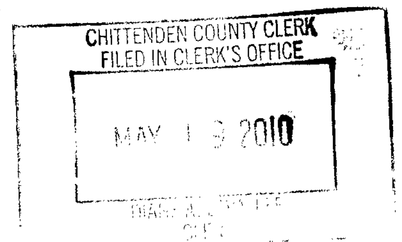
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STATE OF VERMONT
CHITTENDEN COUNTY

VERMONT MECHANICAL, INC., Plaintiff v. ALLIANCE MECHANICAL, INC., JASON PATNAUDE, JULIA RICHARDSON, and THOMAS MOONEY, Defendants	SUPERIOR COURT Docket No. S0371-10 CnC

RULING ON MOTION FOR PRELIMINARY INJUNCTION

This case is brought by Vermont Mechanical Inc. ("VM") against former employees and the company they now work for. VM's complaint asserts that Defendants have breached a duty of loyalty, have engaged in unfair competition, have been unjustly enriched, have engaged in tortious interference with contract, and have engaged in consumer fraud. In its motion for preliminary injunction, VM asserts that Defendants are making false statements about VM, using VM's proprietary information, passing themselves off as VM to customers, and using VM's trade secrets.

A temporary restraining order ("TRO") was issued on April 30, and amended by agreement later the same day. On May 3, Defendants filed a cross-motion for a TRO and preliminary injunction barring VM from unfairly competing with them. A preliminary injunction hearing was held on May 4. The parties agreed to the continuation of the amended TRO until issuance of the court's ruling. Post-hearing memos were complete May 11. Although VM also submitted additional affidavits with its post-hearing

memorandum, the court is not considering them as Defendants have had no opportunity to cross-examine the witnesses.

In their May 11 filing, Defendants state that they will stipulate to an order not to make false statements about VM or to confuse people by using VM's name. The court will order the latter based upon the stipulation; the court finds the former too vague to enforce – because what constitutes a false statement is undefined – and thus will not so order.

Findings of Fact

The court finds the following facts established by a preponderance of the evidence. VM installs and services heating, cooling and plumbing equipment for commercial clients. Patnaude, Richardson and Mooney were all employees of VM until March 18, 2010. Patnaude managed the service division and was a member of the firm's Executive Committee. Patnaude was an employee since 1999, Richardson since 1995, and Mooney since 2006.

In March of this year, Patnaude started his own company, Alliance Mechanical ("Alliance"). Alliance is a direct competitor of VM. Richardson and Mooney are now employees of Alliance. Patnaude started Alliance while still working for VM. Other than sending himself (to his home or Alliance email addresses) some records by email during work hours and searching domain names on-line, the evidence does not disclose whether he used company time to create Alliance or did it on his own time. He resigned on March 18, at which time Kimball fired the other employees who said they were planning to go work for him: Richardson, Mooney and others. Those employees had planned on giving two weeks' notice.

There are no contractual covenants not to compete in this case. There are, however, some documents relating to protecting confidential information. Patnaude signed a confidentiality agreement with "Vermont Mechanical, Inc." in 1999 which restricted him from using or disclosing any confidential information of the company during or after his employment with the company. It defined confidential information to include information "which relates to … development or business activities of the Company, its customers, consultants or suppliers." Exhibit 13. After Patnaude signed the 1999 confidentiality agreement, the company was sold to another company named Encompass. Richardson signed an employment agreement in 2001 with Encompass, which barred her from utilizing any confidential information of the company after leaving her employment. It defined confidential information to include "marketing strategies, customer and employee lists, [and] pricing policies..." Exhibit 15. Randall Kimball, the former and current principal of VM, bought the company back from Encompass in 2002. He then formed a new corporation entitled Vermont Mechanical Incorporated ("VM"). Mooney signed a confidentiality agreement with VM in 2006, which contained essentially the same restrictions as Patnaude's agreement. Exhibit 14.

None of the documents submitted in evidence establish that the confidentiality agreements signed by Patnaude or Richardson prior to the creation of the current company were assignable or assigned to the current VM. Mooney's agreement, however, was signed in 2006 with the current VM.

Patnaude emailed himself at home or at his Alliance email account, or placed on a thumb drive, a number of company documents before leaving VM in March. They included a list of all VM customers, including the pricing used with each customer. The

customer list is identified in its electronic form as "~Cu51.pfd." VM has a three-ring binder for each customer that has the customer name on the spine, all of which were shelved in the dispatcher's office with the spines showing. Thus, anyone walking into the office could scan the binder spines and see all the company's customer names. They could also be seen through the window from outside the building. There was also a white board on the wall in that office on which the customers for the day would be written. However, there was no evidence that anyone from outside the company ever had reason to enter that office. Nor was there any evidence that all three hundred customers' names were ever on the board at once. Although Patnaude testified that everyone in the industry knew who had which clients, and that by going to a client's site one could tell from the "logo" each business puts on the equipment, the court concludes that no competitor could list all three hundred of VM's clients from memory.

Several days after the Defendants left on March 18, VM discovered that many of the three-ring binders in the dispatcher's office were empty. Kimball believes that Defendants shredded records from the customer binders, because a great deal of shredding had been done. However, there was no evidence presented about what was in the binders shortly before the mass departure of Defendants, and Defendants pointed out that they left upon Kimball's orders on the 18th rather than two weeks later as they had planned, and had no time to shred anything between being told to leave and leaving. In addition, Defendants offered evidence that the binders are regularly cleaned out and the records stored elsewhere in the building. They suggest that the remaining employees at the company just do not know where to look for the records. The court does not find it established that VM's files were "ransacked" by Defendants.

It also appears that certain customer documents that VM would expect to be in its computer files are no longer there. VM suggests that Defendants deleted the documents intentionally to improve Alliance's competitive advantage against VM. VM has hired a computer forensic expert who has identified certain deleted emails from Patnaude's computer, and had established that Patnaude sent the various documents discussed above to himself at other email addresses. However, the forensic expert did not testify about these allegedly deleted files. The court does not find anything in the record at this time other than speculation to support VM's belief that Defendants intentionally deleted VM files.

To access VM computer files, including the customer list, requires a password. However, the evidence did not show that there was any special password other than that used to sign onto the computer system as a whole – something every employee would be able to do. To access the building, each employee has a pass code. The Service Department has a separate lock, as does the computer server room.

One vendor of parts, Graingers, was given data on all the customers. VM set up a list for each customer reflecting what parts they required, so that service technicians could easily pick up what they needed. All Graingers employees could access the lists. However, there is no evidence that Graingers had a single list of all 300-plus customers, or that the list had pricing data on it.

The customer list at issue, ~Cu51.pdf, includes not just client names but also the pricing structure used with each one. The customer roster was developed over many years of sales efforts, service, investigating each client facility, and putting together individual proposals for each client. The lists were not marked "Confidential."

Patnaude took with him various VM forms when he left. They included the form Preventive Maintenance Agreement, the Preventive Maintenance Service checklist, the Operations and Maintenance Manual, the Client Proposal Form, the Subcontractor Agreement, a time card form, a transmittal form and a memo form. Alliance has copied for its own forms VM's Preventive Maintenance Agreement and Proposal Form. Alliance has also used VM financial records to prepare Alliance's business plan.

VM paid a lawyer to draft the Subcontractor Agreement. Patnaude testified that VM downloaded the Client Proposal Form from the internet years ago "and doctored it up" so he thought "we could do it again." Alliance used all the forms from VM as "templates" for Alliance forms. The Alliance forms are almost identical to the VM forms.

Since Alliance began business, several VM clients have terminated their contracts with VM and stated that they were going to use Alliance. Roughly 60% of Alliance's customers are former VM customers.

Although Patnaude testified that he had made no efforts to solicit VM clients before he left VM, the Alliance Business plan that he created states that "[m]ost of the customer base that Jason has built over the last ten years at Vermont Mechanical . . . have communicated they are very anxious to make the move and work directly for (sic) the two of us because of our relationship." Exhibit 1, p. 7. The court therefore finds his claim that he had not solicited VM customers before leaving to lack credibility.

In his role on the VM Executive Committee, Patnaude had access to company profit and loss statements, as well as other financial data regarding the business. He also emailed to himself copies of the trade licenses for VM employees, the company's 2010 budget, records of gross profits, the January 2010 income statement, a list of works in

progress as of January 2010, and a complete history of the service department's performance for January 2004 to January 2010. He asserts that he regularly took such things home to work on as part of his job. However, he also used the profit and loss statements "to see how much revenue you could derive" and as "benchmarks" for Alliance.

The court finds that the evidence does not support the claim that VM purposely misrepresented whether Terry Collins was joining Alliance or staying at VM.

The court also finds insufficient evidence to support the claim that Alliance has been attempting to convince employees of VM to breach their contracts.

Conclusions of Law

Defendants did not enter into non-compete agreements with VM, and are thus free to enter into a competing business seeking the same customers as VM. Omega Optical, Inc. v. Chroma Technology Corp., 174 Vt. 10, 18 (2001)("at-will employees may plan to compete with their employer even while still employed there and may freely compete with the employer once they are no longer employed there."). "[A]bsent an enforceable covenant not to compete, a former employee may utilize in competition with the former employer the general skills, knowledge, training, and experience acquired during the employment." Restatement (Third) of Unfair Competition, § 42 (West, Westlaw through 2009).[1] The issue here is not that they *are* competing, but *how* they are competing.

[1] *See also*, Spring Steels Inc. v. Molloy, 162 A. 2d 370, 375 (Pa. 1960) ("Nor is the fact that the new company may acquire some of the plaintiff's former customers contrary to law. It is not a phenomenal thing in American business life to see an employee, after a long period of service, leave his employment and start a business of his own or in association with others. And it is inevitable in such a situation, where the former employee has dealt with customers on a personal basis that some of those customers will want to continue to deal with him in his new association. This is [so] natural, logical and part of human fellowship, that an employer who fears this kind of future competition must protect himself by a preventive contract with his employee, unless, of course, there develops a confidential relationship which of itself speaks for non-

I. Standards for a Preliminary Injunction

To obtain a preliminary injunction, a party must establish that "irreparable harm" will occur without an injunction, and show either "(a) a likelihood of success on the merits or (b) sufficiently serious questions going to the merits to make them a fair ground for litigation and a balance of hardships tipping decidedly in the movant's favor." County of Nassau v. Leavitt, 524 F.3d 408, 414 (2d Cir. 2008)(citation omitted). "To satisfy the irreparable harm requirement, [p]laintiffs must demonstrate that absent a preliminary injunction they will suffer an injury that is neither remote nor speculative, but actual and imminent, and one that cannot be remedied if a court waits until the end of trial to resolve the harm." Grand River Enterprise Six Nations, Ltd. v. Pryor, 481 F.3d 60, 66 (2d Cir.2007) (internal quotation marks omitted).[2]

The court concludes that if the evidence supports the conclusion that Defendants are improperly using VM customer lists to essentially steal VM's client base, the harm is irreparable because once lost, customers may never return. *See, e.g.*, Cleveland Hair Clinic, Inc. v. Puig, 968 F. Supp. 1227, 1247 (N.D. Ill. 1996). The actual amount of

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disclosure and non-competition in the event the employer and employee separate. There is nothing of that in this case.").

[2] The Vermont courts have not established clear standards governing the issuance of preliminary injunctions. For example, In re J.G., 160 Vt. 250, 255 n. 2 (1993), suggests in dicta that courts should evaluate the potential harm to other parties and the public interest. It is also unclear whether the standards in Vermont are different depending upon whether the injunction sought is "mandatory" (ordering someone to do something) or "prohibitory" (ordering someone to stop doing something). *See*, Committee to Save the Bishop's House v. Medical Center Hospital of Vermont, 136 Vt. 213, 219 (1978)(questioning in dicta whether there is any difference). *See* Bosch v. Lamattina, 2008 WL 4820247,*4, NO. 08CV238(JS)(AKT) (E.D.N.Y. Nov. 4, 2008) (explaining difference);. *Compare*, O Centro Espirita Beneficiente Uniao do Vegetal v. Ashcroft, 389 F. 3d 973, 976-80 (10th Cir. 2004), *with* United Food and Commercial Workers Union, Local 1099 v. Southwest Ohio Regional Transit Authority, 163 F. 3d 341, 348 (6th Cir. 1998) (rejecting distinction). Federal law is instructive because of the similarity of the state and federal rules. *See* Drumheller v. Drumheller, 2009 VT 23, ¶ 29, __ Vt. __ (looking to federal law for interpretation of similar Vermont rules).

business they might have brought may be too speculative to prove and thus money damages may not be sufficient to remedy such harm. Likewise, if Defendants are using misappropriated documents such as the form agreements belonging to VM, the harm from the duplication of VM's business products may be irreparable. The court therefore turns to what the evidence is likely to establish at trial.

II. The Confidentiality Agreements

VM argues that the confidentiality agreements signed by Patnaude and Richardson are effective because they ratified them by continuing to work for VM after 2002. However, there is no evidence to suggest that they did in fact ratify those agreements. The mere fact that they stayed on as employees after the company was purchased proves nothing about what any of the parties intended with regard to the old agreements. As the Court said in Abilene Pest Control Service v. Hall, "[t]he controlling factor [in whether an employment agreement is assignable] is the intention of the parties to the original undertaking." 126 Vt. 1, 7 (1966). No evidence was presented with regard to the intent of the signatories in 1999 or 2001 when the agreements were signed. Unlike Abilene, there is no language in the agreements stating that they are assignable. Mooney, however, signed his agreement after VM was created, so his agreement was effective.[3] It clearly states that customer lists are confidential. To the extent that he is using any such lists in his new employment, VM is likely to succeed on the merits of its claim that he is in violation of the confidentiality agreement.

III. The Trade Secret Claim

VM argues that, even aside from the confidentiality agreements, its customer list is a trade secret. A trade secret is information that:

[3] VM refers in its post-hearing memorandum to Kelly Charbonneau's agreement, but she is not a defendant.

> (a) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and
>
> (b) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

9 V.S.A. § 4601(3). "A customer list can be a protected trade secret." Dicks v. Jensen, 172 Vt. 43, 47 (2001).

As to the first question, there appears to be no question that the list has economic value to a competitor. The evidence was that it is the result of years of working with customers and includes VM's pricing data. Although the list itself is not in evidence, what appear to be partial lists are. They include phone numbers for each client and a specific contact person's name for many. Exhibits C and 47. One list includes pricing data. Exhibit 49. As our Supreme Court has said, "a list of people who have already purchased a product is substantially more valuable than a list of people who might only be interested in purchasing." Dicks, 172 Vt. at 47. The pricing data is separately valuable to a competitor.

The list is also not "generally known to, [or] readily ascertainable by proper means" to competitors. Although the names of individual customers on the list are either already known or readily ascertainable by others in the marketplace, the entire list along with the details therein (such as contact names and numbers and pricing) is not. Although the names were accessible in an office that could theoretically have been entered by outsiders or spied through a window, that does not mean they were "ascertainable by proper means" by outsiders. The list at issue, of roughly three hundred customers, was itself not a publicly accessible document and was not widely shared within the company except by those who needed it to do their jobs.

The second element of the statute is a closer call. The burden is on the employer to show that it "pursued an active course of conduct designed to inform [its] employees that such secrets and information were to remain confidential." Dicks, 172 Vt. at 50. VM did require newer employees such as Mooney to sign confidentiality agreements stating that customer lists are examples of confidential documents, and the longer-term employees certainly knew when they were hired by the predecessor companies that such records were considered confidential because the agreements they signed at those times so stated. The building itself required a pass code to enter and the office where binders listing all the customers were kept was locked. A password was required to sign on to the company computer system, where the electronic version of the list resided.

On the other hand, VM did not have particularly strict policies making clear how much value it placed on the list. Most obviously, the lists were not stamped "confidential" although that would be a simple matter. VM did not require employees who were at the company when it was reacquired by VM to sign confidentiality agreements. While the business' computer system was password protected, that meant only that no non-employee could access the computer system. It did not restrict in any way who within the company could access the list. All employees could have entered the computer system to obtain it. The list, in essence, was treated no differently than any other document used in the business.

In addition, some portions of the list went to service technicians who could take the list with them on the road. It was not marked "confidential" and could have been left on a car seat or at a coffee shop by a technician out on the road. One parts vendor, Graingers, had access to every client's data. Although Graingers did not have the actual

list of all customers in one document, it could have compiled what it had into a complete list of all customers if it chose to do so. There was no evidence that Graingers was told the data was confidential or that access to it had to be restricted in any way.

On balance, the court concludes that VM has not shown that it used "efforts that [were] reasonable under the circumstances to maintain [the list's] secrecy." 9 V.S.A. § 4601(3)(b) It is therefore not likely to succeed on the merits of its claim that the customer list, "~Cu51.pdf," and any partial lists derived therefore, are trade secrets.

IV. The Unfair Competition Claim

Although not a trade secret, the customer list may still be the subject of an unfair competition claim. The same is true of other VM records taken by Defendant when they left. Maguire v. Gorusso,174 Vt. 1, 8 (2002)("the jury could reasonably conclude ... that defendants engaged in unfair competition through the misappropriation and exploitation of plaintiffs' business assets," namely "customer lists, bookkeeping records, photographic equipment, and computer software.")

It is undisputed that Patnaude took the customer list. It is also undisputed that Alliance used VM forms as models, and copied them almost word-for-word to create Alliance forms. Patnaude also took various other records relating to the company's finances and client servicing.

VM argues that "the unauthorized physical taking and exploitation of internal company documents for use in a competitor's business constitutes unfair competition." Innovative Networks, Inc. v. Satellite Airlines Ticketing Centers, Inc., 871 F. Supp. 709, 730 (S.D.N.Y. 1995).[4] "The gravamen of unfair competition through misappropriation ...

[4] Preliminarily, the court must determine whether this claim is available given the passage of the Vermont Trade Secrets Act. That Act "was enacted in 1996 to prevent the misuse of business information" and it

is the unfair competitive use to which defendants put the property" taken from the plaintiff. Maguire, 174 Vt. at 8. "Although claims of unfair competition often allege misappropriation of trade secrets or ideas, a claim may be based on misappropriation of information not rising to that level, such as client lists, internal company documents, and business strategies." Berman v. Sugo LLC, 580 F. Supp. 2d 191, 209 (S.D.N.Y. 2008). "[O]ne may not misappropriate the results of the labor, skills and expenditures of another." Linkco, Inc. v. Fujitsu Ltd., 230 F.Supp.2d 492, 500 (S.D.N.Y. 2002). "An unfair competition claim involving misappropriation usually concerns the taking and use of the plaintiff's property to compete against the plaintiff's own use of the same property." Roy Export Co. Establishment of Vaduz, Liechtenstein v. Columbia Broadcasting System, Inc., 672 F.2d 1095, 1105 (2d Cir. 1982).

"[M]ost cases [concerning customer lists] involve the solicitation of a company's customers by a former employee who acquired information about the customers in the course of the former employment." Restatement (Third) of Unfair Competition, § 42 comment f (West, Westlaw through June 2009). "Clearly surreptitious removal, copying, or withholding of an employer's customer lists or information for later competitive purposes breaches the obligation of loyalty owed by an employee to his employer, and entitles the employer to relief against subsequent use of such information by the faithless ex–employee, regardless of the manner in which the information was originally compiled." 28 A.L.R. 3d 7, Former Employee's Duty, In Absence of Express Contract, Not To Solicit Former Employer's Customers Or Otherwise Use His Knowledge Of Customer Lists Acquired In Earlier Employment, § 14(a) (1969).

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overrides the common law with regard to trade secrets. Dicks, 172 Vt. at 46 and 51. However, common law unfair competition claims can involve company assets other than trade secrets. Maguire v. Gorruso, 174 Vt. 1, 7-8 (2002). Thus, the court does not find that the Act entirely preempts such claims.

Defendants suggested that some of the forms were common forms that are used in the industry, but offered no evidence of similar forms available over the internet or otherwise publicly accessible. On the other hand, VM offered no evidence that any of the forms other than the Subcontractor Agreement (Exhibit 22) were created by VM from scratch or were the result of any significant time or effort. Nor was there any evidence that Alliance's use of any of the forms other than the customer list has in itself had a negative impact on VM's business. Certainly the "memo" form is a rather generic document that seems of little value. Exhibit 25. The same is true of the Proposal Form, Exhibit 2, the Time Card, Exhibit 23, and the Letter of Transmittal Form, Exhibit 26.

However, the Preventive Maintenance Agreement, Service Plan Checklist, Operations and Maintenance Binder, and financial records of VM (Exhibits 3, 28, 29, 31-36, and 42) all appear to be more than simple forms and/or contain private company financial data. The court can, for example, compare the VM Preventive Maintenance form and the Alliance version and see that Alliance saved itself a great deal of effort by merely copying the VM form. The court was not given a full copy of the Operations and Maintenance binder, but again can tell from what evidence it has that to duplicate such a document would take time and effort that Alliance apparently has avoided by its use of VM's product.

Moreover, the employee handbook makes clear that "no one is permitted to remove or make copies of any Vermont Mechanical records, reports, or documents without prior written approval from management," and tells employees to "never discuss business transactions with anyone who does not have a direct association with the transaction," Exhibit A p. 9. It also states that no company property may be used "for the

purpose of moonlighting or any other type of financial gain." Id, p. 14. This is evidence that all of the forms were understood by the parties to be VM property and to be materials that could not be used by employees for non-VM purposes.

The court concludes that VM is likely to succeed on the merits of its claim that Defendants engaged in unfair competition by taking and using for competitive purposes various VM documents. The court will therefore require the return of all such documents and the destruction of any forms copied from those documents.

However, the evidence established that Defendants have some knowledge of customer information in their heads without the need for any documents such as the customer list. While courts express varied views about such distinctions – *compare* Movie Gallery US, LLC v. Greenshields, 648 F. Supp. 2d 1252, 1266 (M. D. Ala. 2009)("Alabama courts allow former employees to bring with them to their new jobs confidential information that they can remember. Otherwise, it would be very difficult for employees to ever change jobs."), *with* Ed Nowogroski Ins., Inc. v. Rucker, 971 P.2d 936, 944 (Wash. 1999)(addressing "whether the fact that the customer information was in one of the employee's memory allows him to use with impunity the information which was otherwise a trade secret" and "recognizing a split of authority on this issue.") -- the court concludes that on the facts of this case it is a fair distinction that balances the need to permit free movement of employees in the marketplace with requiring that any competition be done in a fair manner. To say that Defendants can use none of the knowledge they have about the customers would be equivalent to imposing a non-compete clause that VM never obtained from them. *Accord*, Leo Silfen, Inc. v. Cream, 278 N.E. 2d 636, 641 (N.Y. 1972)("In the absence of express agreement to that effect

between the parties, or a demonstration that a customer list has the several attributes of a trade secret, courts, without more, should not enjoin an ex-employee from engaging in fair and open competition with his former employer. The limiting effects upon the former employee with respect to his ability to earn a living are marked and obvious."). The court therefore will not prohibit them from contacting customers of VM to solicit their business. Defendants may not, however, use any documents obtained from VM in doing so.

V. Cross-Motion for TRO or Preliminary Injunction and Motion to Amend TRO

On May 3, Defendants filed a cross-motion for a TRO or preliminary injunction. On May 10, Defendants filed a motion to amend the TRO. With regard to the first motion, the court finds that there is insufficient evidence at this time to support the claim that VM has threatened customers to keep them from switching to Alliance, or badmouthed Alliance to others. Thus, the request for an injunction to stop such actions is denied and the court does not reach the legal question about whether such actions would support injunctive relief. The motion to amend the TRO is now moot based upon the court's ruling on the preliminary injunction.

Order

The court grants the motion for preliminary injunction. The court hereby orders as follows:

1. Defendants are ordered to return to VM within forty-eight hours of service of this order all electronic and hard copies of "Cu51.pdf," any lists compiled from that document, and any other partial VM customer lists.

2. Defendants are ordered to return to VM within forty-eight hours of service of this order all electronic and hard copies of any other records taken from VM either before or after their termination from employment, including but not limited to documents reflecting the history of servicing, inventories of equipment, or pricing estimates at any VM customer's facility. Excepted from this order are any purely personal records of the Defendants (such as their own pay records, their health insurance records, their employee evaluations, and the like).

3. Defendants are ordered to destroy and cease using any Alliance forms that were created from forms belonging to VM.

4. Defendants are ordered, pursuant to their stipulation, not to use VM's name in their business dealings in any manner that might suggest they are currently associated with VM or are hiring additional current VM employees.

Dated at Burlington this 19th day of May, 2010.

Helen M. Toor
Superior Court Judge