**Uniform Restrictive Employment Agreement Act**

drafted by the

NATIONAL CONFERENCE OF COMMISSIONERS

ON UNIFORM STATE LAWS

and by it

APPROVED AND RECOMMENDED FOR ENACTMENT

IN ALL THE STATES

at its

ANNUAL CONFERENCE

MEETING IN ITS ONE-HUNDRED-AND-THIRTIETH YEAR

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*WITHOUT Prefatory Note and Comments*

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By

NATIONAL CONFERENCE OF COMMISSIONERS

ON UNIFORM STATE LAWS

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**Uniform Restrictive Employment Agreement Act**

# Section 1. Title

This [act] may be cited as the Uniform Restrictive Employment Agreement Act.

# Section 2. Definitions

In this [act]:

(1) “Confidentiality agreement” means a restrictive employment agreement that:

(A) prohibits a worker from using or disclosing information; and

(B) is not a condition of settlement or other resolution of a dispute.

(2) “Electronic” means relating to technology having electrical, digital, magnetic, wireless, optical, electromagnetic, or similar capabilities.

(3) “Employer” means a person that hires or contracts with a worker to work for the person.

(4) “No-business agreement” means a restrictive employment agreement that prohibits a worker from working for a client or customer of the employer.

(5) “Noncompete agreement” means a restrictive employment agreement that prohibits a worker from working other than for the employer. The term does not include a no-business agreement.

(6) “Nonsolicitation agreement” means a restrictive employment agreement that prohibits a worker from soliciting a client or customer of the employer.

(7) “No-recruit agreement” means a restrictive employment agreement that prohibits a worker from hiring or recruiting another worker of the employer.

(8) “Payment-for-competition agreement” means a restrictive employment agreement that imposes an adverse financial consequence on a worker for working other than for the employer but does not expressly prohibit the work.

(9) “Person” means an individual, estate, business or nonprofit entity, or other legal entity. The term does not include a public corporation or government or governmental subdivision, agency, or instrumentality.

(10) “Record” means information:

(A) inscribed on a tangible medium; or

(B) stored in an electronic or other medium and retrievable in perceivable form.

(11) “Restrictive employment agreement” means an agreement or part of another agreement between an employer and worker that prohibits, limits, or sets a condition on working other than for the employer after the work relationship ends or a sale of a business is consummated. The term includes a confidentiality agreement, no-business agreement, noncompete agreement, nonsolicitation agreement, no-recruit agreement, payment-for-competition agreement, and training-repayment agreement.

(12) “Sale of a business” means sale, merger, consolidation, amalgamation, reorganization, or other transaction, however denominated, of:

(A) all or part of a business or nonprofit entity or association, or all or part of its assets; or

(B) a substantial ownership interest in the entity or association.

(13) “Sign” means, with present intent to authenticate or adopt a record:

(A) execute or adopt a tangible symbol; or

(B) attach to or logically associate with the record an electronic symbol, sound, or process.

(14) “Signed agreement” means a restrictive employment agreement signed by the worker and employer.

(15) “Special training” means instruction or other education a worker receives from a source other than the employer that:

(A) is designed to enhance the ability of the worker to perform the worker’s work;

(B) is not normally received by other workers; and

(C) requires a significant and identifiable expenditure by the employer distinct from ordinary on-the-job training.

(16) “Stated rate of pay” means the compensation, calculated on an annualized basis, an employer agrees to pay a worker. The term:

(A) includes a wage, salary, professional fee, other compensation for personal service, and the fair market value of all remuneration other than cash; and

(B) does not include:

(i) a healthcare benefit, severance pay, retirement benefit, or expense reimbursement;

(ii) distribution of earnings and profit that is not compensation for personal service; or

(iii) anticipated but indeterminable compensation, including a tip, bonus, or commission.

(17) “Trade secret” has the meaning in [cite to Uniform Trade Secrets Act Section 1(4)].

(18) “Training-repayment agreement” means a restrictive employment agreement that requires a worker to repay the employer for training costs incurred by the employer.

(19) “Work” means providing service.

(20) “Worker” means an individual who works for an employer. The term:

(A) includes an employee, independent contractor, extern, intern, volunteer, apprentice, sole proprietor who provides service to a client or customer, and an individual who provides service through a business or nonprofit entity or association;

(B) does not include an individual, even if the individual performs incidental service for the employer, whose sole relationship with the employer is:

(i) as a member of a board of directors or other governing or advisory board;

(ii) an individual under whose authority the powers of a business or nonprofit entity or association are exercised;

(iii) an investor; or

(iv) a vendor of goods.

***Legislative Note:*** *In paragraph (17), a state should cite to the state’s Uniform Trade Secrets Act Section 1(4) or the equivalent definition of trade secret for civil misappropriation.*

# Section 3. Scope

(a) This [act] applies to a restrictive employment agreement. If a restrictive employment agreement is part of another agreement, this [act] does not affect other parts of the other agreement.

(b) This [act] supersedes common law only to the extent that it applies to a restrictive employment agreement but otherwise does not affect principles of law and equity consistent with this [act].

(c) This [act] does not affect [cite to other state law or rule that regulates a restrictive employment agreement not inconsistent with this act].

(d) This [act] does not affect an agreement to take an action solely to transfer, perfect, or enforce a patent, copyright, trade secret, or similar right.

(e) This [act] does not affect a noncompetition obligation arising solely as a result of

an existing ownership interest in a business entity.

(f) This [act] does not affect an agreement that requires a worker to forfeit compensation after the work relationship ends, including vacation or retirement benefits, the right to which accrued before the work relationship ends.

***Legislative Note:*** *In subsection (c) a state should cite statutes or rules that impose additional restrictions on a restrictive employment agreement.*

# Section 4. Notice Requirements

(a) Except as provided in subsection (e), a restrictive employment agreement is prohibited and unenforceable unless:

(1) the employer provides a copy of the proposed agreement in a record to:

(A) subject to subsection (b), a prospective worker, at least 14 days before the prospective worker accepts work or commences work, whichever is earlier;

(B) a current worker who receives a material increase in compensation, at least 14 days before the increase or the worker accepts a change in job status or responsibilities, whichever is earlier; or

(C) a departing worker who is given consideration in addition to anything of value to which the worker already is entitled, at least 14 days before the agreement is required to be signed;

(2) with the copy of the proposed agreement provided under paragraph (1), the employer provides the worker in a record the separate notice, in the preferred language of the worker if available, prescribed by the [State Department of Labor] under subsection (d);

(3) the proposed agreement and the signed agreement clearly specify the information, type of work activity, or extent of competition that the agreement prohibits, limits, or sets conditions on after the work relationship ends;

(4) the agreement is in a record separately signed by the worker and employer and the employer promptly provides the worker a copy of the signed agreement; and   
 (5) subject to subsection (c), the employer provides an additional copy of the agreement to the worker, not later than 14 days after the worker, in a record, requests a copy,unless the employer reasonably and in good faith is unable to provide the copy not later than 14 days after the request and the worker is not prejudiced by the delay.

(b) A worker may waive the 14-day requirement of subsection (a)(1)(A) if the worker receives the signed agreement before beginning work. If the worker waives the requirement, the worker may rescind the entire employment agreement not later than 14 days after the worker receives the agreement.

(c) An employer is not required under subsection (a)(5) to provide an additional copy of the agreement more than once during a calendar year.

(d) The [State Department of Labor] shall prescribe the notice an employer must provide under subsection (a)(2). The notice must inform the worker, in language an average reader can understand, of the requirements of this [act], including the requirements of subsection (a) and Sections 5 through 14 and state that this [act] establishes penalties against an employer that enters into a prohibited agreement. The [State Department of Labor] shall make the notice available to employers on its publicly accessible website or in other appropriate ways. The [State Department of Labor] may:

(1) produce a separate notice for each type of restrictive employment agreement; and

(2) translate the notice into languages other than English used by a substantial portion of the state’s labor force.

(e) This section does not apply to a restrictive employment agreement in connection with the sale of a business of which the worker is a substantial owner and consents to the sale.

# Section 5. Low-Wage Worker

A restrictive employment agreement, other than a confidentiality agreement or training-repayment agreement, is:

(1) prohibited and unenforceable if, when the worker signs the agreement, the worker has a stated rate of pay less than the annual mean wage of employees in this state as determined by the [State Department of Labor] [United States Department of Labor, Bureau of Labor Statistics]; and

(2) unenforceable if, at any time during the work relationship, the worker’s compensation from the employer, calculated on an annualized basis, is less than the annual mean wage of employees in this state as determined by the [State Department of Labor] [United States Department of Labor, Bureau of Labor Statistics].

***Legislative Note:*** *A state may set the requirement at more than the annual mean wage of employees in the state, such as one and one half times or twice the annual mean wage, either for all workers or for certain categories of workers.*

*A state should choose between the bracketed entities.*

# Section 6. Effect of Termination of Work

A restrictive employment agreement, other than a confidentiality agreement or training-repayment agreement, is unenforceable if:

(1) the worker resigns for good cause attributable to the employer; or

(2) the employer terminates the worker for a reason other than [substantial] [willful] [gross] misconduct or the completion of the agreed work or the term of the contract.

***Legislative Note:*** *A state should insert the term the state uses for determining major disqualification for unemployment insurance benefits.*

# Section 7. Reasonableness Requirement

A restrictive employment agreement is prohibited and unenforceable unless it is reasonable.

# Section 8. Noncompete Agreement

A noncompete agreement is prohibited and unenforceable unless:

(1) the agreement protects any of the following legitimate business interests:

(A) the sale of a business of which the worker is a substantial owner and consents to the sale;

(B) the creation of a business in which the worker is a substantial owner;

(C) a trade secret; or

(D) an ongoing client or customer relationship of the employer;

(2) when the worker signs the agreement and through the time of enforcement, the agreement is narrowly tailored in duration, geographical area, and scope of actual competition to protect an interest under paragraph (1), and the interest cannot be protected adequately by another restrictive employment agreement; and

(3) the prohibition on competition lasts not longer than:

(A) five years after the work relationship ends when protecting an interest under paragraph (1)(A) or (B); or

(B) one year after the work relationship ends when protecting an interest under paragraph (1)(C) or (D) but not an interest under paragraph (1)(A) or (B).

# Section 9. Confidentiality Agreement

A confidentiality agreement is prohibited and unenforceable unless the worker may use and disclose information that:

(1) arises from the worker’s general training, knowledge, skill, or experience, whether gained on the job or otherwise;

(2) is readily ascertainable to the relevant public; or

(3) is irrelevant to the employer’s business.

# Section 10. No-Business Agreement

A no-business agreement is prohibited and unenforceable unless the agreement:

(1) applies only to a prospective or ongoing client or customer of the employer with which the worker had worked personally; and

(2) lasts not longer than six months after the work relationship between the employer and worker ends.

# Section 11. Nonsolicitation Agreement

A nonsolicitation agreement is prohibited and unenforceable unless the agreement:

(1) applies only to a prospective or ongoing client or customer of the employer with which the worker had worked personally; and

(2) lasts not longer than one year after the work relationship between the employer and worker ends.

# Section 12. No-Recruit Agreement

A no-recruit agreement is prohibited and unenforceable unless the agreement prohibits hiring or recruiting only:

(1) another worker currently working for the employer with whom the worker had worked personally; and

(2) lasts not longer than six months after the work relationship between the employer and worker ends.

# Section 13. Payment-for-Competition Agreement

A payment-for-competition agreement is prohibited and unenforceable unless the agreement:

(1) imposes a financial consequence that is not greater than the actual competitive harm to the employer; and

(2) lasts not longer than one year after the work relationship between the employer and worker ends.

# Section 14. Training-Repayment Agreement

A training-repayment agreement is prohibited and unenforceable unless the agreement:

(1) requires repayment only of the cost of special training;

(2) lasts not longer than two years after the special training is completed; and

(3) prorates the repayment for work done during the post-training period.

# Section 15. Nonwaivability

Except as provided in Section 4(b) or in the context of resolving an issue in litigation or other dispute resolution, a party to a restrictive employment agreement may not waive a requirement of this [act] or stipulate to a fact to avoid a requirement of this [act].

# Section 16. Enforcement and Remedy

**Alternative A**

(a) The court may not modify a restrictive employment agreement to make the agreement enforceable.

**Alternative B**

(a) The court may not modify a restrictive employment agreement that restricts a worker beyond a period imposed under this [act] to make the agreement enforceable. The court may modify an agreement that otherwise violates this [act] only on a finding that the employer reasonably and in good faith believed the agreement was enforceable under this [act] and only to the extent necessary to protect the employer’s interest and render the agreement enforceable.

**End of Alternatives**

(b) A worker who is a party to a restrictive employment agreement or a subsequent employer that has hired or is considering hiring the worker may seek a declaratory judgment that the agreement is unenforceable.

(c) In addition to other judicial remedies, a court may award statutory damages under subsection (e) and in a private action reasonable attorney’s fees to a party that successfully challenges or defends against enforceability of a restrictive employment agreement or proves a violation of this [act].

(d) An employer seeking to enforce a restrictive employment agreement has the burden of proving compliance with this [act].

(e) An employer that enters a restrictive employment agreement that the employer knows or reasonably should know is prohibited by this [act] commits a civil violation. The [Attorney General] [State Department of Labor] [other state official] may bring an action on behalf of the worker, or the worker may bring a private action, against the employer to enforce this subsection. The court may award statutory damages of not more than $[5,000] per worker per agreement for each violation of this subsection.

# Section 17. Choice of Law and Venue

(a) A choice of law provision that applies to a restrictive employment agreement is prohibited and unenforceable unless it requires that a dispute arising under the agreement be governed by the law of the jurisdiction where the worker primarily works for the employer or, if the work relationship has ended, the jurisdiction where the worker primarily worked when the relationship ended.

(b) A choice of venue provision that applies to a restrictive employment agreement is prohibited and unenforceable unless it requires that a dispute arising under the agreement be decided in a jurisdiction where:

(1) the worker primarily works or, if the work relationship has ended, a jurisdiction where the worker primarily worked when the relationship ended; or

(2) the worker resides at the time of the dispute.

# Section 18. Uniformity of Application and Construction

In applying and construing this uniform act, a court shall consider the promotion of uniformity of the law among jurisdictions that enact it.

# Section 19. Saving Provision

Except as provided in Section 20, this [act] does not affect the validity of a restrictive employment agreement in effect before [the effective date of this [act]].

# Section 20. Transitional Provision

Sections 4(a)(5) and 5 apply to a restrictive employment agreement entered into before, on, or after [the effective date of this [act]].

# [Section 21. Severability

If a provision of this [act] or its application to a worker or employer is held invalid, the invalidity does not affect another provision or application that can be given effect without the invalid provision.]

***Legislative Note:*** *Include this section only if the state lacks a general severability statute or a decision by the highest court of the state adopting a general rule of severability.*

# [Section 22. Repeals; Conforming Amendments

(a) . . .

(b) . . .]

***Legislative Note:*** *The state should examine its statutes to determine whether conforming revisions are required by provisions of this act relating to a restrictive employment agreement. See Section 3(c).*

# Section 23. Effective Date

This [act] takes effect . . .