

**It's Not Personal. It's Strictly Business: How California
Non-Competition and Trade Secret Law Demonstrate the
Harsh Realities Facing Talent Agencies in the Sports and
Entertainment Industries**

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(I) Executive Summary

"It's not personal. It's strictly business."¹ This famous quote from *The Godfather* is indicative of the unforgiving nature of talent representation in the sports and entertainment industries. While the practice of talent representation does not reach the extremes of killing corrupt police officers, it has nevertheless acquired a reputation for being a cutthroat business.² Unfortunately for talent agencies, this ruthless reputation is often a harsh reality when agents defect from their respective agencies to join other agencies and in the process bring clients with them. The practice of defecting agents luring clients away from their former employer has become more and more commonplace.³ Talent agencies often recruit agents, giving them the proper foundation and resources to develop a profitable client base.⁴ Is it fair to talent agencies that they provide the vehicle for these agents to build such a client base and are powerless to prevent them from leaving to rival agencies with clients in hand? California law and public policy effectively deems this as a justifiable practice. *California Business and Professions Code Section 16600 (B&P 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."⁵ In other words, any covenant not to compete that an employee signs with a California employer is

¹ *THE GODFATHER* (Paramount Pictures 1972).

² See Chris Ayres, *It's Open Season for Poachers: The Oscars Trigger a Frenzy of Activity for Hollywood Agents, Desperate to Catch the Hottest Stars*, LONDON TIMES, Jan. 25, 2007, available at http://entertainment.timesonline.co.uk/tol/arts_and_entertainment/film/article1295826.ece.

³ See *Speakers of Sport, Inc. v. ProServ, Inc.*, 178 F.3d 862, 865 (7th Cir. 1999); Stacey B. Evans, Survey, *Sports Agents: Ethical Representatives or Overly Aggressive Adversaries?*, 17 VILL. SPORTS & ENT. L.J. 91, 108 (2010).

⁴ See L. Jon Wertheim, *It's Nothing Personal-Honest: IMG Went to Court when Jeff Schwartz took his Leave and Star Tennis Clients*, SPORTS ILLUSTRATED, Mar. 22, 1999, at 76, available at <http://sportsillustrated.cnn.com/vault/article/magazine/MAG1015370/index.htm>.

⁵ CAL. BUS. & PROF. CODE § 16600 (Deering 2010).

unenforceable.⁶ In addition, client lists that agents may bring to other agencies are typically not considered trade secrets that can be legally protected under the California-adopted Uniform Trade Secret Act (UTSA).⁷ While the terms of an agent's employment contract can bar them from directly soliciting specified clients after they leave, agencies cannot prevent clients from willingly following an agent after being informed of the agent's departure.⁸ Due to the strong working relationships and close personal friendships that often develop between clients and agents, clients are often inclined to follow their agent to his or her new firm.⁹ Consequently, agents are essentially free to move from agency to agency taking clients with them. Because California is home to many of the top talent representation firms, representing both high-profile artists and athletes, most potential litigation between talent agencies and defecting agents is subject to California law. This creates significant hardships on agencies trying to retain clients.

The dilemma for the legislatures and courts concerning *B&P 16600* really boils down to economic and social welfare policies. By enforcing *B&P 16600*, California promotes a free market system predicated on employee mobility by removing traditional barriers on employees from leaving their respective

⁶ See Adam Gill, *The Inevitable Disclosure Doctrine: Inequitable Results are Threatened but not Inevitable*, 24 HASTINGS COMM. & ENT. L.J. 403, 415 (2002).

⁷ See *Steinberg Moorad & Dunn, Inc. v. Dunn*, 136 Fed. Appx. 6, 12 (9th Cir. 2005); *Morlife, Inc. v. Perry*, 56 Cal. App. 4th 1514, 1521 (Cal. App. 1997).

⁸ See *General Commercial Packaging, Inc. v. TPS Package Eng'g, Inc.*, 126 F.3d 1131, 1132 (9th Cir. 1997); *Hilb, Rogal and Hamilton Ins. Serv's of Orange Cnty, Inc. v. Robb*, 33 Cal. App. 4th 1812, 1821 (Cal. App. 1995).

⁹ See Liz Mullen, *Lawsuits May Affect Big-Name Sports Agencies*, SPORTS BUS. J., May 17, 2010, available at <http://www.sportsbusinessdaily.com/Journal/Issues/2010/05/20100517.aspx>

employers for other competing companies.¹⁰ However, the codification of this policy puts talent agencies in the vulnerable position of knowing that at any moment one of their agents could receive a better offer from another agency or even establish their own firm, potentially taking all their clients with them. Ultimately, the problem is finding the correct balance between promoting a traditional capitalistic system while furnishing an acceptable level of protection to employer businesses. Unfortunately, due to the extraordinarily competitive nature of the sports and entertainment industries, there is a comparatively high rate of employee defection; thus, the burdens *B&P 16600* places on traditional employers are especially problematic for talent agencies.¹¹ The inability of agencies to enforce non-competition agreements or claim client lists as protected trade secrets puts them at a serious disadvantage, giving agents a great deal of leverage and influence in agent-agency relationships.¹² Unregulated employee mobility could reduce incentive for agencies to invest in agent training and trade secrets to which agents have access; however, due to the complexities of the business and the high level of competition within these industries, successful agencies have no choice but to fully invest in the growth and development of their agents.¹³ If agencies deliberately constrain such training or information from their employees, they risk

¹⁰ See David Lincicum, *Inevitable Conflict?: California's Policy of Worker Mobility and The Doctrine of "Inevitable Disclosure,"* 75 S. CAL. L. REV. 1257, 1268 (2002).

¹¹ See also Stacey B. Evans, Survey, *Sports Agents: Ethical Representatives or Overly Aggressive Adversaries?*, 17 VILL. SPORTS & ENT. L.J. 91, 109 (2010); Michael Cieply and Brooks Barnes, *New Mogul Ascends With Old Hollywood Clout*, N.Y. TIMES, June 10, 2009, at A1; Liz Mullen, *CAA Muscles Way Into Sports Agent Business: Top-Dollar Deals for Condon, Close give Hollywood Agency Instant Cachet in Representation*, SPORTS BUS. J., Apr. 17, 2006, at 4, available at <http://www.sportsbusinessdaily.com/Journal/Issues/2006/04/20060417.aspx>

¹² See Peter Keating, *Crash Landing*, ESPN THE MAGAZINE, Apr. 1, 2003, available at <http://espn.go.com/magazine/vol5no07steinberg.html>; see also *Steinberg Moorad & Dunn, Inc. v. Dunn*, 136 Fed. Appx. 6, 10-13 (9th Cir. 2005).

¹³ See Lincicum, *supra* note 10, at 1270.

losing their most promising agents to other firms that offer such resources.¹⁴

Even more problematic is that the lack of restrictions on agents soliciting their former employer's clients and the procedural loopholes that often diminish what little restrictions exist both open the door for illegal business practices by defecting agents.¹⁵

This paper first discusses the relevance of California law in the business of talent representation. It then analyzes the public policy arguments behind the application of *B&P 16600* while investigating the deleterious effects this statute and the California UTSA has on employer agencies. Additionally, it discusses the legal issues in agent-agency disputes involving the “stealing” of clients. Finally, this paper explores the available courses of action agencies have against former employee agents as well as options agencies have to better shield themselves from the actual loss of clients and the ensuing economic loss from their departure.

(2)How Much Influence does California Law have on the Business of Talent Representation?

Home to entertainment superpowers Creative Artists Agency (CAA), William Morris Endeavor Entertainment (WMEE), International Creative Management (ICM) and United Talent Agency (UTA), California is already at the epicenter of a substantial amount of potential litigation stemming from agent-agency disputes.¹⁶ However, a new trend of merging the sports and entertainment industries could very well cement California as the home to a vast majority of

¹⁴ Josh Luchs, *Confessions of an Agent*, SPORTS ILLUSTRATED, Oct. 28, 2010, at 69, available at <http://sportsillustrated.cnn.com/2010/magazine/10/12/agent/index.html>.

¹⁵ See Hilb, Rogal, and Hamilton Ins. Svc's of Orange Cnty, Inc., 33 Cal. App. 4th at 1821.

¹⁶ See also Mullen, *supra* note 9; Matthew Futterman, *Talent Agencies Cry Foul, Lawsuits Fly -- Some of the Sports Figures who have Switched Talent Agencies from IMG to CAA*, WALL ST. J., May 7, 2010, at B1; Steinberg Moorad & Dunn, Inc., 136 Fed. Appx. at 12.

such litigation.¹⁷ Traditional sports agencies are beginning to see an exodus of agents and clients heading for Hollywood.¹⁸ In 2006, International Management Group (IMG) alone saw some of its top sports agents in baseball, football and hockey all leave in a matter of months with several high-profile clients in hand when CAA launched their new sports division.¹⁹

The line between professional athlete and Hollywood celebrity is rapidly fading evidenced by high-profile athletes, such as LeBron James, who are choosing agencies like CAA as their primary means of representation:

They are multitasking. They're not just into the sports world, they are into movies and a lot of other ventures, so at the end of the day it's going to be great. CAA is going to definitely impact my marketing, impact my business and impact a lot of things we do.²⁰

Professional athletes today not only look to profit simply from playing their respective sport, but also seek to capitalize on their celebrity status by branching into sectors such as media, television and film.²¹ For example, tennis star Serena Williams, once a prominent IMG client, switched to William Morris Agency (now WMEE) after expressing a great deal of interest in becoming an actress.²² In a recent Sports Illustrated article entitled "Confessions of an Agent," former National Football League (NFL) agent Josh Luchs described the emergence of Hollywood's influence in sports during the 2000s when he worked at The Gersh Agency, another big talent firm:

¹⁷ See Thomas K. Arnold, *Top Athletes Follow Celebs in Picking A-list Agents*, USA TODAY, Apr. 6, 2007, at 1A; Mullen, *supra* note 11.

¹⁸ *Id.*

¹⁹ See Arnold, *supra* note 17; Mullen, *supra* note 11.

²⁰ Arnold, *supra* note 17.

²¹ *Id.*

²² Mullen, *supra* note 11.

I am on the phone with Dallas Cowboys defensive end Marcus Spears. I am trying to persuade him to switch agents, and I'm telling him to come to L.A. I sense hesitation, so I put the phone out the window. "Do you hear that Marcus? Do you hear it?" I yell. "You know what that is? That's Hollywood, baby. Hollywood's calling. You gonna answer the call?" A week later, Marcus was in my office signing a representation agreement.²³

It is evident that traditional entertainment firms such as CAA and WMEE provide the greatest amount of resources for any athlete wishing to make the foray into the entertainment business; resources that traditional sports agencies have such as Octagon and IMG seemingly cannot match. When former IMG hockey agent Pat Brisson left to join CAA, he said he chose CAA because "CAA has so much experience. This company understands the entertainment world more than anyone else."²⁴ This consolidation of clients from the sports and entertainment industries puts California even more at the center of potential litigation arising from client stealing in the course of agent defection. Consequently, this paper primarily concerns the applicability of California law in agent-agency disputes.

(3)California Business and Professions Code Section 16600 (B&P 16600)

Enacted in 1941, *California Business and Professions Code Section 16600 (B&P 16600)* states 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."²⁵ Simply put by the California Supreme Court: "A former employee has the right to engage in a competitive business for himself and to enter into competition with his former employer, even for the business of those who had formerly been the customers of his former employer, provided such competition is

²³ Luchs, *supra* note 14.

²⁴ Arnold, *supra* note 17, at B1.

²⁵ CAL. BUS. & PROF. CODE § 16600 (Deering 2010).

fairly and legally conducted."²⁶ Whether such competition is "fairly and legally conducted" is determined by laws surrounding the misappropriation of trade secrets and the illegal solicitation of clients, all forms of unfair competition.²⁷ In the absence of such conduct, *B&P 16600* rejects non-competition agreements to encourage employee mobility and open competition, policies that have been deeply rooted in California law dating back to 1872.²⁸

These fundamental principles have been upheld in even the most scandalous of cases. For example, one of the seminal cases concerning a defecting agent luring away agency clients involved NFL attorney-agent David Dunn and his former partner, Leigh Steinberg.²⁹ In 2003, Dunn left Steinberg's agency, Steinberg, Moorad and Dunn, Inc. (SMD), to start his own competing firm, Athletes First.³⁰ SMD, once a powerhouse in representing professional football players, was decimated when Dunn took approximately fifty NFL clients with him to Athletes First.³¹ SMD sued Dunn for breach of the non-competition provision in his employment contract and misappropriation of trade secrets among other claims.³² In a decision contradictory to *B&P 16600*, a California district court handed down a judgment for Steinberg's agency in the amount of \$44.6 million.³³

²⁶ Gill, *supra* note 6, at 415 (citing *Continental Car-Na-Var Corp. v. Moseley*, 24 Cal.2d 104, 110 (1994)).

²⁷ See Peter A. Carfagna, *Representing the Professional Athlete* 125-26 (Thomas Reuters ed., West 2009); Steinberg Moorad & Dunn, Inc., 136 Fed. Appx. At 12-13.; Gill, *supra* note 6.

²⁸ Lincicum, *supra* note 10.

²⁹ Evans, *supra* note 11.

³⁰ *Id.*

³¹ *Id.*

³² *Steinberg Moorad & Dunn, Inc.*, 136 Fed. Appx. at 9.

³³ See Evans, *supra* note 11.

The district court found the non-competition clause in Dunn's employment contract to be enforceable under *California Civil Code section 3423 (Cal. Civ. Code § 3423)*.³⁴ "This section allows a court to enjoin competition by unique and irreplaceable employees during the fixed term of the contract, even if they no longer work for the employer."³⁵ The statute was designed for the unique and rare circumstances where an employee has become so valuable to a company that his or her departure and initiation of a competing business would essentially cripple their former employer's ability to operate on a competitive level.³⁶

While the district court found the non-competition clause in Dunn's employment contract to fall within the scope of *Cal. Civ. Code § 3423*, the appellate court disagreed.³⁷ The U.S. Court of Appeals for the Ninth Circuit reversed the district court's jury instruction as to the application of *Cal. Civ. Code § 3423* stating that the non-competition clause in Dunn's employment contract was invalid under California law citing *B&P 16600* as the controlling authority.³⁸ SMD argued that because the jury awarded them damages, they had found Dunn to be a unique and irreplaceable employee and thus subject to the non-competition clause in his contract.³⁹ However, the Ninth Circuit dismissed this argument because there was no evidence presented to the jury indicating that Dunn was unique or irreplaceable.⁴⁰ In addition, even if such evidence was presented, the only available relief to SMD would have been injunctive relief and not the

³⁴ *Steinberg Moorad & Dunn, Inc.*, 136 Fed. Appx. at 10-11.

³⁵ *Id.* at 10.

³⁶ *Id.* at 10-11.

³⁷ *Id.* at 10.

³⁸ *Id.*

³⁹ *Id.* at 10-11.

⁴⁰ *Id.*

monetary damages initially awarded to SMD.⁴¹ The SMD decision effectively clarifies any potential ambiguity in the California federal court system's endorsement of *B&P 16600* in agent-agency disputes, demonstrating its liberal application in such cases.

Although there is an exception to *B&P 16600* that draws parallels to the argument set forth in *Cal. Civ. Code § 3423*, there is a clear distinction. *California Business and Professions Code 16602* provides that, in a partnership, an agreement that a partner signs restraining them from competing in a specified geographic location is enforceable.⁴² The rationale is similar to *Cal. Civ. Code § 3423* where in a partnership the defection of one partner often confers great hardships on the remaining partners and can even force the partnership to dissolve. However, the business structure of larger talent firms generally consists of limited liability companies and corporations.⁴³ SMD was a corporation and therefore not subject to this exception.⁴⁴

It can be difficult to argue with the economics of encouraging employee mobility and capitalistic behavior. *B&P 16600* is arguably both a wise and progressive policy that other states should look to adopt in some form.

Encouraging such competition often makes for a healthier economic structure in

⁴¹ *Id.* at 11.

⁴² CAL. BUS. & PROF. CODE § 16602 (Deering 2010).

⁴³ See *Creative Artists Agency, LLC*, BLOOMBERG BUSINESSWEEK, 2010, available at <http://investing.businessweek.com/research/stocks/private/snapshot.asp?privcapId=561555>; *William Morris Endeavor Entertainment, LLC*, BLOOMBERG BUSINESSWEEK, 2010, available at <http://investing.businessweek.com/research/stocks/private/snapshot.asp?privcapId=58311567>; *United Talent Agency, Inc.*, BLOOMBERG BUSINESSWEEK, 2010, available at <http://investing.businessweek.com/research/stocks/private/snapshot.asp?privcapId=13639044>; *International Creative Management, Inc.*, BLOOMBERG BUSINESSWEEK, 2010, available at <http://investing.businessweek.com/businessweek/research/stocks/private/snapshot.asp?privcapId=4593693>.

⁴⁴ See *Steinberg Moorad & Dunn, Inc.*, 136 Fed. Appx. at 9.

just about any industry. And while sometimes a former employee's value may be so overwhelming that there is seemingly a justifiable need for a non-competition provision, California courts continue to reiterate that the interests of employees in “mobility and betterment are deemed paramount to the competitive interests of the employers where neither the employee nor the new employer has committed any illegal act accompanying employment change.”⁴⁵

(4) Analyzing the Reach of California Business and Professions Code 16600

Because most states recognize non-competition agreements in employment contracts, it would seem that agencies headquartered outside of California are protected from enforcement of *B&P 16600*, especially if an agent’s employment agreement explicitly states that a particular state law is controlling over the entire agreement.⁴⁶ However, this is not necessarily the case. A recently settled case between International Management Group (IMG) and defecting junior agent Matthew Baldwin, from IMG's Minneapolis office, brought to light a potential means for defecting agents in other states heading to California to invoke *B&P 16600* through a diversity lawsuit by establishing California residency.⁴⁷ On April 2, 2010, Baldwin defected from IMG to talent

⁴⁵ *Silguero v. Creteguard, Inc.*, 187 Cal. App. 4th 60, 69 (2010); *Diodes, Inc. v. Franzen*, 260 Cal. App.2d 244, 255 (1968); David Lincicum, Note, *Inevitable Conflict?: California’s Policy of Worker Mobility and The Doctrine of “Inevitable Disclosure,”* 75 S. CAL. L. REV. 1257, 1269 (2002).

⁴⁶ See Jason Gershwin, Comment, *Will Professional Athletes Continue to Choose Their Representation Freely? An Examination of the Enforceability of Non-Compete Agreements Against Sports Agents*, 5 U. PA. J. LAB. & EMP. L. 585, 603 (2003).

⁴⁷ See Eriq Gardner, *Why More Talent Agents Might Soon Be Defecting to Rival Agencies*, THE HOLLYWOOD REPORTER, ESQ. BLOG, Aug. 23, 2010, available at <http://thesq.hollywoodreporter.com/2010/08/agents-defection-matthew-baldwin-case-update.html> (Google’s cache version); Liz Mullen, *IMG, Matthew Baldwin Both Claim Victory in Lawsuit Settlement*, SPORTS BUS. J., Sept. 16, 2010, available at

representation powerhouse Creative Artists Agency (CAA) headquartered in California.⁴⁸ IMG alleged that he violated the non-competition clause and nonsolicitation provisions in his employment contract barring him from soliciting IMG clients he had represented for two years.⁴⁹ Baldwin represented several high profile professional and college coaches such as Mike Shanahan, Mike Leach and Jay Wright.⁵⁰

Although Baldwin worked in IMG's Minneapolis office, his employment contract stated that Ohio law, which recognizes non-competition agreements in certain cases, applied to the entirety of the agreement.⁵¹ However, on March 29, 2010, four days before Baldwin announced his resignation, he signed a lease on a Los Angeles apartment.⁵² He then claimed that his California residency made him subject to California law thus rendering the non-competition clause and nonsolicitation provisions unenforceable.⁵³ On April 2, the day Baldwin announced his resignation, he filed a lawsuit in a California federal district court against IMG seeking a declaration stating that the non-competition clause in his employment contract is void and thus unenforceable.⁵⁴ IMG promptly followed by filing their own lawsuit in an Ohio federal district court seeking a temporary

<http://www.sportsbusinessdaily.com/article/142170>; Liz Mullen, *Lawsuits May Affect Big-Name Sports Agencies*, SPORTS BUS. J., May 17, 2010, at 1.

⁴⁸ Mullen, *supra* note 9.

⁴⁹ Liz Mullen, *IMG, Matthew Baldwin Both Claim Victory in Lawsuit Settlement*, SPORTS BUS. J., Sept. 16, 2010, available at <http://www.sportsbusinessdaily.com/article/142170>; Liz Mullen, *Lawsuits May Affect Big-Name Sports Agencies*, SPORTS BUS. J., May 17, 2010, at 1.

⁵⁰ Futterman, *supra* note 16.

⁵¹ Liz Mullen, *Lawsuits May Affect Big-Name Sports Agencies*, SPORTS BUS. J., May 17, 2010, at 1. Raimonde v. Van Vlerah, 42 Ohio St.2d 21, 25-26 (Ohio 1975).

⁵² Futterman, *supra* note 16.

⁵³ *Id.*

⁵⁴ *Id.*

restraining order that would prevent Baldwin from soliciting IMG clients.⁵⁵ IMG asked the California federal district court to dismiss the case or move it to an Ohio court.⁵⁶

Baldwin's argument stemmed from a similar case in 2007 between IMG and defecting agent Jay Danzi.⁵⁷ Danzi, who worked at IMG's Cleveland office and represented professional golfers Ben Curtis and Hunter Mahan, left IMG to join Wasserman Media Group in California.⁵⁸ The arbitrator found that California law was applicable; thus, the non-competition clause and nonsolicitation provisions in Danzi's employment contract were unenforceable.⁵⁹ The arbitration decision was subsequently confirmed by a federal district court in California; ironically, the same district of California where Baldwin filed his action seeking declaratory judgment.⁶⁰ The Court found that because Danzi was a California resident, the Ohio forum selection clause in his employment contract was unenforceable.⁶¹

Federal statutory law regarding venue helps explain the arbitrator's decision and district court's subsequent confirmation. 28 U.S.C. § 1391(a)(2) provides that where defendants reside in different states, the relevant state law is where "a substantial part of the events or omissions giving rise to the claim occurred, or a substantial part of property that is the subject of the action is

⁵⁵ *Id.* at B7.

⁵⁶ *Id.*

⁵⁷ Mullen, *supra* note 9.

⁵⁸ See Liz Mullen, *Lawsuits May Affect Big-Name Sports Agencies*, SPORTS BUS. J., May 17, 2010, at 1; C&G Represents IMG Golf Agent to Head Wasserman Media Group's Golf Division, CIANO AND GOLDWASSER L.L.P., 2009, available at <http://www.cianogoldwasser.com/Danzi.html>.

⁵⁹ Mullen, *supra* note 9, at 1.

⁶⁰ *Id.*

⁶¹ See Liz Mullen, *Lawsuits May Affect Big-Name Sports Agencies*, SPORTS BUS. J., May 17, 2010, at 1; Eriq Gardner, *Agent Defection Creates Nasty Litigation*, THE HOLLYWOOD REPORTER, ESQ. BLOG, May 17, 2010, available at <http://reporter.blogs.com/thresq/sports/>.

situated.”⁶² Because Danzi worked in Ohio and his employment agreement stipulated that Ohio law be applicable to the entirety of the contract, a logical conclusion is that the case be heard in Ohio.⁶³ However, 28 U.S.C. § 1401(a), regarding change of venue, provides “for the convenience of parties and witnesses, in the interest of justice, a district court may transfer any civil action to any other district or division where it might have been brought.”⁶⁴ Simply put, if it was more convenient and fair for the case to be heard in California, all Danzi had to do was prove the case could have been filed in California, which his California residency established. Due to IMG’s superior resources, it was logically less burdensome for IMG to travel to California and argue the case than it was for Danzi to travel to Ohio. Baldwin, both a plaintiff and defendant, placed himself in a position similar to Danzi.⁶⁵ And because Baldwin filed his declaratory action in California before IMG filed their lawsuit in Ohio, the Ohio federal district judge deferred selection of venue to the California federal district judge.⁶⁶ Thus, if he had followed through with his lawsuit and proven his California residency, there is a distinct possibility that the district court in California would have agreed to hear the case. In addition to convenience and fairness, change of venue cases involving *B&P 16600* have found that it is in the interests of justice to transfer a case to California because states that recognize non-competition agreements violate fundamental California public policy; thus,

⁶² 28 U.S.C. § 1391(a)(2) (2010).

⁶³ See Mullen, *supra* note 9.

⁶⁴ 28 U.S.C. § 1401 (1948).

⁶⁵ See Mullen, *supra* note 9.

⁶⁶ Gardner, *supra* note 47.

California has a greater interest in hearing the case.⁶⁷ Based on the Danzi decision and rules of venue, if an employee has already established a California residency, there is a realistic likelihood that this employee will be subject to California law even if their employment contract states otherwise.

It may seem absurd to think Baldwin could have proven he was a resident of California after leasing an apartment a mere four days before announcing his decision to leave; however, a closer look at the State of California Franchise Tax Board Guidelines for Determining Resident Status (herein referred to after as California FTB Guidelines) indicates that California residency can be quickly established.

A person is considered a resident of California if they are: (1) “present in California for other than a temporary or transitory purpose;” or (2) “domiciled in California, but outside California for a temporary or transitory purpose.”⁶⁸ In the first scenario, the California FTB Guidelines clearly state that if your employer assigns you to an office for a long or indefinite period of time, you are not in California for a temporary or transitory purpose and thus a resident.⁶⁹ In the second scenario, California defines the term “domicile” as “the place where you voluntarily establish yourself and family, not merely for a special or limited purpose, but with a present intention of making it your true, fixed, permanent home and principal establishment. It is the place where, whenever you are absent, you intend to return.”⁷⁰

⁶⁷ See *United Rentals, Inc. v. Pruett*, 296 F.Supp.2d 220, 224-225 (2003).

⁶⁸ FRANCHISE TAX BOARD, STATE OF CALIFORNIA, GUIDELINES FOR DETERMINING RESIDENT STATUS, FTB PUB. 1031. 1-13, 2 (2009).

⁶⁹ *Id.* at 3.

⁷⁰ *Id.* at 4.

Baldwin leased an apartment four days before announcing his decision to leave for CAA.⁷¹ Under the first scenario, Baldwin's argument could have been that his employer CAA assigned him to California for an indefinite period of time; thus, he is not there merely on a temporary or transitory basis and is subject to California law.⁷² Under the second scenario, Baldwin's argument could have been that he intends the apartment he leased in Los Angeles to be his permanent home and that his recent time outside of California has simply been temporary.⁷³ Under either scenario Baldwin seemingly had a legitimate argument.

While there are other nonexclusive factors the California FTB Guidelines says can be considered when determining residency other than the permanence of work assignments and location of principal residence, these two factors seem to be most significant.⁷⁴ The Baldwin case has set forth a potential strategy defecting agents can use to subject themselves to the benefits of *B&P 16600*. An example taken directly from the California FTB Guidelines demonstrates the immediacy with which one can establish California residency:

Example 2 - In December 2008, you moved to California on an indefinite job assignment. You rented an apartment in California and continued to live in the apartment. You retained your home and bank account in Illinois until April 2009, at which time you sold your home and transferred your bank account to California.

Determination: Your assignment in California was for an indefinite period; therefore, your stay in California was not of a temporary or transitory nature. Although you kept ties in Illinois until April 2009, you became a California resident upon entering the state in December 2008.⁷⁵

⁷¹ Futterman, *supra* note 16.

⁷² FRANCHISE TAX BOARD, *supra* note 68, at 3.

⁷³ *Id.* at 4.

⁷⁴ *See id.* at 3.

⁷⁵ *Id.* at 4.

According to this example, it seems someone in a similar situation to Baldwin or Danzi could gain immediate resident status the moment they secure long-term employment and demonstrate intent to remain in California on a permanent basis. Between the Danzi decision, the rules of venue and flexible rules of establishing California residency, *B&P 16600* has a far wider reach than conventional wisdom might suggest, serving as a word of caution to out-of-state agencies attempting to bind their agents to non-competition agreements.

(5)The Uniform Trade Secrets Act (UTSA) and Misappropriation in California

Talent agencies generally do not seek legal action against former employees solely to prevent increased competition; they also sue to prevent the taking of clients. In *Steinberg Moorad & Dunn, Inc.*, it is unlikely that Dunn's desire to launch his own competing agency was Steinberg's principal motivation for initiating legal action.⁷⁶ More than likely it was Dunn's raiding of approximately fifty SMD NFL clients and bringing them to his new agency that prompted such action.⁷⁷ SMD argued that their agency's client list was a protected trade secret which was misappropriated when Dunn used his knowledge of agency clients to seek out and persuade those clients to switch agencies.⁷⁸ Reasonably limited restrictions on *B&P 16600* such as those necessary to protect an employer's trade secrets do not violate *B&P 16600* as misappropriation of such

⁷⁶ See *Steinberg Moorad & Dunn, Inc.*, 136 Fed.Appx at 12-13.

⁷⁷ See Evans, *supra* note 11.

⁷⁸ See Jason Gershwin, *Will Professional Athletes Continue to Choose Their Representation Freely? An Examination of the Enforceability of Non-Compete Agreements Against Sports Agents*, 5 U. PA. J. LAB. & EMP. L. 585, 598-99 (2003); *Steinberg Moorad & Dunn, Inc.*, 136 Fed.Appx. at 12.

information is a clear violation of fundamental antitrust law.⁷⁹ In fact, California courts admit that trade secrets tend more to promote than restrain trade and business.⁸⁰ Whether SMD's client list constituted a protectable trade secret is determined by the Uniform Trade Secrets Act (UTSA); adopted by forty-six states, including California in 1984.⁸¹

Under the California UTSA, a trade secret is defined as:

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.⁸²

The existence of a trade secret alone does not constitute a valid claim.⁸³ There must also be actual or threatened misappropriation of the protected trade secret in order for equitable or monetary relief to be available.⁸⁴ Under *California Civil Code 3426.1(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; or (ii) acquired under the 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 (C) before a material change of his or her position, knew or had reason to know that it

⁷⁹ *Loral Corp. v. Moyes*, 174 Cal.App.3d 268, 275-76 (1985).

⁸⁰ *Id.* at 276.

⁸¹ See CAL. CIV. CODE § 3426.1(d) (Deering 2010); *Steinberg Moorad & Dunn, Inc.*, 136 Fed.Appx. at 12; *Morlife, Inc.*, 56 Cal. App. 4th 1520; David Almeling, *Practical Case For Federalizing Trade Secret Law*, LAW360 (June 23, 2009), available at <http://www.law360.com/articles/106724>.

⁸² § 3426.1(d).

⁸³ Gill, *supra* note 6, at 408.

⁸⁴ *Id.*

was a trade secret and that knowledge of it had been acquired by accident or mistake.⁸⁵

Whether a client list is a misappropriated trade secret protected under the California-adopted Uniform Trade Secret Act is an issue both the state and federal court system in California has addressed at length.⁸⁶

(6) Does a Client List Constitute a Trade Secret under the California Uniform Trade Secrets Act?

An effective method many businesses use to protect former employees from soliciting former customers is to establish their client list as a protectable trade secret.⁸⁷ To determine whether a client list falls under the California UTSA definition of a trade secret, there must be a consensus of what exactly a client list is. Presumably, a client list is a document that lists all of the agency's clients and client contact information.⁸⁸ This list can also include clients' schedules and various personal preferences.⁸⁹ California courts have treated client lists as a broader term encompassing the specific knowledge a former employee might have of their previous employer's customers and any advantage that employee could potentially gain by exploiting such knowledge for their own financial benefit.⁹⁰ Even knowing how California courts define a client list, the key question that arises is when does a client list constitute a protectable trade secret?

The California UTSA defines a trade secret as information that derives independent economic value because it is not generally known to the public or

⁸⁵ CAL. CIV. CODE § 3426.1(b) (Deering 2010).

⁸⁶ *Morlife, Inc.*, 56 Cal.App. 4th 1514; see also *Steinberg Moorad & Dunn, Inc.*, 136 Fed.Appx. 6.

⁸⁷ See *Morlife, Inc.*, 56 Cal.App. 4th at 1521-23.

⁸⁸ See *id.* at 1521.

⁸⁹ See *Steinberg Moorad & Dunn, Inc.*, 136 Fed. Appx. at 12-13.

⁹⁰ See *Morlife, Inc.*, 56 Cal.App. 4th at 1521-22.

others who stand to gain from its disclosure and must be subject to reasonable efforts to maintain its secrecy.⁹¹ Under California's codification of the UTSA, information can be regarded as a protectable trade secret even though it is readily ascertainable, as long as it has not actually been ascertained by others in the industry.⁹² However, talent agency client lists generally fall short of meeting this criterion in California courts.⁹³ For example, in *Steinberg Moorad & Dunn, Inc.* SMD claimed that Dunn's solicitation of agency clients was unlawful because such client list information was a protectable trade secret.⁹⁴ Both the district court and Ninth Circuit rejected SMD's claim of trade secret misappropriation granting Dunn's motion for summary judgment.⁹⁵ Both courts concluded that because the client list information was readily accessible to any agent in the industry, it was not a protectable trade secret.⁹⁶ In fact, the National Football League Players Association published a list of players and their agents, including SMD's clients, on its website.⁹⁷ Being readily accessible to both the general public and others involved in the sports business, the list itself derived very little independent economic value and therefore did not constitute a protectable trade secret under the California UTSA.⁹⁸ SMD also claimed that knowledge of client desires and preferences constituted a trade secret.⁹⁹ It is true that proprietary information such as client preferences and desires can constitute protectable trade secrets;

⁹¹ 3426(d).

⁹² *Abba Rubber Co. v. Seaquist*, 235 Cal.App.3d 1, 21 (1991).

⁹³ *See Steinberg Moorad & Dunn, Inc.*, 136 Fed.Appx. at 12.

⁹⁴ *Id.*

⁹⁵ *Id.*

⁹⁶ *Id.*

⁹⁷ *Carfagna*, *supra* note 27, at 129.

⁹⁸ *See also Steinberg Moorad & Dunn, Inc.*, 136 Fed. Appx. at 12-13.

⁹⁹ *Id.*

however, both courts found these claims by SMD were not supported by any credible evidence.¹⁰⁰

(a) *Accessibility of Client List Information*

The Ninth Circuit's rejection of Steinberg's client list as a protectable trade secret exposed the shortcomings of talent agencies' argument that agency client lists should be legally protected. The difficulty with trying to justify that agency client lists are protectable trade secrets is relatively clear; the information is readily accessible, not just to employees within the agency or those within the sports and entertainment industries, but even the general public.¹⁰¹ As previously mentioned in the case of SMD, the NFLPA publishes player representative information on their website.¹⁰² Players associations from other sports such as the National Hockey League (NHL), Major League Baseball (MLB) and National Basketball Association (NBA) all publish similar player agent information.¹⁰³ For \$15.95 a month on the professional edition of the website Internet Movie Database (IMDbPro), anybody can look up which talent representation firms and agents from those firms represent certain actors, actresses, directors, writers, producers and athletes involved in the entertainment industry.¹⁰⁴ "IMDbPro is the best site for accurate agent contacts."¹⁰⁵ This quote comes from Howard Meltzer, the senior casting director for Disney Entertainment Productions endorsing the

¹⁰⁰ *Id.*

¹⁰¹ *See id.*

¹⁰² Carfagna, *supra* note 27, at 129.

¹⁰³ Telephone Interview with Peter A. Carfagna, Visiting Lecturer in Sports Law, Harvard Law School and Executive in Residence, Cleveland-Marshall College of Law (July 23, 2010) (copy of notes of interview on file with author).

¹⁰⁴ IMDbPro Promotional Page, *available at*

https://secure.imdb.com/signup/v4/?d=tt_prodnotes_seemore.

¹⁰⁵ *Id.*

website as being a reliable source for obtaining artists' representation information.¹⁰⁶ In fact, Internet Movie Database lists this quote right on their website to attract users to upgrade to IMDbPro.¹⁰⁷ In short, there is little regulation as to what client representation information is accessible to the general consuming public.

Information regarding which agents and agencies represent certain artists is common knowledge throughout the sports and entertainment industries.¹⁰⁸ Athletes from the four major sports (NFL, MLB, NHL and NBA) are required to obtain representation from a certified agent as part of their collective bargaining agreements and such information is subsequently published.¹⁰⁹ Nearly all established artists and professional athletes work with talent agents and the aggressive nature of the business is such that agents are always keeping tabs on artists' and athletes' status with their current agents in the event an opportunity arises to lure one of them away to another firm.¹¹⁰ With the high turnover in agency employment and the constant migration of agents to new agencies, it

¹⁰⁶ *Id.*

¹⁰⁷ *Id.*

¹⁰⁸ See Carfagna, *supra* note 103; Eriq Gardner, *Attention Client Poachers: Follow this Case*, THE HOLLYWOOD REPORTER, ESQ. BLOG Dec. 17, 2009, available at <http://reporter.blogs.com/thresq/sports/>; Chris Ayres, *It's Open Season for Poachers: The Oscars Trigger a Frenzy of Activity for Hollywood Agents, Desperate to Catch the Hottest Stars*, TIMES (London), Jan. 25, 2007, available at http://entertainment.timesonline.co.uk/tol/arts_and_entertainment/film/article1295826.ece.

¹⁰⁹ Carfagna, *supra* note 103.

¹¹⁰ See Eriq Gardner, *Attention Client Poachers: Follow this Case*, THE HOLLYWOOD REPORTER, ESQ. BLOG (Dec. 17, 2009), available at <http://reporter.blogs.com/thresq/sports/>; Chris Ayres, *It's Open Season for Poachers: The Oscars Trigger a Frenzy of Activity for Hollywood Agents, Desperate to Catch the Hottest Stars*, TIMES (London), Jan. 25, 2007, available at http://entertainment.timesonline.co.uk/tol/arts_and_entertainment/film/article1295826.ece

seems impossible to consider a client list as anything but readily accessible information to those in the industry.¹¹¹

(b) Efforts to Maintain the Secrecy of Client List Information

Several state and federal court systems, including California, are reluctant to protect client lists which contain information readily ascertainable through public sources.¹¹² However, if an employer has expended time, effort and capital identifying customers with particular needs or characteristics, a court will likely prohibit former employees from using such information to undermine the employer's relationships with those clients to advance their own financial interests.¹¹³ "As a general principle, the more difficult information is to obtain, and the more time and resources expended by an employer in gathering it, the more likely a court will find such information to be a protected trade secret."¹¹⁴ However, due to the lack of investment in policing and maintaining the secrecy of client lists by talent agencies, the information itself derives very little independent economic value and consequently cannot be considered a protectable trade secret under the California UTSA.

The rationale behind this determination is expressed in *Morlife, Inc.* where the Court stated that the requirement that a customer list must have economic value to qualify as a trade secret has been interpreted to mean that the secrecy of

¹¹¹ See Michael Cieply and Brooks Barnes, *New Mogul Ascends With Old Hollywood Clout*, N.Y. TIMES, June 10, 2009, at A1; Liz Mullen, *CAA Muscles Way Into Sports Agent Business: Top-Dollar Deals for Condon, Close give Hollywood Agency Instant Cachet in Representation*, SPORTS BUS. J., Apr. 17, 2006, at 4; Thomas K. Arnold, *Top Athletes Follow Celebs in Picking A-list Agents*, USA TODAY, Apr. 6, 2007, at 1A; *Steinberg Moorad & Dunn, Inc. v. Dunn*, 136 Fed. Appx. 6, 12 (9th Cir. 2005).

¹¹² *Morlife, Inc. v. Perry*, 56 Cal. App. 4th 1514, 1521 (1997); See *Steinberg Moorad & Dunn, Inc. v. Dunn*, 136 Fed. Appx. 6, 12 (9th Cir. 2005).

¹¹³ *Morlife, Inc.*, 56 Cal. App. 4th at 1521-22.

¹¹⁴ *Id.* at 1522.

such information provides a company with a substantial business advantage.¹¹⁵ Its disclosure would allow a competitor to direct its sales efforts towards those customers which have already shown a willingness to use the unique type of product or service provided by both businesses; thus, inevitably diminishing profit margins from the aggrieved business because they either lose customers or have to reduce prices in order to compete.¹¹⁶ Whether agency client information is available to the general public and those involved in the industry or the lack of reasonable efforts by talent agencies to maintain the secrecy of such information, it is evident that agency client lists are generally not protectable trade secrets.

(7) What Constitutes a Misappropriation of an Agency Client List Trade Secret?

Even if a talent agency somehow satisfies the burden of proving their client list is a protectable trade secret under the California UTSA, they must still show actual or threatened misappropriation of the trade secret in order for equitable or monetary relief to be granted.¹¹⁷ Misappropriation, as likely applicable in agent-agency disputes, is the disclosure or use of another's trade secret without the holder's express or implied consent when at the time of disclosure or use, the person disclosing the information knew or had reason to know that they owed a duty to the trade secret holder seeking relief to maintain its secrecy or limit its use.¹¹⁸ As a former employee of the agency, the defecting agent has a duty to maintain the secrecy of a client list if deemed a protectable

¹¹⁵ *Id.*

¹¹⁶ *Id.*

¹¹⁷ CAL. CIV. CODE § 3426.2 (Deering 2011).

¹¹⁸ CIV. § 3426.1(b).

trade secret.¹¹⁹ When determining whether to grant equitable relief for misappropriation, there are two factors the court must analyze:

The first is the likelihood that the requesting party will ultimately prevail on the merits, and the second is a balancing of harm that the requesting party is likely to sustain if the injunction is denied against the harm to the enjoined party if the injunction is granted.¹²⁰

Even if the agency seeking an injunction for misappropriation can show a likelihood of significant harm sustained if the injunction is denied, a court will probably not grant the injunction because the requesting party is unlikely to prevail on the merits. As previously mentioned there are two types of misappropriation, actual and threatened.¹²¹ Agencies would rarely encounter threatened misappropriation because it is not in the interest of a defecting agent, planning to compete with their present employer, to warn that employer they are about to disclose the employer's protected client list information before leaving. More than likely, an agent threatening to disclose protected client list information is not aiming to leave the agency at all, but to extort a promotion or salary increase from them. Actual misappropriation is likely evident when the defecting agent's new agency begins to see an influx of new clients formerly represented by the agent at his or her former employer; consequently, the damage is, in a sense, already done rendering an equitable form of relief futile. However these deductions are nothing more than logical suppositions because there is little relevant litigation concerning misappropriation of agency client lists. The reality with trying to prove the misappropriation of agency client list information is that

¹¹⁹ Carfagna, *supra* note 27, at 125-27, 140-41.

¹²⁰ Gill, *supra* note 6, at 408.

¹²¹ Civ. § 3426.2.

agencies are never in a position to prove misappropriation.¹²² As previously mentioned, agency client list information is readily accessible to competitors within the industry, therefore, there is no value a talent agency can claim is lost as a consequence of its disclosure.

(8) Applicability of the Inevitable Disclosure Doctrine (IDD)

Talent agencies may try to apply the Inevitable Disclosure Doctrine (IDD) as an alternative effort to persuade courts as to the existence of trade secret misappropriation; unfortunately, they will be hard-pressed to find favorable precedent in California. The IDD traditionally served as an alternative means to find someone liable for trade secret misappropriation when there is no clear proof of actual or threatened misappropriation of an employer's trade secret.¹²³ In short, the IDD says that "a plaintiff may prove a claim of trade secret misappropriation by demonstrating that the defendant's new employment will inevitably lead him to rely on the plaintiff's trade secrets."¹²⁴ The line of reasoning here is clear. In certain circumstances, departing employees cannot seek comparable employment with other employers without inevitably divulging trade secret information attained from their previous employment.¹²⁵

Although the IDD was originally developed and used by an Ohio court of appeals in 1963, the seminal case that sparked interest in the IDD came over thirty years later in *Pepsico, Inc. v. Redmond*.¹²⁶ In *Redmond*, William Redmond, a former Pepsico executive, accepted a job with Quaker, a competing company, to

¹²² See Steinberg Moorad & Dunn, Inc. v. Dunn, 136 Fed. Appx. 6, 12 (9th Cir. 2005).

¹²³ Gill, *supra* note 6, at 408-09.

¹²⁴ Pepsico, Inc. v. Redmond, 54 F.3d 1262, 1269 (7th Cir. 1995).

¹²⁵ See *id.*

¹²⁶ Gill, *supra* note 6, at 409-10.

develop marketing strategies for the sports drink Gatorade among other beverages.¹²⁷ Pepsico sought injunctive relief claiming that Redmond's knowledge of Pepsico's marketing strategies constituted protectable trade secrets that Redmond could not possibly refrain from utilizing at his new job at Quaker.¹²⁸ The Court granted Pepsico injunctive relief saying the marketing strategies developed by Pepsico and disclosed to Redmond while still employed, which were unknown to others in the industry, gave Pepsico an advantage over his competitors.¹²⁹ The Court concluded that Redmond could not make decisions about Gatorade and other drinks without relying on his knowledge of Pepsico trade secrets and thus invoked the IDD.¹³⁰

Unfortunately for agencies trying to place legal protections upon their client lists, the IDD faces the exact same roadblock that any misappropriation claim encounters; talent agencies are generally never in a position to invoke such a doctrine because agency client lists simply do not constitute protectable trade secrets. In *Redmond*, the marketing strategies Pepsico used were unknown to others in the industry and were subject to reasonable efforts by Pepsico to maintain secrecy.¹³¹ As previously mentioned, most agency client lists are readily accessible to others involved in the sports and entertainment industries, and not subject to reasonable policing efforts to be kept secret.

Even if talent agencies were in a position to assert an IDD claim for client list information or other proprietary information belonging to the agency, they

¹²⁷ *Id.* at 410.

¹²⁸ *Id.* at 410-11.

¹²⁹ *Redmond*, 54 F.3d at 1269, 1272.

¹³⁰ *Id.* at 1269.

¹³¹ *Id.* at 1269-70.

would have little precedent as to the applicability of the doctrine in California. California's attempted adoption of the IDD was rejected by the Court of Appeal for the Fourth District of California in *Schlage Lock Co. v. Whyte*.¹³² The Court stated that "the Inevitable Disclosure Doctrine cannot be used as a substitute for proving actual or threatened misappropriation of trade secrets."¹³³ Prior to *Schlage Lock Co.*, the Court of Appeal for the Second District of California attempted to adopt the IDD in *Electro Optical Industries v. White* while also recognizing that it had never been adopted before by any state court.¹³⁴ The Court stated the reasoning behind the IDD is "rooted in common sense and calls for a fact-specific inquiry."¹³⁵ Nevertheless, the California Supreme Court subsequently squashed the Second District's decision leaving it with no legal effect.¹³⁶ Despite the common sense rationale behind the IDD, California courts have decisively rejected its adoption leaving little chance for its revival anytime in the near future.¹³⁷ Consequently, any claim where a talent agency has little evidence of actual or threatened misappropriation is likely to fail. While the idea of the IDD may be rooted in common sense, many states believe that its definition is too broad, providing little guidance on the appropriate standard to be used; thus, courts are very hesitant to adopt it.¹³⁸ In short, the IDD is likely either a dead end or nonfactor for any agency seeking to prevent former agents from taking clients.

¹³² Gill, *supra* note 6, at 412.

¹³³ *Whyte v. Schlage Lock Co.*, 101 Cal. App. 4th 1443, 1464 (2002).

¹³⁴ Gill, *supra* note 6, at 412.

¹³⁵ *Electro Optical Industries, Inc. v. White*, 76 Cal. App. 4th 653 (1999).

¹³⁶ Gill, *supra* note 6, at 412.

¹³⁷ *Id.* at 413.

¹³⁸ *See id.* at 414.

Due to California courts' liberal application of *B&P 16600* and talent agencies' inability to establish client lists as protectable trade secrets, there is little California-based agencies, and in some cases out-of-state agencies, can do to prevent ambitious agents from leaving with clients. While an agency can always try and offer an agent an increase in compensation, there is a potentially dangerous precedent being set that can ultimately lead to the agent holding the firm hostage for both money and control. For agencies seeking better protection from client-stealing, the real question is whether there is a nexus between California's prohibition of non-competition agreements and illegal agent practices. A look at the economic benefits of prohibiting non-competition agreements followed by an insight to potential illegal practices exercised by agents as a consequence of this policy provides a better understanding as to whether a such a correlation exists and whether there is reasonable justification for a more limited application of *B&P 16600*.

(9)The Practical Economic Effects of California Business and Professions Code 16600 in the Business of Talent Representation

The prohibition of non-competition agreements and the rejection of agency client lists as protectable trade secrets represent seemingly insuperable barriers to talent agencies attempting to enjoin former agents from soliciting and ultimately taking clients; however, the economic justification for establishing this high burden has been validated in many respects. In 1995, an agent at International Creative Management (ICM) named Ari Emanuel was suddenly fired after he and three other ICM agents were discovered leaving ICM's building

in the middle of the night with client files in hand.¹³⁹ This stunt turned out to be part of their plan to launch a competing firm called Endeavor.¹⁴⁰ Endeavor quickly turned into one of Hollywood's most successful agencies.¹⁴¹ Endeavor was so successful that in 2009 they merged with longtime powerhouse William Morris Agency to form William Morris Endeavor Entertainment (WMEE).¹⁴² WMEE is now amongst the "big four" talent representation firms along with ICM, UTA and CAA.¹⁴³ In fact, Emanuel's reputation as a relentless entrepreneurial super-agent is so well known that Emanuel himself is loosely portrayed in the character of agent Ari Gold from HBO's hit television series *Entourage*.¹⁴⁴

In 2009, Emanuel's ambitions brought WMEE to a new economic plateau as the agency secured an exclusive relationship with The Raine Group (Raine).¹⁴⁵ Raine is a boutique investment banking firm that finances emerging investment opportunities in the media, entertainment and sports (MES) sector worldwide.¹⁴⁶ In a growth capital style of private equity investment, the group formed with the

¹³⁹ Cieply & Barnes, *supra* note 11, at A1.

¹⁴⁰ *Id.*

¹⁴¹ See Lauren A. E. Schuker, *Corporate News: Hollywood Agency Merger Approved*, WALL ST. J., Apr. 28, 2010, at B3, available at http://www.lexisnexis.com/lawschool/research/default.aspx?ORIGINATION_CODE=00092&signoff=off

¹⁴² *Id.*

¹⁴³ Matthew Belloni, *Emanuel, O'Connor, Berkus and Berg Share Stage at USC Law Symposium*, THE HOLLYWOOD REPORTER, ESQ. BLOG (Oct. 17, 2009, 5:06 PM), http://reporter.blogs.com/thresq/law_school/index.html.

¹⁴⁴ Ariel Z. Emanuel, N.Y. TIMES – TIMES TOPICS (June 10, 2009), <http://topics.nytimes.com/topics/reference/timestopics/people/index.html> (follow "E" hyperlink; then follow "Emanuel, Ariel Z." hyperlink).

¹⁴⁵ See Nikki Finke, *WME-Stacked Raine Antes \$300M Media Fund*, DEADLINE HOLLYWOOD (Sept. 19, 2010), <http://www.deadline.com/2010/09/when-it-raines-it-pours-300m-for-wme/>; Nour Malas, *Abu Dhabi's Mubadala Buys Stake in Raine Group*, WALL ST. J., Mar. 12, 2010, at C3, available at <http://online.wsj.com/article/SB10001424052748703625304575115192724946132.html>.

¹⁴⁶ Malas, *supra* note 145, at C3.

objective of providing WMEE with the financial firepower to allow WMEE partners or clients to finance media start-ups or its own productions.¹⁴⁷ Emanuel effectively took a page out of CAA's book as CAA formed a similar partnership in 2008 creating the investment bank Evolution Media Capital (EMC).¹⁴⁸ EMC, a film-finance venture, is headed by the former team from Merrill Lynch's Media and Sports Structured Finance Group.¹⁴⁹ Since its inception, EMC has raised and advised on more than \$2 billion in media and sports transactions.¹⁵⁰

Emanuel has recently taken this business method to another level. On September 19, 2010, news broke that Raine already raised \$300 million for a new private equity fund to invest in an array of media.¹⁵¹ WMEE also owns a significant stake in the Raine parent company; consequently, WMEE may have the option to represent those companies in media that receive Raine investments from the new fund.¹⁵² The new fund will also be an attractive asset to WMEE's current clients who could secure employment opportunities with the companies in media that receive Raine investments and seek to expand.¹⁵³ Raine and WMEE's target figure for this fund is \$500 million.¹⁵⁴ While this number seems like a difficult objective to reach given the current economic climate, it would be wise

¹⁴⁷ See Finke, *supra* note 145.

¹⁴⁸ *Id.*

¹⁴⁹ Nikki Finke, *CAA Sells 35% Minority Interest to TPG: Lovett Says "This Strategic Partnership Marks New Start For Agency's Future,"* DEADLINE HOLLYWOOD (Oct. 1, 2010, 2:25 PM), <http://www.deadline.com/2010/10/caa-sells-35-minority-interest-to-tpg/>.

¹⁵⁰ *Id.*

¹⁵¹ Finke, *supra* note 145.

¹⁵² *Id.*

¹⁵³ *Id.*

¹⁵⁴ *Id.*

not to discount Emanuel's creativity as WMEE already proved they could put together \$300 million in a stagnant market.¹⁵⁵

Not long after WMEE formed their partnership with the Raine Group, CAA began negotiations with several investment banking and private equity firms in order to infuse their agency with similar financial capital.¹⁵⁶ In June, 2010, CAA came close to reaching an agreement with Kohlberg Kravis Roberts & Co. (KKR), a New York based private equity firm, where KKR would buy a stake in CAA in the amount of \$200 million.¹⁵⁷ However, in August, 2010, the deal fell through mainly due to the recession-hit marketplace and the fact that KKR held a highly anticipated public stock offering in July that fell flat.¹⁵⁸ However, on October 1, 2010, CAA announced that they had secured a financial partnership with private equity powerhouse TPG Capital.¹⁵⁹ TPG Capital (formerly known as Texas Pacific Group), with over \$47 billion under management, invested an estimated \$105 million for a non-controlling 35% interest in the agency.¹⁶⁰ While the \$105 million represents only about half the amount CAA was looking to secure, it still represents a considerable infusion of liquidity considering CAA's annual revenues were around \$300 million in 2007 prior to the onset of the

¹⁵⁵ *See id.*

¹⁵⁶ Nikki Finke, *CAA Negotiating \$200M Investment from KKR: Partners Want to Cash Out of Agency*, DEADLINE HOLLYWOOD (June 14, 2010, 10:47AM), <http://www.deadline.com/2010/06/is-this-the-end-of-a-hollywood-era-caa-negotiating-200m-investment-from-kkr-partners-want-to-cash-out-of-agency/>.

¹⁵⁷ Nikki Finke, *Now KKR is Backing Off CAA Investment*, DEADLINE HOLLYWOOD (Aug. 3, 2010, 2:33 PM), <http://www.deadline.com/2010/08/now-kkr-is-backing-off-caa-investment/>.

¹⁵⁸ Nikki Finke, *CAA Sells 35% Minority Interest to TPG: Lovett Says "This Strategic Partnership Marks New Start For Agency's Future,"* DEADLINE HOLLYWOOD (Oct. 1, 2010, 2:25 PM), <http://www.deadline.com/2010/10/caa-sells-35-minority-interest-to-tpg/>; *See* Julie Creswell, *After Years of Anticipation, a Subdued Public Offering for Kohlberg Kravis*, N.Y. TIMES, July 16, 2010, at B3.

¹⁵⁹ Finke, *supra* note 149.

¹⁶⁰ *Id.*

financial crisis.¹⁶¹ In addition to this cash infusion, CAA and TPG committed to create a \$500 million pledge fund to provide access to significant capital for future MES investments.¹⁶² In a press release, CAA Managing Partners expressed their excitement over the agreement:

Our new relationship with TPG will help us continue to build momentum in the work we do for clients every day. With TPG's experience and resources, this could be accomplished through capital investments that build on our full service platform, new business leads developed through TPG's extensive worldwide relationships, expert insight on the international marketplace, and a myriad of other ways.¹⁶³

Entrepreneurial activity of this nature by ambitious agents such as Emanuel has raised the competitive spirits among Hollywood agencies resulting in more unique and innovative business strategies. With talent agencies finding ways "to diversify beyond the traditional commissioning business to create revenue" it is hard to believe the state of California will be seeking to contradict their fundamental public policy of employee mobility that has been rigorously upheld for over 130 years.¹⁶⁴ Emanuel's actions are precisely the type of behavior that spurs economic development while unfortunately exposing potential unethical and illegal practices exercised by ambitious agents. ICM was powerless to prevent Emanuel's hijacking of several former clients and while his ethical

¹⁶¹ *Id.*

¹⁶² *Id.*

¹⁶³ *Id.*

¹⁶⁴ Nikki Finke, *WME-Stacked Raine Antes \$300M Media Fund*, DEADLINE HOLLYWOOD (Sept. 19, 2010, 9:34 AM), <http://www.deadline.com/2010/09/when-it-raines-it-pours-300m-for-wme/>; See David Lincicum, Note, *Inevitable Conflict?: California's Policy of Worker Mobility and The Doctrine of "Inevitable Disclosure,"* 75 S. CAL. L. REV. 1257, 1268 (2002).

behavior was questionable at best, his subsequent successes only strengthen the California courts' economic policy arguments behind *B&P 16600*.¹⁶⁵

(10) Liberal Enforcement of California Business and Professions Code 16600 Opens the Door for Unfair Competition by Agents; but can such Illegal Activity be Proven?

(a) Nature of the Illegal Agent Activity

There is little question that the liberal application of *B&P 16600* allows agents to freely leave the employ of one agency and engage in competition with their former employer, often bringing clients with them.¹⁶⁶ However, California courts make it clear that upholding the public policies behind *B&P 16600* cannot be at the expense of the employer if the employee has engaged in any illegal activity accompanying the employment change.¹⁶⁷ Unfair Competition claims such as the misappropriation of agency client lists as trade secrets have proven to be ineffective.¹⁶⁸ Nevertheless, it is unlikely that the process of "client-stealing" occurs without the existence of some unethical or illegal activity by the agents involved.

A reasonable person may argue that client-stealing is unethical or even illegal, however, this is usually not the case. The reality is that client-stealing has become a generally accepted practice.¹⁶⁹ In California, the frequency with which agents switch employers inevitably leads to the practice of stealing clients. As

¹⁶⁵ See Emily Morgan, *Ari Emanuel and James Wiatt to Reunite in New Talent Agency*, MUCKETY, (Apr. 29, 2009, 12:54 PM), <http://news.muckety.com/2009/04/29/ari-emanuel-and-james-wiatt-to-reunite-in-new-talent-agency/15001>.

¹⁶⁶ *Steinberg Moorad & Dunn, Inc. v. Dunn*, 136 Fed. Appx. 6, 10 (9th Cir. 2005).

¹⁶⁷ *Cont'l Car-Na-Var Corp. v. Moseley*, 24 Cal.2d 104, 110 (Cal. 1994); Adam Gill, Note, *The Inevitable Disclosure Doctrine: Inequitable Results are Threatened but not Inevitable*, 24 HASTINGS COMM. & ENT. L.J. 403, 415 (2002).

¹⁶⁸ See *Steinberg Moorad & Dunn, Inc.*, 136 Fed. Appx. at 12.

¹⁶⁹ *Speakers of Sport, Inc. v. ProServ, Inc.*, 178 F.3d 862, 865 (7th Cir. 1999).

discussed earlier, agent-client relationships often develop into not only great working relationships but also close personal friendships.¹⁷⁰ Clients, as free market consumers, may choose to follow their agent to a new agency.¹⁷¹

While “client-stealing” itself is not considered unethical or illegal, the behavior a departing agent displays on his or her way out can very well be both. Such illegal conduct concerns forms of unfair competition such as the direct solicitation of former clients and the misappropriation of proprietary information belonging to the aggrieved agency that enables a defecting agent to better compete with their former employer.¹⁷² As with any departing employee, an agent will likely know that he or she is leaving their current agency before actually departing.¹⁷³ It is unlikely that an agent with a profitable client base would not confer with their clients to seek their approval and forthcoming loyalty before committing to leave for another agency.¹⁷⁴ It is also unlikely that an agent would be able to complete this process in a matter of days.¹⁷⁵ More than likely, an agent gathers client loyalties for weeks, if not months in advance before exiting all the while collecting paychecks from the very agency they plan on leaving. Such conduct effectively undermines their current employer’s efforts to generate business and acquire new clients.¹⁷⁶

¹⁷⁰ See Mullen, *supra* note 9, at 1.

¹⁷¹ Hilb, Rogal & Hamilton Insurance Services of Orange Cnty, Inc. v. Robb, 33 Cal. App. 4th 1812, 1821 (Cal. Ct. App. 1995); Aetna Bldg. Maintenance Co. v. West, 39 Cal.2d 198, 204 (Cal.1952).

¹⁷² See Carfagna, *supra* note 103.

¹⁷³ See *id.*

¹⁷⁴ See *id.*

¹⁷⁵ See *id.*

¹⁷⁶ See *id.*

For an employed agent to recruit current and or new clients to another agency is considered illegal solicitation, a form of unfair competition. Such solicitation of clients to another agency violates the duty of loyalty that all employees owe to their respective employers.¹⁷⁷ The duty of loyalty is described in the Restatement of Agency:

Throughout the duration of an agency relationship, an agent has a duty to refrain from competing with the principal and from taking action on behalf of or otherwise assisting the principal's competitors. During that time, an agent may take action, not otherwise wrongful, to prepare for competition following termination of the agency relationship.¹⁷⁸

In short, the duty of loyalty protects agencies from unfair competition on behalf of its agents during their terms of employment.¹⁷⁹ This common law duty's high popularity has been displayed through its codification in many states, including California.¹⁸⁰ If an agency can submit sufficient evidence of such behavior that violates this duty, they may sue for tortious conduct such as unfair competition, fraud and misrepresentation.¹⁸¹ As previously mentioned, "during the course of an employment relationship, an [agent] cannot solicit clients away from the firm in preparation for future competition."¹⁸² However, the agent is permitted to engage in preparatory behavior to compete against their current employer.¹⁸³ Once the employment relationship is terminated, the duty of loyalty the agent owed to their

¹⁷⁷ Carfagna, *supra* note 27, at 125-26.

¹⁷⁸ *Id.* (quoting RESTATEMENT (THIRD) OF AGENCY § 8.04 (2007)).

¹⁷⁹ *Id.* at 126.

¹⁸⁰ See CAL. LAB. CODE § 2860 (Deering 2010); CAL. LAB. CODE § 2863 (Deering 2010).

¹⁸¹ Carfagna, *supra* note 103; see L. Jon Wertheim, *It's Nothing Personal-Honest: IMG Went to Court when Jeff Schwartz took his Leave and Star Tennis Clients*, SPORTS ILLUSTRATED, Mar. 22, 1999, at 76.

¹⁸² Carfagna, *supra* note 27, at 126.

¹⁸³ *Id.*

former employer expires.¹⁸⁴ At this point, the agent may join a competing agency or launch their own firm, and is thus permitted to solicit business from their former employer.¹⁸⁵ For talent agencies, “this [] highlights the [potential] [shortcomings] of the protections offered by the duty of loyalty.”¹⁸⁶ Such deficiencies are addressed at length in the next section.

Even though a defecting agent has a right to compete with his or her former employer, even for the business of those who are clients of his former employer, agencies can sometimes enforce contractual provisions barring the agent from “courting a specific named customer.”¹⁸⁷ A non-solicitation provision in an agent’s employment contract can be enforceable if it is specific in its language as to who the agent cannot solicit after they leave.¹⁸⁸ However, as alluded to earlier and analyzed in the next section, talent agencies cannot prevent a client from willingly following an agent to another agency, even if the agent’s employment contract contains explicit nonsolicitation provisions, as long as the agent did not request the client to follow him.¹⁸⁹ As also seen in the next section, nonsolicitation provisions are often difficult to enforce.¹⁹⁰

A more common illegal activity agents are tempted to engage in due to California’s policy of employee mobility is the misappropriation of company

¹⁸⁴ *Id.*

¹⁸⁵ *Id.*

¹⁸⁶ *Id.*

¹⁸⁷ *Gen. Commercial Packaging, Inc. v. TPS Package Eng’g, Inc.*, 126 F.3d 1131, 1132 (9th Cir. 1997).

¹⁸⁸ *See id.*

¹⁸⁹ *Hilb, Rogal and Hamilton Ins. Services of Orange Cnty, Inc. v. Robb*, 33 Cal. App. 4th 1812, 1821 (1995); *Aetna Bldg. Maint. Co. v. West*, 39 Cal.2d 198, 204 (1952).

¹⁹⁰ *See Hilb, Rogal and Hamilton Insurance Services of Orange Cnty, Inc.*, 33 Cal. App. 4th 1812, 1821 (1995); *Aetna Bldg. Maintenance Co.*, 39 Cal.2d 198, 204 (1952).

trade secret information concerning the operational strategies of the agency.¹⁹¹ For talent agencies, such confidential information includes business plans and tactics, client information and agency rates.¹⁹² The importance of such business approaches and methodologies is recognized by some of the most successful agents in the business such as Leigh Steinberg.¹⁹³ Even after the Ninth Circuit's decision in favor of Dunn, Steinberg continues to reiterate that his accomplishments have been a consequence of a competitive business advantage through substantial investments such as company time and capital in developing proprietary information used to "both service current clients and attract new athletes."¹⁹⁴ Returning to the Baldwin case, IMG emphatically asserted the sensitivity and critical nature of the information stolen in their filed response to Baldwin's motion to dismiss or transfer: "A document detailing IMG's strategies, plans, strengths, and weaknesses is a confidential document that would be extremely valuable in the hands of a competitor like CAA. It is a trade secret entitled to protection."¹⁹⁵ While the misappropriation of propriety company information cannot prevent the stealing of clients, agencies can still be entitled to injunctive or monetary relief.¹⁹⁶

(b) Proving Illegal Agent Activity

¹⁹¹ See Futterman, *supra* note 55, at B7; Futterman, *supra* note 16, at B1; Gershwin, *supra* note 46, at 598-99.

¹⁹² IMG Worldwide, Inc.'s Response to Defendant's Motion to Dismiss or Transfer at 13-16, IMG Worldwide, Inc. v. Baldwin, No. 1:10-cv-794 (N.D. Ohio May 12, 2010); See Gershwin, *supra* note 46, at 598-99.

¹⁹³ See Gershwin, *supra* note 46, at 598.

¹⁹⁴ *Id.*

¹⁹⁵ IMG Worldwide, Inc.'s Response to Defendant's Motion to Dismiss or Transfer, *supra* note 192, at 17.

¹⁹⁶ See CIV. § 3426.2.

While it may seem every agent who switches agencies and brings clients with them is clearly liable for some form of unfair competition even without a nonsolicitation provision in their employment agreement, there are obstacles agencies must overcome to make their case. When David Dunn left SMD to start Athletes First he took approximately fifty of SMD's NFL clients with him.¹⁹⁷ When Ari Emanuel bolted from ICM to launch Endeavor he brought several of his high-profile clients with him.¹⁹⁸ In April 2006, top football and baseball agents Tom Condon and Casey Close left IMG to launch the new sports division at CAA.¹⁹⁹ Their client lists included stars such as NFL quarterback Peyton Manning and New York Yankees shortstop Derek Jeter.²⁰⁰ In August 2006, top hockey agents Pat Brisson and J.P. Barry left IMG for CAA bringing with them NHL phenom Sidney Crosby and perennial all-star center Joe Thornton.²⁰¹ Although Dunn was handed a two-year ban by the NFLPA for his behavior, he was ultimately cleared of any legal liability.²⁰² Emanuel, Condon, Close, Brisson and Barry, on the other hand, left with little resistance.²⁰³ However, Condon and Close's situation was unique as key man clauses in their contracts were triggered when Peter Johnson, then CEO of sports and entertainment for IMG who hired Condon and Close, resigned.²⁰⁴ Because Johnson was no longer involved with the company, the key man clauses in the agents' contracts allowed them to leave with

¹⁹⁷ Evans, *supra* note 11, at 109.

¹⁹⁸ Morgan, *supra* note 165.

¹⁹⁹ Mullen, *supra* note 11, at 4.

²⁰⁰ *Id.*

²⁰¹ Arnold, *supra* note 17, at B1.

²⁰² See Steinberg Moorad & Dunn, Inc. v. Dunn, 136 Fed. Appx. 6, 14 (9th Cir. 2005); Timothy Davis, *Regulating the Athlete-Agent Industry: Intended and Unintended Consequences*, 42 WILLAMETTE L. REV. 781, 787 (2006).

²⁰³ See Cieply & Barnes, *supra* note 11, at A1; Mullen, *supra* note 11, at 4; Arnold, *supra* note 17, at 1A.

²⁰⁴ Mullen, *supra* note 11, at 4.

their clients to CAA although they were required to split client fees with IMG for a specified period of time.²⁰⁵ Condon and Close's departure, while legal, is still noteworthy because any agent exodus with a high volume of clients in hand still exposes a myriad of potential legal issues surrounding client solicitation. The ease at which these agents left with clients while seemingly mystifying, could be explained by the lack of credible proof presented by agencies of illegal activity, especially concerning the direct solicitation of former clients.²⁰⁶

In 1952, the California Supreme Court handed down a ruling in *Aetna Bldg. Maintenance Co. v. West* which distinguishes what constitutes actionable solicitation:

Merely informing customers of one's former employer of a change of employment, without more, is not solicitation. Neither does the willingness to discuss business upon invitation of another party constitute solicitation on the part of the invitee. Equity will not enjoin a former employee from receiving business from the customers of his former employer, even though the circumstances be such that he should be prohibited from soliciting such business.²⁰⁷

Here lay the incredible hardships facing agencies trying to prove illegal solicitation and being afforded the protections outlined in the duty of loyalty. An agent may simply inform a client of his or her intention to leave their current agency.²⁰⁸ If the client subsequently requests to discuss business with the defecting agent and follow them to another agency, there can be no liability attached to the agent's actions even if there is an enforceable nonsolicitation

²⁰⁵ *Id.*

²⁰⁶ See also Mullen, *supra* note 11, at 4; *Steinberg Moorad & Dunn, Inc.*, 136 Fed. Appx. 6 (9th Cir. 2005).

²⁰⁷ *Aetna Bldg. Maint. Co.*, 39 Cal.2d at 204.

²⁰⁸ See Hilb, Rogal and Hamilton Ins. Services of Orange Cnty, Inc. v. Robb, 33 Cal. App. 4th 1812, 1821 (1995); *Aetna Bldg. Maint. Co.*, 39 Cal.2d at 204.

clause in the agent's employment contract.²⁰⁹ Returning to Tom Condon and Casey Close's departure from IMG, there is little question as to their legal right to leave IMG and compete, however, any action taken while still under contract with IMG to lure current clients away to CAA constitutes a clear breach of the duty of loyalty.²¹⁰ That said, there is no indication whatsoever of foul play by either agent. This example is merely a hypothetical insight into the application of the California Supreme Court's policy on client solicitation.

The rationale behind the California Supreme Court's decision supports a free market system as clients are free to choose which representation they feel will provide the greatest potential for career advancement with limited restrictions. However, there is an inherent flaw in the practical application of the Court's decision. Any departing agent can directly persuade a client to follow them to another agency while still under contract with their current employer.²¹¹ All the agent has to do is collude with the client to say the agent merely informed the client of his or her departure and that the client subsequently requested to discuss business anyway.²¹² Consequently, as long as the client corroborates the story there is little evidence of illegal solicitation for agencies to present.²¹³ Even more troublesome for agencies, discussions such as these are likely to be held

²⁰⁹ See *Hilb, Rogal and Hamilton Ins. Services of Orange Cnty, Inc.*, 33 Cal. App. 4th at 1821; *Aetna Bldg. Maint. Co.*, 39 Cal.2d at 204.

²¹⁰ See *Carfagna*, *supra* note 27, at 125-26; *Mullen*, *supra* note 11, at 4.

²¹¹ See *Evans*, *supra* note 3, at 108; *Carfagna*, *supra* note 103; See also *Gershwin*, *supra* note 191, at 595-96.

²¹² See *Evans*, *supra* note 3, at 108; *Carfagna*, *supra* note 103.

²¹³ See *id.*

behind closed doors or away from the office making such activity almost impossible to regulate.²¹⁴

Again, it is no secret that agent-client relationships often go beyond business related matters and because most clients deal with one agent, a strong sense of loyalty will always resonate with the client to follow their agent wherever they go.²¹⁵ It is well-documented that such loyalty is also sometimes built through illegal appropriations that agents give prospective clients in order to persuade them to sign a representation agreement and continue to do so once the agent officially represents them.²¹⁶

Even if a court or players union tries to bring charges against a poaching agent, these are difficult to prove, and players have little incentive to complain about an unethical agent. Often, “players have no interest in testifying against their current agent who improperly solicited and stole them from their previous agent,” especially when the poaching agent has treated them to fancy dinners and lavish gifts.²¹⁷

Barring a lucky break, agencies are almost always unaware of such activities because they usually have no means to detect such conduct from their employees. As a result, an agent’s recruiting efforts go unimpeded.²¹⁸ By the time agents break the news to their employers that they are leaving, it is often too late to conjure any credible evidence of direct solicitation.²¹⁹

In order for aggrieved agencies to make a case for a less liberal application of *B&P 16600* it is critical to identify evidence of unfair competition as a direct

²¹⁴ See Evans, *supra* note 3, at 108; Carfagna, *supra* note 103.

²¹⁵ See Mullen, *supra* note 9, at 1.

²¹⁶ See Luchs, *supra* note 14, at 64; Evans, *supra* note 3, at 108.

²¹⁷ Evans, *supra* note 11, at 108 (citing Richard T. Karcher, *Solving Problems in the Player Representation Business: Unions should be the “Exclusive” Representatives of the Players*, 42 WILLAMETTE L. REV. 737, 762 (2006)).

²¹⁸ See also Gershwin, *supra* note 46, at 595-96.

²¹⁹ See also *Steinberg Moorad & Dunn, Inc.*, 136 Fed. Appx. at 9.

consequence from these laws' enforcement. Even then, courts still have to weigh the employer's interests against the frequency of such illegal activity along with the economic and social welfare policies behind the prohibition of non-competition agreements.²²⁰ While illegal solicitation is often difficult to prove, there are instances of illegal agent activity that entitles agencies to equitable or monetary relief even if such actions cannot prevent an agent from ultimately signing away former clients.²²¹ Such instances involve agents' misappropriation of proprietary information, not including client lists, belonging to their former employer in an effort to advance their own competitive interests.²²²

In 1999, former IMG tennis agent Jeff Schwartz was caught stealing proprietary information belonging to IMG.²²³ Shortly after, Schwartz announced he was leaving IMG to start his own sports firm in midtown Manhattan.²²⁴ Schwartz, who represented tennis legends Pete Sampras and Martina Hingis among others, planned on taking his clients with him.²²⁵ In fact, three days after Schwartz announced his resignation from IMG, Sampras terminated his representation with the agency.²²⁶ IMG immediately filed suit in federal court

²²⁰ See Lincicum, *supra* note 10, at 1269.

²²¹ Carfagna, *supra* note 103.

²²² See Matthew Futterman, *CAA Dismisses Talent Agent Hired from Rival Firm*, WALL ST. J., May 28, 2010, at B7; Matthew Futterman, *Talent Agencies Cry Foul, Lawsuits Fly --- Some of the Sports Figures who have Switched Talent Agencies from IMG to CAA*, WALL ST. J., May 7, 2010, at B1; L. Jon Wertheim, *It's Nothing Personal-Honest: IMG Went to Court when Jeff Schwartz took his Leave and Star Tennis Clients*, SPORTS ILLUSTRATED, Mar. 22, 1999, at 76; see also Jason Gershwin, Comment, *Will Professional Athletes Continue to Choose Their Representation Freely? An Examination of the Enforceability of Non-Compete Agreements Against Sports Agents*, 5 U. PA. J. LAB. & EMP. L. 585, 598-99 (2003).

²²³ L. Jon Wertheim, *It's Nothing Personal-Honest: IMG Went to Court when Jeff Schwartz took his Leave and Star Tennis Clients*, SPORTS ILLUSTRATED, Mar. 22, 1999, at 76; Carfagna, *supra* note 103.

²²⁴ Wertheim, *supra* note 4.

²²⁵ *Id.*

²²⁶ *Non Com-Pete? IMG to Sue Schwartz, Sampras the "Focal Point,"* SPORTS BUS. DAILY., Mar. 2, 1999, available at <http://www.sportsbusinessdaily.com/article/26896>.

charging Schwartz with unfair competition, fraud and misrepresentation.²²⁷

Schwartz, who inherited Sampras while at IMG, called the lawsuit a lame effort to discourage clients from retaining him.²²⁸ However, it soon became evident that utilization of IMG's confidential information concerning their operational strategies and business methods would enable Schwartz to unfairly compete following his departure.²²⁹ Due to the validation of IMG's claims against Schwartz, the parties settled out of court.²³⁰ As part of the settlement, Schwartz remained Sampras agent, however, IMG was still described as his co-agent.²³¹ In addition, IMG still received commissions from existing endorsements that Sampras acquired while at IMG.²³²

Revisiting the Baldwin case, in addition to IMG's claim that Baldwin violated the non-competition and nonsolicitation provisions in his employment contract, IMG also alleged that he stole approximately 7,000 confidential computer files.²³³ IMG claimed the files Baldwin stole constituted privately-kept information about IMG's business and that his utilization of such information at CAA or any other agency constitutes an illegal misappropriation of IMG's trade secrets.²³⁴ Although Baldwin claimed the files he took were comprised solely of

²²⁷ L. Jon Wertheim, *It's Nothing Personal-Honest: IMG Went to Court when Jeff Schwartz took his Leave and Star Tennis Clients*, SPORTS ILLUSTRATED, Mar. 22, 1999, at 76; Carfagna, *supra* note 103

²²⁸ Wertheim, *supra* note 4.

²²⁹ See Carfagna, *supra* note 103.

²³⁰ See Daniel Kaplan, *Sampras Returning to IMG*, SPORTS BUS. J., Feb. 10, 2003, at 4.

²³¹ See *id.*

²³² See *id.*

²³³ Liz Mullen, *IMG, Matthew Baldwin Both Claim Victory in Lawsuit Settlement*, SPORTS BUS. J., Sept. 16, 2010, available at <http://www.sportsbusinessdaily.com/article/142170>; Matthew Futterman, *Talent Agencies Cry Foul, Lawsuits Fly --- Some of the Sports Figures who have Switched Talent Agencies from IMG to CAA*, WALL ST. J., May 7, 2010, at B1.

²³⁴ Futterman, *supra* note 16.

personal or public information, IMG adamantly presented evidence to suggest otherwise:

The extreme nature of Defendant's arguments is perhaps best demonstrated by his attempt to argue that IMG's Coaches Division's monthly reports to IMG's headquarters are not trade secret, confidential, and proprietary...it should be noted that Defendant makes no effort to explain why the monthly report for February 2010 – which he drafted – is marked "CONFIDENTIAL" if it is, in fact, not a confidential document.²³⁵

IMG then demonstrated the deleterious effects already incurred by the company from Baldwin's actions as clients were outraged when Baldwin "took their contracts and other personal information with him to CAA without their permission."²³⁶ They argued that disclosure of such information would inevitably damage "IMG's reputation, goodwill and client relationships."²³⁷

Shortly after litigation commenced between IMG and Baldwin, CAA dismissed him without giving any official reason.²³⁸ The negative publicity around Baldwin's apparent misappropriation of proprietary IMG business information and the distasteful manner in which he exited the firm seemingly fueled CAA's decision to terminate his employment.²³⁹ On September 15, 2010, both sides reached a settlement where Baldwin's IMG employment contract continues to remain in effect as he is unable to solicit IMG clients.²⁴⁰ Such a settlement does not necessarily mean Baldwin could not have solicited former IMG clients had he proceeded with his lawsuit. There is a strong likelihood that

²³⁵ IMG Worldwide, Inc.'s Response to Defendant's Motion to Dismiss or Transfer, *supra* note 192, at 16.

²³⁶ *Id.* at 15.

²³⁷ *Id.*

²³⁸ See also Futterman, *supra* note 52, at B7.

²³⁹ See also *id.*

²⁴⁰ Mullen, *supra* note 47.

Baldwin was compensated for his concession.²⁴¹ Baldwin's attorney even stated, "IMG begged to settle the case and we did so on favorable terms."²⁴² In short, there is evidence to suggest that IMG's claim surrounding the misappropriation of proprietary company information was validated in Baldwin's willingness to settle the case.²⁴³

Unfortunately for talent agencies, cases such as Schwartz and Baldwin where the agent is essentially caught in the act are rare.²⁴⁴ The only realistic approach to convince California courts to consider a stricter application of *B&P 16600* is to demonstrate a trend of illegal activity as a result of their enforcement. Unfortunately for talent agencies, the fact such instances of illegal activity are rare and typically settled out of court only reinforces California's conviction as to the effectiveness of *B&P 16600*.²⁴⁵

(11)Safeguarding Against the Economic Loss of Departing Clients

Talent agencies have little control over whether a former employee agent can ultimately take clients away from them; however, agencies that include alternative dispute resolution provisions in agent-client representation agreements can often retain commissions from existing merchandising and endorsement deals

²⁴¹ *See id.*

²⁴² *Id.*

²⁴³ *See id.*

²⁴⁴ *See Evans, supra* note 29, at 108 (citing Richard T. Karcher, Article, *Solving Problems in the Player Representation Business: Unions should be the "Exclusive" Representatives of the Players*, 42 WILLAMETTE L. REV. 737, 762 (2006)); Howard Beck, *Tampering Leads Yields Rare Penalty against Agent*, N.Y. TIMES, Sept. 18, 2010, at D6; Eriq Gardner, *Agent Defection Creates Nasty Litigation*, THE HOLLYWOOD REPORTER, ESQ. BLOG, May 17, 2010,

<http://reporter.blogs.com/thresq/sports/>; Eriq Gardner, *Attention Client Poachers: Follow this Case*, THE HOLLYWOOD REPORTER, ESQ. BLOG, May 17, 2010,

<http://reporter.blogs.com/thresq/sports/>.

²⁴⁵ *See id.*

executed while the client was with the agency.²⁴⁶ Because marketing deals are not subject to any percentage ceiling on agent fees, such deals can be quite lucrative and commissions emanating from these deals often remain with agencies after the client leaves with the defecting agent.²⁴⁷ The specific dispute resolution setting is generally set forth in the agent's representation agreement with each individual client.²⁴⁸ When the agent defects, their former employer remains the "agent" described in the agreement.²⁴⁹ In agent-client representation agreements, mediation and arbitration clauses are popular devices to deter expensive litigation.²⁵⁰ In a mediation clause, the parties attempt to resolve the dispute through the judgment of a mediator.²⁵¹ A mediator need not be a lawyer, but a "mutually trusted and respected person in the sports [or entertainment] industry that knows how [agent-client] disputes usually get worked out to each other's satisfaction, on a confidential basis."²⁵² While mediation clauses are preferred in lieu of arbitration, circumstances can be such that a more formal method of alternative dispute resolution is required.²⁵³ However, because representation agreements often stipulate that the losing party must pay litigation costs, including

²⁴⁶ Carfagna, *supra* note 103; see Daniel Kaplan, *Sampras Returning to IMG*, SPORTS BUS. J., Feb. 10, 2003, at 4; Liz Mullen, *CAA Muscles Way Into Sports Agent Business: Top-Dollar Deals for Condon, Close give Hollywood Agency Instant Cachet in Representation*, SPORTS BUS. J., Apr. 17, 2006, at 4.

²⁴⁷ *Mannings Stick with IMG, Sort Of*, PROFOOTBALLTALK, Apr. 12, 2006, available at <http://archive.profootballtalk.com/4-12-06.htm>.

²⁴⁸ Carfagna, *supra* note 27, at 17.

²⁴⁹ See also *id.*

²⁵⁰ See *id.*

²⁵¹ *Id.*

²⁵² *Id.*

²⁵³ See *id.*

attorneys' fees, there is a strong incentive for both sides to resolve the issue in the mediation stage.²⁵⁴

Traditionally, mediators and arbitrators (often with a great deal of expertise on the resolution of such matters) have found that aggrieved agencies are entitled to merchandising and endorsement income from agreements they facilitated even if it was the defecting agent who brokered the deal.²⁵⁵ Conversely, they also recognize the defecting agent's right to retain their clients in the absence of any illegal behavior.²⁵⁶ As mentioned in the Schwartz case, IMG retained commissions from existing advertising deals that Pete Sampras signed during his time at the agency while Schwartz remained Sampras' agent.²⁵⁷ When football agent Tom Condon left IMG in 2006 to help launch CAA's new sports division he brought several NFL quarterbacks including Peyton and Eli Manning.²⁵⁸ However, IMG retained commissions from the marketing deals the Manning's signed while represented by IMG until they expired.²⁵⁹ While dispute resolution clauses cannot prevent the taking of clients, agencies implementing such provisions can hedge the likelihood of a favorable commission resolution; thus, mitigating the economic loss from departing clients.

(12) Recommendations for Talent Agencies Safeguarding Against "Client-Stealing"

Ultimately, there are not many favorable options for talent agencies to prevent a defecting agent from signing away former clients. The best way to

²⁵⁴ *Id.*

²⁵⁵ Kaplan, *supra* at 4; *Mannings Stick with IMG, Sort Of, supra*; Carfagna, *supra* at 17.

²⁵⁶ Kaplan, *supra* at 4; *Mannings Stick with IMG, Sort Of, supra*.

²⁵⁷ Kaplan, *supra* note 230, at 4.

²⁵⁸ Mullen, *supra* note 11, at 4.

²⁵⁹ *Id.*

prevent such a loss is to create incentives for the agent to remain with the agency. However, as mentioned earlier, an agency's repeated actions to appease a highly successful agent could result in a slippery slope where the agent ultimately holds the agency hostage for both money and control. Moreover, even if an agency provides an agent with lavish incentives, there is certainly no guarantee the agent remains with the agency. If an agent is really that effective at his craft, it seems to reason that he or she will eventually take the initiative to launch their own firm.

Contractually, there are clauses agencies can incorporate into employment contracts with agents to obstruct agents' efforts to abscond with clients. For both California-based and out-of-state agencies, provisions prohibiting the illegal solicitation of specified clients prevent agents from directly recruiting former clients once they have left the agency.²⁶⁰ Conversely, if a client decides to follow an agent on his or her own free will, there is nothing an agency can do to prevent them from leaving.²⁶¹

For out-of-state agencies, it is certainly worth incorporating non-competition clauses into agents' employment contracts. Non-competition agreements are generally enforceable outside of California and can provide a great deal of protection to an employer agency.²⁶² Of course, the Danzi case and California's flexible residency requirements make it possible for defecting agents to bring diversity lawsuits in an effort to enforce California law; consequently,

²⁶⁰ *Gen. Commercial Packaging, Inc.*, 126 F.3d at 1133-34.

²⁶¹ *Hilb, Rogal and Hamilton Ins. Serv. of Orange Cnty, Inc.*, 33 Cal. App. 4th at 1821; *Aetna Bldg. Maint. Co.*, 39 Cal.2d at 204.

²⁶² Gershwin, *supra* note 46, at 602-03.

agencies should be cognizant of this reality and make reasonable efforts to monitor their agents' business activities.²⁶³

Efforts to monitor agents' business activities can also give agencies an indication as to whether an agent is planning on leaving, or more importantly, whether the agent is actively recruiting clients in anticipation of bringing them elsewhere. If a traditionally successful agent has not signed any new clients for a long period of time, the agency should make an inquiry as to the reasons behind the sudden decline in business.²⁶⁴ Another indicator is an agency's overwhelming reliance on one or two agents.²⁶⁵ An overwhelming reliance on David Dunn ultimately caused Leigh Steinberg's downfall as the balance of power and influence in Steinberg's agency dramatically shifted in the years leading up to Dunn's defection.²⁶⁶

Dunn was the point man for clients – fielding calls and making dozens of trips a year. Dunn has estimated that he negotiated more than 90% of the firm's football and basketball contracts; Moorad took the lead in a handful of others. Even his court filings acknowledge that he “entrusted his football practice” to Dunn.²⁶⁷

The effects of Steinberg's misfortune echoed throughout the talent representation business. Returning to the Sports Illustrated article “Confessions of an Agent,” Josh Luchs quoted his mentor and one of Steinberg's rival agents, Gary Wichard, conveying his reaction to the news: “What happened with Leigh will never happen to me. I've got my house in order.”²⁶⁸ Steinberg's “horror story” serves

²⁶³ See 28 U.S.C. § 1401(a); Mullen, *supra* note 9; Gardner, *supra* note 61.

²⁶⁴ Carfagna, *supra* note 103.

²⁶⁵ See also Keating, *supra* note 12.

²⁶⁶ See *id.*

²⁶⁷ *Id.*

²⁶⁸ Luchs, *supra* note 14, at 69.

as a cautionary tale that other talent agencies should acknowledge and learn from to avoid finding themselves in a similar situation.

Between specific nonsolicitation provisions in employment contracts and using reasonable efforts to monitor agents' business activities, there are preventative measures agencies can take to diminish the likelihood of losing clients to a defecting agent and being left with no remedy.

(13) Conclusion

In *Steinberg Moorad & Dunn, Inc.*, Dunn's defection and raid of SMD clients effectively destroyed the agency.²⁶⁹ The harsh truth facing talent agencies is that client-stealing, as a product of agent defection, is a popular and more importantly a widely accepted practice in the talent representation business.²⁷⁰ California's prohibition of non-competition agreements and trade secret law effectively supports this practice. While nonsolicitation provisions in an agent's employment contract may bar him or her from soliciting former clients, there is nothing an agency can do if an agent merely informs a client of his change of employment and the client subsequently requests to continue business with the agent at another firm.²⁷¹ This truth is especially problematic due to the high sense of loyalty that tends to resonate with clients towards their agents.²⁷² While the NFLPA banned Dunn for two years from engaging in any agent activity in the NFL, his subsequent success at Athlete's First suggests such agent-client loyalties

²⁶⁹ See Gershwin, *supra* note 46, at 595-96; Luchs, *supra* note 14, at 69.

²⁷⁰ See *Speakers of Sport, Inc.*, 178 F.3d at 865; Gardner, *supra* note 108.

²⁷¹ See *Hilb, Rogal and Hamilton Ins. Serv. of Orange County, Inc.*, 33 Cal. App. 4th at 1821; *Gen. Commercial Packaging, Inc.*, 126 F.3d at 1133-34; *Aetna Bldg. Maint. Co.*, 39 Cal.2d at 204.

²⁷² See Mullen, *supra* note 9, at 1.

exist.²⁷³ Today, Athlete's First is one of the foremost NFL agencies representing clients such as Super Bowl winning players Aaron Rodgers, Reggie Wayne and Ray Lewis.²⁷⁴

Talent agencies headquartered outside of California are at a serious disadvantage when a defecting agent can bring a diversity lawsuit to invoke California law by claiming he or she is a resident of California and thus any non-competition agreement stated in their employment contract is unenforceable. Moreover, relaxed residency requirements can give departing agents a speedy declaration of California residency under the California FTB Guidelines. As seen in the Danzi decision and rules of venue, the mere presence of California residency can be sufficient to establish California law as controlling over an employment contract even if the contract explicitly states another state's law is controlling.²⁷⁵ And while the federal court system in California is not necessarily required to liberally enforce *B&P 16600*, the Ninth Circuit has already demonstrated its willingness to establish *B&P 16600* as the controlling authority over non-competition agreements in agent-agency disputes.²⁷⁶

Arguments presented by talent agencies to prevent client-stealing have proven ineffective. Agency client lists are not considered protectable trade secrets under the California Uniform Trade Secrets Act because: (1) they are readily accessible to others in the industry and even the general public; and (2) agencies fail to exert reasonable efforts in maintaining the secrecy of their client lists; thus,

²⁷³ See Davis, *supra* note 202, at 787; Home Page, ATHLETES FIRST, available at <http://www.athletesfirst.net/> (last visited on Oct. 22, 2010).

²⁷⁴ See Clients, ATHLETES FIRST, available at <http://www.athletesfirst.net/> (click on the "Clients" link).

²⁷⁵ See 28 U.S.C. § 1401(a); Mullen, *supra* note 9, at 1; Gardner, *supra* note 61.

²⁷⁶ See *Steinberg Moorad & Dunn, Inc.*, 136 Fed. Appx. at 10-11.

there is no value an agency can claim is lost as a consequence of its disclosure.²⁷⁷ Because agency client lists are generally not considered trade secrets, agencies are never in a position to assert a misappropriation claim.²⁷⁸ Even if agency client lists were considered trade secrets, it would be difficult, if not impossible, to prove misappropriation until after its disclosure, at which point the information is already exposed and an agency's only recourse would be monetary damages against the misappropriating agent.²⁷⁹ In the absence of proof of actual or threatened misappropriation, any agency attempting to invoke the Inevitable Disclosure Doctrine to show misappropriation will likely fail as it has been widely rejected by California courts.²⁸⁰ In short, agencies have little control in their attempts to prevent agents from leaving with clients.

Unfortunately for talent agencies, there is little evidence to convince the California courts to alter their liberal application of *B&P 16600*. No trend of illegal agent activity stemming from *B&P 16600* has been established as to outweigh the long-standing public policies behind the statute's enforcement. Illegal solicitation of clients prior to an agent's departure is simply too difficult to prove on a consistent basis.²⁸¹ Open competition as a consequence of *B&P 16600* can tempt agents into misappropriating proprietary agency information relating to the manner in which business is conducted; however, such relief can only prevent the disclosure of such information and sometimes entitle agencies to monetary

²⁷⁷ See Civ. § 3426.1(d); *Steinber Moorad & Dunn, Inc.*, 136 Fed. Appx. at 12-13; *ABBA Rubber Co.*, 235 Cal. App.3d at 37.

²⁷⁸ See *Steinberg Moorad & Dunn, Inc.*, 136 Fed. Appx. at 12-13.

²⁷⁹ See Civ. § 3426.2.

²⁸⁰ See Gill, *supra* note 6, at 412.

²⁸¹ See Evans, *supra* note 3, at 108; Karcher, *supra* note 217, at 762; Beck, *supra* note 244, at D6; Gardner, *supra* note 61.

relief.²⁸² Although retaining merchandising and endorsement commissions from former clients provides a silver lining for spurned agencies, it cannot bring back lost clients.

The cold reality is that the economic and social welfare policies behind California's prohibition of non-competition agreements outweigh the heightened burden placed on agencies' efforts to retain clients signed away by former agents. The basic principle of *B&P 16600* is free market capitalism.²⁸³ Employees should be free to fairly compete with their former employers and it must ultimately be the clients' decision as to which party he or she feels can best advance their professional interests. While the burden of proving illegal solicitation is often problematic due to the procedural ease at which agents can avoid liability, agencies must do their best to identify these situations by taking reasonable steps to investigate suspicious matters.²⁸⁴ If an agent misappropriates trade secret information pertaining to the operation of the agency in order to better compete with their former employer, agencies have legal recourse.²⁸⁵ In addition, favorable judgments awarding trailing commissions make dispute resolution clauses useful devices for talent agencies looking to financially safeguard their previous business efforts on behalf of departing clients.²⁸⁶ Unfortunately, the brutally competitive nature of the sports and entertainment industries magnify the shortcomings of *B&P 16600* concerning employer agency interests and exposes

²⁸² See Carfagna, *supra* note 103; see also CAL. CIV. CODE § 3426.2 (1984); Futterman, *supra* note 16; Gershwin, *supra* note 46, at 599; Wertheim, *supra* note 4, at 76.

²⁸³ See Lincicum, *supra* note 10, at 1268.

²⁸⁴ See Karcher, *supra* note 217, at 762; Evans, *supra* note 3, at 108; Carfagna, *supra* note 103.

²⁸⁵ CAL. CIV. CODE § 3426.2 (1984).

²⁸⁶ Carfagna, *supra* note 103.

the ruthless manner in which business is conducted, but as Ari Emmanuel or David Dunn might say, “It’s not personal. It’s strictly business.”²⁸⁷

²⁸⁷ The Godfather (Paramount Pictures 1972).