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SUPREME COURT OF THE STATE OF NEW YORK
NEW YORK COUNTY

PRESENT: HON. JUDITH J. GISCHE J.S.C. Justice

PART 10

Index Number : 603146/2008
EPSTEIN ENGINEERING, P.C.
vs.
CATALDO, THOMAS
SEQUENCE NUMBER : 005
COMPEL DISCLOSURE

INDEX NO. _____

MOTION DATE _____

MOTION SEQ. NO. 005

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

Notice of Motion/Order to Show Cause — Affidavits — Exhibits _____ | No(s). _____

Answering Affidavits — Exhibits _____ | No(s). _____

Replying Affidavits _____ | No(s). _____

Upon the foregoing papers, it is ordered that this motion is

FILED
OCT 03 2012
COUNTY CLERK'S OFFICE
NEW YORK

MOTION IS DECIDED IN ACCORDANCE WITH THE ACCOMPANYING MEMORANDUM DECISION.

Conf 12/6/12
NO1 12/7/12

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

OCT 01 2012

Dated: _____

_____, J.S.C.

1. CHECK ONE: ..... ☐ CASE DISPOSED ☒ NON-FINAL DISPOSITION
2. CHECK AS APPROPRIATE: .....MOTION IS: ☐ GRANTED ☐ DENIED ☒ GRANTED IN PART ☐ OTHER
3. CHECK IF APPROPRIATE: ..... ☐ SETTLE ORDER ☐ SUBMIT ORDER
☐ DO NOT POST ☐ FIDUCIARY APPOINTMENT ☐ REFERENCE

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK: PART 10

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Epstein Engineering, P.C.,

Plaintiff (s),

-against-

Thomas Cataldo, Cataldo Engineering, P.C., and Steven Gregorio,

Defendant (s).

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DECISION/ORDER

Index No.: 603146/08
Seq. No.: 005, 006, 007

PRESENT:
Hon. Judith J. Gische
J.S.C.

Recitation, as required by CPLR 2219 [a], of the papers considered in the review of this (these) motion(s):

Papers	**Numbered**
Motion Sequence No. 5	
Gregorio n/m (compel) w/IDT affirm (2), SG affid, exhs	1,2
Epstein opp w/BHW affirm, ASE affid	3
Gregorio reply w/IDT affirm, exh	4
Motion Sequence No. 6	
Epstein n/m (compel) w/BHW affirm (2), exhs	5,6
Cataldo opp w/JER affirm, TC affid, exhs	7
Gregorio opp w/IDT affirm, exhs	8
Epstein reply w/BHW affirm, ASE affid, exhs	9
Motion Sequence No. 7	
Cataldo n/m (compel) w/JER affirm (2), exhs	10,11
Epstein opp w/ BHW affirm, ASE affid, exhs	12
Cataldo reply w/JER affirmTC affid, exhs	13
Other	
Various stips	14
Steno 9/13/12 OA	15

Upon the foregoing papers, the court's decision and order is as follows:

Gische J.;

This is a tort action based upon allegations of unfair competition. Discovery is close to completion. Presently before the court are three separate motions to compel. Each motion is accompanied by an affirmation of good faith, as required by the court rules (22 NYCRR § 202.7[a][2]). Briefly, the dispute concerns the scope of discovery. Whereas, on the one hand, the defendants (who are separately represented and have separately moved) maintain that the burden in on plaintiff to prove damages based upon its net losses, plaintiff argues that it can elect to calculate its damages based on the defendants' net profits received from business that was wrongfully diverted from the plaintiff.

The Cataldo[1] and Gregorio motions present similar arguments in support of their respective (and one another's) motions and in opposition to plaintiff's motion. Plaintiff opposes each defendant's motion to compel.

The history of this case and arguments that were raised in prior motions are well documented in prior decisions and orders of this court, as well as the decision by the Appellate Division, First Department dated May 22, 2012 (Epstein Engineering, P.C. v. Cataldo, 95 AD3d 679 [1st Dept 2012]) ("decision on appeal"). The reader is presumed familiar with those prior decisions and orders.

Arguments

In its prior order dated February 25, 2011 ("2/25/11 order"), the court decided motions regarding discovery and sanctions. Subsequently, Epstein moved to reargue the 2/25/11 order on the basis that the court had too narrowly limited the scope of non-

[1]References herein to "Cataldo" shall mean the individual and the corporate defendant.

party discovery. Following reargument, the court granted Epstein's motion in part by expanding the scope of non-party discovery from January 2007 through December 31, 2009 to include documents after December 31, 2009 (Steno 5/26/11; Orders, Gische J., 6/1/11 and 6/14/11). Among the documents ordered to be provided were "the billing and receivables that the defendants received on account of otherwise servicing clients that had been obtained while Mr. Cataldo was in the employ of Epstein Engineering..." (Steno 5/26/11 p.29). Cataldo appealed all three orders, putting only the following issues (paraphrased) before the Appellate Division to decide:

> 1) whether in an employee disloyalty case, where the employee did work for clients other than the employer's clients while employed, the employer can recover damages on account of the work done for such clients subsequent to the employee's termination even though such clients were never the employer's clients? and;
>
> 2) if such damages are recoverable, is it through the date of judgment, or must there be a determination as to what would be a reasonable period of time?

In its decision on appeal dated May 22, 2012, the Appellate Division held (in relevant part) as follows:

> Order, Supreme Court, New York County [Gische], entered February 28, June 1 and June 14, 2-011, which to the extent appealed from as limited by the briefs decided [Cataldo's] motion for a protective order upon a determination that plaintiff is entitled to damages incurred after Thomas Cataldo's resignation[2]...arising from [Cataldo's] work for clients obtained before [his] resignation, unanimously modified on the law to limit plaintiff's entitlement to lost profits

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[2]The decision on appeal uses the term "resignation" and although this court adopts that characterization of what occurred on September 2, 2008, this court is not deciding how Cataldo was separated from employment. In their answer with counterclaims for unpaid compensation, the Cataldo defendants refer to Thomas Cataldo's "termination" from employment.

> after Cataldo's resignation to those arising from defendants' work for clients obtained before his resignation who had been clients of plaintiff and otherwise affirmed ... plaintiff is entitled to recover the compensation Cataldo received from plaintiff during the period of Cataldo's disloyalty, i.e. from April 2007, when he formed Cataldo Engineering, to September 2, 2008, when he resigned from plaintiff (see *Maritime Fish Prods v. World-Wide Fish Prods*, 100 AD2d 81, 88, 91 [1st Dept 1984]). Finally, if defendants poached plaintiff's clients, plaintiff may recover the profits it would have made from those clients either through trial or judgment or for some reasonable period (see e.g. *Duane Jones Co v. Burke*, 306 NY 172, 192 [1954]; *E.W. Bruno Co v. Friedberg*, 21 AD2d 336, 339 & 341 [1st Dept 1964]; *McRoberts Protective Agency v. Lansdell Protective Agency*, 61 AD2d 652 [1st Dept 1978]). However, plaintiff is not entitled to lost profits after September 2, 2008 from individuals and entities who were never its clients [citations omitted]. The customers for Local Law 11 services were "readily ascertainable outside the employer's business as prospective users or consumers of the employer's services [citations omitted]. Thus trade secret protection will not attach.
> Epstein v. Cataldo, 95 AD3d at 679, 680

Plaintiff, Cataldo and Gregorio have substantive disagreements about what the decision on appeal means, how this affects discovery and the measure of damages. Plaintiff maintains that it is entitled to discovery that will help it ascertain its damages and, furthermore, that it can chose the measure of its damages. Thus, plaintiff seeks discovery of Cataldo's billing and receivables through the present, based upon this court's May 26, 2011 order which plaintiff claims was not modified, but affirmed on appeal. Plaintiff claims the list of projects Cataldo has provided in which he purports to identify the clients obtained/projects commenced before he resigned ("First List") is incomplete because Epstein has obtained a print out from the New York City Department of Buildings ("DOB") showing that Cataldo did significantly more Local Law 11 work than he has disclosed. Plaintiff surmises that many clients and projects were

shifted to Cataldo's second list of projects identifying projects commenced after Cataldo's resignation ("Second List"). Thus, plaintiff contends the First List is artificial. A fundamental disagreement between plaintiff and Cataldo is when a client is "obtained."

The parties also disagree about the measure of damages. Whereas plaintiff claims it can elect to calculate the amount of its damages using the net profits that Cataldo received from the business allegedly wrongfully diverted from plaintiff, Cataldo argues there is a split of authority between the First and Second Departments concerning the plaintiff's ability to elect its theory of damages in an employee disloyalty action. Thus, Cataldo and Gregorio seek disclosure of documents which, they claim, will not only identify the plaintiff's financial health for the time period at issue, but also help them develop their own defense, which is that they benefitted plaintiff through their job performance and that any outside work they may have performed while employed by plaintiff did not adversely affected their job performance. Among the documents demanded are plaintiff's Local Law 11 status reports, construction monitoring and other status reports, plans, specifications, bid documents, project files, ledgers invoices and calculations. According to Cataldo, such documents will help disprove plaintiff's claim, that they must disgorge the salary they were paid for the period of time they were allegedly disloyal to their employer.

Discussion

In deciding these motions, the court is not only guided by the scope of discovery, as set forth in CPLR 30101 [a], but the court's own prior orders and the decision on appeal. CPLR 3101[a] distinctly states that "[t]here shall be full disclosure of all matter material and necessary in the prosecution or defense of an action, regardless of the

burden of proof..." (Allen v. Crowell–Collier Publ. Co., 21 N.Y.2d 403 [1968]; City Messenger Service of Hollywood, Inc. v. Powers Photoengraving Co., 7 A.D.2d 213 [1st Dept 1959]).

In modifying this court, the Appellate Division clarified that plaintiff's "entitlement to lost profits after Cataldo's resignation [is limited] to those arising from defendants' work for clients obtained before his resignation who had been clients of plaintiff..." The Appellate Division added that "plaintiff is not entitled to lost profits after September 2, 2008 from individuals and entities who were never its clients" nor did trade secret protection attach to customers for Local Law 11 services because that information was "readily ascertainable outside the employer's business as prospective users or consumers of the employer's services..." This language clearly establishes that Epstein is entitled to recover its lost profits after Cataldo's resignation for those clients that belonged to plaintiff, but were "poached" by Cataldo. Epstein is not entitled, however, to lost profits after Cataldo's resignation for those clients that were never the plaintiff's.

This court previously ordered that plaintiff is entitled to discovery through the present to ascertain whether Cataldo took or diverted business opportunities for himself without the express consent and approval of his employer, i.e. secret profits (Order, Gische, 2/15/11). The Appellate Division did not modify this order and the decision on appeal is in harmony with this court's prior discovery orders. Epstein is entitled to discovery so it can ascertain what profits, if any, Cataldo derived from servicing plaintiff's clients for his own advantage before his resignation from employment. Epstein is also entitled to discovery on Cataldo's profits that were derived from diverted business opportunities, provided those opportunities were with respect to clients that belonged to

Epstein. Although Cataldo resigned September 2, 2008, his disloyalty (if proved) had ongoing financial repercussions if he continued to service the clients he "poached" from the plaintiff. Thus, any profits attributable to his disloyalty while employed by plaintiff, as well as profits derived from these poached clients after resignation, may be sought as damages and are certainly a legitimate area of discovery.

Defendants' arguments, that the Appellate Decision has decided plaintiff is not entitled to any further discovery concerning projects initiated subsequent to September 2, 2008 is, therefore, inaccurate. Plaintiff is not entitled to discovery about Cataldo's profits after he resigned from Epstein, if such profits were from individuals who and entities that were never Epstein's clients or customers in the first place or if Cataldo obtained those clients through readily ascertainable sources of information (see, Epstein Engineering P.C. v. Cataldo, 95 A.D.3d at 680; Town & Country House & Home Service, Inc. v. Newbury, 3 N.Y.2d 554 [1958]). However, Cataldo is not relieved from liability for an advantage he secured after his resignation if obtained as a result of an opportunity he gained by virtue of his employment relationship (Duane Jones Co. v. Burke, 306 N.Y. 172 1954]).

The appropriate measure of damages is "the amount of loss sustained by the [the employer], including the opportunities for profit on the account diverted from it through [the employee's conduct" (Duane Jones Co. v. Burke, 306 N.Y. at 192]). In other words, "the amount the [employer] would have made except for the [employee's] wrong...not the profits or revenues actually received or earned by the employee " (McRoberts Protective Agency, Inc. v. Lansdell Protective Agency, Inc., 61 AD2d 652, 655 [1st Dept 1978] *internal citation omitted*). Furthermore, the calculations should be based on the

plaintiff's estimated net profits, not estimated gross profits (McRoberts Protective Agency, Inc. v. Lansdell Protective Agency, Inc., supra; *see also*, N.K. Intl., Inc. v Dae Hyun Kim, 68 AD3d 608 [1st Dept 2009]). Thus, the employer has the burden of proving by competent and sufficient evidence its loss of sales and consequential lost profits from the faithless employee's wrong (E.W. Bruno Co. v. Friedberg, 28 AD2d 91 [1st Dept 1967] aff'd 23 NY2d 798 [1968]).

The internal citations of the decision on appeal demonstrate that the First Department adheres to the legal principles set forth in the decisions of Duane Jones Co v. Burke, 306 NY 172, 192 [1954], E.W. Bruno Co v. Friedberg, 21 AD2d 336, 339 & 341 [1st Dept 1964] and McRoberts Protective Agency v. Lansdell Protective Agency, 61 AD2d 652 [1st Dept 1978], not Gomez v. Bucknell, 302 AD2d 107 [2nd Dept 2002]). Gomez is also distinguishable on its facts. Gomez involved a unique situation where the sole evidence of the employer's counterclaim for damages arising from the employee's disloyalty was the disloyal employee's net profit from the offending transaction (Gomez v. Bucknell, 302 A.D.2d at 114). In instructing the jury, the court was found to have improperly charged the jury, leading to confusion. Thus, whether or not there is a split in the departments, it is now the law of this case that plaintiff must prove by competent and sufficient evidence its loss of sales and consequential lost profits from defendants' wrongdoing (see E.W. Bruno Co. v. Friedberg, 28 AD2d 91 [1st Dept 1967] aff'd 23 NY2d 798 [1968]); Epstein Engineering P.C. v. Cataldo, supra).

Under these principles of law, Epstein is entitled to lost profit information from defendants on the clients obtained prior to resignation. Since neither the Appellate Division or this court or a jury has yet limited the time period for which damages may be

obtained, discovery of this information is through the present. In turn, Cataldo is entitled to discovery of information and documents that will enable him to determine the employer's lost profits, the plaintiff's measure of damages, and plaintiff must respond to those demands. The defendants are not, however, entitled to the production of documents by plaintiff to prove they did not neglect their duties to their employer. A disloyal employee forfeits his or her right to compensation for services s/he rendered for the period of disloyalty, if s/he proves disloyal (Epstein Engineering P.C. v. Cataldo, 95 A.D.3d 679 [1st Dept 2012]). This holds true even if the employee performed services that were beneficial to the employer or the employer suffered no damage as a result of the breach of fidelity (Feiger v. Iral Jewelry Ltd., 41 NY2d 928 [1977]; Soam Corp. v. Trane Co., 202 A.D.2d 162 [1st Dept 1994]). Thus, defendants' productivity while employed is irrelevant because if they were faithless they forfeit all compensation.

There are thirty-two (32) clients and/or properties serviced that plaintiff claims Cataldo "poached." Although some of those clients appear on the First List, many appear later in the Second List. Plaintiff argues that is impossible for the clients to have been invoiced for work so soon after Cataldo resigned, unless he had been involved in negotiations etc., with those clients belonging to plaintiff before he resigned. For example, one client was sent an invoice dated September 30, 2008, just weeks after Cataldo's resignation on September 3, 2008. Thus, plaintiff seeks further disclosure of to determine when those clients were actually obtained. Among the disclosure demanded are unsigned contracts and proposals, introductory emails or other correspondence 2007 to the present. Plaintiff is certainly entitled to disclosure about the work Cataldo for the plaintiff's clients that he diverted to his benefit before he resigned

(see decision supra). Plaintiff is also entitled to disclosure about work that Cataldo did for the purloined clients after his resignation, including diverted business opportunities those clients would have brought to Epstein, but for the diversion. However, the approach that plaintiff proposes is too broad in scope and completely impractical. Furthermore, information about tertiary business opportunities lost because of the poached clients is far too attenuated. The latter category being those opportunities (allegedly) lost because the poached clients (such as Bellet) actively assisted Cataldo in obtaining new clients, cannot be said to qualify as clients or projects Cataldo ever had (see, decision on appeal). On the other hand, the date on an invoice only reflects the date Cataldo billed the client for the work done, not when the project was completed and, therefore, when the remuneration for same was actually earned. Cataldo must, therefore provide disclosure of work done for clients on the First List which was completed before he resigned, even if the invoice was sent after his resignation.

Although a disloyal employee forfeits his or her right to compensation, Cataldo has counterclaimed for unpaid benefits, such as sick time. Until such time as the direct action involving disloyalty is decided, Cataldo is entitled to discovery about unpaid benefits and plaintiff has to provide disclosure concerning any unpaid sick time, etc. that the defendants may have accrued.

Discovery related to Local Law 11 projects must be examined through the lens of the decision on appeal. The Appellate Division states that there is no trade secret protection for Local Law 11 customers serviced after Cataldo resigned because of the cyclical nature of this work and, therefore, those customers "readily ascertainable outside the employer's business as prospective users or consumers of the employer's

services..." However, since plaintiff is entitled to recover its lost profits after Cataldo's resignation for those clients that belonged to plaintiff, but were "poached" by Cataldo while employed with Epstein, to the extent that Cataldo continued to provide Local Law 11 services for those clients, Cataldo must provide discovery to plaintiff about work it has done for those clients, not only while employed, but after he resigned through the present date. Epstein is not entitled to discovery regarding Local Law 11 work done by Cataldo for clients that were never Epstein's clients.

These motions represent the final discovery issues between the parties. The foregoing discovery shall be provided by the responsible party no later than thirty (30) days after this decision/order appears as entered on SCROLL. At the last conference this case was adjourned without a date. Since the note of issue has not yet been filed, the court extends plaintiff's date to file the note of issue to **December 7, 2012.** A final status conference is scheduled in Part 10 for **December 6, 2012.**

Conclusion

The motions before the court are decided in accordance with the foregoing. Plaintiff's tine to file the note of issue is extended to **December 7, 2012.** A final status conference is scheduled in Part 10 for **December 6, 2012.** Any relief not directly addressed is denied. This constitutes the decision and order of the court.

Dated: New York, New York
October 1, 2012

So Ordered:

Hon. Judith J. Gische