MEDTRONIC, INC. v. HUGHES

No. A10-998.

Medtronic, Inc., et al., plaintiffs/counter defendants, Respondents, v. James Michael Hughes, defendant/counter plaintiff, Appellant, St. Jude Medical S. C., Inc., intervenor counter plaintiff, Appellant.

Court of Appeals of Minnesota.

Filed January 18, 2011.

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Edward F. Fox, Charles E. Lundberg, Bassford Remele, PA, Minneapolis, Minnesota; and James A. Gale, pro hac vice, Feldman Gale, PA, Miami, Florida, for appellants.

Considered and decided by Klaphake, Presiding Judge; Halbrooks, Judge; and Connolly, Judge.

UNPUBLISHED OPINION

HALBROOKS, Judge.

Appellants James M. Hughes and St. Jude Medical, S. C., Inc., challenge the district court's judgment in favor of respondents Medtronic, Inc. and Medtronic USA, Inc. (collectively Medtronic). Specifically, appellants argue that the district court erred in concluding that Medtronic's noncompete covenant with Hughes is enforceable and that Medtronic is entitled to damages on its claim against St. Jude for tortious interference with a contract. Because we conclude that the district court did not err, we affirm.

FACTS

Medtronic is a diversified medical technology company that develops therapies to treat a variety of medical conditions. Medtronic's business units include cardiac rhythm disease management (CRDM), spinal and biologics, cardiovascular, neuromodulation, diabetes, and surgical technologies. The CRDM unit "researches, designs, develops, manufactures, markets and sells CRDM . . . devices, which are used by physicians to treat cardiac rhythm diseases and disorders." CRDM devices include "implantable pacemakers, implantable cardioverter defibrillators, and cardiac resynchronization therapy devices." The market is highly competitive, and Medtronic competes with St. Jude in the marketing and sale of these devices both nationally and internationally.

Hughes began working at Medtronic in 1995 as a CRDM clinical specialist; his territory included Dothan, Alabama, and Panama City, Niceville, and Crest View, Florida. Hughes's employment agreement with Medtronic contained a noncompete covenant that prohibited Hughes from soliciting sales of competitive products in the territory where he worked during the last year of his employment for a period of one-half of the time he was responsible for the account, but no more than 270 days. In 1998, Hughes was promoted to a position as CRDM sales representative in the area of Montgomery, Alabama. His responsibilities in that position included selling CRDM products to physicians and hospitals in the Montgomery area, as well as maintaining those relationships for Medtronic. In 2004, Hughes was promoted to the position of CRDM district manager in the Birmingham district. [1] Hughes was initially assigned to a district that included Alabama and areas in the panhandle of Florida. But in 2005, his district was redesigned, and Hughes was no longer responsible for Florida accounts. In 2002, Medtronic began using a revised version of its employment agreement.

The revised noncompete covenant prohibited sales managers from working on competitive products for a period of two years following the conclusion of their Medtronic employment. In January 2006, Medtronic sought to have all Medtronic employees sign the revised agreement. Medtronic offered Hughes, and other selected district managers, $50,000 in restricted Medtronic stock in exchange for signing the updated employment agreement, but Hughes was not required to sign the new agreement in order to maintain his at-will employment with Medtronic. On June 23, 2006, Hughes signed the revised agreement and received a restricted stock award of $50,035. After signing the agreement, there were no further changes to Hughes's employment with Medtronic; he retained the same job title, the same responsibilities, the same district and territories, and the same compensation and bonus structure that he had before.

Around the same time, Hughes began seeking employment outside of Medtronic. He was offered a position with St. Jude in 2006 as a district sales manager in the Florida panhandle, which he declined. Hughes received another offer from St. Jude in 2008 to work as the director of education; he declined that position as well. In July 2008, Hughes interviewed with St. Jude for the position of the Orlando regional sales director for its CRDM devices. Hughes accepted an offer for the position on August 12, 2008. Hughes signed a four-year contract with St. Jude providing minimum compensation of $1 million over the first two years and compensation for the restricted Medtronic stock that Hughes forfeited by accepting the St. Jude offer. An addendum to Hughes's employment agreement also stated that "[i]f, due to [Hughes]'s non-competition restrictions imposed by his former employer, [Hughes] is unable to work in the [CRDM] Division in the Orlando, Florida area, [St. Jude] will move [Hughes] to the [atrial fibrillation] division for the first two years of this Agreement." The addendum stated that after two years in atrial fibrillation (AF), St. Jude would move Hughes to CRDM sales. Hughes resigned from Medtronic two days later and informed Medtronic that he was leaving to take a sales position with St. Jude in Orlando, Florida.

St. Jude contacted Medtronic the next day with the following assurance:

> *(i) Mr. Hughes will be relocated from Alabama to Orlando, Florida in connection with his prospective activities as a St. Jude employee; (ii) Mr. Hughes will not have any contact with, or manage those that have contact with, his former Medtronic accounts in connection with such prospective employment activities; (iii) Mr. Hughes will abide by his solicitation prohibition and ([iv])*

> *such prospective employment activities thus will not result in any breach of Mr. Hughes'[s] Employee Agreement with Medtronic to the extent it['']s enforceable (particularly with its restrictive covenant within paragraph 4.1).*

Medtronic responded on August 20, 2008, contending that Hughes's covenant was enforceable and that it prevented Hughes from working as a CRDM sales manager for St. Jude in Orlando. That same day, Medtronic filed a lawsuit against Hughes, alleging anticipatory breach of contract. [2] On August 22, 2008, St. Jude's senior counsel assured Medtronic that Hughes would not work as a St. Jude CRDM manager "until such time as this matter is resolved either amicably or by court order." Hughes answered and counterclaimed for declaratory relief on the ground that the noncompete covenant in his Medtronic agreement was either unenforceable in its entirety or that it was overbroad and required modification. Specifically, Hughes asked the district court to reform the covenant to a "reasonable geographic boundary" that would not include Hughes's employment in Florida with St. Jude and a time limitation "no longer than one (1) year in length." Hughes also sought an injunction prohibiting Medtronic from hindering his employment with St. Jude. St. Jude intervened and counterclaimed for declaratory and injunctive relief on the same grounds as Hughes.

The district court denied temporary injunctive relief and refused to reform the noncompete covenant at that point in the proceedings. In June 2009, ten months after Hughes left Medtronic, St. Jude directed Hughes to begin working in its CRDM division. In response, Medtronic moved for leave to amend its pleadings to assert a claim for tortious interference with a contract against St. Jude. Medtronic also sought a temporary injunction to enjoin Hughes from working in St. Jude's CRDM division until the contract dispute was resolved. The district court heard both motions on July 14, 2009, but reserved ruling on the issues. Trial commenced that afternoon.

Medtronic called Katie Donohue, an HR employee with Medtronic, as a witness to testify concerning Medtronic's business interest in a two-year noncompete covenant. According to Donohue, the revised noncompete covenant was necessary because of the changing business conditions and the increasing level of sophisticated information that Medtronic sales managers had access to. As a Medtronic CRDM district manager, Hughes had access to and had received confidential information regarding Medtronic's CRDM business that included marketing strategies, pricing information, and sales data.

Hughes testified at trial that in his capacity as a sales manager in the AF division with St. Jude, he had recently met with an administrator from Baptist South Hospital in Montgomery, Alabama and others in his AF division. Hughes stated that even though Montgomery was not in his St. Jude sales region, he was asked to attend this account meeting based on his familiarity with the account from his work at Medtronic.

St. Jude sought at trial to establish Medtronic's alternative motivation for revising the noncompete covenant. St. Jude called a former Medtronic regional vice president of the Florida CRDM sales region as a witness. The testimony suggested that Medtronic's motivation for implementing the new noncompete covenant may have been to bind up the CRDM sales organization after Medtronic experienced a significant number of departures from that division. On the second day of trial, the district court granted Medtronic's motion to amend the pleadings to add a claim of tortious interference with a contract. At the close of trial, the district court partially granted Medtronic's motion for a temporary injunction and, until the merits of the case were resolved, enjoined Hughes from selling CRDM products or managing other St. Jude employees who did.

On October 9, 2009, the district court issued its findings of fact, conclusions of law, and order for judgment. The district court held that Medtronic's noncompete covenant was enforceable because it "reasonably serves to protect a legitimate business interest." The district court also examined the terms of the covenant. Because it found that the two-year duration was overly broad, the district court reduced the duration of the covenant to one year. The district court found that the geographic scope of the covenant was reasonable because, while it seemingly applied worldwide, it was limited to certain cardiology products, and the confidential information that Hughes obtained while employed with Medtronic would be potentially relevant to his sales of CRDM products in any market for St. Jude.

The district court concluded that Medtronic was entitled to judgment on its claim for tortious interference with a contract against St. Jude. The district court found that St. Jude intentionally procured Hughes's breach of the noncompete covenant and concluded that Medtronic was entitled to recover its attorney fees and other expenses incurred in enforcing the covenant against Hughes.

Appellants challenged the portions of the October 9, 2009 order that granted temporary injunctive relief to Medtronic. But appellants later confirmed that they did not wish to seek immediate appellate review of the injunctive relief and instead wished to defer briefing and appellate review until the entire matter was resolved in a final judgment. In an order opinion, this court dismissed the appeal without prejudice in order to allow the parties to seek appellate review from the final judgment.

In response to the district court's October 9 order, Medtronic submitted an affidavit, stating that it incurred $615,958 in attorney fees and expenses related to enforcement of the noncompete covenant. Medtronic's affidavit totaled the fees and expenses incurred from August 18, 2008, through August 2009. In response, St. Jude argued that Medtronic was only entitled to fees and expenses that were incurred on or after July 7, 2009, when Medtronic moved for a temporary injunction and to amend the pleadings to include a claim of tortious interference with a contract.

On March 3, 2010, the district court issued its findings of fact and conclusions of law on the issue of damages. The district court concluded that St. Jude intentionally procured Hughes's breach of the noncompete covenant when St. Jude officials met with Hughes to discuss the job opportunities available in its CRDM division and offered Hughes the position that he ultimately accepted. The district court awarded Medtronic damages in the amount of $615,958. This appeal follows.

DECISION

St. Jude did not move for a new trial. Therefore, the scope of review on appeal includes substantive legal issues properly raised at trial, whether the evidence supports the findings of fact, and whether the findings support the conclusions of law. *See Alpha Real Estate Co. of Rochester v. Delta Dental Plan of Minn.,* 664 N.W.2d 303, 310 (Minn. 2003) (stating that review includes substantive legal issues property raised at trial); *Gruenhagen v. Larson,* 310 Minn. 454, 458, 246 N.W.2d 565, 569 (1976) (stating that review includes whether the evidence supports findings and findings support conclusion). Following a bench trial, the district court's findings of fact are afforded great deference and will not be overturned unless clearly erroneous. *Porch v. Gen. Motors Acceptance Corp.,* 642 N.W.2d 473, 477 (Minn. App. 2002), *review denied* (Minn. June 26, 2002). But this court need not defer to the district court's decision on a question of law. *Bondy v. Allen,* 635 N.W.2d 244, 249 (Minn. App. 2001).

I.

Appellants challenge the district court's determination that Medtronic's noncompete covenant is reasonable. Noncompete covenants are disfavored because they are partial restraints on trade. *Midwest Sports Marketing, Inc. v. Hillerich & Bradsby of Canada, Ltd.,* 552 N.W.2d 254, 265 (Minn. App. 1996), *review denied* (Minn. Sept. 20, 1996). Restrictions "broader than necessary to protect the employer's legitimate interest are generally held to be invalid, and the determination of the necessity for the restriction is dependent upon the nature and extent of the business, the nature and extent of the service of the employee, and other pertinent conditions." *Bennett v. Storz Broad. Co.,* 270 Minn. 525, 534, 134 N.W.2d 892, 899 (1965). "But restrictive covenants are enforced to the extent reasonably necessary to protect legitimate business interests. Legitimate interests that may be protected include the company's goodwill, trade secrets, and confidential information." *Medtronic, Inc. v. Advanced Bionics Corp.,* 630 N.W.2d 438, 456 (Minn. App. 2001) (citation omitted). The reasonableness of a noncompete covenant is determined on a case-by-case basis. *Bennett,* 270 Minn. at 535-36, 134 N.W.2d at 899-900. Here, appellants challenge both the geographic scope and duration of Medtronic's noncompete covenant.

A. Geographic Scope

"Territorial limitations . . . are but one of several factors a [district] court is to consider in determining the reasonableness of a restrictive covenant." *Dynamic Air, Inc. v. Bloch,* 502 N.W.2d 796, 799 (Minn. App. 1993). In *Bloch,* this court declined to enunciate a per se ruling barring the enforceability of noncompete covenants that contained no territorial limitation, noting that "[t]he covenant must be scrutinized as a whole to determine whether it is reasonable." *Id.* at 800. Courts will uphold a geographic limitation when it is limited to areas necessary to protect the employer's interest. *Overholt Crop Ins. Serv. Co. v. Bredeson,* 437 N.W.2d 698, 703 (Minn. App. 1989). In determining the validity of a noncompete covenant, the court should weigh the employer's interest in protection from unfair competition against the employee's right to earn a living, taking into consideration the context or the nature and character of the employment. *Kallok v. Medtronic, Inc.,* 573 N.W.2d 356, 361 (Minn. 1998).

The district court found that Medtronic's worldwide noncompete covenant was reasonable under the circumstances of this case. Medtronic operates on a global scale in its sale of CRDM products, and it competes in these markets with St. Jude. The confidential information that Hughes had access to as a sales manager for Medtronic was not specifically limited to the geographic areas where he worked as a CRDM sales manager; the information could be applied to markets internationally. Additionally, because Medtronic's noncompete covenant is restricted to certain cardiology products, Hughes could work for a competitor in a sales capacity in a different division without risking disclosure of confidential information related to Medtronic's CRDM business. This product-specific limitation strikes a reasonable balance between Medtronic's need to protect its confidential information and Hughes's need to earn a living.

The district court balanced those interests in the context of Hughes's decision to work for St. Jude in Florida. "Reasonableness is gauged not just by some but by *all* of the circumstances. The same identical contract and restraint may be reasonable and valid under one set of circumstances, and unreasonable and invalid under another set of circumstances." *Arthur Murray Dance Studios of Cleveland v. Witter,* 105 N.E.2d 685, 693 (Ohio 1952) (citations omitted) (*cited with approval in Bennett,* 270 Minn. at 533, 134 N.W.2d at 898); *see also Bennett,* 270 Minn. at 535-36, 34 N.W.2d at 899-900. Hughes left Medtronic to work for a competitor in a region that is geographically close to his former Medtronic territory. Under these facts, the geographic scope is reasonable. *See Witter,* 105 N.E.2d at 697 (noting that one condition to consider when evaluating the reasonableness of a noncompete covenant is "the distance between the business place at which employee worked for employer and the business place at which employee works for rival").

Because the district court's findings of fact are not clearly erroneous and because the geographic scope of Medtronic's noncompete covenant is not unreasonable as applied to Hughes, we conclude that the district court did not err by upholding the geographic scope of Medtronic's noncompete covenant.

B. Duration

Appellants also argue that the district court erred by "blue penciling" the contract to reduce the duration of the noncompete covenant to one year, as opposed to six months. [3] "Under the blue pencil doctrine as it has developed in Minnesota, a court can take an overly

broad restriction and enforce it only to the extent that it is reasonable." *Klick v. Crosstown State Bank of Ham Lake,* 372 N.W.2d 85, 88 (Minn. App. 1985). We review a district court's decision to blue pencil a noncompete covenant for an abuse of discretion. *See id.*

Appellants focus on one of the district court's findings regarding Medtronic's confidential information to argue that the district court abused its discretion in blue penciling the noncompete covenant to a one-year term. The district court found that it was questionable whether Medtronic's "proffered confidential information is truly confidential warranting protection longer than six months." The district court then concluded that Medtronic failed to prove that its noncompete covenant is reasonably necessary beyond one year.

Appellants argue that this finding conclusively demonstrates that a six-month duration in Medtronic's noncompete covenant is reasonable and that the district court erred by not blue penciling the covenant to that duration. We disagree. The district court stated that it was questionable whether Medtronic's confidential information warranted protection longer than six months. But the district court found that Medtronic failed to prove that the information warranted two years of protection. These findings are not inconsistent. We therefore conclude that the district court did not abuse its discretion by reducing the duration of the noncompete covenant to one year.

II.

Appellants contend that the district court erred by granting Medtronic judgment on its claim against St. Jude for tortious interference with a contract. A third-party who interferes with and causes the breach of a contract may be held liable for tortious interference with a contract. *Kallok,* 573 N.W.2d at 361. This includes the intentional interference with a valid noncompete covenant. *Id.* at 361-62. The elements of a cause of action for tortious interference with a contract are: (1) the existence of a contract; (2) the interfering party's knowledge of the contract; (3) intentional procurement of its breach; (4) a lack of justification; and (5) damages. *Id.* at 362. Specifically, appellants challenge the district court's findings and conclusions with respect to the third and fourth elements.

A. Intentional Procurement of Breach

1. Breach of contract

Appellants challenge the district court's conclusion that Hughes anticipatorily breached his contract with Medtronic by accepting St. Jude's offer of employment. Anticipatory breach is defined as expressly renouncing performance of the contract and giving notice to the other party of the intent not to perform. *Space Ctr., Inc. v. 451 Corp.,* 298 N.W.2d 443, 450 (Minn. 1980). The refusal must be "an unqualified renunciation or repudiation of the contract." *Id.* (quotation omitted). A repudiating party may not retract its repudiation if the other party to the contract brings a lawsuit. *Id.*

Here, Medtronic's noncompete covenant prohibited Hughes from working for a competitor in the CRDM sales industry for a period of one year [4] following the termination of his employment with Medtronic. But Hughes accepted a position as regional sales director in the CRDM industry with St. Jude before he had resigned from Medtronic. This acceptance was a violation of Hughes's noncompete covenant and demonstrated his intent not to comply with the terms of his Medtronic employment agreement. Thus, his acceptance constituted an anticipatory breach of the noncompete covenant. It was only after Medtronic filed a lawsuit seeking injunctive relief against Hughes that St. Jude moved him to the AF division. But Hughes could not cure his repudiation after the lawsuit was filed. *See id.* Therefore, we conclude that Hughes anticipatorily breached the noncompete covenant by accepting St. Jude's offer of employment in its CRDM sales industry.

2. Intentional procurement

Appellants challenge the district court's determination that St. Jude intentionally procured Hughes's breach of the contract at the time that he accepted St. Jude's offer of employment. In *Kallok,* the supreme court held that Angeion Corp. intentionally procured the breach of Kallok's noncompete covenant with Medtronic when the record demonstrated that Angeion officials met with Kallok "on numerous occasions and procured the breach of his noncompete agreements by offering him the vice president position that he eventually accepted." 573 N.W.2d at 362.

This case presents similar facts. The record reflects that (1) Hughes met with individuals from St. Jude at least once to discuss a position in its CRDM division, (2) a regional vice-president called and e-mailed Hughes outlining his expected compensation and benefits and urging him to accept the position, and (3) St. Jude eventually offered Hughes a position that he was prohibited from accepting due to his noncompete covenant with Medtronic. These actions by St. Jude resulted in Hughes's breach of his contract with Medtronic. We agree with the district court that St. Jude intentionally procured Hughes's breach of the noncompete covenant by inducing him to accept its offer of employment.

B. Justification

A party does not wrongfully interfere with a contract if the party "asserts `in good faith a legally protected interest of his own believing that his interest may otherwise be impaired or destroyed by the performance of the contract or transaction.'" *Kjesbo v. Ricks,* 517 N.W.2d 585, 588 (Minn. 1994) (quoting Restatement (Second) of Torts § 773 (1979)). Justification is generally a factual question. *Id.*

St. Jude argued that it had a good-faith belief that Hughes's noncompete covenant was unenforceable and that its actions in procuring Hughes's breach were therefore justified. But the district court concluded that St. Jude offered no evidence to support its argument on the element of justification, noting that St. Jude refused to disclose the basis for its assertion on the ground of attorney-client privilege. On appeal, St. Jude argues that the district court erred in that it required St. Jude to waive its privilege in order to prevail on this element. We disagree. The district court did not require St. Jude to divulge privileged communications in order to provide justification for its intentional procurement of Hughes's breach; instead, the district court noted only that St. Jude asserted the privilege and made no attempt to introduce non-privileged evidence to support its justification argument. St. Jude offered no evidence to demonstrate that its actions were justified. This failure is also fatal to St. Jude's arguments on appeal. We conclude that there is sufficient evidence in the record to support the district court's determination that St. Jude lacked justification. Therefore, the district court did not err by granting Medtronic judgment on its claim against St. Jude for tortious interference with a contract.

III.

Appellants challenge the amount of damages awarded to Medtronic on its claim of tortious interference with a contract. Appellants do not argue that the claimed fees and expenses are unreasonable; but they assert that the district court erred by granting Medtronic damages for the fees and expenses that Medtronic incurred from the inception of the lawsuit. This contention is based on appellants' arguments that Medtronic's tortious-interference claim is meritless or that the breach occurred when St. Jude moved Hughes back to the CRDM industry. Because we conclude that Hughes anticipatorily breached the noncompete covenant by accepting employment with St. Jude in the CRDM industry and that St. Jude intentionally procured that breach, we likewise affirm the district court's award of damages to Medtronic in the amount of $615,958.

Affirmed.

FootNotes

1. Medtronic has approximately 100 CRDM sales districts that are located within 12 sales regions throughout the country. Sales representatives report to the local district managers.

2. Pursuant to a stipulation, the district court granted a protective order to limit public disclosure of discovery deemed "confidential." "Confidential" was defined by the order as "information produced by the parties during the course of discovery that is not generally known or disclosed to the public." The district court more severely limited the disclosure of "highly confidential" information, which was defined as "[a]ny trade secret, or other confidential research, development, or commercial information subject to protection under Minn. R. Civ. P. 26.03(g)." As a result, much of the district court record is subject to this protective order, and this opinion will refer only to that information that has been released into the public record. *See* Minn. R. Civ. App. P. 112.01, subd. 1.

3. The "blue pencil doctrine" gives district courts discretion "to modify unreasonable restrictions on competition in an employment agreement by enforcing restrictions only to the extent reasonable." *Witzke v. Mesabi Rehab. Servs., Inc.,* 768 N.W.2d 127, 129 n.1 (Minn. App. 2009).

4. We consider the time period of the blue-penciled noncompete covenant.