UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

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LIBERTY POWER CORP., LLC, Plaintiff, -against- STUART KATZ, STUART A. KATZ, INC., AND FOUNDATION ENERGY SERVICES, LLC, Defendants.	**CIV. ACTION NO.: 10-1938 (NAG) (CLP)**

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DEFENDANTS' MEMORANDUM OF LAW IN OPPOSITION TO LIBERTY POWER'S MOTION <u>FOR A PRELIMINARY INJUNCTION</u>

Served September 29, 2010

ORAL ARGUMENT REQUESTED

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PRELIMINARY STATEMENT

Defendants Stuart Katz, Stuart A. Katz, Inc. ("SAK") and Foundation Energy Services, LLC ("FES") (collectively "Defendants" or "SAK/FES") respectfully submit this memorandum of law and accompanying papers in opposition to the request by Plaintiff Liberty Power Corp., LLC, ("Liberty Power" or "LP") for a preliminary injunction. For the reasons set forth below, we respectfully submit that LP has not demonstrated, and cannot demonstrate, that it will suffer irreparable harm, that it is likely to succeed on the merits of its case, or that the "balance of hardships" weighs decidedly in its favor. Accordingly, we respectfully request that LP's request for extraordinary relief be denied in its entirety.

Put simply, even assuming that LP can prove that Defendants received unauthorized information from Keith Hernandez – principally spreadsheets with information relating to companies whose contracts with LP were expiring ("Hernandez Information" or "Hernandez Spreadsheets") – LP is still not entitled to the extraordinary injunctive relief it seeks. In this respect, this case is rather simple. LP asks this Court to impose extraordinarily broad injunctive relief without providing this Court with any reason to believe that LP will suffer any irreparable harm or that Defendants will use or disseminate the Hernandez information.

Far from proving that it has been irreparably harmed, in reality, LP has economically benefitted – to the tune of millions of dollars – by the contracts Defendants closed using the Hernandez information. Indeed, Defendants used the information Hernandez provided *exclusively* for the benefit of LP by closing contracts for Liberty Power. This is all but conceded by LP.

Further, LP has not pointed to *any* harm (let alone irreparable harm) that will result if its request for injunctive relief is not granted– the *sine qua non* of a request for injunctive relief.

For example, LP does not suggest that Defendants will disseminate the Hernandez information to third parties absent an injunction. Nor does LP offer any evidence that Defendants will use or access the Hernandez information absent an injunction. Nor does LP offer any reason why money damages would not compensate it for any harm it may suffer in the future.

In fact, what is striking about this case is how different this case is from the typical trade secrets case in which a movant rushes to court with evidence that a competitor or former employee/agent is actually (a) disseminating the movant's specialized information, (b) using the movant's information to steal its customers, or (c) using the movant's information to make a competing product. *Here, LP has not presented this Court with any reason to believe that Defendants are doing, or will do, any of these things.*

Moreover, unlike the typical case in which a movant genuinely seeks to recover its information, here, LP's conduct demonstrates that it has not taken real and immediate steps to recover the Hernandez spreadsheets. As described below, LP's failure to do so undermines its claims of irreparable harm, and further undermines LP's position that this information is specialized trade secrets. Rather, we submit that LP has ulterior motives for filing this case – none of which relate to a legitimate concern that Defendants' possession or use of the Hernandez information will cause it irreparable harm.[1]

As discussed below, LP has not (and cannot) carry its burden of demonstrating imminent and irreparable harm, a likelihood of success on the merits, or that its request for injunctive relief is narrowly tailored and not likely to impede the lawful competition of businesses. For these reasons, we respectfully ask that LP's demand for injunctive relief be denied.

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[1] We submit that LP has filed this action to make public Defendants' conduct, to injure Defendants' reputation in the industry, and to impede Defendants' ability to conduct its business under an oppressive and overbroad injunction. Moreover, we submit that LP persists in this action to deplete Defendants' resources in anticipation of Defendants' suit against LP to recover substantial commissions owed to them.

PROCEDURAL HISTORY

Defendants were served with the instant Motion on or about May 7, 2010. Judge Brian Cogan entered a briefing schedule but, on May 21, 2010, the parties entered into a Stipulation extending that schedule to facilitate settlement discussions. LP's agreement to the Stipulation was premised upon Katz's agreement to certain restrictions during the period in which the parties were discussing settlement. Berman Aff. ¶ 11. Settlement negotiations commenced immediately and, with the assistance of Magistrate Judge Pollak, continued until approximately August 26, when negotiations broke down (the "Settlement Period"). The parties' time to file papers was extended throughout the Settlement Period. Based upon certain information exchanged during the Settlement Period, the parties agreed that LP would be permitted to submit supplemental moving papers. LP filed its supplemental papers on September 13, 2010.

STATEMENT OF FACTS

The relevant facts are set forth in the Affidavit of Stuart Katz, sworn to September 29, 2010 ("Katz Aff.") and the Affirmation of Marjorie E. Berman, dated September 29, 2010 ("Berman Aff.")

DISCUSSION

An injunction is an "extraordinary remedy never awarded as of right." *Winter v. Natural Resources Defense Council, Inc.*, 129 S. Ct. 365, 376 (2008). To obtain injunctive relief, a movant must demonstrate "(a) irreparable harm and (b) either (1) likelihood of success on the merits or (2) sufficiently serious questions going to the merits to make them fair ground for litigation and a balance of hardship tipping decidedly toward the party requesting the preliminary relief." *Faiveley Transp. Malmo AB v. Wabtec Corp.*, 559 F. 3d 110, 116 (2nd Cir. 2009). Moreover, where a movant seeks a mandatory injunction, *i.e.*, an injunction that requires somebody to do something rather than just maintain the *status quo*, the movant must demonstrate a "clear" or "substantial likelihood of success on the merits," and other more onerous requirements. *Doninger v. Niehoff*, 527 F.3d 41, 47 (2nd Cir. 2008). Both tests require that the movant establish each element by a preponderance of the evidence. *Proctor & Gamble Co. v. Ultreo, Inc.*, 574 F. Supp.2d 339, 344 (S.D.N.Y. 2009). We submit that under either test, LP has failed to meet its burden to demonstrate that it is entitled to the extraordinary relief it seeks.

I. LP HAS NOT DEMONSTRATED THAT IT IS LIKELY TO SUFFER IRREPARABLE HARM ABSENT AN INJUNCTION

It is well-established that "a showing of irreparable harm is the 'single most important prerequisite' for issuance of a preliminary injunction." *Faiveley*, 559 F. 3d at 118. In fact, without such a showing, no injunction may issue. *Rodriguez ex rel. Rodriguez v. DeBuono*, 175 F.3d 227, 233 (2nd Cir. 1999) ("The movant must demonstrate an injury that is neither remote nor speculative, but actual and imminent and that cannot be remedied by an award of monetary damages."); *Moore v. Consol. Edison Co. of N.Y., Inc.*, 409 F.3d 506, 510 (2nd Cir. 2005) (where "there is an adequate remedy at law, such as an award of money damages, injunctions are unavailable except in extraordinary circumstances"). Indeed, irreparable harm must be demonstrated before the court even considers whether the movant has met the other requirements for injunctive relief.[2]

Notwithstanding the indisputable rule that a movant must show a likelihood of irreparable harm, LP all but concedes that it cannot make the requisite showing. Instead, it claims that no

[2] The federal reporters are full of cases in which a request for preliminary injunction has been denied for the sole reason that the movant failed to show that it would experience irreparable harm if the injunction did not issue. *See for example, Verzani v. Costco Wholesale Corp.*, 2010 WL 2838526 (2nd Cir. 2010) (movant's failure to demonstrate "irreparable injury renders it unnecessary for us to review the district court's determination that [the] claim was "likely to fail" on the merits."); *Faiveley*, 559 F.3d at 118 ("In the absence of evidentiary support of irreparable harm, there was no basis for the entry of a preliminary injunction…"); *Passlogix, Inc. v. 2FA Technology, LLC*, 2010 WL 2505628, *7 (S.D.N.Y. June 21, 2010) (denying injunction and noting that where there is no irreparable harm, no injunction may issue).

requirement exists, and that this Court can merely *presume* irreparable harm. *See* LP Br. pp. 13-14 ("the evidence of Defendants' misappropriation alone warrants a finding of irreparable harm, as the value of Liberty Power's Proprietary Information, once lost, can never be regained or measured."). Not surprisingly, LP, does not cite a *single* case in support of this proposition. *Nor does LP inform the Court that the Second Circuit recently expressly rejected this notion.*

In *Faiveley,* the Second Circuit affirmed the denial of injunctive relief in a case involving the misappropriation of trade secrets. The Court noted that some courts had read its precedent to presume irreparable harm where a trade secret had been misappropriated. The Court held that such a reading was "not correct." *Id.*[3] Indeed, the Court re-affirmed the need for movants to actually demonstrate irreparable harm, and noted that this is a formidable task where dissemination to third parties is not an issue because, "the only possible injury that [the] plaintiff may suffer is loss of sales to a competing product…[which] should be fully compensable by money damages." *Id.* at 119. Moreover, the Second Circuit held that district courts are "without authority" to issue injunctions merely "as a precautionary measure," rather, a movant must demonstrate that there is a real risk of irreparable harm before a court can even entertain the idea of issuing any injunctive relief. *Id.*

Moreover, since *Faiveley*, the Second Circuit has again made clear that "the court must not adopt a 'categorical' or 'general' rule or presume that the plaintiff will suffer irreparable harm," but "[i]nstead, the court must actually consider the injury the plaintiff will suffer…paying close attention to whether the 'remedies available at law, such as monetary damages, are inadequate to compensate for that injury.'" *Salinger v. Colting*, 607 F.3d 68 (2nd Cir. 2010).

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3 While the *Faiveley* court recognized a rebuttable presumption of irreparable harm in a limited class of cases, it is clear that this does not apply in this case.

Thus, there is no question that a movant must demonstrate a likelihood of irreparable harm, and where a movant fails to do so, the court has no authority to enter any injunction.

Not only does LP fail to cite to *Faiveley*, but LP's brief is noticeably lacking in its citation to cases where courts have made findings of irreparable harm that survive the Court's decision in *Faiveley*. Rather, LP relies heavily on cases which simply presumed irreparable harm. *See North Atlantic Instruments, Inc. v. Haber*, 188 F.3d 38 (2d Cir. 1999); *Inflight Newspapers v. Magazines In-Flight, LLC*, 990 F. Supp. 119 (E.D.N.Y, 1997) and *South Nassau Control Corp. v. Innovative Control Mgmt. Corp.*, 1996 WL 496610 (E.D.N.Y. June 20, 1996). Thus, the cases relied upon by LP are not instructive on the question of irreparable harm.[4]

We submit that the case law and analysis set forth below demonstrate that LP has not demonstrated a likelihood that it will suffer irreparable harm if injunctive relief is not issued.

A. LP's Conduct Weighs Heavily Against A Finding Of Irreparable Harm

A movant's conduct can undermine its ability to show irreparable harm if the conduct undercuts any sense of urgency and/or need for injunctive relief. *See for example, Passlogix, Inc. v. 2FA Technology, LLC*, 2010 WL 2505628 (S.D.N.Y. June 21, 2010) (delay undercut claim of irreparable harm); *Lanvin Inc. v. Colonia, Inc.*, 739 F. Supp. 182, 192-3 (S.D.N.Y. 1990) (movant cannot mask failure to mitigate as an ongoing instance of irreparable harm). LP's conduct undermines any claim that Defendants' possession of the information will cause it irreparable harm. Specifically, LP's lack of interest in recovering the Hernandez spreadsheets seriously undermines any claim it makes now. Specifically, LP never simply asked Defendants to return the Hernandez information, even during the Settlement Period when Defendants

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[4] LP also relies on *Markovitz v. Venture Info Capital, Inc.*, 129 F.Supp.2d 647, 657 (S.D.N.Y. 2001) for the proposition that the measure of damages is unquantifiable. LP Br. at 15. In that case, however, the unquantifiable damages referred to were the loss of goodwill caused by the former employer passing his former employer's ideas off as his own, and confusing the customer base as to who first succeeded with methodologies. There are no similar allegations in this case.

insisted on certain terms prior to entering into the Stipulation. Katz Aff., ¶ 42, Berman Aff., ¶¶ 11,15. Obviously, demanding the return of the information would have been the simplest way to ensure that Defendants did not continue to possess or use the information. LP's failure to even *ask* that the information be returned undermines LP's claims of irreparable harm now.

Moreover, LP's failure to exercise other rights similarly undermines its claim of irreparable harm. Before the case was filed, Katz invited LP to inspect the SAK/FES computers and remove information they did not believe he was entitled to have. Katz Aff. ¶ 42. Further, defendants expressly granted LP the right, throughout the Settlement Period, to enter Defendants' offices and inspect their computers to determine whether Hernandez information was stored on those computers. *LP, however, never sought to enforce this right.* Berman Aff., ¶¶ 13,14. Given LP's lack of interest in actually locating and recovering the subject information, it is clear that LP cannot make out any irreparable harm here.

Accordingly, LP's conduct (and lack of action) fatally undermines its ability to now claim that it will be irreparably harmed if this Court does not issue the requested injunction.

B. <u>Liberty Power Has Not Shown Any Of The Classic Types Of Irreparable Harm</u>

Even putting aside that LP's own conduct demonstrates that no injunction should issue in this case, LP has failed to make the necessary showing of irreparable harm. For example, LP has not shown any of the classic types of irreparable harm such as a likelihood of: (a) a recurrent violation, (b) dissemination to third parties, (c) use in the marketplace to make a competing product, or (d) use in the marketplace to convert the movant's customers.

LP has not even suggested that (a), (b) or (c) are likely to occur. Thus, the only "classic" type of irreparable harm alleged here is that Defendants will use the information to move LP's clients to other energy suppliers. LP's arguments, however, do not sustain its burden because its claims are purely speculative, are not supported by any factual support, and because all of the potential harm to LP is readily compensable by money damages.

Put simply, LP has not demonstrated any likelihood that Defendants will *use* the spreadsheets in the future. Where there is no risk of *further use* of the misappropriated information, there is no likelihood of irreparable harm, and courts must deny requests for injunctive relief. *See for example, Nebraskaland, Inc. v. Brody*, 2010 WL 157496 (S.D.N.Y. Jan. 13, 2010) (no injunctive relief issued where there was no risk of continued use); *American Airlines, Inc. v. Imhof*, 620 F.Supp.2d 574 (S.D.N.Y. 2009) (where former employee offered to return the misappropriated information after learning that he could not use it, court held that there was there was "no material risk" that the former employee would use the information); *Iron Mountain Info. Mgmt. Inc. v. Taddeo*, 455 F.Supp.2d 124, 142 (E.D.N.Y. 2006) (without showing of continuing conduct, no irreparable harm can be shown). Indeed, on remand to the district court in *Faiveley*, the court denied injunctive relief because, in part, the movant merely speculated that there would be some continuing use of the information, but failed to show that there was any "continuing" solicitation or communication that "might result in the imminent disclosure of …trade secrets." *In re Faiveley*, 2009 WL 3270854, *4 (S.D.N.Y. 2009).

Similarly, LP has not offered any evidence of Defendants' continuing use of the Hernandez information, and only alleges that *if* Defendants use this information to move current LP customers to a competitor, it *would* be harmed. LP Br.. at 15. This claim is simply too speculative and indefinite to warrant an injunction.

LP rests its claim that Defendants have a plan to move LP's current customers to a competitor on two things: (a) a statement by Katz, Declaration of Keith Hernandez ("KH Dec") ¶ 13, and (b) letters attached to the Declaration of Harris Rosen in LP's supplemental papers.

Neither carries LP's burden here. The single statement in which Katz purportedly said – in a moment of anger six months ago – that he "wanted to take Liberty Power customers to other electricity providers..." does not carry LP's burden because LP has not offered a *shred* of evidence that Defendants have *actually* encouraged *a single* LP customer (let alone a customer whose name appears on the Hernandez spreadsheets), to change energy suppliers; or that Defendants have *even accessed the Hernandez spreadsheets since their initial receipt.* In fact, Katz confirms in his affidavit that he has not accessed the information since its original receipt (which was anywhere from 6 months to two years ago), and he has no intention of doing so. Katz Aff. ¶ 34. It simply defies logic as to how LP can be irreparably harmed *if LP does not even allege (let alone offer any evidence) that the spreadsheets are being accessed or used in any way.* LP's claims are nothing more than rank speculation based on a spontaneous statement made in the heat of the moment six months ago.

Moreover, LP simply overreaches with its argument that the letters attached to Rosen's supplemental declaration prove that Defendants are soliciting LP's customers to break their contracts with LP. While LP *implies* that the recipients of these letters are current LP customers, in reality, there is *nothing* in LP's papers that leads to this conclusion. Nor is there any reason to believe that the recipients of these letters were listed on the Hernandez spreadsheets, or that these letters were specifically sent to companies listed on the Hernandez spreadsheets. Thus, LP's supplemental papers do <u>not</u> demonstrate that Defendants are using the Hernandez information to encourage current LP customers to switch suppliers.[5] Rather, as discussed above, there is no reason to believe that Defendants are accessing or will access the spreadsheets.

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[5] Moreover, to the extent that LP reads something nefarious into the generic solicitation of any current users of power because some customers may break their contracts to switch providers, this is specious. This is simply commonplace in a highly-competitive industry - no different than Comcast soliciting a current Verizon customer to change cable/internet providers. Katz Aff. ¶ 4 .

Again this case stands in stark contrast to the typical case in which there is actual evidence of continued use, or, at the very least, the evidence demonstrated that the information was taken in order to make continued use of the information (such as when an employee quits his job to start a competing company). Here, there is neither evidence of continued use, nor evidence that the information was obtained to make continuing use of it, nor even that the information *has any continuing value*. In fact, Katz dispels any such notion when he states that SAK/FES did not retain much of the Hernandez information, and has not accessed the remaining information since its original receipt. Katz Aff. ¶¶ 30-34. Moreover, it is clear that the spreadsheets do not even have real continuing value to Defendants. As set out in the Berman Affirmation, 95% of the contracts referenced on the Hernandez lists have already expired. Berman Aff. ¶ 8 (only approximately 75 of the 1327 contracts have not expired). Katz explains that because these companies' contracts have expired, the companies are the *least viable contacts* for SAK/FES to pursue because the companies have recently entered into a new energy contract and, thus, have no pressing need or inclination to revisit their decision. Katz Aff. ¶ 34.[6]

Moreover, unlike the typical trade secret case in which there is no question that the subject information relates to the movant's *current* customers, the same cannot be said here. Here, LP simply assumes in its papers that all of the customers listed on the subject spreadsheets

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[6] In its supplemental papers, LP tries to invoke the doctrine of inevitable disclosure. Its effort fails because LP (a) relies on two out-of-state case support for this principle, (b) ignores the fact that such a presumptive conclusion is likely barred by the Second Circuit's decision in *Faiveley*, and (c) is factually unwarranted here. *See also Systems Mgmt. Planning, Inc. v. Gordon*, 2009 WL 901514 (N.Y. Sup. 2009) (noting that the principal likely does not survive *Faiveley*); *In re Faiveley Transport Malmo AB*, 2009 WL 3270854, *4 (S.D.N.Y. 2009) (on remand holding that inevitable risk is forbidden by Circuit's decision). Moreover, the cases relied upon by LP demonstrate that the doctrine typically applies to processes and recipes where information is embedded in a former employee's memory and cannot lie dormant there. This case is inapposite here, where the information is a list of over a thousand company names which cannot be are indelibly stamped in Defendants' memory.

are *current* LP customers. This assumption is entirely unsupportable, and it is disingenuous for LP to have given this Court that impression. While the companies on the Hernandez spreadsheets *were* LP customers at the time the spreadsheets were delivered, it is likely that only a small portion of those companies remain LP customers today. Specifically, Katz estimated that, on average, SAK/FES was able to renew for LP approximately 20% of the contracts on the Hernandez spreadsheets. Of the remaining 80%, based on Katz's experience, he estimates that the majority do not renew their contracts with Liberty Power. Katz Aff. ¶ 35. Thus, it appears that are large percentage of the companies listed on Hernandez spreadsheets *are no longer LP customers*. Obviously, LP cannot be harmed with respect to companies who are not even LP customers.

Finally, even if LP could demonstrate that there is a likelihood that Defendants will solicit the narrow universe of now-current companies listed on the Hernandez spreadsheets, this type of damage is easily remedied with money damages. *See Faiveley*, 559 F.3d at 118-9 (lost sales are compensable by money damages); *World Wide Polymers, Inc. v. Shinkong Synthetic Fibers Corp.*, 2010 WL 3155176 (S.D.N.Y. 2010) (citing cases that selling goods in violation of distributorship agreement is compensable by monetary damages); *Iron Mountain*, 455 F.Supp. 2d at 142 (citing cases in which loss of business was readily compensable by monetary damages, and holding that where soliciting former customers requires a new contract, the loss of such contracts is readily compensable with monetary damages). LP has offered no reason why money damages would be insufficient or that the damages could not be calculated. In fact, LP implicitly concedes the ease with which such damages can be calculated when it offered precise loss figures with respect to the value of these very contracts. *See* Declaration of Alberto Daire.

Finally, LP's claims that its entire business is at risk are unsupported hyperbole, and the case law has rejected similar claims where the subject information relates to only a small fraction of the movant's business. *See for example Lanvin Inc. v. Colonia, Inc.*, 739 F. Supp. 182, 193 (S.D.N.Y. 1990) (citing cases and holding that risk to 10% of business insufficient to demonstrate irreparable harm). The Hernandez lists only refer to approximately 1,327 companies. Berman Aff. ¶ 8. LP claims that it has approximately 33,000 customers. David Hernandez Decl. ("DH Dec.") ¶ 6. Thus, the Hernandez lists relate to less than 5% of LP's customers. Moreover, the lists do not include *any* of LP's large or national clients, because Keith Hernandez never provided that type of information to Defendants. KH Dec. ¶¶ 4, 10. LP's claim is even more absurd given that the Hernandez information obviously only relates to companies in four states, but LP actively sells electric power to customers in *twelve states*. DH Dec. ¶ 2. Thus, LP's business is not at risk and its suggestion to the contrary is absurd. Accordingly, LP has not demonstrated that it is likely to suffer irreparable harm.

C. **LP's Other Claims Of Irreparable Harm Are Equally Without Merit**

LP's claim that it will suffer irreparable harm in its relationships with other Sales Channels if an injunction does not issue, LP Br. at 15, fails because it is not supported by any evidence or facts, and any harm is readily compensable by monetary damages. LP has offered only a conclusory statement to substantiate this claim of irreparable harm. Conclusory allegations alone concerning the loss of reputation or goodwill are insufficient to make out irreparable harm. *See World Wide Polymers*, 2010 WL 3155176, *12 (conclusory allegations insufficient); *Lanvin Inc.*, 739 F. Supp. at 193 (same). *In fact, none of the affidavits submitted by LP – including the affidavit from its CEO – refers to any harm to LP's relationships with Sales*

Channels, let alone irreparable harm.[7] Moreover, LP's claims about their efforts to protect the business of their sales channels is thoroughly undermined by Katz's affidavit describing how LP actually encourages its Sales Channels to close contracts that belong to other Sales Channels and provides information to support that effort. Katz Aff. ¶ 26. Thus there is simply no reason to believe that LP's "relationship" with its Sales Channels will be harmed if no injunction issues, or that such harm is likely, imminent, or cannot be compensated with money damages.

II. LP HAS NOT SHOWN A LIKELIHOOD OF SUCCESS ON THE MERITS OF ITS MISAPPROPRIATION CLAIM

Not only has LP failed to make a showing of irreparable harm, we submit that no injunction should issue for the additional reason that LP has failed to demonstrate a likelihood of success on the merits of its misappropriation claim. There is no dispute between the parties that to state a claim for misappropriation of a trade secret, LP will need to prove that "(1) it possessed a trade secret, and (2) Defendants are using that trade secret in breach of an agreement, confidence, or duty, or as a result of discovery by improper means." LP Br. at 16. LP, however, cannot succeed on its claim because the spreadsheets are not protected trade secrets.

A. The Information Is Not A Protected Trade Secret

The rule in New York is that "customer lists are generally not considered confidential information" or trade secrets.[8] *See H. Meer Dental Supply Co. v. Commisso*, 269 A.D.2d 662, 664 (N.Y. App. Div., 4th Dept. 2000) (noting and applying general rule); *Candler Coffee Corp. v. Eigenfeld*, 432 N.Y.S.2d 816 (N.Y. Sup. 1980) (applying general rule and rejecting trade secret

[7] In fact, much of the subject information could not adversely affect LP's relationship with its sales channels given that the accounts were managed internally at LP. *See for example*, Exhibit F and I to KH Dec. (listing "LP Inside Sales" as the "Sales Channel,").

[8] We assume *arguendo*, for purposes of this submission, that New York law applies to this dispute. We note, however, that just as LP failed to cite to the Second Circuit's decision in *Faiveley*, LP failed to even acknowledge that the rule in New York is that the customer/client lists are not protected trade secrets, and that LP seeks to invoke the exception to that rule. See LP Br. at 16-19

protection for a salesperson's notebook containing names of former customers); *Inflight Newspapers*, 990 F. Supp. at 119 (same). An exception to this rule exists where the list is developed through substantial effort, its contents are not readily ascertainable, and it is kept in confidence by its creator. *H. Meer Dental Supply Co.*, 269 A.D.2d at664 ("it is incumbent upon plaintiff to demonstrate that its customers are not known in the trade and are discoverable only by extraordinary efforts."); *Webcraft Techs., Inc. v. McCaw*, 674 F. Supp. 1039 (S.D.N.Y. 1987) (applying exception). Courts typically use New York's six-factor test as a guide to determine whether the information is a protected trade secret. The test asks the Court to consider:

> (1) the extent to which the information is known outside the business; (2) the extent to which it is known by employees and others involved in the business; (3) the extent of measures taken by the business to guard the secrecy of the information; (4) the value of the information to the business and its competitors; (5) the amount of effort or money expended by the business in developing the information; (6) the ease of difficulty with which the information could properly be acquired or duplicated by others.

LP Br. at 17.

Here, we respectfully submit that the general rule of <u>not</u> granting trade secret protection to this type of information applies here, and that LP has not demonstrated that the exception to that rule is warranted. LP's conclusory statements regarding the application of this test – none of which are supported by the affidavits submitted by LP – do not carry its burden of demonstrating that the spreadsheets are protected trade secrets.[9] *See* LP Br. at 18-19.

With respect to the first factor – the extent to which the information is known outside of LP – nearly all of the information contained in the spreadsheets is either known outside of LP or

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9 Furthermore, the conclusion that this class of information is <u>not</u> a protected trade secret is demonstrated by the fact that LP has not asked Defendants to return the similar spreadsheets LP provided to Defendants during the course of their dealings with LP. *Put simply, if this type of information is a <u>per</u> <u>se</u> trade secret, LP would have sought the return of <u>all</u> such information from Defendants.*

is easily ascertainable. Information such as a business's name and contact information is precisely the type of information that Katz typically receives on a sales lead list. Katz Aff. ¶ 11. Moreover, a company's name is publicly available in sources such as the yellow pages or the internet, and the name of the person within the company who manages the company's energy contracts is readily ascertainable either in the sales lead information Defendants are able to purchase, or in a 30-second phone call to that company. *Id.* ¶ 14. The "end date" of the company's current contract and the customer's account number is easily obtained in a phone call to the customer. *Id.* ¶ 15. With this information, the remaining information such as past energy usage and rates is easily ascertained by a phone call to the utility or, at times, may even be learned online. Thus, the first factor does not support a finding of trade secret protection.

Next, the facts of this case – as set forth by LP – clearly demonstrate LP's failure to satisfy the second and third factors of the trade secret test -- the extent to which the information is known by employees and others involved in LP's business and the extent of measures taken by LP to guard the secrecy of the information. LP claims that it protects this information by nondisclosure agreements and making the information available only to those who "need to know" it. The facts of this case simply disprove these claims. *First*, LP did not limit Keith Hernandez's access to this information even though it knew that he had addiction and financial problems and would thus pose a risk to LP if he had access to important company information. *Second*, where two employees have downloaded, removed and distributed the amount of information Hernandez describes in his Declaration, it is ludicrous for LP to argue that it has taken reasonable and effective measures to guard the secrecy of the information. *Third*, LP's claim that this information was only known internally on a "need to know" basis is easily dispensed with because LP never defines the universe of employees who have a "need to know" this information. Further, it appears that this provided no meaningful restriction given that Hernandez had access to this information even after he was demoted from Sales Channel Support to collections – a position which could not conceivably "need" to have access to the subject information. Also, Moya obviously had access to a large universe of LP's then-current customers even though there was no "need" for that broad access. Thus, the second and third factors do not weigh in favor of trade secret protection in this case.

The fourth factor - the value of the information to the business and its competitors – also weighs against LP. While LP's customers are no doubt of value to LP, this should not be confused with the value of information about that customer. LP's ability to maintain a customer does not rise or fall on knowing a customer's address or meter number. Rather, it rises or falls with customer service and competitive pricing, neither of which is impacted by whether the information about that customer is known to competitors. Further, as explained above, the only value in the information itself – if there is any at all – is in receiving information during the prime window of opportunity, *i.e.*, when the customer <u>must</u> make a decision about its expiring energy contract. As discussed above, p. 10, however, that prime window of opportunity has closed on all but approximately 75 of the companies listed in the Hernandez spreadsheets.

Moreover, given that the spreadsheets relate to a small fraction of LP's then-customers, LP misses the mark when it argues "the wants, needs and preferences of **more than <u>33,000</u> <u>customers</u>**," is "extremely valuable." LP Br. at 19; *see supra* p.12 (spreadsheets refer to less than 5% of LP's claimed 33,000 customers base, and do not include large and national accounts, and relate to only 4 of LP's 12 markets). Similarly, LP's claim that the "renewal value" of the contracts from the spreadsheets is $205,365,530 is overstated because it assumes that *every single one of* LP's then-customers would renew its contract with LP. LP, however, has not provided this Court with *any* evidence to support this assumption. Thus, the fourth factor does not weigh in favor of trade secret protection here.

With respect to the fifth and six factors – the time and effort used to compile the list, and the availability of the information elsewhere – these factors are perhaps the most important. *See Iron Mountain* 455 F.Supp.2d at 140 (customer list is not trade secret where customer base is large and contacts could be determined through cold calling); *Candler Coffee Corp. v. Eigenfeld*, 432 N.Y.S.2d 816 (N.Y. Sup. 1980) (no trade secret protection given to salesperson's notebook containing names and contact names of former customers solicited and serviced by him). In fact, where customers are garnered from widespread canvassing of potential customers in a highly competitive market, the list of customers is likely not a trade secret. *See Leo Silfen Inc. v. Cream*, 328 N.Y.S.2d 387, 429 (1972) (reversing grant of injunction and determining that customer list was not a trade secret); *Ivy Mar Co., Inc. v. C.R. Seasons Ltd.*, 907 F. Supp. 547 (E.D.N.Y. 1995) (customer list with preferences and other details not a protected trade secret).

Here, LP simply claims in conclusory fashion that it has taken years to "develop the Proprietary Information." This is insufficient to carry its burden. The effort to develop the customer contacts largely involved canvassing small and medium sized businesses in states which LP services. Moreover, the potential customer base is ***all*** *small, medium and large businesses* in the twelve states in which LP does business; thus, as in *Iron Mountain*, the "the list of potential customers appears limitless." *Iron Mountain*, 455 F.Supp.2d at 140. Moreover, as discussed above, the information is readily available. *See* discussion above at p.15. This is hardly the niche markets which the courts have protected in the cases cited by LP. Thus, the information is not a protected trade secret, and there is no chance that LP will be able to demonstrate otherwise.

B. The Cases LP Relies On Are Easily Distinguishable

The information at issue in the cases LP relies upon are a far cry from the information in this case. In fact, in those cases (a) the market for the company's services is quite small, (b) the sales process to develop a customer is both time intensive and costly, (c) the contact information is difficult to determine, and (d) the lists take quite a bit of time and resources to develop. Indeed, in many of the cases relied upon by LP, the information had a "needle in a haystack" character. For example, in *North Atlantic Instruments v. Inc. v. Haber*, Inc., 188 F.3d 38 (2nd Cir. 1999) the Court held that names of the company-customers were <u>not</u> trade secrets because the information could be compiled from publicly available information, but held that the names of the contact people at those companies were a trade secret because the movant's business was "targeted towards a particular niche market," and "the identity of the relatively small numbers of engineers [potential customers]" who wanted the product was hard to come by, and, thus, was extremely valuable and very difficult to derive through other means. In fact, the Court held that the information had a "needle-in-the-haystack" character because it was a handful of engineers in companies of 100,000 employees who needed the technology. Similarly, in *Webcraft Techs., Inc. v. McCaw*, 674 F. Supp. 1039 (S.D.N.Y. 1987), an injunction issued because the plaintiff sold an "unusual in-line finishing product," which was "not useful to many people," and the "evidence shows it is a long, difficult process to educate and convert a prospective customer to the benefits of the process…" such that developing a customer is an "arduous" process that took "between two months and two years to accomplish." *Id.* at 1045; *see also Churchill Comm. Corp. v. Demyanovich,* 668 F. Supp. 207, 211-212 (S.D.N.Y. 1987) (exception applied); *Liebowitz v. Aternity, Inc.*, 2010 WL 2803979 (E.D.N.Y. July 14, 2010) (exception applied where information was a "needle in a haystack" which took years and hundreds of thousands of dollars to identify).

Here, in contrast to each of these cases, as discussed *supra*, LP's prospective customers are ***every*** *small, medium or large business* in 12 states. *See* DH Dec. ¶ 2. Moreover, as Katz describes in his affidavit, solicitation of a customer typically involves about 30 minutes of work, and rarely involves any in-person meetings. Katz Aff. ¶ 16. In fact, in contrast to the cases cited by LP, the business of selling energy is a high-volume, high turn-over kind of business.

Thus, because LP cannot show that the subject information is a protected trade secret, it has no likelihood of succeeding on the merits – let alone a clear or substantial likelihood of success on the merits.[10]

III. LP HAS NOT IDENTIFIED A SERIOUS QUESTION AND BALANCE OF HARDSHIPS *DECIDEDLY* IN ITS FAVOR

Finally, even assuming *arguendo* that LP has demonstrated irreparable harm (which it has not), and it can succeed on the alternative (and easier) standard for injunctive relief, we respectfully submit that no injunction may issue because LP has not demonstrated that there is a "serious question" on the merits or that the balance of hardships is decidedly in its favor. According, we respectfully submit that no injunction should issue.

A. No "Serious Question" Exists Here

For all the reasons discussed above, pp. 13-17, we also submit that LP has failed to demonstrate that there is a "serious question" as to whether the spreadsheets are trade secrets. Put simply, under the case law and the six-factor test, there is little chance that the spreadsheets would be protected as a trade secret given that the market is limitless, the company names are readily available, the other information is available through lists that can be purchased on the

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10 Similarly, LP cannot demonstrate that Defendants are currently misappropriating its information, or that LP has a likelihood of success on its claim for unfair competition. This claim rises or falls with LP's misappropriation claim, *see* LP Br. at 16, and we submit it will fall with LP's misappropriation claim.

open market or can be gathered in a simple telephone call, and the turnover of customers is high. Thus, there is no "serious question" on the merits here.

B. Balance of Hardship Is Not Decidedly in LP's Favor

Even if there were "irreparable harm" and "a serious question" (neither of which exist here), LP would still need to show that the balance of hardships is decidedly in its favor. LP's only claim here is that it "stands to lose the enormous value of its Proprietary Information, as well as its relationships with its sales channels will be harmed," whereas Defendants only "stand to lose the ability to generate revenue from Liberty Power customers with whom they do not have a relationship." LP Br. at 22. This argument is without merit.

As discussed above, LP has offered *no* factual support for its repeated conclusory statements that its information is valuable, and its value is lost by Defendants' possession, or that its relationships with its Sales Channels have been and will be harmed. *See supra* pp. 12-13. Similarly, as discussed above, *supra* p. 13, LP's calculation of the "value" of this information is overstated. Specifically, we submit that there is no hardship to LP:

- by information Defendants do not have in their possession, *see* Katz Aff. ¶ 30 (Katz does not have the list attached as Exhibits C and D to the Hernandez Dec. which contain about 450 customers).
- by information that is too stale to be useful, *see* Berman Aff., ¶ 8 (a) (all but 75 of the companies' contracts have since expired), and Katz Aff., ¶ 34 (discussing the limited value of this information).
- by information that relates to customers that are no longer LP customers, *see supra* pp. 10-11; Katz Aff., ¶ 35.

Moreover, LP grossly underestimates the hardship that would be imposed upon Defendants if this Court issues the requested injunction – which is excessively broad. Among other requests, LP asks this Court to impose an order prohibiting Defendants from "contacting any of the customers who appear on the lists of Proprietary Information misappropriated by

Defendants." LP Supp. Prop. Order ¶ 3. This request was added as an afterthought to LP's demand for relief, in LP's supplemental papers, filed months after its initial request. This relief would not only be unjust, overbroad, punitive and anticompetitive,[11] it would cripple the business of SAK/FES because they would be unable to ever contact any of the 1,327 companies listed on the lists. *As a practical matter, this would require Katz and each of his sales representatives to cross check 1,327 names every time they picked up the phone to solicit a company -- even when the customer-company's name came to Defendants' attention through another means.* This is a very onerous burden, not warranted in this case. This conclusion is supported by the Court's opinion in *Iron Mountain*, 455 F.Supp.2d at 140. In that case, the Court rejected a request to prohibit a former employee from soliciting the 1500 business contacts he took with him when he joined a competitor company. With respect to the balancing of hardships, the Court found that the balance tipped in favor of the former employee, and specifically held:

> Furthermore, given the method the contacts were developed in the first instance, it would likely add considerable more work for [the salesman] to allow him only to call potential customers not included on his Outlook Contacts because a majority of those contacts were initially developed through cold calls and research and it would practically require cross-checking customers every time a potential name came up to ensure they were not on the list. This would constitute a large hardship for [the salesman].

Id. at 141. Similarly, here, the cross-checking that would be required by LP's requested injunctive relief is too onerous. Accordingly, LP misses the mark that it has shown both a serious question regarding the merits and the balance of hardships decidedly in its favor.

11 These factors are discussed in Section IV, below.

IV. LP'S DEMAND FOR INJUNCTIVE RELIEF SHOULD BE DENIED BECAUSE ITS REQUESTS ARE VAGUE, OVERBROAD, AND UNJUST AND ANTICOMPETITIVE

Finally, even assuming *arguendo* that this Court finds that LP is entitled to *some* injunctive relief, the order proposed by LP is vague, overbroad, unjust and anticompetitive.

Injunctive relief must be narrowly tailored and well-defined so that the terms can be well-understood, followed, and breaches enforced. *Faiveley*, 559 F.3d at 119 ("relief should be 'narrowly tailored to fit specific legal violations' and to avoid 'unnecessary burdens on lawful commercial activity.'"). In *Faiveley*, the Second Circuit reversed the grant of an injunction against entering new sales contracts involving the misappropriated trade secrets to the extent that would impinge upon lawful commercial activity. *Id.*; *see also Empresas Cablevision, S.A.B. de C.V. v. JP Morgan Chase Bank, N.A.*, 2010 WL 2540177 (2nd Cir. June 23, 2010) (reversing injunction that was not narrowly tailored to reach only the conduct causing irreparable harm).

Here, LP's request for injunctive relief – as set forth in the supplemental proposed order – fails this test.

A. The Universe Of Information Subject to the Proposed Order Is Overbroad

As an initial matter, the reach of LP's proposed order is overbroad. While the entirety of LP's Complaint and briefing relates to the information Hernandez provided to SAK/FES, LP does not limit its requested relief to that information. Rather, LP's proposed order would reach all information about LP's customers regardless of whether the information was misappropriated (or whether the information was learned by Defendants through another means). Thus, it would appear to include even information *that Defendants obtained through the course of their own ordinary hard work, and which they brought to LP.* At the very least, any injunction would need to be narrowly tailored only to reach the Hernandez spreadsheets.

Thus, even if the Court found that some injunctive relief were warranted, LP's proposed injunction is overbroad.

B. The Specific Demands Are Improper

In addition, the specific demands LP makes are improper. For example, in its first and second demands, LP seeks an injunction preventing Defendants from engaging in any "unfair competition" with LP. *See* Supplemental Prop. Order ¶¶ 1 and 2. Such a prohibition is much broader than is necessary given that the only "unfair competition" alleged in this case is soliciting customers of LP. Given that injunctive relief cannot be issued for conduct which is not alleged or likely to occur, *see Faiveley*, 559 F.3d at 119, using such generalized terms such as "unfair competition" does not pass muster. Moreover, the terms "unfair competition" and "unfairly competing" are impossibly vague and would give SAK/FES poor direction as to the conduct permitted or prohibited by any such Order.

The third demand, which does not appear in LP's original proposed order, seeks to enjoin Defendants from contacting any of the customers which appear on the Hernandez spreadsheets. This demand is overbroad, anticompetitive and punitive. Indeed, such an injunction is not even supported by the very cases on which LP relies.[12] Moreover, if this injunction issued, Defendants would be enjoined from:

- Soliciting companies that are no longer LP customers given that the vast majority of the companies on the spreadsheets are likely no longer LP customers;[13]

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12 *See North Atlantic Instruments, Inc. v. Haber*, 188 F.3d 38 (rejecting trade secret protection for company names); *Innoviant Pharm., Inc. v. Morganstern*, 390 F. Supp. 2d 179, 195 (N.D.N.Y. 2005) (most of customer information was not a trade secret, and injunction only applied to 114 names for a period of one year); *Inflight Newspapers* 990 F. Supp. at 119 (rejecting trade secret protection for customer names and rate information).

13 During the Settlement Period, Defendants' counsel requested that LP identify which companies on the spreadsheets are current LP customers, LP refused to provide that critical information. Berman Aff. ¶ 16 .

- Soliciting companies who were identified and developed by SAK/FES *without any assistance from LP;*
- Soliciting companies which Defendants identify in the future through other means, simply because the name also appears on the spreadsheets; and
- Soliciting other offices/location of a larger company (such as a chain restaurant) simply because a single branch location is on the spreadsheets.

Such an injunction would obviously not be narrowly tailored to only to address "irreparable harm" and avoid 'unnecessary burdens on lawful commercial activities', and not merely be imposed "as a precautionary measure." *Faiveley*, 559 F.3d at 119.

Further, LP's fourth and eighth demands are an unusual request which reads more like a discovery demand under Rule 26. In any event, LP has not remotely demonstrated why it would suffer irreparable harm if Defendants do not immediately "identify all [persons] to whom [they] provided proprietary information" and to provide a certification to the Court of such. Surely, if LP believed it would suffer irreparable harm without this relief, it would have inspected Defendants' computers during the Settlement Period and ascertained this information itself.

LP's fifth demand, to return information to LP, and sixth demand, to have SAK/FES certify their efforts to identify that information, are overbroad (as discussed above), and further, LP appears to have waived any claim that such relief is necessary to avoid imminent harm, by (1) failing to request the return of the information during the Settlement Period and (2) failing to exercise its right, during the Settlement Period, to have forensic experts inspect the SAK/FES computers.

LP's seventh demand – that Defendants contact all employees, individuals and companies who received access to the information and provide them with a copy of the Order is overbroad, unnecessary and punitive. Indeed, LP fails to explain why this relief is needed or why absent such relief, it would suffer irreparable harm. This request is an obvious attempt to harm

Defendants' reputation in the marketplace. In this regard, LP has already made a practice of defaming Katz in the marketplace by communicating with suppliers with whom Katz contracts and informing them about this suit and their claims of misappropriation. Katz Aff. ¶ 45.

LP's final demand – that Defendants hire a forensic expert to locate documents – is completely unsupportable here given that LP has had the express right to this relief during the Settlement Period and chose not to invoke that right.

CONCLUSION

For all the reasons set forth above, Defendants respectfully submit that no preliminary injunction is warranted or should issue. For these reasons, we respectfully request the Court to deny Plaintiff's motion in its entirety.

Dated: September 29, 2010

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