GLASS, LEWIS & CO., LLC,	*	IN THE
Plaintiff	*	CIRCUIT COURT
vs.	*	FOR
JOHN J. McMAHON,	*	HOWARD COUNTY
Defendant	*	Case No. 13-C-05-61604

* * * * * * * * * * * *

MEMORANDUM AND ORDER

I. Introduction

Before the Court is the motion of Plaintiff Glass, Lewis & Co., LLC, ("Plaintiff" or "Glass, Lewis") seeking a preliminary injunction enjoining its ex-employee, John J. McMahon ("Defendant" or "McMahon"), from: (1) being employed by Proxy Governance, Inc., or any other company or entity that provides services related to corporate governance and proxy voting issues; (2) from otherwise competing with Glass, Lewis; and (3) from divulging to anyone Glass, Lewis' trade secrets and proprietary information. The parties have fully briefed the issues and a hearing was held on July 15, 2005. This constitutes the Court's ruling.

II. Statement of the Case

On March 28, 2005, Plaintiff Glass, Lewis filed its complaint for injunction and breach of employment agreement, including a request for a preliminary injunction against Defendant McMahon. Subsequently, on April 21, 2005, Plaintiff filed a separate Motion for Preliminary Injunction. The Plaintiff accused the Defendant of accepting employment with Proxy Governance, a direct competitor, within days of tendering his resignation notice to Glass, Lewis, in breach of the employment agreement Defendant signed upon accepting a position with Glass, Lewis. The hearing for the preliminary injunction was originally set for June 17, 2005, but was re-set at the joint request of the parties and held on July 15, 2005.

III. Statement of the Facts

A. Background of the Parties

Plaintiff Glass, Lewis, based in California, is in the business of providing corporate governance and proxy services to institutional members of the financial and investing community. Companies in the proxy research and advisory industry offer analyses of national and international companies to advise investors about how to vote their proxies at corporate shareholder meetings. The customers for such services include financial service firms, investment advisors, proxy solicitors, institutional investors, corporations, and some high net worth individual investors. Plaintiff contends that the industry is highly competitive and that it competes in a world-wide market. Glass, Lewis requires senior employees, as a condition of employment, to execute an "Offer Letter" that contains a non-competition clause. In addition, Glass, Lewis requires employees it considers to have access to the company's valuable trade secrets, as a condition of employment, to sign an agreement to protect Glass, Lewis' proprietary information and inventions.

Proxy Governance, the Defendant's current employer, also provides research and analysis of corporate proxies to customers, which include institutional investors. Proxy Governance competes with Glass, Lewis.

Defendant John J. McMahon had been employed in the proxy and corporate governance service industry for approximately eleven years prior to executing an employment agreement (consisting of an "Offer Letter" and an incorporated "Agreement Regarding Proprietary Information and Inventions") with Glass, Lewis & Co., LLC. on October 9, 2003. Immediately preceding his employment with the Plaintiff, the Defendant had been employed by Institutional Shareholder Services ("ISS") for four years. The Defendant's employment at ISS was terminated following the sale of the business unit by the parent company, Thompson Financial. After Defendant signed the Agreement to begin working for Glass, Lewis as Director of Business Development, ISS filed suit in the Circuit Court for Howard County (Judge Diane O. Leasure presiding) for breach of contract and misappropriation of trade secrets. Glass, Lewis provided funding for McMahon's legal services to defend himself in the suit; McMahon contends that Glass, Lewis' CEO, Gregory Taxin, and President, Kevin Cameron, also actively participated in developing his defense strategy. The Court found that there was no signed contract in effect between the Defendant and ISS, and subsequently the Court signed a Consent Order following a settlement agreement between the parties limiting the Defendant's contact for one year to entities not listed in the sealed agreement. Additionally, Defendant was ordered to return all property and proprietary information belonging to ISS and to refrain from disclosing any trade secrets.

B. The Employment Agreement between the Parties

In October 2003, Plaintiff offered Defendant the position of Director of Business Development. On October 9, 2003, the Plaintiff and the Defendant executed an at-will employment agreement. McMahon's signature on the Offer Letter immediately follows the statement, "I have reviewed and understand the terms and conditions set forth in this letter and agree to them." The agreement consisted of an Offer Letter and additional documents entitled Agreement Regarding Proprietary Information and Inventions ("Additional Agreement"). Under McMahon's signature on the Additional Agreement is the statement: "CAUTION TO EMPLOYEE: This Agreement affects important rights. DO NOT sign it unless you have read it carefully and are satisfied that you understand it completely." The Offer Letter described an annual base salary of $93,000, with employment incentive bonuses of $12,500 upon signing and $12,500 on October 17, 2003, to be returned to the Plaintiff if the Defendant terminated employment within six months, as well as an additional $12,500 on March 31, 2004, provided the Defendant was still employed by the Plaintiff on that date. The Defendant was eligible to participate in the company commission plan and was granted the right to purchase 15,000 restricted shares of common stock in Glass, Lewis under the terms of the company stock option plan.

Per the terms of the Offer Letter, the Defendant agreed to the following post-employment terms:

> ... you hereby agree that you shall not directly or indirectly provide, or accept employment with (or act as a consultant for) any company or other entity that provides or intends to provide, any services competitive with those provided by the Company for a period of one year after the termination of your employment relationship with the company.

The parties agreed in the Offer Letter that this agreement would "be governed by New York law, without respect to New York choice of law provisions". Offer Letter, page 3.

Per the terms of the Additional Agreement in which the Defendant agreed to protect proprietary information, the following terms were included:

> 2. Definition of Proprietary Information. As used herein, the term "Proprietary Information" shall refer to any and all information or material of a confi-dential, proprietary, or secret nature which is or may be applicable to, or related in any way to:(i) the business of the Company; (ii) the research and devel-opment or investigations of the Company; or (iii) the business of any client or supplier of the Company, in each case as existing on the date of this Agreement or as it may be at any point in the future. Proprietary Information shall include, without limitation, trade secrets, processes, formulas, data, know-how, improvements, inventions, techniques, software programs (including without limitation, object code, source code, flow charts, algorithms and related documentation), listings, routines, manuals, specifications, products, con-cepts, customer lists, marketing plans and strategies, personnel directories and files and information concerning customers, employees or vendors. Information publicly known that is generally employed by the trade at or

> after the time Employee first learns of such information, or generic information, knowledge or skill which Employee would have learned or acquired in the course of similar employment or work elsewhere in the trade, shall not be deemed part of the Proprietary Information.
>
> ... 3. Proprietary Information to be Kept in Confidence...Employee agrees that he will not use any Proprietary Information to contact or solicit employees or customers of the Company for the benefit of competing enterprises and activities at any time during or after the termination of Employee's employment with the Company.
>
> ...5. Return of Materials. In the event of any termination of Employee's employment, whether or not for cause and for whatever reason, Employee will promptly deliver to the Company, all documents, data, records and other information pertaining to Employee's employment, and Employee shall not take with him any documents or data of any description, or any reproduction, excerpt or summary of any documents or data, containing or pertaining to any Proprietary Information.

It was agreed by the parties to the Additional Agreement that it would "be governed by the laws of the State of California without regard to any principles governing conflicts of laws". Additional Agreement, p.5.

While employed by Glass, Lewis, Defendant used a laptop computer and a Treo personal information device provided by Glass, Lewis. He worked from a home office and used a password to access information for at least some of the Glass, Lewis customers on the Glass, Lewis computer system. His customer base included (but was not limited to) customers from New York and California.

C. Defendant's Employment with Proxy Governance

On February 25, 2005, Proxy Governance offered Defendant a position as Vice President of Sales. Per the Proxy Governance offer letter, Proxy Governance stated that it was aware that Defendant had on-going obligations with the Plaintiff regarding proprietary information and expected Defendant to "strictly comply in good faith" with provisions of the Additional Agreement. Additionally, the Proxy Governance Offer stated that for one year, the Defendant would not solicit any clients on behalf of Proxy Governance for which Defendant had a current and ongoing relationship solely as a result of sales activities at Glass, Lewis.

On March 4, 2005, Defendant resigned his position at Glass, Lewis. He asserts that he immediately boxed up all proprietary materials belonging to Glass, Lewis to prepare for shipment. Glass, Lewis provided FedEx shipping labels, and the Defendant returned the materials and items to Glass, Lewis via FedEx approximately two weeks after his resignation. Defendant maintained use of the same number on his cell phone for business purposes that he used while employed by Glass, Lewis. Defendant was contacted by a Glass, Lewis customer through a voice mail message on April 22, 2005, and forwarded the information to Glass, Lewis on April 23, 2005.

IV. Standards for a Preliminary Injunction

As noted above, the agreements that form the basis for the claims are to be "governed" by either New York or

California law, according to the contracts the parties entered into. While the Court will apply the substantive law of those jurisdictions to the questions about the validity or construction of the agreements, a threshold issue arises about what law governs the standards for entry of a preliminary injunction. Plaintiff has assumed that Maryland's standards apply. See Pl.'s Mem. of P. & A. In Supp. of Pl.'s Mot. for Prelim. Inj., at 9-11. Defendant has taken a more catholic view, citing cases on the standards for preliminary injunctions from Maryland, New York, and California, as well as federal courts throughout the land, but has not indicated where it believes this Court should come to rest.

The Court concludes that it should apply Maryland law as to the standards for entering a preliminary injunction. The rationale can be grounded on either the substance-procedural dichotomy or the rights-remedy dichotomy, which have been analyzed extensively by Judge Albert J. Matricciani, Jr., in Standard Reserve Holdings, Ltd. V Downey, 2004 WL 3316264, 2004 MDBT 14 (Circuit Court for Baltimore City, July 9, 2004). Such a conclusion is also consistent with Restatement (Second) of Conflict of Laws, §§ 130, 122. See, e.g., Apache Village, Inc. v. Coleman Company, 776 P.2d 1154, 1155 (Colo. Ct. App. 1989) ("[h]ence, because preliminary injunctions are procedural in nature, and because of the interest Colorado courts have in their administrative processes, we will apply Colorado law. . .").

Maryland courts apply the following four-part test in determining whether to grant a motion for a preliminary injunction:

1. the likelihood that plaintiff will succeed on the merits;

2. whether plaintiff has an adequate remedy at law or will be irreparably harmed if the injunction is not issued;

3. the "balance of convenience," determined by whether the harm to the plaintiff if the injunction is not granted outweighs the harm to the defendant if the injunction is granted; and,

4. the injunction will not harm public interest.

Fogle v. H & G Restaurant, 337 Md. 441, 455-56 (1995) (quoting Dep't. of Transp., Motor Vehicle Admin. v. Armacost, 299 Md. 392, 404-05 [1984] [citing State Dep't of Health & Mental Hygiene v. Baltimore County, 281 Md. 548, 554-57 (1977)]).

The burden of proving the facts necessary to satisfy these factors rests on the party seeking the interlocutory injunction. *Dep't of Transportation v. Armacost,* 299 Md. 392 (1984). In addition, the party seeking the injunction must prove the existence of *all four* of the factors set forth in *Armacost* in order to be entitled to preliminary relief. *Id.* The failure to prove the existence of even one of the four factors will preclude the grant of preliminary relief. *Id.*

As the Court of Appeals made clear in *Lerner v. Lerner,* 306 Md. 771 (1986), a court, when evaluating the above factors, should not view each of them in isolation and should not require a plaintiff to prove each of them like "a plaintiff in a tort action [must] prove each of the elements of a tort". *Id.* at 776-77. Rather, the court weighs all factors together in deciding whether to grant injunctive relief. Thus, for example, the "importance of probability of success increases as the probability of irreparable injury diminishes." *Id.* at 784. The *Lerner* court determined this test to be the "balance of hardships," stating:

> Where the questions presented by an application for an interlocutory injunction are grave, and the injury to the moving party will be certain and irreparable, if the application be denied and the final decree be in his favor, while if the injunction to the opposing party , even if the final decree be in his favor, will be inconsiderable, or may be adequately indemnified by a bond, the injunction usually will be granted.

306 Md. at 732 (citations omitted).

V. Likelihood of Success on the Merits

Plaintiff has sought an injunction that would prohibit Defendant from being employed "in any manner, whether directly or indirectly, as an employee or as a consultant, by Proxy Governance, Inc. or any other company or entity that provides services related to proxy voting or corporate governance." Pl.'s Proposed Prelim. Inj. Order, at 2. Plaintiff also seeks an injunction that would prohibit Defendant from disclosing "any trade secret, confidential information or other proprietary information or knowledge acquired while in the employ of Glass, Lewis..." Id.

On the surface, Plaintiff appears to be in a strong position in seeking such enforcement since Defendant, a sophisticated businessman, freely and for adequate compensation entered into an agreement in which he agreed to "not directly or indirectly provide, or accept employment with (or act as a consultant for) any company or other entity that provides or intends to provide, any services competitive with those provided by the Company [Glass, Lewis] for a period of one year after the termination of your employment relationship with the company." Plaintiff also signed what is termed the "Additional Agreement", which broadly protected proprietary information of Glass, Lewis from being used by Defendant should he leave Glass, Lewis.

Defendant appears to have violated the first provision by accepting employment with Proxy Governance, a competitor of Glass, Lewis, and Plaintiff would have understandable concerns that the restrictions on disclosure of its proprietary information could be at high risk with Defendant employed in a senior position with one of its competitors.

However, the apparent surface simplicity of Plaintiff's position must confront the reality of New York case law which is wary--some would say hostile--about enforcing post-employment restrictive covenants.[1] In the leading New York case of BDO Seidman v. Hirschberg, 93 N.Y.2d 382, 712 N.E.2d 1220 (N.Y. 1999), the New York Court of Appeals stated its approach 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 <u>no</u> greater than is required for the protection of the <u>legitimate interest</u> of the employer, (2) does not impose undue hardship on the employee, and (3) is not injurious to the public. A violation of any prong renders the covenant invalid.

Id. at 388-89, 712 N.E.2d at 1223 (citations omitted, emphasis in original).

[1] In his filings, Defendant has danced around the law that should be applied on the issue of the restrictive employment agreement, citing Maryland, California and New York cases. As to this issue, the parties agreed in their contract that New York law would apply. Under Maryland law it is generally accepted that the parties to a contract may agree as to the law which will govern their transaction, and even as to issues going to the validity of the contract. Nat'l Glass v. J.C. Penney, 336 Md. 606, 610 (1994); Kronovet v. Lipchin, 288 Md. 30, 43 (1980). In light of this, the Court has no trouble concluding that it should look to New York law as to the validity of the restrictive employment agreement.

The BDO Seidman court, quoting its earlier decision in Reed, Roberts Assocs. v. Straumann, 40 N.Y.2d 303, 307, 353 N.E.2d 590, 593 (N.Y. 1976) (citations omitted) restated the standard:

> In this context, a restrictive covenant will only be subject to specific enforcement to the extent that 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.

93 N.Y.2d at 389, 712 N.E.2d at 1223.

Despite these broad principles, the court recognized that "the application of the test of reasonableness of employee restrictive covenants focuses on the particular facts and circumstances giving context to the agreement." Id. at 390, 353 N.E.2d at 1224.

Defendant argues that enforcement of the clause as it appears in the Offer Letter can not occur under the standards of BDO Seidman and Reed, Roberts. A blanket ban on working in any capacity for any company that competes in any way with Glass, Lewis is argued by Defendant to be overly broad and bans him from working in his field anywhere in the world, since proxy advisory research services potentially have global reach.

Defendant also argues, relying on BDO Seidman, that preventing the Defendant from contacting or serving customers with whom he had no contact or with whom he established no relationship as a result of employment with Glass, Lewis violates the first prong of the common-law rule articulated in the BDO Seidman case, since it would constitute a restraint greater than is needed to protect Glass, Lewis' legitimate interests.

The Court must agree with Defendant at this juncture that the clause sought to be enforced is overly broad under New York law in that it does not meet the BDO Seidman test of protecting only Glass, Lewis' legitimate interests and is not narrowly tailored to meeting that objective. Under New York law, it does not appear that it is "legitimate" for a company to protect itself by contract from having a former employee go to work for a competitor unless the restriction is narrowly tailored to protect the exploitation of client contacts made while the former employee worked for the company or the actual divulging of trade secrets or proprietary information.

At this juncture, looking at New York law[2], the Court is not convinced that Plaintiff will succeed on the merits of having the non-compete clause, as written in the Agreement, enforced by way of injunction. Plaintiff has not sought in its papers to articulate a means of partial enforcement that would meet the New York law standards. The court stated in BDO Seidman that a court would consider partial enforcement, but only under some fairly stringent criteria.

> Under this approach, 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.

93 N.Y.2d at 384, 712 N.E.2d at 1226.

[2] Many of the cases cited by the Plaintiff either precede the opinion in BDO Seidman or deal with so-called "learned professions" such as lawyers or physicians, or other so-called "unique employees" where the New York courts have been substantially more tolerant of restrictive employment provisions and tend to enforce them if otherwise reasonable. In this case, Defendant as a salesman of proxy services is not engaged in a "learned profession", and no demonstration has been made of his peculiar "uniqueness" in the proxy service business.

Since Plaintiff has failed to request alternative relief or articulate how it makes the demonstration needed for such discretionary relief, the Court will at this juncture decline to fill in the missing arguments or guess at an alternative injunction that would survive scrutiny under New York law.

The second part of Plaintiff's requested injunction would enjoin Defendant from "disclosing any trade secret, confidential information or other proprietary information or knowledge acquired while in the employ of Glass, Lewis...". Defendant argues that Plaintiff has failed to establish that Defendant has in any way unlawfully disclosed any information that would meet the test of being trade secret, confidential information, or otherwise proprietary, and that the mere possibility that such disclosure could occur is not an adequate basis for an injunction.

In the affidavits from Gregory P. Taxin, who is the Chief Executive Officer of Glass, Lewis, statements are made that after Defendant left the employ of Glass, Lewis, an insurance company that had not made a decision about purchasing Glass, Lewis services informed Glass, Lewis that

Proxy Governance "had contacted the insurance company and was making a competitive bid for their business". Taxin Aff., ¶ 18.

Additionally, Mr. Taxin asserted that in April, 2005, Proxy Governance acquired a new customer in New York who had also purchased services in the past from Glass, Lewis. It was asserted that this company was an account of Defendant when he was at Glass, Lewis. Mr. Taxin said that he received a call from that company asking him to justify Glass, Lewis' pricing. He claims he was told by the unnamed company representative that Proxy Governance was attempting to get the company to pay it the same amount as the customer was paying Glass, Lewis. Mr. Taxin concluded:

> It appeared to me from the context of the conversation that Proxy Governance had been made aware of our pricing to this client and was using it to Proxy Governance's competitive advantage.

Taxin Aff., ¶ 19.

In response to the Taxin affidavit, Defendant McMahon has filed a detailed affidavit denying that he had engaged in any of the conduct alleged or shared any confidential, proprietary or trade secret information of Glass, Lewis with Proxy Governance.

The Court is faced, on the one hand, with the mere suspicions of Glass, Lewis which are countered on the other hand by the vigorous and specific denials of Defendant by sworn affidavit. In such a context, the Court can not conclude at this time that Plaintiff has met its burden of showing a basis that the material sought to be protected is actually being disclosed by Defendant. The mere possibility that Defendant may in the future transgress is not, in this Court's view, an adequate basis for imposing a prophylactic preliminary injunction.

The Court agrees with Defendant that Plaintiff's proof, at least to this point, has failed to show that Defendant has violated the contractual terms pertaining to disclosure of proprietary information, or that he has otherwise disclosed trade secrets or confidential information. Working at a senior level for a competitor of Plaintiff's, Defendant has placed himself in a position where Plaintiff's suspicions and concerns are understandable. But this is not a substitute for proof, particularly where one is seeking the extraordinary remedy of a preliminary injunction. See, e.g., State Dep't v. Baltimore County, 281 Md. 548, 554 (1977); Nationwide Mut. Ins. Co. v. Hart, 73 Md. App. 406, 410 (1988).

As Defendant notes, the so-called "inevitable disclosure" doctrine is greatly disfavored under New York law, and in any event requires specific proof of harm to have it triggered. Marietta Corp. v. Fairhurst, 754 N.Y.S.2d 62 (N.Y. App. Div. 3d Dep't 2003); Colonize.com, Inc. v. Perlow, No. 03-CV-466, 2003 U.S. Dist. Lexis 20021 (N.D.N.Y. Oct. 23, 2003). On this record, such proof is not apparent.[3]

For these reasons, the Court is not satisfied that Plaintiff has demonstrated that it will succeed on the merits to be entitled to the injunction it has sought from this Court.

VI. Harm to the Plaintiff

[3] It is also of some note that the Additional Agreement prepared by Glass, Lewis envisions an actual "breach" by the Defendant of the restrictions on disclosure of proprietary information before an injunction would be entered. See Section 10 of the Additional Agreement.

If the preliminary injunction is not granted, Plaintiff will be harmed in the sense that Defendant will continue to work for a competitor, and Plaintiff will continue to be concerned that the confidential and proprietary information that Defendant may possess will be at risk from his holding a senior position with a competitor. These are significant concerns. But as discussed above, it is highly doubtful that, under New York law, Plaintiff would be able to succeed on the merits of totally preventing Defendant from working for Glass, Lewis, and as further indicated above, it has not been shown at this stage that Defendant has violated or will violate the restrictions contained in the Agreement Regarding Proprietary Information and Inventions.

The harm that Plaintiff has allegedly suffered is thus either not proven or not cognizable under New York law pertaining to restrictive employment agreements.

VII. Balance of Hardship

The final test for granting a preliminary injunction is whether the balance of hardships tips decidedly toward the moving party.[4] Defendant will without doubt suffer

[4] There is a "public interest" component in deciding whether to enter a preliminary injunction. In private party litigation such as this, the broad public interest concerns are generally not at stake except to the extent of correctly enforcing the policy concerns

substantially if the preliminary injunction sought by Plaintiff is entered. He would have to leave the job he is in and would not be able to have a job in the industry in which he has worked for the past twelve years. This would work a substantial hardship on the Defendant and his family. Given the highly uncertain ability of the Plaintiff to prevail on the merits under New York law, the speculative nature of legally-cognizable harm incurred by the Plaintiff, and the actual harm that would be suffered by the Defendant if an injunction of the type sought by the Plaintiff is entered, the Court finds that the overall balance does not weigh in Plaintiff's favor.

Conclusion.

For the reasons stated above, Plaintiff has not demonstrated its entitlement to the preliminary injunction it requested. It is therefore, this _____ day of August, 2005,

ORDERED, that the Plaintiff's Motion for a Preliminary Injunction is denied.

Dennis M. Sweeney

expressed in the applicable law discussed earlier in this opinion.

Judge

Copies Mailed ___________ to:

Andrew C. White, Esq.
Susan Q. Amiot, Esq.
Silverman, Thompson & While
201 North Charles Street
Suite 2600
Baltimore, MD 21201

John P. Isacson, Esq.
Foley & Lardner
3000 K Street, N.W.
Suite 500
Washington, DC 20007-5109

John P. Isa, Esq.
Paul Hastings Janofsky & Walker
875 15th Street, N.W.
Washington, DC 20005

Victoria A. Cundiff, Esq.
Danielle M. White, Esq.
Paul Hastings Janofsky & Walker
75 East 55th Street
New York, NY 10022