EVALUATION FORM

In order for us to improve our continuing legal education programs, we need your input. Please complete this evaluation form and place it in the box provided at the registration desk at the end of the session. You may also mail the form to CLE Director, NYCLA, 14 Vesey Street, New York, NY 10007.

How to Litigate Non-competes and other Disputes over Restrictive Covenants
September 27, 2016; 6:00 PM – 8:00 PM

I. Please rate each speaker in this session on a scale of 1 - 4
   (1 = Poor; 2 = Fair; 3 = Good; 4 = Excellent)

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II. Program Rating:

   1. What is your overall rating for this course?  Excellent □  Good □  Fair □  Poor □

      Suggestions/Comments: ________________________________________________________________
      ________________________________________________________________________________

   A. Length of course: Too Long____ Too Short____ Just Right_____

   B. Scheduling of course should be: Earlier____ Later_____ Just Right_____

Please turn over to page 2
2. How did you find the program facilities?

   Excellent ☐  Good ☐  Fair ☐  Poor ☐

   Comments: ___________________________________________________________
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3. How do you rate the technology used during the presentation?

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   ☐ Need the MCLE Credits  ☐ Faculty  ☐ Topics Covered
   ☐ Other (please specify) ______________________________________________

5. How did you learn about this course? (Check all that apply)

   ☐ NYCLA Flyer  ☐ NYCLA Postcard  ☐ CLE Catalog  ☐ NYCLA Newsletter
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(Please rate the factors 1-5, 1 being the most important).

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6. Are you a member of NYCLA?  ___ Yes  ___ No

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topics or issues would you want to see presented?

_____________________________________________________________________
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HOW TO LITIGATE NON-COMPETES AND OTHER DISPUTES OVER RESTRICTIVE COVENANTS

Prepared in connection with a Continuing Legal Education course presented at New York County Lawyers’ Association, 14 Vesey Street, New York, NY scheduled for September 27, 2016,

Program Co-sponsor: NYCLA’s In-House and Outside Counsel Committee

Moderator: Richard B. Friedman, Richard Friedman PLLC

Faculty: Katherine Blostein, Outten & Golden LLP; Jyotin Hamid, Debevoise & Plimpton LLP; Robert N. Holtzman, Kramer Levin Naftalis & Frankel LLP; David E. Schwartz, Skadden, Arps, Slate, Meagher & Flom LLP

This course has been approved in accordance with the requirements of the New York State Continuing Legal Education Board for a maximum of 2 Transitional and Non-Transitional credit hours: 2 Skills.

This program has been approved by the Board of Continuing Legal education of the Supreme Court of New Jersey for 2 hours of total CLE credits. Of these, 0 qualify as hours of credit for ethics/professionalism, and 0 qualify as hours of credit toward certification in civil trial law, criminal law, workers compensation law and/or matrimonial law.

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Information Regarding CLE Credits and Certification
How to Litigate Non-competes and other Disputes over Restrictive Covenants
September 27, 2016; 6:00 PM to 8:00 PM

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i. **You must sign-in** and note the time of arrival to receive your course materials and receive MCLE credit. The time will be verified by the Program Assistant.

ii. You will receive your MCLE certificate as you exit the room at the end of the course. The certificates will bear your name and will be arranged in alphabetical order on the tables directly outside the auditorium.

iii. If you arrive after the course has begun, you must sign-in and note the time of your arrival. The time will be verified by the Program Assistant. If it has been determined that you will still receive educational value by attending a portion of the program, you will receive a pro-rated CLE certificate.

iv. **Please note:** *We can only certify MCLE credit for the actual time you are in attendance.* If you leave before the end of the course, you must sign-out and enter the time you are leaving. The time will be verified by the Program Assistant. Again, if it has been determined that you received educational value from attending a portion of the program, your CLE credits will be pro-rated and the certificate will be mailed to you within one week.

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NEW YORK COUNTY
NYCLA
LAWYERS’ ASSOCIATION
How to Litigate Non-competes and other Disputes over Restrictive Covenants

Tuesday, September 27, 2016 6:00 PM to 8:00 PM

Program Co-sponsor: NYCLA’s In-House and Outside Counsel Committee

Moderator: Richard B. Friedman, Richard Friedman PLLC

Faculty: Katherine Blostein, Outten & Golden LLP; Jyotin Hamid, Debevoise & Plimpton LLP; Robert N. Holtzman, Kramer Levin Naftalis & Frankel LLP; David E. Schwartz, Skadden, Arps, Slate, Meagher & Flom LLP

AGENDA

5:30 PM – 6:00 PM  Registration
6:00 PM – 6:10 PM  Introductions and Announcements
6:10 PM – 8:00 PM  Presentation and Discussion
If you have any questions regarding the matters discussed in this memorandum, please contact the attorneys listed on the last page or call your regular Skadden contact.

Litigating Noncompetes and Other Restrictive Covenant Disputes

March 11, 2016

This outline was prepared by David E. Schwartz, a partner in the Labor and Employment Law Group of Skadden, Arps, Slate, Meagher & Flom LLP, with assistance from Luisa P. Tamez.

Restrictive covenants enable employers to limit the types of actions former employees may take following the end of the employment relationship. There are various types of restrictive covenants, including noncompete agreements, which restrict former employees from working for certain competitors, nonsolicitation agreements, which prevent former employees from soliciting the former employer’s customers or employees, and nondisclosure agreements, which protect an employer’s confidential information. These covenants are not mutually exclusive, and employers frequently employ more than one of these covenants to protect their interests. While historically courts disfavored restrictive covenants as a restraint on the free mobility of employees, as the nature of businesses has evolved, the law governing restrictive covenants has evolved and continues to evolve. Most, but not all, jurisdictions now enforce restrictive covenants if they are “reasonable.” This outline provides a general overview of restrictive covenants, with a particular focus on New York law.

I. Governing Law

- The enforcement of restrictive covenants is governed by state law.
- Some states, like California, do not enforce noncompetes except in connection with a sale of business. See Cal. Bus. & Prof. Code § 16600-16601 (West 2008) (noncompetes prohibited except in connection with a sale of business); Edwards v. Arthur Andersen LLP, 44 Cal. 4th 937, 946-47 (2008) (California Supreme Court interpreted Section 16600 as prohibiting employee noncompete agreements outside narrow statutory exceptions [such as a sale of business] and rejected “narrow restraint” doctrine). California courts likewise will not enforce nonsolicitation agreements banning former employees from soliciting a former employer’s customers, absent use of trade secret information. See Retirement Grp. v. Galante, 98 Cal. Rptr. 3d 585, 594 (Ct. App. 2009) (holding courts may enjoin a former employee from using trade secret information to identify existing customers, facilitate the solicitation of existing customers or otherwise unfairly compete with the former employer).
- Other states, such as Alabama, Florida, Georgia, Idaho and Texas, have statutes governing the enforceability of restrictive covenants. For example, Section 542.335 of the Florida statutes specifies time periods that are considered presumptively reasonable or unreasonable for the enforcement of restrictive covenants. See Fla. Stat. Ann. § 542.335(1)(d) (providing that a post-term restrictive covenant enforced against a former employee and not predicated upon the protection of trade secrets is presumed reasonable if it is six months or shorter and unreasonable if it is longer than two years. A post-term restrictive covenant enforced against a former distributor, dealer or licensee is presumed reasonable if it is one year or shorter and unreasonable if it is longer than three years). Similarly, under the Georgia statute, a restriction against a former employee that lasts more than two years is presumed unreasonable. Ga. Code Ann. § 13-8-57(b).
- New York does not have a statute governing noncompetes or nonsolicit agreements. Enforcement of restrictive covenants is governed by common law in New York.

II. Choice of Law

- Parties to restrictive covenants may specify in the agreement the law that will govern the restrictive covenants.
Litigating Noncompetes and Other Restrictive Covenant Disputes

- New York courts enforce choice of law provisions if the selected state has a substantial relationship to the parties or the transaction. U.S. Merch., Inc. v. L&R Distrib., Inc., 122 A.D.3d 613 (2d Dep’t 2014).

- Courts will not enforce choice-of-law provisions that would be offensive to a fundamental public policy of a state with a materially greater interest in the dispute. For example, in Brown & Brown, Inc. v. Johnson, 25 N.Y.3d 364 (2015), the court refused to enforce a Florida choice-of-law provision, holding that “Florida’s nearly-exclusive focus on the employer’s interests, prohibition against narrowly construing restrictive covenants, and refusal to consider the harm to the employee” was offensive to a fundamental public policy of New York that requires that courts strictly construe restrictive covenants and balance the interests of the employer, employee and general public.

III. Noncompete Agreements

Noncompete agreements generally restrict a former employee’s ability to work for a competitor after the termination of his or her employment. Noncompete provisions provide the broadest scope of protection, but are the most difficult to enforce. In New York, noncompetes are generally disfavored and will only be enforced if they are (1) no greater than required to protect an employer’s legitimate protectable interests and (2) reasonable in temporal and geographic scope. See Reed, Roberts Assoc., Inc. v. Straussman, 40 N.Y.2d 303, 307 (1976); Ticor Title Ins. Co. v. Cohen, 173 F.3d 63, 70 (2d Cir. 1999); Johnson Controls, Inc. v. A.P.T. Critical Sys., Inc., 323 F. Supp. 2d 525, 533 (S.D.N.Y. 2004).

A. Employer’s Legitimate Protectable Interests

- In New York, an employer’s legitimate protectable interests include the protection of trade secrets, protection of customer relationships and confidential customer information such as customer lists, pricing information and ordering patterns, and protection against the harm that may be caused by a unique employee working for a competitor. See Ticor Title Ins. Co., 173 F.3d at 70; Unisource Worldwide, Inc. v. Valent, 196 F. Supp. 2d 269 (E.D.N.Y. 2002); Novus Partners, Inc. v. Vainchenker, 32 Misc. 3d 1241(A), 2011 N.Y. Slip Op. 51666(U) (Sup. Ct. N.Y. County 2011).

- An employee has been found to have unique services where an employee “has such ability and reputation that his or her place may not easily be filled.” Ticor Title Ins. Co., 173 F.3d at 70; Natsource LLC v. Paribello, 151 F. Supp. 2d 465 (S.D.N.Y. 2001). However, courts do not often enforce restrictive covenants on the basis of uniqueness. See Briskin v. All Seasons Sers., Inc., 206 A.D.2d 906 (4th Dep’t 1994) (experienced sales representative was not unique or irreplaceable); Data Sys. Comput. Ctr. v. Tempesia, 171 A.D.2d 724 (2d Dep’t 1991) (same).

B. Reasonable in Temporal Scope

- Courts reviewing noncompetes under New York law have repeatedly held that restrictions of six months or less are reasonable. See Ticor Title Ins. Co., 173 F.3d at 70; Natsource LLC, 151 F. Supp. 2d at 470-71 (three-month noncompete).

- Courts have also enforced noncompetes of three years or more, even outside the sale of business context, usually where scope and geography are limited. See Geller Med. Grp. v. Webber, 41 N.Y.2d 680, 681 (1977) (enforcing 5-year, 30-mile noncompete against a terminated physician); Novendstern v. Mount Kisco Med. Grp., 177 A.D.2d 623, 625 (2d Dep’t 1991) (enforcing 3-year noncompete agreement against a terminated physician who was a shareholder in the medical group, prohibiting him from engaging in the practice of his medical specialties in the northeastern part of Westchester County).

C. Reasonable in Geographic Scope

- New York courts focus on the particular facts and circumstances of each case.

- For example, in Evolution Markets, Inc. v. Penny, 23 Misc. 3d 1131(A), 2009 N.Y. Slip Op. 51019(U) (Sup. Ct. Westchester County 2009), the court held that a restrictive covenant of unlimited geographic scope was reasonable where the employer had customers all over the world and business was primarily conducted over the telephone. Conversely, in Pure Power Boot Camp, Inc. v. Warrior Fitness Boot Camp, LLC, 813 F. Supp. 2d 489, 507 (S.D.N.Y. 2011), the court held that a noncompete with unlimited geographic scope was not reasonable because it sought to prevent former employees of a fitness center from accepting “any job in the fitness industry that uses obstacle courses ... or employs the term boot camp.” Id. at 507. The court held the provision was overly broad where the employer introduced no evidence that restricting former employees from working for a similar gym anywhere in the world was reasonable. Id.

- In Locke v. Tom James Co., No. 11 Civ. 2961(GBD), 2013 WL 1340841 (S.D.N.Y. Mar. 25, 2013), the court held that a noncompete agreement extending over a 50-mile radius from New York City was reasonable because it covered the employer’s direct area of business. The former employee in that case was a clothier and salesman who had conducted business for his former employer in customers’ offices or homes. Id. at *17. The court held the employer had a legitimate interest in protecting itself “against the loss of its client base to a former employee who maintained such extensive, and often exclusive contact with them.” Id. On the other hand in Yoon-Schwartz v. Keller, Index No. 11749/10, 2010 N.Y. Slip Op. 32680(U) (Sup. Ct. Nassau County Sept. 20, 2010), the court held that a covenant
prohibiting a plastic surgeon from competing with his former employer for a 10-mile radius was not reasonable because the area was densely populated and contained several hospitals.

**D. Sale of Business**

- Noncompete agreements incidental to the sale of business are more likely to be held reasonable and enforced. *See Mohawk Maint. Co. v. Kessler*, 52 N.Y.2d 276 (1981) (stating that courts give covenants not to compete made in connection with the sale of a business and its accompanying goodwill “full effect when they are not unduly burdensome”).

- Further, a seller of the “good will” of his or her business may not initiate contact with former customers, send targeted mailings to former customers or disparage the buyer of the business. *Id.* (implying perpetual prohibition against solicitation of former customer following the sale of the “good will” of a business). However, absent an agreement to the contrary, a seller may convey certain information about him or her former client to his or her new employer, advertise to the public, and aid his or her new employer in preparing for a sales pitch meeting requested by his or her former clients. *See Bessemer Tr. Co., N.A. v. Branin*, 16 N.Y.3d 549 (2011) (holding a seller of a business did not violate the implied covenant to refrain from soliciting former customers by taking these actions).

- Noncompete agreements incidental to the sale of business by a stock purchase agreement may also be enforced against shareholders with minority stock ownership. *See Shearson Lehman Bros. Holdings, Inc. v. Schmertzler*, 116 A.D.2d 216 (stating that refusing to enforce a noncompete against someone with “so small an ownership interest ... would place an unacceptable barrier in the path of sale of businesses in which ownership is widely diversified ... and good will is clearly a central concern in the acquisition”).

**E. Consideration**

- Under New York law, future employment is considered sufficient consideration for a noncompete clause. *See Poller v. BioScrip, Inc.*, 974 F. Supp. 2d 204 (S.D.N.Y. 2013) (holding that “the fact that a restrictive covenant agreement is a condition of future employment does not automatically render such an agreement coercive and unenforceable”).

- Continued employment of an at-will employee has likewise been found to be sufficient consideration to support a covenant not to compete. *See Ikon Office Solutions v. Leichtman*, No. 02-CV-07211(Sc), 2003 U.S. Dist. LEXIS 1469 (W.D.N.Y. Jan. 3, 2003). However, in *Post v. Merrill Lynch, Pierce, Fenner & Smith, Inc.*, 48 N.Y.2d 84, 89 (1979), the court held that if an employer discharged an employee without cause and the employee subsequently began working for a competitor, the employer could not enforce a pension plan provision requiring the employee to forfeit benefits for entering into competition with the former employer. Some courts interpreted *Post* to mean that noncompete and nonsolicit agreements are unenforceable against employees who are involuntarily terminated without cause. *See Arakelian v. Omnicare, Inc.*, 735 F. Supp. 2d 22 (S.D.N.Y. 2010); *SIFCO Indus., Inc. v. Advanced Plating Techs., Inc.*, 867 F. Supp. 155 (S.D.N.Y. 1994); *Grassi & Co., CPAs, P.C. v. Janover Rubinroit, LLC*, 82 A.D.3d 700 (2d Dep’t 2011). However, this interpretation of *Post* no longer holds. *See Hyde v. KLS Prof’l Advisors Grp., LLC*, 500 F. App’x 24, 26 (2d Cir. 2012) (holding that in *Post*, the court “held only that when an employee was terminated without [7] cause, the employer could not condition the employee’s receipt of previously earned pension funds on compliance with a restrictive covenant. We caution the district court against extending *Post* beyond its holding.”

- Financial benefits and an employee’s receipt of intangibles such as knowledge, skill or professional status also constitute sufficient consideration to support a noncompete agreement. *See Arthur Young & Co. v. Galasso*, 142 Misc. 2d 738, 741 (Sup. Ct. N.Y. County 1989).

**F. Preparing to Compete**

- New York courts may hold that an employee preparing to compete violates a noncompete provision where affirmative steps have been taken that would give the individual a head start on competing once the restricted period ends. *DeLong Corp. v. Lucas*, 176 F. Supp 104, 123 (S.D.N.Y. 1959), aff’d, 278 F.2d 804 (2d Cir. 1960).

- Courts have found the following preparatory conduct to violate noncompetes:
  - Developing products, seeking patents and accepting financing. *Id.*
  - Making personal loans to the principal owners of competitors and divulging to competitors price information acquired while working with the prior employer. *Id.*

- Courts have found the following preparatory conduct does not violate noncompetes:
  - Planning to establish a competing manufacturing facility where the employee did not use his employer’s time, facilities or proprietary secrets in his preparation. *See Stork H & E Turbo Blading, Inc. v Berry*, 932 N.Y.S.2d 763, 763 (2011); *Morrison v. Mallory*, No. 4170, 1982 WL 215193, at *7-9
Litigating Noncompetes and Other Restrictive Covenant Disputes

(Va. Cir. Ct. Apr. 22, 1982) (sellers of a golf course did not violate a noncompete agreement by planning and constructing a new golf course within view of the golf course they sold).


- Courts also have enforced noncompetes prohibiting employees from working for companies that are preparing to compete with the employer. See Estee Lauder Cos. v. Batra, 430 F. Supp. 2d 158, 163 (S.D.N.Y. 2006) (enforcing covenant preventing employee from working for “any business that is engaged in, or is preparing to become engaged in, the cosmetics, skin care, hair care, toiletries or fragrance business”).

IV. Nonsolicitation Agreements

Nonsolicitation agreements are narrower than noncompete agreements. These restrictive covenants prohibit former employees from soliciting a former employer’s customers or employees.

A. Customer Nonsolicitation Agreements

- Customer nonsolicitation provisions prohibit former employees from soliciting customers or clients which they met and with which they established business relations through their employment with the entity seeking to enforce the restriction.

- Customer nonsolicitation clauses are overbroad if they prohibit an employee from servicing personal clients who came to the firm solely to avail themselves of the employee’s services and as a result of the employee’s own independent recruitment efforts. See BDO Seidman v. Hirshberg, 93 N.Y.2d at 388-89. The court in BDO Seidman held that an employer did not have a legitimate interest in preventing a former employee from competing for the patronage of clients that were not acquired through the expenditure of the employer’s resources. Id. at 393.

- However, 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.” Id. at 392; see also S & M Klein Co. v. Glass, Index No. 000296-10, 2010 N.Y. Slip Op. 30326(U) (Sup. Ct. Nassau County Feb. 5, 2010) (denying an injunction seeking to enforce a customer nonsolicit where the names and personal data of potential clients were available from numerous publicly available sources); HMS Holdings Corp. v. Arendt, 48 Misc. 3d 1210(A), 2015 N.Y. Slip Op. 51034(U), at 6-7 (Sup. Ct. Albany County 2015) (holding that an employer would likely succeed in showing a violation of a nonsolicitation agreement even though the former employee had no contact with a solicited party in his former employment because the goodwill associated with the former employee’s name among certain clients was created and maintained at the former employer’s expense).

B. Employee Nonsolicitation Agreements

- New York courts also recognize the enforceability of covenants not to solicit or induce former co-workers to leave their employment to work for another person or entity. Cenveo Corp. v. Diversapack LLC, No. 09 Civ. 7544(SAS), 2009 WL 3169484 (S.D.N.Y. Oct. 1, 2009); Global Telesystems, Inc. v. KPNQwest, N.V., 151 F. Supp. 2d 478, 482 (S.D.N.Y. 2001); Veraldi v. Am. Analytical Labs., Inc., 271 A.D.2d 599 (2d Dep’t 2000) (covenants prohibiting former employees from recruiting workers of a former employer do not violate public policy per se). Policing these provisions can prove problematic since it is often difficult for an employer to determine who first contacted whom. Accordingly, some employers include “no hire” provisions prohibiting former employees from being involved in the hiring of anyone employed by their former employer.

- However, at least one court recently held that an employer must demonstrate that the covenant not to solicit employees satisfies the BDO Seidman reasonableness standard — that the restriction is reasonable in temporal scope, necessary to protect the employer’s legitimate interests, not harmful to the public and not unreasonably burdensome to the employee. See Reed Elsevier Inc. v. TransUnion Holding Co., No. 13 Civ. 8739 (PKC) (S.D.N.Y. Jan. 9, 2014). In Reed, the court held that an employee nonsolicit was not enforceable because the employer failed to demonstrate the nonsolicit was necessary to protect the employer’s legitimate interests. Specifically, the employer failed to produce evidence that the solicited employee was in possession of trade secrets or had a large customer base or unique services. The court further held that the risk of employee attrition was not a legitimate interest that would make the nonsolicit enforceable.

V. Notice Periods and Garden Leave

Garden leave provisions require employees to give notice before terminating their employment. Under a garden leave provision, the employee continues to be employed during the notice period, but employers may alter the employee’s duties or ask that the employee no longer attend work.

- Courts have issued injunctions based upon notice provisions by treating the notice period as a noncompete period. See Order to Show Cause at 2-4, Deutsche Bank Sec., Inc. v. Zelnick, No. 10/600986 (Sup. Ct. N.Y. County Apr. 21, 2010) (granting temporary restraining order preventing employees from working for a competitor during a notice period and requiring former employer to allow the employees back during the notice period to service clients); see also Natsource LLC v.
Litigating Noncompetes and Other Restrictive Covenant Disputes

A. Contractual Restrictions

- Nondisclosure provisions, sometimes also referred to as “confidentiality provisions,” prohibit employees from disclosing their employer’s nonpublic information, such as formulas, processes, pricing information, business plans and customer lists. These provisions are designed to provide broader protections than applicable common law and statutory obligations prohibiting the misappropriation, use or disclosure of trade secrets.

- Contractual nondisclosure provisions are typically drafted to last for as long as the employer’s information remains out of the public domain. New York courts enforce nondisclosure provisions prohibiting employees from disclosing confidential or proprietary information in perpetuity. See Ashland Mgmt. Inc. v. Altair Invs. NA, LLC, 59 A.D.3d 97 (1st Dep’t 2008) (stating that “protecting trade secrets and truly confidential information does not have to be time limited in every instance where the covenant does not otherwise prevent a former employee from pursuing his or her livelihood”). However, other jurisdictions have held that nondisclosure provisions with no time limitations are “unenforceable as to information that is not a trade secret.” See Atlanta Bread Co., Int’l v. Lupton-Smith, 663 S.E.2d 743, 748-49 (Ga. Ct. App. 2008).


B. Other Protections

- An employee who misappropriates confidential or trade secret information may be subject to a state common law cause of action for misappropriation of confidential or trade secret information.

- Under the inevitable disclosure doctrine, courts have granted injunctive relief where a former employee’s new job function will inevitably lead him or her to rely on trade secrets belonging to a former employer. See DoubleClick, Inc. v. Henderson, No. 116914/97, 1997 N.Y. Misc. LEXIS 577 (Sup. Ct. N.Y. County Nov. 5, 1997) (finding a “high probability of ‘inevitable disclosure’” after seized hard drives revealed that the employees prepared detailed business plans using the former employer’s confidential trade secret information; the former employees were ordered not to engage in competition with former employer for six months after leaving employment).

- In New York, the inevitable disclosure doctrine is more likely to be applied where the employee has highly technical information, there is evidence of actual misappropriation of trade secrets and/or the plaintiff asserts a claim for breach of a noncompete agreement. See Janus et Cie v. Kahnke, No. 12 Civ. 7201(WHP), 2013 WL 5405543 (S.D.N.Y. Aug. 29, 2013) (concluding that the inevitable disclosure doctrine should not be used as independent basis for relief, emphasizing that former employer did not allege a breach of a noncompete agreement or misappropriation of trade secrets).

- An employer also may bring a private cause of action against an employee under the Uniform Trade Secrets Act (UTSA), which defines the type of information that qualifies as “trade secret.” New York has not adopted the UTSA. There is no state statute that defines “trade secrets” in New York. New York courts rely on the common law definition of trade secrets in the Restatement of Tort, Section 757. See Ashland Mgmt. Inc. v. Janien, 82 N.Y.2d 395, 407 (1993).

VII. Blue-Penciling

- Courts may — but are not required to — modify, or blue-pencil, restrictive covenants if they are overbroad. See BDO Seidman v. Hirschberg, 93 N.Y.2d 382, 393 (1999) (striking overbread provision regarding employee’s personal clients and clients whom employee did not serve to any significant extent while employed by prior employer).
Litigating Noncompetes and Other Restrictive Covenant Disputes

- Note, however, that in one recent opinion, a court refused to blue-pencil an overbroad restrictive covenant, reasoning that the employer should have been aware of, and failed to comply with, the standards set forth in *BDO Seidman.* See Vermark Techs., Inc. v. Bouk, 10 F. Supp. 3d 395, 407 (W.D.N.Y. 2014) (holding that the noncompete agreement on its face was “overreaching and coercive, and partial enforcement would not be appropriate”).

- In determining whether to partially enforce an overbroad restrictive covenant, courts may consider whether an employee understood the agreement, whether the employer discussed the restrictive covenant with the employee, and whether the employee could have sought advice from counsel and negotiated the terms of the agreement. See *Brown & Brown, Inc.*, 25 N.Y.3d 364 (2015). In *Brown,* the Court of Appeals held that the fact that the employee “had already left her prior employment — which could have caused her to feel pressure to sign the agreement rather than risk being unemployed — raises questions about whether plaintiffs engaged in overreaching or used coercive dominant bargaining power to obtain the restrictive covenant.” *Id.* at 365.

- A lower court’s refusal to blue-pencil will not be disturbed absent a showing that the court abused its discretion. See *EarthWeb, Inc. v. Schlack,* 205 F.3d 1322 (2d Cir. 2000) (unpublished table decision) (upholding district court’s refusal to enforce or blue-pencil noncompete where district court did not abuse its discretion).

VIII. Remedies

- An employer that demonstrates that an employee violated a reasonable restrictive covenant may be entitled to an injunction to specifically enforce the agreement or to damages caused by the employee’s violation of the agreement.

- Preliminary injunction: an employer must demonstrate:
  - Irreparable harm;
  - Likelihood of success on the merits or sufficiently serious questions going to the merits of the claim as to make it fair ground for litigation; and
  - A balance of the hardships decidedly toward the movant. *Natsource LLC,* 151 F. Supp. 2d at 468. Courts consider whether the noncompete will impose undue hardship on the employee or injury to the public. *Reed, Roberts Assocs., Inc.*, 40 N.Y.2d at 307.

- Monetary damages for lost profits caused by the breach. See *Earth Alterations, LLC v. Farrell,* 21 A.D.3d 873, 874 (2d Dep’t 2005).

- Liquidated damages:
  - In determining whether to enforce a liquidated damages provision, courts consider whether “the fixed and agreed amount bears a reasonable relationship to the amount of probable or actual harm.” *Crown IT Servs., Inc. v. Koval-Olsen,* 11 A.D.3d 263, 266 (1st Dep’t 2004). Courts also consider the sophistication of the party against whom the noncompete agreement is sought to be enforced, the absence of oppressive factors and whether “similar liquidated damages clauses are widely used in the industry.” *GFI Brokers, LLC v. Santana,* Nos. 06 Civ. 3988(GEL), 4611(GEL), 2009 WL 2482130 (S.D.N.Y. Aug. 13, 2009).

- In *Zellner v. Stephen D. Conrad, M.D., P.C.,* 183 A.D.2d 250 (2d Dep’t 1992), the court held that the “presence of a liquidated damages provision did not foreclose the granting of injunctive relief.” However, a court may not grant liquidated damages if it has also granted a permanent injunction to enforce a noncompete agreement. See *Gismondi, Paglia, Sherling, M.D., P.C. v. Franco,* 104 F. Supp. 2d 223 (S.D.N.Y. 2000) (holding that an award of $130,000 in liquidated damages in addition to the grant of a permanent injunction would be “so disproportionate to the [former employer’s] loss as to amount to an unenforceable penalty”).

IX. Claims Against A New Employer

- In addition to bringing claims against a former employee for breach of restrictive covenants, a former employer may bring a claim for tortious interference with a contract or a prospective business relationship against the new, competing employer. A former employer also may bring a claim against the new employer for aiding and abetting a breach of a fiduciary duty.

- The elements of tortious interference with a contract are:
  - (1) the existence of a valid contract between the plaintiff and a third party;
  - (2) the defendant’s knowledge of that contract. See *Novus Partners, Inc. v. Vainchenker,* 32 Misc. 3d 1241(A), 2011 N.Y. Slip Op. 51666(U) (Sup. Ct. N.Y. County 2011) (holding that the former employer sufficiently alleged a claim for tortious interference against the new employer because the new employer hired the employee with knowledge of the noncompete agreement).
  - (3) the defendant’s intentional procurement of the third party’s breach of the contract without justification. See *Innovative Networks, Inc. v. Young,* 978 F. Supp. 167, 180 (S.D.N.Y 1997) (holding former employer must show the former employee would not have breached the covenant but for the new employer’s actions).
  - (4) actual breach of the contract, and damages resulting from the breach.

- To prevail on a claim of tortious interference with prospective business relations, a former employer must demonstrate the defendant:
- (1) interfered with business relations existing between the former employer and former employee;
- (2) with the purpose of harming the former employer or by means that are dishonest, unfair or improper.
- A former employer may also claim that a new employer aided or abetted an employee in breaching his or her fiduciary duties to the former employer. A cause of action for aiding and abetting a breach of fiduciary duty requires:
  - (1) a prima facie showing of a fiduciary duty owed to the plaintiff;
  - (2) a breach of that duty; and
  - (3) the defendant’s substantial assistance in effecting the breach, together with resulting damages.
Faculty Biographies
KATHERINE BLOSTEIN is a partner at Outten & Golden LLP in New York and Co-chair of its Executives & Professionals Practice Group. She represents employees in public and private companies in negotiation of employment, severance, non-competition, expatriate, and international assignment agreements. She also represents teams of employees, founders and partners in employment related situations during a sale, merger and acquisitions and other corporate transactions. Ms. Blostein represents employees in various industries, including financial services (on the buy and sell side), entertainment, advertising, media, technology, fashion, and consumer goods and services. She also represents attorneys, accounting professionals, doctors and other medical practitioners in employment related matters. Ms. Blostein is also a member of the Firm’s Lesbian, Gay, Bisexual, Transgender & Queer (LGBTQ) Workplace Rights Practice Group.

Ms. Blostein is a member of ABA’s Section of Labor & Employment Law, where she is an active member of the Employment Rights & Responsibilities and International Labor and Employment Law Committees. She is also a member of NELA/NY and NYSBA. Ms. Blostein and Ms. Wendi S. Lazar co-authored a chapter titled “Executive Employment Agreements” published in the Executive & Director Compensation Reference Guide (BNA) and an article, “Executive Pay: Skydiving with a New Parachute,” published by BNA. Ms. Blostein is Associate Editor (2015 Cumulative Supplement), assisted in the research and writing of a major treatise on international restrictive covenants, titled “Restrictive Covenants and Trade Secrets in Employment Law: An International Survey” published by BNA. She was also a contributor to “Negotiating and Drafting Expatriate Employment Agreements” published in International Labor & Employment Law, 3rd Edition, Vol. 1B by BNA.
Richard Friedman is a former AMLAW 100 employment and business litigation partner and an experienced trial lawyer. He handles all kinds of employment-related matters such as those involving investigations of alleged employee misconduct, covenants not to compete, employee discipline and terminations, discrimination claims, fiduciary duty claims, wrongful discharge claims, defamation claims, alleged
misappropriation of trade secrets, and related issues for companies of varying sizes as well as individuals in New York state and federal trial and appellate courts as well as other venues.

Richard's most recent blog article discusses several noteworthy National Labor Relations Board decisions concerning a few of the do’s and don'ts involving employer social media practices and policies and employee posts on social media. The article can be accessed via the following link.

Richard also represents individual clients in employment-related matters and disputes. He has advised individual clients with respect to their rights and obligations arising out of restrictive covenant provisions and negotiated numerous employment and severance agreements on behalf of such clients. Richard has also counseled experienced lawyers in connection with their ethical obligations when changing law firms.

In addition, Richard aggressively represents clients in a wide range of business litigation matters, including contract and licensing agreement disputes, partnership disputes, real estate litigation, and post-judgment enforcement proceedings. Richard has a particularly active practice in the New York County Commercial Division and was appointed by the former Chief Administrative Judge to the Court's Advisory Committee on which he continues to serve with the ten judges of that court.
Some of Richard’s more notable engagements in recent years are as follows:

- Helped to save a technology company up to $100 million in a landmark case brought by its former chief operating officer seeking to enforce an option agreement by obtaining a favorable decision (after a 41 day trial) as co-lead trial counsel. This case was the subject of a feature article in the American Lawyer which can be accessed by clicking here.
- Successfully defended a national builder of military housing against multimillion dollar claims arising out of a dispute at West Point and obtained a monetary recovery on a counterclaim.
- Obtained numerous favorable decisions from the Southern District of New York and the Second Circuit on behalf of Pfizer Inc. which was seeking to enforce two multimillion dollar judgments.
- Won a multimillion dollar post-closing arbitration award on behalf of a national paper manufacturing company.
- Secured breach of contract judgments on behalf of Sony Electronics, Inc. against various entities.
- Negotiated a favorable settlement through mediation on behalf of a national real estate mortgage brokerage company in a multimillion dollar federal court lawsuit which resulted in no out-of-pocket payment by the client.

Media

Richard is a frequent legal commentator on CNN, FOX, and several other major networks on litigation-related issues. YouTube links from several of his recent appearances appear on the home and “Media” pages.

Admissions – New York

- U.S. Court of Appeals for the Second Circuit
- U.S. Court of Appeals for the Third Circuit
- U.S. District Courts for the Southern and Eastern Districts of New York
- U.S. District Court for the Eastern District of Michigan
- U.S. Tax Court

Education

- Cornell University B.A. magna cum laude (with distinction in all subjects)
- J.D., University of Chicago
Jyotin Hamid, a partner at Debevoise & Plimpton LLP, is a seasoned litigator with extensive courtroom experience. He handles a diverse array of complex litigation matters, with particular focus on employment-related disputes. He has successfully handled numerous discrimination, whistleblower, contract, compensation and corporate raiding litigations involving high-level executives in a broad range of industries. Mr. Hamid is recommended as an employment lawyer by Chambers USA (2012-2015), The Legal 500 (2013-2015) and SuperLawyers (2014-2015). He was also recognized as a “rising star” by Employment Law360 (2010) – one of “10 employment lawyers under 40 to watch.” Mr. Hamid serves as the Chair of the Labor & Employment Law Committee of the New York City Bar Association, and he is also a member of the Labor and Employment Law Sections of the American and New York State Bar Associations. He is on the American Arbitration Association panel of arbitrators for employment cases. Mr. Hamid lectures and publishes frequently on developments in employment law. He serves as Chair of the Board Directors of the Urban Justice Center, and he is also a board member of the Lawyers’ Committee for Civil Rights Under Law and of Brooklyn Legal Services, Corp. A. Mr. Hamid received his J.D. in 1998 from Yale Law School.
Overview

Robert N. Holtzman represents employers in employment law and executive compensation matters and is Co-chair of Kramer Levin’s Executive Compensation practice.

Mr. Holtzman counsels employers regarding the full range of legal and business issues that touch upon or concern the employment relationship, including advisory matters involving investigations of discrimination and whistleblower complaints, the design and implementation of appropriate policies and practices and employment issues that arise in connection with corporate transactions. He also designs and conducts training of managers and other employees.

When disputes arise, Mr. Holtzman represents employers in litigation in federal and state court, as well as in administrative proceedings and arbitrations, and in connection with virtually every type of claim that may be asserted by employees – discrimination on the basis of age, race, color, gender, sexual preference, disability and national origin; retaliation; whistleblower claims; claims under the Fair Labor Standards Act and the New York Labor Law; breach of contract; enforcement of restrictive covenants; wrongful discharge; and a wide variety of tort claims. He also has represented employers and senior executives in class action litigations alleging sexual harassment, gender discrimination, pregnancy discrimination and wage and hour violations.

Mr. Holtzman advises and represents companies and executives in connection with the design, implementation, drafting and negotiation of executive compensation arrangements, including employment, severance/separation, change-in-control, noncompetition, non-solicitation and nondisclosure agreements. He also represents private equity funds and companies in the design and drafting of equity and other incentive compensation arrangements. Mr. Holtzman also regularly represents buyers, sellers and management teams in connection with mergers and acquisitions, and other transactions.

Among his most notable recent work, Mr. Holtzman represented a Big Four accounting firm in connection with an action commenced by a
competitor arising out of its hiring of a team of former employees; Roto-Rooter Services Co. in connection with a class and collective action alleging violations of the wage and hours laws of multiple states; and a prominent financial institution in connection with a claim of gender discrimination and sexual harassment. He also represented a $10 billion hedge fund in connection with the exit of one of its founding partners, and advised an asset manager with more than $25 billion in assets under management in connection with the restructuring of its restrictive covenants and long-term incentive compensation arrangements.

_Best Lawyers and Legal 500 US_ have repeatedly recognized Mr. Holtzman in the area of employment law.

**Experience**

Represented a Big Four accounting firm in connection with an action commenced by a competitor arising out of its hiring of a team of former employees.

Represented Roto Rooter Services Co. in connection with a class and collective action alleging violations of the wage and hours laws of twelve states and a parallel class arbitration proceeding.

Represented a prominent financial institution in connection with a claim of gender discrimination and sexual harassment.

Represented a $10 billion hedge fund in connection with the exit of one of its founding partners.

Represented an asset manager with more than $25 billion in assets under management in connection with the restructuring of its restrictive covenants and long-term incentive compensation arrangements.

Advised Stone Point Capital in the acquisition of Clark Consulting, the bank-owned life insurance distribution and servicing unit of Aegon USA LLC by Greenspoint, a newly formed joint venture between funds managed by Stone Point Capital LLC and A2 Capital Insurance Services.

Advised The NPD Group in the sale of its DisplaySearch and Solarbuzz businesses to IHS Inc.

Advised Millennium Partners in the sale of its Sports Club/LA and Reebok Sports Club/NY health and fitness club business and certain related assets to Equinox Fitness for approximately $110 million.
Advised Stone Point Capital in the acquisition of LTCG Holdings Corp., the parent of Long Term Care Group Inc., the recognized leader in business process outsourcing for long-term care insurance.

Represented chief executive officer of private company in connection with sale to a new private equity sponsor, including associated employment, incentive, and investment documents.

Represented Del Monte Pacific Limited in connection with employment issues arising out of its $1.7B acquisition of the consumer foods business of Del Monte Corporation.

Represented acquiror in connection with negotiation of new employment and executive compensation arrangements with executive management team.

Represented an employer and its chief executive officer in class action alleging sexual harassment and wage and hour violations.

Advised a broker-dealer in connection with the wind-down of its business and termination of operations.

Successfully represented a partner in an arbitration proceeding arising out of a failed business. Obtained an award fully exonerating the partner and awarding damages and attorneys' fees for breaches by and conduct of the other partners.

Represented a large New York City hospital in connection with the wind-down of its operations, including the layoffs of thousands of employees.

### News

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David E. Schwartz practices in the firm’s Labor and Employment Law Group, advising clients on a full spectrum of employment-related issues.

Mr. Schwartz regularly represents clients before state and federal administrative agencies and courts, as well as in arbitration proceedings. His litigation experience includes defense of retaliation, discrimination, breach of contract and fraud claims, including potential class actions. He also regularly represents clients in cases concerning the enforcement of restrictive covenants and breaches of fiduciary duties.

Mr. Schwartz often advises clients on non-litigation matters. In particular, he has worked with clients to:

- conduct internal investigations;
- implement non-harassment policies;
- create compensation programs;
- negotiate employment and separation agreements;
- negotiate collective bargaining agreements; and
- implement reduction-in-force plans.

Mr. Schwartz also advises clients in connection with business transactions. His work in this area involves, among other things, the development and implementation of strategies to retain key executives and professionals.

Mr. Schwartz has represented a wide array of clients, ranging from new ventures to multinational corporations including, among many others, BlackRock, Inc.; Christie’s Inc.; Citigroup Inc.; Credit Suisse; C.V. Starr & Co.; DaimlerChrysler AG; Deloitte LLP; Dresdner Bank AG; Duff & Phelps Corp.; Fortress Investment Group; Home Box Office, Inc.; Jackson National Life Insurance Company; Kinetic Concepts, Inc.; Mars, Incorporated; Practising Law Institute; Rite Aid Corporation; UGL Limited; Valeant Pharmaceuticals; Van Cleef & Arpels, Inc.; and Virgin Mobile USA.

Mr. Schwartz repeatedly has been selected for inclusion in *Chambers USA: America's Leading Lawyers for Business*. He also was named a top corporate employment attorney in 2015 by Lawdragon and *Human Resource Executive*. 
Selected Publications


“Dodd-Frank Offers Key Protections to Whistleblowers,” The National Law Journal, September 27, 2010