

D.S.M. Realty Corp. v Goloso

2007 NY Slip Op 30809(U)

April 16, 2007

Supreme Court, New York County

Docket Number: 0604407/2006

Judge: Bernard J. Fried

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SUPREME COURT OF THE STATE OF NEW YORK — NEW YORK COUNTY

PRESENT: BERNARD J. FRIED
Justice

PART 60

DSM Realty Corp., d/b/a Empire State Properties,

Plaintiff

- v -

Kevin Geloso, Alex Cespedes, KG Properties of
New York, Inc., Cici Realty Corp.,

Defendants.

FBEM

INDEX NO. 804407-2006

MOTION DATE _____

MOTION SEQ. NO. 001

MOTION CAL. NO. _____

**NYS SUPREME COURT
REVIEWED
APR 19 2007
E-FILING DEPT.**

The following papers, numbered 1 to _____ were read on this motion to/for _____

Notice of Motion/ Order to Show Cause — Affidavits — Exhibits ...

Answering Affidavits — Exhibits _____

Replying Affidavits _____

PAPERS NUMBERED _____

FILED

APR 17 2007

COUNTY CLERK'S OFFICE
NEW YORK

Cross-Motion: Yes No

Upon the foregoing papers, it is:

ORDERED that Plaintiff's preliminary injunction motion is decided in accordance with the accompanying memorandum decision; and it is further

ORDERED that the parties are instructed to pick up the exhibits from the preliminary injunction hearing in Part 60 within ten days of the Notice of Entry of this Order. If they are not picked up, the exhibits will be discarded by the Clerk.

SO ORDERED.

Dated: 4/16/07

[Signature]

J.S.C.

**BERNARD J. FRIED
J.S.C.**

Check one: FINAL DISPOSITION NON-FINAL DISPOSITION
 DO NOT POST REFERENCE

MOTION/CASE IS RESPECTFULLY REFERRED TO JUSTICE FOR THE FOLLOWING REASON(S):

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK : CIVIL TERM : PART 60

FBEM

-----X
D.S.M. REALTY CORP. D/B/A/ EMPIRE STATE
PROPERTIES

Plaintiff,

INDEX. NO. 604407/2006

-against-

KEVIN GOLOSO, ALEX CESPEDES, KG PROPERTIES
OF NEW YORK, INC.,

Defendant.

-----X

APPEARANCES:

ATTORNEYS FOR PLAINTIFF:

ATTORNEYS FOR DEFENDANTS:

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FRIED, J.:

Before me is a motion by Plaintiff D.S.M. Realty Corp., d/b/a Empire State Properties, for a preliminary injunction against Defendants Kevin Geloso, Alex Cespedes, and KG Properties of New York, Inc.¹

The parties had an opportunity to submit evidence and present witnesses at the

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DSM has represented that it is not pursuing the preliminary injunction against the fourth Defendant, Cici Realty Corp. Consequently, the term "Defendants" in this memorandum decision shall refer only to the other three Defendants: Kevin Geloso, Alex Cespedes, and KG Properties of New York, Inc.

evidentiary hearing, which was held before me on six separate days between February 2 and 20, 2007. In support of its motion for contempt, Plaintiff called four witnesses: Gil Bloom, Jonathan Goldberg, Deborah Hildreth, and Kevin Geloso. Although I had initially denied Plaintiff's motion for a temporary restraining order ("TRO"), at the end of the preliminary injunction hearing, I granted Plaintiff's renewed motion for a TRO on the terms outlined in my oral decision on March 1, 2007. The terms of this TRO were finalized in my Order dated March 5, 2007. In the March 5 Order, I clarified that, pending my decision on the preliminary injunction motion, the TRO did not preclude Defendants from contacting approximately 20 individuals with whom Defendants represented that they had already entered into a contractual relationship with respect to the specific agreements incorporated by reference into that Order.

Having presided over the evidentiary hearing, heard and observed the witnesses testify, and read the documents admitted into evidence, and upon consideration of the parties' arguments and written submissions, I now grant Plaintiff's motion for a preliminary injunction on the terms described below.²

Kevin Geloso ("Geloso") worked as a sales agent at D.S.M. Realty Corp. ("DSM") from January 2003 until October 6, 2006.³ It was his first job in real estate since graduating

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For purposes of deciding this preliminary injunction motion, I have not considered the February 28, 2007 affidavit of Thuyha Pham, the March 6, 2007 affirmation of Dan Schulman, the March 7, 2007 Affirmation of Zachary Goldberg, or any other evidentiary submissions which were submitted by Plaintiff without permission of the Court after Plaintiff rested its case at the end of the evidentiary hearing.

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Where the facts are disputed by the parties, I have provided citations to hearing testimony or documentary submissions.

college. Geloso is 28 years old. Alex Cespedes ("Cespedes"), who has lived with Geloso for the last two years, worked at DSM as a sales agent and Geloso's assistant from October 2005 until October 3, 2006. DSM hired him at Geloso's request.

DSM provides real estate services including rentals, sales, property management, housekeeping, and interior design consultation to its clients. Since 1990, DSM has maintained an on-site office at the Executive Plaza Condominium at 150 West 51st Street, a 443-unit residential condominium building (the "Executive Plaza"). DSM is the only real estate agent with an on-site office. DSM has management contracts with about 130 units at the Executive Plaza and has executed thousands of leases in the Executive Plaza. DSM is owned in equal parts by Suzanne Miller and Deborah Hildreth ("Hildreth"), its principals.

With respect to the units in the Executive Plaza, DSM maintains a comprehensive database containing: (1) the contact information for owners, corporate clients, and tenants (the "contact list"); (2) a list of leases up for renewal ("availability list"); (3) a list of units subject to the City Hotel Room Occupancy Tax ("hotel tax list"); and (4) photographs of units ("photographs"). DSM also maintains related financial information, forms, and leases.

On March 23, 2003, Geloso entered into an agreement with DSM (the "March 2003 agreement"), which contained a schedule of his commissions for rentals at the Executive Plaza. There is some dispute as to which documents set forth all the terms of Geloso's compensation. Hildreth testified credibly that Geloso was paid for sales according to a supplemental schedule (which he did not sign) entitled "Sales and Rental Commission

Policy,” (the “May 2003 addendum”).⁴ (Trans. at 108-11.)

Pursuant to the March 2003 agreement and the May 2003 addendum, Geloso was paid largely by commissions. There is no dispute that DSM paid for and provided all advertisements, marketing materials, open houses, office rent, and computer systems at its on-site office, and that Geloso and Cespedes used these materials and equipment. Geloso was responsible for paying most of his other business expenses, such as taking clients to lunch. DSM did not pay Geloso benefits. Cespedes was initially paid commissions by DSM but was later paid from Geloso’s commissions.

The March 2003 agreement contained a confidentiality provision, which stated that Geloso would not, for two years following the termination of his employment, disclose DSM’s trade secrets, which was defined to include:

listings, financial information...; supply and service information; marketing information...; and customer information (such as any compilation of past, existing or prospective customers’ names, addresses or backgrounds, records of purchases and prices, proposals or agreements between customers and the Broker, status of customers’ accounts or credit, or related information about actual or prospective customers).

(Mar. 2003 Agt. ¶ 10.) It required Geloso to return all copies of such information to DSM upon the termination of his employment. *Id.*

While he worked at DSM, Geloso used to post listings of apartment availability on Craigslist.com or LOR, a multiple listing service that was shared by other brokers. On occasion, Geloso also shared the leasing history of a particular unit and DSM’s management

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To the extent that Geloso’s testimony differs regarding the May 2003 addendum, I disregard it as unworthy of belief.

agreement with a new potential buyer and his broker counterpart. (Trans. at 606-09.)

By 2005, Geloso had assumed an increased level of responsibility as a sales agent of DSM. DSM presented Geloso with a new proposed agreement in 2005, but Geloso disputed various terms and never executed it.

Geloso knew he was not permitted to perform outside real estate work while he worked at DSM. (Trans. at 542-43.)

In July 2005, Geloso and two friends, Alan Rivera and Carmelo Paglialunga, formed a company called GRP Enterprises, LLC (“GRP”). Each became a one-third owner of GRP. In September 2005, Paglialunga, as nominee for GRP, purchased a unit of an apartment building at Worldwide Plaza (the “GRP-Worldwide Plaza transaction”). Geloso, as an agent of DSM, represented the GRP, the buyer, without disclosing to DSM that he had a financial interest in the purchaser of the unit.

There is a question as to whether Geloso disclosed his personal financial interest in GRP to the seller in this transaction. Geloso testified that he did, but I find his testimony unworthy of belief, because he stated under oath at his deposition that he could not remember having done so. (Trans. at 559-60.)

Sometime in August or September 2006, Geloso, through GRP, began managing a property in Harlem owned by the Malanum sisters, DSM’s erstwhile clients. (Trans. at 545-49.) Earlier in 2006, DSM had entered into a management agreement with the Malanum sisters as to a unit they owned in the Executive Plaza. In a letter dated September 14, 2006, drafted and signed by Geloso, Carmen Malanum terminated the Malanums’ management agreement with DSM as to this unit. Geloso later managed the Malanums’ unit after he quit

work at DSM.

On September 28, 2006, Geloso incorporated a new real estate company, which he called KG Properties of New York, Inc. ("KG Properties"). Less than a week later, on Tuesday, October 3, 2006, Cespedes quit his job at DSM, and Geloso announced to DSM that his last day would be Friday, October 6. On October 6, a third sale agent quit DSM as well, leaving the office empty, except for the principals and a temporary employee. On that Friday, Hildreth took Geloso out to lunch. Hildreth testified credibly that Geloso told her that he was planning to take two weeks off and go to the beach. (Trans. at 133.)

Before he quit, Geloso prepared a business plan for KG Properties. His marketing strategy was to include "mailings to corporate clients" and direct mailings and e-mail blasts to the "main owner contacts" of investors. (Hear'g Ex. 54 at KG 1186.) His strategy was to "stay in touch with all of its previous corporate clients." *Id.* The business plan anticipated that one of the benefits that Geloso would bring to KG Properties was that "[c]lients will be brought from previous employer." (Hear'g Ex. 54 at KG 1191.) Geloso admitted that the "previous corporate clients" to which the business plan referred were DSM's clients, with whom Geloso had worked at DSM. (Trans. at 425-26.) His "Personnel Plan" was to "hire a Rental/Sales agent starting on day 1, to work directly with Kevin and really be his right hand man." (Hear'g Ex. 54 at KG 1191.)

During his last week at DSM, Geloso contacted a large number of DSM clients, using DSM's contact list. (Trans. at 479-81.) On October 5, he sent an email blast to clients with whom he had worked, letting them know that he was leaving.

Before he left on October 6, Geloso emailed himself a variety of electronic

documents from DSM's shared drive – including a contact list, templates, and photographs. Geloso also took various DSM files in hard copy with him when he left. The files contained proprietary information belonging to DSM, including financial information, hotel tax lists, availability lists, a list of deals Geloso did with DSM, a list of DSM lease start dates, photographs, and form templates. During his employment at DSM, Geloso had also downloaded and maintained much of this information on his home computer. Geloso did not give back any of this information when he quit.

After he quit, Geloso continued to communicate with DSM clients, using DSM's contact list and other information that he took from DSM, such as the availability list. On Sunday, October 8, two days after his last day at DSM, Geloso sent another email blast to 56 people, mostly DSM contacts, letting them know his contact information and expressing his “hope to continue our professional and personal relationships.”

Meanwhile, Cespedes had gone to work as a sales agent for Cici Realty Corp. (“Cici”). After leaving DSM, Geloso relayed listings and set up apartment showings for clients with Cespedes at Cici. Geloso and Cespedes worked together on all aspects of these client relationships, including setting up showings and lease signings, sending faxes, putting listings online, and preparing leases. (Trans. at 562-76.)

On Sunday, October 8, Geloso emailed the owner of a unit (not at the Executive Plaza), named Stephanie, with whom he had worked at DSM, promising that he would “continue to oversee your property.” On Monday, October 9, Geloso emailed the owner of a unit at the Executive Plaza to tell her the expiration date of her current lease and that he would “love to re-rent the unit” for her. On Friday, October 13, Geloso emailed an

Executive Plaza owner on DSM's contact list, promising to "try to find a tenant for you starting November 1," and referred the owner to Cespedes, who by then was a sales agent at Cici, to show his apartment. On the same day, Geloso emailed a prospective tenant, letting him know that Geloso was "still handling unit 1126 [of the Executive Plaza] for the owner," and offering to send pictures and show him the property. On Saturday, October 14, Geloso emailed the owner of an Executive Plaza owner to tell her that he found her a tenant for her unit.

On Monday, October 16, Geloso received his broker's license. On November 16 and 21, Geloso sent email blasts announcing his new business to over 200 recipients, many of them from DSM's database. (Trans. at 467-70.)

On December 11, 2006, Geloso sued DSM for unpaid commissions in New York City Civil Court. On or about December 22, 2006, Cespedes left Cici and thereafter went to work for KG Properties.

Plaintiff filed this Complaint against Defendants on December 26, 2006, alleging eight causes of action: (1) tortious interference with existing contracts by Geloso; (2) tortious interference with prospective business relations by Defendants; (3) breach of contract by Geloso; (4) breach of fiduciary duty by Geloso; (5) breach of duty of loyalty by Geloso and Cespedes; (6) misappropriation of trade secrets by Defendants; (7) diversion of corporate opportunities by Defendants; and (8) unfair competition by Defendants.

Defendants maintain that Geloso has already given over to his attorneys all of the information he took from DSM, and that it has been produced to Plaintiff in discovery. Defendants claim that Geloso has kept none of this information other than a list of contact

information for clients for whom he worked at DSM. This information includes phone and cell phone numbers, fax numbers, and email addresses. Geloso's testimony at the hearing suggested that he may also have information about unit availability and lease renewal. (Trans. at 474, 484-86.)

Defendants have conceded, in one form or another, that Geloso had no right to take or to keep most of the documents that he took when he left DSM. Geloso testified that it would be improper for him to share DSM's contact list with one of DSM's competitors, and that the contact list, availability list, and hotel tax list that he took would be useful to a competitor. (Trans. at 436-37, 440, 460, 463-64, 476.) But Defendants continue to maintain that Geloso has just as much a right as DSM to the contact list of clients with whom Geloso worked while at DSM.

Consequently, the only issues remaining in this motion are whether Geloso must divest himself of the contact information relating to clients with whom he worked while at DSM in his Outlook file and whether he should be forbidden to further solicit these clients or do further work on behalf of them.

In order to be entitled to a preliminary injunction under New York law, a plaintiff must show "a probability of success, danger of irreparable injury in the absence of an injunction, and a balance of the equities in [its] favor." *Aetna Ins. Co. v. Capasso*, 75 N.Y.2d 860, 862 (1990).

Likelihood of Success

DSM seeks injunctive relief based on (1) Geloso's breach of restrictive covenants in the March 2003 agreement, the May 2003 addendum, and the 2005 draft agreement; (2)

misappropriation of trade secrets by Defendants; (3) breach of fiduciary duty by Geloso and Cespedes; and (4) unfair competition by Defendants.

Breach of Restrictive Covenants by Geloso

The first question is whether Plaintiff has shown a likelihood of success on its claim that Geloso has violated the confidentiality covenant in the March 2003 agreement. An employer has a legitimate interest in protection against a former employee's "competitive use of client relationships" that the employer enabled him to acquire through his performance of services for the firm's clientele during the course of his employment. *BDO Seidman v. Hirshberg*, 93 N.Y.2d 382, 392 (1999). Consequently, a restrictive covenant in employment will be enforced only "to the extent necessary to protect the employer from unfair competition which stems from the employee's use or disclosure of trade secrets or confidential customer lists." *Columbia Ribbon & Carbon Mfg. Co. v. A-I-A Corp.*, 42 N.Y.2d 496, 499 (1977).

The confidentiality covenant in paragraph 10 of the March 2003 agreement plainly requires Geloso to return to DSM all listings, financial information, supply and service information; marketing information, and customer information, and not to disclose this information for two years after the end of his employment. For the reasons discussed in the next section *infra*, I conclude that Plaintiff is likely to succeed in showing that this covenant protects information that is subject to trade secret protection. The property taken or kept by Geloso when he left DSM – DSM's customer lists, financial information, hotel tax lists, availability lists, a list of deals Geloso did with DSM, a list of DSM lease start dates, photographs, and form templates – are plainly covered by this covenant. Defendants do not

even dispute that they have no right to have most of this information (with the notable exception of the contact list) – though they insist that it is proprietary, rather than confidential.⁵ Defendants also have not argued that the two-year duration of the confidentiality covenant is unreasonably long under these circumstances.

I also find that DSM is likely to succeed in demonstrating that the parties did not abandon the March 2003 agreement, which was executed by both parties. Although the evidence suggests that DSM and Geloso may have agreed upon arrangements for paying Geloso commissions apart from the March 2003 agreement, no evidence suggests that the parties intended those arrangements to replace the March 2003 agreement. And even if DSM had abandoned it, the injunction ordered in this decision would be warranted based on Plaintiff's likelihood of succeeding on its common law causes of action.

Therefore, I conclude that Plaintiff is likely to succeed on its claim that Geloso violated the confidentiality covenant in the March 2003 agreement.⁶

Misappropriation of Trade Secrets by Defendants

DSM also contends that the information that DSM compiled in its availability list and contact list was a trade secret that was misappropriated by Defendants in violation of New York law.

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Defendants also contend that Geloso had a right to possession of the photographs that Geloso took himself while at DSM. Defendants also continue to maintain that the evidence does not show that they used most of this information.

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Because of these conclusions, I do not need to reach Plaintiff's likelihood of succeeding on its contention that Geloso assented to the restrictive covenants in the May 2003 addendum and is bound by the 2005 draft agreement, neither of which he signed.

To establish a claim for misappropriation of trade secrets, a “plaintiff must show (1) that it possesses a trade secret, and (2) that defendant is using that trade secret in breach of an agreement, confidence, or duty, or as a result of discovery by improper means.” *Sylmark Holdings Ltd. v. Silicone Zone Intl. Ltd.*, 5 Misc.3d 285, 297 (Sup. Ct. 2004). Under New York law, customer lists and files are protectable as trade secrets, where a plaintiff’s customers “are not known in the trade or are discoverable only by extraordinary efforts.” *Leo Silfen, Inc. v. Cream*, 29 N.Y.2d 387, 392-93 (1972). This is especially true if such information has “been secured by years of effort and advertising effected by the expenditure of substantial time and money.” *Id.* Where an employer’s customers are “readily ascertainable outside the employer’s business,” however, their contact information is not protected as a trade secret, and courts will not enjoin the employee from soliciting his employer’s customers. *Leo Silfen*, 29 N.Y.2d at 391; accord *Columbia Ribbon & Carbon Mfg. Co. v. A-1-A Corp.*, 42 N.Y.2d 496, 499 (1977). For instance, courts have found that information available in published commercial lists, such as telephone directories and office directories, was publicly available. See, e.g., *Leo Silfen*, 29 N.Y.2d at 391 (defendant solicited new clients using published commercial lists); *Candler Coffee Corp. v. Eigenfeld*, 105 Misc.2d 716, 717-18 (Sup. Ct. N.Y. County 1980), *aff’d*, 87 A.D.2d 569 (1st Dept. 1982) (defendant canvassed new clients using telephone directories, office directories, and other business directories).

Defendants do not dispute that they had no right to take DSM’s availability list and maintain that they have surrendered it to their lawyers. Defendants also do not dispute that Geloso took the information in DSM’s contact list and that Defendants are currently using

it in their business. Defendants maintain, however, that they have a right to continue to use this information, because it was readily ascertainable by others in the industry and was developed without significant expenditure by DSM.

In support of the allegation that DSM's information is readily ascertainable by others in the industry, Defendants assert that the unit owners of the Executive Plaza are publicly registered, and the real estate industry is characterized not by trade secrets but by shared information. I find both assertions unpersuasive.

With regard to the former assertion: Defendants concede that Geloso relied on DSM's customer lists – not on publicly available directories – in soliciting clients at the Executive Plaza. And for good reason – no evidence in the record suggests that the owners' email addresses and cell phone numbers, or DSM's availability list, financial data, and hotel tax list, were publicly available. At most, Defendants have produced evidence that the *names* of the unit owners were publicly available – but a competitor would have had to expend significant time and effort to recreate any of the other information taken by Defendants. Defendants concede that in order to recreate DSM's compilation of the unit owners' management agreements and their termination dates, a competitor would have to contact each owner individually and try to persuade the owner to reveal the information. (Defs.' Post-Hear'g Memo at 12 (Mar. 7, 2007).) It is not at all certain that the unit owners would comply with such a request. DSM's client information does not meet the standard of readily available information applied in *Candler Coffee* and *Leo Silfen*. I conclude that Plaintiff is likely to prevail on its contention that none of the information taken by Defendants – including DSM's contact list, containing the customer contact information – was readily

ascertainable to a competitor.

Furthermore, I am unpersuaded by Defendants' assertion that there are no secrets in the real estate industry. Although Geloso testified that he posted lease termination dates on Craigslist, no evidence suggests that the Craigslist listings gave away enough information to make that information useful – such as the owner's unit number and street address or the owner's contact information. And by Geloso's own testimony, the only other people with whom he shared limited information were potential buyers of particular units and his counterpart brokers; LOR is not available to the public. On this record, the real estate industry does not appear to be characterized by shared information.

Defendants contend, however, that the information in Geloso's Outlook file was gathered by Geloso and Cespedes themselves without cost to DSM.⁷ It is undisputed that DSM built up the information in its database over 16 years – 13 of them before Geloso was hired. While Geloso evidently played a major role in maintaining client relationships during the three years of his employment at DSM, he performed this work as an agent of DSM. He was not licensed to hold himself out as a broker in his own right; he worked out of DSM's on-site office at the Executive Plaza; and both Geloso and Cespedes were paid as a percentage of DSM's income. Plaintiff contends, and Defendants do not dispute, that DSM provided all advertisements, marketing materials, open houses, office rent, and computer systems. Therefore, I conclude that Plaintiff is likely to succeed on its contention that

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Defendants argue that Geloso personally, with the help of his assistants, including Cespedes, compiled most of the 2005-06 client contact information during his work for DSM, and DSM did not pay them to do it.

Defendants did not develop the contact list themselves without significant expenditure by DSM.

The Court of Appeals's holding in *Leo Silfen*, cited by Defendants, which concluded that the customer list was not a trade secret, is distinguishable because: (1) unlike Geloso, the defendant had obtained the customer names from casual memory and commercially available lists; (2) unlike DSM's client lists, the customers' names and contact information were well-known to the plaintiff's competitors; and (3) unlike Geloso, the defendant had not copied or otherwise misappropriated the customer list or any other confidential or proprietary information belonging to his former employer. 29 N.Y.2d at 389-95.

Similarly, *Candler Coffee*, on which Defendants rely, is inapposite. There, the court held that the defendant, a salesman of coffee products, did not misappropriate trade secrets belonging to his former employer when he continued to service a small percentage of that employer's clients whom he himself had "procured by a cold canvass" of potential customers using telephone directories and similar sources. *Id.* at 717. The defendant in *Candler Coffee* had never signed any restrictive covenant and had never copied the list of customers and prices from his former employer's files. Geloso's situation is dissimilar in both ways. First, Geloso gained access to the unit owners and renters at the Executive Plaza not through a cold canvass using public directories, but starting with DSM's database of client information, working under DSM's broker's license, and operating out of DSM's on-site office. Also, unlike the defendants in *Candler Coffee*, Geloso had signed a confidentiality agreement and took his former employer's files and lists with him when he quit.

Consequently, Plaintiff is likely to succeed in demonstrating Defendants

misappropriated DSM's trade secrets by building up their client base after leaving DSM largely with former DSM clients, and relying on DSM's confidential contact list and other secret information to do so.⁸

Breach of Fiduciary Duty by Geloso and Cespedes

DSM also contends that Geloso and Cespedes (1) owed fiduciary duties of loyalty to DSM and (2) breached those duties by misappropriating confidential information and trade secrets with which DSM had entrusted them.

While a cause of action for breach of fiduciary duty in this context ordinarily must involve conduct while on the job, Defendants concede that it also extends to conduct after an agent leaves his employment if confidential information is involved. Courts have repeatedly held that "[a]ppropriation of a former employer's customer list is a violation of the fiduciary obligation inherent in the employer/employee relationship where the customer list is protectible [sic] as a trade secret." *Velo-Bind, Inc. v. Scheck*, 485 F. Supp. 102, 109 (S.D.N.Y. 1979) (applying New York law).

I have already concluded that Plaintiff has shown a likelihood of success on the claim that the customer list and information at issue taken by Geloso are trade secrets under New York law. Therefore, the only question is whether Geloso and Cespedes owed fiduciary duties to DSM.

Real Property Law § 175.21(a) requires licensed real estate brokers to supervise associated salesmen. This supervision is to consist of "regular, frequent and consistent

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Defendants' other contentions have been considered and found to be without merit.

personal guidance, instruction, oversight and superintendence” with respect to “the general real estate brokerage business conducted by the broker, and all matters relating thereto.” Real Prop. Law § 175.21(a). The Department of State’s Administrative Law Tribunal has further clarified that “[t]he relationship between a licensed real estate broker and an associated salesperson... is not that of an independent contractor. The salesperson is an agent of the broker and owes fiduciary obligations to both the broker and to the broker’s principals.”⁹ *In re Mendel*, 2 D.O.S. 91 (1991) (citations omitted).

Defendants contend that Geloso and Cespedes owed no fiduciary duties to DSM because they were independent contractors, rather than employees. This contention appears to contradict Real Prop. Law § 175.21(a), as reasonably interpreted by the Department of State. Defendants’ contention also appears to contradict Geloso’s own testimony that he was not permitted to perform outside real estate work while he worked at DSM. Consequently, I conclude that Plaintiff is likely to succeed in its contention that Geloso and Cespedes owed fiduciary duties to DSM and violated those duties by misappropriating DSM’s customer list and other confidential information.

Unfair Competition by Defendants

The “crux of an action for unfair competition” is the allegation that an employee has used information that his former employer had “gone to considerable expense and effort to create” to compete against his former employer. *Advanced Magnification Instruments of Oneonta, N.Y., Ltd. v. Minuteman Optical Corp.*, 135 A.D.2d 889, 891 (3d Dept. 1987).

⁹

Under Real Property Law § 441-c, the Department of State has the power to regulate the conduct of real estate brokers and issue real estate brokers’ licenses.

“[A]n employee’s illegal physical taking or copying of an employer’s files or confidential information constitutes unfair competition.” *Id.*

As explained *supra*, Defendants have established a likelihood of prevailing on the claim that Geloso took and kept email and telephone contacts and other secret information belonging to DSM and used this information to solicit DSM’s clients. This taking and retention of DSM’s confidential information was unlawful; indeed, Defendants do not even contest that they had no right to possess much of this information. Consequently, I conclude that DSM has established a likelihood of success on the merits of its unfair competition claim.

Evidence Against Alex Cespedes

Defendants insist that there is no basis for injunctive relief against Cespedes.

The evidence shows that Cespedes resigned from DSM the same day that Geloso submitted his three-day notice of resignation. Cespedes immediately went to work for Cici as a sales agent. Geloso’s business plan for KG Properties had anticipated hiring a “right hand man” as a sales agent to help Geloso launch his incipient business. (Hear’g Ex. 54 at KG 1191.) Within a week of resigning from DSM, Geloso was sending clients to Cespedes for apartment showings, and referring to Cespedes as his assistant. And indeed, Geloso admitted that he and Cespedes worked together in setting up showings and lease signings, sending faxes, putting listings online, and preparing leases for the clients from DSM that Geloso was pursuing as clients of KG Properties. (Trans. at 562-76.) Within three months of going to work at Cici, Cespedes quit and went to work for KG Properties. Cespedes has not provided an alternative coherent explanation of his conduct in his January 30, 2007

affidavit, and he did not testify at the hearing.

Based on this evidence, I conclude that DSM has met its burden of demonstrating a likelihood of success on the merits of its claims against Cespedes.

Irreparable Harm

“[I]rreparable harm is presumed where a trade secret has been misappropriated, even in the absence of an employment agreement.” *Johnson Controls, Inc. v. A.P.T. Critical Sys., Inc.*, 323 F. Supp. 2d 525, 533 (S.D.N.Y. 2004); *see also Velo-Bind*, 485 F. Supp. at 109 (defendant subjected former employer to irreparable harm by using its secret customer lists to solicit “plaintiff’s carefully gleaned customers,” in violation of confidentiality covenant).

It appears that DSM has lost clients as a result of Geloso’s use of its contact list and other confidential information. Although DSM did not bring this lawsuit until late December 2006, I find that this delay of two months was not unreasonable under the circumstances, because DSM only learned piecemeal over time that Geloso was using its contact list and other confidential information to compete for its clients and win them. *Cf. FTI Consulting, Inc. v. PricewaterhouseCoopers LLP*, 8 A.D.3d 145 (1st Dept. 2004) (where it appeared that plaintiff required time to investigate the matter before deciding to litigate, and defendant was not prejudiced by any delay, defendant’s breach of restrictive covenant warranted preliminary injunction). Consequently, I conclude that DSM has met its burden of showing that it will suffer irreparable harm, unless an injunction is entered.

Balance of Equities

This element requires little discussion. From the testimony and evidence before me, it appears that Geloso and Cespedes appropriated property of DSM, to which they had no

right, and used DSM's property to take its customers. Defendants' arguments as to why DSM lacks clean hands have little relevance to the issues before me.¹⁰ Defendants also argue that the harm to Defendants of not being able to keep its current clients at the Executive Plaza and to compete for other clients at the Executive Plaza outweighs any harm to DSM, because DSM already serves "over 120 such clients," and Defendants serve only "a few." (Defs.' Post-Hear'g Memo. at 7 (Mar. 7, 2007).) On the contrary, this fact goes in the other direction. At the time I granted Plaintiff's renewed motion for a TRO, Defendants represented that they had already entered into contracts with about 15 clients at the Executive Plaza and were doing business with about five others. The fact that Defendants have taken over 15% of DSM's client base in just a few months pushes the equities in DSM's favor.

Equitable Relief to which Plaintiff is Entitled

A party is entitled to an injunction to prevent a competitor from soliciting and serving customers from a customer list unlawfully obtained from that party – even in the absence of a breach of a non-solicitation or non-competition covenant. *Joe Ritter Ski Shop, Inc. v. Gustafsson*, 20 A.D.2d 637, 637 (1st Dept. 1964) (enjoining defendants from soliciting plaintiff's customers using list unlawfully obtained from plaintiff and from further service to such customers already solicited); *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Rahn*, 73 F. Supp. 2d 425, 429 (S.D.N.Y. 1999) (enjoining defendants from soliciting or accepting any business from clients of former employer whom they had served or whose name became

¹⁰

Defendants contend that DSM lacks clean hands, because it violated Gelo's right to obtain certification of his transaction "points" and its "unlawful use of an automatic renewal provision in its management contracts to maintain a lockhold on" its clients. (Defs.' Post-Hear'g Memo. at 6-7 (Mar. 7, 2007).)

known to them while employed there); *Velo-Bind*, 485 F. Supp. at 109 (enjoining defendant from continuing to solicit “those accounts which were customers of [former employer] during her tenure as [its] employee, or from other unfairly competing with plaintiff”).

In support of their argument that Defendants cannot be barred from soliciting or competing for DSM’s clients, Defendants rely on *BDO Seidman v. Hirshberg*, 93 N.Y.2d 382 (1999), which refused to extend the restrictive covenant to “personal clients” of the defendant who came to the firm solely as a result of his own independent recruitment efforts, which were not financially supported by his employer. *Id.* at 393.

In *BDO Seidman*, however, the defendant had brought these personal clients “to the firm through his own outside contacts.” *Id.* at 388. Moreover, there was no evidence that the defendant used confidential information in acquiring these clients, that he actually solicited them, or that he obtained a competitive advantage by using his former employer’s confidential information. *Id.* at 388, 391. Here, in contrast, the evidence tends to show that Geloso did use DSM’s confidential information to acquire most of his clients, he did solicit them to come with him to his new business, and he obtained a competitive advantage by using DSM’s confidential information to do so. Consequently, *BDO Seidman*’s holding does not control this case.

Defendants further argue that all of the clients for whom Defendants have sought to compete – those to whom Geloso sent outreach emails or KG Properties’s current clients – are those whom Geloso personally introduced to DSM or those with whom Geloso secured a relationship without material expense to DSM. This argument is spurious, for the reasons stated *supra* in distinguishing *Candler Coffee* and *Leo Silfen*. Geloso did not obtain these

clients through a cold canvass of individuals using a published business directory. Both Geloso and Cespedes worked as agents under DSM's supervision, using DSM's equipment, office, reputation, and contacts. The fact that their income was based on commissions, rather than on a fixed salary, does not mean that they were working for free; they were paid for their work. So I find that Plaintiff is likely to succeed in its contention that Geloso does not have an equal right to use DSM's contact information. Consequently, I conclude that Defendants' conduct warrants a preliminary injunction against further solicitation or servicing of those clients belonging to DSM whose contact information Geloso took with him when he left DSM.

Nevertheless, in order to avoid injuring those clients with whom Defendants have represented that they have already entered into certain contracts, I will not order Defendants to terminate the particular contracts listed on the document identified as Appendix B to my March 5, 2007 Order. Defendants may not service or solicit these clients for further business after the termination of these contracts, however, and Defendants are enjoined from entering into any new contracts or doing any additional work for these clients other than the work relating to these contracts.

I further conclude that, except as necessary to comply with the above paragraph, Defendants shall return to DSM the information relating to Executive Plaza clients now in Geloso's Outlook file and delete this information from their computers and any record of this information from their files, whether documentary or electronic or in any other format. Defendants shall do the same with the contact information relating to the contracts listed in Appendix B to my March 5, 2007 Order as soon as those contracts terminate.

Finally, insofar as N.Y.C.R.R. §§ 175.21(b) and 175.23(a) require Geloso and Cespedes to keep certain records of real estate transactions on which they worked at DSM or after they left, this Decision and Order does not preclude them from keeping these records.

Accordingly, it is

ORDERED that the motion for a preliminary injunction by Plaintiff (Motion Sequence No. 001) is GRANTED in accordance with this opinion; and it is further

ORDERED that Defendants are preliminarily enjoined from soliciting or servicing any clients belonging to DSM whose contact information they took with them or had in their possession when they left DSM, and Defendants shall return to DSM all documents, files, information, and lists that they took or obtained from DSM, including the information in Geloso's Outlook file, and Defendants shall delete this information from any of their files, whether documentary or electronic or in any other format, with the following two exceptions:

(1) Defendants may keep records that they are required to keep under N.Y.C.R.R. §§ 175.21(b) and 175.23(a); and

(2) Defendants may continue to perform their contractual duties to the clients listed in Appendix B to my March 5, 2007 Order with respect to the particular contracts listed in Appendix B until the termination of those contracts; and it is further

ORDERED that Defendants shall provide to Plaintiff the expiration dates of these contracts, to the extent that Plaintiff does not already know when they expire; and it is further

ORDERED that the parties shall each submit concise supplemental papers of under eight pages within 15 days of this Decision and Order, regarding the following three issues that may need further clarification:


(a) Is there any dispute as to which contracts Defendants are permitted to continue to service in accordance with this Decision and Order?;

(b) Is there any information in Geloso's Outlook file that Defendants need to keep in order to continue to perform their duties under these contracts while this preliminary injunction is in effect?; and

(c) Is it necessary for me to appoint a forensic expert or take any other action to make sure that Defendants comply with this Decision and Order?; and it is further

ORDERED that the parties shall appear for a preliminary conference before this Court on May 14, 2007 at 11 a.m.

DATED: 4/12/07



J.S.C.

BERNARD J. FRIED
J.S.C.

FILED
APR 17 2007
COUNTY CLERK'S OFFICE
NEW YORK