Pop Intl. Galleries Inc. v Swarts
2014 NY Slip Op 30314(U)
January 24, 2014
Sup Ct, New York County
Docket Number: 113294/11
Judge: Joan A. Madden

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

PRESENT: HON. JOAN A. MADDEN PART 11
Justice

Pop International Galleries, Inc.

INDEX NO.: 113294/11

Plaintiff,

MOTION DATE:

- v -

Brian Swartz, et al.

MOTION SEQ. NO.: 003

MOTION CAL. NO.:

Defendant.

The following papers, numbered 1 to ____ were read on this motion to/for Summary Judgment

	PAPERS NUMBERED
Notice of Motion/ Order to Show Cause — Affidavits — Exhibits	
Answering Affidavits — Exhibits	
Replying Affidavits	

Cross-Motion: [X] Yes [ ] No

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

Dated: January 24, 2014

J.S.C.
HON. JOAN A. MADDEN
J.S.C.

Check one: [ ] **FINAL DISPOSITION** [X] **NON-FINAL DISPOSITION**

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK: PART 11

----------X

POP INTERNATIONAL GALLERIES INC.,

Plaintiff,

Index No. 113294/11

-against-

BRIAN SWARTS, DJT FINE ART INTERNATIONAL LLC d/b/a TAGLIALATELLA GALLERIES and DOMINICK TAGLIALATELLA,

Defendants.

----------X

Joan A. Madden, J.:

In this action involving the alleged illicit use of trade secrets, defendants Brian Swarts (Swarts), DJT Fine Art International LLC d/b/a Taglialatella Galleries and Dominick Taglialatella (together, Taglialatella defendants)(all defendants together, defendants) move for summary judgment dismissing the complaint. Plaintiff Pop International Galleries Inc. (Pop) cross-moves for leave to amend its complaint.

Background

This action was commenced with the bringing of an order to show cause for a temporary restraining order and preliminary injunction to stop defendants from using any of Pop's alleged trade secrets. The preliminary injunction was denied in a decision dated March 6, 2012 (prior decision), where the facts were set forth. Familiarity with that decision is presumed, and the facts will only be addressed as necessary for the

determination of these motions.

Pop's original complaint contained six causes of action: the first and second causes of action, against Swarts alone, allege causes of action for breach of contract, contending that Swarts misappropriated Pop's proprietary information, and that such misappropriation constituted a breach of Pop's employee handbook; the third, fourth, fifth and sixth causes of action, against all defendants, with respect to the alleged misappropriation of proprietary information, are respectively for, breach of a duty of good faith, conversion of the alleged proprietary information, a temporary restraining order and permanent injunction and the return of the alleged proprietary information, and an accounting.

In denying the motion for a preliminary injunction, this court determined that Pop had not made a sufficient showing of a likelihood of success on the grounds that issues of fact existed as to whether the alleged proprietary information, a "Central Client List," was a trade secret, and as to whether the employee handbook constituted a contract.

In support of their motion for summary judgment, defendants submit proof they contend establishes that the Central Client List upon which Pop relies is not a trade secret, and that the employee handbook is not a contract.

In response Pop cross moves to amend and submits a proposed amended complaint. Under the circumstances, the court must

initially consider the merit of the proposed amended complaint and, if the amendment is granted, the original complaint will be superceded in its entirety. Keary v. Great Atlantic & Pacific Tea Co., Inc., 96 AD2d 499 (1st Dept 1983).

Pop's proposed amended complaint asserts the following causes of action: the first, against Swarts alone, for breach of a duty of loyalty for dealing with Pop clients for his own gain while still employed by Pop; the second, against all defendants for conversion for the alleged theft of the Central Client List, and also the alleged removal of hard copies of some files; the third, against the Taglialatella defendants, for aiding and abetting Swarts's alleged breach of his duty of good faith; the fourth, against all defendants, for misappropriation of proprietary information and unfair competition; the fifth, against all defendants, for unjust enrichment; and the sixth cause of action, against all defendants, for a permanent injunction. Notably, in its proposed first amended complaint, Pop has dropped all claims to any cause of action for breach of contract.

Discussion

Leave to amend pleadings "'shall be freely given' absent prejudice or surprise resulting directly from the delay." McCaskey, Davies and Assoc., Inc. v New York City Health & Hosps. Corp., 59 NY2d 755, 757 (1983), quoting CPLR 3025 (b); see also

Eighth Avenue Garage Corp. v H.K.L. Realty Corp., 60 AD3d 404 (1st Dept 2009). "[A] court should not examine the merits or legal sufficiency of the proposed amendment unless it is palpably insufficient or patently devoid of merit on its face." Giunta's Meat Farms, Inc. v Pina Const. Corp., 80 AD3d 558, 559 (2d Dept 2011); see also MBIA Ins. Corp. v Greystone & Co., Inc., 74 AD3d 499 (1st Dept 2010). At the same time, however, when, as here, a proposed amendment seeks to raise an issue of fact in response to a motion for summary judgment, evidence is required to support such an amendment. Marinelli v. Shifrin, 260 AD2d 227 (1st Dept 1999); Cheung v. City of New York, 234 AD2d 91 (1st Dept 1996).

The gravamen of Pop's proposed causes of action for conversion and misappropriation of the Central Client List, is that such list constitutes a trade secret, and the determination of the motion to amend depends, in large part, on whether there is sufficient evidence to support Pop's allegations that the list is a trade secret.

The law, as set forth in the prior decision, bears repeating. "[A] trade secret is any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it." Ashland Management v Janien, 82 NY2d 395, 407 (1993), citing Restatement of Torts Section 757, comment b; see also Eastern Bus. Sys., Inc. v

Specialty Bus. Solutions, LLC, 292 AD2d 336 (2d Dept 2002). In deciding a trade secret claim, the court should consider the following factors: (1) the extent to which the information is known outside the business; (2) the extent to which the information is known by employees and others involved in the business; (3) the extent of measures taken by the business to guard the secrecy of the information; (4) the value of the information to the business and its competitors; (5) the amount of effort or money expended by the business in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others. Ashland, 82 NY2d at 407; see also Marietta Corp. v Fairhurst, 301 AD2d 734 (3d Dept 2003). "[A] trade secret must first of all be a secret; whether it is is generally a question of fact." Ashland, 82 NY2d at 407; see also Mann v Cooper Tire Co., 33 AD3d 24 (1st Dept 2006).

As previously noted by the court, the following is Pop's description of the Central Client list: "'on September 1, 2009 . . . [Swarts] created a "vcf" (vCard) backup of the Company address book from the computer he used while employed at Pop and emailed a copy of the proprietary electronic file to his personal email address.'" Prior Decision, at 5, quoting Jaffe Aff., ¶ 17. Therefore, it is Pop who claims that the allegedly stolen list was a "vcf" file.

In this motion, defendants submit proof that the file which Swarts emailed to himself (the "vcf" file) was not a client-only contact list, but was a list identified as "Address Books," a compilation of contact information which lists, besides persons who had actually purchased art from Pop, walk-ins to the gallery, friends, family and acquaintances, and other casual contacts. The Address Books list was apparently compiled from the various "sublists" amassed by each of Pop's sales staff over time. Significantly, the portion of the list which Swarts downloaded into his own email account consisted of his own "sublist." Moreover, the Address Books list includes only contact information, and does not contain any particulars of client purchases, prices or preferences.

In connection with its motion to amend, Pop asserts, for the first time, that the list is a trade secret based on a computer program utilized by Pop called "QuickBooks," which is password protected, and has been described by Pop as a client list which relates only to actual past customers, not potential customers, and which does contain the particulars of client purchases, prices and preferences. However, there is no evidence that Swarts took any information from Pop's QuickBocks list, only evidence that he downloaded his own contact sublist from Pop's Address Book. In particular, defendants note that the email in which Swarts sent to himself was in a "vcf" format which are

easily attached to emails. In contrast, Quickbooks does not have a vcf format. The court further notes that no copy of any list provided to this court, as produced by Pop, includes any client information beyond mere contact information.[1]

Thus, based on the record before the court, defendant has established that the Address Book list is not a trade secret. This list was casually available to all Pop employees, and appears to have been created mostly by those employees, as an amalgam of their own contact lists. Nor does it appear that Pop took any great measures to guard the secrecy of the Address List. There is also no evidence that the Address Book was created Pop after extensive time, effort or expense. Further, defendants have shown that Pop's pricing information is not confidential, as it is posted on its website, so any use by Swarts of this information was not improper.[2] Thus, those portions of Pop's amended complaint dealing with Swarts's alleged theft of a computer contact list, by downloading any part of it, or otherwise using it, are without merit, specifically, that part of the second cause of action which deals with conversion of the computer data; the fourth cause of action for misappropriation of

---

[1]The parties have agreed to confidentiality in these matters, but the court has been provided with all necessary documentation, in order to facilitate a decision of the motions.

[2]It should be noted that the purchase price might differ from the list price.

proprietary information; the fifth cause of action for unjust enrichment; and the sixth cause of action for an injunction.

However, to the extent the proposed second cause of action for conversion against Swarts is based not only on the alleged theft of the contact list computer files (which fails, for the reasons stated above), but also several hard-copy files, it survives.

"A conversion takes place when someone, intentionally and without authority, assumes or exercises control over personal property belonging to someone else, interfering with that person's right of possession." Colavito v New York Organ Donor Network, Inc., 8 NY3d 43, 49-50 (2006). The object converted must be a "specific, identifiable thing." Smallwood v Lupoli, 107 AD3d 782, 785 (2d Dept 2013).

Pop claims that files of four of Pop's customers were found to be missing after Swarts left Pop's employ (Jaffe Aff., at 33), and that Swarts contacted these four persons, one of whom had never been a customer of Swarts, indicating that Swarts had the files. Based on these contacts, Pop argues that it can be inferred that Swarts has the files. As the files are "specific, identifiable" things, Pop's allegations are sufficient to plead conversion of at least these four files. Swarts's denial that he took any files creates a factual issue, and the proposed second cause of action for conversion of hard-copy files is sufficient

as against Swarts. However, the motion to amend is denied as to the Taglialatella defendants in the absence of any allegations sufficient to sustain a cause of action for conversion against them.

In Pop's proposed amended first cause of action, Pop alleges that Swarts used Pop's confidential information to his own advantage while he was still employed by Pops, and, in the proposed amended third cause of action, alleges that the Taglialatella defendants are aiders and abettors of this alleged breach of loyalty. In this motion, Pop elaborates on the basis for this claim, alleging that Swarts "attempted to structure transactions with existing Pop clients without Pop's knowledge" before he left Pop. Jaffe Aff., at 3.

Pop submits several emails in support of this claim, which reflect Swarts's contacts with several clients before he left Pop's employ. *See* Jaffe Aff., Exs. 12, 13, 14 and 15. It is not clear whether Swarts was dealing for himself or for Pops. Although Swarts requested that these potential clients keep his imminent departure for a new gallery confidential, this request standing alone is insufficient to infer that Swarts was self-dealing. In his affidavit in opposition, Swarts claims that these emails reflect his attempt to assist a Pop client to obtain a piece of art which Pop did not have from another third party, a common courtesy. Swarts further avers that no deal occurred, as

the client had no interest in the piece, and that the "possible 'deal' was never a possibility." Swarts Aff. in Opp. to Cross Motion, at 12.

"[A]n employee owes a duty of good faith and loyalty to an employer in the performance of the employee's duties" Wallack Frgt. Lines v. Next Day Express, 273 A.D.2d 462, 463 (2d Dept 2000). In this connection, "[a]n employee owes his or her employer 'undivided and unqualified loyalty and may not act in any manner contrary to the interests of the employer'" Qosino v. C&N Packing, Inc., 96 AD3d 1032 (2d Dept 2012), *quoting*, PJI 3:59; citing Restatement [Third] of Agency §§ 8.01, 8.03. Under this standard, it cannot be said as a matter of law that Swarts did not breach any duty of loyalty owned to Pop by engaging in self dealing prior to his departure. Furthermore, while Swarts states that no deal occurred with respect to one of Pop's client, such statement is insufficient to eliminate all issues of fact as to whether Pop was damaged and/or whether Swarts benefitted from his alleged self-dealing. Gomez v. Bicknell, 302 AD2d 107 (2d Dept 2002)(where an employee breaches a duty of loyalty the employer may chose between recovering profits that the defendant made or recovering the profits the employer would have made). Therefore, Pop may amend its complaint to allege the first cause of action.

However, the amendment is denied as against the Taglialatella defendants in the absence of any allegation of

. . . .

specific acts by these defendants in aiding and abetting Swarts's alleged breach of a duty of loyalty to Pop.

Accordingly, it is

ORDERED that the motion for summary judgment by defendants Brian Swarts, DJT Fine Art International LLC d/b/a Taglialatella Galleries and Dominick Taglialatella is denied as moot; and it is further

ORDERED that the cross motion to amend the complaint is granted to the extent of permitting Pop to assert, as against Swarts, the first cause of action and as to that part of the second causes of action for conversion of the files, and is otherwise denied; and it is further

ORDERED that Pop is directed to serve and file an amended complaint consistent with this decision and order within thirty days of the date of e-filing of this order; and it is

ORDERED that Swarts is directed to serve an answer to the amended complaint within 20 days of its service upon him; and it is further

ORDERED that the remaining parties shall appear for a status conference on March 27, 2014, at 9:30 am, in Part 11, room 351, 60 Centre Street.

Dated: January 24, 2014

J.S.C.
HON. JOAN A. MADDEN
J.S.C.