AIM Business Insider

Massachusetts Court Case Underscores Need for Non-Compete Agreements

Posted by Andrew Botti on Fri, Feb 24, 2012 @ 08:03 AM

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A recent Superior Court case out of Suffolk County illustrates the need to preserve current Massachusetts law governing the enforceability of non-competition agreements.

Life Image was a relatively new start-up company that had developed a "dramatic, cost-cutting" shared-imaging product for radiologists that could be accessed over the Internet via so-called "cloud" technology. Before selling any products, Life Image hired a director of business development tasked with establishing sales avenues for the company. The individual who was hired eventually became vice president of business development. He was apparently involved in the many major strategic business development decisions being made by the start-up.

The vice president's employment with Life Image was subject to written confidentiality and non-competition covenants. The non-compete language provided that for a period of 12 months following a termination the vice president would not "engaged directly or indirectly and any business presently engaged in by life Image or in which Life Image engaged during the term of his employment."

Approximately two years later, after Life Image had gone to market and caught the attention of a major competitor, the V.P. resigned and went to work for that competing company. The Superior Court found the competitor was well aware that "Life Image was developing and marketing a powerful Internet tool that was ground breaking," and that it had "no equivalent product." In fact, the competing company had reached out to the vice president prior to his resignation from Life Image. The court found that the competitor had targeted the vice president for recruitment because of his position with Life Image.

Prior to his departure from the start-up, the V.P. apparently copied the contents of his Life Image laptop computer onto a brand-new Macbook and returned the Life Image computer on the final day of his employment.

The court found that the V.P. carried the complete Life Image product with him on his computer when he left his employer. Forensic evidence also showed that a large amount of Life Image's files were exported from the V.P.'s company laptop onto an external hard drive prior to his departure.

While there was no evidence that the vice president had actually conveyed to the competitor any of the Life Image confidential information taken, the court nevertheless enforced the non-compete based upon what it called "an inevitable misappropriation of confidential information." The court reasoned:

"[The Vice President] would necessarily hold in his head or in his computer insider marketing information, i.e, marketing strategy, management, and concepts specific to the cloud-based product. He would have gained this at Life Image...This judge cannot conceive of any way that [the V.P.] could educate his contacts about [the competitor's] emerging products without relying on internal marketing and product data about Life Images competing products."

Thus the court reasoned that the covenant not to compete was enforceable as Life Image maintained a legitimate business interest in protecting its confidential internal marketing and product information.

The court also rejected the vice president's offer to remove himself in his new job from any responsibilities or products that were cloud-based or competing directly with the Life Image product. A promise of non-disclosure was not enough protection for Life Image. The court chastised the vice president for having deleted files from his personal laptop – "apparently in a panic" - upon receipt of an earlier preservation of evidence order of the same court:

"This court is not inclined to permit [the V.P.] to work for [the competitor] in that fashion under a court order not to disclose. His lack of judgment in deleting files upon receipt of the preservation order in the TRO and his solicited advice to [the competitor] about the [Life Image product capabilities] while he was still in the employ of Life Image causes this court to doubt that he is possessed of the ability to wall off in his mind secret strategic marketing information about Life Image while he sells for [the competitor]. *Under these circumstances a court order not to disclose fails to protect Life Image's legitimate business interests.*" (Emphasis added.)

In making these rulings in favor of Life Image, the court quoted from the quintessential inevitable disclosure case, finding that "Life Image is 'in the position of a coach, one of whose players has left, *playbook in hand*, to join the opposing team before the big game.'" Pepsico, Inc. v. Redmond, 54 F.3d 1262, 1270 (1995).

The behavior of the departing vice president is not atypical. The case starkly illustrates the importance of maintaining a clear and effective jurisprudence on non-competition law within the state of Massachusetts. This is particularly true since Massachusetts is in many ways a high-tech hub of business activity, and hopefully will remain so.

Currently pending legislation would cast into doubt the precedential value of the Life Image case, as well as other recent cases that have invoked the principles of the inevitable disclosure doctrine to enforce noncompetition agreements in the high-tech area.

For instance H.2293, "An Act Relative to Noncompetition Agreements," contains a provision that would expressly out-law the inevitable disclosure doctrine in Massachusetts. Section I of the bill provides:

"Nothing in this section shall expand or restrict the right of any person to protect trade secrets of other confidential information by injunction or any other lawful means under other applicable laws or agreements. Notwithstanding the forgoing, *the inevitable disclosure doctrine is rejected and shall not be utilized*[.]" (Emphasis added.) More and more recent Massachusetts cases have evinced a willingness to rely upon inevitable disclosure concepts when analyzing the enforceability and efficacy of non-competition clauses.

In light of the favorable jurisprudence illustrated by Life Image, passage of the pending legislation would be a most unfortunate development for Massachusetts start-up companies as well as ongoing concerns which rely upon carefully drafted noncompetition agreements to protect the often substantial investments they have made in ground breaking technology.

Employers interested in following this issue with AIM should contact Bradley A. MacDougall, Vice President of Government Affairs for AIM or to read AIM's non-compete blogs.