UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

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

PLAINTIFF'S REPLY MEMORANDUM OF LAW IN SUPPORT OF ITS MOTION FOR PRELIMINARY INJUNCTION

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A. Katz's Representations Regarding His Good Faith Conduct Are Entirely Lacking in Credibility

The theme that pervades all of Defendants' arguments[1] - whether as to irreparable harm, likelihood of success on the merits or balancing of hardships - is that Stuart Katz is a good guy who has always acted with the best of intentions. In attempting to create a persona upon which the Court will look favorably, Defendants ignore that they (a) systematically purchased Proprietary Information about thousands of customers over an eighteen month period from August 2008-April 2010; (b) attempted in June 2009 to unlawfully purchase Proprietary Information about all of Liberty Power's more than 30,000 customers; (c) used that information to sign customers who they knew were handled by Liberty Power's other Sales Channels; (d) told Keith Hernandez that they would use the information to take Liberty Power's customers to competitor power companies; and (e) still have the Proprietary Information today. *See generally,* Declaration of Keith Hernandez dated April 29, 2010 ("KH Decl."). Indeed, the fact that Katz sent Hernandez a detailed contract proposal in June 2009 offering Hernandez equity in FES in exchange for 30,000 Liberty Power customers verifies that Defendants' interest has always been to move Liberty Power's customers to other power providers.

Defendants' true actions have now been confirmed by the testimony of FES' former Vice President, Nadia Razeq. Ms. Razeq corroborates that Katz did in fact receive the USB drive containing Proprietary Information about an additional 1,500 Liberty Power customers, and that Katz downloaded all of the Proprietary Information on Defendants' computer systems and emailed it to Defendants' salespeople. Declaration of Nadia Razeq ("Razeq Decl."), ¶ 2. Ms. Razeq states that Katz always knew that Liberty Power and Liberty Power's other Sales Channels would object to his activities and that Defendants' business practice was to encourage Liberty Power customers to break their contracts with Liberty Power to go to other power

[1] Rather than including a Statement of Facts, Defendants' brief refers to the content of an affidavit and attorney affirmation in their entireties. Considering these documents as part of the brief, as they should be, Defendants violate the Court's page limits by submitting 40 pages of briefing in opposition to Plaintiff's motion.

suppliers. *Id.*, ¶¶ 3, 5. Finally, Ms. Razeq confirms that Defendants used the Proprietary Information to move Liberty Power customers to other power suppliers. *Id.*, ¶ 4.

B. Defendants Falsely Accuse Liberty Power of Citing an Incorrect Standard

Defendants wrongly accuse Liberty Power of claiming that there is a presumption of irreparable harm. Opp. Brief at 4-6. The single sentence to which Defendants cite in is in the context of Liberty Power's discussion of the parties' contractual agreement, which states "monetary damages may be inadequate to compensate Liberty for breach of [the] confidentiality obligation." Declaration of David Hernandez dated April 27, 2010 ("DH Decl."), Exh. B. Defendants' agreement that misuse of the Proprietary Information may not be compensable by monetary damages supports a finding of irreparable harm. *Ticor Title Ins. Co. v. Cohen*, 173 F.3d 63, 69 (2d Cir. 1999); *Nat'l Elevator Cab & Door Corp v. H & B, Inc.*, 282 Fed. Appx. 885, 887 (2d Cir. 2008); *Leibowitz v. Aternity, Inc.*, 2010 U.S. Dist. LEXIS 70844 *52 (E.D.N.Y. July 14, 2010); *IBM v. Papermaster*, 2008 U.S. Dist. LEXIS 95516 *29 (S.D.N.Y. November 21, 2008). Notably, when Defendants gather similar information about their own customers, they also claim that the information is valuable, confidential and protectable. DH Decl., Exh. A.

In fact, it is Defendants who mislead the Court, as *Faiveley* drew an explicit distinction between when irreparable harm can and cannot be presumed:

> **A rebuttable presumption of irreparable harm might be warranted in cases where there is a danger that, unless enjoined, a misappropriator of trade secrets will disseminate those secrets to a wider audience or otherwise irreparably impair the value of those secrets.** Where a misappropriator seeks only to use those secrets--without further dissemination or irreparable impairment of value--in pursuit of profit, no such presumption is warranted.

Faiveley Transp. Malmo AB v. Wabtec Corp., 559 F.3d 110, 118-19 (2d Cir. 2009) (emphasis added). Liberty Power has clearly demonstrated a likelihood of "irreparable impairment of value" to its Proprietary Information and further dissemination thereof.

The case law further supports a finding of irreparable harm in this case even without a presumption. *South Nassau Control Corp. v. Innovative Control Management Corp.*, 1996 U.S. Dist. LEXIS 22603 * 14 (E.D.N.Y. June 20, 1996) (finding irreparable harm based on

defendant's former position with plaintiff, his awareness of confidential customer information and his propensity to use it). In *Leibowitz v. Aternity, Inc.*, the court found that Leibowitz had access to, among other things, confidential customer contact and pricing information and that he e-mailed various confidential customer lists to his personal email. 2010 U.S. Dist. LEXIS 70844 at *51. The court held:

> [T]he disclosure or use of this information would give KNOA, the major Aternity competitor, an unfair advantage in the niche EUE marketplace. It is also clear that Aternity would be irreparably harmed if Leibowitz used this information to gain an advantage in soliciting Aternity customers.... Aternity has clearly established that it would be irreparably harmed in the absence of the requested injunctive relief.

Id., at *52-*53; *see also Ticor Title Ins. Co. v. Cohen*, 173 F.3d at 69.

C. Defendants' Arguments Against a Finding of Irreparable Harm Are Baseless

Defendants contend that Liberty Power only attempts to prove irreparable harm via "use in the marketplace to convert movant's customers". Opp. Brief at 7. In fact, this is the one point to which Katz concedes, as he admits that Defendants tried to use the Proprietary Information to take customers away from other Sales Channels. Katz Decl., ¶¶ 25-26. When he tries to limit the scope of that use, Katz is very vague, stating "I do not believe I downloaded any of these lists, nor do I recall forwarding these lists to anybody" and "I am not aware of any instances where SAK/FES used the information [] to direct a Liberty Power customer to a different power supplier. *Id.*, ¶¶ 27-28. The Razeq Declaration makes clear that these half-statements are meant to hide the truth about Defendants' use of the Proprietary Information. Defendants further ignore that Liberty Power has submitted extensive of evidence regarding "recurrent violations", having demonstrated that Defendants improperly misappropriated the Proprietary Information as to thousands of customers on at least six occasions, tried to misappropriate Proprietary Information as to all of Liberty Power's 33,000 customers on another occasion and moved customers to other power suppliers. *See* KH Decl. and Razeq Decl.

Defendants also suggest that there is no likelihood of irreparable harm because the renewal dates of the customers on the lists forwarded by Hernandez to Katz have passed. Even

as to customers whose renewals dates have passed, the Proprietary Information remains just as valuable. As Katz acknowledges, customers sign up for contracts in one-year multiples. Katz Decl., ¶ 3. If, for example, Defendants are unable to convince an up-for-renewal customer on July 1, 2010 to change suppliers, Defendants know that customer will be up for renewal again on July 1, 2011, and all of the pricing, product and order history data that was useful for soliciting that customer's business in 2010 will be equally useful in 2011. Declaration of Elie Hernandez dated October 15, 2010 ("EH Decl."), ¶ 3. Thus, there is ample reason for Defendants to continue using Liberty Power's Proprietary Information to solicit Liberty Power's customers.

Moreover, Defendants' contention that these are not current Liberty Power customers is wrong. As of the filing date of this action, 2,845 of the customer accounts on the lists forwarded by Hernandez to Katz were active, and 2,365 of those accounts are still active today. Declaration of DeAnna Bodine, ("Bodine Decl."), ¶ 2. Finally, Liberty Power has demonstrated irreparable harm to its relationships with its Sales Channels; Defendants' argument that Liberty Power encourages its Sales Channels to steal each other's customers is simply incorrect. EH Decl., ¶ 5.

D. Defendants Improperly Rely on Content of Settlement Discussions

Defendants also argue that Liberty Power's settlement conduct demonstrates that Liberty Power does not view the Proprietary Information as valuable enough to warrant a finding of irreparable harm. Opp. Brief at 6-7. Reference to Liberty Power's settlement conduct is precluded by F.R.E. 408. *See S.E.C. v. Credit Bancorp Ltd.*, No. 99 Civ. 11395, 2010 WL 768944, *4 (S.D.N.Y. Mar. 8, 2010) ("Evidence of settlement negotiations is inadmissible to prove liability for, or invalidity of, a claim."). Moreover, a forensic search of Defendants' entire computer system, as would be necessary to ensure that Defendants no longer have any electronic copies of the Proprietary Information, is a complicated procedure and the parties could not agree on the method or timing thereof. Declaration of David Saenz ("Saenz Decl."), ¶ 2. Instead, the parties negotiated a stipulation and sworn affidavit which required Defendants not to use the Proprietary Information and not to have any conversations with any of Liberty Power's customers even without using the Proprietary Information, and agreed that the Stipulation would

not be used in the litigation as Defendants are now effectively doing. *Id.*, ¶¶ 3-4. Finally, Defendants (a) repeatedly refused to simultaneously conduct settlement discussions and brief this motion, *id.*, ¶ 5, thereby causing the very delay they are now trying to use against Liberty Power, and (b) have been free to conduct a forensic analysis and return the Proprietary Information but have never done so.

E. Defendants Will Misuse the Proprietary Information Going Forward

Defendants cannot simply avoid an injunction by promising not to do it again. *Cartier, Inc. v. Four Star Jewelry Creations Inc.*, 2003 U.S. Dist. LEXIS 7844 *17-*18 (S.D.N.Y. May 8, 2003) ("As the Supreme Court has long noted, a bare promise by a party in the course of litigation to discontinue past or ongoing misconduct does not justify denial of injunctive relief, since such unilateral action hardly suffices to ensure that the party will not, in the future, reverse course and resume its challenged activities."); *Estee Lauder Cos. v. Batra*, 430 F. Supp. 2d 158, 176 (S.D.N.Y. 2006) ("[A]n individual's assertion that he 'really doesn't care' about his former employer's trade secrets is not sufficient to overcome a demonstration of irreparable harm."); *Churchill Comm. Corp. v. Demyanovich*, 668 F. Supp. 207, 214 (S.D.N.Y. 1987) (finding irreparable harm even without evidence of actual use because Demyanovich "could easily undercut Churchill in price and steadily deplete its entire customer base.")

Additionally, Defendants' claim that their business practice is to discard cold calling lists after use is irrelevant here. Katz Decl., ¶ 18. That Defendants may discard cold calling lists is a very different practice than how to handle "hot" or "warm" calling lists. EH Decl., ¶ 2. The lists that Defendants misappropriated contained detailed Proprietary Information about Liberty Power's customers which is very valuable, and would never be treated the same way as a cold list of names and phone numbers of potential customers with whom Defendants had never previously done business. *Id.*

The cases that Defendants cite are all readily distinguishable:

Nebraskaland, Inc. v. Brody, 2010 U.S. Dist. LEXIS 7744 *9 (S.D.N.Y. January 13,	Plaintiff's former employee no longer had access to the trade secrets at issue and could not continue any acts of misappropriation. Here, Defendants concede that they

2010)	still have the Proprietary Information, stated their intent to take Liberty Power customers to other power providers and actually moved customers to other power providers.
Am. Airlines, Inc. v. Imhof, 620 F. Supp. 2d 574, 580 (S.D.N.Y. 2009).	Imhof was a former American Airlines employee who left with confidential data to join Delta Airlines. The court found that there was no threat of irreparable injury because the single, potential recipient thereof, Delta, was aware of the issue and swore that it did not want to use or receive the information, and there was no evidence that Imhof had ever used the information at Delta. Here, there are tens of thousands of potential customers and dozens of competitors to whom Defendants can try to move those customers, none of whom have submitted declarations on Defendants' behalf, and there is substantial evidence of Defendants' use of the Proprietary Information.
Iron Mt. Info. Mgmt. v. Taddeo, 455 F. Supp. 2d 124, 141 (E.D.N.Y. 2006).	The Court expressly declined to address irreparable harm on the misappropriation claim. The court addressed only a fiduciary duty claim and found that the alleged breach lasted only two weeks and was not egregious. Even applying the court's analysis to the misappropriation claim here, Defendants' systematic purchase and use of the Proprietary Information for 18 months warrants a finding of irreparable harm.
In re: Faiveley Transp. Malmo AB, 2009 U.S. Dist. LEXIS 97283 *7 (S.D.N.Y. October 7, 2009).	The most recent evidence of threatened misappropriation from 2008 was more than fifteen months old and could not support a finding of imminent irreparable harm. The plaintiff had ample opportunity to conduct discovery in 2009 and still could not identify evidence of threatened misappropriation. Here, Liberty Power relies on evidence that is not stale and has not yet had the opportunity to conduct discovery, rendering *In re: Faiveley* inapposite.

F. Liberty Power Is Likely to Prevail on its Claims

On the first factor, Defendants argue that "all" of the Proprietary Information is publicly available, but simply speculate that if they called customers and public utilities they could independently develop the same specific customer pricing, order history, product type information, data regarding the customer's annual electricity consumption and upcoming renewal dates. Defendants do not submit a single shred of evidence that the Proprietary Information is actually publicly available, and the law is clear that this type of detailed customer information is protectable. *Webcraft Techs., Inc. v. McCaw*, 674 F. Supp. 1039, 1046 (S.D.N.Y. 1987); *Inflight Newspapers*, 990 F. Supp. at 127-28; *Churchill Communications Corp. v. Demyanovich,* 668 F. Supp. at 211-212; *Unisource Worldwide, Inc. v. Valenti*, 196 F. Supp. 2d

269, 278 (E.D.N.Y. 2002); *Business Intelligence Services, Inc. v. Hudson,* 580 F.Supp. 1068, 1072 (S.D.N.Y. 1984). Defendants' argument that they ***could*** have put in the same years of effort to develop the Proprietary Information is irrelevant - it is the fact that it ***would*** take such time and effort that makes the information protectable. *N. Atlantic Instruments, inc. v. Haber*, 188 F.3d 38, 44-45 (2d Cir. 1999); *Webcraft Techs., Inc. v. McCaw*, 674 F. Supp. at 1046.

On the second factor and third factors, Defendants argue that Hernandez and Moya's mere access to the Proprietary Information demonstrates that Liberty Power did not take adequate steps to protect it. Hernandez and Moya worked in sales support and therefore needed to have access to the Proprietary Information in order to perform their duties. EH Decl., ¶ 7. As with all employees, Hernandez and Moya signed confidentiality agreements, used password protected accounts and were subject to the technological security controls of Liberty Power's computer systems.[2] Defendants also argue that Liberty Power does not define what it means by "need to know" access to its Proprietary Information. Opp. Brief at 15-16. As Liberty Power has made clear, "need to know" access means that one Sales Channel, such as Defendants, does not have access to the Proprietary Information relating to customers handled by another Sales Channel. It also means that Liberty Power employees who do not need access to sales information, such as the Pricing or H.R. departments, do not have such access. EH Decl., ¶ 7. Finally, Defendants argue that Hernandez's access to Proprietary Information should have been limited after his demotion, which is exactly what happened. KH Decl., ¶¶ 3, 6.

On the fourth factor, Defendants contend that knowing the prices paid by Liberty Power's customers would not help obtain those customers; however, the ability to undercut a competitor's prices is invaluable in soliciting a customer's business. *Inflight Newspapers*, 990 F. Supp. at 127-28; *Churchill Communications Corp. v. Demyanovich*, 668 F. Supp. at 214. Defendants fail to even address the value of the other aspects of the Proprietary Information besides pricing, and

[2] Defendants suggestion that Liberty Power's employment of Keith Hernandez, who has had a drug problem in the past, demonstrates that Liberty Power put the information at risk is baseless; Liberty Power's Vice President of Sales drove Hernandez to weekly drug testing and all of his tests came back clean. EH Decl., ¶ 8.

ignore that they were willing to pay $40,000 and undertake enormous business risk to misappropriate the Proprietary Information, thereby confirming its value.

Defendants also argue that the Proprietary Information is not valuable because it only applies to a limited percentage of Liberty Power's customers. First, while Defendants discuss 1,327 unique "customers", they actually stole information about 4,630 distinct "customer accounts", as many customers had multiple accounts for different locations which appeared on the lists, each of which can be separately solicited. Bodine Decl., ¶ 2; *see also* KH Decl., Exhs. C-D, F-G, I. Second, Defendants come to this calculation only after Katz denies that he received the USB drive from Hernandez, Katz Decl., ¶ 32, which would more than double the number of customers and customer accounts at issue.[3] Third, the total renewal value of the customer contracts at issue $205,365,530, Declaration of Alberto Daire dated April 28, 2010, ¶ 3, and is indisputably a significant part of Liberty Power's business.[4]

On the fifth and six factors, Defendants contend that Liberty Power has not supplied sufficient evidence of the time and expense involved in developing the Proprietary Information. The Proprietary Information is literally the core of Liberty Power's business - Liberty Power does not own power facilities, distribution networks or other hard assets - and contains detailed customer data that could only be developed over a period of years. These two factors clearly favor a finding of likelihood of success on the merits. Finally, Defendants attempt to distinguish Liberty Power's cases because Liberty Power's prospective customers are not in some niche market but rather are every business in twelve states. Opp. Brief at 17. Liberty Power's prospective customers are irrelevant; the issue is whether Liberty Power is likely to prevail in showing that Defendants misappropriated protectable trade secrets about existing customers.

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[3] Not only does the Razeq Declaration confirm that Katz is lying now, when Liberty Power first confronted Katz, he also denied receiving any information from Hernandez, only to confess to the spreadsheets after Liberty Power produced the email evidence of Defendants' misappropriation.

[4] The fact that Liberty Power knows the renewal value of the contracts should they each be renewed once does not mean that money damages are adequate compensation, as Defendants argue. Opp. Brief at 11. This number does not account for the continued renewal of those contracts by customers every twelve months. *Ticor Title Ins. Co. v. Cohen*, 173 F.3d at 69 ("It would be very difficult to calculate monetary damages that would redress the loss of a relationship with a client that would produce an indeterminate amount of business in years to come").

G. The Balance of Hardships Favors Liberty Power

Defendants do not offer any specific argument as to why there is any hardship with respect compliance with an injunction prohibiting their continued use of the Proprietary Information; instead, they argue that there would be no hardship to Liberty Power if the injunction is denied. Opp. Brief at 20. Defendants have no lawful right to have Liberty Power's Proprietary Information and actually claim that they do not want to use that information. Katz Decl., ¶ 34. There is simply no hardship to Defendants if enjoined from continued possession and use of the Proprietary Information.

Separately, Defendants argue that they would suffer a hardship if enjoined from contacting the customers on the lists that Defendants misappropriated at all for a limited period of time even without use the Proprietary Information. As set forth in Liberty Power's supplemental brief dated September 13, 2010, that is an appropriate remedy when a defendant has had unlawful access to customer information. *Leibowitz v. Aternity, Inc.*, 2010 U.S. Dist. LEXIS 70844 at *65; *Innoviant Pharm., Inc. v. Morganstern*, 390 F. Supp. 2d 179, 196 (N.D.N.Y. 2005); *Alturnamats, Inc. v. Harry*, 2008 U.S. Dist. LEXIS 71446 *44 (W.D. Pa. Sept. 16, 2008). There is nothing burdensome in having Defendants cross-check the names of a discrete set of Liberty Power customers against future call lists. They need only run a simple black line comparison in Word or Excel between the prohibited list and any new cold calling lists to eliminate duplicates, which would take less than five minutes.

Finally, Defendants' reliance on *Iron Mountain* is misplaced. That court found that "[t]here is no indication in the record that Taddeo's Outlook Contacts includes customers other than those pursued by Taddeo and there is no evidence that Taddeo took or copied the contact lists of other Iron Mountain salespersons." *Iron Mt. Info. Mgmt. v. Taddeo*, 455 F. Supp. at 140. The court ruled that the salesman should not be enjoined from using his own contact list after leaving the company where all he did to compile the list was make cold call efforts. *Id.* Here, Defendants misappropriated the Proprietary Information developed by others. Moreover,

Taddeo was an individual whereas Defendants are a sophisticated business enterprise with the resources to comply with the requested injunction.

H. The Requested Injunction is Not Vague or Overbroad

Defendants again suggest that the requested injunction is overbroad because it would require Defendants to cross-check the names of the Liberty Power customers on the lists that Defendants misappropriated when making sales calls in the future. Not only is that exercise not unduly burdensome, it is an appropriate consequence of stealing Proprietary Information about those same customers. If Defendants had not misappropriated Proprietary Information about so many customers, Defendants would not have to take equal steps to rectify the damage.

Defendants' suggestion that the injunction is somehow anti-competitive is also baseless. Defendants themselves argue that the potential customer base at issue is every business in every state in which they do business - tens, if not hundreds, of thousands of companies - and that the customers on the lists are unattractive to Defendants because they have recently had their contracts renewed. Opp. Brief at 10, 17. Not being able to contact a tiny percent of the available (and unattractive) customers in no way hinders competition. As to Defendants' attacks on specific points of the proposed injunction: (a) Defendants do not identify any customer with whom they had a previous relationship or what that relationship was; (b) Liberty Power is not asking that the injunction cover customers not on the lists; (c) there is nothing onerous or vague about having Defendants contact the persons to whom they distributed the Proprietary Information to ensure that it is returned; and (d) that some customers on the spreadsheets are no longer Liberty Power customers is a reason to grant, not deny, the injunction, as Defendants cannot steal customers and then argue that Liberty Power has no interest in retrieving them.

I. Conclusion

Based upon the entire record, Liberty Power respectfully requests that the Court grant its motion in full.

Dated: October 15, 2010

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