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

PRESENT: HON. RICHARD B. LOWE, III Justice

PART 56

Art Capital Group

v

Andrew C Rose

INDEX NO. 601364/05

MOTION DATE 4/28/06

MOTION SEQ. NO. 001

MOTION CAL. NO.

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

	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

FILED
SEP 15 2005
COUNTY CLERK'S OFFICE
NEW YORK

MOTION IS DECIDED IN ACCORDANCE WITH ACCOMPANYING MEMORANDUM DECISION

MOTION/CASE IS RESPECTFULLY REFERRED TO JUSTICE

Dated: 9/8/05

HON. RICHARD B. LOWE, III J.S.C.

Check one: ☒ FINAL DISPOSITION ☒ NON-FINAL DISPOSITION

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK: IAS PART 56

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ART CAPITAL GROUP, LLC, ACG CREDIT COMPANY, LLC, ART CAPITAL GROUP, INC. and FIND ART FINANCE, LLC,

Plaintiffs,

-against-

ANDREW C. ROSE, LONG VALLEY FARM, ANDREW ROSE FINE ART, ART CAPITAL HOLDINGS, INC., ART FINANCE PARTNERS, LLC, and ART FINANCE INTERNATIONAL, LLC

Defendants.

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Index No. 601389/05

RICHARD B. LOWE,III, J.:

In this action, plaintiffs seek recovery for misappropriation of business contacts and opportunities in violation of an alleged oral non-compete, non-solicitation and confidentiality agreement. The complaint asserts nineteen causes of action, including breach of contract, specific performance, accounting, permanent injunction, and various tort claims.

Plaintiffs now move, by order to show cause, for a preliminary injunction preventing defendants from using the names "Art Capital Group," "Fine Art Finance," "Art Capital Holdings," "Art Finance Partners," "Art Finance International," or other names or designations which plaintiffs claim are confusingly similar to plaintiffs' names; making misleading statements concerning any affiliation with plaintiffs, and from using the e-mail addresses "artcapitalgroup@yahoo.com" or "artcapitalgroup@hotmail.com."; and engaging in the purchase or sale of artwork, lending money secured by artwork, interfering with plaintiffs' clients and business relationships through December 28, 2005, and making defamatory remarks about

plaintiffs. Plaintiffs also seek an order of attachment of defendants' property up to $5 million, and an order directing an accounting and the return of files allegedly misappropriated by plaintiffs.

On April 19, 2005, the court issued a temporary restraining order, preventing defendants from using certain names and the e-mail addresses; from making misleading statements concerning affiliations with plaintiffs; interfering with plaintiffs' clients; making defamatory remarks about plaintiffs; and using plaintiffs' files or documentation.

Factual Allegations

Plaintiff ACG Credit Company, LLC (ACG Credit) offers financing services to art owners seeking to use art assets as loan collateral. Plaintiff Art Capital Group, Inc. (Art Capital) buys and sells art, and develops ACG Credit's lending business. Plaintiff Fine Art Finance, LLC (Art Finance) oversees sales, marketing and liquidation of collateral pledged to ACG Credit, and also develops ACG Credit's lending business. Plaintiff Art Capital Group, LLC is a holding company for Art Capital and ACG Credit, and Art Finance is a subsidiary of ACG Credit. Ian Peck (Peck) is the president and chief executive officer of each plaintiff entity.

Defendant Andrew Rose (Rose) specializes in finance and art. ACG Credit and Art Capital commenced discussions with Rose in connection with their development of lending and gallery business. The complaint alleges that, in April 2003, an oral agreement was reached, whereby Rose agreed to develop Art Capital's banking relations, private art acquisitions and sales, and to strengthen ACG Credit's loan portfolio (Agreement). The complaint avers that Rose was to "consult exclusively for Art Capital and ACG Credit," and that "he was to devote all his efforts to such companies." Complaint, ¶ 29. Under the Agreement, Rose was allegedly to

receive an annual salary, commissions from Art Capital's gallery sales originated and closed by Rose, insurance benefits, an annual bonus, and the future right to purchase an equity stake in ACG Credit.

In October 2003, Rose's status was changed from employee to full-time consultant, whereby Rose claims that he was to perform through his company, defendant Long Valley Farm. According to the complaint, the Agreement remained in force, but additional terms were added, including Rose's agreement not to engage in any business activities for his own, or his companies', account, relating to the art and asset-based financing markets; and, for one year after the termination of the Agreement, not to manage, operate, or join any business involved in the purchase or sale of artwork or related advisory services, or lend money secured by artwork. *Id.*, ¶ 20. Rose also allegedly agreed not to solicit clients, or potential clients, of Art Capital and ACG Credit for one year after the termination of the Agreement. *Id.*, ¶ 21.

Plaintiffs and Rose do not dispute that, during the course of their relationship, they spent time negotiating the terms of a written consulting agreement, drafts of which contained a non-compete clause. However, no written agreement was ever executed by the parties.

According to the complaint, in May 2004, Rose requested a $105,000 commission from the financing and sale of a sculpture through ACG Credit. ACG Credit disputes that Rose was entitled to the commission, but allegedly agreed to pay the commission if Rose signed a proposed consulting agreement. Plaintiffs claim that Rose agreed to sign the agreement, received the commission, then refused to sign the agreement and refused to refund the commission. Plaintiffs claim that, at this point, the parties' relationship began to deteriorate, largely due to Rose's failure to devote substantially all of his time to Art Capital and ACG Credit.

The complaint maintains that, in violation of the Agreement, Rose conducted business for himself or on behalf of his companies, defendants Long Valley Farm, Andrew Rose Fine Art, Art Capital Holdings, Inc., Art Finance Partners, LLC, and Art Finance International, LLC. Specifically, Rose allegedly entered into transactions without disclosing them to Art Capital and ACG Credit. Plaintiffs also claim that Rose converted a painting that he owned jointly with Art Capital, and another painting that was pledged to ACG Credit as collateral for a loan. The complaint avers that Rose purchased art at Christie's and Sotheby's on behalf of undisclosed third parties, on ACG Credit's account, without its knowledge or consent. Rose's conduct allegedly deprived ACG Credit and Art Capital of fees, and violated the non-compete terms of the Agreement. Art Capital and ACG Credit terminated the Agreement on December 28, 2004.

Thereafter, Rose allegedly warned his replacement, Baird Ryan (Ryan), that Art Capital does not honor its oral agreements, and that Art Capital and ACG Credit owed Rose money. Rose also allegedly e-mailed one of ACG Credit's lenders, Bank of America, informing it that ACG Credit was no longer in business, which Rose also allegedly told a prospective client of ACG Credit. Plaintiffs claim that Rose copied Art Capital and ACG Credit's customer lists, and contacted those clients to solicit business, in violation of the non-compete and non-solicitation terms of the Agreement. Upon Rose's termination, plaintiffs claim that they recovered e-mails from their server to examine Rose's correspondence, and discovered that Rose secretly competed with plaintiffs through his companies while engaged as an "exclusive consultant." *Id.*, ¶ 42 (a). Also after his termination, Rose allegedly continued to trade on plaintiffs' goodwill, established e-mail accounts using plaintiffs' names, solicited plaintiffs' business accounts, and e-mailed himself plaintiffs' loan files.

Rose's affidavit states that he is entitled to compete with plaintiffs, because the parties never entered into a non-compete or confidentiality agreement. Rose also states that, while employed by plaintiffs, plaintiffs knew that he continued to buy and sell artwork for himself and his friends. Rose claims that he often stored artwork at plaintiffs' gallery. According to Rose, plaintiffs are still in possession of Rose's paintings, valued at over $400,000, refuse to return the paintings, and continue to trade off of his paintings by posting images of his paintings on their website without Rose's permission.

Discussion

Preliminary Injunction

Entitlement to a preliminary injunction requires a showing of (1) the likelihood of success on the merits, (2) irreparable injury absent the granting of preliminary injunctive relief, and (3) a balancing of the equities in the movant's favor. *Doe v Axelrod*, 73 NY2d 748, 750 (1988); *Sterling Fifth Associates v Carpentile Corp., Inc.*, 5 AD3d 328, 329 (1st Dept 2004). Disputed issues of fact may not, standing alone, be a sufficient basis for denying a preliminary injunction motion, and the court may order a hearing to resolve key factual issues. CPLR 6312 (c).

Misappropriation of Trade Secrets

To succeed on its claim for misappropriation of trade secrets, plaintiffs must prove that they "possessed a trade secret," and that defendants are "using that trade secret in breach of an agreement, confidence, or duty, or as a result of discovery by improper means." *Integrated Cash Mgt. Serv., Inc. v Digital Transactions, Inc.*, 920 F2d 171, 173 (2d Cir 1990) (citation and internal quotation marks omitted). A trade secret is "'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 Mgt. Inc. v Janien*, 82 NY2d 395, 407 (1993), *citing* Restatement of Torts, section 757, comment b.

The following factors are considered in deciding a trade secret claim:

> (1) the extent to which the information is known outside of [the] business; (2) the extent to which it is known by employees and others involved in [the] business; (3) the extent of measures taken by [the business] to guard the secrecy of the information; (4) the value of the information to [the business] and [its] competitors; (5) the amount of effort or money expended by [the business] in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.

Id.

Secrecy is an essential element of the claim, and

> is used in the Restatement in two related senses: (1) as substantial exclusivity of knowledge of the formula, process, device or compilation of information ("Matters of public knowledge or of general knowledge in an industry cannot be appropriated by one as his secret"); and (2) as the employment of precautionary measures to preserve such exclusive knowledge by limiting legitimate access by others ("Nevertheless, a substantial element of secrecy must exist, so that, except by the use of improper means, there would be difficulty in acquiring the information").

Delta Filter Corp. v Morin, 108 AD2d 991, 992 (3d Dept 1985) (internal citations omitted).

"Generally, where the customers are readily ascertainable outside the employer's business as prospective users or consumers of the employer's services or products, trade secret protection will not attach and courts will not enjoin the employee from soliciting his employer's customers." *Leo Silfen, Inc. v Cream*, 29 NY2d 387, 392 (1972). Conversely, where the customers are not known in the trade or are discoverable only by extraordinary efforts courts have not hesitated to protect customer lists and files as trade secrets." *Id.* at 392-93.

Plaintiffs submit Peck's affidavit, which states that Rose misappropriated confidential

client lists, business plans and loan documents. However, defendants submit public documents from the New York Department of State's website, showing the names and addresses of ACG Credit's debtor-clients, which link to UCC Financing Statements with exhibits identifying the collateralized artwork.

Defendants also submit the affidavits of Rose and Christopher Krecke (Krecke), Art Capital's chief financial officer from 2003 through early 2005, who now works with Rose.[1] Rose and Krecke's affidavits both state that ACG Credit kept its files in open bookcases, with client names clearly labeled on their covers, accessible to third parties. The affidavits also state that ACG Credit displayed its clients' artwork in its gallery and publicity material. According to Rose and Krecke, the art community is small and closely knit, and the owners of paintings are often known. Rose and Krecke also maintain that ACG Credit's transactions employ common, asset-based structuring techniques, techniques that are not confidential, complex or unique. They also state that none of ACG Credit's employees executed confidentiality agreements.

For the foregoing reasons, defendants have shown that the information is accessible, and could be easily acquired, by the public; that the information was available to employees and others involved in the business; and that plaintiffs did not guard the secrecy of the information. Defendants have shown a lack of substantial exclusivity, and a failure to employ precautionary measures to preserve exclusive knowledge by limiting legitimate access by others. Thus, defendants have rebutted plaintiffs' allegations that plaintiffs possessed confidential, or secret,

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[1] Plaintiffs' sur-reply requests that the court not consider Krecke's affidavit, because it was not submitted in opposition to the motion. However, to the extent relied upon by the court, Krecke's affidavit merely reiterates the information already contained in Rose's sur-reply. Therefore, plaintiffs' request is denied.

information. Plaintiffs fail to refute defendants' showing, and, therefore, fail to show that they are likely to succeed on their claim for misappropriation of trade secrets.

Trademark Infringement

"To establish a trademark infringement claim under either Section 32 or 43 (a) of the Act, 15 U.S.C. §§ 1114(1), 1125(a), a plaintiff must show that (1) it has a valid mark entitled to protection and (2) the defendant's use of the mark is likely to cause confusion." *GTFM, Inc. v Solid Clothing, Inc.*, 215 F Supp 2d 273, 293 (SD NY 2002).

A mark is valid and entitled to protection if it is "capable of distinguishing the products it marks from those of others." *Id.* (internal citations and quotation marks omitted). The distinctiveness element is satisfied when the mark is "inherently distinctive," or has acquired distinctiveness through "secondary meaning." *Id.* "[A] mark is inherently distinctive if its intrinsic nature serves to identify a particular source." *Id.* "[W]ord marks that are 'arbitrary' ('Camel' cigarettes), 'fanciful' ('Kodak' film), or 'suggestive' ('Tide' laundry detergent) are held to be inherently distinctive." *Id.* "Inherently distinctive marks almost automatically tell a customer that they refer to a brand, and immediately signal a brand or a product source." *Id.*

"A mark is descriptive if it describes the product's features, qualities, or ingredients in ordinary language or describes the use to which the product is put." *Malletier v Dooney & Bourke, Inc.*, 340 F Supp 2d 415, 429-430 (SD NY 2004). "Descriptive" trademarks "require a showing of secondary meaning to be entitled to protection." *GTFM, Inc.*, 215 F Supp 2d at 294. Secondary meaning "occurs when, in the minds of the public, the primary significance of a mark is to identify the source of the product rather than the product itself." *Id.* at 293.

Generic marks, on the other hand, are never entitled to protection. *Bristol-Myers Squibb*

Co. v McNeil-P.P.C., Inc., 973 F2d 1033, 1039 (2d Cir 1992). "A mark is generic if it is a common description of products and refers to the genus of which the particular product is a species." *Malletier*, 340 F Supp 2d at 429.

Plaintiffs claim that their trade names, "Art Capital Group," "Art Capital" and "Art Finance" are protected under federal and New York law. Plaintiffs argue that the names "Art Capital" and "Art Finance" are inherently distinctive, or have acquired distinctiveness through secondary meaning. However, plaintiffs fail to explain how its marks are inherently distinctive, or have acquired secondary meaning. Instead, plaintiffs merely conclude that the marks are entitled to the highest class of trademark protection. Therefore, plaintiffs' argument is conclusory, and unpersuasive.

In any event, the marks themselves belie plaintiffs' argument. The marks are likely generic, or, at best, descriptive of the nature of plaintiffs' business: using artwork to secure financing. Even assuming for the moment that the marks are descriptive, plaintiffs make no showing that their marks have acquired secondary meaning. Thus, plaintiffs fail to show that their marks are entitled to trademark protection. Accordingly, plaintiffs fail to show a likelihood of success on their trademark infringement claim under federal law.

Plaintiffs fail to make any showing in support of their assertion that their marks are protected under New York law. Therefore, plaintiffs fail to show a likelihood of success on an infringement claim under New York law.

Trademark Dilution

Under the Federal Trademark Dilution Act, "[t]he owner of a famous mark shall be entitled ... to an injunction against another person's commercial use ... of a mark or trade name, if

such use begins after the mark has become famous and causes dilution of the distinctive quality of the mark ... ." *Malletier*, 340 F Supp 2d at 435 n 94, *citing* 15 USC 1125 (c) (1). To prevail on a dilution claim, the mark's owner must show that: "(1) the senior mark [is] famous; [and] (2) distinctive; (3) the junior use [is] a commercial use in commerce; (4) it [ ] begin[s] after the senior mark has become famous; and (5)[ ] cause[s] dilution of the distinctive quality of the senior mark." *Id.* at 435. However,

> the standard for fame and distinctiveness required to obtain anti-dilution protection is more rigorous than that required to seek infringement protection. It is not enough for a trademark holder to show that the mark has acquired secondary meaning. Rather, the plaintiff must demonstrate that the mark is inherently distinctive to prevail under the FTDA.

Id.

New York's anti-dilution statute, Section 360-1 of the General Business Law, provides broader protection than federal trademark and unfair competition laws. "Courts have held that "the necessary elements for a dilution or injury to business reputation claim are [(1)] the possession of a distinctive trademark and [(2)] likelihood of dilution." *Id.* at 436. Dilution claims brought under New York law differ from those premised on the Federal Trademark Dilution Act in several respects, one of which is that "New York law accords protection against dilution to marks that are distinctive as a result of acquired secondary meaning as well as to those that are inherently distinctive." *Id.* at 436.

As discussed in the context of plaintiffs' trademark infringement claim, above, plaintiffs have not shown that its marks are inherently distinctive. Nor have plaintiffs shown that its marks are distinctive as a result of acquiring secondary meaning. Therefore, plaintiffs fail to show a likelihood of success on its trademark dilution cause of action.

Tortious Interference With Prospective Economic Advantage

A cause of action for tortious interference with prospective economic advantage requires interference with a specific economic relationship, and "an allegation that plaintiff would have entered into an economic relationship but for the defendant's wrongful conduct" (*Vigoda v DCA Prods. Plus Inc.*, 293 AD2d 265, 266-267 [1st Dept 2002]), "or that defendant acted for the sole purpose of harming the plaintiff" (*Snyder v Sony Music Entertainment, Inc.*, 252 AD2d 294, 300 [1st Dept 1999] [internal citation omitted]). Wrongful conduct "includes physical violence, fraud, misrepresentation, civil suits, criminal prosecutions and some degree of economic pressure, but more than simple persuasion is required." *Id.*

Plaintiffs fail to show that defendants wrongly interfered with any existing, or prospective, business relationships, or that plaintiffs would have entered into an economic relationship but for the defendant's wrongful conduct. Therefore, plaintiffs have not shown a likelihood of success on this cause of action.

Breach of Contract

The elements of a cause of action for breach of contract are the formation of a contract between plaintiff and defendant, performance by plaintiff, defendant's failure to perform, and resulting damages. *Furia v Furia*, 116 AD2d 694 (2d Dept 1986).

In their affidavits, the parties dispute whether they entered into a restrictive covenant. However, even assuming for the moment that the parties entered into a non-competition and confidentiality agreement, plaintiffs have not shown that the restrictive covenant is enforceable. A three-pronged test is applied to restrictive covenants in order to determine their reasonableness. *BDO Seidman v Hirshberg*, 93 NY2d 382 (1999). "A restraint is reasonable

only if it: (1) is no greater than is required for the protection of the legitimate interest of the employer, (2) does not impose undue hardship on the employee, and (3) is not injurious to the public." *Id.* at 388-389 (internal citations omitted). "A violation of any prong renders the covenant invalid." *Id.* at 389. Under the first prong, the employer's interests are limited "to the protection against misappropriation of the employer's trade secrets or of confidential customer lists, or protection from competition by a former employee whose services are unique or extraordinary." *Id.*

As discussed above, plaintiffs have not shown that they have trade secrets or confidential customer lists. Nor have plaintiffs shown that defendants' services are unique or extraordinary. Therefore, plaintiff has not shown a likelihood of success on its breach of contract claim.

Unfair Competition

Unfair competition involves the defendant's "misappropriation and exploitation of confidential information in abuse of her relationship of trust with plaintiff and improper use of this information to solicit plaintiff's [clients] for her own behalf." *Comprehensive Community Development Corp. v Lehach*, 223 AD2d 399, 399 (1st Dept 1996). It may involve "the simulation by one person of the name, symbols, or devices employed by a business rival, so as to induce the purchase of his goods under a false impression as to their origin or ownership and thus secure for himself benefits properly belonging to his competitor." *Ruder & Finn Inc. v Seaboard Sur. Co.*, 71 AD2d 216, 220 (1st Dept 1979).

As discussed above, plaintiffs fail to show that they possessed any confidential information. Moreover, plaintiffs fail to show that information allegedly taken by defendants was unauthorized, or that defendants exploited any such information. Therefore, plaintiffs fail to

show a likelihood of success on their unfair competition cause of action.

Attachment

CPLR 6212 (a) provides that, to obtain an order of attachment, the plaintiff must show "that there is a cause of action, that it is probable that the plaintiff will succeed on the merits, that one or more grounds for attachment provided in section 6201 exist, and that the amount demanded from the defendant exceeds all counterclaims known to the plaintiff."

As discussed above, plaintiffs have not shown a probability of success on the merits of their claims. Therefore, plaintiff is not entitled to an order of attachment.

Accordingly, it is hereby

ORDERED that plaintiffs' motion for a preliminary injunction is denied, and the temporary restraining order issued by the court on April 19, 2005 is vacated in its entirety; and it is further

ORDERED that the action shall continue.

Dated: September 9, 2005

ENTER:

J.S.C.

HON. RICHARD B. LOWE, III