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H.1

Introduced by Representatives LaLonde of South Burlington and Christensen
of Weathersfield

Referred to Committee on

Date:

Subject: Labor; employment practices; agreements not to compete

Statement of purpose of bill as introduced: This bill proposes to prohibit
agreements that prohibit individuals from competing with their former
employers following the conclusion of their employment.

An act relating to agreements not to compete

It is hereby enacted by the General Assembly of the State of Vermont:

~~Sec. 1, 21 V.S.A., § 495e is added to read:~~

~~§ 495e. AGREEMENTS NOT TO COMPETE; PROHIBITION;~~

~~EXCEPTIONS~~

~~(a)(1) Except as otherwise provided by this section, an agreement not to
compete or any other agreement that restrains an individual from engaging in a
lawful profession, trade, or business is prohibited.~~

~~(2) Any provision of an employment contract or other agreement that
violates subdivision (1) of this subsection shall be void and unenforceable.~~

1 ~~(b) Notwithstanding subsection (a) of this section, a person may enter into~~
2 an agreement not to compete with a business entity or a similar agreement that
3 restrains the person from engaging in a lawful profession, trade, or business
4 within a specified geographic area in which the business entity carries on its
5 business under the following circumstances:

6 (1) With respect to a business entity, the sale of:

7 (A) all or substantially all of the person's ownership interest in the
8 business entity or its operating assets; or

9 (B) all or substantially all of the person's ownership interest in a
10 subsidiary or division of the business entity or the operating assets of a
11 subsidiary or division of the business entity.

12 (2) With respect to a partnership in which the person is a partner, the
13 dissolution of the partnership or the dissociation of the person from the
14 partnership.

15 (3) With respect to a limited liability company in which the person is a
16 member, the dissolution of the limited liability company or the termination of
17 the person's interest in the limited liability company.

18 (c) Nothing in this section shall be construed to prohibit an agreement that
19 prohibits the disclosure of trade secrets as defined in 9 V.S.A. § 4601.

1 ~~(1) As used in this section, "business entity" includes any partnership,~~
2 limited liability company, corporation, cooperative, or mutual benefit
3 enterprise.

4 Sec. 2. EFFECTIVE DATE

5 ~~This act shall take effect on July 1, 2019.~~

Sec. 1. 21 V.S.A. § 495o is added to read:

§ 495o. AGREEMENTS NOT TO COMPETE; PROHIBITION;

EXCEPTIONS

(a) Except as otherwise provided by this section, agreements not to compete are prohibited.

(b) Notwithstanding subsection (a) of this section, a key employee may enter into an agreement not to compete with an employer at the commencement of employment or in relation to a promotion or a substantial change in the employee's job responsibilities if the agreement satisfies all of the following requirements:

(1)(A) If the agreement is in relation to a promotion or a substantial change in the employee's job responsibilities:

(i) the employee receives additional compensation in relation to the promotion or substantial change in the employee's job responsibilities; and

(ii) the agreement not to compete is supported by substantial consideration that is specified in the agreement and is commensurate with the burden imposed on the employee by the agreement.

(B) If the agreement is in relation to the commencement of employment, the agreement not to compete is supported by substantial consideration that is specified in the agreement and is commensurate with the burden imposed on the employee by the agreement.

(2) The agreement is in writing and signed by the employer and the employee.

(3)(A) If the agreement is entered into in relation to the commencement of employment, it is provided to the employee with the formal offer of employment or 10 days before the commencement of employment, whichever is earlier; or

(B) if the agreement is entered into in relation to a promotion or a substantial change in the employee's job responsibilities, it is provided to the employee at least 10 days before it will take effect.

(4)(A) The agreement states that the employee has the right to consult with an attorney prior to signing the agreement and that the employer shall reimburse the employee for the cost of consulting with an attorney for the purpose of reviewing the agreement and obtaining legal advice.

(B) The agreement shall, at a minimum, provide that the employer shall reimburse the employee for a period of up to two hours of attorney time.

(5) The limitations set forth in the agreement are reasonable in time, geographical area, and the scope of activity to be restrained.

(c) Nothing in this section shall be construed to prohibit:

(1) An agreement that prohibits the disclosure of trade secrets as defined in 9 V.S.A. § 4601 or a nondisclosure agreement that protects confidential business information that does not constitute a trade secret.

(2) A nonsolicitation agreement between an employer and an employee, provided that the limitations set forth in the agreement are reasonable in time, geographical area, and the scope of activity to be restrained.

(3) An individual from entering into an agreement not to compete in relation to:

(A) the sale of all or substantially all of the individual's ownership interest in:

(i) a business or its operating assets; or

(ii) a subsidiary or division of a business or the operating assets of a subsidiary or division of a business;

(B) the dissolution of a partnership in which the individual is a partner or the dissociation of the individual from a partnership; or

(C) the dissolution of a limited liability company in which the individual is a member or the termination of the individual's interest in a limited liability company.

(d) Any provision of an employment contract or other agreement entered into on or after July 1, 2020 that violates the provisions of this section shall be void and unenforceable.

(e) As used in this section:

(1) “Agreement not to compete” means any agreement between an individual and a business that restrains the individual from engaging in a lawful profession, trade, or business.

(2) “Executive, administrative, or professional employee” means an employee who is exempt from the wage and hour provisions of the Fair Labor Standards Act pursuant to 29 U.S.C. § 213(a)(1) and is employed in a bona fide executive, administrative, or professional capacity, as defined pursuant to 29 C.F.R. Part 541.

(3) “Key employee” means an individual who:

(A) is an executive, administrative, or professional employee; and

(B) earns wages or a salary equal to at least one and one-half times the Vermont average annual wage.

(4) “Nonsolicitation agreement” means an agreement between an employer and an employee pursuant to which the employee agrees not to:

(A) solicit or recruit the employer’s employees; or

(B) solicit or transact business with customers or clients of the employer who were customers or clients while the employee was employed by the employer.

(5) “Vermont average annual wage” means the most recent annual mean wage for Vermont published by the U.S. Bureau of Labor Statistics.

Sec. 2. EDUCATION AND OUTREACH

The Secretary of Commerce and Community Development, the Attorney General, and the Commissioner of Labor shall, on or before October 15, 2020, jointly develop and make available on the Agency of Commerce and Community Development’s, the Attorney General’s, and the Department of Labor’s websites information and materials to educate and inform employers and employees about the provisions of 21 V.S.A. § 495o.

Sec. 3. EFFECTIVE DATE

This act shall take effect on July 1, 2020 and shall apply to agreements entered into on or after that date.