

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:

Patricia D. Jehlen

DISTRICT/ADDRESS:

Second Middlesex

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:

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2 repealed.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 have the following meanings
8 unless the context clearly requires otherwise:

9 (1) “Improper means”, includes, but is not limited to, 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; provided, however, that “improper means” shall not include reverse engineering
13 from properly accessed materials or information.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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; (ii) the employer's confidential information that
158 would not otherwise qualify as a trade secret; or (iii) the employer's goodwill. A noncompetition
159 agreement may be presumed necessary where a legitimate business interest cannot be adequately
160 protected through an alternative restrictive covenant including, but not limited to, a non-
161 solicitation agreement, a non-disclosure agreement or a confidentiality agreement.

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

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

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

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

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

184 30-day period immediately following the termination of employment. If the employer and
185 employee fail to reach an agreement for other consideration within that 30-day period, the garden
186 leave clause shall become effective. To constitute a garden leave clause under this section, the
187 noncompetition agreement shall: (i) provide for the payment, consistent with the requirements
188 for the payment of wages, under section 148, of 100 per cent of the employee's highest
189 annualized earnings paid by the employer within the 2 years preceding the employee's
190 termination; and (ii) not permit an employer to unilaterally discontinue or otherwise fail or refuse
191 to make the payments except in the event of a breach by the employee; provided, however, if the
192 restricted period has been increased beyond 3 months as a result of the employee's breach of a
193 fiduciary duty to the employer or the employee has unlawfully taken, physically or
194 electronically, property belonging to the employer, the employer shall not be required to provide
195 payments to the employee during the extension of the restricted period.

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

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

207 wage in the commonwealth as determined pursuant to subsection (a) of section 29 of chapter
208 151A; or (vi) independent contractors under section 148B.

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

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

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

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

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

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

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

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