreed not to "on his/her behalf or on the behalf of any other person or company, solicit or in any manner attempt to induce Sarah Coventry's salespeople or employees to leave the company." As in *Lane*, the term "interference" arose only as a characterization by the court of the agreement:

They agreed by their contract not to interfere with the contractual relationships of the plaintiff and its other employees . . .\(^7\)

The *Loral* court concluded by noting its agreement "with the reasoning of the Georgia courts. The potential impact on trade must be considered before invalidating a noninterference agreement.\(^8\) However, neither of the Georgia cases distinguished a "noninterference" covenant as such; each was concerned only with distinguishing between a noncompetition covenant on the one hand and nonsolicitation or nondisclosure agreements on the other. As the court explained in *Harrison*:

The defendants contend that the employment contract was void as being in restraint of trade, because the contract, though reasonable as to the time following the term of employment, was unreasonable and void because it was not limited as to territory . . . These authorities have no application to the instant case, as

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77. See *supra* note 58, at 330 S.E.2d at 117.
78. See *supra* note 59.
79. *Id.* at 184 S.E.2d at 449.
those cases involved contracts wherein the employee agreed that, after the termination of his employment, he would not be employed or engage in a business in competition with his former employer. In the instant case the defendants were free to enter into the employment of a competitor of the plaintiff after the termination of their employment by the plaintiff.\(^{81}\)

Having concluded that its mission was simply to examine the reasonableness of the restraint on Moyes, the *Loral* court found that his contract, judged by that standard, was enforceable.

Defendant is restrained from disrupting, damaging, impairing or interfering with his former employer by raiding [its] employees under his termination agreement. This does not appear to be any more of a significant restraint on his engaging in his profession, trade or business than a restraint on solicitation of customers or on disclosure of confidential information.\(^{82}\)

This is true enough, but besides working against the wrong standard, it disproves the logic on which the court’s opinion is based. If the reason that *Hollingsworth* is not controlling is that there is a meaningful distinction concerning “noninterference” covenants, the court in the last-quoted excerpt determined that that premise is incorrect; therefore, *Hollingsworth* should control. The irony is that one cannot tell from this opinion whether it would have made a difference. Judged under the standards enunciated in *Hollingsworth* and as applied to nonsolicitation covenants, the real issue is whether the plaintiff had any evidence from which it could be inferred that Moyes had solicited the employees, as opposed merely to accepting applications from them. If such evidence did exist, then the result was correct and the motion for directed verdict should not have been granted. Either way, the court’s excursion into the interpretation and relative merits of California and Georgia law was unnecessary. Because it could be misleading as well, it should not be relied on.

D. *John F. Matull & Associates, Inc. v. Cloutier*\(^{83}\)

*Matull* involved an appeal from the grant of a preliminary injunction against an attorney who also acted as a labor relations consultant. She had first worked in that capacity for Gund, then joined Matull as an officer and shareholder. Gund later sold Matull its accounts and retained it to service them. The agreement, which re-

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81. See supra note 59, at 184 S.E.2d at 449.
82. Loral Corp. v. Moyes, 174 Cal. App. 3d at 279, 219 Cal. Rptr. at 843.
quired that Matull’s officers and shareholders join as signatories, provided that for a period of five years none would “divert, take away, solicit or attempt to divert, take away or solicit” any of the existing or new accounts.  

After Cloutier left Matull, it sought and received an injunction prohibiting her from “dealing” with its customers “in any capacity related to [its] business, namely industrial and labor relations,” from using its customer list in any way, and from competing with it or “distributing any information from files and/or documents” related to its customers unless of a “legal nature unrelated to . . . labor relations . . . .” The appellate court found the injunction to be deficient as phrased:

The language of the injunction is vague and ambiguous and overbroad in several respects. It would keep appellant from using respondent’s customer lists, even for legitimate, noncompetitive purposes, including that of informing her legal clients about her change in employment or the fact that she was no longer representing them. It is not solicitation to tell clients of one’s former employer about a change in jobs [citation to Moss, Adams] and an attorney clearly has an ethical duty to inform her clients that she is withdrawing her legal services. [citation].

But applying a sort of “blue pencil rule” to the injunction, the court narrowed it to the bounds of common law restrictions, and as restricted, affirmed it.

We do not, however, question the sufficiency of the evidence to support a restraint on appellant’s solicitation of traditional labor relations consulting business from [Matull’s] customers. With respect to such solicitations, the injunction would be appropriate as to all activities of a labor relations consultant, except for those which can only be performed by an attorney licensed to practice law in California.

Unfortunately, the opinion does not disclose in any detail what was the “evidence” that the court found to be sufficient. However, it is significant that the court for this purpose relied on the evidence of the employee’s conduct, and not on the provisions of the contract, to justify imposing the restrictions.

Nevertheless, the Matull court did include a statement in its

84. Id. at 1052, 240 Cal. Rptr. at 212.
85. Id. at 1053, 240 Cal. Rptr. at 213.
86. Id. at 1056, 240 Cal. Rptr. at 215.
87. Id.
opinion which appears to be in conflict with the Hollingsworth rule, and therefore deserves further analysis:

[R]espondent had a right to protect against appellant trying to obtain the labor relations clients for herself through active solicitation should she grow dissatisfied with her association with respondent.88

Did the court mean to say that a nonsolicitation covenant is enforceable even where no trade secret might be used or fiduciary obligations breached? Such a proposition would be contrary to the language of Hollingsworth, which by this time had been expressly approved by the court of appeal in Moss, Adams & Co. v. Shilling.89 In analyzing the authorities relied on by Matull and tracing them to their sources, we shall see that the Matull opinion should not be read as supporting this proposition, and that the Hollingsworth/Moss, Adams statement reflects the well-reasoned California rule: that nonsolicitation covenants may not be enforced except to the extent necessary to protect the integrity of a former employer's confidential information.90

One case relied on by Matull was Loral. However, it cannot be confirmed from the Loral opinion whether there was improper solicitation (in the sense of misuse of trade secrets) because the plaintiff abandoned its assertions in that regard at the trial court level.91

Matull also relied on dictum from Golden State Linen Service v. Vidalin,92 where the court of appeal addressed an employee agreement containing a nonsolicitation clause.

Part (3) appears to be valid and enforceable insofar as it provides that the affected employee will not solicit Golden State's customers after leaving its employ. [citations] As we have concluded above, however, we are bound by the trial court's factual determination that none of the respondents . . . did this.93

By the Golden State Linen court's own admission, this passage is simply dictum; because the defendants were found not to have committed any acts of solicitation, the proper interpretation and scope of the prohibition was a moot issue. Moreover, the statement is substantially hedged by use of the word "appears."

88. Id. at 1055, 240 Cal. Rptr. at 214.
89. See infra note 99 and accompanying text.
90. Such an examination also illustrates the wisdom of the conventions against using dictum in opinions and relying on it later as black letter law.
91. See supra note 62.
93. Id. at 9, 137 Cal. Rptr. at 812.
Examining the authorities cited in *Golden State Linen Service*, we find no direct support for the suggestion that any restrictions on solicitation will be enforceable. We turn first to *Gordon v. Landau*. In that case the trial court had held unenforceable as an unlawful restraint of trade a restrictive covenant which required the employee to maintain as confidential the names and addresses of customers of a house-to-house installment sales business, and not to solicit them for a period of one year after termination of employment. Significantly, the customers were "housewives in the low-income bracket" who had been identified after extensive canvassing as willing to purchase merchandise at home and pay some installments on a weekly basis. Thus, the customer population was like that in *California Intelligence Bureau v. Cunningham*, resulting in a "list of subscribers of a service, built up by ingenuity, time, labor and expense of the owner over a period of many years," knowledge of which "may not be used by the employee as his own property.”

Here the defendant had after termination "methodically visited" the customers whom he had called on for plaintiff and solicited their business, securing 117 accounts. He used "the knowledge which he had acquired from plaintiffs' customer cards," which included not only the customer's name and address, but an accounting of previous purchases and payment history. Under these circumstances, the Supreme Court interpreted the contract as one not to use confidential information to solicit the former employer's customers.

It clearly appears from the terms of the contract that it did not prevent defendant from carrying on a weekly credit business or any other business. He merely agreed not to use plaintiffs' confidential lists to solicit customers for himself for a period of one year following termination of his employment. Such an agreement is valid and enforceable. [Citations].

For this proposition, *Gordon v. Landau* relied on three earlier cases: *Gordon v. Wasserman*, *Handyspot v. Buegeleisen*, and

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96. Id. at 203, 188 P.2d at 306.
97. It is also useful to note that the underlying opinion of the court of appeal, which was affirmed but vacated as a result of the Supreme Court opinion, stated that the contract in question gave "plaintiffs no rights that they did not already have in equity."
98. 153 Cal. App. 2d 328, 314 P.2d 759 (1957). The plaintiff was the same as in Landau, as well as in the later case of *Gordon v. Schwartz*, 147 Cal. App. 2d 213, 305 P.2d 117 (1956), which affirmed an injunction against the same sort of solicitation based on "knowledge which [the defendant] had acquired from the plaintiff's customer cards."
King v. Gerold.100

Gordon v. Wasserman, affirmed a judgment against an employee involving a contract identical to that which would later be considered by the Supreme Court in Gordon v. Landau. On the brief facts recited in the opinion, it is clear that the defendant there also used the customer cards in his solicitation of the customers. The opinion similarly refers to the contract in question as one "not to use plaintiffs' confidential list to solicit customers," and relies on the King and Handyspot opinions later cited in Gordon v. Landau.

Handyspot v. Buegeleisen did not address the issue in question. That case involved an agreement not to solicit which was part of a valid sale of a business. The defendant had argued that he did not in fact sell the goodwill of the business, but the trial court found otherwise. Whether solicitation could be restricted absent threatened misuse of confidential information was not considered.

Similarly, King v. Gerold provides no support for the proposition that a nonsolicitation covenant may be enforced absent trade secret misappropriation. Indeed, that case involved no issues regarding customer solicitation. The licensee of a unique trailer design had promised to stop manufacturing it after the license terminated. When it continued to manufacture after termination, the licensor sued, and the licensee defended on the basis that Business and Professions Code § 16600 operated to void the restrictive provision. Rejecting that argument, the court pointed out that the licensee was free to manufacture any trailers except those based on the design that had been licensed from the plaintiff.

The other opinion relied on in Golden State Linen was Weissesee v. Chronicle Publishing Co.,101 which dealt with a dealer's obligation to return a customer list to the newspaper, and had cited Gordon v. Landau for a different proposition, that a "reasonable agreement not to use confidential lists is valid and enforceable."102 No issue was presented concerning enforceability of nonsolicitation covenants absent misuse of confidential information.

E. Moss, Adams & Co. v. Shilling103

Defendants Shilling and Kenyon were employee-managers of an accounting firm. In anticipation of their resignation, they pre-

102. Id. at 728, 129 Cal. Rptr. at 191.
103. 179 Cal. App. 3d 124, 274 Cal. Rptr. 456 (1986). The author was counsel for the defendants.
pared simple announcements of their new firm and its location. They removed their employer's "Rolodex" list of client names and addresses from their office for one evening, in order to address announcements to the approximately 100 clients with whom they had had personal contact as professionals. After termination, they mailed the announcements, and a number of the Moss, Adams clients retained their new firm.

Shilling and Kenyon had signed agreements with Moss, Adams that stipulated that the names and addresses of the clients were trade secrets, and that as employees they could not divulge that information or solicit those clients for a year after termination. Following the mailing, Moss, Adams sought injunctive relief, and eventually defendants moved for summary adjudication. They argued that the primary action complained of — mailing the announcements — was protected by pronouncements in *Continental Car-Na-Var Corp. v. Moseley*<sup>104</sup> and *Aetna Building Maintenance Co. v. West*,<sup>105</sup> to the effect that such action did not constitute "solicitation." Since the activity had been deemed by the courts to be fair competition, they argued, it could not be prohibited by contract. Their motion was granted, and the remaining allegations of unfair competition eventually were tried, resulting in a judgment in their favor. Moss, Adams appealed from the grant of summary adjudication, arguing that the record presented questions of fact regarding whether its customer list was a trade secret, the use of which could be properly prohibited.

The court of appeal confirmed that the mailing of the announcement did not constitute "solicitation," and that the contract which sought to restrict use of the customer list was unenforceable because the list was not, as a matter of law, a trade secret.

On the first point, the court relied on the holdings in *Aetna* and *Continental Car-Na-Var*, but noted that "[i]n both decisions our Supreme Court also held that information used in those cases to announce a change in employment did not constitute trade secrets."<sup>106</sup> The court also declared that no California case had addressed the question of whether a former employee "can use trade secrets to announce a change in employment."<sup>107</sup> Nevertheless, it concluded from the *Aetna* opinion that misuse might be found in some use of trade secrets other than solicitation, and therefore that

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<sup>104</sup> See *supra* note 53.
<sup>105</sup> See *supra* note 15.
<sup>107</sup> Id. at 128, 224 Cal. Rptr. at 458.
the inquiry must extend to whether defendants made "some other unlawful use of a trade secret to facilitate announcing their changes of employment."\textsuperscript{108}

Whether something qualifies as a trade secret, the court explained, is normally a question of fact.\textsuperscript{109} However, the only use of the list here was to identify clients whose names the defendants already knew from their professional association with them. The court concluded that these names alone could not be trade secrets.\textsuperscript{110} This situation was contrasted with cases such as \textit{Klamath-Orleans Lumber, Inc. v. Miller},\textsuperscript{111} in which the former employees had solicited a "select" list of highly profitable clients with whom they had not enjoyed personal dealings.

Under the rule of \textit{Avocado Sales} and \textit{Theodore}, the names of Moss, Adams' clients serviced by Shilling and Kenyon during the year preceding their resignations were not trade secrets, because the clients became known through personal contact and provision of accounting services. Shilling and Kenyon could not be compelled to "wipe clean the slate of their memories." The names of other Moss, Adams' clients may have remained trade secrets, but Shilling and Kenyon did not record the names or addresses of those clients or mail announcements to them.\textsuperscript{112}

Since the names were not trade secrets, the court held, the addresses could not be, because they were easily discoverable in a local telephone directory.\textsuperscript{113}

Finally, the court held that the contracts could not save the employer's claim.

\textit{Because there was no use of trade secrets, the use of the rolodex was not actionable under the employment agreements. Antisolicitation covenants are void as unlawful business restraints except where their enforcement is necessary to protect trade secrets. [citations] Stated another way, "the applicable California law is that 'the employer will be able to restrain by contract only that conduct of the former employee that would have been subject to judicial restraint under the law of unfair competition, absent the contract.'" [Citations].}\textsuperscript{114}

\textsuperscript{108.} \textit{Id.}
\textsuperscript{109.} \textit{Id.}
\textsuperscript{112.} Moss, Adams & Co. v. Shilling, 179 Cal. App. 3d at 129, 224 Cal. Rptr. at 959.
\textsuperscript{113.} \textit{Id.}
\textsuperscript{114.} \textit{Id.} at 130, 224 Cal. Rptr. 459; see also \textit{CAL. BUS. PROF. CODE} § 16600 (Deering 1976); Gordon Termite Control v. Terrones, 84 Cal. App. 3d 176, 148 Cal. Rptr. 310 (1978);
The last point made by the court in *Moss, Adams* was certainly correct, and consistent with the policy underlying California's approach to restrictive covenants. However, it was unfortunate that the court sought to justify the defendants' conduct on the basis that they knew the customers' names. Neither *Theodore v. Williams* nor *Avocado Sales Co. v. Wyse* supports the proposition that information which might otherwise be protectable loses that status when it is carried in an employee's head.

*Theodore v. Williams*115 dealt with a laundry's ex-employee who had been enjoined from soliciting his former employer's customers. On an application for contempt, the court held that it was not a violation of that injunction for the defendant to drive his wagon along his old route, simply displaying the name and address of his new employer. In *Avocado Sales Co. v. Wyse*,116 the court affirmed a judgment in favor of the defendant employees who were accused of selling avocados to the same customers served by their ex-employer. The court there concluded from the evidence that the identity and location of the customers could not be a trade secret, but not because the former employees were familiar with those customers. Rather, the justification was that potential purchasers of avocados were readily identifiable to anyone as the "higher class . . . hotels, cafes, and clubs" in the area.

The problem with the rationale of the *Moss, Adams* court is that it is open to attack by those who view trade secrets as a species of "property." For example, the court's articulated distinction of the *Klamath* line of cases is that using one's memory to solicit a subset of clients that is "select" is not fair and therefore enjoinable.117 In distinguishing *Klamath*, then, the court shifts from a "what is a trade secret" mode of analysis to a "how is the information gathered and used" inquiry. In fact, focusing on the relative fairness of the defendants' conduct is what it should have done in the first place. That would have provided better direction for other courts dealing with similar problems in the future.

The central question is: Why is it different — in terms of fairness — to allow Shilling and Kenyon to use the customer names and not permit the *Klamath* employees to do so? To say that Shil-

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115. See supra note 106.
116. Id.
117. The court also pointed to the fact that the *Klamath* defendants did not have a personal relationship with the clients in question, but *Klamath* is the only "select list" case in which that appears as a factual distinction.
ling and Kenyon already knew them because of their personal relationship is to invite evasion by other employees who may be guided by the enunciated rule. Instead, the court could have distinguished the case before it on the ground that the employees there could not otherwise have achieved the competitively legitimate objective of giving notice to a class of third parties — those customers with whom they had had some direct working relationship — who might care about it. Making the third party interest the distinguishing feature has a number of advantages, not the least of which is that it solves the problem of how the rule is to be applied to clerical and other employees as to whom the employer has had no opportunity to regulate client exposure (and therefore its risk of loss of the client when the employee leaves).

The *Moss, Adams* court missed an opportunity to treat the issue in the larger context of defining trade secrets as a class or bundle of balanced rights. The court might have noted that the term "trade secret" is not a talisman, that the focus is as much on conduct as on determination of property interest, and that some "use" is "fair" in certain circumstances while not in others, as to the same "property." This approach would recognize that the concepts of unfair competition and trade secrets are not rigid and hidebound by the law applicable to other forms of property.

The word "property" as applied to trade marks and trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith. Whether the plaintiffs have any valuable trade secret or not the defendant knows the facts, whatever they are, through a special confidence that he accepted. The property may be denied, but the confidence cannot be. Therefore the starting point for the present matter is not property or due process of law, but that the defendant stood in confidential relations with the plaintiffs..."118

Stated another way, the law of unfair competition is meant to protect the confidence placed in an employee by erecting certain restrictions on post-termination activity. The common law approach represent a balance between the interest of the employer in the confidence and the interest of the employee (and of the general public or third party customers) in free competition. It is inappropriate in that context to adopt a rule that the label "trade secret," applied to a customer list for some purposes, necessarily applies for all purposes. In the *Moss, Adams* case, for example, the issue was

118. E.I. DuPont de Nemours Powder Co. v. Masland, 244 U.S. 100 (1917).
not the entire bundle of sticks, but only the twig that defendants used when they mailed their announcements. If it is the judgment of a court that "fair" competition requires that the employee be able to use a customer list for this single, limited purpose, the "trade secret" interest of the employer is not thereby destroyed. Instead, it is defined as subject to a competing interest. The result might be based on a balancing of the employee's right to seek continued employment or fulfill his professional obligations, on the client's right to know where their professional representatives are located, on the court's determination that use of the list was so limited as to be de minimus, or all of these.

One need only review California's statutes and regulations applying to trade secret matters, to conclude that the "property interest" in trade secrets is far from absolute. For example, Government Code § 6254.2 affirms the rights of agricultural workers to learn the nature of the chemicals to which they are exposed in the fields. Because the statute requires that the disclosee undertake not to further disclose the information or use it for any unlawful purpose, the employer's other competitive interests are protected. Similarly, Health and Safety Code § 25511, regulating the use and storage of hazardous materials, permits access to trade secret information by interested persons who are subject to restrictions.

The alternative approach can lead to absurd results: property is either sacred or up for grabs, but nothing in between. Courts will strain at the logical bit to characterize the evidence in one way or the other, to square their findings concerning the existence of a trade secret with their informed judgment about what is a fair result, balancing the legitimate interests that compete for it.

III. SYNTHESIZING A RULE THAT MAKES SENSE

Given the amorphous nature of trade secrets and the strong California policy supporting an employee's right to use learned skills in subsequent employment, it is exceedingly difficult to draw a line between an employer's enforceable proprietary rights and the employee's general knowledge and skills. Yet that line drawing is at the heart of most cases in which the employer's remedies rest on claims of trade secret misappropriation. It is therefore no surprise that employers will try to find contractual means to avoid this problem.

119. CAL. GOV'T CODE § 6254.2 (Deering 1985).
120. CAL. HEALTH & SAFETY CODE § 25511 (Deering 1985).
As to noncompetition covenants, we should employ a method of analysis which assures that the statutory policy assumptions are met. These include the concept that the exception to the prohibition of Business and Professions Code § 16600 should apply only to one who is a true “owner” of the business, in the sense that he has some power to influence the terms of a sale of the business. Recognizing that a minority stock position may afford little actual control over the company’s affairs, we ought to be suspect of a plaintiff’s showing that is limited to the sale of a relatively small ownership position. Certainly where there is only nominal ownership involved, it should be coupled with significant control and discretion, in order to justify applying the exception codified in § 16601.

Regarding the more widely-used nondisclosure and nonsolicitation agreements, we should start by disregarding the unnecessary or incorrect language of Loral, Matull and Moss, Adams, and recognize the combined property and confidential relations aspects of trade secret law. Decisions in this field should be reached with a steady eye on the goal of fair competition, which derives from a careful balancing of legitimate interests of the litigating as well as absent parties. This should not mean that we cannot employ rules to guide us in this task and we will suggest some here that reflect a fair synthesis of the decisions to date.

Accepting the wisdom of a rule which generally voids private restrictions broader in scope than otherwise would be imposed by law, we should nevertheless recognize the value of an employment contract in helping to resolve the difficult factual issues that so often determine the resolution of trade secret cases. Therefore, a restrictive contract, even if it is not enforceable in all its terms, ought to be received as rebuttable proof of, for example, (1) the employer’s reasonable efforts to protect its confidential information, (2) the existence of confidential information which has value, (3) notice to the employee of what the employer claims, and (4) exposure of the employee to the employer’s confidential information.

The presumption created by such contracts should vary in strength with the circumstances and context in which the agreement was signed. For example, for what issue is the contract presented as proof? It will be considered as nearly conclusive on the issue of notice to the employee, but of much lesser value on the question of the existence of a protectable trade secret. Its better proof available? Was the agreement signed under circumstances where there was an opportunity to bargain? How specific are the recitals?
In summary, a nonsolicitation covenant (whether appearing in that form or as a covenant not to "interfere") should be enforced only to the extent that the act complained of would be actionable as misappropriation of trade secrets or breach of some other duty of the employee. While Business and Professions Code § 16600 does not invalidate such contracts, they should be interpreted consistently with this principle. This does not mean that restrictive covenants are valueless as a mere redundancy. To the contrary, properly crafted they are an excellent means to achieve clear communication about each party's expectations, a circumstance which all will agree is the most significant step in avoiding litigation.