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California Court Of Appeal Doubts Viability Of "Trade Secrets" Exception For Covenants Not To Compete

In *Pacesetter, Inc. v. Biosense Webster, Inc.*, the California Court of Appeal for the Second Appellate District found that a non-competition clause contained in Biosense Webster, Inc.'s ("Biosense") Employee Secrecy, Non-Competition and Non-Solicitation Agreements ("Agreements") was void as a matter of law under Section 16600 of the California Business and Professions Code ("Code")(California's prohibition against restraint of trade) and that its use violated Section 17200 of the Code (California's Unfair Competition Law). Biosense attempted to argue that the non-competition clause was enforceable because it fell under the so-called trade secret exception to covenants not to compete. This argument was rejected by the court, however, because the clause was not narrowly tailored to protect trade secrets.

St. Jude Medical Center, S.C., Inc. and Pacesetter, Inc., both subsidiaries of St. Jude Medical, Inc. (collectively "St. Jude"), along with three St. Jude employees who were formerly employed by Biosense, sued Biosense to enjoin it from enforcing the non-competition clause contained in the employees' Agreements. Following St. Jude's hiring of several Biosense employees, Biosense sent a letter demanding that St. Jude cease its "unlawful raiding" of Biosense's employees. The letter stated that the employees had covenants not to compete that precluded their employment with St. Jude and their use of confidential and trade secret information relating to the business and personnel of Biosense.

The non-competition clause in the Agreements prevented the employees, for a specified period following their employment with Biosense, from rendering services, directly or indirectly, to any competitor where the services "could enhance the use or marketability" of a competing product by using confidential information to which the employee had access during his or her employment with Biosense. Biosense argued that the clause was narrowly tailored to protect trade secrets and confidential information because it was only triggered when the former employees' services for a competitor implicate the use of confidential information. The court summarily rejected this argument as contrary to a plain reading of the clause and expressed its doubts as to the continued existence of a trade secrets exception to covenants not to compete. The court went on to say that, even if such an exception did exist, it would not apply in this case because the clause at issue was not sufficiently narrowly tailored to the protection of trade secrets.

The court also reaffirmed that, where there is conduct that actually violates the Uniform Trade Secrets Act or California's Unfair Competition Law, the proper avenue for relief would be to seek an injunction under one of those statutes. Such conduct is enjoinable, however, because it is

an independent violation of these statutes, not because it falls within an exception to Section 16600.