Supply Co., LLC v Hardy Way, LLC
2022 NY Slip Op 32699(U)
August 9, 2022
Supreme Court, New York County
Docket Number: Index No. 652855/2016
Judge: Melissa Crane

SUPREME COURT OF THE STATE OF NEW YORK
NEW YORK COUNTY

PRESENT: **HON. MELISSA CRANE** **PART** **60M**

Justice

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SUPPLY COMPANY, LLC,

Plaintiff,

- v -

HARDY WAY, LLC,ICONIX BRAND GROUP, INC.

Defendant.

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INDEX NO. 652855/2016

MOTION DATE 07/21/2022

MOTION SEQ. NO. 002

DECISION + ORDER ON MOTION

The following e-filed documents, listed by NYSCEF document number (Motion 002) 64, 65, 66, 67, 68, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78, 79, 80, 81, 82, 83, 84, 85, 86, 87, 88, 89, 90, 91, 92, 93, 94, 95, 96, 97, 98, 99, 100, 101, 102, 103, 105, 106, 107, 108, 109, 110, 111, 112

were read on this motion to/for JUDGMENT - SUMMARY.

This action arises from Supply Co., LLC's ("Supply") license agreement with Hardy Way, LLC ("Hardy"). Under the agreement, Supply was permitted to use the trademarks for the Ed Hardy fashion brand.

In *Supply Company, LLC v Hardy Way, LLC and Iconix Brand Group, Inc.* (652855/2016) ("Action 1"), defendants Hardy and Iconix Brand Group, Inc. ("Iconix") seek summary judgment dismissing plaintiff Supply's claim for fraudulent inducement. Hardy and Iconix also seek summary judgment granting their counterclaim for breach of contract.

In *Hardy Way, LLC v Kevin Yap* (653101/2017) ("Action 2"), plaintiff Hardy seeks summary judgment dismissing Supply's counterclaim for fraudulent inducement. Hardy also seeks summary judgment granting its own claim for breach of guaranty against Supply's principal and guarantor, Kevin Yap ("Yap").

BACKGROUND

In November 2014, Supply entered into a license agreement with Hardy permitting Supply to manufacture, warehouse, distribute, bill and collect payment for Ed Hardy brand products ("License Agreement"). Pursuant to the License Agreement, Supply was required to pay Hardy royalty fees amounting to 20% of its "Gross Wholesale Sales" (Action 2, NYSCEF Doc. No. 71, ¶ 7.1 and Schedule C). Supply was entitled to take certain deductions relating to markups, chargebacks, or returns of Ed Hardy products when calculating its "Gross Wholesale Sales." Under the License Agreement, Supply was entitled to apply a maximum deduction of 18% of its gross wholesale sales for any annual period, and Supply was required to make a minimum royalty payment of $1,500,000.00. (*id.*).

Additionally, Yap guaranteed Supply's performance under the License Agreement (*see* Action 2, NYSCEF Doc. No. 71, Ex. B [the "Guarantee"]). In the Guarantee, Yap agreed to pay all sums due to Hardy in the event of Supply's default (*id.*).

Schedule D to the License Agreement identified a list of "approved" retailers. Under the License Agreement, Supply was required to "document and accept orders" for Ed Hardy products from these "approved" retailers. Nonparty Rainbow Apparel Distribution Center Corp. ("Rainbow") was one of the pre-approved retailers on Schedule D. Yap testified that Iconix—the brand management company that created Hardy to manage the Ed Hardy trademarks—arranged for the sale of Ed Hardy products to Rainbow at least as early as June or July 2014 (Action 1, NYSCEF Doc. No. 76 at 107-108). Rainbow agreed to purchase, in total, over $4.5 million worth of Ed Hardy products, and **Iconix**—not Supply—placed the order (Action 1, NYSCEF Doc. No. 2, ¶ 46; Action 1, NYSCEF Doc. No. 4). Under the License Agreement, the Iconix parties were "solely responsible" for placing sales of the Ed Hardy product (Action 2, NYSCEF Doc. No. 102,

¶ 46; Action 2, NYSCEF Doc. No. 71, ¶ 1.4). From January to March 2015, Supply fulfilled Rainbow's orders (*id.*).

Supply entered into a markup agreement ("Markup Agreement") with Rainbow in November 2014 in connection with the sale of Ed Hardy products to Rainbow. Neither Hardy nor Iconix are parties to the Markup Agreement. Under the Markup Agreement, Supply guaranteed Rainbow a Minimum Maintained Markup percentage of 50% on sales of Ed Hardy merchandise. Supply was also required to reimburse Rainbow for Rainbow's losses (Action 1, NYSCEF Doc. No. 2, ¶¶ 39-41; Action 1, NYSCEF Doc. No. 16). That is, Rainbow had the right to markdown any Ed Hardy products it received from Supply without Supply's approval, and Supply was obligated to reimburse Rainbow "the difference of what [Rainbow] would have needed in order to achieve the Minimum Maintained Markup percentage target."

Subsequently, Rainbow submitted a $3,300,000.00 markup reimbursement request to Supply because the retailer needed to deeply discount the Ed Hardy products to sell them. After Hardy and Iconix declined to reimburse Supply for Rainbow's reimbursement request, Supply refused to pay Hardy the $1.5 million minimum royalty amount under the License Agreement and Supply commenced Action 1.

In its complaint in Action 1, Supply asserts causes of action for breach of contract, fraud in the inducement, breach of the implied covenant of good faith and fair dealing, and unjust enrichment. In Action 1, the court previously dismissed Supply's breach of contract, breach of good faith and fair dealing, and unjust enrichment claims (Action 1, NYSCEF Doc. No.39). Thus, Supply's only surviving cause of action in Action 1 is fraud in the inducement. As relevant here, in support of that claim, Supply alleges that Hardy and Iconix fraudulently induced it to enter into the 2014 License Agreement by withholding material nonpublic knowledge regarding the Ed

Hardy trademarks' lack of value (Action 1, NYSCEF Doc. No. 2, ¶¶ 60-61, 65). Hardy and Iconix answered Action 1 and asserted a counterclaim for breach of the License Agreement based on Supply's failure to tender the $1.5 million minimum royalty fee.

Additionally, Hardy initiated Action 2 by filing a complaint against Yap for breach of the Guarantee. Yap answered the complaint in Action 2 and asserted counterclaims for declaratory judgment based on Hardy and Iconix's alleged "deceptive misrepresentations and/or omissions" which were made "in order to induce Supply Co. and Yap to . . . enter into the License Agreement" (Action 2, NYSCEF Doc. No. 4, ¶ 49). In both Action 1 and 2, the court dismissed all of Supply's and Yap's claims and counterclaims except for those asserting fraudulent inducement, including the claim for breach of the covenant of good faith and fair dealing in Action 1, despite that Iconix and Hardy, rather than Supply, placed all orders. Neither Supply nor Yap appealed the dismissal of these claims.

Therefore, the only claims before the court on these motions are (1) Supply's cause of action in Action 1 for fraudulent inducement, (2) Yap's counterclaims in Action 2 sounding in fraudulent inducement, and (3) Hardy's and Iconix's breach of the License Agreement and Guarantee claims in both actions.

DISCUSSION

Summary judgment is a drastic remedy which will be granted only when the party seeking summary judgment has established that there are no triable issues of fact (*see* CPLR 3212[b]; *Alvarez v Prospect Hosp.*, 68 NY2d 320, 324 [1986]; *DeCintio v Lawrence Hosp.*, 33 AD3d 329, 329 [1st Dept 2006]). To prevail, the party seeking summary judgment must make a prima facie showing of entitlement to judgment as a matter of law tendering evidentiary proof in admissible form, which may include deposition transcripts and other proof annexed to an attorney's

affirmation (*see Olan v Farrell Lines,* 64 NY2d 1092, 1093 [1985]; *Zuckerman v City of New York,* 49 NY2d 557, 562 [1980]; *Branda v. MV Public Transp., Inc.*, 139 AD3d 636, 637 [1st Dept 2016] [granting summary judgment in favor of third-party defendant where third-party defendant established lack of causation through party deposition testimony and third-party plaintiff failed to raise an issue of fact in response])

If the initial showing has been made, the burden shifts to the party opposing the motion for summary judgment to rebut the prima facie showing by producing evidentiary proof in admissible form sufficient to require a trial of material issues of fact (*see Kaufman v Silver,* 90 NY2d 204, 208 [1997]). Although the court must carefully scrutinize the motion papers in a light most favorable to the party opposing the motion and must give that party the benefit of every favorable inference (*see Negri v Stop & Shop,* 65 NY2d 625, 626 [1985]), and summary judgment should be denied where there is any doubt as to the existence of a triable issue of fact (*see Ahmad v. City of New York*, 129 AD3d 443, 444 [1st Dept 2015]), bald, conclusory assertions or speculation and "[a] shadowy semblance of an issue" are insufficient to defeat a summary judgment motion (*Belle Lighting LLC v Artisan Construction Partners LLC*, 178 AD3d 605, 606 [1st Dept 2019]).

1. Supply's and Yap's Fraudulent Inducement Claims

To prevail on a claim for fraudulent inducement, a claimant must show a "material representation, known to be false, made with the intention of inducing reliance, upon which [it] actually relie[d], consequentially sustaining a detriment" (*Frank Crystal & Co., Inc. v Dillmann*, 84 AD3d 704, 704 [1st Dept 2011]).

The purported misrepresentations that Yap identifies in his affidavit include: Iconix's failure to disclose its former CFO's [Seth Horowitz] criminal fraud on the market, including his

inflation of Iconix's 2014 annual revenue and sales and concealment of the "true state of their financials" (Action 2, NYSCEF Doc. No. 102, ¶¶ 7, 27, 37, 79); and Horowitz's purported assurance that Supply would not suffer any loss associated with Rainbow's markup reimbursements (Action 2, NYSCEF Doc. No. 102, ¶ 61). There is nothing in the record to support these claims.

Supply and Yap did not rely on any material misrepresentations or omissions in entering into either the License Agreement or the Guarantee. Specifically, during his deposition, Yap did not identify any particular misrepresentation that Iconix made to induce him and Supply to enter into the License Agreement or Guarantee (Action 2, NYSCEF Doc. No. 79 at 91-95). Indeed, Yap admitted that he did not review any SEC filings relating to Iconix or Hardy and Supply was not given any related financials to review (Action 2, NYSCEF Doc. No. 79 at 91). Yap's testimony also shows that he was aware, prior to Supply entering into the License Agreement, that Ed Hardy was being "sold at lower-tier retailers" (Action 2, NYSCEF Doc. No. 79 at 76, 81-82).

Yap expressly stated at his deposition:

> "Q. . . . Prior to entering into the Ed Hardy license, did you ever review any of Iconix's financial statements filed with the SEC?
> A. No, I only look at the stock price sometimes.
> Q. You didn't look at any of the SEC filings concerning the financials of the company, correct?
> A. No, I did not look at SEC filings, no.
> Q. During the negotiation of the Ed Hardy license, did you ask Iconix to provide any financial statements?
> A. No.
> Q. During the negotiation of the Ed Hardy license, did Iconix ever say anything to you about their financial condition?
> A. No"

(Action 1, NYSCEF Doc. No. 76 at 90-91).

Yap and Supply fail to controvert Yap's prior statement. They submit the affidavit of Yap, in which he seeks to correct course following this testimony. In his affidavit, Yap states that

"[w]hile [he] did not review the[] SEC filings at the time," he "relied" on "what Iconix falsely made the entire marketplace believe . . . i.e., Iconix was both reputable and profitable" (Action 2, NYSCEF Doc. No. 102, ¶ 37). However, the court is not obligated to rely on an affidavit that plainly contradicts deposition testimony and appears to be "tailored to avoid the consequences of [that] earlier testimony" (*Garcia v Good Home Realty, Inc.*, 67 AD3d 424, 425 [1st Dept 2009]).

Accordingly, Yap and Supply could not have relied on Iconix's or Hardy's alleged misrepresentations in order to enter the License Agreement (*see Shea*, 244 AD2d at 46 [dismissing fraudulent inducement claim on summary judgment because "the element of reliance (was) conspicuously absent"]); *see also J.A.O. Acquisition Corp. v Stavitsky,* 8 NY3d 144, 148 [2007] [dismissing on summary judgment negligent misrepresentation claim based on a payoff letter where the plaintiff "failed to raise a triable question of fact as to the reliance requirement" because the evidence showed the decision to purchase stock "was not dependent upon the payoff letter"]; *Steinberg v Armstrong Plumbing and Heating, Inc.*, 153 AD3d 1379, 1380 [2017]; *Intl Fcstone Markets, LLC v Corrib Oil Co. Ltd.*, 2018 NY Slip Op 30646[U], *8 [Sup Ct, NY County Apr 9, 2018], *aff'd* 2019 NY Slip Op 03682 [1st Dept 2019] [dismissing fraudulent inducement claim on summary judgment for lack of reasonable reliance]).

Additionally, the court finds the purported omissions concerning the criminal information or indictment of Horowitz insufficient to establish a material omission of fact for purposes of fraudulent inducement. In order to establish fraudulent inducement on the basis of an omission rather than a misrepresentation, Supply was required to show a "fiduciary relationship giving rise to a duty to speak" (*see International Finance Corp. v Carrera Holdings Inc.*, 82 AD3d 641, 642 [1st Dept 2011]). No such relationship existed here because Supply, Hardy, and Iconix were

"sophisticated parties to an arms-length transaction" (*Nuntnarumit v Lyceum Partners LLC*, 165 AD3d 532, 533 [1st Dept 2018]).

Further, Yap's and Supply's fraud-on-the-market theory is misplaced. Allegations that Iconix generally engaged in fraud and misrepresented its financials publicly ("Iconix mislead the market and Iconix mislead me") cannot, alone, establish fraudulent inducement. The fraud-on-the-market theory is commonly raised in federal securities actions and creates a rebuttable presumption of reliance on false representations or omissions of material fact in connection with the purchase or sale of securities (*see e.g. Ackerman v Price Waterhouse*, 252 AD2d 179, 197 [1st Dept 1998]).

Even assuming that Iconix misrepresented its financials to the public, Supply and Yap cannot establish that Iconix made those misrepresentations specifically to induce them to enter into the License Agreement and Guarantee (*see e.g., Shea*, 244 AD2d at 46). Here, Iconix's 2016 8-K indicates that Iconix restated its financials based on a reassessment of the accounting treatment of "joint ventures and other sales of intellectual property." Iconix makes no reference to the License Agreement or Guarantee in that form (Action 2, NYSCEF Doc. No. 83, Item 4.02). Moreover, the 2016 10-Q that Supply and Yap submit in opposition to the motion does not raise a triable issue of fact. The 2016 10-Q form describes how Iconix increased its ownership interests in Hardy Way from 50% to 85% in 2011 (Action 2, NYSCEF Doc. No. 94 at 19), approximately three years before the transactions at issue here occurred.

Moreover, Iconix's oral or written assurances regarding markup reimbursements cannot form the basis for a fraudulent inducement claim in the face of the plain language of the License Agreement. The court previously ruled that any oral agreement that Hardy or Iconix would bear the markdown reimbursement losses is "inconsistent with section 8.1 of the License Agreement . . . [which] unambiguously limits . . . 'Deductions' [including] markdowns" (Action 2, NYSCEF

Doc. No. 43 at 10). The court found that an oral agreement to bear Supply's reimbursement costs would be "barred by the general merger clause of the License Agreement," that provides the agreement "contains the entire understanding and agreement between the parties hereto with respect to the subject matter hereof, supersedes all prior oral or written understandings and agreements relating thereto and may not be modified, discharged or terminated, nor may any of the provisions hereof be waived, orally" (Action 2, NYSCEF Doc. No. 43 at 10-11) (emphasis added). The License Agreement and Guarantee make no mention of the Markup Agreement. Further, Iconix's July 2014 email communications that Supply and Yap submit predate the License Agreement and Guarantee (*see* Action 1, NYSCEF Doc. No. 98) and are precluded by the merger clause.

Thus, Hardy and Iconix are entitled to judgment as a matter of law dismissing Yap and Supply's claims, counterclaims, and defenses in both actions for fraudulent inducement.

2. Hardy's Claims for Breach of Contract and the Guarantee

For a party to establish a claim for breach of contract, they are required to establish the "existence of a valid contract, plaintiff's performance of his obligations thereunder, defendant's breach . . . and resulting damages" (*Morris v 702 E. Fifth St. HDFC*, 46 AD3d 478, 479 [1st Dept 2007]). To establish entitlement to judgment as a matter of law on a guaranty, a plaintiff must prove the "existence of the guaranty, the underlying debt and the guarantor's failure to perform under the guaranty" (*Cooperatieve Centrale Raiffeisen-Boerenleenbank, B.A., "Rabobank Intl.," N.Y. Branch v Navarro*, 25 NY3d 485, 492 [2015]).

Hardy establishes prima facie entitlement to judgment as a matter of law for both claims by submitting Yap's deposition testimony, the License Agreement, and the Guarantee. Specifically, it establishes that: Hardy provided rights associated with the Ed Hardy trademark to

Supply in exchange for, inter alia, a minimum royalty fee of $1,500,000.00 (Action 2, NYSCEF Doc. No. 71, ¶ 7.1 and Schedule C); Supply failed to pay that minimum royalty (Action 2, NYSCEF Doc. No. 79, p. 25); and that Hardy was thereby damaged. Hardy also establishes that Yap personally guaranteed the minimum royalty payment and failed to pay it after Supply breached the License Agreement (Action 2, NYSCEF Doc. No. 79 at 25, 101-102). The court has dismissed Supply's claim for fraudulent inducement (Action 1) and Yap's defense and counterclaims for fraudulent inducement (Action 2) above, and they submit no evidence to raise a triable issue of fact with respect to Hardy's breach of contract and breach of the guarantee claims.

3. Hardy's Attorneys' Fees

The License Agreement states that "[Supply] shall be responsible for and shall reimburse [Hardy] for any and all costs incurred by [Hardy] in seeking to collect any sums due to [Hardy] hereunder, including attorneys' and collection agency fees and expenses" (Action 2, NYSCEF Doc. No. 71, ¶ 19.1[a]). The Guarantee requires Yap to pay personally any sums that Supply is required to pay under the License Agreement. Iconix is not a party to those agreements and is not entitled to recover its attorneys' fees.

Supply and Yap failed to address Hardy's demand for attorneys' fees in their opposition to these motions. Therefore, they have squandered the opportunity to contest the demand (*see Lugo v Henry Phipps Plaza East, Inc.*, 2008 N.Y. Misc. LEXIS 10646, 2008 NY Slip Op 30976(U), *5 [Sup Ct, NY County Apr 4, 2008]). However, the court denies the part of Hardy's motions seeking to recover attorneys' fees because there is no proof on this record of what those fees and costs were.

The court has considered the parties' remaining contentions and finds them unavailing.

Accordingly, it is

ORDERED that Motion Seq. No. 02, Hardy and Iconix's motion for summary judgment dismissing Supply's fraudulent inducement claim in Action 1 (*Supply Company, LLC v Hardy Way, LLC and Iconix Brand Group, Inc.* [652855/2016]), is granted, and the complaint in Action 1 is dismissed; and it is further

ORDERED that the portion of Hardy Way, LLC's motion for summary judgment on its counterclaim in Action 1 for breach of contract is also granted; and it is further

ORDERED that the portion of Hardy Way, LLC's motion for attorneys' fees is denied without prejudice to a new motion to be filed within 20 days, otherwise an award of attorneys' fees is waived; and it is further

ORDERED that the portion of Iconix Brand Group, Inc.'s motion for attorneys' fees is denied with prejudice; and it is further

ORDERED that the Clerk is directed to enter judgment in favor of Hardy Way, LLC, and against Supply Company, LLC, in the amount of $1,500,000.00, with pre-judgment interest at the statutory rate from May 27, 2016 to the date of this decision and order, as calculated by the Clerk of the Court, together with costs and disbursements, as taxed by the Clerk upon the submission of an appropriate bill of costs.

8/9/2022
DATE

MELISSA CRANE, J.S.C.

CHECK ONE:	[X]	CASE DISPOSED		[ ]	NON-FINAL DISPOSITION		
	[ ]	GRANTED	[ ] DENIED	[X]	GRANTED IN PART	[ ]	OTHER
APPLICATION:	[ ]	SETTLE ORDER		[ ]	SUBMIT ORDER		
CHECK IF APPROPRIATE:	[ ]	INCLUDES TRANSFER/REASSIGN		[ ]	FIDUCIARY APPOINTMENT	[ ]	REFERENCE