179 Cal.App.4th 564, 102 Cal.Rptr.3d 1, 2009-2 Trade Cases P 76,807, 29 IER Cases 1880, 09 Cal. Daily Op. Serv. 13,991, 2009 Daily Journal D.A.R. 16,327
(Cite as: 179 Cal.App.4th 564, 102 Cal.Rptr.3d 1)

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Court of Appeal, Second District, Division 2, California.
Deana DOWELL et al., Plaintiffs and Appellants;
Pacesetter, Inc., et al., Plaintiffs, Cross-defendants and Appellants,
v.
BIOSENSE WEBSTER, INC., Defendant, Cross-complainant and Respondent.
Pacesetter, Inc., et al., Plaintiffs, Cross-defendants and Respondents;
St. Jude Medical, Inc., Cross-defendant and Appellant,
v.
Biosense Webster, Inc., Defendant, Cross-complainant and Appellant.

[This case is heavily edited for length. Not all removed material is marked.]

FACTUAL AND PROCEDURAL BACKGROUND

The Parties

SC and Biosense are competitors in the market for atrial fibrillation (AF) products (e.g., anatomical mapping systems and ****3** electrophysiology catheters). Both companies have their principal place of business in California. SC and Pacesetter are subsidiaries of St. Jude Medical, Inc. (SJMI). In 1999, Biosense hired Plaza and eventually promoted him to senior engineer developing electrophysiology catheters. In 2003 and 2004, Biosense hired Dowell and Chapman, respectively, as professional education specialists to educate physicians and their staff about the company's three-dimensional anatomical mapping system. Dowell, Chapman and Plaza are California residents.

The Agreements

Upon accepting employment with Biosense, Dowell and Chapman signed an "Employee Secrecy, Non–Competition and Non–Solicitation Agreement" ***568** (the agreements).[FN2] The agreements each contained a covenant not to compete which provided that for 18 months after termination of employment the employee would "not render services, directly or indirectly, to any CONFLICTING ORGANIZATION" in which such services "could enhance the use or marketability of a CONFLICTING PRODUCT by application of CONFIDENTIAL INFORMATION" to which the employee "shall have had access" during employment. A conflicting product was defined as any product, process, technology, machine, invention or service which resembles or competes with one upon which the employee worked or of which the employee was knowledgeable as a result of employment. A conflicting organization was defined as a person or organization engaged or about to become engaged in research, development, production, marketing or selling of a conflicting product. And "CONFIDENTIAL INFORMATION" was defined as "information disclosed to me or known by me as a result of my employment by the COMPANY, not generally known to the trade or industry in which the COMPANY is engaged, about products, processes, technologies, machines, customers, clients, employees, services and strategies of the COMPANY, including, but not limited to ... marketing, merchandising, selling, sales volumes or strategies, number or location of sales representatives, names or significance of the COMPANY's customers or clients or their employees or representatives, preferences, needs or requirements, purchasing histories, or other customer or client-specific information."

> FN2. Plaza signed a different agreement which contained a two-year noncompetition clause. After this lawsuit was filed, Plaza went to work for a third party and voluntarily dismissed his claims without prejudice.

The agreements also contained a nonsolicitation clause which provided that the employee "recognize[s] that the COMPANY's relations with its accounts, customers and clients represents an important business asset that results from the COMPANY's significant investment of its time and resources" and that the employee has "gained or may gain relationships with the accounts, customers and clients of the COMPANY, and because of such relationships, [he/she] could cause the COMPANY great loss, damage, and immediate irreparable harm" if the employee should "sell, offer for sale, or solicit or assist in

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the sale of a product or service that could compete with a product or service being sold or developed by the COMPANY." The employee "therefore agree[s]" that for 18 months after termination of employment, the employee "will not solicit any business from, sell to, or render any service to, or, directly or indirectly, help others to solicit business from or render service or sell to any of the accounts, customers or clients" ****4** with whom the employee had contact during the last 12 months of employment.

The agreements contained New Jersey choice-of-law and consent-to-venue clauses.

***569** Between April and July 2005, Dowell and Chapman accepted sales positions with SC and Plaza accepted an engineering position with Pacesetter. By the terms of the agreements with Biosense, Chapman's noncompete obligations expired in October 2006 and Dowell's in January 2007.

*574 DISCUSSION

**8 I. The Trial Court Properly Determined that the Noncompete and Nonsolicitation Clauses in the Agreements are Void Under Section 16600 as a Matter of Law.

A. Standard of Review

[omitted]

B. The Noncompete and Nonsolicitation Clauses are Void as a Matter of Law

[California Business & Professions Code] Section 16600 states: "Except as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void." There are only three statutory exceptions to this prohibition on noncompete agreements: One who sells the goodwill of a business, or all of one's ownership interest in a business entity (which includes partnerships or corporations), or substantially all of its operating assets and goodwill, to a buyer who will carry on the business may agree with the buyer not to carry on a similar business within a specified geographic area, if the business will be carried on by the buyer (§ 16601); upon dissolution of a partnership or dissociation of a partner, such partner may agree not to carry on a similar business within a specified geographic area, if the business will be carried on by remaining partners or anyone deriving title to the business or its goodwill (§ 16602); and a member of a limited liability company may agree not to carry on a similar business within a specified geographic area, so long as other members or anyone deriving title to the business or its goodwill carries on a like business (§ 16602.5).

[1] ***575** Section 16600 expresses California's strong public policy of protecting the right of its citizens to pursue any lawful employment and enterprise of their choice. (*Advanced Bionics Corp. v. Medtronic, Inc.* (2002) 29 Cal.4th 697, 706, 128 Cal.Rptr.2d 172, 59 P.3d 231; *Weber, Lipshie & Co. v. Christian* (1997) 52 Cal.App.4th 645, 659, 60 Cal.Rptr.2d 677 ["section 16600 was adopted for a public reason"].) California courts "have consistently affirmed that section 16600 evinces a settled legislative policy in favor of open competition and employee mobility." (*Edwards v. Arthur Andersen LLP* (2008) 44 Cal.4th 937, 946, 81 Cal.Rptr.3d 282, 189 P.3d 285 (*Edwards*).) "The interests of the employee in his own mobility and betterment are deemed paramount to the competitive business interests of the employers, where neither the employee nor his new employer has committed any illegal act accompanying the employment change." (*Diodes, Inc. v. Franzen* (1968) 260 Cal.App.2d 244, 255, 67 Cal.Rptr. 19; *D'Sa v. Playhut, Inc.* (2000) 85 Cal.App.4th 927, 933, 102 Cal.Rptr.2d 495 (*D'Sa*).) An employer's use of an illegal noncompete agreement also violates the UCL (§ 17200 ["unfair competition shall mean and include any unlawful, unfair or fraudulent business act or practice and unfair, deceptive, untrue or misleading advertising"].) (*Application Group, Inc. v. Hunter Group, Inc.* (1998) 61 Cal.App.4th 881, 906–908, 72 Cal.Rptr.2d 73 [section 17200 "borrows" violations****9** of other laws and treats them as unlawful practices independently actionable under section 17200].)

[2][3] Based on the foregoing it is clear that the noncompete and nonsolicitation clauses in the agreements with Dowell and Chapman are void and unenforceable under section 16600 and that their use violates section 17200. The broadly worded noncompete clause prevents Dowell and Chapman, for a period of 18 months after termination of employment with Biosense, from rendering services,

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directly or indirectly, to any competitor in which the services they may provide could enhance the use or marketability of a conflicting product by application of confidential information to which the employees had access during employment. Similarly, the broadly worded nonsolicitation clause prevents the employees for a period of 18 months postemployment from soliciting any business from, selling to, or rendering any service directly or indirectly to any of the accounts, customers or clients with whom they had contact during their last 12 months of employment. Ultimately, these provisions restrain the employees from practicing their chosen profession. Indeed, these clauses are similar to those found to be void under section 16600. (See, e.g., *D'Sa, supra,* 85 Cal.App.4th at p. 931, 102 Cal.Rptr.2d 495; *Kolani v. Gluska* (1998) 64 Cal.App.4th 402, 407, 75 Cal.Rptr.2d 257; *Metro Traffic Control, Inc. v. Shadow Traffic Network* (1994) 22 Cal.App.4th 853, 860, 27 Cal.Rptr.2d 573 (*Metro Traffic*).)

Biosense contends that the clauses are valid because they were tailored to protect trade secrets or confidential information, and as such satisfy the ***576** so-called trade secret exception, citing cases such as *Thompson v. Impaxx, Inc.* (2003) 113 Cal.App.4th 1425, 1429–1430, 7 Cal.Rptr.3d 427; *Whyte v. Schlage Lock Co.* (2002) 101 Cal.App.4th 1443, 1462, 125 Cal.Rptr.2d 277; *Metro Traffic, supra,* 22 Cal.App.4th at p. 860, 27 Cal.Rptr.2d 573; and *American Paper & Packaging Products, Inc. v. Kirgan* (1986) 183 Cal.App.3d 1318, 1322, 228 Cal.Rptr. 713. Plaintiffs counter that in light of our Supreme Court's recent decision of *Edwards, supra,* 44 Cal.4th 937, 81 Cal.Rptr.3d 282, 189 P.3d 285, a common law trade secret exception no longer exists.

The Court in *Edwards* concluded that section 16600 "prohibits employee noncompetition agreements unless the agreement falls within a statutory exception." (*Edwards, supra,* 44 Cal.4th at p. 942, 81 Cal.Rptr.3d 282, 189 P.3d 285.) In rejecting the Ninth Circuit's "narrow-restraint" exception to section 16600 (*Edwards, supra,* at pp. 948–950, 81 Cal.Rptr.3d 282, 189 P.3d 285), the Court stated: "Section 16600 is unambiguous, and if the Legislature intended the statute to apply to restraints that were unreasonable or overbroad, it could have included language to that effect. We ... leave it to the Legislature, if it chooses, either to relax the statutory restrictions or adopt additional exceptions to the prohibition-against-restraint rule under section 16600" (*id.* at p. 950, 81 Cal.Rptr.3d 282, 189 P.3d 285). The Court went on to state: "Noncompetition agreements are invalid under section 16600 in California even if narrowly drawn, unless they fall within the applicable statutory exceptions of section 16601, 16602, or 16602.5." (*Id.* at p. 955, 81 Cal.Rptr.3d 282, 189 P.3d 285.) Biosense notes that the *Edwards* Court relied on its prior decision in *Muggill v. Reuben H. Donnelley Corp.* (1965) 62 Cal.2d 239, 242, 42 Cal.Rptr. 107, 398 P.2d 147 (*Muggill*), which held that section 16600 invalidates provisions in employment contracts that "prohibit[ ] an employee from working for a competitor after completion of ****10** his employment ... unless they are necessary to protect the employer's trade secrets." In a footnote, the *Edwards* Court stated: "We do not here address the applicability of the so-called trade secret exception to section 16600, as Edwards does not dispute that portion of his agreement or contend that the provision of the noncompetition agreement prohibiting him from recruiting Andersen's employees violated section 16600." (*Edwards, supra,* at p. 946, fn. 4, 81 Cal.Rptr.3d 282, 189 P.3d 285.) Given this language, Biosense argues that the trade secret exception is still "alive and well."

Plaintiffs argue that the trade secret exception rests on shaky ground in the first place. They point out that many of the cases recognizing a trade secret exception cite to *Muggill* and that the language in *Muggill* regarding a trade secret was dicta, as no trade secrets were at issue in that case. Plaintiffs also point out that *Muggill,* in turn, relied on *Gordon v. Landau* (1958) 49 Cal.2d 690, 321 P.2d 456, a "trade route" case in which the employee was a door-to-door salesman, whose employment agreement prevented him from divulging the names of his prior customers or soliciting their business for one year following termination of employment. The *Gordon* court concluded that the agreement was valid under section 16600 because it did not restrain the ***577** employee from engaging in his profession. (*Gordon v. Landau, supra,* at p. 694, 321 P.2d 456.) Plaintiffs suggest that the trade secret exception should be limited to "the narrow and antiquated circumstances of door-to-door trade routes" where it is proven that the identity of the customers is a trade secret. Biosense counters that the exception has not been so limited, noting, for example, that the exception was at issue in *Metro Traffic, supra,* 22 Cal.App.4th 853, 27 Cal.Rptr.2d 573, a case having to do with the news radio business and not trade routes.

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At oral argument, plaintiffs' counsel discussed the recent case of *The Retirement Group v. Galante* (2009) 176 Cal.App.4th 1226, 98 Cal.Rptr.3d 585 (*Galante*), the first published California case to discuss *Edwards'* reference to the trade secret exception in footnote four.[FN3] The *Galante* court stated that ... " "We distill from the foregoing cases that section 16600 bars a court from specifically enforcing (by way of injunctive relief) a *contractual* clause purporting to ban a former employee from soliciting former customers to transfer their business away from the former employer to the employee's new business, but a court may enjoin *tortious* conduct (as violative of either the Uniform Trade Secrets Act (Civ.Code, § 3426 et seq.) and/or the unfair competition law) by banning the former employee from using trade secret information to identify existing customers, to facilitate ****11** the solicitation of such customers, or to otherwise unfairly compete with the former employer. Viewed in this light, therefore, the conduct is enjoinable *not* because it falls within a judicially created 'exception' to section 16600's ban on contractual nonsolicitation clauses, but is instead enjoinable because it is wrongful independent of any contractual undertaking." (*Galante, supra*, at pp. 1233, 1238, 98 Cal.Rptr.3d 585.)

> FN3. At our invitation, the parties submitted additional briefing on this case and another recent case mentioned by plaintiffs' counsel, *Meyer v. Sprint Spectrum L.P.* (2009) 45 Cal.4th 634, 88 Cal.Rptr.3d 859, 200 P.3d 295, which is discussed *infra* in Part II at footnote 4.

Although we doubt the continued viability of the common law **trade secret** exception to **covenants not** to **compete**, we need not resolve the issue here. Even assuming the exception exists, we agree with the trial court that it has no application here. This is so because the noncompete and nonsolicitation clauses in the agreements are not narrowly tailored or carefully limited to the protection of **trade secrets**, but are so broadly worded as to restrain competition. (See *Kolani v. Gluska, supra*, 64 Cal.App.4th at p. 407, 75 Cal.Rptr.2d 257 [finding as a ***578** matter of law on demurrer that a noncompete clause was void because it was not "narrowly tailored" but "an outright prohibition on competition"].)

Biosense argues that the clauses in the agreements are narrowly tailored to protect trade secrets and confidential information because they are "tethered" to the use of confidential information, and are triggered only when the former employee's services for a competitor implicate the use of confidential information. As such, to the extent that no confidential information was disclosed or made known to Dowell and Chapman during their employment with Biosense, the noncompete clause would never be triggered. But this argument ignores the broad wording of the agreements. The noncompete clause prohibits an employee from rendering services, directly or indirectly, to a competitor where those services could enhance the use or marketability of a conflicting product through the use of confidential information to which the employee had access at Biosense. "Confidential information" is broadly defined as information disclosed to or known by the employee, including such information as the number or location of sales representatives, the names of customers, customer preferences, needs, requirements, purchasing histories or other customer-specific information. Given such an inclusive and broad list of confidential information, it seems nearly impossible that employees like Dowell and Chapman, who worked directly with customers, would not have possession of such information. The prohibition here is not unlike the noncompete clause found facially invalid by the court in *D'Sa, supra*, 85 Cal.App.4th at p. 930, 102 Cal.Rptr.2d 495. There, the employment agreement prohibited the departing employee from " 'render[ing] services, directly or indirectly, for a period of one year ... to any person or entity in connection with any Competing Product,' " which was defined as " 'any products, processes or services ... which are substantially the same ...' " as those on which the employee worked or "about which" the employee worked or "about which [the employee] acquire[d] Confidential Information." (*D'Sa, supra*, at p. 935, 102 Cal.Rptr.2d 495.)

We also reject the argument of Biosense that the nonsolicitation clause is narrowly tailored to protect trade secrets and confidential information. The same argument was rejected by the *Galante* court, which noted: "However, *Edwards* rejected the claim that antisolicitation clauses could be exempt from section 16600 if the conduct covered by such clauses fell within the 'narrow-restraint' exception discussed in *Campbell [v. Board of Trustees of Leland Stanford Jr. University*, 817 F.2d 499 (9th Cir.1987)] ****12**(*Edwards, supra*, 44 Cal.4th at pp. 948–950, 81

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Cal.Rptr.3d 282, 189 P.3d 285), and we decline TRG's implicit invitation to engraft that exception onto this case." (*Galante, supra*, 176 Cal.App.4th at p. 1241, 98 Cal.Rptr.3d 585.) Moreover, the clause at issue here goes well beyond prohibiting active solicitation by prohibiting departing employees from selling or rendering any ***579** services to Biosense customers or directly or indirectly assisting others to do so—even if it is the customer who solicits the former employee. (See *Morris v. Harris* (1954) 127 Cal.App.2d 476, 478, 274 P.2d 22 [invalidating restraint that prohibited employee from providing services to former customers who sought him out without any solicitation].)

We also reject Biosense's argument that the trial court failed to interpret the clauses in such a way as to make them lawful. Any attempt to construe the noncompete and nonsolicitation clauses in such a manner as to make them lawful would not be reforming the contract to correct a mistake of the parties but rather to save a statutorily proscribed and void provision. (See *D'Sa, supra*, 85 Cal.App.4th at p. 935, 102 Cal.Rptr.2d 495.)