SENATE DOCKET, NO. 1614 FILED ON: 1/20/2017

SENATE . . . . . No. 1017

The Commonwealth of Massachusetts

PRESENTED BY:

Patricia D. Jehlen

To the Honorable Senate and House of Representatives of the Commonwealth of Massachusetts in General Court assembled:

The undersigned legislators and/or citizens respectfully petition for the adoption of the accompanying bill:

An Act relative to the judicial enforcement of noncompetition agreements.

PETITION OF:

NAME:	DISTRICT/ADDRESS:
Patricia D. Jehlen	*Second Middlesex*

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SENATE . . . . . No. 1017

By Ms. Jehlen, a petition (accompanied by bill, Senate, No. 1017) of Patricia D. Jehlen for legislation relative to the judicial enforcement of noncompetition agreements. Labor and Workforce Development.

The Commonwealth of Massachusetts

In the One Hundred and Ninetieth General Court
(2017-2018)

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:

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 Sections 42 and 42A of chapter 93 of the General Laws are hereby repealed.

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

CHAPTER 93L

UNIFORM TRADE SECRETS ACT

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

(1) “Improper means”, includes, but is not limited to, theft, bribery, misrepresentation, unreasonable intrusion into private physical or electronic space or breach or inducement of a breach of a confidential relationship or other duty to limit acquisition, disclosure or use of

information; provided, however, that “improper means” shall not include reverse engineering from properly accessed materials or information.

(2) “Misappropriation”, (i) an act of acquisition of a trade secret of another by a person who knows or who has reason to know that the trade secret was acquired by improper means; or (ii) an act of disclosure or of use of a trade secret of another without that person's express or implied consent by a person who: (A) used improper means to acquire knowledge of the trade secret; or(B) at the time of the actor’s disclosure or use, knew or had reason to know that the actor’s knowledge of the trade secret was: [I] derived from or through a person who had utilized improper means to acquire it; [II] acquired under circumstances giving rise to a duty to limit its acquisition, disclosure or use; or[III] derived from or through a person who owed a duty to the person seeking relief to limit its acquisition, disclosure or use; or (C) before a material change of the actor’s position, knew or had reason to know that it was a trade secret and that the actor’s knowledge of it had been acquired by accident, mistake or through another person’s act described in clause (i) or subclause (A) or (B) of clause (ii).

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

(4) “Trade secret”, specified or specifiable information, whether or not fixed in tangible form or embodied in any tangible thing, including, but not limited to, a formula, pattern, compilation, program, device, method, technique, process, business strategy, customer list, invention or scientific, technical, financial or customer data that, at the time of the alleged misappropriation: [i] provided economic advantage, actual or potential, from not being generally

known and not being readily ascertainable by proper means by others who might obtain economic advantage from its acquisition, disclosure or use; and [ii] was the subject of efforts that were reasonable under the circumstances, which may include reasonable notice to protect against it being acquired, disclosed or used without the consent of the person properly asserting rights therein or such person's predecessor in interest.

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

(b) In exceptional circumstances, an injunction may condition future use upon payment of a reasonable royalty for not longer than the period of time for which use could have been prohibited. Exceptional circumstances include, but are not limited to, a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation that renders a prohibitive injunction inequitable.

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

Section 3. (a) Except to the extent that a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation renders a monetary recovery inequitable, a complainant is entitled to recover damages for misappropriation of information

qualifying as a trade secret. Damages can include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss. In lieu of damages measured by any other methods, the damages caused by misappropriation may be measured by the imposition of liability for a reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret.

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

Section 4. The court may award reasonable attorneys' fees and costs to the prevailing party if: (i) a claim of misappropriation is made or defended in bad faith; (ii) a motion to enter or to terminate an injunction is made or resisted in bad faith; or (iii) willful and malicious misappropriation exists. In considering an award of reasonable attorneys' fees, the court may take into account the claimant's specification of trade secrets and the proof that the alleged trade secrets were misappropriated.

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

(b) In an action under this chapter, in alleging trade secrets misappropriation a party shall state with reasonable particularity the circumstances thereof, including the nature of the trade secrets and the basis for their protection. Before commencing discovery relating to an alleged trade secret, the party alleging misappropriation shall identify the trade secret with sufficient

particularity under the circumstances of the case to allow the court to determine the appropriate parameters of discovery and to enable reasonably other parties to prepare their defense.

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

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

(b) This chapter shall not affect: (1) contractual remedies, provided that, to the extent such remedies are based on an interest in the economic advantage of information claimed to be confidential, that confidentiality shall be determined according to the definition of trade secret in subsection (4) of section 1 , where the terms and circumstances of the underlying contract shall be considered in such determination; (2) remedies based on submissions to governmental units; (3) other civil remedies to the extent that those remedies are not based upon misappropriation of a trade secret; or (4) criminal remedies, whether or not based upon misappropriation of a trade secret.

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

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

SECTION 3. Chapter 149 of the General Laws is hereby amended by inserting after section 24K the following section:-

Section 24L. (a) As used in this section, the following words shall have the following meanings unless the context clearly requires otherwise:

"Business entity", any person or group of people performing or engaging in an activity, enterprise, profession or occupation for gain, benefit, advantage or livelihood, whether for-profit or not-for-profit including, but not limited to, corporations, limited liability companies, limited partnerships or limited liability partnerships.

"Employee", an individual who is considered an employee under section 148B.

"Forfeiture agreement", an agreement that imposes adverse financial consequences on a former employee as a result of the termination of an employment relationship, regardless of whether the employee engages in competitive activities following termination of the employment relationship; provided, however, that "forfeiture agreements" do not include forfeiture for competition agreements.

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

"Garden leave clause", a provision within a noncompetition agreement by which an employer agrees to pay the employee during the restricted period.

"Noncompetition agreement", an agreement between an employer and an employee arising out of an existing or anticipated employment relationship, under which the employee or expected employee agrees not to engage in certain specified activities competitive with the employee's employer after the employment relationship has ended; provided, however, that "noncompetition agreements" shall include forfeiture for competition agreements, but shall not include: (i) covenants not to solicit or hire employees of the employer; (ii) covenants not to solicit or transact business with customers, clients or vendors of the employer; (iii) noncompetition agreements made in connection with the sale of a business entity or substantially all of the operating assets of a business entity or partnership, or otherwise disposing of the ownership interest of a business entity or partnership, or division or subsidiary thereof, when the party restricted by the noncompetition agreement is a significant owner of or member or partner in the business entity who will receive significant consideration or benefit from the sale or disposal of the business entity; (iv) noncompetition agreements outside of an employment relationship; (v) forfeiture agreements; (vi) nondisclosure or confidentiality agreements; (vii) invention assignment agreements; (viii) garden leave clauses; (ix) noncompetition agreements made in connection with the termination of or separation from employment if the employee is expressly given 7 business days to rescind acceptance; or (x) agreements by which an employee agrees to not reapply for employment to the same employer after termination of the employee.

"Restricted period", the period of time after the date of termination of employment during which an employee is restricted from engaging in activities competitive with the employee's former employer by a noncompetition agreement.

(b) (1) To be valid and enforceable, a noncompetition agreement shall meet the requirements of this subsection.

(2) If the noncompetition agreement is entered into in connection with the commencement of employment, it shall be in writing and signed by the employer and employee and shall expressly state that the employee has the right to consult with counsel prior to signing. The agreement shall be provided to the employee by the earlier of a formal offer of employment or 10 business days before the commencement of the employee's employment.

(3) If the noncompetition agreement is entered into after commencement of employment, but not in connection with a separation from employment, it shall be supported by fair and reasonable consideration independent from the continuation of employment and notice of the noncompetition agreement shall be provided at least 10 business days before the agreement is to be effective. The noncompetition agreement shall be in writing and signed by the employer and employee and expressly state that the employee has the right to consult with counsel prior to signing.

(4) To remain valid and enforceable, the employer shall review a noncompetition agreement with the employee not less than once every 5 years.

(5) The noncompetition agreement shall not be broader than necessary to protect 1 or more of the following legitimate business interests of the employer: (i) the employer's trade secrets, as defined in section 1 of chapter 93L; (ii) the employer's confidential information that would not otherwise qualify as a trade secret; or (iii) the employer's goodwill. A noncompetition agreement may be presumed necessary where a legitimate business interest cannot be adequately protected through an alternative restrictive covenant including, but not limited to, a non-solicitation agreement, a non-disclosure agreement or a confidentiality agreement.

(6) The restricted period shall not be more than 3 months from the date of termination of employment, unless the employee has breached a fiduciary duty to the employer or the employee has unlawfully taken, physically or electronically, property belonging to the employer, in which case the duration shall not be more than 2 years from the date of termination of employment.

(7) The noncompetition agreement shall be reasonable in geographic reach in relation to the interests protected. A geographic reach that is limited to the geographic areas in which the employee provided services or had a material presence or influence during the last 2 years of employment is presumptively reasonable.

(8) The noncompetition agreement shall be reasonable in the scope of proscribed activities in relation to the interests protected. A restriction on activities that protects a legitimate business interest and is limited to the specific types of services provided by the employee during the last 2 years of employment is presumptively reasonable.

(9) Not later than 10 days after the termination of an employment relationship, the employer shall notify the employee in writing of the employer's intent to enforce the noncompetition agreement. If the employer fails to provide such notice, the noncompetition agreement shall be void. This paragraph shall not apply if the employee has breached a fiduciary duty to the employer or the employee has unlawfully taken, physically or electronically, property belonging to the employer.

(10) The noncompetition agreement shall be supported by a garden leave clause or other mutually-agreed upon consideration between the employer and the employee which shall be equal to or greater than 100 per cent of the employee's highest annualized earnings paid by the employer within the 2 years preceding the employee's termination and is negotiated during the

30-day period immediately following the termination of employment. If the employer and employee fail to reach an agreement for other consideration within that 30-day period, the garden leave clause shall become effective. To constitute a garden leave clause under this section, the noncompetition agreement shall: (i) provide for the payment, consistent with the requirements for the payment of wages, under section 148, of 100 per cent of the employee's highest annualized earnings paid by the employer within the 2 years preceding the employee's termination; and (ii) not permit an employer to unilaterally discontinue or otherwise fail or refuse to make the payments except in the event of a breach by the employee; provided, however, if the restricted period has been increased beyond 3 months as a result of the employee's breach of a fiduciary duty to the employer or the employee has unlawfully taken, physically or electronically, property belonging to the employer, the employer shall not be required to provide payments to the employee during the extension of the restricted period.

(11) The agreement shall be consistent with public policy.

(c) A noncompetition agreement shall not be enforceable against the following types of workers: (i) an employee who is classified as nonexempt under the Fair Labor Standards Act, 29 U.S.C. 201et. seq.; (ii) undergraduate or graduate students that partake in an internship or otherwise enter into a short-term employment relationship with an employer, whether paid or unpaid, while enrolled in a full-time or part-time undergraduate or graduate educational institution; (iii) employees that have been terminated without cause or laid off; (iv) employees not more than 18 years of age; (v) an employee whose average weekly earnings, calculated by dividing the employee's earnings during the period of 12 calendar months immediately preceding the date of termination of employment by 52, or such number of weeks that the employee was actually paid during that 52 week period, are less than 2 times the average weekly

wage in the commonwealth as determined pursuant to subsection (a) of section 29 of chapter 151A; or (vi) independent contractors under section 148B.

(d) This section shall not render the remainder of the contract or agreement containing the unenforceable noncompetition agreement void or unenforceable and it shall not preclude the imposition of a noncompetition restriction by a court, whether through preliminary or permanent injunctive relief or otherwise, as a remedy for a breach of another agreement or a statutory or common law duty.

(e) A court shall not reform or otherwise revise a noncompetition agreement so as to render it valid and enforceable to the extent necessary to protect the applicable legitimate business interests. A court shall not invoke the doctrine of inevitable disclosure to extend an expired noncompetition agreement or otherwise render enforceable a noncompetition agreement that fails to satisfy the requirements of paragraphs (2) to (11), inclusive, of subsection (c).

(f) A contractual provision that penalizes an employee for defending against or challenging the validity or enforceability of the noncompetition agreement is void. The substantive, procedural and remedial rights provided to the employee in this section shall not be subject to advance waiver.

(g) A choice of law provision that would have the effect of avoiding the requirements of this section shall not be enforceable if the employee is a resident of or employed in the commonwealth at the time of the termination of employment and has been for at least 30 days immediately preceding the employee’s termination of employment.

(h) All civil actions relating to noncompetition agreements subject to this section shall be brought in the county where the employee resides or, if mutually agreed upon by the employer

and employee, in Suffolk county; provided, however, that in any such action brought in Suffolk county, the superior court or the business litigation session of the superior court shall have jurisdiction.

SECTION 4. Chapter 93L shall not apply to a misappropriation occurring prior to passage of this bill or to a continuing misappropriation that began prior to passage and continues after passage.

SECTION 5. Section 24L of chapter 149 of the General Laws may be referred to as the Massachusetts Noncompetition Agreement Act.