

**JMB Apparel Designer Group, Inc. v Arochas**

2011 NY Slip Op 33893(U)

November 18, 2011

Supreme Court, New York County

Docket Number: 651885/2010

Judge: Charles E. Ramos

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SUPREME COURT OF THE STATE OF NEW YORK — NEW YORK COUNTY

PRESENT: \_\_\_\_\_

PART 53

Index Number : 651885/2010

JMB APPAREL DESIGNER GROUP,

vs

AROCHAS, ROBERT S.

Sequence Number : 002

DISMISS ACTION

INDEX NO. \_\_\_\_\_

MOTION DATE \_\_\_\_\_

MOTION SEQ. NO. \_\_\_\_\_

MOTION CAL. NO. \_\_\_\_\_

The following papers, numbered 1 to \_\_\_\_\_ were read on this motion to/for \_\_\_\_\_

Notice of Motion/ Order to Show Cause — Affidavits — Exhibits ...

Answering Affidavits — Exhibits \_\_\_\_\_

Replying Affidavits \_\_\_\_\_

PAPERS NUMBERED

Cross-Motion:  Yes  No

Upon the foregoing papers, it is ordered that this motion

is decided in accordance with accompanying memorandum decision and order.

Dated: 11/18/11

  
**CHARLES E. RAMOS**  
J.S.C.

Check one:  FINAL DISPOSITION  NON-FINAL DISPOSITION

Check if appropriate:  DO NOT POST  REFERENCE

SUBMIT ORDER/ JUDG.

SETTLE ORDER/ JUDG.

MOTION/CASE IS RESPECTFULLY REFERRED TO JUSTICE FOR THE FOLLOWING REASON(S):

SUPREME COURT OF THE STATE OF NEW YORK  
COUNTY OF NEW YORK: COMMERCIAL DIVISION

-----X  
JMB APPAREL DESIGNER GROUP, INC.,

Plaintiff,

Index No. 114898-07

-against-

ROBERT S. AROCHAS, D-NACH, LTD., and  
FAB MILL, INC.,

Defendants.

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**Hon. Charles Edward Ramos, J.S.C.:**

In motion sequence 002, defendants move to dismiss plaintiff's complaint for failure to state a claim and based on documentary evidence (CPLR 3211[a][1],[7]).<sup>1</sup>

Background<sup>2</sup>

Plaintiff, JMB Apparel Designer Group Inc. ("JMB"), is a New York corporation that is in the business of manufacturing and selling "traditionally styled" women's garments to national discount retailers. Since JMB's formation in December 2003, Defendant Robert S. Arochas was its primary salesperson until his departure in May 2010.<sup>3</sup>

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<sup>1</sup> It appears that JMB has submitted an oversized brief (55 pages) without obtaining prior Court permission in contravention of Commercial Division Rule 17. Any future submissions of this nature will be neither read, nor considered.

<sup>2</sup>The factual background is derived from the Complaint unless otherwise noted.

<sup>3</sup> Corporate defendants D-Nach Ltd. and Fab Mill, Inc. are alleged to be part of (or working in concert with) Arochas' newly formed garment business, "Atelier Luxe" (together with Arochas,

JMB sells its garments under the name "Atelier," which has not been registered in New York or with the U.S. Patent and Trademark Office ("USPTO"), but which JMB alleges has acquired a secondary meaning within the industry (Reply Memo at 2; Complaint at ¶ 48).<sup>4</sup> In 2007, an affiliated corporation of JMB unsuccessfully attempted to register "Atelier" as a trademark. In March 2010, Arochas registered the trademark "Atelier Luxe."

The gravamen of JMB's Complaint alleges that Defendants deceived JMB's buyers by selling them similarly designed clothing through a confusingly similar trade name ("Atelier Luxe") using JMB's good will from its "Atelier" label. In his counter-claim, Arochas argues that JMB deprived him of 20% of the profits from his last year of employment at JMB.

On June 28, 2011, the Court denied JMB's motion for a preliminary injunction, which sought to enjoin Defendants from continuing to conduct their apparel business under the name "Atelier Luxe" or a similar word combination. JMB's Complaint sets forth five causes of action arising from Arochas' alleged wrongful actions: trademark infringement, unfair competition, breach of fiduciary duty, tortious interference with prospective

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the "Defendants").

<sup>4</sup>"Atelier" translates to "studio" or "workshop" in French. The word "Atelier" is used by hundreds of New York businesses, including many in the garment industry. "Atelier" also forms part of at least 16 marks registered with the USPTO, 12 of which disclaim exclusive right to use the word "Atelier" alone (*id.*).

business relations, and constructive trust.

Motion to Dismiss

"Dismissal under CPLR 3211(a)(1) is warranted 'only if the documentary evidence submitted conclusively established a defense to the asserted claims as a matter of law'" (*Leon v Martinez*, 84 NY2d 83, 88 [1994]).

When assessing the adequacy of a complaint on a motion to dismiss pursuant to CPLR 3211(a)(7), a court must afford the pleadings a liberal construction, accept the allegations of the complaint as true, and provide the plaintiff "the benefit of every possible favorable inference" (*id.* at 87-88). Whether a plaintiff can ultimately establish its allegations is not part of the calculus in determining a motion to dismiss (*id.*). The motion must be denied if from the pleadings' four corners "factual allegations are discerned which taken together manifest any cause of action cognizable at law" (*511 West 232nd Owners Corp. v Jennifer Realty Co.*, 98 NY2d 144, 152 [2002], quoting *Guggenheimer v Ginzburg*, 43 NY2d 268, 275 [1977]).

Discussion<sup>5</sup>

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<sup>5</sup> Defendants repeatedly cite to case law involving post-trial or summary judgment dispositions in support of its 3211 motion to dismiss. Although the facts and holdings in these cases are potentially relevant and persuasive, they were all decided well after the pleadings stage, and are substantially less than compelling for 3211 purposes (see e.g., *Allied Maintenance Corp. v Allied Mechanical Trades, Inc.*, 42 NY2d 538 [1977]; *Shear Contractors, Inc. v Shear Enterprises & General Contracting*, 2010 U.S. Dist. LEXIS 122173 [ND NY 2010]; *Sally*

I. Trademark Infringement - First and Second Causes of Action

A. CPLR 3211(a)(1)

Defendants seek to bar JMB's trademark infringement claim based on JMB's admission that it "does not claim the right to make exclusive use of ["Atelier"], which...is used by many companies in many ways" (Marcella Law Reply Affidavit, ¶ 8). However, this statement alone does not conclusively establish a defense to the claim as a matter of law in accordance with CPLR 3211(a)(1).

JMB admits that the "Atelier" trade name is a weak mark and that it cannot claim exclusivity over it throughout the entire marketplace. JMB appears to claim, however, the right to use the mark exclusively in its niche market of discount retailers, due in part to the "Atelier" name achieving a "secondary meaning" (see Complaint ¶¶ 38-39, 48-55). It is therefore JMB's burden to prove, which this Court will allow it the opportunity to establish, that the "Atelier" trade name is a protectable mark by showing that it has acquired sufficient distinctiveness of its goods in commerce (see *Shear Contractors, Inc.*, 2010 U.S. Dist. LEXIS 122173).

B. CPLR 3211(a)(7)

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*Gee, Inc. v Myra Hogan, Inc.*, 699 F2d 621 [2d Cir 1983]; *Jewish Sephardic Yellow Pages, Ltd. v Dag Media, Inc.*, 478 FSupp 2d 340 [ED NY 2007]; *Ergotron, Inc. v Hergo Ergonomic Support Systems, Inc.*, 1996 WL 143903 [SD NY 1996]).

In order to state a claim for trademark infringement, the Complaint must contain allegations that the Defendants used a trade-name (actual or similar to its own), in conjunction with its product or service, and is likely to cause confusion, mistake or to deceive the public (see *Allied Maintenance Corp.*, 42 NY2d at 543). A plain reading of JBL's Complaint meets this standard (see e.g. Complaint ¶¶ 35-41).

Defendants cite to only one instance where a court dismissed a trademark infringement claim on a motion to dismiss pursuant to CPLR 3211(a)(7). In *Altitude Express, Inc. v Long Island Skydiving Center.*, 6 Misc 3d 1028A, \*2 (Sup Ct, Suffolk County 2004), the court dismissed the complaint where the plaintiff failed to allege "intention, deception, or damages" in support of its claim for unlawful use of its trade-name pursuant to General Business Law § 133.<sup>6</sup> However, this case is not applicable here. Although the factual allegations alleged in support of JMB's trademark infringement claim are cognizable as an infraction under GBL § 133, the Complaint is not similarly deficient (see e.g. Complaint ¶¶ 35-41, 61-67). Therefore, the argument is rejected.

Additionally, Defendants, citing *Allied Maintenance*, argue that JMB has failed to make a showing that the "Atelier" name has

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<sup>6</sup> GBL § 133 prohibits the use of another's name or address with the intent to deceive.

a distinctive quality or is one which has acquired a secondary meaning in the public's mind. However there is no requirement that JMB make this evidentiary showing at the pleadings stage. As the lower court noted in its decision (here, First Department), the trial court in *Allied Maintenance* rendered its decision post-trial (see *Allied Maintenance Corp. v Allied Mechanical Trades, Inc.*, 55 AD2d 865 [1st Dept], *affd* 42 NY2d 538 [1977]). Therefore, JMB's cause of action for common law trademark infringement is sustained at this time.

## II. Unfair Competition - Third and Fourth Causes of Action

Defendants argue that JMB's unfair competition claim should be dismissed because the "Atelier" trade name is not protectable (previously addressed), JMB has no proprietary rights in its generic fashion designs, and that JMB admitted that its buyers could differentiate between JMB and the Defendants.<sup>7</sup>

Although not in dispute, Defendants advance the claim that JMB can have no proprietary rights in non-distinctive designs. Rather, as is clear from the Complaint, JMB's unfair competition

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<sup>7</sup> Generally, trademark infringement and unfair competition based on trade name infringement share the same relevant principles; whether or not the public is likely to be confused (see *Shear Contractors, Inc.*, 2010 U.S. Dist. LEXIS 122173, \*21-22). However, unlike a claim for trademark infringement, an unfair competition claim based on "descriptive" trade name infringement "turns not upon the acquisition of a secondary meaning, but upon whether the acts of the defendant can be characterized as unfair" (*Allied Maintenance Corp.*, 42 NY2d at 542).



claim sounds in unfair appropriation of its goodwill. It is alleged that in furtherance of intentionally deceiving JMB's buyers, Defendants duplicated JMB's Fall 2012 catalog using the same styles and style numbers, used a confusingly similar trade name ("Atelier Luxe"), and consummated sales using JMB's established goodwill in the discount retail market (see e.g. Complaint ¶¶ 69-77).<sup>8</sup>

Lastly, Defendants argue that JMB admitted that its buyers clearly and expressly distinguished between it and Defendants in the past (see e.g. Complaint ¶¶ 45, 76). Again however, this statement does not conclusively establish a defense to the claim as a matter of law in accordance with CPLR 3211(a)(1). Defendants fail to submit documentary evidence that conclusively establishes that at the time the buyers purchased the Defendants' Fall 2010 designs, they had unequivocal knowledge the items were not being purchased from JMB through Arochas' employment (or some other false pretense), but from Defendants alone. Therefore, Defendants' arguments must be rejected at this stage.

### III. Breach of Fiduciary Duty and Constructive Trust - Fifth and Seventh Causes of Action, Respectively

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<sup>8</sup> JMB's Complaint easily satisfies the pleading requirements to state a claim for unfair competition (see *LoPresti v Mass. Mutual Life Insurance Co.*, 30 AD3d 474, 476 [2nd Dept 2006] [holding that an unfair competition claim must merely allege a bad faith misappropriation of a commercial advantage]; accord Complaint at ¶¶ 68-77).

A. Breach of Fiduciary Duty

1. Generally

To state a claim for breach of fiduciary duty, plaintiffs must allege that (1) defendant owed a fiduciary duty, (2) defendant committed misconduct, and (3) they suffered damages caused by that misconduct (*Burry v Madison Park Owner LLC*, 84 AD3d 699 [1st Dept 2011]). JMB meets this pleading standard (see Complaint ¶¶ 95-106).

Putting aside the issue of whether Arochas owed JMB a fiduciary duty at all (a point Defendants appear to concede for the purposes of this motion),<sup>9</sup> Defendants strenuously argue that Arochas did not commit misconduct by competing with JMB and selling garments to JMB's buyers (an argument more suited for summary judgment). However, more is needed to establish a record upon which the Court is able to make a determination as to what actions of Defendants represented misconduct, if any.<sup>10</sup> Certainly, an employee may create a competing business prior to

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<sup>9</sup> Rather than raising the issue of whether a fiduciary relationship ever existed between the parties, JMB concentrates its argument on whether Arochas' actions were breaches of a fiduciary duty.

<sup>10</sup> Specifically, JMB alleges that while Arochas was still employed by JMB, he committed misconduct by "stealing and misappropriating" confidential and proprietary information, and copied its garment line which is not exclusively comprised of non-distinctive designs (see Complaint ¶¶ 96-98; Opposition Brief at 46). Further, after Arochas left JMB, it is alleged that he made false statements to JMB's buyers and/or deceived them into buying garments from him, and not JMB (*Id.* at ¶¶ 99-100).

leaving his employer without breaching any fiduciary duty unless he makes improper use of the employer's time, facilities, or proprietary secrets in doing so (*Don Buchwald & Assocs. v Marber-Rich*, 11 AD3d 277 [1st Dept 2004]).

## 2. Theft of Corporate Opportunity

In its Opposition Brief, JMB introduces a new flavor to its breach of fiduciary duty claim: theft of corporate opportunity (see Opposition Brief pp 16-29). Although Defendants seek to dismiss the claim for want of a "tangible expectancy," the Court cannot decide this issue on the current record as a "matter of law" as Defendants urge (see *Alexander & Alexander v Fritzen*, 147 AD2d 241, 247-248 [1st Dept 1989][in determining whether a "corporate opportunity" has been usurped, a court must analyze whether the corporation had a "tangible expectancy" in the opportunity. That is, something much less tenable than ownership, but more certain than a "desire or a hope"]).

The branch of the motion to dismiss the breach of fiduciary duty claim is denied at this time.

### B. Constructive Trust

A constructive trust is an equitable remedy employed to prevent unjust enrichment (see *Simonds v Simonds*, 45 NY2d 233, 242 [1978]). The elements of a constructive trust are (1) a fiduciary or confidential relationship, (2) a promise, express or implied, (3) a transfer in reliance on that promise, and (4)

unjust enrichment (see *Panetta v Kelly*, 17 AD3d 163 [1st Dept 2005] *lv dismissed*, 5 NY3d 783).<sup>11</sup>

Defendants argue that a constructive trust is only appropriate where wrongdoing has occurred. As discussed above, the parties need to develop a record as to what wrongdoing, if any, actually occurred. Therefore, JMB's cause of action for constructive trust will not be dismissed at this time.

#### IV. Tortious Interference With Prospective Business Relations - Sixth Cause of Action

A claim for tortious interference with prospective business advantage must allege that: (1) the plaintiff had business relations with a third party, (2) the defendant interfered with those business relations, (3) the defendant acted for the sole purpose of harming the plaintiff or by using wrongful (or unlawful) means, and (4) there was resulting injury to the business relationship (*Thome v Alexander & Louisa Calder Foundation*, 70 AD3d 88 [1st Dept 2009], *lv denied*, 15 NY3d 703 [2010]).

Defendants argue that JMB has not appropriately alleged the element requiring wrongful means. Specifically, the Complaint must allege, (in a non-conclusory fashion [see *Algomod Technologies Corp. v Price*, 65 AD3d 974 [1st Dept 2009] *lv*

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<sup>11</sup> The Complaint clearly sets forth a cause of action for a constructive trust over the "new business created by Arochas through the corporate defendants" (see Complaint ¶¶ 119-127).

denied, 14 NY3d 707 [2010]), facts that suggest that the Defendants were motivated solely by malice or to inflict injury by wrongful means rather than by self-interest or other economic considerations (*Prestige Foods, Inc. v Whale Securities Co., L.P.*, 243 AD2d 281, 282 [1st Dept 1997]). Additionally, it requires an allegation that JMB would have entered into an economic relationship "but for" the Defendants' wrongful conduct (*Vigoda v DCA Products Plus*, 293 AD2d 265, 266, [1st Dept 2002]).

As to malice, although the Complaint mentions that Defendants acted with "malicious and improper purposes," JMB fails to allege that Defendants' actions were motivated *solely* by malice, nor do the underlying facts suggest that Defendants were not acting with some degree of self-interest in entering lucrative contracts of sale.

As to wrongful means, JMB re-alleges its prior causes of action and appears to additionally allege instances of defamation (see Complaint ¶¶ 112-113, 115).

Case law on this subject uses the terms "wrongful means" and "unlawful means" interchangeably (see e.g. *Steinberg v Schnapp*, 73 AD3d 171 [1st Dept 2010]). Wrongful means must amount to a crime or an independent tort, and may consist of physical violence, fraud or misrepresentation, civil suits, and criminal prosecutions (*Smith v Meridian Tech., Inc.*, 86 AD3d 557, 558-560 [2nd Dept 2011]). Such wrongful conduct may also include some

degrees of economic pressure. However, persuasion alone is not sufficient (*id.* at 560).

JMB alleges that Arochas used disparaging and false statements about JMB's character and integrity to its buyers (see Complaint ¶ 112). Although defamation is considered a predicate wrongful act in connection with a tortious interference claim (see *Stapleton Studios, LLC v City of New York*, 26 AD3d 236 [1st Dept 2006]), the allegation fails to comply with the heightened pleading requirements of CPLR 3016[a] (see *Amaranth LLC v J.P. Morgan Chase & Co.*, 32 Misc 3d 1235A [Sup Ct, NY County 2011]).

However, JMB does fulfill the wrongful act prerequisite by alleging the independent tort of breach of fiduciary duty/theft of corporate opportunity claims (see *Kiam v Park & 66th Corp.*, 2011 NY Slip Op 6454 [1st Dept 2011]). Furthermore, JMB satisfies the "but for" pleading requirement (see Complaint ¶ 111). Therefore, JMB states a claim for tortious interference with prospective business advantage. Therefore, the Defendants' motion to dismiss this claim is denied.

All other arguments raised by Defendants were carefully considered and deemed without merit. Accordingly, it is

ORDERED that Defendants' motion to dismiss the Complaint is denied; and it is further

ORDERED that the action shall continue.

Date: November 18, 2011



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J S C  
**CHARLES E. RAMOS**