SUPREME COURT - STATE OF NEW YORK

Present:

HON. VITO M. DESTEFANO,

Justice

TRIAL/IAS, PART 11
NASSAU COUNTY

COX AUTOMOTIVE, INC.,

Decision and Order

Plaintiff,

MOTION SEQUENCE: 01
INDEX NO.:611066/2017

-against-

CATHERINE SCALIA and TRUECAR, INC.,

Defendants.

The following papers and the attachments and exhibits thereto have been read on this motion:

Order to Show Cause	1
Memorandum of Law in Support	2
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The Plaintiff moves for a order, *inter alia*, pursuant to CPLR 6301, restraining Defendant Catherine Scalia from working or an any way becoming affiliated with Defendant TrueCar.

Background

In January 2013, Defendant Catherine Scalia became OEM[1] Solutions Director, Eastern District, for DealerTrack Inc. where, "[g]iven [her] many OEM contacts developed in prior

[1] "OEM" is an acronym for original equipment manufacturers, otherwise known as original car manufacturers (i.e., Toyota, BMW, etc.).

positions," she was to "continue to build the OEM relationships for DealerTrack and to pitch solutions," a position which "focused on sales" (Affidavit in Opposition at ¶¶ 20, 22). At the time she commenced her employment, and as a condition of her employment with DealerTrack, Scalia executed a "Proprietary Information and Inventions Agreement" ("Agreement") which contained the following relevant provisions:

> 1.2.1 Unfair Competitive Practices. [I]n consideration of my employment . . . with the Company,[2] I agree that during the period of my employment and for a period of one (1) year after my employment ends for any reason, I shall not, directly or indirectly, solicit, induce or influence . . . (ii) any Company customers who were serviced by me or whose names became known to me while I was employed by the Company.
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> 1.2.2 Non-Competition. (Applicable for Non-California Employees Only). While I am an employee of the Company and for a period of one (1) year after my employment ends for any reason, I will not, directly or indirectly, either as an employee, employer, agent, principal, partner, member, stockholder, . . . corporate officer or director, or in any other individual or representative capacity, engage in or participate in any Competitive Company . . . . "Competitive Company" shall mean any individual or entity, present or future, then providing . . . products or services similar to any products or services offered by the Company or any of its affiliates.
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> * * *
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> 11. Assignment. I agree that the Company may assign to another person or entity any of its rights under this Agreement, including, without limitation, any successor in interest to the Company or its business operations. . . . This Agreement shall be binding upon me and my heirs, executors, administrators, and successors, and shall inure to the benefit of the Company's successors and assigns.

In October 2015, Cox Automotive, Inc. ('Cox" or "Cox Auto") acquired DealerTrack Inc. by purchasing a 100% equity interest in DealerTrack Technologies. Pursuant to an Agreement and Plan of Merger ("Merger Agreement") dated June 12, 2015, Runway Acquisition Inc. (a susbsidiary of Cox Auto) merged with and into DealerTrack Technologies, with DealerTrack Technologies being the surviving company (DealerTrack Inc. is a subsidiary of DealerTrack Technologies). As a result of the Merger Agreement, DealerTrack Technologies, as well as Dealertrack Inc., became wholly owned subsidiaries of Cox Auto (Merger Agreement at §§ 2.3, 2.5[b]).

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[2] "Company" is defined in the Agreement as DealerTrack Inc.

Scalia continued to work for DealerTrack Inc. in the same capacity that she worked in prior to Cox's acquisition of DealerTrack Technologies. In January 2016, two months after the acquisition, Scalia "became an employee of Cox" so that she "could focus on a cohesive strategy for OEM business" (Affidavit in Opposition at ¶ 22).

In August 2017, Scalia accepted a position as Vice President of OEM Development for Defendant TrueCar, Inc. ("Truecar") and subsequently resigned form Cox Auto.

Thereafter, Cox moved for a temporary restraining order ("TRO") and a preliminary injunction seeking the following relief:

1. Enjoining and restraining Defendant Scalia, from directly or indirectly:

a. breaching her obligations under the Proprietary Information and Inventions Agreement dated January 21, 2013 (the "Agreement");

b. accepting or maintaining employment or any other working relationship . . . or otherwise becoming affiliated with Defendant TrueCar for a period of one year from the date of this Order;

c. soliciting a business relationship with, or inducing or influencing, any Cox Auto clients who were serviced by Defendant Scalia or whose names became known to Defendant Scalia while she was employed by Cox Auto to enter into a business relationship with Defendants for a period of one year from the date of this Order;

d. retaining, using, copying, or disclosing Cox Auto Proprietary Information as defined in the Agreement obtained or prepared in connection with Defendant Scalia's employment with Cox Auto for any purpose. . . .

2. Enjoining and restraining Defendant TrueCar . . . and all other persons or entities acting in concert with them, from, directly or indirectly:

a. inducing the breach of and/or otherwise interfering with the Agreement;

b. accepting or maintaining employment or any other working relationship with Defendant Scalia for a period of one year from the date of this Order;

c. retaining, using, copying, or disclosing Cox Auto Proprietary Information as defined in the Agreement obtained by TrueCar as the result of Defendant Scalia's employment with Cox Auto for any purpose. . . .

On October 18, 2017, the court granted the TRO to the following extent:

Defendants are enjoined from breaching, or inducing the breach of the Agreement;

Defendant Scalia is enjoined from soliciting a business relationship with, or inducing or influencing, any original Equipment Manufacture clients of Cox Auto to enter into a business relationship with Defendants;

Defendant Scalia is enjoined from retaining, using, copying, or disclosing Cox Auto Proprietary Information as defined in the Agreement obtained or prepared in connection with Defendant's employment with Cox Auto for any purpose;

TrueCar is enjoined from retaining, using, copying, or disclosing Cox Auto Proprietary Information as defined in the Agreement obtained by TrueCar as the result of Defendant's employment with Cox Auto for any purpose.

For the reasons that follow, the TRO is vacated and the motion for a preliminary injunction is denied.

The Court's Determination

On a motion for a preliminary injunction, the moving party must demonstrate by clear and convincing evidence, a likelihood of ultimate success on the merits, irreparable injury if the injunction were not granted, and a balancing of equities in favor of granting the injunction (*Family-Friendly Media, Inc. v Recorder Television Network*, 74 AD3d 738 [2d Dept 2010]). An injunction is a provisional remedy to maintain the status quo and prevent the dissipation of property that could render a judgment ineffectual, not to determine the ultimate rights of the parties. As such, absent extraordinary circumstances, a preliminary injunction will not issue where to do so would grant the movant the ultimate relief sought in the complaint (*Reichman v Reichman*, 88 AD3d 680 [2d Dept 2011]; *SHS Baisley, LLC v Res Land, Inc.*, 18 AD3d 727 [2d Dept 2005]). While on the one hand there must be a "clear right to relief which is plain from the undisputed facts" (*Blueberries Gourmet, Inc. v Aris Realty Corp.*, 255 AD2d 349 [2d Dept 1998]), the "mere existence of an issue of fact will not itself be grounds for the denial of the motion" (*Arcamone–Makinano . Britton Prop., Inc.*, 83 AD3d 623, 625 [2d Dept 2011]). The decision whether to grant or deny a preliminary injunction is within the sound discretion of the court (*Family-Friendly Media, Inc. v Recorder Television Network*, 74 AD3d at 738, *supra*; *Masjid Usman, Inc. v Beech 140, LLC*, 68 AD3d 942 [2d Dept 2009]).

Likelihood of Success on the Merits

Breach of the Agreement

In support of its motion, Cox argues that Scalia breached the Agreement when she accepted employment with TrueCar, a "competitive company," defined in the Agreement as an entity that provides any "products or services similar to any products or services offered by the Company or any of its affiliates." According to Cox, the one-year non-compete and non-solicit restrictions commenced on the last day Scalia was employed by Cox, which is September 15, 2017. Thus, on this basis, Scalia could not work for TrueCar, a "competitive company", until, arguably, September 14, 2018.[3]

Scalia argues, however, that assuming arguendo the validity of the restrictive covenants as well as DealerTrack Inc.'s valid assignment of these covenants to Cox, she has not breached the restrictive covenants. According to Scalia, after Cox acquired DealerTrack Technologies in October 2015, Scalia remained employed by DealerTrack Inc. until January 2016, at which time she commenced employment with Cox "in a materially different role" (Scalia Affidavit in Opposition ¶ 22). Thus, the one-year restrictive period was triggered in January 2016 when Scalia's employment with Dealertrack Inc. ended and her tenure with Cox began.[4] By the plain terms of the restrictive agreement, according to Scalia, she "satisfied her obligations by January of 2017, the one year anniversary of her employment with Cox, months prior to her even considering employment with Truecar" (Memorandum of Law in Opposition at p 7).

Cox argues that the Agreement and restrictive covenants contained therein inure to the benefit of Cox because Cox purchased DealerTrack Technologies through a stock purchase agreement whereby Cox "obtained all of the rights and benefits of DealerTrack" (Reply Memorandum of Law at p 3). Simply put, according to Cox, it was assigned DealerTrack's right to enforce the restrictive covenant by virtue of it acquiring DealerTrack and, thus, the triggering moment began when Scalia departed Cox in August 2017.

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[3] According to Cox, TrueCar is an "information and technology platform that enables its users to communicate with TrueCar Certified Dealers for the purpose of obtaining a fixed, no-haggle car price"; Cox Auto and TrueCar compete for advertising dollars of OEMs, who "spend money on these digital platforms with the ultimate goal of selling cars to consumers"; and "OEMs pay for leads that will result in consumers being directed to dealerships for the purpose of purchasing a vehicle"; and "Cox Auto offers this service through Autotrader.com and KBB"; and "TrueCar, through its fixed price model, is doing the same thing - leading consumers to dealerships for the purpose of purchasing a car" (Sundaram Affidavit in Support at ¶¶ 11, 13-14).

[4] In this regard, the court notes that the restrictive covenant expressly provides that the restrictive period is triggered when the "employment ends for *any* reason" (emphasis added).

Specifically, Cox argues:

> [G]enerally speaking, nothing is lost by a merger of corporations, and any right which lawfully belonged to any of the corporations merged can be asserted by the possessor corporation. Here, Cox Auto acquired 100% of the stock of Dealertrack. In doing so, the merger of Dealertrack into Cox Auto permitted Cox Auto to retain all of the benefits and rights belonging to Dealertrack, which included Scalia's obligations under the Agreement. . . .
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> Thus, Cox Auto's stock purchase acquisition of Dealertrack retained Scalia's obligations under the Agreement and Scalia remained bound so long as she was employed by a Cox Auto owned entity. . . . (Reply Memorandum of Law at pp 3, 5) (internal citations and quotations omitted).

Cox's arguments and cited caselaw are unpersuasive. The cases relied upon by Cox hold that the surviving company in a merger possesses any and all rights belonging to the company which has been merged into the surviving company. Cox implies that DealerTrack Technologies was merged into Cox and that Cox is the surviving company. However, DealerTrack Technologies was not merged into Cox. Rather, according to the Merger Agreement, Runway (which was a subsidiary of Cox), merged into Dealertrack Technologies (with DealerTrack Technologies being the surviving company) and Cox "acquired 100% of the stock of DealerTrack" (Reply Memorandum of Law at p 3). As noted by Cox, it "'is a basic tenet of corporation law that a change in stock ownership is merely a transfer of shareholder rights which does not, in and of itself, normally affect the existence of the corporate entity'" (Reply Memorandum of Law at pp 4-5 [quoting Black's Law Dictionary 340 [6th ed. 1990]).

Based on the foregoing, the court concludes that when Scalia terminated her employment with DealerTrack Inc. and commenced employment with Cox in January 2016, Cox had the opportunity to enforce the covenant from that time and for one-year thereafter. As such, Scalia's departure from Cox in August 2017 occurred after the expiration of the one-year restrictive covenant in place at the time she commenced her employment with Cox in January 2016. Given this time frame, Cox has failed to demonstrate by clear and convincing evidence that it will be successful with respect to its cause of action for breach of the Agreement asserted against Scalia.

Misappropriation and Breach of Duty of Loyalty

According to Cox, the facts herein, including Scalia's September 5, 2017 email of purportedly confidential Cox information from her Cox email account to her personal email account, coupled with the fact that she was "regularly exposed to the highest level of strategic decision makers" at Cox and with OEM clients, "compels an inference of misappropriation of trade secrets" (Memorandum of Law in Support at p 15). Such an "inference," however, fails to meet the "clear and convincing" standard required to support a preliminary injunction.

Tortious Interference against TrueCar

Cox's fourth cause of action is a claim against TrueCar for tortious interference with contract. "[W]here there is an existing, enforceable, contract and a defendant's deliberate interference results in a breach of that contract, a plaintiff may recover damages for tortious interference with contractual relations even if the defendant was engaged in lawful behavior (*Guard–Life Corp. v Parker Hardware Mfg. Corp.*, 50 NY2d 183, 191 [1980]; *see also Lama Holding Co. v Smith Barney*, 88 NY2d 413 [1996] [claim of tortious interference with contract requires the existence of a valid contract between plaintiff and a third party, defendant's knowledge of the contract, defendant's intentional procurement of a breach of the contract without justification, an actual breach of the contract, and resulting damages]).

However, where, as here, there has been no breach of an existing contract, a claim for tortious interference with contract cannot lie *(NBT Bancorp Inc v Fleet/Norstar Financial Group, Inc.* 87 NY2d 614 [1996]).

Irreparable Harm

Where the movant can be fully compensated by a monetary award, an injunction will not be granted because no irreparable harm will be sustained in the absence of injunctive relief (*306 Rutledge, LLC v City of New York*, 90 AD3d 1026 [2d Dept 2011]).

Cox argues in its papers that Scalia's "actual and threatened use and disclosure of Cox Auto's confidential information and trade secrets constitutes irreparable harm" (Memorandum of Law in Support at p 20). However, in the absence of any finding that Scalia has disclosed any confidential information or trade secrets, a finding of irreparable harm is, at this juncture, speculative and not "clear and convincing" (*see Family-Friendly Media, Inc. v Recorder Television Network*, 74 AD3d 738 [2d Dept 2010] [plaintiff made only conclusory allegations and failed to point to any imminent and non-speculative harm that would befall it in the absence

of a preliminary injunction]; *Golden v Steam Heat*, 216 AD2d 440 [2d Dept 1995]).[5]

Balance of Equities

When considering the equities, the court must weigh the harm each side will suffer in the absence or in the face of injunctive relief (*Washington Deluxe Bus, Inc. v Sharmash Bus Corp.*, 47 AD3d 806 [2d Dept 2008]). Specifically, to obtain an injunction, the movant is required to show that irreparable injury to be sustained is more burdensome to him than the harm that would be caused to the party opposing the injunction if the injunction were granted (*Lombard v Station Square Inn Apartments Corp.*, 94 AD3d 717 [2d Dept 2012]).

Here, the loss to Scalia if the injunction were granted outweighs any potential harm to Defendants.

Conclusion

Based on the foregoing, it is hereby

Ordered that the Plaintiff's motion for a preliminary injunction is denied; and it is further

Ordered that the temporary restraining order issued on October 18, 2017 is vacated.

This constitutes the decision and order of the court.

Dated: January 23, 2018

Hon. Vito M. DeStefano, J.S.C.

[5] Truecar maintains that its targeted incentive program is a completely different method and strategy to introduce car manufacturers and consumers than any of the work Scalia did at DealerTrack Inc. or at Cox. According to Michael Darrow, TrueCar's executive vice president, if Scalia is permitted to begin employment with TrueCar, TrueCar "will take all necessary measure to ensure that Ms. Scalia does not use any Cox trade secrets. There will be no intersection between the business that Ms. Scalia handled at Cox and her intended business responsibilities at TrueCar" (Truecar Memorandum of Law in Opposition at p 9).