MASSACHUSETTS TRADE SECRETS AND NONCOMPETE REFORM: WHAT HAS CHANGED AND WHAT YOU SHOULD DO ABOUT IT[*]

By Russell Beck[†]

Effective, October 1, 2018, Massachusetts has two new related laws: one governing trade secrets and the other governing employee noncompetes.

TRADE SECRETS

First, the less controversial and mostly unnoticed change: trade secrets.

Joining the ranks of the federal government and (arguably) every state other than New York, Massachusetts has now adopted a modified version of the Uniform Trade Secrets Act (UTSA).

The changes to preexisting law are significant and include the following:

- Trade secrets will need to be "specified or specifiable information …." The language is intended to avoid vague allegations of trade secret misappropriation, but the level of specification is open to interpretation. This is a potentially significant change insofar as it limits unbounded trade secrets claims.

- The law adds an express requirement that, prior to taking discovery, the plaintiff must identify its trade secrets. This is not (expressly) required by the UTSA, nor has it been the usual practice in Massachusetts. This is a potentially significant change.

- The law provides that "threatened misappropriation may be enjoined *upon principles of equity, including, but limited to, consideration of prior conduct and the circumstances of potential use . . . .*" (Emphasis added.) The italicized language (not found in the UTSA) was added to clarify that the inevitable disclosure doctrine (generally believed to be rejected in Massachusetts) will be available, though likely only after a showing of prior misconduct by the party sought to be enjoined. *This fundamentally changes pre-existing Massachusetts law* and goes further than the federal Defend Trade Secrets Act (which permits a court to impose limits on the individual's employment, not prevent it entirely).

- The requirement that a trade secret be in "continuous use in the operation of the business" has been eliminated. Blind alleys like formulas that were

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rejected but led to the final formula (think the first 39 formulations of WD-40) are now protectable.

- The new law allows for an award of treble damages for willful and malicious misappropriation and attorneys' fees (eliminating the need for a companion 93A claim).

NONCOMPETES

In contrast to the new trade secrets law, the new noncompete law has been met with vociferous mixed reviews. That's no surprise. Whether to permit the use of noncompetes at all and, if so, to what extent is both polarizing and complicated. Indeed, it's surprising that the legislators were able to achieve any change.

Legislative Background

In January of 2009, two legislators – then-representative, now Senator Will Brownsberger and Representative Lori Ehrlich – each independently filed a bill to change noncompete law. Senator Brownsberger's bill would have banned all employee noncompetes. Representative Ehrlich's bill simply imposed limits on their use.

From that point forward, the two worked together in an extraordinarily collaborative effort to identify the right solution. By April 2009, they had an initial "compromise bill" that provided much of the language and framework for the current law. For the next nine years, the two, joined by several other legislators, undertook a determined effort to obtain, assess, and balance input from all stakeholder viewpoints.

At one end of the spectrum were scores of individuals who had been impacted by a noncompete and were passionately pushing for a ban. They were joined by a handful of venture capitalists, who seemed more focused on recruiting employees than protecting their portfolio companies' technologies.

At the other end of the continuum were some of the Commonwealth's largest employers and their trade organization (AIM), seeking to maintain the status quo, which provided the best hope of keeping their trade secrets and customer relationships safe from departing employees and new employers.

Myriad other viewpoints spoke out, including academics whose research provided preliminary insights into the impacts of noncompetes on the economy. While the headlines frequently reported the conclusion that the Silicon Valley's success was the byproduct of an 1872 ban on noncompetes, the professors were clear that such a conclusion was premature and noncompetes were likely just one factor. As one professor's research revealed, while noncompetes might yield fewer startups, the startups that thrive in states enforcing noncompetes tend to be more robust.

Moreover, banning noncompetes potentially yields unintended consequences. For example, as happened in California, more companies would resort to trade secrets lawsuits – which typically are more costly and time consuming than noncompete litigation.

Thus, for the Legislature to accomplish anything, it would need to balance myriad competing considerations and interests, with little empirical guidance, and few would be satisfied.

Specifics of the New Noncompete Law

From the outside looking in, Massachusetts' new noncompete law (which applies to both employees and independent contractors) may look like a nine-year effort that accomplished little. But it addressed several fundamental fairness issues that the Legislature perceived in the preexisting law.

For example, the new law prevents the common practice of providing the noncompete to the employee on the first day of work. Instead, employers will provide noncompetes alongside job offers at least 10 days before commencement of employment. Employees will no longer find themselves regretting a decision to leave a job simply because they learned too late that they had to sign a noncompete at their new job.

The law also encourages employers to draft narrowly-tailored restrictions targeting the greatest risks posed by departing employees. To do this, the law provides presumptions of reasonableness with respect to scope, temporal, and geographic limitations.

The law also bans noncompetes for most students, persons 18 and under, employees who are in nonexempt jobs under the Fair Labor Standards Act (FLSA), and employees who have been "terminated without cause or laid off." This last exemption has been criticized as potentially creating mischief on both sides; employers who wish to enforce their noncompetes may be more inclined to terminate the employee for "cause" (a term undefined in the statute) and employees may try to have themselves terminated without cause. Further, critics observe that a laid off employee who knows the company's trade secrets and takes a job with a competitor is no less of a threat than an employee who voluntarily resigns.

The legislators were well aware of these criticisms (and others) and made the policy decision (as at least two other states did before them) that these employees should not be subject to restraints that make it harder to find a new job. However, to address the potential consequences of such a policy, the legislature provided a work-around: The employee and employer can agree to a noncompete in connection with the employee's departure, provided the employee has seven days to rescind acceptance. And, the legislature addressed the threat to trade secrets through the new trade secrets law. These offsetting aspects of the law are oftentimes overlooked, but should not be.

Some people have criticized the choice of law provision requiring Massachusetts law for employees residing or working in Massachusetts and the venue provision. (Venue is permitted in two locations: "the county wherein the employee resides" or in Suffolk, where "the superior court or the business litigation session . . . shall have exclusive jurisdiction.") Arguably, an action can be brought in federal court in Worcester and Springfield, but not in Boston. I do not believe that the legislature intended to preclude any federal court jurisdiction; I believe it was simply focused on ensuring that Massachusetts residents and workers would have a consistent body of law and not have to litigate far from home or work. California and Louisiana have

similar legislation. While California's law is too new to draw any conclusions from, Louisiana's has generally been enforced.

By far the most controversial aspect of the new law is the language requiring "garden leave clause or other mutually-agreed upon consideration" generally and "fair and reasonable consideration" for noncompetes entered into during the course of employment. This issue was the subject of extensive political negotiation and compromise, and was what killed the bill last legislative session. It shows; the language reflects strongly-held, divergent viewpoints.

Employers will need to make sure that noncompetes entered into during employment are supported by "fair and reasonable" consideration. Quantifying this has been a thorny issue, with some saying nothing could ever be enough and others saying nothing more than continued employment (*i.e.*, the current law) should be required. Accordingly, having made the policy decision to change existing law, while not ideal, it's no surprise that the legislature left the details to the courts (like preexisting law, where so much is left to judicial discretion).

Similarly, with regard to the more general "garden leave clause or other mutually-agreed upon consideration" requirement, the legislature again could reach agreement only on the need for something – not what that something was. Having previously rejected a requirement that "other mutually-agreed upon consideration" must be "equal to or greater than the garden leave clause," the options were left to the parties and the courts.

While some believe that there was no pressing need for the law, others strongly disagree – including those who came out year after year to implore the legislature to make changes. The time was ripe. Indeed, in 2016, the Obama Administration focused on the abuses of noncompetes, ultimately issuing a Call to Action, asking states to curb the abuses (just as the legislature has now done). Other states have done and are in the process of considering the same. And, the federal government has recently filed legislation to ban noncompetes altogether.

Accordingly, the new law may not be perfect, but it's good. And, the critics should not lose sight of the fact that it helps a lot of people.

So, what should companies do going forward?

- Write narrow noncompetes, tailored to the language of the new law to get the benefit of the presumptions of reasonableness.
- Include in the noncompete written notice of the employee's right to counsel.
- Decide on and identify in the agreement the consideration that will support the noncompete.
- Consider focusing on nondisclosure, nonsolicitation, and no-raid agreements, and falling back to springing noncompetes as a remedy.
- Provide the agreement to employees with the written job offer, at least 10 days before commencement of employment.
- Make sure that both the employee and the employer have signed.