Short Form Order

Index Number: 02521-2005

Supreme Court - State of New York
I.A.S. Term, Part 23, Suffolk County

Present:

HON. EMILY PINES
Justice Supreme Court

Original Motion Date: 06-29-2007
Motion Submit Date: 08-28-2007
Motion Sequence No.: 002 MOTD

X

HANOVER SPECIALTIES, INC., VITRICON INC., AND POLYMER PLASTICS CORP.,

Plaintiff,

-against-

DECOPLAST, INC., FRANKLIN STUCCO SUPPLY, INC., GLENN PERGAMENT, LINDA WEINBERG SAMSOODEEN KHAN AND ABIMAEL BLANCO,

Defendants.

X

Kushnick & Associates, PC
445 Broad Hollow Road, Suite 124
Melville, New York 11747

Schwartz & Livoti, LLP
1050 Franklin Avenue
Garden City, New York 11530

ORDERED that defendant's motion seeking summary judgment dismissing plaintiffs' complaint is decided as follows:

In this action plaintiffs, a group of corporations involved in the manufacture and distribution of stucco, seek among other things, damages and a permanent injunction against four former employees and their corporate employers for misappropriation of their customer lists and breach of restrictive covenants, secrecy and patent agreements. Plaintiffs' complaint also allege violation of General Business Law §349-350, Unfair Competition, Fraud and Defamation and common law malice. The corporate and individual defendants now jointly move for summary judgment dismissing plaintiffs' complaint on the ground that plaintiffs' restrictive covenants are unenforceable because they were not temporally and geographically reasonable. Defendants also contend that plaintiffs have failed to demonstrate that they induced any of their former employees to divulge purportedly secret/confidential information, or that those employees misappropriated such information. In addition, defendants argue that the remainder of plaintiffs claims for defamation, fraud and violation of Business Law §349-350 are without merit because plaintiffs have failed to state a cause of action for each of these claims.

In support of their motion defendants submit *inter alia*, copies of the pleadings; several affidavits from the corporate and individual defendants; deposition transcripts from party and non-party witnesses; copies of the individual defendant's employment and non-compete agreements; letters regarding the sale of a stucco manufacturing plant and equipment; stucco manufacturing formulas and interrogatory requests and responses.

In opposition plaintiffs contend that defendants' motion should be denied because there are numerous issues of facts and defendants have failed to establish their prima facie entitlement to summary judgment.

Individual defendants Glenn Pergament and Samsoodeem Khan both signed employment contracts with Vitricon Inc.,[1] in 1996 which forbids them from accepting competitive employment for 2½ years within a 100 mile radius of Polymer Plastics Corporation. They also signed secrecy agreements which forbade them from revealing any information concerning secret or confidential information of Polymer Plastics Corp, including but not limited to such information about products, processes, inventions, experimental developments, formulae, and manufacturing and testing methods. Defendants Abimael Blanco and Linda Weinberg also signed secrecy agreements with Vitricon which forbade them from taking, disclosing or discussing any confidential or secret information including among other things, formulas, samples, drawings, blueprints or other reproductions, or sales, pricing and costing information. All individually named defendants also signed confidentiality and patent agreements. The confidentiality agreements forbade the defendants from disclosing any information furnished by Polymer Plastics, or any information observed while in their research laboratories or production plants while employed by the corporation and for a period of three years after termination of such employment. The patent agreements stated that all formulations, inventions and improvements made during the employee's period of employment was to be considered the property of the plaintiffs and should be disclosed and assigned to them upon request.

It is well settled that restrictive covenants contained in employment contracts that tend to prevent an employee from pursuing a similar vocation after termination of employment are disfavored in the law (*see*, ***Reed, Roberts Assocs. v Strauman***, 40 NY2d 303, 386 NYS2d 677 [1971]; ***Skaggs-Walsh, Inc. v Chmiel***, 224 AD2d 680, 638 NYS2d 698 [1996]). Such covenants will be enforced only if reasonably limited temporally and geographically to protect the legitimate interests of the employer and then only to the extent necessary to protect the

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[1]Vitricon Inc., is a division of Polymer Plastics Corporation. Hanover Specialities, named as a plaintiff herein, has bought both corporations, including all goodwill and proprietary information.

employer from unfair competition which stems from the employee's use or disclosure of trade secrets or confidential customer information, or if the employee's services are unique or extraordinary (***Columbia Ribbon & Carbon Mfg. Co. v A-1-A Corp.***, 42 NY2d 496, 398 NYS2d 1004 [1977]; *see also,* ***Savannah Bank N.A. v Savings Bank of Fingerlakes,*** 261 AD2d 917, 691 NYS2d 227 [1999]; ***H&R Recruiters v Kirkpatrick***, 243 AD2d 680, 663 NYS2d 865 [1997]; ***Family Affair Haircutters v Detling***, 110 AD2d 745, 488 NYS2d 204 [2d Dept 1985]).

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 Jamen***, 82 NY2d 395, 604 NYS2d 912 [1993]; ***ENV Servs. v Alesia***, 10 Misc3d 1054 A, 809 NY2d 481 [2005]). Trade secret protection will not be accorded unless a plaintiff can demonstrate that the information contained in the list was not readily available through other sources (***Leo Silfen, Inc. v Cream***, 29 NY2d 387, 328 NYS2d 423 [1972]). Moreover, the solicitation of a plaintiff's clients by a former employee is not actionable unless the customer list could be considered a trade secret or there was wrongful conduct by the employee, such as physically taking or copying the employer's files or using confidential information (***Amana Express Int'l. v Pier-Air Int'l Ltd.***, 211 AD2d 606, 621 NYS2d 108[1995]; *see also,* ***JAD Corp of America v Lewis***, 305 AD2d 545, 759 NYS2d 388 [2003]). Additionally, former employees are entitled to utilize their recollection of information concerning the particular business needs and habits of customers, and such recollected information is not construed as confidential for purposes of enforcing restrictive employment covenants (*see*, ***Buhler v Michael P. Maloney Consulting Inc.***, 299 AD2d 190, 749 NYS2d 867 [2002]; ***Investor Access Corp. v Doremus & Co.***, 186 AD2d 401, 588 NYS2d 842 [1992]).

The record indicates that while the process of making Stucco is generally known, commercial suppliers of the product expend significant time and resources developing unique formulas and production processes in order to gain a competitive edge within the industry. Additionally, contrary to defendants assertions, any compilation which gives a business an advantage, including existing supplies and customer lists, may be regarded as trade secrets for the purposes of enforcing restrictive covenants and secrecy agreements (*see*, ***Ashland Mgt. Inc. v Jamen***, *supra*; ***ENV Servs. v Alesia***, *supra*). Thus, contrary to defendants' assertions, plaintiffs had a legitimate interest in seeking to protect their business by requiring the individually named defendants to sign the restrictive covenants and confidentiality agreements (*see*, ***BDO Seidman v Hirshberg***, 93 NY2d 382, 690 NYS2d 854 [1999]; ***Reed, Roberts Assocs. v Strauman***, 40 NY2d 303, 386 NYS2d 677 [1976]). Based on the above, the Court does not find the restrictive covenant, contained in the Permanent and Khan employment agreements void as a matter of law and denies defendants summary judgment on that issue.

While plaintiffs' claims for breach of fiduciary duty and violation of the non-compete and secrecy agreements may be maintained against the individually named defendants (*see*, ***Columbia Ribbon & Carbon Mfg. Co. v A-1-A Corp.***, 42 NY2d 496, 398 NYS2d 1004 [1977]), such actions must be dismissed as against the corporate defendants who shared neither a contractual nor fiduciary relationship with the plaintiffs. Therefore, defendants are granted partial summary judgment dismissing plaintiffs' first, second and fourth causes of actions insofar as alleged against the corporate defendants. These claims are nevertheless continued as against the individually named defendants as plaintiffs have demonstrated the existence of numerous issues of fact relating to whether trade secrets and confidential information are involved and whether that information was improperly revealed to the corporate defendants.

Although defendant Pergament did not play a direct role in the stucco production process while employed by plaintiffs, his own testimony revealed that he had access to plaintiffs' lab, regularly consulted with plaintiffs' chemist and was even included on a patent application for mold resistant Stucco marketed by Vitricon. Furthermore, contrary to his assertions otherwise, receipts dated December 2003 bearing Pergament's name, reveal that he played a key role in acquiring a number of stucco making machines which were purchased from Keith Machinery Corp., the very same company plaintiffs utilized in setting up their own production plant. This information raises issues of fact and credibility since the purchase date of these machines were purchased well after defendants' consultant claimed that he developed defendants' production facility in 2001. Similar issues of fact have also been raised with respect to defendants Khan and Blanco who had direct access to plaintiffs formulas and production process while working for Virticon as color matcher and chief batch maker respectively. In addition Plaintiffs have submitted numerous documents including letters from Lansco Colors and Southwest Research Institute which contradicts the testimony of Mr. Khan that he passively followed the instructions of defendants' expert and did not get involved in the technical development of defendants' product. While plaintiffs have not submitted documentary evidence linking defendant Blanco to the genesis of the corporate defendants' stucco production, circumstantial evidence surrounding the successful development of defendants' competing products, their increase in market share and plaintiffs concurrent loss of business raises issues of fact as to whether four of plaintiffs ex-employees revealed trade secrets and confidential information while working for defendants.

The existence of these issues of fact also preclude summary judgment in favor of defendant Linda Weinberg, who like the other defendants, had access to confidential information including the name and contact numbers for plaintiffs clients and details about plaintiffs' business plan and operations. Where, as here, the parties submissions are rife with such questions of fact, including whether trade secrets or confidential matters are involved, or whether defendants have appropriated such information, summary judgment dismissing a plaintiffs' cause

of action for breach of restrictive covenants, fiduciary duties and secrecy agreements must be denied (*see*, ***Long Island Women's Healthcare Assocs., M.D., P.C. v Hase***, 10 Misc3d 1068A, 814 NYS2d 562 [2005]; ***Golden Eagle/Satellite Archery, Inc. v Epling***, 291 AD2d 838, 737 NYS2d 315 [2002]). In light of these issues of fact, the portions of defendants' motion seeking dismissal of Plaintiffs' third and seventh causes of action for fraud, misappropriation and tortious interference with economic gain must like wise be denied (***Spectron Glass & Elecs., Inc. v Marianovsky***, 273 AD2d 374, 710 NYS2d 916 [2000]; *see also* ***A.F.A Tours, Inc. v Whitcurch***, 973 F2d 82, 1991 US App Lexis 14879).

On the other hand, plaintiffs' sixth cause of action alleging violation of General Business Law §§ 349 and 350 must be dismissed in its entirety since plaintiffs neither submitted any advertisements from defendants containing alleged "*material misstatements*" (*see*, NY GBL § 350; ***Geisman v Abraham & Straus***, 109 Misc2d 495, 439 NYS2d 1005 [1981]), nor evidence that defendants engaged in any deceptive practices that threatened the *rights of a broad section of the public*(***Oswego Laborers' Local 214 Pension Fund v Marine Midland Bank***, 85 NY2d 20, 623 NYS2d 529 [1995]; ***Gaidon v Guardian Life Ins. Co. of America***, 94 NY2d 330, 704 NYS2d 177 [1999]; *see also* ***Weiss v Polymer Plastics Corp.***, 21 AD3d 1095, 802 NYS2d 174 [2005]). Plaintiffs eight cause of action for defamation against defendants Pergament and Weinberg must also be dismissed since the defendants unequivocally denied that they made the defamatory statements and plaintiffs have submitted affidavits from the people to whom such statements were allegedly made stating that neither defendants made any statements to them regarding the viability of plaintiffs' business (*see*, ***Parker v Cox***, 306 AD2d 55, 759 NYS2d 678 [2003]; ***Synder v Sony Music Entertainment, Inc.***, 252 AD2d 294, 684 NYS2d 235 [1999]). The portion of defendants' motion seeking to dismiss plaintiffs' ninth cause of action for a permanent injunction enjoining defendants from producing stucco is also granted since plaintiffs have shown no clear right to a permanent injunction and may not be preliminarily granted such relief which it may not be able to attain at the conclusion of the lawsuit (*see*, ***Union Kol-Flo Corp. v Basil***, 64 AD2d 861, 407 NYS2d 359 [1978]).

Dated: October 2, 2007
Riverhead, New York

Emily Pines

EMILY PINES
J. S. C.