Recent Developments In The Massachusetts Legislature Concerning Non-Competes and other Forms of Post-Employment Restrictive Covenants

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There has been a flurry of activity on Beacon Hill in recent years concerning the law of post-employment restrictive covenants in Massachusetts. Many Massachusetts companies are familiar with the use of non-competes, particularly when it comes to the employment of sales personnel. And Massachusetts law has for well over a century favored the enforcement of well crafted non-competition agreements. Since 2009, however, there has been some willingness within the Massachusetts Legislature to completely revamp the existing non-compete legal landscape. Several proposed bills have sought to bring sweeping changes in the law of non-competes, as well as other post-employment restrictive covenants. These efforts within the Legislature have in essence attempted to move Massachusetts more in the direction of California when it comes to the enforceability of non-competition agreements. Although stopping short of California's complete ban of non-competes, the Massachusetts legislative proposals would certainly result in the creation of barriers to enforcement which many businesses may not be able to overcome.

For example, on January 5, 2009, House Bill No. 1794, "An Act To Prohibit Restrictive Employment Covenants," was introduced in the Massachusetts House of Representatives.[1] The Act proposed to amend Section 19 of Chapter 149[2] of the General Laws by adding the following paragraph:

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[1] House Docket No. 385

[2] Section 19 of Chapter 149 provides: "No person shall, by intimidation or force, prevent or seek to prevent a person from entering into or continuing in the employment of another person."

> Any written or oral contract or agreement arising out of an employment relationship that prohibits, impairs, restrains, restricts, or places any condition on, a person's ability to seek, engage in or accept any type of employment or independent contractor work, for any period of time after an employment relationship has ended, shall be void and unenforceable with respect to that restriction. This section shall not render void or unenforceable the remainder of the contract or agreement.

HO 1794. (See Exhibit 1). This simple paragraph inserted into the General Laws of the Commonwealth would have effectively brought to an end the enforceability of any type of post-employment restrictive covenant, effectuating a sea change in the present state of the common law. The broad proscriptive language would have outlawed not only non-competition agreements, but also other forms of post-employment restrictive covenants such as non-solicitation agreements and anti-piracy agreements. Under this formulation, one could easily argue that a non-solicitation agreement prohibiting a former employee from contacting the customers he serviced at his prior workplace would be illegal, since it arguably "impairs … a person's ability to seek, engage in or accept" employment.

On January 13, 2009, an "Act Relative to Non-Compete Agreements," House No. 1799[3] was introduced during the same legislative session. (See Exhibit 2). This bill deals only with non-competition agreements, and no other form of post-employment restrictions. Nevertheless, HO 1799 established certain bright-line enforceability rules not currently found in the common law of Massachusetts. For instance, Section (c) prohibits the enforcement of a non-competition clause against an employee "whose annual gross salary and commission, calculated on an annual basis at the time of the employee's termination, is less than $100,000[.]" Also, HO 1799 prohibited non-competition provisions extending beyond 2 years. The Act also allowed for garden leave provisions, but only if the employer paid the ex-employee the greater of: 50% of

[3] House Docket No. 1078

the employee's annual gross base salary and commissions, or $100,000. Clearly, this was a high price to pay in order to protect one's intellectual property and customer goodwill.

Both Acts would have altered considerably the existing "non-compete" jurisprudence in Massachusetts, particularly for employers who rely on post-employment restrictive covenants to protect customer goodwill, and to minimize the possibility of unfair competition by former employees. Several business interests in Massachusetts, such as the Smaller Business Association of New England ("SBANE") and Associated Industries of Massachusetts ("AIM"), weighed in on these legislative formulations, characterizing them for the most part as too "employee biased."[4] Subsequently, a new formulation of "An Act Relative to Non-Compete Agreements" appeared late in 2009 as a "compromise bill." (See Exhibit 3). It called for the following minimum requirements for enforceable non-compete agreements:

- the agreement must be in writing and signed by the employee and the employer;

- must apply only to employees making more than $75,000 annually;

-can only be of one (1) year's duration;

-must be provided 7 business days before commencement of employment; and

-makes additional consideration in the amount of 10% of the employee's compensation presumptively reasonable where a non-compete agreement is put before an employee after the commencement of employment.

(See Exhibit 3). Such bright-line rules for enforceability do not exist in the present common-law jurisprudence. They are clearly meant to establish baseline legal requirements, and also impose certain employer costs of enforceability which presently do not exist. Perhaps the most controversial aspect of HO 1799 is its attorney's fees provision. The Act calls for the

[4] The author served as Chairman of SBANE from October 2009 - October 2011.

mandatory award of attorney's fees to the employee *even in cases where the employer was successful in Court in enforcing the non-compete provision.* This provision is contrary to the long-standing and well-recognized "American Rule" which requires litigants to bear their own costs and expenses, irrespective of outcome.

In October 2010 the Joint Committee on Labor and Workforce Development held the requisite public hearing on the latest formulation of the HO 1799. The author testified at the hearing along with various other business owners who felt essentially that the bill as formulated would weaken the business climate in Massachusetts by making it more difficult and expensive for businesses to protect customer goodwill and other proprietary matter. The bill was reported favorably out of committee, but was not taken up by the full Legislature. Accordingly, the Act and its various formulations effectively died at the end of the 2010 legislative session.

The 2011-2013 legislative session saw the introduction of yet another round of bill proposals regarding restrictive covenants. On January 20, 2011, "An Act Relative to Noncompetition Agreements," was reintroduced in the Massachusetts House of Representatives as HO 2293.[5] (See Exhibit 4). The mandatory minimum salary requirement was eliminated, as was the 10% payment as presumptively adequate consideration when a non-compete agreement is presented to an employee after commencement of employment. The new version of HO 1799 also recognizes garden leave provisions. The mandatory attorney's fees provision remains in place as a substantial "wild card" and deterrent concerning enforcement actions. A comprehensive critique of this present formulation is found at Exhibit 5, which sets forth the official position of the Smaller Business Association of New England on HO 2293. On January 21, 2011, "An Act Relative to the Prohibition of Noncompetition

[5] House Docket 02018

Agreements"[6] was filed with the Massachusetts House as HO 2296. This proposal is very simple in formulation but profound in impact - should it become law. It provides in pertinent part:

> Except as provided in this Section, any contract that serves to restrict an employee or former employee from engaging in a lawful profession, trade or business of any kind is deemed unlawful.

The language of HO 2296 is similar to that of HO 1794 introduced in 2009. In a way, HO 2296 "was déjà vu all over again," as it more or less mirrored the restrictions set forth in HO 1794 which began the legislative foray into this area back in January 2009. It would serve effectively to outlaw in Massachusetts most forms of post-employment restrictive covenants. Both HO 2293 and HO 2296 have been assigned to the Joint Committee on Labor and Workforce Development. Public hearings on these bills are expected to occur in the fall of 2011.

Since their initial appearance in 2009, these bills have been touted as "job creation" mechanisms, the argument being that prohibiting non-competes would allow for greater employee mobility and therefore increased hiring. A 2009 study of the affect of non-compete agreements on the biotech industry, however, reached a very different conclusion:

> Our results suggest that the legal structure in California that places no restrictions on post-employment activities hinders firm's research and development activities. We believe this occurs because firms cannot protect the tacit knowledge held by employees. We also considered the issues of whether legal structure was more important to younger and smaller firms. Our results here suggest that smaller firms are particularly affected by the legal structure in California. The results clearly highlight the importance of legal structure when firms are particularly reliant upon competitive advantages based upon tacit knowledge.

See Non-Competition Agreements And Research Productivity in the Biotechnology Industry, Cooms and Taylor (University of Richmond, 2009). An earlier study from 2000 compared the

[6] House Docket 02713

legal environment of Silicon Valley, California, where non-competes are illegal, to that of other high-tech areas such as Route 128 in Massachusetts, North Carolina's Research Triangle, and Austin, Texas. This study found no "growth-stifling effects" of non-competes in the geographic areas which enforce them:

> There is no doubt that Silicon Valley has experienced unmatched success over the last few years, but when data reflecting the success of the four regions is adjusted to measure the successes of the four regions in relative terms, it seems clear that all four areas are experiencing very high rates of growth, in terms of the number of new technology-related businesses, the amount of venture capital investment, and the number of venture capital transactions. In short, all four are high technology boomtowns. If there is validity [to the] theory that California's prohibition of noncompetition clauses in employment agreements was a critical factor in the development of Silicon Valley culture and its associated success, then one would expect the four regions' levels of success, as measured by growth in the high technology and emerging companies sector, to correlate in some fashion with the extent to which each region tends to enforce such covenants. Unfortunately, the available data for the last few years does not seem to correlate with each region's law in such a fashion: despite significant legal differences between the regions, they all seem to be experiencing phenomenal growth and success.

See A Comparison of the Enforceability of Covenants Not to Compete and Recent Economic Histories of Four High Technology Regions, Woods, 5 Va. J.L. and Tech. 14 (2000). A look at the unemployment figures for these regions also tends to negate any purported connection between the prohibition of non-compete agreements and job creation. For example, in May 2011 the unemployment rate for Silicon Valley was 9.7%. During the same time period unemployment in Massachusetts was 7.6% and in the Research Triangle, 7.5%. The statistics for 2010 were even more disparate (see Exhibit 5 hereto). The statewide unemployment rate in California as of June 2010 was 12.3% and in Silicon Valley 11.8%, much worse than the national average of 9.7%. In Massachusetts – where non-competes are routinely enforced – the unemployment rate for the same time period was 9.1% statewide. In the Research Triangle

(North Carolina) the unemployment rate in 2010 was 8.0% - much better than the national average at that time. North Carolina also enforces non-competes. (Source: U.S. Bureau of Labor Statistics).

In short, the non-compete legal landscape in Massachusetts remains somewhat unpredictable because of these recent legislative initiatives. Business owners and employers are well advised to take advantage of the current legal climate which favors enforcement of well crafted non-competition agreements.

Is The Inevitable Disclosure Doctrine Coming Inevitably to Massachusetts?

State Superior Court

A December 2011 decision from the Suffolk County Business Litigation Session seems to indicate as much. Life Image was a relatively new start-up company which had developed a "dramatic, cost-cutting" shared imaging product for radiologists which could be accessed over the internet via so-called "cloud" technology. Before selling any products it hired a director of business development tasked with establishing far-reaching sales avenues for the company. The individual 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 noncompetition covenants. The non-compete language provided that for a period of 12 months following his 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 directly competing company. The Superior Court found that 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 specifically 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 he 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 adduced 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 opined:

> [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....
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> ...
>
> 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, however, 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).

Unfortunately, the behavior of the departing Vice President is not all that atypical. That is why this case is a stark illustration of 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 referenced above would cast into doubt the precedential value of the *Life Image* case, as well as other recent cases (see below) which have invoked the principles of the inevitable disclosure doctrine to enforce noncompetition agreements in the high-tech area.

For instance H02293, "An act relative to noncompetition agreements," contains a provision which would expressly out-law the inevitable disclosure doctrine in Massachusetts. Section 1 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.

United States District Court

In late April 2011, Aspect Software of Chelmsford sued its former Executive Vice-President and Chief Technology Officer for breach of contract arising from his acceptance of a position with a rival California company, Avaya. Aspect develops, licenses and sells customer contact center products and services around the world. The defendant ex-executive was responsible for all aspects of the customer contact service business while at Aspect. The defendant signed an employment agreement with Aspect which provided in pertinent part:

> Employee acknowledges that Employee's services to the Company require the use of information including a formula, pattern, compilation, program, device, method, technique, or process that the Company has made reasonable efforts to keep confidential and that derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use ("Trade Secrets"). *Employee further acknowledges and agrees that the Company would be irreparably damaged if Employee were to provide similar services requiring the use of [the Company's] Trade Secrets to any person or entity competing with the Company or engaged in a similar business.* Therefore, Employee agrees that during the Employment Period and during the twelve (12) month period immediately thereafter (the "Protection Period"), he or she will not, either directly or indirectly, for himself or herself or any other person or entity…(iv) *Participate in any business in which he would be reasonably likely to employ, reveal, or otherwise utilize Trade Secrets used by the Company prior to the Executive's termination* in any geographical area in which the Company or any of its affiliates conducts business. "Participate" includes any direct or indirect interest in any enterprise, whether as officer, director, employee...[or] executive…(Emphasis added).

Aspect Software, Inc. v. *Barnett*, 2011 WL 2116441 (D.Mass) at page 6. The executive had access to company information as part of his job which clearly qualified as trade secrets and confidential business information. This information included: strategic planning for future technological advances; product design; internal product structures; and the functionality, strengths and weaknesses of Aspect's products.

On April 18, 2011, the Aspect Software executive resigned and informed his former employer that he was going to work for Avaya – a self-described "world leader in contact center business." *Id.* at page 7. It appears that both the executive and his new employer, Avaya, took considerable steps to insure that the executive's new employment would not run afoul of the non-competition and non-solicitation provisions of Aspect's employment agreement. Nevertheless, Aspect sued the former executive seeking a court order prohibiting him from working for Avaya for a period of one year. Aspect also sought a court order prohibiting its former executive from contacting Aspect's actual customers or potential customers, and from disclosing any of Aspect's trade secret information.

In rendering its decision in favor of Aspect, the District Court focused on that portion of the employment agreement which prohibited the employee from participating "in any business in which he would be reasonably likely to employ, reveal or otherwise disclose trade secrets." The Court reasoned:

> The Court also finds that Aspect has carried its burden of showing that it is reasonably likely to prevail with regard to its assertion that Barnett breached the Agreement by accepting a position as Avaya's Vice President and General Manager, Contact Center Business Unit. As the [affidavits] make clear, Aspect and Avaya are intense competitors in the customer contact center business, precisely the field in which Barnett has encyclopedic knowledge of Aspect's trade secrets. Avaya hired Barnett to work in that same field. Whether or not Barnett actually has "employ[ed], reveal[ed] or otherwise utilize[d]" Aspect's trade secrets in the course of his work with Avaya (or whether he will do so in the future), *Aspect has established that at the time of his departure from Aspect it was at the very least "reasonably likely" that he would do so. That likelihood is sufficient to establish a breach of the Agreement.*

Id. at page 10. In so finding, the Court pointed out that "even sincere, scrupulous efforts by an employee and his or her new employer to protect a prior employer's trade secrets are insufficient to remove the threat of irreparable harm via disclosure of trade secrets." *Id.* at page 11. Thus, while a true "inevitable disclosure" case typically does not involve an express non-compete provision in a written contract, the District Court focused quite extensively on language which, for all practical purposes, reflects and embodies the inevitable disclosure doctrine. In fact, the Aspect Court expressly rejected the defendant's argument that "[t]he heyday of so-called 'inevitable disclosure' was in the mid-1990s to the early 2000s, and the tide has since turned." (Defendant's Opposition, at page 17.) "Whether or not Barnett's position is correct as a general matter, it does not describe the current state of Massachusetts law." *Aspect,* at page 14, N. 11.

Another recent Superior Court case has also employed language which appears to invoke the inevitable disclosure doctrine. In *Empirix, Inc.* v. *Ivanson* (SUCV2011-01239) (May 2011), the Superior Court was asked to enforce a written non-compete clause between a sales engineer and his former employer. The engineer resigned just after a trip to Europe where he was extensively exposed to the former employer's new field of commercial endeavor. The employee studied and learned well the new product which was his employer's "next advance in the marketplace." Soon thereafter, the engineer announced that he was leaving to work for a competing company specializing in the very field and technology to which he had just been exposed at Empirix. The employer sued. The Court found in favor of the employer, and granted a preliminary injunction prohibiting the engineer from working for the new competing company:

> Mr. Ivanov's knowledge of the competing product *will inevitably or inadvertently surface during Mr. Ivanov's employment with NetScout,* because of the timing of Empirix's recent arrival on the mobile broadband stage. *He will make decisions for his competing product based on information he holds about IPXPlorer, and even without formal disclosure, thereby benefit NetScout.* Under these circumstances, a court order not to disclose will not enforce Empirix's effort to protect itself from unfair competition.
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> This court is satisfied that Empirix has demonstrated that it is likely to prevail on the merits of this dispute on the non-compete and non-solicitation clauses of the contract which Mr. Ivanov signed. Moreover, it has established that it would suffer irreparable harm if the injunction were not granted. (Emphasis added.)

Id. at page 4. The court clearly recognized that in some instances ordering an ex-employee to abide by its confidentiality agreement or to keep confidential information a secret is simply not enough protection for the employer. It bears mention that the seminal "inevitable disclosure" case involved a signed confidentiality agreement and not a written non-compete agreement *per se.* In *PepsiCo, Inc.* v. *Redmond,* 54 F.3d 1262, (7th Cir. 1995) the departing employee signed only a non-disclosure agreement which provided that the executive:

> would not disclose at any time, to anyone other than officers or employees of [PepsiCo], or make use of, confidential information relating to the business of [PepsiCo]...obtained while in the employ of [PepsiCo], which shall not be generally known or available to the public or recognized as standard practices.

When the executive left PepsiCo to work for a direct competitor there was nothing in writing prohibiting him from doing so. Nonetheless, the District Court enjoined the executive from assuming the position with the competing company based upon "inevitable disclosure" of trade secrets. The Court of Appeals affirmed, holding that "PepsiCo finds itself in the position of a coach, one of whose players has left, playbook in hand, to join the opposing team before the big game." *Id* at 1271.

The *Life Image, Aspect Software* and *Empirix* cases amply illustrate the strong common law tradition in Massachusetts which favors enforcement of post-employment restrictive covenants.

Go West Young Man – NOT! Massachusetts and California Battle In the Non-Compete Arena

A recent case from the Massachusetts Superior Court Business Litigation Session highlights the lengths to which some former employees will go to avoid their contractual non-compete obligations. The case is *EMC Corporation* v. *Donatelli*, 2009 WL 1663651 (Mass. Super BLS). The defendant employee worked for EMC in Hopkinton, MA and was a Massachusetts resident. He was an Executive Vice President and President of EMC's Storage Division, which accounts for 80% of EMC's revenue. In May 2002 the executive signed a

"Key Employee Agreement" with EMC which contained the following covenant not to compete:

> For the twelve month period following the effective date of your termination, for any reason, from the Company, you agree not to directly or indirectly compete with the Company...[including] (i) the provision of any services... as an employee...to any entity that is developing, producing, marketing, soliciting or selling products or services competitive with products or services being developed, produced, marketed or sold by the Company as of the effective date of your termination.

Approximately seven years later, the executive informed EMC that he was resigning to work for Hewlett Packard in California as an Executive Vice President in HP's Enterprise Storage and Server Business. On the same day, he filed suit in Superior Court in California seeking a declaration that his Massachusetts non-compete agreement with EMC was unenforceable as it violated the California Business and Professions code.[7] One day later, EMC filed suit in the Business Litigation Session of the Suffolk County Superior Court in Boston, MA seeking to enjoin the executive from working for Hewlett Packard.

The "Choice of Law" provision in the EMC non-compete contract provided that the executive agree that the appropriate venue for an enforcement action was the Massachusetts courts, and that the Massachusetts law would apply. The executive argued, however, that the California Code voids any contract "by which anyone is restrained from engaging in a lawful profession, trade or business of any kind..." The Massachusetts Superior Court, however, rejected the argument that California had a stronger fundamental legislative policy to negate non-competes than Massachusetts had to enforce them. The Massachusetts Court found that:

> Where as here the employee has at all relevant times up to the filing of the complaint lived and worked in Massachusetts, the Court concludes that California's interest in regulating limits on his future activities there does

[7] California's law prohibits Non-Competition Agreements and other types of post-employment restrictive covenants

> not outweigh Massachusetts' interest in applying Massachusetts law to determine the enforceability of his employment agreement with a Massachusetts company.

Id. at page 3. The executive also argued that EMC's attempt to obtain a court order in Massachusetts enforcing the non-compete provision "is futile because no California court would enforce an order [of a Massachusetts Court] enforcing the noncompetition covenant." *Id.* While this argument has at least superficial appeal, the Massachusetts Court rejected it, holding:

> Where Massachusetts has an interest in the employment relationship of Massachusetts employers and employees that is significant, this Court should not deny an otherwise meritorious motion for injunctive relief simply because another state may not enforce the injunction should the Massachusetts employee move to that state. Equitable considerations come into play here. It is one thing for a person who has lived and worked in California to wish to continue to live and work in California, only with a different employer. It is quite another for a Massachusetts resident who has agreed to a non-competition covenant, enforceable in Massachusetts, to choose for his new residence and place of employment the one state where the likelihood of his defeating his non-competition may be the greatest. As **Donatelli's** attorney argued at the hearing, "he can escape to California," and by doing so can escape the obligations of the covenant. While California's courts may ultimately agree with him, the argument underscores the inferiority of **Donatelli's** fairness claim compared with those asserted by California residents[.](Emphasis in original).

Id. at page 4. Eventually, the parties agreed that the defendant could work for HP in a non-competing position until the restrictive time-period lapsed.

The fundamental policy difference between Massachusetts and California in the area of post-employment restrictive covenants was also highlighted in the recent case of *Optos, Inc.* v. *Topcon Medical Systems, Inc.*, 2011 WL 841254 (D. Mass.) Optos, a Delaware corporation, has its principal place of business in Massachusetts. The corporate defendant, Topcon, is a New York corporation with a principal place of business in New Jersey. Both companies are in the business of developing, manufacturing and marketing diagnostic retinal imaging devices.

The market for these "hi-tech" devices is quite limited within the United States. *Id.* at page 10. While employed as a salesman for Optos, one Schafer lived in California. His territory did not include Massachusetts. In November 2008, Schafer signed a Confidentiality, Non-Disclosure and Non-Solicitation Agreement with Optos which provided in pertinent part.

> *Confidentiality / Non-Disclosure / Return of Property:* I acknowledge that, during my employment, I will be given and have access to confidential and proprietary information belonging to [Optos] and/or its customers. I agree to maintain the confidentiality of all such confidential or proprietary information, and I covenant that I will not use or disclose such information without [Optos'] express consent. Upon termination of my employment, I will promptly return to [Optos] all of its property, including but not limited to all documents, data, [and] files . . . .
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> *Non-Solicitation of Customers:* During the Term [which, by the terms of the Agreement, began when Schafer signed the Agreement and lasted until one year after Schafer's employment with Optos terminated], I will not, directly or indirectly, solicit or initiate communications for the purpose of transacting business with (a) any present or past customer of [Optos] with which I directly interacted on behalf of [Optos] during the Term or about which I possess confidential information; or (b) any prospective customer of the Company with which I directly interacted on behalf of [Optos] during the Term or about which I possess confidential information. . . .

Id. at pages 10-11. The agreement also contained the following choice of law and jurisdictional provision:

> *Applicable Law / Jurisdiction:* This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts, without regard to the conflict of laws principles thereof. In addition, I acknowledge that, because [Optos] is headquartered in Massachusetts, and I will have regular interaction with [Optos] representatives based in Massachusetts, any dispute concerning this Agreement shall be heard by a court of competent jurisdiction within Massachusetts. By signing below, I acknowledge that I am subject to the personal jurisdiction of the Massachusetts courts . . .

Id. at page 11. There was no non-compete covenant *per se* in the contract.

In July 2009 Schafer informed Optos that he had accepted a sales position with its competitor, Topcon. Optos did not object, as Schafer did not have a non-compete agreement with Optos. A few months later, however, "Optos received unconfirmed reports that Schafer was using Optos confidential information in his work at Topcon." *Id.* at page 11. Topcon assured Optos that such was not the case. The story did not end there, however, as the District Court duly noted:

> In late 2010, Optos was contacted by a former Topcon employee who had also once worked for Optos and who provided Optos with copies of internal Topcon e-mails. Copies of the e-mails, spanning April 2010 to September 2010, have been filed under seal with this Court. Optos argues that these e-mails, with subject lines such as "Optos," "Optos Cross Reference," and "Gift," show that, despite Topcon's representations to the contrary, Schafer had in fact shared Optos' confidential information with Topcon and that, at the times the e-mails were sent, Schafer and Topcon were using this information to attempt to recruit customers away from Optos to Topcon.
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> Specifically, Optos alleges that Schafer kept a confidential spreadsheet that included contact information for over 3,000 of its customers, as well as information about the prices paid by those customers for Optos' services, the extent of each customer's usage of Optos equipment, individual customers' complaints or service requests, and the dates when customers' contracts with Optos would expire and shared the information on that spreadsheet with Topcon. Optos alleges that Topcon and Schafer crafted a marketing and financing plan that they called the "Topcon Liberation Plan." During a series of e-mails and weekly conference calls, Topcon management praised Schafer and relied on him to teach Topcon employees how to use the information he had circulated to identify Optos customers whose contracts with Optos would soon be up for renewal and to craft sales pitches tailored to each customer[.]

Id. at page 11. On November 10, 2010, Optos filed suit against Schafer and Topson in the United States District Court for the District of Massachusetts seeking, among other things, a preliminary injunction "to enjoin Schafer and Topcon from using or disseminating any of the information or materials Schafer allegedly took[.]" *Id.* at page 12. The defendants moved to dismiss the case for lack of jurisdiction.

The court found that it had jurisdiction over both the individual and corporate defendant. As to Schafer, the Court noted that he had expressly acknowledged that he was subject to the jurisdiction of the Massachusetts courts. The Court also found that California's "fundamental policy" of outlawing non-competes does not trump Massachusetts' interest in enforcing the non-disclosure and non-solicitation provisions of the executive's agreement with Optos:

> Even if section 16600 could be characterized as fundamental policy barring some noncompetition agreements and a materially great interest in protecting that policy ...such policy is not implicated by Defendants' motion to dismiss. First, the Agreement does not include a non-competition agreement. *The only restrictive covenants in the Agreement are the non-disclosure and non-solicitation provisions of the Agreement, which are significantly less restrictive than a non-compete agreement, and this Court declines to treat them as the equivalent of the restraint on trade contemplated by section 16600 in the absence of Defendants being able to point to a case where a court has found that California has a fundamental policy, as defined by Massachusetts choice-of-law rules, against mere non-disclosure or non-solicitation clauses.* Second, even if such clauses were included in the ambit of California's fundamental policy as a general matter, that fundamental policy does not extend to contractual clauses that are designed to protect an employer's trade secrets. (Emphasis added.)

Id. at page 14. As to jurisdiction over the corporate defendant, the Court went on to state:

> Even though Schafer and Topcon were at all relevant times located in California and New Jersey, respectively, rather than Massachusetts, their conduct in California and New Jersey was a cause of the alleged breach of the Agreement - the injury that forms the basis of Optos' claims here - that occurred in Massachusetts. This in-forum injury is clearly related to Optos' tortious interference claim.

Id. at page 17. Thus, the Massachusetts courts are not shy about enforcing post-employment restrictive covenants to protect the property rights of Massachusetts' businesses, even when facing conflicting legal authority in other states.