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First Mfg. Co., Inc. v Young
2014 NY Slip Op 51562(U)
Decided on November 3, 2014
Supreme Court, Suffolk County
Whelan, J.
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Decided on November 3, 2014

Supreme Court, Suffolk County

First Manufacturing Co., Inc., Plaintiff

against

Steven Young, Laura Birke, and Shaf International, Defendants.

067961/2014

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Thomas F. Whelan, J.

ORDERED that this motion (No.001) by the plaintiff for an order enjoining and restraining the defendants, their agents and employees, from divulging, disclosing or reproducing to others any confidential information revealed, obtained or developed during the course of the individual defendants' former employment with the plaintiff and restraints against the use of the plaintiff's confidential information and further restraining the defendants from soliciting the plaintiff's customers or employees and an order directing the defendants to identify all persons and entities to whom the plaintiff's confidential information was divulged or otherwise shared, is considered under CPLR 6311 and is granted, conditionally to the extent set forth below.

The plaintiff is a wholesale provider of leather goods and apparel designed for the

motorcycle industry, including, jackets, vests, gloves, face masks and helmets which it manufactures and sells under its own labels to small and medium size retailers in the United States and Canada. Defendants Young and Birke are former employees of the plaintiff who are now employed by defendant, Shaf International, a New Jersey corporation that competes directly with the plaintiff. The plaintiff charges defendants Young and Birke with misappropriating proprietary confidential information and trade secrets while in the employ of the plaintiff and the subsequent divulgement and use thereof by them and defendant Shaf International, who now employs the individual defendants. Damages, together with permanent injunctive relief, are demanded under tort theories sounding in, among others, breaches of fiduciary duties on the part of the individual defendants, the aiding and abetting of those breaches by defendant Shaf and the misappropriation of trade secrets and acts of unfair competition on the part of all defendants.

By the instant motion (#001), the plaintiff seeks the preliminary injunctive relief outlined above. The motion is collectively opposed by the defendants who appear herein by counsel whose sole office address is listed as one in New Jersey, the home state of defendant Shaf. Reply papers from the plaintiff were received by the court in which no objection to the appearance of the defendants by out-of-state counsel having no apparent office presence in New York was interposed. Upon consideration of the parties' submission, the court grants the motion, conditionally, for the reasons stated below.

That employees owe fiduciary duties, including duties of loyalty and good faith, to their employer in the performance of their duties is well established (*see* ***Lamdin v Broadway Surface Adv. Corp.***, 272 NY 133, 5 NE2d 66 [1936]; ***Qosina Corp. v C & N Packaging, Inc.***, 96 AD3d 1032, 948 NYS2d 308 [2d Dept 2012]; ***30 FPS Prod., Inc. v Livolsi***, 68 AD3d 1101, 891 NYS2d 162 [2d Dept 2009]; ***American Map Corp. v Stone***, 264 AD2d 492, 492—493, 694 NYS2d 704 [2d Dept 1999]). Actionable breaches of such duties usually result in a personal gain to the employee and losses to the employer and are generally premised upon conduct by which [*2]profits, business opportunities, the raiding of employees and other assets including confidential and proprietary information of the employer are lost or diverted (*see* ***Western Elec. Co. v***

Brenner, 41 NY2d 291, 392 NYS2d 409 [1977]; ***Qosina Corp. v C & N Packaging, Inc.***, 96 AD3d 1032, *supra*; ***American Map Corp. v Stone***, 264 AD2d 492, *supra*; ***Gomez v Bicknell***, 302 AD2d 107, 756 NYS2d 209 [2d Dept. 2002]; ***W. Bruno Co. v Friedberg***, 21 AD2d 336, 250 NYS2d 187 [1st Dept 1964]). Liability for such conduct may arise under the long standing rule that the fiduciary status of an employee imposes a duty upon such employee to refrain from using confidential knowledge acquired during his or her employment in competition with the employer (*see* ***Byrne v Barrett***, 268 NY 199, 197 NE 217 [1935]), thereby precluding an employee who gained knowledge of a secret from availing themselves of it for their private advantage against their employer (*see* ***Kaumagraph Co. v Stampagraph Co.***, 235 NY 1, 138 NE 485 [1923]).

Although an employee owes fiduciary duties of good faith and loyalty to an employer, the employee may incorporate a business prior to leaving the employer without breaching any fiduciary duty (*see* ***Island Sports Physical Therapy v Burns***, 84 AD2d 878, 923 NYS2d 156 [2d Dept 2011]; ***Schneider Leasing Plus v Stallone***, 172 AD2d 739, 569 NYS2d 129 [2d Dept 1991]). The employee may not, however, solicit his or her employer's customers or otherwise compete during the course of his or her employment by the use of the employer's time, facilities or proprietary information (*see* ***30 FPS Prods. Inc. v Livolsi***, 68 AD3d at 1102, *supra*; ***Schneider Leasing Plus v Stallone***, 172 AD2d 739, *supra*; *cf.*, ***A & Z Scientific Corp. v Latmoire***, 265 AD2d 355, 696 NYS2d 495 [2d Dept 1999]). Where it is shown that trade secrets or other proprietary or confidential material belonging to the employer were used or there was other wrongful conduct by the employee, including the use of fraudulent methods or the engagement in a physical taking or copying of the employer's documents, lists or files, such conduct is actionable in tort (*see* ***Reed, Roberts Assoc. v Strauman***, 40 NY2d 303, 386 NYS2d 667 [1976]; ***Island Sports Physical Therapy v Kane***, 84 AD3d 879, *supra*). In such cases, it is the employee's misuse of the employer's resources to compete with the employer that is actionable as a breach of fiduciary duty (*see* ***Cerciello v Admiral Ins. Brokerage Corp.***, 90 AD3d 967, 936 NYS2d 224 [2d Dept 2011]; ***30 FPS Prod., Inc. v Livolsi***, 68 AD3d 1101, *supra;* ***Computer Task Group, Inc. v Professional Support, Inc.***, 88 AD2d 768, 451 NYS2d 502 [4th Dept 1982]).

Once the employment is terminated, the relationship between a former employee and employer is not fiduciary in nature (*see* ***City Store Gates MFG, Corp. v Empire Rolling Gages Corp.,*** 113 AD3d 718, 979 NYS2d 606 [2d Dept 2014]; ***FAB Indus. v BNY Fin. Corp.***, 252 AD2d 367, 675 NYS2d 77 [1st Dept 1998]). The former employee is free to solicit customers or to otherwise compete with his or her former employer where remembered information as to specific needs and business habits of particular customers is not confidential or otherwise proprietary in nature (*see* ***Reed, Roberts Assoc. v Strauman***, 40 NY2d 303, *supra*; ***Island Sports Physical Therapy v Burns***, 84 AD2d 878, *supra*; ***Pearlgreen Corp v Yau Chi Chu***, 8 AD3d 460, 778 NYS2d 516 [2d Dept 2004]; ***Falco v Parry***, 6 AD3d 1138, 775 NYS2d 675 [2d Dept 2004]). However, a former employee is not entitled to solicit customers by fraudulent means, the use of trade secrets or confidential information, even in the absence of a restrictive covenant (*see* ***[*3]Support Systems Associates, Inc. v Tavolacci***, 135 AD2d 704, 522 NYS2d 604 [2d Dept 1987]).

Wrongful misappropriations of trade secrets or other confidential or proprietary information by former employees or others having no employment relationship with the plaintiff may be actionable as common law unfair competition claims (*see* ***Leo Silfen, Inc. v Cream***, 29 NY2d 387, 328 NYS2d 423 [1972]; ***Town & Country House & Home Service, Inc. v Newbery,*** 3 NY2d 554, 170 NYS2d 328 [1958]; ***Ingenuit, Ltd. v. Harriff***, 33 AD3d 589, 822 NYS2d 301 [2d Dept 2006]; ***Zurich Depository Corp. v Gilenson***, 121 AD2d 443, 503 NYS2d 415 [2d Dept 1986]). Such claims are rooted in the bad faith misappropriation of the plaintiff's property, or its labors and expenditures or a commercial advantage belonging to the plaintiff such as its good will and generally concern the taking and use of such property right or commercial advantage to compete against the plaintiff (*see* ***ITC Ltd. v Punchgini, Inc.***, 9 NY3d 467, 476—478, 850 NYS2d 366 [2007]). The bad faith misappropriation of a property or a commercial advantage belonging to the plaintiff by the infringement or dilution of a trademark or trade name *or* by the exploitation of proprietary information and/or trade secrets are both actionable as common law unfair competition claims (*see* ***Out of Box Promotions, LLC v Koschitzki,*** 55 AD3d 575, 866 NYS2d 677 [2d Dept 2008]; ***Beverage Marketing USA, Inc. v South Beach Beverage Co., Inc.***, 20 AD3d 439, 799 NYS2d 242 [2d Dept 2005]; ***Eagle Comtronics, Inc. v Pico Prods., Inc.***, 256 AD2d 1202, 682

NYS2d 505 [4th Dept 1998]).

To succeed on a claim for the misappropriation of trade secrets under New York law, a party must demonstrate: (1) that it possessed a trade secret, and (2) that the defendants used that trade secret in breach of an agreement, confidential relationship or duty, or as a result of discovery by improper means (*see* ***Faiveley Transport Malmo AB v Wabtec Corp***., 559 F3d 110 [CA 2 2009]; ***North Atl. Instruments, Inc. v Haber***, 188 F3d 38 [CA 2 1999]). Traditionally defined as relating to technical matters in the production of goods, trade secrets now encompass non-technical aspects of a business including, customer lists, price codes economic studies, costs reports, customer tracking and marketing strategies (*see* 1 Trade Secrets § 3:3; 2 Trade Secrets Law § 50:7). In New York, a trade secret is defined 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 (*see* ***Ashland Mgt. Inc. v Janien***, 82 NY2d 395, 407, 604 NYS2d 912 [1993]; *see also* Restatement of Torts § 757, comment [b]). An essential requisite to legal protection against misappropriation of such a formula, process, device or compilation of information is the element of secrecy. Secrecy has been defined in accordance with the § 757 Restatement of Torts as: (1) substantial exclusivity of knowledge of the formula, process, device or compilation of information; and (2) the employment of precautionary measures to preserve such exclusive knowledge by limiting legitimate access by others (*see* ***Delta Filter Corp. v Morin***, 108 AD2d 991, 485 NYS2d 143 [3d Dept 1985]).

Customer lists and related information may thus constitute a trade secret provided that such list or information gives the owner an opportunity to obtain an advantage over competitors who do not know or use it (*see* ***Laro Maintenance Corp. v Culkin***, 267 AD2d 431, 700 NYS2d [*4]490 [2d Dept 1999]). Documents, files and other assemblages of business data containing detailed, non-public information about customers, their specific or unique needs, the pricing of purchases, the credit terms of such purchases and customer class rankings may likewise constitute trade secrets and thus entitled to protection under unfair competition theories provided such assemblages are compiled through considerable effort on the part of the plaintiff and give the plaintiff a competitive advantage for the servicing of such customers and creating new

business (*see* ***Marcone APW, LLC v Servall Co.***, 85 AD3d 1693, 1694-1696, 925 NYS2d 752 [4th Dept 2011]; ***Advanced Magnification Instruments of Oneonta, NY, Ltd. v Minuteman Optical Corp***., 135 AD2d 889, 522 NYS2d 287 [3d Dept 1987]).

Knowledge of the intricacies of a business operation does not necessarily constitute a trade secret and, absent any wrongdoing, it cannot be said that a former employee "should be prohibited from utilizing his knowledge and talents in this area" (***Reed, Roberts Assoc. v Strauman***, 40 NY2d 303, 309, *supra*; *see also* ***Buhler v Michael P. Maloney Consulting, Inc.***, 299 AD2d 190, 749 NYS2d 867 [1st Dept 2002]; ***Catalogue Serv. of Westchester, Inc. v Henry***, 107 AD2d 783, 484 NYS2d 615 [2d Dept 1985]). Information that is garnered by the defendant's casual memory and knowledge does not constitute an actionable wrong (*see* ***Leo Silfen, Inc. v Cream***, 29 NY2d 387, *supra*; ***Levine v Bochner***, 132 AD3d 532, 517 NYS2d 270 [2d Dept 1987]). Where the information at issue is public knowledge or could be acquired easily and duplicated, it will not be considered a trade secret (*see* ***Starlight Limousine Serv. Inc. v Cucinella***, 275 AD2d 704, 713 NYS2d 195 [2d Dept 2000]).

Nevertheless, confidential information not amounting to a trade secret may be protected from pirating and subsequent use under common law theories of unfair competition. To qualify for such protection, the confidential and/or proprietary material at issue must have been garnered by the defendant by way of tortious, criminal or other wrongful conduct (*see* ***Marcone APW, LLC v Servall Co.***, 85 AD3d 1693, 1694-1696, *supra;* ***Out of Box Promotions, LLC v Koschitzki,*** 55 AD3d 575, *supra*; ***Washington Deluxe Bus, Inc. v Sharmash Bus Corp***., 47 AD3d 806, 850 NYS2d 516 [2d Dept 2008]; *see also* Restatement of Torts § 759; Restatement Third of Unfair Competition §§ 39; 40; 2 Trade Secrets Law § 5:47). The remedy of an injunction against the use or divulgement of trade secrets has long been available to the plaintiff (*see* ***Town & Country House & Home Serv. v Newbery***, 3 NY2d 554, 560 170 NYS2d 328 [1958]; ***Eastern Bus. Sys., Inc. v Specialty Bus. Solutions, LLC***, 292 AD2d 336, 338, 739 NYS2d 177 [2d Dept 2002];***Samuel-Rozenbaum USA, Inc. v Felcher***, 292 AD2d 214, 215, 741 NYS2d 1 [1st Dept 2002]; ***Hecht Foods v Sherman***, 43 AD2d 850, 850-851, 351 NYS2d 711 [2d Dept 1974]; *see also* ***Marietta Corp. v Fairhurst***, 301 AD2d 734, 735-737 [3d Dept 2003]). Such remedy is also available to restrain the defendant's use of other confidential or proprietary material provided that such material was

appropriated through tortious conduct or other wrongful means (*see* ***Marcone APW, LLC v Servall Co.***, 85 AD3d 1693, *supra;* ***Washington Deluxe Bus, Inc. v Sharmash Bus Corp***., 47 AD3d 806 ***Alside Div. Of Associated Materials Inc. v Leclair***, 295 AD2d 873, 743 NYS2d 898 [3d Dept. 2002]).

To obtain preliminary injunctive relief in such cases, the plaintiff must satisfy the [*5]traditional three prong test applied to the granting of this provisional remedy in other contexts, namely, a likelihood of success on the merits of one of its pleaded claims for relief, irreparable harm or injury absent the granting of some form of the preliminary injunctive relief and that a balance of the equities tips in favor of the movant (*see* ***Nobu Next Door, LLC v Fine Arts Hous., Inc.***, 4 NY3d 839, 800 NYS2d 48 [2008]; ***Greystone Staffing, Inc. v Warner***, 106 AD3d 954, 2013 WL 2228792 [2d Dept 2013]; ***Invesco Institutional N.A., Inc. v Deutsche Inv. Mgt.***, 74 AD3d 696, 904 NYS2d 46 [1st Dept 2010]). The irreparable harm element has been defined as "that which cannot be repaired, restored, or adequately compensated in money, or where the compensation cannot be safely measured (*see* ***Interoil LNG Holdings, Inc. v. Merrill Lynch PNG LNG Corp.***, 60 AD3d 403, 874 NYS2d 439 [1st Dept 2009]; ***McLaughlin, Piven, Vogel, Inc. v W.J. Nolan & Co.***, 114 AD2d 165, 498 NYS2d 146 [2d Dept 1986]). Although irreparable injury cannot be presumed (*see* ***Invesco Institutional N.A., Inc. v Deutsche Inv. Mgt.***, 74 AD3d 696, *supra*; ***Faiveley Transport Malmo AB v Wabtec Corp***., 559 F3d 110, 118 [2d Cir 2009]), it may be established "where there is a danger that, unless enjoined, a misappropriator of trade secrets or will disseminate those secrets to a wider audience or otherwise irreparably impair the value of those secrets (*see* ***Invesco Institutional N.A., Inc. v Deutsche Inv. Mgt.***, 74 AD3d 696, *supra*). Irreparable harm may also be found to exist where confidential proprietary material will be used to the defendant's commercial advantage to the detriment of the plaintiff's business good will (*see* ***Mitzvah Inc. v Power***, 106 AD3d 485, 966 NYS2d 3 [1st Dept 2013]; ***Lombard v Station Sq. Inn Apts. Corp.***, 94 AD3d 717, 942 NYS2d 116 [2d Dept 2012]; ***Marcone APW, LLC v Servall Co.***, 85 AD3d 1693, *supra*). In such cases, monetary damages are liely inadequate or are not readily capable of quantification (*see id*., at 1696; ***Invesco Institutional, N.A., Inc. v Deutsche Inv. Mgt.***, 74 AD3d 696, *supra*; ***Gundermann & Gundermann Ins. v Brassill***, 46 AD3d 615, 853 NYS2d 82 [2d Dept 2007]; ***Willis of NY, Inc. v DeFelice***, 299 AD2d 240, 242, 750

NYS2d 39 [1st Dept 2002]).

Upon its review of the record adduced on this motion, the court finds that the plaintiff sustained its burden of proof and is thus entitled to the preliminary injunctive relief demanded by it. Moving papers sufficiently demonstrated that the plaintiff will likely succeed on the merits of its claims, fiduciary duties and unfair competition claims against all defendants as they included uncontroverted proof that the individual defendants engaged in the surreptitious and otherwise wrongful copying and taking of trade secrets and/or confidential proprietary material while in the employ of the plaintiff and that these defendants used and transmitted such material for purposes of competing directly and unfairly with plaintiff following the termination of their employment thereby bestowing upon themselves and upon defendant Shaf monetary gains and benefits through bad faith and tortious conduct. In addition, there is ample evidence that defendant Shaf was a willing participant in such conduct and that it knowingly used the pirated confidential proprietary information, assembled by the labor, skill, and expenditures of the plaintiff in Shaf's production of garments designed with knowledge of the plaintiff's confidential and proprietary material and that Shaf undercut the plaintiff's pricing for its garments and solicited the plaintiff's customers by disparaging the plaintiff's ability to produce its garments and to sell them in accordance with Shaf's lower pricing schedules. The moving papers further demonstrated that irreparable harm would inure to the plaintiff absent the granting of preliminary injunctive relief [*6]and that a balance of the equities tips in favor of the plaintiff, as the record contains evidence that the conduct of the defendants allows Shaf to enjoy a competitive advantage to the detriment of the plaintiff so as to diminish the plaintiff's good will and business reputation in the marketplace. None of the defendants submissions in opposition sufficiently controverted the plaintiff's proof so as to warrant a denial of the tailored preliminary injunctive relief granted herein to the plaintiff.

Accordingly, the instant motion (#001) is granted to the extent set forth below, conditionally, as its continued existence is subject to the posting of an undertaking by the plaintiff, within 30 days of the date of this order, in the amount of $100,000.00 in the form required by the provisions of CPLR 2502 and 2505. The plaintiff shall serve due proof that such undertaking was posted upon defendants' counsel and the court

within three days of such posting. The failure to file the undertaking shall cause the preliminary injunction herein granted to expire on the thirty-fifth day following the date of this order.

The restraints imposed against the defendants in the September 30, 2014 Order to Show Cause, by which this motion was interposed, shall remain in full force and effect until service of a copy of this order as directed below is effected upon the defendants, each of whom, shall then be enjoined and restrained during the pendency of this action as follows:

1) Steven Young, Laura Birke and defendant Shaf International are enjoined and restrained from divulging, disclosing or reproducing to any third party or using for their benefit or the benefit of any third party, or for any purpose other than the exclusive benefit of plaintiff, any confidential information revealed, obtained, or developed in the course of the employment of defendants Young and Birke with plaintiff or which is otherwise the property of plaintiff, and directing defendants to return all confidential information to plaintiff and not to retain any copies thereof;

2) Steven Young, Laura Birke and defendant Shaf International are enjoined and restrained from using any of First Manufacturing's confidential information for any purpose, including to induce any customers to cease or curtail their business relationships with First manufacturing, or to copy First manufacturing's designs or trade dress and/or to use a customer list of plaintiff for any purpose;

3) Steven Young, Laura Birke and defendant Shaf International are enjoined and restrained from soliciting or calling upon any of plaintiff's customers, the existence of which were learned of solely by the defendants' access to First Manufacturing's confidential information; and

4) Steven Young, Laura Birke and defendant Shaf International are enjoined and restrained from, directly or indirectly, soliciting or attempting to solicit First Manufacturing's confidential information from any current or former First Manufacturing employee or any other third party.

All other demands for relief set forth in the moving papers are denied, except to the extent previously granted by express directive of this court in the September 30, 2014 Order to Show Cause. The plaintiff shall serve of a copy this order upon each of the defendants at their residence or business addresses by in-hand delivery pursuant to CPLR 311 or by same day or overnight delivery service afforded by the United States Postal Service or private courier service such as Federal Express or UPS. Upon such delivery, the temporary restraints, directives and/or mandates imposed upon the defendants under the terms of the September 30, 2014 Order to Show Cause shall cease and terminate, with the exception of the directives and mandates granted in whole or in part in subparagraphs (v) on page three (3) of such Order and those set forth in subparagraphs (vii) and (viii) of page four (4) of such Order.

DATED: November 3, 2014_____

THOMAS F. WHELAN, J.S.C.

Return to Decision List