

Burgers Bar Five Towns LLC v Burger Holdings Corp.

2010 NY Slip Op 33130(U)

November 3, 2010

Supreme Court, Nassau County

Docket Number: 600057/08

Judge: Stephen A. Bucaria

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SHORT FORM ORDER

SUPREME COURT - STATE OF NEW YORK

Present:

HON. STEPHEN A. BUCARIA

Justice

BURGERS BAR FIVE TOWNS LLC,

Plaintiff,

-against-

BURGER HOLDINGS CORP. a/k/a
BURGERS HOLDING INC. and
ELDAD ELLA,

Defendants,

BURGER HOLDINGS CORP. a/k/a
BURGERS HOLDING INC. and
ELDAD ELLA,

Counterclaim Plaintiffs,

-against-

BURGERS BAR FIVE TOWNS LLC,

Counterclaim Defendants.

The following papers read on this motion:

- Notice of Motion..... X
- Affirmation in Opposition..... X
- Reply Affirmation..... X

BURGERS BAR FIVE TOWNS LLC**Index no. 600057/08**

Motion by defendants to dismiss plaintiff's indemnification claim is **denied**. Motion by defendants to dismiss or stay plaintiff's indemnity claim based upon the pendency of the federal action is **denied**. Motion by defendants for leave to amend their answer is **granted** and **denied** to the extent indicated below.

This is an action for violation of the Franchise Sales Act (General Business Law § 680 *et seq*). Defendant Burger Holdings Corp owns and operates a kosher hamburger restaurant in Brooklyn, which does business under the name "Burger Bar." On November 16, 2006, the parties entered into a "licensing agreement," which permitted the plaintiff, in exchange for a fee, to open a new restaurant using the "Burger Bar" name and logo. Under the terms of the agreement, the plaintiff was required to purchase all of its supplies from the defendants, and pay the defendants royalties.

On July 23, 2008, plaintiff commenced this action alleging that the parties' agreement was actually a franchise agreement within the meaning of the Franchise Sales Act and the defendants violated the Act by failing to register an offering prospectus with the Attorney General (See General Business Law § 683). A person who offers or sells a franchise in violation of General Business Law § 683 is liable to the person purchasing the franchisee for damages and, if the violation is willful and material, for rescission, with interest at 6% per year from the date of the purchase, and reasonable attorney's fees and court costs (General Business Law § 691).

There is an exemption to the registration requirement for an "isolated sales transaction," which is the sale of a single franchise accomplished "pursuant to an offer directed by the franchisor to not more than two persons" (General Business Law § 684(3)[c]).

It is undisputed that defendants did not register an offering prospectus prior to entering into the license agreement with the plaintiff. By order dated November 20, 2008, the court granted plaintiff summary judgment with respect to its claim for violation of the Franchise Sales Act. In July 2009, plaintiff served an amended complaint, asserting a cause of action for breach of the provision in the agreement prohibiting solicitation of the other party's employees. The amended complaint also asserts a claim for misrepresentation based upon defendants' claiming to "protect and preserve the integrity" of the Burger Bar trademark. The amended complaint asserts a civil RICO claim based on an alleged pattern of racketeering activity. Plaintiff asserts a claim to recover for meat and poultry which defendants allegedly shipped in violation of the federal Food and Drug laws.

BURGERS BAR FIVE TOWNS LLC**Index no. 600057/08**

Finally, plaintiff asserts a claim for contractual indemnity to recover for legal fees expended defending a trademark suit, which was commenced against plaintiff in the United States District Court for the Southern District of New York. The trademark suit was commenced on August 29, 2008. The indemnification provision, ¶ 9.2 of the agreement, in pertinent part provides, “[Licensor] will indemnify, defend and hold harmless licensee...from and against any and all claims based upon, arising out of, or in any way related to...claims that the mark...infringes, misappropriates or otherwise constitutes the unauthorized use of any third party...trademark...”

In March 2010, the Appellate Division reversed this court’s order granting summary judgment on the ground that there were triable issues as to whether the agreement was an isolated sales transaction, whether plaintiff sustained damages as a result of defendants’ alleged violation of the Act, and whether the alleged violation was willful and material. The case is now scheduled for trial on November 9, 2010.

Defendants move to dismiss plaintiff’s contractual indemnity claim for failure to state a cause of action. Defendants assert that they terminated the agreement effective August 29, 2008 based upon plaintiff’s failure to make required royalty payments. Additionally, defendants argue that the agreement was terminated by virtue of the court’s order granting summary judgment to plaintiff. However, as noted above, the court’s order granting summary judgment was reversed. Moreover, the agreement provides in ¶ 12.4 that the indemnification provision survives the expiration or termination of the agreement.

Defendants rely upon ¶ 11.1 of the agreement which provides that licensee will not “directly or indirectly contest or aid in contesting the validity, ownership or use of the marks by [licensor.]” Defendants argue that plaintiff breached the provision prohibiting the contesting of the Burger Bar trademark by bringing the present action. Paragraph 11.1 appears to prohibit the licensee from seeking a declaratory judgment that the licensor is not the owner of the Burger Bar trademark or the mark is otherwise invalid. However, the court does not construe the provision as prohibiting the licensee from seeking damages or other relief based upon the mark’s invalidity. Defendants next argue that plaintiff’s indemnification claim must fail because it “provoked” the federal court action. An indemnification agreement will be construed as indemnifying a party against its own wrongdoing only when the language of the agreement clearly connotes such an intent (*Facilities Development v Mileta*, 180 AD2d 97, 102 [3rd Dept 1992]). Defendants have not established prima facie that plaintiff was guilty of wrongdoing which would preclude its indemnity claim.

Defendants argue that the indemnification provision does not cover legal fees incurred by plaintiff in bringing the present action. However, plaintiff is seeking indemnity for legal fees incurred in defending the action in federal court. Defendants' motion to dismiss plaintiff's contractual indemnity claim for failure to state a cause of action is **denied**.

Defendants move to dismiss or stay plaintiff's indemnification claim based upon the pendency of the federal action (See CPLR 3211(a)[4]). However, defendants have not established that plaintiff's claim for violation of the Franchise Sales Act has been asserted in the federal court. Thus, defendants have not established that the claims in the federal court and the claims in the present case are substantially identical (*Ramsey v Ramsey*, 69 AD3d 829 [2d Dept 2010]). Defendants' motion to dismiss or stay plaintiff's indemnification claim based upon the pendency of the federal action is **denied**.

Finally, defendants move for leave to amend their answer to assert the defense of exemption from the registration requirement and to assert a counterclaim for contractual indemnity based upon the indemnity provision in the license agreement. Defendants also seek leave to amend the answer to name as a counterclaim defendant Mitch Krevat, who is presumably the managing member of the plaintiff limited liability company.

CPLR 3025(b) provides that leave to amend shall be freely granted upon such terms as may be just. Because the exemption defense was considered on the summary judgment motion, there will be no prejudice to plaintiff if the defense is asserted in the answer. Similarly, because the parties' rights to indemnity will turn on whether the Burger Bar trademark infringes upon the mark of any third party, there will be no prejudice to the answer being amended to assert a counterclaim for indemnity. Defendants' motion for leave to amend is **granted** to the extent that the answer is deemed amended to assert an exemption defense and an indemnity counterclaim.

However, plaintiff would be prejudiced by the need to prepare a defense on behalf of Krevat. Moreover, defendants have offered no excuse for their delay in seeking leave to name the additional party until the eve of trial (*Haughton v Merrill, Lynch*, 305 AD2d 214 [1st Dept 2003]). Defendants' motion for leave to amend their answer to name Mitch Krevat as a counterclaim defendant is **denied**.

So ordered.

Dated 3 November 2010

ENTERED

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J.S.C.

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