| **XL Diamonds LLC v Rosen** |
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| 2020 NY Slip Op 32354(U) |
| July 15, 2020 |
| Supreme Court, New York County |
| Docket Number: 656102/2019 |
| Judge: Andrew Borrok |
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SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK: COMMERCIAL DIVISION PART IAS MOTION 53EFM

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| XL DIAMONDS LLC, Plaintiff, | INDEX NO. | 656102/2019 |
| - v - | MOTION DATE | 07/13/2020 |
| CHARLES ROSEN, E.M.DIAM., INC. Defendant. | MOTION SEQ. NO. | 002 003 |

**DECISION + ORDER ON MOTION**

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HON. ANDREW BORROK:

The following e-filed documents, listed by NYSCEF document number (Motion 002) 24, 25, 36, 37, 38, 42
were read on this motion to/for DISMISS.

The following e-filed documents, listed by NYSCEF document number (Motion 003) 26, 27, 28, 29, 39, 40, 41, 43
were read on this motion to/for DISMISSAL.

Upon the foregoing documents, and for the reasons set forth below, E.M. Diam. Inc.'s (**EM Diamonds**) motion (Mtn. Seq. No. 002) to dismiss the complaint as asserted against it by XL Diamonds LLC (**XL Diamonds**) pursuant to CPLR §§ 3211(a)(1) and (7) is granted in part to the extent that the third cause of action for tortious interference with contract is dismissed and Charles Rosen's motion (Mtn. Seq. No. 003) to dismiss the complaint pursuant to CPLR § 3211(a)(7) is granted in part to the extent that the first and second causes of action for breach of contract are dismissed.

## I. The Facts Relevant to the Motion

This is a dispute between two, Manhattan-based diamond wholesalers, XL Diamonds and its direct competitor, EM Diamonds, concerning the employment of Mr. Rosen. Mr. Rosen worked for EM Diamonds, took a job at XL Diamonds, and after three and-a-half weeks, returned to work at EM Diamonds. As a condition of his employment with XL Diamonds, Mr. Rosen executed a certain Covenant Not to Compete for at Will XL Diamonds Employee (the **Non-Compete Agreement**), dated August 20, 2019, and a Confidentiality Agreement for at Will Employee of XL Diamonds (the **Confidentiality Agreement**), both by and between XL Diamonds and Mr. Rosen (NYSCEF Doc. No. 2, 9). Pursuant to the Non-Compete Agreement, Mr. Rosen covenanted and agreed that:

> during the term of this agreement, and for a period of one (1) year following the termination of employee's employment, employee will not, either directly or indirectly, engage in/or acquire an interest in . . . any business that is competitive with the business of employer. A business shall be deemed competitive for purposes of this provision if it performs services or conducts business similar to the service and business of employer, which is the wholesale diamond business via sales by the internet and/or phone and is conducted within the territory of the United States . . . .

(NYSCEF Doc. No. 9).

Paragraph 3 of the Confidentiality Agreement provides:

> 3. Access to trade secrets and confidential information. Employee recognizes that during the course of employee's employment, employee[] may receive, develop, or otherwise acquire, have access to, or become acquainted with trade secrets or other confidential, sensitive, and/or proprietary information relating to the business of employer. Employee further recognizes that the knowledge and information acquired by employee concerning employer's clients, methods of acquiring clients, client contacts, maintaining clients, unique advertising and marketing, represent a vital part of employer's business and constitute, by their very nature, trade secrets and confidential information of employer.

(NYSCEF Doc. No. 2, ¶ 3).

In addition, the Confidentiality Agreement provides:

> 6. Employee's duties on termination. In the event of termination of employment with employer, employee shall immediately deliver to employer all equipment, keys, materials, notebooks, software, documents, memoranda, reports, supplies, equipment, manuals, files, books, correspondence, client lists, and other written records of property of or relating to employer or its business, including any copies, transcripts from, or extracts of any of the foregoing, that are in employee's possession or under employee's control.
>
> 7. Protection of clients and other relationships. Employee agrees that during the term of employee's employment by employer, and for a period of one year (1) thereafter, Employee shall not, either directly or indirectly, attempt to or actually call on, solicit, or take away or assist to be called on, solicited, or taken away, any of the clients or other employees of employer, either for employees own benefit, for any existing or potential competitor, or for the benefit of any other person, firm, or corporation.

(*id.*, ¶¶ 6-7).

XL Diamonds filed this lawsuit against EM Diamonds and Mr. Rosen on October 18, 2019, alleging that Mr. Rosen received training from XL Diamonds and its staff, had full access to its proprietary computer, sales, and pricing systems, and obtained vendor information and customer lists, and that EM Diamonds conspired with Mr. Rosen to obtain XL Diamonds' proprietary information and trade secrets. XL Diamonds asserted causes of action for breach of the Non-Compete Agreement and the Confidentiality Agreement against Mr. Rosen, tortious interference with the Non-Compete Agreement and the Confidentiality Agreement against EM Diamonds, and misappropriation of trade secrets against both EM Diamonds and Mr. Rosen.

## II. Discussion

A party may move for judgment dismissing one or more causes of action on the ground that the pleadings fail to state a cause of action for which relief may be granted (CPLR § 3211 [a] [7]).

On a motion to dismiss pursuant to CPLR § 3211 (a) (7), the court must afford the pleadings a liberal construction and accept the facts alleged in the complaint as true, according the plaintiff the benefit of every favorable inference (*Morone v Morone*, 50 NY2d 481, 484 [1980]). The court's inquiry on a motion to dismiss is whether the facts alleged fit within any cognizable legal theory (*id.*). Bare legal conclusions are not accorded favorable inferences, however, and need not be accepted as true (*Biondi v Beekman Hill House Apt. Corp.*, 257 AD2d 76, 81 [1st Dept 1999]). A party may also move to dismiss based on documentary evidence pursuant to CPLR § 3211 (a) (1). A motion to dismiss pursuant to CPLR § 3211 (a) (1) will be granted only where the documentary evidence conclusively establishes a defense to the plaintiff's claims as a matter of law (*Goshen v Mutual Life Ins. Co. of New York*, 98 NY2d 314, 326 [2002]).

**A. Breach of Non-Compete Agreement (Against Mr. Rosen)**

Post-employment covenants not to compete are carefully scrutinized by courts and will only be enforced if the restraint is reasonable (*BDO Seidman v Hirshberg*, 93 NY2d 382, 388 [1999]). Under New York law, "a restrictive covenant will only be subject to specific enforcement to the extent that it is reasonable in time and area, necessary to protect the employer's legitimate interests, not harmful to the general public and not unreasonably burdensome to the employee" (*id.* at 389, quoting *Reed, Roberts Assocs. v Strauman*, 40 NY2d 303, 307 [1976])."

Mr. Rosen argues that the Non-Compete Agreement is overbroad, does not protect any legitimate business interest, and that its geographic scope is unreasonable. Mr. Rosen further argues that the Non-Compete Agreement imposes an undue hardship on him as it would force him to abandon his chosen profession if enforced. In its opposition papers, XL Diamonds argues that

the Non-Compete Agreement should be enforced because the time and geographic area are reasonable and that it is not unduly burdensome for Mr. Rosen because he has a very limited work history in the diamond business and can work in other fields. The arguments, however, fail.

The Non-Compete Agreement is fatally overbroad, and the geographic scope is unreasonable. Enforcement of the Non-Compete Agreement would prevent Mr. Rosen from working in the diamond wholesale business, which is his chosen profession, anywhere in the United States. In any event, the complaint fails to allege any damages flowing from Mr. Rosen's alleged breach of the Non-Compete Agreement. XL Diamond's conclusory allegation that it is "suffering irreparable harm" is insufficient as a matter of law. Accordingly, the first cause of action for breach of the Non-Compete Agreement is dismissed.

**B. Breach of Confidentiality Agreement (Against Mr. Rosen)**

The elements of a breach of contract cause of action are "the existence of a contract, the plaintiff's performance thereunder, the defendant's breach thereof, and resulting damages" (*Markov v Katt*, 176 AD3d 401, 402-403 [1st Dept 2019]).

Mr. Rosen argues that XL Diamonds fails to allege that Mr. Rosen disclosed any confidential information to EM Diamonds or that it is sustained any damages. XL Diamonds argues that the complaint sufficiently pleads the elements of a claim for breach of the confidentiality agreement as it alleges that Mr. Rosen acquired XL Diamonds' confidential information and then disseminated it to EM Diamonds. XL Diamonds' arguments are unavailing.

XL Diamonds solely makes the conclusory allegation that Mr. Rosen breached the Confidentiality Agreement by disseminating confidential information to EM Diamonds (compl., ¶ 33), but fails to allege in any detail what, if any, information was disclosed to EM Diamonds or that it sustained any damages as a result of Mr. Rosen's breach. Rather, XL Diamonds speculates that "it is highly unlikely that [EM Diamonds] would have wanted Mr. Rosen to return unless he would supply information in breach of the [Non-Compete Agreement] and [Confidentiality Agreement]" and that "damages have occurred, and irreparable harm is transpiring" (Pl. Mem. in Opp. at 5, 10). As the First Department has explained, however, where a plaintiff fails to allege any "damages flowing from the breach alleged and relies, instead, on wholly speculative theories of damages, dismissal of the breach of contract claim is in order" (*Lexington 360 Assoc. v First Union Natl. Bank of N. Carolina*, 234 AD2d 187, 189-190 [1st Dept 1996]). Accordingly, the second cause of action for breach of the Confidentiality Agreement is dismissed without prejudice.

**C. Tortious Interference with Non-Compete Agreement and Confidentiality Agreement (Against EM Diamonds)**

To plead the elements of tortious interference with contract, the plaintiff must allege "the existence of a valid and binding contract between the plaintiff and a third party, defendant's knowledge of that contract, defendant's intentional procurement of the third-party's breach of the contract without justification, actual breach of the contract, and damages resulting therefrom" (*Lama Holding Co. v Smith Barney Inc.*, 88 NY2d 413, 424 [1996]).

EM Diamonds argues that XL Diamonds fails to allege (i) that EM Diamonds had knowledge of the Non-Compete Agreement or the Confidentiality Agreement, or induced Mr. Rosen to breach

them, (ii) a breach of the Non-Compete Agreement or the Confidentiality Agreement, or (iii) damages. In its opposition papers, XL Diamonds argues that the allegations set forth in the complaint support the inference that EM Diamonds tortuously interfered with the Non-Compete Agreement and the Confidentiality Agreement. Again, the argument fails.

XL Diamonds vaguely alleges that it is "suffering irreparable harm to its business" as a result of its proprietary information and trade secrets being "compromised," (compl., ¶ 29), but falls short of identifying any harm that it has incurred as a result of EM Diamonds' alleged conduct. Because damages are an essential element of a claim for tortious interference with contract, the third cause of action is dismissed.

**D. Misappropriation of Trade Secrets (Against Mr. Rosen and EM Diamonds)**

A trade secret is "any formula, pattern, device or compilation or information which is used in one's business, and which gives him [or her] an opportunity to obtain an advantage over competitors who do not know or use it" (*Ashland Mgt. Inc v Janien*, 82 NY2d 395, 407 [1993], quoting Restatement [First] of Torts § 757, comment *b*). To state a cause of action for misappropriation of trade secrets, a plaintiff must allege that: "(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" (*E.J. Brooks Co. v Cambridge Security Seals*, 31 NY3d 441, 452 [internal quotations marks and citation omitted]). In addition, as relevant here, customer lists may be protected as trade secrets where "the customer's patronage was 'secured by years of effort and advertising effecting by the expenditure of substantial time and money'"

(*Landmark Ventures, Inc. v Kreisberg & Maitland, LLP*, 179 AD3d 492, 493 [1st Dept 2020], quoting *Leo Silfen, Inc. v Cream*, 29 NY2d 387, 392 [1972]).

EM Diamonds argues that the cause of action must be dismissed because XL Diamonds fails to allege the existence of any trade secrets or that any trade secrets were disclosed to EM Diamonds. It argues that the complaint merely alludes to the threat of potential disclosure, which is insufficient to support a cause of action for misappropriation of trade secrets. In its opposition papers, XL Diamonds argues that it has sufficiently alleged that its proprietary software, sales and training techniques, vendor information, and customer lists are trade secrets and the allegations support the inference that EM Diamonds and Mr. Rosen acquired the trade secrets by wrongful means and are now using them to their advantage.

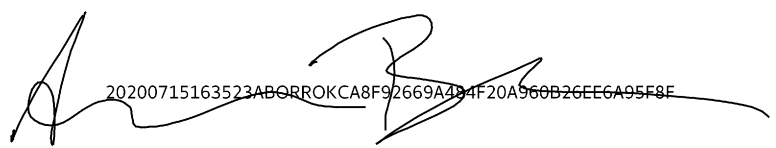
Here, the complaint, as amplified by the papers and read in the light most favorable to XL Diamonds, sufficiently states a cause of action for misappropriation of trade secrets. XL Diamonds sufficiently alleges that it has leveraged the more than three decades of experience and expertise of its members to develop a proprietary system for purchasing, cataloging, and tracking inventory through a unique in-house software program that is not commercially available, as well as proprietary training and sales techniques and customer and vendor lists, which are confidential and closely guarded trade secrets that are not available to the public (compl., ¶¶ 6-14). It also satisfies the second element by alleging that EM Diamonds has used the trade secrets (at a minimum, the customer lists), in violation of the Confidentiality Agreement and as a result of improper means, i.e., through what is essentially corporate espionage. Accordingly, the motion

to dismiss is denied as it relates to the fourth cause of action for misappropriation of trade secrets.

Accordingly, it is

ORDERED that EM Diamonds' motion to dismiss (Mtn. Seq. No. 002) is granted in part to the extent that the third cause of action for tortious interference with contract is dismissed without prejudice, and it is further

ORDERED that Charles Rosen's motion to dismiss (Mtn. Seq. No. 003) is granted in part to the extent that the first cause of action for breach of the Non-Compete Agreement and the second cause of action for breach of the Confidentiality Agreement are dismissed without prejudice.




| 7/15/2020 | | | | | |
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| **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** | |