Massachusetts Noncompete Law

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Complex Commercial Litigation Conference

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I.
Representing the Employer - Pre-Dispute

1 - Be Careful With Consideration Based Solely on Continued Employment

Continued employment is traditionally sufficient for mid-employment agreement, but some Superior Court cases now make it risky to rely on this doctrine. *See, e.g., EMC Corp. v. Donatelli*, C.A. No. 09-1727-BLS2 (Mass. Super. Ct., May 4, 2009)("[i]t is fair to observe that the state of Massachusetts law is not crystal clear with regard to whether continued employment alone provides sufficient consideration for a non-competition covenant").

D. Mass courts are more inclined to find continued employment provides sufficient consideration. *See American Well Corp. v. Obourn*, WL 7737328 (D. Mass. Dec. 1, 2015); *Optos, Inc. v. Topcon Medical Sys., Inc.*, 777 F.Supp. 2d 217 (D. Mass. 2011).

See MCLE Employee Noncompetition Agreement, Chapter 31, p. 26, citing cases (hereinafter "MCLE Chapter 31, p. __").

2 - Include a Notice of New Employment/Tolling Provision

EMC Corp. v. Arturi, 655 F.3d 75 (1st Cir. 2011) (affirming denial of preliminary injunction where one year noncompete period had expired; "EMC could have contracted … for tolling the term of the restriction during litigation, or for a period of restriction to commence upon preliminary finding of breach. But it did not").

Sample clause:

Employee shall, for a period of one (1) year after the termination of employment with the Company, notify the Company of any change of address, and of any subsequent employment (stating the name and address of the employer and the title and duties of the position) or other business activity. In the event Employee fails to comply with this paragraph the noncompete period set forth in paragraph __ shall be tolled, and shall commence with the date of the entry of a preliminary injunction.

3 - Include a "Material Change" Clause

Sample clause:

"I understand and agree that my obligations under this Agreement will continue regardless of any changes in my title, position, duties, compensation or other terms and conditions of employment."

4 - Consider a Unilateral Attorney's Fee-Shifting Provision in Favor of Employer

5 - Make the Agreement Assignable to Successor Corporations

L-3 Communications Corp. v. Reveal Imaging Techs., Inc., 18 Mass. L. Rptr. 512 (Mass. Super. Ct. 2004) (noncompete agreement signed by employees was not assigned as part of a sale to the current employer, and therefore not enforceable).

See MCLE Chapter 31, p. 11, citing cases.

6 - Consider a “No Acceptance” Clause Rather Than a Non-Solicitation Clause

Alexander & Alexander, Inc. v. Danahy, 21 Mass. App. Ct. 488, 498–99 (1986) (nonsolicitation agreements may be used to prevent even the acceptance of business from a former employer’s customers); *Hilb Rogal & Hobbs of Mass., LLC v. Sheppard*, C.A. No. 07-5549-BLS2 (Dec. 31, 2007)(same).

II.
Representing the Employee/New Employer - Pre-Dispute

7 -Be Alert to Potential Conflicts of Interest

See, *e.g.*, *Pacific Packaging Products*, *Inc. v. Barenboim*, WL 2766735 (Mass. Super. Ct., Jan. 31, 2014) (rift between defendants, counsel disqualified from further representing any of the defendants).

8 - Make Sure Your Employee-Client Informs the New Employer of the NCA, Pre-Hire. Make Sure Your Employer-Client Asks Whether Employee is Subject To a Noncompete and Receives a Copy.

9 - Make Sure Your Employee-Client Understands the Risks of Violating a Noncompete

- Preliminary Injunction
- Damages
- Loss of Income
- Defense costs
- Plaintiff’s Attorney’s Fees

Will the new employer indemnify any of these risks?

10 - Make Sure the Employee Leaves *All* Employer Property behind (!)

11 - Non-Solicitation of Customers – More Complicated Than You Might Think

Does it matter who makes the "initial contact"?

> "The line between solicitation and acceptance of business is a hazy one. . . . a per se rule vis-à-vis initial contact has no place in this equation." *Corporate Technologies, Inc. v. Harnett*, 943 F. Supp. 2d 233 (D. Mass. 2013), *aff'd*, 731 F. 3d 6 (1st Cir. 2013).

See also Advanced Micro Devices, Inc. v. Feldstein, 951 F. Supp. 2d 212 (D. Mass. 2013).

12 – It’s OK For the Employee to Announce Her New Job on Social Media

Invidia, LLC v. DiFonzo, 2012 WL 5576406 (Mass. Super. Ct., Oct. 22, 2012) (Wilson, J.): “[I]t does not constitute ‘solicitation’ of [the former employer’s] customers to post a notice on [the employee’s Facebook] page that she is joining [the new employer].”

See also BNY Mellon, N.A. v. Schauer, 2010 WL 3326965 (Mass. Super. Ct., May 14, 2010)(“wedding announcement” does not constitute solicitation).

III.
Representing the Former Employer - Dispute

13 – If You Are Negotiating Pre-Suit, Enter Into a Standstill Agreement to Preserve the Ability to Seek Preliminary Injunction (and Perhaps Even to Stop Noncompete Period From Running Through Trial, Appeals; *see* EMC, *supra*).

14 - Advise the Former Employer About the Risks Associated With a Frivolous Suit (Tortious Interference, 93A)

See, *e.g.*, *Brooks Automation*, *Inc*. *v. Blueshift Techs.*, *Inc.*, 20 Mass. L. Rptr. 541 (Mass. Super. Ct. 2006)($600,000 based on the filing and prosecution of a frivolous noncompetition and trade secret suit by former employer); *Prof'l Staffing Group*, *Inc*. *v. Champigny*, 2004 WL 3120093 (Mass. Super. Ct., Nov. 18, 2004) (employee counterclaim; 93A allowed).

15 - M.G.L. c. 93A vs. The Former Employee

Basic rule: Disputes arising out of employer-employee relationship do not meet 93A's trade or commerce requirement, and are therefore excluded from the scope of 93A. Thus, claims for breach of NCA (even when willful) or tortious interference based on violation of NCA, are not allowed under 93A.

See Manning v. Zuckerman, 388 Mass. 8 (1983)

16 – Claims vs. The New Employer

Former employer may not sue new employer based on employee's breach of noncompete, or for tortious interference violation of c. 93A, based on employee's violation of noncompete.

See MCLE Chapter 31, p. 40, citing cases.

16 – Claims vs. The New Employer (2)

See Synergistics Tech., Inc. v. Putnam Investments, LLC, 74 Mass. App. Ct. 686 (2009) ("93A does not create any obligation on [new employer's] part to shun [employee] simply because those parties had an agreement with [prior employer] or because they might become involved in a dispute over [employee's] contractual freedom. [The new employer] was not required to interpret the rights and obligations of parties to an agreement to which it was not itself a party and with which it had not interfered, and then act in the role of enforcer"); *TalentBurst, Inc. v. Collabera, Inc.*, 567 F. Supp. 2d 261 (D. Mass. 2008)(Young, J.) ("One business may sue another for a Chapter 93A violation based on tortious interference, [but not when] a noncompete is involved"); *Intertek Testing Servs. NA, Inc. v. Curtis-Strauss LLC*, 2000 WL 1473126 (Mass. Super. Ct., Aug. 8, 2000)(Gants, J.)("If the actual willful breach of a non-compete agreement by an employee is not actionable under c. 93A because the claim arose from the employment relationship, then the conduct of a third party to induce such a breach must also not be actionable because this claim, too, arose from the employment relationship").

16 – Claims vs. The New Employer (3)

But see Green v. Parts Distribution Xpress, Inc., 2011 WL 5928580 (D. Mass. Nov. 29, 2011)("non-party to an employment relationship can be held liable under chapter 93A for aiding and abetting the wrongdoing of a party to an employment relationship regardless of whether the party to the employment relationship can itself be held liable under chapter 93A"); *People's Choice Mortgage, Inc. v. Premium Capital Funding*, LLC, 26 Mass. L. Rptr. 582 (Suff. Super. Ct., March 31, 2010)(new employer's tortious interference with noncompete contract merits relief against new employer under 93A); *National Economic Research Assoc., Inc. v. Evans*, 24 Mass. L. Rptr. 436 (Suff. Super. Ct., Sept. 10, 2008)(Gants, J.)(suggesting 93A would apply to new employer if evidence supported finding of improper motive or means sufficient to support claim of tortious interference).

IV.
Representing the Employee/New Employer - Dispute

17 - New Employer Should Not Disregard Cease/Desist Letter Putting It On Notice of a NCA

Arbor Networks, *Inc*. *v*. *Ronca*, Civ. A. No. 12-11322-FDS (D. Mass. Nov. 14, 2012)(denying motion to dismiss tortious interference claim against new employer where former employer sent cease-and-desist letter; new employer "knew or reasonably should have known that individual defendants were breaching their agreements with [former employer] ….").

18 – Don’t Forget to Evaluate The “Material Change” Doctrine Defense

Cases typically involve changes in title, responsibilities, compensation. Defense is strongest when accompanied by employer’s request that employee sign a new agreement and employee’s refusal.

See MCLE Chapter 31, page 25, citing cases.

19 - The “Inevitable Disclosure” Doctrine

Tempting, but not recognized in Massachusetts.

20 - Be Careful About Antitrust Issues That May be Implicated by Mutual No—Hire/No-Poach Agreements in Settlement

Lastly:

Keep track of Massachusetts noncompete legislation – it's been percolating for years and may actually pass one of these days.

Patent Trolls

The Attorney General's office has been exploring ways to contain patent trolling, but it has not yet issued a report or statement.

In April 2015, the Massachusetts Senate introduced legislation (SB 178) that would protect Massachusetts businesses from bad faith assertions of patent infringement. On March 14, 2016, that bill was reported favorably out of the committee on Consumer Protection and Professional Licensure and referred to the committee on Senate Ways and Means.

Patent Trolls (2)

Under SB 178 to avoid “bad faith assertion of patent infringement” party sending demand letter must (among other things) –

- Include specific factual allegations
- Have performed a claim analysis
- Violation would entitle injured party to the greater of treble damages or exemplary damages up to $50,000, plus costs and attorney’s fees.

See copy of SB 178, attached.