

NL Brand Holdings LLC v Lepore
2019 NY Slip Op 32147(U)
July 12, 2019
Supreme Court, New York County
Docket Number: 656682/2016
Judge: Andrew Borrok
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SUPREME COURT OF THE STATE OF NEW YORK
NEW YORK COUNTY

PRESENT: HON. ANDREW BORROK PART IAS MOTION 53EFM

Justice

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INDEX NO. 656682/2016

NL BRAND HOLDINGS LLC, NL BRAND MANAGEMENT LLC,
BLUESTAR ALLIANCE LLC, NL BSA OPCO, LLC,

MOTION DATE 05/23/2019

Plaintiff,

MOTION SEQ. NO. 009

- v -

NANETTE LEPORE, NL INTERNATIONAL, LLC, VAHEY
LICENSING CO., LLC, ROBERT SAVAGE, ROBESPIERRE, INC.,
NANETTE LEPORE CONSULTING, LLC, NL IPCO LLC, NLHE
LLC

DECISION AND ORDER

Defendant.

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The following e-filed documents, listed by NYSCEF document number (Motion 009) 310, 311, 312, 313,
314, 315, 316, 317, 318, 319, 320, 321, 328, 329, 330, 331, 332, 333, 334, 335, 336, 337, 338, 339

were read on this motion to/for DISQUALIFY COUNSEL

Upon the foregoing documents and for the reasons set forth on the record (7/10/2019), NL Brand
Holdings LLC, NL Brand Management LLC, Bluestar Alliance LLC and NL BSA OPCO,
LLC's (collectively, the Plaintiffs) motion to disqualify the law firm of Sheppard, Mullin,
Richter, & Hampton LLP (Sheppard Mullin) and Theodore C. Max from representing Nanette
Lepore, NL International, LLC, Vahey Licensing Co., LLC, Robert Savage, Robespierre Inc.,
Nanette Lepore Consulting, LCC, NL IPCO LLC, NLHE LLC (collectively, the Defendants) is
granted.

The Relevant Facts and Circumstances

The plaintiff, Bluestar Alliance LLC (Bluestar), is a privately held brand management company
that oversees the operations of the other plaintiffs in this action (NYSCEF Doc. No. 312, ¶¶ 2,
3). Bluestar's business consists of acquiring well-known fashion brands by its portfolio
companies and managing those companies to commercialize the fashion brands through various

licensing activities (*id.*, ¶ 3). Joseph Gabbay and Ralph Gindi, CEO and COO of Bluestar, are responsible the company's day-to-day operations, while Joseph Sutton, General Counsel, is responsible for Bluestar's legal operations (*id.*, ¶¶ 2, 4). These three individuals are the most knowledgeable about Bluestar's business strategies, branding philosophy and finances (*id.*, ¶ 5).

Bluestar first retained Sheppard Mullin in 2012 as defense counsel in a case involving patent infringement before the Eastern District of Texas and the International Trade Commission (*id.*, ¶ 6). In June 2015, Bluestar worked with Sheppard Mullin on a potential acquisition of the Ben Sherman brand, a British menswear trademark; the acquisition did not close (*id.*, ¶ 10).

Between June 25, 2015 and July 15, 2015, Sheppard Mullin and Mr. Max (collectively, the **Sheppard Firm**) represented Bluestar in the acquisition of the Limited Too brand (*id.*, ¶¶ 12-13; hereinafter the **Limited Too Acquisition**). As a result of the Limited Too Acquisition, Mr. Gindi asserts that Mr. Max became familiar with the terms Bluestar seeks in its asset purchase agreements, how it structures acquisitions and how it calculates the price of intellectual property assets (*id.*, ¶ 13).

Bluestar was subsequently sued on July 28, 2015 by Tween Brands Investment LLC in the action of *Tween Brands Investment, LLC v. Bluestar Alliance LLC*, Case No. 15-CV-2663 (NYSCEF Doc. No. 318; hereinafter the **Tween Action**). The Tween Action involved claims for copyright infringement and unfair competition brought by a former licensee of the LIMITED TOO trademark (*id.*). The plaintiff in the Tween Action operated retail and online stores selling clothing and accessories for girls aged 7 to 14 (*id.*, ¶ 7).

The Sheppard Firm spent four weeks defending Bluestar in the Tween Action before new counsel was approved by Bluestar's insurance carrier at the end of August 2015 (NYSCEF Doc. No. 329, ¶¶ 7-8, 16). During the Tween Action, Mr. Gindi recalls that he, Mr. Sutton and Mr. Gabbay were in almost daily contact with Mr. Max. Mr. Gindi further explains that Mr. Max "(i) counseled Bluestar on the settlement of the case; (ii) received information concerning Bluestar's insurance policy and advised it concerning ways to obtain coverage; (iii) investigated the underlying facts of the matter by speaking with multiple Bluestar employees, including those in its marketing department; (iv) became privy to the manner in which Bluestar operates its websites and advised Bluestar concerning how the Bluestar website could be redesigned; (v) formulated strategies to help Bluestar resist Tween's overreaching discovery demands; and (vi) drafted a declaration signed by Mr. Gabbay that discussed, among other things, the nature of Bluestar's business and that referred specifically to Bluestar's ownership of the NANETTE LEPORE trademark" (NYSCEF Doc. No. 329, ¶ 15).

The Plaintiffs commenced this action on December 21, 2016 for the alleged breach of certain agreements related to the Plaintiffs' acquisition of intellectual property from women's apparel designer Nanette Lepore on or around December 15, 2014 (NYSCEF Doc. No. 2, ¶ 34). The Plaintiffs assert seventeen causes of action against the Defendants, twelve of which involve breach of contract regarding a certain license agreement, transaction agreement and consulting agreement (NYSCEF Doc. No. 2). Other causes of action in the complaint include tortious interference, common law unfair competition, breach of fiduciary duty, breach of the implied covenant of good faith and fair dealing and unjust enrichment (*id.*). The Defendants' counterclaims include a cause of action for breach of the license agreement regarding the unauthorized use of certain trademarks by the Plaintiff's licensees (NYSCEF Doc. No. 167, ¶¶

208-215). On February 19, 2019, Sheppard Mullin entered an appearance on behalf of the Defendants in the present action (NYSCEF Doc. No. 329, ¶ 15).

The Plaintiffs now move to disqualify the Sheppard Firm from representing the Defendants because of Bluestar's prior relationship with the Sheppard Firm.

Discussion

Whether a motion to disqualify should be granted rests in the discretion of the motion court (*Mayers v Stone Castle Partners, LLC*, 126 A.D.3d 1, 6 [1st Dept 2015], citing *Macy's Inc. v J.C. Penny Corp., Inc.*, 107 AD3d 616, 617 [1st Dept 2013]). There is a "heavy burden" on the party seeking disqualification of an attorney to show that it is warranted (*Dietrich v Dietrich*, 136 AD3d 461, 462 [1st Dept 2016]).

In order to disqualify an adversary's attorney, the movant must prove either (A) "(1) the existence of a prior attorney-client relationship between the moving party and opposing counsel, (2) that the matters involved in both representations are substantially related and (3) that the interests of the present client and former client are materially adverse" (*Tekni-Plex, Inc. v Meyner & Landis*, 89 N.Y.2d 123, 131 [1996]) or (B) that the attorney previously received confidential information substantially related to the present litigation (*Lightning Park v Wise Lerman & Katz, P.C.*, 197 AD2d 52, 55 [1st Dept 1994]).

In their papers, the parties concede that the first and third branches of the *Tekni-Plex* test are satisfied. However, the parties dispute whether Sheppard Mullin's prior and present representation of Bluestar is substantially related. The Plaintiffs rely on *Anonymous v. Anonymous* to argue that a substantial relationship exists when there is common subject matter

between former and present matters (262 AD2d 216 [1st Dept 1999], citing *Tekni-Plex, Inc.*, 89 N.Y.2d 123, 134-35). In *Tekni-Plex*, the law firm's former and present representation were substantially related because both implicated the same merger agreement and compliance with certain environmental laws to obtain a permit (*Tekni-Plex, Inc.*, 134-35). In opposition, the Defendants cite *Becker v. Perla* to argue that a substantial relationship exists between former and present litigation when the issues are identical or essentially the same (125 AD3d 575, 575 [1st Dept 2015]).

The Plaintiffs argue that the Sheppard Firm's prior and present representation are substantially related because both involve the Bluestar business and share one similar defense regarding the use of intellectual property whose purchase was facilitated by Bluestar. Putting aside the issue of whether or not there was a substantial relationship, it is unquestionable that the Sheppard Firm received confidential information from Bluestar.

The New York Rules of Professional Conduct define confidential information to consist of "information gained during or relating to the representation of a client, whatever its source, that is (a) protected by the attorney-client privilege, (b) likely to be embarrassing or detrimental to the client if disclosed, or (c) information that the client has requested be kept confidential" (Rule 1.6 (a) (3)). The movant seeking disqualification must identify the "specific confidential information imparted to the attorney" (*Saftler v Govt. Empls. Ins. Co.*, 95 AD2d 54, 57 [1st Dept 1983]). However, the movant does not have to show that confidential information will be disclosed during litigation, but that there is a reasonable probability of such disclosure (*Greene v Greene*, 47 NY2d 447, 453 [1979]).

The Plaintiffs argue that the Sheppard Firm received confidential information during its prior representation of Bluestar. In his affidavit in opposition, Mr. Max described Sheppard Mullin's representation of Bluestar in the Tween Litigation to encompass retaining local counsel in Ohio, drafting a sworn declaration of Bluestar's CEO and suggesting changes to Bluestar's website due to the litigation (NYSCEF Doc. No. 329, ¶ 7). However, Mr. Max's representation of Bluestar goes beyond this limited description.

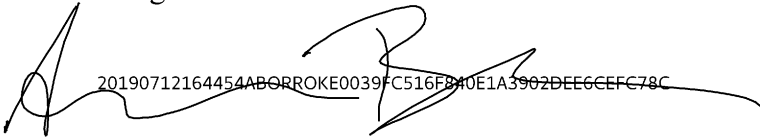
During oral argument, the Plaintiffs offered certain privileged materials including e-mails exchanged between the Sheppard Firm and Bluestar during the Limited Too Acquisition and the Tween Action. The court's in-camera review of these materials, which are clearly subject to attorney-client privilege, confirm and corroborate the Plaintiffs accounting of the scope of Mr. Max's and the Sheppard Firm's representation. Although the Sheppard Firm emphasizes the short duration of the prior representation in the Tween Action, the frequency of communications with Bluestar executives and the legal issues discussed reveal that the Sheppard Firm received confidential information from Bluestar that is substantially related to this action.

The confidential information at issue is substantially related to this case because Mr. Max's understanding of Bluestar's business and litigation approach is material to his present defense against Bluestar – i.e., the way that Bluestar conducted its business, its insurance, its litigation strategy in the prior representation including without limitation its positions on discovery. Mr. Max's previous interactions with Bluestar's CEO, COO and General Counsel are also relevant and problematic as these same Bluestar executives will be deposed in this case (NYSCEF Doc No. 312, ¶ 24). Under these circumstances, the court finds that the Sheppard Firm is disqualified.

To the extent that the Defendants argue that the motion to disqualify was delayed and made for tactical purposes, the court disagrees. This issue was highlighted in the very first appearance following its transfer. In addition, the events preceding this motion suggest that the parties engaged in a good faith effort to resolve the disqualification issue. The parties' failure to accomplish these objectives, resulting in the subsequent motion to disqualify, does not demonstrate gamesmanship or delay that would unfairly prejudice the Defendants, who are concurrently represented by a separate law firm.

Accordingly, it is

ORDERED that the Plaintiffs motion to disqualify Sheppard, Mullin, Richter, & Hampton LLP and Theodore C. Max from representing the Defendants is granted.



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7/12/2019
DATE

ANDREW BORROK, J.S.C.

CHECK ONE:	<input type="checkbox"/> CASE DISPOSED	<input checked="" type="checkbox"/> NON-FINAL DISPOSITION
	<input checked="" type="checkbox"/> GRANTED	<input type="checkbox"/> GRANTED IN PART
	<input type="checkbox"/> DENIED	<input type="checkbox"/> OTHER
APPLICATION:	<input type="checkbox"/> SETTLE ORDER	<input type="checkbox"/> SUBMIT ORDER
CHECK IF APPROPRIATE:	<input type="checkbox"/> INCLUDES TRANSFER/REASSIGN	<input type="checkbox"/> FIDUCIARY APPOINTMENT
		<input type="checkbox"/> REFERENCE