Chapter 80

Employment Restrictive Covenants and Other Post-Employment Restrictions

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I. INTRODUCTION

§ 80:1 Scope note

This chapter discusses the use and enforcement of restrictive covenants between employers and employees. The chapter first addresses the different types of covenants and their purposes of preventing the loss of goodwill, client relationships, and confidential information, and preventing unfair competition by a departed employee or a competitor.

We next turn to the factors that employers consider in deciding whether to litigate to enforce a restrictive covenant. These factors include stopping the imminent harm from the potential loss of other employees or clients, or use or disclosure of the employer’s confidential information, as well as preserving the business’s going value or “goodwill.” Often, the loss of a key group of employees and/or clients may devastate a business, and preliminary injunctive relief is necessary to keep the business intact. In other instances, the loss of a few clients or single client may be so impactful to a business that the damages from that loss overshadows the harm from the potential loss of other, smaller client relationships. In those instances, an employer may seek to litigate to recover damages, based on an analysis of several key factors. Employers may also be forced to litigate (whether for injunctive relief or damages) to deter future instances of raiding their employees and clients and to make clear that they will protect these relationships even to the point of potentially expensive litigation.

Also provided is a discussion of the various claims, defenses, and remedies that typically emerge in litigation to enforce restrictive covenants. Attention is also given to the effect a liquidated damages provision in a restrictive covenant agreement has on the likely available remedies through litigation. In addition, we address the venue of the dispute and the use of alternative dispute resolution. The chapter also highlights some key substantive differences between New York law and that of other states, and discusses how choice-of-law issues are resolved.
We also outline some practical considerations and pre-litigation steps employers will need to take to prepare their case before filing. Cases often involve motions for preliminary injunction, which require significant showings by employers as to the imminent harm they seek to prevent. In order to meet its burdens, an employer must usually undertake a substantial investigation for evidence to support its claims. Once a request for injunctive relief is filed, the proceeding often turns into a mini-trial, as the evidence introduced at the preliminary injunction hearing will frequently make or break a case. This includes a discussion of issues concerning, and sources of, discovery, both before and after a case is commenced. Practical tips regarding electronic discovery, both pre-complaint and post-complaint, will be highlighted. The discussion will touch on issues concerning possible resolution after a case has been commenced or a preliminary injunction hearing has been held.

Finally, the chapter concludes by providing checklists and additional tips for restrictive covenant drafting and litigation, and provides some sample language for various covenants. Related topics are covered in Chapter 79, “Contracts for Services” (§§ 79:1 et seq.); Chapter 104, “Theft or Loss of Business Opportunities” (§§ 104:1 et seq.); or Chapter 105, “Misappropriation of Trade Secrets” (§§ 105:1 et seq.).

§ 80:2 Strategic objectives

The threshold question for the employer concerning whether to propose and whether and how to enforce restrictive covenants is: what does the employer seek to protect? Employers should consider what relationships in their business are most vulnerable when key employees leave. These include relationships with particular clients or customers, as well as relationships with particular employees, groups, or business units. Employers should also consider what steps will ensure that they can preserve and maintain these relationships even after key employees leave the company, such as seeking to prevent use of confidential information, seeking to prevent solicitation or servicing of existing or prospective clients, and seeking to prevent solicitation of other key employees to whom the employer would entrust the continued servicing of the clients. Once the potential harm is identified, employers can then assess what specific protections will allow them to minimize the impact of the employees’ departures and maximize the likelihood of preserving key relationships.

The basic question for the employee at the time a covenant is proposed is usually more straightforward: is the employee willing to abide by certain post-employment restrictions as a condition of accepting a job with a new employer, or once employed, agree to
restrictions in exchange for additional benefits, such as cash, stock options or other equity grants, greater responsibilities, promotion, or other things of value. Litigation often ensues when employees ignore their covenants or take a myopic view of their enforceability when a new, lucrative opportunity presents itself.

§ 80:3 Are restrictive covenants “restrictive” or “protective”?

Post-employment covenants are often referred to as “restrictive” covenants because they place restrictions on employees’ post-departure activities. Some practitioners also use “non-competes” as shorthand, even though the restrictions may be more focused than broader restrictions on competition with an employer, such as prohibiting only solicitation or servicing of the employer’s clients. Some practitioners describe these provisions as “protective” covenants. In litigations, attorneys may seek to use one name or the other depending on whom they represent. Counsel for employees may draw subtle attention to the restrictions on their clients posed by overly “restrictive” covenants, while counsel for employers may look to draw on the psychology of protections for their clients provided by negotiated “protective” covenants. For uniformity and clarity, this chapter refers to post-employment covenants under their more traditional and more common name of “restrictive” or noncompete covenants.

Setting aside the issue of nomenclature, attorneys for employees and employers will try to portray the goal of the covenants differently. Employees’ counsel will cast the covenants as merely restrictive or punitive, as if designed to prevent an employee from earning a living or being unduly restricted by the mere fact that the employee sought to improve her employment situation by leaving (or being forced to leave) the employer, or designed merely to prevent competition that would benefit customers. In contrast, attorneys for employers seeking to enforce the covenants will argue that they exist to protect the relationships, goodwill, and confidential and proprietary information of the employer from an employee who seeks to solicit away a client she met while on the employer’s payroll, misappropriate the employer’s confidential information or destabilize the employer’s work force by selectively soliciting away talented employees. In addition, an employer may seek to emphasize the significant value of the matters to which the covenants relate and that the employer built that value through years of hard work. In contrast, the employee will try to demonstrate that the value is insubstantial because, for example, the company and customer information are widely known.
§ 80:4 Preliminary considerations

The key questions that underlie litigation of restrictive covenants are the same from the point of view of the former employer or the employee:

- Do the covenants at issue prevent unfair competition or are they merely anticompetitive?
- Are there particular interests of the employer that are protectable, i.e., client relationships, relationships with employees, goodwill, confidential and proprietary information?
- Are the covenants designed to protect such legitimate business interests and do the covenants work as designed?
- Do the covenants allow the employee to work in a chosen field without undue restraint?
- Are the covenants reasonable in scope (in terms of duration, geography, or client relationships protected)?
- Was there sufficient consideration provided for the covenants?
- Do the covenants consider special factors, such as an employee’s pre-existing relationships with the clients or whether information desired to be protected is publicly available?
- Has the employer complied with its obligations under the agreement containing the covenants?
- What were the circumstances of the termination?

In evaluating these considerations, it is critical that employers determine the precise activities that they want to restrict. Absent this initial thought process, employers may draft inarticulate, vague, ambiguous or overly broad restrictions. An employer that intends to enforce its post-employment agreements needs to have specified precisely the obligations imposed on the employee, or risk that it may be unable to enforce its restrictions.¹

Counsel for both employers and employees should assess these preliminary questions in determining the likelihood that the covenants will be enforced.

§ 80:5 Signing agreements prior to inception of employment

Whenever possible, employers should seek to obtain the new

[Section 80:4]

¹See Pure Power Boot Camp, Inc. v. Warrior Fitness Boot Camp, LLC, 813 F. Supp. 2d 489, 507, 80 Fed. R. Serv. 3d 1025 (S.D. N.Y. 2011) (refusing to enforce a noncompetition agreement, in part, because the prohibited activities were vague, and thus the restrictions were deemed ambiguous and overly broad); Stork H & E Turbo Blading, Inc. v. Berry, 32 Misc. 3d 1208(A), 932 N.Y.S.2d 763, *2, fn. 2 (Sup 2011) (concluding that the employees had not violated an otherwise reasonable covenant because the employees’ activities did not violate the prohibited post-employment conduct described in the covenant).
hire’s agreement to restrictive covenants at the inception of her employment with the company. Ensuring that agreements are signed at inception of employment reduces the possibility that an employee will claim that she signed the covenants while already employed only because she feared losing her job if she did not. Similarly, employees can also claim that they did not receive consideration for the covenants if they signed them after they were already employed and without receipt of any bonus or further payment or promotion. While this claim will not always prevent enforcement of restrictive covenants, as discussed in § 80:36 below, it is still a claim that can be avoided. Indeed, many employers now include restrictive covenants as part of the employment offer letters sent to new hires and request signed covenants before the employees begin work. Different states vary on whether continued employment is sufficient consideration to sustain restrictive covenants entered into after the inception of employment or whether additional consideration or a material change in employment terms is required. New York and many other states, including Delaware, recognize that continued employment of an at-will employee provides consideration for restrictive covenants; other states, like North Carolina and Texas, for example, require additional consideration for a covenant signed after the start of employment. And others, like Illinois, are in between.

§ 80:6 Hiring new employees with post-employment obligations to a prior employer

Prospective employers should ask their potential new hires at

[Section 80:5]


2All Pro Maids, Inc. v. Layton, 2004 WL 1878784, at *3 (Del. Ch. 2004), judgment aff'd, 880 A.2d 1047 (Del. 2005) (continued employment is valid consideration for at-will employee’s agreement to a restrictive covenant under Delaware law).

3See, e.g., Forrest Paschal Machinery Co. v. Milholen, 27 N.C. App. 678, 686, 220 S.E.2d 190, 196, 1976-1 Trade Cas. (CCH) ¶ 60715 (1975) (employer needs to provide additional consideration for covenants with current employees); Martin v. Credit Protection Ass’n, Inc., 793 S.W.2d 667, 669, 5 I.E.R. Cas. (BNA) 737 (Tex. 1990) (continuation of at-will employment is not, by itself, valid consideration for covenant executed after employee’s start date).

their interviews if they are bound by any restrictive covenants that would in any way restrict or impair their ability to perform the job for which they are being considered. An offer letter or employment agreement should contain a representation by the new employee that she is not subject to any restrictive covenants or any agreement that would restrict her ability to fully perform her job. Some employers go further by including language in the offer letter that requires the new employee to indemnify the new employer with regard to any post-employment obligations to a former employer, although some new employers will indemnify the departing employee against claims by the former employer. These employers should also ask the employee for copies of all restrictive covenants and have counsel review them as part of the decision as to whether to hire the candidate. Once a company decides to hire an individual who is subject to restrictive covenants, it should assess the enforceability of the covenants and take steps to ensure any needed compliance with the covenants to mitigate against the risk of suit against the company and the new hire. These steps include informing the prospective hires that they (a) should continue to devote their full-time and best efforts during the business day to their responsibilities, (b) should not discuss their plans to resign with any of their current employers’ clients, potential clients, or employees, (c) should not direct any business opportunities to their new employer, nor should they postpone any transaction that should otherwise be conducted before their resignation, and (d) should give required notice, if any, to the current employer. Some employers may also ask the prospective employee to seek a waiver of the restrictions (or a part thereof) prior to accepting employment, though this is usually reserved for prospective employees with sufficient relationships with their current employers that such a request might be granted. In addition, prospective employers should instruct all new hires, whether or not they are bound by post-employment covenants, to refrain from taking, copying, or using any of the former employers’ confidential information.

Employers may also include in their policies statements that “it is Company policy not to use another company’s confidential, proprietary, or trade secret information and that the Company’s employees each represent that she will not use or disclose a former employer’s confidential, proprietary, or trade secret information.” These instructions to prospective and new hires may provide a defense to claims of tortious interference with the
former employer’s contracts and business relationships,¹ and unfair competition related to misuse of the former employer’s confidential information.

II. GENERAL CONSIDERATIONS AND PREPARATION FOR LITIGATION

A. TYPES OF POST-EMPLOYMENT RESTRICTIONS

§ 80:7 Noncompetition provisions

Employers can negotiate with their employees a wide variety of restrictive covenants designed to protect the employers’ confidential and proprietary information, client relationships, and goodwill, while still allowing the employees to earn a living after leaving the employer. Five types of post-employment restrictions are most common, and are discussed in order from most restrictive to least restrictive.

The first is a noncompetition provision that requires that the employee refrain from engaging in certain types of competition with the employer for a fixed post-employment period. There are various grades of noncompetition covenants. Some of these covenants will limit the employee from working for, or being affiliated with a particular division of a business that competes with the former employer (e.g., a sales team focused on a particular market segment), or performing the same type of services that the former employer performs. Except in the sale-of-business context (where the individual is an owner of the business and restricted from competing for some period of time after the sale), where there is consideration paid to the employee during the period of non-competition, where the employee has misappropriated trade secrets or confidential information from the employer, or where the employee is truly “unique” courts are unlikely to enforce a broad non-competition provision that generally prevents the employee from working in the employer’s industry. This is because they disfavor enforcement of covenants that prevent an employee from earning a living in her chosen profession.¹ As a result, most non-competition covenants will narrowly tailor the restriction to

¹See generally Chapter 104, “Theft or Loss of Business Opportunities” (§§ 104:1 et seq.).

¹See Veramark Technologies, Inc. v. Bouk, 10 F. Supp. 3d 395, 2014 I.E.R. Cas. (BNA) 154357 (W.D. N.Y. 2014) (refusing to grant preliminary injunction because non-competition provision was unnecessary to protect customer goodwill where employee agreed not to solicit clients of former employer and because salespersons are not unique employees); Admarketplace Inc. v. Salzman, 2014 WL 1278504 (N.Y. Sup 2014) (holding that employees in pay-per-click online
restrict competition only for a certain product line, a group of specified customers, or a specified set of duties or roles. To enhance the likelihood of enforcement and eliminate employees’ argument that they are prevented from earning a living, employers may provide for compensation to the employee during the restricted period.²

§ 80:8 Nonsolicitation and nonservicing of customers

The second type is a customer-based postemployment restriction that prohibits a former employee, for a specific period of time after the employee departs from the employer, from soliciting customers of the former employer, providing competing services to those customers, or both. This type of restriction is narrower, and typically easier to enforce, than a noncompetition provision because it only restricts the former employee from soliciting and/or performing services for particular customer entities for a specified time. Typically, customer-based restrictions also prohibit the employee from assisting a new employer in trying to secure business from the former employer’s customers.

In Bessemer Trust Co., N.A. v. Branin, the Court of Appeals addressed what constitutes improper solicitation under New York law.¹ The Court of Appeals noted that in the sale-of-business context postemployment restrictions are generally subject to a lower standard for enforceability.²

In Bessemer, however, the Court of Appeals was confronted with a situation where the purchase agreement contained neither an express, contractual nonsolicitation provision, nor an accompanying nonservicing provision. As such, the Court’s discussion of what constitutes improper solicitation addressed the marketing industry could not be barred from working for a competitor because they do not work in a learned profession and their services are not unique); Fullman v. R & G Brenner Income Tax Consultants, 24 Misc. 3d 1214(A), 897 N.Y.S.2d 669 (Sup 2009), citing Morris v. Schroder Capital Management Intern., 7 N.Y.3d 616, 620, 825 N.Y.S.2d 697, 859 N.E.2d 503, 25 I.E.R. Cas. (BNA) 724 (2006) (noting that New York courts disfavor noncompete clauses in employment contracts); Heartland Sec. Corp. v. Gerstenblatt, 2000 WL 303274, at *5 (S.D. N.Y. 2000) (refusing to enforce industry-wide noncompete covenant).


[Section 80:8]


implied obligation of a seller not to solicit its former clients and customers. Although Bessemer is useful to analyze the current state of the law with respect to the proper definition of “solicitation,” it is critical to remember that there were no contractual boundaries to guide the Court’s analysis. Accordingly, the Court limited its analysis to what implied non-solicitation obligations apply to the seller of a business, and found that while some such implied obligations exist, they are not as robust as the purchaser might have thought or wanted. It is likely that a properly drafted contractual provision would have allowed the purchaser to enforce broader restrictions on the seller’s activities. In light of Bessemer, parties should consider including an express definition of what constitutes “solicitation,” rather than leaving the decision entirely within the Court’s discretion. Solicitation typically will not include advertising the competing business in advertisements aimed at the general public, even where those advertisements result in the acquisition of business from former customers. For this reason, employers should also consider using nonservicing provisions, in addition to nonsolicitation provisions as they eliminate the need to prove “solicitation.” However, they may be less likely to be enforced than nonsolicitation provisions, as they are more restrictive in nature and could be deemed to prevent clients and customers from choosing who they want to work with.

Finally, these restrictions should be limited to only those customers the employee serviced while at the employer, met with while there, or about whom the employee otherwise gained proprietary information.

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3Hiller v. Buel, 33 Misc. 3d 1213(A), 939 N.Y.S.2d 740 (Sup 2011) (noting that information contained on a Web site is “indistinguishable from a newspaper or other media advertisements aimed at the general public” that are not barred by a prohibition on solicitation of customers).

4See BDO Seidman v. Hirshberg, 93 N.Y.2d 382, 392–93, 690 N.Y.S.2d 854, 712 N.E.2d 1220 (1999) (holding that restrictions which purport to limit a former employee’s contact with clients with whom the employee developed relationships outside of their employment are necessarily overbroad and unenforceable); TBA Global, LLC v. Proscenium Events, LLC, 2013 WL 1873268, *5 (N.Y. Sup 2013), aff’d as modified on other grounds, 114 A.D.3d 571, 980 N.Y.S.2d 459, 37 I.E.R. Cas. (BNA) 1496 (1st Dep’t 2014) (noting that “In New York a non-solicitation provision will be rejected as overly broad if it seeks to bar the employee from soliciting clients of the employer with whom the employee did not acquire a relationship through his or her employment . . .”); Hiller v. Buel, 33 Misc. 3d 1213(A), 939 N.Y.S.2d 740 (Sup 2011) (noting that information contained on a Web site is “indistinguishable from a newspaper or other media advertisements aimed at the general public” that are not barred by a prohibition on solicitation of customers).

§ 80:9 Non-raid / non-hiring of employees

A third type of provision is a non-raid / non-hiring provision. These provisions require that for a fixed period of time after an employee departs from a company, she may not solicit or encourage remaining employees of the former employer to leave the company. Variants of these provisions can also prohibit the former employee from hiring any former employees, inducing them to leave, participating in their hiring away from or leaving the employer, or otherwise interfering with the relationship between employer and its other employees. Courts have held that “the non-recruitment clause is inherently more reasonable and less restrictive than” a noncompetition provision.

§ 80:10 Extended notice provisions

The fourth common type of provision is an extended notice provision that requires departing employees to give the company a certain period of advance notice when they intend to leave the company. Under such provisions, employers, upon receiving notice, may choose to pay the employees through the balance of the notice period but direct them not to come to work or perform services, thereby giving the employees leave to “tend to their gardens,” or any other pursuit outside of the job, provided that the employees do not compete with their employers. During the notice period, employees will have a continuing duty of loyalty and therefore cannot compete during this period of time. These extended notice provisions may be mutual (i.e., the employer and employee must each provide advanced notice of termination), but can also only require that the employee provide notice, with no similar obligation on the employer. Where mutual, these provisions typically do not require such advance notice from employers where the employee is being terminated for “cause.”

The rationale of notice provisions is to provide the employer time to transition and solidify a customer relationship in light of

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283, 2015 WL 3616181 (2015) (trial court refused to blue-pencil overbroad non-solicitation covenant because the employer should have been put on notice of the decision in BDO Seidman and not required employee to promise not to solicit customers with which the employee had a pre-existing relationship; reversed on appeal due to genuine issue of material fact precluding summary judgment on whether “not overbroad” portions of the restrictive covenant were enforceable).

[Section 80:9]

the impending departure of an employee key to that relationship, as well as to limit the departing employee’s access to the customers’ and employer’s confidential information in the days before the termination. Some variants of this provision may require that during the notice period, the employee inform the current employer of any job offers from prospective employers and inform any prospective employer of continuing post-employment obligations. The period of notice required is commonly greater for more senior employees and executives than more junior employees because of the senior-level employees’ customer relationships and/or access to confidential company information. Courts have enforced provisions of this type allowing for payment of compensation to the employee for a limited time, often a matter of months, as reasonable because they do not cause employees economic harm.¹

§ 80:11  Covenants concerning confidential or proprietary information

Finally, the fifth type of restriction is an agreement not to use the company’s confidential or proprietary information. Companies already have various common-law protections against the use of trade secret information.¹ Agreements not to use confidential information are useful because they can expand common-law protections, make explicit the type of information the company seeks to protect, and obviate, if litigation ensues, some factual disputes over categories of protected information. Employers and employees can also agree that an employer can obtain injunctive relief for breach of a covenant, including one covering the use of confidential information, without the need to post a bond. Employers should be aware, however, that New York courts do not recognize a stand-alone cause of action for inevitable disclosure of such confidential information and/or trade secrets,

¹See generally Chapter 105, “Misappropriation of Trade Secrets” (§§ 105:1 et seq.).
which is why using these provisions in conjunction with other post-employment restrictions is so critical.\(^2\)

With all of the different types of covenants, employers should ensure that they customize any restrictions to their particular businesses and industries. The need to customize restrictions has special importance with covenants concerning confidential or proprietary information. Companies that deal only with limited types of confidential information and proprietary information should not include other types of information in a boilerplate definition in their agreements. For example, covenants in the banking or advertising industries generally should not refer to patents and scientific methods in the definition of confidential information since banking and advertising executives typically do not have access to patented information. Including provisions that simply do not fit makes it harder for an employer to argue that the covenants were agreed upon only after active negotiations with the covenanting employees.

§ 80:12 Using provisions in tandem

These different provisions can be used together to create multiple post-employment restrictions for particular executives and senior-level employees. For example, an employer might propose multiple covenants (for the same or different periods of time) whereby an employee would covenant not to compete, not to solicit customers, and not to solicit colleagues. If an employee agreed to six-month extended notice, a six-month non-compete, and one-year client non-solicitation and employee non-hiring provisions, the employer would obtain protection from competition for one year, and for its clients and employees for 18 months. (Relevant cases on particular periods of various restrictive covenants are discussed in § 80:28 below. In addition, the courts’ ability to reform overly restrictive covenants is discussed in § 80:32 below.) By using multiple covenants, some with different periods of restriction, an employer can appropriately tailor an agreement with an employee to allow the employee to earn a living and still obtain protections that a court would enforce.

Additionally, employers can use confidentiality concerns and provisions to help enforce other restrictive covenants. This is often referred to as the “inevitable disclosure doctrine.” New York courts have not used the “inevitable disclosure doctrine” to create a noncompetition obligation absent an enforceable

\(^2\)Janus et Cie v. Kahnke, 2013 WL 5405543 (S.D. N.Y. 2013) (dismissing the stand-alone claim of inevitable disclosure of trade secrets and noting that the doctrine is only applicable in considering whether irreparable harm will result in applications for preliminary injunctions based on an otherwise enforceable post-employment restriction or theft of trade secrets).
agreement. However, courts do consider the nature of the information to which an employee had access when determining whether to enforce restrictive covenant agreements, as the employee’s knowledge of such information can assist an employer in establishing the likelihood of irreparable harm. Furthermore, employers can include tolling provisions in their restrictive covenant agreements so that any period of time during which an employee is in breach of his or her post-employment restrictions shall be used to extend the duration of the relevant restriction.

B. CASE LAW AND FACTORS TO CONSIDER IN DRAFTING COVENANTS

§ 80:13 New York standard for enforceability

New York courts have long recognized the “powerful considerations of public policy which militate against sanctioning the loss of a [person]’s livelihood.” “[N]o restrictions should fetter an employee’s right to apply to his own best advantage the skills and knowledge acquired by the overall experience of his previous employment.” As a result, an employment-related restrictive covenant is met with “judicial disfavor,” and will be enforced only to the extent that it is reasonable and necessary to protect valid business interests. This standard requires that the covenant will be specifically enforced only if it “(1) is no greater than is required

[Section 80:12]

1See Spinal Dimensions, Inc. v. Chepenuk, 16 Misc. 3d 1121(A), 847 N.Y.S.2d 905 (Sup 2007) (noting that although “proof of inevitable disclosure would not [likely] provide a basis for injunctive relief independent of an express restrictive covenant, . . . proof of inevitable disclosure may be used to demonstrate a legitimate employer interest in enforcing the restrictive covenant.”); Estee Lauder Companies Inc. v. Batra, 430 F. Supp. 2d 158, 179, 24 I.E.R. Cas. (BNA) 897 (S.D. N.Y. 2006).

2See Novus Partners, Inc. v. Vainchenker, 32 Misc. 3d 1241(A), 938 N.Y.S.2d 228 (Sup 2011) (“[T]he likely inevitability of even inadvertent disclosure is sufficient to establish a real risk of irreparable harm.”), quoting International Business Machines Corp. v. Papermaster, 2008 WL 4974508 *10 (S.D. N.Y. 2008).


[Section 80:13]


for the protection of a legitimate interest of the employer, (2) does not impose an undue hardship on the employee, and (3) is not injurious to the public.6 A restrictive covenant violating any of these prongs is invalid.5 In practice, the reasonableness inquiry often focuses on the ability of an employee to earn a living and whether the employee received compensation for the covenant, and for non-competes, on whether the employee received compensation during the period of the restriction. Non-competes are the toughest post-employment restrictions to enforce.

New York decisions have also explained that the first prong of the three-part test above means that an “employer has a legitimate interest in preventing former employees from exploiting or appropriating the goodwill of a client or customer, which had been created and maintained at the employer’s expense, to the employer’s competitive detriment.”6 In addition to focusing on the sanctity of customer relationship, courts have also have deemed a “legitimate interest” of an employer to include preventing the misappropriation of confidential and proprietary information or confidential customer information,7 or to prevent the harm caused

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7See Ticor Title Ins. Co. v. Cohen, 173 F.3d 63, 70, 14 I.E.R. Cas. (BNA) 1710 (2d Cir. 1999); Marcone APW, LLC v. Servall Co., 85 A.D.3d 1693, 1695–96, 925 N.Y.S.2d 752, 756, 2011 I.E.R. Cas. (BNA) 22880 (4th Dep’t 2011) (noting that customer information will be protectable where: (i) it contains detailed information about each customer, including contact persons, customer-specific pricing information, credit terms and limits, and the customers’ “class” rankings based upon their margin performance; (ii) the information was compiled through considerable effort over several years and was not publicly available to the public; and (iii) the information creates a competitive advantage in servicing current clients and creating new business); but see Midamerica Productions, Inc. v. Derke, 2013 WL 1343605, *4 (N.Y. Sup 2013) (holding that client information is not a protectable interest where: (i) it is not password-protected; (ii) it is accessible by anyone in the office with a computer; (iii) nonemployees and former employees were granted remote access to the information and took print screens containing the information out of the office; and (iv) identities of the customers appear in promotional materials and on the company’s Web site). See Chapter 105, “Misappropriation of Trade Secrets” (§§ 105:1 et seq.).
by the loss of a covenanting employee whose services were special or unique.  

New York courts will enforce an employment-related restrictive covenant only to the extent that enforcement is reasonable and necessary to protect the legitimate interest demonstrated by the party seeking enforcement. For example, in *IBM v. Visentin*, the Southern District refused to enforce a non-competition restriction on a former employee because “IBM has not demonstrated that it seeks to protect trade secrets or confidential information from misappropriation . . . [or that the former employee] possesses much in the way of trade secrets or confidential information in the first place.” And to the extent that the former employee does possess trade secrets or confidential information, the party seeking enforcement must still demonstrate that the former employee “poses a threat of disclosure of any such information once he begins his new position.”

In order to justify enforcement of a non-competition agreement based on the loss of a unique employee, “an employer must show that an employee’s services are of such character as to make his replacement impossible or that the loss of such services would cause the employer irreparable harm.” Under the leading Second Circuit case of *Ticor Title Ins. Co. v. Cohen*, an employee need not be a leader in her field with unique talents; rather, employees need only have a unique role with the employer and its customers. *Ticor* enforced covenants of a title insurance salesperson, holding that his services were “unique” because of the special relationships he had developed with the company’s

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12*Ticor Title Ins. Co. v. Cohen*, 173 F.3d 63, 70–71, 14 I.E.R. Cas. (BNA) 1710 (2d Cir. 1999); *H.D. Smith Wholesale Drug Co. v. Mittelmark*, 33 Misc. 3d 1227(A), 941 N.Y.S.2d 538 (Sup 2011) (noting uniqueness in situations in which the employees “work so closely with the client and . . . are so central to a transaction that the client’s primary loyalty will be to the employee, not the employer, even though the establishment of the relationship was only made possible by virtue of the employee’s position with the employer.”).
Employment Restrictive Covenants § 80:14

Clients.¹³ Employers, therefore, can enforce restrictive covenants, including non-compete agreements, even if the employee does not have singular or “special talents.”¹⁴

Courts will, however, typically enforce post-employment restrictions in the sale-of-business context so long as the covenants are generally reasonable.¹⁵

§ 80:14 Forfeiture for competition and “employee choice” doctrine

Courts have modified the standard outlined in the preceding section for restrictive covenants executed as part of an employee compensation plan. Such covenants are generally enforceable without regard to the reasonableness of the restriction under the “employee choice doctrine.” The doctrine, which only applies for employees who voluntarily resign or are terminated for cause, is based on the “premise that if the employee is given the choice of preserving his rights under his contract by refraining from competition or risking forfeiture of such rights by exercising his right to compete, there is no unreasonable restraint upon an employee’s liberty to earn a living.”¹

14Ticor Title Ins. Co. v. Cohen, 173 F.3d 63, 70, 14 I.E.R. Cas. (BNA) 1710 (2d Cir. 1999); 1 Model Management, LLC v. Kavoussi, 82 A.D.3d 502, 504, 918 N.Y.S.2d 431, 432 (1st Dep’t 2011) (noting that an employee’s services may be “special, unique or extraordinary” where the employee cultivated personal relationships with the employer’s clients while working for the employer and using its resources).
15See People’s United Ins. Agency, Inc. v. Bentivegna, 42 Misc. 3d 1229(A), 986 N.Y.S.2d 868 (Sup 2014) (noting that restrictive covenants against the seller of a business are “not subject to the stricter measures employed where a non-seller agrees, as a condition of his or her employment, not to compete with his employer after the employment relation is severed,” but that such written covenants override any implied obligations against the seller of the business, even though such narrower, implied restrictions are otherwise “permanent”).

[Section 80:14]

¹Morris v. Schroder Capital Management Intern., 7 N.Y.3d 616, 621 n. 2, 825 N.Y.S.2d 697, 859 N.E.2d 503, 25 I.E.R. Cas. (BNA) 724 (2006); see also Tasciyan v. Marsh USA, Inc., 2007 WL 950091, at *3 (S.D. N.Y. 2007) (citing International Business Machines Corp. v. Martson, 37 F. Supp. 2d 613, 619, 22 Employee Benefits Cas. (BNA) 2585 (S.D. N.Y. 1999)); Lenel Systems Intern., Inc. v. Smith, 106 A.D.3d 1536, 966 N.Y.S.2d 618, 621 (4th Dep’t 2013) (noting that “[u]nder the employee choice doctrine, if an employee is given the choice of preserving his [or her] rights under his [or her] contract by refraining from competition or risking forfeiture of such rights by exercising his [or her] right to compete, there is no unreasonable restraint upon an employee’s liberty to earn a living.”) (citations and internal quotations omitted). But see International Business Machines Corp. v. Simonson, 42 Misc. 3d 1229(A), 988 N.Y.S.2d 523
§ 80:15 How tailored is the clause?

Although courts recognize the importance of protecting a company’s legitimate business interests, courts also place paramount importance on protecting the employee’s freedom to earn a living in her chosen profession. Therefore, courts in virtually every state seek to construe post-employment restrictions on employees as narrowly as possible. Courts in some states, including New York, will sometimes revise or “blue pencil” restrictive covenant provisions deemed overly broad and enforce a narrower version of the provision. However, courts in many states, including New York, are at times unwilling to rewrite an overly broad restrictive covenant provision and instead will, in essence, throw the proverbial baby out with the bath water: the court will declare the entire provision unenforceable. This, of course, would leave the company without any protection at all when an employee departs. For this reason, a company should not try to implement overly broad post-employment restrictions, which, more likely than not, will not withstand judicial scrutiny. The more narrowly tailored a restriction is, the more likely it is to be enforceable.

New York courts generally consider unreasonably burdensome and do not permit enforcement of restrictive covenants that prohibit an employee from engaging in his chosen profession. Thus, courts will not generally enforce a customer nonsolicitation and nonservice provision that prohibits an employee from soliciting or providing services to any customer in an industry where the employer and its competitors all vie for the same customers because the covenants would effectively preclude the employee from working in the industry. Courts may, however, enforce such restrictions if the former employer is providing compensation during the period of restriction.

One court denied enforcement of a two-year industry-wide non-compete provision that “baldly restrain[ed] competition” because “its broad-sweeping language [was] unrestrained by any limita-

(Sup 2014) (holding that the employee choice did not apply because the employee’s separation was not voluntary and therefore refusing to enforce forfeiture provision because the non-competition provision at issue was overbroad under typical restrictive covenant analysis).

[Section 80:15]

1See § 80:33 for additional discussion of “blue penciling.”

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tions keyed to uniqueness, trade secrets, confidentiality or even competitive unfairness.\(^4\) However, a court would be more likely to uphold a client-based restriction provision if the provision were limited only to those customers that the employee met and serviced while working for the employer or to whom the employee had pitched business during the last year of employment.\(^5\)

Traditionally, courts looked at the geographic scope of a restriction, and disfavored covenants that prevented employees from working in an overly broad radius from the former employer.\(^6\) While geographic restrictions are still used, today's business world has become less location-specific and much more national and international in scope.\(^7\) Geography still matters in some circumstances where businesses or professionals serve a specific region or local market, such as with salespersons,\(^8\) doctors,\(^9\) accountants,\(^10\) and title insurance brokers.\(^11\) As a result, employers can use non-compete provisions that are specific to a particular product, industry, or sector of the market.\(^12\)

But, New York courts have been reluctant to enforce even these

\(^6\)See, e.g., Unisource Worldwide, Inc. v. Valenti, 196 F. Supp. 2d 269, 277 (E.D. N.Y. 2002) (declining to enforce salesperson's covenant not to compete with 100-mile radius of New York City or ex-employer's other marketing areas); McCain v. Coombe, 238 A.D.2d 656, 656 N.Y.S.2d 970 (3d Dep't 1997) (covenant prohibiting cardiologist from practicing at city hospitals was unreasonable because it prevented attending to his patients from his practice outside the city who were referred to city hospitals; covenant was also not in public interest). See § 80:22 for additional discussion of geographic restrictions.
\(^7\)See Novus Partners, Inc. v. Vainchenker, 32 Misc. 3d 1241(A), 938 N.Y.S.2d 228 (Sup 2011) (“An otherwise valid restrictive covenant [which] does not contain a geographic limitation may, if warranted by equity . . . [be interpreted in] conformity with the intent of the parties.”), quoting Deborah Hope Doelker, Inc. v. Kestly, 87 A.D.2d 763, 765, 449 N.Y.S.2d 52 (1st Dep't 1982).
\(^12\)See, e.g., International Business Machines Corp. v. Papermaster, 2008
more tailored noncompetition provisions absent proof of actual misappropriation of trade secrets, breach of fiduciary duties or some other evidence of bad faith on the part of the former employee. Instead, the courts may “blue pencil” these non-competition restrictions to specifically address the former employer’s legitimate, protectable interest. See section 80:33 for further discussion of “blue-penciling.”

C. FACTORS TO CONSIDER AS TO PURSUING DAMAGES OR INJUNCTION

§ 80:16 Measures of damages

Courts rely on several measures of damages for breaches of restrictive covenants, depending on whether the restrictions relate to customers or other employees. For breaches of covenants not to solicit or service customers, the most common measure of damages is lost profits. Although courts require that damages caused by losing business with a customer be established with reasonable certainty, “precise mathematical accuracy” is not required. Damages are available based on the plaintiff employer’s lost profits and not tied solely to the revenues earned by the ex-employee’s new employer.

In determining lost profits, courts consider the expected length of the client relationship, be it contractually based or not. A longstanding client relationship provides a more reasonable basis for forecasting future lost profits than a new relationship. Take

WL 4974508 (S.D. N.Y. 2008) (holding that “the nature of IBM’s business requires that the restriction be unlimited in geographic scope.”) (citations and internal quotations omitted).

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13 See Zinter Handling, Inc. v. Britton, 46 A.D.3d 998, 1000–01, 847 N.Y.S.2d 271, 26 I.E.R. Cas. (BNA) 1872 (3d Dep’t 2007) (refusing to enforce a noncompete agreement because it was “manifestly overbroad,” as it sought to prohibit both competitive employment and the solicitation of customers with whom the employees had never established relationships); Natural Organics, Inc. v. Kirkendall, 52 A.D.3d 488, 489, 860 N.Y.S.2d 142, 27 I.E.R. Cas. (BNA) 1870 (2d Dep’t 2008) (refusing to enforce noncompete because “[t]he evidence demonstrated that Kirkendall, after leaving the plaintiff’s employ, did not physically appropriate, copy, or intentionally memorize any purported confidential business information”); Janus et Cie v. Kahnke, 2013 WL 5405543 (S.D. N.Y. 2013) (noting that courts may look to the inevitable disclosure doctrine in analyzing the enforceability of non-competition agreements, but generally only where there is evidence of the actual misappropriation of trade secrets).

[Section 80:16]

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the example of a company that has had a relationship for many years with a particular client, that only reviews whether it wants to continue the relationship in intervals of years or longer, such as often occurs in the agency review process in the advertising industry for advertising agencies that are agencies of record for a client for a particular product or category of products. The advertising agency in this example will have a greater expectancy of a continued relationship than another company would where its client relationships are typically shorter or relate to a single project of a shorter duration (for example, a company that designs websites over a three-month period). Courts have examined the typical length of a client relationship in determining a reasonable time that the relationship or contract between the client and the company would have continued.\(^3\) For example, in *Westwood Chemical*, the court computed damages caused by an employee’s wrongful solicitation of a customer, as the profits the employer would have earned from the diverted client for the period of time that the court found was a reasonable prediction of how long the relationship would have continued, but for the wrongful solicitation (in that case, three years).\(^4\)

For breaches of covenants not to hire other employees or induce them to leave, courts may consider the costs to hire and train replacement employees. In cases with mass resignations, a company will be required to demonstrate that the mass resignation was a “substantial factor” in causing an “identifiable loss” to the company.\(^5\)

Loss of enterprise value is a viable theory for recovery of damages. This theory reflects the harm caused by the employee’s or competitor’s destruction of the company’s business, and is greater than the sum of the lost profits attributable to particular clients. The plaintiff is required to establish that the violation of the covenant was the proximate cause of the destruction of the business.\(^6\)

The fact that the relationship between a company and its client was deteriorating may not serve as a defense to a solicitation of


\(^4\)Westwood Chemical Co., Inc. v. Kulick, 570 F. Supp. 1032, 1037, 1 I.E.R. Cas. (BNA) 231 (S.D. N.Y. 1983). Westwood concerned the common-law duty of loyalty of employees, but this method for computing lost profits could be used as well with restrictive covenants.


that client away from the company, because the company’s employees who were aware of problems in the relationship “were obligated to use their best efforts to retain [the client’s] business for [the company].”7

Courts may order employees who breach their covenants and compete with an employer during their employment or who otherwise violate their duties of loyalty to disgorge the compensation they received from the employer during the period of competition or disloyalty. Employers must remember, however, that the mere breach of a restrictive covenant itself does not necessarily warrant damages of any kind. An employer must demonstrate that the conduct of its former employee actually harmed the employer.8 In addition to the recovery of compensation paid to an employee during a period of disloyalty, an employer may also recover punitive damages, particularly where an employee’s breach of the duty of loyalty, or other fiduciary duties, is sufficiently egregious.9

§ 80:17 Liquidated damages provisions

An employer can make the choice to forego the burden and benefit of pursuing injunctive relief by including liquidated damages provisions in its employment agreements containing restrictive covenants.1 By relying on liquidated damage provisions, an employer may be able to avoid or defer the most costly parts of restrictive covenant litigation: a motion for the expedited discovery that often precedes the hearing on the motions for temporary restraining orders and preliminary injunctions. Irreparable harm will not be found where money damages for an alleged injury are calculable.2 By setting a liquidated amount for damages, the parties are expressly calculating the monetary value of the harm. If the court enforces a liquidated damages provision, a party will not recover actual damages in excess of that amount.

9Juniper Entertainment, Inc. v. Calderhead, 2013 WL 120636, *6 (E.D. N.Y. 2013) (stating that “New York courts have awarded punitive damages as against disloyal employees when the liability arises pursuant to a breach of fiduciary duty, as opposed to breach of contract.”).

[Section 80:17]

1However, see § 80:19 for discussion of cases where courts have granted injunctive relief despite the presence of a litigation damages provision.
New York decisions have allowed enforcement of liquidated damages provisions in restrictive covenants, just as in other forms of non-employment related contracts, when the estimated damages are not grossly disproportionate to the anticipated harm. In *GFI Brokers, LLC v. Santana*, a currency option broker had entered into a post-employment restrictive covenant limiting his ability to work for any competitor for four months after leaving his employer. The agreement fixed damages for breach of the non-compete covenant as the product of his average monthly commissions and the number of months remaining on the covenant. The court upheld the liquidated damages provision because the damages from the loss of a successful broker and his clients was difficult to compute and looked favorably on the particular formula of fixing damages set forth in the covenant. The court reasoned that the formula used a proportion that tied the amount paid as damages to the time remaining on the restrictive covenant. In fact, the court refused to invalidate the provision even though the broker argued that another measure of damages might have better correlated to actual damages. The Court of Appeals in *BDO Seidman v. Hirshberg* dealt with a similar provision, which it interpreted as an 18-month nonservicing covenant, that liquidated damages for any breach at 1 1/2 times the annual billing for clients covered by the covenant. There, the Court held that the provision could be enforced, although it remitted the matter for further factual development about the provision’s reasonableness. Clauses that provide for damages in an amount that is disproportionate to a defendant’s loss are considered unreasonable and an unenforceable penalty.

Other liquidated damage provisions can use similar formulas.
§ 80:17

For example, a non-hiring or non-raiding provision could tie the amount of stipulated damages to the monthly salaries of any employees who resign after being solicited, until the employer fills that position, plus any increased salary paid to the employee hired to replace the improperly solicited employee, plus any expense incurred in finding and training the new employee.\textsuperscript{11} Provisions can also fix a specific dollar amount, but using a formula to compute damages may have the advantage of showing a relationship to the anticipated harm.

§ 80:18 Availability of injunctive relief

The foundation for injunctive relief is the demonstration that the employer will suffer irreparable harm if the covenant is not enforced.\textsuperscript{1} New York courts recognize the often incalculable value of ongoing client relationships and goodwill and therefore have held that a “plaintiff would suffer irreparable harm should its clients terminate their relationships with it in order to use defendant’s services.”\textsuperscript{2} Courts grant injunctive relief because they recognize “the ‘special relationship’ which developed between the individual defendants and their clients.”\textsuperscript{3} Indeed, courts have recognized that “it would be very difficult to calculate monetary damages that would successfully redress the loss of a relationship with a client that would produce an indeterminate amount

\textsuperscript{825} (4th Dep’t 2013), leave to appeal denied, 114 A.D.3d 1226, 984 N.Y.S.2d 281 (4th Dep’t 2014) (refusing to enforce liquidated damages provision where purchaser could cease paying remainder of 73-month payout of purchase price based on any minor breach of a one-year non-solicitation provision because it was “grossly disproportionate to the probable loss”) (citations and internal quotations omitted).

\textsuperscript{11}See, e.g., Gibbs & Soell, Inc. v. Armstrong World Industries, Inc., 2005 WL 615688, at *5 (S.D. N.Y. 2005) (enforcing nonsolicitation provision that liquidated damages as amount equal to total compensation earned by recruited employee’s last year of employment before the solicitation).

[Section 80:18]

\textsuperscript{1}See generally Chapter 18, “Provisional Remedies” (§§ 18:1 et seq.) for additional discussion of injunctions. See Veramark Technologies, Inc. v. Bouk, 10 F. Supp. 3d 395, 2014 I.E.R. Cas. (BNA) 154357 (W.D. N.Y. 2014) (provisions in restrictive covenants agreements where the employee agrees that restrictions are reasonable and that the employer shall be entitled to injunctive relief do not substitute for the court’s actual analysis of the applicable factors before determining whether to, in fact, grant injunctive relief).


of business in years to come.\textsuperscript{4} Irreparable harm, however, will be difficult to show where a plaintiff has lost only one specific client relationship with easily calculable losses.\textsuperscript{5} Disclosure and competitive use of a company's confidential information is also an often-cited basis for injunctive relief.\textsuperscript{6}

\subsection*{§ 80:19 Cases often turn on the success of the preliminary injunction}

The most critical juncture concerning enforcement of restrictive covenants is often the first stage—when the employer seeks preliminary injunctive relief. Employers often find that the lack of a preliminary injunction renders the continued pursuit of the litigation of little or no value. Most restrictive covenants are of a duration between several months and two years. Complex commercial litigation in New York courts typically takes a minimum of several months and often much longer, even in courts known for so-called "rocket dockets." As a result, a permanent injunction may be worthless if it takes months or years to obtain, as the client or employee relationship may be long gone, or the relevance of particular confidential information may become obsolete. While courts may reinstate the period of the restrictions, the restrictions may have little value if they only apply after the employee has been able to compete, solicit customers and employees, or use confidential information for months or years. Thus, employers that want an injunction should seek a temporary restraining order and preliminary injunctive relief.\textsuperscript{1} Those that do not want to incur the costs associated with applications for immediate relief, or the risks that an early "loss" will embolden the former employee to increase her harmful activities, should focus on

\begin{footnotesize}
\begin{itemize}
\item[5] Production Resource Group, L.L.C. v. Oberman, 2003 WL 22350939 (S.D. N.Y. 2003); Eastman Kodak Co. v. Carmosino, 77 A.D.3d 1434, 909 N.Y.S.2d 247, 31 I.E.R. Cas. (BNA) 1033 (4th Dep't 2010) (denying injunctive relief where the term of a restrictive covenant was for a finite period (18 months), as "any loss of sales occasioned by the allegedly improper conduct of defendant can be calculated").
\end{itemize}
\end{footnotesize}

\[ \text{Section 80:19] } \]

\textsuperscript{1} See generally Chapter 18, "Provisional Remedies" (§§ 18:1 et seq.) for discussion of temporary restraining orders and preliminary injunctions.
monetary damages only. In any event, attorneys should counsel their corporate clients to direct their efforts into salvaging client relationships and retaining key employees independent of any court relief.

Employers need not make a choice between pursuing injunctive relief and a claim for damages, even where the parties have agreed to liquidate the amount of damages. Courts have granted injunctive relief despite the presence of a liquidated damages provision. In addition, several courts have observed that “the presence of a liquidated damage clause does not bar” the employer’s “right to seek specific performance,” although these statements may be merely dicta as neither case reaching this conclusion involved a claim for both injunctive relief and liquidated damages. Aside from this line of cases, employers who pursue injunctive relief may still be able to recover monetary damages for the breach of the restrictive covenants if they lose in their attempts to obtain an injunction. Employers can also seek liquidated damages as a measure of damages for the losses that incurred before an injunction, and obtain the injunction to prevent further harm. And in cases where an injunction is granted, employers can also seek monetary damages for clients lost before the granting of the injunction.

§ 80:20 Likelihood client will remain or depart

In responding to a perceived breach of client non-solicitation or client non-servicing covenant, employers should consider whether injunctive relief will still secure the client relationship. Many clients have relationships that are so tied to particular employees that they are likely to follow the employee wherever they go, or

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failing that, may choose to open up their business to other service providers. Restrictive covenants can prevent a departing employee from “taking” a client with him. Restrictive covenants, however, cannot guarantee that a client, after its key contact has left, will choose to remain with the company. In other words, the enforcement of a restrictive covenant may prevent a former employee from soliciting or servicing a particular client, but its enforcement cannot prevent the client from choosing to move its business elsewhere if it believes that its existing service provider cannot adequately service its business without the former employee. The financial and legal industries have special provisions relating to client choice, as discussed in § 80:25, below.

For example, if an ex-employee improperly solicits a client for his new employer, the former employer may be able to enjoin the new employer from servicing the client. If the former employer, however, knows that the client is unlikely to remain and will take its business elsewhere, then an injunction may have limited value. In those kinds of cases, it may be preferable for the employer to seek monetary damages for the loss. Also, by putting the client relationship “at issue,” an employer necessarily brings the client itself into the litigation, which may not be well perceived by the client or others in the marketplace.

This fact is a reminder that restrictive covenants cannot ensure that all client relationships will continue even if key employees end their employment with the company. Employers reduce the risk of lost clients by trying to ensure relationships do not hinge on the continued employment of a single employee or small group of employees. Some employers frequently rotate customer coverage in order to institutionalize the client relationship.

§ 80:21 Message to send to remaining employees and to competitors who may hire others away

Employers often consider the impact that one litigation may have on other employees who might be considering departing and trying to take clients or other employees with them in choosing whether to pursue injunctive relief or damages. By seeking an injunction, these employers hope to send a message that the company will take significant and immediate action against those who breach its covenants. Applications for temporary restraining orders and preliminary injunctions have an immediate impact: significant costs and litigation occur upfront, the departing employee’s conduct is immediately under the court’s scrutiny, and if the motions are granted, even in part, the departing employee and her new employer may seek a settlement as soon as possible. From practical experience, the dynamics of the litigation surrounding a preliminary injunction hearing receive more notice
among a group of current employees than just an action for damages that may be litigated for months (or years) before there is any substantive court intervention.

Similarly, an action for preliminary injunctive relief may also deter competitors who might be tempted to hire away key employees, despite their noncompete covenants. In contrast, where an employer perceives that it has a weak case to show irreparable harm, it may choose not to seek the injunction, but merely to file for damages. The threat of a significant damage award will often have the effect of a “de facto injunction” as it may chill the competitor’s appetite to further solicit customers and employees and expose itself to further damages.

Employers may decide in different situations with different employees whether to pursue injunctions or damages for breaches of their restrictive covenants. Employers may also decide to pursue a lawsuit (whether they seek an injunction or damages) against some departing employees and not others. In these situations, an ex-employee who is the subject of a lawsuit may argue that the covenant was broader than necessary to protect the employer’s legitimate interest as evidenced by the employer’s “selective enforcement” of the covenant. There appears to be little case law in support of this argument. While one court found that a claim of selective-enforcement defense could exist, it held that the employee had the burden to show waiver and did not meet that burden by pointing to the employer’s lack of uniformity in seeking enforcement of the restrictive covenants. The court reasoned that the company’s dealings with each particular employee had individual facts that affected the company’s business judgment, and the former employee had not proven that the company intended to waive enforcement of its covenants.

**D. EMPLOYER’S PRE-LITIGATION STRATEGY AND STEPS**

§ 80:22 Warning / cease-and-desist letter

Some of the most important decisions in a litigation over restrictive covenants occur before the complaint is filed. As

[Section 80:21]


discussed above, the key decision for an employer seeking to enforce a restrictive covenant is typically whether or not to seek preliminary injunctive relief. In addition to this essential consideration, an employer should consider several strategies and steps that can significantly impact the litigation.

The employer's first response may be to send a warning letter to the employee, as well as to his new employer, if the employer suspects that a former employee is soliciting the company's clients or other employees, or has taken any of the employer's confidential information. There are several purposes to sending a warning or cease-and-desist letter. First, it will notify the employee that the company is monitoring his activities and may deter attempts to violate the restrictive covenants. Second, sending a letter to the employee's new employer will put the new employer on notice that its new hire is subject to restrictive covenants and thereby establish a record that could be used in a claim against the new employer for tortious interference with contractual relationships. For these reasons, warning letters can chill solicitations of protected clients and employees without having to file a complaint.

In these warning letters, the potential plaintiff-employers often sketch out their understanding of the perceived breaches of the restrictive covenants and ask the potential defendants to refute the allegations and confirm that they do not possess any of the employer's confidential information and that the ex-employee will adhere to the covenants. The response from the new employer and ex-employee can help chart the course of litigation. If the response convinces the former employer that there has been no breach of the covenants, the former employer can avoid litigation that may not be cost-effective. If on the other hand, the response is evasive or nonexistent, the former employer may conclude that litigation is the best option. Thus, warning letters can serve as a useful and inexpensive means of deterring misconduct and assessing the factual response to a potential litigation.

On the other hand, a warning letter will tip off the employee and/or new employer that the company has gotten wind of their actions. This may give the opportunity for the potential defendants to attempt to cover their tracks, prepare for impending litigation, and press their efforts to steal business of the solicited clients. Also, the warning letter enables precious time to pass before a court stops any unlawful conduct if the former employee is already soliciting clients or employees of the former employer, or using the employer's confidential information. Employers who

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[Section 80:22]

1See § 80:19.
send these warning letters should ensure all statements about the covenants are accurate to limit the risk of tortious interference claims by their former employees.2

This dilemma is one of the reasons that many employers routinely send all departing employees simultaneously with their resignation and/or last day of employment a reminder about their post-employment obligations and enclose a copy of the restrictive covenant or other agreements that may be in place.

§ 80:23 Preservation demand

Employers who anticipate a legal battle over restrictive covenants should include in any warning letter a demand that the ex-employees and new employers preserve all documents concerning the employees’ departure and hiring, and all communications with protected clients and employees. A preservation demand can also be an independent reason for a letter, independent of any “warning.” Sending a preservation demand creates a possible basis for sanctions for destruction of evidence if a litigation ensues. In some cases, such destruction of evidence, or other unjustified failure to produce evidence, has led to an adverse inference that documents that should have been preserved were destroyed intentionally to mask incriminating conduct.1

Attorneys should also ensure that their clients are preserving documents. New York case law confirms the obligation of attorneys to send document preservation letters to their clients, or else face possible sanctions, as the failure to preserve and obtain relevant records and electronically stored information constitutes negligence, if not willful disregard of document-preservation obligations.2 These sanctions can include both adverse inferences and monetary penalties.3

A preservation letter to client could include the following sample language:

[Section 80:23]

1See, e.g., Ecor Solutions, Inc. v. State, Dept. of Environmental Conservation, 17 Misc. 3d 1135(A), 851 N.Y.S.2d 69 (Ct. Cl. 2007) (awarding adverse inference against defendant for failure to produce notes presumed to be in his control after prima facie showing).


The Company and its employees have a duty to preserve all information that is relevant to the Litigation. The Company document preservation obligations therefore include preserving hard copies of all relevant documents and all electronic data that Company and/or its employees have concerning the Litigation, including, but not limited to, e-mails and information stored on network servers, back-up tapes, computer disks, flash-drives, office desktops or laptops, employees' home desktops or laptops used for business purposes, PDAs and blackberries. These obligations also include the suspension of any automatic-deletion software applicable to e-mails or other electronically stored information. The failure to adhere to these obligations could result in the imposition of sanctions against Company and/or its employees.

§ 80:24 Additional parties to include in a litigation

Employers should also consider the question of whether to bring suit against anyone in addition to the departing former employee. The most frequent additional defendant is the competitor who has hired away the former employee. Plaintiff employers often name the hiring competitors as defendants in order to deter further solicitation of their employees or clients. Once both an ex-employee and hiring competitor are defendants, plaintiff employers can explore a “divide and conquer” strategy which relies on the fact that one defendant may be more eager to settle the case and agree not to service or solicit key clients or other employees of the company. By suing both the former employee and the new employer, a plaintiff has two parties with whom to explore settlement and whose interests are not necessarily aligned, as the new employer may decide not to proceed with whatever competition it had envisioned. This may have the benefit of deterring further efforts to solicit clients or employees. In addition, the additional expenses of the departing employee and new employer to defend a suit—regardless of how they are borne or split between them—may prompt settlement that is more favorable.

On the other hand, this strategy may also bring the downside that there would be two separate parties in court to contest the enforceability of the provision. Further, if the new employer were also sued, there may be little incremental cost for it to defend itself and its new hire, as employers commonly indemnify their new hires for claims concerning the employees’ covenants with a former employer (particularly for more senior employees). This may result in the new employer’s continued employment of the covenanting ex-employee and financing of the employee’s efforts to test the enforceability of her covenants.

The new employer may have agreed in the employer’s offer letter or employment agreement to indemnify the employee for its legal fees in connection with any action commenced by the ex-employer relating to the restrictive covenant. Frequently,
however, these indemnities will be drafted narrowly so that they also include various representations and warranties by the employee that, for example, the employee has not breached his fiduciary duties or engaged in unlawful activities prior to the employees’ last date of employment. In particular, a new employer may be concerned about an employee’s pre-departure conduct (e.g., pre-departure solicitation of clients or copying of confidential information). The new employer may pay closer attention to ensure that the employee has abided by her representations and warranties—which should have been included in her offer letter or employment agreement, as discussed in § 80:6—under any indemnity if the new employer is also named as a defendant in the lawsuit.

In very rare instances, a potential plaintiff employer will consider suing a former client who has followed the departing employee to her new employer. The most likely, yet still rare, legal basis would be that the client improperly terminated its contract with the potential plaintiff to follow the employee to the competitor. Suing a former client, though, will likely eliminate the possibility of any future business and is an option that is seldom used. Suing the former client may facilitate discovery of evidence that the former employee breached a non-solicitation covenant or solicited the client for the new employer even before the employee resigned from his former employer. It is difficult enough for an employer to decide whether even to serve a subpoena on a former client; actually suing the former client is usually not an option even considered.

In mass-departure cases, an employer is confronted with the loss of multiple clients and employees. When multiple employees who had restrictive covenants leave within a short period, it is usually worthwhile to name all covenanting employees as defendants. There is limited additional expense in drafting a complaint against several employees instead of one, but there may be reward in the form of a quicker settlement, as some of the employees in the group may be less likely to want to proceed than the proverbial ringleader. Employers can try to use the same “divide and conquer” strategy to get helpful admissions, concessions, evidence, or settlements from one or some of the employees, which can be used to fuel the case against the remaining defendants.

§ 80:25 Securities industry rules and attorney ethics provisions

In 2004, in an attempt to reduce restrictive covenant litigation in the securities industry, several leading Wall Street firms established the protocol for Broker Recruiting (“Protocol”). The
Protocol provides that when a financial advisor leaves one signatory firm to join another signatory firm, the new employer and the departing broker will have no liability to the former firm for transferring certain client information to the new firm, or for soliciting certain clients that the departing broker serviced at the prior firm, if the departing broker follows the terms of the Protocol. The Protocol was born out of the recognition that clients maintain and follow relationships with their brokers and the clients should have the freedom to continue working with their brokers who happen to change brokerage firms. The departing brokers may solicit their former clients once they join a new company, provided that they take only the “client name, address, phone number, e-mail address, and account title of the clients that they serviced while at the firm” and submit a written resignation letter to their ex-employer that encloses a copy of the limited information they are retaining.

In light of the Protocol, a growing number of courts appear to narrowly define the legitimate interest that a Protocol signatory firm may still protect by a restrictive covenant. In one case, a court denied Merrill Lynch, a Protocol signatory, injunctive relief for its former brokers’ retention of information prohibited by company policy because the brokers had substantially complied with the strictures of the Protocol.\(^1\) In a different case, another court denied Merrill Lynch a temporary restraining order for its former brokers’ retention of client information and solicitation of those clients when they joined a competing firm who had not signed the Protocol. Although the Protocol should not have applied to a dispute with a nonsignatory, the court held that Merrill Lynch had effectively conceded that the transfer of client lists to a new firm, whether or not that new firm had signed the Protocol, did not give rise to irreparable harm.\(^2\) Together, these cases reflect courts’ willingness to refer to prevailing industry standards in determining whether any adaptation or tailoring to the industry of existing restrictive-covenants case law is warranted.

Similarly, FINRA has adopted NASD Interpretive Material 2110-7 (“IM 2110-7”), which states that it “shall be inconsistent with just and equitable principles of trade for a member or person associated with a member to interfere with a customer’s request

\(^{[Section 80:25]}\)


to transfer her account in connection with the change in employment of the customer's registered representative. . . ." The adoption of this rule is consistent with FINRA's goals of protecting investors, and their interest in continuing relationships with their chosen representatives, even after a representative departs for another employer.

Courts have declined to enforce competitors' agreements not to hire each other's employees, sometimes called employee "no-switching" agreements, because they violated federal antitrust laws. In fact, the use of such agreements, in certain circumstances, can result in significant monetary liability for companies accused of violating such laws.

Many states have disciplinary rules prohibiting non-compete agreements among lawyers. New York's Rules of Professional Conduct prohibit an attorney from offering or entering into a partnership, employment, or similar agreement that restricts the ability to practice law after the relationship ends, except in an agreement concerning retirement benefits or in connection with the sale of law practice.

§ 80:26 Employees' or competitors' actions for declaratory relief

In most restrictive-covenants cases, the former employer who seeks enforcement of the post-employment restrictive covenants will be the plaintiff. But sometime the covenanting employee sues first, seeking a declaratory judgment that the covenants are unenforceable. One chief motivation may be to pre-empt anticipated litigation by the ex-employer, as such pre-emption would allow the employee to choose a more convenient forum, or a forum that might be more inclined to apply the forum state's law that the employee deems more favorable. The employee or his new employer may also seek clarity on what the employee can or cannot do before committing acts that could expose them to damages. In addition, the ex-employer and new employer may want to avoid the cloud of uncertainty and will sue to establish what steps, if any, they need to take to avoid exposure to damages.

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3See, e.g., Roman v. Cessna Aircraft Co., 55 F.3d 542, 1995-1 Trade Cas. (CCH) ¶ 71004 (10th Cir. 1995) (antitrust injury under Sherman Act suffered by employee whose employer and competitor agreed not to hire each other's engineers); Union Circulation Company v. Federal Trade Com'n, 241 F.2d 652, 657–58 (2d Cir. 1957) (sales industry anti-switching agreements harmful to competition and therefore a violation of antitrust laws under Sherman Act).

4See, e.g., http://www.bloomberg.com/news/articles/2015-01-14/apple-google-make-new-bid-to-settle-antitrust-hiring-case-1-, discussing the settlement of antitrust claims against Apple, Inc., Google and other Silicon Valley companies based on the claims that they conspired to avoid hiring one another's employees.

522 NYCRR § 1200.42 (2010) (Rule 5.6).
Former employees and hiring employers have several bases to establish that a controversy exists. For example, they can argue that the former employers breached the contract and those breaches make the restrictive covenants unenforceable. In addition, these plaintiffs can argue that the covenants are unenforceable because the restrictions are overbroad and fail to protect legitimate business interests.

III. CAUSES OF ACTION AND GROUNDS OF LIABILITY

§ 80:27 Contract-related claims

Employers have several contract-related claims in connection with breaches of restrictive covenants. The first and most obvious type are breach of contract claims against employees for each of the breaches of their respective covenants.\(^1\) Employers can establish a claim for tortious interference with contractual relations against the competitors who hire away their covenanting employees if they show that a valid contract existed with the employee, the non-contracting defendant's knowledge of the contract, that party's intentional procuring of a breach of the contract, and damages.\(^2\) A “generalized economic interest in soliciting business for profit” does not provide a defense to a claim of tortious interference with an existing contract where the soliciting party had no economic relationship with the party under contract.\(^3\) There will be no tortious interference claim, however, where the covenant is unenforceable.\(^4\) As discussed above,\(^5\) an employer will often put a competitor on notice of an employee’s restrictive covenants, and part of this rationale is to satisfy the notice element of the tortious interference standard.

Employers can also state tortious interference claims relating to their clients where they have contracts with the clients that are affected by employees' breaches of their restrictive covenants. These claims can be stated against ex-employees who have knowledge of the contracts, and also the new employers of the former

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\(^1\) See generally Chapter 79, “Contracts for Services” (§§ 79:1 et seq.).


\(^4\) Buhler v. Michael P. Maloney Consulting, Inc., 299 A.D.2d 190, 749 N.Y.S.2d 867 (1st Dep't 2002) (dismissing a tortious interference claim that was based on an unenforceable restrictive covenant).

\(^5\) See § 80:22.
employees, if the plaintiff can show that they also had knowledge of the client contracts.

Employers may also be able to state a cause of action for the breach of the implied covenant of good faith and fair dealing, even where the employee’s actions do not directly breach a restrictive covenant agreement. This implied obligation may be breached when “a party to a contract acts in a manner that, although not expressly forbidden by any contractual provision, would deprive the other party of the right to receive the benefits under their agreement.” A claim for breach of the covenant of good faith and fair dealing can be stated, for example, where one party to an agreement uses the confidential information of the other party in order to compete with such other party, even where such use of information or competitive activity is not expressly prohibited by the contract.7

§ 80:28 Common law claims

In addition to the aforementioned contractual claims, employers can also state a number of common law claims against departing employees. An employer will have a claim for breach of the employee’s duty of loyalty if the employee takes steps inconsistent with faithful service to the employer, as they are “prohibited from acting in any manner inconsistent with [their] agency or trust, and are at all times bound to exercise the utmost good faith and loyalty in the performance of [their] duties.” Breaches of the duty of loyalty include competing with the employer during one’s employment,2 using company resources for non-company business or for personal gain, recruiting or attempting to recruit subordinates for a competitor prior to the recruiter’s departure,3


7ARB Upstate Communications LLC v. R.J. Reuter, L.L.C., 93 A.D.3d 929, 934, 940 N.Y.S.2d 679 (3d Dep't 2012) (a cause of action for breach of the covenant of good faith and fair dealing exists when defendants use plaintiffs’ confidential information to “usurp plaintiffs’ right to acquire sites, interfere with plaintiffs’ renewal of their radio frequency licenses, contact plaintiffs’ customers and compete with [plaintiffs’] business.”).

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pre-departure solicitation of customers,\textsuperscript{4} discussions with a client about the employee’s planned or anticipated resignation,\textsuperscript{5} diverting corporate opportunities,\textsuperscript{6} and using the company’s confidential information on compensation and furnishing it to the competitor.\textsuperscript{7} Officers and directors of a company have a heightened fiduciary duty to use their best efforts on behalf of the corporation and not compete with it or profit at its expense, or place their private interests in conflict with that of the corporation,\textsuperscript{8} and a statutory obligation to act with inherent fairness and with the utmost good faith in dealings with and on behalf of the corporation.\textsuperscript{9} Employers with faithless-servant or breach-of-fiduciary duties claims against employees can seek disgorgement of compensation during the period of disloyalty.

An employer can also levy a claim for usurpation or misappropriation of corporate opportunity where an employee has diverted opportunities in which the corporation has a “tangible expectancy” to himself or his new employer.\textsuperscript{10} A “corporate opportunity” or “tangible expectancy” has been defined as “something much less tenable than ownership, but, on the other hand, more certain than a desire or hope.”\textsuperscript{11} Fiduciary duties prohibiting the diverting of business may continue, under limited circumstances, after the termination of the employment relationship.\textsuperscript{12}

Employees often covenant not to disclose their employers’

\textsuperscript{4}Maritime Fish Products, Inc. v. World-Wide Fish Products, Inc., 100 A.D.2d 81, 474 N.Y.S.2d 281 (1st Dep’t 1984).
\textsuperscript{5}Maritime Fish Products, Inc. v. World-Wide Fish Products, Inc., 100 A.D.2d 81, 474 N.Y.S.2d 281 (1st Dep’t 1984).
\textsuperscript{8}Ability Search, Inc. v. Lawson, 556 F. Supp. 9, 15 (S.D. N.Y. 1981), aff’d, 697 F.2d 287 (2d Cir. 1982); see also Weiss/Watson, Inc. v. Lange, 1990 WL 33601, at *3 (S.D. N.Y. 1990) (defendant had a duty “to place plaintiff’s business interests above her own during the period in which she was still employed by plaintiff”). See generally Chapter 94, “Director and Officer Liability” (§§ 94:1 et seq.).
\textsuperscript{9}BCL § 715(h).
\textsuperscript{10}American Federal Group, Ltd. v. Rothenberg, 136 F.3d 897, 906, 40 Fed. R. Serv. 3d 44 (2d Cir. 1998); Abbott Redmont Thinlite Corp. v. Redmont, 475 F.2d 85, 88–89 (2d Cir. 1973). See generally Chapter 104, “Theft or Loss of Business Opportunities” (§§ 104:1 et seq.).
\textsuperscript{12}American Federal Group, Ltd. v. Rothenberg, 136 F.3d 897, 906, 40 Fed. R. Serv. 3d 44 (2d Cir. 1998) (prohibiting employee’s use of information obtained in a fiduciary capacity even after cessation of employment); Abbott Redmont Thinlite Corp. v. Redmont, 475 F.2d 85, 88–89 (2d Cir. 1973).
confidential information to any third party or not to use their employer’s confidential information for the benefit of any third party. An employer may also have a common-law claim for misappropriation of its trade secrets if it possessed a trade secret, the defendant used that trade secret, and such use was in breach of an agreement or duty of confidence, or as the result of discovery of the trade secret by improper means.\footnote{North Atlantic Instruments, Inc. v. Haber, 188 F.3d 38, 43–44, 15 I.E.R. Cas. (BNA) 731, 51 U.S.P.Q.2d 1742, 139 Lab. Cas. (CCH) P 58738 (2d Cir. 1999). See generally Chapter 105, “Misappropriation of Trade Secrets” (§§ 105:1 et seq.).}

A claim that closely parallels a claim for tortious interference with contractual relations is a claim for tortious interference with economic relations. The key distinction is that this latter claim does not require a contract between the employer and a client, but rather only an ongoing economic relationship that is damaged by the tortious interference.\footnote{Carvel Corp. v. Noonan, 3 N.Y.3d 182, 189, 785 N.Y.S.2d 359, 361–362, 818 N.E.2d 1100 (2004). See Chapter 104, “Theft or Loss of Business Opportunities” (§§ 104:1 et seq.) for additional discussion of claims for tortious interference with economic relations.} For a claim based on interference with a non-binding economic relationship, the plaintiff must show that defendant’s conduct was not only unlawful but more culpable, and was intended to inflict harm on the plaintiff.\footnote{Carvel Corp. v. Noonan, 3 N.Y.3d 182, 190, 785 N.Y.S.2d 359, 818 N.E.2d 1100 (2004).} One example of conduct giving rise to a claim for tortious interference with economic relations in the context of restrictive covenants is soliciting another company’s customers with wrongfully obtained confidential information.\footnote{Carpetmaster of Latham, Ltd. v. Dupont Flooring Systems, Inc., 12 F. Supp. 2d 257, 266–67 (N.D. N.Y. 1998).}

IV. DEFENSES AND RESPONSES

§ 80:29 Agreement is unenforceable because overbroad in scope, duration and geographic area

The most common defenses asserted by employees challenging the enforcement of their restrictive covenants are that the covenants are overbroad in one or several different ways and therefore anti-competitive and not designed to meet the employers’ legitimate business interest. When challenging a covenant not to compete, employees will often argue that the scope of the covenant is overbroad, as it is not necessary to protect the employer’s legitimate business interests. These employees contend that a prohibition on the use and/or disclosure of confidential information, or client and employee non-solicitation provisions (if not
otherwise challenged as set forth below) are sufficient to protect the employer’s interests in its relationships with client and employees and its confidential information. Such defenses have been particularly effective in recent years, as New York courts have shown greater disfavor of broad non-competition provisions.

Before the Court of Appeals’ 1999 decision in *BDO Seidman v. Hirshberg*,¹ some courts defined as one prong of the test for enforceability of restrictive covenants as determining whether “the time and geographic scope of the restriction” was reasonable.² Since *BDO Seidman*, most courts will still inquire as to the reasonableness of the duration and geographic scope of restrictions, particularly as many defendants raise these issues as defenses, even if they no longer specifically enumerate the duration and geographic scope as a specific prong of a test for reasonableness of the covenants. Courts have not set forth a definitive guideline for the maximum duration of any restrictions, but they have generally enforced non-solicitation and non-servicing provisions of up to one or two years in duration,³ and in some cases, have enforced covenants lasting three or more years.⁴ As with temporal restrictions, courts have not set a bright-line for the maximum geographic area that can be included within a restriction, but courts have generally allowed enforcement of geographic restrictions of less than 50 miles for localized markets, and refused to enforce restrictions beyond a 50-mile radius for local-

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³*Marsh USA Inc. v. Karasaki*, 28 I.E.R. Cas. (BNA) 577, 2008 WL 4778239, at *2–3 (S.D. N.Y. 2008) (enforcing restrictive covenants with one-year nonsolicitation and non-servicing provisions); *Spinal Dimensions, Inc. v. Chepenuk*, 16 Misc. 3d 1121(A), 847 N.Y.S.2d 905 (Sup 2007) (enjoining defendants for a period of 18 months from soliciting, servicing or otherwise doing business with any accounts or customers of former employer that they previously serviced directly or indirectly); *Contempo Communications, Inc. v. MJM Creative Services, Inc.*, 182 A.D.2d 351, 354, 582 N.Y.S.2d 667, 669 (1st Dep’t 1991) (two-year covenant barring former employees from working for customers was reasonable).

⁴*Novendstern v. Mount Kisco Medical Group*, 177 A.D.2d 623, 625, 576 N.Y.S.2d 329, 331 (2d Dep’t 1991) (enforced three-year restriction); *Bates Chevrolet Corp. v. Haven Chevrolet*, Inc., 13 A.D.2d 27, 31, 213 N.Y.S.2d 577, 581 (1st Dep’t 1961) (upheld five-year restriction from soliciting or accepting business from anyone who was or became the company’s customer during the period of the employee’s employment).
ized markets.\(^5\) There are, however, many exceptions in both directions.\(^6\)

Courts have recognized that some markets are national or international in scope, and held that senior employees' covenants that did not contain geographic limitations could be enforced because of the unique nature of the employees’ services and because the employers were competing in a broader or even worldwide market.\(^7\) Consumer products and Internet-based businesses, for example, may serve worldwide markets, which do not fit well with the concept of using geographic limitations to protect the local market. Courts will often decline to inquire into the reasonableness of geographic restrictions when parties agree to covenants in connection with the sale of business.

With both temporal and geographic restrictions, each case’s facts will play an important role in determining whether the covenants will be deemed reasonable and enforced.\(^8\) These restrictions speak to the chief concern of many courts—that employees will be restrained from earning a living in their chosen field.

\section*{§ 80:30 Contract of adhesion / duress}

Employees who are presented with restrictive covenants during their employment often argue that they agreed to the covenants only out of fear that they would lose their jobs, arguing alternatively that the contracts were adhesive or signed under duress. This argument is common despite the fact that continued at-will employment has been deemed adequate consideration for restrictive covenants in New York. Employees may still make this duress argument in the face of receiving certain benefits by arguing that they were still under economic duress and signed

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\(^5\)See, e.g., Unisource Worldwide, Inc. v. Valenti, 196 F. Supp. 2d 269, 277 (E.D. N.Y. 2002) (declining to enforce covenants by paper products salespeople not to compete within 100-mile radius of New York City or other markets of ex-employer); Prudential Securities, Inc. v. Plunkett, 8 F. Supp. 2d 514, 519 (E.D. Va. 1998) (declining under New York law to enforce covenants by financial advisor not to compete within 100-mile radius).

\(^6\)See, e.g., Asness v. Nelson, 273 A.D.2d 165, 711 N.Y.S.2d 717 (1st Dep't 2000) (one-year restriction applicable to all of New York and New Jersey enforced as reasonable; opinion did not identify industry of covenanting employee).

\(^7\)N.W. Ayer & Son, Inc. v. Deare, 1998 WL 811873, at *3 (S.D. N.Y. 1998) (advertising executives’ covenants enforced because “clients from around the world could be solicited and serviced by” single office).

\(^8\)A through compendium of cases concerning the reasonableness of temporal and geographic restrictions in a variety of restrictive covenants is included in the multi-volume treatise, Covenants Not to Compete: A State-by-State Survey, Sixth Ed., Vol. 2 at 3411–3425, ABA Section of Labor and Employment Law, 2008, Brian M. Malsberger, Ed.
overly broad restrictive covenants more because of fear of losing their jobs than the actual value of benefits. Employers can reduce the strength of these arguments by including restrictive covenants in the offer letter or initial employment agreement. Employers can also minimize the strength of this defense by ensuring that employees have ample time to consider and receive valuable consideration in exchange for covenants signed after the start of employment.

§ 80:31 No wrongdoing by employee

Courts have declined to prevent departing employees’ use of their “casual memory” of customer information absent “physical taking or studied copying,” or employees’ mere knowledge of the intricacies of a business, absent actual wrongdoing. In addition, an employee’s recollection of information pertaining to the needs and habits of particular customers is not actionable.

§ 80:32 Inevitable loss

A potential defense to a claim of violation of a provision barring solicitation of a client is that the client was going to end its relationship regardless of the solicitation. The First Department held that a former employee did not violate the non-solicitation provision of his employment agreement when his former client approached him after already deciding to leave his former employer. Other courts have recognized that a non-solicitation provision does not prevent a former employee from working for any client of the former employer so long as he did not solicit the work. The theory of inevitable loss is that the former employer does not have a legitimate business interest in protecting a rela-

[Section 80:31]

1 Leo Silfen, Inc. v. Cream, 29 N.Y.2d 387, 391–92, 328 N.Y.S.2d 423, 426–27, 278 N.E.2d 636 (1972); but see Al Minor & Assoc., Inc. v. Martin, 117 Ohio St. 3d 58, 2008-Ohio-292, 881 N.E.2d 850, 27 I.E.R. Cas. (BNA) 287, 155 Lab. Cas. (CCH) P 60563 (2008), where the court concluded the employer’s client list constituted a trade secret under the Uniform Trade Secrets Act, and that the client list did not lose its character as a trade secret simply because it was memorized.


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tionship it was going to lose, or had lost, independently of the employee’s departure. This doctrine applies only to nonsolicitation covenants, and not to nonservicing agreements, as “inevitable loss” of a customer would not justify the servicing of that customer of a party bound by a nonservicing covenant.³

§ 80:33 Reformulation / “blue-penciling”

One significant issue concerning enforcement of restrictive covenants is whether a court will reform a covenant that it deems overbroad. Some New York courts have expressed a willingness to modify the restrictions of various employment restrictive covenants by shortening the length of restrictions or reducing the geographic or substantive scope of the different types of covenants.¹ This type of editing is often referred to as “blue-penciling,” from the days when a judge would literally take a blue pencil and cross out entire provisions that failed to pass muster. In reality, reformulation of a contract is a little different from blue-penciling, as a court’s review of restrictive covenants is not limited to crossing out portions that can be “mechanically severed,”² but rather permits reducing the covenants in scope so that they can be enforced.

Courts, however, do not reform overbroad covenants automatically, as they are concerned that automatic judicial reformation would embolden employers to “use their superior bargaining power to impose unreasonable anti-competitive restrictions, uninhibited by the risk that a court will void the entire agreement.”³ As a result, an employer seeking partial enforcement of a restrictive covenant must demonstrate an “absence of overreaching, coercive use of dominant bargaining power . . . [and that it] has in good faith sought to protect a legitimate business interest.”⁴ Courts have the inherent power to reform restrictive covenants to make them enforceable, even where the parties

³See § 80:7 for additional discussion of noncompetition and nonservicing agreements.

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have not included “blue-pencil” provisions; still, the better practice for employers is to include these provisions in their agreements containing restrictive covenants. However, there has been an apparent trend among New York courts not to blue pencil overbroad restrictions. Employers therefore should carefully weigh the beneficial deterrent effects of a potentially overbroad covenant against the potential that such covenants will not be enforced, even on a more limited basis, if breached by an employee.

The issue of reformation also is important when competing states’ laws arguably apply to the covenant. This may occur, for example, when the employee was a resident of a state other than New York when she signed the covenant, or worked primarily outside of New York in performing her job. The issues concerning choice of law and possible conflicts of law are discussed in § 80:45 below.

§ 80:34 Waiver or selective enforcement is a not a viable defense

New York courts have rejected the argument that employers automatically waive the right to enforce restrictive covenants by suing only some employees who have similar covenants, noting that the corporation has the right to exercise its business judgment as to whether any prohibited competition was likely enough to warrant legal action. However, when a party is seeking equitable relief to enforce a restrictive covenant, it is asserting that it will be irreparably injured without the injunctive relief. Therefore, it is fair game for the party opposing the injunction to assume that the employer will not be irreparably injured any more than it was in a similar situation in which it did not seek to enforce the covenant against another departing employee.


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1See, e.g., Horne v. Radiological Health Services, P. C., 83 Misc. 2d 446, 455, 371 N.Y.S.2d 948, 96 (Sup 1975), order aff’d, 51 A.D.2d 544, 379 N.Y.S.2d 374 (2d Dep’t 1976).
§ 80:35 Unclean hands, laches

Employees can often rely on the equitable defenses of laches and unclean hands to defend against the former employer’s request for a preliminary injunction to enforce the restrictive covenant. Laches is the principle of a party seeking relief only after it “slept on its right,” or waited too long before seeking an injunction, causing others (new employers, departing employees) to rely to their detriment. A viable laches defense requires that the employer must have unreasonably delayed in the pursuit of enforcing the non-compete agreement, and that the delay has prejudiced the employee.\(^1\) Courts have set a narrow window in which an employer can seek preliminary injunctive relief or else be deemed to waive the claim under the doctrine of laches. Some courts have held that the window is as short as a few weeks. An essential element is whether the delay is unreasonable, and some courts have rejected a laches defense even where the delay was longer than a few weeks.\(^2\) Employers, however, should seek to avoid a laches defense by not delaying to seek injunctive relief. Injunctions are often to maintain the status quo. When an employee has already started a new job, an injunction barring the employee from continuing to work at the new job is more difficult to obtain because it necessarily interferes with the status quo as of the time of request for injunction, rather than restores it.

Unclean hands may exist if the employer breached the contract first (e.g., wrongful discharge or failure to pay the employee required compensation, or hired employees from the new employer in breach of a restrictive covenant).

§ 80:36 Inconsistent positions

Another possible defense is that the party seeking to enforce a covenant has taken inconsistent positions. One court declined to grant a brokerage firm a preliminary injunction enforcing its restrictive covenants where it had previously argued that similar covenants did not warrant injunctive relief because a liquidated damages provision in connection with the covenants demon-


\(^2\)Evolution Markets, Inc. v. Penny, 23 Misc. 3d 1131(A), 889 N.Y.S.2d 882 (Sup 2009) (no laches defense where employer waited seven weeks to seek injunction because ongoing federal case might have mooted present case); Computer Associates Intern., Inc. v. Bryan, 784 F. Supp. 982, 987 (E.D. N.Y. 1992) (no laches where employer “conducted an extensive investigation in order to gather the necessary facts required to support this complex action.”).
strated the absence of irreparable harm. In holding that the brokerage firm was judicially estopped from raising an inconsistent position, the court noted that “with alarming frequency these competing parties are asserting alternative and contrary positions depending on which side of a particular suit they are on.”

Employers should therefore consider whether competitors also have agreements with their own employees containing post-employment restrictive covenants and examine whether the competitors have taken inconsistent positions that can be cited against them. One commentator has observed that several courts outside of New York have found that an employer’s use of restrictive covenants with its own employees weakens that employer’s argument that similar covenants, used by a competitor, are not enforceable.

§ 80:37 Lack of consideration

Courts are more likely to enforce restrictive covenants if the employee agreed to the covenants in connection with obtaining a specific benefit, such as being hired, promoted, paid a bonus, receiving a grant of stock options, or receiving a salary increase. Some states will refuse to enforce a covenant without some evidence that the employee received a discernable benefit in exchange for entering into the restrictive covenant. New York courts, however, do not take such a hard-line view. Indeed, some New York courts have recognized that an employee’s continued employment for a period of time after signing the agreement acts as sufficient consideration for entering into that agreement because the employer is forbearing from exercising the right to discharge an at-will employee.

In Ticor Title Insurance Co. v. Cohen, the Second Circuit relied on the fact that an executive

[Section 80:36]


[Section 80:37]

1Zellner v. Stephen D. Conrad, M.D., P.C., 183 A.D.2d 250, 256, 589 N.Y.S.2d 903, 907, 8 I.E.R. Cas. (BNA) 4 (2d Dep’t 1992) (at-will employer’s forbearance of right to terminate employee is a legal detriment which consti-
who had agreed to a six-month competition covenant was highly compensated during his employment in finding that the covenant was reasonable and that the employee’s ability to earn a living was not impaired by the covenant.\(^2\) An employer, however, will maximize the likelihood of enforcing a covenant when it obtains the covenant as consideration for a specific benefit, such as a promotion or additional payment.

Likewise, some courts have noted the increasing likelihood of enforcement of a covenant that would prevent a former employee from engaging in competition with his former employer where the former employer continues paying the former employee his salary during the period of the non-compete restriction.\(^3\) Courts have recognized that the impairment on the employee’s ability to earn a living is largely mitigated where an individual continues to receive a salary.\(^4\)

\(\S\ 80:38\) Discharge and constructive discharge

Some earlier New York court decisions held that the employer’s decision to terminate the employment of an employee without cause destroyed the mutuality of obligations in contracts needed to enforce covenants.\(^1\) The traditional view of enforcement reasoned it would be unjust to prohibit an employee to earn a living by working for a competitor when his original employer no longer seeks his services. Several of the courts expressing this per se rule cited the Court of Appeals’ decision in Post v. Merrill


Lynch, which held that the involuntary discharge by an employee’s former employer makes the forfeiture of employee’s pension money unconscionable.\(^2\)

For a time, it was thought that this traditional view no longer prevailed as a bright-line standard. In its 2006 decision in *Morris v. Schroder Capital Management International*, the Court of Appeals held that some restrictive covenants—nonsolicitation and trade secret covenants, for instance—are enforceable even “if the employee was terminated involuntarily and without cause,” provided that the covenants are reasonable.\(^3\) The Court in *Morris* departed from the interpretation of some courts that *Post v. Merrill Lynch* stands for a per se rule that all restrictive covenants will be unenforceable if the employee was terminated without cause, as some commentators have noted.\(^4\)

Likewise, in *Novendstern v. Mt. Kisco Medical Group*, the Second Circuit upheld an injunction that barred a doctor from competing in violation of his restrictive covenants even though his employer, a medical group, had terminated the doctor’s employment.\(^5\) The court’s decision in *Novendstern* is at the further edge of what courts will enforce. Most courts will enforce limited restraints on competition, such as nonsolicit or nonservice provisions, but will decline to allow an employer to fire an employee and then obtain enforcement of a broad noncompetition agreement.

More recent case law indicated that New York courts might be gravitating back to a bright line proposition that an employer may not enforce any restrictive covenants where the employer terminates the former employee without cause. Relying on the decision in *Post v. Merrill Lynch, Pierce, Fenner & Smith*, those courts denied enforcement because “[a]n employer should not be permitted to use offensively [a noncompetition] clause . . . to economically cripple a former employee and simultaneously deny other potential employers his [or her] services.”\(^6\) Those courts held that “[t]his rationale applies with equal force to covenants

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\(^4\)Altieri and Clark, After Termination “Without Cause”: Restrictive Covenants, 2/6/07 N.Y.L.J..


not to solicit a former employer’s clients and employees; solicitation is simply another form of competition.”

The Second Circuit’s decision in *Hyde v. KLS Prof’l Advisors Grp., LLC*, however, questions the validity of this “bright line” rule that restrictive covenants are unenforceable against an employee who had been discharged without cause. The Second Circuit “caution[ed] . . . against extending Post beyond its holding” and suggested that [outside of the forfeiture-for-competition context], including when an employee has been discharged without cause, the enforceability of a restrictive covenant should be analyzed under *BDO Seidman’s* reasonableness test. The *Hyde* decision may provide ammunition to employers seeking to enforce post-employment restrictions against employees who have been terminated without cause.

§ 80:39 Protection of trade secret information and inevitable disclosure

New York courts will consider several factors as to whether information qualifies as a trade secret, including “the extent to which the information is known outside of [the] business” and “the extent to which it is known by employees and others involved in [the] business.” Courts regularly find that protection of trade secret information qualifies as a legitimate business interest and thereby allows enforcement of restrictive covenants based on the doctrine of “inevitable disclosure,” as discussed in this section. Courts, however, have declined to enforce non-competition agreements based on the inevitable disclosure doctrine where there is no evidence of misappropriated proprietary information and the

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[Section 80:39]

information at issue is merely information or knowledge within the recall of the departed employee. Courts have also held that there is no stand-alone cause of action for inevitable disclosure of trade secrets under New York law.

Under the doctrine of inevitable disclosure, courts have held that certain employees who have entered into non-competition agreements with their employers can be restrained from accepting jobs with their former employers’ competitors on the ground that the employee would “inevitably disclose” the trade secrets of his former employer in the course of working for the competitor. The doctrine is disfavored by New York courts, but has been applied to employees with highly technical knowledge of trade secrets, and also to senior executives who had knowledge of vital trade secrets or strategic business information. Under all circumstances, however, there must be a “clear demonstration” that the information to which the employee had access constitutes trade secret information and that such information actually was misappropriated.

Courts have applied the inevitable disclosure doctrine to impose non-competition restrictions even where employees had not signed any restrictive covenants, but “only [in] the rarest of cases” because the doctrine would effectively construe an implied restrictive covenant and traverse the “strict judicial scrutiny” applied to actual restrictive covenants. As a result, courts have observed that the “inevitable disclosure doctrine treads an exceedingly narrow path through judicially disfavored territory.” For example, courts have expressed a willingness to enjoin a former employee from competition with her former employer where the

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8 Spinal Dimensions, Inc. v. Chepenuk, 16 Misc. 3d 1121(A), 847 N.Y.S.2d 905 (Sup 2007).
former employee actually misappropriated confidential information because such conduct provides evidence of an intent to disclose, and thus that disclosure is inevitable. One factor leading a North Carolina court to apply this doctrine was its concern about the ex-employee’s candor, given misrepresentations he had made.\(^{11}\) Absent evidence of misappropriation of trade secrets, courts’ consideration of the inevitable disclosure doctrine typically occurs in an analysis of irreparable harm when employers seek to enforce actual restrictive covenants.\(^ {12}\)

One claimed trade secret often arises in disputes concerns pricing information. Courts have split over the protectability of pricing information. On the one hand, some courts have barred former employees’ use of the company’s pricing information under both the common law and restrictive covenants, where they found the information to be not generally known and difficult to obtain.\(^ {13}\) On the other hand, courts have declined to enforce covenants or find trade secret protection for pricing information where customers in a narrow industry liberally discussed pricing and different manufacturers’ discounts,\(^ {14}\) or where there was no restrictive covenant and the employer conceded that its customers were not obliged to keep the information secret.\(^ {15}\) As with so many issues raised in restrictive-covenants litigation, this inquiry turns on the facts in a specific case.


\(^{12}\)Spinal Dimensions, Inc. v. Chepenuk, 16 Misc. 3d 1121(A), 847 N.Y.S.2d 905 (Sup 2007) (noting that New York courts “have long relied upon similar [rationales as the inevitable disclosure doctrine] in enforcing restrictive employment covenants, though not necessarily under the rubric of ‘inevitable disclosure.’”); Janus et Cie v. Kahnke, 2013 WL 5405543 (S.D. N.Y. 2013) (noting that “state and federal case law refer to the doctrine of inevitable disclosure exclusively in the context of preliminary injunctions. There, the doctrine has been used to support the required showing of irreparable harm where there is a substantial risk that a defendant will disclose trade secrets to a competing employer.”); but see, e.g., Estee Lauder Companies Inc. v. Batra, 430 F. Supp. 2d 158, 179, 24 I.E.R. Cas. (BNA) 897 (S.D. N.Y. 2006) (inevitable disclosure doctrine available even absent showing of actual misappropriation of trade secrets).


§ 80:40  Relationships are not protectable because they are pre-existing

Employees have successfully argued that employers could not enjoin them from servicing or soliciting key clients where the employees’ relationship with the clients pre-dated the employees’ work for the employers. Key client representatives and salespersons build relationships often with clients that last for many years and continue, even though the representatives change employers. Indeed, the financial industry has recognized the portability of client portfolios in establishing protocols for the transfer of clients from one firm to another when account managers and executives switch firms.¹

In BDO Seidman v. Hirshberg, the Court of Appeals considered an agreement that was not an explicit noncompete, nonservice, or nonsolicit covenant but rather one that required a manager in an accounting firm to pay “for the loss and damages” sustained by any clients who left the accounting firm in the 18 months after his departure.² The court construed this agreement as a limited nonservice covenant that barred the manager from servicing clients of the firm who he actually serviced while there and with whom he did not have a relationship before joining the firm.³ The court held that the accounting firm had no legitimate interest in preventing the manager from competing for clients who followed him to the firm and for clients who had no relationship with him while he was at the firm.⁴

The inquiry into whether a client relationship pre-dated the employer’s work for the firm is often blurred. After an employee who had a pre-existing relationship with a client has worked with an employer for several years, it can become murky as to whether the client account has remained because of the employee’s pre-existing relationship, or because the client was happy with the services of the employer, including those of the employee. A rule of thumb is that the longer an employee remains with a firm, the stronger the employer’s argument that the relationship is protectable. BDO Seidman in essence recognizes that pre-existing client relationships can be valuable property rights of

the employee and that those rights do not necessarily inure to
the continued benefit of the employee’s new company (regardless
of the explicit terms of a restrictive covenant) once that employee
is no longer employed by the new company.

Courts have looked at a variety of factors to determine whether,
or not an employer has a legitimate interest in protecting client
relationships from solicitation by the ex-employee who directed
the clients to the employer. Courts have considered such factors
as whether the defendant employee was the sole or primary
contact with the customers, had extensive dealings with them,
and nurtured the relationships. According to one decision, the
most important factor is whether the employer “shouldered all of
the monetary expenses of these interactions” and relied on this
incurring of expenses to hold that the client relationship was
protectable by the restrictive covenants.⁵

In light of BDO Seidman, employers should structure their
non-solicitation covenants to apply only to clients with whom the
employee works while employed by the employer, as opposed to
all of the employer’s customers. The rationale for this type of
limitation is that the employee should be prevented from exploit-
ing any access or relationship he gained from his employment,
but that the employee is not exploiting anything when he never
personally dealt with a particular individual or company who
happened to be a customer of his employer. Some employers will
take the extra step of having the employee list his or her prior
business/client relationships in the restrictive covenant to make
it more difficult for an employee to claim, post-employment, that
a client relationship not listed in the agreement was pre-existing.
This shifting of the burden to the employee, to prove the exist-
ence and nature of such alleged pre-existing relationship, can be
a useful tool for employers seeking to enforce their non-
solicitation agreements.

V. VENUE / FORUM SELECTION / ALTERNATIVE
   DISPUTE RESOLUTION

§ 80:41 Venue

Employers who wish to sue to enforce restrictive covenants
often find themselves in New York Supreme Court. Absent an in-
dependent basis of federal jurisdiction, the only ticket to federal
court will be diversity jurisdiction. Diversity, of course, is not
present if both the employer and employee are residents of New
York. It is not uncommon, however, for New York employers to
litigate with ex-employees who live in neighboring states.
Litigants in parts of New York can proceed with their cases in

the Commercial Division of the Supreme Court, as the court has jurisdiction over cases with principal claims involving restrictive covenants, as well as unfair competition and other business torts, provided that there is a claim for equitable relief or a damage claim exceeding a specified monetary threshold. The Commercial Division has parts in New York, Kings, Queens, Nassau, Suffolk, Westchester, Albany, and Onondaga Counties, as well as the Seventh and Eighth Judicial Districts (each covering eight upstate counties), and the monetary thresholds vary for each of these parts, ranging from $50,000 to $500,000.

§ 80:42 Forum selection

Increasingly, parties to contracts with restrictive covenants include a forum selection clause that specifies the forum in which to air their disputes. Forum-selection clauses are presumed to be valid. Courts will set aside such clauses only if a party shows that enforcement would be unreasonable or unjust, or that the clause is invalid because of fraud or overreaching, making trial in the selected forum so inconvenient that a party would be deprived or her day in court. A sample forum-selection clause provides:

Any actions under or with respect to this Agreement shall be determined solely in accordance with the internal laws of the State of [New York or other state] and any actions under or with respect to this Agreement shall be filed only in the (state) or (federal) courts located in the [state and/or county] and the Parties consent to the jurisdiction and venue of solely such courts.

§ 80:43 Arbitration

Employers and employees can include arbitration provisions in their restrictive covenants. There are several important elements parties to these covenants should consider. Employers may prefer arbitration to minimize the effect of adverse precedent. If an employer's restrictive covenants were held unenforceable in a confidential arbitration, the arbitral decision would not be citable precedent that would threaten the validity of the employer's similar agreements with its other employees. Employers may also

[Section 80:41]

122 NYCRR § 202.70(b); N.Y. Ct. Rules, § 202.70(b) (Rules of the Commercial Division of the Supreme Court). See generally Chapter 35, “Practice Before the Commercial Division” (§§ 35:1 et seq.).

222 NYCRR § 202.70(a); N.Y. Ct. Rules, § 202.70(a) (Rules of the Commercial Division of the Supreme Court).

[Section 80:42]

prefer the confidentiality that arbitrations provide, particularly to avoid publicizing the loss of key clients as part of a complaint for breach of client nonsolicitation or nonservicing provisions. In addition, an employer may also prefer arbitration to avoid disclosing trade secret information in its efforts to show that it has a legitimate business interest in protecting such information. Both sides may prefer arbitration because it can limit costs and may lead to faster disposition, one way or another.¹

Employers that foresee the need for preliminary injunctive relief while the arbitration is pending should seek to include in the arbitration clause a provision that will allow a pre-determined arbitrator to grant injunctive relief on an expedited basis. The Commercial Rules of the American Arbitration Association provide that where the parties have agreed to their optional emergency procedures, an arbitrator will be assigned immediately by AAA upon a party’s showing of a need for emergency relief.² Although an arbitrator’s award of injunctive relief does not provide for contempt of court as a penalty for violation of a court-issued injunction, in only rare cases would a party—likely one who is either poorly counseled or fails to adhere to his attorney’s advice—flout the arbitrator’s award and force the opposing party to proceed to a court for an injunction confirming the arbitration’s award.

If parties include an arbitration clause in their agreements but omit a provision for expedited injunctive relief, then the chance increases that a party seeking to enforce a covenant will have to file both a demand for arbitration and file a court action in aid of arbitration for interim injunctive relief.³ The reason for the possibility of two actions is that an arbitrator is typically not available at the outset of a dispute to consider a motion for a temporary restraining order or preliminary injunction, unless the parties have named a specific person in the agreement to arbitrate disputes. Parties who agree to arbitration of restrictive-covenant disputes often expressly state that the parties can proceed to court for injunctive relief, although they have the right for an injunction in aid of arbitration under the CPLR, even absent this express provision.⁴

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¹See generally Chapter 61, “Arbitration” (§§ 61:1 et seq.).
³See generally Chapter 18, “Provisional Remedies” (§§ 18:1 et seq.) for additional discussion of provisional remedies in aid of arbitration pursuant to CPLR 7502(c).
⁴CPLR 7502(c). See GFI Brokers LLC v. Bellard, 2013 WL 3771275 (N.Y. 1168
Finally, potential litigants in an arbitration proceeding should bear in mind that discovery is typically more limited in an arbitration proceeding. This limited discovery may be desirable to both parties, particularly employees, because it reduces costs of litigation. As discussed further in § 80:47, courts often grant broad discovery at the start of restrictive covenant cases, usually in conjunction with a motion for preliminary injunction, that arbitrators may not grant. In addition, parties to an arbitration have more limited power to compel discovery from non-parties, such as customers. As one example, non-parties can only be served with subpoenas to appear at a hearing under the Federal Arbitration Act, and cannot be compelled to attend a pre-hearing deposition or provide pre-hearing document discovery.  

§ 80:44 Settlement and mediation

The vast majority of civil litigations, including restrictive-covenants cases, are resolved in settlement, one of many possible junctures prior to a final adjudication on the merits, and the same statistic applies for restrictive covenant cases. Experience shows that the parties themselves are often in the best position to evaluate the reasonableness and necessity of restrictions in their particular industries. The parties’ settlement discussions can lead to more sound, tailored, and predictable results than relying on a busy court often removed from the nuances of the industry and commercial realities of a specific dispute.

Mediators also can play an effective role at different stages of a restrictive-covenants litigation. Both mediation and settlement can allow for creative solutions that a court cannot grant. For example, the parties can agree that the former employee and/or new employer will refrain from soliciting or servicing a specific subset of clients or employees. In this way, the parties can tailor their concerns and negotiate business solutions regarding whether specific client relationships will be off limits to the former employee. A court, in contrast, is not likely to parse a client list and apply the restrictive covenants to only a select list—for example, a specific number of the largest or longest-standing clients unless those issues affect the specific legal issue at hand. Similarly, the parties in mediation can agree that the employee

Sup 2013) (noting that “seeking protective relief to preserve the status quo in aid of a pending arbitration does not constitute a waiver of a party’s contractual right to arbitrate.”).


[Section 80:44]

1See generally Chapter 36, “Settlements” (§§ 36:1 et seq.).
and his new employer will not hire for a specific period of time and in a specific geographic location any additional employees of the employee's prior company.

Often, cases settle on the eve of, or promptly following a hearing for a preliminary injunction. Litigants may seek settlement right before the hearing to avoid the uncertainty of the results of the hearing. Conversely, once a preliminary injunction is either granted or denied, the parties will have certainty of their positions and this certainty takes out the guesswork and can help each side value the strength of its case, which also leads to settlement.

VI. ISSUES CONCERNING CHOICE OF LAW

§ 80:45 New York standard on which state's law will apply

New York follows the “substantial relationship” approach as stated in the Restatement (Second) of Conflicts of § 187 in determining which state’s substantive law should apply for contracts in general. Under New York law, the law chosen in the contract will control, unless either the state chosen has no substantial relationship to the parties, or application of the law of the chosen state would be contrary to a fundamental policy of a state that has a materially greater interest than the chosen state. Courts have applied this “substantial relationship” approach to restrictive covenants.

Parties who wish to include a choice-of-law provision in their contracts containing restrictive covenants could use the following sample language:

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4See generally Chapter 14, “Enforcement of Choice of Law Clauses” (§§ 14:1 et seq.).
This Agreement shall be governed by and construed in accordance with the internal laws of the State of [New York or other state], which internal laws shall exclude any provision or interpretation of such laws that would call for, or permit, the application of the laws of any other state or jurisdiction, and any dispute arising therefrom and the remedies available shall be determined solely in accordance with such internal laws.

Parties may wish to include a sentence in the choice of law provision that explains the connection with a particular state whose law will govern. For example, this connection may be that the employee works in that state, and/or the choice of law is the state of the principal place of business of the company.

§ 80:46 Notes on other key states with specific nuances

California prohibits restrictive covenants in the employment context, and has made the prohibition clear by enacting a statute prohibiting any employment restrictive covenants. The only exception to this bright-line rule is restrictive covenants entered into in connection with the sale of a business or in connection with dissolution of or disassociation from partnership agreements. Indeed, even “narrow restraints” on an employee’s engaging in a profession are void unless in connection with sale of a business, or if they are appropriately tailored confidentiality agreements.

On November 2, 2010, Georgia passed the Georgia Restrictive Covenants Act (“RCA”), which will apply to all restrictive covenants entered into on or after May 11, 2011. Under the RCA, covenants not to compete are permissible so long as they are reasonable in time, geographic area and scope. However, the RCA provides that an employer may not enter into noncompetition agreement with employees who lack selective or specialized skills, learning, or abilities or customer contacts, customer information or confidential information. The RCA also eliminates the requirement that nonsolicitation agreements contain an express

[Section 80:46]

5O.C.G.A. §§ 13-8-50 et seq.
7O.C.G.A. § 13-8-51(5).
geographic definition.8 And finally, and perhaps most importantly, the RCA permits Georgia courts to “blue pencil” overbroad restrictions—similar to New York.9

For restrictive covenant agreements entered into before May 11, 2011, prior Georgia law still will apply. Under this prior law, Georgia places more limitations on the use of restrictive covenants than does New York. Georgia courts require a territorial restriction in noncompetition agreements, and that restriction must be the area in which the employee actually worked.10 A Georgia court may enforce a restrictive covenant where the restraint imposed is reasonable, founded upon valuable consideration and reasonably necessary to protect the interest of the employer, as long as it does not unduly prejudice the public interest.11 The scope of the activities in which the former employee may not engage must be specifically outlined in the agreement, as the failure to specifically describe the proscription in the agreement will render the entire agreement unenforceable.12 Additionally, there must be a rational relationship between the scope of the activities restricted and the activities the employee conducted for his former employer.13 Georgia courts have often refused to use the “blue pencil” doctrine to sever out overbroad provisions.14 Therefore, if enforcement of a restrictive covenant is governed by Georgia law and any part of the covenant is not

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8 O.C.G.A. § 13-8-53(b).
9 O.C.G.A. § 13-8-54(b).
valid under Georgia law, a court will hold the entire covenant unenforceable.

Texas statutory law provides that “a covenant not to compete is enforceable if it is ancillary to or part of an otherwise enforceable agreement at the time the agreement is made to the extent that it contains limitations as to time, geographical area, and scope of activity to be restrained that are reasonable and do not impose a greater restraint than is necessary to protect the goodwill or other business interest of the promisee.”\textsuperscript{15} To maximize the likelihood of enforcement, the “time, geographical area, and scope of activity to be restrained” should be limited to clients with whom the employee had dealings, or limited to a specific location in which the employee worked.

Florida has an elaborate statutory scheme concerning restrictive covenants.\textsuperscript{16} The benefit of this scheme is that, if an employer’s agreement complies with the requirements laid out in the statute (e.g. the agreement is in writing; the agreement protects one of the legitimate interests set enumerated in the statute; the duration falls within the limitations provided; etc), then the agreement is likely to be enforced. Moreover, the statute explicitly states that courts “[s]hall not consider any individualized economic or other hardship that might be caused to the person against whom enforcement is sought.”\textsuperscript{17} However, Florida law on restrictive covenants does impose a requirement not expressly required by New York law. To be enforceable, noncompetition covenants must specifically state that they intend for the restraint to survive termination of employment.\textsuperscript{18} In any event, it is a best practice for employers to include language in the restrictive covenants that the parties intend for the restraints to survive termination of employment.

Delaware’s law is of particular relevance because many companies are incorporated there and, sometimes, restrictive covenants included in company benefit plans are governed by Delaware law. In Delaware, covenants not to compete in employment contracts are subject to heightened scrutiny.\textsuperscript{19} In order to be enforceable under Delaware law, a covenant not to compete must be

\textsuperscript{15}V.T.C.A., Bus. & C. § 15.50.
\textsuperscript{16}F.S.A. §§ 542.335 et seq.
\textsuperscript{17}F.S.A. § 542.335(1)(g)(1).
\textsuperscript{18}St. Johns Inv. Management Co. v. Albaneze, 22 So. 3d 728, 30 I.E.R. Cas. (BNA) 49 (Fla. 1st DCA 2009).
valid as a matter of contract law. In addition, a restrictive covenant is not enforceable unless: (1) its duration is reasonably limited temporally; (2) its scope is reasonably limited geographically; and (3) its purpose and operation protect legitimate interests of the employer. These legitimate economic interests include employer goodwill and protection of employer confidential information from misuse. Delaware courts will also weigh the relative burden on the employee and the employer in determining whether a restrictive covenant is enforceable. Delaware law permits a court to modify a covenant such that the covenant can be enforced to the extent that it is reasonable to do so. Illinois law uses a test similar to New York’s, as it will enforce restrictive covenants that are reasonable and necessary to protect legitimate business interests of the employer. The employer’s legitimate business interest is satisfied if the covenant is necessary to prevent the employee’s use for his own benefit of trade secrets or other confidential information acquired through his employment or to protect the customer relationships to which the employee would not have had access but for his association with the employer.


VII. LITIGATION PRACTICE AND STRATEGIC CONSIDERATIONS

§ 80:47 Discovery

One thing that distinguishes restrictive-covenants litigation is the intensity and cost of discovery that occurs right at the start of a restrictive covenants case that includes a claim for preliminary injunctive relief. Whether a claim for damages or injunctive relief, the inquiry into enforcement of post-employment restrictive covenants is extremely fact intensive.

The first step of discovery usually occurs in the days before a complaint is filed when the employer undertakes an internal investigation. In this increasingly electronic age, a wealth of information can be obtained by reviewing information to which the employer already has access: the employer-supplied computers and e-mail and voicemail accounts. Employees often fail to realize that the employer has access to their e-mail messages on company-provided networks and personal digital assistants (PDAs), such as iPhones and Blackberries. Other often-overlooked sources of communications are instant messages or chats over a company’s network, which some companies maintain after the chats have ended, and text messages on mobile phones. By reviewing e-mails and other communications made by departing employees, employers may obtain the information needed to establish their right to injunctive relief and mitigate the harm by finding out what solicitations of clients or employees were in the works.

Attorneys representing employees who plan to depart a company should not only counsel their clients not to violate their restrictive covenants, to the extent they are likely enforceable, but remind them that they should not use the company’s networks, e-mail, office, or resources for any improper actions or anything that could even appear to be violative of their covenants, such as copying or forwarding to their home e-mails sensitive business of their employer.

Once discovery is underway, employers should search a variety of sources. In addition to the aforementioned company-controlled sources, there are several other sources. First among these is the selection of files maintained by the employees at their homes. Employees often bring files home with them (in hard copy or [Section 80:47]

1At least one New York court has held that an employer cannot monitor its employees’ mobile phone text messages without the consent of their employees, because text messages constituted a “call” under the Telephone Consumer Protection Act (“TCPA”), Pollock v. Island Arbitration & Mediation Inc., 22 Misc. 3d 463, 468, 869 N.Y.S.2d 740, 743–44 (N.Y. City Ct. 2008).
electronic format) or forward documents to their personal e-mail accounts so that they can access and work on them during nights or weekends. An employer should immediately request the return of all company property and serve document requests for all files maintained by the employee after the resignation. In addition, publicly available documents may confirm violations of a non-competition agreement. For example, employees who start a competing venture or existing competitors who hire covenying ex-employees may post information on their websites or third-party sites touting their new business or new employment. Departing employees may also post updated contact information as part of their profiles on industry pages, or professional networks, like Linkedin.com or even Facebook.com. In addition, a company’s clients may be able—and willing—to provide information confirming the ex-employee’s new role at a competitor, such as business cards or correspondence.

Particularly with company—and employee—maintained files, employers should consider using forensic, data-recovery experts, whose help may prove critical to revealing computer files and related information that is not accessible through ordinary searches. When computer users delete files from their directories, traces of the files can remain in hidden directories or places on a hard drive accessible only through sophisticated search software. In addition, a search of an employee’s computer or hard drive can reveal metadata—information about a file’s creation contained within the file—that provides highly relevant information about when the file was created, edited, viewed, accessed, printed, and whether it was copied or forwarded. Metadata can be essential in establishing that an employee, for example, copied or transmitted a selection of the employer’s confidential information right before resigning. This proof can, in turn, provide a solid basis for an application for a temporary restraining order or preliminary injunction.

Because electronic discovery on a variety of platforms (office computers, home computers, mobile phones, and PDAs) can prove critical, it is essential that employers promptly instruct their former employees to return all company documents and also refrain from overwriting or deleting any hard drives. Deletion of an individual file may still leave traces of that file on a computer that can only be erased by special overwriting or file-deletion programs.

A host of court decisions have recognized this and provided for severe sanctions for breaches of those obligations and resulting
spoliation of data, including monetary sanctions, adverse inferences, and striking of claims or defenses.²

§ 80:48 Injunctive relief application—Trial within a trial

Practically, most claims for injunctive relief for enforcement of a restrictive covenant will include a request for a preliminary injunction, brought either by motion, or most frequently by an order to show cause for a temporary restraining order in advance of the preliminary injunction hearing. An employer who seeks a permanent injunction without also seeking interim injunctive relief is unlikely to get any injunctive relief, given the short duration of enforceable restrictive covenants and the expected time to try a case on a non-expedited manner. Indeed, most covenants are less than two years in duration, and many cases can take more than two years to proceed to trial.¹ Even if a trial occurred within a relatively short period of six to 12 months, it would be difficult for the employer to demonstrate that an injunction is needed to prevent the irreparable harm of a breached covenant, when the ex-employee has not been abiding by that covenant for months, and possibly soliciting, servicing, and hiring the plaintiff’s former clients and employees. As a result, the proceedings related to a preliminary injunction motion essentially become the crux of the litigation distilled down to a few intense weeks of expedited discovery and motion hearings.

In order to obtain a preliminary injunction, an employer must show likelihood of success on the merits, irreparable injury in the absence of an injunction, and balance of the equities in its favor.² Courts require a considerable amount of evidence for all three of these prongs in order for a preliminary injunction to be granted. A similar showing is required for a temporary restraining order in state court. Federal courts have used a nearly identical standard, requiring a showing of irreparable harm to the movant, and either (a) a likelihood of success on the merits of the underlying claim or (b) sufficiently serious questions going to the merits


[Section 80:48]

¹See § 80:15 for further discussion of duration of enforceable covenants.

of the claim as to make it a fair ground for litigation and a balance of the hardships tipping decidedly toward the movant.3

Under CPLR 6313, a court may grant a temporary restraining order without notice to the adverse party if “on a motion for a preliminary injunction, the plaintiff shall show that immediate and irreparable injury, loss or damages will result unless the defendant is restrained before a hearing can be had[.].”4 Under the CPLR, plaintiffs who gain a T.R.O. ex parte must promptly serve the order along with a notice of hearing for the preliminary injunction personally on the defendants in the same manner as a summons.5 Moreover, the Rules of the Commercial Division require a moving party to give advance notice of a T.R.O. application or otherwise show “that there will be significant prejudice by reason of giving notice.”6 The Uniform Civil Rules similarly require an affirmation showing that there will be significant prejudice by giving of notice.7

The Federal Rules of Civil Procedure also require the movant’s attorney’s certification in writing of the efforts, if any, to provide notice and the reasons why the court should not require notice before entering the order.8 The court that issued any restraining order without notice shall define the injury and state why it is irreparable and why the order was granted without notice.9 Together, these rules make it rare for a federal court to enter a temporary restraining order before the defendant has received notice.

§ 80:49 Expedited discovery

Expeditied discovery may be warranted in cases where the party against whom it is sought is in “unique possession of the information necessary to determine the extent of their unlawful conduct.”1 In restrictive covenant cases, courts may grant employers expedited discovery on the ground that the departed employees are the only ones who possess the knowledge concerning their

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4CPLR 6313(a) (2010).
5CPLR 6313(b) (2010).
622 NYCRR § 202.70(g), Rule 20; N.Y. Ct. Rules, § 202.70(g), (Rule 20 of Rules of the Commercial Division of the Supreme Court).
722 NYCRR § 202.7(f); N.Y. Ct. Rules, § 202.7(f).
8Fed. R. Civ. P. 65(b)(1) and (2).

[Section 80:49]

1Sylmark Holdings Ltd. v. Silicone Zone Intern. Ltd., 5 Misc. 3d 285, 302, 783 N.Y.S.2d 758, 774 (Sup 2004).
contacts with the employer’s clients and other employees, whether the departed employees possess or are using the employer’s confidential information and whether the new employer has been complicit in any wrongful conduct. In addition, the employee’s knowledge has been a basis for granting priority in discovery to the employer, even though defendants typically have the first opportunity to notice depositions under the CPLR.

Employers often make a motion for expedited discovery in connection with their requests for either a temporary restraining order or a motion for preliminary injunction. Motion practice related to discovery tends to be more limited when a preliminary injunction hearing is pending. The court, in granting expedited discovery, will often specify limits on that discovery in terms of the scope and number of document requests, other written discovery, and depositions.

§ 80:50 Expert witnesses

Parties in restrictive-covenants litigation often rely on several types of expert witnesses. First, as discussed above, forensic experts can prove vital to demonstrating pre-departure solicitations of clients and other employees, and other potential breach of fiduciary duties.

Second, parties may also rely on industry expert witnesses to show whether alleged confidential information was protectable as a trade secret. The Court of Appeals has adopted the definition of “trade secret” offered by the Restatement of Torts, and cited with approval the Restatement’s suggestion that some of the factors used to evaluate a trade secret claim are “the extent to which the information is known outside of [the] business” and “the extent to which it is known by employees and others involved in [the] business.”

Third, expert witnesses can speak, for both employer and employee, on whether the information at issue is known generally in an industry and whether it is specific to one employer. Expert witnesses can also be retained to testify concerning whether or

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2 See Bel Geddes v. Zeiderman, 228 A.D.2d 393, 644 N.Y.S.2d 729 (1st Dep’t 1996) (granting plaintiff priority in discovery in case involving breach of fiduciary duty, where necessary facts were known only to defendants).

[Section 80:50]

1 See generally Chapter 43, “Expert Witnesses” (§§ 43:1 et seq.).
2 See § 80:47.
not arguably trade secret information has lost any protection it may have had by public disclosure of it to a sophisticated audience in sales or marketing information. Fourth, experts are often used at trial to provide calculations on the amount of damages from a breach of restrictive covenants, particularly those relating to lost profits from ongoing and future relationships with clients, and the loss of employees hired away in violation of a non-solicitation provision.

§ 80:51 Remedies and results

As discussed in § 80:18 above, employers can gain injunctive relief, a variety of measures of actual damages, and enforcement of liquidated damages provisions, depending on the circumstances. Courts have provided several different types of monetary relief in restrictive covenant cases: lost profits, damages for the loss of enterprise value, damages for misappropriation of confidential, proprietary, or trade secret information, and disgorgement or forfeiture of salary, bonuses, and other compensation paid to employees during periods of their disloyalty to the company or pre-departure breaches of their covenants.

A granting of a temporary restraining order is only interim relief that will maintain the status quo for the few weeks leading up to a preliminary injunction. The court's ruling on a motion for a preliminary injunction is more significant because many cases settle after that ruling, as the enforcement on an interim basis of a covenant, or refusal to enforce the covenant, will have practical implications on settlement.

§ 80:52 Need for undertaking

A party that is granted a temporary restraining order or preliminary injunction will need to give an undertaking, i.e., post a bond, to protect the restrained party from any harm should a court later determine that the injunctive relief was improvidently granted.\(^1\) Upon a vacating of preliminarily granted injunctive relief, the court will order the party who obtained but was not entitled to an injunction to pay “all damages and costs” attributable to the injunction.\(^2\) Should a defendant move to modify or vacate a preliminary injunction and be granted such relief, it too

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\(^2\) CPLR 6312(b)(1).
may be ordered to give an undertaking. Many restrictive covenants contain a provision that will exempt the employer from having to give an undertaking or post a bond, but courts tend to make their own assessment of the need for an undertaking or bond in a particular case, regardless of the language in the covenant. Counsel for employees or competitors who are defendants in restrictive-covenants litigation should make sure to request that the court require an undertaking.

VIII. PRACTICE MATERIALS

A. PRACTICE CHECKLISTS

§ 80:53 Considerations in drafting restrictive covenants

- Are the restrictions reasonably tailored to protect legitimate business interests of the employer? (See § 80:15.)
- Are the restrictions in duration, scope, and prohibited activities with clients and employees reasonably tailored? (See § 80:29.)
- Do any of the restrictions state that the employee is unique, has special duties, or has access to developing and fostering client relationships? (See § 80:29.)
- Do the covenants define confidential material and require its return? (See § 80:11.)
- Have the clauses specified the employer’s legitimate business interests? (See § 80:15.)
- Do the covenants define the prohibited group of clients? (See §§ 80:7, 80:8.)
- Do the covenants reflect the consideration provided in exchange for restrictions? (See § 80:37.)
- Does the employer want to provide for salary continuation during the period in which the employee cannot engage in competitive activities? (See § 80:37.)
- Do the covenants include provisions for choice of law and choice of venue? (See §§ 80:41, 80:45.)
- Do the covenants mention the need for injunctive relief and availability of such relief without the need for posting of a bond? (See §§ 80:15, 80:52.)
- Does the employer wish to include a provision for liquidated damages? (See § 80:17.)
- Does the employer wish to include a “blue-pencil” provision? (See § 80:33.)

§ 80:54 Considerations in litigating restrictive covenants

- What pre-litigation steps should the employer take to obtain

\[^{3}\text{CPLR 6314.}\]
information and limit harm? (e.g. cease-and-desist letter) (See § 80:22.)

- Is the employer going to seek injunctive relief? (See §§ 80:15, 80:18, 80:19.)
- If so, will the employer seek a temporary restraining order? (See § 80:48.)
- Has the employer obtained all necessary affidavits and proof and provided any required notice for an application for interim or preliminary injunctive relief? (See § 80:48.)
- Do any liquidated damages provisions relate to the alleged breach of the covenants to be litigated? (See § 80:17.)
- Are the restrictions reasonably tailored to protect legitimate business interests? (See § 80:15.)
- Has the employer abided by all of its contractual obligations, including providing all compensation and all employment benefits required by the contract?
- Has there been retention, copying, or dissemination of the employer’s confidential information? (See §§ 80:31, 80:47.)
- What, if any, common law claims does the employer have (for example, misappropriation, tortious interference claims)? (See § 80:28.)
- Are there equitable defenses of the employer’s unclean hands or laches? (See § 80:35.)
- Will any other state’s laws apply to some or all of the claims, and has the plaintiff anticipated and briefed any issues concerning choice of substantive law? (See §§ 80:45, 80:46.)
- Have the employer or any competitors about to be sued ever taken positions in prior litigations adverse to their current positions? (See § 80:36.)
- Is there any strategic benefit (or a limitation on damages) for an employee or new employer to seek a declaratory judgment that the employee’s covenants are unenforceable? (See § 80:26.)

§ 80:55 Sources of proof to use to support claims of breach of post-employment restrictive covenants

- Former employees’ e-mails, personal digital assistants, text messages, faxes, backup tapes, paper files, work and home computers, portable drives and storage media
- Current employees’ e-mails, personal digital assistants, text messages, faxes, backup tapes, paper files, work and home computers, portable drives and storage media
- Statements from soliciting employees and clients

[Section 80:55]

1See §§ 80:23 and 80:47.
Telephone bills and call logs
- Resignation letters
- Cancellation or termination notices received from clients
- Any responses to any cease-and-desist letters
- Letters soliciting to current or former clients or announcing formation of a new entity
- Publicly available documents on corporate formation (to determine if former employees have started or joined competing business)
- Internet registry ("WHOIS") records to determine ownership of competitors websites
- Articles, press releases, and websites concerning new business or gaining of client accounts
- Social and professional networking websites (e.g., Facebook.com, Linkedin.com)
- Affidavits from the employer and the employer's clients concerning prohibited activities
- Affidavits from the employer's information technology director concerning documents that were deleted, printed, copied, or forwarded to the employee's home computer

B. SAMPLE CLAUSES FOR FORM AGREEMENTS

§ 80:56 Nondisclosure of confidential information

The following section on confidential information is a model of an introductory section and included in restrictive covenants.¹

Employee acknowledges and agrees (a) s/he has had access to the confidential, proprietary, sensitive and/or privileged information of the company and its clients and customer information to which s/he has or will be exposed and entrusted including but not limited to [specific types of industry and company confidential information] to which the employee is likely to have access; (b) and that s/he possesses unique knowledge of Employer's business operations, plans, strategies, and client and customer needs and relationships. Employee further acknowledges and agrees that the Employer would be irreparably harmed if this information was used or disclosed for the benefit of anyone other than the company.

§ 80:57 Noncompetition provision

The following model provision is offered for illustration purposes and must be evaluated in light of the particular position and industry to maximize its enforceability. A salary contin-
uance may be provided in conjunction with a noncompetition agreement.¹

Accordingly, for a period of [— months or years] from the date of termination of employment with Employer, Employee will not engage in, participate in, or become involved in any business, trade, activity, conduct or employment for or with, work or consult for or with, be employed by, or have any association or relationship with, any of the companies, organizations, firms, businesses, enterprises, entities or other persons that conduct, operate, or engage in any business, trade, activity, enterprise or conduct engaged in by Employer, (hereinafter a “Competitive Activity”). The following is a [non-exclusive] list of companies engaged in Competitive Activities: [Insert list of most direct competitors.]

§ 80:58 Client nonsolicitation/client nonservice¹

Employee agrees that in the event that Employee’s employment with Employer is terminated, for any reason, for a period of [— months or years] after the termination of Employee’s employment, Employee shall not:

(a) solicit any customers of Employer who were customers of Employer at any time during the [— months or years] immediately before Employee’s termination; or potential customers of Employer who Employer sought business from within [— months] of Employee’s termination, or induce or encourage them from terminating their relationship with Employer or entering into a business relationship with Employee.

(b) render to or for any customer of Employer any services of the type rendered by the Company; or

(c) request or influence any of Employer’s customers or suppliers to lessen the amount of business conducted with Employer, or to discontinue doing business with Employer.

§ 80:59 Employee non-solicitation/non-raid¹

Employee agrees that in the event that Employee’s employment with Employer is terminated, for any reason, for a period of [— months or years] after the termination of Employee’s employment, Employee shall not employ or attempt to employ or assist any other person or entity in employing any employee or contractor of Employer, or otherwise participate, in, induce, or encour-

¹See § 80:7.

¹See § 80:8.

¹See § 80:9.
age said employees or contractors of Employer to terminate their employment or engagement with Employer.

§ 80:60 Extended notice provisions

[Employer agrees that it will give Employee written notice of [— days, weeks, months] before termination of Employee’s employment for any reason other than termination for cause or disability.] Employee [likewise] agrees that it will give Employer written notice of [— days, weeks, months] before voluntarily terminating Employee’s employment.

During the notice period, Employee will continue to be an employee, will assist Employer in the transition of your responsibilities and will be entitled to continue receiving base salary but not any other compensation that accrues or becomes payable during such period, and to participate in all benefit plans for which Employee is eligible.

Employer may require that Employee does not come in to work during the notice period. In no event, however, may Employee perform services for any other employer during the notice period. Employer may, at its sole discretion, shorten the duration of the required notice period, provided that, in lieu of notice required to be given by Employer to Employee, it makes a severance payment to Employee equal to the amount of compensation Employee otherwise would have earned during the notice period had it not been shortened.

§ 80:61 Injunctive relief provision

It is understood that in the event of a breach or threatened breach of this Agreement by you, the Company shall have the right to obtain from a court of competent jurisdiction restraints or injunctions prohibiting you from breaching or threatening to breach this Agreement. In that event, the parties agree that the Company will not be required to post bond, undertaking, or other security. It is also agreed that any restraints or injunctions issued against you shall be in addition to any other remedies which the Company may have available to it.

[Section 80:60]

1See § 80:10.

[Section 80:61]

1See § 80:18.
§ 80:62  Example liquidated damages provision for non-solicitation of customers

An employer instituting a model liquidated damage provision should consider the nature of the potential damages that may be caused by a breach of the covenant. This will necessarily result in an analysis of the business, and client and employment relationships specific to that industry. A model liquidated damages provision is as follows:

If you breach this Agreement, the Company shall be entitled to receive, as liquidated damages, the “Agreed Amount,” as defined below, relating to the services you perform for each Client in violation of these provisions, unless the Company agrees in writing to excuse you from this payment obligation. For purposes of this section, the Agreed Amount shall equal (I) the greater of (A) 100% of the fees paid by the Client to the Company during the one-year period prior to your last date of employment (the “Initial Amount”) or (B) 100% of the fees paid by the Client to you or your new employer in the one-year period following your breach of this Agreement (the “Second Amount”), (II) multiplied by a fraction the numerator of which is the number of days remaining in the Restricted Period on the day of your breach of paragraph 5(b) of this Agreement and the denominator of which is 365 (the “Pro-Rata Fraction”). You agree to pay the Company the Initial Amount multiplied by the Pro-Rata Fraction in four equal quarterly installments beginning within 20 days of notification by the Company of your breach. You also agree to send the Company copies of all relevant invoices relating to the servicing of the Client(s) during the one-year period following your breach of this Agreement, concurrently with their submission to the Client. Should the Second Amount multiplied by the Pro-Rata Fraction be greater than the Initial Amount multiplied by the Pro-Rata Fraction, you agree to pay that difference within 20 days after the one-year period following your breach of this Agreement. You acknowledge and agree that many of the Company’s clients are longstanding clients and that your breach of paragraph 5(b) of this Agreement will result in the loss of several years of profits. You also acknowledge and agree that lost profits are difficult to calculate and that a pro-rated portion of one year’s revenue is a reasonable estimate of the damages that the Company will suffer if you violate paragraph 5(b) of this Agreement.

[Section 80:62]

1See § 80:17.