

EMPLOYMENT LAW UPDATE

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California Law

***Advanced Bionics Corp. v. Medtronic, Inc.***

2002 C.D.O.S. 12114 (Cal.Sup.Ct. Dec. 19, 2002)

***A California court may not enjoin a party subject to its jurisdiction from commencing litigation over an agreement not to compete in another state.***

*By Jason A. Geller and Shoshana Y. Chazan*

In 1995, Medtronic hired plaintiff Mark Stultz to work in Minnesota as a senior product specialist. Stultz signed the “Medtronic Employee Agreement” which contained a covenant not to compete. The covenant provided that for two years after his employment termination, Stultz would not “[D]irectly or indirectly render services (including services in research) to any person or entity in connection with the design, development, manufacture, marketing, or sale of a Competitive Product that is sold or intended for use or sale in any geographic area in which Medtronic actively markets a Medtronic Product or intends to actively market a Medtronic Product of the same general type of function.” The agreement also provided that its terms would be interpreted under Minnesota law.

Stultz worked for Medtronic’s Minnesota office until his resignation on June 7, 2000. Then, he moved to California to work for Advanced Bionics Corporation (“Advanced Bionics”),

headquartered in Sylmar, California. Advanced Bionics is a Medtronic competitor that develops and manufactures products similar to Medtronic’s.

Shortly after his hire at Advanced Bionics, Stultz and Advanced Bionics sued Medtronic in Los Angeles County Superior Court for declaratory relief, alleging that Medtronic’s covenant not to compete and choice-of-law provisions violated California law and were void under California Business and Professions Code Section 16600. Section 16600 provides that “every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void,” subject to exceptions that were not applicable. California has a strong public policy disfavoring anti-competitive agreements such as that signed by Stultz. Minnesota has no such policy, and its courts will generally enforce these non-compete agreements.

Immediately after Stultz's case was filed in California, Medtronic filed its own lawsuit against him in Minnesota state court, alleging that Stultz had breached his agreement not to compete with Medtronic. Medtronic filed its suit to prevent Stultz from working on a competing product at Advanced Bionics. Medtronic then obtained a preliminary injunction from the Minnesota court, restraining Advanced Bionics from hiring Stultz in a competitive role. The Minnesota court also barred all parties from obtaining any order from another court (i.e., California) preventing the Minnesota court from ruling on the claims before it.

In response to the Minnesota lawsuit, Stultz and Advanced Bionics applied for a temporary restraining order ("TRO") in California state court enjoining Medtronic from taking any action, other than in California courts, to enforce its non-competition agreement with Mr. Stultz, or to otherwise restrain Mr. Stultz from working for Advanced Bionics. After a long procedural battle, the California trial court granted the TRO preventing Medtronic from enforcing the covenant not to compete in Minnesota. Medtronic appealed.

The California Court of Appeal upheld the TRO, ruling that the case would be decided under California law despite the parties' agreement stating that Minnesota law would apply. Medtronic then sought review by the California Supreme Court.

This case is one of first impression for the California Supreme Court. It had not considered the impact of an injunction on a *non*-California court since 1897. In reversing the Court of Appeal and

finding in favor of Medtronic, the California Supreme Court found that the rules of "judicial restraint" and "comity" prevented it from enjoining Medtronic's action in Minnesota. These rules provide that one state must respect the authority of another state's courts and cannot prevent another state court from ruling on a matter, absent extreme circumstances. The Supreme Court rejected Stultz's argument that the results would produce different outcomes in the California and Minnesota courts and that the TRO should be upheld because Stultz's case was filed first. The Supreme Court found that there was no justification for the California court to prevent the Minnesota court from ruling on Medtronic's claims there.

Companies recruiting skilled employees from other areas of the U.S. should take particular note of this case. Firms should be wary of infringing upon legal non-compete agreements between parties in other states as courts in those states will likely enforce them. This case demonstrates that a California court may not halt such an enforcement proceeding, despite its strong policy in favor of competition.

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