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H & M Trading Co. LLC v Jordache Ltd.
2015 NY Slip Op 51607(U)
Decided on November 6, 2015
Supreme Court, New York County
Ramos, J.
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Decided on November 6, 2015

Supreme Court, New York County

H & M Trading Company LLC, Plaintiff,

against

Jordache Limited, JORDACHE ENTERPRISES, INC., and JRA TRADEMARK CO. LTD., Defendants.

650118/2015

For Plaintiff: David Bamberger of Brickman Leonard & Bamberger, P.C.

For Defendants: Michael Sommer of Wilson, Sonsini, Goodrich & Rosati

Charles E. Ramos, J.

In motion sequence number 001, defendants Jordache Limited, Jordache Enterprises, Inc., and JRA Trademark Co. Ltd., (collectively, JRA) move to dismiss plaintiff H & M Trading Company LLC's (H & M) verified complaint pursuant to CPLR §§ 3211 (a) (7) and 3016 (b).

Background [FN1]

JRA is owned by Joseph Nakash (Nakash) and since 1998 has held the sole Master License to manufacture and sell apparel bearing the trademarks of the US Polo Association (USPA) including the "Double Horseman" mark which is distinguished from the single polo player mark historically aligned with Polo Ralph Lauren (PRL). In 2009, JRA entered into a sub-license agreement with U.S. Home Textiles LLC (Oldco) to manufacture and sell USPA brand home goods.

H & M's managing member is Hagai Laniado (Laniado). In 2012, Laniado was offered an opportunity to join the Nakash family business and to manufacture, sell, and distribute to retailers certain home-textile goods bearing the Double Horseman mark and other USPA trademarks. In doing so, Laniado formed the limited liability company U.S. Home Textiles Group, LLC (Newco) by which his entity, Newco, took an assignment of Oldco's interest in the

Double Horseman mark for use on certain home goods.

Pursuant to this venture, the parties allegedly entered into an oral agreement in 2012 (Oral Agreement) under which Laniado [*2]made Sherene Mossery (Sherene), Nakash's daughter, a 50% member in Newco with H & M holding the other 50% interest. Further, Laniado contributed $1 million in new capital to Newco, 50% on his own behalf with the other 50% loaned to Sherene/or her entity on a five-year, interest-free, note payable to H & M for $500,000.[FN2] In addition, Laniado made Isaac Mossery, Sherene's husband, president of Newco, and Newco purchased about $4 million in USPA brand home inventory using the Double Horseman Mark from JRA. The parties also agreed that Laniado would be accorded five years to develop the home textiles business using the Double Horseman and USPA trademarks.

On August 17, 2012, Newco, Oldco and JRA entered into a written agreement whereby JRA consented to the assignment of the 2009 License Agreement from Oldco to Newco. On October 22, 2012, Newco and JRA entered into a letter of understanding regarding the transfer and sale of inventory from Oldco and its affiliates to Newco.

Newco alleges that it entered into the assignment and other transactions based on JRA's representations that Oldco was selling home textiles using the Double Horseman mark without interference from PRL. JRA, through Nakash and Cliff Lelonek, also allegedly represented to Laniado that they regarded the use of the Double Horseman mark on home textiles as quite safe because of a 2005 federal jury verdict, upheld on appeal, which concluded that three variations of the Double Horseman mark did not infringe on PRL's single polo player mark relating to the sale of apparel, leather goods and watches.

Furthermore, Nakash and Lelonek gave Laniado a copy of a 2009 license agreement between JRA and Oldco purportedly demonstrating the safety of using the Double Horseman. The license agreement stated that JRA is under no legal impediment preventing it from entering into the agreement, and that entry into the license agreement by

Oldco will not conflict with the rights of a third party such as PRL.

H & M alleges that at the time Newco entered into the assignment of the 2009 License Agreement and contrary to the above representations, JRA's representatives had secretly believed that they would be shutting down the Double Horseman mark in the home textiles business within twelve months. They reasoned, but did not disclose to Newco, that they no longer believed the use of the Double Horseman mark on home textiles was safe based on their private assessment that a federal judge was [*3]likely to hold USPA in contempt for using the Double Horseman mark on unrelated goods, including a model of sunglasses.

Shortly thereafter, on March 6, 2013, Judge Sweet in the Southern District found USPA in contempt for its use of the "Cape Cod" model of sunglasses since it was an imitation of a logo which PRL had used on certain sunglasses previously. Judge Sweet granted PRL the rights to any profits arising out of the sale of USPA eyewear bearing the Double Horseman mark 60 days after entry of his order.

By letter dated March 19, 2013, JRA directed Newco to cease and desist selling home goods with the Double Horseman mark by May 5, 2013. The letter also falsely advised Newco that Judge Sweet "issued an injunction that prohibits USPA and its licensees from using certain USPA marks [including the Double Horseman] in connection with the sale of home goods."

JRA allegedly took this position with respect to Newco because it did not want to take any risk whatsoever that any act or omission on its part could be used as a pretext by USPA to terminate the Master License between USPA and JRA, thereby jeopardizing the profitable business of JRA in which it sells goods approved under a 2005 Jury Verdict and 2003 Settlement Agreement between PRL, USPA and JRA.

JRA's actions allegedly forced Newco to sell millions of dollars of inventory at discounted prices and deprived Newco under the Oral Agreement with JRA that it be accorded five years to develop the home textiles business using

the Double Horseman and USPA trademarks.

Discussion

As a threshold matter, during the June 25, 2015 oral argument on the motion, this Court raised the issue, *sua sponte*, whether H & M has standing and is the proper-plaintiff to bring this action. In addition, the Court considered whether all of H & M's claims are barred because they are actually derivative claims, belonging only to Newco (6/25/15 Tr 48:15-51:11).

Under New York law, a shareholder lacks standing to pursue a direct claim to redress wrongs suffered by the corporation; such claims must be asserted derivatively for the benefit of the corporation (*Yudell v Gilbert*, 99 AD3d 108 [1st Dept 2012]). A stockholder has no individual cause of action against a person or entity that has injured the corporation (*Serino v Lipper*, 123 AD3d 34, 39 [1st Dept 2012]). An exception exists where the wrongdoer has breached a duty owed directly to the shareholder which is independent of any duty owing to the corporation (*id.*)

In order to distinguish a derivative claim from a direct one the First Department adopted the test developed by the Supreme Court of Delaware in *Tooley v. Donaldson, Lufkin & Jenrette, Inc.* (845 AD2d 1031, 1039 [Del 2004]) (*Yudell*, 99 AD3d 108). Under the *Tooley* test, a court should consider "(1) who suffered the alleged harm (the corporation or the suing stockholders, individually); and (2) who would receive the benefit of any [*4]recovery or other remedy (the corporation or the stockholders individually)" (*id.*). If there is any harm caused to the individual, as opposed to the corporation, then the individual may proceed with a direct action (*Serino v Lipper*, 123 AD3d at 39-40). On the other hand, even where an individual harm is claimed, if it is confused with or embedded in the harm to the corporation, it cannot separately stand (*id.*).

The complaint alleges that via its interest in Newco, H & M has suffered material losses. Specifically, due to JRA's alleged actions, Newco was forced to "sell millions of dollars of inventory which it had purchased...at full landed cost...it also deprived Newco and H & M of its expectancy under Laniado's oral agreement...that Laniado would be accorded at least five years to develop the home textiles business using the Double Horseman and [USPA] trademarks" (Complaint at ¶10). Due to Newco's compliance with the March 19, 2013 cease and desist letter, Newco's losses on the sales approached $3,000,000 with H & M in turn bearing a loss of $1,500,000 (*id*. at 38).

H & M's counsel stated "the loss that I am saying now is a loss that H & M suffers derivatively to the extent of 50 percent of the loss that is suffered by H & M (tr 49:6-9). It is clear that the alleged harm at issue was suffered by Newco in the first instance. The harm that H & M alleges is embedded in the harm borne primarily to Newco, and cannot separately stand (*Serino,* 123 AD3d at 40).

Furthermore, because the contempt order by Judge Sweet was vacated by the Second Circuit (tr, 16:9-16, 26), Newco is free to sell the inventory and potentially continue under the license agreement to sell home goods with the Double Horseman mark. Newco would receive the benefit of this recovery with H & M benefitting 50% derivatively (*See Serino,* 123 AD3d at 40).

Because H & M lacks standing to pursue direct claims against defendants for alleged harm to Newco, the complaint is dismissed with leave to replead, if so advised (*see Abrams v Donati*, 66 NY2d 951 [1st Dept 1985] *rearg denied* 67 NY2d 758 [1986]).

Accordingly, it is

ORDERED that the motion to dismiss is granted to the extent that the complaint is dismissed for lack of

standing.

Dated: November 6, 2015

_____ J.S.C.

Footnotes

Footnote 1: The facts set forth herein are taken from the pleadings, unless otherwise noted.

Footnote 2: The complaint is ambiguous as to whether H & M contributed the new capital through Laniado or whether Laniado made the transfer on his own behalf. The complaint states: "Laniado would have to commit at least $1,000,000 in new capital to Newco, 50 % on his on behalf and 50% in the form of an interest-free loan to Sherene" (Complaint ¶ 30). However, there is a general statement that states the conditions of the oral agreement were entered into on H & M's behalf (Complaint ¶ 31).

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