

HOUSE No. 4323

The Commonwealth of Massachusetts

HOUSE OF REPRESENTATIVES, May 19, 2016.

The committee on Labor and Workforce Development to whom was referred the petition (accompanied by bill, House, No. 1701) of Lori A. Ehrlich and others for legislation to limit the time that former employees must wait before being employed by a competitor, reports recommending that the accompanying bill (House, No. 4323) ought to pass.

For the committee,

JOHN W. SCIBAK.

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**In the One Hundred and Eighty-Ninth General Court
(2015-2016)**

An Act relative to the judicial enforcement of noncompetition agreements.

Be it enacted by the Senate and House of Representatives in General Court assembled, and by the authority of the same, as follows:

1 SECTION 1. Sections 42 and 42A of chapter 93 of the General Laws are hereby
2 repealed.

3 SECTION 2. The General Laws are hereby amended by inserting after chapter 93K the
4 following chapter:--

5 CHAPTER 93L

6 UNIFORM TRADE SECRETS ACT

7 Section 1. As used in this chapter the following words, shall unless the context clearly
8 requires otherwise, have the following meanings:

9 (1) "Improper means", includes, without limitation, theft, bribery, misrepresentation,
10 unreasonable intrusion into private physical or electronic space, or breach or inducement of a
11 breach of a confidential relationship or other duty to limit acquisition, disclosure or use of

12 information; reverse engineering from properly accessed materials or information is not
13 improper means;

14 (2) "Misappropriation",

15 (i) an act of acquisition of a trade secret of another by a person who knows or who has
16 reason to know that the trade secret was acquired by improper means; or

17 (ii) an act of disclosure or of use of a trade secret of another without that person's express
18 or implied consent by a person who

19 (A) used improper means to acquire knowledge of the trade secret or

20 (B) at the time of the actor's disclosure or use, knew or had reason to know that the
21 actor's knowledge of the trade secret was

22 [I] derived from or through a person who had utilized improper means to acquire it;

23 [II] acquired under circumstances giving rise to a duty to limit its acquisition, disclosure,
24 or use; or

25 [III] derived from or through a person who owed a duty to the person seeking relief to
26 limit its acquisition, disclosure, or use; or

27 (C) before a material change of the actor's position, knew or had reason to know that it
28 was a trade secret and that the actor's knowledge of it had been acquired by accident, mistake, or
29 through another person's act in violation of subsections 1(2)(i) or 1(2)(ii)(A) or -(B).

30 (3) "Person", a natural person, corporation, business trust, estate, trust, partnership,
31 association, joint venture, government, governmental subdivision or agency, or any other legal or
32 commercial entity.

33 (4) "Trade secret", specified or specifiable information, whether or not fixed in tangible
34 form or embodied in any tangible thing, including but not limited to a formula, pattern,
35 compilation, program, device, method, technique, process, business strategy, customer list,
36 invention, or scientific, technical, financial or customer data that

37 [i] at the time of the alleged misappropriation, provided economic advantage, actual or
38 potential, from not being generally known to, and not being readily ascertainable by proper
39 means by, others who might obtain economic advantage from its acquisition, disclosure or use;
40 and

41 [ii] at the time of the alleged misappropriation was the subject of efforts that were
42 reasonable under the circumstances, which may include reasonable notice, to protect against it
43 being acquired, disclosed or used without the consent of the person properly asserting rights
44 therein or such person's predecessor in interest.

45 Section 2. (a) Actual or threatened misappropriation may be enjoined upon principles of
46 equity, including but not limited to consideration of prior party conduct and circumstances of
47 potential use, upon a showing that information qualifying as a trade secret has been or is
48 threatened to be misappropriated. Upon application to the court, an injunction shall be
49 terminated when the trade secret has ceased to exist, but the injunction may be continued for an
50 additional reasonable period of time in order to eliminate any economic advantage that otherwise
51 would be derived from misappropriation.

52 (b) In exceptional circumstances, an injunction may condition future use upon payment
53 of a reasonable royalty for no longer than the period of time for which use could have been
54 prohibited. Exceptional circumstances include, but are not limited to, a material and prejudicial
55 change of position prior to acquiring knowledge or reason to know of misappropriation that
56 renders a prohibitive injunction inequitable.

57 (c) In appropriate circumstances, affirmative acts to protect a trade secret may be
58 compelled by court order.

59 Section 3. (a) Except to the extent that a material and prejudicial change of position prior
60 to acquiring knowledge or reason to know of misappropriation renders a monetary recovery
61 inequitable, a complainant is entitled to recover damages for misappropriation of information
62 qualifying as a trade secret. Damages can include both the actual loss caused by
63 misappropriation and the unjust enrichment caused by misappropriation that is not taken into
64 account in computing actual loss. In lieu of damages measured by any other methods, the
65 damages caused by misappropriation may be measured by the imposition of liability for a
66 reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret.

67 (b) If willful and malicious misappropriation exists, the court may award exemplary
68 damages in an amount not exceeding twice any award made under subsection (a).

69 Section 4. The court may award reasonable attorney's fees and costs to the prevailing
70 party if: (i) a claim of misappropriation is made or defended in bad faith, (ii) a motion to enter or
71 to terminate an injunction is made or resisted in bad faith, or (iii) willful and malicious
72 misappropriation exists. In considering such an award, the court may take into account the

73 claimant's specification of trade secrets and the proof that such alleged trade secrets were
74 misappropriated.

75 Section 5. (a) In an action under this chapter, a court shall preserve the secrecy of an
76 alleged trade secret by reasonable means, which may include granting protective orders in
77 connection with discovery proceedings, holding in-camera hearings, sealing the records of the
78 action, and ordering any person involved in the litigation not to disclose an alleged trade secret
79 without prior court approval.

80 (b) In an action under this chapter, in alleging trade secrets misappropriation a party must
81 state with reasonable particularity the circumstances thereof, including the nature of the trade
82 secrets and the basis for their protection. Before commencing discovery relating to an alleged
83 trade secret, the party alleging misappropriation shall identify the trade secret with sufficient
84 particularity under the circumstances of the case to allow the court to determine the appropriate
85 parameters of discovery and to enable reasonably other parties to prepare their defense.

86 Section 6. An action for misappropriation must be brought within 3 years after the
87 misappropriation is discovered or by the exercise of reasonable diligence should have been
88 discovered. For the purposes of this chapter, a continuing disclosure or use constitutes a single
89 claim.

90 Section 7. (a) Except as provided in subsection (b), this chapter shall supersede any
91 conflicting laws of the Commonwealth providing civil remedies for the misappropriation of a
92 trade secret.

93 (b) This chapter does not affect:

94 (1) contractual remedies, provided that, to the extent such remedies are based on an
95 interest in the economic advantage of information claimed to be confidential, such
96 confidentiality shall be determined according to the definition of trade secret in subsection 1(4),
97 where the terms and circumstances of the underlying contract shall be considered in such
98 determination;

99 (2) remedies based on submissions to governmental units;

100 (3) other civil remedies to the extent that they are not based upon misappropriation of a
101 trade secret; or

102 (4) criminal remedies, whether or not based upon misappropriation of a trade secret.

103 Section 8. This chapter shall be applied and construed to effectuate its general purpose to
104 make uniform the law with respect to the subject of this chapter among States enacting it.

105 Section 9. This chapter shall be known and may be cited as the Uniform Trade Secrets
106 Act.

107 SECTION 3. Chapter 149 of the General Laws, as appearing in the 2014 Official Edition,
108 is hereby amended by inserting after section 24K the following section:-

109 Section 24L. Massachusetts Noncompetition Agreement Act

110 (a) As used in this section, the following words shall have the following meanings:

111 “Business entity”: any person or group of persons performing or engaging in any activity,
112 enterprise, profession, or occupation for gain, benefit, advantage, or livelihood, whether for

113 profit or not for profit, including but not limited to corporations, limited liability companies,
114 limited partnerships, or limited liability partnerships.

115 “Employee”: an individual who is considered an employee under section 148B of this
116 chapter; provided, however, that the term “employee”, as used in this chapter, shall also include
117 independent contractors under section 148B.

118

119 “Forfeiture agreement”: an agreement that imposes adverse financial consequences on a
120 former employee as a result of the termination of an employment relationship, regardless of
121 whether the employee engages in competitive activities following cessation of the employment
122 relationship. Forfeiture agreements do not include forfeiture for competition agreements.

123 “Forfeiture for competition agreement”: an agreement that by its terms or through the
124 manner in which it is enforced imposes adverse financial consequences on a former employee as
125 a result of the termination of an employment relationship if the employee engages in competitive
126 activities.

127 “Garden leave clause”: a provision within a noncompetition agreement by which an
128 employer agrees to pay the employee during the restricted period.

129 “Noncompetition agreement”: an agreement between an employer and an employee, or
130 otherwise arising out of an existing or anticipated employment relationship, under which the
131 employee or expected employee agrees that he or she will not engage in certain specified
132 activities competitive with his or her employer after the employment relationship has ended.

133 Noncompetition agreements include forfeiture for competition agreements, but do not include (i)

134 covenants not to solicit or hire employees of the employer; (ii) covenants not to solicit or transact
135 business with customers, clients, or vendors of the employer; (iii) noncompetition agreements
136 made in connection with the sale of a business entity or substantially all of the operating assets of
137 a business entity or partnership, or otherwise disposing of the ownership interest of a business
138 entity or partnership (or division or subsidiary thereof), when the party restricted by the
139 noncompetition agreement is a significant owner of, or member or partner in, the business entity
140 who will receive significant consideration or benefit from the sale or disposal; (iv)
141 noncompetition agreements outside of an employment relationship; (v) forfeiture agreements;
142 (vi) nondisclosure or confidentiality agreements; (vii) invention assignment agreements; (viii)
143 garden leave clauses; (ix) noncompetition agreements made in connection with the cessation of
144 or separation from employment if the employee is expressly given seven business days to rescind
145 acceptance; or (x) agreements by which an employee agrees to not reapply for employment to
146 the same employer after termination of the employee.

147 “Restricted period”: the period of time after the date of cessation of employment during
148 which an employee is restricted by a noncompetition agreement from engaging in activities
149 competitive with his or her employer.

150 (b) To be valid and enforceable, a noncompetition agreement must meet the minimum
151 requirements of subsections (i) through (viii) hereof.

152 (i) If the agreement is entered into in connection with the commencement of employment,
153 it must be in writing and signed by both the employer and employee and expressly state that the
154 employee has the right to consult with counsel prior to signing. The agreement must be provided

155 to the employee by the earlier of a formal offer of employment or 10 business days before the
156 commencement of the employee's employment.

157 (ii) If the agreement is entered into after commencement of employment but not in
158 connection with the separation from employment, it must be supported by fair and reasonable
159 consideration independent from the continuation of employment, and notice of the agreement
160 must be provided at least 10 business days before the agreement is to be effective. Moreover, the
161 agreement must be in writing and signed by both the employer and employee and expressly state
162 that the employee has the right to consult with counsel prior to signing.

163 (iii) The agreement must be no broader than necessary to protect one or more of the
164 following legitimate business interests of the employer: (A) the employer's trade secrets, as that
165 term is defined in section 1 of chapter 93L; (B) the employer's confidential information that
166 otherwise would not qualify as a trade secret; or (C) the employer's goodwill. A noncompetition
167 agreement may be presumed necessary where the legitimate business interest cannot be
168 adequately protected through an alternative restrictive covenant, including but not limited to a
169 non-solicitation agreement or a non-disclosure or confidentiality agreement.

170 (iv) In no event may the stated restricted period exceed 12 months from the date of
171 cessation of employment, unless the employee has breached his or her fiduciary duty to the
172 employer or the employee has unlawfully taken, physically or electronically, property belonging
173 to the employer, in which case the duration may not exceed 2 years from the date of cessation of
174 employment.

175 (v) The agreement must be reasonable in geographic reach in relation to the interests
176 protected. A geographic reach that is limited to only the geographic areas in which the employee,

177 during any time within the last 2 years of employment, provided services or had a material
178 presence or influence is presumptively reasonable.

179 (vi) The agreement must be reasonable in the scope of proscribed activities in relation to
180 the interests protected. A restriction on activities that protects a legitimate business interest and
181 is limited to only the specific types of services provided by the employee at any time during the
182 last 2 years of employment is presumptively reasonable.

183 (vii) The noncompetition agreement shall be supported by a garden leave clause. To
184 constitute a garden leave clause within the meaning of this section, the agreement must (i)
185 provide for the payment, consistent with the requirements for the payment of wages under
186 section 148 of chapter 149 of the general laws, on a pro-rata basis during the entirety of the
187 restricted period, of at least 50 percent of the employee's highest annualized base salary paid by
188 the employer within the 2 years preceding the employee's termination; and (ii) except in the
189 event of a breach by the employee, not permit an employer to unilaterally discontinue or
190 otherwise fail or refuse to make the payments; provided, however, if the restricted period has
191 been increased beyond 12 months as a result of the employee's breach of a fiduciary duty to the
192 employer or the employee has unlawfully taken, physically or electronically, property belonging
193 to the employer, the employer shall not be required to provide payments to the employee during
194 the extension of the restricted period.

195 (viii) The agreement must be consonant with public policy.

196 (c) A noncompetition agreement shall not be enforceable against the following types of
197 workers: (i) an employee who is classified as nonexempt under the Fair Labor Standards Act, 29
198 U.S.C. 201-219; (ii) undergraduate or graduate students that partake in an internship or otherwise

199 enter a short-term employment relationship with an employer, whether paid or unpaid, while
200 enrolled in a full-time or part-time undergraduate or graduate educational institution; (iii)
201 employees that have been terminated without cause or laid off; or (iv) employees age 18 or
202 younger. This section does not render void or unenforceable the remainder of the contract or
203 agreement containing the unenforceable noncompetition agreement, nor does it preclude the
204 imposition of a noncompetition restriction by a court, whether through preliminary or permanent
205 injunctive relief or otherwise, as a remedy for a breach of another agreement or a statutory or
206 common law duty.

207 (d) No court may, in its discretion, reform or otherwise revise a noncompetition
208 agreement so as to render it valid and enforceable to the extent necessary to protect the
209 applicable legitimate business interests.

210 (e) No choice of law provision that would have the effect of avoiding the requirements of
211 this section will be enforceable if the employee is, and has been for at least 30 days immediately
212 preceding his or her cessation of employment, a resident of or employed in Massachusetts at the
213 time of his or her termination of employment.

214 (f) All civil actions relating to employee noncompetition agreements or subject to this
215 section shall be brought in the county where the employee resides or in Suffolk County. The
216 superior court or the business litigation session of the superior court in Suffolk County shall have
217 exclusive jurisdiction of all civil actions relating to employee noncompetition agreements or
218 subject to this section.

219 SECTION 4. Section 3 may be referred to as the Massachusetts Noncompetition
220 Agreement Act and shall apply to employee noncompetition agreements entered into on or after
221 July 1, 2016.

222 SECTION 5. Section 2 of this Act shall take effect on July 1, 2016, and shall not apply
223 to misappropriation occurring prior to the effective date. With respect to a continuing
224 misappropriation that began prior to the effective date, the Act also does not apply to the
225 continuing misappropriation that occurs after the effective date.