

DAMAGES AND FORFEITURES IN RESTRICTIVE COVENANT, TRADE SECRET, and
EMPLOYEE DEFECTION/MOBILITY CASES

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I. INTRODUCTION

The issues that surround damage awards in employee defection/mobility cases have often taken a back seat to the issues that arise in the injunctive phase of these cases. This is understandable to the extent that injunctive relief carries with it the urgency of stopping competitive activity by employees that may threaten to destroy a business. Yet damages issues are also important, perhaps increasingly so as disputes arise over the use of forfeiture clauses and juries and courts issue large damage awards.

In broad terms, the procedure for obtaining damages in employee defection/mobility cases is no different from other contract or tort cases. In *Omicron Systems, Inc. v. Weiner*, 860 A.2d 554, 564-565 (Pa. Super. 2004), the Pennsylvania Superior Court held:

The general rule in this Commonwealth is that the plaintiff bears the burden of proof as to damages. The determination of damages is a factual question to be decided by the fact-finder. The fact-finder must assess the testimony, by weighing the evidence and determining its credibility, and by accepting or rejecting the estimates of the damages given by the witnesses.

Omicron Systems, Inc. v. Weiner, supra, citing Judge Technical Services, Inc. v. Clancy, 813 A.2d 879, 885 (Pa. Super. 2002).

In all employee defection/mobility cases, the trier of fact has a certain degree of flexibility in establishing a damage award. To a significant degree, the damages that a court may award under the various causes of action for employee defections are interchangeable. In *Latuszewski v. Valic Financial Advisors, Inc.*, 2007 WL 4462739 (W.D. Pa. Dec. 19, 2007), the Court held that a damage award was appropriate under the alternative theories of breach of contract, misappropriation of trade secrets, breach of the duty of loyalty, or interference with contractual relations.

II. DAMAGES FOR BREACH OF A RESTRICTIVE COVENANT

A. Elements of a Damage Claim

1. The existence of an enforceable agreement

- a. Ancillary Nature- The covenant must be ancillary to either an employment relationship or another lawful transaction between the parties. Aside from employment agreements, restrictive covenants are found in partnership or shareholder agreements (*See Capozzi v. Latsha and Capozzi, P.C.*, 797 A.2d 314 (Pa. Super. 2002)); agreements for the sale of a business; franchise agreements; license agreements; independent contracts for services; and joint venture agreements, and many other agreements.

b. Consideration

To be enforceable, a restrictive covenant must be supported by adequate consideration. In an employment context, adequate consideration is found either in the commencement of employment, or in a substantial beneficial change in the terms and conditions of employment. *See Davis & Warde, Inc. v. Tripodi*, 420 Pa. Super. 450, 616 A.2d 1384 (1992); *Maintenance Specialties, Inc. v. Gottus*, 455 Pa. 327, 314 A.2d 279, 281 (1974). The mere continuation of employment under pre-existing terms is not sufficient consideration to support a non-compete under Pennsylvania law. *Wincup Holdings, Inc. v. Hernandez*, 2004 WL 953400 (E.D. Pa. May 3, 2004).

NOTE: Reasonableness of a restrictive covenant is not at issue in an action for damages for breach of the covenant. *Boyce v. Smith-Edwards-Dunlap Co.*, 398 Pa. Super. 345, 580 A.2d 1382 (1990).

2. Breach of a duty imposed by the contract

Courts will scrutinize a restrictive covenant closely to see whether a violation of the covenant has occurred. Courts will only enforce the covenant if the restriction is applicable and is being violated. The following questions arise in considering whether a covenant has been breached:

a. Is the restriction even applicable?

In *Stone & Edwards Insurance Agency Inc. v. Stumpf*, 31 Pa. D. & C. 4th 462 (Dauphin Co. 1996), the restrictive covenant applied if an insurance agent sold his book of business back to his employer. The Court held that the restrictive covenant did not apply where the employee had simply left the agency without selling his book back to the employer. In *Judge Associates, Inc. v. Belcher*, 71 Pa. D. & C. 2d 112 (Phila. Co. 1975), the Court refused to enforce an otherwise valid restrictive covenant because the covenant applied only when the employee voluntarily quit, and the employer had fired the employee in this case.

b. Does the ex-employee's conduct violate the restriction?

In the case of *Harry Blackwood, Inc. v. Caputo*, 290 Pa. Super. 140, 434 A.2d 169 (1981), the restrictive covenant prohibited solicitation or diverting or taking away customers. The covenant did not prohibit serving customers, however. Therefore, the Court held that an insurance agent did not violate the restrictive covenant if the agent wrote or sold insurance to agency customers that had

sought the agent out, without any solicitation or diversionary activity by the agent. In *Doyle Consulting Group, Inc. v. Stoffel*, 2004 WL 362316 (C.C.P., Phila. Co. 2004), *affirmed without opinion*, 869 A.2d 18 (Pa. Super. 2004), the covenant prohibited soliciting customers but said nothing about former customers. The courts held that solicitation of former customers did not violate the covenant.

3. Proximate cause of damage

In *Omicron Systems, Inc. v. Weiner*, 860 A.2d 554, 564-565 (Pa. Super. 2004), the Pennsylvania Superior Court held:

Although the fact-finder may not render a verdict based on sheer conjecture or guesswork, it may use a measure of speculation in estimating damages. The fact-finder may make a just and reasonable estimate of the damage based on relevant data, and in such circumstances may act on probable, inferential, as well as direct and positive proof.

- a. Under Pennsylvania law, a plaintiff suing for violation of a restrictive covenant has to establish damages with reasonable certainty, not absolute certainty (*Scobell, Inc. v. Schade*, 455 Pa. Super. 414, 688 A.2d 715, 718-19 (1997)). In restrictive covenant cases, damages are often difficult to ascertain or compute with precision (*Records Center, Inc. v. Comprehensive Management, Inc.*, 363 Pa. Super. 79, 525 A.2d 433 (1987); *Synthes (USA) v. Global Medical, Inc.*, 2007 WL 2043184, *7 (E.D. Pa. July 12, 2007)).
- b. Where an ex-employer has lost business from the breach of a restrictive covenant, the courts require the ex-employer to show (1) that a new employer obtained the business because the ex-employees went to work for the new employer and (2) that, but for the new employer's bid, the ex-employer (rather than a third party) would have obtained or retained a contract. *Scobell, supra*, 455 Pa. Super. 414 at 423, 688 A.2d 715 at 719.
- c. Showing a list of customers that a new employer serves does not establish with "reasonable certainty" that the new employer was the proximate cause of a plaintiff's loss of business. *See Id*; *see also Telamerica Media, Inc. v. AMN Television*, 2002 WL 32373712 (E.D. Pa. Sept. 26, 2002).

- d. It may be necessary to exclude the ex-employer's own limitations or deficiencies as a causative factor. In each of the following cases, courts held that factors within the ex-employer's control caused the employer to lose business, rather than competition by the ex-employee:
- (i) Customer dissatisfaction (*Rapid Freight Systems v. Ofer Express LLC*, 2003 WL 1848211 (Phila. Co. Feb. 28, 2003)).
 - (ii) Poor management of business, including poor service and shipping delays (*Clarke Transportation Services, Inc. v. Haskins*, 2006 WL 1620175 (E.D. Pa. June 8, 2006)).
 - (iii) Actual withdrawal from business or lack of desire to compete in a particular area (*Bilec v. Auburn Associates, Inc.*, 403 Pa. Super. 176, 588 A.2d 538 (1991); *Thomas Jefferson University v. Wapner*, 2004 WL 2474098 (Phila.Co. Oct. 22, 2004), *affirmed*, 903 A.2d 565 (Pa. Super. 2006)).
 - (iv) Inability to compete in a particular geographic area because of lack of licensure (*Ferarolis v. International Recovery Systems, Inc.*, 2006 WL 1371187 (E.D. Pa. May 18, 2006) (upholding jury verdict that employee could not forfeit stock interest for being sued for violating a non-compete, where employee may have worked only in states where employer had no license)).

B. What Types of Compensatory Damages are Recoverable?

Among the elements recognized as possible damages in restrictive covenant and unfair competition cases are the following:

1. The non-breaching party's lost profits (*Scobell, Inc. v. Schade, supra*; *Certified Laboratories of Texas, Inc. v. Rubinson*, 303 F. Supp. 1014 (E.D. Pa. 1969) (recognizing right to accounting for lost profits). However, the lost profits should be *actual* lost profits, not projected lost profits. *Delahanty v. First Pennsylvania Bank*, 464 A.2d 1243, 1261 (1983).
2. Lost orders (*Certified Laboratories of Texas, Inc. v. Rubinson, supra* (holding damages obtainable but proof deficient)).
3. Lost goodwill (*Certified Laboratories of Texas, Inc. v. Rubinson, supra* (holding damages obtainable but proof deficient)).

4. Restitution of unjust enrichment (*Synthes (USA) v. Global Medical, Inc.*, 2007 WL 2043184, *7 (E.D. Pa. July 12, 2007)).

C. Other Types of Damages

1. Disgorgement of employee earnings- Absent a contractual provision, Pennsylvania law does not allow a plaintiff ex-employer to recover damages in the form of an ex-employee's earnings from a new employer.

a. Commissions- *American Air Filter Co., Inc. v. McNichol*, 527 F.2d 1297, 1300-01 (3rd Cir. 1975) (holding that forfeiture of commissions would "merely impose a penalty").

b. Profits Earned by Breaching Parties- *Fishkin v. Susquehanna Partners, G.P.*, 2007 WL 560703, *4-*5 (E.D. Pa. Feb. 12, 2007), and 563 F. Supp. 2d 547, 2008 WL 2468616, * 36-37 (E.D. Pa. June 17, 2008) (holding that disgorgement of earnings with a new employer was not a proper measure of damages; the proper measure of damages was the profit the ex-employer had lost, not the benefit that the ex-employees had gained). The District Court in *Fishkin* relied on the *American Air Filter* decision in reaching this conclusion. The Court held, "Like the plaintiff in *Air Filter*, [plaintiff] here is seeking to measure its damages for breach of a non-competition agreement by the breaching party's profits rather than by its own losses. As found by the *Air Filter* court, however, this is not an appropriate measure of damages for breach of a non-competition agreement, and there is no relationship between the profits ... made by competing with [plaintiff] and the compensable losses [plaintiff] suffered." *Fishkin*, 2007 WL 560703, at ** 4-5. The Court in *Fishkin* noted that the plaintiff had not included a provision for disgorgement in its contract. It had included a liquidated damages provision but had elected not to sue under this provision.

c. However, disgorgement of pay is a proper remedy when the employee competes with the employer while still employed. In this situation, a constructive trust may be imposed on all revenue generated from this unlawful competition and an accounting may be ordered. *Plate Fabrication and Machining Co., Inc. v. Beiler*, 2006 WL 14515, *8 (E.D. Pa. Jan. 3, 2006). This is essentially the same remedy as the remedy for a breach of the duty of loyalty.

2. Punitive damages- See *Certified Laboratories of Texas, Inc. v. Rubinson*, *supra*.

3. Liquidated damages may be awarded in a restrictive covenant case if the covenant permits liquidated damages. See *Omicron Systems, Inc. v. Weiner*, 860 A.2d 554 (Pa. Super. 2004); *DeMuth v. Miller*, 438 Pa. Super. 437, 652 A.2d 891 (1995); *Geisinger Clinic v. DiCuccio*, 414 Pa. Super. 85, 606 A.2d 509 (1992). A liquidated damage provision should be a measure of foreseeable business losses or loss of goodwill for a limited period of time, where the actual loss may be difficult to ascertain. If the liquidated amount is excessive or if no measure of compensation is intended, the damage clause is a penalty. *Geisinger Clinic v. DiCuccio, supra* at 606 A.2d 517.

- a. The courts have been generous in interpreting contractual provisions to allow recovery of liquidated damages. In *Omicron Systems, Inc. v. Weiner*, the Superior Court upheld the trial court's \$238,000 award of an amount equal to the salary paid to the individual ex-employee defendant by a new employer up to the beginning of trial as "liquidated" damages. The Court found that the restrictive covenant contained a liquidated damages clause allowing recovery of "damages and an equitable accounting of all earnings, profits, and other benefits arising from . . . violation [of the non-compete]." The Court held that this clause justified the award of liquidated damages.
- b. Liquidated damage clauses can be Draconian; for example, in *DeMuth v. Miller*, 438 Pa. Super. 437, 652 A.2d 891 (1995), a management consulting company entered into a five-year employment contract. The agreement contained a provision calling for a payment to the old employer of 125% of the previous 12 months' charges for each of the employer's clients who left with the employee if the employee established a professional management or management consulting firm, in the event that the employer terminated the employee for cause. "Cause" was defined to include homosexuality. The employee was terminated for cause after appearing at a gay-rights event. The ex-employee then formed a competing business and took a substantial amount of business from the ex-employer. The court upheld the liquidated damages clause and the ex-employee had to pay the ex-employer the 125% figure set by the contract.
- c. In *Key Consolidated 2000, Inc. v. Troost*, 432 F. Supp. 2d 484 (E.D. Pa. 2006) the Court refused to dismiss a contract claim based on a liquidated damage clause requiring a home inspector to repay the employer for training costs, in the amount of \$10,000, if the inspector derived any income from services outside the inspection organization. See, *Key Consolidated 2000, Inc. v. Troost*, 432 F. Supp. 2d at 487.

- d. The existence of a liquidated damages provision does not preclude injunctive relief (*Bettinger v. Carl Berke Associates, Inc.*, 455 Pa. 100, 314 A.2d 296 (1974); *Omicron Systems, Inc. v. Weiner*, 860 A.2d 554, 565 (Pa. Super. 2004)).
- e. Other courts have been reluctant to impose both liquidated damages and injunctive relief. In *Lehigh Valley Bone, Muscle & Joint Group LLC v. Puccio*, 75 Pa. D. & C. 4th 176 (Lehigh County 2005), *affirmed without opinion*, 903 A.2d 61 (Pa. Super. 2006), the court imposed \$100,000 liquidated damages on doctor who competed in violation of a two-year, 25 mile non-compete, but refused to enjoin competition. Other courts have enjoined competition and refused to enforce liquidated damage clauses (*Medical Wellness Associates, P.C. v. Heithaus*, 51 Pa. D. & C. 4th 1 (Westmoreland Co. 2001)). In *Fraser v. Nationwide Mutual Insurance Co.*, the Court treated a compensation forfeiture provision as an alternative to injunctive relief for breach of a restrictive covenant. *See Fraser v. Nationwide Mutual Insurance Co.*, 334 F. Supp. 2d 755, 760-761 (E.D. Pa. 2004).

4. Attorney's fees

- a. Attorneys' fees are awardable as an element of damages or costs in restrictive covenant litigation. *See Certified Laboratories of Texas, Inc. v. Rubinson*, 303 F. Supp. 1014 (E.D. Pa. 1969).
- b. A contractual provision for attorney's fees was upheld in *Maaco Enterprises v. Bremner*, 1998 WL 669936 (E.D. Pa. 1998) (franchise case).
- c. It is essential to state a specific claim for attorney's fees in the prayer for relief in Pennsylvania. In *Omicron Systems, Inc. v. Weiner*, 860 A.2d 554, 566 (Pa. Super. 2004), the Superior Court reversed an award for attorney's fees on the ground that the plaintiff had failed to properly state a claim for attorney's fees in the prayer for relief in the complaint.
- d. In *Cardiac Consultants, P.C. v. Feinberg*, 70 Pa. D. & C. 4th 536, 558 (Lancaster Co. 2004), the trial court awarded attorneys' fees to a successful defendant who had opposed the entry of an injunction to enforce a restrictive covenant. The restrictive covenant contained a clause that awarded attorneys' fees to the prevailing party.

5. Reimbursement of training costs - *Key Consolidated, Inc. v. Troost*, 432 F. Supp. 2d 484 (M.D. Pa. 2006). A home inspection company sought to

recover training expenses upon an employee's departure and competition. The payment for these training expenses was required under the agreement. The Court upheld this agreement as a permissible contract, and refused to grant a motion to dismiss this complaint.

D. Contempt Penalties

1. Monetary damages- Where a party is guilty of contempt of an injunction enforcing a restrictive covenant, the court may award compensatory damages in the form of attorneys' fees, investigation costs, deposition fees, and subpoena and witness fees incurred as a result of the contemptuous acts. *Mrozek v. James*, 780 A.2d 670, 674 (Pa. Super. 2001).

2. Incarceration- In *Dentrust Dental International v. Rosenberg*, 75 Pa. D. & C. 4th 42 (C.C.P. Bucks Co. 2005), the Bucks County Court of Common Pleas upheld a sentence of incarceration in addition to a \$250,000 contempt sanction against a dentist who had "flagrantly decided" not to comply with a preliminary injunction that prohibited violation of a restrictive covenant. The covenant in question was a two-year restriction that prohibited solicitation from and serving ex-customers. The debt in *Dentrust* has been held non-dischargeable in bankruptcy because an order of contempt constitutes "willful and malicious injury by the debtor to another entity or the property of another entity" under the Bankruptcy Code, 11 U.S.C. §523(a) (6). See *In Re Rosenberg*, 2007 WL 2156282 (Bankr. N.D. Ohio July 23, 2007).

III. FORFEITURES OF COMPENSATION OR EQUITY INTERESTS FOR BREACH OF RESTRICTIVE COVENANT

A. Introduction

An alternative to injunctive relief or damages awarded at trial exists for an employer enforcing a non-compete or other restrictive covenant – the ability to force the employee to forfeit an item of value, in the form of either post-employment compensation or a share in the ownership of a business. Courts in Pennsylvania and other jurisdictions have generally upheld these forfeitures, as long as the forfeiture is covered explicitly in a contract. See *Bilec v. Auburn Associates, Inc.*, 403 Pa. Super. 176, 588 A.2d 538 (1991); *Capozzi v. Latsha and Capozzi, P.C.*, 797 A.2d 314 (Pa. Super. 2002); *Davis v. Buckham*, 280 Pa. Super. 106, 421 A.2d 427 (1980). The whole area of forfeitures has become the subject of increasing litigation in recent years. There is increasing conflict in the case law on the need for reasonableness in the forfeiture agreements and on what circumstances allow the employee to avoid the forfeiture.

The "employee choice doctrine" provides that an employee who has an agreement with an employer, requiring a forfeiture of deferred compensation/partnership shares/stock rights if the employee competes with the employer, has the choice between either (1) refraining from competing and obtaining the benefit; or (2) competing and forfeiting the benefit. Generally, under this doctrine, the non-competition/forfeiture agreement is not

evaluated for reasonableness. Instead, the agreement is evaluated on a pure contract basis. Despite this doctrine, there is a certain amount of confusion and inconsistency in the treatment of forfeitures, particularly since some courts discuss the reasonableness of the non-compete when imposing a forfeiture. Federal courts applying Pennsylvania law have adopted the “employee choice doctrine” in the case of *Fraser v. Nationwide Insurance Co.*, 334 F. Supp. 2d 755 (E.D. Pa. 2004). However, state courts in Pennsylvania have recently evaluated forfeiture clauses for reasonableness. *See, e.g. Capozzi v. Latsha and Capozzi, P.C.*, 797 A.2d 314 (Pa. Super. 2002), *appeal denied*, 573 Pa. 620, 821 A.2d 586 (2003); *Bilec v. Auburn & Associates, Inc. Pension Trust*, 403 Pa. Super. 176, 588 A.2d 538 (1991). These cases may be somewhat at odds with earlier Pennsylvania case law, including *Garner v. Girard Trust Bank*, 442 Pa. 166, 275 A.2d 359 (1971).

B. Compensation Forfeiture

1. Deferred compensation- *Fraser v. Nationwide Insurance Co.*, 334 F. Supp. 2d 755 (E.D. Pa. 2004). In an insurance agent’s action to recover deferred compensation, the court refused to award deferred compensation ranging between \$222,000 and \$364,000 to the insurance agent. The agent had a non-compete that provided that if the agent competed within one year and a 25-mile radius, he would lose his right to deferred compensation. The Eastern District of Pennsylvania (on remand from Third Circuit Court of Appeals, *see* 352 F.3d 107 (3d Cir. 2004)) held that the reasonableness of a non-compete was not at issue in a forfeiture case. The only principles that applied were general contract principles. The court held that the forfeiture did not interfere with the employee’s ability to earn a living. Indeed, the forfeiture was more akin to an incentive program than a non-compete clause. In effect, the ex-employer offered a bonus to any employee who chose not to compete within 25 miles for one year. *Fraser, supra*, 334 F. Supp. 2d at 760. In effect, the employee had two options: (1) compete and forfeit deferred compensation; (2) choose not to compete and receive the deferred compensation. Alternatively, the court held that if it were necessary to examine the reasonableness of a non-compete in *Fraser*, the covenant was reasonably necessary for the protection of the employer and reasonable in duration and geographic scope. *But see Capozzi v. Latsha & Capozzi, P.C.*, 797 A.2d 314 (Pa. Super. 2002), which was not decided at the time of the court’s first decision in *Fraser* (135 F. Supp. 2d 623 (E.D. Pa. 2001)).

2. Profit sharing- *Garner v. Girard Trust Bank*, 442 Pa. 166, 275 A.2d 359 (1971). Garner, a leasing agent for the Binswanger real estate firm in Philadelphia, sued to obtain an unpaid vested interest of a profit-sharing pension trust. The trust document provided that any former member forfeited the unpaid vested interest if he entered into competition with the company within two years after separation from employment and prior to reaching age 65. The existence of competition was determined by the committee appointed to administer the trust. This committee had the sole discretion to decide the competition issue. Further, the contract included a delay of payout for two years after termination unless the

trust administrators determined that there was no substantial risk of competition. At the close of the two-year period, the trustee (Girard) determined that the ex-employee had competed and refused to make payment to the ex-employee and, therefore, upheld the forfeiture. The employee sued to force payment and won at the trial court, but the Supreme Court of Pennsylvania overturned the decision and held against the employee. The court found that the term “enter into competition” was sufficiently specific to be enforceable and, therefore, that the decision to impose the forfeiture was reasonable. The court also upheld the discretion to either distribute funds before the two-year period expired or to hold funds for two years. The court distinguished cases in which it was possible to adopt a reasonable alternative construction that did not work a forfeiture. The court held that there was no way to avoid the forfeiture except by totally eliminating the non-compete portion of the plan. The court held that the committee’s decision to impose the forfeiture was subject to judicial review only to insure that the decisions were in “good faith and within the bounds of reasonable judgment.” To the same effect, *see Ziring v. Heidman*, 54 Pa. D. & C. 2d 254 (Phila. Co. 1971).

3. Commissions- *Bettinger v. Carl Berke Associates, Inc.*, 455 Pa. 100, 314 A.2d 296 (1974). The employee was subject to a one-year post-employment restriction. The restrictive covenant called for forfeiture of all commissions due to the employee. The court held that pursuit of the forfeiture remedy did not bar the employer from also seeking an injunction against the employee, where there was no statement in the agreement that the employer was limited to seeking damages, and the employer was seeking protection from the employee’s competition, which would not be afforded by damages only. *Bettinger* is one of the landmark Pennsylvania cases upholding both the right to injunction and damages, and is still good law.

4. Vacation pay- *Boyce v. Smith-Edwards-Dunlap Co.*, 398 Pa. Super. 345, 580 A.2d 1382 (1990). The employee brought suit against a former employer seeking to recover unpaid vacation pay. The court held that the employee was entitled to no vacation pay because the employee had violated a post-employment restrictive covenant, and the employer could use the violation of the restrictive covenant as a defense to a claim for vacation pay. The court held that the reasonableness of restrictive covenants was not an issue and therefore the lack of reasonableness was not a defense in an employer’s action to recover for damages. In an action for damages, the analysis is a pure contract analysis – i.e., did the employee enter into the agreement?

5. Antitrust issues- *Kaplan v. May Stern & Company*, 427 F. Supp. 978 (W.D. Pa. 1977). Plaintiff sought payments of deferred compensation and attacked the forfeiture of deferred compensation. The court held that forfeiture clauses were not prohibited by the antitrust laws. The court also considered the dispute to be moot, because the deferred compensation provision did not apply where (as was the case) the employee was earning more money in subsequent

employment and the forfeiture did not apply where the employee had received written permission to compete.

6. Refusal to uphold forfeiture- In *Bilec v. Auburn & Associates, Inc. Pension Trust*, 403 Pa. Super. 176, 588 A.2d 538 (1991), the Pennsylvania Superior Court refused to uphold a pension forfeiture for competition, where the non-compete did not limit the geographic reach of the restricted area. The forfeiture clause provided “[A] participant shall not be entitled to benefits . . . [if the participant enters] the services of a firm which competes with the employer.” *Bilec, supra*, 403 Pa. Super. at 179, 588 A.2d at 539. Further, the forfeiture applied to existing employees, and the existing employees received no benefit that corresponded with this increased burden. The employer in *Bilec* was downsizing its business in a fashion that provided less work and fewer opportunities for the employees.

C. **Equity Interest Forfeiture**

1. Forfeiture invalidated- In *Capozzi v. Latsha and Capozzi, P.C.*, 797 A.2d 314 (Pa. Super. 2002), the Pennsylvania Superior Court invalidated an oral valuation agreement between shareholders of a law firm that limited the shareholder’s payout if the shareholder competed. The agreement did not define the geographic area where competition was prohibited. The agreement provided that a shareholder who left the firm and then competed against the firm would only receive the amount of his initial capital contribution. A departing partner had made an initial capital contribution of \$5,000. Over the years, the firm had grown to an organization with gross revenues of \$2.6 million.

The Superior Court held that the agreement in question was a restrictive covenant. The Court therefore applied the following factors to determine whether the covenant was enforceable: (1) whether the covenant was reasonably necessary to protect the legitimate interests of the employer; (2) whether the covenant was reasonably limited in geographic scope; and (3) whether the covenant was reasonably limited in terms of time. The Court found that the covenant failed all three tests. The Court found that the covenant imposing a forfeiture clause was not reasonably necessary to protect the interests of the employer, as follows:

We cannot find that a forfeiture clause entitling a co-founding, named partner to only Five Thousand (\$5,000) Dollars of a firm worth \$2.6 million is reasonably necessary to protect the firm.

Capozzi v. Latsha and Capozzi, P.C., supra, 797 A.2d at 321.

The Court found that the agreement could not be enforced because the agreement was not limited in either its geographic scope or time.

2. Forfeiture invalidated- In *Miller v. McNees, Wallace and Nurick*, 118 Dauphin Co. L.R. 1 (Dauphin County, Pa. 1997), a law firm partner was forced to retire from a large regional law firm headquartered in Harrisburg, Pa. The firm's partnership agreement provided, "Within five (5) years after the date of retirement, a retired partner may not . . . engage in services which are competitive with those of the partnership." The partner retired and joined another Harrisburg law firm. The partner's former firm withheld retirement benefits from the partner because the partner had gone to work for another firm. The partner sued to obtain his retirement benefits. The law firm moved for summary judgment dismissing the case. The partner opposed the motion, contending that the restrictive covenant was unreasonable. The court agreed with the partner and refused to dismiss the case, holding as follows:

In the case *sub judice*, the restrictive covenant states no geographical limit. It bars Miller from practicing law for five years regardless of any geographical territory and in areas of the law which are "competitive with those of the partnership". McNees, as previously noted, is a large law firm with a diverse practice and a client base throughout Pennsylvania and the east coast. Because of its widespread client base and diverse practice, the majority of lawyers in Harrisburg and Pennsylvania are potentially in competition with McNees. Thus, any geographical limit in the McNees restrictive covenant would essentially bar a former McNees lawyer from practicing law. This is unreasonable.

Miller v. McNees, Wallace and Nurick, supra, 118 Dauphin Co. L.R. at 6.

The *Miller* agreement had no forfeiture clause and involved the involuntary holding of the partner's accumulated share and the failure to define "competition." The case points up the hazards of trying to go beyond the terms of a non-compete.

3. Forfeiture upheld- *Bradford v. New York Times Company*, 501 F.2d 51 (2d Cir. 1974). The New York Times adopted an incentive compensation plan in which key employees received company stock. The plan provided for a payout over a 10-year period after an employee's employment ended. The plan permitted the company to terminate such payments if the employee violated an agreement not to compete with the company. The plaintiff was the key employee on the business side of the paper. He left the company and, several months later, took a position with another newspaper publisher in New York. The New York Times informed the ex-employee that he had relinquished all rights under the plan and stopped the stock payments permanently. Several years later, after leaving the competitor, the ex-employee requested resumption of payments. By that time, the stock had quadrupled in value. The Times refused to reinstate payments. The trial court dismissed the case and thereby upheld the New York Times' action

depriving the ex-employee of all unpaid installments. The ex-employee tried to attack the company's action as an unreasonable restraint against competition, business, trade or commerce. The court held that the restriction was reasonable because the ex-employee was receiving benefits in the form of continuing payments. NOTE: The court rejected the "employee choice doctrine", in which there was no inquiry into reasonableness. Other courts in New York have applied the "employee choice doctrine", however. *See Morris v. Schroder Capital Management Corp.*, 481 F.3d 86 (2d. Cir. 2007)). Note that the result in *Bradford* might have been different if the employer had terminated the employee without cause (*Post v. Merrill Lynch, et al.*, 48 N.Y. 2d 84, 421 N.Y.S. 2d 847, 397 N.E. 2d 358 (1979)) or if the employee had been constructively discharged (*Morris v. Schroder Capital Management Corp.*, *supra*) or where an employer had made inconsistent statements to an employee about whether a particular entity was a competitor that would trigger a forfeiture. (*Murphy v. Gutfreund*, 583 F. Supp. 957 (S.D.N.Y. 1984)).

4. Forfeiture upheld- *Krauss v. M. P. Claster & Sons, Inc.*, 434 Pa. 403, 254 A.2d 1 (1969). Employee/stockholder left a business, and entered into an agreement for the sale back to the employer of his shares of stock. At that time, employee entered into a consulting agreement for five (5) years, which included a non-compete. The non-compete applied to the State of Pennsylvania except for the Greater Pittsburgh and Greater Philadelphia areas. The employee then began work with a competing building supply business. The employee maintained that he had not violated the non-compete because he worked for a company that was headquartered in Massachusetts (Grossman) and he did not work in Pennsylvania. The court rejected this argument: "It is not relevant under the contract that appellant might have acted for Grossman only in a capacity wholly divorced from Grossman's Pennsylvania business, as long as Grossman competed with appellee in a way forbidden by the contract." The ex-employer considered the employee to be in breach of the restrictive covenant and refused to pay further compensation. The court upheld the ex-employer's argument, and held that the reasonableness of the restrictive covenant did not apply in a situation where the individual was filing an action for compensation.

5. Forfeiture upheld- *Rhodes v. Superior Investigative Services, Inc.*, 437 F. Supp. 1012 (E.D. Pa. 1977). An ex-employee/stockholder sought to recover the balance allegedly due on a contract for the sale of his stock in a security guard business. The agreement for sale of the stock included a payout in two installments. The agreement included a two-year, 50-mile non-compete. Within two years, the employee engaged in the security business within 50 miles. The court held that the employee had breached the restrictive covenant.

6. Forfeiture upheld- *Strohl Systems Group, Inc. v. Fallon*, 2006 WL 2828997 (E.D. Pa. Sept. 29, 2006). The court granted summary judgment for a plaintiff/corporation seeking to recover the stock of an employee who had breached a confidentiality agreement. The agreement required that anyone

breaching the confidentiality provision had to sell stock back to the company at 50% of their appraised value. The court upheld the liquidated damages clause. The court cited *Omicron Systems v. Weiner*, 860 A.2d 554 and *Bradford v. New York Times Company, supra*.

D. Open Issue in Pennsylvania- Will Forfeiture be Enforced Where Employee is Discharged Through No Fault of the Employee's?

Since 1995, employees in Pennsylvania have been able to attack employers' attempts to enjoin competition where the employee was discharged through no fault of the employee. In 1995, the Pennsylvania Superior Court held in *Insulation Corporation of America v. Brobston*:

Where an employee is terminated by his employer on the grounds that he has failed to promote the employer's legitimate business interests, it clearly suggests an implicit decision on the part of the employer that its business interests are best promoted without the employee in its service. . . . Once such a determination is made by the employer, the need to protect itself from the former employee is diminished by the fact that the employee's worth to the corporation is presumably insignificant. Under such circumstances, we conclude that it is unreasonable as a matter of law to permit the employer to retain unfettered control over that which it has effectively discarded as worthless to its legitimate business interests.

Insulation Corporation of America v. Brobston, 446 Pa. Super. 520, 667 A.2d 729, 735 (1995). In *All-Pak, Inc. v. Johnston*, 694 A.2d 347 (Pa. Super. 1997), the Superior Court held that "because Johnston was terminated unilaterally, appellant's right to relief in the form of a preliminary injunction was unclear in light of this court's recent decision in *Insulation Corp. of America v. Brobston* (citation omitted)." *All-Pak, supra*, 694 A.2d at 352.

Courts in Pennsylvania have not yet applied the *Insulation Corporation* rule in the context of an employee forfeiture. There are several indications that courts may be receptive to application of this rule. First, a court has refused to dismiss a claim to set aside a forfeiture in circumstances similar to constructive discharge. In *Fredericks v. Georgia Pacific Corp.*, 331 F. Supp. 422 (E.D. Pa. 1971), the court refused to dismiss an executive employee's claim to his share of a stock bonus plan. The plan provided for forfeiture upon voluntary termination of employment or discharge with or without cause. The employee resigned by mutual agreement after alleging that harassment by the employer made it impossible for him to perform his duties. The Court also refused to dismiss the executive's unjust enrichment claim. The court construed the bonus agreement in *Fredericks* against the drafter. See *Fredericks, supra*, 311 F. Supp. 422, 429. Second, the courts in New York State, which generally favor ex-employers more than Pennsylvania courts in non-compete disputes, acknowledged the availability of a constructive discharge claim in *Morris v. Schroder Capital Management Corp.*, 481 F.3d 86 (2d. Cir. 2007), although the courts ultimately

upheld the forfeiture clause. Third, in *Bilec v. Auburn & Associates, Inc. Pension Trust*, 403 Pa. Super. 176, 588 A.2d 538 (1991), the Pennsylvania Superior Court refused to uphold a pension forfeiture for competition, where the employer was downsizing its business in a fashion that provided less work and fewer opportunities for the employees.

E. “Garden Leave”

1. “Garden leave” provisions require the ex-employer to pay the ex-employee for the period during which the ex-employee does not compete. “Garden leave” is often used in the financial services industry, and may include the requirement that the employee give a long notice of intent to leave for a competitor. During the notice period, the employee remains an employee of the old employer but typically loses access to business information and may not solicit clients or customers. *See Bear Stearns & Co., Inc. v. Sharon*, 550 F. Supp. 2d 174 (D. Mass. 2008) (refusing to enforce “garden leave”).

2. Variations on “garden leave” include (1) a requirement that the employer pay the employee who is unable to work in suitable employment because of the noncompete (*See Minnesota Mining and Manufacturing Co. v. Gessner*, 78 F. Supp. 2d 390 (E.D. Pa. 1999)); and (2) a requirement that the ex-employer either pay the employee for a stipulated period after employment or allow the employee to compete. *See Visual Software Solutions v. Managed Healthcare Associates*, 2001 WL 1159741, *6 (E.D. Pa. Aug. 10, 2001).

IV. DAMAGES FOR MISAPPROPRIATION OF TRADE SECRETS

A. Pennsylvania Uniform Trade Secrets Act

1. Compensatory damages- The Pennsylvania Uniform Trade Secrets Act (“PUTSA”) allows damages in the form of the “actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss.” 12 Pa. C.S.A. § 5304(a). To sustain a claim of unjust enrichment, a claimant must show that the party against whom recovery is sought either wrongfully secured or passively received a benefit that it would be unconscionable for the party to retain.

2. Punitive damages are recoverable in cases of willful and malicious misappropriation (§ 5304(b)). Section 5304(b) allows recovery of punitive damages for “willful and malicious” misappropriation, in an amount up to twice the compensatory award. In *B&B Microscopes v. Armogida*, 532 F. Supp. 2d 744, 756-757 (W.D. Pa. 2007), the Court awarded exemplary (punitive) damages of \$20,000 (twice the compensatory award of \$10,000). The Court found that the defendant had used the former employer’s name, reputation, contacts, and resources to develop a system for identifying criminal suspects; and had resigned, taking this system with him, knowing that he was both taking a trade secret and

depriving the ex-employer of the use of the trade secret. As such, the defendant acted with a reckless indifference to the ex-employer's rights.

3. Attorney's fees are recoverable in cases of illful and malicious misappropriation or for certain bad faith conduct in litigation (§ 5305). *Fisher Bioservices, Inc. v. Bilcare, Inc.*, 2006 WL 1517382 (E.D. Pa. May 31, 2006), the Eastern District of Pennsylvania (per Pratter, J.) found that the ex-employee's conduct in taking limited confidential and trade secret information from her employer was willful and malicious. The court stated that it would consider an award of reasonable attorney's fees on those claims on which the Plaintiff had succeeded.

4. NOTE: Because PUTSA took effect in 2004, there have been few Pennsylvania cases that deal with damages issues under the Act, and practitioners can look to the law of the 44 other states that have adopted the Uniform Trade Secrets Act for applicable damages cases.

B. Pennsylvania Caselaw Before PUTSA

The following items of damages were among those held recoverable:

1. Loss of property converted (*Sweetzel, Inc. v. Hawk Hill Cookies, Inc.*, 1996 WL 434012 (E.D. Pa.)).
2. An equitable accounting (*A.M. Skier Agency, Inc. v. Gold*, 747 A.2d 936, 941-942 (Pa. Super. 2000)).
3. Punitive damages (*Sweetzel, Inc. v. Hawk Hill Cookies, Inc.*, *supra*).

C. Bankruptcy non-dischargeability- An individual's liability for misappropriation of trade secrets is not dischargeable in bankruptcy (*In Re Harland*, 235 B.R. 769 (Bankr. E.D. Pa. 1999)).

V. DAMAGES FOR OTHER TORTS

A. Intentional Interference with Contractual Relations

The Restatement (Second) of Torts § 774A defines "actual damages" for interference with a contract as follows:

One who is liable to another for interference with a contract or prospective contractual relation is liable for damages for the pecuniary loss of the benefits of the contract or the prospective relation; consequential losses for which the interference is a legal cause; and emotional distress or actual harm to reputation, if they are reasonably to be expected to result from the interference.


1. There must be a causal relationship between the wrongful action and the damages. An ex-employer may not claim damages for the departure of employees that are pre-disposed to leave (or who have already left) the employer without regard to any conduct by the defendants. *Diversey Lever, Inc. v. Hammond*, 1997 WL 28711 (E.D. Pa. Jan. 24, 1997); and *American Air Filter, Inc. v. McNichol*, 527 F.2d 1297, 1300 n.4 (3d Cir. 1975).

2. Intentional interference cases can give rise to large damage awards, both for compensatory and punitive damages. See generally *Judge Technical Services, Inc. v. Clancy*, 813 A.2d 879 (Pa. Super. 2002); *Reading Radio, Inc. v. Fink*, 833 A.2d 199 (Pa. Super. 2003); *CGB Occupational Therapy, Inc. v. RHA Health Services, Inc.*, 499 F.3d 184 (3d Cir. 2007). The use of hardball litigation tactics or the refusal to comply with discovery requests can enhance the possibility of a large adverse award. This was the case in both *Judge Technical Services, Inc. v. Clancy*, *supra* and *CGB Occupational Therapy, Inc. v. RHA Health Services, Inc.*, *supra*. In *Judge Technical Services v. Clancy*, the Pennsylvania Superior Court affirmed a large award of both compensatory and punitive damages in favor of a former employer and against both ex-employees for breach of restrictive covenants and against the new employer for intentional interference. The Court had earlier entered a default judgment against the defendants for failing to respond to discovery requests, and one of the defendants had violated a restrictive covenant after entering into a court-approved agreement to resolve an earlier restrictive covenant issue. The trial court awarded compensatory damages of over \$684,000 against the new employer for tortious interference in the amount of lost business, and an additional \$700,000 in punitive damages. The Superior Court upheld the damage awards.

3. Items of recoverable damages in intentional interference cases include the following:

- a. Lost profits- *Certified Laboratories of Texas, Inc. v. Rubinson*, 303 F. Supp. 1014, 1025-1026 (E.D. Pa. 1969)
- b. Lost revenues- See *Joseph D. Shein, P.C. v. Myers*, 394 Pa. Super. 549, 576 A.2d 985 (1990); *Franklin Music Co. American Broadcasting Companies, Inc.*, 616 F.2d 528, 546 (3d Cir. 1979)).
- c. New employer's profits- In *Morgan's Home Equipment Corp. v. Martucci*, 390 Pa. 618, 136 A.2d 838 (1957), the Pennsylvania Supreme Court ordered the defendants to account for all profits earned through improper solicitation of the old employer's customers who became known by reason of employment with the old employer. *Morgan's Home Equipment Corp. v. Martucci*, *supra*, 390 Pa. at 626, 136 A.2d at 843 (1957). See also *Ecolaire, Inc. v. Crissman*, 542 F. Supp. 196 (E.D. Pa. 1982) (interference with confidentiality agreement); *Jacobson v. International*

Environment, Inc., 427 Pa. 439, 235 A.2d 612 (1967)
(disgorgement of profits from interference with non-competition agreement).

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- d. Diminution in value of victim of interference- In *Reading Radio, Inc. v. Fink*, 833 A.2d 199 (Pa. Super. 2003), the trial court awarded compensatory damages of approximately \$300,000. *Reading Radio, Inc. v. Fink, supra*, at 206. The Court held that a radio station broker was qualified to testify as to the diminution of the plaintiff radio station's value. (The Court also awarded punitive damages of \$800,000, for a total award of \$1.1 million.)
 - e. Punitive damages
 - (i) In *Certified Laboratories of Texas, Inc. v. Rubinson, supra*, 303 F. Supp. at 1028-29, the court awarded punitive damages in twice the amount of compensatory damages for the defendant employer's ratification of a breakaway employee's conduct, including "flagrantly inducing breaches of contract, concealing their violations . . . , destroying and altering subpoenaed documents to conceal these breaches." See also *Joseph D. Shein, P.C. v. Myers*, 394 Pa. Super. 549, 576 A.2d 985, 988 (1990), *appeal denied*, 533 Pa. 600, 617 A.2d 1274 (1991).
 - (ii) The case of *CGB Occupational Therapy, Inc. v. RHA Health Services, Inc.*, 499 F.3d 184 (3d Cir. 2007), led to wildly divergent punitive damage awards. Most recently, the Court of Appeals remanded the punitive damages issue to the United States District Court, with instructions to enter a new judgment for punitive damages in the amount of \$750,000. The *CGB v. RHA* case had a long and complex history. CGB, a provider of therapy services in long-term care and assisted-living facilities, had a contract with nursing homes that prohibited the nursing homes from hiring therapists employed by CGB for one year after the nursing home terminated the contract with CGB. Despite this "anti-raiding" clause, the firm that managed the nursing homes (Sunrise) arranged for the hiring of the therapists within the one-year period. After an initial trial, a jury awarded compensatory damages in the amount of \$109,000 on CGB's intentional interference claim relating to the contracts with its own employees; \$576,000 on a compensatory damage claim for intentional interference with the contract with the nursing home; and punitive damages of \$1,300,000, without specifying how the

punitive damages award was allocated between the two claims of interference. On the first appeal, the Court of Appeals remanded to the District Court for a new trial on the question of punitive damages. On remand, the jury awarded punitive damages in the amount of \$30,000,000 on the intentional interference of claim between the employer and its employees. The District Court reduced this award to \$2,000,000, on the grounds that the punitive damage award was excessive. In reducing the award to a maximum of \$750,000 in the second appeal, the Third Circuit considered the following three yardsticks for measuring for punitive damage awards:

- (1) The degree of reprehensibility of the defendant's conduct;
- (2) The disparity between the actual or potential harm suffered by the plaintiff and the punitive damage awards; and,
- (3) The difference between the punitive damages awarded by the jury and the civil penalties authorized or imposed in comparable cases.

As to the degree of reprehensibility, the Court found that there were five factors for determining reprehensibility:

- (1) Whether the harm caused was physical as opposed to economic;
- (2) Whether the conduct evinced an indifference to or reckless disregard of the health or safety of others;
- (3) Whether the target of the conduct had financial vulnerabilities;
- (4) Whether the conduct involved repeated actions or was an isolated incident; and
- (5) Whether the conduct was the result of intentional malice, trickery, or deceit, or mere accident.

The Court found that the final three factors were present but the first two factors (economic versus physical harm

and absence of any indifference/reckless disregard of health) were not present. Under the circumstances, the Court held that the conduct was not sufficiently egregious to warrant a punitive damage award of \$2,000,000.

As to the second factor, the ratio of punitive damages to harm, the Court measured the \$2,000,000 punitive damage award against the \$109,000 compensatory damage award. This ratio was approximately 18 to 1. The Court noted that the United States Supreme Court had cautioned that few awards exceeding a single-digit ratio (i.e., 9:1) between punitive and compensatory damages would pass muster. The Court found that, although the defendant's conduct was reprehensible, there were no special circumstances justifying the enormous disparity between the compensatory and punitive awards. Therefore, the Court found that a further reduction of the \$2,000,000 award was required, in light of the Supreme Court of the United States' guidelines in cases such as *BMW of North America, Inc. v. Gore*, 517, U.S. 559, 116 S. Ct. 1589 (1996) and *State Farm Mutual Auto Insurance Co. v. Campbell*, 538 U.S. 408, 123 S. Ct. 1513 (2003). The Court also considered factors such as the defendant's wealth, the defendant's abusive and dilatory litigation tactics, the institution of meritless collateral proceedings in a bankruptcy case, and an overall "scorched earth" litigation policy. The Court concluded that "a substantial punitive damages award is warranted to prevent Sunrise from gaining the unfair advantage of a reputation for bleeding legal adversaries to death before they can vindicate their rights." The Court also considered the fact that Sunrise had not earlier challenged the award of \$1,300,000 in damages. See *CGB Occupational Therapy, Inc. v. RHA Health Services, Inc.*, 499 F.3d 184, 189-195 (3d Cir. 2007).

- (iii) In *Judge Technical Services v. Clancy*, 813 A.2d 879 (Pa. Super. 2002), the Superior Court rejected the argument that the award of punitive damages was "unreasonable and excessive". The court held that punitive damages are awarded under Pennsylvania law for "outrageous conduct" and that the "degree of reprehensibility" is the indicator of the reasonableness of a punitive damages award. The Superior Court noted that the trial court found that the new employer was the driving force behind both the refusal to respond to the discovery orders and the recruitment of the individual employees in violation of their restrictive

covenants. The court held that the evidence showed that the new employer generated millions of dollars in revenue during the period of interference with the contracts and during the period of non-response to the court's discovery orders that formed the basis for the default. The court held:

The conduct of Alliance in intentionally interfering with the contractual relations of the other parties alone warranted the award of punitive damages. The trial court appropriately considered the nefarious purpose of Alliance in ignoring the Court's discovery orders, which indicated that Alliance had the most to hide in the matter. Therefore, having found Alliance intentionally interfered with the contractual relations with the parties, and intentionally disregarded the trial court's discovery orders, the trial court appropriately awarded punitive damages. The award of punitive damages will serve the dual purposes of punishing Alliance for its reprehensible behavior, and in deterring Alliance from acting similarly in the future.

Judge Technical Services v. Clancy, supra, 813 A.2d at 890. (Citations omitted).

NOTE: Punitive damages have also been awarded against an ex-employer who interfered with a former employee's subsequent employment by wrongfully asserting the existence of an enforceable non-compete. *Ruffing v. 84 Lumber Co.*, 410 Pa. Super. 459, 600 A.2d 545 (1992), and *Collincini v. Honeywell, Inc.*, 441 Pa. Super. 166, 601 A.2d 292 (1992).

B. Breach of Fiduciary Duty

Breaches of fiduciary duty are generally remediable by returning to the complainant the benefit taken by the offending party. *Synthes (USA) v. Global Medical, Inc.*, 2007 WL 2043184, *11 (E.D. Pa. July 12, 2007). Included within these "benefits" is compensation

paid by the principal to the agent while the agent is in violation of a fiduciary duty. The courts have upheld the following damage relief for an agent's breach of fiduciary duty:

1. An accounting of the agent's profits from the breach. See *Katz v. Food Sciences Corp.*, 2000 WL 1022986 (E.D. Pa. July 13, 2000) (awarding damages in amount of secret payments from competitors for services during employee's employment with principal). Where an employee has unlawfully competed with the employer while still an employee, the Court may impose a constructive trust on all revenue generated from this unlawful competition and order an accounting.
2. Compensatory damages. Compensatory damages arising from a breach of fiduciary duty must be proven with reasonable certainty. *Banjo Buddies, Inc. v. Renosky*, 399 F.3d 168 (3d Cir. 2005) (refusing to estimate damages rather than use specific damage data). The following items of damage may be recovered:
 - a. the amount of the revenues lost from customer accounts that were wrongfully transferred in breach of fiduciary duty. See *Latuszewski v. Valic Financial Advisors, Inc.*, 2007 WL 4462739, *21 (W.D. Pa. Dec. 19, 2007) (awarding \$600,000 in damages for present value of accounts transferred by the guilty employees).
 - b. Repayment of compensation paid to the disloyal agent beginning on the date of the agent's breach. *Plate Fabrication and Machining Co., Inc. v. Beiler*, 2006 WL 14515, *8 (E.D. Pa. Jan. 3, 2006).
3. Punitive damages. See *SHV Coal, Inc. v. Continental Grain Co.*, 526 Pa. 489, 587 A.2d 702 (1991) reversing in part 376 Pa. Super. 241 545 A.2d 917, 924 (1988); *Katz v. Food Sciences Corp.*, 2000 WL 1022986 (E.D. Pa. July 13, 2000). A finding of outrageous conduct is essential to an award of punitive damages. *McDermott v. Party City Corp.*, 11 F. Supp. 2d 612, 629 (E.D. Pa. 1998); *Reading Radio, Inc. v. Fink*, 833 A.2d 199 (Pa. Super. Ct. 2003) (awarding damages against new employer).
4. Forfeiture of bonus or severance payments. - *Kassab v. Ragnar Benson, Inc.*, 254 F. Supp. 830 (W.D. Pa. 1966); *Bolton v. Firearms Unlimited, Inc.*, 62 Pa. D. & C. 2d 94 (Allegheny County (Pittsburgh) 1973).
5. Forfeiture of commissions to an employee who competes with the employer while still employed. *Fidelity Fund, Inc. v. DiSanto*, 347 Pa. Super. 112, 500 A.2d 431 (1985).

NOTE: Even in cases of breach of fiduciary duty, however, an ex-employer cannot recover speculative estimates of damages. See *McDermott v. Party City Corp.*, 11 F. Supp. 2d 612, 629 (E.D. Pa. 1998). In *McDermott*, the District Court found that a store manager had breached his duty of loyalty to a store operator by

diverting funds, inventory, and plaintiff's employees to a competitive store that the manager himself owned. The Court allowed damages for these specific items of value that this disloyal employee had taken from the employer. The Court refused, however, to uphold the jury's award of compensatory damages for breach of fiduciary duty beyond these specific amounts. The plaintiff store operator suggested that the jury award should be upheld as an award of damages for missing inventory items; the court held that the evidence of missing inventory was not sufficient to support the jury's award without conjecture. *McDermott v. Party City Corp., supra*.

The plaintiff in *McDermott* also argued that the jury's damage award should be upheld as compensation to the plaintiff for lost profits from the new business that the plaintiff was starting. The Court rejected this argument, holding that "lost profits for a new business... are generally not recoverable because such damages are by nature speculative and elude a reasonably certain estimation." *McDermott v. Party City Corp., supra, quoting Fort Washington Resources, Inc. v. Tannen*, 901 F. Supp. 932 (E.D. Pa. 1995).

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