

LATEST VERSION 2/15/18

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HOUSE No. 4434

Substituted by the House, on motion of Mr. Scibak of South Hadley, for a bill with the same title (House, No. 4323). June 27, 2016.

The Commonwealth of Massachusetts

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2 repealed.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

9 (1) "Improper means", includes, without limitation but is not limited to, theft, bribery,
10 misrepresentation, unreasonable intrusion into private physical or electronic space, or breach or
11 inducement of a breach of a confidential relationship or other duty to limit acquisition, disclosure

12 or use of information provided, however, that "improper means" shall not include; reverse
13 engineering from properly accessed materials or information is not improper means;

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).subsections 1(2)(i) or 1(2)(ii)(A) or
26 (B).

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

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

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

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

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

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

54 Section 3. (a) Except to the extent that a material and prejudicial change of position prior
55 to acquiring knowledge or reason to know of misappropriation renders a monetary recovery

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

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

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

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

76 (b) In an action under this chapter, in alleging trade secrets misappropriation a party ~~must~~
77 shall state with reasonable particularity the circumstances thereof, including the nature of the

78 trade secrets and the basis for their protection. Before commencing discovery relating to an
79 alleged trade secret, the party alleging misappropriation shall identify the trade secret with
80 sufficient particularity under the circumstances of the case to allow the court to determine the
81 appropriate parameters of discovery and to enable reasonably other parties to prepare their
82 defense.

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

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

90 (b) This chapter ~~does~~ shall not affect:

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

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

97 (3) other civil remedies to the extent that those remedies are not based upon
98 misappropriation of a trade secret; or

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

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

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

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

106 Section 24L. ~~Massachusetts Noncompetition Agreement Act~~

107 (a) As used in this section, the following words shall have the following meanings unless
108 the context clearly requires otherwise:

109 “Business entity”, any person or group of persons performing or engaging in ~~any an~~
110 activity, enterprise, profession, or occupation for gain, benefit, advantage, or livelihood, whether
111 for profit or not for profit, including but not limited to corporations, limited liability companies,
112 limited partnerships, or limited liability partnerships.

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

116 “Forfeiture agreement” an agreement that imposes adverse financial consequences on a
117 former employee as a result of the termination of an employment relationship, regardless of
118 whether the employee engages in competitive activities following ~~cessation~~ termination of the

119 employment relationship. ~~Forfeiture; provided, however that "forfeiture agreements"~~ do not
120 include forfeiture for competition agreements.

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

125 "Garden leave clause", a provision within a noncompetition agreement by which an
126 employer agrees to pay the employee during the restricted period, provided that such provision
127 shall become effective upon termination of employment unless the restriction upon post-
128 employment activities are waived by the employer or ineffective under subsection (c) (iii).

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 to~~ engage in certain specified
132 activities competitive with ~~his or her~~ the employee's employer after the employment relationship
133 has ended; ~~Nonecompetition~~ Provided, however, that "noncompetition agreements" shall include
134 forfeiture for competition agreements, but ~~de~~ shall not include (i) covenants not to solicit or hire
135 employees of the employer; (ii) covenants not to solicit or transact business with customers,
136 clients, or vendors of the employer; (iii) noncompetition agreements made in connection with the
137 sale of a business entity or substantially all of the operating assets of a business entity or
138 partnership, or otherwise disposing of the ownership interest of a business entity or partnership
139 or division or subsidiary thereof, when the party restricted by the noncompetition agreement is a
140 significant owner of, or member or partner in, the business entity who will receive significant

141 consideration or benefit from the sale or disposal of the business entity; (iv) noncompetition
142 agreements outside of an employment relationship; (v) forfeiture agreements; (vi) nondisclosure
143 or confidentiality agreements; (vii) invention assignment agreements; (viii) garden leave clauses;
144 (ix) noncompetition agreements made in connection with the ~~cessation-termination~~ of or
145 separation from employment if the employee is expressly given ~~seven-7~~ business days to rescind
146 acceptance; or (x) agreements by which an employee agrees to not reapply for employment to
147 the same employer after termination of the employee.

148 “Restricted period”, the period of time after the date of ~~cessation-termination~~ of
149 employment during which an employee is restricted ~~by a noncompetition agreement~~ from
150 engaging in activities competitive with ~~his or her~~ the employee’s former employer by a
151 noncompetition agreement.

152 (b) (1) To be valid and enforceable, a noncompetition agreement ~~must~~ shall meet the
153 ~~minimum requirements of subsections (i) through (viii) hereof~~ this subsection.

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

160 (3) If the noncompetition agreement is entered into after commencement of employment,
161 but not in connection with the separation from employment, it ~~must~~ shall be supported by fair
162 and reasonable consideration independent from the continuation of employment, and notice of

163 the noncompetition agreement ~~must shall~~ be provided at least 10 business days before the
164 agreement is to be effective. ~~Moreover, the~~The noncompetition agreement ~~must shall~~ be in
165 writing and signed by both the employer and employee and expressly state that the employee has
166 the right to consult with counsel prior to signing.

167 (4) To remain valid and enforceable, the employer shall review a noncompetition
168 agreement with the employee not less than once every 3 years.

169 (5) The agreement ~~must shall~~ be no broader than necessary to protect one or more of the
170 following legitimate business interests of the employer: (i) the employer's trade secrets, as that
171 term is defined in section 1 of chapter 93L; (ii) the employer's confidential information that
172 otherwise would not qualify as a trade secret; or (iii) the employer's goodwill. A noncompetition
173 agreement may be presumed necessary where the legitimate business interest cannot be
174 adequately protected through an alternative restrictive covenant, including but not limited to a
175 non-solicitation agreement or a non-disclosure or confidentiality agreement.

176 (6) In no event may the stated restricted period exceed 12 months from the date of
177 ~~cessation-termination~~ of employment, unless the employee has breached his or her fiduciary duty
178 to the employer or the employee has unlawfully taken, physically or electronically, property
179 belonging to the employer, in which case the duration may not exceed 2 years from the date of
180 ~~cessation-termination~~ of employment.

181 (7) The agreement ~~must shall~~ be reasonable in geographic reach in relation to the interests
182 protected. A geographic reach that is limited to only the geographic areas in which the employee,
183 during any time within the last 2 years of employment, provided services or had a material
184 presence or influence is presumptively reasonable.

185 (8) The agreement ~~must~~shall be reasonable in the scope of proscribed activities in
186 relation to the interests protected. A restriction on activities that protects a legitimate business
187 interest and is limited to only the specific types of services provided by the employee at any time
188 during the last 2 years of employment is presumptively reasonable.

189 (9) Not later than 10 business days after the termination of an employment
190 relationship, the employer shall notify the employee in writing by certified mail of the
191 employer's intent to enforce the noncompetition agreement. If the employer fails to
192 provide such notice, the noncompetition agreement shall be deemed to have been waived by
193 the employer. This paragraph shall not apply if the employee has breached a fiduciary
194 duty to the employer or the employee has unlawfully taken, physically or electronically,
195 property belonging to the employer.

196 (10) The noncompetition agreement shall be supported by a garden leave clause or other
197 mutually-agreed upon consideration between the employer and the employee, provided that such
198 consideration is specified in the noncompetition agreement. To constitute a garden leave clause
199 within the meaning of this section, the agreement ~~must~~shall (i) provide for the payment,
200 consistent with the requirements for the payment of wages under section 148 of chapter 149, on a
201 pro-rata basis during the entirety of the restricted period, of at least 50 percent of the employee's
202 highest annualized base salary paid by the employer within the 2 years preceding the employee's
203 termination; and (ii) except in the event of a breach by the employee, not permit an employer to
204 unilaterally discontinue or otherwise fail or refuse to make the payments; provided, however, if
205 the restricted period has been increased beyond 12 months as a result of the employee's breach
206 of a fiduciary duty to the employer or the employee has unlawfully taken, physically or

207 electronically, property belonging to the employer, the employer shall not be required to provide
208 payments to the employee during the extension of the restricted period.

209 (11) The agreement ~~must~~ shall be consonant with public policy.

210 (c) A noncompetition agreement shall not be enforceable against the following types of
211 workers: (1) an employee who is classified as nonexempt under the Fair Labor Standards Act, 29
212 U.S.C. sections 201 to 219, inclusive; (2) undergraduate or graduate students that partake in an
213 internship or otherwise enter a short-term employment relationship with an employer, whether
214 paid or unpaid, while enrolled in a full-time or part-time undergraduate or graduate educational
215 institution; (3) employees that have been terminated without cause or laid off; or (4) employees
216 age 18 or younger; **(5) persons performing services who are not deemed employees pursuant**
217 **to section 148B who perform services for an employer for less than 1 year; provided,**
218 **however, that the provisions of this section shall apply to persons performing contracted**
219 **services for an employer for 1 year or more.** This section does not render void or
220 unenforceable the remainder of the contract or agreement containing the unenforceable
221 noncompetition agreement, nor does it preclude the imposition of a noncompetition restriction by
222 a court, whether through preliminary or permanent injunctive relief or otherwise, as a remedy for
223 a breach of another agreement or a statutory or common law duty.

224 (d) A court may, in its discretion, reform or otherwise revise a noncompetition agreement
225 so as to render it valid and enforceable to the extent necessary to protect the applicable legitimate
226 business interests, **provided that the court finds that the employer made reasonable efforts**
227 **to draft the noncompetition agreement to comply with this section.**

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

233 (ef) No choice of law provision that would have the effect of avoiding the requirements
234 of this section ~~will~~ shall be enforceable if the employee is, and has been for at least 30 days
235 immediately preceding his or her cessation of employment ~~the employee's termination of~~
236 employment, a resident of or employed in the commonwealth at the time of his or her
237 termination of employment.

238 (fg) All civil actions relating to ~~employee noncompetition agreements~~ subject to this
239 section shall be brought in the county where the employee resides or, if mutually agreed upon by
240 the employer and employee, in Suffolk county; provided that, in any such action brought in
241 Suffolk county, the superior court or the business litigation session of the superior court shall
242 have exclusive jurisdiction.

243 ~~SECTION 4. Section 3 may be referred to as the Massachusetts Noncompetition~~
244 ~~Agreement Act and shall apply to employee noncompetition agreements entered into on or after~~
245 ~~October 1, 2016.~~

246 ~~SECTION 5. Section 2 of this Act shall take effect on October 1, 2016, and shall not~~
247 ~~apply to misappropriation occurring prior to the effective date. With respect to a~~
248 ~~continuing misappropriation that began prior to the effective date, the Act also does not~~
249 ~~apply to the continuing misappropriation that occurs after the effective date.~~

Commented [CR(1)]: Was removed in conference committee