UMS Solutions, Inc. v Biosound Esaote, Inc.
2010 NY Slip Op 34038(U)
July 15, 2010
Supreme Court, Westchester County
Docket Number: 11590/10
Judge: Alan D. Scheinkman
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[* 1]

To commence the statutory time period of appeals as of right (CPLR 5513[a]), you are advised to serve a copy of this order, with notice of entry, upon all parties.

FILED AND ENTERED ON July 15 2010 WESTCHESTER COUNTY CLERK

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF WESTCHESTER
COMMERCIAL DIVISION

Present: HON. ALAN D. SCHEINKMAN, Justice.

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UMS SOLUTIONS, INC. d/b/a UNIVERSAL ULTRASOUND and UNIVERSAL MEDICAL SYSTEMS, INC.,

Plaintiffs,

-against-

BIOSOUND ESAOTE, INC., JEFF FISHEL, MICHAEL COLLINS, KEVIN GOUVIN and VETEL DIAGNOSTICS, INC.,

Defendants.

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Index No. 11590/10
Motion Date: 5/21/2010
SEQ #'s 002 & 003

DECISION & ORDER

FILED
JUL 15 2010
TIMOTHY C. IDONI
COUNTY CLERK
COUNTY OF WESTCHESTER

Scheinkman, J:

UMS Solutions, Inc. ("UMS") d/b/a Universal Ultrasound ("UMS") and Universal Medical Systems, Inc. ("Universal") (collectively "Plaintiffs")[1] move, by Order to Show Cause, pursuant to CPLR 6301, *et seq*., for an order preliminarily enjoining Defendant Biosound Esaote, Inc. ("Biosound") and Defendants, Jeff Fishel ("Fishel"), Michael Collins ("Collins") and Vetel Diagnostics, Inc. ("Vetel") (the "Vetel Defendants") pending the final resolution of this action (Seq. No. 1). All defendants oppose Plaintiffs' motion. In addition, Defendant Biosound cross-moves by Order to Show Cause, pursuant to CPLR 7502 *et seq*. and the Federal Arbitration Act § 3 to compel arbitration (Seq. No. 2). Plaintiffs oppose Biosound's motion. The two motions are hereby consolidated for purposes of deliberation and disposition.

RELEVANT FACTS

This action was filed on May 12, 2010 and involves Plaintiffs' contentions that

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[1]The Court will refer to UMS and Universal interchangeably throughout this Decision and Order as there is really no distinction between the two. It is undisputed that Universal merged into UMS and UMS is the successor in interest to Universal's rights.

Biosound has wrongfully terminated an exclusive distributorship agreement with UMS and that Defendants Fishel, Collins, Gouvin and Vetel have engaged in a course of conduct designed to unlawfully usurp Plaintiffs' employees, customers, independent contractors, vendors and sub-distributors.

On May 12, 2010, this Court, after argument, issued a temporary restraining order: (1) enjoining Fishel and Collins from (a) inducing any Universal customer from patronizing Vetel with respect to Biosound products; (b) soliciting on behalf of Vetal any Universal customers they dealt with; (c) disclosing any confidential information of Universal; and (d) soliciting or hiring any Universal employees or contractors or inducing such employees or contractors to breach an agreement with Universal; and (2) enjoining Vetel from hiring or attempting to hire any employee or independent contractor of Universal or inducing such employee or contractor to breach an agreement with Universal. The Court denied other relief sought by Plaintiffs, including denial of Universal's request for an order directing Biosound to provide warranty services.

On this motion, Plaintiffs seek, among other things, the enforcement of certain restrictive covenants (both non-compete and non-solicitation) entered into between Universal and Fishel and Collins, respectively (the restrictive covenant with Gouvin having already expired by its terms). Plaintiffs seek an injunction enjoining Fishel and Collins, for a period of one year from (1) inducing Plaintiffs' customers, suppliers or independent contractors, directly or indirectly, to patronize any competitor of Universal; (2) soliciting, hiring or retaining the services, directly or indirectly, of Universal's past or present employees or independent contractors; (3) disclosing any confidential customer information (*e.g.,* contact information, needs and requirements) of Plaintiffs' customers during the pendency of this action; and (4) engaging in a competitive business with Plaintiffs within their respective territories, including soliciting the sale of any of Plaintiffs' customers to purchase products from Vetel or another of Plaintiffs' competitors and soliciting the sale of any Biosound product on behalf of Vetel or any other competitor of Plaintiffs. Plaintiffs also seek an injunction against Biosound's termination of Plaintiffs as an exclusive distributor of Biosound's products (*e.g.*, ultrasound and digital radiography systems) in the United States' veterinary market and a mandatory injunction requiring that Biosound ship to Plaintiffs all product lines, software licenses, service parts and materials (including but not limited to MyLab 5, MyLab Gold, MyLab 40, MyLab 50, MyLab 70 Xvision and MYLab 70 XVG) previously ordered and to be ordered in the ordinary course of business during the pendency of this action, as well as provide all warranty services, including the supply of parts, during the pendency of this action. Finally, Plaintiffs seek an injunction enjoining Defendant Vetel from (1) continuing to tortiously interfere with Plaintiffs' contracts and unfairly compete with Plaintiffs by soliciting and/or hiring Plaintiffs' employees or independent contractors, (2) using Plaintiffs' confidential customer information, and (3) soliciting any of Plaintiffs' sub-distributors (including but not limited to MWI Veterinary Supply ["MWI"], TW Medical Veterinary Supply ["TW"] and Walco International, Inc. d/b/a DVM Resources ["DVMR"].

A. Plaintiffs' Contentions

Plaintiffs are in the business of assembling, selling, distributing and servicing ultrasound diagnostic equipment as well as teaching end users about the use of ultra sound equipment. For the past four years, Plaintiffs have also sold and distributed digital radiography equipment. Ninety-five percent of Plaintiffs' sales are to the veterinary market. In support of their application, Plaintiffs' President, Peter Brunelli, explains the 16-year business relationship between Plaintiffs and Biosound and how from 2005-2009, Plaintiffs' revenues from the sale of Biosound products increased from 35% of Plaintiffs' total revenues in 2005 to 60% of Plaintiffs' total revenues in 2009 (*id.* at ¶ 12). Brunelli describes Plaintiffs' efforts in promoting the sales of Biousound's products and how over the past 5 years, Plaintiffs spent "at least *two and a half million dollars* on its promotional efforts ..." (Affidavit of Peter Brunelli, sworn to May 10, 2010 ["Brunelli Aff."] at ¶ 10 [emphasis in original]). These efforts included Plaintiffs' (1) attending and participating in professional conferences and meetings at which Plaintiffs' promoted Biosound's MyLab; (2) sponsoring of training and educational programs and workshops at over ten universities; (3) sponsoring ultrasound workshops through Plaintiffs' sub-distributors; (4) advertising of Biosound products; (5) executing strategies to have Biosound products featured at all major universities so that veterinary residents purchase the Biosound products for their own practices upon graduation; (6) providing four-year extended warranties for Biosound products;[2] and (7) developing Biosound/Universal diagnostic images of animals for sales purposes and producing literature, biopsy guides, reporting functions, carts, traveling cases and tendon standoffs at no cost to Biosound (*id.*). To show that the relationship transcends a typical distributorship arrangement and that it was more akin to a partnership, Brunelli attaches various e-mails and other correspondence from Biosound's President Claude Bertolini, wherein he refers to Universal as Biosound's partner (Brunelli Aff., Ex. G-J).

Brunelli avers that over the course of the exclusive distributorship, UMS has sold about 1200 MyLab ultrasound systems to veterinary ultrasound specialists over the past five years and over 1/3 of all veterinary specialists use or own a MyLab (*id.* At ¶ 15).

Plaintiffs contend that on March 3, 2010, without any prior warning, Thomas Feick, Biosound's Executive Vice President and CFO sent an email to Brunelli terminating the exclusive distributorship effective immediately and transferred all of its business to Plaintiffs' competitor, Vetel[3] (*id.* at ¶¶ 16-17). Brunelli avers that as of March 3, 2010, Vetel was employing certain former sales representatives of Plaintiffs -- Michel Collins, Kevin Gouvin, Robert Simpson and Michael Mumaw – and on "April 7, 2010, Jeff Fishel ... submitted his resignation ...." (*id.* at ¶ 20). Even though Plaintiffs submit that all of these employees had restrictive covenants, only two employees – Fishel and Collins have restrictive covenants that have not yet expired (*id.* at ¶ 21).

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[2]Brunelli claims that Biosound is aware of these extended warranties and that without the mandatory injunction requested by Plaintiffs, which would require Biosound to continue to provide Universal with replacement parts, Universal will be unable to fulfill its warranty obligations and will lose its customer good will (Brunelli Aff. at ¶ 10[f]).

[3]Plaintiffs attach a Vetel press release dated March 31, 2010 which announces that it has added seven ultrasound systems from Biosound to its product portfolio (Brunelli Aff., Ex. L).

Brunelli avers that Fishel was assigned to Plaintiffs' territory that includes northern California and he attaches a Sales Representative Agreement dated October 30, 2007 between Universal and Fishel as Ex. M. In it, Fishel agreed that he would not use or disclose directly or indirectly confidential information (defined to include identities of customers or prospective customers and the key contacts, the specific services and equipment provided to the customers/prospective customers, the pricing, equipment, programs and services provided to the customers/prospective customers) (Brunelli Aff., Ex. M at ¶ 3.3.1-3.3.5). The Agreement's term was to continue until December 31, 2007 and would automatically extend for successive one year terms commencing January 1, 2008 unless either party gave written notice to the other not less than 30 days prior to the expiration of the term (*id.* at ¶ 7.1). The Agreement had a non-solicitation clause to the effect that Fishel would not solicit, during the period of his relationship with Universal and for a year following the termination of Fishel's relationship with Universal or its successor in interest (1) any present, former or prospective customer of Universal to patronize any business that competes with Universal, or (2) any past or present employees or past or present independent contractors to leave Universal (*id.* at ¶¶ 14.1-14.2). He further agreed that for a period of one year following his termination of his relationship with Universal or its successor in interest, he would not "engage in the Territory[4] in any business competitive with [Universal], including without limitation, any business that markets, promotes, sells or distributes medical or veterinary ultrasound or digital radiography equipment or holds seminars related to the sales or training on medical or veterinary ultrasound equipment, or any business that markets, promotes, distributes, sells or installs products that [Universal] is now or in the future contemplating marketing, promoting, distributing, selling or installing (such as monitoring equipment)" (*id.* at ¶ 14.3).

In the Agreement, Fishel acknowledged that a breach of Section 3 (Non-Disclosure), Section 4 ("Ownership") or Section 14 ("Restrictive Covenants") will result in irreparable and continuing damage to the Company for which monetary damages will not be sufficient and further agreed that "[n]otwithstanding and without limitation on the Company's right to seek injunctive relief ... if [he] breached any restriction contained in Section 3, 4 or 14, the Company shall suffer minimum (without limitation) damages of $100,000.00, which sum shall immediately be due and payable upon breach with interest thereon at the rate of fifteen percent ... until paid" (*id.* at ¶ 13.2).

According to Brunelli, Fishel resigned on April 7, 2010 and is now working for Vetel. Brunelli contends that Fishel actually began working for Vetel about a year before his resignation and violated his restrictive covenants by disclosing confidential customer information and, in addition:

> (1) In May 2009, "Fishel submitted a customer lead for Dr. Delano to an apparent Vetel agent known as Fred Petzold of a company known as Equipment Outreach ...." (Brunelli Aff. at ¶ 29). Brunelli submits e-mails between Fishel, Petzold and the President of Vetel, James K. Waldsmith, DVM and points to one which states that Fishel provided the lead and will be attending a product demonstration for

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[4]Territory is defined to have the meaning set forth in Exhibit 4; however, Exhibit 4 is not attached to the Agreement (Brunelli, Aff., Ex. M at ¶ 1.13).

Delano if his schedule permits (*id.*);

(2) Fishel solicited Universal's Western Regional Manager, Glenn Klevens in March 2010 to work for Vetel in its southern California territory in March 2010 (*id.* at ¶ 30; *see also* Affidavit of Glenn Klevens);

(3) A Vetel quote dated April 1, 2010 to Jay Griffiths, DVM names Fishel as the sales representative even though he had not yet resigned from Universal (*id.* at ¶ 32, and Ex. O thereto);

(4) Fishel demonstrated the MyLab 5 product for Chuck Ozanian, DVM prior to his resignation and Dr. Ozanian then purchased it from Vetel after Fishel resigned (*id.* at ¶ 33; *see also* Affidavit of Glen Klevens, sworn to May 5, 2010 ["Klevens Aff."]); and

(5) Fishel has failed to return Biosound demonstration equipment loaned to him (*id.* at ¶ 34).

Brunelli avers that Collins entered a Sales Representative Agreement with Universal on November 9, 2007 and he was assigned to Universal's territory constituting Oklahoma, Texas, New Mexico, Kansas and Missouri. The Agreement contained the same restrictive covenants and related provisions as those found in Fishel's agreement. Universal terminated Collins as a sales representative on or about August 13, 2009 based on his selling digital radiography equipment from Vetel's booth at a trade show in Oklahoma. This occurred after Universal had confronted Collins for violating his non-compete by working for Vetel in the same territory he was assigned for Universal and Collins provided Brunelli with a resignation letter he had provided to Vetel (Brunelli Aff. at ¶ 39). According to Brunelli, Collins' actions has caused damage to Universal's relationship with its customer Dr. Joe Carter who complained of Collins' installation of digital radiography equipment not knowing that the equipment purchased was from Vetel – not Universal (*id.* at ¶ 40). Brunelli claims that, since Collins' termination, Collins has violated his restrictive covenants as a salesman for Vetel in the following ways:

(1) In October 2009, Collins solicited Fishel and Klevens to come to work for Vetel at a Wild West Conference in Reno, Nevada (*id.* at ¶ 42; *see also* Klevens Aff.); and

(2) On April 8, 2010 at a Florida Veterinary Medical Association conference, Collins orchestrated having a Vetel sales representative, Michael Mumaw (formerly Universal's sales representative), sell Biosound products at a sales booth operated by a sub-distributor and customer of Universal – DVMR. Upon Universal's complaints, DMVR instructed Collins to have the machine removed (*id.* at ¶ 43). Collins is alleged to have cultivated the DMVR relationship while employed at Universal and then to have usurped the relationship for Vetel (*id.* at ¶ 43).

With regard to Plaintiffs' claims against Vetel, Brunelli avers that Vetel knew of the restrictive covenants associated with Universal's agreements with its sales personnel based on the letters Universal's counsel sent to Vetel advising it of these covenants on August 21, 2009 (with regard to Collins) and April 8, 2009 (with regard to Fishel) and also based on the knowledge it obtained during the failed merger negotiations between Vetel and Universal in late 2008 (*id.* at ¶¶ 48-50 and Exhibits T and U thereto). Brunelli further avers that "Vetel also must have known of the written agreements Universal has with MQI, TW and DVMR since "Gouvin was hired to pursue MWI and TW and in fact negotiated these agreements for Universal. Collins knew of these sub-distribution agreements by reason of his work at Universal and his direct contacts with DVMR" (*id.* at ¶ 51). Brunelli asserts that Vetel has (1) directly and indirectly solicited Universal sales representatives who Vetel knew had restrictive covenants with Universal; (2) has requested Universal's sales personnel to withdraw, curtail or cancel its business with Universal; and (3) used Vetel's confidential sales information (*id.* at ¶ 52).

The remainder of Brunelli's affidavit involves the alleged irreparable harm Plaintiffs will suffer absent unless this Court enjoins Biosound's termination of the exclusive distributorship since Biosound has (1) failed to ship products covered by purchase orders in the amount of $570,000 submitted by Universal and accepted by Biosound prior to the Termination Notice (*id.* at ¶¶ 56, 64-65); (2) failed to provide Universal with the software licenses for products Universal shipped to customers (*id.* at ¶¶ 57-58); (3) failed to provide price quotations for new orders (*id.* at ¶ 59); (4) failed to comply with its service and warranty obligations (*id.* at ¶ 67); and (5) required that Universal pre-pay for all orders instead of the net 30 days payment term that had governed the parties' relationship for 16 years (*id.* at ¶ 66).

Brunelli avers that "[t]he ninety day 'wind down period' offered by Biosound in the Termination Notice is simply inadequate under these circumstances. Universal received no warning or advance notice of termination, and overnight the entire relationship and our terms of operation were transformed" (*id.* at ¶ 69). The automatic termination of a 16-year exclusive distributorship coupled with the interference by Defendants Fishel, Collins and Vetel with Universal's contractual relationships with its customer, sales force and sub-distributors "has resulted in loss of revenues associated with lost sales and irreparable damage to its sales network and ability to generate and follow up on leads" (*id.* at ¶¶ 71-72).

Plaintiffs were afforded the opportunity to submit a response to the written submissions tendered by Defendants during the May 12, 2010 appearance in connection with the temporary restraining order. In a document labeled as a Reply Affidavit, Brunelli asserts that the termination, even if invited by him, was without notice and that, in any event, Brunelli never expected Biosound to take him up on it.

Glen Klevens submits an affidavit wherein he avers that he is the Western Regional Manager of UMS and a sales representative for the territory covering southern California, Arizona and Las Vegas. He states that the purpose of his affidavit is to describe some recent events involving Fishel, Collins and Vetel. He avers that prior to his resignation, Fishel was the sales representative for the territory covering northern California and other northwest areas. He explains that Vetel sells digital radiography and ultrasound equipment to the veterinary market throughout the United States and over the past several years, it has hired and attempted to hire Universal sale's representatives and that some former Universal sales representatives work for Vetel, *i.e.* Fishel, Collins, Kevin Gouvin, Robert Simpson and Mike Mumaw. With regard to Fishel, Klevens states that while Fishel did not resign until April 7, 2010, in October 2009, at the Wild West Conference for veterinarians, Fishel told him that Vetel had approached him to become a sales representative and at that same conference, Collins approached Klevens to consider working for Vetel. Klevens avers that Fishel also approached him to work for Vetel when Fishel advised Klevens in March 2010 that his territory for Vetel was the northwest United States, but that he would be temporarily covering Southern California, and asked Klevens if he wanted the sales position for Vetel covering Southern California (Affidavit of Glen Klevens, sworn to May 5, 2010 at ¶ 6). Finally, Klevens states that he learned that, despite Fishel having demonstrated the MyLab 5 to a Dr. Ozanian prior to Fishel's departure, the ultimate sale to Dr. Ozanian was on behalf of Vetel and not UMS (*id.*). Finally, Klevens avers that he is currently competing with Fishel on a sale of a product to Dr. Goodell, which Klevens knows Fishel learned as a lead while working for UMS since Fishel "forwarded [Klevens] the lead before he left (*id.*).

As their legal argument, Plaintiffs contend that they have established the three elements for the grant of a preliminary injunction as against Defendant Biosound, *i.e.*, -- (1) a likelihood of success on their claim because "[u]nder New York law, the parties' relationship required that Biosound provide Universal with reasonable notice before terminating their relationship;" (2) irreparable injury (*i.e.*, given the 16 year relationship and given that 60% of Plaintiffs' business is the sale of Biousound products, without an injunction to give a sufficient wind down period to establish new strategic relationships and transition its promotional, sales, distribution, servicing and training efforts to new product lines, Plaintiffs will likely go out of business and will lose their customer good will and long-term clients [Pltf's Mem. of Law at 15-16]); and (3) a balance of "the equities tip 'rather heavily' in favor of [Plaintiffs] ...." (*id.* at 18).

With regard to Defendants Fishel and Collins, Plaintiffs contend that they have established that the restrictive covenants are enforceable under the requirements of *BDO Seidman v Hirshberg* (93 NY2d 382 [1999]) since Universal has "a legitimate interest in preventing former employees from exploiting or appropriating the goodwill of a client or customer, which had been created and maintained at the employer's expense, to the employer's competitive detriment'" (Pltfs' Mem. of Law at 9, *quoting BDO Seidman*, 93 NY2d at 392). Plaintiffs assert they have established the confidential nature of the information given that Fishel and Collins acknowledged that the information was confidential in the restrictive covenant itself (*id.* at 10). Plaintiffs argue that the restrictive covenants are narrowly tailored given the one-year duration and territorial limitation to the specific territories in which Fishel and Collins sold the Biosound products (*id.*). Plaintiffs contend that not only have they established a likelihood of success that the restrictive covenants are enforceable, but also that Fishel and Collins have breached them and that they breached them even before the termination of the parties' relationship by coverting selling for Vetel while still under contract with Universal. Further, Plaintiffs say that they have established irreparable injury because loss of sales representatives and customers constitute irreparable injury (*id.* at 17) and because Fishel and Collins stipulated to the fact that such actions would constitute irreparable injury and New York courts enforce such provisions (*id.* at 18). Plaintiffs argue that the balance of equities tip in their favor because the relief will not cause Fishel and Collins to be unable to earn a living. Plaintiffs urge that the equities do not favor Fishel and Collins because they wrongfully competed against Plaintiffs even before their termination (*id.* at 19).

As to the likelihood of success on their tortious interference with contract claim against Vetel, Plaintiffs contend that Vetel was well aware of the restrictive covenants because: (1) it was apprised of them during the parties' failed merger negotiations in 2008; and (2) Collins and Gouvin had already joined forces with Vetel and their knowledge that such restrictive covenants were standard operating procedures must have been imparted to Vetel (Pltfs' Mem of Law at 13). Plaintiffs point out further that they placed Vetel on notice of the Collins and Fishel's restrictive covenants upon their termination (*id.*). Plaintiffs contend that they have also established a likelihood of success on their claim against Vetel for unfair competition and "Vetel should be subject to substantially the same restraints as Fishel and Collins ... [w]here former employees are actively breaching their restrictive covenants for the benefit of their former employer's direct competitor, injunctive relief will be granted to preclude the competitor from taking unfair advantage" (*id.* at 14). Plaintiffs assert that the equities weigh in their favor since a preliminary injunction will not prevent Vetel from competing against Universal, it will prevent it "from (i) inducing Universal representatives to breach their agreement's with Universal; (ii) exploiting Universal's valuable customer information, customer relationships and goodwill; and (iii) interfering with Universal's contracts with its sub-distributors" (*id.* at 19).

B. The Vetel Defendants' Opposition

In opposition to Plaintiffs' motion, Defendants Fishel and Collins submit affidavits in which they recite various facts they believe to be relevant to the enforceability of the restrictive covenants, including the fact that it was presented to them on a take it or leave it basis (*i.e.*, they could not seek a lawyer's counsel and there was no room for negotiation) (Affidavit of Michael Collins, sworn to May 20, 2010 ["Collins Aff."] at ¶ 3; Affidavit of Jeff Fishel, sworn to May 19, 2010 ["Fishel Aff."] at ¶ 4). Fishel avers that on a number of occasions he asked Brunelli for a copy of the agreement and Brunelli refused to provide him with one. Both aver that they had no specialized training or formal education with regard to technology and/or anatomy – *i.e.*, they have no special knowledge or skill which makes them uniquely able to sell veterinary equipment; they say any person with a knack for sales could do what they do (Collins Aff. at ¶ 4; Fishel Aff. at ¶ 6). They also claim that during the time they spent working for Universal, Universal made it impossible to work there based on, among other things, its (1) failing to pay them outstanding commissions due (for Fishel the amount owed is alleged to be $84,917) (Fishel Aff. at ¶ 7[A]); (2) unilaterally changing their sales territories and the exclusivity of their sales territories (*id.* at ¶ 7[b]); and (3) unethical conduct in "purchasing the lower-cost 'basic' software instead of the more expensive 'advanced' software as was ordered by the customer through [Fishel and Collins] ... [in order to] pocket the difference in price until such time as the customer would complain about the lack of 'advanced' functionality'" (Collins Aff. at ¶ 5[d]; Fishel Aff. at ¶ 7[d]).

Collins avers that the only material he retained since his termination in August 2009 "is a sales manual which [he has] not looked at since being terminated. It is currently boxed up and ready to be shipped to Universal and [he will] gladly return it to Universal at [his] cost" (Collins Aff. at ¶ 7). Collins avers that Universal never provided him with a customer list (*id.* at ¶ 8) and only provided him with access to an online customer relation management system which he found useless and rarely accessed. He states that he no longer has access to this system (*id.*). He claims that he has only been to New York in his working capacity with Universal, he never sold any equipment within the State of New York while working for either Universal or Vetel and he never communicated with anyone from Vetel while he was in New York (*id.* at ¶¶ 11-12). He avers that if the Court were to enforce even the limited application of the restrictive covenants requested by Plaintiffs – *i.e.*, prevent Collins from selling Biosound equipment for Vetel and selling equipment to Universal's customers – Collins would not be able to make a living (*id.* at ¶¶ 13-15). He further contends that any customers he sold to while at Universal were obtained solely through his individual efforts, that this customer base is critical to his livelihood, and that during the ten day period in which he was unable to contact his customers, he sustained a marked decrease in new prospects (*id.* at ¶13). This is because the customer base in veterinarian diagnostic equipment is a finite number of private veterinarians and veterinarian clinics and hospitals (*id.* at ¶ 16). Collins further points out that "many of Universal's 'customers' are really customers of Biosound and the only reason they did business with Universal at all was because they wanted Biosound equipment. If Universal is no longer selling Biosound equipment, those customers will simply go elsewhere to purchase Biosound equipment. If [Collins] is enjoined, another sales person will sell that equipment and [he] will be left worrying about how [he] will put the next meal on [his] table" (*id.* at ¶ 17).

Fishel claims that the only materials he retains since he resigned on April 7, 2010 are: (1) a loan and demonstration equipment; (2) a laptop; and (3) a blackberry. He states that he will gladly return these items to Universal at his own cost (Fishel Aff. at ¶ 9). He avers that he recalls a customer list being emailed to him in approximately 2007, but he has not accessed it in years. Nevertheless, he offers to do a search for it and affirmatively delete it (*id.*). Finally, he makes the same claims that Collins does with regard to (1) his lack of contacts with New York and (2) his inability to earn a living if this Court were to grant even the "limited" injunctive relief sought by Universal.

Vetel's President, James K. Waldsmith, DVM, submits an affidavit in opposition to Plaintiffs' motion. In it, Waldsmith attests to facts concerning Vetel's lack of contacts with New York – (1) Vetel is a California corporation, is not authorized to do business in New York, and has no offices in New York; (2) Vetel does not regularly conduct or solicit business in New York and derived no substantial revenue from goods used in New York as over the past ten years, Vetel has sold equipment to three end users in New York State which did not involve sales activities physically located in New York; (3) Vetel and Universal entered into a 90 day contract in 2008, but because Vetel did not want to submit to New York jurisdiction, the agreement required the parties to submit to arbitration in Texas; and (4) none of the Vetel's sales representatives sell equipment in New York and Waldsmith ever communicated with any of the sales persons mentioned in Plaintiffs' complaint or the Order to Show Cause while either Vetel or the sales people were in New York (Affidavit of James K. Waldsmith, sworn to May 19, 2010 at ¶¶ 3, 5-17).

Vetel's primary legal argument in opposition is that this Court has no personal jurisdiction over it because Plaintiffs have not shown that any of the causes of action arose from Vetel's alleged transaction of business in New York (CPLR 302[a][1]) or that Vetel committed a tortious act while within New York state (CPL 302[a][2]) or that CPLR 302(a)(3) is satisfied since there is no showing that New York is the place of the injury (*i.e.*, Universal did not lose sales in New York state[5] and the loss of profits to a New York corporation is insufficient to show an injury in New York) (Dfts' Opp. Mem. (May 20, 2010] at 3). Defendants contend that since they challenged jurisdiction, the burden is now on Plaintiffs to establish a basis for personal jurisdiction.

The crux of Defendants Collins and Fishel's opposition is that restrictive covenants are disfavored and that Plaintiffs have not satisfied their burden of proof in showing that all three elements for injunctive relief have been satisfied. First, say these Defendants the non-compete is overly restrictive as it seeks to prohibit Fishel and Collins from engaging in any business competitive with Universal even if it involves equipment that Universal was not selling and was merely contemplating on selling (*id.* at 6). As such, the restrictive covenant does not pass the *BDO Seidman* test of being (1) no greater than required to protect the legitimate interests of Universal, (2) not imposing an undue hardship on Defendants, and (3) not being injurious to the public. Defendants contend that Plaintiffs have not and cannot show that the restrictive covenant seeks to protect a legitimate interest since Fishel's and Collins' services are not unique and further, Plaintiffs have not shown that Fishel and Collins were privy to confidential customer information or other trade secrets.

Defendants also argue that while Universal is the counterparty to the restrictive covenant agreements with Collins and Fishel, Universal is listed on the New York Secretary of State's website as "inactive" and "merged out (Jan 02, 2009) and, therefore, lacks standing to sue because "Plaintiffs have failed to offer even a scintilla of evidence ... regarding the relationship between UMS Solutions Inc., d/b/a Universal Ultrasound and the inactive corporation ...." (Dfts' Opp. Mem. [5/20/10] at 2).

C. Biosound's Opposition and Cross-Motion to Compel Arbitration

Initially, in opposition to the request for a temporary restraining order, Biosound submitted an affirmation from its counsel, Phoebe A. Wilkinson, Esq., Chadbourne & Parke LLP, and an affidavit from its Executive Vice President and Chief Financial Officer, Thomas Feick. The essence of these affidavits is (1) that UMS brought this termination on itself by Brunelli's e-mail demand on February 26, 2010 to Biosound's parent company, Esaote S.p.A. ("Esaote"), the company that manufactures the equipment Universal distributes, that it choose between Biosound and UMS (Affidavit of Thomas B. Feick, sworn to May 11, 2010 ["Feick Aff."], Ex.1), thereby causing Esaote to choose Biosound and Biosound to terminate UMS (*id.*, Ex. 2); and (2) there is no immediate or irreparable injury given that (i) Biosound gave UMS a ninety day wind down period, (ii) UMS waited nearly two months to bring this motion, (iii) monetary damages are sufficient, and (iv) Biosound would be injured if it were to have to continue its relationship with UMS since as of May 11, 2010, UMS owed Biosound $1,017,400

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[5]This is because the sales representatives cited in Plaintiffs' complaint never made a sale in New York State.

and the invoices are past due (Feick Aff. at ¶ 7, and Ex. 3 thereto). Furthermore, Biosound contends that Plaintiffs are not likely to succeed on their claims because Biosound has learned that since April 2010, "UMS has been promoting a competing line of ultrasound equipment manufactured by Sonoscape, one of Biosound's competitors" (Affirmation of Phoebe A. Wilkinson, Esq. dated May 12, 2010 at ¶ 11 ["Wilkinson Aff."], and Ex. B thereto).

Biosound thereafter, by Order to Show Cause dated May 21, 2010, cross-moved to compel arbitration. In support of this application and in further opposition to Plaintiffs' motion, Biosound provides an affidavit from its President, Claudio Bertolini. In his affidavit, Mr. Bertolini describes the relationship between Biosound and Esaote – *i.e.,* in 1987, Esaote began marketing its products in the United States through Biosound and in the early 1990's, Esaote acquired Biosound (Affidavit of Claudio Bertolini in Opposition to Plaintiffs' Application for Injunctive Relief, sworn to May 19, 2010 ["Bertolini Aff."]). He asserts that while he has worked for Esaote since November 1984, in January 1998, he began working for Biosound as a Vice President of Sales and Marketing and became the President of Biosound in September 2002. Bertolini explains that when he came to Biosound, Biosound and Universal were parties to a written Dealer Agreement with an effective date of June 1, 1997, and he attaches a copy of the Dealer Agreement as Ex. 1 to his Affidavit. He recites various provisions of the Dealer Agreement and, in particular, an arbitration clause found in Section 16.3 which provides that the parties agreed to submit to arbitration "all controversies which may arise concerning the construction, performance or alleged breach of this Agreement or any other agreement between the parties, whether entered into prior to, on or subsequent to the Effective Date ...." (Bertolini Aff. at ¶ 10 and Ex. 1). According to Bertolini, the sole exceptions to the arbitration agreement were Universal's payment obligations to Biosound and Biosound's right to seek injunctive relief (id.). Bertolini avers that despite the termination of the Dealer Agreement on June 30, 1999, except for an interruption in the parties' relationship for a few months in 2004, UMS continued to act as Biosound's exclusive distributor until late February/early March 2010 (*id.* at ¶ 11).

The Court notes that the existence of the 1997 Dealer Agreement did not come to light until it was shown to Plaintiffs' counsel on May 20, 2010, the day before Biosound applied for an order to show cause bringing on its cross-motion. Biosound's counsel acknowledged that the 1997 Dealer Agreement had only recently been found by Biosound in its files. As Plaintiffs point out the existence of the 1997 Dealer Agreement was not brought to the attention of the federal court or Plaintiffs on May 6, 2010 incident to an unsuccessful effort by Biosound to remove the case to federal court. Nor was it brought to the Court's attention on May 12, 2010 when counsel were before this Court in connection with Plaintiffs' request for a temporary restraining order.

In any event, as to the merits of Plaintiffs' application, Bertolini explains that the activities described by Brunelli as setting this relationship apart from a typical distributorship and putting it on the level of a partnership are misplaced since the work Universal did was what was "typically expected of an exclusive distributor of medical equipment ...." (*id.* at ¶ 13). He further contends that Brunelli misrepresented that Universal developed tendon and reproductive software for Biosound products and avers that "Esaote employees developed that software, at Esaote's expense" (*id.*).

He asserts that UMS's decision to provide a four-year extended warranty was UMS's decision, which was not approved by Biosound, and that it actually hurt Biosound because it discouraged customers from purchasing extended warranty coverage from Biosound (*id.* at ¶ 15). Bertolini also details various problems/breaches allegedly committed by UMS during the course of the parties' relationship as justification for UMS's termination (*id.* at ¶ ¶ 16-21). He disputes Plaintiffs' contention that Biosound was simply waiting for an excuse to drop the hammer on UMS and asserts that "Biosound did not begin the search for a replacement distributor until after" Esaote made its choice to stick with Biosound and drop UMS (*id.* at ¶ 26).

Bertolini refutes other allegations made by Brunelli in his Reply Affidavit concerning: (1) Biosound's alleged retaliation against UMS by requesting the return of UMS's service keys; (2) that a 90-day transition period is not commercially reasonable; and (3) that Vetel is carrying product manufactured by Zonare that competes with Biosound's product. On the issue of the 90 day transition, Bertolini attaches an advertisement from an internet site *markeplace.dvm360.com* printed on May 14, 2010 showing that UMS is advertising ultrasound systems from three other manufacturers that allegedly compete with Biosound products (*id.* at ¶ 29). As to the third point, Bertolini points out that it is irrelevant because Biosound's relationship with Vetel is currently non-exclusive and, in any event, it has nothing to do with whether a 90-day wind-down is commercially reasonable (*id.* at ¶ 30).

As its legal argument, Biosound asserts that UMS must proceed to arbitrate its claims against Biosound as UMS is the successor-in-interest to Universal and the parties agreed to arbitrate "'all controversies which may arise concerning the construction, performance or alleged breach of ... any other agreement between the parties ....'" and the oral distributorship agreement between the parties constitutes an "'other agreement between the parties'" (Biosound Mem. of Law at 7). Biosound asserts the fact that the Dealer Agreement expired is of no consequence since under the severability doctrine, the arbitration agreement is independent of the main contract. Further, that the Court need only determine the validity of the arbitration agreement – not the entire contract (*id.* at 8-9). Biosound contends that UMS will not be prejudiced as an arbitrator may decide whether interim relief is required and further, the parties have agreed to employ "the Expedited Procedures' available under the AAA Commercial Rules, which provide for a fast-tracked proceeding" (*id.* at 10).

Biousand, in the alternative, addresses the merits of Plaintiffs' motion, arguing that Plaintiffs have not met their heavy burden of establishing a likelihood of success, irreparable injury and a balance of the equities tipping in Plaintiffs' favor.

Biosound contends that Plaintiffs are not likely to succeed because: (1) UMS terminated the agreement by declaring their intention not to perform unless (a) Bertolini apologized to Brunelli thereby accepting UMS's breaches or (b) if Biosound did not apologize, that Esaote deal directly with UMS and cut Biosound out of the equation (*i.e.*, UMS repudiated the contract) (Biosound's Opp. Mem. at 13); (2) UMS committed multiple breaches of the distribution agreement and therefore, termination was proper without an need for a notice of termination, grace period or opportunity to cure (*id.* at 14-15); (3) the oral distributorship agreement is unenforceable under the Statute of Frauds because it requires performance for an indefinite period and can only be terminated within the year by its breach during that period (*id.* at 15). Biosound asserts that as alleged by Plaintiffs, "'the distribution arrangement with Biosound is an oral contract of indefinite duration that 'will be granted to UMS as long as there will be a continuous commitment on the promotion of the product (and consequent sales results) shown'" (*id.* at 16). Biosound further points out that the injunctive relief requested is further evidence that the distribution agreement could not be performed within one year since it seeks an extension of the distribution agreement until December 31, 2010 and the provision of "'warranty services for the period ending 12 months from the date of installation of each system'" (*id.* at 17). Thus, Biosound's fulfillment of its warranty obligations cannot be performed in less than a year (*id.*) Biosound argues that Plaintiffs will not succeed because Biosound provided UMS with reasonable notice that it would no longer be the exclusive distributor, which is all that is required under the law (*id.* at 17-18).

Biosound asserts that money damages are sufficient to compensate Plaintiffs for the harm suffered and Plaintiffs have admitted as much by assessing the damages sought with regard to each cause of action (*id.* at 20-21). Further, according to Biousand, Plaintiffs cannot show irreparable injury because they have not demonstrated that Biosound's acts will destroy its ongoing business and, instead, the termination is merely a business disruption (*i.e.*, by Plaintiffs' own account, Biosound's products in 2009 made up 60% of UMS's revenues and in 2005, the sale of Biosound products constituted 35% of UMS's revenues) (*id.* at 23). Further, Biosound argues that "Brunelli also admits that UMS has enough Biosound inventory to meet at least some customer demands ... Having the ability to continue providing Biosound inventory, as well as maintaining the rights to certain Biosound products on a pre-paid, non-exclusive basis can hardly be considered destruction of the business" (*id.* at 23). Biosound asserts that Plaintiffs have not shown imminent harm since the termination occurred over two months ago yet UMS is still in business and the concern over a mass exodus of employees must be tempered by the fact that there is still remaining Biosound inventory to sell and because UMS is forging relationships with new manufacturers of sonogram equipment (*id.* at 24). Finally, Biosound argues that Plaintiffs have not established that the equities balance in their favor – *i.e.*, that "'the harm which they would suffer from the denial of the motion is decidedly greater than the harm their opponent would suffer if the preliminary injunction were granted'" (*id., quoting Fisher v Deitsch*, 168 AD2d 599 [2d Dept 1999]).

D. Plaintiffs' Reply

In further support of their motion, Brunelli submits a reply affidavit in which he explains the background which led to his February 26, 2010 email (*i.e.*, that it arose from a disagreement over misrepresentations concerning software that came packaged on Biosound's products and Biosound's retaliation which involved the request for a return of the service key) which requested that Bertolini either apologize or Esaote start dealing directly with UMS. Further, that he often used colorful language in his exchanges with Bertolini and he never expected that this exchange would cause UMS's termination with no advance notice (Brunelli Reply Affidavit, sworn to May 14, 2010 at ¶ 4-6). He contends that it is not commercially reasonable to provide a mere 90 days notice, especially given the nature of the relationship between the parties (*i.e.*, (1) UMS's training workshops for vets that were designed around Biosound's MyLab brand and which require 18-24 ultrasound systems; (2)

UMS's servicing or the products sold including fulfillment of the warranties it provided; and (3) its fulfillment of the Banfield and Esaote Canada contracts. Brunelli disputes that Sonoscape, the new manufacturer with whom UMS is forging a relationship, is a competitor of Biosound given Sonoscape sells a lower- end product.

Brunelli disputes that Plaintiffs were delayed in bring this application and instead, the slight delay was simply because Plaintiffs were trying to amicably resolve the matter and then further delay ensued when Biosound removed the action to federal court. He further disputes that there was any arrearage as of the date of termination – and with regard to the invoices that occurred since termination, Brunelli avers that he has made offers to pay them provided Biosound agreed to certain terms such as the delivery of purchase orders previously submitted and accepted by Biosound (*id.* at ¶ 15).

In response to Vetel's claim that the Court lacks jurisdiction over it, Plaintiffs dispute that Vetel has no contacts with New York by asserting that "for several years, until 2008, Vetel purchased and serviced large animal digital radiology equipment from a company known as AFP Imaging, Inc. located in Elmsford, NY (*id.* at ¶ 19). Further, that Vetel, for the last 5 years, engaged a sales representative by the name of Steve Garner who solicited business in New York and competed with Universal for sales from vets in New York (id. at ¶ 20).

Responding to Fishel and Collins' claims that they will be unable to earn a living, Brunelli argues that such a claim is untrue since all Plaintiffs are seeking is that Fishel and Collins be enjoined from selling Biosound equipment for Vetel and from selling any ultrasound or digital radiography equipment to Universal's customers – *i.e.,* they can work for Vetel as long as they don't sell to Universal's customers and as long as they don't sell the products they sold while at Universal (*id.* at ¶ 22). Brunelli denies that he would not allow Fishel and Collins to consult a lawyer, but admits that the restrictive covenants were nonnegotiable (*id.* at ¶ 22). He further denies that Universal engaged in any wrongdoing with respect to purchasing software from Biosound and that Fishel resigned over the failure to pay commissions – instead, he resigned after Brunelli confronted him about competing with Universal. Brunelli has made it clear that Fishel would be paid his commissions provided he returned all loan and demonstration equipment and his laptop computer, mobile phone and blackberry. Finally, he disputes that UMS changed the territories and exclusivity of Fishel's and Collins' sales territories.

Plaintiffs argue that any delay in seeking the injunction does not prejudice Plaintiffs' right to the injunctive relief since the delay occurred as a result of efforts to amicably resolve the matter (Pltfs' Reply Mem at 1). Plaintiffs repeat that under New York law, they were entitled to reasonable notice and could not be terminated on an immediate basis. Further, that Fishel's and Collins' claim that the restrictive covenants should not be enforced because UMS owed them commissions is without legal basis since the Appellate Division, Second Department, has ruled that an employee's claim of unpaid compensation will not preclude enforcement of a restrictive covenant and simply provides the employee a claim for money damages (*id.* at 3, *citing Rifkinson-Mann v Kasoff,* 226 AD2d 517 [2d Dept 1996]). Likewise, Plaintiffs argue that it is well settled that "'the mere inclusion in a covenant of a liquidated damages provision does not automatically bar the grant of an injunction'" and if it is determined that "'the performance of the covenant was intended, and not merely the payment of damages in case of a breach'" ... "'the covenant will be enforced'" (*id.* at 4, *quoting Karpinski v Ingrasci*, 28 NY2d 45, 52 [1971]).

In opposition to Biosound's cross-motion to compel arbitration, Plaintiffs submit another affidavit from Brunelli. In it, Brunelli states that he was very surprised that on the eve of the preliminary injunction hearing, "Biosound gave notice of its intention to make a motion to compel arbitration based on a Dealer Agreement that had expired almost eleven (11) years ago, especially because Biosound had already made a last-minute motion to remove this action to federal court on the evening before [Plaintiffs] filed [their] application for a temporary restraining order" (Affidavit of Peter Brunelli, sworn to May 26, 2010 at ¶ 13). He urges that Biosound's position – that a contract that has expired by its terms over 11 years ago involving a single product line "Genesis" that has not been offered for years – somehow vitiates Plaintiffs' right to bring this action is without basis and factually untrue as evidenced by (1) the fact that other provisions in the Agreement expressly contain survival language whereas the arbitration clause does not, and (2) the fact that when the last controversy between the parties arose in 2004 as well as the present controversy, Biosound never stated that it would take the matter to arbitration (*id.* at ¶¶ 4-6).

As their legal argument, Plaintiffs rely on rules of contract construction and argue given that certain sections of the Dealer Agreement contain survival language (*i.e.*, sections 6, 9, 10.1, 10.3, 12 and 14.5) whereas the arbitration provision (section 16.3[c]) does not, it is clear that section 16.3(c) "must be read as limited to disputes concerning any agreements entered into between Universal Medical Systems and Biosound prior to June 1, 1997 (the 'Effective Date' of the Dealer Agreement), until June 30, 1999 (the expiration date of the Dealer Agreement)" (Pltfs' Opp. Mem. at 2). Thus, under contract construction principles, Plaintiffs argue "'where certain language is omitted from a provision but placed in other provisions, it must be assumed that the omission was intentional'" (*id.* at 4, *quoting Sterling Serv., Inc. v 1155 Nobo Assoc., LLC*, 30 AD3d 579 [2d Dept 2006], *lv denied* 13 NY3d 714 [2009]).

Plaintiffs further argue that Biosound cannot be heard to claim "that the language in Section 16.3 is the equivalent of the explicit survival language contained in Sections 6.4, 9.7, 10.4 , 12.0 and 14.5 ... [because such] construction would run afoul of the rule against 'interpret[ing] an agreement as impliedly stating something which the parties have neglected to specifically include'" (*id., quoting RM 14 FK Corp. v Bank One Trust Co., N.A.*, 37 AD3d 272 [1st Dept 2007]). And Plaintiffs distinguish Biosound's severability theory because the cases cited and the doctrine itself has to do with whether a party must arbitrate its present claims despite claims that the agreement in total is unenforceable due to fraud or other illegality (*id.* at 5). Plaintiffs further argue that Biosound's construction should be rejected because "Courts will not interpret a contract as providing for perpetual performance unless the parties make their intent known with clear and unequivocal language" (*id.*). And given Biosound's belated raising of arbitration in this case and its failure to raise arbitration at the time of the parties' prior dispute, "Biosound's conduct and its practical interpretation of the Dealer Agreement are strong evidence that the parties' dispute is not subject to arbitration under the long-since expired Dealer Agreement" (*id.* at 6).

Alternatively, Plaintiffs argue that if the court finds that the parties agreed to arbitrate Plaintiffs' claims against Biosound, the Court should nevertheless deny Biosound's motion because (1) Biosound waived its right to compel arbitration by removing this action to the federal court and then submitting to the jurisdiction of this Court to resolve to TRO,[6] and (2) because there are nonarbitrable claims that are inextricably intertwined, it would be inappropriate to compel arbitration. Thus, it is Plaintiffs' position that Plaintiffs' Fourth Cause of Action based on Biosound's tortious interference with Plaintiffs' contract with a Canadian distributor and their Sixth Cause of Action against Biosound for Unfair Competition based on Biosound's working with Universal's prior sales personnel and a competitor are not subject to arbitration. Further, Plaintiffs claim for injunctive relief as against Fishel, Collins and Vetel would not be subject to arbitration. And "Universal's purportedly arbitrable claims against Biosound are inextricably tied to Universal's non-arbitrable claims against Vetel and Universal's former sales representatives ... and [the unfair competition claim] is based, in part, on the allegation that these defendants acted in concert to unfairly solicit and lure away from Universal its distributorship rights and territory with Biosound.

According to Plaintiffs, it would be unworkable and inefficient to conduct a bilateral arbitration between Universal and Biosound when the resolution of the claims is inextricably related to the testimony, documentary evidence and participation of defendants Vetel and the former sales representatives, none of whom are bound to arbitrate with Universal" (*id.* at 8).

Plaintiffs argue that this Court should nevertheless grant preliminary injunctive relief pursuant to CPLR 7502(c) because "any relief to which Universal may be entitled in arbitration as a result of Biosound's improper termination of the parties distributorship agreement would be rendered ineffectual by reason of the continuing deterioration of Universal's business ...." (*id.* at 2).

LEGAL ANALYSIS

BIOSOUND'S CROSS-MOTION TO COMPEL ARBITRATION

Because Biosound's cross-motion questions whether this Court is the correct forum for the resolution of the merits of this dispute, and the preliminary injunction standard would be somewhat different if arbitration is the correct forum (see CPLR 7502[c]), the Court will deal with Biosound's cross-motion first.

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[6]Plaintiffs contend that a party waives the right to arbitrate "where it 'contests the merits of the dispute or seeks affirmative relief through the judicial process since such conduct is inconsistent with a later claim that only the arbitral forum is satisfactory'" (Pltfs' Opp. Mem at 9, *quoting Blum v Perlstein*, 17 Misc 3d 1115 [A] at *7 [Sup Ct Nassau County 2007]).

There is an initial question as to whether Biosound's cross-application is procedurally proper.

CPLR 7502(a) generally requires an application to compel arbitration to be brought on as a special proceeding, through a notice of petition (or order to show cause) and petition (see CPLR 402, 403). However, CPLR 7503 and CPLR 7502(a) authorize a motion to be made to compel arbitration within a pending plenary action if the court before which the action is pending would have jurisdiction to hear such a motion.

While there is authority suggesting that a cross-motion to compel arbitration, made in the context of a plenary action is procedurally improper (*Albanese v Albanese*, 2004 NY Slip Op 51003[U], 4 Misc 3d 1023[A] [Sup Ct NY County 2004] [Austin, J]), that same authority, and others, holds that the defect can be cured by the Court converting the motion into a special proceeding (CPLR 103), something that should be done where there is no prejudice, as where the parties have fully briefed the arbitration issue on its merits (*Albanese v Albanese, supra, citing Application of Empire Mut. Ins. Co. v Palladino*, 54 AD2d 863 [1st Dept 1976]).

This Court does not perceive Biosound's application as being procedurally improper. First, a motion to compel arbitration may be made in a pending action, as contemplated by CPLR 7502(a) and CPLR 7503 and the Court sees no reason why such an application, if permitted by motion, cannot be made by cross-motion (see CPLR 2215). Further, Biosound seeks a stay of this action pending arbitration and the Court has general authority to entertain motions, and cross-motions, for stays (see CPLR 2201). That said, the Court notes that, because the parties have fully briefed the arbitration issue and Plaintiffs do not raise the procedural issue, the Court would have, if it deemed it necessary, converted the cross-motion to a proper procedural vehicle by deeming the order to show cause and underlying papers as the notice of petition and petition in a special proceeding (*see Albanese v Albanese*, *supra*).

The Court now turns to the merits of the arbitration issue.

The parties do not dispute that the arbitration clause at issue in this case is governed by the Federal Arbitration Act ("FAA") since the contract evidences a transaction involving commerce.

Arbitration is a favored, as a matter of policy, both under the FAA and New York's public policy, as a method of resolving disputes (*Stark v Molod Spitz DeSantis & Stark, P.C.*, 9 NY3d 59, 66 [2007]). However, because arbitration is contractual by nature insofar as "'a party cannot be required to submit to arbitration any dispute which he has not agreed so to submit'"(*Thomson-CSF, S.A. v American Arbitration Assoc.*, 64 F3d 773 [2d Cir 1995], *quoting United Steelworkers of Am. v Warrior & Gulf Nav. Co.* 363 US 574 [1960]), "such agreements must not be so broadly construed as to encompass claims and parties that were not intended by the original contract" (*Thomson-CSF, S.A.*, 64 F3d at 776).[7]

Unless the parties have agreed otherwise, the court must determine whether the parties made a valid agreement to arbitrate (*Matter of Smith Barney Shearson Inc. v Sacharow,* 91 NY2d 39, 45 [1997]; *Brown v Bussey*, 245 AD2d 255, 255 [2d Dept 1997]) and if so, whether the issue sought to be submitted to arbitration falls within the scope of that agreement (*Matter of County of Rockland [Primiano Constr.Co., Inc.]*, 51 NY2d 1, 7 [1980]). Pursuant to the FAA, the construction of the arbitration agreement (*i.e.*, whether there is an agreement to arbitrate) is governed by New York's substantive law.

"In order for the Court to compel arbitration, the agreement to arbitrate between the parties must be clear, explicit and unequivocal" (*Albanese v Albanese*, 2004 NY Slip Op 51003[U] at *3, 4 Misc 3d 1023[A] [Sup Ct NY County 2004] [Austin, J])], *citing Marek v Alexander Laufer & Son, Inc.*, 257 AD2d 363 [1st Dept 1999]; *M.I.F. Sec. Co. v R.C. Stamins & Co.*, 94 AD2d 211 [1st Dept 1982], *affd* 60 NY2d 936 [1983]; *Exercycle Corp. v Maratta*, 9 NY 329 [1961]). The movant has the burden to show a "clear and unequivocal" agreement to arbitrate the claim (*Gerling Global Reins. Corp. v The Home Ins. Co.*, 302 AD2d 118, 123 [1st Dept 2002), *lv denied* 99 NY2d 511 [2003]; *see also Bar-Ayal v Time Warner Cable Inc.*, 2006 WL 2990032 at *8 [SD NY 2006]; *Allstate Ins. Co. v Roseboro*, 247 AD2d 379 [2d Dept 1998]). And "'the threshold for clarity of agreement to arbitrate is greater than with respect to other contractual terms'" (*Matter of Waldron, supra*, 61 NY2d at 185; *quoting Application of Doughboy Indus.*, 17 AD2d 216, 219 [1st Dept 1963]).

Here, at the inception of their relationship in 1998, Universal (UMS's predecessor in interest) and Biosound entered into a Dealership Agreement which gave Universal rights to distribute the Genesis line of Biosound's medical ultrasound equipment and related supplies. The clauses in the Dealership Agreement that specifically state that they are to be interpreted as "surviv[ing] the termination or expiration of the agreement" are (1) Section 6 which required Universal to comply with all laws and regulations concerning the sale of Biosound's products

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[7]The New York Court of Appeals adheres to the same view, stating that "equally important [to the policy favoring arbitration] is the policy that seeks to avoid the unintentional waiver of the benefits and safeguards which a court of law may provide in resolving disputes. Indeed, unless the parties have subscribed to an arbitration agreement it would be unfair to infer such a significant waiver on the basis of anything less than a clear indication of intent'" (*TNS Holdings, Inc. v MKI Sec. Corp.*, 92 NY2d 335, 339 [1998], *quoting Matter of Marlene Indus. Corp. v Carnac Textiles, Inc.*, 45 NY2d 327, 333-334 [1978]). Thus, "[i]t is settled that a party will not be compelled to arbitrate and, thereby, to surrender the right to resort to the courts, absent evidence which affirmatively establishes that the parties expressly agreed to arbitrate their disputes' ... The agreement must be clear, explicit and unequivocal ... and must not depend upon implication or subtlety" (*Matter of Waldron v Goddess*, 61 NY2d 181, 183-184 [1984], *quoting Schubtex, Inc. v Allen Synder, Inc.*, 49 NY2d 1, 6 [1979]; *see also God's Battalion of Prayer Pentecostal Church, Inc. v Miele Assoc., LLP*, 6 NY3d 371, 374 [2006]; *Matter of Estate of Arthur Miller*, 40 AD3d 862, 861-862 [2d Dept 2007]).

and to undertake all activities necessary to ensure quality assurance; (2) the warranty provisions found in Section 9 which required UMS provide notice to Biosound of defective products within 30 days of discovery; (3) UMS's agreement not to disclose Biosound's confidential information (Section 10); (4) the indemnification provision of Section 12; and (5) Section 14.5 which required the parties to be bound by the order procedures, shipping and payment provisions of the Dealer Agreement in the event Biosound accepted orders following the Agreement's termination.

The arbitration clause provides:

> Except with regard to DEALER's payment obligations to BIOSOUND and BIOSOUND's right to seek injunctive relief as elsewhere provided in this Agreement, the parties agree that all controversies which may arise concerning the construction, performance or alleged breach of this Agreement or any other agreement between the parties, whether entered into prior to, on or subsequent to the Effective Date, shall be determined by arbitration administered by the American Arbitration Association under the Expedited Procedures of its Commercial Arbitration Rules (Agreement, § 16.3).

The Agreement specifically states that it was for a term of two years, commencing on June 1, 1997 and expiring on June 30, 1999 (unless terminated sooner) (Agreement, §14.1).

At the termination of that agreement by its terms, the parties never entered into a written distributorship agreement and, instead, continued their exclusive distributorship agreement on an oral basis.

The predicate for Biosound's motion is that a Dealer Agreement, which, unlike the parties' oral exclusive distributorship agreement, was not an exclusive distributorship agreement, entered into between the parties that expired by its terms over 11 years ago, involving a product line that UMS has not sold for Biosound for some time, prohibits Plaintiffs from instituting this action and requires that Plaintiffs submit their claims against Biosound to arbitration.

The Court, however, holds that Biosound has failed to meet its burden of establishing an agreement between UMS and Biosound to arbitrate the claims Plaintiffs have asserted against Biosound in this action (*Gerling Global Reins. Corp. v The Home Ins. Co.*, 302 AD2d 118, 123 [1st Dept 2002), *lv denied* 99 NY2d 511 [2003]; *see also Bar-Ayal v Time Warner Cable Inc.*, 2006 WL 2990032 at *8 [SD NY 2006]; *Allstate Ins. Co. v Roseboro*, 247 AD2d 379 [2d Dept 1998]).

The Court does not agree with Plaintiffs' argument that because other clauses expressly stated that they would survive the Agreement's termination, by the omission of the survival language in the arbitration clause, the parties necessarily intended that the arbitration clause would not survive the Agreement's termination. Indeed, such an interpretation would be contrary to the presumption that an arbitration clause survives the agreement's termination such that arbitration is required of matters and disputes arising out of the relation governed by the contract – *i.e.*, limited to the disputes arising out of that contract (*see Nolde Bros. v Local No. 358, Bakery & Confectionary Workers Union*, 430 US 243 [1977]; *Litton Fin. Printing Div. v N.L.R.B.*, 501 US 190 [1991]). Thus, "the prevailing general rule of both New York and Federal common law of contracts is that, absent a clear manifestation of contrary intent, it is presumed that the parties intended that the arbitration forum for dispute resolution provided in an agreement will survive termination of the agreement as to subsequent disputes arising thereunder, whether its cessation was the result of the expiration of its term, exercise of a unilateral termination option, or breach" (*Matter of Primex Intl. Corp. v Wal-Mart Stores*, 89 NY2d 594, 601-601 [1997]; *see also Excel Group, Inc. v New York City Tr. Auth.*, 28 AD3d 708 [2d Dept 2008]).

This does not mean, however, that the arbitration clause may reasonably be construed as meaning that the parties agreed to arbitrate disputes relating to entirely separate agreements and unrelated products in perpetuity. Rather, the arbitration clause is similar to arbitration clauses found in other agreements to the effect that the parties agree to submit to disputes arising from the parties' agreement, "whether entered into prior to, on or subsequent to the date hereof", which mean that if the parties had an agreement existing before they entered into their agreement or if the parties agreed to modify their agreement during the agreement's term, any disputes arising out of the prior agreement or subsequent agreements up to the date of the termination of the agreement containing the arbitration clause would also be subject to arbitration (*Merrill Lynch, Pierce, Fenner & Smith, Inc. v King*, 804 F Supp 1512 [MD Fla 1992]).

To extend an arbitration agreement to a separate oral contract entered into 11 years after the termination of the contract in which the arbitration agreement is found would require this Court's addition of language to the arbitration provision that was not agreed to by the parties in their drafting of the arbitration agreement (*Tonking v Port Auth. of New York and New Jersey*, 3 NY3d 486 [2004]). It would also lead to an absurd result contrary to the canons of contract construction (*Nassau Chapter, Civil Service Employees Assn., Inc. v County of Nassau*, 77 AD2d 563 [2d Dept 1980], *affd* 52 NY2d 925 [1981]; *Burrell Color, LLC v Burrell*, 2005 NY Slip Op 51848[U], 9 Misc 3d 1129[A] [Sup Ct Monroe County 2005]). It would result in a perpetual agreement to arbitrate which, unless clearly spelled out by the parties, is a result courts are loathe to construe (*Barton v Concept Laboratories, Inc.*, 2010 WL 502831 at *3 [WD NY 2010] "[c]ontracts which are vague as to their duration generally will not be construed to provide for perpetual performance"]). If the parties desired such a result, they should have made that desire explicit.

Indeed, the parties plainly provided for a two year term of their agreement. It would seem plainly obvious that an agreement that provides for a two year term was not intended to be perpetual. The Court is simply not convinced that the parties intended to arbitrate a dispute, whose subject matter does not involve the product line that was governed by the Dealer Agreement, that did not arise until long after the Dealer Agreement expired by its own terms.

The Court does not find the cases relied upon by Biosound, involving the issue of severability, to be controlling, since those cases stand for the proposition that a court should not consider challenges to a contract's validity or enforceability as defenses to arbitration and the arbitration clauses will be treated as severable from the contracts in which they appear unless there is a clear intent to the contrary (*see, e.g., O'Neill v Krebs Communications Corp.*, 16 AD3d 144 [1st Dept 2005], *lv denied* 5 NY3d 708 [2005]).

While the Court does not necessarily agree with Plaintiffs' argument that the parties' failure to exclude the survival language in the arbitration agreement section while including the survival language in other sections means that the parties did not intend for the arbitration provision to survive the expiration of the Dealer Agreement, the Court is not convinced that it can read the agreement in the constrained manner proposed by Biosound – *i.e.*, that the parties agreed in 1998 that any future disputes arising out of any future contract entered into between the parties would be governed by arbitration.[8]

Because Biosound has not established a clear, unequivocal and extant agreement to arbitrate the claims arising out of the parties' present exclusive oral distributorship agreement, the Court shall deny Biosound's motion to compel.

<u>PLAINTIFFS' MOTION FOR A PRELIMINARY INJUNCTION</u>

A. The Legal Standard For a Preliminary Injunction

The standard for preliminary injunctive relief is well settled. The movant must establish (1) a likelihood of success on the merits, (2) irreparable injury absent the granting of the injunction, and (3) a balance of equities in the movant's favor (*Nobu Next Door, LLC v Fine Arts Hous., Inc.*, 4 NY3d 839 [2005]; *Apa Sec., Inc. v Apa*, 37 AD3d 502 [2d Dept 2007]). While the existence of an issue of fact will not defeat a motion for injunctive relief which demonstrates the required elements, (CPLR 6312[c]), the movant must show a clear right to relief which is plain from the undisputed facts (*Matter of Related Prop., Inc. v Town Bd. of Town/Village of Harrison*, 22 AD3d 587 [2d Dept 2005]; *Stockley v Gorelik*, 24 AD3d 535 [2d Dept 2005]). And to the extent Plaintiffs' application seeks a mandatory injunction, Plaintiffs are required to demonstrate extraordinary circumstances and the clear entitlement to the relief sought (*SHS Baisley LLC v Res Land, Inc.*, 18 AD3d 727 [2d Dept 2005]; *Rosa Hair Stylists,*

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[8]To the extent it could be argued that there exists an ambiguity in the arbitration agreement, the parties' practical construction leads this Court to the conclusion that the arbitration clause found in this 1998 Dealer Agreement was not regarded by the parties as controlling this dispute. The most notable example of this is the manner in which this issue was brought to the Court's attention. After having failed to successfully remove this case to federal court, Biosound's counsel presented the Dealer Agreement to the Court approximately 10 days into the case after the first conference had already been held. It was presented as an agreement that Biosound had stumbled upon (*e.g.* pulled out of a drawer and dusted off) rather than a document that Biosound regarded as having any meaning in the context of this action (*Federal Ins. Co. v Americas Ins. Co.*, 258 AD2d 39, 44 [1st Dept 1999] ["parties' course of performance under the contract is considered to be the 'most persuasive evidence of the agreed intention of the parties"]).

Inc. v Jaber Food Corp., 218 AD2d 793 [2d Dept 1995]).

B. Plaintiff UMS Has Standing to Sue

Defendants Collins and Fishel contend that since Universal, the entity that entered into the Sales Representative Agreements with Collins and Fishel, is no longer an active corporation having being merged into UMS in January 2, 2009, the only entity that is in privity with contract with Fishel and Collins has no standing to sue, and, therefore, this action must be dismissed. Defendants further assert that because Plaintiffs have not offered any evidence or even allegations concerning the nature of the relationship between UMS and Universal, there is no basis for UMS to bring this application for injunctive relief. The Court disagrees.

While it is true that an inactive corporation has no standing to sue in New York with regard to claims that arise after dissolution, here, the corporation suing is UMS, which Plaintiff has alleged to be the successor in interest to Universal. New York courts have held that an agreement containing a non-competition clause is assignable in New York (*Eisner Computer Solutions, LLC v Gluckstern*, 293 AD2d 289 [1st Dept 2002]; *Special Prod., Mfg., Inc. v Douglass*, 159 AD2d 847 [3d Dept 1990]) and, therefore, UMS, as the successor in interest or as assignee, clearly has the standing to sue. Perhaps most important, Fishel and Collins expressly agreed that to the non-compete/non-solicitation clauses would be effective for a period of one year following the termination of Fishel's and Collin's relationship with the Company (Universal) or its successor in interest (UMS) (*see* Sales Representative Agreements § 14.1, 14.2, 14.3).

Accordingly, the Court rejects Defendants' argument and holds that UMS has standing to seek preliminary injunctive relief as against Collins and Fishel. However, if Plaintiffs would be well advised to address the current status of Plaintiff Universal, the claims purportedly asserted by it, as distinguished from UMS, would appear vulnerable to a motion to dismiss.[9]

C. Plaintiffs Have Not Established a Basis for the Exercise of Personal Jurisdiction over Defendant Vetel

Vetel's primary opposition to Plaintiffs' motion is that this Court does not have personal jurisdiction over it to issue a preliminary injunction. Although represented by the same counsel, the individual defendants, Collins and Fishel make no argument that this Court lacks personal jurisdiction, nor could they, as they expressly consented to the exercise of this Court's jurisdiction over them in the Sales Representative Agreements they signed which provided that the parties "consent to the exclusive jurisdiction of, and venue in, any federal or state court of competent jurisdiction located in Westchester County for the pirposes of adjudicating any matter arising from, related to or in connection with this Agreement" (Sales Representative Agreements at § 13.8).

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[9]It is also an interesting point as to the extent to which an inactive corporation can sustain legally cognizable damages.

Vetel has a valid point.

Before a court can enter a preliminary injunction against a litigant, personal jurisdiction over that litigant must be clearly established (*Weitzman v Stein*, 897 F2d 653 [2d Cir 1990]). Upon a plaintiff's request for a preliminary injunction, "a prima facie showing of jurisdiction will not suffice. A court must have personal jurisdiction over a party before it can validly enter even an interlocutory injunction against him" (*Visual Sciences Inc. v Integrated Communications, Inc.*, 660 F2d 56, 59 [2d Cir 1981]). Thus, a "'plaintiff must adequately establish that there is at least a reasonable probability of ultimate success upon the question of jurisdiction when the action is tried on the merits'" (*id.* [citations omitted]). While these cases cited are from the federal courts, the standard would nevertheless be the same here since Plaintiffs must establish a likelihood of success that they will be able to establish personal jurisdiction over Vetel. They failed to show that they have such a likelihood.

As pronounced by the New York Court of Appeals, there are various components and constitutional predicates of personal jurisdiction. "One component involves service of process, which implicates due process requirements of notice and opportunity to be heard ... Typically, a defendant who is otherwise subject to a court's jurisdiction, may seek dismissal based on the claim that service was not properly effectuated .... The other component of personal jurisdiction involves the power, or reach, of a court over a party, so as to enforce judicial decrees (*see, e.g.*, CPLR 301, 302). This consideration – the jurisdictional basis – is independent of service of process. Service of process cannot by itself vest a court with jurisdiction over a non-domiciliary served outside New York State, however flawless that service may be. To satisfy the jurisdictional basis there must be a constitutionally adequate connection between the defendant, the State and the action (*Keane v Kamin*, 94 NY2d 263, 265-266 [1999], *citing Burger King Corp. v Rudzewicz*, 471 US 462, 475 [1985]; *Word-Wide Volkswagen Corp. v Woodson*, 444 US 310, 315 [1980]; *International Shoe Co. v State of Washington, Office of Unemployment Compensation and Placement*, 326 US 310 [1945]; 2 Weinstein-Korn-Miller, NY Civ Prac ¶ 308.01).

Vetel has provided evidence that it is not authorized to do business in New York and that it transacts no business in New York. Vetel further argues that to the extent Plaintiffs are relying on CPLR 302(a)(3)(ii) – a defendant who commits a tort outside New York causing a foreseeable injury to occur in New York – Plaintiffs have not and cannot establish injury in New York since the sales territory of both Collins and Fishel is exclusively outside of New York and simply because Plaintiffs are New York corporations doing business in New York and therefore suffered a loss of profits in New York, that is insufficient under the Court of Appeals decision in *Fantis Foods v Standard Importing Co.*(49 NY2d 317 [1980]).

In opposition, not only do Plaintiffs fail to identify which long arm statute, or branch thereof, they are invoking to support jurisdiction over Vetel, the only allegations Plaintiffs make to support jurisdiction over Vetel are (1) that "for several years, until 2008, Vetel purchased and serviced large animal digital radiology equipment from a company known as AFP Imaging, Inc. located in Elmsford, NY" (Brunelli Reply Aff. at ¶ 19); and (2) for the last 5 years Vetel engaged a sales representative by the name of Steve Garner who solicited business in New York and competed with Universal for sales from veterinarians in New York (*id.* at ¶ 20). While such allegations could possibly constitute a transaction of business in New York, there is no connection with such transaction of business and the present suit and, therefore, there is no basis for an assertion of jurisdiction pursuant to CPLR 302(a)(1).[10]

Because Plaintiffs have not shown a likelihood of success in being able to establish personal jurisdiction over Vetel, the Court shall deny the branch of Plaintiffs' motion which seeks a preliminary injunction as to Vetel.

D. Plaintiffs' Motion for a Preliminary Injunction Against Biosound

Plaintiffs requests injunctive relief as against Biosound seeks an order from this Court enjoining and directing Biosound to:

(1) continue its exclusive distributorship with Plaintiffs during the pendency of this action;

(2) ship Universal all product lines, software licenses and service parts and materials previously ordered and to be ordered in the ordinary course of business during the pendency of this action; and

(3) provide warranty services, including the supply of parts, during the pendency of this action.

Plaintiffs premise their request for preliminary injunctive relief on the grounds that they will be irreparably injured without the grant of the relief as they will go out of business, that they have established a likelihood of success on their breach of contract claim against Biosound because as an exclusive distributor, they were entitled to reasonable notice and a reasonable period of time prior to the termination of the exclusive distributorship arrangement, and that the balance of equities tips in their favor since Plaintiffs may go out of business whereas, at best Biosound would be inconvenienced by having to continue the relationship pending the ultimate disposition of this action. Biosound responds by arguing that all that

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[10]While Plaintiffs have not asserted that there is a basis for jurisdiction under CPLR 302(a)(3)(ii), Defendants have argued that there is no basis for the assertion of jurisdiction under this provision. Even if Plaintiffs were to assert that there is a basis for jurisdiction over Vetel based on this long-arm statute, such an assertion would likely be unsuccessfaul since the New York Court of Appeals made clear in *Fantis Foods* that "[i]t has ... long been held that the residence or domicile of the injured party within a State is not a sufficient predicate for jurisdiction, which must be based upon a more direct injury within the State and a closer expectation of consequences within the State than the indirect financial loss resulting from the fact that the injured person resides or is domiciled there" (*Fantis Foods*, 49 NY2d at 326). "Thus in cases where there has been no showing that the critical events took place in New York, New York case law compels a dismissal of the action" (*Data Communication, Inc. v Dirmeyer*, 514 F Supp 26, 31 [ED NY 1981]; *see also American Eutectic Welding Alloys Sales Co. v Dytron Alloys, Corp.*, 439 F2d 428 [2d Cir 1971]).

Plaintiffs have established is a disruption – not destruction – of their business – and therefore, Plaintiffs have not established irreparable injury. Biosound also argues that given Brunelli's February 26, 2010 email wherein he repudiates the contract, the termination of UMS was justified as was the 90-day wind-down period and the new requirements for payment during this wind-down period.

Plaintiffs are not only seeking prohibitory injunctive relief, they are also seeking affirmative relief in the form of a mandatory injunction by requiring that Biosound affirmatively continue the exclusive distributorship relationship with UMS by providing its products and services to UMS pending the ultimate resolution of this action. As a general matter, to obtain a mandatory injunction, Plaintiffs would have to establish extraordinary circumstances and the clear entitlement to the relief sought (*SHS Baisley LLC v Res Land, Inc.*, 18 AD3d 727 [2d Dept 2005]; *Rosa Hair Stylists, Inc. v Jaber Food Corp.*, 218 AD2d 793 [2d Dept 1995]; *Union Cosmetic Castle, Inc., v Amorepacific Cosmetics USA, Inc.*, 454 F Supp 2d 62 [ED NY 2006]). But even if this heightened burden was not imposed, and the general standards applied, Plaintiffs still have not met their burden.

1. Plaintiffs Have Not Established Serious Questions Going to the Merits Let Alone Clear Entitlement to Relief or a Likelihood of Success on the Merits

While ordinarily a party must show a likelihood of success on the merits, here, given the mandatory injunction requested by Plaintiffs that would require that Biosound continue in an exclusive distributorship with UMS pending the ultimate determination in this action, the higher standard should apply. However, Plaintiffs have asserted that they will be irreparably injured because they will likely go out of business absent this Court's issuance of the injunction and a number of courts have found that if irreparable injury is established by a showing that plaintiff was likely to go out of business pending the trial in the action, there may be sharp factual disputes and plaintiff need only show "serious questions going to the merits" rather than a likelihood of success on the merits (*Roso-Lino Beverage Distrib., Inc. v Coca-Cola Bottling Co. Of New York,* 749 F2d 124, 125-126 [2d Cir 1984]). While the Court is not finding that Plaintiffs have met their burden with regard to a showing of irreparable injury (see below), for the sake of discussion, the Court will use this standard to decide if Plaintiffs have met their burden on this prong for injunctive relief.

The primary case relied upon by Plaintiffs is *Colony Liquor Distrib., Inc. v Jack Daniel Distillery-Lem Motlow Prop., Inc.*, 22 AD2d 247 [3d Dept 1965]). In that case, plaintiff and defendant entered into an oral exclusive distributorship agreement for plaintiff's distribution of defendant's Jack Daniels product in a 21-county area. The relationship continued from 1952-1963 and plaintiff asserted that defendant had advised it that the relationship would continue as long as plaintiff's record of performance in promoting and selling the Jack Daniel's product was satisfactory. On December 18, 1963, plaintiff was informed that after January 31, 1964, it would no longer be a distributor of Jack Daniels. There, like here, plaintiff participated in numerous sales campaigns and defendant provided correspondence to customers assuring the exclusive and long-term nature of the relationship between the parties. Defendant argued that because there was no definite duration for the contract, it was terminable by giving reasonable notice. The court entered a preliminary injunction pending the final determination of the litigation, which was affirmed on appeal. In its affirmance, the Appellate Division, Third Department found that the contract could be terminated only upon reasonable notice after a reasonable duration and

> upon the circumstances of the instant case– the relative percent of sales which Jack Daniel's comprises for each party, the product uniqueness and importance in benefitting other sales, the 12-year period the agreement has been in effect plus nearly a year's extension through court action, [plaintiff's] investment in reliance upon the contract, and the profits and benefits already received and to be contemplated– that reasonable notice will be deemed to be the further period ending August 3, 1965 (*Colony Liquor Distrib., Inc.*, 22 AD2d at 250).

From the papers submitted here, it does not appear that the parties dispute that the contract claimed by Plaintiff can be terminated, barring any breach by Universal, only upon Biosound's provision of a reasonable notice after a reasonable duration.[11] Indeed, numerous courts have followed *Colony* and it is apparent that this is the standard applicable to the termination of the parties' relationship in this case (*see Italian & French Wine Co. of Buffalo v Negociants U.S.A., Inc.*, 842 F Supp 693 [WD NY 1993]; *Chenoweth & Faulkner, Inc. v Metro Mobile Cts., Inc.*, 1988 WL 527777 [SD NY 1988]). However, even if this is the standard under which Biosound's actions are to be judged, it does not appear that Plaintiffs have shown that there are serious questions going to the merits of the termination by Biosound.

It is not contested that Brunelli, on February 26, 2010, after suggesting that Bertolini was "bipolar" and "no longer in control of [his] senses" and implying that Bertoloni should be discharged, presented Esaote with the choice of either continuing its relationship with UMS *sans* Biosound or discontinuing its relationship with UMS , and, thus, likely

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[11]While Biosound makes a half-hearted argument that contracts of exclusive distributorships are terminable at will in the absence of an express provision of duration (*Haines v City of New York*, 41 NY2d 769 [1977]; *Liberty Imports, Inc. V Bourget*, 146 AD2d 535 [1 st Dept 1989]), Biosound nevertheless cites with approval *Italian & French Wine Co. of Buffalo v Negociants U.S.A., Inc.* (842 F Supp 693 [WD NY 1993]). In that case, the court reconciled the seemingly conflicting holdings by explaining if all that is being purchased is an independent sales representative contract (*i.e.* a personal services contract analogous to employment contract) it is terminable at will, but if the contract involves additional commercial activities such as the purchase of inventory for resale, the maintenance of warehouse space for storage of the inventory and the marketing and promotion of products, the exclusive distributorship is only terminable after reasonable notice and reasonable duration. Based on this analysis, it is clear that the contract with Universal was more than a personal services contract and, therefore, Universal, barring any breach on its part, was entitled to reasonable notice and a reasonable time to wind-down the exclusive distributorship.

committed, on behalf of Plaintiffs, an anticipatory repudiation of the exclusive distributorship.[12]

While Brunelli, in his submissions to this Court, attempts to downplay this email by saying that he and Bertolini often exchanged colorful words, the email was not solely between Brunelli and Bertolini. It was sent by Brunelli to Carlo Mannelli, Bertolini's immediate superior in the Esaote organization, as well as to Fabrizio Landi, the Managing Director of the Esaote Group. The tenor of the email could not have been clearer and there was nothing in the email to suggest the Brunelli did not mean exactly what he said. Thus, given that this was an oral distributorship agreement, which without such an anticipatory repudiation, could be terminated without cause upon reasonable notice providing a reasonable amount of time prior to termination, and given that Biosound was willing to give Plaintiffs a three-month wind-down period, the Court would be hard-pressed to find that Biosound breached the exclusive distributorship agreement. The Court certainly cannot find that Plaintiffs are likely to succeed in establishing that Biosound acted wrongfully in acting upon the choice given to them by Brunelli ("Does Esaote want to continue their relationship with [U]niversal?"). While it may well be that Brunelli expected a different answer than the one that he got, he could hardly expect that caustic comments were going to enhance the prospects of a favorable answer. Under the circumstances, Plaintiffs have not shown that they are likely to prove that the contract had not already had a reasonable duration or that the 90 day wind down period was unreasonable.

Because the Court has found that Plaintiffs have not shown that there are serious questions going to the merits of the termination by Biosound, the Court could stop here and deny the branch of Plaintiffs' motion which seeks an injunction against termination and the affirmative relief in terms of a continuance of providing product and services to UMS (*see Stanley-Fizer Assoc., Inc. v Sport-Billy Prod. Rolf Deyhle*, 608 F Supp 1033 [SD NY 1985]). However, as set forth below, the Court further finds that UMS has not established irreparable injury that cannot be adequately compensated in money damages.

2. Plaintiffs Have Not Established Irreparable Injury as the Loss of Biosound's Distributorship is Likely a Business Interruption Rather than a Business Destruction

In support of its motion, Plaintiffs rely on a number of cases which are *inapposite* since they involved exclusive distributorships/franchises of unique - name brand products for which there was no possibility of substitution (e.g., Snapple, Carvel, Coca-Cola, Ford cars). For example, in *Mr. Natural, Inc. v Unadulterated Food Prod., Inc.* (152 AD2d 729 [2d Dept 1989]), plaintiff's only business was the distribution of Snapple beverages and was defendant's exclusive distributor in five territories. There, defendant sent a notice to plaintiff on December 23, 1988 that based on plaintiff's breaches, defendant was cancelling the exclusivity of plaintiff's distributorship as of January 1, 1989. The Appellate Division, Second Department, reversed the trial court's denial of a preliminary injunction despite there being factual disputes such that plaintiff's likelihood of success was difficult to determine because plaintiff would be

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[12]*See, e.g., Viacom Outdoor, Inc. v Wixon Jewelers, Inc.*, 2009 NY Slip Op 52346[U], 25 Misc 3d 1230[A] [Sup Ct NY County 2009]; *Chase v Stendhal*, 2007 NY Slip Op 51723[U], 16 Misc 3d 1137[A] [Sup Ct NY County 2007]).

irreparably injured without the maintenance of the status quo pending the trial and a balance of the equities tipped in plaintiff's favor since defendant did not show that it would even be inconvenienced by a preliminary injunction (*see also U.S. Ice Cream Corp. v Carvel Corp.*, 136 AD2d 626 [2d Dept 1988] [defendant's attempted termination of plaintiff's exclusive rights to sell Carvel ice cream in Israel enjoined because without the preliminary injunction there was no assurance that plaintiff would be able to stay in business and "[i]n the absence of any proof that Carvel [would] be harmed by the granting of injunctive relief in order to maintain the status quo, the existence of disputed factual issues should not preclude the remedy"]; *Roso-Lino Beverage Distrib., Inc., supra* [notice terminating plaintiffs' 11 year Coca-Cola distributorship on one week's notice enjoined and distributorship required to be continued pending the arbitration of plaintiffs' claim; plaintiffs would suffer irreparable injury in the complete loss of business whereas unlikely Coca-Cola would suffer if the relationship was required to be continued pending the arbitration and given the irreparable injury, plaintiffs only had to demonstrate "'serious questions going to the merits,' rather than a 'likelihood of success on the merits'"]; *Semmes Motors, Inc. v Ford Motor Co.*, 429 F2d 1197 [2d Cir 1970] [given irreparable injury that would inure to plaintiff in the loss of a 20 year Ford dealership, plaintiff did not have to show a likelihood of success, only that plaintiff "'has raised questions going to the merits so serious, substantial, difficult and doubtful, as to make them a fair ground for litigation and thus for more deliberate investigation'" [citation omitted]).

Moreover, a review of the cases makes clear that even a significant loss in business will not suffice for a showing of irreparable injury (*see Monarch Liquor Corp. v Joseph E. Seagram & Sons, Inc.*, 1985 WL 15441 [Sup Ct NY County 1985] [loss of 18.5% sales]; *Norcom Elec. Corp. v CIM USA, Inc.*, 104 F Supp 2d 198, 209 [SD NY 2000]) and only a total destruction or potential destruction will be sufficient to meet the required showing of irreparable injury (*Roso-Lino Beverage Distrib., Inc., supra*; *Semmes Motors, Inc., supra*; *Bateman v Ford Motor Co.*, 302 F2d 63 [3d Cir 1964]; *Mr. Natural, Inc. v Unadulterated Food Prod., Inc.*, 152 AD2d 729 [2d Dept 1989]; *Reuschenberg v Town of Huntington*, 16 AD3d 568 [2d Dept 2005]).

This distinction is amplified in the decision of *Newport Tire & Rubber Co. v Tire & Batter Corp.*, 504 F Supp 143 [ED NY 1980]). Defendant was a manufacturer/supplier of private brand tires and had a Multi-Mile private brand tire for which Plaintiff was the exclusive wholesale distributor in a specific territory. In 1979, Plaintiff's sales of Multi-Mile products accounted for 62% of Plaintiffs' gross sales and 66% of its gross profit. Due to Plaintiff's poor sales penetration, Defendant sent Plaintiff a notice of termination which Plaintiff received on March 27, 1980. The notice offered plaintiff 6 months of continued association so as to ease the plaintiff's transition to alternative forms of tire supply, which were available in the market. It is important to note that in that case, as here, evidence was presented showing that plaintiff also served as a distributor of other manufacturers' products.

In denying plaintiff's motion for a preliminary injunction, the court noted that "a moving party possesses an adequate remedy at law if the act at issue threatens only a disruption of an ongoing business and not its destruction" (*Newport Tire & Rubber Co.*, 504 F Supp at 150) and explained that it was required to determine whether the termination of the distributorship would likely cause plaintiff's business to fold. In that case, plaintiff responded to defendant's claims that the termination would only lead to a disruption rather than destruction by pointing out that the substitution of an alternative brand was totally unfeasible since no private brand was as deep or attractive as Multi-Mile and the loss of the line would lead to a loss of customers. In addition, plaintiff provided evidence that it would also be injured since no other private tire brand would offer it the same vast exclusive territory plaintiff held with defendant. The court disagreed and found substitutes for Multi-Mile tires were available and since plaintiff was already dealing with other products and had "exhibited an ability to shift some of its Mult-Mile business to other private brands ... a transfer to an alternate tire brand would be feasible ... [and] would generate sufficient revenue to enable the plaintiff's business to continue after it no longer distributes Multi-Mile tires, tubes and batteries" (*id.* at 151) . The court distinguished the types of cases upon which Plaintiffs rely herein since they all involved "well known brands, for which substitution would be unfeasible" (*id.* at 150, n.18). The court held that a six month wind-down period was sufficient to allow plaintiff to recover its accounts receivable and allow plaintiff to service its customers and transition them to alternative substitute products and therefore, plaintiff's claims that the termination would lead to a destruction of its reputation and goodwill fell was unfounded (*id.*). Accordingly, since the termination would not lead to a destruction of plaintiff's business and because plaintiff could be adequately compensated in money damages in the event the court found defendant to be in breach by the termination, the court found that plaintiff had not established irreparable injury and plaintiff's motion for a preliminary injunction was denied.

The court finds the reasoning of the court in *Newport Tire & Rubber Co.* to be persuasive. Here, while Biosound's products constitute approximately 60% of plaintiff's business, Plaintiffs do not dispute that there are other products that compete with Biosound's products and, indeed, UMS has already begun to transition itself to selling some of these other products. While Plaintiffs contend that Defendants' acts will cause UMS to go out of business, the Court notes that it has been 5 months since Defendants' termination and to date, the Court has not been apprised that UMS is about to fold. Instead, evidence has been presented that UMS is diversifying and that it is searching out new partners to provide them with ultra sound machines that they may distribute in replacement for Biosound's machines. As such, Plaintiffs have not established irreparable injury (*Yan's Video, Inc. v Hong Kong TV Video Programs, Inc.*, 133 AD2d 575 [1st Dept 1987]). While Biosound offered a three-month rather than a six-month wind-down period, this amount of time appears to the Court to be have been a reasonable offer which would have allowed UMS to continue to service its customers with Biosound products while attempting to transition its business to a new line of competing products.

3. Plaintiffs Have Not Established that a Balance of the Equities Tips in Their Favor

Again, while it is not strictly necessary to address this prong since Plaintiffs have failed to establish either of the other two prongs, if the Court had to address the balancing of the equities, it would likely decide that the parties are equally burdened in the event of a grant or denial of the preliminary injunction and, therefore, that Plaintiffs have not shown that there is a balance of equities in their favor.

To satisfy this prong of the preliminary injunction standard, Plaintiffs must establish that the injury sustained by Plaintiffs would be more burdensome to Plaintiffs than the harm which would be caused to Biousound through the imposition of the injunction *(Winter*

Bros. Recycling Corp. v Jet Sanitation Serv. Corp., 2009 NY Slip Op 50753[U], 23 Misc 3d 1115[A] [Sup Ct Nassau County 2009]). Here, given Brunelli's attempt to cut Biosound out of the equation for the US market, and given that it is unlikely that a final resolution of this matter could occur withing the year (or even taking Plaintiffs' offer that the injunction continue until some time in December), while Plaintiffs' business is likely to suffer substantial damage as a result of the termination of the parties' relationship, Biosound would also suffer by having to continue to deal with UMS as its exclusive distributor and provide it with product even though UMS currently owes Biosound over a million dollars. Accordingly, the Court does not find that the equities necessarily weigh in Plaintiffs' favor.

E. Plaintiffs' Motion for a Preliminary Injunction Against Defendants Fishel and Collins

Plaintiffs move to enjoin Fishel and Collins during the pendency of this action from:

(1) inducing any customer, directly or indirectly, to patronize Vetel, or any other competitor of Universal, with respect to Biosound products and digital radiography during the pendency of this action;

(2) inducing any Universal customer, directly or indirectly, to patronize Vetel, or any other competitor of Universal, during the pendency of this action;

(3) requesting or advising any Universal customer or sub-distributor (including, without limitation, MWI Veterinary Supply ("MWI"), TW Medical Veterinary Supply ("TE") and Walco International, Inc. D/b/a DVM Resources ("DVMR"), directly or indirectly, to withdraw, curtail or cancel its business with Universal during the pendency of this action;

(4) disclosing any confidential information of Universal, including the contact information, needs and requirements of any Universal customer during the pendency of this action;

(5) soliciting the sale of any Biosound product, directly or indirectly, on behalf of Vetel, or any other competitor of Universal, during the pendency of this action;

(6) soliciting, hiring or retaining the services, directly or indirectly, of any past or present Universal employee or independent contractor, or otherwise inducing any such employee or independent contractor to breach an employment or independent contractor agreement with Universal, during the pendency of this action;

(7) directing Fishel to return to Universal all loan and demonstration equipment and other material provided by Universal in his possession, custody and control which he obtained while he was a Universal sales representative.

"Courts will not impede an employee's ability to compete with a former employer unless the evidence is clear and convincing that it is necessary to protect the trade secrets of the employer or that fraudulent methods were used by the employee to disparage the employer's business" (*Price, Paper and Twine Co. v Miller*, 182 AD2d 748, 749 [2d Dept 1992]). Where there are key facts in dispute, the motion for a preliminary injunction should be denied (*id.* at 750). While the standards are strict, they do not require that all preliminary injunctive relief be denied in all cases in which an employer seeks to enforce a restrictive covenant in an employment agreement against an employee.

As the New York Court of Appeals has stated, "[i]n order to be enforceable, an anticompetitive covenant ancillary to an employment agreement must be reasonable in time and area, necessary to protect the employer's legitimate interests, not harmful to the public, and not unreasonably burdensome to the employee" (*BDO Seidman v Hirshberg*, 93 NY2d 382, 389 [1999]).

The legitimate interests of an employer can be demonstrated where it is claimed that the employee is misappropriating employer trade secrets, making use of confidential information, or where the employee's services are unique or extraordinary (*id.*; *see also Ticor Title Ins. Co. v Cohen*, 173 F3d 63, 70 [2d Cir 1999]; *Purchasing Assoc., Inc. v Weitz*, 13 NY2d 267, 272-273 [1963]). Another legitimate interest of the employer is "'to prevent competitive use, for a time, of information or relationships which pertain peculiarly to the employer and which the employee acquired in the course of the employment" (*BDO Seidman*, 93 NY2d at 391, *quoting* Blake, *Employee Agreements Not to Compete*, 73 Harv Law Rev 625, 647 [1960]). In such a case, "the employee has been enabled to share in the good will of a client or customer which the employer's over-all efforts and expenditures created. The employer has a legitimate interest in preventing former employees from exploiting or appropriating the goodwill of a client or customer, which had been created and maintained at the employer's expense, to the employer's competitive detriment" (*BDO Seidman*, 93 NY2d at 392). However, "the employee must work closely with the client or customer over a long period of time, especially when his services are a significant part of the total transaction" (*BDO Seidman*, 93 NY2d at 12240). Thus, not all claims of protection of client base will suffice (*see Allways Elec. Corp. v Abrams*, 2010 NY Slip Op 05346, 2010 WL 2404371 [2d Dept 2010] [summary judgment granted because "plaintiffs failed to show that the enforcement of the restrictive covenants was necessary to protect the goodwill of Allways Electric Corp.'s clients, as that term is used in [BDO Seidman, supra]"; *Gilman & Ciocia, Inc. v Randello*, 55 AD3d 871, 872 [2d Dept 2008], *lv denied* 11 NY3d 707 [2008]; *Natural Organics, Inc. v Kirkendall*, 52 AD3d 488 [2d Dept 2008] [restrictive covenant concerning salesman of vitamins and dietary supplements was not enforceable because, inter alia, no showing that the enforcement was necessary to protect the good will of plaintiff's clients in accordance with BDO Seidman]).

A trade secret for purposes of this analysis has been defined as "'any formula, pattern, devise or compilation of information which is used in one's business and which gives him an opportunity to obtain an advantage over competitors who do not know or use it'"

(*Ashland Mgt. Inc. v Janien*, 82 NY2d 395, 407 [1993] [citation omitted]).[13] However "mere 'knowledge of the intricacies of a business operation does not qualify'" (*Silipos, Inc. v Bickel*, 2006 WL 2265055 at *3-4 [SD NY 2006] and courts have held that marketing or other financial information, market strategies, technical know-how, and pricing arrangements and price margins are not trade secrets for purposes of determining an employer's legitimate interest in protecting data (*see, e.g. Silipos, supra; Marietta Corp. v Fairhurst*, 301 AD2d 734, 739 [3d Dept 2003]). With regard to customer information customer identities that are readily ascertainable from nonconfidential sources are not trade secrets as long as there is no evidence that the employee copied or memorized customer information from confidential sources (*Apa Sec., Inc. v Apa*, 37 AD3d 502, 502 [2d Dept 2007];*Starlight Limousine Serv., Inc. v Cucinella*, 275 AD2d 704 [2d Dept 2000]). Thus, in order to establish that customer information is a legitimate interest worthy of protection, the employer must establish that "the information is not known in the trade and is only discoverable through extraordinary efforts" (*Silipos*, 2006 WL 2265055 at *5, *citing Battenkill Veterinary Equine P.C. v Cngelosi*, 768 NYS2d 504 [2003]).[14]

While ordinarily only certain categories of employees have fallen within the unique services category (i.e., physicians,[15] actors, artists, etc.) in order to determine if an employee's services are unique or extraordinary, "the inquiry now focuses more on the employee's relationship to the employer's business than on the individual person of the employee" (*Ticor Title Ins. Co.*, 173 F3d at 71 [Second Circuit upholds lower court's grant of a permanent injunction prohibiting title insurance salesman from working for competitor for a period of six months following his resignation since salesman's personal relationship with limited number of title insurance clients entailed unique services to plaintiff]; *see also Maltby v Harlow Meyer Savage, Inc.*, 166 Misc 2d 481 [1995], *affd* 223 AD2d 516 [1st Dept 1996], *lv dismissed* 88 NY2d 874 [1996] [Appellate Division, First Department, affirmed lower court's grant of injunction against trade brokers' employment with competitor for period of six months because of trade brokers' unique services and fact that trade brokers would be paid compensation during the six month period]).

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[13]Plaintiffs are not contending, nor could they contend, that a trade secret is involved in this case. As such, the cases involving the enforcement of restrictive covenants where a trade secret was involved are *inapposite* (*see, e.g.*, *Computer Assoc., Intl. v Bryan*, 784 F Supp 982 [ED NY 1992]).

[14]Here, there is no claim that Defendants removed confidential customer lists which may permit the issuance of an injunction against the use of such lists for the solicitation of customers (*McLaughlin, Piven, Vogel, Inc. v W.J. Nolan & Co.*, 114 AD2d 165, 174-175 [2d Dept 1986], *lv denied* 67 NY2d 606 [1986] [court enjoins former brokers solicitation of customers from customer lists defendants misappropriated except for "(1) blood relatives of the defendants, former customers brought to the plaintiff solely through the defendants' own efforts, (3) institutional investors, and (4) persons or entities who, without solicitation, approach defendants and request that they provide brokerage services"]).

[15]In this regard, the Court finds Plaintiffs' citation to cases involving restrictive covenants enforced against physicians wholly inapplicable (*Rifkinson-Mann v Kasoff*, 226 AD2d 517 [2d Dept 1996]; *Karpinski v Ingrasci*, 28 NY2d 45 [1971]).

Once there is a finding of that there is a legitimate business interest to protect, the reasonableness of the restraint must be determined in accordance with the Court of Appeals' three-part test, which is "[a] restraint is reasonable if it: (1) is *no greater* than is required for the protection of the *legitimate interest* of the employer, (2) does not impose undue hardship on the employee, and (3) is not injurious to the public" (*BDO Seidman*, 93 NY2d at 388-389). "A covenant will be unreasonable and therefore unenforceable ... if it seeks to bar the employee from soliciting clients with whom the employee never acquired a relationship through his or her employment or if the covenant extends to personal clients of the employee who came to the employer solely to avail themselves of the employee's services and only as a result of his or her own independent recruitment efforts, which the employer neither subsidized nor otherwise financially supported as a program of client development"[16] (*Milbrandt & Co. v Griffin*, 2004 NY Slip Op 51333[U], 5 Misc 3d 1011 [A] [Sup Ct Westchester County 2004], *citing BDO Seidman, supra* 93 NY2d at 393; *Scott, Stackrow & Co., C.P.A.'s, P.C. v Skavina*, 9 AD3d 805] [3d Dept 2004], *lv denied* 3 NY3d 612 [2004]). "If an employer demonstrates at least one legitimate interest, a court has discretion to partially enforce an otherwise overbroad covenant .... [but] [a]n employer must also demonstrate good faith – 'an absence of overreaching, coercive use of dominant bargaining power, or other anti-competitive misconduct' – to warrant the possibility of partial enforcement" (*Silipos, Inc*, 2006 WL 2265055 at *3, *quoting BDO Seidman*, 93 NY2d at 394).

Courts regularly "blue pencil" non-solicitation restrictive covenants so that they only enjoin an former employee's solicitations of clients for whom the employee serviced (*see Healthworld Corp. v Gottlieb*, 12 AD3d 278 [1st Dept 2004]; *Spinal Dimensions, Inc. v Chepenuk*, 2007 NY Slip Op 51533[U], 16 Misc 3d 1121[A] [Sup Ct Albany County 2007]; *Greystone Staffing Inc. v Goehringer*, 2006 NY Slip Op 52458[U], 14 Misc 3d 1209[A] [Sup Ct Nassau County 2006]; *Ikon Office Solutions, Inc. v Usherwood Office Techn., Inc.*, 2008 NY Slip Op 52499[U], 21 Misc 3d 1144[A] [Sup Ct Albany County 2008]; *Career Placement of White Plains, Inc. v Vaus*, 77 Misc 2d 788 [Sup Ct Westchester Count 1974]).

1. ***Plaintiffs Have Established a Likelihood of Success that A Blue-Lined Non-Solicitation Clause Should be Enforced***

Under the Sales Representative Agreements, Collins and Fisher were independent contractors given exclusive sales territories to sell UMS's products. The restrictive

[16] While Fishel and Collins suggest that their customers were brought about by their own individual efforts with no assistance from Universal, it is clear based on the case law that the only clients that may be excluded from an injunction that is otherwise properly issued would be customers that Fishel and Collins actually had prior to joining Universal and ones that were developed independently of any expenditures or efforts made by Universal (*Marsh USA Inc. v Karasaki*, 2008 WL 4778239 [SD NY 2008]; *Spinal Dimensions Inc. v Chepenuk*, 2007 NY Slip Op 51533[U] [Sup Ct Albany County 2007]; *Greystone Staffing Inc. v Goehringer*, 2006 NY Slip Op 52458[U], 14 Misc 3d 1209[A] [Sup Ct Nassau County 2006]). Since their affidavits fall short of showing that there are any such pre-existing or independent client relationships, Fishel and Collins have not established a personal clients defense to Plaintiffs' motion.

covenants provide that Collins and Fisher cannot:

- disclose directly or indirectly any confidential information of the company which is defined as the identity of any customer or prospective customer of UMS, the specific types of services and equipment provided to such customer or prospective customer, the specific prices or methods of payment for UMS's products and services, the specific programs or other information developed by or for customers or prospective customers, operations manuals and guidelines, business plans/strategies, financial information and pricing policies, and any inventions or computer hardware or software (Agreements at § 3);

- throughout the period of the relationship and for one year following the termination of the relationship with the Company or its successor in interest, directly or indirectly engage in the Territory in any business competitive with the Company, including without limitation, any business that markets, promotes, sells or distributes medical or veterinary ultrasound or digital radiography equipment or holds seminars relating to the sales and training on medical or veterinary ultrasound equipment, or any business that markets, promotes, distributes, sells or installs products that the Company is now or in the future contemplating marketing, promoting, distributing, selling or installing (such as monitoring equipment) (Sales Representative Agreement § 14.3 [the "Non-Compete"]);

- directly or indirectly induce any present, former or prospective customer, supplier or independent contractor of the Company to patronize any person/entity that competes with UMS or request present, former or prospective suppliers, customers or independent contractors to cancel their business with UMS throughout the Sales Representative's tenure with UMS and for a period of one year after the termination of such relationship with the Company or its successor in interest (Sales Representative Agreement at § 14.1 [the "non-solicitation"]); or

- directly or indirectly, solicit, hire or retain the services of the Company's past or present employees or past or present independent contractors, or otherwise induce any such employee or independent contract to leave employment or engagement, or to breach an employment or independent contractor agreement with the Company throughout the Sales Representative's tenure with the Company and for a period of one year after the termination of such relationship with the Company or its successor in interest (Sales Representative Agreement § 14.2. [the "non-hire"]).

While Plaintiffs have established a likelihood of success that they have a legitimate interest in the protecting the customer relationships that have been cultivated as a result of Fishel and Collins' relationship to UMS, the restrictive covenants as presently written are unenforceable because they not only seek to protect UMS's legitimate interest in not having its current customers, employees and sub-distributors poached, they also seek to prevent Fishel and Collins from soliciting prospective customers which is not a legitimate interest that may be protected (*see, e.g., Marsh USA Inc. v Karasaki*, 2008 WL 4778239 at * 17 [SD NY 2008]).

Fishel and Collins' argument that the liquidated damage clause somehow vitiates Plaintiffs' right to injunctive relief is without merit given that Fishel and Collins both agreed in the Sales Representative Agreement that the liquidated damages would have no impact on Plaintiffs' ability to seek injunctive relief. Furthermore, while Fishel and Collins may assert a counterclaim for the bonus payments they claim are outstanding, these claims are insufficient to thwart Plaintiffs' right to injunctive relief, although it may impact Plaintiffs' ultimate right to permanetly enforce these agreements.

Because this Court has found that the restrictive covenants are overly broad and not narrowly tailored to protect the one legitimate interest of UMS – the maintenance of the good will of the customers Fishel and Collins serviced while working for UMS, which good will was fostered by resources provided by Universal – the issue becomes whether this is an appropriate case for the Court to blue pencil the non-solicitation clause, so that it is limited to the customers for which Fishel and Collins had responsibility during the course of their relationship with Plaintiffs. Here, while Fishel and Collins have asserted that Brunelli presented the restrictive covenant as a take it or leave it proposition, the Court does not believe that such assertions are sufficient to constitute the coercion sufficient to justify the denial of a blue-lining (*Greystone Staffing, Inc.*, *supra*, 14 Misc 3d 1209[A] at *2). Furthermore, Plaintiffs have presented evidence that Fishel and Collins breached their fiduciary duties to UMS while they were still employed with UMS. These factual assertions were left unrebutted by Fishel and Collins in their opposition. Accordingly, as it appears that Fishel and Collins have been less than loyal to UMS, and given that UMS has a legitimate interest in protecting its relationship with customers whose good will was fostered by UMS's investments in educational seminars, advertising and demonstrations at trade shows and through its investment in Collins and Fishel as its sales representatives who further cultivated those relationships, the Court finds this to be an appropriate case to exercise its discretion and blue line the restrictive covenant so that it comports with the law and narrowly tailored to protect Plaintiff's legitimate interest in protecting the good will of the customers Fishel and Collins serviced.

2. *Plaintiffs Have Established Irreparable Injury*

As noted by the Second Circuit, irreparable injury is often found in violation of non-compete cases since "it would be very difficult to calculate monetary damages that would successfully redress the loss of a relationship with a client that would produce an indeterminate amount of business in the years to come" (*Ticor Title Ins. Co.*, 173 F2d at 70; *see also Alside Div. of Assoc. Materials, Inc. v Leclair,* 295 AD2d 873 [3d Dept 2002]; *Maltby v Harlow Meyer Savage, Inc.*, 166 Misc 2d 481 [1995], *affd* 223 AD2d 516 [1st Dept 1996], *lv dismissed* 88 NY2d 874 [1996]).

Accordingly, the Court finds that unless the restrictive covenants are enforced, Plaintiff will suffer irreparable injury since it will likely sustain a loss of business that is not readily quantifiable.

3. *Plaintiffs Have Established a Balance of Equities Tips in Their Favor*

The Court finds that the balance of equities weighs in Plaintiffs' favor and in accordance with the Court of Appeals' decision in *BDO Seidman*, *supra,* 93 NY2d at 388-389, the preliminary injunction to be entered herein will be no greater than is required for the protection of the *legitimate interest* of the employer, will not impose undue hardship on the employee and is not injurious to the public.

F. Scope of The Preliminary Injunction

As stated previously, the Court views the provisions respecting solicitation of clients, employees, and independent contractors (*i.e.*, sales representative and sub-distributors) as overbroad. Plaintiffs are not entitled to protection against Fishel and Collin's solicitation of persons or entities who were not actually doing any business with UMS and were merely potential sources of business. Nor do Plaintiffs have any interest in preventing former employees or independent contractors from working for Vetel or another of Plaintiffs' competitors. Accordingly, the Court shall blue line the restrictive covenant so as to enjoin Fishel and Collins from, for a period of one year following their termination of their Sales Representative Agreements with Universal, from (1) soliciting, servicing or otherwise doing business with any of customer or sub-distributor of Universal or UMS who they dealt with while employed by Plaintiffs; and (2) requesting or advising any Universal or UMS customer or sub-distributor with whom Fishel or Collins called upon, sold products to or otherwise serviced, to withdraw, curtail or cancel its business with Universal or UMS; and (3) soliciting, hiring or retaining the services, directly or indirectly, of any present Universal or UMS employee or independent contractor, or otherwise inducing any such employee or independent contractor to breach an employment or independent contractor agreement with Universal or UMS.

G. Undertaking

CPLR 6312 requires that, prior to the granting of a preliminary injunction, the plaintiff shall be required to give an undertaking, in an amount to be fixed by the Court, for all damages and costs that may be sustained by reason of the injunction. The only exception to the requirement that an undertaking be posted is found in CPLR 2512 which exempts the state, municipal corporations or public officers on behalf of such governmental entities from the requirement that an undertaking be posted. The Appellate Division, Second Department has consistently held that, given the clear and unequivocal mandate of CPLR 6312, there is no authority which permits the court to grant an injunction to a private party without requiring the giving of an undertaking (*see, e.g.*, *Ying Fung Moy v Hohi Umeki*, 10 AD3d 604 [2d Dept 2004]; *Livas v Mitzner*, 303 AD2d 381 [2d Dept 2003]; *Schwartz v Gruber*, 261 AD2d 526 [2d Dept 1999]; *Carter v Konstantatos*, 156 AD2d 632 [2d Dept 1989]; *Litwa v Litwa*, 89 AD2d 581 [2d Dept 1982]; *Smith v Boxer*, 45 AD2d 1054 [2d Dept 1974]).

The purpose of an undertaking is to provide a "ready source from which the defendant may recover for damages" sustained by reason of a preliminary injunction that is later found to have been improperly granted (*Margolies v Encounter*, Inc., 42 NY2d 475, 479 [1977]). The amount of an undertaking must be rationally related to the amount of potential damages that Fishel and Collins might sustain (*see, e.g., Ujueta v. Euro-Quest Corp.*, 29 AD3d 895 [2d Dept 2006]); *Blueberries Gourmet, Inc. v Aris Realty Corp.*, 255 AD2d 348 [2d Dept 1998]). Because the injunction may impact Fishel's and Collins' ability to earn commissions, the Court believes that the proper bond to be set would be $75,000 each for Fishel and Collins, for the total of $150,000.00.

CONCLUSION

The Court has considered the following papers in connection with these motions:

1) Order to Show Cause dated May12, 2010; Affidavit of Peter Brunelli, Esq. sworn to May 10, 2010, together with the exhibits annexed thereto; Affidavit of Glenn Klevens, sworn to May 5, 2010; Affirmation of Emergency of Peter G. Goodman, Esq. dated May 11, 2010; together with the exhibit annexed thereto;

2) Plaintiffs' Memorandum of Law in Support of Order to Show Cause, Temporary Restraining Order and Preliminary Injunction dated May 11, 2010;

3) Affirmation of Phoebe A. Wilkinson, Esq. dated May 12, 2010, together with the exhibits annexed thereto; Affidavit of Thomas B. Feick, sworn to May 11, 2010, together with the exhibits annexed thereto, submitted with proof of due service;

4) Defendants' Memorandum of Law in Opposition to Plaintiffs' Order to Show Cause dated May 11, 2010;

5) Affirmation of Jonathan B. Nelson dated May 20, 2010; Affidavit of Jeff Fishel, sworn to May 20, 2010; Affidavit of James K. Waldsmith, sworn to May 20, 2010; Affidavit of Michael Collins, sworn to May 20, 2010;

6) Defendants' Memorandum of Law in Opposition to Plaintiffs' Application for a Preliminary Injunction dated May 20, 2010, submitted with proof of due service;

7) Order to Show Cause with Cross-Application to Compel Arbitration dated May 21, 2010; Affidavit of Claudio Bertolini in Opposition to Plaintiffs' Application for Injunctive Relief, sworn to May 19, 2010, together with the exhibits annexed thereto; Reply Affidavit of Thomas B. Feick, sworn to May 19, 2010, together with the exhibit annexed thereto;

8) Memorandum of Law in Support of Cross-Application to Compel Arbitration and in Further Opposition to Plaintiffs' Application for a Preliminary Injunction dated May 20, 2010;

9) Reply Affidavit of Peter Brunelli, sworn to May 14, 2010, together with the exhibit annexed thereto; and

10) Plaintiffs' Reply Memorandum of Law dated May 14, 2010.

Based upon the foregoing papers, and for the reasons set forth above, it is hereby

ORDERED that the motion by Plaintiffs UMS Solutions, Inc., d/b/a Universal Ultrasound and Universal Medical Systems, Inc. (Seq. No. 1) for a preliminary injunction is granted in part, and denied in part, as set forth herein; and it is further

ORDERED that the branches of the motion by Plaintiffs UMS Solutions, Inc., d/b/a Universal Ultrasound and Universal Medical Systems, Inc. as seek a preliminary injunction as against Defendants Biosound Esaote, Inc. and Vetel Diagnostics, Inc. are denied; and it is further

ORDERED that the branch of the motion by Plaintiffs UMS Solutions, Inc., d/b/a Universal Ultrasound and Universal Medical Systems, Inc. as seeks a preliminary injunction as against Defendants Jeff Fishel and Michael Collins is granted but only to the extent hereinafter set forth and is otherwise entitled; and it is further

ORDERED that, pending the determination of this action, or until the expiration of a period of one year following their respective terminations of employment with Plaintiffs UMS Solutions, Inc., d/b/a Universal Ultrasound and/or Universal Medical Systems, Inc., whichever shall first occur, Defendants Jeff Fishel and Michael Collins are enjoined and restrained from: (1) soliciting, servicing or otherwise doing business with any of the customers or sub-distributors of Plaintiffs UMS Solutions, Inc., d/b/a Universal Ultrasound and Universal Medical Systems, Inc. which said Defendants dealt with while employed by said Plaintiffs; otherwise serviced; (2) requesting or advising any of customer or sub-distributor of Plaintiffs UMS Solutions, Inc., d/b/a Universal Ultrasound and Universal Medical Systems, Inc. with whom said Defendants called upon, sold products to or otherwise serviced, to withdraw, curtail or cancel its business with said Plaintiffs; and (3) soliciting, hiring or retaining the services, directly or indirectly, of any present employee or independent contractor of Plaintiffs UMS Solutions, Inc., d/b/a Universal Ultrasound and Universal Medical Systems, Inc. or otherwise inducing any such employee or independent contractor to breach an employment or independent contractor agreement with said Plaintiffs; and it is further

ORDERED that Plaintiffs UMS Solutions, Inc., d/b/a Universal Ultrasound and Universal Medical Systems, Inc. shall give an undertaking in the sum of $150,000.00 conditioned that Plaintiffs, if it is finally determined that they were not entitled to an injunction, will pay to Defendants Michael Collins and Jeff Fishel all damages and costs which may be sustained by reason of this injunction; and it is further

ORDERED that if the undertaking provided for in the preceding decretal paragraph is not filed with the Clerk of the Court (courtesy copy to Chambers) by July 23, 2010, then Defendants may submit to this Court, on (1) day's notice to counsel for Plaintiffs, an order vacating forthwith all injunctive relief hereinbefore or hereinabove granted; and it is further

ORDERED that the cross-motion of Defendant Biosound Esaote, Inc. to compel arbitration of the claims asserted against it herein, stay the action as against said Defendant, and stay the time within which said Defendant may respond to the Complaint (Seq. No. 2) is denied; and it is further

ORDERED that counsel are directed to attend a preliminary conference on July 30 2010 at 9:30 a.m., which conference shall not be adjourned without the express written consent of this Court.

The foregoing constitutes the Decision and Order of this Court.

Dated: White Plains, New York
July 15, 2010

ENTER:

Alan D. Scheinkman
Justice of the Supreme Court

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