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Employment Law Practice Group

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New York's Highest Court Provides Guidance on What Constitutes "Improper Solicitation" Under the *Mohawk* Doctrine

- *Summary:* In our Winter 2011 Issue, we reported on the Second Circuit's certification of a question to the New York Court of Appeals to determine what constitutes "improper solicitation" of clients in the context of a sale of a business and the scope of New York's "*Mohawk* doctrine," pursuant to which the seller of a business is considered to have sold his "good will" and thus has a perpetual duty not to approach former clients or customers to solicit their business. The Court of Appeals issued guidance on April 28, 2011.

Full article on page 2.

United States Supreme Court: Employees With a Close Relationship to the Complaining Employee Are Allowed to Bring Third Party Retaliation Claims Under Title VII

- *Summary:* In a recent decision, the United States Supreme Court held that colleagues who have a close relationship to an employee who complains of discrimination under Title VII are also protected against retaliation. This decision complements the Supreme Court's decision in *Crawford v. Metro Gov't of Nashville*, 129 S. Ct. 846 (2009), reported on in our Spring/Summer 2009 Issue. In *Crawford*, the Court reversed the Sixth Circuit and held that employees are protected from retaliation under Title VII when reporting incidents of harassment while cooperating with an employer-initiated internal investigation.

Full article on page 3.

Update: The New York Wage Theft Protection Act

- *Summary:* As we previously reported in our Winter 2010 Issue, the New York State Department of Labor ("DOL") amended Section 195.1 of the New York Labor Law to require that employers provide employees hired on or after October 26, 2009 with written notice of their rate(s) of pay, pay dates, classification as an exempt or non-exempt employee, and if exempt, which exemption is being relied upon. Just over a year later, then-New York Governor David Patterson signed into law the New York Wage Theft Prevention Act ("WTPA"). The WTPA further amends the notice of wage rate requirements, as well as requires yearly pay notices and proper wage statements. In addition, the WTPA affords protections to employees from retaliation for complaining about possible violations and expands the civil and criminal penalties available for employer non-compliance. All private sector employees in New York are covered by the WTPA, regardless of size.

Full article on page 4.

The United States Supreme Court Offers a Simple but Powerful Lesson on Drafting Employment Agreements

- *Summary:* A recent United States Supreme Court decision serves to remind employers of the importance of precision in drafting any employment agreement. The case involved an employee who signed two separate agreements assigning his rights in any invention he developed. While the Court easily enforced the second agreement, the difference of only a couple of words rendered the first agreement unenforceable. The lesson is clear: a few seemingly trivial words could mean the difference between an enforceable and unenforceable agreement.

Full article on page 6.

New York's Highest Court Provides Guidance on What Constitutes Improper "Solicitation" Under the *Mohawk* Doctrine

On April 28, 2011, the New York Court of Appeals clarified that a seller of a business can respond to factual inquiries from a former client, assist his new employer in developing plans and responses to such inquiries, and take a passive role at a meeting between his former client and new employer without violating his or her perpetual duty to the buyer of non-interference under the "*Mohawk* doctrine." *Bessemer Trust Company v. Branin*, 2011 N.Y. Slip Op. 03307, at *9 (April 28, 2011).

Background

In *Bessemer Trust Co., N.A. v. Branin*, Bessemer sued Francis Branin, one of the former principals of an investment management firm previously purchased by Bessemer, after several of Branin's clients followed Branin from Bessemer to its competitor, Stein Roe Investment Counsel, LLC ("Stein Roe"). Branin did not have a non-compete or a contractual non-solicit with Plaintiff, but he was subject to an implied non-solicit pursuant to New York's *Mohawk* doctrine. The Palmer family ("Palmer"), one of Branin's former clients, moved its account from Bessemer to Stein Roe, subsequent to inquiries Palmer made of its own accord but directed to Branin (which he answered); meetings Palmer had with both Bessemer and Stein Roe (which Branin attended) regarding their services; and a second meeting with Branin to discuss the specifics of Stein Roe's formal proposal regarding its services. *Id.* at *3-4.

The District Court determined Branin had improperly solicited Palmer. *Bessemer Trust Co., N.A. v. Branin*, Nos. 08-2462-cv(L), 08-2677-cv (XAP), 2010 U.S. App. LEXIS 17662, at *29-30 (2d Cir. 2010). In so holding, the District Court found that whether Branin or the client initiated contact was irrelevant. *Id*. at *31. The Second Circuit expressly disagreed, and certified the following question to the New York Court of Appeals: "[w]hat degree of participation in a new employer's solicitation of a former employer's client by a voluntary seller of that client's good will constitutes improper solicitation?" *Id*. at *44.

In answering, the Court expressly declined to adopt a "hard and fast rule in determining whether a seller of 'goodwill' has improperly solicited his former clients." *Bessemer*, 2011 N.Y. Slip Op. 03307 at *9. Instead, the Court applied the *Mohawk* doctrine and provided guidance on the scope of Branin's allowable solicitation specific to the underlying facts and nature of the financial services industry, as follows:

- **A Seller May Respond to Factual Inquiries from a Former Client and Assist his New Employer in Developing a Business Pitch Stemming from These Inquiries.** Such inquiries are routine components of the due diligence process in the financial services industry, and will involve factual information on investment strategies, the seller's resources, personnel and fees. *Id*. at *8. The seller can even participate in the development of a business plan or pitch stemming from such factual inquiries by a former client, and may also attend a pitch meeting *provided* he plays a passive role. In the context of answering factual inquiries and preparing a response or for a meeting, the seller is allowed to share non-proprietary information about the former client with his new employer, such as the former client's investment preferences, financial goals, and comfort level with risks. *Id*.
- **A Seller May Not Take Any Affirmative Steps to Purposefully Communicate With a Former Client.** This means that a seller is prohibited from initiating contact with a former client through direct or targeted mail or telephone calls to advise the former client of the seller's new business. This does not mean, however, that the seller is prohibited from advertising his services; he is allowed to do so provided the seller's advertisements are general and not directed specifically to his former clients. *Id*. at *7.
- **A Seller May Not Disparage The Buyer.** Even if prompted by a former client, the seller cannot disparage the buyer because in selling his "good will," he has lost the right to explain why his products are superior or the buyer's are inferior. *Id*. at *8.

What Does This Mean?

As always, the parties involved in a sale of business can use a contractual non-solicitation agreement to ensure that the desired prohibited conduct is expressly defined. In the absence of such an agreement, this guidance provides the parties with practical expectations of what a seller may or may not do.

United States Supreme Court: Employees With a Close Relationship to the Complaining Employee Are Allowed to Bring Third Party Retaliation Claims Under Title VII

On January 24, 2011, in *Thompson v. North American Stainless, LP* (09-291), the United States Supreme Court again reversed the Sixth Circuit and resolved a circuit court split as to whether Title VII provides protection for third-party retaliation claims. The Supreme Court held that Title VII prohibits an employer from retaliating against a worker who complains of discrimination by firing that worker's fiancé, and that the fired fiancé has standing to sue the employer for violating Title VII. By so holding, the Supreme Court opened the door for an employee who has not complained of, or opposed, discrimination to bring a third-party retaliation claim against the employer for retaliation based on a close relationship with someone who has complained of, or opposed discrimination.

The Supreme Court Decision

In *Thompson*, Plaintiff Eric Thompson met, dated and got engaged to Miriam Regalado while both were working for North American Stainless ("NAS"). NAS was aware of the nature of their relationship. In September 2002, Regalado filed a charge with the EEOC alleging gender discrimination. On March 7, 2003, approximately three weeks after NAS was notified of the charge, NAS terminated Thompson's employment, allegedly on the basis of poor performance. *Thompson v. North American Stainless, LP,* 435 F. Supp. 2d 633 (E.D. Ky. 2006), *rev'd*, 520 F.3d 644 (6th Cir. 2008), *rev'd,* 567 F.3d 804 (6th Cir. 2009).

Thompson then filed his own charge with the EEOC in which he alleged that he was terminated in retaliation for his fiancée's charge. After an investigation, the EEOC found reasonable cause and issued a right-to-sue letter. Thompson's civil litigation ensued.

The District Court granted NAS's motion for summary judgment, finding that Thompson's relationship with Regalado was insufficient as a matter of law to support his Title VII discrimination and retaliation claims. Specifically, the District Court found that Title VII's anti-retaliation protections applied only to the person directly involved in the opposition or participation, and therefore did not extend to Thompson merely because of his close association with Regalado. 436 F. Supp. 2d at 637-639.

Thompson appealed, and a Sixth Circuit panel (the "Panel") reversed the District Court, holding that Title VII prohibits an employer from taking retaliatory action against employees not directly involved in protected activity, but who are closely related to or associated with those who are directly involved, where it is clear that the protected activity motivated the employer's action. 520 F.3d at 647. On June 5, 2009, the Sixth Circuit *en banc* reversed the Panel's decision and affirmed the District Court's decision granting summary judgment for NAS. 567 F.3d at 809.

Thompson appealed to the Supreme Court. On January 24, 2011, in a unanimous decision written by Justice Scalia,[1] the Supreme Court reversed the Sixth Circuit and held that NAS violated Title VII when it fired Thompson in retaliation for Regalado's complaint and that he did have standing to sue.

The Court had "little difficulty concluding" that third party retaliation was unlawful under Title VII and deemed it "obvious" that a reasonable worker would be dissuaded from engaging in a protected activity, such as complaining of discrimination, if she knew her employer would retaliate against her fiancé by firing him. 131 S. Ct. 863, 867-868 (2011). Nevertheless, the Court did not set out a discrete set of relationships that would be protected under third party retaliation, instead drawing a distinction between close family members and acquaintances.

> We must also decline to identify a fixed class of relationships for which third-party reprisals are unlawful. We expect that firing a close family member will almost always meet the *Burlington* standard, and inflicting a milder reprisal on a mere acquaintance will almost never do so, but beyond that we are reluctant to generalize.

Id. at 868.

In terms of Thompson's standing to sue, the Court adopted a zone of interests test and held that a person would have standing to bring a third party retaliation claim under Title VII if he had an interest arguably protected by Title VII, but a person would not have standing, even if injured, if his interests were unrelated to Title VII's prohibitions. *Id.* Applying its holding, the Court concluded that the purpose of Title VII was to protect employees like Thompson from NAS's unlawful actions – here, purposefully terminating Thompson as retaliation for his fiancée's complaint. Accordingly, the Court held that Thompson had standing to sue under Title VII. *Id.*

What Does This Mean for Employers?

The Supreme Court's decision underscores the need for employers to refrain from retaliatory measures if they are aware of any close relationships that exist between its employees. In the event that an employee engages in a protected activity, the employer should not take any potentially adverse action against an employee who is known to be closely associated with the complaining employee.

[1] Justice Kagan recused herself.

Update: The New York Wage Theft Protection Act

Notice of Rates of Pay and Regular Payday: What is Different?

The New York Wage Theft Protection Act ("WTPA") imposes more stringent disclosure requirements of employees' rates of pay and regular payday both for newly hired and existing employees.

Newly Hired Employees

Prior to April 9, 2011, the effective date of the WTPA, it had been sufficient to include the required disclosures within the body of an offer letter or employment agreement. This is no longer the case. While it is still permissible to include the notice as part of an offer letter or employment agreement, the notice must now be on its own form. Employers may use the forms available from the DOL's website or they may craft their own forms, provided that any such form complies with all requirements of the WTPA. As there are very specific requirements as to what information must be included on the form, we recommend that employers use the forms provided by the DOL and do not craft their own forms.

Existing Employees

Effective January 2012, employers will be required to provide annual pay notices to all employees, whether exempt or non-exempt. The annual notices must be issued each year between January 1 and February 1. Notice cannot be given at any other time of the year to satisfy the yearly requirement. Further, the notices must be issued each and every year, regardless of whether there has been any change in the employee's compensation.

Content of Notices

Notices must contain the following information:

- The employee's rate or rates of pay;
- The overtime rate of pay (if applicable);
- The basis of wage payment (per hour, per shift, per week, commission, salary, etc.);
- Any allowances the employer intends to claim as part of the minimum wage (such as tip, meal and lodging allowances);
- The regular pay day;
- The employer's name and any names under which the employer does business;
- The physical address of the employer's main office or principal place of business and mailing address;
- The employer's telephone number; and
- The employee's acknowledgement.

Other Requirements

The WTPA requires that the notice be provided to the employee *both* in English and also in the employee's primary language as *identified by the employee* provided that the notice form is available from the DOL in such language. If no such form is available, the English notice form will be deemed sufficient. Currently forms are available in English, Spanish, Chinese and Korean. The DOL has indicated that forms will soon be available in Polish, Russian, and Haitian-Creole.

To avoid any increased risk of discrimination allegations from job applicants, we recommend that employers only ask an applicant to identify his/her primary language after an offer of employment has been made, not during the interview process.

Employers must retain the signed original notices for a period of not less than six (6) years.

Wage Statement Requirements

The WTPA also amends Section 195.3 of the Labor Law to include additional wage statement (pay stub) requirements. In addition to the items previously required on pay stubs, such as wage rate, hours worked, gross wages, allowances, deductions taken and net wages, statements must now include the name, address and telephone number of the employer as well as the beginning and ending date for the period covered by that statement.

Wage statements may still be provided electronically, but employees must be able to access their statements on a computer provided by the employer, and must be able to print a copy of the statement for their records.

Penalties for Non-Compliance

Failure to Give Proper Notice

Employers who fail to provide the proper notice under the WTPA can be assessed fines by the DOL of $50 per week, per worker. Additionally, any employee who has not received the proper notice may sue his/her employer and can recover up to $2,500 in damages.

Failure to Provide a Proper Wage Statement

Employers who fail to provide a proper wage statement can be assessed penalties by the DOL of $100 per week, per employee. An employee who has not been provided with proper wage statements may also sue his/her employer and can recover up to $2,500 in damages.

Retaliation

Employers and their agents can be fined up to $10,000 and assessed another $10,000 in liquidated damages for every employee aggrieved, if the DOL finds that the employer has retaliated against an employee for engaging in protected activity under the Labor Law.

Additional Civil Penalties

In addition to the specific penalties discussed above, the WTPA generally increases the penalties available for violations of the Labor Law. For instance, under the WTPA, an employee in a court action may recover the full amount of any underpayment of wages, plus interest and attorneys' fees. The WTPA also increases liquidated damages on unpaid wage violations from 25% to 100% in court and administrative actions. Further, the WTPA grants the Labor Commissioner the discretion to require an employer to provide an accounting of assets in the event the employer defaults on an administrative order. If the employer refuses, it may be assessed a penalty of up to $10,000.

Criminal Penalties

In addition to the existing criminal penalties for failure to pay wages, the WTPA provides for criminal penalties for failure to pay minimum wage, failure to pay overtime compensation, failure to properly keep records and violation of the Labor Law's retaliation provisions. Moreover, the Labor Law's existing criminal penalties, previously only applicable to the officers and agents of corporations, have now been expanded to include the officers and agents of partnerships and limited liability companies.

Further Information/Helpful Links

FAQs

Understanding that these new requirements are both confusing and administratively burdensome to employers, the DOL has created a helpful frequently asked questions page on its website with answers to some of the more commonly asked questions regarding this new law.

The DOL's Wage Theft Prevention Act Frequently Asked Questions may be accessed at:

HYPERLINK "http://www.labor.ny.gov/workerprotection/laborstandards/PDFs/wage-theft-prevention-act-faq.pdf" http://www.labor.ny.gov/workerprotection/laborstandards/PDFs/wage-theft-prevention-act-faq.pdf

Template Forms

The DOL's template notice of pay rates, pay days and employee acknowledgement forms can be found on the DOL's website at:

HYPERLINK "http://www.labor.ny.gov/formsdocs/wp/ellsformsandpublications.shtm" http://www.labor.ny.gov/formsdocs/wp/ellsformsandpublications.shtm

Form LS52 - provides general guidelines about the law.

Form LS53 - explains the notice forms for the various categories of employees.

Form LS54 - is the form to be used for employees who are paid hourly.

Form LS59 - is the form to be used for salaried, exempt employees.

Action Steps

We recommend that employers take the following steps:

- For all persons hired on or after April 9, 2011, employers should complete the appropriate notice form provided by the DOL, and be certain to obtain the employee's signed acknowledgement.
- Create administrative procedures in preparation for the 2012 annual notice requirement.
- Keep all signed notice forms for a period of not less than six (6) years.
- Contact payroll providers to ensure that the employer's current pay stub is WTPA compliant.
- Take any complaint or allegation regarding the payment of wages from an employee seriously. Be mindful of taking any action that could be viewed as retaliatory.

Conclusion

This update is an overview of the key provisions of the WTPA. For further guidance, or if you would like fillable pdf notice forms emailed to you, please contact us.

The United States Supreme Court Offers a Simple but Powerful Lesson on Drafting Employment Agreements*

In an employment agreement, one or two words can make all the difference, as Stanford University recently learned the hard way. On June 6, 2011 in *Board of Trustees of the Leland Stanford Junior University v. Roche Molecular Systems*, an assignment agreement between an employee and Stanford was found to be unenforceable, causing the university to lose a valuable patent to an internationally used HIV-testing kit. No. 09-1159, Slip Op. at 3 (June 6, 2011). A difference of only two words would have rendered the assignment agreement enforceable and allowed the university to retain the lucrative patent. *Id.* at 5.

The case involved a dispute between Stanford University and Cetus, a small research company. In 1988, Cetus teamed up with scientists at Stanford to test the efficacy of new AIDS drugs. *Id.* at 1-2. The researcher who developed the HIV-testing kit in question signed two separate and conflicting assignment agreements, one with Stanford and the other with Cetus. While he "agree[d] to assign" to Stanford his right, title and interest in inventions resulting from his employment, the agreement with Cetus stated that he "will assign and do[es] hereby assign" the same rights. *Id.* at 2. Despite the difference of only a few words, Stanford's agreement with the researcher was an unenforceable agreement to assign rights in the future. *Id.* at 5. In contrast, Cetus' agreement was properly drafted, thus validly assigning the research company the rights to the invention. *Id.*

Stanford attempted to argue around the fatally drafted employment agreement. Stanford relied on the Bayh-Dole Act, a federal law on patent rights for inventions that are funded by the federal government. *Id.* at 8. The law provides that contractors may "elect to retain title to any subject invention." 35 U.S.C. § 202(a). Because Stanford received government funding, the university argued that it retained the rights to any inventions under this law, leaving the researcher with no rights to assign.

The Court disagreed with Stanford, pointing out that the university's argument not only went against the clear language of the statute, but also flew in the face of the age-old concept that an invention belongs to the inventor. *Stanford,* Slip Op. at 9-13. Chief Justice Roberts explained, "[I]t is often the case that whatever an employee produces in the course of his employment belongs to his employer. No one would claim that an autoworker who builds a car while working in a factory owns that car." *Id.* at 10. But, within the patent context, "[w]e have rejected the idea that mere employment is sufficient to vest title to an employee's invention in the employer." *Id.* Equally well-established is the rule that an inventor has the right to assign his rights to an invention to a third party, such as an employer, but the inventor must expressly grant those rights. *Id.* at 7. As the researcher did not properly assign his rights in the ill-worded employment agreement with Stanford, he was free to assign his rights in the HIV-testing kit to Cetus.

The case is not likely to have a significant impact on research and patents. With a carefully drafted employment contract, an employer can easily obtain assignment of its employees' inventions, irrespective of the Bayh-Doyle Act. Instead, the case is important because it serves as a reminder of the necessity of meticulously drafting employment agreements. At first blush, Cetus's and Stanford's assignment agreements seem almost identical. However, the small difference in verb tenses cost Stanford a profitable and important patent. Employers should use this decision as a reminder to go back and review each word in existing employment agreements. Additionally, employers should remember to use precision in future employment agreements. By paying attention to detail, employers can easily avoid making costly mistakes.

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