

SENATE No. 840

The Commonwealth of Massachusetts

PRESENTED BY:

Eileen M. Donoghue

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 regulating trade secrets and noncompetition agreements.

PETITION OF:

NAME:	DISTRICT/ADDRESS:	
<i>Eileen M. Donoghue</i>	<i>First Middlesex</i>	
<i>Jason M. Lewis</i>	<i>Fifth Middlesex</i>	<i>1/25/2017</i>
<i>Mary S. Keefe</i>	<i>15th Worcester</i>	<i>2/1/2017</i>
<i>Sheila C. Harrington</i>	<i>1st Middlesex</i>	<i>2/3/2017</i>
<i>Chris Walsh</i>	<i>6th Middlesex</i>	<i>2/3/2017</i>

SENATE No. 840

By Ms. Donoghue, a petition (accompanied by bill, Senate, No. 840) of Eileen M. Donoghue, Jason M. Lewis, Mary S. Keefe, Sheila C. Harrington and others for legislation relative to regulating trade secrets and noncompetition agreements. The Judiciary.

The Commonwealth of Massachusetts

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

An Act relative to regulating trade secrets and 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2 repealed.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 UNIFORM TRADE SECRETS ACT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

105 “Employee”, an individual who is considered an employee under section 148B.

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

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

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

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

135 “Restricted period”, the period of time after the date of termination of employment during
136 which an employee is restricted from engaging in activities competitive with the employee’s
137 former employer by a noncompetition agreement.

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

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

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

152 (4) To remain valid and enforceable, the employer shall review a noncompetition
153 agreement with the employee not less than once every 3 years and obtain written consent from
154 the employee of the agreement's validity.

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

162 (6) The restricted period shall not be more than 12 months from the date of termination of
163 employment.

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

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

172 (9) Not later than 10 days after the termination of an employment relationship, the
173 employer shall notify the employee in writing of the employer's intent to enforce the
174 noncompetition agreement. If the employer fails to provide such notice, the noncompetition
175 agreement shall be void. This paragraph shall not apply if the employee has been terminated for
176 good cause.

177 (10) The noncompetition agreement shall be supported by a garden leave clause or other
178 mutually-agreed upon consideration and between the employer and the employee equal to or
179 greater than the garden leave clause, provided that any mutually-agreed upon consideration shall
180 be negotiated within 30 calendar days immediately following notice of termination from
181 employment. If the employer and employee fail to reach agreement within 30 calendar days, the
182 garden leave clause shall become effective. To constitute a garden leave clause under this
183 section, the noncompetition agreement shall: (i) provide for the payment, consistent with the

184 requirements for the payment of wages, under section 148, of 100 per cent of the employee's
185 highest annualized base salary plus bonus and/or pro-rated bonus and benefit premiums paid by
186 the employer within the 2 years preceding the employee's termination; and (ii) not permit an
187 employer to unilaterally discontinue or otherwise fail or refuse to make the payments except in
188 the event of a breach by the employee. The garden leave clause or other compensation portions
189 of the noncompetition agreement may be void if the employee has been terminated for good
190 cause.

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

192 (c) A noncompetition agreement shall not be enforceable against the following types of
193 workers: (i) an employee who is classified as nonexempt under the Fair Labor Standards Act, 29
194 U.S.C. 201et. seq.; (ii) undergraduate or graduate students that partake in an internship or
195 otherwise enter into a short-term employment relationship with an employer, whether paid or
196 unpaid, while enrolled in a full-time or part-time undergraduate or graduate educational
197 institution; (iii) employees that have been terminated without cause or laid off; (iv) employees
198 not more than 18 years of age; (v) an employee who does not have actual knowledge of the
199 employer's trade secrets, as defined in section 1 of chapter 93L, or of the employer's confidential
200 information that would not otherwise qualify as a trade secret; or (vi) an employee whose
201 average weekly earnings, calculated by dividing the employee's earnings during the period of 12
202 calendar months immediately preceding the date of termination of employment by 52, or such
203 number of weeks that the employee was actually paid during that 52 week period, are less than 2
204 times the average weekly wage in the commonwealth as determined pursuant to subsection (a) of
205 section 29 of chapter 151A; or (vi) independent contractors under section 148B.

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

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

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

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

224 (h) All civil actions relating to noncompetition agreements subject to this section shall be
225 brought in the county where the employee resides or, if mutually agreed upon by the employer
226 and employee, in Suffolk county; provided, however, that in any such action brought in Suffolk

227 county, the superior court or the business litigation session of the superior court shall have
228 jurisdiction.

229 SECTION 4. Chapter 93L shall not apply to a misappropriation occurring prior to
230 October 1, 2017 or to a continuing misappropriation that began prior to October 1, 2017 and
231 continues after October 1, 2017.

232 SECTION 5. Section 24L of chapter 149 of the General Laws may be referred to as the
233 Massachusetts Noncompetition Agreement Act and shall apply to employee noncompetition
234 agreements entered into on or after October 1, 2017.

235 SECTION 6. Section 2 shall take effect on October 1, 2017.