

Britvan v Tomback

2008 NY Slip Op 30701(U)

February 27, 2008

Supreme Court, Nassau County

Docket Number: 6706-04/

Judge: Ira B. Warshawsky

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SHORT FORM ORDER

**SUPREME COURT : STATE OF NEW YORK
COUNTY OF NASSAU**

PRESENT:

HON. IRA B. WARSHAWSKY,

Justice.

TRIAL/IAS PART 10

JACK J. BRITVAN,

Plaintiff,

INDEX NO.: 016706/2004
MOTION DATE: 01/07/2008
MOTION SEQUENCE: 001

-against-

STEVEN TOMBACK and AMERICAN
CORPORATE REAL ESTATE, INC.,

Defendants.

The following papers read on this motion:

Notice of Motion, Affirmation & Exhibits Annexed.....	1
Memorandum of Law of Defendant-Counterclaimant Steven Tomback in Support of Motion for Partial Summary Judgment.....	2
Affidavit of Jack J. Britvan, Affidavits, Statement of Disputed Facts Pursuant to Rule 19-a & Exhibits Annexed.....	3
Plaintiff's Memorandum of Law in Opposition to Defendant's Motion for Partial Summary Judgment.....	4
Reply Affirmation in Further Support of Robert M. Calica & Exhibit Annexed.....	5
Reply Memorandum of Law of Defendant-Counterclaimant Steven Tomback in Support of Motion for Partial Summary Judgment.....	6

This motion by defendant, Steven Tomback, for an order pursuant to CPLR 3212 granting partial summary judgment on his counter-claim for breach of fiduciary duty and trademark infringement, and for an order dismissing plaintiff's claim for an accounting concerning

transactions that occurred prior to December 1, 1998, on the basis of the statute of limitations is determined as follows.

The parties were formally equal shareholders in a commercial brokerage firm serving Long Island. The aforesaid firm was founded in 1979 by defendant and one Jerry M. Schwarz. It was called Aquest Associates. In 1991 plaintiff joined the firm as an equal one-third shareholder, and Aquest became American Corporate Real Estate. The third shareholder retired in 1995 and plaintiff became a co-equal, 50% shareholder. In the year 2000 they started doing business as Caldwell Banker Commercial Properties, but in 2002 returned to the name American Corporate Real Estate Inc., (the Firm).

On March 22, 2004, the parties entered into a new Shareholders Agreement, which plaintiff avers provided that there would be no value attributed to American Corporate's good will. However, in January of 2005, the shareholders agreed to voluntarily dissolve the corporation in the wake of plaintiff having filed a suit for a judicial dissolution. (See Index No. 016704/2004.) Plaintiff immediately formed a new corporation under the name of American Commercial Real Estate, but in 2007 he discontinued use of the name at defendant's request.

Plaintiff commenced this action on behalf of American Corporate Real Estate to recover damages resulting from defendant's alleged self dealing and appropriation of business funds, including, but not limited to, payment of personal income taxes, overcompensation for commissions, and payment of sundry personal expenses, including membership in a private club.

The first cause of action seeks compensation to the firm for damages resulting from defendant's self dealing.

The second cause of action is also brought derivatively on behalf of the corporation and seeks an accounting of the income and expenses of the corporation for the past twelve years in light of defendant's alleged fraud, self dealing, mismanagement, waste and diversion of assets.

Defendant's answer consists of a general denial and a single, omnibus counterclaim against plaintiff individually brought on behalf of the nominal, defendant American Corporate Real Estate. He alleges that: (1) plaintiff exerts exclusive dominion and control over the firm's books and records; (2) has used corporate funds to pay his personal expenses and make

unauthorized gifts to friends and acquaintances; (3) has engaged in unfair competition by competing with the firm in a real estate brokerage business, and by not devoting his full time to the firm; (4) has formed a new entity, American Commercial Real Estate, which because of its similarity to the Firm is a violation of “federal anti-trust laws and New York common law of unfair competition”, Answer at ¶ 49; and (5) by using the acronym ACRE has misappropriated the firm’s mark, Answer at ¶ 51, which equates with a breach of his fiduciary duty. Lastly, he claims to have appropriated the good will of the Firm by using its former telephone number.

The counterclaim violates sections 3013 and 3014 of the CPLR. The statements are not sufficiently particular to give the material elements of each transaction to be proven, nor are the cause or causes of action upon which recovery is sought stated separately. Moreover, it is verified by defense counsel on the premise that the defendant’s office is not in the same county as is defense counsel’s. It is legal but untrustworthy as defendant touts his former successes as being a premier Long Island real estate brokerage firm, which includes both Nassau and Suffolk Counties.

In the motion subjudice defendant alleges, as he did in the complaint, that plaintiff violated the parties’ 2005 agreement to dissolve the defendant corporation, but it is without citation to any specific provision. Also, that he has violated his fiduciary duty to defendant, and both common law and statutory trade mark obligations by using the name “American Corporate Real Estate, Inc.” for the company he created after he parted company with defendant and they dissolved “American Commercial Real Estate.” He points to the acronym of both companies, ACRE, to support his contention. He contends that American Commercial Real Estate had secure name recognition generating respect in the Long Island real estate market.

The issue in this case, without being stated by either party, is that the assets of the Firm have to be distributed or liquidated in furtherance of its dissolution. Defendant contends that the valuable reputation of the company is interlocked with its name, so use of a name so similar and likely to be confused with the Firm’s, is misappropriation of a corporate asset. To the extent that the type face is the same, and plaintiff’s new business operates out of the same local as did the Firm, and is in substantially the same type of business, the likelihood of confusion in the name is

self evident, and, he argues, has been shown to be real amongst former clients.

Movant claims treble damages in the amount of revenues received by plaintiff for the two years in which the alleged trade name infringement took place. Moreover, on the basis of plaintiff's perceived intent to actually deceive the public with the use of ACRE, movant claims pro-rated damages on a monthly average and punitive damages and attorney fees pursuant to the Lanham Act, 15 U.S.C. § 1117.

Defendant states that the fiduciary duty plaintiff owed to the Firm precludes his taking control of one of its premier assets, its good will and reputation, after dissolution. Wisell v Indo-Med Commodities, Inc., 11 Misc.3d 1089(a)(Sup Ct Nas); Blaich Assoc Inc. v Coach/Blaich Real Estate of Manhasset, Inc., 186 Misc.2d 594 (Sup. Ct., Nassau Cty. 2000). He claims that a trademark infringement is recognized as unfair competition. Relying on case law, he argues that where a party establishes that another acts in bad faith and there is actual confusion of a likelihood of confusion regarding his use of trademarks, a cause of action for unfair competition is established. Deere & Co. v MTD Holdings, Inc., 2004 WL 324890*18 (S.D.N.Y.). Similarly, in evaluating a claim under the Lanham Act, seven factors should be considered in the event of which punitive damages and attorney fees can be awarded.

He alleges that the name American Corporate Real Estate is a strong trademark as it has established a secondary meaning through its historical use since 1992 and its consistent reputation as a good commercial real estate brokerage firm. Staten Island Bd. of Realtors, Inc. v Smith, 298 A.D.2d 592 (2d Dept 2002).

To put the motion on firm procedural ground and to understand the substantive issues, it must be understood that plaintiff has brought it as a shareholder's derivative action as did defendant in his counter claim. See Answer at ¶ 41 (Counterclaim plaintiff Tomback ... brings this counterclaim in his capacity as a shareholder of ACRE, and as a director and officer of ACRE pursuant to BCL § 720(b).) All damages would inure to the benefit of the dissolved Firm. Pursuant to the Interim Stipulation plaintiff's special proceeding for dissolution was to be withdrawn and all "business and financial activity going forward was agreed to be consistent with the goal of winding up its affairs and liquidating its assets." Paragraph 4. Thus, the only

obligation of this court is to bring this matter to conclusion as a shareholder's derivative suit. Yet, there is a distinction of some relevance between plaintiff's complaint relative to conduct by defendant before dissolution, and defendant's claims vis-a-vis trade mark infringement which occurred after dissolution.

There is a motion for summary judgment before the court where the court must engage in issue finding rather than issue determination. Sillman v Twentieth Century-Fox Film Corp., 3 N.Y.2d 395 (1957). In order to prevail the movant must establish his cause of action or defense in a manner sufficient to warrant entry of judgment as a matter of law. The case must be established by tender of evidentiary proof in admissible form. See Friends of Animals, Inc. v Associated Fur Mfgs., 46 N.Y.2d 1065 (1979). Plaintiff has/has not met his/her burden.

Once a prima facie showing is made by the proponent, the burden shifts to the parties opposing the motion to rebut the movant's case by making an evidentiary showing that material issue of fact exist and must lay bare affirmative proof that matters are real and capable of being established at trial. See Del Giacco v Noteworthy Co., 175 A.D.2d 516 (3d Dept 1991). Conclusions and unsubstantiated allegations or assertions are insufficient to raise a triable issue of fact and defeat summary judgment. Zuckerman v City of New York, 49 N.Y.2d 557; Alvord & Swift v Muller Construction Co., 46 N.Y.2d 276; Anable v Bolentin, 175 A.D.2d 545 (3d Dept 1991).

For several reasons defendant has not made a prima facie case of trade mark infringement. First, it was not plead with any specificity in the counterclaim; there is no reference to the Lanham Act nor is there any an enunciation of its elements. See 15 U.S.C.A. §§ 1116, 1117 and 1125. Defendant argues, in the motion sub judice, that the use was willful and intended to deceive a reasonable consumer in the market place and that therefore treble damages under 15 USCA § 1117 should be imposed. However, that provision of law permits the court to exercise discretion in assessing monetary damages which is often pertinent in matters of counterfeit products, infringement of a registered mark, or where the public needs protection. Otherwise, injunctive relief is the norm in the presence of mark infringement. 15 USCA §§ 1116 & 1125. It is only when the infringement was intended to "trade on the owner's reputation or to

cause dilution of the famous mark [that treble damages are available].”

There is a conclusory statement in the motion that the Firm’s name has a secondary meaning. It is not clear whether it is the name American Commercial which is confused with American Corporate, or whether it is the star found in “American” on the letter head, or whether it is the acronym ACRE. In either event the allegations are so amorphous that they are equally as consistent with a claim for unfair competition under state law as they are with the Lanham Act.

The Federal trademark statute is mentioned for the first time in the motion sub judice. The obvious enticement is recovery of very large damages. But, the question must be posited as to whether the damages would be Tomback’s or the dissolved corporation?

A review of the facts stated in the counterclaim, and even in argument, does not convince the court that plaintiff engaged in a “fraudulent and actual intent to deceive the public by causing it to believe that [services] of ...the plaintiff are the [services] of [American Corporate Real Estate] through duplication in form and dress intended to and likely to deceive.” Butterfield v Abraham & Strauss, 212 A.D.2d 384 (1st Dept 1925); see also Weisell v Indo-Med Commodities, Inc., 11 Misc.3d 1089(a)(Sup Ct., Nassau Cty. 2006).

American Corporate Real Estate, having been voluntarily dissolved, is not in business, and, therefore, cannot suffer damage from loss of business by plaintiff’s use of its alleged mark. However, the share holders of American Corporate can suffer a loss if, indeed, the name has value in which both owners do not share. That is defendant’s cause of action, not his recent adoption of section 1117 of the Lanham Act in this dispute over the asset of a dissolved corporation. In sum, defendant has not submitted a prima facie case of plaintiff’s violation of federal anti-trust laws relative to the counterclaim.

Further, the law provides that the court may search the record on a motion for summary judgment, CPLR 3212(b), and grant judgment to the opposing party on the issue presented in the moving papers. Dunham v Hilco Construction, 89 N.Y.2d 425, 427 (1996). Here defendant has neither plead nor shown any facts capable of sustaining a violation of Federal anti-trust statues by use of a another’s trade mark. The claim is without merit; the use of American Commercial has stopped, there are no damages to American Corporate, only two people were the pillars of the

Firm and defendant has not argued that the public is confused as to which of the two was heading it's progeny nor puzzlement as to the origin of the similarly named company. To the extent that the counterclaim can be understood to seek damages on such a theory it is dismissed.

Turning to defendant's allegation in the counterclaim of unfair competition under the common law (referred to as New York common law of unfair competition in ¶¶ 49 and 50), the argument in favor of summary judgment is confusing. It merges into the damages provisions available under the Lanham Act, under Point II of the Memorandum of Law in Support of Summary Judgment (pp. 13-21), even though one is a Federal law and the other exists under this State's common law. It makes no distinction between mark infringement and unfair competition.

A successful claim of Trade mark infringement establishes the existence of a "mark," meaning it has acquired a secondary meaning which distinguishes the product sold by others. After that it must be shown that there is mistake, confusion or deception in the relevant market. Ventura Travelwear v Baltimore Luggage, 66 Misc. 2d 646 (Sup. Ct., NY Cty. 1971). Confusion, to quote the early source of definition, asks would the ordinary purchaser be misled as to origin? McLean v Flemming, 96 U.S. 245 (1877).

Common law unfair competition also involves name, reputation and goodwill of the sort frequently associated with a trade mark. Initially, unfair competition was viewed as a "palming off" of goods, or a substitution of goods with the intent of duping the consumer. Harvey v Harvey Aluminum, 175 NYS2d 288 (Sup. Ct., NY Cty. 1957). Unfair competition evolved into a form of commercial hitch hiking by misappropriation of a trade name. It likewise came to be viewed as a breed of unfairness or inequity in business competition. Renofabprocess v Renotex, 158 N.Y.S.2d 70 (Sup. Ct., NY Cty. 1956).

Recently the Court of Appeals affirmed these early principles. ITC Ltd v Punchgini, 9 N.Y.3d 467 (2007). The Court explained that "Under New York law, '[a]n unfair competition claim involving misappropriation usually concerns the taking and use of the plaintiff's property to compete against the plaintiff's own use of the same property.' (Roy Export v Columbia Broadcasting, 672 F.2d 1095, 1105 (2d Cir. 1982)... [W]e ... reaffirm that when a business,

through renown in New York, possesses goodwill constituting property or a commercial advantage in this state, that goodwill is protected from misappropriation under New York unfair competition law. ..." Id. at 478.

When viewed in this context the claim of unfair competition equates with the usurping of a valued property right, signified by a name. The analogy fits closely to this case. However, it is a duplication of the claim that plaintiff has breached his fiduciary duty to the corporation and its shareholder by taking a similar name. It is concededly not the same name that plaintiff builds his new business on but it arguably evokes prior successes of the Firm. Defendant in arguing for summary judgment falls short of differentiating in any significant measure plaintiff's alleged breach of fiduciary duty from a common law claim of unfair competition. The elements are not articulated in the complaint, and in the absence of showing a prima facie case on this motion, the record is searched and the claim is dismissed as a matter of law.

As to the remainder of the counterclaim, defendant has successfully made out a prima facie case for breach of fiduciary duty. The duty owed one shareholder-officer-director to another does not end until dissolution of the Firm is finalized. Alexander & Alexander v Fritzen, 147 A.D.2d 241, 246. To the extent that the name is a corporate asset, a shareholder cannot take it and use it with impunity. However, in opposition to defendant's prima facie case, plaintiff has raised a triable issue of fact as to whether it is the broker or the firm that has name recognition and fame.

Finally, the statute of limitations must be considered. A six year limitations period governs breaches of fiduciary duty when equitable relief is sought. Kaufman v Cohen, 307 AD2d 1113(1st Dept 2003). The pleadings, in essence, mutually allege that each took far more than his share of the riches of the Firm to the detriment of the other shareholder. The complaint seeks an accounting, but it is on the basis of this lack of fiduciary care. In such circumstances the six year limitations period applies. Spitzer v Schussel, 7 Misc.3d 171 (N.Y.Sup. 2005). Therefore, defendant's motion is granted to the extent the accounting shall not consider conduct before December 1, 1998. Accordingly, it is

ORDERED that plaintiff is granted summary judgment dismissing so much of the counterclaim as seeks damages for violations of federal anti trust laws and common law unfair competition. Summary judgment is denied as to breach of fiduciary duty. It is further

ORDERED that so much of plaintiff's action for accounting is dismissed as to any transactions occurring prior to December 1, 1998 on the grounds of the six year statute of limitations.

A pre-trial conference will be held on March 24, 2008, at 9:30 A.M.

This matter is scheduled for trial on March 31, 2008, at 9:30 A.M.

Dated: February 27, 2008



J.S.C.

ENTERED

MAR 05 2008

**NASSAU COUNTY
COUNTY CLERK'S OFFICE**