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A Little Dictum is a Dangerous Thing: The Post Pandemic Need to Bust the Myth of a So-Called "Trade Secret" Exception to California's Statutory Ban on Non-Competition Agreements

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A LITTLE DICTUM IS A DANGEROUS THING: THE POST PANDEMIC NEED TO BUST THE MYTH OF A SO-CALLED "TRADE SECRET" EXCEPTION TO CALIFORNIA'S STATUTORY BAN ON NON-COMPETITION AGREEMENTS

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In the midst of a tight labor market and increased inflation, freedom of movement for employees is a critical right, allowing individuals to seek out the best employment opportunities. Freedom to change jobs, without non-compete restrictions, has a positive impact on innovation and technological progress, enabling the best and brightest minds to migrate to the most innovative employers paying the best wages and offering respectful treatment in the workplace. Concomitantly, employers may view such freedom of employee movement as a negative, due to a perception that the law results in increased turnover and hiring costs, as well as a risk to trade secret protection.

California's Business and Professions Code ("BPC") section 16600 guarantees the right of employees to be free of non-competition restrictions, thereby granting the ability to work for competitors or start a competing business. A remnant of careless judicial dictum from the California Supreme Court, over a half century old, refers to a non-existent "trade secret exception" to California's statutory ban on non-competition agreements. This Article analyzes and demonstrates that there is not a trade secret exception to BPC section 16600.

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I. INTRODUCTION

California law protects employees from being subjected to non-competition clauses or agreements in the workplace.[1] As a result, California employees are free to change jobs and work for competitors.[2] California's Business and Professions Code ("BPC") section 16600 creates this right and simply states: "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."[3]

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1. *See* CAL. BUS. & PROF. CODE § 16600 (West, Westlaw through Ch. 1 of 2022 Reg. Sess.); *see also* Edwards v. Arthur Andersen LLP, 189 P.3d 285, 291 (Cal. 2008) ("The law protects Californians and ensures 'that every citizen shall retain the right to pursue any lawful employment and enterprise of their choice.' It protects 'the important legal right of persons to engage in businesses and occupations of their choosing.' " (citation omitted)) . *See generally* Bradford P. Anderson, *Complete Harmony or Mere Detente? Shielding California Employees from Non-Competition Covenants*, 8 U.C. DAVIS BUS. L.J. 8, 9 (2007) (noting that the language of the statute prohibits one from being "restrained from engaging in a lawful profession, trade, or business of any kind . . . .").

2. *See* Reeves v. Hanlon, 95 P.3d 513, 517 (Cal. 2004) ("[I]t has long been the public policy of our state that '[a] former employee has the right to engage in a competitive business for himself and to enter into competition with his former employer . . . provided such competition is fairly and legally conducted.' " (quoting Continental Car-Na-Var Corp. v. Moseley, 24 Cal.2d 104, 110 (1944)).

3. CAL. BUS. & PROF. CODE § 16600 (West, Westlaw through Ch. 1 of 2022 Reg. Sess.).

In the midst of a tight labor market[4] and increased inflation,[5] freedom of movement for employees is a critical right, allowing for individuals to seek out the best employment opportunities. BPC section 16600 provides employees freedom to move and change jobs, assuring that income will not become stagnated due to the inability to search for, and accept, a job with a new employer.[6] This is especially important in the event of job termination by an employer, where a non-compete could force the former employee to turn to public assistance, due to the inability to obtain alternative employment. Freedom to change jobs, without non-competition restrictions, has a positive impact on innovation and technological progress,[7] enabling the best and brightest minds to migrate to pioneering employers paying the best wages and offering respectful treatment in the workplace. However, employers may view BPC section 16600 negatively due to a perception that the law

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4. *See* Tim Smart, *Overwhelming Majority of Businesses Report Difficulty Hiring Workers and Retaining Existing Employees*, U.S. NEWS & WORLD REP. (June 2, 2021, 12:57 PM), https://www.usnews.com/news/national-news/articles/2021-06-02/overwhelming-majority-of-businesses-report-difficulty-hiring-workers-and-retaining-existing-employees; Julia Cooper, *Then and now: How San Francisco's largest tech employers have changed*, S.F. BUS. TIMES, (Aug. 27, 2021), https://www.bizjournals.com/sanfrancisco/news/2021/08/27/san-francisco-crm-goog-twit-uber-abnb.html ("Prior to the pandemic one of the top complaints from tech companies was the competition for talent. Has the past 15 months changed anything from a talent retention/recruiting standpoint? We asked companies responding to our SFBT tech employers survey what they think. 'No, if anything it's become more competitive because we're not just competing with local companies (including industry giants with deep pockets), but we're now competing with companies all over the country with more flexible remote work policies.' - Claire Baker, chief of staff, Render Services Inc."); DEALBOOK NEWSL., *Why It's Hard to Hire Right Now*, N.Y. TIMES (May 22, 2021), https://www.nytimes.com/2021/05/22/business/dealbook/labor-shortage-causes.html; *Difficulty hiring and keeping workers will last into 2022, Willis Towers Watson survey finds*, GLOBENEWSWIRE (Aug. 25, 2021, 9:09 AM), https://www.globenewswire.com/news-release/2021/08/25/2286407/0/en/Difficulty-hiring-and-keeping-workers-will-last-into-2022-Willis-Towers-Watson-survey-finds.html.

5. *See* Gwynn Guilford, *Broader Inflation Pressures Begin to Show*, WALL ST. J. (Oct. 4, 2021, 5:30 AM), https://www.wsj.com/articles/broader-inflation-pressures-begin-to-show-11633339800; Stephanie Landsman, *Market is unprepared for the inflation fallout, Wharton's Jeremy Siegel warns*, CNBC (Oct. 3, 2021, 5:00 PM), https://www.cnbc.com/2021/10/03/market-is-unprepared-for-inflation-fallout-whartons-jeremy-siegel.html.

6. *See* Hiba Hafiz, *Structural Labor Rights*, 119 MICH. L. REV. 651, 654 (2021) ("And lax enforcement has enabled employers to engage in a range of conduct that suppresses worker pay, such as . . . imposing restrictive noncompete provisions in employment contracts."); *see also* Daniel D. Barnhizer, *Inequality of Bargaining Power*, 76 U. COLO. L. REV. 139, 162 (2005); Anne L. Alstott, *Work vs. Freedom: A Liberal Challenge to Employment Subsidies*, 108 YALE L.J. 967, 989 (1999) ("[F]ull-time work is both necessary and sufficient as a condition for a decent level of subsistence.").

7. Mark A. Glick, Darren Bush & Jonathan Q. Hafen, *The Law and Economics of Post-Employment Covenants: A Unified Framework*, 11 GEO. MASON L. REV. 357, 407-08 (2002).

results in increased turnover and hiring costs,[8] as well as a risk to trade secret protection.[9]

The protection under BPC section 16600 can get shaded by a penumbra of an antagonist that really should not exist. A remnant of judicial *dictum*[10] from the California Supreme Court,[11] over a half century old,[12] must be put in its proper place, so that California's clear statutory prohibition on non-compete restrictions may continue to operate as intended by the legislature, and protect the economic viability, as well as job portability, for every employee and employer in California. This Article analyzes and demonstrates that there is not a trade secret exception to BPC section 16600.

In the current market environment where employers are encountering severe challenges in hiring and retaining employees,[13] unscrupulous employers might find it ever so tempting to tug upon any thread, in the form of *dictum*, in an effort to unravel the employee protections of BPC section 16600. The resultant goal, and effect, would be to effectively restrain employees from moving on to other employers and opportunities, as well as depress wages.[14]

II. CONTEXTUAL OVERVIEW OF CALIFORNIA'S NON-COMPETE LAW

BPC section 16600 is short, simple, succinct, and downright eloquent: "Except as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade, or

8. *See* Charles Tait Graves, *Analyzing the Non-Competition Covenant as a Category of Intellectual Property Regulation*, 3 HASTINGS SCI. & TECH. L.J. 69, 83 (2011) ("Judge Posner has argued that 'If covenants not to compete are forbidden, the employer will pay a lower wage, in effect charging the employee for the training.' "); *see also* Rachel S. Arnow-Richman, *Bargaining for Loyalty in the Information Age: A Reconsideration of the Role of Substantive Fairness in Enforcing Employee Noncompetes*, 80 OR. L. REV. 1163, 1204 (2001) ("To combat this cycle, employers may turn to noncompetes as a vehicle for protecting financial investments in their workers. . . . [T]he employer overpays the employee at the outset of the relationship, anticipating that it will recoup its loss by paying the employee less than his or her true worth for a period after training is provided." (footnotes omitted)).

9. *See generally* Viva R. Moffat, *Human Capital as Intellectual Property? Non-Competes and the Limits of IP Protection*, 50 AKRON L. REV. 903 (2016); Alan Bush & Morgan Culbreth, *Trade Secrets: Security for Soft IP*, 31 CORP. COUNS. REV. 97 (2012); John Dwight Ingram, *Covenants Not to Compete*, 36 AKRON L. REV. 49 (2002); Yochai Benkler, *Law, Innovation, and Collaboration in Networked Economy and Society*, 13 ANN. REV. L. & SOC. SCI. 231 (2017).

10. *See infra* notes 33-39 and accompanying text.

11. *See* Muggill v. Reuben H. Donnelley Corp., 398 P.2d 147 (Cal. 1965).

12. *See id.*

13. *See supra* notes 4-5 and accompanying text.

14. *See supra* note 6 and accompanying text.

business of any kind is to that extent void."[15] BPC section 16600 has a genesis dating back to 1872, when California Civil Code section 1673[16] was enacted to prevent anti-competitive arrangements.[17] This protection also prevents restraints, in the form of non-competition provisions, from being imposed by employers against former employees.[18] BPC section 16600 has a lengthy history enabling an employee to leave one employer for another, even if the new employer is a competitor.[19]

A concomitant interest of employers is to protect trade secrets. Under the California Uniform Trade Secrets Act (CALUTSA),[20] a trade secret is information that "[d]erives independent economic value, actual or potential, from not being generally known to the public or to other persons,"[21] and which is subject to reasonable efforts to maintain its secrecy.[22]

In order to obtain protection under the CALUTSA, reasonable efforts to maintain secrecy customarily consist of a confidentiality (or non-disclosure/non-use) agreement between the employer and employee, typically signed at the beginning of employment.[23] In the

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15. CAL. BUS. & PROF. CODE § 16600 (West, Westlaw through Ch. 1 of 2022 Reg. Sess.).

16. *See* Tait Graves, *Nonpublic Information and California Tort Law: A Proposal for Harmonizing California's Employee Mobility and Intellectual Property Regimes Under the Uniform Trade Secrets Act*, 2006 UCLA J.L. & TECH. 1, 6-7 (2006) ("What is now section 16600 was enacted in 1872, and the earliest cases construing the statute addressed anticompetitive arrangements between businesses. By the 1930s, however, courts began using the statute to void employment agreements and similar contracts that sought to penalize former employees for using nonsecret information, engaging in competitive business, or both. Many such decisions described a strong public policy favoring employee mobility. Federal courts applying California law have also used section 16600 to void restrictive post-employment covenants. Although the outer bounds of the statute have been subject to a host of inconsistent decisions, courts have repeatedly used the statute to announce a public policy favoring employee mobility." (footnotes omitted)).

17. *Id.*

18. *Id.*

19. *See* Reeves v. Hanlon, 95 P.3d 513, 517 (Cal. 2004) ("[I]t has long been the public policy of our state that '[a] former employee has the right to engage in a competitive business for himself and to enter into competition with his former employer . . . provided such competition is fairly and legally conducted.' " (quoting Cont'l Car-Na-Var Corp. v. Moseley, 148 P.2d 9, 13 (Cal. 1944)).

20. *See* CAL. CIV. CODE §§ 3426 – 3426.11 (West, Westlaw through Ch. 1 of 2022 Reg. Sess.).

21. CAL. CIV. CODE § 3426.1(d)(1) (West, Westlaw through Ch. 1 of 2022 Reg. Sess.).

22. *See* CAL. CIV. CODE § 3426.1(d)(2) (West, Westlaw through Ch. 1 of 2022 Reg. Sess.).

23. *See generally* Byron F. Egan, *Confidentiality Agreements: How to Draft Them and What They Restrict*, 33 CORP. COUNS. REV. 35 (May 2014); John F. Hilson & Stephen L. Sepinuck, *A Lesson on Drafting Overly Broad Nondisclosure Agreements*, 10 TRANSACTIONAL LAW. 1 (2020); Alec Hillbo, *Fifty Years of Restrictive Covenants in Arizona Law*, 4 PHX L. REV. 725 (2011); DLA PIPER, STARTUP PACK NONDISCLOSURE AGREEMENT

event that an employee violates the sanctity of confidentiality/non-use of a trade secret, the CALUTSA allows for monetary damages,[24] as well as injunctions for actual or threatened misappropriation of the trade secret.[25] The threat of damages, as well as injunctive relief, not only applies to the employee or former employee but also applies to others, such as new (or prospective) employers.[26] Injunctions under CALUTSA

(2015), https://www.dlapiper.com/~/media/Files/Insights/Publications/2015/03/startup_pack_nondisclosure_agreement.pdf; N.Y.C BAR ASS'N, MODEL FORM OF NON-DISCLOSURE AGREEMENT (2015), https://www.nycbar.org/pdf/report/New_York_City_Bar_Association_Model_Form_of_Non-Disclosure_Agreement_2015.pdf; CORNELL UNIV. RESEARCH, NON-DISCLOSURE AGREEMENT (2020), https://researchservices.cornell.edu/sites/default/files/2019-06/Cornell%20Standard%20Bilateral%20NDA%202019%20-%20fillable%20form_0.pdf.

24. *See* CAL. CIV. CODE § 3426.3 (West, Westlaw through Ch. 1 of 2022 Reg. Sess.):

> (a) A complainant may recover damages for the actual loss caused by misappropriation. A complainant also may recover for the unjust enrichment caused by misappropriation that is not taken into account in computing damages for actual loss.
>
> (b) If neither damages nor unjust enrichment caused by misappropriation are provable, the court may order payment of a reasonable royalty for no longer than the period of time the use could have been prohibited.
>
> (c) If willful and malicious misappropriation exists, the court may award exemplary damages in an amount not exceeding twice any award made under subdivision (a) or (b).

25. *See* CAL. CIV. CODE § 3426.2 (West, Westlaw through Ch. 1 of 2022 Reg. Sess.):

> (a) Actual or threatened misappropriation may be enjoined. Upon application to the court, an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.
>
> (b) If the court determines that it would be unreasonable to prohibit future use, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time the use could have been prohibited.
>
> (c) In appropriate circumstances, affirmative acts to protect a trade secret may be compelled by court order.

26. *See* CAL. CIV. CODE § 3426.1(b) (West, Westlaw through Ch. 1 of 2022 Reg. Sess.):

> (b) 'Misappropriation' means:
>
> (1) Acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or
>
> (2) Disclosure or use of a trade secret of another without express or implied consent by a person who:
>
> (A) Used improper means to acquire knowledge of the trade secret; or
>
> (B) At the time of disclosure or use, knew or had reason to know that his or her knowledge of the trade secret was:
>
> (i) Derived from or through a person who had utilized improper means to acquire it;
>
> (ii) Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
>
> (iii) Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or

are limited to actual or threatened misappropriation[27] of the trade secret, which means acquisition, disclosure, or use of the underlying trade secret.

The origins of BPC section 16600 predate CALUTSA by 113 years.[28] Nowhere in CALUTSA is there any language allowing it to supersede the protection of other laws, such as BPC section 16600.[29] Moreover, the express language of CALUTSA limits an injunction to prevent acquisition, disclosure, or use *of the trade secret*,[30] and does *not* contain any enabling language allowing non-competition agreements or other restraints which would interfere with a business, trade, or profession. However, as explored below, a little *dictum* from a judicial opinion over a half century old[31] has created a mythical and pernicious creature, and this figment has received the moniker of the "trade secret exception" to BPC section 16600.[32]

III. WHAT IS DICTUM?

Obiter dictum, often shortened to *dictum*,[33] has its origins in Latin, meaning "something said in passing,"[34] and refers to a "judicial comment made while delivering a judicial opinion, but one that is unnecessary to the decision in the case and therefore not precedential . . . ."[35] *Dicta* is the plural of *dictum*.[36] "In every case, it is necessary to read the language of an opinion in light of its facts and the issues raised, in order to determine which statements of law were necessary to the decision, and therefore binding precedent, and which were general observations unnecessary to the decision. The latter are dicta, with no force as precedent."[37]

(C) Before a material change of his or her position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

27. *See* CAL. CIV. CODE § 3426.2(a) (West, Westlaw through Ch. 1 of 2022 Reg. Sess.).

28. *See supra* note 16 and accompanying text; CAL. CIV. CODE § 3426 (West, Westlaw through Ch. 1 of 2022 Reg. Sess.). The origins of BPC section 16600 date back to 1872, and the original CALUTSA legislation was adopted in 1984, taking effect in 1985.

29. *See* CAL. CIV. CODE §§ 3426 – 3426.11 (West, Westlaw through Ch. 1 of 2022 Reg. Sess.).

30. *See* CAL. CIV. CODE § 3426.1(b) (West, Westlaw through Ch. 1 of 2022 Reg. Sess.).

31. Muggill v. Reuben H. Donnelley Corp., 398 P.2d 147 (Cal. 1965).

32. *Id.*

33. *Obiter Dictum*, BLACK'S LAW DICTIONARY (11th ed. 2019).

34. *Id.*

35. Although not precedential, "it may be considered persuasive." *Id.*

36. *Id.*

37. Fireman's Fund Ins. Co. v. Maryland Cas. Co., 77 Cal. Rptr. 2d 296, 309 (Cal. Ct. App. 1998); *cf.* Appel v. Superior Court, 153 Cal. Rptr. 3d 798, 805 (Cal. Ct. App. 2013) ("Although dicta does not 'possess the force of a square holding[, it] may nevertheless be

In contrast to *dicta*:

> The *ratio decidendi* [holding of a case] is the principle or rule which constitutes the ground of a decision, and it is this principle or rule which has the effect of precedent. It is therefore necessary to read the language of the opinion in light of its facts and the issues raised, to determine (a) which statements of law were necessary to the decision, and therefore binding precedents, and (b) which were arguments and general observations, unnecessary to the decision, i.e., dicta, with no force as precedents.[38]

Unfortunately, judicial opinions peppered with *dictum* can have devastating consequences by inviting invasion into territory that the court never intended or envisioned, or sometimes intentionally creating controversy surrounding the underlying precedent.[39]

IV. BIGFOOT, THE LOCH NESS MONSTER, AND THE MYTHICAL "TRADE SECRET EXCEPTION"

The origins of the (non-existent) trade secret exception to BPC section 16600, in the form of *dictum*, trace directly back to *Muggill v. Donnelley Corp.*,[40] where the California Supreme Court decided a case involving a retirement plan. An employee of Donnelley Corp. met all of the requirements to qualify for its retirement plan.[41] After qualifying for a pension under the retirement plan, the employee left Donnelly Corp. and subsequently commenced working for a competitor.[42] The retirement committee of Donnelly Corp. subsequently notified the former employee that his right to receive payments under the retirement plan had been terminated, pursuant to a provision in the plan based "on

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considered highly persuasive, particularly . . . when made . . . in the course of an elaborate review of the authorities,' 'where it demonstrates a thorough analysis of the issue' or 'when it has been long followed.' " (citations omitted)).

38. Krupnick v. Hartford Accident & Indem. Co., 34 Cal. Rptr. 2d 39, 47 (Cal. Ct. App. 1994) (citing 9 WITKIN, CALIFORNIA PROCEDURE, APPEAL § 783, at 753 (3d ed. 1985)).

39. *See generally* Marc McAllister, *Dicta Redefined*, 47 WILLAMETTE L. REV. 161 (2011).

40. Muggill v. Reuben H. Donnelley Corp., 398 P.2d 147 (Cal. 1965); *cf.* David L. Simson, *Customers, Co-Workers and Competition: Employee Covenants in California After Edwards v. Arthur Andersen*, 4 HASTINGS SCI. & TECH. L.J. 239, 247 (2012) ("In 1913 the California Supreme Court noted that preventing 'unwarranted disclosure and unconscionable use of trade secrets' (i.e., misappropriation) was so fundamental a part of every business relationship that no contract was required to prohibit it. The corollary to this is that misusing or misappropriating trade secrets cannot somehow become lawful simply because a contract not to do so is unenforceable. Stated in the language of section 16600, misusing trade secrets would not be lawfully engaging in one's profession, trade or business; therefore a contract to that effect is valid." (footnote omitted)).

41. *Muggill*, 398 P.2d at 148.

42. *Id.*

the ground that he had entered the employ of a competitor."[43] The former employee sued Donnelly Corp., the retirement committee, and trustee responsible for disbursing funds of the retirement plan.[44] At trial, the court determined that the retirement plan provision was valid and enforceable, terminating the former employee's rights to receive income under the plan by virtue of going to work for a competitor.[45]

Upon deciding the appeal in *Muggill*, the California Supreme Court determined that a "penalty" indeed violates BPC section 16600, and therefore is unenforceable.[46] The Court ruled that the pension plan provision forfeiting the former employee's pension rights if he works for another employer were void and unenforceable, thereby reinstating his pension rights.[47] The court elaborated that:

> [S]ection 16600 of the Business and Professions Code provides that "every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void." . . . Since the pension plan becomes part of the contract of employment, such provisions therein are also invalid.[48]

The court referenced an underlying precedent where it had invalidated a contract forcing a retired employee "to pay liquidated damages . . . if the employee worked for a competitor."[49] The court reasoned that such an agreement, imposing a liability of $5,000 for violation of the contract, prevented the employee from having the freedom guaranteed by BPC section 16600.[50] "To the extent that the necessity of $5,000 paying deters him from engaging therein, he would be restrained."[51] Following that reasoning, the court in *Muggill* ruled that "the provision forfeiting plaintiff's pension rights if he works for a competitor restrains him from engaging in a lawful business and is therefore void."[52]

Unfortunately, in the *Muggill* opinion, the Court included not only *dictum* (something irrelevant to the case under consideration), but also a

43. *Id.*
44. *Id.*
45. *Id.* ("The [trial] court also held that the members of the retirement committee and the trustee were indispensable parties over whom it had no jurisdiction. It therefore entered judgment for the defendant."). Upon appeal at the California Supreme Court, the Court determined, contrary to the finding by the trial court, that the retirement committee and the trustee were not indispensable parties. *Id.* at 149 (citation omitted).
46. *Id.* at 149.
47. *Muggill*, 398 P.2d at 149.
48. *Id.* (citation omitted).
49. *Id.*
50. *Id.* at 148.
51. *Id.*
52. *Id.*

flat-out incorrect citation to a legal proposition in a prior case. The gross misstep in *Muggill* consists of the following statement: "This section [BPC § 16600] invalidates provisions in employment contracts prohibiting an employee from working for a competitor after completion of his employment or imposing a penalty if he does so *unless they are necessary to protect the employer's trade secrets*."[53]

The language quoted above constitutes *dictum* and has no precedential value.[54] Why is it *dictum*? The *Muggill* case did not involve any facts or allegations related to the actual or threatened misappropriation of trade secrets,[55] and aside from exploration of

53. *Muggill*, 398 P.2d at 148 (emphasis added) (citations omitted); *see, e.g.*, *id.* at 149 (finding that section 16600 permits non-compete provisions in employment contracts when 'necessary to protect the employer's trade secrets'). *See generally* Latona v. Aetna U.S. Healthcare Inc., 82 F. Supp. 2d 1089, 1096 (C.D. Cal. 1999) (The court erroneously characterized the comment in *Muggill* to constitute part of the ruling, rather than mere dictum, stating: "Employment restrictions that serve to protect a former employer's trade secrets, proprietary information, and confidential information are valid in California.").

54. *See generally* Fairbanks v. Superior Court, 205 P.3d 201, 203 (Cal. 2009) ("Because the issue was not presented there, that statement was dictum."); Stockton Theatres, Inc. v. Palermo, 304 P.2d 7, 9 (1956) ("The discussion or determination of a point not necessary to the disposition of a question that is decisive of the appeal is generally regarded as obiter dictum and not as the law of the case."); Fireman's Fund Ins. Co. v. Maryland Cas. Co., 77 Cal. Rptr. 2d 296, 308-09 (Cal. Ct. App. 1998) ("The court's passing reference to 'general principles of equitable subrogation' was therefore dicta. This court is in the concededly delicate position of disagreeing with the specific language of an opinion of our own Supreme Court. We acknowledge, as we must, that we are bound to follow binding precedent of a higher court, and that the refusal to do so is in excess of our own jurisdiction. However, we are not bound by dicta, particularly where it is unpersuasive and contrary to the overwhelming weight of precedent. In every case, it is necessary to read the language of an opinion in light of its facts and the issues raised, in order to determine which statements of law were necessary to the decision, and therefore binding precedent, and which were general observations unnecessary to the decision. The latter are dicta, with no force as precedent. For the reasons discussed, we conclude the Supreme Court's use of the term 'equitable subrogation' . . . was unnecessary to the decision in that case. It is therefore not binding as precedent on this court." (citations omitted)).

55. *See Muggill*, 398 P.2d at 147-49. Although *Muggill* and Gordon v. Landau, 321 P.2d 456 (Cal. 1958) (cited in for the erroneous proposition of a trade secret exception to BPC 16600) were both decided prior to California's adoption of the UTSA, trade secret protection already existed under applicable law at the time. *See* Graves, *supra* note 16, at 41-45 (footnotes and headings omitted):

> Over time, California courts during the pre-UTSA period up to 1985 used a variety of different labels for the same types of claims. Decisions might speak of a "breach of trust" or "unfair competition" to refer to the same conduct, and they quite often used the phrases "trade secret" and "confidential information" in the same sentence, without indicating that there was any legal distinction between them. And then as now, plaintiffs sometimes sought to proceed under a list of repetitive causes of action based on the same predicate factual allegations.
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> . . . .
>
> This is not to suggest that California law has been uniform. There are a few decisions with unclear holdings, questionable dicta, and, in a few cases, rulings that

indispensable parties to litigation,[56] *Muggill* was exclusively about a punitive provision within a retirement plan document which sought to deprive former employees of a pension[57] should such persons subsequently elect to work for a competitor.[58] There was no issue related to trade secrets in *Muggill*; therefore, the language in *Muggill* regarding a trade secret exception to BPC section 16600 is pure *dictum*. Most importantly, the *dictum* in *Muggill* is blatantly incorrect in summarizing the underlying proposition in *Gordon v. Landau*.[59]

The flawed *dictum* from the *Muggill* court,[60] purportedly founded upon the decision in *Gordon*, has no basis whatsoever, as *Gordon* is devoid of any scintilla of a trade secret exception. The *Gordon* opinion neither supports the proposition that restraints against subsequent employment are permissible if they are necessary to protect the employer's trade secrets, nor creates any trade secret exception to BPC 16600.[61] *Gordon*[62] exclusively stands for the proposition that a former employee can be enjoined from using confidential customer lists of a former employer. *Gordon* does *not* opine, or even hint, that a former employee can be enjoined from working for a competitor, starting a competing business, or independently developing customer lists that do

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are inconsistent with the majority. We will analyze these cases below to find out whether they offer any alternative theories that could survive UTSA preemption.

The first published California trade secret case dates from 1915, about a century after the concept developed in England and in the Eastern industrial states. In the early decades, virtually every California case was a request for an injunction based on an alleged misuse of a secret customer list, without a specified cause of action. It is often unclear from such decisions whether the claim was based on tort or contract principles—because the former employee defendants often had confidentiality contracts with the plaintiff former employer—or both. The consistent theme among the cases that reached the merits of whether the information was truly secret is that the dispositive question is whether the trade or public knew the information. All of this was also true for pre-UTSA federal trade secret cases applying California law. Many of the early cases used the phrases "trade secret" and "confidential" interchangeably, or together as one phrase, with no apparent distinction between them.

56. *See supra* note 45 and accompanying text.

57. *Muggill*, 398 P.2d at 148.

58. *Id.*

59. Gordon v. Landau, 321 P.2d 456, 459 (Cal. 1958) (finding a confidentiality agreement did not violate BPC section 16600 where defendant could carry on any business, including a directly competing business, after leaving the employer, and was only restricted from using plaintiff's confidential customer lists for a period of one year following termination of defendant's employment).

60. "This section [BPC 16600] invalidates provisions in employment contracts prohibiting an employee from working for a competitor after completion of his employment or imposing a penalty if he does so unless they are necessary to protect the employer's trade secrets." *Muggill*, 398 P.2d at 149 (citations omitted).

61. *Gordon*, 321 P.2d at 456-59.

62. *Id.* at 456.

not involve use of or reliance upon the confidential information of the former employer. In *Gordon*,[63] the employee signed a contract agreeing to the following terms:

> 8. Collector-Salesman further agrees that during the period of one (1) year immediately after the termination of his employment with the Employer he will *not*, either directly or indirectly, *make known or divulge the names or addresses of any of the customers or patrons of Employer* at the time he entered the employ of Employer or with whom he became acquainted after entering the employ of Employer, to any person, firm or corporation, and that *he will not*, directly or indirectly, either for himself or for any other person, firm, company or corporation, *call upon, solicit, divert, or take away, or attempt to solicit, divert or take away any of the customers, business or patrons*, of the Employer upon whom he called or whom he solicited or to whom he catered or with whom he became acquainted, or upon whom he called or to whom he catered *after his employment with said Employer*.[64]

After leaving the employer, the subject employee engaged in a similar business with similar merchandise, and "went along his old route and methodically visited the customers of plaintiffs whose names, identities and locations he had learned and whose acquaintances he had made during and by reason of his former employment . . . ."[65]

The California Supreme Court ruled that the misappropriation of trade secrets, consisting of the former employee's use of confidential customer lists, justified an injunction *prohibiting use of those trade secrets*, as well as money damages.[66] However, the California Supreme Court did *not* prohibit the former employee from engaging in a competitive business or developing his own customer lists. The Court stated:

> 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

63. *Id.*
64. *Id.* at 458 (emphasis added).
65. *Id.*
66. *Id.* at 459. The court noted that, "[h]e 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." *Gordon*, 321 P.2d at 459. An injunction, suitable to cover the one year time frame in the event of violation, would therefore be permissible, but the court went on to add that, "[i]n view of the fact that more than a year has passed since defendant left plaintiffs' employ, by the very terms of the contract the time has elapsed during which plaintiffs would be entitled to obtain an injunction against defendant restraining him from using the lists of their customers." *Id.* As a result, an injunction did not issue, but the court allowed recovery of damages, stating that "[p]laintiffs were therefore entitled to have damages found and assessed in their favor. They may recover for all damages proximately caused by defendant's wrong." *Id.*

> 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 . . . .
>
> The uncontradicted evidence shows that defendant sold goods to at least 117 of plaintiffs' preferred customers and in doing so used plaintiffs' lists entrusted to him while he was in their employ . . . . It thus logically follows that a list of such customers is a valuable trade secret and that plaintiffs were damaged by defendant's unlawful use thereof.[67]

The court in *Gordon* carefully expressed its opinion and created the underlying precedent, stating that the contract (as well as the Court's order) did *not* prevent the defendant from carrying on a competitive business.[68] The determinant criterion in *Gordon* was that *the former employee was using "plaintiffs' lists entrusted to him while he was in their employ"*[69] and, for this reason alone, an injunction against such use was authorized. The former employee's use of the proprietary customer lists to approach at least 117 preferred customers of his former employer was the touchstone.[70] If the former employee would not have used the proprietary information consisting of these customer lists, he would not have run amuck of his contract and trade secret obligations to the former employer. The *Gordon* court's ruling did not impair the former employee's right to work for a competitor, or to start a competing business, and did not create a trade secret exception to BPC section 16600. The precedent established in *Gordon* was simply that the former employee could not use the proprietary customer lists.

The court covertly and patently stated: "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 . . . ."[71] Undoubtedly, the California Supreme Court constructed this language to harmonize the respective rights of the parties and to prevent employers from taking the position that employees cannot engage in a competitive

67. *Id.* (emphasis added).

68. *Id.* ("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.") (emphasis added).

69. *Id.* (emphasis added).

70. *Gordon*, 321 P.2d at 459 ("The uncontradicted evidence shows that defendant sold goods to at least 117 of plaintiffs' preferred customers and in doing so used plaintiffs' lists entrusted to him while he was in their employ.")

71. *Id.* (emphasis added).

business, or that employees must erase all professional growth that they gained simply from work experience.[72]

The *dictum* in *Muggill* does not purport to overrule, yet alone address, the carefully drafted language of *Gordon*. Those relying upon the *dictum* in *Muggill* are engaging in a careless, and incorrect, characterization of the court's opinion in *Gordon*.[73] In drafting the *Muggill* opinion, the California Supreme Court merely signaled readers to refer to *Gordon* for the separate topic of trade secret protection in prohibiting use of customer lists, and did *not* create any sort of exception to BPC section 16600. The topic was all so clearly stated within *Gordon*; hence the reference by the *Muggill* court to *Gordon*.

V. THE ONLY EXCEPTIONS TO BPC SECTION 16600 ARE IN THE STATUTE; THERE IS NO TRADE SECRET EXCEPTION

The California Legislature enacted three statutory exceptions that allow for non-competition covenants in California. These statutory exceptions consist exclusively of BPC sections 16601, 16602, and 16602.5, and establish that non-competition agreements, under specifically delineated circumstances, are permissible in the sale of a business.[74]

> Several statutory exceptions to Section 16600 exist. Sections 16601 and 16602 (derived from Civ. Code, §§ 1674 & 1675) "permit broad covenants not to compete in two narrow situations, i.e., where a person sells the goodwill of a business and where a partner agrees not to compete in anticipation of dissolution of a partnership." Section 16601 protects the purchaser of a business from subsequent competition from the seller, which would reduce the value of the property right acquired. Section 16602 protects partners from, inter alia, the risk that a partnership's goodwill will be diminished by competition from a withdrawing partner. Section 16602.5, enacted in 1994, provides that a member of a limited liability company may,

72. *See generally* Kurt M. Saunders, *The Law and Ethics of Trade Secrets: A Case Study*, 42 CAL. W.L. REV. 209, 222-23 (2006) ("A trade secret does not vest in its owner a right of exclusivity. Others are free to arrive at precisely the same information through independent creation or discovery and to use it so long as they obtain their knowledge through their own independent efforts. Therefore, a person who independently invents or discovers information identical to another's trade secret, without relying on improper means to do so, is not liable for misappropriation." (footnotes omitted)).

73. *See supra* notes 40-71 and accompanying text.

74. *See* CAL. BUS. & PROF. CODE §§ 16601-16602.5 (West, Westlaw through Ch. 1 of 2022 Reg. Sess.).

> upon or in anticipation of dissolution of the company, agree not to carry on a similar business within a specified geographic area.[75]

Statutory interpretation dictates that a carefully delineated statute, with clear exceptions, embodies the entire scope of any such exceptions:

> Further, "the presence of express exceptions ordinarily implies that additional exceptions are not contemplated. '[W]here exceptions to a general rule are specified by statute, other exceptions are not to be implied or presumed' unless a contrary legislative intent is evident.' "[76]

Edwards v. Arthur Andersen LLP[77] contains the most significant analysis by the California Supreme Court in recent era of BPC section 16600 in the employment context. In *Edwards*, the California Supreme Court evaluated an employer's claim, and a line of faulty judicial opinions, regarding a purported "narrow restraint" exception to BPC section 16600.[78] Namely, the case involved a restraint upon a former employee where he was prohibited from performing professional services for any client of his former employer for whom he had performed services, with such restriction encompassing a period of eighteen months following the termination or resignation of the employee.[79] In a previous publication written before the California Supreme Court issued the *Edwards* decision, the author of this article characterized the purported "narrow restraint" exception as tantamount to a faulty declaration that "[a] little bit of violating the law is okay."[80]

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75. Edwards v. Arthur Andersen LLP, 47 Cal. Rptr. 3d 788, 795-96 (Cal. Ct. App. 2006), *aff'd in part*, *rev'd in part*, 189 P.3d 285 (Cal. 2008); *see also* S. Bay Radiology Med. Assocs. v. Asher, 269 Cal. Rptr. 15, 19 (Cal. Ct. App. 1990) ("Covenants not to compete in contracts for the sale of a business have also been permitted since enactment of the Civil Code.").

76. *Edwards*, 47 Cal. Rptr. 3d at 801.

77. Edwards v. Arthur Andersen LLP, 189 P.3d 285 (Cal. 2008).

78. *Id.*

79. *Id.* at 288. ("In January 1997, Raymond Edwards II (Edwards), a certified public accountant, was hired as a tax manager by the Los Angeles office of the accounting firm Arthur Andersen LLP (Andersen). Andersen's employment offer was made contingent upon Edwards's signing a noncompetition agreement, which prohibited him from working for or soliciting certain Andersen clients for limited periods following his termination. The agreement was required of all managers and read in relevant part: 'If you leave the Firm, for eighteen months after release or resignation, you agree not to perform professional services of the type you provided for any client on which you worked during the eighteen months prior to release or resignation. This does not prohibit you from accepting employment with a client. For twelve months after you leave the Firm, you agree not to solicit (to perform professional services of the type you provided) any client of the office(s) to which you were assigned during the eighteen months preceding release or resignation. You agree not to solicit away from the Firm any of its professional personnel for eighteen months after release or resignation.' Edwards signed the agreement.").

80. Anderson, *supra* note 1, at 27.

In *Edwards*, not only did the California Supreme Court unanimously make an explicit, crystal-clear rejection of any "narrow-restraint" exception to California's prohibition against noncompetition agreements[81] under BPC section 16600, but the court also declared that "*Noncompetition agreements are invalid under section 16600* in California even if narrowly drawn, *unless they fall within the applicable statutory exceptions* of sections 16601, 16602, or 16602.5."[82]

> [W]e are of the view that California courts 'have been clear in their expression that section 16600 represents a strong public policy of the state which should not be diluted by judicial fiat.' Section 16600 is unambiguous, and if the Legislature intended the statute to apply only to restraints that were unreasonable or overbroad, it could have included language to that effect. We reject Andersen's contention that we should adopt a narrow-restraint exception to section 16600 and *leave it to the Legislature, if it chooses,* either *to* relax the statutory restrictions or *adopt additional exceptions to the prohibition-against-restraint rule under section 16600*.[83]

In a footnote (and not in the text of the opinion), the court stated, "We do not here address the applicability of the so-called trade secret exception to section 16600 . . . ."[84] Why did the court relegate this topic to a footnote? Clearly this was done as part of prudent judicial restraint, because the topic of a trade secret exception did not arise in *Edwards*, and therefore issuing a determination on the topic would have, in any event, constituted *dictum*.

Why is the *Edwards* footnote regarding the "so-called trade secret exception" of any relevance? And isn't the *Edwards* footnote simply *dictum*, as *Edwards* did not involve allegations of a trade secret exception?[85] Yes, the footnote referring to a "so-called trade exception"[86] in *Edwards* is technically *dictum*, but the ratio decidendi[87] of the unanimous ruling in *Edwards* provides a crystal-clear judicial signal against any "trade secret exception" as the court ordered:

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81. *Edwards*, 189 P.3d at 292-93.

82. *Id.* at 297 (emphasis added).

83. *Id.* at 293 (emphasis added) (footnote and citations omitted).

84. *Id.* at 291 n.4.

85. *See* Power Integrations, Inc. v. De Lara, No. 20-cv-410-MMA (MSB), 2020 WL 1467406, at *14 (S.D. Cal. Mar. 26, 2020) ("However, because Edwards' did not involve the 'so called trade secret exception,' its statements regarding the existence or the applicability of a trade secret exception is dicta. Additionally, Edwards noted that '[w]e conclude that section 16600 prohibits employee noncompetition agreements unless the agreement falls within a statutory exception.' ")

86. *Edwards*, 189 P.3d at 291 n.4.

87. *See supra* note 38 and accompanying text.

(1) To avoid committing dilution of BPC section 16600 by judicial fiat;[88]

(2) To use only the exclusive and exhaustive list of statutory exceptions impacting BPC section 16600;[89]

(3) To the fact that the entire court defers to the legislature to adopt additional exceptions to BPC section 16600.[90]

On the topic of the *dictum* in the footnote, the terminology used by the *Edwards* court referring to a "so-called" trade secret exception indicates disdain towards the existence of any such concept. The phrase "so-called" is "used to express one's view that a name or term is inappropriate"[91] or "used to show that you think a word that is used to describe someone or something is not suitable or not correct."[92] An alternative meaning of "so-called" is to "introduce a new word or phrase that is not yet known . . . ."[93] As the mythical concept had been conceived from careless *dictum* since 1965 (forty-three and a half years old at the time of the *Edwards opinion*), the court's use of "so-called" was clearly not to introduce a new phrase, but to signal derision towards any such beast. "Judges across all courts do not like to be reversed, and statements of higher courts, even those made in dicta, are excellent indicators of how a higher court views an issue."[94]

The *Edwards* court could not have been clearer in signaling that the highest court in the land (as to state law) does not support judicial fiat in the form of carve-outs or exceptions to BPC section 16600. Who could mistake this as anything other than a death knell to the so called "trade secret" exception?

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88. *Edwards*, 189 P.3d at 293.

89. *Id.* at 290-91 ("Section 16600 states: '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.' The chapter excepts noncompetition agreements in the sale or dissolution of corporations (§ 16601), partnerships (*ibid.*; § 16602), and limited liability corporations (§ 16602.5).").

90. *Id.* at 293 ("We reject Andersen's contention that we should adopt a narrow-restraint exception to section 16600 and leave it to the Legislature, if it chooses, either to relax the statutory restrictions or adopt additional exceptions to the prohibition-against-restraint rule under section 16600.").

91. Meaning of "so-called" from Oxford Languages, GOOGLE, https://www.google.com/search?q=so-called+meaning (last visited Oct. 7, 2021).

92. *So-called*, CAMBRIDGE DICTIONARY, https://dictionary.cambridge.org/us/dictionary/english/so-called (last visited Oct. 7, 2021).

93. *Id.*

94. McAllister, *supra* note 39, at 178-79.

VI. THE THREAT IS REAL: MORE "FAKE NEWS" OF A TRADE SECRET EXCEPTION, COUNTERED BY SOME "REAL NEWS" ENLIGHTENMENT

The threat elucidated by this Article is real. There is a long line of recent cases referring to the (non-existent) trade secret exception to BPC section 16600.[95] Whether by careless error, or perhaps nefarious intentions propagated by those seeking to unlawfully create restraints in violation of BPC section 16600, the careless *dictum* from *Muggill* continues to cast a dark penumbra over the clear statutory protections of BPC section 16600.

Barely a month and a half following the decision in *Edwards*,[96] in *Bank of America, N.A. v. Lee*,[97] a federal district court, applying California law,[98] stated: "The court concludes that [a] 'trade secret exception' to §16600 still applies."[99] Notwithstanding a citation to *Edwards*, which clearly stood for a contrary proposition,[100] the *Bank of America* court went so far as to conclude that "the 'trade secret exception' to §16600 remains intact."[101] How can something that never existed and emerged only as a figment through *dictum* be cited as superseding a clear statute? Indeed, a little *dictum* is a dangerous thing.

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95. *See, e.g.*, Arthur J. Gallagher & Co. v. Tarantino, 498 F. Supp. 3d 1155, 1169 (N.D. Cal. 2020) (The Edwards " . . . court declined to 'address the applicability of the so-called trade secret exception to section 16600.' Post-Edwards, there is not a clear consensus as to whether there is such an exception to § 16600 . . . ." (citation omitted)); DePuy Synthes Sales, Inc. v. Stryker Corp., No. ED CV 18-1557 FMO (KKx), 2020 WL 6205702, at *9 (C.D. Cal. Sept. 29, 2020) ("However, this 'trade secret exception,' if it still exists, is narrow.") (citation omitted); Sandler Partners, LLC v. Masergy Communications, Inc., No. CV 19-6841-JFW(MAAx), 2019 WL 9047103, at *7 n.2 (C.D. Cal. Nov. 25, 2019) ("In addition, California courts have recognized a trade secret exception to § 16600."); Int'l Petroleum Prods. & Additives Co. v. Black Gold, S.A.R.L., 418 F. Supp. 3d 481, 491 (N.D. Cal. 2019) ("Section 16660 provides, in relevant part, that 'every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void.' California courts, however, have repeatedly recognized an 'exception' to the rule where trade secret information may be used to redirect business away from one business to another."); Bank of Am., N.A. v. Lee, No. CV 08–5546 CAS(JWJx), 2008 WL 4351348, at *6 (C.D. Cal. 2008) ("The court concludes that 'trade secret exception' to § 16600 still applies.").

96. *See* Edwards v. Arthur Andersen LLP, 189 P.3d 285 (Cal. 2008).

97. *Bank of Am., N.A.*, 2008 WL 4351348, at *6.

98. "[A] federal court exercising diversity jurisdiction over a case that does not involve a federal question must apply the substantive law of the state where the court sits." *Erie Doctrine*, BLACK'S LAW DICTIONARY (11th ed. 2019); *see also* Erie R.R. Co. v. Tompkins, 304 U.S. 64, 78 (1938).

99. *Bank of Am., N.A.*, 2008 WL 4351348, at *6.

100. *See supra* notes 77-90 and accompanying text.

101. *Bank of Am., N.A.*, 2008 WL 4351348, at *6.

In the 2014 case of Global Trim Sales,[102] another federal court applying California state law,[103] declared that it embraced restraints in violation of BPC section 16600 under the auspices of a trade secret exception: "Regardless of the theory of enforcement, noncompete . . . clauses will be upheld under California law if they are 'narrowly tailored or carefully limited to the protection of trade secrets.' "[104] The language quoted by the federal court in *Global Trim Sales* in support of its proposition of a trade secret exception comes from a California state appeals court opinion; however, the California state appeals court opinion did not even support such a proposition. The federal court went blithely astray on its assertion of a trade secret exception because the language quoted by the court was a partial excerpt of a sentence, deftly and surgically sliced out of context. Indeed, had the federal court merely quoted the remainder of the exact same paragraph from the state appeals court opinion, it would have correctly reached the polar opposite conclusion and expelled any "trade secret exception." The same paragraph from the state appeals court opinion declares: "*we doubt the continued viability of the common law trade secret exception to covenants not to compete* . . . . Even assuming the exception exists, we agree with the trial court that it has no application here."[105] The state appeals court demonstrated enlightenment; however, the federal court in *Global Trim Sales* completely omitted this critical, relevant, and necessary text. Other courts, like the federal court in *Global Trim Sales*, have also myopically repeated the big lie of a so-called trade secret exception.[106]

Despite the plethora of cases perpetuating the myth, there are well reasoned decisions, post *Edwards*, pointing to clear precedential weight against the existence of any such beast cloaked as a trade secret exception. A notable example is *Retirement Group v. Galante*,[107] where

102. Glob. Trim Sales, Inc. v. Checkpoint Sys. UK Ltd., No. SACV 12-1314-JLS (RNBx), 2014 WL 12690629, at *5 (C.D. Cal. Sept. 17, 2014).

103. *See* Edwards v. Arthur Andersen LLP, 189 P.3d 285 (Cal. 2008).

104. *Glob. Trim Sales*, 2014 WL 12690629, at *5.

105. Dowell v. Biosense Webster, Inc., 102 Cal. Rptr. 3d 1, 11 (Cal. Ct. App. 2009) (emphasis added).

106. *See* sources cited *supra* note 95.

107. Retirement Group v. Galante, 98 Cal. Rptr. 3d 585 (Cal. Ct. App. 2009); *see also Dowell*, 102 Cal. Rptr. 3d at 10-11 ("In reconciling the 'tension' between section 16600 and trade secrets, the Galante court stated: 'We distill from the foregoing cases that section 16600 bars a court from specifically enforcing (by way of injunctive relief) a contractual clause purporting to ban a former employee from soliciting former customers to transfer their business away from the former employer to the employee's new business, but a court may enjoin tortious conduct (as violative of either the Uniform Trade Secrets Act (Civ. Code, § 3426 et seq.) and/or the unfair competition law) by banning the former employee from using trade secret information to identify existing customers, to facilitate the solicitation of such

the court evaluated an investment advisor attempting to restrain former employees from use of customer lists, characterized as trade secrets, as well as from soliciting customers. In its determination regarding the scope of an injunction, the court carefully and separately evaluated the issues of protecting trade secrets (customer lists) and soliciting customers.[108] The court shrewdly wrote that, "we have already concluded it is not the solicitation of the customers, but is instead the unfair competition or misuse of trade secret information, that may be enjoined."[109] Inherent in this determination is a clear message that an injunction may prohibit *use of clearly delineated and specific confidential information/trade secrets*, but cannot restrain an individual from practicing a profession, trade or business or engaging in activities which do not use or rely upon such clearly and specifically delineated confidential information/trade secrets. This is *exactly* the proposition that *Gordon* stood for. Therefore, *a priori*, development of new customer lists or creation of an invention without use of or reliance upon delineated confidential information cannot be enjoined.[110]

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customers, or to otherwise unfairly compete with the former employer. Viewed in this light, therefore, the conduct is enjoinable not because it falls within a judicially created 'exception' to section 16600's ban on contractual nonsolicitation clauses, but is instead enjoinable because it is wrongful independent of any contractual undertaking.' ").

108. *Retirement Group*, 98 Cal. Rptr. 3d at 592-96.

109. *Id.* at 595.

110. *See* CAL. CIV. CODE § 3426.1(d)(1) (West, Westlaw through Ch. 1 of 2022 Reg. Sess.) (emphasis added):

> (d) "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*.

The customary language in non-disclosure/confidentiality agreements to protect trade secrets recognizes that protection cannot extend to information that is independently created without use of, or reliance upon, the underlying confidential information. Otherwise, the asserted ownership of the original confidential information would be a fiction, not subject to protection under CALUTSA. *Id. See generally* FACEBOOK, POTENTIAL EMPLOYEE NONDISCLOSURE AGREEMENT § 2 (2006), https://foxrothschild.gjassets.com/content/uploads/2017/03/Trade-Secret-Protection-and-Cybersecurity-Risks.pdf (stating that the restrictions of confidentiality do not apply to any information that "is independently developed by Applicant without reference to information disclosed by any Facebook Party"); ASS'N OF INDEP. COMMERCIAL PRODUCERS, MUTUAL NONDISCLOSURE AGREEMENT § 2 (n.d.), https://www.aicp.com/assets/editor/AICPNDAmutual080218_FINAL.pdf ("The obligations of confidentiality in this Agreement do not extend to any item of Confidential Information which . . . (iv) was generated independently by the receiving Recipient without reliance on or use of the Discloser's Confidential Information (as proven by supporting documentation evidencing such independent generation)."); NAT'L GRID, NON-DISCLOSURE AGREEMENT § 3, at 3 (n.d.), https://www.nationalgridus.com/media/pdfs/bulk-energy-storage-request-for-

In 2018, the same enlightened California reiterated the concept, stating:

> This court in Galante recognized the "tension" between section 16600 and trade secrets, but nonetheless found that section 16600 barred a court from "specifically enforcing . . . a contractual clause purporting to ban a former employee from soliciting former customers to transfer their business away from the former employer to the employee's new business, *but a court may enjoin . . . the former employee from using trade secret information* to identify existing customers, to facilitate the solicitation of such customers, or to otherwise unfairly compete with the former employer."[111]

The critical element here is that a former employee may engage in competing activities and business, as long as the information used in doing so is independently developed, derived, or conceived without use of, or reliance upon, confidential information or trade secrets of the former employer.[112]

In the 2016 opinion of *Artec Group, Inc. v. Klimov*,[113] the enlightened court spotted the loud and clear message from *Edwards* and other precedent, stating:

> The Court, however, is not persuaded by Plaintiff's contention that the provision at issue in this case is enforceable under the "trade secrets" exception to section 16600 . . . . *As an initial matter, the California Supreme Court's Edwards decision called into doubt the continued viability of the [trade secret exception]*: "We do not here address the applicability of the so-called trade secret exception to section 16600." In any event, the Court need not address the continued viability of the exception because the provision at issue in the instant case would apply to all products "similar to or competitive with" Artec products, regardless of whether the products involve

proposals/appendix-g-nda-form.pdf ("This Non-Disclosure Agreement shall not apply to Information that . . . (iv) is developed by Recipient or its Representatives independently of the Information disclosed hereunder by or on behalf of Disclosing Party (as evidenced by written documentation)."); LASER SPINE INST., CONFIDENTIALITY AND NON-DISCLOSURE AGREEMENT § 3, at 3 (2019), https://lsi-assignee.com/wp-content/uploads/2019/04/Confidentiality-and-Non-Disclosure-Agreement-LSI-ABC.pdf (stating that confidential information does not include information that "can be shown by written documentation to have been independently developed by the Receiving Party without use of or reliance upon any Confidential Information or Confidential Materials of the Disclosing Party").

111. AMN Healthcare, Inc. v. Aya Healthcare Servs., Inc., 239 Cal. Rptr. 3d 577, 591 (Cal. Ct. App. 2018) (emphasis added) (citations omitted).

112. *Id.*; *see also supra* notes 62-70 and accompanying text.

113. Artec Grp. Inc. v. Klimov, No. 15-cv-03349-EMC, 2016 WL 7157635 (N.D. Cal. Dec. 8, 2016).

> protected or confidential information, and the agreement contains separate provisions to address confidential information.[114]

Artec demonstrated sound reasoning in identifying the precarious lineage of a trade secret exception, and also signaled that any protection of a trade secret must be limited to actual use of specifically delineated confidential information, or else such restraint exceeds the permissible boundaries of BPC section 16600.[115]

In the 2020 case of *Power Integrations*,[116] a federal court applying state law[117] also saw the light. The court refused to extend nonsolicitation and noncompetition clauses beyond protection of clearly delineated trade secrets.[118] The court stated: "[T]his Court declines to find that a trade secret exception to §16600 exists to the extent that Plaintiff alleges a breach of contract cause of action. The nonsolicitation and noncompetition clauses are unenforceable under §16600 and overly broad."[119] The court also acknowledged the clear guidance of the California Supreme Court in interpreting BPC section 16600, noting that "section 16600 prohibits employee noncompetition agreements unless the agreement falls within a statutory exception."[120] Similarly, in *Green Payment Solutions*,[121] the federal court turned to the clear language of BPC section 16600, stating that: "There are three statutory exceptions to §16600, none of which applies here. See Cal. Bus. & Prof. Code §§16601, 16602, 1660.5 (creating statutory exceptions for the sale or dissolution of a partnership, limited liability company, or the sale of a business's goodwill)."[122]

VII. CONCLUSION: PUTTING KNOWLEDGE INTO PRACTICE

Having carefully evaluated the loose *dictum* from *Muggill*, and how it misrepresented the decision in *Gordon*, it is amazing that the myth of a trade secret exception to BPC section 16600 even started, let alone how it has survived for over half a century. How can one take this knowledge

114. *Id.* at *3 (emphasis added) (citations omitted).

115. *Id.* ("In any event, the Court need not address the continued viability of the exception because the provision at issue in the instant case would apply to all products 'similar to or competitive with' Artec products, regardless of whether the products involve protected or confidential information . . . .").

116. Power Integrations, Inc. v. De Lara, No. 20-cv-410-MMA (MSB), 2020 WL 1467406 (S.D. Cal. Mar. 26, 2020).

117. *See supra* note 98.

118. *Power Integrations, Inc.*, 2020 WL 1467406, at *12-14.

119. *Id.* at *14.

120. *Id.* (citing Edwards v. Arthur Andersen LLP, 189 P.3d 285 (Cal. 2008)).

121. Green Payment Solutions, LLC v. First Data Merch. Servs. Corp., No. CV 18-1463 DSF (ASx), 2019 WL 4570015, at *5 (C.D. Cal. Aug. 5, 2019).

122. *Id.*

and avoid creating unenforceable contracts of restraint, as well as avoid creating potential employer tort liability?[123] Based upon the analysis above, there are four key points:

A. There is no trade secret exception to BPC section 16600;[124]

B. An employer may not restrain a former employee from working for a competitor or engaging in a competing business enterprise, regardless of whether the former employee has or had access to trade secrets;[125]

C. An employer may not restrain a former employee from cultivating or developing information if this activity is performed without use of or reliance upon the employer's trade secrets, regardless of whether the former employee had access to the employer's trade secrets;[126] and

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123. *See Edwards*, 189 P.3d, at 290 ("In order to prove a claim for intentional interference with prospective economic advantage, a plaintiff has the burden of proving five elements: (1) an economic relationship between plaintiff and a third party, with the probability of future economic benefit to the plaintiff; (2) defendant's knowledge of the relationship; (3) an intentional act by the defendant, designed to disrupt the relationship; (4) actual disruption of the relationship; and (5) economic harm to the plaintiff proximately caused by the defendant's wrongful act, including an intentional act by the defendant that is designed to disrupt the relationship between the plaintiff and a third party."); Reeves v. Hanlon, 95 P.3d 513, 517 (Cal. 2004) ("May the tort of interference with contractual relations be predicated upon interference with an at-will contract? Historically, the answer is yes. A third party's 'interference with an at-will contract is actionable interference with the contractual relationship' because the contractual relationship is at the will of the parties, not at the will of outsiders. More specifically, may such tort be based on interference with an at-will employment relationship? Again, historically, the answer is yes." (citations omitted)). *See generally* Graves, *supra* note 16, at 11.

124. *See supra* notes 40-94 and accompanying text.

125. *Id.*

126. *See generally* D'Sa v. Playhut, Inc., 102 Cal. Rptr. 2d 495, 497-98 (Cal. Ct. App. 2000). The subject non-disclosure agreement was determined to be unenforceable with regard to its goal of restraining future employment related to the same or similar products (rather than merely restricting use of delineated trade secrets), and provided:

> Employee will not render services, directly or indirectly, for a period of one year after separation of employment with Playhut, Inc. to any person or entity in connection with any Competing Product. A 'Competing Product' shall mean any products, processes or services of any person or entity other than Playhut, Inc. in existence or under development, which are substantially the same, may be substituted for, or applied to substantially that same end use as the products, processes or services with which I work during the time of my employment with Playhut, Inc. or about which I work during the time of my employment with Playhut, Inc. or about which I acquire Confidential Information through my work with Playhut, Inc. Employee agrees that, upon accepting employment with any organization in competition with the Company or its affiliates during a period of five year(s) following employment separation, Employee shall notify the Company in writing within thirty days of the name and address of such new employer.

Id.

D. An injunction to prevent misappropriation of protected trade secrets under CALUTSA can only extend to prevent use of the specific information constituting such trade secrets and cannot restrain a former employee from engaging in competitive activities, or from developing information (including something similar to the original trade secrets) as long as done without use of or reliance upon the original confidential information.[127]

> While Cal. Bus. & Prof. Code § 16600 does not constrain a court in equity from fashioning an appropriate remedy focused on the *misappropriation* of trade secrets, . . . a court should be highly cognizant of the important policies embodied in Cal. Bus. & Prof. Code § 16600 when crafting an injunction.[128]

Fear that an employee will be unable to compartmentalize information with a result of inevitable disclosure[129] does not satisfy the legal requirements to justify an injunction under CALUTSA,[130] and any

127. *See supra* notes 107-11 and accompanying text.

128. Pyro Spectaculars N., Inc. v. Souza, 861 F. Supp. 2d 1079, 1096 (E.D. Cal. 2012) (emphasis added).

129. *See infra* notes 131-32 and accompanying text. The author has previously characterized inevitable disclosure as "guilty until proven guilty" (or "liable until proven liable" in the civil law context). *See* Anderson, *supra* note 1, at 32; *see also* Elizabeth A. Rowe, *When Trade Secrets Become Shackles: Fairness and the Inevitable Disclosure Doctrine*, 7 TUL. J. TECH. & INTELL. PROP. 167 (2005). *See generally* David Lincicum, Note, *Inevitable Conflict?: California's Policy of Worker Mobility and the Doctrine of "Inevitable Disclosure,"* 75 S. CAL. L. REV. 1257 (2002).

130. *See generally* Retirement Grp. v. Galante, 98 Cal. Rptr. 3d 585, 593 (Cal. Ct. App. 2009) ("We distill from the foregoing cases that §16600 bars a court from specifically enforcing (by way of injunctive relief) a *contractual clause* purporting to ban a former employee from soliciting former customers to transfer their business away from the former employer to the employee's new business, but a court may enjoin *tortious conduct* (as violative of either the Uniform Trade Secrets Act and/or the Unfair Competition Law) by banning the former employee from using trade secret information to identify existing customers, to facilitate the solicitation of such customers . . . . Viewed in this light, therefore, the conduct is enjoinable *not* because it falls within a judicially-created [trade secret] 'exception' to section 16600's ban on contractual nonsolicitation clauses, but is instead enjoinable because it is wrongful independent of [the contractual undertaking of confidentiality related to the trade secret] . . . ."); Dowell v. Biosense Webster, Inc., 102 Cal. Rptr. 3d 1, 10-11 (Cal. Ct. App. 2009) ("In reconciling the 'tension' between section 16600 and trade secrets, the *Galante* court stated: 'We distill from the foregoing cases that section 16600 bars a court from specifically enforcing (by way of injunctive relief) a *contractual* clause purporting to ban a former employee from soliciting former customers to transfer their business away from the former employer to the employee's new business, but a court may enjoin *tortious* conduct (as violative of either the Uniform Trade Secrets Act (Civ. Code, §3426 et seq.) and/or the unfair competition law) by banning the former employee from using trade secret information to identify existing customers, to facilitate the solicitation of such customers, or to otherwise unfairly compete with the former employer. Viewed in this light, therefore, the conduct is enjoinable *not* because it falls within a judicially created 'exception' to section 16600's ban on contractual nonsolicitation clauses, but is instead enjoinable because it is wrongful independent of any contractual undertaking.' ").

such injunction would also violate BPC section 16600.[131]

That said, there remains a carefully restricted and limited right under CALUTSA to *only* prevent a former employee from using trade

131. *See* Whyte v. Schlage Lock Co., 125 Cal. Rptr. 2d 277, 281 (Cal. Ct. App. 2002). ("The doctrine of inevitable disclosure permits a trade secret owner to prevent a former employee from working for a competitor despite the owner's failure to prove the employee has taken or threatens to use trade secrets. Under that doctrine, the employee may be enjoined by demonstrating the employee's new job duties will inevitably cause the employee to rely upon knowledge of the former employer's trade secrets. No published California decision has accepted or rejected the inevitable disclosure doctrine. In this opinion, we reject the inevitable disclosure doctrine. We hold this doctrine is contrary to California law and policy because it creates an after-the-fact covenant not to compete restricting employee mobility."); Cypress Semiconductor Corp. v. Maxim Integrated Prod., Inc., 186 Cal. Rptr. 3d 486, 504–05 (Cal. Ct. App. 2015) ("Nothing in the complaint, and nothing submitted by Cypress since filing the complaint, lends any color to the naked assertion that Maxim was pursuing Cypress employees with the object of extracting trade secrets from them. In the trial court Maxim suggested that Cypress's claims in this regard implicitly rested on the doctrine of inevitable disclosure, under which some jurisdictions will permit a plaintiff to substantiate a trade secret claim against a departing employee 'by demonstrating that [the] defendant's new employment will inevitably lead him to rely on the plaintiff's trade secrets.' This doctrine, as Maxim pointed out, has been flatly rejected in this state as incompatible with the strong public policy in favor of employee mobility. The inevitable disclosure doctrine would contravene this policy by 'permit[ting] an employer to enjoin the former employee without proof of the employee's actual or threatened use of trade secrets based upon an inference (based in turn upon circumstantial evidence) that the employee inevitably will use his or her knowledge of those trade secrets in the new employment. The result is not merely an injunction against the use of trade secrets, but an injunction restricting employment.' Cypress expressly disclaimed any reliance on the doctrine of inevitable disclosure, but in the absence of that doctrine we can detect no basis for its allegation of threatened misappropriation. . . . Given the complete absence of any coherent factual allegations suggesting a threatened misappropriation, Cypress's second theory of relief was an inevitable disclosure claim, or it was no claim at all—and in either case, it did not state grounds for relief under California law." (citations omitted)); Hooked Media Grp., Inc. v. Apple Inc., 269 Cal. Rptr. 3d 406, 413–14 (Cal. Ct. App. 2020), *review granted and cause transferred sub nom*. Hooked Media Grp. v. Apple, 472 P.3d 1064 (Cal. 2020) ("Hooked relies on circumstantial evidence that in its view generates an inference of trade secret use sufficient to create a triable issue of fact as to that element: its former employees were assigned to tasks at Apple similar to the work they did at Hooked and within weeks one of them produced a detailed plan for a recommendations system much like Hooked's version. Further, an expert opined that the source code for Apple's recommendations system was similar to the source code for Hooked's. That evidence does suggest the engineers drew on knowledge and skills they gained from Hooked to develop a product for their new employer—but California's policy favoring free mobility for employees specifically allows that. Allowing an action for trade secret misappropriation against a former employee for using his or her own knowledge to benefit a new employer is impermissible because it would be equivalent to *retroactively* imposing on the employee a covenant not to compete. For that reason, evidence that Apple hired engineers with knowledge of Hooked's trade secrets and that the engineers inevitably would have relied on that knowledge in their work for Apple does not support a claim for improper acquisition of a trade secret. Hooked did not meet its burden to show a triable issue of material fact." (citations omitted)).

secrets.[132] It does not prevent competition by the former employee, either directly or through a new employer. Any confidentiality agreement, or injunction, must not traverse into the sacred house of BPC section 16600, by attempting to restrain such former employee from competing with the former employer, or soliciting customers, as long as the former employee does so without use of, or reliance upon, confidential information or trade secrets.[133] Let's consider some examples of unenforceable restraints:

SAMPLE A: "Employee agrees that the customer lists of Employer are confidential and constitute trade secrets (Proprietary Customer Lists), and Employee agrees to not remove or use such Proprietary Customer Lists in any way upon separation from Employer, and further agrees not to solicit any customers on such Proprietary Customer Lists following separation from Employer."

Why is it unenforceable? The Employee and/or new employer could independently develop customer lists without use of, or reliance upon, the Proprietary Customer Lists. For example, the Employee might develop a list of customers from researching a database, or from information or leads developed by the new employer, without use of the Proprietary Customer Lists. Obviously, the (former) Employee, as well as new employer, would be well served from an evidentiary and liability perspective by maintaining a document trail clearly demonstrating that the new customer lists were generated without use of, or reliance upon, the trade secrets of the former Employer.

SAMPLE B: "Employee is assigned to develop a radio frequency transmitter circuit (Project) for Employer and will have access to confidential and proprietary information in this project. Upon separation from Employer, Employee agrees for a period of six months to not work upon anything similar to the Project for any other person or entity."

Why is this unenforceable? The attempted restraint has absolutely no connection to the Employer's trade secrets. Instead, it attempts to restrain the Employee from a lawful trade, profession, or occupation. Additionally, the time limit of restriction adds nothing to enforceability, because BPC section 16600 is not contingent upon short time limits or narrow restraints.[134]

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132. *See* CAL. CIV. CODE §§ 3426.1 - 3426.3 (West, Westlaw through Ch. 1 of 2022 Reg. Sess.).

133. *See supra* note 122.

134. *See* Edwards v. Arthur Andersen LLP, 189 P.3d 285 (Cal. 2008); *see also* Bradford P. Anderson, *Edwards v. Arthur Andersen LLP: There is Not a "Narrow-Restraint" Exception to California's Prohibition of Noncompetition Agreements, and a General Release May Not Mean What It Says*, 39 GOLDEN GATE U. L. REV. 163 (2009).

In both of the examples above, the sample provisions fail the enforceability litmus test because they seek to venture beyond trade secret protection, into the land of restraint violative of BPC section 16600, as well as beyond the scope of protection of any trade secrets under CALUTSA.

An enforceable provision would have the following traits:

A. There would be an underlying confidentiality agreement limited to information of the employer that is proprietary, and derives actual or potential economic value through not being generally known to the public or others ("Proprietary Information");[135] and

B. Any restriction placed upon the employee would be limited to a prohibition against use of, or reliance upon the Proprietary Information. For example, the employee could be prohibited from *using the Proprietary Information* for development of customer lists/profiles or *using the Proprietary Information* to create a new invention or device.

C. Any restriction placed upon the employee would not attempt to prevent the employee from engaging in the same or similar line of work for another employer, or from developing new inventions or devices (even if they are similar to the work performed for the former employer), as long as doing so does not involve the use of, or reliance upon, the Proprietary Information.

Of course, in a battle over preventing a specifically delineated trade secret from being used, versus an attempt by a former employer to restrain a former employee from engaging in the same or similar business in violation of BPC section 16600, both the former employee and the new employer would be extremely well served to have clear documentation (e.g., research materials, lab books, and the like) demonstrating independent development, free of any use of or reliance upon the former employer's proprietary information.

No doubt, there will come a day when a judicial showdown occurs on the mythical trade secret exception. This myth came to life out of dangerous little *dictum*. As demonstrated above, we can already portend the outcome of such a battle. The showdown will undoubtedly finally cast a death knell to the myth.

135. *See* CAL. CIV. CODE § 3426.1(d) (West, Westlaw through Ch. 1 of 2022 Reg. Sess.).