

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

HON. JOAN A. MADDEN

PRESENT:

J.S.C.  
Justice

PART 11

*Master Motions*

- v -

*Transformation Productions*

INDEX NO.

116870/02

MOTION DATE

MOTION SEQ. NO.

003

MOTION CAL. NO.

The following papers, numbered 1 to \_\_\_\_\_ were read on this-motion to

*Plaintiffs counsel, answered with third-party claims 4 for a preliminary injunction*  
*discovery to serve an amended*

PAPERS NUMBERED

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

Answering Affidavits — Exhibits

Replying Affidavits

Cross-Motion:  Yes  No

Upon the foregoing papers, it is ordered that this motion is decided in accordance with the *attached memorandum Decision + Order.*

**SCANNED**

APR 02 2003

MOTION/CASE IS RESPECTFULLY REFERRED TO  
JUSTICE

Dated:

March 27, 2003

J.S.C.

Check one:

FINAL DISPOSITION

NON-FINAL DISPOSITION

SUPREME COURT OF THE STATE OF NEW YORK  
COUNTY OF NEW YORK : IAS PART 11

-----X

MASTER NOTIONS, INC.,

Index No. 116870/02

Plaintiff,

-against-

TRANSFORMATION PRODUCTIONS, INC.  
and PETER HAAS,

Defendants.

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**Joan A. Madden; J.:**

Defendants Transformation Productions, Inc., ("TPI") and Peter Haas ("Haas") move for an order (i) disqualifying Glenn Greenwald, Esq. ("Greenwald") and Greenwald Christoph, P.C., from representing plaintiff Master Notions, Inc. ("Master Notions") in this action, (ii) granting defendants leave to serve a supplemental answer with counterclaims upon plaintiff and to join Greenwald, Joel Christoph, Esq., Greenwald Christoph, P.C., and Greenwald Christoph & Holland, P.C., as third-party defendants, and (iii) enjoining Master Notions and Greenwald from using defendants' customer list and/or soliciting or selling to the customers listed.'

Background

In May 2002, Haas incorporated TPI, an adult entertainment video production company, and retained Master Notions as a

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'Motion sequence numbers 002 and 003 have been consolidated herein for purposes of disposition. The two motions are substantially identical except that the second motion seeks to join not only Greenwald but also Joel Christoph, Esq., Greenwald Christoph, P.C., and Greenwald Christoph & Holland, P.C., as third-party defendants.

business consultant. Haas, individually and on behalf of TPI, executed a consulting and profit-sharing agreement ("the Agreement") which requires them to pay 50% of TPI's profits in excess of profits earned one year earlier, in consideration for Master Notions' consulting work. The Agreement provides for a minimum three-year term which may be earlier terminated upon written consent signed by both parties. In May and June 2002, defendants paid Master Notions a portion of their profits and then, in July 2002, refused to make any more payments and denied it access to their sales and financial information. That same month, Master Notions commenced this action.

In the complaint, Master Notions alleges that defendants breached the agreement by ceasing to make payments, refusing to reimburse its disbursements on their behalf, and denying it access to their financial information, including bank accounts, sales data and internet accounts, which enable it to determine how much profit defendants had received as the result of its consulting work. Master Notions alleges that it expended hundreds of hours on defendants' behalf, created and implemented many new operational features and marketing strategies for the video business, and advanced movants \$15,000 to implement these innovations. Master Notions further alleges that solely through its efforts TPI's revenues rose from \$3,500 to \$14,000 in the first month.

Following commencement of this action, Master Notions moved for a preliminary injunction enjoining TPI and Haas from converting, transferring, withdrawing or disposing of any funds in any bank account or credit card batching account maintained by them and which were generated by their video business or the sale of videos or DVDs; compelling them to pay Master Notions 50% of their business profits in accordance with the consulting agreement and compelling them to permit Master Notions access to their sales data and bank account information. By decision and order dated August 20, 2002, this court denied the motion primarily on grounds that Master Notions has an adequate remedy at law and can be fully compensated by an award of money damages and failed to establish that defendants intend to convert the funds in order to render any final judgment ineffectual.

Defendants timely filed an answer on August 1, 2002. It subsequently filed an amended answer with counterclaims on August 26, 2002.

Motion to Add Counterclaims and Third-party claims

Defendants now seek to amend their answer to include an additional counterclaim and to assert third-party claims against Greenwald individually, Christoph individually, Greenwald Christoph, P.C., and Greenwald Christoph & Holland, P.C.<sup>2</sup>

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<sup>2</sup>Greenwald Christoph & Holland, P.C. is the predecessor-in-interest to Greenwald Christoph, P.C.

Defendants assert third-party causes of action against Greenwald seeking money damages for breach of the Agreement, tortious interference with defendants' business and prospective business relations, and tortious inducement to enter into the Agreement. Defendants also seek rescission of the Agreement, based on allegations that Greenwald acted as defendants' 'attorney and wrongfully manipulated Haas into submitting to his will, demands and directions and enter into the Agreement and that, at the time of execution, Haas did not comprehend the import of all the provisions or limitations and potential ramifications, including the financial consequences. Defendants further allege that the Agreement is unconscionable because it provides for payment to Master Notions of 50% of their profits.

Defendants also assert claims against Christoph and the law firm for aiding and abetting, and conspiring with, Greenwald by representing defendants, incorporating TPI and obtaining, collecting and maintaining background data regarding defendants' business and personal finances, and for legal malpractice by failing to properly advise defendants and protect defendants' interests in connection with the Agreement.

The motion to join Greenwald as a third-party defendant and to assert various third-party claims against him is granted without opposition, except with respect to the legal malpractice claim asserted against him. The aspect of the motion seeking to

join Christoph, in his individual capacity, and Greenwald Christoph, P.C., and its predecessor, as third-party defendants is denied.

Leave to amend a pleading shall be freely granted, absent a showing of prejudice engendered by the delay in correcting the omission or error. Fahey v Ontario County, 44 NY2d 934 (1978); CPLR 3025(b). However, when the proposed amendment is palpably insufficient as a matter of law or is totally devoid of merit, leave to amend may be denied. Thomas Crimmins Contracting Co. v City of New York, 74 NY2d 166 (1989). In the proposed supplemental answer with counterclaims and third-party claims, defendants have failed to allege facts adequate to establish viable causes of action against Christoph individually or against the law firm for aiding and abetting and conspiring with Greenwald in his allegedly tortious conduct and legal malpractice.

With respect to the allegedly tortious conduct, defendants acknowledge that Greenwald was the only individual with whom Haas dealt with regard to the Agreement and creation of the new video business. The allegations of specific misconduct upon which defendants base their third-party claims and counterclaims concern Greenwald, acting either as individual or on behalf of Master Notions. As neither Christoph nor the law firm committed any independent actions which would provide a basis for a claim,

allegations that they conspired with Greenwald or Master Notions are insufficient to state a cause of action against them. See Alexander & Alexander of New York, Inc. v Fritzen, 68 NY2d 968, 969 (1986) (allegations of conspiracy are permitted only to connect the actions of separate defendants with an otherwise actionable tort).

Moreover, as indicated below in connection with the disqualification motion, defendants have not demonstrated that they had an attorney-client relationship with Greenwald or any other member of the Greenwald, Christoph, P.C. or its predecessor. Thus, defendants' legal malpractice claim is patently without merit, and leave to include the proposed thirteenth counterclaim/third-party claim must be denied.<sup>3</sup> See Volpe v Canfield, 237 AD2d 282 (2d Dept), lv denied 90 NY2d 802 (1997). Accordingly, defendants' request to add Christoph, Greenwald Christoph, P.C. and Greenwald, Christoph & Holland, P.C. as third-party defendants and to assert claims against them, is denied, as is defendants' request to add a third-party claim for legal malpractice against Greenwald.

#### Disqualification Motion

Defendants seek to disqualify Greenwald and Greenwald

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<sup>3</sup>Although labeled a counterclaim, this claim apparently does not apply to Master Notions and, in any event, a legal malpractice claim would not be viable against this defendant which is neither an attorney nor a law firm.

Christoph, P.C., from representing Master Notions in this action on grounds that (i) Greenwald and other firm members and employees obtained and reviewed movants' internal financial information and rendered legal services to defendants in connection with the dispute giving rise to this action, and that (ii) Greenwald will be called to testify at trial and that other members of the law firm are also potential witnesses.

Master Notions asserts that Greenwald has not represented it in this action and does not intend to represent it in this action. Master Notions contends that law firm representing it should not be disqualified even though Greenwald will be called as a witness. Master Notions further contends that the record shows that neither Greenwald nor any of the lawyers at Greenwald Christoph, P.C. had an attorney-client relationship with defendants, or performed any legal services on behalf of defendants which were substantially related to this action. In particular, Master Notions submits evidence that the firm's client list has never included either defendants and that neither Christoph nor an associate at the firm David Elbaum, Esq., was in any manner connected with the Agreement's drafting or execution or had contact with either Master Notions or defendants before the commencement of this action, with the exception that Christoph furnished information to a corporate research company to file incorporation papers for TPI, Haas' new corporation.



"Disqualification of a law firm during litigation implicates not only the ethics of the profession but also the substantive rights of the litigants. Disqualification denies a party's right to representation by the attorney of its choice. . . ." S & S Hotel Ventures Ltd. Partnership v 777 S.H. Corp., 69 NY2d 437, 443 (1987) (citations omitted). Moreover, this court is mindful that disqualification motions "are often used as a litigation tactic 'inflicting hardship on the current client and delay upon the courts by forcing disqualification even though the client's attorney is ignorant of any confidences of the prior client.'" Talvy v American Red Cross in Greater New York, 205 AD2d 143, 148 (1<sup>st</sup> Dept 1994), affd 87 NY2d 826 (1995).

"[A] party seeking to disqualify an attorney or a law firm on the ground of prior representation must establish '(1) the existence of a prior attorney-client relationship and (2) that the former and current representations are both adverse and substantially related.'" Id. (quoting Solow v W.R. Grace & Co., 83 NY2d 303, 308 (1994); see also, DR 5-108. In this case, defendants have not established that they had an attorney-client relationship with Greenwald or any other member of Greenwald Christoph, P.C., a litigation firm consisting of five attorneys. In his affidavit, Haas states that Greenwald and his law firm should be disqualified based on their "prior representation of defendants in the matter concerned herein."

However, a party's "unilateral belief does not confer upon him the status of a client .... [r]ather to establish an attorney-client relationship there must be an explicit undertaking to perform a specific task." Volpe v Canfield, 237 AD2d at 283 (citations omitted).

Here, defendants provide no evidence that Greenwald 'or the law firm undertook to represent them in connection with the Agreement or otherwise. Absent from the record are copies of any legal bills sent to defendants, or any agreement or correspondence indicating any intention by Greenwald or his firm to act as defendants' counsel. Although Haas states that he was not advised 'by any counsel other than Greenwald," he does not describe any legal work performed for him by Greenwald, or any legal advice given. Moreover, while Haas asserts that Greenwald told him that he would need to incorporate his business, and that he should sign the Agreement, Greenwald's statements were made in the context of a negotiation between two businessmen and not between lawyer and client. In fact, Haas states in his affidavit that Greenwald informed him at the time that the Agreement was being negotiated that Master Notions was his "corporation which he formed for the purpose of engaging in business with me."

As there was no attorney-client relationship between defendants and any member of Greenwald Christoph, P.C. or its predecessor, the information provided to the law firm does not

constitute confidential client information. Instead, defendants' bank statements, canceled checks and credit card statements were given to Master Notions in connection with its role as defendants' business consultant. Moreover, the mere transmission of information by Christoph on defendants' behalf as required for TPI's incorporation does not give rise to an attorney-client relationship. In any event, the incorporation of TPI is not substantially related to the dispute in this action. Greene v Luckman, 212 AD2d 479 (1<sup>st</sup> Dept 1995) (disqualification properly denied when prior representation involved "minimal efforts that have no relationship to the [current] action"). Accordingly, the prior representation rule does not provide a basis for disqualifying Master Notions' attorneys.

Defendants also argue that Greenwald and other members of the firm should be disqualified based on the "advocate as witness" rule. Under this rule, "[d]isqualification may be required only when it is likely that the testimony to be given by the witness is necessary. . . . A finding of necessity takes into account such factors as the significance of the matters, weight of the testimony, and availability of other evidence." S & Hotel Ventures Ltd. Partnership v 777 S.H. Corp., 69 NY2d at 445-469 (citations omitted); Talvy v American Red Cross in Greater N.Y., 205 AD2d at 152; see Code of Professional Responsibility, DR 5-102 (a),(b) (22 NYCRR § 1200.21).

Greenwald asserts in his affidavit that he has not represented Master Notions in this action and has no intention to represent it in the future. In any event, Greenwald would be disqualified from representing Master Notions as he will be called as a witness at trial as to central issues in the action, including the validity and enforceability of the Agreement. See Brunette v Gianfelice, 171 AD2d 713 (2d Dept 1991). In contrast, defendants' unsubstantiated assertion that the other members of the firm will also be called as witnesses are insufficient to disqualify the firm. Indeed, as indicated above, defendants acknowledge that Greenwald was the only individual with whom Haas dealt with regard to the Agreement and creation of the new video business.

Moreover, it is well established that "a law firm is permitted to continue representation of a client even though one of the firm's attorneys will be called as a witness on behalf of the client before the tribunal." Owen & Mandolfo, Inc. v Davidoff of Geneva, Inc., 197 AD2d 370 (1<sup>st</sup> Dept 1993) lv denied, 83 NY2d 751 (1994); ICS Yarn Corp v Incomex, Inc., 298 A.D.2d 232 (1<sup>st</sup> Dept 2002) (rejecting defendants' contention that plaintiff's law firm should be disqualified because one or more of its attorneys might be called as witnesses in the litigation); Talvy v American Red Cross in Greater N.Y., 205 AD2d at 152; Kaplan v Maytex Mills, Inc., 187 AD2d 565 (2d Dept 1992) (the 1990 revision of the

Code of Professional Responsibility DR 5-102(A) "now permits a law firm to continue representation of a client even if one attorney in the firm is required to testify"); But see, Price v Price, 289 AD2d 11 (1<sup>st</sup> Dept 2001). Thus, Greenwald and Christoph, P.C. may continue to represent Master Notions, even though Greenwald will be called as a witness.

Furthermore, Greenwald is not barred from representing himself pro se in defense of the third-party claims against him. See Walker & Bailey v We Try Harder, Inc., 123 AD2d 256 (1<sup>st</sup> Dept 1986) (disciplinary rules barring attorney from acting as attorney and witness do not apply when the attorney is a litigant).

#### Motion for a Preliminary Injunction

Defendants seek to enjoin Master Notions, Greenwald and the law firm from using defendants' customer list and from soliciting, or selling to defendants' customers during the pendency of this action on grounds that Master Notions and Greenwald have misappropriated defendants' proprietary information to market their own videos. Master Notions, Greenwald and the law firm counter that defendants supplied them with order forms containing the names and addresses of approximately 1,000 prior customers with the knowledge that the information would be incorporated into Master Notions' own mailing list, that no confidentiality agreement ever existed

between them, and that, in any event, the information supplied is not protectable.

The injunctive relief requested is denied. To demonstrate entitlement to an injunction directing a party to perform a particular act or requiring a party to refrain from certain behavior, the party seeking relief must show a probability of success on the merits, the danger of irreparable injury in the absence of the injunction and that a balancing of the equities lies in its favor. See Grant Co. v Srogi, 52 NY2d 496 (1981); see CPLR 6301. Defendants have not met this burden.

Injunctive relief is not warranted where the moving party fails "to show that its customer lists were of such a nature that they were entitled to trade-secret protection." NCN Co., Inc. v Cavanagh, 215 AD2d 737, 737 (2d Dept 1995). Trade-secret protection will not attach to customer lists where the identities of the customers are readily ascertainable from sources outside the moving party's business. Ashland Mgt. Inc. v Janien, 82 NY2d 395 (1993); Walter Karl, Inc. v Wood, 137 AD2d 22, 28 (2d Dept 1988).

Although defendants allege that Haas spent three years compiling the customer information, they fail to specify the efforts, extraordinary or otherwise, Haas made during that time to compile the list and to maintain and protect its confidentiality Zurich Depository Corp. v Gilenson, 121 AD2d 443

(2d Dept 1986); Geritrex Corp. v Dermarite Indus., LLC, 910 F Supp 955 (SDNY 1996). Instead, it appears that much of the customer information was readily ascertainable through publicly available sources, including the internet and Master Notions' own marketing efforts prior to, and during, its association with defendants.

Moreover, although defendants allege that they revealed their customer list to Master Notions with the expectation that the information was confidential and would remain so, they do not allege the existence of a specific oral or formal written confidentiality agreement. Notably, the Agreement, which does not include a confidentiality provision, provides that its terms constitute the entire agreement between the parties and may be modified only in a writing signed by each side. (see Agreement, ¶¶ 11, 12). Thus, defendants have failed to demonstrate a likelihood of success on the merits.

In addition, as there is no evidence that the information provided to Master Notions by defendants is entitled to confidentiality, defendants cannot show irreparable harm in the absence of injunctive relief. See Neos v Lacey, 291 AD2d 434, 435 (2d Dept 2002). Lastly, as defendants have not shown either likelihood of success on the merits or irreparable harm, the equities do not weigh in favor of granting them injunctive relief.

In view of the above, it is

ORDERED that the motion to disqualify is granted only to the extent that Glenn Greenwald, Esq. is disqualified from representing plaintiff Master Notions, Inc. in the instant action but may represent himself pro se and the disqualification motion is otherwise denied; and it is further

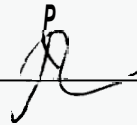
ORDERED that leave to serve a supplemental answer with counterclaims and third-party claims is granted to the extent set forth above and defendants shall serve a supplemental answer with counterclaims and third-party claims consistent with this decision and order within twenty days of its entry; and it is further

ORDERED that Master Notions and Greenwald shall serve answers to the supplemental pleading within fifteen days after service of the pleading; and it is further

ORDERED that the motion for a preliminary injunction is denied; and it is further

ORDERED that a compliance conference shall be held in Part 11, room 351, 60 Centre Street, on May 15, 2003 at 11:00 a.m.

Dated: March 27, 2003



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J.S.C.