

WILL A NONCOMPETITION AGREEMENT PROTECT YOU?

Companies rely on noncompetition agreements as a means of safeguarding goodwill and valuable customer relationships built up over many years and at great expense to the employer. Frequently, however, courts in New York are reluctant to enforce noncompetition agreements, especially where it appears that an agreement will curtail the ability of a former employee to earn a living in his or her industry.

In the leading case of *BDO Seidman v. Hirshberg*, 93 N.Y.2d 382, 690 N.Y.S. 2d 854 (1999), the highest court in New York established the three criteria to determine whether an agreement not to compete is reasonable:

- (1) the restraint must be *no greater* than is required for the protection of the *legitimate interest* of the employer;
- (2) the restraint must not impose undue hardship on the employee; and
- (3) the restraint must not injure the public.

On the whole, in deciding whether a noncompetition agreement is reasonable, a court will balance the right of an employee to work and earn a living against the interest of the employer in protecting the customer relationships and goodwill the employer developed at its own expense.

Although a noncompete clause with a shorter duration is more likely to pass judicial scrutiny, agreements lasting one year beyond the termination of the employment relationship have been found to be reasonable if they are limited to the geographical area where the employee provided services and the employer is able to show that it had a legitimate interest in protecting its goodwill and that it was not simply trying to quash competition.

An employer can have an interest worthy of protection where the employee

acquired information or relationships during the course of employment. For example, as the Court pointed out in *BDO Seidman*, where an employee has worked closely with a client or a customer of his employer -- as opposed to a pre-existing customer of the employee -- over a long period of time, thereby sharing in the goodwill the employer created, the employer has a legitimate interest in protecting that relationship.

The same is true with respect to agreements prohibiting an employee from divulging or using trade secrets or confidential customer lists. With respect to those agreements, “courts recognize the legitimate interest an employer has in safeguarding that which has made his business successful” *Ashland Management Inc. v. Altair Investments, NA, LLC*, 59 A.D.3d 97, 102, 869 N.Y.S.2d 465, 470 (1st Dep’t 2008).

Courts appreciate the fact that high-level employees with access to confidential information are more likely to appropriate trade secrets and use them in a new position to the detriment of the former employer. *Willis of New York, Inc. v. DeFelice*, 299 A.D.2d 240, 750 N.Y.S.2d 39 (1st Dep’t 2002). As a result, the bar can be set lower with respect to enforcing confidentiality agreements against high-level employees who have had such access.

Under the following circumstances, without proof that the employee actually misappropriated trade secrets, a court can restrain the high-level employee under the “inevitable disclosure doctrine:”

1) the former and current employers are direct competitors providing the same or similar products or services;

2) the new position of the employee is identical to the old position and the employee could not reasonably be expected to fulfill his new job responsibilities without

utilizing the trade secrets of the former employer; and

3) the trade secrets are highly valuable to both employers.

Earthweb, Inc. v. Schlack, 71 F. Supp.2d 299 (S.D.N.Y. 1999).

Very often, employers incorporate noncompetition and confidentiality agreements within broader employment agreements. If the parties do not renew the employment agreement in writing, but the employment relationship continues, an employee will likely seek to avoid the noncompetition provision on the ground that the employment agreement expired.

The court confronted that situation in the case *Bourne Chemical Co., Inc. v. Dictrow*, 85 A.D.2d 646, 445 N.Y.S.2d 406 (2nd Dep't 1981), where the owner of a manufacturing company sold his interest in the company and became an employee of the new owner. The parties had previously entered into an employment agreement, which provided that the employee would not compete with the business of his employer for three years after the termination of his employment.

The employment agreement expired, but the employee remained employed for nearly a year longer. Upon the termination of his employment, the employee formed a company that competed with his former employer. The court had to decide whether the noncompetition provision survived where the written agreement had expired almost a year before the termination.

In that regard, the court noted that where the employee continues to render the same services after the expiration of an employment contract, a presumption can arise that the parties are operating under a new contract, on a year-to-year basis. In that circumstance, the essential provisions and restrictions in the original contract, including a noncompetition

provision, would continue in force, even without a new written agreement.

The best strategy for an employer to implement to survive a challenge to a noncompetition agreement is to: 1) limit the geographical scope of the agreement to the area where the employee worked; 2) limit the duration of the agreement to six months to one year; and 3) limit the reach of the agreement to clients or customers that the employer made available to the employee. Finally, where the agreement containing a noncompetition provision is for a fixed term, the better practice is for the employer to renew the agreement in writing immediately upon the expiration of the initial term.