

## MASSACHUSETTS NON-COMPETITION LAWS: PROTECTING TRADE SECRETS OR RESTRICTING COMMONWEALTH INNOVATION?

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**Abstract:** Non-competition agreements are subject to much debate in the realm of American trade secret law, and this debate is magnified when taken in the context of employment in major technology hubs across the United States. The overwhelming success of Silicon Valley, California technology firms, where non-competition agreements are generally unenforceable, has sparked conversation over whether enforceability in other states is impeding innovation in other major technology hubs. The Massachusetts legislature is attempting to address this issue with two major bills on the enforceability of non-competition agreements in the Commonwealth, which as Massachusetts' presence in the technology industry continues to grow, could place technology firms in the Seaport Innovation District in a more advantageous position against their Silicon Valley competitors.

### I. INTRODUCTION

In the world of American trade secret protection and non-competition laws, there seems to be a separation between California and the rest of the United States.<sup>1</sup> There exists an inherent tension between encouraging and enabling the utilization of skills from the perspective of the employee, and the concern of protecting trade secrets from the perspective of the employer.<sup>2</sup> It comes as no surprise that the free roaming of talent in California's iconic Silicon Valley technology hub is an advantage for both employees and their employers.<sup>3</sup>

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<sup>1</sup> See Perkins Coie, *Pitched Battle Over Noncompetition Covenants: California vs. the World*, 8 NO. 9 WASH. EMP. L. LETTER 3 (2001).

<sup>2</sup> See Norman D. Bishara, *Covenants Not to Compete in a Knowledge Economy: Balancing Innovation From Employee Mobility Against Legal Protection for Human Capital Investment*, 27 BERKELEY J. EMP. & LAB. L. 287, 298 (2006).

<sup>3</sup> See Jason S. Wood, *A Comparison of the Enforceability of Covenants Not to Compete and Recent Economic Histories of Technology Regions*, 5 VA. J. L. & TECH 14, 37 (2000).

Until recently, there were no legitimate contenders for a second place technology hub, then came Boston's Innovation District.<sup>4</sup> Officially known as Boston's Seaport District, the late Mayor Thomas Menino saw the potential for the city of Boston to become the next Silicon Valley.<sup>5</sup> Though the Seaport Innovation District has seen an influx of high technology and life sciences companies moving into the area throughout the past five years, Silicon Valley still has the technological lead over Boston.<sup>6</sup> The question that remains to be answered is whether the enforceability of non-competition agreements in Massachusetts could be the potential distinguishing factor that sets Innovation District companies behind their Silicon Valley competitors, as non-competition agreements are currently enforceable in Massachusetts and generally unenforceable in California.<sup>7</sup>

Proponents of non-competition agreement enforceability argue that such enforceability is necessary to protect employer trade secrets, and there is truth to this argument.<sup>8</sup> However, this argument ignores the body of law that already exists to protect employers and give them a remedy against trade secret misappropriators: trade secret laws.<sup>9</sup> Non-competition laws that favor employees rather than employers have the potential to help employees further develop their own skills, while simultaneously making employers thrive.<sup>10</sup> Employees would have the ability to move their talent inter-

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<sup>4</sup> See *Boston's Innovation District: 3 Years + Counting*, City of Boston (Feb. 28, 2013) [https://www.cityofboston.gov/news/uploads/20806\\_50\\_1\\_41.pdf](https://www.cityofboston.gov/news/uploads/20806_50_1_41.pdf).

<sup>5</sup> See *id.*

<sup>6</sup> See Wood, *supra* note 3, at 1.

<sup>7</sup> See CAL. BUS. & PROF. CODE ANN. § 16600 (West 1941); *Boulanger v. Dunkin' Donuts Inc.*, 815 N.E.2d 572, 576–77 (Mass. 2004).

<sup>8</sup> See *Marine Contractors Co. v. Hurley*, 310 N.E.2d 915, 920 (Mass. 1974).

<sup>9</sup> See CAL. CIV. CODE ANN. § 3426 (West 1984).

<sup>10</sup> See Ronald J. Gilson, *The Legal Infrastructure of High Technology Industrial Districts: Silicon Valley, Route 128, and Covenants Not to Compete*, 74 N.Y.U. L. REV. 575, 578 (1999).

company with little to no restrictions, while employers would not be restricted as to the talent they are able to recruit.<sup>11</sup> Two current bill proposals in the Massachusetts legislature, Senate Bill S.988 and House Bill H.2366, both titled An Act Relative to the Judicial Enforcement of Noncompetition Agreements, would encourage this ideology, by placing the state's laws more in line with California's.<sup>12</sup> This could be the push Massachusetts needs to help Boston take the technological lead over Silicon Valley.

## II. BACKGROUND

### *A. Current Massachusetts Non-Competition Laws*

Non-competition agreements are enforceable in Massachusetts subject to three requirements: (1) they must be necessary to protect a legitimate business interest; (2) they must meet a test of reasonableness in its timeframe and geographic scope; and (3) they must be consistent with the public interest.<sup>13</sup> Additionally, these requirements are defined at common law, not by statute.<sup>14</sup>

#### 1. Necessary to Protect a Legitimate Business Interest

The first requirement for a non-competition agreement to be enforceable in Massachusetts is that it must be necessary to protect a legitimate business interest.<sup>15</sup> Legitimate business interests include trade secrets, confidential information, and good will of the employer known by the employee.<sup>16</sup>

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<sup>11</sup> *See id.*

<sup>12</sup> *See* H.B. 2366, 190<sup>th</sup> Gen. Court (Mass. 2017); S.B. 988, 190<sup>th</sup> Gen. Court (Mass. 2017).

<sup>13</sup> *Boulanger*, 815 N.E.2d at 576–77.

<sup>14</sup> *See id.*

<sup>15</sup> *Id.*

<sup>16</sup> *See Marine Contractors Co.*, 310 N.E.2d at 920.

Simple knowledge of a trade or skill is not considered a legitimate business interest, and an employer may not use a non-competition agreement to restrict general knowledge or skill that their employees improved during their employment.<sup>17</sup> In addition, ordinary competition is not considered a legitimate business interest. In *Richmond Bros., Inc. v. Westinghouse Broadcasting Co.*, courts refused to restrict a former employee from employment with a competitor because he had no knowledge of trade secrets that could have been used to injure the plaintiff's broadcasting business.<sup>18</sup> The employers must be more than competitors; the former employee must be in the position where they are capable of exploiting resources of their former employer.<sup>19</sup>

## 2. Reasonable in Timeframe and Geographic Scope

The second requirement for a non-competition agreement to be enforceable in Massachusetts is that it must be reasonable in its timeframe and geographic scope.<sup>20</sup> There is no concrete definition of a reasonable timeframe; it is determined on a case-by-case basis.<sup>21</sup> For example, the court held that when employer trade secrets are at stake, the employer could be entitled to restrict employees from working for a competitor for as long as it takes for others in the same trade to gain knowledge of the trade secrets on their own. In *Analogic Corp. v. Data Translation, Inc.*, the court considered the time it would have taken one to discover a trade secret in an employer's machine was a factor to be

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<sup>17</sup> *Club Aluminum Co. v. Young*, 160 N.E. 804, 806 (Mass. 1928).

<sup>18</sup> See *Richmond Bros., Inc. v. Westinghouse Broadcasting Co.*, 256 N.E.2d 304, 307 (Mass. 1970).

<sup>19</sup> *Id.*

<sup>20</sup> *Boulanger*, 815 N.E.2d at 576–77.

<sup>21</sup> See *Analogic Corp. v. Data Translation, Inc.*, 358 N.E.2d 804, 808 (Mass. 1976).

considered in determining the reasonableness of a covenant restricting former employees from developing or selling a competing machine.<sup>22</sup>

Similarly, there is no concrete definition of a reasonable geographic scope, as this is also fact specific and determined on a case-by-case basis.<sup>23</sup> The court held a geographic restriction as small as five miles to be reasonable.<sup>24</sup> Conversely, a geographic restriction that covered twenty-six states has also been held reasonable.<sup>25</sup>

### 3. Consistent with the Public Interest

The third requirement for a non-competition agreement to be enforceable in Massachusetts is that it must be consistent with the public interest.<sup>26</sup> It is in the interest of the public to be able to freely move jobs and perform one's trade.<sup>27</sup> At the same time, however, this interest must be balanced with the public policy interest of protecting employer trade secrets and confidential information.<sup>28</sup>

State statutes prohibit the enforcement of non-competition agreements in the context of certain professions because doing so is contrary to public policy.<sup>29</sup> For example, non-competition agreements are unenforceable when used to restrict physicians, nurses, psychologists, and lawyers.<sup>30</sup> The policy rationale behind these statutory

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<sup>22</sup> *Id.*

<sup>23</sup> *See Boulanger*, 815 N.E.2d at 581; *Novelty Bias Binding Co. v. Shevrin*, 175 N.E.2d 374, 376 (Mass. 1961).

<sup>24</sup> *Boulanger*, 815 N.E.2d at 581.

<sup>25</sup> *Novelty Bias Binding Co.*, 175 N.E.2d at 376

<sup>26</sup> *Boulanger*, 815 N.E.2d at 576–77.

<sup>27</sup> *Club Aluminum Co.*, 160 N.E. at 805.

<sup>28</sup> *Id.* at 806.

<sup>29</sup> *See* MASS. GEN. LAWS. ANN. 112 § 12X (West 1977); MASS. GEN. LAWS. ANN. 112 § 74D (West 1983); MASS. GEN. LAWS. ANN. 112 § 129B (West 2004); MASS. GEN. LAWS. ANN. 112 § 135C (West 2004); MASS R. PROF. C. § 5.6 (West 1997).

<sup>30</sup> *See* § 12X (West); § 74D (West); § 129B (West); § 135C (West); § 5.6 (West).

exceptions is that clients and patients should have the freedom to choose where to obtain necessary services.<sup>31</sup>

### *B. Current California Non-Competition Laws*

In contrast with Massachusetts, California noncompetition laws are codified by statute, which provides that any contract restraining someone from engaging in a trade or profession is void.<sup>32</sup> There are certain limited scenarios in which such an agreement may be enforced, all of which involve the sale or dissolution of business entities.<sup>33</sup> Individuals may be restricted from competing via noncompetition agreements in the sale of their former businesses and in dissolutions of a partnership or limited liability company in which they had a former interest.<sup>34</sup>

## III. NON-COMPETITION BILLS CURRENTLY CIRCULATING THE MASSACHUSETTS LEGISLATURE

Massachusetts Senate Bill S.988 and House Bill H.2366 each propose stringent requirements for employers in requiring their employees to sign non-competition agreements.<sup>35</sup> The bills would limit the enforceable timeframe of such agreements to twelve months, require employers to inform employees that they have the right to consult their lawyers before signing, and require employers to review the agreement with their employees at least once every three years.<sup>36</sup> Employers would be required to inform former employees via certified mail within ten days after terminating their employment

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<sup>31</sup> See *Pettingell v. Morrison, Mahoney & Miller*, 687 N.E.2d 1237, 1239 (Mass. 1997)

<sup>32</sup> CAL. BUS. & PROF. CODE ANN. § 16600 (West 1941).

<sup>33</sup> See CAL. BUS. & PROF. CODE ANN. § 16601 (West 1941); CAL. BUS. & PROF. CODE ANN. § 16602 (West 1941); CAL. BUS. & PROF. CODE ANN. § 16602.5 (West 1994).

<sup>34</sup> See § 16601 (West); § 16602 (West); § 16602.5 (West).

<sup>35</sup> See H.B. 2366, 190<sup>th</sup> Gen. Court (Mass. 2017); S.B. 988, 190<sup>th</sup> Gen. Court (Mass. 2017).

<sup>36</sup> See H.B. 2366; S.B. 988.

that they intend to enforce the agreement, and failure to do so would constitute the employer waiving their rights under the agreement.<sup>37</sup> Additionally certain groups, including students and employees terminated without cause, are considered exempt from the enforcement of such agreements.<sup>38</sup>

#### IV. DISCUSSION

It appears as though the Massachusetts legislature is attempting to strike a compromise between existing Massachusetts state law and existing California state law.<sup>39</sup> By placing more responsibilities in the hands of employers to make their noncompetition agreements enforceable, the legislature is attempting to shift a portion of the burden from the employee post-termination to the employer both prior to termination, and post-termination.<sup>40</sup> The benefits of such a law would be that it would keep an employee informed at all stages of employment: before beginning their employment, periodically during their employment, and after terminating their employment, as to the nature of the noncompetition agreement.<sup>41</sup> Such notice is currently not required by law.<sup>42</sup>

The most interesting determination of the effectiveness of both bills, should either become law in the near future, will be whether employers actually enforce their rights within the ten-day window so as to not waive their rights under their agreements.<sup>43</sup> It could go either way: employers may not want to deal with the burden of doing so and will simply ignore their duties when employees terminate their employment, or sending out such notices will become a standard termination procedure, and will be completed in

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<sup>37</sup> See H.B. 2366; S.B. 988.

<sup>38</sup> *Id.*

<sup>39</sup> See § 16600 (West); *Boulanger v. Dunkin' Donuts Inc.*, 815 N.E.2d 572, 576–77 (Mass. 2004).

<sup>40</sup> See H.B. 2366; S.B. 988.

<sup>41</sup> *Id.*

<sup>42</sup> *Boulanger*, 815 N.E.2d at 576–77.

<sup>43</sup> See H.B. 2366; S.B. 988.

most, if not all, circumstances.<sup>44</sup> In the latter situation, it is unlikely that either bill would have a positive impact on employer mobility in the Commonwealth, simply because little would change in regards to being able to shift their talent elsewhere within the one-year period following job termination if employers fulfill all their informational duties required by law.<sup>45</sup> Because of this, it is questionable whether the legislature is taking a strong enough stance on the issue.

Both bill proposals are crucial legislation in the context of the growth of Boston's Seaport Innovation District and the technology companies that continue to call the District home.<sup>46</sup> If Massachusetts noncompetition laws remain the same and technology companies in the District are able to utilize such agreements to prevent employees from being able to take their talent and skills to other technology companies with little to no restriction, it unintentionally hurts those companies just as much as their employees because in the end, all they are doing is limiting the pool of talent in which to recruit to their business.<sup>47</sup>

This concern was recognized in the 1990s before the Seaport Innovation District even existed, when a similar comparison was made between Silicon Valley and technology companies along Massachusetts Route 128.<sup>48</sup> Though the focus has been removed from Route 128 to the Seaport, the concern remains the same: companies in states subject to enforcement of noncompetition agreements do not have the opportunity

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<sup>44</sup> See H.B. 2366; S.B. 988.

<sup>45</sup> *Id.*

<sup>46</sup> *Id.*

<sup>47</sup> See Ronald J. Gilson, *The Legal Infrastructure of High Technology Industrial Districts: Silicon Valley, Route 128, and Covenants Not to Compete*, 74 N.Y.U. L. REV. 575 (1999).

<sup>48</sup> See *id.*



to benefit from so-called “knowledge spillover,” which in the end, hurts innovation and company success just as much as employer mobility.<sup>49</sup>

## V. CONCLUSION

In considering both bills, the Massachusetts legislature should examine the success of enforcing noncompetition agreements in the context of what they seek to protect: trade secrets. This analysis should entail examining whether states like California, who do not enforce such agreements, have reported more instances of trade secret misappropriation than states like Massachusetts who do not enforce them. The legislature should examine whether Massachusetts is at any sort of advantage or prevents trade secret misappropriation at a higher rate as a result of enforcing noncompetition agreements. Similarly, the legislature should also examine whether the non-enforcement of noncompetition agreements in California has put them at a disadvantage or led to more cases of trade secret misappropriation than in states like Massachusetts where such agreements are enforceable. The overwhelming success of companies, especially technology companies in Silicon Valley, points to the opposite conclusion. The analysis of this issue is critical in determining whether enforcement of noncompetition agreements is even protecting employer trade secrets as intended.

It is important to recognize the legitimate policy rationale behind enforcement of noncompetition agreements: protection of employer trade secrets. However, the expense at which employers are currently permitted to protect such trade secrets in Massachusetts is concerning. In areas like Silicon Valley and Boston’s Seaport Innovation District where large geographic areas see a prevalence of companies in a particular industry, this

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<sup>49</sup> *See id.*

can have negative effects for both employees and employers, by both restricting employees from utilizing their skills, and limiting the pool of talent to attract. The Massachusetts legislature is attempting to address this concern with Senate Bill S.988 and House Bill H.2366, but the question that remains is whether either bill will reflect positive change on employee mobility and innovation in the Commonwealth.