
Labor Committee

HB 1926

Brief Description: Restricting noncompetition agreements.

Sponsors: Representatives Stanford, Sells, Bergquist, Reykdal and Ormsby.

<p>Brief Summary of Bill</p> <ul style="list-style-type: none">• Makes noncompetition agreements void with some exceptions.
--

Hearing Date: 2/3/15

Staff: Dan Rusk (786-7290) and Joan Elgee (786-7106).

Background:

Washington disfavors restraints on trade. However, there are circumstances where restraints on trade are permitted. In certain situations, Washington allows parties to enter into noncompetition agreements. A noncompetition agreement is an agreement between parties where one party promises not to compete with the other party for a specific period of time, and sometimes within a specified geographic area. Washington courts will enforce a noncompetition agreement if it is not greater than reasonably necessary to protect the business or goodwill of a party. In order to determine whether the noncompetition agreement is reasonable, the Washington courts use a three part test. The courts will enforce a noncompetition agreement:

- The restraint is reasonably necessary to protect the business or goodwill of a party;
- The restraint does not impose upon the individual any greater restraint than is reasonably necessary to protect the business or goodwill; and
- The public is not injured as a result of the loss of service and skill of the individual.

Summary of Bill:

Generally, every contract by which a person is restrained from engaging in a lawful profession, trade, or business of any kind is void. However, there are exceptions to this prohibition. A seller

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

of a business may make an agreement with the buyer that the seller will not engage in a similar business within a specific geographic area when:

- The seller sells the goodwill of a business entity;
- The seller sells his or her entire ownership interest in a business entity; or
- The seller sells all or substantially all the operating assets and the goodwill of the business entity.

Business entity means any corporation, partnership, limited liability company, or any subsidiary or division of a business entity.

A partner may form a noncompetition agreement upon the dissolution of a partnership or disassociation of a partner from a partnership. A member of a limited liability company may form a noncompetition agreement upon the dissolution of the limited liability company or the disassociation of a member from the limited liability company.

Washington's law regarding noncompetition agreements for broadcast employees is repealed.

The provisions apply to noncompetition agreements formed on or after the effective date.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.