S256927

IN THE SUPREME COURT OF THE STATE OF CALIFORNIA

IXCHEL PHARMA, LLC,
Plaintiff and Appellant,
v.
BIOGEN, INC.,
Defendant and Respondent.

ON CERTIFIED QUESTIONS FROM THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT, CASE NO. 18-15258
JUDGE WILLIAM B. SHUBB, CASE NO. 2:17-CV-00715-WBS-EFB

APPLICATION TO FILE *AMICI CURIAE* BRIEF AND *AMICI CURIAE* BRIEF OF *AMICI* SCHOLARS IN SUPPORT OF NEITHER PARTY

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APPLICATION TO FILE *AMICI CURIAE* BRIEF

Under California Rules of Court, rule 8.520(f), A*mici Curiae* Professors Jonathan Barnett (Gould School of Law, University of Southern California), Eric R. Claeys (Antonin Scalia Law School, George Mason University), Richard Epstein (NYU School of Law, Hoover Institution, University of Chicago Law School), Michal Gal (Faculty of Law, University of Haifa), Shubha Ghosh (Syracuse University College of Law), Hugh Hansen (Fordham Law School), Justin Hughes (Loyola Law School, Los Angeles), Keith Hylton (Boston University School of Law), Adam Mossoff (Antonin Scalia Law School, George Mason University, Hudson Institute), David S. Olson (Boston College Law School), Kristen Jakobsen Osenga (University of Richmond

School of Law), and Ted Sichelman (University of San Diego School of Law) (collectively "Amici Scholars") hereby apply to the presiding justice for leave to submit this *amici curiae* brief in support of neither party.

Amici are professors and researchers of law at universities throughout the United States and California. They have no personal interest in the outcome of this case. However, they have a vital professional interest in seeing the jurisprudence of the laws of contract, intellectual property, employment, antitrust and trade develop in a way that facilitates the administration of justice to individuals and organizations involved in disputes under those laws. No party or any counsel for any party in this proceeding authored this proposed amicus brief in whole or in part or made a monetary contribution intended to fund the preparation or submission of the brief. No person or entity made a monetary contribution intended to fund the preparation or submission of the brief other than the *amicus curiae* or its counsel in this proceeding.

Amici Scholars submit that their perspective, based on their collective scholarship and expertise in this area of law, will be of assistance to the Court in deciding this matter.

February 27, 2020

LOWENSTEIN & WEATHERWAX LLP
KENNETH J. WEATHERWAX

By: /s/ Kenneth J. Weatherwax
Kenneth J. Weatherwax

Attorneys for *Amici Curiae*
***AMICI* SCHOLARS**

AMICUS CURIAE BRIEF

ISSUES PRESENTED

The United States Court of Appeals for the Ninth Circuit has certified, and this Court has accepted, the following two questions:

> Does section 16600 of the California Business and Professions Code void a contract by which a business is restrained from engaging in a lawful trade or business with another business?
>
> Is a plaintiff required to plead an independently wrongful act in order to state a claim for intentional interference with a contract that can be terminated by a party at any time, or does that requirement apply only to at-will employment contracts?

In this brief *amici curiae* address only the first of these questions.[1]

INTRODUCTION

Amici Scholars address herein this Court's decision in *Edwards v. Arthur Andersen LLP* (2008) 44 Cal. 4th 937, 945, 189 P.3d 285, 290, 81 Cal. Rptr. 3d 282, 288, and how *Edwards* bears on the first certified question at issue here.

---

[1] Many of the present *Amici* Scholars previously lodged many of the same arguments in a brief *amicus curiae* in *Quidel Corp. v. Superior Court of San Diego County (Beckman Coulter, Inc.)*, No. D075217 (Cal. Ct. App.), on April 29, 2019. The Court of Appeal's decision in *Quidel* is currently under review by this Court (No. S258283). By order dated November 13, 2019, all action in that matter is deferred pending this Court's consideration and disposition of the certified questions in this case.

Many types of exclusive business arrangements, including exclusive dealing, exclusive intellectual property licenses, and similar arrangements have long been upheld by this State's courts notwithstanding BPC 16600. *Edwards* did not purport to overrule those decisions. In answering the first certified question, the Court should confirm that *Edwards* did not alter the extent to which competitive restraints between businesses in ongoing contractual business arrangements are lawful.

ARGUMENT

I. *Edwards* Did Not Prohibit All Competitive Restraints In Ongoing Business Relationships.

In *Edwards*, this Court ruled that post-employment restrictions on former employees from engaging in a lawful profession, trade, or business are invalid under BPC 16600, even if they would have been deemed "reasonable" under the common law. 44 Cal. 4th at 945, 189 P.3d at 290, 81 Cal. Rptr. 3d at 288. *Edwards* did not rule that the same is true for reasonable restraints, in ongoing arrangements between business coventurers, against, for example, competing with their own business venture.

The *Edwards* Court "limited [its] review to [two] issues: (1) To what extent does Business and Professions Code section 16600 prohibit *employee noncompetition agreements*; and (2) is a contract provision requiring an *employee* to release 'any and all' claims unlawful because it encompasses nonwaivable statutory protections"? 44 Cal. 4th at 941-42, 189 P.3d at 288, 81 Cal. Rptr. 3d at 285 [emphasis added]. *Edwards* disclaimed an

intention to overrule, or even call into question, California cases upholding competitive restraints in other contexts, including those that are non-textual exceptions to BPC 16600, such as the "trade secret exception to section 16600." *Id.*, 44 Cal. 4th at 946 n.4, 189 P.3d at 291 n.4, 81 Cal. Rptr. 3d at 289 n.4.

Outside the post-employment labor restraint context of *Edwards*, it has long been recognized that BPC 16600 does not prohibit all competitive restraints "contained in a non-employment related legal instrument or context" rather than "in an employment agreement." CAL. ANTITRUST & UNFAIR COMPETITION LAW § 20.05(c) (2014 ed.). Indeed, if that were so, both state and federal antitrust law would be all but superfluous in California. Beyond exclusive dealing arrangements, many examples of wholly legitimate competitive restraints under California law exist. For instance, franchise agreements, patent licenses, supply contracts, and landlord-tenant agreements may impose significant restraints without running afoul of BPC 16600. *See Rolley, Inc. v. Merle Norman Cosmetics* (1954) 129 Cal. App. 2d 844, 852, 278 P.2d 63, 67-68 [franchise agreement]; *Fruit Mach. Co. v. F.M. Ball & Co.* (1953) 118 Cal. App. 2d 748, 762, 258 P.2d 852, 860 [restrictive licenses of patented technology]; *Grogan v. Chaffee* (1909) 156 Cal. 611, 614-15, 105 P. 745, 747 [restriction on grocery retail price of producer's product]; *Keating v. Preston* (1940) 42 Cal. App. 2d 110, 122-23, 108 P.2d 479, 486 [restriction on leasing to competitors of lessee].

II. Section 16600 Does Not By Its Terms Void All Restraints On Competition.

Restraints on competition in contracts between two businesses in connection with forming a cooperative venture are not void *per se* under BPC 16600. Not only would this make no economic sense, as a legal matter it would invalidate exclusivity, cooperation, and noncompete provisions that are ubiquitous in such contracts both inside and outside of California.

One of the most important limiting principles of the reach of BPC 16600 is whether the relationship in question is still ongoing. The Court of Appeal has held that section 16600's prohibition "does not affect limitations on an employee's conduct or duties *while* employed." *Angelica Textile Servs., Inc. v. Park* (2013) 220 Cal. App. 4th 495, 509, 163 Cal. Rptr. 3d 192, 204 [emphasis in original].

The language of BPC 16600 does not impose a flat prohibition on agreements not to compete of any kind in any business contract. All contracts between businesses who compete with each other will in at least some sense restrain their competitive behavior toward each other. Holding such restrictions to be entirely illegal would be akin to holding all contracts between competing businesses illegal—and would trample innumerable California decisions on franchise, trade secret, and other ubiquitous aspects of such agreements,

BPC 16600's statutory exceptions concern covenants entered into at the conclusion or transfer of an existing business. BPC 16601-16602.5. These exceptions in no way suggest that BPC 16600 forbids agreements that form business ventures from

imposing non-compete restraints at the beginning of a new relationship. The fact that the legislature considered it necessary to state that certain restraints against competing with a business may lawfully be imposed on persons in that business *after* they leave (or the business ceases to operate) does not suggest that those restraints were unlawful while those persons were *part of* that business. *See, e.g., Brown v. Kling* (1894) 101 Cal. 295, 300, 35 P. 995, 996 [noting that BPC 16600 exception reflected the common principle that "would limit the restraint to the time during which the purchaser or his assignee is in business" because at "that time" there is something for the restraint "to protect"]. The legislature did not need to say that persons who are partners in, or co-owners of, a business must not compete with their fellow partners or co-owners *in* that business *before* the dissolution of, or their departure from, the business, because California law already imposes that restraint by default.

"Under [California] partnership law, partners cannot compete with their firm during the partnership." *Heller Ehrman LLP v. Davis Wright Tremaine LLP* (2018) 4 Cal. 5th 467, 475, 411 P.3d 548, 553, 229 Cal. Rptr. 3d 371, 377. And that duty specifically and "only pertains to the period *before* dissolution" of the partnership; in contrast, "a partner is free to compete upon dissolution [of the partnership] since 'the duty not to compete only applies to the "conduct of the business" and not to the "winding up."' *Id.* [quoting Cal. Corp. Code § 16404(b) and Sen. Com. on Judiciary, Analysis of Assem. Bill No. 583 (1995–1996 Reg. Sess.) as amended June 5, 1996, p. 7] [alteration marks

omitted]; *see also Howard v. Babcock* (1993) 6 Cal. 4th 409, 412, 863 P.2d 150, 151, 25 Cal. Rptr. 2d 80, 81 [upholding noncompete agreement as against "departing partners who compete[d] with the [partnership]" after departure].

Similar restraints against "competition against one's own partnership" extend to "joint venturers" in other types of joint business arrangements. *Leff v. Gunter* (1983) 33 Cal. 3d 508, 513-15, 658 P.2d 740, 743-44, 189 Cal. Rptr. 377, 380-81. Indeed, under California law the enforcement of these restraints is of "paramount importance." *Id.*, 33 Cal. 3d at 518, 658 P.2d at 747, 189 Cal. Rptr. at 384. "In every contract the law implies a covenant of fair dealing by each party and a duty to do nothing to destroy the right of the other party to enjoy the fruits of the contract." *Dayton Time Lock Serv., Inc. v. Silent Watchman Corp.* (1975) 52 Cal. App. 3d 1, 8, 124 Cal. Rptr. 678, 683. And "restraint of competition among" those agreeing to carry on such a business together "is permissible . . . to the extent it protects the reasonable interests of the business." *Howard*, 6 Cal. 4th at 425, 863 P.2d at 160, 25 Cal. Rptr. 2d at 90. These restraints upon competition with one's own coventurers are fundamental to "a stable business environment," and have long coexisted, and been found consistent, with BPC 16600. *Id.*; *see also Leff*, 33 Cal. 3d at 515-18, 658 P.2d at 745-47, 189 Cal. Rptr. at 382-84. They were not changed by *Edwards*, and they are not involved with the cases that Beckman cites that apply *Edwards*. *See, e.g., AMN Healthcare, Inc. v. Aya Heathcare Services, Inc.* (2018) 28 Cal. App. 5th 923, 927, 239 Cal. Rptr. 3d 577, 581 [invalidating

noncompete clause as applied to nurses and other employees who had left a staffing services company, as "an improper restraint on individual [former employees]' ability to engage in their profession" after termination of their employment].

In sum, BPC 16600 does not extend to restraints on coventurers against mutual competition with their own business arrangements. That is not, and never has been, California law.

III. Competition Restraints In Business Relationships Addressing The Technology, The Marketplace, Or Other Germane Characteristics Of The Industry Are Ubiquitous.

Contractual restraints negotiated between businesses address real-world characteristics of the subject of the business at issue, whether it is technology, trade dress, or market characteristics, much as franchise exclusivity reflects the characteristics of the franchised services. *See, e.g., Rolley*, 129 Cal. App. 2d at 852, 278 P.2d at 67-68 [noting that franchise's exclusivity restraints could prompt competitors "to build a better mousetrap, and that after all is the essence of competition"]; *see also City Carpet Beating etc. Works v. Jones* (1894) 102 Cal. 506, 512, 36 P. 841, 844 ["'A contract restraining one from following a lawful trade or calling at all is invalid because it discourages trade and commerce, and prevents the party from earning a living; but the right to agree to refrain from his calling, within reasonable limits as to space, may have the contrary effect. It encourages trade, for it gives value to a custom or business built up, by making it vendible.'"] [quoting *Brown*, 101 Cal. at 300, 35 P. at 996]. The reasons such restraints are permissible include,

ultimately, the desirability of encouraging people in that business "to build a better mousetrap, and that after all is the essence of competition." *Rolley*, 129 Cal. App. 2d at 852, 278 P.2d at 67-68 [upholding franchisee restriction].

To the extent such arrangements are anticompetitive, California courts have relied on State antitrust law—including the Cartwright Act, BPC 16700 *et seq.*, and "the common law prohibition against restraint of trade," *In re Cipro Cases I & II* (2015) 61 Cal. 4th 116, 136-37 & n.5, 348 P.3d 845, 855 n.5, 187 Cal. Rptr. 3d 632, 644 n.5—not BPC 16600, to police these arrangements. As this Court has pointed out, "'*[e]very* agreement concerning trade . . . restrains'" the parties in some manner or other. *Cipro*, 61 Cal. 4th at 146, 348 P.3d 845, 861, 187 Cal. Rptr. 3d 632, 652 [emphasis by this Court] [quoting *Board of Trade of City of Chicago v. United States* (1918) 246 U.S. 231, 238, 38 S. Ct. 242, 62 L. Ed. 683)]. Significantly, California's courts have never imposed a textualist-only construction on the "superficially absolute language" of these statutes in the antitrust context: "[t]hough the Cartwright Act is written in absolute terms, in practice not every agreement within the four corners of its prohibitions has been deemed illegal." *Id.*, 61 Cal. 4th at 136, 145-46, 348 P.3d 845, 855, 861, 187 Cal. Rptr. 3d 632, 644, 651. The reason is simple: such restraints may, particularly during the term of the business arrangement, "'promote and increase business in the line affected'" by the restraint. *Great Western Distillery Prods., Inc. v. J.A. Wathen Distillery Co.* (1937) 10 Cal. 2d 442, 446, 74 P.2d 745, 746. Extension of BPC 16600 to

ban all mutual restraints in business arrangements in general would render the Cartwright Act superfluous.

IV. It Is Rarely Appropriate For Courts To Rewrite Key Provisions Of Ongoing, Voluntarily Negotiated Business Relationships.

Importantly, contractual provisions that impose competitive restraints on one or the other business in an ongoing business relationship are generally only one of many restrictions in the parties' vigorously negotiated agreement. To void such a provision in an ongoing business relationship may be tantamount to undoing the whole original bargain.

Agreements to form business relationships—reliance upon which causes cooperative ventures to be formed and operated, millions of dollars to be invested, secrets to be irretrievably disclosed, and new products and technologies to be developed and distributed to the public—are a collection of voluntary, hard-fought compromises between the parties' competing interests. Whenever provisions going to the heart of a technology development agreement are invalidated, it threatens to "create a new agreement for the parties which conforms to circumstances other than those that they had mistakenly assumed were true." *Getty v. Getty* (1986) 187 Cal. App. 3d 1159, 1178, 232 Cal. Rptr. 603, 614.

The importance of the stability of the recognition that such restrictions in ongoing contractual relationships formed between business entities, as opposed to restrictions upon the actions of former employees, can scarcely be overstated. Numerous technology development arrangements between businesses

include provisions that could be characterized as restraints on the use of the technology at issue or participation in the market for that technology. The implications of any suggestion that businesses may not agree to a wide class of competitive restraints between themselves when forming a new technology development venture, to the extent the technology and the market for that technology make it necessary, would radically rewrite California competition law, and would thus have far-reaching consequences for California businesses. Had this Court intended to impose such a sweeping change in California competition law in *Edwards*, it would surely have said so. *See Swenson v. File* (1970) 3 Cal. 3d 389, 394, 475 P.2d 852, 856, 90 Cal. Rptr. 580, 584 [observing that "to hold that subsequent changes in the law which impose greater burdens or responsibilities upon the parties become part of that agreement [that was executed before the law changed] would result in modifying it without their consent, and would promote uncertainty in commercial transactions."]. Therefore, even if it were believed such blanket proscriptions were beneficial, that would be for the legislature, not the courts, to mandate.

CONCLUSION

Amici respectfully submit that the Court should reaffirm that section 16600 does not void contracts by which a business may be restrained from engaging in a trade or agreement with another business, except to the extent they involve post-employment restrictions on former employees.

February 27, 2020 **LOWENSTEIN & WEATHERWAX LLP**
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CERTIFICATE OF WORD COUNT

(Cal. Rules of Court, rule 8.486(a)(6).)

The text of this brief, including footnotes, and excluding the 298-word application for leave to file the brief, consists of 2,514 words as counted by Microsoft Word, the computer processing program used to generate the brief.

Dated: February 27, 2020

/s/ Kenneth J. Weatherwax
Kenneth J. Weatherwax

PROOF OF SERVICE

Ixchel Pharma, LLC v. Biogen, Inc.
No. S256927

STATE OF CALIFORNIA)
) ss.
COUNTY OF LOS ANGELES)

I am employed in the City and County of Los Angeles, State of California. I am over the age of 18 and not a party to the within-entitled action. My business address is 1880 Century Park East, Suite 815, Los Angeles, California 90067.

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***AMICI CURIAE* BRIEF OF *AMICI* SCHOLARS**

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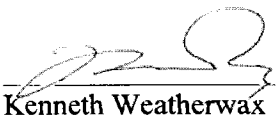

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