

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

PRESENT: _____
Justice

PART 17

EPIC SYSTEMS
INC. ET AL.

INDEX NO.

111950/08

MOTION DATE

MOTION SEQ. NO.

MOTION CAL. NO.

DAVID HARTIG ET AL.

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

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

Answering Affidavits -- Exhibits _____

Replying Affidavits _____

PAPERS NUMBERED

Cross-Motion: Yes No

Upon the foregoing papers, it is ordered that this motion is decided in
accordance with the accompanying memo decision.

FILED

JAN 28 2009

NEW YORK
COUNTY CLERK'S OFFICE

Dated: 1/26/09

[Signature]

[Signature]

J.S.C.

Check one: FINAL DISPOSITION NON-FINAL DISPOSITION

Check if appropriate: DO NOT POST REFERENCE

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

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK I.A.S. Part 27

-----X

EPIQ SYSTEMS, INC., EPIQ BANKRUPTCY
SOLUTIONS, LLC (f/k/a BANKRUPTCY SERVICES, :
LLC), and EPIQ FINANCIAL BALLOTING GROUP, : LLC
d/b/a FINANCIAL BALLOTING GROUP,

Plaintiffs,

Index No. 111950/08
PC No. 21414

-against-

DAVID HARTIE, DAVID M. SHARP,
JENNIFER K. NGO and KURTZMAN CARSON
CONSULTANTS LLC,

Defendants.

FILED
JAN 28 2009
NEW YORK
COUNTY CLERK'S OFFICE

GAMMERMAN, J.H.O.:

Plaintiffs move for a preliminary injunction, pursuant to CPLR 6301 and 7502, seeking specific performance of the restrictive covenants set forth in the employment contracts of each of the three defendants. On September 9, 2008, at the conclusion of a two-day hearing, I issued a temporary restraining order barring defendants from performing any balloting or tabulation for their current employer, from communicating with any customers or law firms in connection with balloting or tabulation, or from soliciting any employees of plaintiffs to seek employment with defendants' new employer.

I conclude that plaintiffs are not entitled to a preliminary injunction under either CPLR 6301 OR 7502.

A motion made pursuant to CPLR 7502 may be granted only if "the award to which the applicant may be entitled may be rendered ineffectual without such provisional relief," CPLR 7502 (c). In addition, an applicant for injunctive relief pursuant to CPLR 7502 (c), must meet the general criteria that govern grants of injunctive relief pursuant to Article 63 of the CPLR, *id.*; *K.W.F. Realty Corp. v Kaufman*, 16 AD3d 688 (2d Dept 2005); *Erber v Catalyst Trading, LLC*,

303 AD2d 165 (1st Dept 2003). It appears that any award to which plaintiffs may be entitled would be rendered ineffectual absent preliminary relief. I conclude, however, that plaintiffs have not shown that they are likely to prevail on the merits, that the balance of equities tilts in their favor, or that they will suffer irreparable harm absent a grant of relief.

Together with Jane Sullivan, the executive director of plaintiff Epiq Financial Balloting Group LLC, d/b/a Financial Balloting Group (FBG), defendants Sharp and Hartie formed FBG in 2004. Defendant Ngo was hired by FBG on July 5, 2005. On August 15, 2008, all three defendants left their employment with FBG to commence work with non-party Kurtzman Carson Consultants (KCC). While working at FBG, defendants assisted FBG's computer programmers in their development of three computer programs, including one web-based system, used to solicit ballots and tabulate ballot results in Chapter 11 bankruptcy proceedings, and in analogous foreign proceedings, involving widely-held public securities. Those programs, named "Q," "Definitization," and "FBG Documents.com," are used, respectively, to solicit and tabulate votes, to create a web site on which holders of securities, such as banks or brokers, can move the holding into the name of the beneficial owner thereof on the books and records of the company, and to create case-specific web sites to which FBG can post documents. All of the defendants had signed agreements with FBG barring them from disclosing plaintiffs' confidential, proprietary, or trade secret information; competing against plaintiffs or soliciting any of plaintiffs' customers, for one year following termination of employment; or soliciting any of plaintiffs' employees, while employed by FBG and for a year thereafter.

New York law disfavors post-employment restrictive covenants, and enforces them, to the extent that they are reasonably limited in duration and geographic range, only to protect an employer's trade secrets, or other confidential information, or to protect from competition from a former employee whose services are unique, or at least, extraordinary, *BDO Seidman v Hirshberg*, 93 NY2d 382 (1999), citing *Reed, Roberts, Assocs. v Strauman*, 40 NY2d 303 (1976); *Contempo Communications, Inc. v MJM Creative Serv., Inc.*, 182 AD2d 351 (1st Dept

1992). Here, although plaintiffs worked at length with FBG's programmers, it is undisputed that none of the defendants knows any part of the source code of any of those programs and that, therefore, none of them can disclose the codes to KCC. The phrase "source code" refers to the text of a computer program, written in a particular programming language, that is then translated into the binary language that actually instructs the computer as to what it is to do, *see Computer Assocs Intl. v Altai, Inc.*, 22 F3d 32, 33 n 1 (2d Cir 1994). Nor is there any evidence, or even an allegation, that any of the defendants knows any of the algorithms that are written into the source codes. Nonetheless, plaintiffs argue that defendants either already have disclosed to KCC, or are about to do so, information that would allow KCC to replicate the three programs, or at least, to improve its own software, including its balloting and tabulation module, and thereby enhance KCC's competitive position relative to that of FBG, and allow KCC to perform, in-house, the bankruptcy work that it has been contracting to other companies, including FBG. As plaintiffs put it in their demands for arbitration:

[i]f KCC wants to service the same clients seamlessly as FBG, it would ... have to hire FBG's employees and create something identical, similar or comparable to [FBG's computer programs]. In other words, ... KCC will simply have to create ... a program that generates the same type of report as [FBG's programs] and which provides the same timely, efficient and detailed service as [FBG's programs].

Monacino Aff., Exh. FF, at 15-16; *see also id.* at 16-17.

It is undisputed, however, that KCC already has its own software program, KCC Case View, that has allowed KCC to perform more than half of its bankruptcy-related solicitation and tabulating projects in-house. James M. Le, the chief operating officer of KCC, states in his affidavit that, since 2002, KCC has had the technical ability to perform its publicly-held securities work in-house, and that the reason that projects were outsourced to FBG and to five other companies is that KCC lacked enough personnel with sufficient business experience, and in some instances, because the client had a prior relationship with Ms. Sullivan. Jon A. Orr, the chief financial officer of KCC, states in his affidavit that, prior to my issuance of the TRO, defendants were being trained in the use of KCC Case View, and that each of them had stated

that that program, along with Microsoft's Excel and Access, was adequate for them to perform their balloting and tabulation services. Hartie testified at the hearing that the software programs available at KCC have the same "functionality" as the FBG programs (Tr. at 119), and Ngo testified that, at meetings that defendants held with KCC programmers before I issued the TRO, they discussed "how we would work with their current system and [that] it would be functional to tabulate bankruptcy votes," Tr. at 137. While the affidavits of Ms. Sullivan, and of FBG's David Doms and Gagandeep Singh state that defendants, Sharp and Hartie in particular, were instrumental in the development of FBG's computer programs, plaintiffs have presented no evidence that those programs perform functions that are not performed just as well by KCC Case View, along with Excel and Access. Indeed, Ms. Sullivan acknowledged at the hearing that, through the use of Excel or Access alone, FBG could do the work that it does using Q, albeit less efficiently. As Sharp states in his affidavit, a statement that plaintiffs truncate and affect to misunderstand, it would be foolish for KCC to spend the computer hours needed to replicate FBG's programs, inasmuch as KCC already has programs that perform the same functions as the FBG programs.

Even assuming that defendants would seek to improve KCC's software, the knowledge that they would bring to bear on such a project would likely not constitute a trade secret. Section 757, comment b of Restatement of Torts, which has been cited with approval by the New York Court of Appeals, defines a trade secret as "any formula, pattern, device or compilation of information which is used in one's business, and which gives [it] 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) (internal quotation marks and citation omitted); *see also Mann v Cooper Tire Co.*, 33 AD3d 24 (1st Dept 2006). David Doms, an FBG software engineer, testified at the hearing that defendants would give him their business requirements for the programs that FBG was developing, and that he would then translate those requirements into technical requirements. Those business requirements, that is, what the programs must enable their ultimate users to do,

do not appear to be secret. For example, in commenting on the layout of "Definitization," Sharp noted to Mr. Doms that the entities that would be identifying the beneficial owners of stocks and bonds that are commercial entities, not individuals, and that accordingly, the space on the web site, in which they would identify themselves, should not be separated into two parts labeled "first name" and "last name." Similarly, Sharp's June 28, 2007 e-mail to the FBG programmers concerning "Q," notes that it appears to be giving the information that he had hoped for but that for opt-out election results, true/false would be easier to read than the 0's and 1's that were currently shown, and his August 17, 2007 e-mail points out, among other things, that the "do you want to save" prompt should appear only if the user attempts to maneuver away without saving; that the space for entry of the CUSIP/ISIN report should not be double-spaced; and that the summary report by plan class needs to show all voting plan classes. Finally, for purposes of this discussion, referring again to "Definitization," Mr. Doms wrote, on October 19, 2004, that he and Sharp had been working to set up the specs for the application, and that he, Doms, had translated his notes of those discussions into a document that describes the application. Exh. H. It is evident that Sharp was, as Mr. Doms describes him, the "business architect" of "Q" and of "Definitization"; that is, he knew what he wanted the programs to do and what they should look like when they were used, and he communicated that knowledge to the FBG programmers. However, plaintiffs do not dispute that he, and Hartie, came by that knowledge in the more than 20 years' experience that they had before joining FBG. Sharp may well have a particular ability to communicate with programmers, as Ms. Sullivan testified, but the information that he communicates to them appears to be neither secret, nor recondite.

A general conceptual goal incorporating specific needs and wants in the form of instructions for a programmer, is far different than the former employee redesigning, programming and upgrading the previous system for his new employer.

Inflight Newspapers, Inc. v Magazines In-Flight, LLC, 990 F Supp 119, 130 (EDNY 1997). Nor is Sharp's, or Hartie's, skill unique. Ms. Sullivan states that it will take a long time to train replacements for defendants, but she voices no doubt that replacements will be found. In *Reed*,

Roberts Assocs. v Strauman, 40 NY2d at 308, the Court taught that, absent "deliberate surreptitious commercial piracy," "no restrictions should fetter an employee's right to apply to his own best advantage the skills and knowledge acquired by the overall experience of his previous employment," *id.* at 307; *see also Investor Access Corp. v Doremus & Co.*, 186 AD2d 401 (1st Dept 1992). It should be noted that prior to defendants' departure, Ms. Solomon hoped that Sharp would leave her team; and FBG's need to train replacements for defendants is not a reason to prevent defendants from engaging in their chosen work. Absent any evidence that defendants have committed, or are about to commit, any commercial piracy, plaintiffs have shown neither that they are likely to prevail on the merits, nor that the balance of equities favors them. Nor, having failed to show that defendants have disclosed, or are likely to disclose, any trade secrets of plaintiffs, have plaintiffs shown that they will suffer irreparable harm, absent injunctive relief.

With regard to defendants' covenant not to solicit any of their former colleagues to join them, plaintiffs have failed to show, or even to argue, that any such solicitation is imminent. Accordingly, while defendants do not object to the enforcement of that covenant, plaintiffs have failed to show that they are entitled to injunctive relief in relation thereto.

Inasmuch as plaintiffs have commenced arbitration proceedings against each of the defendants, and as counsel have advised that defendants do not oppose the use of arbitration to resolve the merits of plaintiffs' claims, I am staying this action pending the outcome of those proceedings.

In sum, I am staying this action pending arbitral resolution, or pending the further order of this court, and I am denying plaintiffs' motion. The TRO will remain in effect until the expiration of seven days from the date that this order is served with notice of entry, to give plaintiffs an opportunity to seek relief in the Appellate Division.

Accordingly, it is hereby

ORDERED that plaintiffs' motion for a preliminary injunction is denied; and it is further ORDERED that this action is stayed pending the resolution of the pending arbitration

proceedings or until the further order of this court relating to such stay; and it is further

ORDERED that the temporary restraining order issued hereon on September 9, 2008, shall remain in effect until the expiration of seven days from the date that this order is served with notice of entry.

Dated: 1/24/09

ENTER:



J.H.O.

IRA GAMMERMANN

FILED

JAN 28 2009

NEW YORK
COUNTY CLERK'S OFFICE