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SUPREME COURT OF THE STATE OF NEW YORK
NEW YORK COUNTY

PRESENT: Hon. George J. Silver PART 10

Justice

EPSTEIN ENGINEERING, P.C.

- v -

THOMAS CATALDO, CATALDO ENGINEERING, P.C. and STEVEN GREGORIO

INDEX NO. 603146-208

MOTION DATE

MOTION SEQ. NO. 009

The following papers, numbered 1 to 5 were read on this motion for

Notice of Motion/ Order to Show Cause — Affirmation — Affidavit(s) — Exhibits	No(s). 1, 2
Answering Affirmation(s) — Affidavit(s) — Exhibits —Memorandum of Law	No(s). 3, 4
Replying Affirmation — Affidavit(s) — Exhibits	No(s). 5

Upon the foregoing papers[1], the motion is decided as follows:

In this action for alleged employee disloyalty and unfair competition, plaintiff Epstein Engineering, P.C. ("plaintiff") moves pursuant to CPLR § 2221 for leave to renew the motions underlying the decision and order of the Supreme Court, New York County, dated October 1, 2012. In te alternative, plaintiff moves for leave to reargue the October 1, 2012 order. Defendants Thomas Cataldo ('Cataldo") and Cataldo Engineering, P.C. ("collectively "defendants") oppose the motion.

In an order dated May 22, 2012, the Appellate Division, First Department modified orders of the Supreme Court dated February 28, June 1 and June 14, 2011 to limit plaintiff's entitlement to lost profits after Cataldo's resignation to those arising from defendants' work for clients obtained before Cataldo's resignation who had been clients of plaintiff (*Epstein Eng'g P.C. v Cataldo*, 95 AD3d 679 [2012]). In so holding, the Appellate Division stated that plaintiff was 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, as well as damages for the wrongful diversion of its business measured by the "opportunities for profit of the accounts diverted from it through defendants' conduct" (*id.* at 680 *citing Maritime Fish Prods. v World-Wide Fish Prods.*, 100 AD2d 81, 88 [1st Dept 1984]). The Appellate Division further stated that if defendants poached plaintiff's clients, plaintiff may recover the profits that it would have made from those clients either through trial or judgment for some reasonable period (*id. citing Duane Jones Co. v Burke*, 306 NY 172, 192 [1954]; *E.W. Bruno Co. v Friedberg*, 21 AD2d 336 [1st Dept 1964]; *McRoberts Protective Agency v Lansdell Protective Agency*, 61 AD2d 652, 655-656 [1st Dept 1978]). However, according to the Appellate Division, plaintiff was not entitled to lost profits after September 2, 2008 from individuals and entities who were never its clients (*id.*) [internal citations omitted]).

Subsequently, the Supreme Court, in an October 1, 2012 order resolving three motions to compel

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

1. Check one: ☐ CASE DISPOSED ■ NON-FINAL DISPOSITION
2. Check as appropriate: MOTION IS: ■ GRANTED ☐ DENIED ☐ GRANTED IN PART ☐ OTHER
3. Check as appropriate: ☐ SETTLE ORDER ☐ SUBMIT ORDER
   ☐ DO NOT POST ☐ FIDUCIARY APPOINTMENT ☐ REFERENCE

[1] The court did not consider written correspondence submitted by both parties after the motion was marked fully submitted on June 18, 2013.

discovery, held *inter alia* that the appropriate measure of plaintiff's damages in this case was the amount of loss sustained by plaintiff as measured by plaintiff's estimated net profits, not estimated gross profits. Specifically, the Supreme Court stated "[t]he 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]; McRoberts Protective Agency v Lansdell Protective Agency, 61 AD2d 652 [1st Dept 1978], not Gomez v Bucknell, 302 Ad2d 107 [2nd Dept 2002])" (*Epstein Eng'g, P.C. Cataldo*, 2012 NY Slip Op 32528 [U]). The Supreme Court further held that plaintiff was "entitled to lost profit information from defendants on the clients obtained prior to resignation" and that Cataldo was 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" (*id.*). The Supreme Court further held that it was "now the law of this case that plaintiff must prove by competent and sufficient evidence its loss of sale and consequential lost profits from defendants' wrongdoing" (*id.*)

Thereafter, in an order dated December 20, 2012, the Appellate Division, First Department recalled and vacated its May 22, 2012 order and unanimously affirmed the Supreme Court's February 28, June 1 and June 14, 2011 orders (*Epstein Eng'g P.C. v Cataldo* 101 AD3d 552). The Appellate Division stated, in pertinent part, as follows:

> A faithless servant must account not only for profits attributable to clients poached from the principal, but for all profits ascribable to the wrongful diversion of business (*see Maritime Fish Prods. v World-Wide Fish Prods.*, 100 AD2d 81, 89 [1st Dept 1984], *appeal dismissed* 63 NY2d 675 [1984] [noting that even if a faithless servant had first offered a diverted opportunity to a principal, he would not be free to take the business for himself or direct it to a competitor for his profit without the express consent and approval (*id.*).

The Appellate Division further stated that it would be inappropriate to use the date of Cataldo's resignation as a cut-off date for discovery purposes since it was entirely possible, given the breadth and duration of the alleged deception, "that defendants diverted corporate opportunities belonging to plaintiff principal, and that any lost profits ascribable thereto accrued *after* the date of Cataldo's resignation" (*id.*).

In moving to renew, plaintiff contends that it has the right, as an aggrieved employer, to elect as the measure of its damages as either the disloyal employee's net profits or those profits that it would have earned from any stolen opportunities. Plaintiff is electing to use defendant's net profits as the measure of its damages, despite believing that this will result in a lower damage award, in order to avoid what it describes as defendants' repeated attempts to needlessly and endlessly prolong discovery through demands for documents and other information purportedly relating to plaintiff's projected lost profits. Plaintiff contends that renewal of October 1, 2012 is required because the order relied on reasoning and case law cited in the Appellate Division's vacated May 22, 2012 order in holding that plaintiff is required to prove its damages through its own lost profits. Specifically, plaintiff argues that the December 20, 2012 order deleted all references to the case law cited in the May 20, 2012 order, i.e., *Duane Jones Co. v Burke*, 306 NY 172, 192 [1954]; *E.W. Bruno Co. v Friedberg*, 21 AD2d 336 [1st Dept 1964]; *McRoberts Protective Agency v Lansdell Protective Agency*, 61 AD2d 652, 655-656 [1st Dept 1978]); *Town & Country House & Home Serv. v Newberry*, 3 NY2d 554, 170 NYs2d 328 [1958]; and *Leo Silfen, Inc. v Cream*, 29 NY2d 387, 328 NYS2d 2d 423 [1972]) and relied, instead, only upon *Maritime Fish Prods. v World-Wide Fish Prods.*, 100 AD2d 81, 88 [1st Dept 1984]). Plaintiff contends that the October 1, 2012 order is now invalid since it expressly relied upon authorities cited in the vacated May 22, 2012 order to hold that plaintiff's cannot elect to prove its damages through defendants'

net profits. According to plaintiff, the Appellate Division's sole reliance on *Maritime Fish Prods.* in the December 20, 2012 order and its rejection of the other authorities cited in the May 22, 2012 order establishes that plaintiff should be permitted to elect how its damages are calculated.

Plaintiff further argues that renewal of the October 1, 2012 order is necessary because the Appellate Division's May 22, 2012 order, which the Supreme Court stated was the law of the case, no longer exists. Thus, plaintiff contends that the October 1, 2012 order must viewed through the Appellate Division's December 20, 2012 order, the actual case law governing this action.

Plaintiff also argues that renewal, and possibly reargument, is appropriate because the October 22, 2012 order is premised upon an assumption that the May 22, 2012 order resolved the question of how plaintiff's damages are to be measured, when, in fact, that issue was not before the Appellate Division. According to plaintiff, the issue before the Appellate Division on Cataldo's appeal of the February 28, June 1, and June 14, 2011 orders was limited to whether September 2, 2008, Cataldo's termination date, should be used as an end date for discovery purposes. Plaintiff claims that the question of whether it has right to choose between two methods of calculated damages was never raised on the appeal giving rise to the May 22, 2012 order and any comment the Appellate Division made on that question was, at best, *dicta*, and no longer exists.

Reargument is also necessary, according to plaintiff, because the Supreme Court misapprehended and departed from the controlling law in employee disloyalty cases by holding that plaintiff must prove its damages by establishing its lost profits. Plaintiff contends that the Court of Appeals, in *Western Electric Co. v Brenner*, 41 NY2d 291, 295, 392 NYS2d 409 [1977], held that an employer has a choice of remedies when an employee makes a profit or receives a benefit and withholds it from the employer, one of those remedies being the net profits received by the employee from wrongfully diverted business opportunities.

In opposition, defendants argue that renewal is unnecessary because Supreme Court could not have relied on the Appellate Division's May 22, 2012 order when it concluded that plaintiff is required prove its lost profits since the Appellate Division did not address the issue of whether plaintiff had the right to elect the manner in which its alleged damages are calculated. Defendants contend that the Supreme Court undertook its own analysis of the relevant case law, including Court of Appeals case law, and determined that plaintiff's damages are to be measured based upon plaintiff's lost profits. According to defendants, the Supreme Court merely noted in the October 22, 2012 order that its conclusion regarding the measure of damages was correct because the Appellate Division's May 22, 2012 order cited several of the same cases set forth in the Supreme Court's analysis. Defendants further contend that even if the Supreme Court relied upon the vacated May 22, 2012 Appellate Division order in reaching its conclusion regarding the measure of plaintiff's damages, the Supreme Court also relied on *N.K. Int'l, Inc. v Kim*, 68 AD3d 608 [1st Dept 2009] which was not cited in the Appellate Division's May 22, 2012 order and which defendants argue is directly on point with the facts herein and thus provides stronger support for the Supreme Court's conclusion than any of the case law relied upon by the Appellate Division in its May 22, 2012 order.

Defendants also argue that the vacatur of the May 22, 2012 order is irrelevant because the Supreme Court had an alternative ground for concluding that plaintiff must prove its lost profits as the measure of damages. That alternative ground, according to defendants, is the portion of the Supreme Court's October 1, 2012 order wherein it analyzed and distinguished, on the facts, *Gomez v Bucknell*, 302 AD2d 107 [2d Dept 2002].

Defendants also contend that the Supreme Court did not rely upon the Appellate Division's May 22, 2012 order as the law of the case on the issue of the calculation of damages. Defendants argue that plaintiff concedes in its moving papers that the Supreme Court aptly described and fully understood the scope of the appeal that gave rise to the May 22, 2012 order. It is therefore illogical, according to defendants, for plaintiff to contend that the Supreme Court, when it made reference to the "law of the case" in its October 1, 2012 order, was referring to the May 22, 2012 order. Instead, defendants argue that the Supreme Court used the phrase "law of the case" to indicate that it had considered the issue of

the calculation of damages and had made a decision on that issue that would be binding on both parties. Defendant's also disagreed with plaintiff's claim that the Appellate Division expressed its rejection or disapproval of the line of cases cited in its May 22, 2012 order by not citing the same cases in its December 20, 2012 order. Defendants contend that the December 20, 2012 order does not reject or approve the cases cited in the May 22, 2012 order but simply does not mention them at all. Defendants argue that the continuing validity of the line of cases cited in the Appellate Division's May 22, 2012 order is shown by *N.K. Int'l, Inc. v Kim*, 68 AD3d 608 [1st Dept 2009], wherein the Appellate Division again held that an in an action for breach of an employee's fiduciary duty, an employer's damages are its net profits lost on corporate opportunities diverted by the disloyal employee.

Analysis

As an initial matter, the court finds that Justice Gische, who signed the October 1, 2012 order at issue herein, is "unable to hear" this motion within the meaning of CPLR § 2221 [a] as she was deservedly appointed to the Appellate Division, First Department in October 2012. Although Justice Gische remains a Justice of the Supreme Court, judicial efficiency is best served by having this court, which has assumed Justice Gische's former IAS caseload, resolve the instant motion, rather than adding to the already heavy Appellate Division caseload Justice Gische is now responsible for.

A motion for leave to renew shall be (1) identified specifically as such; (2) shall be based upon new facts not offered on the prior motion that would change the determination or shall demonstrate that there has been a change in the law that would change the prior determination; (3) contain a reasonable justification for failure to present such facts on prior motion (CPLR § 2221 [e] [1], [2], [3]). A motion for leave to reargue shall be (1) identified specifically as such; (2) based upon matters of fact or law allegedly overlooked or misapprehended by court in determining prior motion but shall not include any matters of fact not offered in prior motion; (3) made within thirty days after service of a copy of the order determining the prior motion and written notice of its entry (CPLR § 2221 [d] [1], [2], [3]).

Renewal

The language of the October 1, 2012 order makes clear that the Supreme Court was fully aware of the limited issues that were resolved by Appellate Division in the May 22, 2012 order. The October 1, 2012 order expressly states that the only issues addressed by the Appellate Division's May 22, 2012 order were "whether in an employee disloyalty case, where the employee did work for clients other than the employer's clients were 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 "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?" Thus, the Supreme Court clearly understood that the Appellate Division's May 22, 2012 order did not address the question of whether plaintiff was entitled to elect the method by which its damages were to be calculated. Moreover, the October 1, 2012 order notes that the parties were in disagreement as to whether plaintiff had the right to elect the method by which its damages would be measured. Specifically, the Supreme Court stated "[w]hereas plaintiff claims it can elect to calculate the amount of damages using net profits that Cataldo received from the business allegedly wrongfully diverted from plaintiff, Cataldo argues there is a split in authority between the First and Second Departments concerning plaintiff's ability to elect its theory of damages in an employee disloyalty action." Thus, it is apparent that the question of whether plaintiff was entitled to elect the measure of its damages was raised before the Supreme Court and it is equally apparent that in order to properly determine what discovery the parties were entitled to on the issue of damages, it was necessary for the Supreme Court to first resolve that issue. The Supreme Court did so, and in clear reliance on the Appellate Division's May 22, 2012 order, held that the appropriate measure of plaintiff's damages was plaintiff's estimated lost net profits. However, contrary to plaintiff's argument, the Supreme Court's reliance on the subsequently vacated Appellate Division order as law of the case does not warrant renewal of the Supreme Court's determination. While

plaintiff is correct that the May 22, 2012 order cannot be the law this case because it was subsequently vacated, and that the December 1, 2012 order does not cite *Duane Jones Co.*, *E.W. Bruno* or *McRoberts,* this omission cannot, and should not, be interpreted as an expression by the Appellate Division of its disapproval of those cases, nor can be it interpreted as "a change in the law that would change" the Supreme Court's determination (CPLR § 2221 [e] [2]). In holding that a faithless servant must account for all profits wrongfully diverted from a principal, and that it was therefore inappropriate to use the date of Cataldo's resignation as a cut-off date for discovery purposes, the Appellate Division's December 1, 2012 order cites only one case, *Maritime Fish Prods.*, 100 AD2d at 89). In addition to supporting the Appellate Division's December 20, 2012 holding on the issue of discovery, *Maritime Fish Prods.* also stands for the proposition that, in a disloyal employee action, an employer is entitled not only to the return of any compensation paid to the disloyal employee during the period of disloyalty, but to "damages for the wrongful diversion of its business, measured by the 'opportunities for profit on the accounts diverted from it through defendant's conduct (*id.* at 91 *citing Duane Jones Co.*, 306 NY at 192). Therefore, despite the Appellate Division's omission of any express reference to *Duane Jones Co.*, *E.W. Bruno* or *McRoberts* in its December 20, 2012 order, those cases remain valid precedent in the First Department and there has been no change in the law that would change the Supreme Court's October 1, 2012 determination. Accordingly, plaintiff's motion to renew is denied.

Reargument

"Motions for reargument are addressed to the sound discretion of the court which decided the prior motion and may be granted upon a showing that the court overlooked or misapprehended the facts or law or for some [other] reason mistakenly arrived at its earlier decision" (*Grimm v Bailey*, 105 AD3d 703, 704 [2d Dept 2013]). As discussed *infra,* the Appellate Division, First Department has consistently held, through a long line of cases, that an employer's damages in faithless servant, unfair competition and other similar actions are measurable by the employer's lost profits (*N.K. Intl., Inc.*, 68 AD3d at 608; *R.P.I. Servs v Eisenberg*, 60 AD3d 595 [1st Dept 2009]; *Hertz Corp. v Avis*, 106 AD2d 246 [1st Dept 1985]; *Maritime Fish Prods.*, 100 AD2d at 89; *McRoberts*, 61 AD2d at 655; *American Electronics, Inc. v Neptune Meter Co.*, 30 AD2d 117, 199 [1st Dept 1968]; *E.W. Bruno Co.*, 21 AD2d at 341). In fact, the Appellate Division has described the law that a plaintiff in a employee disloyalty or unfair competition case is entitled to recover as damages the amount of loss sustained by it, including opportunities for profit on accounts diverted from it as being "reasonably clear" (*Hertz Corp.*, 106 AD2d at 251 *citing Duane Jones Co.*, 306 NY at 192). The Appellate Division has not, however, held that an employer's lost profits is the *only* method for calculating damages in a disloyal employee action. In fact, the Appellate Division has held that damages in a disloyal employee action can be measured by the profits realized by the disloyal employee (*see Dorville Corp. v Jackson*, 278 AD 796 [1951] [plaintiff's damages should be determined on the basis of defendant's profits on business solicited by him for himself during the period he was under contract to plaintiff]). As stated by the Court of Appeals, "[d]rawing again on the law of agency, it is likewise basic that absent an agreement otherwise, an employee who makes a profit or receives a benefit in connection with transactions conducted by him on behalf of his employer is under a duty to give such profit or benefit to his employer, whether or not it was received by the employee in violation of his duty of loyalty (*see* Restatement, Agency 2d, §§ 388, 403). As here, when such benefit is not turned over, the employer has a choice of remedies, one among them being an action for restitution (*see* Restatement, Agency 2d, § 421A, Comment on Clause [c])" (*Western Electric Co.*, 41 NY2d at 295). Thus, under New York law, "an employer alleging a breach of the common law duty of loyalty against an employee may choose whether the seek damages (1) through an accounting of the disloyal employee's gain (profit disgorgement) or (2) as a calculation of what the employer would have made had the employee not breached his or her duty of loyalty to te employer (*Pure Power Boot Camp, Inc. v Warrior Fitness Boot Camp, LLC* 813 F Supp 2d 489, 523 [SD NY 2011]). *Western Electric Co.* is as equally binding upon this court as *Duane Jones Co.* and it is not a lower court's prerogative to overrule or disregard a precedent of the New York Court of Appeals

(*Calcano v Rodriguez*, 91 AD3d 468, 469 [1st Dept 2012]). By holding that plaintiff could not elect to measure its damages by defendants' alleged profits but was instead bound to prove its damages through a competent showing its lost profits the Supreme Court's October 1, 2012 order overlooked *Western Electric Co.* Accordingly, plaintiff's motion to reargue is granted.

In accordance with the foregoing, it is hereby

ORDERED that plaintiff's motion to renew is denied; and it is further

ORDERED that plaintiff's motion to reargue is granted and, upon reargument, the portion of the Supreme Court's October 1, 2012 order holding that plaintiff "must prove by competent and sufficient evidence its lose of sales and consequential lost profits from defendants' wrongdoing" is vacated; and it is further

ORDERED that in accordance with this decision plaintiff is permitted to elect to measure its alleged damages by the net profits from the business that plaintiff alleges was wrongfully diverted by defendants; and it is further

ORDERED that plaintiff is to serve a copy of this order, with notice of entry, upon defendants within 20 days of entry.

George J. Silver

George J. Silver, J.S.C.

Dated: OCT 17 2013

New York County

FILED
OCT 21 2013
COUNTY CLERK'S OFFICE
NEW YORK

HON. GEORGE J. SILVER