New York Court of Appeals Reaffirms At-Will Employment Rule
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New York, like most states, has long adhered to the rule of "employment at will." Absent employment for a specified term, or an unlawful purpose for termination, an employee may be terminated at any time and for any reason. In a unanimous decision, New York's highest court, the Court of Appeals, recently ruled that a plaintiff may not circumvent the rule of employment at will by casting his or her claim as one for "fraudulent inducement." Smalley v. The Dreyfus Corporation, 2008 N.Y. Slip Op. 01252, No. 19 (Feb. 12, 2008).

The plaintiffs in Smalley, five investment managers, managed Dreyfus's taxable fund income group. They were terminated in 2004 after Dreyfus' parent company, Mellon Financial Corp., merged their group with a newly acquired fund management group, Standish Ayer & Woods.

The plaintiffs filed suit against Dreyfus and Mellon, alleging that their termination, after Dreyfus's repeated assurances that it had no plans to merge the two groups, gave rise to claims for breach of contract and fraudulent inducement. All five plaintiffs alleged that they joined the Dreyfus taxable income group or declined other offers of employment as a result of Dreyfus's assurances that their jobs would not be merged out of existence.

The trial court dismissed the plaintiffs' breach of contract and fraudulent inducement claims. On appeal, the intermediate appellate court, the Appellate Division, First Department, reinstated the fraudulent inducement claim. The Court of Appeals reversed the Appellate Division's decision and reinstated the trial court's dismissal of all of the plaintiffs' claims. Because the investment managers were at-will employees, the Court explained, they "cannot recover damages for what is at bottom an alleged breach of contract in the guise of a tort." The Court emphasized that "we have repeatedly refused to recognize exceptions to, or pathways around" the at-will employment rule established twenty-five years ago in Murphy v. American Home Prods. Corp., 58 N.Y.2d 293 (1983).

The Court distinguished a 1992 decision of the United States Court of Appeals for the Second Circuit, Stewart v. Jackson & Nash, 976 F.2d 86 (2d Cir. 1992), which upheld a claim of fraudulent inducement in the employment context. In Stewart, the plaintiff was an attorney who was induced to join the defendant law firm based on representations that the firm had obtained a major environmental law client and planned to establish an environmental law practice which would form the basis for the plaintiff’s work. After joining the firm, however, the plaintiff learned that the client had not yet been secured and, consequently, she was assigned only to general litigation work. Following her termination, the plaintiff brought suit, asserting a variety of claims, including that she had been fraudulently induced to join the firm, and the Court declined to dismiss that claim.
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The *Smalley* Court distinguished *Stewart*, observing that the *Stewart* plaintiff sought damages unrelated to the termination of her employment and based on other types of harm, such as damage to her professional reputation and the thwarting of her career objectives, all arising out of the firm’s misrepresentations regarding its anticipated environmental law practice. The fraudulent inducement claim in *Smalley*, on the other hand, was based solely on the plaintiff’s termination. As such, the *Smalley* Court, without expressing a view as to the correctness of the ruling in *Stewart*, concluded that the fraudulent inducement claim in the case before it was inconsistent with New York’s long established rule of employment at will.

The *Smalley* decision leaves no doubt that the doctrine of employment at will is alive and well in New York. Nevertheless, the care with which the *Smalley* Court distinguished the Second Circuit’s *Stewart* decision signals that employers should continue to exercise caution with regard to pre-employment representations to prospective employees.

If you have any questions about this decision, please contact any of the attorneys in our New York office.