Trade Secret Law Evolution Podcast
Greenberg Traurig, LLP
Episode 70

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(00:17):

Jordan Grotzinger: Hi everybody. It's October 30th, and this is episode 70 of the Trade Secret Law Evolution Podcast. And I'm welcoming back my friend, our most recurring guest, my partner, Greg Bombard, from Boston. Greg, how you doing?

Gregory Bombard (00:32):

Very good. Thanks for having me back on. I feel like I should get one of those jackets for being a recurring host.

Jordan Grotzinger (00:40):

We don't have jackets yet, but we do have these in six, I think, hats. So I'll send you one.

Gregory Bombard (00:45):

Thank you.

Gregory Bombard (00:46):

So in this episode, we jump back into the non-compete world and we're going to discuss a case out of the First Circuit Court of Appeals on this issue. Greg, you want to jump in?

Gregory Bombard (00:57):

The case we're talking about today is a really interesting decision that takes California's non-compete ban and weighs it against other states competing interests in enforcing non-compete agreements. So we have the perfect team to talk about this decision. We've got Jordan, who of course sits in Greenberg's LA office, non-compete and trade secret lawyer. And then myself, if you don't know me, I am a shareholder in Greenberg's Boston office, and my practice is entirely in trade secret and non-compete agreements as well. In this case, the plaintiff is a Massachusetts based sports betting company. It previously employed a defendant, an individual employee who lived in New Jersey. The defendant's employment agreement included a Massachusetts choice of law provision and it included a post-employment non-compete agreement for a one-year term.

Jordan Grotzinger (01:59):

So the defendant appealed to the First Circuit and he raised two principal arguments. First, he argued that California law should apply because his residence was now California, and he argued that California

has a strong public policy against the enforcement of post-employment non-compete provisions, as we've discussed on this podcast. And as listeners know, California does in fact have a very strong and longstanding policy against the enforcement of non-compete agreements This year in fact, California amended its law, enhanced its law really, to prohibit California courts from enforcing non-compete agreements of other jurisdictions against California residents. The employee therefore argued that California's public policy against non-compete agreements superseded the Massachusetts choice of law provision in his contract. Second, the employee argued that even if the non-compete agreement was enforceable and an injunction entered, the injunction should include a carve out for work in California. So let's get to the court's holdings, Greg.

Gregory Bombard (03:08):

On appeal, the First Circuit first took up this choice of law question and there, the First Circuit upheld the district court's application of Massachusetts law. It rejected the defendant's argument in favor of the application of California law. In 2018, Massachusetts enacted a major reform of non-compete agreements. That's called the Massachusetts Non-Competition Agreement Act, the MNAA, and the court discussed that law as part of its holding. The MNAA was the result of over 10 years of legislative debate and compromise between on the one hand, groups seeking to ban non-compete agreements altogether. And then on the other hand, the business community which in general favored the continued enforcement of non-compete agreements. Well, the First Circuit's opinion says, "The MNAA was no off the cuff spur of the moment bit of legislating either far from it. The law gestated during a decade's worth of legislative study and debate." The MNAA added significant substantive protections for employees who are subject to non-compete agreements.

(04:33):

As just a few examples, the MNAA requires employers to pay what is called garden leave during the period of non-competition. And it defines a safe harbor, for what that means, which is half of the employee's base pay in the two years leading up to the employee's termination. Or in lieu of garden leave, the employer and the employee can agree on other agreed upon consideration to support the non-compete. And there are other procedural and substantive protections built into the MNAA that make enforcing a non-compete agreement in Massachusetts more challenging than it was before 2018. Well, the First Circuit ruled that the MNAA demonstrates Massachusetts has a significant interest in the issue of enforceability of non-compete agreements, no less so than the interest of California.

Jordan Grotzinger (05:34):

Not so easy to find that statement in case law. California is kind of known for having this policy that wears on its sleeve, so to speak. And I know a lot of courts, including some in Delaware when they cross this issue, just don't want to cross California policy at all or get involved in that mess. But here's Massachusetts saying, "Hey, we've got an interest in this too." So the former employee argued that a prior case from the Massachusetts Supreme Judicial Court should control that case was called Oxford Global Resources versus Hernandez. And in that case, the court ruled that a Massachusetts choice of law provision would not control where the employee at issue lived and worked in California while he was employed by a Massachusetts company.

(06:23):

But the First Circuit distinguished Oxford on the ground that the employee in the present case lived in New Jersey and frequently worked in Massachusetts. Under those circumstances, the First Circuit found that Massachusetts had a significant interest in the case and therefore, the Massachusetts choice of law provision could apply. Ultimately, the First Circuit found that the employee, "Hasn't shown that

California's public policy eclipses the party's clear and unambiguous agreement to apply Massachusetts law." So Greg, an injunction was entered. What about the scope?

Gregory Bombard (07:02):

This is the second part of the opinion and a creative argument on behalf of the employee, his backup argument was, "Okay. If an injunction is going to enter, I still live in California now, and so the scope of the injunction should be limited to carve out California." The second part of the First Circuit's opinion affirmed the preliminary injunction that had originally entered, which prevented the employee from competing against the former employer in the United States for an entire year. So they rejected that argument. The court rejected the argument for the same substantive reasons on the choice of law saying that Massachusetts had an interest in enforcing its MNAA compromise.

(07:56):

And then the First Circuit went on to point out that sports betting is banned in California. So the employee's continued employment for his new employer, even though he now resides in Los Angeles, would necessarily require him to continue contacting bettors outside of California. And so as such, the First Circuit points out that a limitation on the scope of the injunction would, "Give him a way to skirt the country-wide preliminary injunctions one year non-compete ban." So the First Circuit rejected this concept of a carve out and ultimately affirmed the district court's order on the injunction applying across the United States.

Jordan Grotzinger (08:44):

And now as always for the takeaways, this decision serves as a reminder that non-compete agreements remain alive and well in much of the country despite the recent trends against them, including in the FTC, as we've discussed here. The First Circuit ruled that an employer could enforce a non-compete agreement against its former employee. Despite the former employee's move to California. California's strong public policy against enforcement of non-competes could not overcome the competing Massachusetts public policy permitting enforcement where the employee had no prior connection to California. So unless and until federal policy settles on a uniform rule, state law continues to differ regarding the enforcement of post-employment non-compete agreements. While the FTC's non-compete ban remains tied up in litigation, states continue to experiment with sometimes divergent policies on non-compete reform.

Gregory Bombard (09:48):

This issue comes up all the time, and it's going to continue to come up unless and until there is some uniform federal policy, we are going to be dealing with states like California that have non-compete bans, states like Massachusetts that have restrictions on non-compete agreements, but that generally allow them. And then other states like for example, Illinois, where the common law generally applies. So this case is an interesting counterweight to the Oxford case that you mentioned, Jordan. In Oxford, that case teaches that employers can't simply subvert the California non-compete ban by adding a Massachusetts choice of law provision into a California employee's employment contract. If the employee works and lives in California, then California's strong public policy against non-compete agreements is probably going to overcome that choice of law provision. That's what we learned in Oxford.

(10:52):

This case maybe shows the other end of that pendulum swing. You have an employee who when he worked for the first employer, he lived in New Jersey and he from time to time worked in

Massachusetts. This case shows that in those circumstances, an employee is not necessarily free of a non-compete provision just because he moves to California. If a state like Massachusetts has a significant connection to the contract, then a Massachusetts choice of law provision can outweigh the California public policy, and it's going to be a case-by-case fact-intensive analysis to which there may not be an easy answer.

Jordan Grotzinger (11:39):

So escaping to California doesn't always necessarily mean that you escape a non-compete from another state. And finally, let's not forget why these non-compete cases and trends are so important in the trade secret world. Very simply, non-competes help protect trade secrets. The more restricted an employee is from working for a competitor ostensibly, the lower the risk of trade secret misappropriation. Conversely, in states like mine where non-competes are essentially illegal, extra focus should be given to trade secret protection to make up for the lack of protection from non-competes. And that is why this hot topic will continue to be a subject we discuss as the law develops in this area.

(12:25):

Greg, thank you again my friend. Always a pleasure, and I'll send you the hat and look forward to having you back soon.

Gregory Bombard (12:31):

Awesome.

Jordan Grotzinger (12:32):

Thanks everybody. See you next time.