

**COURT OF APPEALS
DECISION
DATED AND FILED**

April 12, 2006

Cornelia G. Clark
Clerk of Court of Appeals

NOTICE

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A party may file with the Supreme Court a petition to review an adverse decision by the Court of Appeals. See WIS. STAT. § 808.10 and RULE 809.62.

Appeal No. 2004AP478

Cir. Ct. No. 2001CV2576

STATE OF WISCONSIN

**IN COURT OF APPEALS
DISTRICT II**

LITURGICAL PUBLICATIONS, INC.,

PLAINTIFF-APPELLANT,

V.

**STEVEN P. KARIDES, MICHAEL D. NIGBUR AND
ST. GEORGE PUBLISHING, INC.,**

DEFENDANTS-RESPONDENTS.

APPEAL from a judgment of the circuit court for Waukesha County:
DONALD J. HASSIN, JR., Judge. *Affirmed.*

Before Snyder, P.J., Brown and Nettesheim, JJ.

¶1 PER CURIAM. Liturgical Publications, Inc., has appealed from a judgment dismissing its claims against the respondents, Steven P. Karides, Michael D. Nigbur, and St. George Publishing, Inc. We affirm the judgment.

¶2 Liturgical publishes bulletins and newsletters for churches and synagogues. It generates revenue by selling advertising. Karides and Nigbur were salespeople, or marketing representatives, for Liturgical. As such, they were responsible for soliciting new and renewal contracts with churches.

¶3 Karides resigned from Liturgical on September 7, 2001. Nigbur resigned the following week. They immediately began working for St. George Publishing, Inc., a competing company established by them. They also began soliciting customers, including Liturgical customers. Liturgical sued, alleging nine claims against the defendants, including employee disloyalty, unfair competition, tortious interference with customer contracts, computer theft, conversion and replevin, theft of trade secrets, and conspiracy to misappropriate trade secrets.¹

¶4 In multiple hearings and orders, the trial court granted summary judgment dismissing all of the claims except theft of trade secrets and conspiracy. A jury trial was held on the latter claims. Because the jury returned a special verdict finding that Karides and Nigbur did not misappropriate any trade secrets of Liturgical, both claims were dismissed. Liturgical appealed.

¶5 Liturgical contends that the trial court erred when it granted summary judgment dismissing its claims of employee disloyalty, unfair competition, and tortious interference with customer contracts. This court reviews

¹ Liturgical also alleged tortious interference with an employment agreement by St. George, alleging that St. George interfered with Liturgical's employment agreement with Karides. In addition, it alleged that Karides breached his employment agreement with Liturgical. The latter claim was based on allegations that Karides breached the confidentiality and noncompete provisions of the employment agreement signed by him. Liturgical has not challenged the dismissal of these claims on appeal.

a trial court's decision granting summary judgment de novo, applying the same methodology as the trial court. *Modern Materials, Inc. v. Advanced Tooling Specialists, Inc.*, 206 Wis. 2d 435, 442, 557 N.W.2d 835 (Ct. App. 1996). This methodology, as set forth in WIS. STAT. § 802.08(2) (2003-04),² need not be repeated here. *Modern Materials*, 206 Wis. 2d at 442. Summary judgment is warranted when there is no genuine issue of material fact and the moving party is entitled to judgment as a matter of law. *M&I First Nat'l Bank v. Episcopal Homes Mgmt., Inc.*, 195 Wis. 2d 485, 497, 536 N.W.2d 175 (Ct. App. 1995).

¶6 Applying the summary judgment methodology, we conclude that the trial court properly dismissed Liturgical's claim for employee disloyalty. The gist of Liturgical's argument is that, during their final months of employment with Liturgical, Karides and Nigbur withheld performance of their duties for Liturgical in order to create an inventory of customers for the competing company they were planning to start. Liturgical contends that Karides and Nigbur failed to pursue contract renewals and prospects so that those customers would be available for St. George to solicit. It contends that by doing so, they breached their duty to refrain from acting against Liturgical's interests and to serve Liturgical with only Liturgical's purposes in mind. Liturgical contends that as a result of their disloyalty, twenty of the twenty-four contracts signed by St. George between September 11, 2001, and the end of 2001 were customers of Liturgical whose contracts were due for renewal, or prospects that Liturgical had assigned to Karides or Nigbur.

² All references to the Wisconsin Statutes are to the 2003-04 version.

¶7 Based upon *Modern Materials*, we conclude that the trial court properly dismissed this claim. As set forth in that case, a corporate officer or director has a fiduciary duty of loyalty, good faith and fair dealing in conducting corporate business. *Modern Materials*, 206 Wis. 2d at 442. “An officer or director is precluded from exploiting his or her position for personal gain when the benefit or gain properly belongs to the corporation.” *Id.* Certain managerial employees within an organization may also be bound by a fiduciary duty. *Id.* at 446.

¶8 In determining whether an individual has a fiduciary duty of loyalty, the first question is whether the individual is a corporate officer. *Id.* at 443. Facts a court may consider are: (1) the individual’s managerial duties, (2) whether the individual’s position is one of authority, and (3) whether the individual possesses superior knowledge and influence over another and is in a position of trust. *Id.* When, as here, the employees charged with breaching a duty of loyalty were not corporate officers, the inquiry shifts to whether they were vested with policy-making authority or had the ability to make decisions that were binding on the company. *Id.* at 444.

¶9 Nothing in the record gives rise to a material issue of fact supporting a claim that Karides and Nigbur had a duty of loyalty under these standards. They were salespeople and marketing representatives. They had no ownership interest in Liturgical and did not hold positions of officer, director or manager. Most importantly, nothing in the summary judgment record indicates that they had policy-making authority or the ability to make decisions binding the company. Instead, they were sales representatives reporting to a regional sales manager who

was their supervisor and had to approve contracts they negotiated with customers.³ As such, they could not be held liable for breaching a fiduciary duty of loyalty.⁴

¶10 Absent a fiduciary duty of loyalty or a valid noncompete agreement, an employee agent may engage in competition with his or her employer after the employment relationship terminates. *See id.* at 447. The employee may also plan and develop a competitive enterprise during the course of his or her agency, provided the particular activity engaged in is not against the best interests of the employer, as when an employee engages in a competing enterprise while employed or appropriates trade secrets to facilitate a competing business. *See id.*

¶11 As determined by the trial court, nothing in the summary judgment record supported a finding that Karides or Nigbur directly competed with Liturgical while employed there or profited from any competitive venture during

³ In its reply brief, Liturgical contends that Karides and Nigbur had authority to sign contracts, citing to an affidavit of Michelle Smith, a Liturgical employee. Smith attested that the publishing service agreements were revised in 1999 and that the provision that an agreement would become binding only upon acceptance by Liturgical management was eliminated. However, Smith's affidavit was dated October 16, 2003. Summary judgment dismissing the cause of action for employee disloyalty was granted at a hearing held on December 4, 2002. The Smith affidavit was therefore not part of the original summary judgment record before the trial court. The record before the court included affidavits from Karides and Nigbur attesting that their manager, Frank Horning, could and did approve and reject contracts they negotiated with churches. Horning's August 19, 2002 affidavit also indicated that Karides and Nigbur prepared contracts and gave them to him for approval.

⁴ Liturgical appears to argue that *Modern Materials, Inc. v. Advanced Tooling Specialists, Inc.*, 206 Wis. 2d 435, 557 N.W.2d 835 (Ct. App. 1996), was wrongly decided. However, we are bound by prior published decisions of this court and may not overrule, modify, or withdraw language from them. *Cook v. Cook*, 208 Wis. 2d 166, 189-90, 560 N.W.2d 246 (1997).

their employment with Liturgical.⁵ While they may have created St. George, engaged in planning or preparation activities related to it, and leased space for the new business, standing alone these activities do not give rise to a cause of action against them. *Cf. id.* at 441 (while employed as a plant manager, the defendant took part in discussions exploring the possibility of creating a competing company, retained an accountant to put together a business plan, and attempted to secure financing).

¶12 The trial court also properly dismissed Liturgical's claim of unfair competition. Liturgical contends that Karides and Nigbur engaged in unfair competition by failing to perform their duties, coordinating their departure from Liturgical, taking computer data, and taking confidential information.

¶13 Liturgical's claim that Karides and Nigbur engaged in unfair competition by taking computer data fails because, as discussed below, it failed to present evidence establishing that computer data was actually taken by them. The claim that Karides and Nigbur engaged in unfair competition by taking confidential information similarly fails.

¶14 Liturgical concedes that any claim of unfair competition premised on allegations that Karides and Nigbur misappropriated trade secret information is pre-empted by trade secret law and that the jury found that Karides and Nigbur did not misappropriate any trade secrets. However, in its brief-in-chief, Liturgical contended that a claim of unfair competition could be based on the

⁵ In its brief, Liturgical also cites to trial testimony to support its argument that summary judgment was erroneously granted. Because trial testimony was not part of the summary judgment record, it will not be considered in determining whether summary judgment was properly granted.

misappropriation or disclosure of confidential information which does not rise to the level of a trade secret.

¶15 As acknowledged by Liturgical in a statement of supplemental authority filed after briefing, this court has rejected its argument, holding that in the absence of a contract, a common-law claim based on the unauthorized use of confidential information that does not rise to the level of a trade secret is pre-empted by WIS. STAT. § 134.90(6), regardless of how the common-law claim is denominated. See *Burbank Grease Servs., LLC v. Sokolowski*, 2005 WI App 28, ¶37, 278 Wis. 2d 698, 693 N.W.2d 89, review granted, 2005 WI 134, 282 Wis. 2d 719, 700 N.W.2d 271 (No. 2004AP468). If the confidential information does not constitute a trade secret under § 134.90, common-law claims based on its misappropriation are pre-empted unless based on a contract remedy. *Aon Risk Serv., Inc. v. Liebenstein*, 2006 WI App 4, ¶10, ___ Wis. 2d ___, 710 N.W.2d 175; *Burbank Grease*, 278 Wis. 2d 698, ¶37. Thus, a tort claim of unfair competition based on allegations of misappropriation of confidential information must fail.

¶16 Liturgical contends that it has also based its claim of unfair competition upon allegations that Karides and Nigbur coordinated their resignations and withheld performance of their sales duties in order to create an inventory of businesses they could solicit immediately after their resignations. However, nothing in Wisconsin law provides a basis for concluding that nonperformance or reduced performance by an employee gives rise to a claim of unfair competition. Unfair competition proscribes, but is not limited to, activities like trademark infringement, bait-and-switch tactics, false representation, and false advertising. See *Fireman's Fund Ins. Co. of Wis. v. Bradley Corp.*, 2002 WI App 179, ¶22, 256 Wis. 2d 643, 649 N.W.2d 685, rev'd on other grounds, 2003 WI 33, 261 Wis. 2d 4, 660 N.W.2d 666. No basis exists to expand it to include an

employee's failure to fully perform for his employer before resignation, particularly where, as here, the employee had no fiduciary duty of loyalty to Liturgical.

¶17 The trial court also dismissed Liturgical's claim for tortious interference with customer contracts. Tortious interference with a contract occurs when: (1) the plaintiff had a contract or prospective contractual relationship with a third party, (2) the defendant interfered with the relationship, (3) the interference was intentional, (4) a causal connection exists between the interference and the damages, and (5) the defendant was not justified or privileged to interfere. *Dorr v. Sacred Heart Hosp.*, 228 Wis. 2d 425, 456, 597 N.W.2d 462 (Ct. App. 1999).

¶18 In support of this claim, Liturgical repeats its contention that Karides and Nigbur withheld performance during their final months of employment in order to create an inventory of customers to solicit for their new company. It contends that Karides and Nigbur failed to renew existing contracts that were coming due for renewal and failed to sign identifiable prospects to contracts, thus interfering with Liturgical's contracts and prospective contracts with third parties. It also complains that they disparaged Liturgical after their resignations by telling customers that Liturgical charged exorbitantly high rates.

¶19 The trial court correctly concluded that nothing in the summary judgment record supported a finding that, prior to their resignations, Karides or Nigbur induced or attempted to induce any customer of Liturgical to breach its contract with Liturgical or to refuse to renew a contract. Nothing in the summary judgment record supports a claim that Karides and Nigbur engaged in any kind of unlawful conduct or actively interfered with Liturgical's existing or prospective contractual relationships. Failing to diligently or vigorously pursue contracts or

contract renewals, without more, does not constitute tortious interference with a contract. Similarly, after Karides and Nigbur resigned from Liturgical, there was nothing unjustified about telling a prospective customer that St. George would charge a better rate than Liturgical. Dismissal of the tortious interference claim was therefore warranted.

¶20 As stated above, we also uphold the trial court's decision to grant summary judgment dismissing Liturgical's claim for conversion and replevin. In this claim, Liturgical alleged that Karides and Nigbur converted customer information and computer programs in the form of paper reports, disks, computer programs, and data. The trial court dismissed the claim on summary judgment on the ground that Liturgical had failed to demonstrate facts showing an unlawful taking or an unlawful refusal to surrender following demand.

¶21 Conversion is the wrongful exercise of dominion or control over a chattel. *Production Credit Ass'n of Madison v. Nowatzki*, 90 Wis. 2d 344, 353-54, 280 N.W.2d 118 (1979). It may result from wrongful taking or the wrongful refusal to surrender property that was originally obtained lawfully. *Id.* at 354. Where there is no wrongful taking and the defendant rightfully comes into possession of property, a demand by the rightful owner and a refusal by the alleged tortfeasor are necessary elements of the claim. *Id.*

¶22 The summary judgment record indicated that Nigbur took floppy disks when he left Liturgical but subsequently returned them when requested. The only other evidence of property taken by the defendants was contained in affidavits of Karides and Nigbur. Karides' affidavit indicated that when he left Liturgical, he retained several diocesan directories and sales commission statements that he used to calculate his commissions. Nigbur's affidavit indicated

that he also retained documents given to him by Liturgical for purposes of calculating his commissions.

¶23 Nothing in the summary judgment record indicated that these materials were unlawfully taken or that Liturgical demanded their return and was refused. The trial court therefore correctly dismissed the conversion claim.

¶24 We also uphold the trial court's summary judgment dismissal of the computer theft claim. In its complaint, Liturgical alleged that Karides and Nigbur accessed, took possession of, and copied data, computer programs and supporting documentation of Liturgical in violation of WIS. STAT. § 943.70(2)(a)3-5. The trial court granted summary judgment on the ground that Liturgical presented no facts to support its claim that any computer data was taken, even after being given an extended opportunity to do so. The record supports the trial court's conclusion.⁶

¶25 In conjunction with arguing that the trial court erred in dismissing its claim for computer theft, Liturgical contends that the trial court erroneously exercised its discretion by denying its motion to compel discovery on this issue. A motion to compel discovery is addressed to the discretion of the trial court. *Franzen v. Children's Hosp. of Wis.*, 169 Wis. 2d 366, 376, 485 N.W.2d 603 (Ct. App. 1992). A trial court's discretionary decision will be upheld on review when the trial court applies the relevant law to facts of record using a process of logical reasoning. *Id.*

⁶ Because Liturgical failed to present evidence in opposition to the defendants' motion for summary judgment sufficient to permit the inference that computer data was taken by the defendants, we need not address whether money damages are an available remedy under WIS. STAT. § 943.70.

¶26 The trial court conducted four hearings at which Liturgical's request for computer discovery was considered. Six days after the filing of the summons and complaint, it denied Liturgical's motion for discovery and forensic inspection of the business and personal computers of Karides, Nigbur, and St. George on the ground that no basis had been shown for concluding that information relevant to this case was on those computers. However, on December 4, 2001, it entered an order prohibiting any party from destroying or deleting any data or programs on their personal or business computers.

¶27 A lengthy hearing was held in the trial court on January 10, 2002, on Liturgical's motion to compel discovery of the computers. At the conclusion of the hearing, the trial court ordered the making of mirror images of the personal and business computers of Karides, Nigbur and St. George. It also ordered that a referee would be appointed to supervise the making of the mirror images and inspection. In response to testimony from Liturgical's expert as to how an inspection could be performed, the trial court ordered that the inspection of the mirror images would be limited to a hash value search, comparing hash values of materials on the defendants' computers to hash values on the Liturgical computers.⁷

¶28 Subsequently, the mirror images were made, and Liturgical submitted a list of approximately 400 hash values, representing a variety of Liturgical documents, letters, contracts and other records. Following an inspection on March 4, 2002, by Liturgical's computer expert, no hash value matches were found.

⁷ Hash values are defined by the parties as alphanumeric identifiers of files.

¶29 When the hash value search did not result in any matches, Liturgical moved the trial court to compel the defendants to submit to a second inspection of the mirror images with defined search parameters, including a search for specified words, evidence of reformatting, evidence of wiping or deleting files, folders or utilities, and evidence of other computer activity between July and October 2001. The trial court denied the motion after an additional hearing.

¶30 Liturgical argues on appeal that it was clear from the testimony of its expert at the January 10, 2002 hearing that a hash value search might not result in matches, but this would not mean that data had not been transferred from Liturgical computers to the computers of Karides, Nigbur, or St. George. Liturgical contends that when no matches showed up in the hash value search, it was entitled to pursue an additional search, which would reveal material that had been accessed or copied but had been altered in some way so that its hash value no longer matched the hash value of Liturgical.

¶31 We conclude that the trial court acted within the scope of its discretion in denying this additional request, which essentially amounted to a fishing expedition. It is clear from the trial court's discussion that it understood Liturgical's arguments. However, it concluded that compelling further discovery would be unreasonable, noting that a search involving great detail and specificity had already been allowed and yielded nothing. Although it stated that it might have allowed some additional discovery if the previous search had yielded information of some relevance to the action, it concluded that in the absence of any meaningful yield from the discovery that had occurred, further discovery would be unreasonable.

¶32 No basis exists to disturb the trial court's decision. As argued by the defendants, the discovery was expensive, resulting in attorneys' fees, computer expert fees, and referee fees. It was also burdensome in terms of time. Balancing these burdens against speculation that relevant evidence would be found after intensive discovery had already yielded no results, the trial court reasonably denied the motion.

¶33 Liturgical next argues that the trial court erred by prohibiting evidence informing the jury that the trial court had refused to allow an additional computer search. However, a trial court's ruling on a discovery motion is not evidence. Evidence is defined in WIS JI—CIVIL 50 (2004). This same instruction indicates that a trial court's rulings on objections are not matters to be considered by the jury. The trial court therefore acted correctly in refusing to permit Liturgical to inform the jury that the trial court had denied its request to conduct additional discovery.

¶34 Liturgical also contends that defense counsel's cross-examination of Liturgical's computer expert and counsel's closing argument falsely implied that Liturgical had been permitted to conduct every search it wanted to and came up with no evidence of copying. However, the record indicates that Liturgical introduced the topic of the hash value inspection during direct examination of its computer expert, eliciting testimony regarding the effect of changes in a document on a hash value search and the fact that no matches resulted from the search. On cross-examination of this witness, defense counsel then elicited testimony that the list of 400 documents to be searched had been created by the witness and Liturgical's counsel and that there had been no constraint as to the number of documents to be included in the hash value search. Similarly, in closing argument,

defense counsel pointed out that Liturgical had free rein to make the list that included the 400 documents.

¶35 Both the cross-examination and the closing argument referred to the number of documents requested by Liturgical to be included in the hash value search. Counsel did not indicate that the computer search was free of all limitations. Consequently, no basis exists to conclude that the questioning or argument were improper.⁸

¶36 Liturgical's final argument is that the trial court erroneously exercised its discretion by excluding evidence of a confidentiality provision in the employment agreement used by Liturgical. The trial court prohibited evidence regarding the confidentiality provision after determining that the noncompete provisions of the agreement were invalid, rendering the employment agreement unenforceable.⁹

¶37 All parties agree that evidence of Liturgical's confidentiality policy was relevant to the trade secret claim that went to trial. However, even assuming arguendo that the trial court erred in excluding evidence regarding the confidentiality provision when it determined that the employment agreement was unenforceable, the error was harmless. Liturgical's confidentiality policy was also set forth in its employee handbook. That handbook was admitted at trial, as were

⁸ Within the context of this argument, Liturgical also objects that the trial court prohibited it from presenting evidence that evidence had been lost due to delay in conducting the computer search. However, Liturgical develops no argument related to this contention, and we will address it no further.

⁹ The trial court's ruling that the noncompete agreement was invalid and unenforceable is not challenged on appeal.

copies of the employee acknowledgements signed by Karides and Nigbur acknowledging their receipt of the handbook. In addition, two Liturgical managerial employees testified that the handbook contained a policy about maintaining the confidentiality of information.

¶38 If an error is harmless, no basis for reversal exists. *See* WIS. STAT. § 805.18. In this case, the trial court's ruling had no effect on the presentation of Liturgical's claim that it took steps to protect its purported trade secrets. The evidence presented to the jury indicated that Liturgical imposed a confidentiality policy on its employees through its employee handbook

By the Court.—Judgment affirmed.

This opinion will not be published. *See* WIS. STAT. RULE 809.23(1)(b)5.

