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Restrictive Covenant Issues for Investment Managers

Thursday, November 10, 2011

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Restrictive Covenant Issues for Investment Managers

1. About the Speakers

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Ron is a Fellow of the American College of Employee Benefits Counsel and a member of the CPR Employment Dispute Committee of the CPR Institute for Dispute Resolution. A former adjunct professor in New York University School of Continuing Education's Certified Employee Benefits Specialist Program, Ron frequently speaks and writes on employee benefit and employment topics of interest to the HR community, such as his presentations on "Crisis Management: Handling Government Investigations" at SRZ's 20th Annual Private Investment Funds Seminar and on "401(k) Stock Drop Case Litigation" at the National CLE Conference. Ron has been recognized by *The Best Lawyers in America* as a leading labor and employment litigation attorney. He received a B.S. from the Industrial and Labor Relations School at Cornell University and a J.D. from Columbia University School of Law, where he was a Harlan Fiske Stone Scholar and the recipient of the Emil Schlesinger Labor Law Prize.

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Holly has authored or co-authored numerous articles of interest to employers, a recent example of which, "Alternative Dispute Resolution in the Executive Employment Context," was published in BNA's Executive Compensation Library on the web. She also authored "Effective Client Communication," which appeared in *Labor and Employment Client Strategies: Leading Lawyers on Preventing Litigation, Minimizing Risks and Dealing with Employee Legal Problems*. Holly has been recognized by *The Best Lawyers in America*. She earned her B.A. from Emory University and her J.D. from the University of Virginia School of Law.

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Restrictive Covenant Issues for Investment Managers

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Restrictive Covenant Issues for Investment Managers

3. Outline

Restrictive Covenant Issues for Investment Managers

I. Introduction

Non-compete agreements and other restrictive covenants are becoming increasingly important to employers. There are a number of important issues that arise in the context of drafting and attempting to enforce non-compete and other restrictive covenant agreements, including: (1) the duration of non-competes; (2) the scope of non-competes; (3) the doctrine of inevitable disclosure; (4) choice-of-law provisions; and (5) the unclean hands defense.

II. Summary of the Background Norms for Non-Compete Law

The law with respect to covenants not to compete varies from state to state. Some states, like California, have laws that prohibit or severely limit an employer's ability to impose and enforce non-competes. In addition, the law with respect to issues that can become crucial in the non-compete arena (e.g., blue pencil provisions) varies widely from state to state. Accordingly, it is important to review the law of the relevant state (which is generally the state in which the employees work) when drafting restrictive covenants.

In general, restrictive covenants may be used to protect an employer's legitimate business interests including: trade secrets, confidential customer information, unique or extraordinary employee services, and, in some situations, customer relationships. To be enforced, restrictive covenants must be reasonable in duration, scope and geography. The case law concerning restrictive covenants is highly fact specific.

A. New York Background Rules

New York courts historically have been reluctant to enforce restrictive covenants in light of the strong public policy in favor of free competition and against restricting an individual's ability to earn a livelihood. Nonetheless, "properly scoped noncompetition agreements are enforceable to protect an employer's legitimate interests so long as they pose no undue hardship on the employee and do not militate against public policy." *Int'l Bus. Mach. Corp. v. Visentin*, No. 11 Civ. 399 (LAP), 2011 WL 672025, at *8 (S.D.N.Y. Feb. 16, 2011) (citing *BDO Seidman v. Hirshberg*, 93 N.Y.2d 382 (1999)).

1. Enforceability

Traditionally, restrictive covenants in New York will be enforced only:

a) To the extent necessary to prevent a former employee from engaging in unfair or illegal competition through the disclosure or use of trade secrets or confidential information; or

b) When the employee's services are unique or extraordinary.

See Reed, Roberts Assoc., Inc. v. Strauman, 40 N.Y.2d 303, 307, 353 N.E.2d 590, 593, 386 N.Y.S.2d 677, 679 (1976); *Ivy Mar Co. v. C.R. Seasons Ltd.*, 907 F. Supp. 547, 554 (E.D.N.Y. 1995).

2. Trade Secrets

A court will consider the following factors in determining whether an employee possesses a trade secret:

a) The extent to which the information is known outside of the employer's business;

b) The extent to which it is known by employees and others involved in the employer's business;

c) The measures the employer takes to guard the information's secrecy;

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d) The value of the information to the employer and its competitors;

e) The amount of money or effort that the employer expended in developing the information; and

f) The ease or difficulty with which the information could be properly acquired or duplicated by others.

Ivy Mar, 907 F. Supp. at 554.

A New York federal court recently addressed the extent of trade secret protection in a case in which the court denied IBM's attempt to restrain one of its former executives, Giovanni Visentin, from working for an IBM competitor, HP, for one year. *Visentin*, 2011 WL 672025. The court ruled that IBM had not shown sufficient evidence that Visentin's new job made it inevitable that he would disclose protectible IBM trade secrets. At the time of his resignation, Visentin was the General Manager of IBM's Integrated Technology Services Group, which provides clients with IT infrastructure and cloud computing services. Visentin had executed a noncompetition agreement with IBM, agreeing not to become employed by any competitor for one year following the termination of his employment.

On Jan. 18, 2011, HP made Visentin an offer to serve as its Senior Vice President, General Manager, Americas, for its HP Enterprise Services Group, which oversees three business segments, one of which provides clients with similar IT infrastructure and cloud computing services. Visentin accepted HP's offer and gave notice to IBM of his resignation. Although Visentin volunteered to stay at IBM for a transition period, IBM escorted him out, took his laptop computer from his home, and immediately filed a complaint seeking a preliminary injunction to prevent his employment with HP.

In seeking a preliminary injunction, IBM alleged that Visentin had acquired trade secrets, including: strategic initiatives in cloud computing, acquisition plans, pricing strategies, operational finances, the identity of troubled accounts, competitive strategies with HP, and client "pipeline" information. The court addressed each of IBM's alleged trade secrets and found that Visentin only had generalized information and that IBM had failed to provide any specific examples of how Visentin's generalized knowledge could be used at HP to IBM's detriment.

The court also ruled that IBM had provided no evidence that Visentin's new role at HP inevitably would require the disclosure of IBM's trade secrets. The court found that HP's agreement provided a safeguard against the disclosure of confidential information by limiting the scope of Visentin's new position for the first year of employment. The court also found that Visentin's new position was significantly larger in scope and only shared a "slight overlap" with his prior position. In short, the court found no evidence that any specific protected information that Visentin possessed would inevitably be disclosed to carry out his new role at HP.

The lesson for employers from the *Visentin* case is that, to prevail, they will need to explain specifically the precise trade secret information at issue and the adverse impact that disclosure of that information will have on the employer's business.[1]

3. Investor Relationships

Most states, including New York, recognize customer relationships as a legitimate resource deserving protection. *See, e.g., Mercator Risk Svcs., Inc. v. Girden*, No. 08 Civ. 10795, 2009 WL 466150 at *7 (S.D.N.Y. Feb. 23, 2009) ("[a] 'legitimate business interest' is found when: (1) because of the nature of the business, the customers' relationships with the employer are near-permanent and the employee would not have had contact with the customers absent the employee's employment"); *GFI Brokers,*

[1] *Visentin* stands in sharp contrast to *IBM Corp. v. Papermaster*, 08 Civ. 9678, 2008 WL 4974508 (S.D.N.Y. Nov. 21, 2008), which involved the same non-compete provision as *Visentin*. In *Papermaster*, IBM successfully enjoined a former executive from joining Apple for one year because the executive had detailed technical knowledge of IBM's microprocessor development. 2008 WL 4974508, at *8. Because the executive was going to work on an analogous technology at Apple, the court determined that disclosure of trade secrets would occur.

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LLC v. Santana, Nos. 06 Civ. 3988, 06 civ. 4611, 2008 WL 3166972 (S.D.N.Y. Aug. 8, 2008) citing *Ticor Title Ins. Co. v. Cohen*, 173 F.3d 63, 72 (2d Cir. 1999) (an employer has a "sufficient interest" to enforce a restrictive covenant against a broker or sales agent when "the employee's relationship with the customer is such that there is a substantial risk that the employee may be able to divert all or part of the business" to a competitor). Case law suggests that New York is shifting to include customer relationships as a legitimate employer interest worthy of protection by utilizing the "unique" employee rationale.

In a seminal case, the New York Supreme Court upheld restrictive covenants to protect an employer's customer relationships. In *Maltby v. Harlow Meyer Savage, Inc.*, the court enjoined several brokers from competing with their employer for a period of six months. 166 Misc. 2d 481, 633 N.Y.S.2d 926 (Sup. Ct. N.Y. Co. 1995). The restrictive covenants were part of employment agreements, which provided the brokers with base salaries in excess of $100,000, plus bonuses. Each broker had the opportunity to consult with counsel before signing the agreements. The court held that the brokers "all have unique relationships with the customers with whom they have been dealing that have been developed while employed at HMS and, partially, at HMS expense." 166 Misc. 2d at 486, 633 N.Y.S.2d at 930. The court found the restrictive covenants reasonable upon the condition that the brokers continue to be paid their salaries during the period of the non-compete. *Id.*

The Appellate Division affirmed the court's decision in *Maltby* relying upon the fact that the brokers were to receive their base salaries during the period of the non-compete and upon a finding that the services provided by the brokers were "unique." *Maltby v. Harlow Meyer Savage, Inc.*, 223 A.D.2d 516, 517, 637 N.Y.S.2d 110, 111 (1st Dep't 1996). *See also Contempo Commc'ns, Inc. v. MJM Creative Serv., Inc.*, 182 A.D.2d 351, 354, 582 N.Y.S.2d 667, 669 (1st Dep't 1992) (enforcing covenant to protect "special relationship" between employer's clients and defendant employees rendering employees' services unique); *Giller v. Harcourt Brace & Co.*, 166 Misc. 2d 599, 601, 634 N.Y.S.2d 646, 647 (Sup. Ct. N.Y. Co. 1995) (enforcing restrictive covenant against representative of bar review course whose influential relationships were unique).

4. Unique Employees

Courts have consistently held that a restrictive covenant may be enforced against an employee whose services are unique or extraordinary. *See Reed Roberts*, 40 N.Y.2d at 307, 353 N.E.2d at 593, 386 N.Y.S.2d at 679; *Tricor Assoc., Inc. v. Harris Corp.*, 27 F. Supp. 2d 175, 184 (E.D.N.Y. 1998). Although often cited as a basis for enforcing a restrictive covenant, until recently, courts rarely have relied upon the unique employee exception for enforcing a covenant. The unique employee exception is rooted in cases concerning disputes involving performers and musicians — individuals who were irreplaceable because of their extraordinary or "unique services." *See McCall v. Wright*, 198 N.Y. 143, 154-55, 91 N.E. 516, 519-20 (1910).

The Southern District of New York upheld a six-month restrictive covenant against a highly compensated title insurance salesman. *See Ticor Title Ins. Co. v. Cohen*, Case No. 98 Civ. 4001 (JSM), 1998 WL 355420 (S.D.N.Y. July 1, 1998). In *Cohen*, Cohen, a highly compensated title insurance salesman in a regulated industry in which customers are well known, was held bound by the six-month restrictive covenant. Relying upon *Maltby*, the court determined that Cohen's client relationships were special in an industry where "[m]aintaining current clients and wooing new ones from an established group becomes important." The court held that these relationships placed Cohen's employment in the unique services category. To the extent that New York case law held that a salesman is not a unique employee, the court held that *Maltby* overruled such precedent. The court rejected the concept that an employee should be paid during the period of his non-compete, finding that Cohen's substantial salary and commissions from his former employer and the substantial bonus received from his new employer would sustain him until he could return to work. *See also Triconic Assoc., Inc. v. Harris Corp.*, 27 F. Supp. 2d 175, 184-85 (E.D.N.Y. 1998) (following *Cohen* and *Maltby* determining that exploiting client relationships developed at former employer's expense may be enjoined).

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The Second Circuit affirmed the district court's decision. *See Ticor Title Ins. Co. v. Cohen*, 173 F.3d 63 (2d Cir. 1999). On review for abuse of discretion, the Second Circuit agreed that the relationships that salesmen develop with their customers, *at the employer's expense*, may be the basis for finding that a particular employee is unique. For example, the court found it noteworthy that Cohen had spent $208,000, at Ticor's expense, in a little over one year to entertain clients.[2] *See also BDO Seidman v. Hirshberg*, 93 N.Y.2d 382 (1999) (enforcing covenant to restrict former employee from the competitive use of client relationships which his employer enabled him to acquire).

5. Effect of Employer-Initiated Termination

Generally, if an employer materially breaches an employment contract, the employer will be barred from enforcing a restrictive covenant contained in the contract. *See Michael I. Weintraub, M.D., P.C. v. Schwartz*, 131 A.D.2d 663, 516 N.Y.S.2d 946 (2d Dep't 1987) (employer breached contract by not providing timely notice of whether employee would be offered partnership and therefore the restrictive covenant in the contract was unenforceable). Nevertheless, an employer-initiated termination of an employee's employment will not necessarily bar the employer from enforcing the employee's non-compete.

For example, when an employee is discharged by his employer for cause, his non-competition covenant may still be enforced (in large part because the employee chose to engage in the cause act). *See, e.g., Gismondi, Paglia, Sherling v. Franco*, 104 F. Supp. 2d 223 (S.D.N.Y. June 22, 2000), rev'd, in part, on other grounds at 206 F. Supp. 2d 597; *MTV Networks v. Fox Kids Worldwide, Inc.*, No. 605580/97, 1998 WL 57480 (Sup. Ct. N.Y. Co. Feb. 4, 1998) (termination of employee for cause did not render covenant unenforceable). The United States District Court for the Southern District of New York has reaffirmed New York's general rule that terminations for cause do not vitiate the impact of a non-compete clause. *See Franco*, 104 F. Supp. 2d at 233. In *Franco*, the employer brought an action to enforce a non-compete that prohibited defendant (whose employment had been terminated by the employer for cause) from "the practice of medicine" within a 15-mile radius of certain Westchester towns. The employee argued that non-competes are unenforceable against terminated employees regardless of whether they were terminated with or without cause. The court rejected defendant's argument and found for the employer. The court opined that accepting the employee's argument would lead to perverse results. According to the court, to do so "would permit employees to avoid reasonable non-compete agreements simply by 'creating' cause for their dismissal." *Id.* at 234.

On the other hand, there is no bright-line rule as to the enforceability of a restrictive covenant following a "without-cause" termination by an employer. In general, a restrictive covenant may be enforced against a former employee terminated "without cause" provided such covenant is reasonable. *See Morris v. Schroder Capital Mgmt. Int'l*, 7 N.Y.3d 616, 620 (2006). New York courts uphold a covenant as "reasonable" if it is reasonable in time and area, necessary to protect the employer's legitimate interests, not harmful to the general public and not unreasonably burdensome to the employee. *BDO Seidman v. Hirshberg*, 93 N.Y.2d 382, 389 (1999).

6. Consideration

Signing a restrictive covenant at the inception of employment will provide sufficient consideration to support the covenant. *See, e.g., Mallory Factor, Inc. v. Schwartz*, 146 A.D.2d 465, 536 N.Y.S.2d 752 (1st Dep't 1989). Continued employment also provides sufficient consideration to support a restrictive covenant if discharge is the alternative or if the employee remains with the employer for a substantial period of time after the covenant is signed. *See Zellner v. Stephen D. Conrad*, M.D., P.C., 183 A.D.2d 250, 589 N.Y.S.2d 903 (2d Dep't 1992).

[2] The *Cohen* court, however, disregarded countervailing case law in the Southern District of New York, which affirms New York's traditional requirements for enforcing restrictive covenants. In *Bijan Designer For Men, Inc. v. Katzman*, the court denied an injunction against a high-level clothing salesman, who left his employer to start a competing business. 96 Civ. 7345, 1997 WL 65717 (S.D.N.Y. Feb. 7, 1997). In *Bijan*, the defendant developed close business and personal relationships with the plaintiff's customers and sought to use those relationships to further a competing business. *Id.* at *2-3. The court rejected the plaintiff's application for an injunction, stating that non-competes are enforceable only to the extent necessary to protect trade secrets. *Id.* at *6-7. The court held that customer relationships do not provide an independent basis for enforcing a restrictive covenant, even if such relationships are highly valuable. *Id.* at *6-7.

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7. Blue Pencil Rule

In New York, a court may modify and enforce an overbroad or unreasonable covenant. *See, e.g., Muller v. New York Heart Ctr. Cardiovascular Specialists P.C.*, 656 N.Y.S.2d 464, 466 (3d Dep't 1997) (partially enforcing the geographic terms of a covenant). *See also EarthWeb, Inc. v. Schlack*, 71 F. Supp. 2d 299, 313 (S.D.N.Y. Oct. 27, 1999) (courts may "blue pencil" non-competes to make them shorter and enforceable); *Misys Int'l Banking sys., Inc. v. TwoFour Sys., LLC*, No. 650101/2004, 2004 WL 3058144 (Sup. Ct. N.Y. Co. Nov. 23, 2004) (holding the period of non-compete provisions for key employees "blue penciled" down from 18 months to 12 months to match period contained in chief executive officer's covenant). Courts may also interpret a covenant appropriately when a restrictive covenant contains no geographic limitation. *See Deborah Hope Doelker, Inc. v. Kelly*, 87 A.D.2d 763 (1st Dep't 1982) (limiting the covenant to the same geographical area as the employer's business, which was confined to New York City). *See also Greystone Staffing, Inc. v. Goehringer*, 836 N.Y.S.2d 485 (Sup. Ct. Nassau Co. 2006) (court rejected 50-mile restriction and replaced it with one-year restriction on soliciting business of clients of former employer that the former employee dealt with while employed).

Courts may decline to blue-pencil, however, when there is overreaching. *See Visentin*, 2011 WL 672025 at *24 (partial enforcement not available when employer could not show a "good faith" effort to protect a legitimate business interest); *Scott, Stackrow & Co. v. Skavina*, 780 N.Y.S.2d 675, 676 (3d Dep't 2004) (partial enforcement denied when employer had used superior bargaining position in conditioning employment on employee's execution of overbroad non-compete); *Leon M. Reiner & Co.*, 929 F. Supp. 154, 161 (S.D.N.Y. 1996) (although courts applying New York law have the power to modify covenants that are unreasonable as drafted and enforce them as modified, "the infirmities [of the non-compete at issue] are simply too patent for this type of restructuring. To bring [this non-compete] into conformity with the law would require this Court essentially to rewrite the entire section, an exercise not appropriate here"). Similarly, courts are hesitant to award relief beyond what is provided for in the express terms of the agreement at issue. For example, the court in *Southerland Global Serv. v. Crowley*, 21 Misc. 3d 344 (Sup. Ct. Monroe Co. 2008), declined to exercise its broad equitable powers to add to the length of the term of the restrictive covenant until after full discovery could be had.

It is important to be aware that state law varies significantly with respect to blue pencil rules. Some states either refuse to blue pencil (e.g., Virginia) or will do so only when the offending provision is neatly severable (e.g., Maryland).

III. Key Areas of Non-Compete Law

A. Sale of Business

Whereas restrictive covenants in employment agreements are rigorously examined because they can result in the loss of an individual's livelihood, "[r]easonable restrictive covenants ancillary to the sale of a business 'are routinely enforced' to protect the goodwill paid for by the purchaser…." *Dar & Assoc., Inc. v. Uniforce Serv., Inc.*, 37 F. Supp. 2d 192, 196-197 (E.D.N.Y. 1999). Accordingly, in the sale of business context, courts are often willing to enforce restrictive covenants of far longer temporal scope than in the traditional employment context. *See, e.g., Sager, infra*, (enforcing 10-year non-compete ancillary to sale of business).

1. Covenant Not to Compete

In 1999, three businessmen (the "Former Partners") entered into a merger agreement to combine their accounting firm with Weiser and become Weiser Partners. The Former Partners signed the Merger Agreement and the Weiser Partnership Agreement ("WPA"). *Weiser, LLP v. Coopersmith*, 859 N.Y.S.2d 634 (1st Dep't 2008). The latter agreement included a restrictive covenant and a liquidated damages provision. In 2005 the Former Partners gave their notice of withdrawal from Weiser and stated their intent to continue to service the clients they brought to the firm, clients referred to them

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by these clients, and clients from referral services used prior to the date of merger. Weiser filed suit claiming breach of the restrictive covenant and seeking damages under the liquidated damages provision. The Appellate Division held that Weiser established a prima facie case for enforcing the restrictive covenant and that it was enforceable because it was "not more extensive than reasonably necessary to protect Weiser's legitimate interest in enjoying the assets and goodwill it had acquired pursuant to the merger." *Id*. at 635.

The court reaffirmed the more lenient "sale of business" test for assessing the reasonableness of restrictive covenants as applied to all sellers of a business, including minority partners. Because the restrictive covenants were "ancillary" to the merger agreement, they qualified for review under the "sale of business" test, a test that requires enforcing the covenant if it is not more extensive than reasonably necessary to protect the buyer's legitimate business interest in the assets and goodwill it acquired from the merger. The court stated, however, that the partnership provisions at issue here would pass muster even under the "more exacting test applicable to employment contracts." *Id. See also BDO Seidman v. Hirshberg*, 93 N.Y.2d 382, 393 (1999).

In *Sager Spuck Statewide Supply Co. Inc. v. Meyer*, defendant sold his 84.7 percent interest in Statewide Industrial Equipment Co. to the plaintiff's president, who also acquired the remaining shares of Statewide. 273 A.D.2d 745 (3d Dep't 2000). As a result of the subsequent merger with Statewide, the plaintiff succeeded to Statewide's rights under an agreement not to compete executed by defendant Meyer in connection with the sale of his interest in Statewide. The defendant then became a full-time consultant for the plaintiff, accepting 1,365 shares of preferred stock in the plaintiff in exchange for the cancellation of outstanding debt owed to him by the plaintiff and its president totaling over $191,000 pursuant to the non-compete. Six years after the merger, the defendant resigned his consultant position with the plaintiff and began working as a salesperson for a competitor of the plaintiff. As a result, the plaintiff brought this action alleging that the defendant breached the agreement not to compete, breached the implied covenant not to impair the goodwill of the business he sold and breached his fiduciary duty as a shareholder.

The trial court granted a 10-year permanent injunction preventing the defendant (the seller) from competing for 10 years following the date of his signing of the non-compete agreement. The Appellate Division affirmed, reasoning that the non-compete agreement fell "squarely within the category of a covenant not to compete arising out of the express agreement of the seller of a business to refrain from competing with the purchaser, which will be enforced if reasonable in geographic scope and duration." *Id.* at 746. The court also noted that a non-compete need not seek to prevent confidential information in the context of a sale of business. *Id. See also Town Line Repairs, Inc. v. Anderson*, 90 A.D.2d 517 (2d Dep't 1982) (holding that the "only limitation on the enforcement of a covenant not to compete is the reasonableness of the restraint on the seller. A covenant of this type is reasonable when it is not broader in terms of time, scope and area than is reasonably necessary to protect the buyer's interest").

2. Implied Covenant Not to Impair Goodwill of Business

When the sale of a business involves the transfer of its goodwill as a going concern, an incidental covenant by the seller not to compete with the buyer after the sale will be implied and enforced. This rule is premised on the idea that a buyer of a business should be permitted to restrict his seller's freedom of trade so as to prevent the latter from recapturing the goodwill of the very business that he transferred for value. *See Sager*, 273 A.D.2d at 747 ("The implied covenant, which is narrower than an express covenant and restricts the seller's economic freedom only to the extent that it precludes the seller from soliciting former customers, is a duty 'imposed by law in order to prevent the seller from taking back that which he has purported to sell'; it gives the purchaser a 'vested property right of indefinite duration'") (quoting *Mohawk Maint. Co. v. Kessler*, 52 N.Y.2d 276, 285-86 (1981)); *Kessler*, 52 N.Y.2d at 284-85 ("[T]he right acquired by the purchaser of the 'good will' of a business by virtue of this 'implied covenant' must logically be regarded as a permanent one that is not subject to divestiture upon the passage of a reasonable period of time").

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Nonetheless, New York's highest court has held that a business seller may solicit and regain former clients for his new employer without incurring liability under certain circumstances. *Bessemer Trust Co. v. Branin*, 2011 N.Y. Slip. Op. 3307 (Apr. 28, 2011). In *Bessemer*, the court held that certain activities of a seller would not breach the implied covenant, such as general advertisements, providing answers to factual questions, providing information to the employer about former clients and being involved in sales pitches. Similarly, the implied covenant will not be enforced if the business was abandoned, dissolved and no longer exists. *Finelli v. Sica*, 66 Misc. 2d 68, 319 N.Y.S.2d 913 (Sup. Ct. N.Y. Co. 1971).

B. Reasonable Duration and Geographic Scope

1. Reasonable Duration

One of the touchstones for enforceability of non-compete agreements has traditionally been whether the temporal restriction is reasonable under the circumstances. *See, e.g., Columbia Ribbon & Carbon Mfg. Co. v. A-1-A Corp.*, 42 N.Y.2d 496, 499, 398 N.Y.S.2d 1004 (1977); *Reed, Roberts Assoc., v. Strauman*, 40 N.Y.2d 303, 307-08, 386 N.Y.S.2d 677 (1976). Depending upon the industry, the length of the non-compete agreement oftentimes has been set for a period of years. With the increasing pace of information technology, courts are looking with increased scrutiny at duration.

a) *DoubleClick, Inc. v. Henderson*

In this unreported New York State Case, DoubleClick, Inc., a provider of advertising services on the Internet, sought an injunction to prohibit two former executives from engaging in competitive business activities. *See DoubleClick, Inc. v. Henderson*, Case No. 116914/97, 1997 WL 731413 (Sup. Ct. N.Y. Co. Nov. 7, 1997). After concluding that a preliminary injunction was warranted, the court grappled with the appropriate remedy. DoubleClick requested that the defendants be enjoined from competing for one year. The court concluded, however, that a period of one year was too long. Noting the "speed" with which the internet industry changes, the court opined that the defendants' knowledge would lose value "to such a degree that the purpose of a preliminary injunction w[ould] have evaporated before a year was over." The court ultimately granted an injunction for six months.

b) *EarthWeb, Inc. v. Schlack*

Building on *DoubleClick*, a New York federal court held that a one-year restrictive covenant was not reasonable in duration. *See EarthWeb, Inc. v. Schlack*, 71 F. Supp. 2d 299 (S.D.N.Y. 1999).

EarthWeb Inc., a provider of on-line business products and services, brought an action against its former vice-president, Mark Schlack, to enjoin him from competing with it. In his former capacity as vice-president of EarthWeb, Schlack was responsible for the content of all of EarthWeb's websites. Prior to beginning employment with EarthWeb, Schlack signed a non-compete agreement. The non-compete provided that Schlack would refrain from working in any capacity as a direct competitor with EarthWeb for a period of 12 months.

Upon EarthWeb's motion for injunction, the court determined that Schlack's restrictive covenant was *not* reasonable in duration. Relying on "the dynamic nature of this [internet] industry, its lack of geographical borders, and Schlack's former cutting-edge position with EarthWeb," the court determined that six months was adequate.

2. Reasonableness in Geographic Scope

Restrictive covenants, traditionally, must also be reasonable in geographic scope. This requirement arose from the traditional store-front model where a traveling salesperson had a specific territory and established contacts with clients. Upon the salesperson's departure, the courts were required to balance two equities: (1) the salesperson's right to a livelihood; and (2) the employer's right to require that the former employee not solicit its clients. The information age, however, turns these

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basic considerations on their heads. In the internet age, when many companies and businesses operate on a national or international basis, these rules require re-evaluation. For instance, in *Misys Int'l Banking Sys., Inc. v. TwoFour Sys., LLC*, 800 N.Y.S.2d 350 (Sup. Ct. N.Y. Co. 2004), the court held a covenant restricting competition worldwide did not require reformation because of the international nature of the plaintiff's business. The court held that a decision as to the appropriateness of the geographic scope must await discovery and trial.

C. Inevitable Disclosure in New York

The inevitable disclosure doctrine initially arose out of non-compete agreements, and is often at issue in trade secret cases. It buttresses the enforceability of a restrictive covenant. The doctrine of "inevitable disclosure" evolved in New York case law to enjoin an employee from working for his former employer's competitor in the absence of a non-compete agreement. The rationale behind this doctrine is that if the lines of business of a former and a current employer are substantially similar, the employee could not help but disclose and/or use confidential information gleaned from his previous employment. More recent case law evinces a hostile attitude towards this doctrine.

1. *Lumex, Inc. v. Highsmith*

In a decision by Judge Spatt, the district court held that an employee's confidential knowledge of a former employer's business warranted an injunction precluding the employee from working for a competitor. *See Lumex, Inc. v. Highsmith*, 919 F. Supp. 624 (E.D.N.Y. 1996).

Lumex, a manufacturer of fitness equipment, brought suit against its former marketing manager, Greg Highsmith, to enforce the terms of a non-compete agreement. Shortly after resigning from Lumex, Highsmith accepted a position with Life Fitness, a Lumex competitor. Prior to his start of work with Life Fitness, Lumex sought a preliminary injunction. Lumex contended that Highsmith had confidential and trade secret information that would be "inevitably disclosed" to his new employer. The court agreed that inevitable disclosure was likely, finding that "Highsmith was privy to the top secret Cybex product, business and financial information. He cannot eradicate these trade secrets . . . from his mind." *Id*. at 631. The court granted an order restraining Highsmith from working for Life Fitness for six months.

2. *DoubleClick, Inc. v. Henderson*

DoubleClick set forth a high-water mark for the doctrine of inevitable disclosure. *See DoubleClick, Inc. v. Henderson*, Case No. 116914/97, 1997 WL 731413 (Sup. Ct. N.Y. Co. Nov. 7, 1997). Despite the absence of a restrictive covenant, the court enjoined two executives from working for a competitor.

In *DoubleClick*, an internet advertiser sought an injunction against two former executives who left to start their own internet advertising business. DoubleClick contended that the former executives had access to highly sensitive information, including revenue projections, plans for future projects, pricing and product strategies, and databases. A non-compete agreement did not exist between the parties. Nonetheless, the court held that the threat of "inevitable disclosure" of confidential information by these employees existed. The court granted an injunction for six months.

3. *EarthWeb, Inc. v. Schlack*

The *EarthWeb* court refused to apply the inevitable disclosure doctrine. *See EarthWeb*, 71 F. Supp. 2d 299 (S.D.N.Y. 1999). EarthWeb sought an injunction against its former vice-president, Mark Schlack, who had accepted a position with another internet-based company prior to his departure from EarthWeb. Irrespective of the non-compete agreement, EarthWeb argued that Schlack's prospective position made disclosure of its confidential information "inevitable." The court disagreed.

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Undertaking a lengthy analysis, including discussion of *Lumex* and *DoubleClick*, the court warned that invoking the inevitable disclosure doctrine was akin to "bind[ing] the employee to an implied-in-fact restrictive covenant." Absent evidence of actual misappropriation, the court concluded that inevitable disclosure should only be invoked in rare cases. The court set forth the following factors to consider in weighing the appropriateness of invoking the inevitable disclosure doctrine:

a) The employers in question are direct competitors providing the same or similar services;

b) The employee's new position is nearly identical to his old one;

c) The confidential information is highly valuable; and

d) Other case-specific factors, such as the nature of the industry.[3]

4. *Marietta Corp. v. Fairhurst*

Fairhurst relied, in part, on *EarthWeb* to reverse the Supreme Court's granting of a preliminary injunction to the plaintiff. *See Marietta Corp. v. Fairhurst*, 754 N.Y.S.2d 62 (3d Dep't 2003). In *Fairhurst*, the plaintiff, a hotel amenities supplier, brought action against the defendant Pacific Direct, a competitor, after the competitor hired its former senior vice president, Thomas Fairhurst. The plaintiff sought to enjoin disclosure of confidential information. The Supreme Court reasoned that since it was likely that Fairhurst would "use those secrets — if only unconsciously — in carrying out his duties with Pacific Direct, to [the plaintiff's] unfair advantage," the plaintiff had thus established the required elements for a preliminary injunction. *Id.* at 65.

On appeal, the Third Department found the Supreme Court's conclusion unsupported by the evidence. The Appellate Division noted that, like restrictive covenants, New York courts disfavor the doctrine of inevitable disclosure "absent evidence of actual misappropriation by an employee." *Id.* citing *EarthWeb*, 71 F. Supp. 2d at 310. The plaintiff proffered no evidence demonstrating actual misappropriation of trade secrets; such a conclusion would be merely conjectural. Absent any transgression that would constitute a breach under the confidentiality agreement, "mere knowledge of the intricacies of a business is simply not enough." *Id.* at 67.

5. Where From Here?

It is likely that the continuing vitality of the inevitable disclosure doctrine will be further vitiated. The *EarthWeb* court expressed hostility to inevitable disclosure because it was an "unbargained"-for restrictive covenant. Nonetheless, implicit in the *EarthWeb* court's overall analysis was an appreciation that the rapid pace of technology and information undercut the business reasons for restrictive covenants. As information is disseminated more quickly, disclosure of confidential information is less likely. *See, e.g., EarthWeb*, 71 F. Supp. 2d at 313; *DoubleClick*, 1997 WL 731413, at *8. By the time a court intervenes in a post-employment situation, the information may already exist in the public arena, so courts will often view lengthy non-competes with increasing scrutiny.

D. Choice-of-Law Provisions

Choice-of-law provisions are inserted in employment agreements to designate a particular body of law that will govern any litigation that arises out of the agreement. With employers doing business in many jurisdictions and with employees in various locales, choice-of-law provisions have become increasingly commonplace. Employers must be cognizant, however, that a choice-of-law clause does not guarantee that a favored body of law will apply. Employers must draft their agreements considering the law of other forums that may be deemed applicable.

[3] Ultimately, the Second Circuit remanded this case to the district court. *See EarthWeb, Inc. v. Schlack*, 205 F.3d 1322 (2d Cir. 2000). While the district court had discussed the problematic nature of inevitable disclosure, it also concluded, without any discussion, that EarthWeb could not make a showing of irreparable harm at all, on the basis of disclosure of confidential information. The Second Circuit requested that the district court set forth the specific reasons for this conclusion.

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Regardless, the most appropriate governing law for most employment agreements will be the law of the state in which the relevant employee works. This can be a hot-button issue for private equity firms. Often, New York-based firms want New York law to govern the contracts of their portfolio companies' employees because that is where the private equity business operates. More often than not, however, the portfolio companies and their employees operate in other states with different laws and rules pertaining to labor and employment.

1. *SG Cowen Secs. Corp. v. Messih*

   In *Messih*, SG Cowen Securities Corporation ("Cowen") claimed that Robert Messih, a managing director of technology in its San Francisco office, had resigned and taken up employment with Banc of America. *SG Cowen Secs. Corp. v. Messih*, No. 00 Civ. 3228, 2000 WL 633434 (S.D.N.Y. May 17, 2000), *aff'd* 224 F.3d 79 (2d Cir. 2000). Cowen contended that working for Banc of America was in violation of a non-compete provision in Messih's employment agreement. Messih's agreement also contained a choice-of-law provision designating New York as the governing law. Despite the choice-of-law provision, the court determined that California law applied because California contacts predominated the contract: Messih worked in California and had executed the employment agreement there. The New York contacts, in contrast, were more limited: Cowen's headquarters were in New York and some of the negotiations surrounding the agreement had taken place in New York. Determining that California Business and Professions Code Section 16600 generally prohibits covenants not to compete, the court denied the employer's request for injunctive relief to prohibit the employee from working for Banc of America.[4]

2. *Estee Lauder v. Batra* and New York General Obligations Law Section 5-1401.

   New York General Obligations Law ("GOL") Section 5-1401 allows contracting parties to choose New York law to apply to their agreements so long as that agreement relates to an obligation in excess of $250,000. The GOL encourages the use of New York courts and the freedom to contract. A carve-out in Section 5-1401(1) for personal services provides that GOL "shall not apply to any contract, agreement, or undertaking (a) for labor or personal services…." New York courts typically construe this "personal services" carve-out to encompass executive employee agreements and apply the "reasonable relationship" test to determine the enforceability of choice-of-law provisions in those agreements. *See, e.g., Woodling v. Garrett Corp.*, 813 F.2d 543, 551 (2d Cir. 1987); *Don King Prods. v. Douglas*, 742 F. Supp. 741, 756 (S.D.N.Y. 1990).

   Estee Lauder v. Batra, 430 F. Supp. 2d 158 (S.D.N.Y. 2006), exemplifies a court's recent decision to apply New York law to an executive agreement. There, Estee Lauder sued in federal court to enforce the non-compete in the employment agreement of a global brand manager, Batra, who had worked in California, to prevent Batra from becoming a worldwide general manager of a competitor. The non-compete's choice-of-law provision opted for New York law. In determining the enforceability of the non-compete's choice-of-law provision, the court applied a "substantial relationship" approach: the parties' choice-of-law is applied *unless* the chosen state bears 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 which has a materially greater interest than the chosen state." *Id.* at 30-31. The court enforced the non-compete's choice-of-law provision because New York had the "most significant" contacts based on the totality of the number of contacts in New York and California's interest in the dispute was not "materially greater" than New York's interest.

   Since a separate, free-standing "Restrictive Covenant Agreement" or "Option Vesting Agreement" is not literally included in Section 5-1401's "personal services" carve-out, parties may want to create separate documents that contain a New York choice-of-law provision other than the employment agreement. Parties may also want to take reasonable measures to ensure that New York bears a substantial relationship to the personal services arising under an employment agreement. Possible measures include, but are not limited to:

[4] Out of an abundance of caution, the court also determined that even if, *arguendo*, New York law applied, the non-compete would be found unenforceable. The court did not believe the employee's services were "unique" or "special."

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a) Negotiate the agreement in New York;

b) Draft the contract in New York;

c) Execute and/or deliver the contract in New York;

d) Have the executive perform the agreement's obligations to the greatest extent practicable in New York (i.e., require the executive to attend meetings and seminars, or participate in telephone conferences, in or arising out of New York);

e) Include provisions in the employment agreement whereby the executive acknowledges the reasonableness of contacts with New York and sets forth his understanding that his responsibilities will involve a range of contacts/activities in New York; and

f) Ensure, again to the greatest extent practicable, that the business enterprise has significant operations in New York.

E. The Unclean Hands Defense

It has long been the law that to obtain injunctive relief, the party seeking the relief must come to the court with clean hands. Some courts have refused to enforce non-compete agreements when the employer seeking enforcement argues against enforcement when it is self-serving. For example, the Supreme Court, New York County, in *GFI Securities* denied injunctive relief to petitioner, GFI, based, in part, on judicial estoppel grounds. *See GFI Securities LLC v. Tradition Asiel Securities Inc.*, 873 N.Y.S.2d 511 (Sup. Ct. N.Y. Co. 2008), *aff'd* at 878 N.Y.S.2d 689 (1st Dep't 2009).

GFI involved five arbitrations and an action to determine whether an inter-dealer firm, Tradition, raided GFI's brokers and whether the brokers violated the restrictive covenants in their employment agreements. Tradition allegedly raided 22 of GFI's 80 brokers and this suit and the arbitrations ensued. After first finding that the petitioner did not sufficiently prove the traditional elements for a preliminary injunction under CPLR 6301, the court also denied GFI's injunction request on judicial estoppel grounds. In at least two prior cases involving GFI as the defendant, GFI took the opposing arguments to the instant case. For instance, in one of the cases, GFI argued that services of a junior broker were *not* unique or extraordinary, while here GFI contended that such services *were* unique. Furthermore, in a separate case in which GFI was the defendant, GFI solicited and hired a broker from the plaintiff despite a restrictive covenant. The court ruled in GFI's favor, determining that there was no irreparable harm because of the liquidated damages clause in the employment contract.

In strong dicta coming down hard on parties employing such tactics, 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. Their interpretation of the relevant case law seems to depend, not on the individual facts of the matters, but rather whether, in each particular instance, they are the party seeking to prevent the alleged misconduct or whether they are defending against the conduct." Consequently, the court held GFI was judicially estopped from asserting arguments that constituted contrary positions advanced by GFI in other actions.

IV. Creating Enforceable Covenants

Employers should consider the following suggestions when drafting restrictive post-employment covenants:

A. Drafting Reasonable Covenants

1. Limited Duration and Geographic Scope

A restrictive covenant should be limited in duration and geographic scope, covering no greater an area or time period than that which is necessary to protect an employer's legitimate interests.

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Drafting reasonable covenants in the first instance will prevent later contentions and "blue pencil" determinations by a court. If a geographic scope limitation is impossible, consider a customer service restriction.

2. A Defined Protected Interest

A restrictive covenant should narrowly define the interest the employer is seeking to protect. If a covenant is seeking to protect trade secrets or confidential customer information, it should explicitly state in the contract that trade secrets and confidential customer information exists. If an employer is seeking to protect customer relationships, the covenant should state that it covers current customer relationships. The restriction should be drafted with the goal of infringing as little as possible upon an employee's ability to pursue his or her livelihood.

B. Consideration in Exchange for Covenant

Recent case law addresses restrictive covenants as applied to highly compensated employees whose restrictive covenants were negotiated as part of an entire employment agreement. As these cases suggest, the greater the consideration received in exchange for the non-compete, the more apt a court will be to enforce the covenant.

A court may examine whether an agreement was negotiated by both parties and whether the employee consulted with or had the opportunity to consult with an attorney. Therefore, employers should encourage employees to seek the advice of counsel and to negotiate the terms of any employment agreements containing restrictive covenants.

C. Garden Leave

As traditionally used in the United Kingdom, "garden leave" entails paying and employing an employee during a brief transition period (e.g., 30–90 days) after the employee has announced his intent to resign. An employee on garden leave is restricted from working for a new employer for a set period of time, but the current employer continues to provide full salary and benefits to the executive during the restricted period. The employee is bound by fiduciary duties of loyalty and therefore cannot compete with his employer. In drafting a garden leave provision, the employer should attempt to balance the amount of notice it legitimately needs to deter unfair competition with the potential hardship to the employee of obtaining an offer of employment with a new employer. *See Batra, supra*, 430 F. Supp. 2d at 182 (S.D.N.Y. 2006) (refusing to issue an injunction for the entire one-year period as requested by Estee Lauder and instead limiting the injunction to five months, finding that period sufficient to protect Estee Lauder's interests).

Although garden leave is not common, the court in *Maltby* indicated that at the very least, payment during the non-compete is a factor a court will consider in determining whether a restrictive covenant is reasonable. *Maltby, supra*, 633 N.Y.S.2d at 930. *See also Campbell Soup*, 58 F. Supp. 2d at 490 ("Safety net" provision, which cushioned financial loss to departing employee, was a factor in determining reasonableness of non-compete clause); *Natsource LLC v. Paribello*, 151 F. Supp. 2d 465 (S.D.N.Y. 2001) (enjoining employee from competing during employer's paid-for three-month non-competition period). *Cf. Messih, supra* 2000 WL 633434 at *4 (considering continued payment of base salary through end of non-compete agreement in the reasonableness calculus).

D. Ensure That the Agreement is Fully Executed

A case from the Southern District of New York exemplifies the importance of a validly executed non-compete agreement. In *Int'l Bus. Mach. Corp. v. Johnson*, 629 F. Supp. 2d 321 (S.D.N.Y. 2009), IBM brought claims against David Johnson, formerly an IBM Vice President, for breach of a non-compete agreement and misappropriation of trade secrets when Johnson resigned to join competitor Dell as

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Senior Vice President of Strategy. The court held in favor of Johnson based on IBM's failure to establish a likelihood of success on the merits of its breach of contract claim, the significant hardship Johnson would suffer as a result of an injunction and New York's general disfavor of non-compete agreements. *Id*. at 337.

In 2005, IBM began requiring senior executives to execute non-compete agreements in exchange for equity grants — grants that these employees received before the implementation of the non-competes. Hesitant to sign the agreement, Johnson returned the form to human resources having purposely signed on the line designated for IBM. In its analysis of whether Johnson and IBM entered into a valid non-compete agreement, the court relied, in part, on the rule that where "an offeree communicates to an offeror an ambiguous acceptance, it is the offeror's reaction to that ambiguous acceptance that controls whether the parties entered into a contract." *Id.* at 330. The court found that IBM's subsequent actions in response to the improperly executed agreement raised serious doubts as to whether IBM believed that Johnson had accepted their offer to a non-compete agreement. After receiving Johnson's agreement with the signature in the improper area, IBM contradicted its internal policy for booking validly signed agreements when it failed to sign Johnson's agreement. In fact, IBM essentially asked Johnson to clarify his intentions by returning the agreement he signed and asking him to re-sign a new copy on the proper signature line. He refused. IBM's general counsel indicated to Johnson that he did not consider the agreement properly executed and suggested that Johnson keep records of IBM's repeated efforts to get him to properly sign the document. *Id.* at 332-32.

V. Forfeiture-For-Competition Provisions

The "employee choice" doctrine is based on the assumption that one who elects to leave an employer makes a knowing, informed choice between forfeiting a certain benefit or retaining the benefit by staying with the employer. "New York courts will enforce a restrictive covenant without regard to its reasonableness if the employee has been afforded the choice between not competing (and thereby preserving his benefits) or competing (and thereby risking forfeiture)." *Lucente v. Int'l Bus. Mach., Corp.*, 310 F.3d 243, 254 (2d Cir. 2002) (holding that the employee choice doctrine can apply to deprive an employee of a future benefit or to recover a benefit already paid to the employee). A forfeiture-for-competition provision does not prohibit competition. Rather, it provides that if the former employee does compete, he will forfeit benefits or payments to which he would otherwise be entitled.

It is settled in New York that an employer can rely on the doctrine only if (1) the employer "can demonstrate its continued willingness to employ the party who covenanted not to compete" or (2) the employee is not discharged without cause. *Id. See, e.g., Gismondi, Paglia, Sherling, M.D., P.C. v. Franco*, 104 F. Supp. 2d 223, 233 (S.D.N.Y. 2000); *In re UFG Intern., Inc. v. DeWitt Stern Group, Inc.*, 225 B.R. 51, 55 (S.D.N.Y. 1998) ("[A]n employee's otherwise enforceable restrictive covenant is unenforceable if the employee has been terminated involuntarily, unless the termination is for cause"). *See also Post v. Merrill Lynch*, 48 N.Y.2d 84 (1979) (holding forfeiture-for-competition clauses unenforceable in the event of an involuntary "without cause" employment termination).

An employer may want to consider crafting a "forfeiture-for-competition" clause rather than a traditional restrictive covenant when the employee will be eligible to receive compensation subsequent to the termination of employment that, if forfeited, might be substantial enough effectively to deter the employee from competing.

VI. Non-solicitation Clauses

Freedom of an employee's decision to leave a job is, in general, balanced against protection of the employer's business interests. Non-solicitation, or non-recruitment, clauses in employment agreements intend to prevent former employees with the knowledge of an employer's current workforce from draining the employer's staff through recruitment efforts. Similarly, in situations involving mergers, acquisitions, litigation or usage of temporary workers, companies may enter into no-hire agreements where one or both agree not to hire the other's employees for a set period of time. Some states that are hostile to non-compete agreements have upheld non-solicit clauses (e.g., California, Georgia, Louisiana). *See, e.g., Loral Corp. v.*

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Moyes, 174 Cal. App. 3d 268 (1985) (holding the obligation not to solicit former employees as not interfering with employee relationships and allowing a former employer to stabilize its workforces and maintain its business). *But see Edwards v. Arthur Andersen LLP*, No. B178246, 2008 WL 5255805 at *6 (Dec. 18, 2008) (affirming the invalidity of the non-competition agreement and the non-solicit clause within the agreement on the narrow ground that since former employer was no longer in business, sufficient consideration was not given for the non-solicitation agreement). Not all states, however, distinguish an employee non-solicitation clause from a non-compete agreement. Because employees often leave without any prompting or influence from former employees, additional restrictions on departing employees such as non-compete and customer non-solicit provisions further protect an employer's business interests by limiting the post-employment conduct of these former employees in other ways. In this respect, non-recruitment clauses complement other more direct restrictions to the extent they prohibit former employees from causing a current employee to sever his or her employment relationship. Courts may uphold, for example, a non-solicitation clause that prohibits recruiting customers or investors by the former employee. *See Natsource LLC v. Paribello*, 151 F. Supp. 2d 465, 469 (S.D.N.Y. 2001) (upholding a non-solicitation clause that prohibited a former employee from soliciting former employer's customers within the non-solicit period (120 days) because to hold otherwise would render the former employer irreparably harmed. The court noted that the former employer, a brokerage firm of energy-related commodities, "expends substantial resources to help its brokers develop customer relations, and the brokers are introduced to established customers").

Employers should structure such non-solicitation clauses to avoid over-reaching or ambiguity. A non-solicitation clause should include a time limit on non-solicit obligations that relates to an underlying business justification.

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Restrictive Covenant Issues for Investment Managers

4. *IBM v. Visentin*

<u>IBM v. Visentin</u>, 11 CV 0399 (LAP)(S.D.N.Y. Feb. 16, 2011)

Counsel for Plaintiff:

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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

INTERNATIONAL BUSINESS MACHINES CORPORATION,

Plaintiff,

-v.-

GIOVANNI G. VISENTIN,

Defendant.

11 Civ. 399 (LAP)

FINDINGS OF FACT & CONCLUSIONS OF LAW

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LORETTA A. PRESKA, Chief United States District Judge:

Plaintiff International Business Machines Corporation ("Plaintiff" or "IBM") seeks a preliminary injunction against Defendant Giovanni Visentin ("Defendant" or "Mr. Visentin"), a former IBM executive, to enforce a noncompetition agreement by restraining Mr. Visentin from working for Hewlett-Packard Company ("HP") for a period of twelve months. Early in the morning of January 19, 2011, Mr. Visentin notified IBM of his intention to leave IBM to work for HP. On January 20, 2011, IBM filed a complaint including claims for breach of contract and misappropriation of trade secrets. On January 24, 2011, the Honorable Cathy Seibel entered a temporary restraining order and scheduled a preliminary injunction hearing. Due to a scheduling conflict, the case was subsequently transferred to the undersigned. Beginning on February 1, 2011, the Court heard extensive testimony from five witnesses and reviewed a substantial number of exhibits.[1] For the reasons set forth below, IBM's application for a preliminary injunction is DENIED.

I. Facts

a. IBM

IBM is a leading technology company, with approximately 400,000 employees and operations in more than 170 countries. (Tr. 273:17, 579:4-10.)[2] IBM is organized into several principal

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[1] Despite the extensive evidence placed before the Court during the four-day hearing, Plaintiff did not consent to treating this hearing as a trial on the merits.

[2] In reaching its findings of fact, the Court relies on the testimony of witnesses presented during the February 1-4, 2011 hearing and the February 11, 2011 oral arguments ("Tr."); the parties' exhibits presented during the hearing ("IBM Ex." and "Def. Ex."); the Declaration of Patrick Kerin in Support of IBM's Order to Show Cause ("Kerin Decl."), dated January 19, 2011; the Declaration of Giovanni Visentin ("Giovanni Decl."), dated January 19, 2011; and the Declaration of Tom Iannotti ("Iannotti Decl."), dated January 19, 2011.

business segments, including Global Technology Services ("GTS") (Tr. 25:3-7.) GTS assists companies in assessing, designing, implementing, and running their computer infrastructure and network systems. (Tr. 25:20-27:12; Kerin Decl. ¶¶ 11-12) GTS has four business segments, including Strategic Outsourcing ("SO"), Integrated Technology Services ("ITS"), Maintenance, and Global Processing Services. (Tr. 20:22-22:8.) The SO group deals mostly with technology services. Through the SO group, IBM can provide infrastructure, networking, and end-user support. (Tr. 16:3-17:23.) IBM either provides the technology platform only or it also takes over and runs clients' servers, storage, or networks under long-term contracts. (Id.; Kerin Decl. ¶ 13.) ITS provides clients with nearly 180 different infrastructure technology services, including services to improve data storage capabilities, provide business continuity and recovery services, protect networks from viruses, design new cloud computing infrastructures, and implement data security systems. (Tr. 34:21-36:4, 455:16-25, 529:21-530:20; Kerin Decl. ¶¶ 13-15.)

b. Hewlett-Packard

HP is a global technology provider and a major IBM competitor. (Tr. 261:19-24; IBM Ex. 208 at 2-3.) HP operates in more than 170 countries and has about 300,000 employees worldwide. (IBM Ex. 208 at 2-3.) HP is organized into several principal business segments, including Enterprise Services ("ES"). HP's ES group includes three segments: Application Services, Business Process Outsourcing, and Infrastructure Technology Outsourcing ("ITO"). (Tr. 46:9-19, 547:6-10.)

c. IBM's Noncompetition Program

IBM requires over 1700 employees to sign noncompetition agreements. (Tr. 577:11-14.) More than 300 IBM employees are required to sign a form noncompetition agreement identical to the one signed by Defendant. (Tr. 577:19-21.) IBM did not negotiate the terms of these agreements, and historically the agreements were not modified. (Tr. 577:22-578:5, 592:24-593:7.) IBM's noncompetition program works in tandem with a "clawback" mechanism. (Tr. 589:22-24.) If an employee violates the noncompetition agreement, IBM can choose to invoke the clawback mechanism and cancel all of that employee's unvested and unexercised equity grants. (Tr. 590:16-591:13.) IBM can also require employees to repay IBM for the equity options the employee has exercised and redeemed within the last two years. (Tr. 591:14-591:23.)

d. Mr. Visentin's Employment at IBM

Mr. Visentin worked at IBM for twenty-six years prior to his resignation on January 19, 2011. (Tr. 275:23-24) Mr. Visentin was a business manager, not a technical expert. (Tr. 351:5-9, 422:15-23.) During his career, Mr. Visentin held several management positions in different geographic and business divisions across IBM. From 2004 to 2006, Mr. Visentin was the Client Advocacy Executive in the Office of the Chairman. (Visentin Decl. ¶ 9; IBM Ex. 211 at 4.) In 2006, Mr. Visentin moved into the ITS group as Global Vice President of End-User Services, responsible for the development and sale of end-user products and services. (Visentin Decl. ¶ 10; IBM Ex. 211 at 3.) End-User Services is only one of the nine service lines offered by ITS. (Tr. 349:25-351:3.)

In September 2007, Mr. Visentin became General Manager of IBM's ITS business. (Tr. 267:10-13.) The ITS business generates approximately 5000 to 9000 deals per quarter and total revenue of $2.5 billion annually. (Tr. 349:13-24, 427:20-21, 455:16-18.) Mr. Visentin had eight direct reports who were responsible for various aspects of the ITS business. (Tr. 350:3-4.)

For the first year of his tenure as General Manager of ITS, Mr. Visentin was responsible for the Americas, which included North America, Canada, and Latin America. (Tr. 357:11-16.) He ceased having responsibility for Latin America approximately two years before his resignation. (Id.) Neither Mr. Visentin nor anyone on his ITS teams had responsibility for Application

Services ("Applications").[3] (Tr. 358:9-21.) Additionally, Mr. Visentin was not responsible for Business Process Outsourcing ("BPO") at IBM. (Tr. 6:10-12, 358:22-359:6.)

IBM's ITS and SO business segments offer some overlapping services, but they differ in scope and function. SO designs, implements, and runs clients' technology infrastructure, including servers, storage, or networks, under long-term contracts. (Tr. 16:3-17:23; Kerin Decl. ¶ 13.) ITS provides more narrowly scoped project-based services, sometimes as part of a broader bid coordinated by the SO group. (Tr. 16:3-17:23; Kerin Decl. ¶ 13.) As the ITS General Manager, Mr. Visentin was not responsible for IBM's SO deals. (Tr. 426:20-427:3.)

Mr. Visentin's ITS teams sometimes participated in SO bids if an SO team requested that ITS bid on a component of a SO deal. (Tr. 352:11-23.) Both ITS and SO deals involved four basic steps: assessment of the client's need for a service, designing a plan to address those needs, implementing that plan, and, in SO deals, running the service purchased by the client. (IBM Ex. 196 ("Assess-Design-Implement-Run").) Mr. Visentin was not personally involved in the execution of any of those four steps with respect to ITS deals or ITS components of SO deals.

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[3] There are two separate units at IBM, both outside of ITS and GTS, that are responsible for applications and similar services at IBM; Mr. Visentin did not manage either unit. (Tr. 235:6-236:23.)

(Tr. 355:10-357:10, 419:10-421:9.) Instead, members of Mr. Visentin's ITS team worked on the details of each step of the process. (Tr. 355:10-357:10, 419:10-421:9.) These individuals were the "front line" players and specialists who worked five to seven layers below Mr. Visentin in the chain of command. (Tr. 355:10-357:10.) Unlike Mr. Visentin, these individuals were mostly designers and architects with technical backgrounds in the information technology and computer science fields. (Tr. 355:10-357:10, 419:10-421:9.) Mr. Visentin does not have the technical expertise or know-how that would enable him to design or implement technology-based solutions for client needs. (Tr. 419:3-422:23.)

In December 2008, Mr. Visentin was appointed to IBM's Integration and Values Team (the "I&VT"), a leadership group that develops IBM's corporate strategy. (Tr. 56:23-57:12, 273:3-21.) The approximately 325 members of the I&VT are chosen by the chairman of IBM. (Tr. 57:1-5, 593:19-22.) These leaders are charged with addressing some of the strategic and other important issues facing IBM. (Tr. 56:23-57:12, 58:13-59:16, 594:5-595:11.)

Mr. Visentin was also selected to join an I&VT task force focused on a global strategic initiative in "Business Analytics," the in-depth analysis of client data to assist clients in their businesses. (Tr. 59:17-60:20, 275:3-16, 374:12-16.) The task force made recommendations to IBM's senior leadership. Mr. Visentin attended and participated in I&VT Business Analytics meetings in 2010. (Tr. 59:17-60:20, 275:17-22, 374:12-16.)

e. The Noncompetition Agreements

Mr. Visentin signed two noncompetition agreements with IBM, the first on July 16, 2008 (IBM Ex. 1 (2008 Noncompetition Agreement)) and the second on July 29, 2009 (IBM Ex. 3, (2009 Noncompetition Agreement)). The 2009 Noncompetition Agreement (the "Noncompetition Agreement") provides that "during [Mr. Visentin's] employment with IBM and for twelve (12) months following the termination of [his] employment . . . [Mr. Visentin] will not directly or indirectly within the 'Restricted Area' (i) 'Engage in or Associate with' (a) any 'Business Enterprise' or (b) any competitor of the Company." (Id. § 1(d).) In the Noncompetition Agreement, the following terms are defined:

- "Restricted Area" is "any geographic area in the world for which [Mr. Visentin] had job responsibilities during the last twelve (12) months of [his] employment with the IBM." (Id. § 2(e).)

- "Engage or Associate with" includes "without limitation engagement or association as a sole proprietor, owner, employer, director, partner, principal, investor, joint venture, shareholder, associate, employee, member, consultant, contractor or otherwise." (Id. § 2(c).)

- "Business Enterprise" is "any entity that engages in

> . . . competition with any business unit or divisions of the Company in which [Mr. Visentin] worked at any time during the three (3) year period prior to the termination of [his] employment. (Id. § 2(a).)

Mr. Visentin also agreed to a nonsolicitation covenant, which provided that "during [his] employment with IBM and for twelve (12) months following the termination of [his] employment . . . [he] will not directly or indirectly within the 'Restricted Area' . . . solicit, for competitive business purposes, any customer of the Company with which [he was] involved as part of [his] job responsibilities during the last twelve (12) months of [his] employment with IBM" and "for the two (2) year period following the termination of [his] employment . . . [he] will not directly or indirectly within the 'Restricted Area,' hire, solicit or make an offer to any employee of the Company to be employed or perform services outside of the Company." (Id. § 1(d).)

f. Mr. Visentin's Employment at HP

HP offered a position to Mr. Visentin late in the evening of January 18, 2011. Mr. Visentin accepted that offer within an hour and immediately notified IBM. (Tr. 299:10-14; IBM Ex. 192.) In his resignation letter, Mr. Visentin expressed a desire to leave immediately but offered to remain employed for a reasonable transition period. (IBM Ex. 192.) IBM apparently declined the offer by sending a Human Resources employee to Mr.

Visentin's house within hours to collect his laptop. (Visentin Decl. ¶ 35.) Mr. Visentin's resignation, therefore, took effect later in the day on January 19. (Id. ¶¶ 35-36.) HP hired Visentin to be its Senior Vice President, General Manager, Americas for HP Enterprise Services. He will be responsible for managing the three business segments within HP's ES group: BPO, Applications, and ITO. (IBM Exs. 192, 230.) At HP, these business segments have the following roles: (a) BPO offers business- and industry-focused outsourcing services for customer relationship management, document processing, finance and administration, and HR and payroll; (b) Applications helps organizations plan, develop, integrate, and manage custom applications, packaged software, and industry-specific solutions; and (c) ITO focuses on companies' IT infrastructure and includes services for data centers, networking, security, and short-term desk support (or "workplace services"). (Iannotti Decl. ¶ 3.)

HP hired Mr. Visentin because he is a "process-oriented thinker" and has skills in managing large teams. (Tr. 541:20-25.) HP does not expect Mr. Visentin to have or use "technical knowledge of things like cloud and the various technical products and services offered by HP." (Tr. 544:5-11.)

Mr. Visentin did not provide any IBM confidential information or trade secrets to HP or its recruiting firm, Heidrick & Struggles ("H&S"), during the interview process. (Tr. 381:19-383:7.) Mr. Visentin provided H&S a client list that included nothing but the names of clients (not revenue figures), most of which are well-known to HP and the industry. (Tr. 194:8-194:18; Def. Ex. 25.) Mr. Visentin provided that list for the sole purpose of allowing H&S and HP to assess his noncompetition agreement with IBM and determine how to "fence" him off from those clients. (Tr. 377:11-378:23; Def. Ex. 25.)

After discussing the nature of the proposed position at HP, both Mr. Visentin and HP's primary decisionmaker, Mr. Tom Iannotti, determined that it was feasible to structure the HP job so that it was different from Mr. Visentin's previous IBM position in terms of subject area, geographic scope, and level of responsibility. (Tr. 551:10-555:16.) HP offered Mr. Visentin a high-level management position and agreed to narrow the job during an appropriate period of time to minimize any potential overlap with the job that Mr. Visentin performed at IBM. (Id.; Iannotti Decl. ¶¶ 7-11.) HP and Mr. Visentin agreed to the following restrictions on Mr. Visentin's duties in order to avoid violating the Noncompetition Agreement:

i. Mr. Visentin will be responsible for the BPO and Applications segments of HP's Enterprise Services business. He did not work in those areas at IBM, and has no confidential information about those facets of IBM's business;

ii. Mr. Visentin will oversee HP's ITO business in the United States and Canada, but only for those existing, installed clients whose contractual arrangements with HP are not up for renewal in the next year;

iii. Mr. Visentin will be completely excluded from working with any client for which he served as the "partner executive" while at IBM through its "Partner Executive Program." This restriction applies worldwide and without regard to business segment; and

iv. Mr. Visentin will be responsible for the full range of ITO services to HP's clients in Mexico and Latin America, because he did not work in those regions since 2009.

(Tr. 551:20-555:16, 553:2-555:16; Iannotti Decl. ¶ 8; IBM Ex. 192.)

g. Purported IBM Trade Secrets and Confidential Information

After his resignation from IBM, Mr. Visentin did not keep a single IBM document in any format, including electronic documents. (Tr. 542:19-22.)

i. I&VT Meetings

Mr. Visentin attended two I&VT meetings, one in 2009 and one in 2010. Mr. Visentin resigned prior to the 2011 I&VT meeting and had not attended an I&VT meeting since January 2010, more than a year before he resigned. (Tr. 56:23-58:7.) From 2005 to 2009, some members of the I&VT were not required to sign noncompetition agreements, despite being privy to precisely the same purported trade secrets and confidential information to which Mr. Visentin was exposed. (Tr. 585:15-586:4.) None of

IBM's witnesses identified any specific information shared with I&VT members in January 2010 that would be harmful if disclosed to HP in 2011.

ii. I&VT Task Force on Business Analytics

In 2010, Mr. Visentin participated in a Task Force that examined IBM's Business Analytics initiative, but he does not possess any documents relating to his work on the Business Analytics task force. (Tr. 374:17-23.) The parties agree, however, that HP does not compete in the Business Analytics area. (Tr. 181:2-22.)

iii. Cloud Computing

HP and IBM compete in the important emerging market called cloud computing. Cloud computing allows businesses and individuals to use the Internet to access software programs, applications, and data from computer data centers managed by providers such as IBM and HP. Cloud computing services are not a unitary product but rather a continuum of services which businesses are able to access on an as-needed basis. (Tr. 127:6-133:9; IBM Ex. 18.) These services range from "public cloud" services - that is, pre-packaged standard services - to "private cloud" services – that is, highly individualized services designed specifically for a single client. (Tr. 127:6-133:9; IBM Ex. 18.) IBM, HP, and others will compete in the area of cloud computing technology for the next several years.

(Tr. 327:10-12, 55:21-23) Mr. Visentin does not know the architecture or design of cloud. (Tr. 356:10-13)

iv. Client Pipelines

Mr. Visentin was aware of prospective deals (the "pipeline") within ITS. The ITS pipeline contained an estimated 5000 to 9000 deals per quarter. (Tr. 349:13-24.) Mr. Visentin also received high-level and generalized information about the SO pipeline at management meetings. (Tr. 371:6-372:14.) The reports distributed to attendees, however, contained no detailed information such as solutions, specifications, contract duration, staffing costs, or pricing mechanisms. (See, e.g., IBM Exs. 10, 23, 24.)

v. Pricing of Deals

The pricing of outsourcing deals and technology projects is a complicated process. Each deal is unique. (Tr. 419:4-5.) The final price attached to a project results from a detailed analysis of the scope of work and the development of a proposed solution that is unique to each deal. (Tr. 201:21-202:15, 209:25-210:21, 557:10-558:9.) In the case of an SO deal, the cost to run the service for the client is also included. (Tr. 425:24-426:4.) Mr. Visentin had no responsibility for pricing SO deals (Tr. 426:20-427:4, 208:3-10) and did not have the ability to price any deal. (Tr. 414:22-421:9.)

vi. Troubled IBM Clients

As part of his ITS responsibilities, Mr. Visentin was privy to discussions regarding some "troubled" clients. IBM admitted that (1) some of IBM's troubles with clients are publicly known and reported in the media or already known to HP through existing relationships with those clients (Tr. 214:10-215:3, 220:4-222:8); and (2) most of IBM's troubled clients are in the early stages of long-term contracts with IBM that are not up for renewal or competitive bidding in the next 12 months (Tr. 222:9-14). Mr. Visentin was only aware of ITS's troubled clients at a general, service product line level. (Tr. 443:24-444:24.)

vii. Knowledge of Potential IBM Acquisition

Mr. Visentin was not responsible for making acquisitions while at IBM and will not have any responsibility for making acquisitions at HP. Mr. Visentin acknowledged that he is aware of a potential acquisition by IBM and that he is subject to an independent nondisclosure agreement with regard to a potential IBM acquisition. (Tr. 474:4-475:15.)

II. Discussion

a. Preliminary Injunction Standard

A preliminary injunction is "an extraordinary and drastic remedy which should not be routinely granted." Med. Soc'y of State of N.Y. v. Toia, 560 F.2d 535, 538 (2d Cir. 1977); see also Hanson Trust PLC v. SCM Corp., 774 F.2d 47, 60 (2d Cir.

1985) (preliminary injunction is "one of the most drastic tools in the arsenal of judicial remedies"); Int'l Creative Mgmt., Inc. v. Abate, No. 07 Civ. 1979, 2007 WL 950092, at *2 (S.D.N.Y. Mar. 28, 2007) (same). To obtain a preliminary injunction, the moving party must demonstrate: "(1) that [it] will be irreparably harmed if an injunction is not granted, and (2) either (a) a likelihood of success on the merits or (b) sufficiently serious questions going to the merits to make them a fair ground for litigation, and a balance of the hardships tipping decidedly in its favor." Lusk v. Vill. of Cold Spring, 475 F.3d 480, 485 (2d Cir. 2007) (internal quotation marks omitted). Furthermore, the Court of Appeals has indicated that where an injunction is mandatory, a movant must demonstrate a substantial likelihood of success on the merits. See Johnson v. Kay, 860 F.2d 529, 540 (2d Cir. 1988); see also Tom Doherty Assocs., Inc. v. Saban Entm't, Inc., 60 F.3d 27, 34 (2d Cir. 1995). Although the Court believes that this heightened burden should apply in this case, such a distinction is of no consequence here because IBM has failed to carry its burden under the less stringent preliminary injunction standard.

b. Application to the Present Motion

In the present action, IBM bears the burden of demonstrating that the circumstances of this particular case as it relates to this specific employee warrant such a "drastic remedy." Many times when litigants seek a preliminary injunction to prohibit the disclosure of trade secrets, a court must rely on somewhat limited information to determine whether the information a party seeks to protect should qualify as "trade secrets." By way of contrast, this Court presided over an exhaustive four-day hearing, part of which was conducted in a closed courtroom to protect the confidentiality of what were said to be "highly sensitive" IBM documents. In deciding this motion for a preliminary injunction, the Court has the full benefit of examining all the documents at issue and hearing testimony from several IBM representatives who were invited to explain to this Court with specificity the precise information at issue and the impact that potential disclosure would have on IBM. For the reasons discussed below, IBM has failed to carry its burden of demonstrating that the facts of the present case warrant granting the extraordinary relief requested.

i. Irreparable Harm

A demonstration of irreparable harm is the "most important prerequisite for the issuance of a preliminary injunction." Bell & Howell v. Masel Supply Co., 719 F.2d 42, 45 (2d Cir. 1983). "The mere possibility of harm is not sufficient: the harm must be imminent and the movant must show it is likely to suffer irreparable harm if equitable relief is denied." See Earthweb Inc. v. Schlack, 71 F. Supp. 2d 299, 308 (S.D.N.Y.

1999) (citing JSG Trading Corp. v. Tray-Wrap, Inc., 917 F.2d 75, 79 (2d Cir. 1990)). "To make this showing, a Plaintiff must demonstrate that absent a preliminary injunction he will suffer 'an injury that is neither remote nor speculative, but actual and imminent,' and one that cannot be redressed through a monetary award." Payment Alliance Int'l, Inc. v. Ferreira, 530 F. Supp. 2d 477, 480 (S.D.N.Y. 2007) (quoting Grand River Enter. Six Nations, Ltd. v. Pryor, 481 F.3d 60, 66 (2d Cir. 2007)). If irreparable harm is remote, speculative, or a mere possibility, the motion must be denied. See Borey v. Nat'l Union Fire Ins. Co., 934 F.2d 30, 34 (2d Cir. 1991); Reuters Ltd. v. United Press Int'l, Inc., 903 F.2d 904, 907 (2d Cir. 1990). "In non-compete cases, such as this one, the irreparable harm analysis and the likelihood of success on the merits analysis are closely related and often conflated." IBM Corp. v. Papermaster, 08 Civ. 9078, 2008 WL 4974508, at *7 (S.D.N.Y. Nov. 21, 2008) (internal quotation marks omitted). Here, IBM argues that it will be irreparably harmed because Mr. Visentin's proposed position at HP poses the risk that he will inevitably disclose confidential information that he learned at IBM.[4]

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[4] IBM also asserts that by signing the noncompetition agreement, Mr. Visentin "acknowledged and agreed that IBM would 'suffer irreparable harm' if he failed to comply with the Noncompetition agreement." (IBM's Memorandum of Law in Support of Its Application for a Temporary Restraining Order and Motion for a (cont'd on next page)

At oral argument, IBM suggested that the heightened standard for mandatory injunctions should not apply because "the fact that [Mr. Visentin] was able to get on the [HP] payroll was a function of their giving no notice and jumping the gun, which only gave us 24 hours to get an injunction." (Tr. 686:9-11.) In fact, however, in his resignation letter, Mr. Visintin stated that "he would be willing to consider a mutually agreeable continuation of [his] employment for a limited period of time if [IBM] would like [him] to assist in the transition of [his] responsibilities." (IBM Ex. 192.) But IBM rejected that offer, sending someone to Mr. Visentin's house within hours to collect his laptop. (Visentin Decl. ¶ 35; Tr. 687:5-8.) Thus, it was IBM that changed the status quo, leading to its seeking a mandatory injunction.

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Preliminary Injunction at 13.) IBM, however, did not address this argument during testimony or oral argument. Furthermore, parties to a contract cannot, "by including certain language in that contract, create a right to injunctive relief where it would otherwise be inappropriate." Fireman's Ins. Co. of Newark v. Keating, 753 F. Supp. 1146, 1154 (S.D.N.Y. 1990). Indeed, a contract provision does not, as a matter of law, constitute conclusive evidence that irreparable harm has occurred. Int'l Creative Mgmt. v. Abate, No. 07 Civ. 1979, 2007 WL 950092, at *6 (S.D.N.Y. Mar. 28, 2007). The significance of this provision is also diminished by the fact that there was no meaningful negotiation regarding any of the terms of the noncompetition agreement. (Tr. 577:22-578:5, 592:24-593:7.)

1. Trade Secrets

New York law governs the noncompetition agreement at issue. (IBM Ex. 1, § 13; IBM Ex. 3, § 15.) In New York, properly scoped noncompetition agreements are enforceable to protect an employer's legitimate interests so long as they pose no undue hardship on the employee and do not militate against public policy. See BDO Seidman v. Hirshberg, 712 N.E.2d 1220, 1223 (N.Y. 1999). Trade secrets and confidential information count among employer interests courts recognize as "legitimate." Reed, Roberts Assocs., Inc. v. Strauman, 353 N.E.2d 590, 593 (N.Y. 1976). Only that confidential information or those trade secrets that the employee misappropriates or will inevitably disclose is protectable. See id. (recognizing that enforcement of noncompetition agreements allows employer to "protect himself against deliberate surreptitious commercial piracy"); see also N. Atl. Instruments, Inc. v. Haber, 188 F.3d 38, 43-44 (2d Cir. 1999); PepsiCo, Inc. v. Redmond, 54 F.3d 1262, 1268 (7th Cir. 1995).

New York courts define a "trade secret" as "any formula, pattern, device or compilation of information which is used in one's business, and which gives [the owner] an opportunity to obtain an advantage over competitors who do not know or use it." N. Atl. Instruments, 188 F.3d at 44 (internal quotation marks omitted); accord Ashland Mgmt. Inc. v. Janien, 624 N.E.2d 1007, 1012-13 (N.Y. 1993) (citing Restatement of Torts § 757 cmt. b (1939)). "A trade secret once lost is, of course, lost forever and, therefore, such a loss cannot be measured in money damages." Estee Lauder Cos. v. Batra, 430 F. Supp. 2d 158, 174 (S.D.N.Y. 2006) (internal quotations omitted); accord Papermaster, 2008 WL 4974508, at *7; Destiny USA Holdings, LLC v. Citigroup Global Mkts. Realty Corp., 889 N.Y.S.2d 793, 800 (N.Y. App. Div. 2009). Courts consider the following factors when determining whether certain information constitutes a trade secret:

> (1) the extent to which the information is known outside of the business; (2) the extent to which it is known by employees and others involved in the business; (3) the extent of measures taken by the business to guard the secrecy of the information; (4) the value of the information to the business and its competitors; (5) the amount of effort or money expended by the business in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.

N. Atl. Instruments, 188 F.3d at 44; Ashland Mhmt., 624 N.E.2d at 1013.

At IBM, Mr. Visentin's primary job was to be a "general manager." Although trade secrets may have lurked somewhere on the periphery, the real thrust of his position was to manage his teams to make them as efficient as possible. Mr. Visentin testified that he had never taken a computer science course (Tr. 348:23-24), described himself as a generalist, and noted, "I am not technical, I don't know the details of offerings, I'm more of a general manager and I run a business." (Tr. 461:21-461:23.) In describing his approach to his job, Mr. Visentin testified:

> I'm a business unit executive, so I run the P&L in terms of understanding profit, revenue, and signings. I focus in on transformation on people. I'm a big believer if you get the right leaders, the right people in place, you put the right processes in place for them, they are able to execute and you give them as much economy as possible to execute.
>
> My strength is not giving them technical knowledge. It's really understanding. I call it pulling the string theory. . . . It's my understanding, when a client asks for something, who in your organization is doing the work and why and are there steps in there that you could improve, are there processes you could improve to make it more effective so you could possibly take cost out and give a better response to clients.

(Tr. 425:2-15.) Mr. Visentin testified further:

> My strength is to assure that I put a right team in place, that I have them all rowing in the same direction. That is my strength. That is called transformation. What people to put on which project, I don't have that knowledge. Depending on the project, it depends what type of technical skills you would need.

(Tr. 430:22-431:4.) This testimony was uncontested.

Mr. Tom Iannotti, Mr. Visentin's future manager at HP, confirmed that these generalist qualities were the driving factor behind HP's hiring of Mr. Visentin. Mr. Iannotti testified that he hired Mr. Visentin because "[h]e had good general IT services knowledge, broad experience. He struck me as a process-oriented thinker, a guy who could sort of connect the dots, if you will, of the overall responsibilities of the job." (Tr. 541:20-25.) Mr. Iannotti further testified that he did not need someone with technical proficiency in cloud or other technical services because that was not part of Mr. Visentin's new job. (Tr. 543:13-544:24.) Instead, Mr. Visentin's job at HP will be "to manage people." (Tr. 546:16-21.) HP does not expect Mr. Visentin to be involved in the pricing, design, or staffing of new business. (Tr. 555:1-16.) Nor will Mr. Visentin be involved in pricing generally. At HP, pricing is a highly specialized task performed by a team of experts. (Tr. 557:12-25.)

IBM, however, has identified numerous general types of information potentially in Mr. Visentin's possession it claims should be afforded protection. This information includes strategic business and marketing plans contained in documents like the Fall 2011 ITS Plan, strategic initiatives in cloud computing, new service offerings, acquisition plans, the operational finances of ITS, IBM's competitive business and pricing strategies, the identity of new client targets and pipeline information, the identity of troubled accounts, and IBM's competitive strategies to attack HP. A number of these areas overlap. Moreover, many of these purported areas of "trade secrets" also appear to include information that is either applicable to all large corporations, in the public domain, or outdated.

In a majority of the areas of information that IBM now seeks to protect as "trade secrets," IBM's fact witnesses, Mr. Patrick Kerin and Ms. Emily McCabe, failed to provide specific examples of confidential or trade secret information that could actually be used to IBM's detriment if Mr. Visentin were allowed to assume his new position at HP. IBM did, however, demonstrate two areas - a potential IBM acquisition and client pipeline information - that may warrant protection as trade secrets. Below, the Court addresses each type of information identified by IBM.

a. I&VT Meetings

IBM asserts that Mr. Visentin possesses confidential IBM information that he learned by attending I&VT meetings in 2009 and 2010. As Mr. Kerin testified, however, Mr. Visentin resigned prior to the 2011 I&VT meeting and had not attended an I&VT meeting since January of 2010, more than a year before he resigned. (Tr. 56:23-58:7.) Additionally, the Court credits Mr. Visentin's testimony that he did not recall any specific details from those meetings. (Tr. 273:18-275:2.) Therefore, IBM is not in danger of his revealing such details.

Further, Mr. Randy MacDonald, IBM's Senior Vice President for Human Resources, stated that from 2005 through 2009, some members of the I&VT were not required to sign noncompetition agreements, despite being privy to precisely the same purported trade secrets and confidential information to which Mr. Visentin was exposed. (Tr. 585:15-586:4.) This cuts against IBM's assertion that the information discussed at I&VT meetings rises to the level of a trade secret. Finally, despite being asked directly by the Court to provide specific information that IBM was concerned Mr. Visentin would disclose to HP, none of IBM's witnesses identified any specific information shared with I&VT members in January 2010 that would be harmful if disclosed to HP in 2011. (See Tr. 625:17-628:21.) Accordingly, IBM has not demonstrated the existence of a trade secret in need of protection in this area.

b. I&VT Task Force on Business Analytics

In 2010, Mr. Visentin participated in a Task Force that examined IBM's Business Analytics initiative. Mr. Kerin testified, however, that (1) HP did not compete in the Business Analytics area; (2) he had not read any media reports indicating that HP was entering the business analytics area; (3) IBM's competitive analysis of HP did not suggest that HP was investing in or selling business analytics; and (4) Mr. Visentin would not need to know anything about Business Analytics at IBM in order to perform the position he accepted at HP. (Tr. 181:2-22.) Further, the Court credits Mr. Visentin's unrebutted testimony that (1) he did not possess any documents relating to his work on the Business Analytics Task Force and (2) he did not have access to any such documents. (Tr. 374:17-23.) Accordingly, IBM has not demonstrated the existence of a trade secret in need of protection in this area.

c. Cloud Computing

IBM expressed much concern about the secrecy of its cloud computing offerings. Indeed, when given numerous opportunities to describe the concerns it had about specific confidential information Mr. Visentin might possess, IBM returned repeatedly to Mr. Visentin's purported possession of IBM's confidential cloud information. However, Mr. Kerin, Mr. Visentin's former manager at IBM, admitted that Mr. Visentin was not one of his top cloud computing employees (Tr. 190:4-24), and Mr. Visentin's name was not on the list of the top 30 cloud people at IBM. (Id.; IBM Ex. 18 at 6.) Additionally, the Court credits Mr. Visentin's testimony that he could not describe the architecture or design of cloud (Tr. 356:10-13) and that he has never discussed cloud with anyone at HP (Tr. 334:23-335:8).

With regard to Mr. Visentin's knowledge of IBM's cloud computing information, Mr. Kerin was questioned specifically about what information regarding IBM's cloud computing offerings he was concerned Mr. Visentin had in his memory and that he might reveal to HP. In response, Mr. Kerin provided only very general information. (E.g., Tr. 185:19-23 ("[Mr. Visentin] knows that we've stood up infrastructure in various parts of the country that are costing us upwards of $5 million in any given period, and that we have significant objectives underway right now to try to build out clients on that capacity.").) Indeed, when pressed, Mr. Kerin was unable to identify any specific information regarding cloud computing in Mr. Visentin's possession that could cause competitive harm to IBM. (Tr. 185:16-190:5. ("Q: If [Mr. Visentin] were to tell HP, IBM's invested millions of dollars in hardware, software . . .to make cloud work, you believe that would cause competitive harm to IBM and that it would disclose information that HP doesn't already know? A: No, I don't. . . . Q: What does he know about [IBM's cloud investment]? A: He knows what it is, sir. Q: Tell us what it is. . . . A: It is a level of detail which he knows better than I . . . . We just trained our field on this in the fourth quarter . . . .").) Additionally, although both Ms. McCabe and Mr. Kerin claimed that Mr. Visentin would know IBM's "public cloud pricing," Mr. Kerin admitted that he himself did not know that pricing off the top of his head and that he did not know whether Mr. Visentin would be able to remember any such pricing information. (Tr. 185:2-15.) In any event, the Court credits Mr. Visentin's uncontested testimony that he could not recall any pricing information for any of IBM's services, including cloud offerings. (Tr. 462:10-16 ("I could not possibly remember the cost or the price of . . . at least 180 offerings or the deals, so, no, I don't.").)

Furthermore, IBM admits that it is a latecomer to the public cloud arena and that the market price has already been set by Amazon.com and Google. (Tr. 520:13-24.) Ms. McCabe testified that "[p]ublic cloud is such that companies like Amazon and Google are already out in the marketplace and they establish a market price level. So, often when you want to get into the business and you're late, you have to inherit the price that everybody else is selling it for." (Id.) In closing arguments, IBM's counsel clarified that because of Amazon and Google, "[t]he pricing is already there and everybody wants to drive down their costs." (Tr. 655:19-21.) Therefore, IBM - or, seemingly, HP and anyone else in the business - would have little room to maneuver on pricing. In the broadest business terms, any competitor's only option to improve profits is to reduce its costs, but profit is the goal of any company investing in new technology. This is hardly the stuff of trade secrets.

IBM also asserts that the cost of IBM's cloud infrastructure would have appeared on the profit and loss statements for which Mr. Visentin was responsible. (Tr. 520:10-12.) But there is no evidence in the record that Mr. Visentin was aware of anything other than the overall cost of IBM's cloud offerings. As an example, assuming, hypothetically, that Mr. Visentin may have been aware that IBM had invested in servers to support its cloud offerings, IBM has offered no testimony that Mr. Visentin was aware of the type or number of servers used by IBM, their capabilities or any other specifics.[5] IBM has failed to demonstrate how, absent any indication that Mr. Visentin possessed more specific knowledge of the underlying data, Mr. Visentin's supposed recollection of the overall cost of IBM's cloud investment can be of any use to a competitor and thus that it constitutes a trade secret in need of protection.

Ms. McCabe also expressed concern that Mr. Visentin might possess confidential IBM knowledge regarding a new cloud product offering. (Tr. 512:14-513:15.) Despite being given the chance, however, Ms. McCabe failed to provide any details about this new offering. (Tr. 512:14-517:13 ("Q: Can you please explain, again

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[5] The Court finds the analogy of Mr. Visentin's counsel persuasive:

> [C]loud is not a product. It's not like the tie that I'm wearing, your Honor, where you might say, all right, the company produces 3000 of these ties, it costs $18.75 to make, we sell it for $55. That's useful to a competitor to know. Cloud is a continuum of services based on a specific solution to enable companies to do their computer processing in multiple ways. So there is no price or cost to know.

(Tr. 650:1-7.)

without mentioning the product, what happened with that product? A: This was a product that we had originally intended to deliver to the marketplace quickly because we felt that it was an area that was going to have a lot of market interest. We had some technical problems with the offering. So we, in fact, had to move the availability date, and in fact the announce date, out well beyond what we had expected. . . . [Mr. Visentin] was in the same group of individuals who understood the updates to what was happening from a product standpoint and then could help determing what's the next phase of development.").) She similarly failed to establish what knowledge Mr. Visentin would have regarding the offering, stating only that he had "exposure" to it and that Mr. Visentin was "on the distribution [list]." (Tr. 513:13-23, 516:23-517:2.) Absent more, the Court is not persuaded that simply being on an email distribution list about a new product offering means that Mr. Visentin has any lingering knowledge of it. This is particularly so given that cloud computing is a continuum of services, some generic, some highly specialized for the particular client. Further, Ms. McCabe offered only speculative and generalized testimony regarding what competitive harm, if any, IBM would suffer if information regarding the new cloud product offering became known to a competitor. (Tr. 515:23-516:22, 517:3-13.) Accordingly, IBM has not demonstrated the existence of a trade secret in need of protection in this area.

d. New Service Offerings Other Than Cloud

IBM also initially expressed concern that Mr. Visentin might possess knowledge of new service offerings IBM currently has in development. When the Court asked IBM to discuss with specificity the offerings that it was concerned about, IBM identified only its cloud offerings. But as indicated above, testimony on that topic was not persuasive, and, thus, IBM has not demonstrated the existence of any trade secrets in need of protection in this area.

e. Potential Acquisition Target

In her testimony, Ms. McCabe also expressed concern that Mr. Visentin possesses confidential IBM knowledge regarding a potential IBM acquisition target. (Tr. 517:22-519:17.) As noted above, Mr. Visentin acknowledges that this information is a trade secret and that he was already subject to an independent nondisclosure agreement with regard to a potential IBM acquisition. (Tr. 474:4-475:15.) The Court credits his testimony that he would never reveal the identity of the acquisition to HP. (Id.) Mr. Visentin was not responsible for making acquisitions while at IBM, and he will not have any responsibility for making acquisitions at HP. IBM did not present any persuasive evidence to suggest that Mr. Visentin would disclose or be required to disclose any information regarding IBM's potential acquisition in order to do his job at HP.

f. Client Pipelines

IBM asserts that Mr. Visentin had access to confidential pipeline information. Mr. Visentin confirmed that he had access to general pipeline information; several exhibits indicated that at various meetings, Mr. Visentin might have seen the name of a client and the total dollar value of a prospective deal. To the extent that it is not public or not known in the industry, this information might well constitute a trade secret. The Court, however, credits Mr. Iannotti's testimony that simply knowing the client and the projected amount of the deal would not tell Mr. Visentin anything about the scope of services to be provided, the length of the contract, the cost to IBM, or the nature of the solution itself. (Tr. 556:14-557:9.) IBM has not demonstrated that, absent such additional detail, general pipeline information would be useful to a competitor.

Additionally, Mr. Kerin testified that most large SO deals were either single-source arrangements (mostly renewals) where competitive bids were not being considered or were the product of detailed requests for proposals ("RFPs") that generated responses consisting of hundreds of pages. (Tr. 195:10-203:9.) Mr. Visentin did not receive RFP responses and would not know the details of such proposals. (Tr. 201:25-202:11.) As for the high-level information about SO pipelines Mr. Visentin may have seen, Mr. Kerin conceded that HP is usually a bidder on such RFPs anyway, so the disclosure of the identity of the potential client is not much of a revelation. (Tr. 200:21-25.) Finally, and most importantly, Mr. Kerin admitted that even if a prospective client is not already known to HP, Mr. Visentin's generalized knowledge of that opportunity poses no threat to IBM if he simply refrains from disclosing that knowledge to HP (Tr. 198:4-200:5) - an obligation he recognizes. (Tr. 293:23-294:7, 474:25-475:10.) Accordingly, at most, IBM has demonstrated the possibility of some confidential information that Mr. Visentin acknowledges he will not disclose and which, as explained infra, he does not have to disclose to do his job.

g. Strategic Business and Marketing Plans

IBM argues that Mr. Visentin possesses knowledge of its strategic business and marketing plans. Such "marketing strategies," however, are not necessarily protected as "trade secrets" under New York law. See Marietta Corp. v. Fairhurst, 754 N.Y.S.2d 62, 67 (N.Y. App. Div. 2003) (concluding that "pricing data and market strategies . . . would not constitute trade secrets"); see also Silipos, Inc. v. Bickel, 06 Civ. 2205, 2006 WL 2265055, at *4 (S.D.N.Y. Aug. 8, 2006) ("[T]rade-secret protection does not extend to information regarding market strategies." (internal quotation marks omitted)). IBM also asserts that Mr. Visentin was responsible for creating and presenting the Fall Plan for ITS for 2011. But when questioned about the specific information contained in the plan that was cause for concern, IBM first referred back to its cloud offerings. (Tr. 641:6-8.) As previously determined, IBM has not carried its burden of indicating what information Mr. Visentin possesses regarding IBM's cloud offerings that would likely be considered a trade secret. IBM also suggested that the Fall Plan contained information that IBM's business continuity and recovery systems segment "had been slipping historically." (Tr. 641:11-13.) But IBM did not offer any evidence to demonstrate how that information might be useful to HP. Even assuming that Mr. Visentin could recall all the data in the Fall Plan - a dubious assumption in light of the detail contained therein (see IBM Ex. 39) - IBM has again failed to provide any indication as to how Mr. Visentin could use that information in his new position for HP. Thus, it has not demonstrated the existence of a trade secret in need of protection in this area.

h. Operation Finances of ITS

IBM asserts that as the head of ITS in North America, Mr. Visentin was responsible for the "pricing and cost structure" of his business. (Tr. 42:24-43:5.) But New York courts have held that "knowledge of the intricacies of [a] business operation" are not entitled to protection as "trade secrets." See, e.g., Reed, Roberts, 353 N.E.2d at 594 (absent wrongdoing, employee should not "be prohibited from utilizing his knowledge and talents" in a specific area); Marietta Corp., 754 N.Y.S.2d at 67; Meer Dental Supply Co. v. Commisso, 702 N.Y.S.2d 463, 465 (N.Y. App. Div. 2000). Also, as discussed supra in Part I.g.v., in general, each deal is unique, and the pricing and cost structure of one deal have little to do with the next deal. Also as discussed infra, Mr. Visentin has not been involved in pricing and cost structuring at IBM and will not be at HP. Accordingly, IBM has not demonstrated the existence of a trade secret in need of protection in this area.

i. Pricing Strategies

IBM asserts that Mr. Visentin knows the confidential details of one of IBM's competitive strategies; specifically, the ability to reduce prices and increase profits on the ITS component of combined outsourcing bids. (Tr. 432:18-433:5.) The pricing of outsourcing deals and technology projects, however, is a complicated process, and the final price attached to a project results from a detailed analysis of the scope of work and the development of a proposed solution that is unique to each deal. (Tr. 201:21-202:15, 209:25-210:21, 557:10-558:9.) The Court credits Mr. Visentin's testimony that he had no responsibility for pricing SO deals, which Mr. Kerin conceded. (Tr. 426:20-427:4, 208:3-10.)

The Court further credits Mr. Visentin's testimony that to the extent he became involved in the ITS pricing and development processes at all, he did so only as "the stripe," i.e., as an executive level manager who could provide a high-level description of services and then interact with the client, if necessary. (Tr. 421:23-422:23.) Mr. Visentin testified that he did not have to approve the price of an ITS component of an SO deal unless it was expected to yield a "negative profit" for his group. (Tr. 353:23-354:17, 423:12-424:4.) The Court credits Mr. Visentin's testimony that in the normal course, pricing was handled by his teams. (Tr. 426:20-427:3.) These projects required dozens or even hundreds of employees of varying technical skills, extensive hardware, and countless other pieces that had to be priced separately before an aggregate price was delivered, and Mr. Visentin was not provided with such underlying cost or pricing information. (Tr. 421:23-424:4, 426:4-427:5.)

The Court also credits Mr. Visentin's unrebutted testimony that he would be unable to price even a small ITS project, let alone a larger SO deal. (Tr. 414:22-421:9.) According to Mr. Visentin, the major components affecting the cost of any ITS deal are labor and hardware, and the team architects and consultants are responsible for making those determinations. The Court credits Mr. Visentin's testimony that he would be unable to make those determinations. (Tr. 412:14-413:25.) Indeed, Mr. Visentin testified that he does not know the 180 offerings sold by ITS and could not possibly remember the cost or price of those offerings. (Tr. 462:10-16.) Moreover, the Court credits Mr. Visentin's testimony that he does not remember the pricing margin IBM sought on its deals and, even if he could, the margin is based on the overall business, which is made up of thousands of deals. (Tr. 462:17-464:18.) ITS priced its projects higher on some deals and lower on others, often depending on how the projects were packaged as part of much larger SO deals. "So even if [he] would remember the fact that [business continuity and recovery systems], they want to do this margin, it won't help you in the deal-to-deal combat with the client." (Tr. 464:1-3.) Finally, the Court credits Mr. Iannotti's testimony that HP employs a specialized pricing team to price ITO projects and that Mr. Visentin would have no responsibility for pricing at HP. (Tr. 555:1-3, 557:10-558:9.) Accordingly, IBM has not demonstrated the existence of any trade secret in need of protection in this area.

j. Troubled Clients

IBM asserts that Mr. Visentin possesses confidential IBM information regarding troubled clients. (Tr. 152:9-153:2.) As noted above, Mr. Kerin conceded, however, that many of IBM's troubled clients are already known to HP because HP has existing relationships with those clients or because IBM's troubles with clients are publicly known and reported in the media. (Tr. 214:10-215:3; 220:4-222:8.) Furthermore, as also noted, a majority of the troubled clients identified by Mr. Kerin are in the early stages of what are generally five-year contracts and will not be up for renewal in the next twelve months. (Tr. 222:9-14.) Indeed, some of those troubled contracts came to IBM because the client was having issues with its former provider, HP. The Court credits Mr. Visentin's testimony that he was only aware of ITS's troubled clients at a general, service product line level. (Tr. 443:24-444:24.) The Court also credits Mr. Visentin's testimony that "every deal is different. It's really understanding what went wrong in the deal." (Tr. 448:15-25.) Furthermore, Mr. Visentin already has agreed that he will not be responsible for any new or renewal clients in ITO North America. Accordingly, IBM has not demonstrated the existence of any trade secret in need of protection in this area.

k. IBM Strategies to "Attack HP"

Finally, IBM asserts that Mr. Visentin was privy to internal IBM briefings about HP, its service offerings, and IBM's perception of HP's strengths. The Court finds that IBM's strategies to "attack" HP, however, are based largely on public information and information shared by clients that chose HP over IBM; presumably, that information is available to HP as well. (IBM Ex. 10 at 7; IBM Ex. 23 at 5-6.) IBM asserts that ITS also tracked its "win rate" against HP and discussed "lessons learned" from head-to-head competition with HP. It is undisputed, however, that HP and IBM already have a great deal of competitive intelligence regarding one another and that such information is readily available in the marketplace for technology services and outsourcing. There is no evidence that IBM's acknowledgement of losses to HP that HP was surely aware of would be of use to Mr. Visentin in his new position. Finally, despite the supposed confidentiality of the documents (IBM Exs. 10, 15, 23) and the closing of the courtroom during the related testimony (see Tr. 320:2-3), the "lessons learned" were largely the equivalent of "buy low, sell high" - hardly a trade secret.

In sum, after carefully considering all testimony and documents presented during the hearing, IBM has not carried its burden of demonstrating that, with a few exceptions which Mr. Visentin acknowledges, the information which IBM seeks to protect constitutes "trade secrets."

2. Inevitable Disclosure

That Mr. Visentin had access to some confidential information is not sufficient to show irreparable harm. The

Court must still determine whether Mr. Visentin has actually misappropriated those trade secrets or if his new position will inevitably require disclosure of those same trade secrets or confidential information. See Estee Lauder, 430 F. Supp. 2d at 179.

Here, it is undisputed that Mr. Visentin did not leave IBM with any documents in any form and that Mr. Visentin has not yet begun to work for HP. Indeed, only hours after notice of his intent to resign, IBM sent a representative to Mr. Visentin's home to retrieve his laptop. (Visentin Decl. ¶ 35.) Thus, there is no showing that Mr. Visentin has actually misappropriated any trade secrets.

Recognizing that there was a potential risk with regard to Mr. Visentin's prior clients at IBM, Mr. Visentin and HP agreed to limit the scope of Mr. Visentin's responsibilities for the first twelve months of his employment with HP as noted above. IBM argues in response that it is inevitable that Mr. Visentin will disclose trade secrets in his new position with HP, but the Court is not persuaded.

When determining whether the disclosure of trade secrets is inevitable, courts evaluate certain factors, including:

> (1) the employers in question are direct competitors providing the same or very similar products or services; (2) the employee's new position is nearly identical to his old one, such that he could not reasonably be expected to fulfill his new job

> responsibilities without utilizing the trade secrets of his former employer; and (3) the trade secrets at issue are highly valuable to both employers. Other case-specific factors such as the nature of the industry and trade secrets should be considered as well.

EarthWeb, Inc., 71 F. Supp. 2d at 310.

IBM asserts that Papermaster and Estee Lauder should inform the Court's decision here. The facts of those cases, however, are quite distinct from the facts here. In Papermaster, the employee was a former IBM Vice President with highly technical expertise and knowledge of IBM's "power architecture" trade secrets and had worked on microprocessors. 2008 WL 4974508 at *2. He was recruited away from IBM specifically to manage the development of consumer electronics products for a competitor in the field of microprocessor technology. Id. at *5. The court described Papermaster as IBM's "top expert in the development and application" of the technology at issue. Id. at *2. The court found that because the employee's ultimate task at the new employer was to make its microprocessors more efficient, it was inevitable that he would bring his technological expertise to bear. Id. at *8-9. That is not the case here. Similarly, in Estee Lauder, the employee was a marketing strategist responsible for developing brand strategies behind a line of cosmetic dermatology skin care products. 430 F. Supp. 2d at 176. The employee's new position was to be a marketing strategist for a competitor that also sold cosmetic dermatology skin care products. The court found that because the employee had been the primary marketing strategist for Estee Lauder and was going to a competitor to do the same type of job for the same type of products, it would have been impossible for the employee to keep the Estee Lauder marketing strategy out of his mind. Id. Again, this is quite different from the type of job and information at issue here.

Here, both parties agree that IBM and HP are direct competitors and also agree that the nature of the industry necessarily involves trade secrets. The remaining two factors, however, heavily weigh in favor of Mr. Visentin.

a. Near Identity of Positions

As previously noted, one factor that a court must consider when determining whether disclosure of trade secrets is inevitable is whether the employee's new position is "nearly identical" to his previous position. Id. It is beyond cavil that in his former position at IBM, neither Mr. Visentin nor anyone on his team had any responsibility for BPO or Applications, as he will in his new HP role (Tr. 358:13-359:6), so there is no overlap at all in those areas.

Mr. Visentin testified that six other general managers were responsible for SO - a parallel group that also reported to Mr. Kerin. (Tr. 429:2-4.) Also, Mr. Kerin testified that one calls on different individuals at the clients for BPO - for example, the chief information officer who is deciding whether to outsource the finance or accounting process with IBM or HP - as opposed to a different individual for ITS. (Tr. 168:18-169:3.) Thus, IBM has shown no overlap in this area.

In addition, although there was no specific testimony offered by IBM as to Latin America, Mr. Visentin was not responsible for Latin America for the past two years. Thus, on its face, Mr. Visentin's new position at HP is not "nearly identical" because the scope of his new responsibility is significantly larger and includes areas of supervision, both substantive and geographic, that he had no prior exposure to in his position with IBM.

Nevertheless, the Court recognizes that there is the potential for some identity of responsibilities with respect to Mr. Visentin's former ITS responsibilities and his new ITO responsibilities. In Mr. Visentin's new position, however, ITO will be one small bite on a much larger plate of responsibility. By way of example, if the Court were to construct a Venn Diagram of Mr. Visentin's new and old responsibilities, Mr. Visentin's new HP ES responsibilities would constitute a significantly larger circle than his prior IBM responsibilities. The much smaller circle representing Mr. Visentin's former IBM ITS responsibilities would have only slight overlap with the larger

ES circle: the ITS-ITO overlap. Recognizing that there is a small overlap, however, Mr. Visentin agreed to limit the scope of his new duties at HP such that his new job - in potential overlap areas - does not involve prior clients or the potential for selling new products to current customers.

HP and Mr. Visentin agreed that he will only have full responsibility for ITO clients in Latin America for his first year. Mr. Visentin ceased having any responsibility for IBM's Latin American ITS clients approximately two years before his resignation. To the extent that IBM protests in general terms that Mr. Visentin's knowledge of its global business strategies would apply anywhere in the world, the Court finds that argument to be unpersuasive. IBM was unable to support its argument with any specifics as to what IBM strategies - the details, as opposed to generalities - Mr. Visentin would need to know to run the Latin American portion of HP's ITO business. Further, witnesses from both parties testified that each outsourcing deal is unique and must be designed in response to factors unique to a specific client, no matter where the client is located. Recognizing, however, that some of the services offered by HP's ITO and IBM's ITS business segments are similar, Mr. Visentin will be limited for a period of time to working only with existing HP ITO clients in the United States and Canada. He will not be involved with new or renewal business opportunities within ITO during that time. (Tr. 552:16-22; IBM Ex. 192.)

IBM asserts that this limitation is unrealistic or unworkable. But this ignores the nature of Mr. Visentin's position as a high-level manager, as opposed to a "front line" salesperson or technical architect or designer. The Court credits Mr. Iannotti's testimony that Mr. Visentin will not be involved in the staffing, architecture, design or pricing of any new business opportunity. (Tr. 553:2-555:16.) Indeed, Mr. Visentin testified that his response to an inquiry from a new client or an existing client seeking to expand its relationship to include new services would be to "land his team" after an initial, very general discussion with that client. (Tr. 422:19-23.) His team would then:

> [D]o the assessment, the architect, design, the implementation. They go in with their team and they present the whole proposal, because they are the subject matter experts. They are the ones that can talk in detail.

(Tr. 422:8-14.) This testimony was uncontested. Indeed, this kind of delegation is precisely how Mr. Visentin ran his business unit at IBM. The Court credits his testimony that this will enable him to stay clear of direct involvement in new or renewal business opportunities within ITO in the United States and Canada. (Tr. 553:2-555:16.) When asked what he expected Mr. Visentin to do should a client ask Mr. Visentin about expanding the original outsourcing scope, Mr. Iannotti, who hired Mr. Visentin and will be his direct superior at IBM, stated that Mr. Visentin would be expected to "direct the customer to the assigned salesperson that covers the account. . . . [H]e would say to the customer, thanks very much, I need to have our account executive follow up with you to further qualify your interest or decide what next steps would be." (Tr. 553:14-554:8; see also Tr. 555:11-16 ("Q: After telling the customer, 'I'm going to put you in touch with an account executive,' is there anything else that Mr. Visentin would have to do on that particular expansion opportunity to fulfill the responsibilities of the job you created for him? A: No.").) This is the question posed in the inevitable disclosure cases, and the testimony is unrebutted.

IBM also argues that client forecasts, costs, and cloud information inevitably will be disclosed because Mr. Visentin will be "in a position of leadership where there will be discussions about competing with IBM in cloud" (Tr. 658:13-14) and because "he is in charge of the business" (Tr. 668:23) and because "he is going to be in a position of supervising those people." (Tr. 669:9-10.) Such general arguments do not counter the undisputed testimony that Mr. Visentin does not need any of that information to do his job.

Because the purpose of the "nearly identical" prong is to uncover whether an employee will necessarily draw upon prior protectable information at his new job, these facts, when taken together, persuade the Court that Mr. Visentin's jobs are not "nearly identical." The bulk of Mr. Visentin's new job with HP requires general management skills requiring no confidential information, and the scope of his new position is substantially wider than his prior responsibilities - extending to SO, BPO, and Applications. Because there may be potential overlap with some of his former ITS responsibilities, Mr. Visentin has agreed to limit his responsibilities in these areas, and the evidence suggests that he can do so.[6] See SG Cowen Sec. Corp. v. Messih, 224 F.3d 79, 84 (2d Cir. 2000). Accordingly, IBM has not demonstrated that Mr. Visentin's position at HP is "nearly identical" to his position at IBM.

b. Value of Purported Trade Secrets to HP

As previously noted, in seeking a preliminary injunction, IBM bears the burden of proving its case. IBM asserts that it

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[6] IBM relies on Lumex, Inc. v. Highsmith for the proposition that an agreement not to disclose trade secrets is insufficient. 919 F. Supp. 624, 631 (E.D.N.Y. 1996). However, that case involved an employee with detailed product information central to both the employer's and the competitor's operations. Id. at 625. Given the Court's finding that Mr. Visentin had only certain, circumscribed pieces of confidential information, this reasoning is inapposite to this case because he is capable of refraining from disclosure. See SG Cowen, 224 F.3d at 84.

need not prove with specificity how Mr. Visentin might use IBM's purported trade secrets in his new job. While the Court agrees that IBM need not demonstrate exactly how Mr. Visentin might use such information at his new job, IBM does bear the burden of demonstrating that the nature of Mr. Visentin's job makes it "inevitable" that he will disclose IBM "trade secrets." IBM has failed to satisfy that burden.

Mr. Visentin admits that he is bound by law not to disclose IBM's confidential information. (Tr. 293:23-294:7, 474:25-475:10.) Furthermore, Mr. Visentin has agreed to circumscribe the nature of his responsibilities at HP. In response, IBM contends that due to the nature of the competition between IBM and HP, it is inevitable that Mr. Visentin will be "motivated" to disclose IBM's confidential information. As noted above, IBM has failed to demonstrate any likelihood of inevitable disclosure. Also, unlike in Estee Lauder, there is no evidence of any prior wrongdoing or that Mr. Visentin has already disclosed confidential information to HP. See 430 F. Supp. 2d at 176. In essence, IBM asks this Court to find that despite Mr. Visentin's representations, he will eventually be "motivated" to break the law.

When looking at specific areas of concern, again the Court is not persuaded that the nature of Mr. Visentin's new job with HP would require him to use IBM's confidential information. For example, with respect to profit margin, Mr. Visentin testified that he could not make use of IBM's desired profit margins at HP. First, he could not remember all the deals because he possesses no documents. (Tr. 463:17-20.) Second, as Mr. Visentin described, the overall profit margin "won't help you in the deal-to-deal combat with the client - because I have the flexibility of going negative on a deal and then I have the flexibility of making more profit on another deal." (Tr. 464:3-7.) Third, profit is based in part on cost, and Mr. Visentin's design teams and architects - not Mr. Visentin himself - were and will be responsible for determining cost. Mr. Visentin explained that if HP has a different cost structure, it would scope things differently with different tools, and the cost would be different. (Tr. 463:13-464:17.) Given the differences, the Court credits Mr. Visentin's testimony that he would not know what to do with IBM's profit margin information at HP.

With respect to pipeline information, Mr. Visentin made clear that his group was responsible for approximately 5000 - 9000 deals per quarter and that he could not possibly remember them all. Even if he could, new deals in the pipeline are confidential. Furthermore, as previously discussed, Mr. Visentin will not have any responsibility for new clients and his new job will not require him to get involved in discussions of new business. (Tr. 554:14-23.) Thus, IBM has not demonstrated that, under these facts, any confidential information Mr. Visentin retains will be of value to HP.

Accordingly, the Court concludes that IBM has also failed to demonstrate facts sufficient to demonstrate that Mr. Visentin's position at HP would require him to disclose any confidential IBM information he might remember.

ii. Likelihood of Success on the Merits

IBM seeks specific enforcement of the Noncompetition Agreement as written. (Plaintiff's Supplemental Post-Hearing Proposed Findings of Fact and Conclusions of Law ¶ 13; see also Tr. 710:15-711:4 (indicating that IBM is not asking Court to "blue pencil" the agreement).) To determine whether a noncompetition agreement is specifically enforceable, New York courts have adopted the prevailing common law reasonableness standard. BDO Seidman, 712 N.E.2d at 1223; see also Ticor Title Ins. Co. v. Cohen, 173 F.3d 63, 70 (2d Cir. 1999). The New York Court of Appeals expounded the reasonableness standard as follows:

> The modern, prevailing common-law standard of reasonableness for employee agreements not to compete applies a three-pronged test. A restraint is reasonable only if it: (1) is no greater than is required for the protection of the legitimate interest of the employer, (2) does not impose undue hardship on the employee, and (3) is not injurious to the public.

BDO Seidman, 712 N.E.2d at 1223 (emphasis in original). In applying this standard, "[c]ourts must weigh the need to protect the employer's legitimate business interests with the employee's concern regarding the possible loss of livelihood, a result strongly disfavored by public policy in New York." Estee Lauder, 430 F. Supp. 2d at 177 (citation omitted). "A violation of any prong renders the covenant [not to compete] invalid." BDO Seidman, 712 N.E.2d at 1223.

The Court thus evaluates each of the three prongs in order to determine whether IBM has carried its burden to demonstrate that it has a likelihood of success on the merits.

1. Whether the Agreement Is Greater Than Necessary to Protect a Legitimate Interest

First, IBM has not demonstrated that the agreement is no greater than required for the protection of its legitimate interests. At first blush, the agreement is overbroad because it prohibits competition in areas where IBM simply has no legitimate business interest. See id. (agreement must be "no greater" than necessary to protect legitimate interest). For example, it prohibits Mr. Visentin from working for a competitor in a business in which IBM does not even participate - for example, retail laptop and printer sales. (Tr. 582:15-583:16.) Furthermore, as discussed in detail above, it has been established that there are areas of Mr. Visentin's new position, such as BPO and Applications, that are unrelated to what he did for IBM; as such, he cannot possess information he could misappropriate in those areas. The agreement also prohibits Mr. Visentin from owning even one share of stock in a competitor. (Id.) These broad prohibitions are facially overbroad because they are greater than necessary to protect IBM's legitimate interests. See BDO Seidman, 712 N.E.2d at 1223.

That conclusion aside, IBM fails to establish that it seeks to protect a "legitimate" interest here. In this context, New York courts limit "legitimate" employer interests "to the protection against misappropriation of the employer's trade secrets or of confidential customer lists, or protection from competition by a former employee whose services are unique or extraordinary." Id.

Neither party asserts that Mr. Visentin's skills as a manager are "unique or extraordinary," and IBM produced no persuasive evidence that Mr. Visentin's managerial skills are somehow "unique or extraordinary." Indeed, the Court credited Mr. Visentin's and Mr. Ionnatti's testimony that Mr. Visentin's general managerial skills are his marketable trait. (Tr. 351:5-9, 383:8-384:3, 461:20-462:3, 541:20-548:8.)

Instead, IBM argues that that it has a legitimate interest in protecting its trade secrets and confidential information. IBM's noncompetition agreement could, in the abstract, serve to protect IBM's legitimate interest in this type of information; however, IBM has not demonstrated that it seeks to protect trade secrets or confidential information from misappropriation by Mr. Visentin.[7] As noted above, IBM has not presented evidence sufficient to convince this Court that Mr. Visentin possesses much in the way of trade secrets or confidential information in the first place. See supra Part II.b.i.1. IBM did demonstrate that Mr. Visentin had some confidential information about a potential IBM acquisition target (disclosure of which would violate his nondisclosure agreement anyway) and some pipeline information. See supra Part II.b.i.1. IBM has not demonstrated, however, that Mr. Visentin poses a threat of disclosure of any such information once he begins his new position at HP. See supra Part II.b.i.2. Furthermore, to the extent that Mr. Visentin has some IBM confidential information, he has agreed to limit his employment in his first year at HP in order to avoid potential conflicts. See supra Parts I.f, II.b.i.2.a. The fact that he need not draw on any such information he may have is persuasive. See, e.g., SG Cowen, 224 F.3d at 84 (stating that "it is difficult to see how [the prior

[7] Because the reasonableness of IBM's Noncompetition Agreement is determined on a case-by-case basis, see Ticor Title Ins., 173 F.3d at 70, the Court does not and cannot address the validity of the Noncompetition Agreement under New York law generally.

employer] is seriously harmed" by denying an injunction where employee agreed to not divulge trade secrets or other confidential information); Baxter Int'l, Inc. v. Morris, 976 F.2d 1189, 1197 (8th Cir. 1992) (affirming the refusal to enforce a noncompetition agreement in part because the district court found that the employee was able to compete without disclosing trade secrets). As noted above, the Court credited the testimony of both Mr. Visentin and Mr. Iannotti to this effect. See supra Part II.b.i.2.a. Given Mr. Visentin's specific circumstances, the Court finds that IBM has not demonstrated a legitimate interest it now needs to protect.[8]

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[8] IBM points to other decisions that it asserts enforced noncompetition agreements with similar language. But as previously discussed, those cases are distinguishable on their facts and thus do not support IBM's request for relief here. For example, IBM v. Papermaster concerned an employee with detailed technical knowledge of IBM's microprocessor development. 2008 WL 4974508, at *8. Because the employee was going to work on analogous microprocessor technology for a direct competitor, the Papermaster Court was properly concerned about the disclosure of trade secrets. Id. at *8-9. But in this case, Mr. Visentin possesses no similar technical knowledge and will not be expected to draw upon his prior, specific job function know-how with HP. See supra Parts II.b.i.1, II.b.i.2.a. Similarly, Estee Lauder Cos. v. Batra involved a senior executive in charge of marketing strategy, pricing, and account management strategy for Estee Lauder's cosmetic dermatology brands. 430 F. Supp. 2d at 161-62. He sought to work as the worldwide manager of a competitor's cosmetic dermatology brands with responsibility for marketing strategy. Id. at 164. IBM has not demonstrated that Mr. Visentin's prior responsibilities involved similarly intimate knowledge of proprietary business information. See supra Part II.b.i.1.a-k. Moreover, the Estee Lauder Court did not find the defendant (cont'd on next page)

Moreover, the testimony of the architect of IBM's noncompetition program, Mr. MacDonald, indicates that IBM's Noncompetition Agreement is designed not to protect a legitimate business interest but, rather, to keep the leadership talent of IBM from leaving. (Tr. 574:23-575:3 ("Q. The noncompetition agreement that you helped to draft and adopted was driven to protect the talent of IBM from leaving; isn't that right? A: Yes, sir. Q: It was a device to keep them employed by IBM? A. Yes, sir.").) Indeed, Mr. MacDonald testified that IBM views its noncompetition agreements as "retention devices." (Tr. 576:6-576:15.)

Additionally, the clawback provision appears to be punitive; its only real purpose is to make it prohibitively expensive for an employee to leave his current employment with IBM. (Tr. 589:22-591:23.) It has no discernable relation to the legitimate interest of protecting trade secrets. Further, the evidence shows that the noncompetition agreements at IBM were never altered based upon the specific functions performed by an employee. (Tr. 384:4-385:3, 577:22-578:5, 592:24-593:7.) If the primary purpose of the noncompetition agreements were to

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(cont'd from previous page)
credible because he had "not proven the most trustworthy" in his fulfillment of his obligations. Estee Lauder, 430 F. Supp. 2d at 176. Such is not the case here.

protect trade secrets or confidential information, IBM could have drafted specifically tailored noncompetition agreements recognizing the unique information (or even business areas) it sought to protect. It did not do so.

Finally, in an effort to blunt the force of these facts, Mr. MacDonald testified that in each case IBM applies a "process" where it discusses the specifics of a departing employee's future job and attempts to construct a means for the to work there without violating the agreement. There is no evidence that IBM undertook that "process" here, and the lack of such process here suggests that IBM's primary concern was not protecting any specific trade secrets. The combined force of all of these facts persuades the Court that IBM's purpose was not to protect its legitimate interests but to prevent its employees from taking employment elsewhere.

The evidence IBM adduced at the hearing fails to demonstrate affirmatively any legitimate interest IBM needs to protect. See BDO Seidman, 712 N.E.2d at 1223-25; Natural Organics, Inc. v. Kirkendall, 52 A.D.3d 488, 489-90 (N.Y. App. Div. 2008). The testimony from Mr. MacDonald regarding IBM's motivations in pursuing its noncompetition program only buttresses the Court's view that IBM is not seeking to protect a legitimate interest. Because the agreement, as IBM concedes, prohibits an employee from "engage[ing] or associate[ing] with" a competitor, it prohibits Mr. Visentin from working for any competitor in any position in the world. (Tr. 582:9-582:24.) Given IBM's failure to adduce evidence suggesting that it seeks to protect a legitimate interest, this prohibition is greater than necessary to protect IBM's legitimate interests. BDO Seidman, 712 N.E.2d at 1223-25; see also Gilman & Ciocia, Inc. v. Randello, 897 N.Y.S.2d 669 (table decision).

For the reasons set forth above, Mr. Visentin has demonstrated that this agreement is overbroad and, thus, that it fails the first prong of the BDO Seidman test. Even if that is not so, IBM has not satisfied the first prong of the BDO Seidman test because it failed to demonstrate that its prohibitions are needed to protect a "legitimate" interest.

2. Whether the Agreement Imposes an Undue Hardship

Even though the Court need go no further, BDO Seidman, 712 N.E.2d at 1223 ("A violation of any prong renders the covenant [not to compete] invalid,"), the agreement imposes an undue hardship on Mr. Visentin. See id. IBM asserts that because Mr. Visentin will receive his salary whether or not he actually works for HP in the next twelve months, enforcement of the noncompetition agreement is not an undue hardship on Mr. Visentin. But monetary implications are not the only factor this Court must consider when evaluating the hardship on the employee. Future career prospects are an important factor as well. Mr. Visentin testified without contradiction that if he does not work for the next twelve months, he is not guaranteed the same position at HP. (Tr. 392:23-393:12.) The Court credits Mr. Visentin's testimony that his not working for a year will hamper significantly his ability to demonstrate his value to HP, and thus, his ability to renew his contract. See, e.g., Baxter, 976 F.2d at 1194 (affirming non-enforcement of noncompetition agreement in part because a "a protracted absence could alienate [the employee's] new employer"). Although Mr. Visentin acknowledges that he is not a "technical" employee, he testified without contradiction that being sidelined for the next year will place him at a disadvantage in an industry that evolves quickly. (Tr. 392:20-393:12.) The Court credits Mr. Visentin's testimony and finds that the noncompetition agreement would impose an undue hardship on his future employment prospects. IBM has failed to satisfy the second prong of the reasonableness inquiry.

3. Public Policy

In this case the parties did not focus their energies on the public policy implications of the enforcement of this agreement. The Court finds that this factor does not cut in favor of either party, although New York courts generally disfavor broad restraints on competition. See BDO Seidman, 712 N.E.2d at 1223.

4. Conclusion and Coda

Based on the facts in the record the Court concludes that IBM has failed to satisfy its burden of showing that it is likely to succeed on the merits.

However, the Court adds a coda. Typically, in the face of a noncompetition agreement that is unenforceable in toto, as here, courts will inquire whether partial enforcement is possible. "The prevailing, modern view rejects a per se rule that invalidates entirely any overbroad employee agreement not to compete." Id. at 1226. Instead, "if the employer demonstrates an absence of overreaching, coercive use of dominant bargaining power, or other anti-competitive misconduct, but has in good faith sought to protect a legitimate business interest, consistent with reasonable standards of fair dealing, partial enforcement may be justified." Id. This is a "case specific analysis." Id.

But here, IBM does not seek partial enforcement. (Tr. 710:15-711:4.) The Court thus need not consider this type of relief. Nevertheless, given the Court's rejection of IBM's asserted legitimate business interest in this case, it is difficult to see how IBM could satisfy its burden to show a "good faith" effort "to protect a legitimate business interest."

BDO Seidman, 712 N.E.2d at 1226. Thus, even if IBM were to seek partial enforcement, it would be unavailable. Natural Organics, 52 A.D.3d at 490.

iii. Sufficiently Serious Questions Going to the Merits

IBM also does not satisfy the alternative to demonstrating a likelihood of success on the merits. Here, as stated supra in Part II.b.ii.2., the enforcement of the Noncompetition Agreement against Mr. Visentin would work an undue hardship on him. Thus, the balance of hardships tilts in favor of Mr. Visentin. Moreover, given the Court's analysis of IBM's likelihood of success on the merits, there is not a sufficiently serious question about the merits of this case to warrant granting an injunction. See Lusk, 475 F.3d 480 at 485.

III. Conclusion

IBM requests the extraordinary remedy of a preliminary injunction to enjoin a former employee from working for a competitor for a period of twelve months. IBM has failed to carry its burden of proving that such extraordinary relief is justified based on the specific facts of this case as they relate to Mr. Visentin. The Court finds that based on the testimony of witnesses, the exhibits at the hearing, and the declarations of the parties, IBM has failed to demonstrate (1) that it would suffer irreparable harm if Mr. Visentin is allowed to begin his work for HP and (2) that it is likely that IBM will succeed on the merits of its case. Accordingly, IBM's request for a preliminary injunction [dkt. no. 3] is DENIED. All other pending motions are denied as moot.

SO ORDERED.

Dated: New York, New York
February 16, 2011

Loretta A. Preska

LORETTA A. PRESKA, Chief U.S.D.J.

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