

Trade Secrets and Noncompete Blog

Posted at 11:26 AM on October 10, 2012 by James Goodman

California Court of Appeal Enforces Stipulated Injunction That Restricts Competition

Co-authored by [Ted A. Gehring](#).

Although the California courts have steadily eroded employers' ability to contractually limit their former employees' solicitation of their customers, a stipulated injunction limiting solicitation can still be enforced. In [Wanke, Industrial, Commercial, Residential, Inc. v. Superior Court](#), 2012 WL 4711888, the California Court of Appeal, 4th Appellate District, reversed a trial court order that found a stipulated injunction prohibiting solicitation of a specific customer identified on a customer list could not be enforced based on the trial court's conclusion that the identity of that customer was not a trade secret.

In the underlying action, Wanke, Industrial, Commercial, Residential, Inc. ("Wanke") sued two former employees and their new company for, in part, misappropriation of trade secrets, after the employees started a competing business. The parties resolved the action by entering into a settlement agreement and mutual release, as well as a stipulated injunction that, in part, prohibited the former employees from "contacting or soliciting" any customer identified in a customer list which was attached to the stipulated injunction. The stipulated injunction also had a \$50,000 liquidated damages provision for the initial violation and \$10,000 for each subsequent violation.

Thereafter, Wanke filed (1) an application for an order to show cause why the former employees should not be held in contempt for having, in part, contacted a customer identified on the customer list, Con Am Management ("Con Am"), and (2) a motion to enforce the settlement agreement. The trial court refused to hold the defendants in contempt because it concluded that Wanke had failed to establish the "existence of a lawful order." The trial court concluded that the stipulated injunction was invalid under California Business & Professions Code Section 16600 (which provides, with limited exceptions, 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), because the identity of the customer, Con Am, was not a trade secret because it could be easily identified as a potential customer. The trial court stated that the stipulated injunction was enforceable only with respect to jobs undertaken or proposed to be undertaken for Con Am while the individual defendants were employed by Wanke.

Wanke filed a subsequent motion to enforce the settlement agreement with respect to different customers. The court granted that motion because it related to jobs that were undertaken while the individual defendants were employed by Wanke. The defendants appealed and Wanke filed a cross-appeal. Wanke also filed a petition for writ of mandate challenging the trial court's order insofar as the court refused to hold the individual defendants in contempt for violating the stipulated injunction.

The Court of Appeal denied the writ petition, finding that the underlying contempt proceeding was a criminal proceeding, and therefore, the double-jeopardy clause contained in the Fifth Amendment of the U.S. Constitution precluded the appellate court from reviewing the trial court's "acquittal" of the individual defendants on the contempt charges.

The Court of Appeal, however, reversed the trial court's finding that the stipulated injunction was not enforceable as to Con Am. The Court held that a party may not defend against the enforcement of a court order by contending merely that the order is legally erroneous. The Court stated a party may successfully defend against the enforcement of an injunction on the ground that the injunction is invalid only in the narrow circumstance in which the party can demonstrate that the injunction was beyond the trial court's jurisdiction to issue in the first instance.

Since the trial court had jurisdiction over the parties and it could not be concluded from the face of the stipulated injunction that it did not protect Wanke's trade secrets, the stipulated injunction was facially valid. The Court of Appeal further stated that even assuming the former employees could demonstrate the trial court erred in issuing the stipulated injunction because the customer list attached thereto was not a protected trade secret, such a showing would be insufficient to avoid enforcement of the injunction. The court also noted that the trial court's decision was contrary to fundamental fairness and common sense, and that the former employees could not stipulate to an injunction that identifies certain customers whom they will not solicit in order to resolve a misappropriation claim, and then proceed to violate the injunction by claiming the same customer list is not a trade secret.

As such, at least for now, stipulated injunctions in trade secret actions will be enforced in California as long as the court properly has jurisdiction and the injunction, on its face, is not invalid.

Trackbacks (0)

Comments (0)

Epstein Becker & Green, P.C.

1227 25th Street, NW • Suite 700 • Washington, DC 20037 • Phone: 202.861.0900

[View other offices](#)