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New York Court Awards $120 Million for Undervalued Family Trademarks

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The Palm, known mostly for its famous steaks and caricature-filled walls, is quickly becoming notable for another reason. Recently, in an opinion following a bench trial, New York State Supreme Court Judge Andrea Masley ordered the owners of The Palm steakhouse chain to pay their cousins $120 million for paying less than market rate for use of the Palm name, logo and signature style over the past 46 years. The case is *Ganzi, Gary C. et al. v. Ganzi Jr., Walter et al.*, No. 653074-2012 (N.Y. Sup. Ct.).

In their derivative suit, the cousins claimed that The Palm's owners – Bruce Bozzi Sr. and Wally Ganzi, grandsons of the concept's founders – were paying a royalty rate that had fallen substantially below market for the use of intellectual property owned by the entire family. The cousins sued Bozzi and Ganzi in their capacity as directors and majority shareholders of Just One More Restaurant Corp., the holder of the intellectual property rights. Plaintiffs argued that Bozzi and Ganzi used their controlling 80-percent stake in Just One More Restaurant Corp. to license the Palm intellectual property at an unreasonably low rate to their own wholly-owned restaurants, cutting the plaintiffs – as minority shareholders – out of a fair share of the profits.

The defendants had been paying a flat fee of $6,000 per restaurant per year to Just One More Restaurant Corp. for use of the name "The Palm" and other intellectual property, including the logo, decor, menu and food quality choices and preparation methods. The rate was set in the 1970s and never updated. For the next 40 years, the $6,000 fee was used for all new Palm restaurants in which defendants had an ownership interest, regardless of when those restaurants first opened. At issue in the suit are license agreements entered into after 2004 which continued to use the $6,000 fee which the plaintiffs argued was no longer fair or reasonable.

Further, in 2007, the defendants entered into a Master License Agreement with Just One More Restaurant Corp. through which the defendants acquired an exclusive license to the Palm intellectual property for an annual payment of $12,000. Under the MLA, the defendants then charged third parties market rate for use of the Palm intellectual property, not the $6,000 flat fee being paid by their own restaurants. Between 2006 and 2017, gross revenue for the new Palm restaurants was $1.5 billion. The defendants paid Just One More Restaurant Corp. $120,000 under the license agreements.

In ruling for the plaintiffs, Judge Masley found that the defendants' prolonged use of the flat fee deprived Just One More Restaurant Corp. and its minority shareholders of the "fair market value" of the Palm intellectual property. The court opined that the licensing agreement was a "textbook example of fiduciary misconduct" and ultimately found that the defendants had usurped corporate opportunities and breached their fiduciary duties to Just One More Restaurant Corp. The court noted that being "a closely-held corporation which began as an informal family affair" did not excuse the defendants from complying with their fiduciary obligations to the company and its minority shareholders. The court further noted that the defendants had failed to observe corporate formalities and were unable to justify why the last Just One More Restaurant board and shareholder meeting occurred more than forty years ago. This failure weakened the defense's argument that minority Just One More Restaurant Corp. shareholders understood and acquiesced to the flat-rate fees. Because the plaintiffs established that the licensing agreements were self-dealing transactions, the burden was on the defendants to prove that the fee arrangement was fair and reasonable. It was a burden they could not meet.

The defendants raised statute of limitations, laches, acquiescence, implied ratification and equitable estoppel defenses. The defendants argued that plaintiffs' claim should have been barred by the six-year statute of limitations because any original harm from the flat fee took place decades ago, during the 1970's. The defendants further argued that dating the claim back to 2006 to coincide with the defendant's expansion of The Palm franchise was inappropriate because the corporate changes were "immaterial" and "no new torts occurred when re-documenting happened." The cousins countered that they only became aware of the $6,000 flat fee in 2010, when they inherited shares of Just One More Restaurant Corp. After attempting to renegotiate the license rate with the defendants to no avail, the cousins sued.

The court ultimately agreed with the plaintiffs, and ordered defendants to pay Just One More Restaurant Corp. $71 million for past royalties and $1.7 million in lost rent, totaling over $73 million in restitution. Relying heavily on expert testimony regarding valuation, the court calculated the royalties due to the plaintiffs as 5% of gross sales for the past decade, setting a precedent for the valuation of intellectual property in licensing agreements. This rate reflects common practice for valuing licensing fees in the restaurant industry. Indeed, as Judge Masley wrote "even defendant's expert…testified that comparable rates for similar restaurants are calculated as a percentage of gross sales." The court took the fame of the Palm trademark into consideration when deciding on the 5% percentage of sales rate.

With interest and all attorneys' fees, the full award comes to $120 million.

A lawyer for the defendants has said they plan to appeal the ruling.

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