

Litigation Alert: MN Court Clarifies “Lifetime Employment” Claims

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A claim that a shareholder was entitled to lifetime employment often arises in the context of a dispute among the owners of a closely held corporation. In *Roberts vs. Hydra Metrics, LLC*, 2019 WL 509976 (Minn. Ct. App. February 11, 2019), the Minnesota Court of Appeals recently clarified the legal standard to be applied to such "lifetime employment" claims.

In *Hydra Metrics*, a member of a limited liability company with a one-third ownership interest was terminated as the company's CEO. The former CEO sued, claiming that he had a right to lifetime employment under either of two related legal theories. First, the former CEO claimed that, in terminating his employment, the company breached a contract that promised him lifetime employment. Alternatively, the former CEO claimed that he was entitled to equitable relief as a remedy for his unfair treatment by the other members of the company.

With respect to the breach of contract claim, the court noted the long-standing rule of Minnesota law that, absent an express or implied agreement, employment is at-will, meaning that an employer may generally terminate an employee at any time for any or no reason. In order to overcome the presumption of at-will employment, a terminated employee who claims a right to lifetime employment must present "objective evidence that the employer clearly intended to create a lifetime employment contract." 2019 WL 509976 at *4, citing *Gunderson v. Alliance of Computer Professionals*, 628 N.W.2d 173, 181-82 (Minn. Ct. App. 2001). "General statements about job security, company policy, or an employer's desire to retain an employee indefinitely are insufficient to overcome the presumption that employment is at-will." *Id.* The *Hydra Metrics* court rejected the former CEO's contract claim, concluding that the claim was barred by the provision contained in a Non-competition and Confidentiality Agreement (NCA) that the former CEO had signed that provided that "employer has the right to terminate employees' employment at any time, for any reason, with or without cause or notice." The court found that other, more general provisions contained in the NCA and the member control agreement were not enough to overcome the explicit statement in the NCA that the CEO's employment was intended to be at-will.

With respect to his claim for equitable relief, the former CEO relied on the doctrine of shareholder oppression, as articulated in *Gunderson*, that holds that a shareholder of a closely held corporation is



entitled to relief when the controlling shareholders frustrate a minority shareholder's reasonable expectations. The former CEO argued that the court should enforce his reasonable expectation that he would be employed for as long as he was a member of the corporation.[1] The court disagreed, rejecting the former CEO's argument that, simply because of his ownership interest, he had a reasonable expectation of continued employment. The court found that the status as an owner was not sufficient to overcome the presumption that the former CEO's written agreements with the company accurately stated the parties' expectations.

The Key Takeaways:

1. Clear documentation of the rights and responsibilities of the company and its owner/employees with respect to employment will help to avoid disputes that could arise in the future.
2. The Minnesota Supreme Court has yet to definitively weigh in on this issue, so the law is, at least to some extent, arguably unresolved.

If you have questions about shareholder disputes in closely held companies, please contact Gregory Merz at gregory.merz@lathropgpm.com or 612.632.3257.

[1] The specific statute relied on by the former CEO as the legal basis for his equitable claim, Minn. Stat. 322B.323, was repealed when the Minnesota Legislature adopted by Minnesota Revised Uniform Limited Liability Company Act, see Minn. Stat. ch. 322C.