SUPREME COURT OF THE STATE OF NEW YORK
NEW YORK COUNTY

PRESENT: HON. ANDREW BORROK **PART** IAS MOTION 53EFM

Justice

----------X

SLICE BUSINESS MARKETING, INC.,

Plaintiff,

- v -

MARVIN KIPP, GIOVANI BAPTISTE, MICHAEL STYLES, DEAN BECKWITH, ERIC WALTON, DERRICK WATKINS, SELECT MERCHANT SERVICE, INC.

Defendant.

----------X

INDEX NO. 656543/2019

MOTION DATE 02/21/2020

MOTION SEQ. NO. 001

DECISION + ORDER ON MOTION

The following e-filed documents, listed by NYSCEF document number (Motion 001) 25, 26, 27, 28, 29, 30, 31, 32, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 65

were read on this motion to/for DISMISSAL.

Upon the foregoing documents, Select Merchant Service, Inc. d/b/a Retriever Merchant Solution's (**Retriever**) motion to dismiss is granted with respect to the fifth through seventh causes of action, but denied with respect to the fourth cause of action. Leave to withdraw the third, eighth and ninth causes of action is granted without prejudice.

The Relevant Facts and Circumstances

Slice Business Marketing, Inc. (**Slice**) and Retriever both provide payment processing and related services to merchants located in the United States. Although Retriever employs a number of full time and part time employees, it also employs between 150 and 200 independent sales representatives (**ISRs**), each of whom purportedly serves as an independent contractor and is issued a Form 1099 IRS tax form (Kamstra Aff., NYSCEF Doc. No. 26, ¶ 4-5). The ISRs are engaged primarily for the purpose of acquiring new merchant customers, but Retriever asserts

that it does not work in concert with the ISRs to secure or solicit any potential new customers (*id.*, ¶ 6). Rather, ISRs submit leads to Retriever, using their own skills and connections to secure the sale, and are then compensated based on the merchant customers that Retriever actually acquires (*id.*, ¶¶ 7-9).

The individual defendants Marvin Kipp, Giovani Baptiste, Michael Styles, Dean Beckwith, Eric Walton and Derrick Watkins (the **Individual Defendants**) were employed by Slice pursuant to employment agreements intended to protect Slice's allegedly proprietary confidential information (NYSCEF Doc. Nos. 2-8). Because this is a competitive business industry, Slice included covenants in its employment agreements with the Individual Defendants that, *inter alia*, prohibited the Individual Defendants from soliciting for themselves or "on behalf of any other person" or "any third party," any Slice customers or clients (e.g., NYSCEF Doc. No. 3, § 5[a] ["Nonsolicitation; Noncompete"]; NYSCEF Doc. No. 5, §4.3.B ["Confidentiality and Non-Solicitation"]).

However, the complaint alleges that, instead, the Individual Defendants: "(a) diverted Slice's existing and potential customers to Retriever, in contravention of the non-competition clauses [in the Individual Defendants'] employment agreements; (b) disclosed Slice's proprietary marketing materials and customer lists to Retriever, in violation of the confidentiality provisions of their employment agreements; and (c) worked for, and/or induced other Slice employees to work for, Retriever, in breach the non-competition clauses of their employment agreements" (Compl., NYSCEF Doc. No. 2, ¶ 2).

More specifically, with respect to Retriever, the complaint alleges that Retriever knew that Marvin Kipp and certain other Individual Defendants "had an employment agreement with Slice that forbade [them] from diverting potential clients to," and "sharing Slice's confidential and proprietary information of Slice with Slice's competitors," and that Retriever knew that the information [the Individual Defendants were] sharing with Retriever was Slice's confidential and proprietary information" (*id.*, ¶¶ 71-75; 100-103; 111-113).

Retriever acknowledges that the Individual Defendants were all former ISRs of the company but seeks to characterize them as independent contractors who acted independent of and without Retriever's knowledge or direction. In his affidavit, Retriever's president Brian Kamstra states:

> 13. All six of the Individual Defendants signed nearly identical employment agreements (the "ISR Agreements")
>
> 14. Pursuant to Section 5.1(a) of the ISR Agreements, each Individual Defendant represented, warranted, and covenanted the following:
>
> > ISR has the full power and authority to execute, deliver and perform this Agreement. Specifically, and not by way of limitation, ISR is not prohibited from entering into this Agreement pursuant to non-compete or non-solicit terms of any agreement with a third party. This Agreement is valid, binding and enforceable against ISR in accordance with its terms and no provision hereof is in conflict with ISR's obligations under any other agreement to which ISR is a party or by which it is bound.
>
> 15. Pursuant to Section 5.1(c) of the ISR Agreements, each Individual Defendant represented, warranted, and covenanted the following:
>
> > ISR and its employees and representatives are not parties to any active non-compete and/or non-solicitation agreements with any other party (a) in connection with selling and marketing services similar to the Services or (b) that would hinder ISR's ability to perform its duties under this Agreement, cause harm to RMS or affect ISR's ability to sell and market the Services on behalf of RMS.

16. Prior to this lawsuit, not a single person employed by Retriever had any knowledge of the agreements purportedly between Slice and the Individual Defendants attached as exhibits to the Complaint.

(NYSCEF Doc. No. 26, ¶¶ 13-16; NYSCEF Doc. No. 54).

In response, Slice claims that Retriever knew or should have known that the Individual Defendants were working for Slice because, inter alia, at least on a few occasions, Mr. Kipp and Mr. Beckwith communicated with Retriever from their Slice email addresses and a simple internet search for the domain name of those emails shows Slice to be a provider of merchant card services (Katsap Aff., NYSCEF Doc. No. 37, ¶¶ 25-29, 31-33). Thus, Slice maintains that Retriever "knew, or should have known," that these Individual Defendants were "working for, or with Slice," and "using information that belonged to Slice, or that [e.g.,] Brother's Tires was a business relation of Slice" (*id.*, ¶ 30).

Slice's complaint asserts ten causes of action as follows: as against the individual defendants, (i) breach of the Agreement, and (ii) breach of the implied covenant of good faith and fair dealing, and as against all defendants, jointly and severally, for (iii) constructive trust, (iv) misappropriation of trade secrets, (v) conversion, (vi) tortious interference with business relations, (vii) tortious interference with prospective economic advantage, (viii) unjust enrichment, (ix) equitable accounting, (x) permanent injunction[1] (NYSCEF Doc. No. 2). As the first and second causes of action are asserted against the individual defendants only, they are not the subject of this motion by Retriever.

[1] Although the Complaint labels the permanent injunction claim as the "Seventh Cause of Action," this appears to be a numerical error and to avoid confusion, the court will refer to the permanent injunction claim as the tenth cause of action.

Discussion

On a motion to dismiss, the pleadings are to be afforded a liberal construction and the facts as alleged in the complaint are accepted as true (*Leon v Martinez*, 84 NY2d 83, 87 [1994]). Dismissal under CPLR § 3211 (a)(7) requires the court to assess whether the proponent of the pleading has a cause of action and not whether he has stated one (*id.*).

In its opposition papers, Slice seeks leave to withdraw, without prejudice, its claims for unjust enrichment, constructive trust, and equitable accounting (i.e., the 3rd, 8th, and 9th causes of action). Such leave is granted, and these claims are dismissed without prejudice (*see Caesars Entertainment Operating Co., Inc. v Appaloosa Inv. Ltd. Partnership I*, 48 Misc 3d 1212[A] [leave without prejudice appropriate where defects in complaint can be fixed by repleading]). Inasmuch as Slice asks for leave to amend the complaint, this request is not properly made as Slice fails to move for such relief by cross motion and, in any event, fails to attach a proposed amended pleading as required under the CPLR. If Slice wishes to seek leave to amend, it may do so by proper motion in accordance with the CPLR.

A. Fourth Cause of Action (Misappropriation of Trade Secrets)

A plaintiff claiming misappropriation of a trade secret must prove: "(1) it 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" (*Integrated Cash Mgt. Servs. v Digital Transactions, Inc.*, 920 F2d 171, 173 [2d Cir 1990]). A trade secret can be "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).

Here, the complaint adequately alleges that Slice's customer lists may constitute a trade secret (e.g., Compl., ¶¶ 277, 22-26, 29-42), however, Retriever argues that the fourth cause of action for misappropriation of trade secrets should be dismissed against it because Slice failed to plead that any of its trade secrets were actually used ***by Retriever***, rather than just by the Individual Defendants. Slice, in turn, argues that the complaint adequately alleges that Retriever used its trade secrets by stating that each of the Individual Defendants "would take Slice's client lists and use those lists to recruit clients . . . . for Retriever" (*id.*, ¶¶ 66, 96, 128, 160, 192, 224) and that, "Retriever knew that the information that [each of the individual defendants] was sharing with Retriever was Slice's confidential and proprietary information" (*id.*, ¶¶ 75, 135, 167, 199, 231). This is insufficient.

As alleged in the complaint, the Individual Defendants submitted to Retriever proposed deals, based on allegedly proprietary information, for Retriever to enter into with potential customers, and Retriever elected to close on at least some of those deals (*id.*, ¶¶ 67, 97, 129, 161, 193, 225). Significantly, as set forth in the affidavit of Mr. Katsap, at least two of the Individual Defendants used their Slice email addresses to communicate with Retriever, thus, putting Retriever on notice that these Individual Defendants were working for Slice at the time and using Slice's proprietary information to provide customers to Retriever, i.e., that Retriever utilized Slice's trade secrets "as a result of discovery by improper means" (*Integrated Cash Mgt. Servs., supra,* 920 F2d at 173). Retriever's response – that it employs too many ISRs to pay attention to such details – is

simply insufficient to eliminate the question of Retriever's knowledge as an issue of fact for purposes of this dismiss motion. Retriever's knowledge, or lack thereof, is a question for discovery and precludes dismissal of this cause of action.

To the extent that Retriever relies on its ISR agreements with the Individual Defendants to argue that it could not have known that the Individual Defendants were contractually prohibited from making referrals to Retriever because they covenanted otherwise in the ISR agreements (NYSCEF Doc. No. 26, ¶¶ 13-16; NYSCEF Doc. No. 54), this misses the point. If the allegations in the complaint are assumed as true, as they must be on a 3211 motion to dismiss, Retriever cannot use the ISR agreements as a shield from liability simply because the Individual Defendants agreed to sign them if Retriever, in fact, knew otherwise.

B. Fifth Cause of Action (Conversion)

The elements of conversion are (1) the plaintiff's possessory right or interest in the property and (2) the defendant's dominion over the property or interference with it, in derogation of the plaintiff's rights (*Colavito v NY Organ Donor Network, Inc.*, 8 NY3d 43, 49-50 [2006]).

An essential component of any claim for conversion is the unauthorized possession of personalty to the exclusion of the rights of the true owner (*AMF Inc. v Algo Distributors, Ltd.*, 48 AD2d 352 [2d Dept 1975]; *Hair Say Ltd. v Salon Opus, Inc.*, 6 Misc3d 1041[A] [Nassau Cnty March 17, 2005] [Leonard Austin, J.] [dismissing claim for conversion of customer list because plaintiff retained possession of list throughout]). Here, Slice retained possession of its customer list at all times. Inasmuch, as Slice seeks to characterize the thing converted as its "ability to close deals on potential customers and maintain existing customer's contracts, rights that belonged to Slice,"

this is simply too intangible to constitute personalty for purposes of conversion and is, in any event, too speculative (Ptf. Opp. Memo, NYSCEF Doc. No. 36 at 13). Accordingly, the conversion claim against Slice fails.

C. Sixth and Seventh Causes of Action (Tortious Interference with Business Relations and Tortious Interference with Prospective Economic Advantage)

The elements of interference with contract are the existence of a valid contract, defendant's knowledge thereof, defendant's intentional procuring of the breach and damages (*White Plains Coat & Apron Co., Inc. Cintas Corp.*, 8 NY3d 422 [2007]). The related "tort of interference with business relations applies to those situations where [a] third party would have entered into or extended a contractual relationship with plaintiff but for the intentional and wrongful acts of the defendant (*WFB Telecomm., Inc. v NYNEX Corp.*, 188 AD2d 257, 257 [1st Dept 1992]). In order to state a claim for tortious interference with contractual relations, a plaintiff must show that defendants intentionally and through improper means induced the breach of a contract between the plaintiff and a third party (*id.*).

To state a cause of action for tortious interference with prospective economic advantage, a complaint must allege conduct by the defendant that interfered with the plaintiff's economic prospects and (1) was either undertaken for the sole purpose of harming the plaintiff, or (2) that such conduct was wrongful or improper independent of the interference allegedly caused thereby (*Jacobs v Continuum Health Partners, Inc.*, 7 AD3d 312, 313 [1st Dept 2004]). This tort also requires a plaintiff to demonstrate more culpable conduct by a defendant, including conduct that amounts to a crime, independent tort, or wrongful means (*Carvel Corp. v Noonan*, 3 NY3d 182, 190 [2004] ["[c]onduct that is not criminal or tortious will generally be "lawful" and thus

insufficiently "culpable" to create liability for interference with prospective contracts or other nonbinding economic relations, citing *Guard-Life Corp. v S. Parker Hardware Mfg. Corp.*, 50 NY2d 183, 191 [1980]).

Whereas inducing a breach of a binding agreement and interfering with non-binding economic relations are both recognized as torts,

> the degree of protection available to a plaintiff for a competitor's tortious interference with contract is defined by the nature of the plaintiff's enforceable legal rights. Thus, where there is an existing, enforceable contract and a defendant's deliberate interference results in a breach of that contract, a plaintiff may recover damages for tortious interference with contractual relations even if the defendant was engaged in lawful behavior. Where there has been no breach of an existing contract, but only interference with prospective contract rights, however, plaintiff must show more culpable conduct on the part of the defendant

(*NBT Bancorp Inc. v Fleet/Norstar Fin. Group, Inc.*, 87 NY2d 614, 621 [1996]).

Thus, where a complaint is based on interference with a nonbinding relationship, a plaintiff must show that the defendant's conduct "was not 'lawful' but 'more culpable,'" i.e., a "defendant's conduct must amount to an independent tort" (*Carvel Corp,* 3 NY2d at 190). In contrast, non-criminal or independently tortious conduct will "generally be 'lawful' and thus insufficiently 'culpable' to create liability for interference with prospective contracts or other nonbinding economic relations" (*id.*).

Here, the complaint does not allege knowing and intentional interference ***by Retriever*** with any existing merchant contract, so no tort for that can lie. Rather, as concerns Slice's claim with respect to existing business relations, the complaint only alleges that the defendants (jointly,

without specification) "intentionally interfered with, and continue to intentionally interfere with and disrupt Plaintiff's business relationships with its customers by attempting to convert Plaintiff's customers to their own through the use of Plaintiff's illegally obtained confidential and proprietary information" (*id.*, ¶ 288).

Whether this is denominated as a claim for interference with "business relations" or "economic advantage," and the complaint and motion papers do not appear to distinguish the two, the claims fail as against Retriever because nothing in the complaint sets out that Retriever acted with knowledge of any contracts solely to harm Slice and the conduct alleged (contracting with merchant customers) was certainly not wrongful or improper independent of the interference allegedly caused thereby (*Guard-Life Corp.*, 50 NY2d at 191 [1980] [wrongful means include "physical violence, fraud or misrepresentation, civil suits and criminal prosecutions, and some degrees of economic pressure"]).

D. Tenth Cause of Action (Permanent Injunction)

To state a claim for a permanent injunction, the complaint must demonstrate (1) that there was a violation of a right presently occurring or threatened and imminent, (2) that there is no adequate remedy at law, (3) that serious and irreparable harm will result in the absence of the injunction, and (4) that the equities are balances in the plaintiff's favor (*International Shoppes v At the Airport,* 131 AD3d 926, 938 [2d Dept 2015] [reversing trial court and dismissing claim]). Here, Slice fails to demonstrate that it would suffer irreparable harm in the absence of an injunction, at least as concerns Retriever, since the harm that it would allegedly sustain – i.e., loss of customers – could be sufficiently compensated by money damages (*id.*). For the avoidance of doubt,

dismissal of this cause of action does not mean that an injunction in this matter may not be issued at a future date as a remedy if Slice demonstrates an entitlement to the same.

Accordingly, it is

ORDERED that the motion of defendant Select Merchant Service, Inc. d/b/a Retriever Merchant Solution to dismiss the complaint herein is granted with respect to the fifth, sixth and seventh causes of action as against Retriever Merchant Solutions, without prejudice; and it is further

ORDERED that Retriever Merchant Solutions serve an answer to the remaining cause of action in the complaint against it within 20 days from this decision and order; and it is further

ORDERED that leave to withdraw the third, eighth and ninth causes of action is granted, and said claims are deemed withdrawn without prejudice.

20201013140250ABORROK5B99C9DC54C0429F8253C34E47953A6A

10/13/2020
DATE

ANDREW BORROK, J.S.C.

CHECK ONE:		CASE DISPOSED			X	NON-FINAL DISPOSITION	
		GRANTED		DENIED	X	GRANTED IN PART	OTHER
APPLICATION:		SETTLE ORDER				SUBMIT ORDER	
CHECK IF APPROPRIATE:		INCLUDES TRANSFER/REASSIGN				FIDUCIARY APPOINTMENT	REFERENCE