The California Myth About Non-Compete Agreements

BY SUSAN K. EGGUM

Non-compete agreements remain an important and viable tool for the protection of proprietary business information and trade secrets. Are non-compete agreements enforceable if your key employee takes a position with a competitor in California? I find that many sophisticated clients say, "No." They are right and wrong. Your non-compete, entered in compliance with the Oregon statute, will likely be enforced by a court in California against a former key employee whose knowledge and/or possession of trade secrets will be used in the employ of a competitor, or used in the formation of a competing venture. This is true of any state, and there are a few, which make non-compete agreements void as a matter of public policy.

For starters, courts generally will not enforce a non-compete if there is no interest to protect. The doctrine of a protectable interest is frequently set out on the face of a state's statute, including Oregon's statute. Or, the doctrine may be found in a state's decisional law. Indisputably, no matter where business is done, employers have a protectable interest in trade secrets. The effective prosecution or defense of a non-compete in a temporary restraining order or preliminary injunction action will often involve claims for misappropriation of trade secrets. Though not always, proving or disproving the existence, and misuse, of a trade secret bolsters the ability to prove or disprove a protectable interest. Depending on the law of the state that governs the dispute, this is also true for common law claims for unfair competition.

The Uniform Trade Secrets Act (UTSA) has been enacted by 47 states, including the District of Columbia. States that have enacted statutes making non-compete agreements void or subject to enumerated exceptions (California, Montana, North Dakota, Alabama and Oklahoma) have also enacted the UTSA in whole or with minor exception. Thus, even states that subject a non-compete agreement to rigorous restraint-on-trade scrutiny often will, if asked, enforce a non-compete to the extent necessary to protect against improper use or disclosure of a trade secret. For example, Colorado has an announced public policy that non-competes "shall be void," but also expressly excepts "[a]ny contract for the protection of trade secrets." C.R.S. 8-2-113(2)(b). Thus, states like California that make non-competes void *without* any express statutory exception for the protection of trade secrets, will often fashion and enter temporary restraining order and preliminary injunction orders if necessary for the protection of the former employer.

If a key executive or manager in possession of proprietary information defects to a competitor, and relocates their residence and job site to a state that is exceedingly unfriendly to non-competes, then one of the parties is going to be the first to file a suit to enforce the non-compete or to bar its enforcement. A case in point: *Advanced Bionics Corp. v. Medtronic.*, 29 Cal. 4th 697 (2002), *modified en banc, reh'g denied* 29 Cal.4th 1195A (2003), involved a senior manager employed by a Minnesota company, Medtronic, who was recruited by a competitor, Advanced Bionics, based in California. On the same day the senior manager resigned, he and Advanced Bionics filed a declaratory relief action in California to declare his otherwise valid non-compete void and unenforceable. The action in California made its way to the California Supreme Court, which found that Minnesota had a greater interest in protecting the expectations of parties to an enforceable contract than California had in declaring the non-compete void. According to the concurring opinion of Justice Brown of the California Supreme Court, "[r]elocating to California may be, for some people, a chance for a fresh start in life, but it is not a chance to walk away from valid contractual obligations, claiming California policy as a protective shield."

It is true that *Advanced Bionics* was the result of a unique procedural posture. However, this action and other similar reported decisions out of other states remind the multistate non-compete litigant that all is not lost when a key defector takes intellectual property to states, like California, that void non-compete agreements as a matter of public policy.

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