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 10 UNITED STATES DISTRICT COURT  
 11 NORTHERN DISTRICT OF CALIFORNIA  
 12 SAN JOSE DIVISION

13 GOOGLE INC. and KAI-FU LEE,  
 14 Plaintiffs,  
 15 v.  
 16 MICROSOFT CORPORATION,  
 17 Defendant.

Case No.: CV 05-03095 (RMW)

**REPLY BY PLAINTIFFS GOOGLE INC.  
 AND KAI-FU LEE IN SUPPORT OF  
 MOTION FOR SUMMARY JUDGMENT**

Date: October 14, 2005  
 Time: 9:00 a.m.  
 Place: Courtroom 6

Honorable Ronald M. Whyte

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**I. INTRODUCTION**

Microsoft desperately wants to keep this Court from deciding this case under California law. That is because Microsoft knows that the Covenant Not to Compete it is trying to impose on Dr. Lee is invalid and unenforceable under the black-letter law of this state. As part of its effort to avoid having the Court protect Google's and Dr. Lee's rights under California law, Microsoft asks the Court to defer ruling on plaintiffs' Motion for Summary Judgment until after ruling on Microsoft's Motion to Dismiss, Transfer or Stay, which is being heard concurrently with plaintiffs' Motion. For the reasons described in plaintiffs' Opposition to Microsoft's Motion, the Court should retain jurisdiction over this action and should decide it now under California law.

Microsoft makes two substantive arguments in opposition to plaintiffs' Motion for Summary Judgment: (1) that Washington law, and not California law, applies to this dispute based on a choice-of-law clause in Dr. Lee's form Microsoft Employment Agreement; and (2) that even if California law applies, the Covenant Not to Compete is enforceable against Dr. Lee and Google. The Court should reject those arguments, for the following reasons:

- Google is neither a signatory to nor a beneficiary of the choice-of-law provision in the Microsoft Employment Agreement, and that provision cannot be enforced against Google under these circumstances;
- As for Dr. Lee, who is a signatory to the agreement at issue, a federal court sitting in diversity in California cannot enforce a choice-of-law clause that that would be contrary to California's public policy, where, as here, California has a materially greater interest, as a matter of law, in having the enforceability of the Covenant Not to Compete decided under California law;
- California has a strong public policy against the enforcement of non-compete provisions in employment agreements, as expressed in Business and Professions Code section 16600, whereas Washington law enforces "reasonable" non-compete provisions;
- Application of Washington law's "reasonableness" test to the enforceability of Microsoft's Covenant Not to Compete would violate California's fundamental public policy against such provisions, and California's interests in protecting its employees and employers are paramount to those of Washington. Thus, the Court must not enforce the Washington choice-of-law provision;
- Under California law, the Covenant Not to Compete must be declared unenforceable, as California does not allow for any restraints on employee mobility in employment contracts.

1 In sum, because Microsoft has not presented any evidence that there is a dispute of material fact as to  
2 the issues raised by plaintiffs' Summary Judgment Motion, the Court should grant judgment in  
3 plaintiffs' favor on their sole cause of action for declaratory relief.

4 Moreover, Microsoft's suggestion that it is plaintiffs who are forum shopping is belied by  
5 Microsoft's repeated attempts to take this case out of the hands of a California court. Google and Dr.  
6 Lee, on the other hand, have not attempted to derail the proceedings in Washington, understanding that  
7 under California law, the appropriate course of action is to allow both proceedings to go forward in  
8 parallel. As an example of Microsoft's unjustified accusations against plaintiffs, it is difficult to  
9 understand how plaintiffs could have filed this case because they were "[u]nhappy with the rulings of  
10 the Washington court," when plaintiffs filed this case before the Washington court had made any  
11 rulings, and they filed this Summary Judgment Motion before the Washington court held its  
12 preliminary injunction hearing. Microsoft's claim that plaintiffs never asked the Washington court to  
13 consider the choice-of-law issue is likewise a ruse. Even if the two states do, in the abstract, employ  
14 the same choice-of-law principles, the focus of each state's rule is on whether the forum state's public  
15 policy would be offended by application of the chosen law. Here, Washington's policy would not be  
16 offended by its own "reasonableness" test, so any argument in a Washington court that California law  
17 should apply would likely be futile. California's policies, on the other hand, would be contravened by  
18 application of Washington's "reasonableness" standard for enforcing non-competes, thus California  
19 law must apply in this case in California.

## 20 **II. ARGUMENT**

21 There is no dispute as to any of the facts material to deciding this motion, all of which are  
22 contained in plaintiffs' moving papers. In its opposition, Microsoft attempts to distract the Court from  
23 what is truly important by describing, in painstaking detail, the proceedings in Washington. While  
24 many of those facts are likewise undisputed, they are also wholly immaterial to deciding the dispute  
25 before this Court. In Washington, the court has considered, and is continuing to consider, whether the  
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1 Covenant Not to Compete is enforceable under Washington law.<sup>1</sup> This Court, on the other hand, has  
 2 the responsibility to decide whether that provision is enforceable under California law, which it is not.

3 As a preliminary matter, the Court should not defer ruling on this motion based on Microsoft’s  
 4 Motion to Dismiss, as there is no truly parallel proceeding in Washington (and even if there were,  
 5 under California law, both cases were properly filed and should be allowed to proceed), and because  
 6 the forum-selection clause in the Microsoft Employment Agreement should not be enforced, as doing  
 7 so would contravene California’s public policy against non-competes in employment agreements.  
 8 Thus, Microsoft’s Motion in no way renders this Summary Judgment Motion moot. See Microsoft’s  
 9 Opposition at p. 5:11-12.

10 **A. IN THE PROCEEDING BEFORE THIS COURT, WASHINGTON**  
 11 **LAW CANNOT GOVERN THE ENFORCEABILITY OF THE**  
 12 **COVENANT NOT TO COMPETE**

13 **1. Google is Not a Party to The Agreement**  
 14 **Containing The Choice-of-Law Clause, And**  
 15 **Therefore Cannot be Bound by That Clause**

16 It is undisputed that Dr. Lee’s form Microsoft Employment Agreement contains a Washington  
 17 choice-of-law clause. It is further undisputed that Google is not a signatory to Dr. Lee’s Microsoft  
 18 Employment Agreement. Because Google is not a signatory to the Microsoft Employment Agreement,  
 19 it cannot be bound by the agreement’s choice-of-law clause. And Microsoft does not cite any authority  
 20 for the proposition that Google can be bound by that clause.<sup>2</sup> Accordingly, regardless whether the

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21 <sup>1</sup> Contrary to Microsoft’s claim that plaintiffs concealed the pendency of this motion from the court presiding  
 22 over the Washington action, this motion was addressed and discussed by both sides at the preliminary injunction  
 23 hearing in that case on September 6 and 7, 2005. Microsoft’s counsel raised this motion first during its opening  
 24 statement at the preliminary injunction hearing because, as the moving party, it proceeded first with its opening  
 25 statement.

26 <sup>2</sup> Microsoft does cite Manetti-Farrow, Inc. v. Gucci Am., Inc., 858 F.2d 509, 512, 513 (9th Cir. 1988), for the  
 27 proposition that Google can be bound by the forum-selection clause in Dr. Lee’s employment agreement with  
 28 Microsoft based on Google’s alleged “close relationship with the Agreement.” Microsoft’s Opposition at p.5  
 n.1. Microsoft is wrong about this as well, as a forum selection clause is only enforced against a non-signatory  
 where the non-signatory is a beneficiary of the agreement -- not where a party to the agreement simply wishes to  
 bind the non-signatory after-the-fact. Id. at 511, 514 n.5. Here, Google is anything but a beneficiary of the  
 Microsoft Employment Agreement, and thus is not subject to its forum selection provision. See Plaintiffs  
 Google Inc.’s and Kai-Fu Lee’s Opposition to Microsoft’s Motion to Dismiss, Transfer or Stay at section  
 III.A.2, incorporated by reference herein.

1 Washington choice-of-law clause is enforceable against Dr. Lee (which it is not, for the reasons  
2 discussed below), the Court should not enforce it against Google.

3 **2. Microsoft's Choice-of-Law Clause Cannot Be Enforced**  
4 **in This Court Because Application of Washington Law**  
5 **Would Violate California's Fundamental Public Policy**  
6 **Against Non-Competes, And California Has a Materially**  
7 **Greater Interest in Determining The Enforceability of**  
8 **The Covenant Not to Compete**

9 The parties agree that California's choice-of-law rules apply in this diversity action. Under  
10 California's test regarding enforceability of a contractual choice-of-law clause, such a clause shall not  
11 be applied (1) where the chosen state has no "substantial relationship" to the parties or the transaction,  
12 or there is no other reasonable basis for the parties' choice of law, or (2) where the chosen state's law  
13 "is contrary to a fundamental public policy of California."<sup>3</sup> See, e.g., Nedlloyd Lines B.V. v. Superior  
14 Court, 3 Cal. 4th 459, 466 (1992) (emphasis added). If there is a conflict between the chosen state's  
15 law and California's public policies, the court must then determine which state has a "materially  
16 greater interest in the determination of the particular issue." Id.<sup>4</sup>

17 It is beyond question that California has a strong, fundamental public policy against covenants  
18 not to compete. See, e.g., Medtronic, Inc. v. Advanced Bionics Corp., 29 Cal. 4th 697, 706 (2002);  
19 Hill Med. Corp. v. Wycoff, 86 Cal. App. 4th 895, 900-01 (2001); see also Memorandum of Points and  
20 Authorities in Support of Plaintiffs' Motion for Summary Judgment at section III.A.1. Not  
21 surprisingly, Microsoft's analysis of the choice-of-law question skips over this point, and jumps  
22 directly to the question of which state, Washington or California, has a materially greater interest in  
23 deciding this dispute. See Microsoft's Opposition at p. 7:4-14. The well established answer to this  
24 question under California law is that California's interests in protecting its employers and employees

25 \_\_\_\_\_  
26 <sup>3</sup> Plaintiffs do not dispute that Washington has the requisite "substantial relationship" to the transactions at issue  
27 such that its law could have been an appropriate choice in this case if it did not offend California's public policy  
28 against non-competes.

<sup>4</sup> The California choice-of-law test also looks at which state "would be the state of the applicable law in the  
absence of an effective choice of law by the parties." Nedlloyd, 3 Cal. 4th at 465. Here, California law would  
be the applicable law in the absence of the choice-of-law clause, as a federal court exercising diversity  
jurisdiction in California must apply the substantive law of the state in which it is located. Erie R.R. Co. v.  
Tompkins, 304 U.S. 64, 78 (1938).

1 from covenants not to compete are paramount to those of a state that employs a “reasonableness” test  
2 for enforceability of a covenant not to compete. Accordingly, California law must apply here.<sup>5</sup>

3 Indeed, both California state and federal courts recognize California’s paramount interest in  
4 prohibiting non-competes. In the leading California case on this issue, Application Group, Inc. v.  
5 Hunter Group, Inc., 61 Cal. App. 4th 881 (1998), the court held that California’s interest in protecting  
6 its employees’ freedom of movement and its employers’ ability to compete for talented employees was  
7 materially greater than any interest Maryland had in enforcing a Maryland employer’s non-compete in  
8 California under Maryland’s “reasonableness” test. See id. at 900-02. The court declined to enforce  
9 the Maryland choice-of-law clause, holding that to do so, “would have been to allow an out-of-state  
10 employer/competitor to limit employment and business opportunities in California,” which would be  
11 contrary to California’s fundamental public policy. Id. at 902.

12 Likewise, in Scott v. Snelling & Snelling, Inc., 732 F. Supp. 1034 (N.D. Cal. 1990), the  
13 Honorable Eugene F. Lynch concluded that California law trumps a choice-of-law clause with respect  
14 to the issue of enforceability of a non-compete if the contractually chosen state law employs a “rule of  
15 reason” test. In that case, plaintiffs argued that a covenant not to compete contained in a franchise  
16 agreement was unenforceable as a matter of California law. See id. at 1039. The franchise agreement  
17 contained a Pennsylvania choice-of-law clause. See id. After determining that Section 16600 applies  
18 to franchise agreements, the court held that California law applied to the question of enforceability of  
19 the covenant not to compete, despite the Pennsylvania choice-of-law clause in the agreement. See id.

20 \_\_\_\_\_  
21 <sup>5</sup> See also Gen. Signal Corp. v. MCI Telecomms. Corp., 66 F.3d 1500, 1506 (9th Cir. 1995) (“Under California  
22 choice-of-law rules, we must apply the law designated by the contractual provision unless . . . such application  
23 would run contrary to a California public policy or evade a California statute.”) (emphasis added) (citations  
24 omitted); Mundy v. Household Fin. Corp., 885 F.2d 542, 544 (9th Cir. 1989) (“California courts respect choice  
25 of law provisions in a contract unless doing so would violate a strong public policy”) (citation omitted); Hall v.  
26 Superior Court, 150 Cal. App. 3d 411, 417 (1983) (“[A]n agreement designating [a foreign] law will not be  
27 given effect if it would violate a strong California public policy”) (citation and internal quotation omitted).  
28 Washington takes the same approach, but from the perspective of whether the chosen law violates its own public  
policy. See, e.g., Sparling v. Hoffman Constr. Co., 864 F.2d 635, 641 (9th Cir. 1988) (“Washington law gives  
effect to an express choice of law clause in a contract as long as application of the chosen law does not violate  
Washington’s fundamental public policy”) (emphasis added) (citation omitted); McGill v. Hill, 31 Wash. App.  
542, 547 (1982) (in Washington, “[a]n express choice of law clause in a contract will be given effect, as  
expressing the intent of the parties, so long as application of the chosen law does not violate the fundamental  
public policy of the forum state”).

1 at 1041. “This is so under California choice of law principles because of the strong public policy of  
 2 California embodied in section 16600, the lack of an applicable statutory exception to section 16600,  
 3 and the broadly inclusive language of the statute.” Id.

4 **3. California’s Interest in Determining The Enforceability**  
 5 **of The Covenant Not to Compete Under California Law**  
 6 **is Paramount to Any Purported Interest of Washington**

7 Microsoft is correct that plaintiffs do not dispute the facts that Dr. Lee’s Microsoft  
 8 Employment Agreement was entered into and substantially performed in Washington, or that certain  
 9 benefits were conferred on Dr. Lee by Microsoft, a Washington corporation, in Washington under the  
 10 Agreement, while Dr. Lee was a Washington resident. But those facts are not relevant or material to  
 11 determining the question of law at hand. Rather, under California law, the material undisputed facts  
 12 are that Google is a California corporation, Dr. Lee is now employed by Google, and Microsoft -- an  
 13 out-of-state corporation -- is trying to interfere with that employment relationship by seeking to impose  
 14 its Covenant Not to Compete. Here, as in Application Group and Scott, the Court should conclude  
 15 that, under California law, where an out-of-state former employer seeks to impose a covenant not to  
 16 compete that would interfere with a California employment relationship, California law must govern  
 17 the dispute.

18 The cases Microsoft relies on are not to the contrary. First, in Roesgen v. Am. Home Prod.  
 19 Corp., 719 F.2d 319 (9th Cir. 1983), the Ninth Circuit reviewed a district court’s decision to apply  
 20 New York law in a diversity case brought in California. The Ninth Circuit noted that the district court  
 21 made its determination based on its interpretation and application of California’s choice-of-law  
 22 principles. Stating that its “review of the district court’s interpretation of state law in diversity cases is  
 23 limited” and that it thus “may not overrule the [district] court unless it is ‘clearly wrong,’” the Ninth  
 24 Circuit affirmed the application of New York law.<sup>6</sup> Id. at 320.

25 Since Roesgen was decided well before the California state courts’ seminal decisions in  
 26 Application Group and Medtronic, its continuing viability is questionable at best. In fact, the court in

27 <sup>6</sup> The “clearly erroneous” standard of review employed by the Ninth Circuit in Roesgen has since been rejected  
 28 by the United States Supreme Court. Salve Regina College v. Russell, 499 U.S. 225, 239 (1991) (holding that  
 courts of appeals must review district court determinations of state law de novo)

1 Application Group rejected the holding of Roesgen, stating that “application of such a lenient standard  
2 of review may well have resulted in an erroneous decision under California law by a federal court,  
3 which we need not follow.” Application Group, 61 Cal. App. 4th at 903 n.16 (emphasis added).  
4 Moreover, even the Ninth Circuit itself noted in Roesgen that, at the time of its decision in 1983, the  
5 California Supreme Court had not addressed the choice-of-law issue in that case. See Roesgen, 719  
6 F.2d at 321. Consequently, the Ninth Circuit relied solely on two California Supreme Court cases  
7 decided in 1961 and 1957, involving the Statute of Frauds and mortgage/forfeiture laws, respectively,  
8 to reach the conclusion that New York law applied. See id. Now that the California courts have  
9 spoken on the choice-of-law question in the non-compete context, Roesgen is no longer applicable in  
10 this diversity case.

11 The other case on which Microsoft relies in arguing that Washington has a materially greater  
12 interest here is a First Circuit case, Ferrofluidics Corp. v. Advanced Vacuum Components, Inc., 968  
13 F.2d 1463 (1st Cir. 1992). Not only is Ferrofluidics non-binding on the Court, but it is easily  
14 distinguishable. First, in Ferrofluidics, the United States District Court for the District of New  
15 Hampshire applied New Hampshire law to decide the enforceability of a non-compete, despite the  
16 facts that the contract at issue contained a Massachusetts choice-of-law provision, and the defendants  
17 had argued for the application of California law. The First Circuit held that the decision to apply New  
18 Hampshire law “probably was erroneous.” Id. at 1467. Nevertheless, the appellate court found the  
19 error to be harmless, because it concluded that Massachusetts law should have applied, and the  
20 substantive law of Massachusetts regarding non-competes is the same as that of New Hampshire.  
21 Significantly, the First Circuit looked to New Hampshire choice-of-law rules to decide the issue of  
22 which state’s law applied, and made no mention of a public policy factor under those rules. Instead,  
23 the court looked only at which state had the “most significant relationship” to the transaction at issue.  
24 Id. at 1467-68. Because California does not ascribe to the “most significant relationship” test, and  
25 instead takes into consideration the respective states’ public policy concerns, Ferrofluidics has no  
26 bearing on the present case.

1 Second, the only connection to California in Ferrofluidics was that the former employees  
2 incorporated their new company in California for the purpose of avoiding their non-compete  
3 obligations; in fact, they did so after receiving legal advice that California does not recognize non-  
4 competes. See id. at 1466. To the contrary in the present case, it is obvious that Google did not set up  
5 shop in California back in 1998 for the purpose of avoiding the effects of Dr. Lee’s non-compete.

6 As its final argument that Washington has the materially greater interest here, Microsoft makes  
7 a futile attempt to distinguish California’s Application Group case. Microsoft’s argument misses the  
8 point. The Application Group decision makes it clear that the particular language of the restraint is not  
9 the relevant inquiry. Even “reasonable” restraints, which might be enforceable under the law of other  
10 states, are void in California under Section 16600. See Application Group, 61 Cal. App. 4th at 900-01.  
11 California’s interest in prohibiting restraints on employment thus applies whether the language of the  
12 clause creates a “reasonable” restraint, or a complete restraint.

13 Microsoft further argues that the Application Group case is distinguishable because the court  
14 there found the former employer’s covenant not to compete by design violated California’s public  
15 policy in favor of employee mobility. Microsoft claims circumstances are different here because  
16 Microsoft’s purported purpose for requiring the non-compete is to protect Microsoft’s trade secrets or  
17 proprietary information. Under California law, though, the enforceability of a non-compete does not  
18 depend upon the out-of-state employer’s claimed subjective intent, and merely asserting a fear of trade  
19 secret misappropriation is not enough to render a non-compete enforceable. Indeed, the court in  
20 Whyte v. Schlage Lock Co., 101 Cal. App. 4th 1443, 1463 (2002) disapproved of Microsoft’s tactic  
21 here, holding: “If a covenant not to compete . . . is part of the employment agreement, the inevitable  
22 disclosure doctrine cannot be invoked to supplement the covenant, alter its meaning, or make an  
23 otherwise unenforceable covenant enforceable.”

24 To the extent Microsoft’s opposition attempts to articulate Washington’s (as opposed to  
25 Microsoft’s own) interest in deciding the issue, Microsoft also argues that enforceability of the non-  
26 compete is necessitated by Washington’s desire to protect trade secrets. Microsoft acknowledges,  
27 however, that California has that interest as well. See Microsoft’s Opposition at p.11; see also D’Sa v.  
28

1 Playhut, Inc., 85 Cal. App. 4th 927, 934 (2000). The interest in protecting trade secrets thus provides  
 2 Washington with no greater claim to having its law apply than that of California. Furthermore,  
 3 California courts have determined, as a matter of law, that California's interest in ensuring the freedom  
 4 of mobility of employees and the competitive position of California employers elevates California's  
 5 interest above that of Washington in this context. See Application Group, 61 Cal. App. 4th at 901  
 6 (quoting Diodes, Inc. v. Franzen, 260 Cal. App. 2d 244, 255 (1968)). California's interest simply is  
 7 not protected under Washington law.

8 Finally, Microsoft contends that summary judgment should be denied because disputed issues  
 9 of material fact exist as to whether application of Washington law would violate a fundamental public  
 10 policy in California. That is not the case. Not surprisingly, Microsoft does not identify any specific  
 11 issues of material fact that it contends are in dispute, because there are none. All the Court needs to do  
 12 to decide this motion is apply the plain language of Section 16600 to the terms of the Microsoft  
 13 Employment Agreement. No further facts are necessary, or in dispute, and summary judgment should  
 14 be granted in plaintiffs' favor.

15 **B. ANY RESTRAINT IN DR. LEE'S EMPLOYMENT**  
 16 **AGREEMENT IS UNENFORCEABLE UNDER**  
 17 **CALIFORNIA LAW, AND APPLICATION OF**  
 18 **WASHINGTON LAW'S REASONABLENESS**  
 19 **TEST VIOLATES CALIFORNIA'S PUBLIC POLICY**

20 As expected, Microsoft relies upon distinguishable Ninth Circuit cases to attempt to save the  
 21 Covenant Not to Compete in Dr. Lee's Microsoft Employment Agreement. The core issue in this case,  
 22 however, is not addressed in any of the Ninth Circuit decisions. The issue here is not whether Dr. Lee  
 23 should be allowed to retain the proceeds of incentive stock options (Int'l Bus. Mach. Corp. v. Bajorek,  
 24 191 F.3d 1033 (9th Cir. 1999)), or be required temporarily to delay the receipt of pension benefits  
 25 (Smith v. CMTA-IAM Pension Trust, 654 F.2d 650 (9th Cir. 1981)). Nor is the enforceability of a  
 26 contract provision in a subcontract between two corporations (General Commercial Packaging, Inc. v.  
 27 TPS Package Eng'g, Inc., 126 F.3d 1131 (9th Cir. 1997)), or a license agreement clause prohibiting the  
 28 licensor from creating a product in competition with the licensed product (Campbell v. Board of  
Trustees of Stanford University, 817 F.2d 499 (9th Cir. 1987)), at issue in this case. Instead, the issue

1 here is whether Microsoft should be allowed to interfere with Dr. Lee's right to work after leaving  
2 Microsoft, based upon a restraining clause contained in the Microsoft Employment Agreement. The  
3 California cases cited in plaintiffs' moving papers answer that question -- the restraint is  
4 unenforceable. See Memorandum of Points and Authorities in Support of Plaintiffs' Motion for  
5 Summary Judgment at section III.B.1.

6 Nevertheless, Microsoft asserts that the Ninth Circuit decision in Bajorek, 191 F.3d 1033 (9th  
7 Cir. 1999), "is directly on point." To the contrary, the Bajorek court noted that the former employee in  
8 that case had alternatives under which he could have begun working for an IBM competitor  
9 immediately upon leaving IBM, including by exercising his options six months before leaving, or by  
10 foregoing exercising those options. See id. at 1041. The Covenant Not to Compete in Dr. Lee's  
11 Microsoft Employment Agreement provided no such alternatives.

12 The lone California case cited in support of Microsoft's argument that only complete restraints  
13 are unenforceable under California law also is distinguishable. In Boughton v. Socony Mobil Oil Co.,  
14 231 Cal. App. 2d 188 (1964), the contract provision at issue was a restriction in a deed prohibiting a  
15 certain use of land prior to a specified date. The court expressly stated that the "single restriction is  
16 imposed, not personally on plaintiffs restraining them from engaging or carrying on any profession,  
17 trade or business but, on the use of the land upon which they as grantees are barred merely from selling  
18 petroleum products, and then only for a limited period of time." Id. at 190. Boughton thus does not  
19 stand for the proposition that a limited restraint under Section 16600 is permissible. Where, as here,  
20 the restraint is imposed on an individual and interferes with his right and ability to work, it is  
21 unenforceable irrespective of whether it is a complete restraint.

22 Microsoft also attempts to minimize the scope of the restraint imposed on Dr. Lee by the  
23 Microsoft Employment Agreement to argue that the non-compete is enforceable because it does not  
24 completely restrain Dr. Lee. As the California cases decided since Bajorek (cited in plaintiffs' opening  
25 brief) establish, any direct restraint on employment is unenforceable. Indeed, Bajorek stands for the  
26 proposition that Section 16600 extends even to restraints that do not directly affect an employee's  
27 ability to work. And where an agreement affects other rights that may make it more difficult for  
28

1 individuals to exercise their right to work, e.g., stock options, pension benefits, subcontracting and  
 2 licensing, the scope of the restraint might be a relevant inquiry. But where a direct restraint on an  
 3 individual's ability to work is at issue -- as in the present case -- that restraint is per se unenforceable.

4 Finally, to the extent Microsoft suggests the Campbell case raises a triable issue of fact  
 5 regarding the scope of Dr. Lee's non-compete obligations, that argument also should be rejected.  
 6 Where the covenant not to compete is contained in an employment agreement and restrains an  
 7 individual's employment in any way, there is a violation of Section 16600, and no triable issue of fact  
 8 exists.

9 **C. AS A MATTER OF LAW, MICROSOFT'S**  
 10 **COVENANT NOT TO COMPETE IS NOT NECESSARY**  
 11 **TO PROTECT MICROSOFT'S TRADE SECRETS**  
 12 **OR CONFIDENTIAL INFORMATION**

13 The non-compete in Dr. Lee's employment agreement is not, as Microsoft now claims, limited  
 14 to the protection of Microsoft's trade secrets, nor is its enforcement in California necessary to protect  
 15 trade secrets. In fact, Dr. Lee's obligations not to disclose Microsoft's trade secrets are governed by  
 16 the entirely separate "Non-Disclosure" section of his employment agreement with Microsoft. See  
 17 Declaration of Kai-Fu Lee in Support of Motion by Plaintiffs Google Inc. and Kai-Fu Lee for  
 18 Summary Judgment ("Lee Decl."), Exh. A, ¶ 3. That provision states, in part, as follows: "During my  
 19 employment and at all times thereafter, I will not disclose to anyone outside MICROSOFT nor use for  
 20 any purpose other than my work for MICROSOFT: a) any MICROSOFT confidential or proprietary  
 21 information or trade secrets." (Lee Decl., Exh. A, ¶ 3.) Plaintiffs do not challenge the propriety of the  
 22 non-disclosure provision in Dr. Lee's employment agreement; rather, it is the non-compete (paragraph  
 23 9 of the Microsoft Employment Agreement) that plaintiffs challenge.

24 Even Microsoft has conceded that the subject of its dispute with Dr. Lee and Google is the non-  
 25 compete provision, and not trade secrets. At the outset of the preliminary injunction evidentiary  
 26 hearing in the Washington action, Microsoft's counsel stated: "Your Honor, this case is not a trade  
 27 secret case. It's not a misappropriation case. This is a noncompete case." (Declaration of Stacey L.  
 28

1 Wexler in Support of Reply by Plaintiffs Google Inc. and Kai-Fu Lee in Support of Motion for  
2 Summary Judgment, ¶ 2, Exh. A at 6:24-7:2) (emphasis added).

3 The cases upon which Microsoft relies do not support its position that the Covenant Not to  
4 Compete is narrowly tailored to protect its trade secrets. With only one exception, those cases either  
5 pre-date Application Group and Medtronic by decades, or are from non-California jurisdictions. First,  
6 Metro Traffic Control, Inc. v. Shadow Traffic Network, 22 Cal. App. 4th 853 (1994), undermines,  
7 rather than supports, Microsoft's position. In that case, the court declared a non-compete invalid, even  
8 though the agreement recited language purporting to protect the employer's trade secrets. See id. at  
9 856 n.1, 859-60. Like Microsoft's form employment agreement, the non-compete in Metro Traffic  
10 Control prohibited plaintiff's employees from working for a competitor in areas on which they had  
11 worked for plaintiff (defined as "Restricted Activities"), for a period of one year after leaving  
12 plaintiff's employ. See id. at 856 n.1. The employment agreement also contained a separate covenant  
13 not to disclose plaintiff's confidential and trade secret information. See id. Noting that plaintiff had  
14 not proved trade secret misappropriation, the court held that the non-compete violated Section 16600.  
15 See id.; see also Muggill v. Reuben H. Donnelley Corp., 62 Cal. 2d 239, 242-43 (1965). Like the non-  
16 compete at issue in Metro Traffic Control, the Microsoft Covenant Not to Compete violates Section  
17 16600.

18 The Microsoft Employment Agreement also bears striking similarities to the agreement a  
19 California court held to be invalid in D'Sa, 85 Cal. App. 4th at 935. In that case, a former employer,  
20 Playhut, argued to no avail that the non-compete provision in its employment agreement was necessary  
21 to protect its trade secrets. Like the Microsoft Employment Agreement, the non-compete in D'Sa  
22 purported to prevent Playhut employees from working in connection with any competitor's products  
23 that competed with Playhut products as to which the employee had been exposed to confidential  
24 information. See id. at 930-31. The Court held that the non-compete at issue was not necessary to  
25 protect trade secrets, because:

1 (1) it is the other provisions of the agreement that are meant to provide  
2 such protection, and (2) the covenant not to compete only places a one-  
3 year limitation on plaintiff's activities whereas these other provisions are  
4 not so limited.

5 Id. at 935 (emphasis added). Dr. Lee's employment agreement is no different, and the Covenant Not  
6 to Compete is likewise unenforceable. See also Thompson v. Impaxx, Inc., 113 Cal. App. 4th 1425,  
7 1430-31 (2003) (noting that mere recital in an employment agreement that the non-compete applies  
8 only to confidential information does not establish that the information is a trade secret); Whyte, 101  
9 Cal. App. 4th at 1463 (holding that the inevitable disclosure doctrine cannot be invoked to make an  
10 otherwise unenforceable covenant not to compete enforceable).

11 Finally, the California Supreme Court's opinion in Gordon v. Landau, 49 Cal. 2d 690, 694  
12 (1958), also cited by Microsoft, concerned a non-solicitation clause that is distinguishable from the  
13 general non-compete provision in Dr. Lee's employment agreement. In Gordon, the plaintiff employer  
14 operated a door-to-door household supply sales business, which earned the majority of its revenue  
15 from repeat customers. Each day, the employer provided its salesmen with a list detailing the names,  
16 addresses, purchase history and credit rating of its repeat customers. As part of his employment  
17 agreement, defendant agreed not to solicit or disclose the identities of plaintiff's customers for a period  
18 of one year after the termination of his employment. However, after two years of working for plaintiff,  
19 defendant started his own business and continued soliciting 117 of plaintiff's top customers, the  
20 identities and buying habits of whom defendant learned only through his employment with plaintiff.  
21 The court found that the identity of the key customers was a valuable trade secret that defendant  
22 misappropriated when he continued to use it after leaving plaintiff's employ. Id.

23 The undisputed facts here could not be more different. In fact, Microsoft's counsel has even  
24 stated in open court in the Washington action that the parties' dispute is not about trade secrets, like a  
25 customer list, but is about a non-compete. Under these circumstances, the cases cited by Microsoft just  
26 confirm that Microsoft's Covenant Not to Compete is unenforceable as matter of California law.  
27  
28



1 **PROOF OF SERVICE**

2 I am employed in the County of San Francisco, State of California. I am over the age of 18  
3 and not a party to the within action. My business address is Taylor & Company Law Offices, Inc.,  
4 One Ferry Building, Suite 355, San Francisco, California 94111.

5 On September 30, 2005, I served a true and correct copy of the document(s) described as:  
6 **REPLY BY PLAINTIFFS GOOGLE INC. AND KAI-FU LEE IN SUPPORT OF MOTION**  
7 **FOR SUMMARY JUDGMENT** on the following interested parties in this action:

8  
9 Mr. Michael J. Bettinger  
10 Ms. Lisa Marie Schull  
11 Ms. Rachel R. Davidson  
12 Preston Gates & Ellis LLP  
13 55 Second Street, Suite 1700  
14 San Francisco, CA 94105  
15 *Telephone: (415) 882-8200*  
16 *Facsimile: (415) 882-8220*

17 **Counsel for Microsoft Corporation**

18 [ ] **[BY US MAIL]** I caused the foregoing document(s) to be enclosed in a sealed  
19 envelope, with first class postage fully paid, for delivery on the individuals identified above as  
20 indicated herein. I am “readily familiar” with the firm’s practice of collection and processing  
21 correspondence for mailing and know that, in the ordinary course of Taylor & Company Law  
22 Offices, Inc.’s business practice, the document(s) described above would be deposited with the  
23 United States Postal Service on that same day at San Francisco, California, in the ordinary course of  
24 business. I am aware that on motion of the party served, service is presumed to be invalid if the  
25 postal cancellation date, or postage meter date, is more than one day after the date of deposit for  
26 mailing set forth in this declaration.

27 [ ] **[BY FACSIMILE]** I caused the foregoing document(s) to be transmitted by  
28 facsimile to the offices of the addressees indicated above at the facsimile numbers listed for each  
addressee served. Upon completion of said facsimile transmission, the transmitting machine issued  
a transmission report showing that the transmission was complete and without error.



**EXHIBIT A**

**DECLARATION OF PERSONAL SERVICE**

I, the undersigned, declare as follows:

I am a resident of the State of California, over the age of 18 years, and not a party to the within action. My business address is set forth beneath my signature herein. On September 30, 2005, I served the document(s) described as **REPLY BY PLAINTIFFS GOOGLE INC. AND KAI-FU LEE IN SUPPORT OF MOTION FOR SUMMARY JUDGMENT** by personally delivering a true and correct copy of the document(s) described above to the person(s) at the address(es) set forth below:

Mr. Michael J. Bettinger  
Ms. Lisa Marie Schull  
Ms. Rachel R. Davidson  
Preston Gates & Ellis LLP  
55 Second Street, Suite 1700  
San Francisco, CA 94105  
*Telephone: (415) 882-8200*  
*Facsimile: (415) 882-8220*

**Counsel for Microsoft Corporation**

I declare under penalty of perjury, under the laws of the State of California, that on the date set forth in this declaration I served the document(s) described in this declaration on the person(s) identified above. Executed on this 30th day of September, 2005.

\_\_\_\_\_  
/s/ Evan P. LeBon  
Evan P. LeBon