

**Board of Directors of Windsor Owners Corp. v Platt**

2015 NY Slip Op 33010(U)

March 19, 2015

Supreme Court, New York County

Docket Number: Index No. 155985/14

Judge: Peter H. Moulton

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Supreme Court of the State of New York  
New York County: Part 50

-----X  
BOARD OF DIRECTORS OF WINDSOR  
OWNERS CORP.

Plaintiff,

-against-

Index No. 155985/14

ELAINE PLATT,

Defendant.

-----X  
Peter H. Moulton, J.S.C.

In this action plaintiff cooperative corporation sues Elaine Platt, who is a board member of the cooperative. Before the court are an array of motions. Motion sequence numbers 03, 05 and 06 are consolidated for disposition and decided as follows. Defendant has withdrawn motion sequence 04.

#### **BACKGROUND**

Disagreements between Platt and the other cooperative board members were triggered by the board's disputes with shareholder Frank Mazzocchi. The disputes with Mazzocchi arose from the alleged behavior of Mazzocchi's live-in companion, referred to in prior litigation and herein as "Jane Doe." Jane Doe allegedly has a mental illness which caused her to behave strangely in the building's public spaces, commercial areas, and areas adjacent to the building. The board voted to authorize counsel for the building

to file an ejectment proceeding. The proceeding was brought in September 2011.

While the ejectment proceeding was pending, Mazzocchi brought a federal action pro se in November 2011 asserting a variety of claims. The initial federal action was dismissed. Mazzocchi, represented by counsel, filed a second complaint in federal court. Two causes of action, against some but not all of the defendants, survived a motion to dismiss. The case is pending.

In March 2014, the board voluntarily withdrew its ejectment action.

In Spring 2014, Platt was up for re-election to the board, and asserts that she engaged in a "heated campaign" against fellow board member Vivienne Gilbert. The two engaged in email exchanges concerning the building's governance. Among other things, Platt criticized Gilbert for leading the board to bring the ejectment proceeding against Mazzocchi. In one of the emails, Platt stated: "we withdrew this lawsuit because we were advised by two different law firms, that it was fatally flawed." This email was sent to approximately 800 owners at the cooperative. Platt's dissemination of this email, and her support of Mazzocchi in his suits against the board, underlie actions taken by the board to limit Platt's access to board deliberations concerning the Mazzocchi suits.

Mazzocchi brought a state court action against the cooperative in May 2014, alleging, inter alia, violations of the New

York City Human Rights Law. The status of this action is unclear from the parties' papers.

Paragraph 135 of the complaint in Mazzocchi's state court action paraphrases Platt's email, quoted above, regarding the advice of counsel. Platt reads this portion of the complaint to be directed solely at Thomas Curtis, Esq., the cooperative's lawyer in the ejectment action and a named defendant in Mazzocchi's state lawsuit. However, the repetition by Mazzocchi of Platt's email could be directed plausibly at the individual board members named therein, and the cooperative, as an assertion of bad faith.

Platt's disclosure of attorney-client communication was discussed at the cooperative's board meeting on May 15, 2014. An "Executive Committee for Legal Matters" was created by vote of the board. The mandate of this Executive Committee is to determine strategy for dealing with Mazzocchi's various lawsuits. Platt was excluded from the Executive Committee because of her disclosure of attorney-client communication.

Platt then sued the other board members, the building's managing agent, and the cooperative's attorneys, in a proceeding that was also assigned to me, entitled Platt v Tudor Realty, et al. (100612/14) ("the initial action"). The initial action arises from the same nucleus of operative facts as the instant action. In her complaint in the initial action, Platt sought an array of equitable relief, including a declaration that she did nothing wrong by

describing counsel's advice in her email. She also sought an injunction disbanding the Executive Committee, and a declaration that board members who are named defendants in the Mazzocchi actions should have counsel separate from counsel for the cooperative corporation as their interests may diverge from the cooperative's. Platt also contended that these board members should be enjoined from voting on any matters "which impact the corporation's positions in pending litigations." For good measure, she named the cooperative's new counsel, Morrell Berkowitz, Esq. and his firm Gallet Dreyer & Berkey, LLP, as parties defendant.

Platt's lawsuit added another item to the portfolio of the Executive Committee for Legal Affairs.

The defendants in the initial action moved to dismiss the complaint on various grounds. This court dismissed the initial action without prejudice because Platt's claims therein were derivative claims, and she did not name the corporation in that proceeding. Platt has been given leave to file her various claims as counterclaims or third-party claims in the instant action, where the cooperative is already a named party. In motion sequence number 03 before the court Platt now seeks to amend her answer.

In this action plaintiff sues Platt seeking a declaratory judgment stating that 1) Platt is barred from disclosing any attorney-client communications between the board and its attorney, 2) the Executive Committee for Legal Affairs was properly

constituted, and 3) the Board has a right to exclude Platt from Board Meetings. It also seeks a permanent injunction barring Platt from disclosing attorney-client information between the board and the cooperative's attorney. Finally, it seeks money damages for breach of fiduciary duty and sanctions.

Plaintiff moved for a preliminary injunction preventing Platt from disclosing communications covered by the cooperative's attorney-client privilege. This court granted the motion in a decision dated August 22, 2014. Shortly thereafter plaintiff brought a motion by order to show cause for contempt alleging that Platt had violated the August 22<sup>nd</sup> Order. I declined to sign the order to show cause, finding that the August 22 order insufficiently stated a "clear and unequivocal mandate," which is one of the elements necessary of a finding of contempt. (See Storman v New York City Dep't of Education, 95 AD3d 776, appeal dismissed, 19 NY3d 1023.) Accordingly, I found that it would be unfair to find Platt in contempt of the August 22<sup>nd</sup> order and issued another order, dated September 9, 2014, that clarified the preliminary injunction.

That same day, Platt brought an utterly meritless order to show cause which I declined to sign. I invited the parties to brief whether Platt should be sanctioned for frivolous motion practice. After receiving the parties' briefs, I issued an order sanctioning Platt dated February 23, 2015.

Before the court are 3 motions by Platt and one cross-

motion by plaintiff. In motion sequence 03, Platt moves to amend her answer to include counterclaims mirroring her claims in her prior, dismissed, action. In motion sequence 05<sup>1</sup> Platt moves 1) to dismiss plaintiff's claims, 2) to quash a third-party subpoena served by plaintiff on Verizon, 3) for a protective order as to a document request served on her, and 4) for an order limiting the board from "making personal use" of email addresses of coop residents it obtained via a subpoena for Platt's emails from MyBuilding.org.

Plaintiff cross-moves for partial summary judgment, to dismiss defendant's counterclaims, to compel production of documents and testimony, and for sanctions.

In motion sequence 06, Platt moves to compel the plaintiff to produce certain documents.

After the motions were fully submitted, discovery in Mazzocchi's state court action brought forth emails sent in 2013 and 2014 by Platt to Mazzocchi that contain numerous supportive statements concerning Mazzocchi's dispute with the board. Platt also solicited advise from Mazzocchi and his lawyers in how she should proceed with the dispute with the board that followed in the wake of her violation of the cooperative's attorney-client privilege. Among the email statements are the following:

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<sup>1</sup>Motion sequence 04, which sought essentially the same relief by order to show cause that Platt seeks in motion sequence 05, was withdrawn by Platt.

"I'll be happy to give you free legal advice"

"If you need any research assistance, let me know if can help."

In a handwritten message, Platt wrote Mazzocchi: "I hope you know that I am your friend on the Board."

These statements belie Platt's prior representations to this court that she had not discussed the state court action with Mazzocchi.

#### **DISCUSSION**

Rather than bringing motions sequentially and interspersed with the conduct of discovery, the parties have brought simultaneous motions to amend pleadings, motions for summary judgment and motions to compel and motions to quash. Accordingly, there is some overlap in the discussions below of the various motions.

##### **A. Defendant's Motion to Amend her Answer and Plaintiff's Motion to Dismiss the Counterclaims**

Platt seeks to amend her answer to assert certain derivative counterclaims. While leave to amend "shall be freely given upon such terms as may be just," permission to amend is not automatic. In passing on defendant's motion this court must consider the merits of the proposed amendment. (Wieder v Skala, 168 AD2d 355.) Additionally, as noted above, plaintiff has moved to dismiss the counterclaims.

Platt's first counterclaim in the proposed amended complaint alleges that the Executive Committee for Legal Affairs acts in secret, and outside the control of the full board. She states that this violates the Business Corporation Law and the cooperative's by laws. Her second counterclaim alleges that since the individual directors named in the Mazzocchi complaints are exposed to personal liability, they have a conflict of interest and should refrain from voting on issues concerning the Mazzocchi actions. The third counterclaim avers "upon information and belief" that Mazzocchi would settle his claims against the cooperative, but would not consider a global settlement that included the individual board member defendants. Therefore, Platt argues, the cooperative and the individual board members should have separate counsel in the Mazzocchi actions. Finally, in the fourth counterclaim, defendant asserts that plaintiff's efforts to remove Platt from the board are without basis in law and therefore sanctionable.

Plaintiff opposes the motion to amend on several grounds. First, plaintiff argues that Platt has not sufficiently set forth demand futility that would obviate the need for her to demand that the board bring the counterclaims. Given that there is a clear divide between Platt and the other six member of the board, and that Platt's counterclaims assert wrongdoing by certain board members, she has sufficiently alleged demand futility.

Next plaintiff argues that the Executive Committee is

lawfully constituted under BCL § 712 and the cooperative's by-laws. Article II, section 9 of the cooperative's by-laws states in relevant part:

The Board of Directors may by resolution appoint an executive committee to consist of three or more directors of the corporation. Such committee shall have an may exercise all of the powers of the Board in the management of the business affairs of the corporation during the intervals between the meetings of the Board, so far as may be permitted by law, except that the executive committee shall not have power to determine the cash requirements defined in the Proprietary Leases, or to vary the terms of payment thereof as fixed by the Board.

BCL § 712 states that executive committees may be created by the board of directors, which, to the extent provided in the by-laws or the board resolution creating the executive committee, or the certificate of incorporation, "shall have all authority of the board," with enumerated exceptions not applicable here.

Here the board's resolution created the Executive Committee for Legal Affairs "to discuss any legal matters related to the Windsor Owners Corp." Accordingly, the creation of the Executive Committee was an entirely proper exercise of the board's business judgment. (See Bregman v 111 Tenant's Corp., 97 AD3d 75.) Moreover, given Platt's prior disclosure of attorney-client communication, and her evident support of, and collaboration with, Mazzocchi, the Executive Committee may discuss legal matters faced by the corporation without the presence of Platt. Plaintiff avers

that it has informed Platt of all substantive decisions made by the Executive Committee.

However, Platt's allegations, as amplified by her affidavits on the various motions, appear to state that the Executive Committee has exceeded its authority by discussing nonlegal issues. Essentially, she avers that the Executive Committee has cut her out of all board deliberation and decision making, not just deliberations concerning litigation. To the extent that her counterclaim avers that the Executive Committee has acted ultra vires, the first counterclaim survives plaintiff's opposition and motion to dismiss.

The second and third counterclaims posit that the directors individually named in Mazzocchi's suits are exposed to personal liability and therefore should recuse themselves from any decision-making with respect to Mazzocchi's suits and should be represented by counsel separate from the cooperative's. Platt is correct that in certain circumstances a director who participates in discriminatory actions may be held individually liable and that board decision-making tainted by discriminatory considerations is not protected by the business judgment rule. (See Fletcher v Dakota, Inc., 99 AD3d 43.) However, the level of "participation" necessary to impose tort liability upon an individual board members is still unsettled. (See Di Lorenzo, New York Condominium and Cooperative Law, 2d Edition § 12.6.)

The navigation of lawsuits is generally a matter within the business judgment of the board of directors. The mere fact that the individual board members were on the board at the time of the actions alleged in the Mazzocchi lawsuits, standing alone, does not change that general rule. (E.g. Strougo v Padegs, 27 F Supp2d 442.) It does not appear from the record before the court that the individual board members' interests have diverged from the cooperative's. (See Voss v 87-10 51<sup>st</sup> Avenue Owners Corp., 292 AD2d 622.)

Here defendant has not brought forth any facts that demonstrate participation in discriminatory acts by the board members named in Mazzocchi's suits. Certainly there has been no finding of liability in those suits. The fact that the federal suit partially survived a motion to dismiss only demonstrates that the complaint adequately pleads causes of action. Mazzocchi's actions are working their way through discovery, and it is unclear how they will evolve, much less resolve. The suits have already been hampered by Doe's reluctance to bring any causes of action on her own behalf. At this juncture, there is nothing that calls into question the cooperative's decision to stick with a single counsel for the cooperative and the individual board members. Platt's suppositions that "upon information and belief" Mazzocchi would agree to reach a separate settlement with the cooperative, but not with the individual board members, is not competent evidence that

could lead to an inference of conflict.

If during the course of the cooperative's defense of the Mazzocchi suits it appears that the defendants' interests begin to diverge, then counsel in those lawsuits are under an ethical obligation to revisit their determination that there is no conflict posed by representing the individual board members. Cooperative Corporations of course have the power to purchase directors and officers indemnity insurance pursuant to BCL §§ 721-723. The carrier is also a safeguard against conflict.

Accordingly, Platt's motion to amend her answer to the extent of adding the second and third counterclaims is denied. Plaintiff's motion to dismiss these two counterclaims is granted.

Platt's fourth proposed counterclaim states that plaintiff's action to remove defendant from the board has "no basis in law, or precedent in equity" and was brought simply for the purpose of "hurting" defendant. On that basis, she seeks sanctions pursuant to 22 NYCRR 130.1. The complaint does not clearly contain a causes of action seeking to remove Platt from the board. The first cause of action comes closest to doing so. It seeks broad declaratory relief concerning "Platt's improper disclosure of attorney client communications, its right to exclude plaintiff [sic - should be "defendant"] from Board meetings and the propriety of establishing the Executive Committee." (Complaint ¶ 37.) However, plaintiff indicates in its motion papers that it does seek Platt's

removal based on her breach of fiduciary duty.

Aside from citation to inapposite authority, plaintiff does not explain how a corporation may oust its own director via litigation. Of course, corporations retain the right to remove directors via procedures set forth in by-laws. (Eg Chaudhry v Vital Holding Co. of NY, 51 AD3d 844.) Plaintiff's own by-laws provide at Article II, section 4, that a director may be removed by vote of the shareholders. The power of shareholders to remove directors by vote is embodied in the various provisions of BCL § 706 and even exists at common law. (See Matter of Burkin v Katz, 1 NY2d 570.) Thus far, the shareholders of the cooperative have not attempted that option.

While shareholders have the right to vote a director out of office, the corporation acting on its own may not remove a director through litigation, as plaintiff is attempting to do here. BCL § 706(d) governs the right to bring a lawsuit to remove a director from a corporation's board. That right is given to the Attorney General or to "the holders of ten percent of the outstanding shares, whether or not entitled to vote." (BCL § 706[d].) Plaintiff falls in neither category. Accordingly, to the extent that plaintiff's first cause of action seeks a declaration of this right on behalf of the corporation, it is not a valid cause of action. Whether the prayer for this declaratory relief is subject to sanctions depends on whether it runs afoul of any of the

provisions of 22 NYCRR § 131-1.1. Defendant's fourth counterclaim adequately alleges facts tending to show that the threat of removal by plaintiff was not based in law nor in a good faith argument for the extension of law. She also alleges that plaintiff's threat of removal was done to harass her and gain an unfair edge in litigation. This all that is needed at this stage to state a claim for sanctions. Accordingly, the motion to amend the answer is granted with respect to the fourth counterclaim and plaintiff's motion to dismiss the fourth counterclaim is denied.

**B. The Defendant's Motion to Dismiss and Plaintiff's Cross-Motion for Partial Summary Judgment**

Defendant moves to dismiss plaintiff's complaint and cross-moves for partial summary judgment.

Platt argues first that plaintiff does not have standing to remove her from the board. This argument is correct. As discussed above, plaintiff has no standing to remove defendant from the board via an action pursuant to BCL § 706(d). To the extent that plaintiff's first cause of action includes a request for a declaration that plaintiff may remove defendant from the board, that branch of the first cause of action is dismissed. In all other respects the declaratory judgment cause of action stands, except as set forth below.

Platt next argues that any claim for damages arising from her disclosure of communications that fall within the attorney-

client privilege is too speculative. While it remains to be seen if Mazzocchi will be able to use Platt's disclosure to his advantage, it is certainly plausible that the disclosure has strengthened his hand in his two lawsuits. Defending these lawsuits will cost the cooperative money. Paying damages to Mazzocchi if he prevails will cost the cooperative money. It may be difficult to tease out what quantum of these potential costs are attributable to Platt's disclosure - or to any other breach of fiduciary duty arising from her apparent encouragement of Mazzocchi. Perhaps the determination of such damages will be an impossible task. However, the court cannot say that at this juncture that such damages are so speculative as to warrant dismissal of the breach of fiduciary duty claim.

Finally, defendant argues that plaintiff's request for an injunction barring her from disclosing attorney-client communication is unnecessary, because she will consent to such an injunction - with conditions:

I ask only for the condition that the Court issue some restriction on what use the plaintiff may make of the fact of the injunction; that I be protected from abuse of process, and that plaintiff be restrained from publicizing the issuance of the injunction.

(Affidavit of Elaine Platt, sworn to October 20, 2014, ¶ 65.)  
According to Platt, use of the injunction by the other board members would somehow amount to an "abuse of process." She is apparently

worried that the other board members, or others, might use the injunction to harm her standing in the cooperative community.

This request is consistent with other, meritless, attempts by Platt to have this court police the cooperative board's discourse. The request is without basis in law and it is remarkable that it is made by an attorney. A permanent injunction is a public record that cannot be shielded from public view, or be subject to limitations on its "publication." Indeed, the cooperative's shareholders have a right to know about a permanent injunction against a sitting director.

Plaintiff seeks partial summary judgment. The motion is granted with respect to the injunctive relief sought concerning Platt's breach of the cooperative's attorney-client privilege. It is denied in all other respects.

The need for the equitable remedy of an injunction is clear. Money damages may not adequately compensate the cooperation for the breach of its privilege.

It is well-established that the privilege applies to corporations. (Niesig v Team I, 76 NY2d 363, 371.) The attorney-client privilege protects confidential communications between an attorney and a client made "in the course of professional employment for the purpose of obtaining legal advice." (Veras Inv. Partners, LLC v Akin Gump Strauss Hauer & Feld, LLP, 52 AD3d 370, 372.)

[F]or the privilege to apply, the communication from attorney to client must

be made for the purpose of facilitating the rendition of legal advice or services, in the course of a professional relationship. The communication itself must be primarily or predominantly of a legal character.

(Spectrum Systems Intl Corp. v Chemical Bank, 78 NY2d 371, 377-8 [cites omitted].) Platt's email, and statements made in her papers in the initial action, clearly reveal the communications from counsel that fall within the privilege. Platt's evident encouragement of Mazzocchi, as shown in the email correspondence that has come to light in the Mazzocchi matters, provides added reason to be concerned about her protection of privileged statements.

Plaintiff has demonstrated irreparable harm. The attorney-client privilege in question belongs to the cooperative, not to Platt individually. Once a privileged communication is revealed, it can not be withdrawn in any meaningful way. Breach of the privilege can provide a windfall to an opponent in litigation. While it is unclear if Mazzocchi will be able to use Platt's statements to harm the cooperative or the board members in litigation, he is certainly trying to do so.

Finally, the balance of equities clearly favors the plaintiff. As noted the privilege belongs to the corporation, not to Platt. Additionally Platt is not foreclosed from providing her own opinion concerning the wisdom of the cooperative pursuing an ejectment action against Mazzocchi and Doe. The privilege applies

only to confidential communications, it does not prevent Platt from discussing her own opinion with shareholders.

Ordinarily, the court would fashion its own permanent injunction language in the instant decision and order. In this case, the permanent injunction should track the language of the preliminary injunction. However, the instant decision necessarily contains the attorney-client communication in question, and will be filed under seal for that reason. Accordingly, plaintiff shall settle an order embodying the permanent injunction with notice to defendant. It goes without saying that this settled order should not include the privileged language in question. This settled order need not be sealed.

Plaintiff's motion for a declaratory judgment, as set forth in its first cause of action, is denied. As set forth above, there is an issue of fact as to whether the Executive Committee is acting within its mandate, so declaratory relief on the committee's validity is not warranted at this time. With respect to a declaration concerning Platt's breach of the attorney-client privilege, any such declaration would be redundant. Declaratory relief is a discretionary remedy, and is unnecessary where, as here, another adequate remedy is available. (Eg Anonymous v Axelrod, 92 AD2d 789.) This court's issuance of a permanent injunction is predicated, inter alia, on a finding that Platt violated the attorney-client privilege. Therefore a declaration to that effect

is superfluous.

Finally, the court denies partial summary judgment with respect to plaintiff's third cause of action sounding in breach of fiduciary duty. To prevail on a claim for breach of fiduciary duty, a plaintiff must prove 1) the existence of a fiduciary relationship, 2) misconduct by the defendant, and 3) damages directly caused by that misconduct. (See Matter of Lorie Dehmer Irrevocable Trust v Sears, 122 AD3d 1352.) As with many torts, damages is an essential element of the cause of action. As discussed above, it is unclear at this juncture what damages have been suffered by plaintiff as a result of any breach by Platt of her fiduciary duty. Accordingly summary judgment on this claim is denied. (See IDT Corporation v Morgan Stanley Dean Witter & Co., 12 NY3d 132, 140; NYAHS Services Inc. Self Ins. Trust v Peoplecare Inc., 45 Misc3d 1225[A].)

#### **D. The Parties' Sanctions Motions and Discovery Motions**

The parties' motions for sanctions are denied without prejudice. The proper measure of sanctions, if any, may depend on the parties' behavior as the litigation continues. Platt has already been sanctioned for frivolous behavior. This court has found above that she has stated her own sanctions cause of action against plaintiff. Whether she will be able to prove that claim is an open question. In determining whether to sanction parties for frivolous conduct, and the size of any sanction(s), the court may

wish to see how the parties behave going forward.

The branch of the parties' motions seeking to compel disclosure, or for protective orders, or to quash subpoenas, are denied without prejudice. In the first place, such motions were improperly blended with dispositive motions. Disclosure is suspended while dispositive motions are pending. (CPLR 3214[b]; eg Caldwell v New York City Transit Auth., 39 Misc3d 1242[A].) Secondly, the determination of the parties' motions to amend, to dismiss, and for summary judgment, may have changed the discovery landscape. The parties should reassess their discovery needs and attempt to work out their disclosure schedule at a compliance conference.

#### CONCLUSION

Defendant's motion to amend her answer is granted to the extent that the proposed amended answer shall stand as the answer in this action, except that the second and third counterclaims are dismissed. Defendant's motion to dismiss is granted with respect to plaintiff's claim seeking defendant's removal from the board of directors via this action. In all other respects defendant's motion to dismiss is denied.

Plaintiff's cross-motion for summary judgment is granted with respect to its motion for a permanent injunction preventing defendant from disclosing privileged attorney-client communication.

Plaintiff shall settle an order embodying that relief on notice to defendant. In all other respects the motion for summary judgment is denied.

The parties' various motions for sanctions are denied without prejudice. All motions by the parties concerning disclosure, including, but not limited to, to compel certain disclosure, to quash certain subpoenas, and for protective orders, are denied without prejudice. The parties shall attempt to work out their differences concerning disclosure before bringing any further motions concerning same.

This constitutes the decision and order of the court.

Dated: March 19, 2015



J.S.C.

**HON. PETER H. MOULTON**  
**J.S.C.**