

**Recent State Law Legislative Developments
Relating to Non-Competes and Trade Secrets**

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In 2015, several states introduced or passed legislation dealing with the law of trade secrets and non-compete agreements. Several states have introduced California-style bans on non-competes, but so far only Hawaii has passed legislation implementing such a ban (and that ban is limited to “tech” companies). In contrast, legislation has passed in two states (Alabama and Arkansas) that strengthens non-competes.

Alabama

The Alabama legislature recently passed House Bill 352, which amends Section 8-1-1 of the Alabama Code. The new law repeals the 1975 version of Section 8-1-1 and replaces it with a new version, to be effective January 1, 2016. The new Section 8-1-1 retains the original’s general ban on contracts in restraint of trade, but enumerates six exceptions to the general ban in order to preserve protectable interests: Covenants not to solicit “uniquely essential” personnel, covenants not to solicit customers, covenants not to compete within a geographic area, covenants not to compete in connection with the sale of a business, covenants to restrict business dealings between two companies, and covenants that limit competition among former partners following or in anticipation of the dissolution of a business. Section 8-1-1 also establishes presumptively reasonable timeframes: Two years for a geographic non-compete agreement, eighteen months (or for as long as “post-separation consideration” continues) for an agreement not to solicit customers, and one year for non-compete agreements related to the sale of a business.

A protectable interest under the new Section 8-1-1 includes trade secrets, confidential information, customer, patient, vendor, or client relationships and

contacts, and specialized or unique training, but not general job skills. The new Section 8-1-1 also allows for blue-penciling of non-compete agreements. The new law includes an undue hardship defense. It is unclear whether the statute applies retroactively or only to agreements entered into after the date of the new law.¹

Arkansas

On April 1, 2015, Arkansas Governor Asa Hutchinson signed Act 921 (S.B. 998) into law. Act 921 took effect on August 6, 2015, and provides that non-compete agreements created as part of an employment agreement are enforceable as long as the employer has a “protectable business interest” and the agreement is limited in terms of time and scope in a manner that is not greater than necessary to defend the protectable interests. A protectable business interest includes trade secrets, intellectual property, goodwill, and customer lists, as well as other information that is “confidential, proprietary, and increases in value from not being known by a competitor.” The Act does not require a geographic limitation in a non-compete agreement, as long as the agreement is limited in time and scope, and the Act presumes that a two-year limitation is reasonable. Act 921 also provides that Arkansas courts “shall” reform an unenforceable non-compete. This is a significant change, since before Act 921 an overly broad provision in a non-compete would have rendered the entire agreement unenforceable. The law does not appear to apply to customer non-solicitation,

¹ See www.al.com/business/index.ssf/2015/06/alabamas_new_and_improved_non-.html, www.noncompetereport.com/2015/07/alabama-amends-non-compete-statute/

employee non-recruitment or confidentiality or non-disclosure covenants. The law also does not apply retroactively.²

Hawaii

In July of 2015, a new law (H.B. No. 1090) banning non-compete agreements in Hawaii took effect. The law is targeted specifically to prevent technology workers being driven out of Hawaii and to prevent employers within Hawaii from having to recruit workers from other states. The law notes that because “the geographic nature of Hawaii is unique and limited, non-compete agreements unduly restrict future employment opportunities for technology workers and have a chilling effect on the creation of new technology businesses within the State.”

H.B. 1090 only applies to workers in technology businesses. The language of the bill provides that “it shall be prohibited to include a noncompete clause or a nonsolicit clause in any employment contract relating to an employee of a technology business.” The bill further defines “technology business” as a business deriving the majority of its sales from software or information technology development.

The ban on employee non-recruitment covenants appears to be one of the first of its kind in the United States. It is unclear whether the law bans customer non-solicitation covenants, though it appears such covenants are considered “non-competes” in Hawaii, so they are also likely impermissible.

² See <http://www.natlawreview.com/article/new-arkansas-law-permits-blue-penciling-employment-non-compete-agreements>

Prior to H.B. 1090, non-compete agreements were enforceable in Hawaii as long as they passed a reasonableness analysis. Non-competes remain permissible for non-tech employees, as long as they are “reasonable.” The legislature took pains to point out in the bill that trade secrets remain protected under both the Uniform Trade Secrets Act and Hawaii state law, and suggested that therefore non-compete agreements were “duplicative.”

Maryland

On February 13, 2015, H.B. 946 was proposed by state delegate Kevin Hornberger. H.B. 946 would completely ban non-compete and conflict of interest restrictive covenants in employment agreements as being against the public policy of Maryland. On March 20, the bill received an unfavorable report from the committee on Economic Matters.

Massachusetts³

Several bills proposing changes to Massachusetts laws relating to trade secrets and non-compete agreements have been proposed in 2015. The bills relating to trade secrets propose adoption of the Uniform Trade Secrets Act (UTSA) with varying degrees of modifications, while the bills relating to noncompetition agreements would ban the use of employee non-compete agreements within Massachusetts.

House Bill H.1408, tracking language from bills submitted in prior sessions based on a bill filed by the Uniform Law Commissioners, proposes adopting the Uniform Trade Secret Act with certain changes. In particular, if

³ Thank you to my friend Russell Beck, Beck Reed Riden LLP, Boston, Massachusetts, ww.beckreedriden.com, for his input and assistance on this section concerning developments in Massachusetts.

passed, H.1408 would require, *inter alia*, that a party alleging a breach must describe the trade secret in question “with sufficient particularity” as to allow the respondent to prepare a defense. If passed, the bill would substantially weaken Massachusetts trade secrets law in three respects: (1) it would protect only trade secret owners (not others with rights in the secrets); (2) it would require the trade secret owner protect the secrecy of information, even if the information had been made public by the misappropriator; and (3) it would potentially raise the pleading standards to require greater specificity of the trade secrets in order to commence the action.

As a result of criticism of those aspects of the bill, the Uniform Law Commissioners revised their prior-years’ bill and submitted H.32 addressing those concerns. H.32 is otherwise substantially the same as H.1408.

H.1195 would also incorporate the Uniform Trade Secrets Act, but would add a provision banning the use of non-compete agreements. Similar to H.1195, S.169 would incorporate the Uniform Trade Secrets Act and ban the use of non-compete agreements, but would contain exemptions for certain types of non-compete agreements (when the sale of the business is involved, for example). S169 (S334) would specifically note that it has no effect on non-disclosure agreements.

H.1701, H.1719, H.1761, and S.957 would implement a ban on employee non-compete agreements. Although H.1701 and S.957 differ in language from H.1719 and H.1761 (which are similar in structure and language to proposed legislation in the other states proposing bans), all of the bills permit non-compete agreements where the sale of the business is involved. However, H.1719 and

H.1761 expressly exclude nondisclosure agreements from their reach, but do not mention nonsolicitation agreements. H.1701 and S.957 in contrast specifically note that they do not affect nondisclosure covenants or non-solicitation covenants. H.1701 also expressly permits a court to impose what has been called a “springing noncompete,” *i.e.*, a noncompete as a remedy for a violation or breach of another contractual obligation or violation of a statutory or common law.

Michigan

A proposed bill in Michigan (H.4198) would ban the use of non-compete agreements except in regard to the selling and purchasing of a business. Michigan currently allows non-compete agreements and permits the reformation of non-competes that are overly broad in their scope.⁴

Minnesota

Several relevant bills were introduced in Minnesota during 2015. Minnesota H.F. 1493 and S.F. 1960 would prohibit the use of non-compete agreements to restrict the activities of an insurance agent if the agent was involuntarily terminated.

Minnesota H.F. 1532 calls upon the Department of Employment and Economic Development to study the impact of non-compete agreements in Minnesota, with a focus on their impact on low-income workers. The Department has until February 1, 2016 to report its findings to the legislature. This bill is

⁴ See <http://www.crainsdetroit.com/article/20150322/NEWS/303229987/house-bill-would-ban-noncompete-agreements-in-michigan>

another in a wide trend of scrutiny over non-compete agreements targeted at low-wage workers.⁵

New Mexico

New Mexico enacted SB 325, which makes non-compete agreements unenforceable with regard to dentists, physicians, podiatrists, osteopathic physicians, and certified registered nurses after the first three years of employment. However, SB 325 clearly allows for the enforcement of nondisclosure agreements, non-solicitation agreements, and contractual damages, and the bill does *not* apply to any covered medical professional if they are a shareholder, owner, partner, or director of a health care practice. The law also allows employers to require employees to repay certain expenses such as signing bonuses and relocation costs related to recruitment, if an employee leaves within a certain period of time. Prior to SB 325, non-compete agreements in New Mexico commonly prohibited a physician from working within 50 miles of his or her previous employer.⁶ SB 325 took effect on July 1, 2015.

New York

In New York, Senate Bill 4447 (S.4447, identical to A.2147) was introduced on March 20, 2015. According to the bill's memo, S.4447 is intended to "clarify" New York's position on non-compete agreements following the 1999 Court of Appeals decision in *BDO Seidman v. Hirshberg*, 93 N.Y.2d 382, 712 N.E.2d 1220, 690 N.Y.S.2d 854 (1999).

⁵ For a similar law, see the section on Washington.

⁶ See <http://www.abqjournal.com/570547/biz/biz-most-recent/new-law-limits-doctors-non-compete-clauses.html>

S.4447 reiterates that New York’s public policy is “to disfavor restrictive covenants in employment as constituting a restraint of trade.” However, under the bill, restrictive covenants could still be enforced, provided they are reasonable in geographic or temporal extent and the employee either A) quit or was fired for cause and possesses trade secret information or confidential information “akin” to a trade secret, B) sold or bought part of the business, C) is a “learned professional” (unless the individual’s employment was terminated other than for misconduct)⁷ The bill also includes a catch-all provision that a restrictive covenant can still be enforced to the extent necessary to protect the employer if the employee voluntarily quit or was terminated for cause and there are unique circumstances such that the employer’s interest in enforcing the agreement outweighs the ex-employee’s interest in pursuing a new job.

Ohio

On October 13, Senator Sandra Williams introduced Ohio Senate Bill 228, which would prohibit non-compete agreements for broadcasting employees (both on-air and off-air employees) and invalidate existing non-compete agreements with regard to these employees. The bill specifically does not include management employees, and would allow for restrictions on other employment during the term of the broadcast employee’s employment with the broadcaster.

⁷ The bill, available at <http://www.nysenate.gov/legislation/bills/2015/S4447>, also provides that it would be enforceable against attorneys. However, the bill is inconsistent in this respect, and applicable ethical rules universally prohibit lawyers from requiring or agreeing to noncompetition and client nonsolicitation agreements, except in limited circumstances. *See* Rule 5.6 of the Model Rules of Professional Conduct (available at <http://www.nycourts.gov/rules/jointappellate/ny-rules-prof-conduct-1200.pdf>). Accordingly, it is unlikely that S.4447 was intended to, or will, change the law as it applies to lawyers.

The bill has been referred to the Committee on Transportation, Commerce, and Labor.⁸

Oregon

The Oregon State Legislature recently passed House Bill 3236, amending ORS 653.295, Oregon's non-competition law. The amended ORS 653.295, which will take effect on January 1, 2016, shortens the permissible duration of employee non-compete agreements from two years to a maximum term of 18 months.⁹

Pennsylvania

In Pennsylvania, a bipartisan group of 11 representatives sponsored H.B. 336, which would prohibit non-compete agreements for physicians. H.B. 336 references an "alarming" shortage of physicians in Pennsylvania, and establishes that restrictions on health care providers are against the public policy of Pennsylvania. The bill specifically allows restrictive covenants for the protection of trade secrets, and notes that it does not allow a health care provider to solicit patients of the former employer who were not former patients of the health care provider.¹⁰

⁸ The text of the bill can be downloaded from <https://www.legislature.ohio.gov/legislation/legislation-status?id=GA131-SB-228>.

⁹ *See* https://www.oregonlegislature.gov/citizen_engagement/Reports/2015SummaryOfLegislation.pdf

¹⁰ The text of the bill is available at: <http://www.legis.state.pa.us/cfdocs/billinfo/BillInfo.cfm?year=2015&sind=0&body=H&type=B&bn=336>.

Rhode Island

In Rhode Island, five representatives introduced H.5708. H.5708 would declare non-compete agreements contrary to the public policy of Rhode Island and prohibit their use, except with regard to the sale of a business or dissolution of a partnership. The bill provides that nothing in it will derogate the provisions of the Uniform Trade Secrets Act. In April 2015, the House Corporations Committee recommended the bill be held for further study.¹¹

Washington

2015 saw three bills introduced in Washington that dealt with non-compete agreements. H.1173 would restrict the enforceability of non-compete agreements applicable to doctors, stating as a public policy that “the relationship between a patient and his or her physician is critical, and in most cases it must take precedence over a medical institution’s financial interests.” The bill notes that the American Medical Association believes medical non-compete agreements restrict patients’ access to care. The bill also notes that provisions in employment contracts providing for damages if the contract is terminated would still be valid, although “unreasonably large” amounts of damages being used as penalties would be void.

H.1926, on the other hand, applies to non-compete agreements more generally and would institute a California-style ban, prohibiting noncompetition agreements except in cases involving the sale of a business or the separation of a partner or LLC member from the partnership or LLC. The language of H.1926

¹¹ The text of the bill is available at <http://webserver.rilin.state.ri.us/BillText/BillText15/HouseText15/H5708.pdf>.

tracks the language of the California statute: “every contract by which a person is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void.” Derek Stanford, the representative who introduced the bill, stated that trade secrets and other confidential information are already protectable under non-disclosure agreements, so non-competes are essentially unnecessary for this purpose.¹²

H.1577 would take a more moderate approach to reforming non-compete agreements in Washington. Like the proposed Federal MOVE Act,¹³ H.1577 seeks to restrict non-compete agreements for low-wage employees, while recognizing that “noncompetition agreements can be an effective means to protect an employer’s legitimate business interests.” The bill would ban non-compete agreements for any employee who is entitled to overtime compensation, who is laid off or fired without cause, or who earns \$39,500 or less per year. The bill would also establish a rebuttable presumption that a non-compete agreement of six months or longer is unreasonable, and in order to enforce a non-compete, an employer would have to show by a preponderance of the evidence that the employer suffered actual harm.

¹² See <http://www.geekwire.com/2015/cracking-non-compete-deals-bill-change-washington-state-employment-law-mirror-californias-approach/>

¹³ The Mobility and Opportunity for Vulnerable Employees Act proposes to ban noncompete agreements for employees making less than \$15 per hour or \$31,200 per year. See <http://www.bfvlaw.com/putting-the-brakes-on-jimmy-johns-bill-banning-non-compete-agreements-for-low-wage-employees-introduced-in-congress-3/>

Wisconsin

On March 5, 2015, Senator Farrow introduced Wisconsin Senate Bill 69, which would strengthen the enforceability of noncompetition covenants in Wisconsin.¹⁴ S.B. 69 provides that a restrictive covenant is enforceable if it is reasonable in terms of time, area, and line of business and supported by valid consideration. Valid consideration includes continued employment or any of several enumerated types of payment, including “garden leave,” i.e., paid leave at the end of the employment relationship.¹⁵

Under S.B. 69, a restrictive covenant would have to be reasonably necessary to protect a legitimate business interest. Legitimate business interests include trade secrets or other confidential information, substantial relationships with clients, patients, or customers, business-related goodwill, or specialized training.

In evaluating a restrictive covenant, S.B. 69 would instruct the courts to consider the length and nature of the employment relationship, the potential harm to the employer’s business interests, any relevant conduct of the former employee, and the standards of the industry. S.B. 69 would also establish rebuttable presumptions that a restrictive covenant of six months or less is presumed to be reasonable, and a restrictive covenant lasting more than two

¹⁴ The Wisconsin Supreme Court has also recently strengthened Wisconsin’s non-compete law by clarifying that continued employment is sufficient consideration for a non-compete executed during the term of an employee’s employment. *Runzheimer International, Ltd. v. Friedlen*, 362 Wis.2d 100, 128, 862 N.W.2d 879, 892 (2014).

¹⁵ See <http://www.quarles.com/publications/sweeping-changes-proposed-to-wisconsin-law-governing-the-enforceability-of-non-competition-agreements/>

years is presumed to be unreasonable. The restrictive covenant would also presumed to be reasonable if “garden leave” is provided as consideration.

Most significantly, the bill would also restrict the ability of courts to invalidate a restrictive covenant as being against public policy, and allow courts to reform an overbroad covenant to render it enforceable. It would also prohibit the employee from raising an economic hardship defense. If passed, this would represent a sea change from the current law in Wisconsin, which is that courts cannot modify an overbroad non-compete and must instead invalidate the covenant in its entirety.¹⁶

¹⁶ Thank you to Geoffrey C. Toy, a third-year law student at Emory University School of Law for his assistance in writing these materials.