

Outside Counsel

Hayley Paige Lawsuit: Non-Competes Are Still Enforceable in New York

Hayley Paige Gutman is well known as a bridal designer for her feminine yet playful wedding dress designs and related apparel, which have been regularly featured on TLC’s “Say Yes To The Dress.” For over a year and a half, Gutman has been embroiled in a bitter and publicized legal battle with her now former employer and bridal design and fashion company, JLM Couture. JLM sued Gutman for alleged breaches of Gutman’s employment agreement, stemming from, among other things, Gutman’s attempts to use her name to promote non-JLM brands during her employment with JLM, and personal use of social-media accounts to promote third-party products. In this article, we discuss the viability of restrictive covenants under New York law, and the relevant factors analyzed by the courts in enjoining Gutman’s activities and competition with JLM.

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Non-Compete Agreements Remain Enforceable Under New York Law

In 2011, when Gutman was 25 years old and relatively new to the fashion industry, she was hired by

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JLM as a designer of wedding and bridesmaid dresses. Gutman signed an employment agreement with JLM for a fixed term, which contained,

among other things, certain confidentiality, proprietary rights, trade secret and non-compete provisions. Specifically, Gutman agreed that she would not compete with JLM, directly or indirectly, during the term of the employment agreement (July 13, 2011 which was extended through Aug. 1, 2022 (the term)), by engaging in or associating with any person, organization or enterprise that engages in the manufacture or sale of goods within JLM’s business (the non-compete agreement). She also agreed to grant JLM “the exclusive world-wide right and license to use her name” during the term plus two years thereafter (“Designer’s Name” defined as “‘Hayley,’ ‘Paige,’ ‘Hayley Paige Gutman,’ ‘Hayley Gutman,’ ‘Hayley Paige,’ or any derivative thereof”), in connection with “the design, manufacture, marketing and/or sale of bridal clothing, bridal accessories and related bridal and wedding items,” including the right to register such name as trademark(s). Gutman further agreed that, in the event she breached any provision of her employment agreement, JLM would be entitled to injunctive relief.

While employed by JLM, Gutman became a household name in the bridal industry in part through her social media presence and activity on eight social media accounts created both before and after her employment with JLM under the “Miss Hayley Paige” handle or web address on Facebook, Twitter, LinkedIn, Pinterest, Instagram, Snapchat, Spotify and TikTok. The Instagram account, in particular, which was opened during her employment with JLM and managed jointly by Gutman and JLM’s chief executive officer, contains a combination of JLM Hayley Paige brand promotional posts as well as personal posts, such as of Gutman and her dog, Winnie, and has over a million followers.

In 2019, the relationship between Gutman and JLM soured after the parties entered into a new round of contract negotiations, with JLM proposing an amendment to the employment agreement requiring Gutman to perform “additional duties” to monetize social media opportunities. Gutman rejected JLM’s proposal, and the parties failed to reach a new deal.

Thereafter, Gutman locked JLM out of the Instagram account by changing the login credentials, and removed any mention of JLM from the account’s bio. She also began promoting other companies’ products on the Instagram account, and advertised her upcoming appearance at a bridal expo as a “wedding gown designer.”

On Dec. 15, 2020, JLM commenced an action against Gutman in the Southern District of New York (SDNY), alleging various causes of

action, including breach of contract, trademark dilution and infringement, conversion and unfair competition. The SDNY granted JLM a temporary restraining order the next day, and a preliminary injunction in March 2021, enjoining Gutman from, inter alia, competing against JLM until Aug. 1, 2022 or using the Designer’s Name without JLM’s express permission during the pendency of the litigation. Gutman appealed to the U.S. Court of Appeals for the Second Circuit.

Earlier this year, the Second Circuit affirmed the preliminary injunction in part, vacated it in part, and remanded certain issues for further proceedings. The Second Circuit held that “the district court did not abuse its discretion in entering the non-compete and name-rights prongs of the injunction,” based on “JLM’s likely meritorious claim against Gutman for breach of contract,” but that it “exceeded its discretion by transferring exclusive control over the disputed social media accounts to JLM explicitly declining to assess whether JLM would likely succeed on its claim that it owned the accounts.” It remanded the matter back to the district court to determine which party (Gutman or JLM) owned such accounts. *JLM Couture v. Gutman*, 24 F.4th 785, 788 (2d Cir. 2022). However, in affirming the injunction enjoining Gutman from competing with JLM until August 2022, the Second Circuit reasoned that the non-compete clause was reasonable and enforceable due to Gutman’s “special, unique or extraordinary” services to JLM. *Id.* at 795.

Under New York law, restrictive covenants are typically enforced if they: (1) are reasonable in duration and scope; (2) protect an employer’s legitimate business interests; (3) do not impose an undue hardship on the employee; and (4) are not injurious to the public.

Whether a covenant has a reasonable duration and scope depends on the circumstances of each case. The non-compete agreement limited Gutman from competing within JLM’s business during the term of the employment agreement (until Aug. 1, 2022). While Gutman argued that she had resigned prior to the end of the term, and therefore the non-compete was unenforceable, the Second Circuit observed that the contract expressly provided that only JLM could terminate the contract with or without cause prior to the end of the term. The Second Circuit further held that the district court did not abuse its discretion in determining that, while it could not order Gutman “to perform personal services” exclusively for JLM through the term, it could order “a form of lesser-included relief—i.e., preventing Gutman from competing with JLM for that same period, a restriction that would have bound Gutman if she had continued to work for JLM as contractually required.” *Id.* at 795. In other words, Gutman could not be forced to work for JLM, but she could be enjoined from furnishing her special services to another during the term. On the reasonable duration prong, the court further observed that the non-compete provision did not extend beyond

the term of the employment agreement. *Id.*

The Second Circuit also reasoned that the non-compete served a legitimate business interest given Gutman's "unique role" at JLM. *Id.* Other protectable legitimate interests identified by New York courts include protecting confidential or proprietary information or trade secrets; client goodwill; and investment in employee training. Indeed, these interests tend to be litigated far more often than an employee's "special, unique, or extraordinary" services, which typically apply in limited circumstances, such as for a C-suite employee who is the public face of the company, an employee who provides certain specialized expertise or an athlete, artist, or musician. Here, Gutman's celebrity and influencer status on social media, which JLM argued was promoted and advanced at its sole expense during Gutman's employment, likely formed the basis for a finding that her services were unique.

Further, courts typically analyze whether the restrictive covenant causes undue hardship on the employee, such as preventing the employee from earning a living. Here, while the Second Circuit does not expressly address this prong in its analysis, the fact that the non-compete period does not extend beyond the term of the employment agreement, and that Gutman signed away various rights to JLM "in exchange for her salary, a stream of royalty payments, and JLM's investment of time and capital in the Hayley Paige brand" likely

played a part in dismissing any argument of undue hardship. Notably, the Second Circuit held that Gutman offered no persuasive reason why the contract she had signed should not be enforced in accordance with its clear terms particularly in light of her unique role at JLM. *Id.* at 788, 795.

Similarly, there was no analysis of the harmful to the public prong. New York courts are reluctant to enforce restrictive covenants that merely seek to prevent ordinary competition, as opposed to *unfair* competition. Here, Gutman's unique role at JLM as well as the extensive finan-

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Conclusion

The Hayley Paige case is notable for highlighting three points: (1) restrictive covenants, including non-competes, may be enforced even in situations of unequal bargaining power (young Gutman versus powerhouse JLM) where it is shown that such covenants are reasonable and necessary to protect an employer's legitimate interests; (2)

"special, unique, or extraordinary services" continues to be a legitimate employer interest identified by the courts to enforce non-competes although not every employee's services will rise to this level; and (3) the distinctive role social media now plays in the enforcement of restrictive covenants and the importance of defining social media account ownership and use in employment agreements, particularly where employees are using such accounts for work-related purposes. Additionally, of note, while the term of the employment agreement ended on Aug. 1, 2022, JLM Couture is still pending in the SDNY, with JLM pursuing millions of dollars in damages as well as attorney fees, costs, and interest against Gutman. Put frankly, employees should take such agreements seriously. Employers, in turn, should consult with counsel when drafting and seeking to enforce such covenants when their legitimate interests are in play.