STATE OF NEW YORK
SUPREME COURT : COUNTY OF ERIE

COMPSOLVE, INC.

Plaintiff

vs.

MEMORANDUM DECISION

DAN NEIGHBOR

Index No. 681/06

Defendant

BEFORE: **HON. JOHN M. CURRAN, J.S.C.**

APPEARANCES: **Sanders & Sanders**
Attorneys for Plaintiff
Harvey P. Sanders, Esq., of Counsel

Lawrence C. Brown, Esq.
Attorney for Defendant

CURRAN, J.

This matter came on for trial by the Court on July 30 and 31, 2007. Testimony was introduced from the defendant as part of the plaintiff's case and from plaintiff's principal, Stephen Goldstein. Defendant also testified during his own direct case. The parties offered numerous exhibits. By agreement of the parties, post-trial submissions were made and the matter was finally submitted on November 26, 2007.

Plaintiff commenced this action in January of 2006 alleging that defendant, plaintiff's former employee, violated the parties' non-disclosure agreement and covenant-not-to-compete ("Agreement") and had misappropriated plaintiff's confidential information and trade secrets. Defendant has counterclaimed for unpaid commissions.

Plaintiff provides services and products relating to Occupational Safety and Health Act ("OSHA") matters to business clients on issues of regulatory compliance. Plaintiff services its clients by providing advice, guidance and products regarding record keeping, regulatory changes, and violation management. Plaintiff has been in existence since 1994.

Defendant was hired by plaintiff as an independent contractor in 1999. Defendant is an Ohio resident and served as plaintiff's sales representative in Ohio. Defendant was paid on a commission-only basis. The Agreement was entered into in June of 2001 (Ex. 1), although there were previous similar contracts executed between the parties (Exs. B & D).

The Agreement generally provides that defendant will not disclose plaintiff's "Confidential Trade Secrets and Information" at any time and "for a period of two (2) years after the termination of his services with Company and within a twenty (20) mile radius of each of the customer locations of the company in existence at the time of said termination of said Contractor's services," will not compete with plaintiff. In most relevant part, the covenant provides that for the two-year period the defendant will not be employed by a competitor and will not:

> Directly or indirectly solicit, divert, take away or attempt to divert or take away any Company customers, or seek to stop any customers from patronizing the Company, or assist any other person, form (sic) or entity from doing so.

(Ex. 1, p. 3).

According to the evidence, defendant's production of new customer accounts dropped from seventy-six (76) in 2003, to fifty-three (53) in 2004 and to only twenty-two (22) in 2005. It was in December of 2005 that Goldstein received an anonymous communication in

the mail enclosing a copy of defendant's business card identifying defendant as the "Regional Director" of "Lancaster Consulting," one of plaintiff's competitors. The owner of Lancaster Consulting is a former sales representative for the plaintiff.

Goldstein promptly confronted defendant with this information and defendant acknowledged his business relationship with plaintiff's competitor. Plaintiff then terminated its business relationship with defendant.

The evidence at trial showed that defendant signed an Independent Contractor Agreement with Lancaster Consulting on September 17, 2004. Thus, the proof shows that defendant was simultaneously serving both plaintiff and Lancaster Consulting between September of 2004 and December of 2005. As of the time of trial, defendant continued to work on behalf of Lancaster Consulting. Plaintiff has not hired any replacement for defendant.

Defendant admitted at trial that, while still acting on behalf of plaintiff, he sold services on behalf of Lancaster Consulting to thirty (30) of plaintiff's customers. Defendant further admitted that he received a higher commission rate for selling on behalf of Lancaster Consulting than he did for selling on behalf of the plaintiff.

Since plaintiff terminated its relationship with defendant, defendant has continued to make sales on behalf of Lancaster Consulting to plaintiff's customers. The record reflects that, as of the time of trial, defendant sold services on behalf of Lancaster Consulting to at least twenty-two (22) of plaintiff's customers. Much of plaintiff's business involves the continuation of existing contracts through retraining on approximately an annual basis. Plaintiff points out that, after defendant was terminated, defendant earned commissions based

on at least six (6) of plaintiff's customers from Lancaster Consulting by approaching those customers at the time their retraining contracts with plaintiff were due to be renewed.

Plaintiff commenced this litigation in January of 2006 and promptly sought injunctive relief against the defendant. In October of 2006, the Justice previously handling this matter entered an Order enjoining defendant from soliciting or servicing plaintiff's Ohio customers that were parties to three-year contracts with plaintiff. The Order also specified a provision for liquidated damages in the event the Order was violated.

The Parties' Contentions

Plaintiff contends that defendant breached the Agreement and his duty of loyalty to the plaintiff by soliciting and selling to plaintiff's customers on behalf of Lancaster Consulting while defendant served as plaintiff's agent for those same customers. Additionally, plaintiff alleges that defendant violated the restrictive covenant by soliciting and selling to plaintiff's customers on behalf of Lancaster Consulting within the two-year time period set forth in the covenant following defendant's termination by plaintiff. In this regard, plaintiff contends that the covenant protects plaintiff's legitimate business interests in protecting its trade secrets and confidential information, and that the covenant protects plaintiff's legitimate business interests in preserving the goodwill with its customers. Plaintiff further claims that it is entitled to liquidated damages for defendant's violation of the Court's Order as to one customer having a three-year contract with plaintiff. Finally, plaintiff claims its entitlement to attorneys' fees under the Agreement and makes a vague claim that the Court should enjoin defendant from soliciting or servicing the fifty-three (53) customers upon which its evidence was based.

Defendant asserts that he was in a non-exclusive agency relationship with the plaintiff and was entitled to promote products and services which were competitive with those of plaintiff. Defendant denies that plaintiff possesses confidential information and trade secrets protectable under law as legitimate business interests. Defendant further claims that plaintiff has not established any recognizable claim to damages here and that any issue with respect to the violation of the Court's Order should be determined in some other "appropriate proceedings." Finally, defendant seeks his unpaid commissions owed by plaintiff for work performed before he was terminated.

Duty of Loyalty

An agent owes a duty of undivided loyalty to his principal to "act solely for the benefit of the principal in all matters in connection with his agency" (Restatement [Second] of Agency § 387; *see also* 2A NY Jur 2d, Agency § 204). "***Unless otherwise agreed,*** an agent is subject to a duty not to compete with the principal concerning the subject matter of his agency" (Restatement [Second] of Agency § 292 (emphasis added)). Further, "***unless otherwise agreed***, an agent is subject to a duty not to act or agree to act during his agency for persons whose interests conflict with those of the principal in matters in which the agent is employed" (Restatement [Second] of Agency § 394 (emphasis added)). Courts have applied these principles to independent contractors, not just employees (*Byrne v Barrett*, 268 NY 199 [1935]; *G.K. Alan Assoc., Inc. v Lazzari*, 44 AD3d 95 [2d Dept 2007]; *Greenwood v Koven*, 880 F Supp 186 [SD NY 1995]).

The Agreement in effect at the time defendant was terminated (Ex. 1) does not authorize defendant to sell products and services of a competing nature for a competitor who

indisputably was seeking the same type of business in the same market as plaintiff. Defendant seems to assert that, while the written agreement between the parties has a non-competition clause for post-employment purposes, it does not have any such prohibition against competition while defendant was affiliated with plaintiff. This argument is not only illogical and inconsistent with the clear intent to be determined from the Agreement on its face, but also contrary to established common law as to the duty of loyalty (*Murray v Beard*, 102 NY 505 [1886]; *Kaumagraph Co. v Stampagraph Co.*, 235 NY 1 [1923]; *Foley v D'Agostino*, 21 AD2d 60 [1st Dept 1964]).

The evidence introduced at trial clearly demonstrates that defendant was a faithless and disloyal agent from September of 2004 until defendant was terminated by plaintiff in December of 2005. Defendant's disloyalty during this period caused plaintiff to lose sales to thirty (30) customers which were diverted to Lancaster Consulting.

Damages for a breach of an employee's duty of loyalty include the compensation and expenses that plaintiff paid to the defendant during the period of the disloyalty as well as profits that the defendant obtained (*Lamdin v Broadway Surface Adv. Corp.*, 272 NY 133 [1936]; *Diamond v Oreamuno*, 24 NY2d 494, 498 [1969]; *Harry R.Defler Corp. v Kleeman*, 19 AD2d 396, 403-404 [1963], *affd* 19 NY2d 694 [1967]; *Luskin v Seoane*, 226 AD2d 1144 [4th Dept 1996]; PJI 3:59). Where an employee has breached a duty of loyalty, the employer may choose between recovering the profits the defendant made or recovering the profits the employer would have made (*Gomez v Bicknell*, 302 AD2d 107 [2d Dept 2002]). The Court has an obligation to compute damages as best it reasonably can, even if the precise amount lost is not certain (*Borne Chem. Co. v Dictrow*, 85 AD2d 646 [2d Dept 1981]).

Here, plaintiff introduced evidence as to the commissions wrongfully earned by defendant on the thirty (30) accounts diverted to Lancaster Consulting. This measure of damages coincides with the type of damages that may be awarded under law. Accordingly, plaintiff may take judgment against defendant for damages related to defendant's breach of the duty of loyalty while he was employed by plaintiff in the sum of $62,000.00, together with interest at the judgment rate from December 5, 2005. The damages sought by plaintiff as to renewals and other monies payable in the future on these thirty (30) accounts is deemed by the Court to be too speculative to be the subject of an award. Moreover, because the Court makes this finding under the common law duty of loyalty and not under the contract between the parties, attorneys' fees pursuant to the terms of the Agreement are denied.

Confidential Information

Plaintiff and defendant agreed in writing that the information provided to defendant was confidential and would be treated as such between the parties. Moreover, the parties agreed that defendant would not use that confidential information to solicit business away from the plaintiff.

The common law provides that business information is protectable to the extent that it is not readily ascertainable in the marketplace (*Leo Silfen, Inc. v Cream*, 29 NY2d 387 [1972]), and to the extent that protection of such information serves the legitimate business interests of the former employer (*Reed, Roberts Assoc., Inc. v Strauman*, 40 NY2d 303 [1976]). Such legitimate business interests can include the goodwill established between the former employer and the customers which the former employee seeks to solicit (*BDO Seidman v Hirshberg*, 93 NY2d 382 [1999]; *DS Courier Servs., Inc. v Seebarran*, 40 AD3d 271, 272 [1st

Dept 2007]). Essentially, it is the immediate "head start" by the former employee in attacking the business of the former employer which gives the former employee an unfair competitive advantage as opposed to other competitors in the marketplace (*Integrated Cash Mgt. Servs., Inc. v Digital Transactions*, 920 F2d 171, 175 [2d Cir 1990]; *De Long Corp. v Lucas*, 278 F2d 804, 809 [2d Cir 1960]; *Creative Collections of NY, Inc. v Diblasi*, 15 Misc 3d 1130[A], 2007 NY Slip Op 50914[U][2007])

Plaintiff asserts that the compilation of information it uses in its business is protectable under law. Specifically, plaintiff points to the information it develops regarding customers through the OSHA audits plaintiff performs and the follow-up contacts plaintiff has with respect to its customers concerning the training programs. It is through these audits and retraining programs that the plaintiff purports to establish a unique relationship with its customers entitling it to post-termination protection against defendant's solicitation and competition.

Defendant counters that much of the information sought to be protected by plaintiff is publicly available and that the identities of plaintiff's customers are likewise readily available in the marketplace. Defendant also alleges that customers will frequently disclose the rates they are being charged by a competitor and that therefore the rates charged by plaintiff are not confidential.

The Court concludes that much of the information sought to be protected by the plaintiff is readily available in the marketplace and not subject to the protections afforded by a non-solicitation or non-competition agreement. However, what is protectable is the information defendant possessed at the time he was terminated by plaintiff concerning the

renewal dates and existing contract rates for plaintiff's existing customers in defendant's geographic market area. Defendant was in an unparalleled position in the marketplace to solicit plaintiff's existing customers at the very time they were seeking retraining or renewal of contracts with the plaintiff. The record reflects that defendant in fact converted at least six (6) of plaintiff's customers to Lancaster Consulting customers at virtually the precise time those customers' one-year contracts with plaintiff were due to expire and when those customers would be expected to seek retraining. There is no doubt defendant used the information he gained solely from plaintiff as to renewal dates and contract rates to lure away plaintiff's customers. As defendant could not have ascertained this information so readily from the customers and marketplace as to put him in the right place at precisely the right time to make those sales, the information warrants protection under the Agreement (*See, e.g., Byrne,* 268 NY at 199; *Chernoff Diamond & Co. v Fitzmaurice, Inc.*, 234 AD2d 200, 202 [1st Dept 1996]; *Meinhard v Salmon*, 249 NY 458 [1928]; *Crown IT Servs. v Koval-Olsen*, 11AD3d 263 [1st Dept 2004]).

The Agreement by its terms extends for two (2) years after the termination of defendant's services for plaintiff and encompasses a territory within a twenty (20) mile radius of each of plaintiff's customers' locations who were in existence at the time of defendant's termination. The geographic scope is not an issue here because plaintiff's proof was limited to plaintiff's actual customers. Plaintiff introduced evidence showing that defendant sold to twenty-two (22) of plaintiff's customers within seventeen (17) months after his termination and that defendant earned $30,000 in commissions on those sales. However, not all of those sales were to customers subject to retraining within a year of defendant's departure. The one-year

time frame is controlling because, except for H&M Metals, all of the proof offered by plaintiff related to one-year contracts. By examining plaintiff's Exhibits 13 and 14, the Court has calculated as best it reasonably can that, at the time of defendant's termination, fifteen (15) of the twenty-two (22) customers had contracts in existence with plaintiff. The Court concludes that these are the customers subject to protection under the Agreement.

Furthermore, given the prevalence of one-year contracts in plaintiff's business, the Court concludes it should "blue pencil" the Agreement to a one-year post-termination period (*BDO Seidman,* 93 NY2d at 395; *Karpinski v Ingrasci*, 23 NY2d 45, 52 [1971]; *Greystone Staffing, Inc. v Goehringer,* 14 Misc 3d 1209[A] [2006 NY Slip Op 52458[U] [2006]). Within that one-year, according to plaintiffs Exhibits 13 and 14, defendant earned $12,440.00 in commissions from thirteen (13) of the fifteen (15) pertinent customers. For the reasons explained below, H&M Metals will be treated separately and the commissions earned by defendant within one year after termination from that customer ($1,870.00) will be deleted. Therefore, by the Court's best calculation within reason, plaintiff is entitled to judgment against defendant for the post-termination violations of the Agreement in the sum of $10,570.00, together with interest from December 5, 2006. As to the damages estimated by the plaintiff to be incurred in the future, the Court concludes that the proof is too speculative. Nevertheless, because the Court has found that defendant breached the Agreement to the extent that it is enforceable under law, plaintiff is entitled to attorneys' fees and costs under the written contract between the parties.

Violation of Court Order

Defendant does not dispute that he violated the Court's Order by soliciting and procuring the business from H&M Metals. The proof establishes that plaintiff is therefore entitled to liquidated damages for a violation of the Court's previous Order in the sum of $6,233.00. This number was properly calculated pursuant to the Court's Order and there is no need for any separate assessment in another proceeding.

Counterclaim

Plaintiff concedes that, under its theory of damages, defendant is entitled to an offset for unpaid commissions. Accordingly, plaintiff's damages shall be reduced by the sum of $4,446.00, representing the amount sought in defendant's counterclaim as supported by the evidence.

Conclusion

Based on the foregoing, plaintiff has established that defendant breached his duty of loyalty to the plaintiff while he was an agent for the plaintiff. Additionally, plaintiff has established that defendant breached his contract with plaintiff by soliciting plaintiff's customers and procuring business from plaintiff's customers in violation of the Agreement through the use of the renewal dates of plaintiff's contracts with those customers and the rates charged by plaintiff as to those specific customers. It is to this extent that the Court concludes that the restrictive covenant is enforceable and the Court hereby restricts the enforceability of that Agreement to those actual customers and to a post-termination time period of one (1) year (thereby negating any further injunctive relief). The Court also awards plaintiff its attorneys' fees for the violation of the Agreement. Finally, plaintiff has established that defendant

violated the Court's previous Order and incurred liquidated damages as articulated herein. Plaintiff may take judgment for the amounts awarded herein, less the amount awarded to defendant, and the Court will schedule a conference for January 17, 2008 at 2:00 p.m., at which time the Court will take up the issue of the attorneys' fees to which plaintiff is entitled pursuant to the terms of this decision.

DATED: December 19, 2007

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HON. JOHN M. CURRAN, J.S.C.