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HMS Holdings Corp. v Arendt
2015 NY Slip Op 51034(U)
Decided on July 14, 2015
Supreme Court, Albany County
Platkin, J.
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**HMS Holdings Corp., Health Management Systems, Inc., and
HMS Business Services, Inc., Plaintiffs,**

against

**Matthew Arendt, Sean Curtin, and Danielle Lange,
Defendants.**

A754/2014

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Richard M. Platkin, J.

Plaintiffs HMS Holdings Corp., Health Management Systems, Inc. and HMS Business Services, Inc. (collectively "HMS") commenced this action against defendants Sean Curtin, Danielle Lange and Matthew Arendt "to enforce [the former employees'] contractual promises to safeguard HMS's confidential, proprietary and trade secret information, to prevent unfair competition and irreparable injury to HMS's business interests, and to protect the goodwill of its business" (Complaint ¶ 1). HMS now moves pursuant to CPLR article 63 for a preliminary injunction.

BACKGROUND

A. The Parties

HMS is a provider of cost containment solutions for government and commercial healthcare programs. One of its core areas of business is the provision of Third Party Liability services to state Medicaid agencies. Third Party Liability ("TPL") refers to the legal obligation of insurers and other third parties to pay for healthcare services furnished to Medicaid enrollees. Companies that provide TPL services focus on identifying and verifying alternative forms of coverage and recovering funds from third-party payors.

According to HMS's complaint, the TPL business is highly competitive. HMS competes with outsourcing and technology firms, claims processors, clearinghouses, consulting firms and smaller regional vendors, as well as clients who perform TPL functions in-house. When this action was commenced, HMS held TPL contracts with, or provided services to, approximately eighty percent of state Medicaid agencies. HMS attributes this leadership position to its unique and proprietary systems, methodologies and technologies.

Public Consulting Group, Inc. ("PCG") had been a substantial competitor to HMS in the TPL market. In 2006, however, HMS paid more than \$115 million in cash and stock to purchase PCG's TPL business, including all assets, liabilities, employees, contracts and trade secrets. Following this transaction, PCG's chief executive officer ("CEO"), William Mosakowski, accepted a seat on HMS's board of directors.

Defendant Sean Curtin was among the PCG employees who went to HMS following the acquisition. Curtin rose through the ranks and "quickly became [HMS's chief operating officer] and more than doubled [its] core product revenue in less than four years". Curtin "was responsible for \$375 million in revenue [at HMS] and had more than 2,800 people report" to him. For this work, Curtin was paid a salary of \$400,000 per year, along with substantial bonuses and valuable stock options.

In April 2012, Curtin and HMS entered into a noncompetition agreement. Among other things, the agreement provided that for a period of at least one year following the termination of Curtin's employment, he would not "directly or indirectly . . . engage or assist others in engaging in any business or enterprise that competes with [HMS's] business". The agreement also imposed certain nonsolicitation and nondisclosure obligations upon Curtin.

Curtin notified HMS in November 2012 that he would be terminating his employment, citing a desire to spend more time with family. His final day of HMS employment was February 28, 2013.

A little more than four months later, in July 2013, Curtin initiated contact with several senior PCG managers to raise the prospect of mounting a competitive TPL effort. These [*2] discussions continued through August. By the beginning of September 2013, Curtin committed to assist PCG in developing a comprehensive proposal to reenter the TPL business and compete for HMS's customers. Curtin also assisted PCG in identifying and recruiting "current or past [HMS] employee[s]" with the necessary TPL qualifications and experience. Curtin's reentry plan was presented to Mosakowski in late 2013. The plan was well received, and Mosakowski gave Curtin the "green light" to move ahead with efforts to compete against HMS for TPL business. HMS maintains that in undertaking these efforts, Curtin relied upon confidential information that he learned while an employee of HMS, confidential documents he took from HMS and confidential HMS information procured from his former colleagues.

Danielle Lange worked as a staff attorney at HMS from January 2010 until May 2014, focusing primarily on casualty and estate recovery and subrogation work. Matthew Arendt, a specialist in cost-avoidance verification, had worked for PCG from April 2004 until October 2006, when he joined HMS following the acquisition. Over a three-day span in late May 2014, Lange, Arendt and several other HMS employees joined PCG.

PCG's newly formed TPL team, led by Curtin, moved quickly to compete for the business of HMS's customers. PCG submitted a successful TPL proposal to the State of Louisiana in July 2014, but the award was protested by HMS on August 8, 2014. During the same time frame, PCG also submitted an unsuccessful proposal to the State of North Carolina.

B.This Action

On August 19, 2014, HMS commenced this action through the filing of an Order to Show Cause ("OTSC") bringing on the instant motion for preliminary injunctive relief. The OTSC did not seek a temporary restraining order, but it did request, and the Court

granted, expedited, pre-hearing discovery, including the discovery of electronically stored information ("ESI").

On December 31, 2014, HMS moved for the imposition of spoliation sanctions against Curtin and Lange. An evidentiary hearing was held, and the motion ultimately was granted by Decision & Order After Hearing dated May 19, 2015 ("Spoliation Decision"). The Court found "that Curtin and Lange intentionally destroyed, deleted and failed to produce ESI while under a known duty of preservation and that the destroyed, deleted and missing ESI would support HMS's claims against these defendants." The Court further held:

Given the willful and deliberate nature of defendants' misconduct, imposition of a mandatory presumption is warranted. The trier of fact should be permitted to draw the strongest possible adverse inference from defendants' bad faith and intentional destruction, deletion and failure to produce relevant evidence. Thus, the trier of fact should be instructed as a matter of law that defendants engaged in the intentional and willful destruction of evidence, advised of the extent of each defendant's proven spoliation, and permitted to presume that the evidence spoliated by each defendant was relevant to this action, would have supported HMS's claims against the defendant and been [*3] unfavorable to the defendant. [FN1](#)

The Spoliation Decision goes on to state that "the salutary objective of promoting fundamental fairness by restoring balance to the party deprived of relevant evidence is best served by employing an adverse inference at all relevant stages of the litigation", including HMS's motion for a preliminary injunction. After all, "a preliminary injunction motion requires the Court to determine the movant's ultimate likelihood of success, and a mandatory adverse inference at trial certainly is a factor to be considered in making that assessment."

Following oral argument on the preliminary injunction motion, the already voluminous motion record was augmented with additional arguments and evidence directed at defendants' contention that HMS's inadvertent e-filing of certain unredacted motion papers with the Court necessarily terminated the trade secret status of the information included in its filing.

C.The Texas Action

Simultaneous with the commencement of this action, HMS commenced a parallel action in the District Court of Dallas County, Texas ("Texas Court") against PCG and former HMS employees James Gambino and Jason Ramos ("Texas Action"). The Texas Court issued an order on February 27, 2015 ("Protocol Order") establishing a protocol for the removal of HMS information from the possession of PCG and the individual defendants in both actions.

On July 10, 2015, the Texas Court granted HMS's request for a temporary injunction ("Texas Injunction"). The Texas Court found that HMS had demonstrated a likelihood of success in establishing that: (a) PCG breached contractual obligations owed to HMS by developing a competing TPL business prior to December 31, 2013 and by soliciting its employees; (b) Gambino and Ramos breached their employment agreements with HMS by using and disclosing their former employer's confidential and proprietary information; and (c) PCG, Gambino and Ramos misappropriated HMS's trade secrets, including financial, strategic, customer and technical information. The Texas Court further found that a temporary injunction was necessary to avoid imminent and irreparable harm to HMS, including the loss of client relationships, goodwill, reputational harm and the loss of valuable trade secrets. Accordingly, the Texas Court broadly enjoined PCG and its employees, contractors, consultants and agents from using HMS confidential information and any information derived therefrom. It also restrained PCG from using the services of Curtin and Lange, among others, to solicit or perform any TPL-related work.

ANALYSIS

To obtain a preliminary injunction, the moving party has the burden of demonstrating: (1) a likelihood of ultimate success on the merits; (2) the prospect of irreparable harm in the absence of the requested injunctive relief; and (3) a balance of the equities tipping in favor of the movant (*see* CPLR 6301; [*Nobu Next Door, LLC v Fine Arts Hous., Inc.*, 4 NY3d 839, 840 \[2005\]](#); [*Confidential Brokerage Servs., Inc. v Confidential Planning Corp.*, 85 AD3d 1268, 1269 \[3d Dept 2011\]](#)).

[*4] A. Likelihood of Success

1. Curtin's Covenant Against Competition

HMS seeks a preliminary injunction to enforce the covenant against competition established in the Noncompetition, Nonsolicitation, Proprietary and Confidential Information and Development Agreement executed by Curtin on April 24, 2012 ("Noncompetition Agreement"). Specifically, HMS seeks to enforce Curtin's contractual promise that, for one year following the termination of his employment ("Noncompetition Period"), he would not directly or indirectly "engage or assist others in engaging in any business or enterprise that competes with [HMS's] business, including any business or enterprise that develops, designs, produces . . . or provides any product or service that competes with any product or service . . . provided by [HMS]" (§ 2 [a][i]). Curtin further agreed that the Noncompetition Period shall be extended for a period equal to any period of his noncompliance until there has been one full year of post-employment compliance (§ 2 [b] ["Extender Clause"]).

Curtin's employment with HMS terminated on February 28, 2013.^{[FN21](#)} Thus, in order to obtain a preliminary injunction to enforce the Noncompetition Agreement, HMS must demonstrate, as a threshold matter, that the Extender Clause was triggered by Curtin's violation of the covenant during the base Noncompetition Period. For the reasons that follow, the Court finds that HMS has shown a clear likelihood of success in establishing that Curtin was in violation of the Noncompetition Agreement no later than September 3, 2013, when he undertook to assist PCG in re-entering the TPL business to compete against HMS.

By July 2013, Curtin had broached the prospect of competing for HMS's TPL customers with two senior PCG managers: John Shaughnessy, a PCG shareholder and a member of its board of directors; and Ben Bobo, the senior executive who led PCG's TPL practice before its sale to HMS. Emails they exchanged during this period explicitly focused on "compet[ing] with HMS", with Curtin outlining his vision of a "possible play that we may have in [TPL] space". Curtin's emails also describe the weaknesses associated

with HMS's approach to TPL, the availability of experienced TPL personnel from HMS, and the potential for using PCG's former provider of mainframe computer services, Data Distributors, Inc. ("DDI"), to quickly launch a competitive TPL effort. Shaughnessy and Bobo brought Curtin's interest in having PCG reenter the TPL marketplace to the attention of Mosakowski, who authorized these discussions to continue, so long as PCG did not provide "or offer any consideration for employment to Sean Curtin" while he remained subject to a noncompetition agreement with HMS.

Curtin met with Shaughnessy on September 3, 2013 to continue to explore means by which PCG could compete against HMS. At that meeting, Curtin committed to develop and draft a formal plan for PCG to reenter the TPL business. In a lengthy email sent on September 16, 2013, Curtin updated Shaughnessy on his considerable efforts since the meeting, which included: (a) contacting DDI to get information on start-up costs and inquiring "to see, even [*5] though they were all supposed to go to HMS, if somewhere in [DDI's] archives they stashed away any of the old routines or runs [they] could bring back"; (b) developing and articulating a reentry narrative that PCG could use to compete for HMS's customers; (c) sharing information obtained from former colleagues and subordinates regarding sensitive HMS fiscal, budget and personnel issues that PCG could exploit in its competitive efforts; (d) identifying current or former HMS employees with TPL experience that could be recruited by PCG; and (e) analyzing and describing the next steps for PCG to establish a competitive TPL business.

The record shows that Curtin's efforts in this regard continued through Fall 2013, and Curtin ultimately provided Shaughnessy with a completed reentry plan for PCG on November 22, 2013. Entitled "Re-Entry Into the TPL Market, Opportunity Assessment", Curtin's plan addressed, among other things: HMS's competitive challenges; its current financial condition; areas of opportunity for PCG; potential points of reentry for PCG; the system and technology requirements needed to compete against HMS for TPL work; and the proposed staffing of a TPL team (including then-current HMS employees). The reentry plan is printed on PCG letterhead, is labeled "Confidential — Not for Distribution" and identifies Curtin as the author. The plan was presented to Mosakowski, who ultimately gave it the "green light".

Curtin acknowledges that his plan for PCG to reenter the TPL business was based upon information he learned while an employee of HMS and information he obtained

from present or former HMS employees. In apparent recognition of the questionable nature of this conduct, Curtin declined Shaughnessy's request for an electronic copy of the reentry plan, explaining he was already "exposed a bit". In fact, Curtin thought it was "risky" to have electronic copies of his plan in circulation because "there was a lot of information in there that [he] didn't think should be floating around", including confidential information belonging to HMS.

Curtin continued to assist PCG in designing and developing a competing TPL product through early 2014, and he formally rejoined PCG as a compensated employee on March 12, 2014. In apparent recognition of Curtin's uncompensated labors on behalf of PCG over the preceding eight months or so, Shaughnessy sent the following email to Curtin on March 19, 2014: "Welcome back!! Real happy to have you with us again (officially)" (ellipses in original).

Under the Noncompetition Agreement, Curtin was barred not only from engaging in a competitive enterprise, either directly or indirectly, but also from "assist[ing] others in engaging in any business or enterprise that competes with [HMS's] business, including any business . . . that . . . develops [or] designs . . . any product or service that competes with any product or service" of HMS (§ 2 [a] [I]). While Curtin's initial discussions with Shaughnessy and Bobo in July and August 2013 ultimately may be found to have been exploratory in nature and represent "mere planning" to assist a potential competitor, HMS is likely to succeed in establishing that, by the beginning of September 2013, Curtin took substantial, affirmative steps to assist PCG in competing against HMS (*De Long Corp. v Lucas*, 176 F Supp 104, 123 [SDNY 1959], *affd* 278 F2d 804 [2d Cir 1960]; *see World Auto Parts v Labenski*, 217 AD2d 940 [4th Dept 1995], *lv dismissed* 87 NY2d 861 [1995]; *see also Ritani, LLC v Aghjayan*, 880 F Supp 2d 425, 453-454 [SDNY 2012]; *Aviation Assocs. v Temsco Helicopters*, 881 P2d 1127, 1132 [Alaska Sup Ct 1994] [competition includes "substantial steps that ultimately result in the provision of . . . services in competition with [the plaintiff]").

Indeed, Curtin's efforts to assist PCG in mounting a competitive effort against HMS for TPL work represent "exactly the kind of head start [an] agreement not to assist a competitor in [development and design] during the [one]-year period was intended to prevent" (*De Long*, 278 F2d at 809; *see Casual Male Retail Group, Inc. v Yarbrough*, 527 F Supp 2d 172, 183 [D Mass 2007]; *cf. Stork H & E Turbo Blading, Inc. v Berry*, 32 Misc

[3d 1208](#)[A] [Sup Ct, Tompkins County 2010]). In this case, as in many other types of business ventures, sales of a competing product or service inevitably are preceded by a lengthy period of design and development (*see De Long*, 278 F2d at 809). For this reason, it is of no moment that PCG did not actually offer a competing TPL product or service during the initial one-year Noncompetition Period. And while Curtin and PCG scrupulously "avoided an employer-employee status during [this period], their relations were not essentially different as regards the issue here" (*id.*).

The Court therefore finds that HMS is likely to succeed in establishing that Curtin was in violation of the Noncompetition Agreement no later than September 3, 2013, thereby triggering the Extender Clause as of that date. In this connection, the Court is unpersuaded by Curtin's argument that the Extender Clause is "unenforceable as a matter of law." The only case he cites, *USAchem, Inc. v Goldstein* (512 F2d 163 [2d Cir 1975]), declined to extend the duration of a covenant due to the absence of irreparable harm justifying an injunction at a very late stage of the case. This argument also runs counter to appellate precedent recognizing the equitable power of courts to extend the duration of a covenant even without an agreement ([New York Real Estate Inst., Inc. v Edelman](#), [42 AD3d 321](#), 322 [1st Dept 2007]; *see Delta Enter. Corp. v Cohen*, [93 AD3d 411](#), 412 [1st Dept 2012]; *J.H. Goldberg Co. v Stern*, 53 AD2d 246, 252 [4th Dept 1975]).

Based on the foregoing, the Court finds that HMS has demonstrated a likelihood of success on its claim seeking enforcement of the Noncompetition Agreement against Curtin.

2. Arendt's Covenant Against Solicitation

HMS requests preliminary injunctive relief against Arendt to enforce the covenants set forth in the Letter Agreement of September 14, 2006, which he executed upon the commencement of his HMS employment. According to HMS, Arendt was intimately involved in the development and enhancement of its cost-avoidance and verification tools and methodologies, including customized 270/271 eligibility applications and web portal screen-scraping applications, until his resignation on May 22, 2014. In addition, Arendt is said to possess detailed and confidential knowledge of HMS's processes for developing

relationships with third-party commercial carriers concerning electronic data interchange ("EDI").

The Letter Agreement imposes certain post-employment obligations upon Arendt to "limit for a reasonable period of time [his] right to use to the disadvantage of [HMS] the specific skills and knowledge [he] acquire[d] as a result of [his] employment, related to [HMS's] unique and proprietary business". Specifically, Arendt agreed to a three-year covenant against the disclosure of HMS's confidential and proprietary information and a one-year covenant against the solicitation of HMS's employees and clients:

. . . You agree that during the term of your employment and for a period of three (3) years thereafter, you will not directly or indirectly furnish, disclose or divulge any such information, methods, processes and trade secrets or any other confidential and proprietary information [*6] of the Company to any other party or use such information, methods, processes and trade secrets or any other confidential and proprietary information without the prior written consent of the Company.

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While you are employed by the Company and for a period of one (1) year following the termination or cessation of such employment for any reason, you will not directly or indirectly, either alone or in association with others, . . . solicit, divert or take away, or attempt to solicit, divert or take away, the business or patronage of any of the clients, customers or accounts, of the Company.

HMS alleges that Arendt violated the nonsolicitation covenant of the Letter Agreement ("Nonsolicitation Clause") by allowing PCG to identify him as "key personnel" and a "core PCG team member" in its TPL proposals to Louisiana and North Carolina. HMS emphasizes that Arendt was identified in the Louisiana proposal as a critical member of the TPL team for whom PCG would receive scoring credit for corporate experience, a prerequisite to acceptance of its proposal. In opposition, Arendt argues principally that his conduct did not amount to the solicitation of HMS's customers and, in any event, the covenant is unenforceable.

The Court finds that HMS has demonstrated a likelihood of success on its claim that Arendt violated the covenant against solicitation by allowing his name to be used in PCG's solicitations to HMS's customers. Louisiana and North Carolina both are "clients, customers or accounts" of HMS, and PCG initiated contact with them in an "attempt to solicit, divert or take away the[ir] business" (*cf. Bajan Group, Inc. v Consumers Interstate Corp.*, 28 Misc 3d 1227[A] [Sup Ct, Albany County 2010] [customer-initiated contact]). Although Arendt did not personally or directly solicit HMS customers, the Nonsolicitation Clause broadly encompasses this type of "indirect[]" solicitation of clients undertaken "in association with others".

The record shows that PCG put Arendt forward as a key member of its TPL team in order to demonstrate the necessary qualifications and experience to perform the requested work. Indeed, Curtin acknowledged the importance of this issue to PCG's competitive efforts, lamenting at one point that PCG was "anorexic in terms of quals, current experience, etc". In addition, HMS is likely to succeed in demonstrating that certain of its customers are personally familiar with Arendt and his work and that PCG expects to garner a competitive advantage using Arendt's name in its solicitations (*see Marsh USA Inc. v Karasaki*, 2008 US Dist LEXIS 90986 [SDNY Oct. 31, 2008]).

HMS also has demonstrated a likelihood of success in establishing that the Nonsolicitation Clause is enforceable. In arguing to the contrary, Arendt maintains that New York law does not permit a nonsolicitation agreement to be enforced against an individual who had no contact with the solicited party while in the service of his or her former employer. However, HMS is likely to succeed in showing that Arendt was involved in servicing the HMS accounts at issue and that there is goodwill associated with Arendt's name among certain clients that had been created and maintained at HMS's expense (*see BDO Seidman v Hirshberg*, 93 [*7]NY2d 382, 389-391 [1999]; *Scott, Stackrow & Co., C.P.A's, P.C. v Skavina*, 9 AD3d 805, 806 [3d Dept 2004], *lv denied* 3 NY3d 612 [2004]).

Finally, as the Nonsolicitation Clause expired on May 22, 2015 and the Letter Agreement does not include an extender clause, the Court must consider whether it would be equitable to extend the covenant "for the length of time that the offending party was in violation of the agreement" (*New York Real Estate Inst.*, 42 AD3d at 322). Unlike the breaches alleged against Curtin, which are continuous in nature and spanned a lengthy

period, the present record shows only two discrete breaches of the Nonsolicitation Agreement, both of which occurred no later than July 2014. Under the circumstances, the Court is not persuaded that an equitable extension of Nonsolicitation Clause is warranted and, therefore, prospective injunctive relief is not available against Arendt.

3. Misappropriation of Trade Secrets

"To succeed on a claim for the misappropriation of trade secrets under New York law, a party must demonstrate: (1) that it possessed a trade secret, and (2) that the defendants used that trade secret in breach of an agreement, confidential relationship or duty, or as a result of discovery by improper means" (*Faiveley Transport Malmo AB v Wabtec Corp.*, 559 F3d 110, 117 [2d Cir 2009] [citations and internal quotation marks omitted]).

a. Existence of Trade Secrets

Courts in New York generally follow Section 757 of the Restatement of Torts in determining whether business information qualifies for protection as a trade secret (*see Ashland Mgt. v Janien*, 82 NY2d 395, 407 [1993]). Under this definition, a trade secret is "any formula, pattern, device or compilation of information which is used in one's business, and which gives [the business] an opportunity to obtain an advantage over competitors who do not know or use it" (*id.*, quoting Restatement of Torts § 757, Comment b). Some of the factors to be considered in evaluating a claim of trade secret status include: (1) the extent to which the information is known outside of [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 or difficulty with which the information could be properly acquired or duplicated by others" (*id.*, quoting Restatement of Torts § 757, Comment b).

HMS is likely to succeed in demonstrating that much (but not all) of the information that it seeks to protect in this litigation qualifies for trade secret protection. HMS's

proprietary methods and strategies for performing TPL services are not widely known outside of the company. The same is true of HMS's business strategies and tactics, internal audits and detailed financial and customer information. The record shows that HMS generally has been vigilant in protecting the secrecy of technological and business information and that such information would be of substantial value to PCG and other competitors. Finally, HMS has adduced proof that it has expended substantial resources, effort and time to develop much of the technological and business information that it seeks to protect and that it would be expensive for a competitor like PCG to properly acquire such information, even with the aid of teaming partners and other third parties.

b. Inadvertent, Temporary Disclosure on NYSCEF

The parties to this action consented to the electronic filing and service of legal papers [*8] through the New York State Courts Electronic Filing ("NYSCEF") system. In support of the instant motion, HMS filed the Affidavit of Donna Price ("Price Affidavit") on February 25, 2015 (Docket No. 215). Annexed to the Price Affidavit are more than 1,500 pages of exhibits, including many of the alleged trade secrets that HMS seeks to protect through this litigation. For this reason, the Price Affidavit and annexed exhibits were designated "Attorneys' Eyes Only" pursuant to a stipulated protective order. However, at oral argument on the instant motion, defendants' counsel represented that the Price Affidavit had been filed on NYSCEF in unredacted form. The Court issued an immediate sealing order on consent, but the Price Affidavit and annexed exhibits were accessible to the public on NYSCEF from February 25, 2015 until the sealing order was entered on March 20, 2015.

Defendants argue that this inadvertent, public disclosure automatically terminated the trade secret status of the exhibits to the Price Affidavit, citing authorities holding that "[w]here an alleged trade secret is not secured, left accessible [or] inadvertently disclosed, . . . the lack of secrecy vitiates trade secret status" (*Woodie v Azteca Intl.*, 2007 NY Slip Op 30699[U], at *14, 2007 WL 2175670 [Sup Ct, NY County April 6, 2007] [citations omitted]; *see Awards.com v Kinko's, Inc.*, 42 AD3d 178, 189 [1st Dept 2007], *affd* 14 NY3d 791 [2010]). Defendants say this is "a hard and fast rule universally recognized in New York without exception."

The Court is not persuaded by defendants' sweeping contention that the inadvertent e-filing of documents containing trade secrets necessarily "terminate[s] any possible trade secret protection by operation of law". The cases cited by defendants, which either do not involve e-filing or predate its widespread adoption, do not compel application of the rigid and formulaic rule for which they advocate. The only case cited by defendants that specifically addresses court filings, *Awards.com*, found a waiver of trade secret protection based upon multiple, un-rectified publications in court records over a span of several years (42 AD3d at 189). Further, while defendants correctly observe that NYSCEF may be accessed via the Internet, it does not follow that the inadvertent e-filing of an unredacted document on NYSCEF necessarily constitutes a posting to the Internet that renders the information generally known.^[FN3] For this reason, defendants' reliance on cases such as *Religious Technology Ctr. v Netcom On-Line Comm. Servs., Inc.* (923 F Supp 1231, 1255 [ND Cal 1995]) is unavailing.

Courts applying New York law look to many factors in deciding whether information qualifies for protection as a trade secret, including the extent to which the information is known outside the business, the extent of measures taken to safeguard the information and the ease or difficulty with which the information could be properly acquired or duplicated by others (*Ashland*, 82 NY2d at 407). Implicit in these factors is a recognition that the law of trade secrets does not command absolute secrecy, but rather looks to whether there is "a substantial element of secrecy . . . , so that, except by the use of improper means, there would be difficulty in acquiring the information" (Restatement of Torts § 757, Comment b).

Thus, while "a trade secret must first of all be secret", determination of secrecy "is generally a question of fact" that requires consideration of all relevant facts and circumstances [*9] (*Ashland*, 82 NY2d at 407; *see* Restatement of Torts § 757, Comment b [articulating "some factors to be considered"]). The Court's ultimate focus must be on whether the alleged trade secrets have become generally known or readily ascertainable through proper means (*Hoechst Diafoil Co. v Nan Ya Plastics Corp.*, 174 F3d 411, 418-419 [4th Cir 1999] [collecting authorities]).

Where trade secret status is said to have been lost through inadvertent electronic filing, it is appropriate to consider the six factors set forth in the Restatement, as well as

other relevant factors such as: the means by which access to the filing was available; the class of persons who have (or had) access to the information; how long the filing remained accessible; the extent to which the filing actually was viewed and/or downloaded; the extent to which the material was indexed and/or made searchable on the Internet; and whether the material remains cached or otherwise available on the Internet. Where the alleged trade secrets have been accessed and downloaded by third parties, it is also proper to consider factors such as: the extent of any re-dissemination; the likelihood of any future re-dissemination; the extent to which recipients already knew the secrets; and the extent to which such recipients are obliged to maintain the secrecy of the information.

In the Court's view, the present record is insufficient to find that the HMS information annexed to the Price Affidavit has become generally known or readily ascertainable through proper means. The only proof on this issue came from defendants' reply papers, in the form of affidavits of two former HMS employees, Chris Frey and David Hancock. Each of the affiants claims to have independently accessed and downloaded the Price Affidavit from NYSCEF on Saturday, February 28, 2015. But HMS contends in sur-reply [\[FN4\]](#) that Frey and Hancock are former vice presidents of the company who had access to much of the same material during their employment and who owe continuing contractual and common-law duties to refrain from using or re-disseminating HMS trade secrets. And while both Frey and Hancock aver that they were not asked to view or download the Price Affidavit by anyone else and that they did so simply out of a desire to stay abreast of developments concerning HMS, the circumstances under which each independently decided to review the Price Affidavit on the same Saturday warrants scrutiny.

Under the circumstances, the Court is not convinced that the inadvertent e-filing of the Price Affidavit deprives HMS of an ultimate likelihood of success on its trade secret claims. Following the completion of discovery, the myriad of factors necessary to the determination of that issue can be applied to a fuller and firmer factual record.

c. Curtin's Misappropriation

HMS has demonstrated a clear likelihood of success in establishing its claim that Curtin misappropriated its trade secrets. In making this finding, the Court begins with the proof demonstrating that Curtin engaged in a massive downloading of HMS's confidential and proprietary information to his personal Toshiba external hard drive on February 27, 2013, the day before he terminated his employment with HMS. The record also shows that Curtin took copies [*10] of confidential briefings prepared for HMS's board of directors and executive team pertaining to the company's operational strategy, product development efforts, internal revenue and financial projections, corporate goals and objectives, and succession planning — much of which is likely to be found to qualify for trade secret protection.

While Curtin claims to have taken HMS's confidential information to be in a position to provide continuing, post-employment assistance to his former employer, a trier of fact is unlikely to credit this explanation. As articulated in the Spoliation Decision, which was rendered after an evidentiary hearing at which Curtin testified:

. . . Curtin signed a declaration on his final day of HMS employment acknowledging that he no longer possessed the company's property, including its confidential information. As a result of this false declaration — which Curtin attempts to dismiss as a mere "formality", despite having signed under penalty of perjury — no one within HMS knew that Curtin remained in possession of a broad range of its confidential business information. Curtin also failed to disclose the existence of the Toshiba drive in response to HMS's interrogatories. Thus, Curtin acknowledged the existence of the drive only *after* being confronted with HMS's forensic proof of the same.

Curtin's explanation for his bulk copying of confidential HMS files to the Toshiba hard drive the day before leaving HMS's employment also lacks credibility. Curtin acknowledges that the downloaded data was not used in his April 18, 2014 meeting with his successor, Semone Wagner, which is described simply as a "Meet & Greet" on the calendar entry he submitted into evidence . . . Further, Curtin makes no claim that he used these documents to assist his former HMS subordinates, and there is no persuasive basis for finding that he expected to provide ongoing assistance to HMS. In fact, the opposite seems true.

Further, forensic proof shows that Curtin accessed this confidential HMS information during June and July 2014, when he was leading PCG's effort to win a TPL contract award from Louisiana, an HMS client that Curtin had serviced on behalf of his former employer. In addition, the trier of fact will be instructed that Curtin intentionally and willfully failed to produce the Toshiba drive during discovery and allowed to presume that examination of the drive would have provided additional proof of Curtin's improper use of wrongfully-acquired trade secrets.

Curtin's emails provide additional evidence that he likely misappropriated and misused HMS's trade secrets in June and July 2014, when he was preparing PCG's initial TPL proposals. For example, on June 24, 2014, Curtin circulated a "Report on HIPP Cash Management Audit" to seven PCG employees, including Arendt and Lange. The report — bearing the legend "Confidential" and stating that it "is intended solely for the use of the Management and Board of Directors of HMS . . . and is not to be used . . . by others for any purpose whatsoever" — detailed and evaluated HMS's processes and internal controls for one particular cost-avoidance program.

On the same date, Curtin emailed Lange and Elena Moiseenko (a former HMS employee [*11] recruited to PCG by Curtin) a copy of an "HMS Operations and Strategic Plan". This document included information on HMS's revenues, costs and income, broken out by operational area and customer. The subject line for the email, "Trash after opening", also provides some evidence of Curtin's consciousness of wrongdoing.

Curtin also emailed to himself on June 24, 2014 a PowerPoint presentation entitled "HMS Operations Product Management Overview" — a compendium of information regarding HMS's business strategies and tactics in key product areas. A series of documents assessing HMS's implementation of process engineering and quality control initiatives also was emailed by Curtin to himself on the same date. Then in July 2014, Curtin shared with PCG certain HMS budget templates. These files provided a detailed breakdown of HMS's expenses (by category) and revenue (by client) for every HMS product offered throughout 2012 and 2013. In his deposition, Curtin acknowledged the impropriety of sharing this type of information with HMS's competitor.

And during the critical period in which PCG's new TPL team was preparing its initial proposals, Curtin exhorted his team to rely upon HMS's work product. In fact, Curtin

scolded his subordinates at times for failing to rely sufficiently on this "solid framework" that, in his view, "should have been [PCG's] starting point". In this connection, HMS is likely to succeed in demonstrating that the unredacted versions of its proposals in the possession of defendants included HMS's trade secrets and that PCG's use of the unredacted proposals went well beyond mere formatting and stylistic references, as now claimed by defendants. [\[FNS\]](#) Further, contrary to defendants' contention, HMS is not required to demonstrate that its trade secrets were "cut and pasted" into PCG's proposal; to establish misappropriation, it will suffice to show that Curtin's misuse of HMS's trade secrets assisted and accelerated PCG's competitive efforts.

Finally, the trier of fact is likely to find that Curtin was complicit in the brazen theft of trade secrets by Moiseenko and Ramos. On May 21, 2014, two days before Ramos's departure from HMS, Moiseenko sent Curtin (her former supervisor) an email regarding the following subject: "Sean see list below for Jason to gather for us and let me know if you want to add any additional items to the list". The body of the email set forth a "shopping list" of 14 categories of HMS information, including: client billing information; the matching and posting logic rules used by HMS; known deficiencies or complaints concerning HMS's performance; recent HMS responses to requests for proposals; and lists of industry contacts that were compiled and maintained by HMS.

Although Curtin acknowledges that much of the information identified by Moiseenko represented confidential HMS information that would be inappropriate to circulate outside the company, he claims to not "remember seeing the list", denies responding to Moiseenko's email or having any other communication with her on the subject. He further denies seeing any of the information collected through the "shopping list". However, given the mandatory adverse inference arising from Curtin's intentional spoliation of ESI and his overall lack of credibility at [\[*12\]](#) the spoliation hearing, it seems unlikely that the trier of fact will believe his denials and will instead infer that Curtin sanctioned Moiseenko's flagrant theft of HMS's confidential information and then used the stolen trade secrets (or knowingly allowed the trade secrets to be used) in the development of PCG's proposals.

d. Lange's Misappropriation

In seeking to establish a likelihood of success on its misappropriation claim against Lange, HMS begins with her actions in providing legal advice and assistance to PCG while still an HMS employee. On or about April 30, 2014, Moiseenko sent Lange a list of items to work on for PCG, including contract review, creation of templates for carrier recruitment and preparation of a state-by-state list of upcoming TPL procurements. Lange forwarded this request to another individual within HMS, along with a note suggesting that it was not the first such request for information from PCG that she was passing along. About one week later, Curtin caused certain PCG contracts to be transmitted to Lange in order for her to develop legal arguments in favor of expanding their scope.

HMS also submits text messages showing that Lange gathered confidential information for PCG while still an HMS employee. In response to such a request from PCG, Lange promises to check to "see if she's restricted from access or not" and, if so, she "may have another way to find out but it has to be nonchalant call". Then on May 23, 2014, Lange's last day of employment with HMS, she emailed herself a set of casualty recovery letter templates designed by HMS for use by the New York State Office of the Medical Inspector General ("OMIG"), one of its customers.

While the foregoing conduct is likely to be found an egregious breach of the duty of loyalty that Lange owed to HMS as an employee and as an attorney, the Court does not believe that her misconduct while still an HMS employee suffices to demonstrate an actionable misuse of HMS's trade secrets. Moreover, despite Lange's acquisition of the casualty recovery templates by wrongful means, HMS is unlikely to establish that the templates themselves qualify for trade secret protection.

The Court reaches a different conclusion with respect to Lange's conduct after joining PCG. Lange was a recipient of HMS confidential and proprietary information forwarded by Curtin, much of which is likely to constitute trade secrets. Lange was encouraged by Curtin to use HMS's proposals in preparing PCG's initial TPL proposals, and she herself circulated an unredacted HMS proposal to the PCG team and encouraged them to rely upon it. Together with the mandatory adverse inference arising from Lange's intentional spoliation of ESI from her PCG computer and the overall lack of credibility exhibited by Lange at the spoliation hearing, HMS has demonstrated a likelihood of success in establishing its misappropriation claim against Lange.

e. Arendt's Misappropriation

HMS has failed to demonstrate a likelihood of success on its misappropriation claim against Arendt. The record includes some proof that Curtin elicited information from Arendt concerning his experiences with clearinghouses during his time at HMS, but it does not appear that Arendt's analysis relied upon files or documents misappropriated from HMS or studied copying of the same. And while Arendt did take certain material with him when he left HMS, there has been no persuasive showing that what he took represented trade secrets. In particular, HMS has failed to demonstrate that the X12 guide taken by Arendt is anything other than a [*13] reference manual for a non-proprietary national EDI standard.

HMS also emphasizes Arendt's work on a PowerPoint presentation in which confidential information misappropriated by Gambino was included. However, with respect to the misappropriated information regarding matching logic, HMS has failed to establish that Arendt did anything more than incorporate his colleague's slides into a presentation deck.

The claim that Arendt misused HMS's trade secrets in preparing and disseminating the PowerPoint slides describing its EDI processes stands on firmer ground. The automated and manual verification tools developed by HMS to confirm and validate TPL coverage are the type of information that may qualify for trade secret protection. Nonetheless, it remains unclear on the present record the extent to which Arendt's work actually implicated the use of HMS's trade secrets, as opposed to knowledge and experience that one with ordinary skill in the field of EDI and related technologies may possess, as maintained by Arendt throughout his deposition.

4. Other Claims

With respect to the remaining contractual claims against Curtin, the Court finds, for substantially the reasons stated above, that HMS has demonstrated a likelihood of success on its claims to enforce the covenants against: (a) the disclosure or use of its confidential and proprietary information; (b) the solicitation of HMS's customers; and (c) the

solicitation of HMS's employees. Also for the reasons stated above, HMS has failed to demonstrate a sufficient likelihood of success on its claim for an injunction to enforce Arendt's nondisclosure agreement. Finally, HMS's remaining claims have not been shown to warrant the requested preliminary injunctive relief.

B. Balancing of the Equities

To obtain a preliminary injunction, the movant must demonstrate a balance of the equities tipping in its favor. The Court finds that the equities here overwhelmingly tip in favor of granting the requested injunction against Curtin and Lange, and the relief sought by HMS would not pose an undue burden upon them or the general public.

HMS faces the prospect of irreparable harm absent the requested preliminary injunction to enforce the *ex-ante status quo*. In contrast, Curtin and Lange need only abide by the contractual and common-law duties that they owe to their former employer and refrain from competing unfairly against HMS. Moreover, the equities do not favor Curtin and Lange, both of whom are likely to be found to have engaged in flagrant and persistent breaches of the legal duties they owe to HMS. Curtin and Lange also have been found to have engaged in conduct in this action that "has had the effect of interfering with the sound administration of justice" (Spoliation Decision).

The Court rejects defendants' claim that the public interest requires denial of the motion. In general, the public interest is best served by protecting valuable property rights recognized by law and enforcing freely given contractual promises that have not been shown to violate public policy. Further, the Court sees no merit to defendants' tangential and unsupported claim that the requested preliminary injunction would allow HMS to continue abusing its dominance of the TPL market. Putting aside the fact that PCG's chief executive disavows any such claim of abuse, it is apparent that HMS's large share of the TPL market derives directly from PCG's decision to sell its competing TPL business to HMS for \$115 million. And fair competition against HMS is not prohibited or prevented by this action. Indeed, virtually everyone in the world remains free to compete fairly against HMS for TPL work. The preliminary injunction requested herein would [*14] merely restrain several individuals from engaging in unfair competition by preventing

them from continuing to violate the common-law and contractual duties they owe to HMS.

C. Irreparable Harm

The third, and perhaps most critical, element needed to obtain a preliminary injunction is proof of irreparable harm (*Nobu Next Door, LLC v Fine Arts Hous., Inc.*, 4 NY3d 839, 840 [2005], *supra*). In this context, irreparable harm means any injury for which a monetary award alone cannot be adequate compensation (*see* *Town of Liberty Volunteer Ambulance Corp. v Catskill Regional Med. Ctr.*, 30 AD3d 739, 730 [3d Dept 2006]). Further, the movant must show that the claimed injury is more than just a mere possibility and, in fact, is imminent and likely to occur absent the requested injunctive relief (*Golden v Steam Heat*, 216 AD2d 440 [2d Dept 1995]).

Given the difficulty in calculating an award of monetary damages that would successfully redress a party for the loss of goodwill and clients to a competitor, irreparable harm routinely is found in cases seeking the enforcement of covenants that restrict competition, solicitation and the use of confidential and proprietary information (*see e.g.* *Confidential Brokerage Servs., Inc. v Confidential Planning Corp.*, 85 AD3d 1268, 1268, *supra*; *Alside Div. of Associated Materials v Leclair*, 295 AD2d 873 [3d Dept 2002]). And while "a presumption of irreparable harm [does not] automatically arise[] upon the determination that a trade secret has been misappropriated", it may be presumed where defendants intend to "disseminate those secrets to a wider audience or otherwise irreparably impair the value of those secrets" (*Faiveley Transp. Malmö AB v Wabtec Corp.*, 559 F3d 110, 118, *supra*; *see Invesco Institutional [N.A.], Inc. v Deutsche Inv. Mgt. Ams., Inc.*, 74 AD3d 696, 697 [1st Dept 2010]).

Absent enforcement of the restrictive covenants given by Curtin, HMS faces not only the loss of its existing TPL customers, but also the loss of goodwill and reputation attendant to these multi-year client relationships and the opportunities for additional work that often arise out of such relationships. ^[EN6] Further, through his persistent breaches of the Noncompetition Agreement and his misuse of strategic, financial, technical and business information obtained while an employee of HMS, Curtin has provided a

formidable competitor with the very "head start" that the covenants were intended to prevent. All of these injuries are difficult, if not impossible, to quantify in monetary terms. [\[FN7\]](#) Moreover, HMS faces the prospect of similar injuries if Curtin and Lange's misappropriation and misuse of HMS's trade secrets are not abated.

In view of recent developments in the Texas Action, however, it no longer appears likely that HMS will sustain irreparable harm in the absence of the preliminary injunction requested in [\[*15\]](#) this action. The Texas Injunction, which shall remain in effect through the trial, [\[FN8\]](#) enjoins PCG, "including without limitation, officers, employees, teaming partners, subcontractors, and other agents[,] . . . from accessing or using any HMS [confidential i]nformation in any manner", including the solicitation of customers. It also prohibits PCG from using the services of Curtin and Lange, "whether as a direct participant or in a consulting or advisory capacity", to "solicit, review, prepare or submit proposals for, or in any way provide services related to TPL for PCG". Thus, the practical effect of the Texas Injunction is that neither Curtin nor Lange will be permitted to work for PCG in any capacity pertaining to TPL for the foreseeable future, which is essentially the relief sought by HMS on this motion.

The Court recognizes that the Texas Injunction does not restrain Curtin and Lange from engaging in TPL-related activities that are not undertaken in concert with PCG, its consultants, contractors, employees and agents or performed under PCG's direction or supervision. Thus, it is possible that, during the pendency of this action, Curtin and Lange could seek to mount a competitive TPL effort that is entirely independent of PCG or misuse HMS's trade secrets for a new employer or for their own personal benefit. But this appears to be a largely theoretical possibility at the present time, and there is no basis in the present record for finding a likelihood of "imminent and nonspeculative harm" by Curtin and Lange that is unrelated to PCG and its competitive efforts ([American Commerce Ins. Co. v Francois](#), 125 AD3d 903, 903 [2d Dept 2015]).

Based on the foregoing, the Court finds that HMS has failed to demonstrate irreparable harm so long as the Texas Injunction remains in effect. In the event that the Texas Injunction is lifted, modified or otherwise terminated prior to a final determination of this action, or if HMS develops proof demonstrating the prospect of irreparable harm by Curtin or Lange in ways that fall outside the scope of the Texas Injunction, HMS may

renew its motion for a preliminary injunction against them based upon the facts and circumstances existing at such time.

CONCLUSION

Accordingly, it is

ORDERED that HMS's motion for a preliminary injunction against Matthew Arendt is denied; and it is further

ORDERED that HMS's motion for a preliminary injunction against Sean Curtin and Danielle Lange is denied without prejudice to renewal in accordance with the foregoing; and it is further

ORDERED that the parties shall complete any remaining disclosure in this action by December 31, 2015; and it is further

ORDERED that plaintiff shall file a note of issue by January 29, 2016; and finally it is

ORDERED that this action is assigned a tentative day certain of June 6, 2016, and the parties shall plan to commence the trial of the case on such date.

This constitutes the Decision & Order of the Court. The original Decision & Order is being transmitted to HMS's local counsel for filing and service. The signing of this Decision & [*16]Order shall not constitute entry or filing under CPLR Rule 2220. Counsel is not relieved from the applicable provisions of that Rule respecting filing, entry and Notice of Entry.

Dated: Albany, New York

July 14, 2015

/s/

RICHARD M. PLATKIN

A.J.S.C.

Papers Considered:

NYSCEF Documents Nos. 1-30, 213-354, 358-399, 400-414, 420-421, 426-428, 431-435 (unredacted).

Order Granting Plaintiffs' Application for Temporary Injunction, dated July 10, 2015.

Footnotes

Footnote 1: The Court also required Curtin and Lange to pay HMS's legal fees, costs and expenses for the motion practice and made an attorney disciplinary referral with respect to Lange.

Footnote 2: While HMS's complaint alleges that Curtin resumed his PCG employment in March 2013, that allegation was premised upon an incorrect representation made in a PCG proposal. In fact, Curtin's new employment commenced on March 12, 2014.

Footnote 3: A *per se* rule declaring that the inadvertent e-filing of trade secrets on NYSCEF necessarily "terminate[s] any possible trade secret protection by operation of law" would also frustrate the Judiciary's important objective of promoting a modern, technologically advanced court system.

Footnote 4: The Court will exercise its discretion to consider HMS's unauthorized sur-reply based upon the new factual matters raised in defendants' reply papers. However this exercise of discretion should not be construed as accepting HMS's argument that it was improper for defendants to have offered the two fact affidavits in reply.

Footnote 5: The record shows responses to requests for proposals in the TPL business typically contain confidential and proprietary information and that the responses made available to the public (and competitors) through freedom of information law requests are redacted to protect such information.

Footnote 6: The record shows that Curtin recognized the importance of incumbency when he directed Lange (while still an HMS employee) to develop arguments in favor of expanding the scope of PCG's existing contracts to allow the company a point of entry into TPL work.

Footnote 7: Curtin admitted as much executing the Noncompetition Agreement, acknowledging therein that breaches of the covenants "will cause [HMS] substantial and irrevocable damage that is difficult to measure", consenting to HMS "obtain[ing] specific performance and injunctive relief without posting a bond" and "waiv[ing] the adequacy of a remedy at law as a defense to such relief" (§ 6 [b])

Footnote 8: The anticipated trial date of the Texas Action is March 28, 2016.

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