

Smartix Intl. Corp. v Mastercard Intl. LLC

2010 NY Slip Op 33786(U)

July 19, 2010

Supreme Court, New York County

Docket Number: 4575082/010

Judge: Charles E. Ramos

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

Index Number : 114575/2008

SMARTIX INTERNATIONAL

VS.

MASTERCARD INTERNATIONAL LLC

SEQUENCE NUMBER : 002

DISMISS

PART _____

E-FILE

INDEX NO. _____

MOTION DATE _____

MOTION SEQ. NO. _____

MOTION CAL. NO. _____

The following papers, numbered 1 to _____ were read on this motion to/for _____

Notice of Motion/ Order to Show Cause — Affidavits — Exhibits ...

Answering Affidavits — Exhibits _____

Replying Affidavits _____

PAPERS NUMBERED

Cross-Motion: Yes No

Upon the foregoing papers, it is ordered that this motion

Is decided in accordance with accompanying memorandum decision and order.

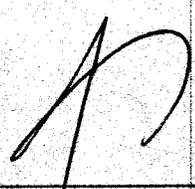
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MOTION SUPPORT OFFICE
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IN ACCORDANCE WITH MEMORANDUM DECISION IS DISPOSED OF

Dated: 7/29/2010


CHARLES E. RAMOS ^{S.C.}

Check one: FINAL DISPOSITION NON-FINAL DISPOSITION

Check if appropriate: DO NOT POST REFERENCE

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

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK:COMMERCIAL DIVISION

E-FILE

-----X
SMARTIX INTERNATIONAL CORPORATION,

Plaintiff,

Index No. 114575/08

-against-

MASTERCARD INTERNATIONAL LLC, MASTERCARD
INTERNATIONAL, INC., MBNA AMERICA BANK, N.A.
and ERIC PETROSINELLI,

Defendants.

-----X

Charles Edward Ramos, J.S.C.:

Motion sequence 002 and 003 are hereby consolidated for disposition.

In motion sequence 002, the defendants MasterCard International LLC and MasterCard International, Inc. (collectively, "MasterCard") move pursuant to CPLR 3211(a)(1) and (7) to dismiss the plaintiff Smartix International Corporation's ("Smartix") amended complaint (the "Complaint").

In motion sequence 003, the defendant Eric Petrosinelli moves pursuant to CPLR 3211(a)(1) and (7) to dismiss the Complaint.

At issue in this action is the Smartfan business plan and associated software and hardware ("Smartfan") allegedly developed by Smartix. Conceptually, Smartfan provides an electronic platform for season ticket holders of sporting events to manage, trade, or re-sell unused tickets to a group of subscribers who pay a membership fee (Complaint, ¶ 10). In exchange for the membership fee, the subscribers are to receive a team-affiliated credit card and have the ability to purchase the unused tickets

for which they would accrue redeemable incentives for purchases made using the team-affiliated credit cards, such as points that could be redeemed for team-affiliated merchandise (Complaint, ¶ 19). Smartix alleges that it developed the business model and the corresponding software and hardware that was necessary to implement Smartfan.

Background

As alleged the Complaint, Smartfan was conceived in 1997 by the three co-founders Ramon Katz, Lynn Huber, and Myron Metzger, who then formed Smartix (Complaint, ¶ 22).

From January 1997 to January 2000, Smartix collaborated with PTI Corporation to create the software platform necessary to implement Smartfan (Complaint, ¶ 23).

Smartfan was featured in the January 3, 2000 edition of Sportsbusiness Journal, which attracted interest from MasterCard (Complaint, ¶ 24).

On February 1, 2000, Smartix presented Smartfan to Bill Henneberry, a consultant hired by MasterCard, who, after several meetings with Smartix, arranged a meeting between Smartix and MasterCard (Complaint ¶ 26).

On June 6, 2000, Smartix met with MasterCard to present Smartfan (Complaint, ¶ 29).

MasterCard was so impressed with Smartfan that it proposed an exclusive agreement with Smartix, upon being informed that Smartix was presenting Smartfan to MasterCard's competitors (Complaint, ¶¶ 30-1).

In exchange for MasterCard providing \$6 million in funding to develop and implement Smartfan, Smartix would not distribute Smartfan to MasterCard's competitors, such as American Express, Discover, and Visa (Complaint, ¶ 33). Additionally, the terms of the exclusive agreement provided that MasterCard would pay to Smartix \$500,000 as an annual licensing fee for the use of the Smartfan name in connection with its credit cards (Complaint, ¶ 34).

In late June 2000, Smartix accepted the proposed terms of the exclusive agreement by MasterCard after a well received presentation of Smartfan to Major League Baseball ("MLB") and the top executives of MasterCard (Complaint, ¶ 35).

In September 2000, Smartix presented Smartfan to John Cochran, Vice Chairman of MBNA America Bank ("MBNA") in Wilmington, Delaware (Complaint, ¶ 37). MBNA was also impressed with Smartfan and agreed to partner with MasterCard to issue team affiliated credit cards that would be used with Smartfan (Complaint, ¶ 41). MasterCard amended its original proposed offer to include the non-negotiable condition that Smartix hire Henneberry as its CEO (Complaint, ¶ 41). On November 1, 2000, MasterCard and Smartix executed the Smartfan Card Program Master Agreement (the "Agreement") and hired Henneberry as CEO of Smartix (*id.*). However, MasterCard did not make its initial payment of \$1.75 million until February 2001 (Complaint, ¶ 39; Silverstein Aff., Exhibit C, p. 33).

In December 2000, Metzger departed Smartix at the behest of

Henneberry and MasterCard and under the threat that MasterCard would delay or discontinue funding (Complaint, ¶¶ 44-5).

On February 10, 2001, Henneberry hired Petrosinelli as a consultant to assist in presenting Smartfan to other sports franchises (Complaint ¶¶ 46-7). In June 2001 and June 2002, Henneberry promoted Petrosinelli to Vice President of Marketing and Senior Vice President of Marketing, respectively, because he held favorable relationships with Cochran and Bob Cramer, Vice President of Sports Marketing for MasterCard (Complaint ¶¶ 50-1).

Smartix alleges that after Petrosinelli's promotion to Vice President of Marketing, he began collaborating with MasterCard and MBNA to orchestrate the transfer of proprietary and confidential information from Smartix to MasterCard and MBNA, without the knowledge of Smartix (Complaint, ¶ 52).

In January 2002, Henneberry demanded that Huber resign from the Smartix Board of Directors and relinquish his seat to MasterCard (Complaint, ¶ 55). Huber resigned, but MasterCard never filled the vacant seat (*id.*). In June 2002, Katz, the only remaining founder with operational control, was removed from the Smartix Board of Directors (*id.*).

The pilot program for Smartfan was going to be implemented during the Los Angeles Dodgers (the "Dodgers") 2003 season (Complaint, ¶ 57). However, by email dated February 6, 2003, Petrosinelli informed the Dodgers, after consulting with Cramer, that Smartix was recommending that the launch of Smartfan be postponed until the 2004 season (Complaint, ¶ 58). The failure

to launch the pilot program for the Dodgers resulted in Smartix breaching the Agreement with Mastercard (Complaint, ¶ 60).

Neither Smartix's investors or its Board of Directors were informed of the cancellation at the time, but were subsequently informed by Petrosinelli, that the pilot program was cancelled because Smartix was not adequately funded to complete the installation of Smartfan for the Dodgers (Complaint, ¶ 59). Smartix alleges that the inadequate funding stemmed from MasterCard's failure to make its contractual payments in a timely manner (*id.*).

On February 27, 2003, Petrosinelli secretly met with MasterCard and MBNA (Complaint, ¶ 61). It is alleged that during this meeting, Petrosinelli explicitly agreed to facilitate the transfer of Smartix's confidential information and a master copy of the Smartfan source code (the "Source Code") to MasterCard and MBNA, so that Smartfan could be used, replicated, and deployed without the assistance of Smartix (Complaint, ¶ 62).

Smartix alleges that on June 12, 2003, Petrosinelli began gathering Smartix's confidential information without Smartix's knowledge or consent (Complaint, ¶ 63). Despite being terminated on October 3, 2003, Petrosinelli was allegedly able to gain access to Smartix's offices and servers, without authorization, and continue to gather the confidential information until October 14, 2003 (Complaint, ¶¶ 64-6). Thereafter, Petrosinelli allegedly hand-delivered the Smartfan and the Source Code to MasterCard and MBNA (Complaint, ¶ 67).

Smartix alleges that MasterCard and MBNA successfully replicated Smartfan and have deployed the program in the beginning of the 2005 National Football League season under a new name called the MasterCard-MBNA Extra Points Affinity Cards program (the "Extra Points Program") (Complaint, ¶ 68). The program is purportedly identical to Smartfan and therefore, it should be covered by the confidentiality agreements executed between Smartix and MasterCard on May 1, 2000 and between Smartix and MBNA on October 26, 2001 (Complaint, ¶¶ 13, 69).

Smartix commenced this action on October 29, 2008, and thereafter amended its complaint on December 3, 2008 alleging causes of action for misappropriation of trade secrets, unfair competition, breach of fiduciary duty, breach of contract, conversion, unjust enrichment, and fraud against Mastercard, MBNA, and Petrosinelli.

On March 6, 2009, Smartix discontinued this action with prejudice against MBNA.

On August 17, 2009, MasterCard and Petrosinelli filed motions to dismiss, which were then converted into motions for summary judgment by the Court, *sua sponte*, during oral argument on October 22, 2009. The Court then provided the parties an opportunity to submit additional briefing. On February 25, 2010, oral argument was held on the converted motions for summary judgment.

Discussion

In motion sequence 002, MasterCard moves for summary

judgment on the first cause of action for misappropriation, the second cause of action for unfair competition, the fourth cause of action for breach of contract, the fifth cause of action for conversion, the sixth cause of action for unjust enrichment, and the seventh cause of action for fraud in the Complaint.

In motion sequence 003, Petrosinelli moves for summary judgment on the first cause of action for misappropriation, the third cause of action for breach of fiduciary duty, the fourth cause of action for breach of contract, and the fifth cause of action for conversion in the Complaint.

The granting of summary judgment is appropriate if no triable issues of fact is presented (*Forrest v Jewish Guild for the Blind*, 3 NY3d 295, 314 [2004]). "If the moving party establishes a basis for a grant of summary judgment, the opposing party must present evidence that there is a triable issue" (*Id.* at 315).

As a preliminary matter, this Court must determine the nature of the relationship between Mastercard and Petrosinelli.

Smartix alleges that Petrosinelli, while acting as an agent for MasterCard, obtained Smartfan and the Source Code through wrongful means, which he then provided to Mastercard and MBNA. It alleges that Mastercard and Petrosinelli are currently using components of Smartfan with the Source Code in the Extra Points Program in violation of their agreements executed with Smartix. Smartix attempts to cast Petrosinelli as an agent of Mastercard in order to hold Mastercard vicariously liable for Petrosinelli's

* 9]

alleged misappropriation of Smartfan (Complaint ¶ 74). Smartix's principal-agency theory is based on Petrosinelli and Mastercard's alleged secret meetings, email correspondence, and Petrosinelli's disloyalty as an employee (Katz Aff. ¶ 50, 52, 55, 58, 59, 64, 75).

However, Smartix's allegations are not evidence and are insufficient to establish that Mastercard retained any degree of direction and control over Petrosinelli necessary to conclude that there was a principal-agency relationship between them. (*Garcia v Herald Tribune Fresh Air Fund, Inc.*, 51 AD2d 897 [1st Dept 1976]). At best, the evidence could establish that Petrosinelli may have been a disloyal employee of Smartix.

Generally, "where no written authority of the agent has been proven, questions of agency and of its nature and scope are questions of fact to be submitted to the jury under proper instructions by the court" (*id.*). However, as set forth below, Smartix has failed to submit any evidence that would allow a fact-finder to find that there was a principal-agency relationship. Therefore, Smartix has failed to establish that there was a principal-agency relationship between Mastercard and Petrosinelli.

Neither defendant opposes Smartix's contention that Smartfan constitutes a trade secret. Therefore, this Court will assume, *arguendo*, that Smartfan is a trade secret.

To sustain its first cause of action for misappropriation of a trade secret, Smartix must demonstrate it possessed a trade

secret and that MasterCard and Petrosinelli are using the trade secret in breach of an agreement, confidence, or duty, or as a result of discovery by improper means (*Integrated Cash Management Services, Inc. v Digital Transactions, Inc.*, 920 F2d 171, 173 [2d Cir 1990]).

Mastercard

Smartix's first cause of action for misappropriation is based on the allegations that the Extra Points Program is merely an unauthorized continuation of Smartfan (Complaint, ¶¶ 68-75).

In support, Smartix submits a hearsay affidavit from Katz, dated January 27, 2010, testifying that Jeffrey Doyle, a former Smartix marketing specialist, informed him that the Extra Points Program was a continuation of Smartfan (Complaint, ¶ 70).

However, this affidavit is directly contradicted by Doyle's own affidavit, submitted by Mastercard, wherein Doyle unequivocally testifies that: "Mr. Katz's interpretation of both my conversations with him and my instant message attached as Exhibit 43 are not accurate" (Doyle Aff., ¶ 4). Doyle further testifies that he has "also reviewed the unsigned affidavit attributed to me by [Smartix]. I did not agree to sign it and it does not accurately reflect my understanding of the facts" (Doyle Aff., ¶ 5).

While Smartix argues that Mastercard's involvement constitutes a violation of the Agreement because the Extra Points Plan is really Smartfan, it fails to support this conclusion with any probative evidence. The evidence submitted by Smartix merely

establishes that Mastercard is involved with MBNA's deployment of the Extra Points Program, but not that the Extra Points Program is a continuation of Smartfan. For its part, Mastercard has submitted affidavits testifying that the Extra Points Program is a separate program created by MBNA (Cramer Aff., ¶ 19; Murray Aff., ¶¶ 3-5).

Smartix is unable to substantiate its allegations that Mastercard is using Smartfan in violation of the Agreement. Therefore, summary judgment is granted to Mastercard on the first cause of action for misappropriation.

Furthermore, under New York law, a cause of action for unfair competition based on misappropriation "usually concerns the taking and use of the plaintiff's property to compete against the plaintiff's own use of the same property" (*ITC Ltd. v. Punchgini, Inc.*, 9 NY3d 467, 478 [2007]).

Smartix's inability to establish that Mastercard misappropriated Smartfan, based on this Court's finding that there was no principal-agency relationship and the evidentiary record, is fatal to its second cause of action for unfair competition. Moreover, the purported use of Smartfan and the Source Code as a part of the Extra Points Program is the cornerstone of Smartix's remaining causes of action against Mastercard.

Smartix's failure to establish that the Extra Points Program is an unauthorized reincarnation of Smartfan is fatal to its causes of action against Mastercard. Therefore, the second cause

causes of action against Mastercard. Therefore, the second cause of action for unfair competition, the fourth cause of action for breach of contract, the fifth cause of action for conversion, and the sixth cause of action for unjust enrichment are dismissed because Smartix has failed to establish that Mastercard is using Smartfan or the Source Code.

In Smartix's seventh cause of action for fraud against Mastercard, it alleges that Mastercard never intended to partner with Smartix in promoting Smartfan despite executing the Agreement in November 2000 (Complaint, ¶ 112). Smartix alleges that Mastercard entered into a secret agreement with MBNA to "withhold and/or delay funding to Smartix and to take Smartix's novel business plan, its technology and marketing system as its own" (*id.*).

No evidence of this secret agreement has been submitted and the allegations alone are insufficient to raise a triable issue of fact (*Zuckerman v New York*, 49 NY2d 557, 562 [1980]). Therefore, the seventh cause of action for fraud must be dismissed.

Petrosinelli

Smartix has alleged that Petrosinelli misappropriated Smartfan and the Source Code and then provided Smartfan and the Source Code to Mastercard and MBNA in violation of his employment agreement (the "Petrosinelli Agreement") and fiduciary duties.

Smartix bases its causes of action on Petrosinelli's alleged conduct after his termination from Smartix on October 3, 2003.

On October 8, 2003, Petrosinelli sent an email to Henneberry detailing the location of Smartix's remaining equipment, such as servers, monitors, and Smartfan backup tapes and CDs (Huber Aff., ¶ 64, Exhibit 30). The equipment was being disassembled and stored.

In January 2004, after the founders Huber, Katz, and Metzger were elected to the Smartix Board of Directors to resume operations (Complaint, ¶ 46). Subsequently, Smartix retained Marc Weintraub to re-assemble and set-up the Smartix equipment, but he encountered numerous problems, specifically with the servers (Weintraub Aff., ¶¶ 29-34). Thereafter, Weintraub shifted his focus to assessing the extent of the damage to the servers and the data contained within (Weintraub Aff., ¶ 20).

During the forensic investigation, a synchronization log revealed that Petrosinelli synchronized his laptop with the Smartix server allowing him to copy and delete certain files from the Smartix server (Weintraub Aff., ¶¶ 35-6, Exhibit 6). Furthermore, the Source Code and the Smartfan backup tapes and CDs, purportedly in Smartix's safe were either missing (Huber Aff., ¶ 68) or contained only corrupted data that was irrecoverable (Weintraub Aff., ¶ 7). On January 7, 2004, Smartix sent a letter to Petrosinelli memorializing its realization of Petrosinelli's transfer of the files (Huber Aff., Exhibit 23).

Smartix alleges that Petrosinelli transferred certain files and deleted certain files from the Smartix servers during synchronization, including, *inter alia*, Smartfan and the Source

Code, as evidenced by the synchronization log.

Petrosinelli denies misappropriating Smartfan and has submitted his letter to Huber, dated February 12, 2004, which addresses, *inter alia*, the accusations asserted by Smartix (Petrosinelli Supp., Exhibit K). However, the explanation provided by Petrosinelli in the letter only applies to events occurring after October 14, 2003 (*id.*, p. 4, [1] [d]). Moreover, Petrosinelli contends that he has evidence, though not submitted in support of his motion, that his email account was tampered with (*id.*, p. 4, [1] [f]).

Petrosinelli does admit that he used his office email on October 14, 2003, but contends that he was only sending personal emails (Petrosinelli Aff., Exhibit 34). Significantly, the synchronization log clearly shows that the time period that Petrosinelli sent his personal emails is when the synchronization occurred (*compare* Petrosinelli Aff., Exhibit 34 and Weintraub Aff., Exhibit 6).

Additionally, Petrosinelli attacks Weintraub's credibility, noting that Weintraub's affidavit testimony contradicts a previous affidavit submitted by Weintraub in 2007 during a federal action (*compare* Weintraub Aff., ¶ 10 and Weintraub Aff., Exhibit 1, ¶ 5). Petrosinelli further highlights the fact that Weintraub, who does not purport to be an expert in forensic analysis, did not detail the procedures he took during his purported forensic examination.

Smartix and Petrosinelli have raised numerous factual issues

that cannot be resolved on a motion for summary judgment. Triable issues have been raised with respect to Petrosinelli's alleged conduct and Weintraub's credibility. Therefore, summary judgment is denied on the first cause of action for misappropriation.

The remaining causes of action alleged against Petrosinelli all stem from his alleged misappropriation of Smartfan. However, unlike Mastercard, Smartix raises triable issues with respect to the circumstances surrounding Petrosinelli's conduct after his termination from Smartix.

Summary judgment is denied with respect to the third cause of action for breach of fiduciary duty, the fourth cause of action for breach of contract, and the fifth cause of action for conversion. The outcome of these remaining causes of action are dependent on this Court's determination of whether or not Petrosinelli misappropriated Smartfan from Smartix. Consequently, summary judgment must be denied on the third, fourth, and fifth causes of action against Petrosinelli until this Court conducts a hearing to determine if Petrosinelli misappropriated Smartfan.

Sanctions

Mastercard's request for sanctions pursuant to 22 NYCRR 130-1.1 is denied.

Accordingly, it is

ORDERED that the defendants MasterCard International LLC and MasterCard International, Inc.'s motion for summary judgment (MS 002) is granted in its entirety, thereby dismissing the complaint

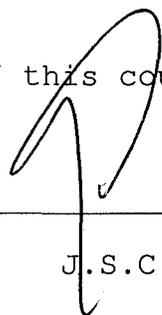
in its entirety as against MasterCard International LLC and MasterCard International, Inc. and the Clerk is directed to enter judgment in favor of MasterCard International LLC and MasterCard International, Inc., and it is further

ORDERED that the defendant Petrosinelli's motion for summary judgment (MS 003) is denied in its entirety, and it is further

ORDERED that the remaining parties shall contact Part 53 to schedule a hearing on the triable issues mentioned herein, within thirty (30) days of service of this decision and order with notice of entry.

This constitutes the decision and order of this court.

Dated: July 19, 2010



J.S.C.

CHARLES E. RAMOS