

JFA Inc. v Docman Corp.

2010 NY Slip Op 30369(U)

February 22, 2010

Supreme Court, New York County

Docket Number: 106739/09

Judge: Michael D. Stallman

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SUPREME COURT OF THE STATE OF NEW YORK — NEW YORK COUNTY

PRESENT: Hon. MICHAEL D. STALLMAN

PART 7

Justice

JFA INC.

INDEX NO. 106739/09

Plaintiff,

- v -

MOTION DATE 12/17/09

MOTION SEQ. NO. 001

DOCMAN CORPORATION, JAY
BERARDINELLI, and Does 1 through 20,

MOTION CAL. NO. 13

Defendants.

The following papers, numbered 1 to 16 were read on this motion for prellminary injunction; cross motion to dismiss

Order to Show Cause; Affidavit — Affidavit—
Exhiblts 1, 2 — Affidavit— Affidavit —
Complalnt— Exhibits 1, 2

PAPERS NUMBERED

1-5

Notice of Cross Motion to Dismiss— Affidavit—
Exhibits A-S

6-7

Reply Memo of Law — Affidavit —
Affidavit—Exhibits 1-3— Affidavit

8-11

Reply Affidavit—Exhiblts A-F; Reply Afflrmatlon

12, 13

Plalntiff's Supplemental Brlef

14

Defendants' Response to Supplemental Brief

15

Plalntlff's Supplemental Reply Brief—Exhibits 1, 2


16

FILED
FEB 25 2010
NEW YORK
COUNTY CLERK'S OFFICE

Cross-Motion: Yes No

Upon the foregoing papers, it is ordered that this motion and cross motion are decided in accordance with the annexed memorandum decision and order.

Dated: 2/22/10
New York, New York


J.S.C.

Check one: FINAL DISPOSITION NON-FINAL DISPOSITION

Check if appropriate: DO NOT POST REFERENCE

HON. MICHAEL D. STALLMAN

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

**SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK: IAS PART 7**

-----X
JFA INC.,

Plaintiff,

Index No. 106739/2009

- against -

THE DOCMAN CORPORATION, JAY BERARDINELLI, and
DOES 1 through 20,

Decision and Order

Defendants.
-----X

HON. MICHAEL D. STALLMAN, J.:

Plaintiff moves for a preliminary injunction against defendants; defendants cross-move to dismiss the complaint (Motion Seq. No. 001). Plaintiff also moves for a protective order against defendants, for an order to seal the Court's file, and for leave to amend the complaint; defendants cross-move for a preliminary injunction against defendants (Motion Seq. No. 002). This decision address both motions and both cross motions.

BACKGROUND

According to the complaint, plaintiff JFA Inc. (JFA) provides accounting and payroll services to film and television productions. On February 10, 2004, JFA allegedly entered into a written agreement with defendants to create, as a work for hire, custom proprietary software to function as a "Film Production Accounting System" for JFA's business. JFA claims that the software should contain two parts: in house general ledger accounting and payroll processing. Although the written terms of the agreement provided that defendants would complete all of the functions and elements of the software by May 15, 2004, defendants allegedly only partially completed the software package and continually implemented changes and new features. JFA alleges that defendants have been

developing the payroll processing part for the last three years, during which JFA was relying on an outside payroll company for payroll processing. JFA claims that it licenses portions of the software to its clients as an additional service.

According to JFA, defendants demanded additional money and time to complete the software and features requested, and that defendants stated and/or implied that if such amounts were not paid, that all development would stop and that JFA's business would come to a standstill. JFA's president claims that, except for normal data entry, Berardinelli is the only person who knows how to use the software. According to JFA's president, defendants never completed a user interface by which the staff could add new customers to the payroll system, so JFA relied on Berardinelli to enter new clients into the system. Consequently, JFA relied on Berardinelli's continue presence to operate its business.

JFA contends that defendants have never provided the actual software to JFA in the form of a working server, as allegedly promised, but instead have kept the software at defendants' place of business in Glenhead, New York (which is also defendant Berardinelli's home). According to individuals that JFA hired to analyze the payroll system, the system is poorly crafted and dangerously error prone, and the system is not reasonably safeguarded against the risk of disruption to the continued operation of the software and JFA's business.

JFA asserts that defendants breached the agreement by refusing to turn over the run time version of the software.

The complaint asserts that, in creating the software, defendants became privy to confidential information belonging to JFA. JFA claims that defendants demonstrated the workings of the software on November 1, 2007 at meeting of Visual Foxpro users in New York City, thereby

displaying confidential information of third parties, such as payroll information of the employees of companies to which JFA provides accounting services.

JFA moves for a preliminary injunction directing that defendants:

- (1) be prohibited from any rotation, alteration, and/or destruction of electronic media that would result in the inability to recover computer data regarding all actual or potential business interests involving defendants;
- (2) provide JFA's expert unrestricted access to defendants' computers and data, including all passwords or other necessary means to access the computers and data;
- (3) be prohibited from accessing, using, or booting the defendants' computers until JFA can secure a backup of defendants' computers and computer storage media;
- (4) be prohibited from interfering with, accessing, destroying, disseminating, hiding, or in any way impeding the data of JFA's operations and its software;
- (5) be prohibited from disclosing any trade secrets, data, information or private data belonging or relating to JFA, its employees, or JFA's clients and their employees;
- (6) be prohibited from initiating communications of any nature, other than through defendants' attorneys, with JFA, its subsidiaries, Indiepay and IPEOR, Inc., their employees, agents, and consultants, or from coming within 1000 feet of JFA's business premises;
- (7) be prohibited from contacting present and past clients or customers of JFA, and its related companies.

JFA's motion also seeks an order of seizure of defendants' computers, hard drives, CD-ROMS, and other digital storage media at defendants' premises in Glen Head, New York, and an order permitting a third-party to have unrestricted access to all of defendants' computers.

DISCUSSION

JFA's Motion for a Preliminary Injunction

Some aspects of JFA's motion for a preliminary injunction seek an order enjoining defendants' from interfering with JFA's operations. For instance, JFA seeks, essentially, an order

of protection or a restraining order against defendants from communicating with employees, or coming within 1000 feet of JFA. JFA seeks an order enjoining defendants from contacting any present or past clients or customers of JFA and its related companies, and from disclosing any trade secrets, data, or information belonging or relating to JFA, its clients or its clients' employees.

These branches of the JFA's motion for preliminary injunctive relief are ill matched to the relief which JFA could obtain were it to ultimately prevail against defendants on its causes of action. At a conference on this motion, JFA's counsel did not articulate those causes of action for which provisional relief was being sought, for the Court to determine whether JFA established a likelihood of success on the merits. There is no civil cause of action pleaded where JFA could obtain, in essence, an order of protection for a corporate entity.

Although the written agreement contains a confidentiality clause, JFA has not established a likelihood of success that defendants disclosed any confidential information or trade secrets. JFA believes that defendants disclosed this information at a meeting of Visual Foxpro users, which advertised that Berardinelli would demonstrate "full blown VFP [Visual Fox Pro] applications he [Berardinelli] developed over the years . . ." Finn Aff., Ex 2. However, JFA does not claim to have attended the meeting. Thus, JFA is only assuming, without any personal knowledge, that the demonstration would have included a demonstration of JFA's Film Production Accounting System, that would have also included a version that contained real payroll data of JFA's clients.

The bulk of JFA's motion for a preliminary injunction seeks essentially a protective order to preserve relevant electronic evidence, either in the form of an injunction prohibiting defendants from accessing their own computers until a backup can be performed, or in the form of an order of seizure directing the sheriff to take possession or control of any computer servers belonging to JFA

or of any computer storage media containing data and confidential information belonging to JFA. JFA intends to have a computer forensic expert, the Intelligence Group, make copies of all the data contained on the property to be seized. The motion also seeks unrestricted access to any and all paper records for inspection, copying, and photography located at defendants' place of business in Glen Head, New York.

These aspects of JFA's motion are clearly related to discovery, and are not in the nature of a provisional remedy. For instance, JFA requests an order directing defendants to appear for a deposition within 3 days at the offices of JFA's counsel. Thus, the relevant inquiry is not whether JFA has met the three part test of injunctive relief, but whether a protective order for the preservation of electronic evidence should be granted. The dispute involves proprietary software that defendants allegedly developed, which JFA claims is currently housed in servers in the custody of defendants, at Berardinelli's home in Glen Head, New York, the alleged place of business of the Docman corporation.. As JFA indicates, "Raw computer data or electronic documents are discoverable." *Lipco Elec. Corp. v ASG Consulting Corp.*, 2004 WL 1949062, 7 (Sup Ct, Nassau County 2004), citing *Zubulake v UBS Warburg LLC*, 217 FRD. 309 (SD NY 2003) and *Playboy Enterprises, Inc. v Welles*, 60 F Supp 2d 1050 (SD Cal 1999). Although the Court is inclined to permit the mirror image bit stream backup to preserve electronic evidence (*see Matter of Maura*, 17 Misc 3d 327 [Sur Ct, Nassau County 2007][directing a clone of law firm's hard drive to be made]), JFA has not satisfactorily addressed the Court's concerns with the proposed modalities of conducting the electronic discovery.

JFA seeks imaging not only of the computers (including laptop computers), but also of handheld devices. However, the stated purpose of the mirror bit stream backup is to preserve the

* 7]

proprietary software at issue in this case. It has not been demonstrated that handheld devices (i.e., a smartphone) would contain such discoverable, programming information. The equipment which JFA seeks to inspect for electronic discovery is overly broad—JFA asks that defendants be directed to identify every computer they have ever used in connection with Berardinelli’s work for not only JFA, but also related companies that are currently not parties to this action.

JFA is not entitled to an order of replevin seizing the hard drives and servers from defendants’ premises. There is no cause of action alleged wherein JFA would be entitled to such seizure. The proposed seizure is fatally overbroad, insofar as JFA seeks seizure of defendants’ computers in whatever county they may be located, even if outside the Court’s territorial jurisdiction. JFA also seeks to have the backup made at the offices of its designated expert, the Intelligence Group. Given that defendants rely on their computers to run their business, removing those computers from the premises is, a priori, too disruptive to defendants’ operations, especially since the computers will be inoperational while the backup is being made. There is nothing in the record to indicate that the backup cannot be performed on defendants’ premises. Because JFA’s request is in the nature of discovery, it is more appropriate that JFA be permitted access to perform a mirror bit stream backup of the hard drives and servers on defendants’ premises.

Moreover, the branch of JFA’s request to prohibit defendants from even powering up their computers until the backup can be obtained is overly burdensome. Such a drastic measure will halt defendants’ business. Although the Court is aware that the access dates of files could be altered when the file is accessed, JFA does not explain how the particular files that could contain discoverable electronic information could be affected by the act of powering up defendants’ computers.

Finally, the remainder of JFA's motion is also denied. JFA has shown no reason why discovery, such as depositions or photographs of any of defendants' equipment in Glen Head, New York, should not proceed normally in accordance with CPLR Article 31.

Defendants' Cross Motion to Dismiss

Defendants' arguments that the complaint should be dismissed are based largely on arguments that the allegations are unsubstantiated, and defendants rely upon Berardinelli's affidavit to establish the lack of factual basis. However, factual arguments are inappropriate to a motion to dismiss, on which the Court must construe the allegations in a light most favorable to plaintiff. Defendants also make legal arguments that no misappropriation of trade secrets (i.e., customer lists) occurred because those customer lists are not trade secrets, and that defendants were therefore entitled to solicit JFA's customers. However, whether any information which JFA claims constitute trade secrets requires discovery into the nature of that information.

Notwithstanding the above, the ninth cause of action is dismissed. As defendants indicate, the ninth cause of action for fraud is duplicative of a claim for breach of contract. The first amended complaint alleges that "defendants represented to JFA that they would abide by the terms of their agreements. . ." but "defendants never intended to complete or give [JFA] possession of the software at the time the representations were made or at any time thereafter." Complaint ¶¶ 107-108.

Defendants' motion to dismiss the tenth cause of action is denied. The tenth cause of action adequately pleads a cause of action for fraudulent concealment with particularity, based on defendants' allegedly concealed from JFA that computers sold to JFA were not new, and contained software whose software licenses were not purchased from the manufacturer.

JFA's Motion for a Protective Order, to Seal the court records, and for Leave to Amend (Motion Seq. No. 002)

The branch of JFA's motion seeking a protective order is granted. Such a protective order is necessary in this case, because the Court is satisfied that the information to be exchanged is of a confidential nature. The Court has signed JFA's proposed protective order.

JFA's motion to seal the court records is denied. Defendants have not shown good cause for sealing the file in this action. 22 NYCRR 216.1. "This Court has authorized sealing only in strictly limited circumstances." *Gryphon Dom. VI, LLC v APP Intl. Fin. Co., B.V.*, 28 AD3d 322, 325 (1st Dept 2006), citing *Matter of Bernstein v On-Line Software Intl.*, 232 AD2d 336 (1st Dept 1996) (sealing to protect the confidentiality of trade secrets) and *Matter of Twentieth Century Fox Film Corp.*, 190 AD2d 483 (1st Dept 1993). Here, JFA claims that the papers filed contain facts regarding the nature of its business and software issues, but JFA does not establish that the papers contain trade secrets. JFA does not refer to any particular paper in the file or in these submissions which it contends would constitute trade secrets.

As to the branch of JFA's motion for leave to amend the complaint, "Leave to amend a pleading should be freely given as a matter of discretion in the absence of prejudice or surprise, although to conserve judicial resources, examination of the underlying merit of the proposed amendment is mandated." *Zaid Theatre Corp. v Sona Realty Co.*, 18 AD3d 352, 355 (1st Dept 2005) (internal citations and quotation marks omitted). Here, the proposed second amended complaint adds, as plaintiffs, Indiepay, Inc., Indiepay, LLC, JSF ST LLC, and John Finn Associates, LLC, and adds six additional causes of action, denominated the twelfth through eighteenth causes of action.

The addition of these four plaintiffs in proposed second amended complaint is problematic.

First, allegations are contained in footnotes of the proposed pleading, which violates the requirement of CPLR 3014 that statements must be in “consecutively numbered paragraphs.” Footnote 1 of the proposed second amended complaint states, “JFA, Inc. assigned its rights to the agreement between it and defendants to Indiepay, Inc. and ultimately to JFS FT LLC. At various times, each of these entities paid defendants.” *See Sharm Affirm.*, Ex 2.

Second, the proposed pleading does not indicate which of the five plaintiffs are asserting the causes of action pleaded. Except for the first 3 paragraphs of the proposed complaint, none of the allegations mention Indiepay, LLC, JFS FT LLC, or John Finn Associates, LLC. Almost all of the allegations of the proposed second amended complaint exclusively refer to JFA, Inc. and to no other plaintiff. And yet, because footnote 1 of proposed complaint alleges that JFA had assigned its rights to other parties, a question arises as to whether JFA has standing to assert any of the causes of action pleaded. Although causes of action may be stated alternatively, the proposed amended complaint is not structured in this way. Therefore, leave to add Indiepay, Inc., Indiepay LLC, JFS FT LLC, and John Finn Associates, LLC as plaintiffs is denied, without prejudice to another application for leave to amend.¹

Turning to the proposed causes of action, the proposed twelfth cause of action, for violation of General Business Law § 349, is plainly lacking in merit. While General Business Law § 349

¹ Such a proposed complaint should clearly name the particular plaintiff that is asserting a particular cause of action. To illustrate, if the second cause of action is brought by JFA, Inc. and its alleged successor, John Finn Associates, LLC, then the complaint should read, “Conversion – by JFA, Inc. and John Finn Associates, LLC Against All Defendants.”

If a cause of action is being pled in the alternative with respect to more than one plaintiff (because, for instance, only one could have held the right that was violated), the complaint should not include both plaintiffs under a single cause of action. Rather, the complaint should assert a separate cause of action for each of them.

applies to virtually all economic activity (*Goshen v Mutual Life Ins. Co. of N.Y.*, 98 NY2d 314, 324 [2002]; *Karlin v IVF Am.*, 93 NY2d 282, 290 [1999]), the allegations here amount to nothing more than a private contract dispute between JFA and defendants, “which is beyond the ambit of General Business Law § 349.” *United Knitwear Co. v North Sea Ins. Co.*, 203 AD2d 358, 360 (2d Dept 1994). Although JFA alleges that Berardinelli marketed himself to the public at large as an “expert in Fox Pro software,” the gravamen of the complaint is that defendants did not deliver to JFA proprietary, made-to-order software by alleged promised deadlines, and that the specially ordered software did not fulfill JFA’s specific needs. Such issues are the realm of a private contract dispute.

The thirteenth and fourteenth causes of action, for negligent misrepresentation and fraud, is based on the allegation that Berardinelli misrepresented that he was an expert in Foxpro software and that he could provide JFA with a software solution for its needs. The fifteenth and sixteenth causes of action, for negligent misrepresentation and fraud, are based on allegations that, in January 2008, defendants misrepresented to JFA that they could complete the payroll section by the end of 2008, upon which defendants relied and began paying defendants \$16,000 per month and hired defendants an assistant.

Defendants argue that the causes of action for negligent misrepresentation lack merit because JFA does not have a special relationship with defendants, citing *Bell Sports, Inc. v System Software Assocs., Inc.* (45 F Supp 2d 220 [ED NY 1999]). With respect to fraud, defendants contend that the allegations lack particularity, and that the allegations are duplicative of a cause of action for breach of contract.

Defendants’ reliance on the “special relationship” requirement mentioned in *Bell Sports, Inc.* is misplaced. The special relationship requirement is an element of a cause of action for negligent

misrepresentation to a third-party who was not in contractual privity with the defendant who allegedly made the representation. *See Parrott v Coopers & Lybrand, L.L.P.*, 95 NY2d 479, 483, (2000)(“before a party may recover in tort for pecuniary loss sustained as a result of another's negligent misrepresentations there must be a showing that there was either actual privity of contract between the parties or a relationship so close as to approach that of privity”). Here, the proposed complaint alleges that JFA is in contractual privity with defendants. Thus, a special relationship with defendants (i.e., a relationship approaching that of privity) is not an element of JFA's causes of action for negligent misrepresentation here. *See Rosicki, Rosicki and Associates, P.C. v Cochems*, 59 AD3d 512, 514 (2d Dept 2009) (court should have granted leave to amend asserting negligent misrepresentation against experts in computer software who incorrectly certified that plaintiff's computers had fully licensed software).

Contrary to defendants' argument, the allegations of fraud in the fourteenth and sixteenth causes of action are pled with particularity. Defendants have not demonstrated that the allegations are duplicative of a cause of action for breach of contract, because the alleged promises in these causes of action are not contained in the written agreement between JFA and defendants. Neither is it clear from the allegations that the payment of \$16,000 per month and the hiring of an assistant for defendants were part of some contract between JFA, Inc. and defendants. Thus, defendants have not persuaded the Court that these causes of action are plainly lacking in merit.

Turning to the seventeenth and eighteenth causes of action, for breach of implied and express warranties, respectively, defendants argue that the proposed complaint is not specific about the promises that constitute express warranties. However, the proposed complaint alleges that the express warranties were contained in the written agreement between JFA and defendants, which was

appended to the proposed complaint. Although defendants indicate that nothing in the written agreement is specifically designated as “warranties,” “[i]t is not necessary to the creation of an express warranty that the seller use form words such as ‘warrant’ or ‘guarantee’ or that he have a specific intention to make a warranty . . .” Uniform Commercial Code § 2-313 (2). Having reviewed the written agreement between JFA, Inc. and defendants, the Court cannot say, as a matter of law, that the written agreement contained no express warranties. The written agreement contains representations about the features and capabilities about the software which arguably might be construed as expressed warranties. *Cf. Jesmer v Retail Magic*, 55 AD3d 171 (2d Dept 2008) (breach of express warranty based on brochure’s promised features and capabilities of a point of sale system). Defendants could serve a bill of particulars demanding further specificity as to particulars affirmations of fact or promises relating to the software that form the basis of these causes of action.

Finally, as discussed above, defendants’ motion to dismiss was granted as to the ninth cause of action of the current complaint. The proposed ninth cause of action is identical to the dismissed ninth cause of action. Therefore, leave to amend is denied as to this cause of action.

In sum, leave to amend is denied with respect to adding four plaintiffs to this action, but leave to amend is granted with respect to the proposed thirteenth, fourteenth, fifteenth, sixteenth, seventeenth, and eighteenth causes of action. Because the proposed amended complaint contains causes of action and parties for which leave to amend was denied, JFA, Inc. must redraft and serve an amended complaint which is consistent with this Court’s decision.

Defendants’ Cross Motion for a Preliminary Injunction

Defendants’ cross motion for a preliminary injunction is denied. As JFA indicates, JFA’s

motions for a preliminary injunction and for a protective order were adjourned only for the purpose of submitting supplemental papers on specific issues for which the Court requested additional briefing. The so-ordered stipulation did not permit defendants make a cross motion.

Defendants are trying to make the point that, if JFA's motion is granted, then they should be entitled to the same relief from defendants. The relief sought mirrors every aspect of the relief that JFA seeks, even down to the injunction preventing communication with employees and coming within 1000 feet of them. However, given that defendants have asserted no counterclaims against plaintiff because they have not answered the complaint, there is no cause of action to support the provisional relief demanded.

CONCLUSION

Accordingly, it is hereby

ORDERED that JFA's motion for a preliminary injunction and for other relief is denied (Motion Seq. No. 001); and it is further

ORDERED that defendants' cross motion to dismiss is granted only to the extent of dismissing the ninth cause of action of the complaint, and is otherwise denied; and it is further

ORDERED that JFA's motion for a protective order, to seal the file, and for leave to amend the complaint is granted in part as follows:


1) JFA is granted a protective order in the form proposed as Exhibit 1 of the motion, which has been signed herewith

2) Leave to amend the proposed amended complaint is granted only as to the thirteenth, fourteenth, fifteenth, sixteenth, seventeenth, and eighteenth causes of action of the proposed second amended complaint, and the motion is otherwise denied; and it is further

ORDERED that leave to amend is conditioned upon service of an amended complaint which is drafted consistent with the leave granted by this decision and order, within 20 days of service of a copy of this order with notice of entry; and it is further

ORDERED that defendants' cross motion for a preliminary injunction is denied.

Dated: February 27, 2010
New York, New York

ENTER:


J.S.C.

HON. MICHAEL D. STILLMAN

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