

<b>Iams v 10X Mgt. LLC</b>
2020 NY Slip Op 31772(U)
May 29, 2020
Supreme Court, New York County
Docket Number: 656266/2019
Judge: Erika M. Edwards
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SUPREME COURT OF THE STATE OF NEW YORK  
COUNTY OF NEW YORK: PART 15

BEEP IAMS,

Index No.: 656266/2019

Plaintiffs,

DECISION and ORDER

-against-

Motion Sequence: 001

10X MANAGEMENT LLC and VPV  
INTERACTIVE, INC.,

Defendants.

Recitation, as required by CPLR 2219(a), of the papers considered in the review of this motion:

Papers	Numbered
Notice of Motion and Affirmation/Memo of Law annexed	<u>1-3</u>
Opposition, Notice of Cross-Motion and Affidavit/Affirmation/Memo of Law annexed	<u>4-7</u>
Opposition to Cross-Motion/Reply Affirmation/Memo of Law	<u>8-9</u>
Reply Memo of Law to Defendant's Opposition to Plaintiff's Cross-Motion	<u>10</u>

***ERIKA M. EDWARDS, JSC:***

Plaintiff Beep Iams ("Plaintiff") brought this action against Defendants 10x Management ("10x"), and VPV Interactive, Inc. ("VPV"), collectively referred to as "Defendants" for failure to pay Plaintiff compensation in accordance with the Freelance Isn't Free Act ("FIFA"), as well as breach of contract, unjust enrichment (VPV only), copyright infringement (VPV only) and breach of fiduciary duties (10x only). Defendants moved to dismiss Counts One (FIFA violation), Four (unjust enrichment), and Five (copyright infringement), pursuant to CPLR 3211(a)(7) for Plaintiff's failure to state a cause of action upon which relief may be granted. Plaintiff opposed Defendant's motion and cross-moved to amend the Complaint, primarily to supplement the facts by adding VPV as a FIFA "hiring party" and to convert his copyright

infringement claim to a misappropriation/infringement on Plaintiff's intellectual property rights claim. Plaintiff also cross-moved to disqualify Defense counsel due to a potential conflict of interest. Defendants opposed Plaintiff's cross-motion and moved for sanctions and costs against Plaintiff.

For the reasons set forth herein, the court

1. grants Defendants' motion for partial dismissal of Plaintiff's Complaint and dismisses Counts One (FIFA violation), Four (unjust enrichment) and Five (copyright infringement);
2. denies Plaintiff's cross-motion to amend the Complaint in part and grants it in part by denying the proposed Amended Complaint as to Count One (FIFA violation) as against 10x only, Count Four (unjust enrichment) and Count Five (misappropriation/infringement on Plaintiff's intellectual property rights), however, the court grants Plaintiff's proposed amendments as to Count One (FIFA violation) as against VPV only, and permits Plaintiff to file an Amended Complaint to include Count One against VPV and which is consistent with this Decision and Order within fourteen (14) days of the e-filing date of this decision;
3. denies Plaintiff's cross-motion to disqualify defense counsel; and
4. denies Defendants' request for sanctions and costs against Plaintiff.

According to the factual allegations set forth in Plaintiff's Complaint, Plaintiff is a software developer who was retained as an independent contractor by VPV to develop an e-commerce website for the clothing brand APC. 10x procured the hiring of Plaintiff pursuant to a written agreement where 10x would receive 25% of Plaintiff's gross income/compensation earned on the project. Pursuant to the terms of the Project Proposal, Plaintiff's employment term was from February 25, 2019 through April 5, 2019, at a rate of \$150.00 per hour with a total

billing estimate of \$33,000.00. 10x was required to send an invoice to VPV every fourteen (14) days and payment was to be rendered within seven (7) days of receipt of the invoice.

Termination required fourteen (14) days' written notice. Pursuant to the contract between Plaintiff and 10x, 10x would collect Plaintiff's compensation payments from VPV and pay Plaintiff after withholding its 25% agent commission.

On February 25, 2019, Plaintiff began working on the project. On April 22, 2019, Plaintiff was immediately terminated from the project for alleged performance issues and providing an unusable code.

Plaintiff states that 10x did not invoice VPV for his last two (2) weeks of work and that he did not receive compensation for the work provided from March 6, 2019 through April 22, 2019. Among other claims, Plaintiff alleges that 10x was the "hiring party" pursuant to FIFA, that Defendants' failure to pay him for his services was a violation of FIFA and that VPV was unjustly enriched for partially retaining Plaintiff's compensation at Plaintiff's expense. Plaintiff alleges that he created 80% of the product delivered by VPV to APC and that he is the sole copyright owner of the source code he created and developed. He further contends that VPV used the source code and received significant profit from the commercial use of Plaintiff's work. Additionally, VPV engaged in copyright infringement by its failure to obtain Plaintiff's authorization to use and reproduce his work.

#### I. Defendants' Partial Motion to Dismiss

When considering Defendants' motion to dismiss Counts One, Four and Five of Plaintiff's Complaint for failure to state a cause of action, pursuant to CPLR 3211(a)(7), the court must afford the pleading a liberal construction, accept all facts as alleged in the pleading to be true, accord the Plaintiff the benefit of every possible inference, and determine only whether

the facts as alleged fit within any cognizable legal theory (*Leon v Martinez*, 84 NY2d 83, 87-88 [1994]). A court may freely consider affidavits submitted by a plaintiff to remedy any defects in the complaint, but the court should not consider whether the plaintiff has simply stated a cause of action, but should consider whether the plaintiff actually has one (*Amaro v Gani Realty Corp.*, 60 AD3d 491, 492 [1<sup>st</sup> Dept 2009]). Normally, a court should not be concerned with the ultimate merits of the case (*Anguita v Koch*, 179 AD2d 454, 457, 579 NYS2d 335 [1<sup>st</sup> Dept 1992]). However, these considerations do not apply to allegations consisting of bare legal conclusions as well as factual claims which are flatly contradicted by documentary evidence (*Simkin v Blank*, 19 NY3d 46, 52, 945 NYS2d 222, [2012]).

1) New York City Administrative Code § 20-929 - Freelance Isn't Free Act

Defendants argue in substance that Count One must be dismissed because Plaintiff failed to properly allege essential elements of this cause of action and failed to identify the correct “hiring party” as required by actions brought pursuant to FIFA. Specifically, Defendants allege that Plaintiff incorrectly identified 10x as the hiring party and never identified VPV as the hiring party. Defendants further argue in substance that Plaintiff never provided a service for 10x and that it was 10x who provided a service to Plaintiff as his employment agent.

Plaintiff opposes dismissal of Count One and argues in substance that although he was hired by VPV, FIFA does not require that the hiring party be specifically called a “hiring party”. Plaintiff further argues in substance that despite 10x not being the “hiring party”, pursuant to the Project Proposal, Plaintiff only received compensation payments from 10x and 10x billed VPV for Plaintiff’s work. Plaintiff contends that FIFA is silent as to middle parties and hiring agents.<sup>1</sup>

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<sup>1</sup> Plaintiff identifies both 10x and VPV as hiring parties in his proposed Amended Complaint, but in his written submissions, appears to concede that 10x was not actually the hiring party.

Moreover, Plaintiff argues in substance that if 10x is not a hiring party, then 10x had no right to issue VPV a refund for a payment issued for work provided by Plaintiff.

Pursuant to N.Y.C. Admin. Code § 20-927, in pertinent part;

The term "freelance worker" means any natural person or any organization composed of no more than one natural person, whether or not incorporated or employing a trade name, that is hired or retained as an independent contractor by a hiring party to provide services in exchange for compensation. . . .

The term "hiring party" means any person who retains a freelance worker to provide any service, other than (i) the United States government, (ii) the state of New York, including any office, department, agency, authority or other body of the state including the legislature and the judiciary, (iii) the city, including any office, department, agency or other body of the city, (iv) any other local government, municipality or county or (v) any foreign government (see N.Y.C. Admin. Code § 20-927).

Based upon the allegations set forth in Plaintiff's Complaint and the documents submitted by the parties, the court grants Defendants' motion to dismiss Count One as against both Defendants. The court dismisses this cause of action against VPV for Plaintiff's failure to allege VPV was a "hiring party" within the meaning of FIFA. The court dismisses the claim against 10x because it is clear that 10x was not a "hiring party" as defined by FIFA and that VPV was the "hiring party" who retained Plaintiff's services as a freelance worker or independent contractor to perform a service in exchange for compensation. 10x was Plaintiff's hiring agent and received a commission for its services. Plaintiff provided no services to 10x. Therefore, Plaintiff failed to sufficiently set forth specific facts to establish each element of this cause of action.

2) Unjust Enrichment

Defendants move to dismiss Count Four of Plaintiff's Complaint involving unjust enrichment against VPV because it is duplicative of Count Two, Plaintiff's breach of contract claim against VPV. Specifically, Defendants contend that Plaintiff's unjust enrichment claim is

solely predicated on the allegation that VPV breached the employment contract by failing to compensate Plaintiff for his services.

Plaintiff opposes dismissal of this count and argues in substance that if he is not permitted to recover compensation under the contract because of an alleged breach of warranty for work quality, then he should be able to recover compensation under the equitable principle of quasi-contract for offering his services to VPV in good faith.

To sustain an unjust enrichment claim, Plaintiff must show "that (1) the other party was enriched, (2) at that party's expense, and (3) that it is against equity and good conscience to permit [the other party] to retain what is sought to be recovered" (*Mandarin Trading Ltd. v Wildenstein*, 16 NY3d 173, 182, [2011]). Where payments are made pursuant to a contract, they cannot be the basis of an unjust enrichment claim (*Clark-Fitzpatrick, Inc. v Long Is. R.R. Co.*, 70 NY2d 382, 388 [1987]). The doctrine of unjust enrichment is a narrow one; it is "not a catchall cause of action to be used when others fail" (*Corsello v Verizon N.Y., Inc.*, 18 NY3d 777, 790, 967 NE2d 1177, 944 NYS2d 732 [2012]).

Here, the court finds that Plaintiff's unjust enrichment and breach of contract claims against VPV both arise out of the same Project Proposal agreement. Therefore, the court grants Defendants' motion to dismiss Count Four of Plaintiff's Complaint for unjust enrichment and finds that it is duplicative of Plaintiff's breach of contract claim against VPV under Count Two.

3) Copyright Infringement

Defendants move to dismiss Count Five of Plaintiff's Complaint for copyright infringement. Defendants argue in substance that this count is frivolous because federal courts have exclusive subject matter jurisdiction over copyright claims and Plaintiff fails to allege that he owns any relevant copyright registrations, which is a precondition to filing this claim.

In lieu of opposing Defendants' motion to dismiss the copyright infringement claim, Plaintiff moves to amend his Complaint by withdrawing the copyright infringement claim and adding a misappropriation/infringement on Plaintiff's intellectual property rights.

Pursuant to 28 USC § 1338(a);

The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. No State court shall have jurisdiction over any claim for relief arising under any Act of Congress relating to patents, plant variety protection, or copyrights. . . (28 USC § 1338[a]).

As such, this court lacks subject matter jurisdiction over this claim and the court grants Defendants' motion to dismiss Count Five of Plaintiff's Complaint.

## II. Plaintiff's Cross-Motion to Amend the Complaint and to Disqualify Defense Counsel

### 1) Plaintiff's Cross-Motion to Amend Complaint

Plaintiff cross-moves to amend the Complaint to withdraw Count Five for copyright infringement and to replace it by adding a claim for misappropriation/infringement on Plaintiff's intellectual property rights, as well as alleging additional facts to support his claim that VPV was a "hiring party" under FIFA. Plaintiff argues in substance that the court should grant the amendment because the action is in its early stages, Defendants have not filed their Answers and no discovery has been exchanged. Additionally, Plaintiff argues in substance that Defendants will not be subjected to undue prejudice as a result of the amendments because the additional claim for misappropriation/infringement on Plaintiff's intellectual property is similar to the copyright infringement claim sought to be removed for lack of subject matter jurisdiction.

Defendants oppose Plaintiff's cross-motion to amend the Complaint and argue in substance that Plaintiff's cross-motion is procedurally improper as it attempts to improperly amend Plaintiff's Complaint by raising factual allegations in an affirmation and affidavit

submitted in opposition to Defendants' partial motion to dismiss. Additionally, Defendant argues that several of Plaintiff's causes of action fail as a matter of law. Plaintiff concedes that 10x was not a "hiring party" under FIFA, so Count One continues to fail against 10x. Plaintiff does not dispute that the unjust enrichment and breach of contract claims arise from the same underlying facts, so they are duplicative and Count Four continues to fail. Additionally, Plaintiff's claim for misappropriation of intellectual property rights contains the same frivolous allegations as his copyright infringement claim. The misappropriation claim fails on its face because it is preempted by federal copyright laws and Plaintiff fails to allege each essential element of this cause of action. Specifically, Defendants argue in substance that Plaintiff fails to allege that VPV competed against Plaintiff by using the source code, that VPV displayed some element of bad faith in its purported misappropriation or unfairly neutralized Plaintiff's commercial advantage.

Pursuant to CPLR 3025(b), the court has discretion to grant leave to amend pleadings at any time and such leave shall be freely given upon such terms as may be just, including the granting of costs and continuances (CPLR 3025[b]; *Fahey v County of Ontario*, 44 NY2d 934 [1978]). Such leave to amend shall be freely given in the absence of prejudice or surprise, unless it is palpably insufficient or patently devoid of merit (*MBIA Ins. Corp. v Greystone & Co., Inc.*, 74 AD3d 499 [1<sup>st</sup> Dept 2010]).

However, "to conserve judicial resources, examination of the underlying merit of the proposed amendment is mandated" so "a motion for leave to amend a pleading must be supported by an affidavit of merits and evidentiary proof that could be considered upon a motion for summary judgment (*Zaid Theatre Corp. v Sona Realty Co.*, 18 AD3d 352, 354-355 [1<sup>st</sup> Dept 2005]). A court may deny such amendment which is palpably insufficient as a matter of law, totally meritless, surprising or prejudicial (*see Morton v Brookhaven Mem'l Hosp.*, 32 AD3d

381, 381, 820 NYS2d 294 [2d Dept 2006]; *Moon v Clear Channel Communs., Inc.*, 307 AD2d 628, 629-630, 763 NYS2d 157 [3d Dept 2003]). Additionally, the movant must include the proposed amended or supplemental pleadings clearly showing the changes or additions to be made to the pleadings (CPLR 3025[b]).

Upon review of Plaintiff's proposed Amended Complaint, the court denies Plaintiff's cross-motion to amend his Complaint in part and finds that Plaintiff's causes of action under Count One for FIFA violations fail as a matter of law as against 10x, as Plaintiff fails to sufficiently allege facts to support its claim that 10x is a "hiring party" under FIFA; Count Four for unjust enrichment continues to fail as it is duplicative of Plaintiff's breach of contract claim; and Count Five for misappropriation/infringement on Plaintiff's intellectual property rights fails as a matter of law as Plaintiff fails to allege sufficient factual allegations to support each element of this claim. However, the court grants Plaintiff's proposed amendments in support of Count One (FIFA violation) as against VPV only.

Although the court finds that CPLR 3025(a) would have permitted Plaintiff to amend his Complaint once without leave of court and the court would normally permit Plaintiff to amend the Complaint if it contained causes of action supported by essential factual allegations, the court cannot do so here, as the court finds that the proposed Amended Complaint contains some causes of action which are palpably insufficient as a matter of law and totally meritless.

Here, even in the light most favorable to Plaintiff, Plaintiff fails to sufficiently allege facts necessary to support a claim for misappropriation of intellectual property rights. Protected intellectual property rights which have value are generally limited to trademarks, copyrights, patents and trade secrets and such innovation depends on the ability of inventors to protect that property from theft (*see Kewanee v Bicorn*, 416 US 470, 482 [1974]). Plaintiff fails to allege the

existence of protected property rights. Specifically, Plaintiff fails to allege that he obtained any trademarks, copyrights or patents to protect any aspect of the work he performed in this matter. Therefore, Plaintiff appears to claim a trade secret.

To state a claim for misappropriation of a trade secret, Plaintiff must allege that “(1) [he] possessed a trade secret; and (2) defendant is using that trade secret in breach of an agreement, confidence, or duty, or as a result of discovery by improper means (*E.J. Brooks Co. v Cambridge Sec. Seals*, 31 NY3d 441, 452 [2018]). 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 Mgmt., Inc. v Janien*, 82 NY2d 395, 407 [1993]). Trade secrets “inherently derive their value from their confidentiality” (*E.J. Brooks Co.*, 31 NY3d at 454). As such, first and foremost, a trade secret must be secret and such secret must be known by the employees of the business, relatively unknown to others outside of the business and the business must take measures to guard the secrecy of the information (*see id.* at 452).

In his proposed Amended Complaint, Plaintiff fails to sufficiently allege that he possessed a trade secret; which aspect of his work was confidential or contained secret technology or information; that such trade secret had value to Plaintiff’s business; any advantage Plaintiff had over competitors; or even that VPV was in fact Plaintiff’s competitor. Therefore, based on the factual allegations, Plaintiff fails to state a cause of action for misappropriation of Plaintiff’s intellectual property rights. As such, the court denies Plaintiff’s motion to include this cause of action in his Amended Complaint in its current form.

Therefore, the court denies Plaintiff’s cross-motion to amend the Complaint in part and grants it in part by denying Plaintiff’s proposed causes of action in Count One (FIFA violation)

as against 10x, Count Four (unjust enrichment) and Count Five (misappropriation/infringement on Plaintiff's intellectual property rights), but grants Plaintiff's proposed amendments related to Count One (FIFA violation) as against VPV. As such, the court permits Plaintiff to file an Amended Complaint to include the amendments related to Count One against VPV and which is consistent with this Decision and Order within fourteen (14) days of the e-filing of this Decision and Order.

2) Plaintiff's Cross-Motion to Disqualify Defense Counsel

Plaintiff cross-moves for the court to disqualify defense counsel for a possible conflict of interest in defense counsel's simultaneous representation of 10x and VPV. Plaintiff argues in substance that 10x and VPV may have interests that are adverse to one another and that Plaintiff anticipates the existence of cross-claims or the initiation of a separate action.

Defendants oppose Plaintiff's motion to disqualify defense counsel and argue in substance that Plaintiff's motion based on "potential claims" is speculative and nonsensical. Defendants further argue in substance that Plaintiff relies upon "facts" that do not currently exist. Additionally, both parties knowingly waived any potential conflicts that may arise from simultaneous representation and agreed to joint representation.

The court denies Plaintiff's motion to disqualify defense counsel.

III. Defendant's Request for Sanctions and Costs Against Plaintiff

In Defendants' opposition to Plaintiff's cross-motion, Defendants request sanctions and costs against Plaintiff for Plaintiff's frivolous motion to disqualify defense counsel, delayed withdrawal of his copyright infringement claim and proposed frivolous misappropriation of intellectual property claim.

In Plaintiff's Reply in support of his cross-motion, Plaintiff opposes Defendants request for sanctions and costs.

The court denies Defendants' request for sanctions and costs against Plaintiff. However, the court notes that although this litigation is in its early stages, both counsel have made serious accusations of bad faith against each other and engaged in senseless arguments in support of such claims. Even after the motions were fully submitted both parties felt the need to correspond with the court about the other party's actions. Therefore, the court warns the parties about engaging in baseless, vindictive, prolonged litigation and may consider imposing sanctions and costs against an offending party.

The court considers the parties' remaining arguments and denies them if not expressly granted herein.

Accordingly, it is hereby;

**ORDERED** that the court grants Defendants' partial motion to dismiss Plaintiff's Complaint as to Count One (FIFA violation), Count Four (unjust enrichment), and Count Five (copyright infringement); and it is further

**ORDERED** that the court denies Plaintiff's cross-motion to amend the Complaint in its proposed form in part and (1) denies Plaintiff's proposed amendments to Count One (FIFA violations) as against Defendant 10x Management LLC, Count Four (unjust enrichment), and Count Five (misappropriation/infringement on Plaintiff's intellectual property rights) based upon the factual allegations submitted in the proposed Amended Complaint, but (2) grants it in part by granting the proposed amendments related to Count One (FIFA violations) as against Defendant VPV Interactive, Inc.; and it is further

**ORDERED** that Plaintiff is permitted to file an Amended Complaint to include the proposed amendments to Count One against Defendant VPV Interactive, Inc. and which are consistent with this Decision and Order within fourteen (14) days of the e-filing date of this Decision and Order; and it is further

**ORDERED** that the court denies Plaintiff's cross-motion to disqualify defense counsel; and it is further

**ORDERED** that the court denies Defendants request for sanctions and costs against Plaintiff; and it is further

**ORDERED** that any relief not expressly addressed in this order has nonetheless been considered and is hereby denied.

Dated: May 29, 2020  
New York, New York

  
HON. ERIKA M. EDWARDS, JSC