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

PRESENT: Charles Edward Ramos PART 53

Index Number : 603105/2003
AWARDS.COM,
VS
KINKO'S
Sequence Number : 009
SUMMARY JUDGMENT

INDEX NO. _____
MOTION DATE _____
MOTION SEQ. NO. _____
MOTION CAL. NO. _____

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

	PAPERS NUMBERED
Notice of Motion/ Order to Show Cause — Affidavits — Exhibits ...	
Answering Affidavits — Exhibits	
Replying Affidavits	

Cross-Motion: ☐ Yes ☐ No

Upon the foregoing papers, It is ordered that this motion

is decided in accordance with accompanying memorandum decision and order.

FILED
JAN 26 2006
COUNTY CLERK'S OFFICE
NEW YORK

Dated: 1/17/06

CHARLES E. RAMOS J.S.C.

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

Check one: ☐ FINAL DISPOSITION ☐ NON-FINAL DISPOSITION

Check if appropriate: ☐ DO NOT POST ☐ REFERENCE

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK:COMMERCIAL DIVISION
----------X
AWARDS.COM, and INSPIRE SOMEONE, LLC,

Plaintiffs,

Index No.
603105/03

-against-

KINKO'S, INC., FEDERAL EXPRESS CORP.,
and GARY KUSIN

Defendants.
----------X

Charles Edward Ramos, J.S.C.:

This action for damages against defendants Kinko's Inc. ("Kinko's"), Federal Express Corp. ("FedEx"), and Gary Kusin, arises out of a terminated agreement (the "Agreement"), executed between Kinko's and plaintiff Awards.com ("Awards"). Defendants now move for summary judgment pursuant to CPLR 3212, dismissing the complaint in its entirety.

In their amended complaint, plaintiffs Awards and its subsidiary, Inspire Someone, LLC ("Inspire"), originally asserted seven causes of action against defendants. As a result of defendants' prior motion to dismiss, three causes of action remain: fraud, asserted against Kinko's and its CEO, Gary Kusin, breach of contract, asserted against Kinko's, for alleged wrongful termination of the Agreement with Inspire, and misappropriation of trade secrets, asserted against Kinko's and FedEx. Plaintiffs also seek to introduce projections of lost profits as evidence of damages.

Background

Pursuant to the Agreement signed by the parties in April of

2002, Kinko's agreed to launch Inspire's "store-in-store" business concept within mutually-selected Kinko's locations nationwide at a specified monthly rate, due on the 15th of each month for the duration of a test period, and Inspire agreed to make revenue share payments at the end of the test period. Due to the apparent success of the test period, the parties amended the Agreement twice, committing the parties to opening more stores. Simultaneous with the execution of the Agreement, the parties executed a guaranty, under which non-party entity, B2B Brand Group, LLC ("B2B"), Awards' parent, guaranteed the full performance of Inspire's obligations under the Agreement (the "Guaranty").

While "store-in-stores" were being built, Kinko's began expressing its interest in increasing its investment in Awards, as early as August of 2002.[1] In November of 2002, Kinko's and Awards held preliminary discussions regarding the possibility of an acquisition, and plaintiffs retained Bear Stearns to conduct a valuation of their business. Internally, Kinko's regarded Awards as a "propitious" business opportunity, but no firm conclusion was reached as to whether to go forward with an acquisition for some time.[2]

---

[1] Schmitt Aff., Ex. 2, E-mail from Kusin to Kinko's Senior Vice President, Connors, "Remember the thought from Jack Welch - 'help' them get way overextended with us, then start tightening the noose with our 'pricing' to them until we end up owning them".

[2] Schmitt Aff., Ex. 20, Connors e-mail dated November 10, 2002, "It would be great to buy them [Awards] (at $X reasonable price) but they will likely want $YM, which makes the deal

In June of 2003, non-party Aramark Corporation ("Aramark"), approached plaintiff and offered to acquire Awards, which plaintiffs informed Kinko's about shortly thereafter. Around this time, Kusin wrote to a Kinko's colleague, indicating that although Inspire was a very interesting business opportunity, Kinko's "made the right decision not to think about investing in [Inspire] 6 months ago" (Berg Aff., Ex. 9).

Kinko's formal response to Awards' communication of the Aramark acquisition offer came in a letter Connors wrote to Awards Chairman, Struhl, on July 1, 2003 ("July 1st Letter"), where he expressed "concern" about the "effect the proposed transaction will have on our business relationship", suggesting that if plaintiffs went ahead with the acquisition, "this will adversely effect Kinko's desire to act in any manner other than to strictly comply with the terms of the Agreement" (Schmitt Aff., Ex. 24).

Awards responded to the July 1st Letter by outlining several possibilities in which Kinko's could increase its investment in Awards sufficiently to justify Awards' declining the Aramark acquisition offer.[3] By the time this letter was received in

---

unattractive"); Berg Aff., Ex. 17, Tamke e-mail dated February 27, 2003, "Warren Spruill wanted to understand why we weren't interested in investing in them at this juncture. I told him we were investing in them by allowing them access to our prime real estate ... this has potential to be a major opportunity for us in the next year".

[3] Schmitt Aff., Ex. 26, Struhl letter, "For Inspire Someone, it provides a reasonable economic alternative to the deal currently on the table".

mid-July 2003, however, Kinko's internally had concluded that a greater investment in Inspire or its parent, Awards, was not a favorable business opportunity, which position was communicated to plaintiffs in a letter dated July 21, 2003 ("July 21st Letter").[4]

Sometime after receiving the July 21st Letter, plaintiffs declined Aramark's offer. While the exact date of the declination is disputed between the parties, undisputed testamentary evidence indicates that it was communicated subsequent to plaintiffs' receipt of the July 21st Letter (Schmitt Aff., Ex. 3, 86:18-24).

Meanwhile, a dispute arose between Kinko's and Inspire over the payment of monthly rent and revenue shares. Defendants maintain that as far back as February of 2003, Inspire was delinquent with its monthly rent payments. Inspire asserts that monthly fees were tendered late only when Kinko's failed to send proper invoices, receipt of which was allegedly a condition precedent to the payment of rent. As of September 15, 2003, Inspire owed Kinko's monthly fees for May, June, July, and August 2003, which rent was paid by Inspire on September 18, 2003, with the exception of the rent for August, which remained outstanding (Schmitt Aff., Ex. 16).

On September 23, 2003, a Kinko's representative sent Inspire

---

[4] Schmitt Aff., Ex. 2, "we do not believe that an investment by Kinko's in Inspire at this time would be mutually beneficial to our companies" [bracketed material omitted].

the "revised invoices for July 2003 [through] October 2003 due to new price change." Two days later, Kinko's unilaterally terminated the Agreement due to Inspire's "material breach", which reasons included the failure to timely pay revenue share payments (Schmitt Aff., Ex. 16).

In February of 2004, previously dismissed defendant, FedEx, formally announced that an agreement to acquire Kinko's had been executed.

Discussion

"To obtain summary judgment it is necessary that the movant establish his cause of action or defense sufficiently to warrant the court as a matter of law in directing judgment in his favor, and he must do so by tender of evidentiary proof in admissible form" (*Friends of Animals, Inc. v Associated Fur Mfrs., Inc.*, 46 NY2d 1065, 1067-1068 [1979]). The motion shall be denied if the non-movant demonstrates facts sufficient to require a trial of any issue of fact (*Maria Alvarez v Prospect Hospital, and Jesse D. Stark*, 68 NY2d 320, 324 [1986]).

Fraud

Plaintiffs' fraud claim stems from allegations that Kinko's and Kusin falsely represented an interest in investing and/or acquiring Awards in the July 1st Letter, which misrepresentation plaintiffs allegedly relied on in turning down the Aramark offer. The fraud claim is limited to "the damages that flow from that misrepresentation of intent, not future performance ... and is limited to those provable damages, if any, that would flow from

the deception" (*Inspire Someone, LLC v Kinko's, Inc.*, NY Sup Ct, April 27, 2005). To establish a cause of action for fraud, plaintiffs must demonstrate by evidentiary proof in admissible form misrepresentation of a material fact, intent to deceive and justifiable reliance (*P. Chimento Co. v Banco Popular*, 208 AD2d 385 [1st Dept 1994]).

In attempting to establish defendants' intent to deceive, plaintiffs point to the June 27, 2003 e-mail authored by defendant Kusin, in which he indicates that "we made the right decision not to think about investing in them [plaintiffs] six months ago" (Berg Aff., Ex. 9), and contrast it with the July 1st Letter, where Connors indicated that plaintiffs' acceptance of a third-party acquisition offer might chill the prospects of Kinko's desiring to expand its relationship with plaintiffs.

While determining whether these communications establish an intent to deceive on defendants' part is not the court's task on a summary judgment motion (*Greco v Posillico*, 290 AD2d 532, 532 [2nd Dept 2002]), Kinko's indisputably communicated to plaintiffs just three weeks later that it would not invest in Inspire, in the July 21st Letter (Schmitt Aff., Ex. 2, "we do not believe that an investment by Kinko's in Inspire at this time would be mutually beneficial to our companies' [bracketed material omitted]). Moreover, the July 21st Letter came before plaintiffs declined the Aramark offer and plaintiffs understood this letter

to mean that Kinko's was not interested in acquiring Awards.[5]

Even assuming *arguendo* that the July 1st Letter contained a misrepresentation regarding Kinko's interest in acquiring Awards, the undisputed record before the court establishes that plaintiffs did not rely on those representations in declining the Aramark offer. The record additionally establishes that plaintiffs' principals understood that nothing either contained in the Agreement or extrinsic in the parties' relationship with Kinko's precluded plaintiffs from going forward with the Aramark deal.[6]

Plaintiffs otherwise do not submit any additional evidence in admissible form sufficient to raise a triable issue of fact regarding their reliance on Kinkos' or Kusin's representations or tending to establish a present intent to deceive on the part of defendants. Therefore, defendants motion for summary judgment is

---

[5] (Schmitt Aff., Ex. 3, Struhl Dep. at 86:22-24, "I didn't tell Aramark that we were passing until all these discussions were over"; 78:11-24, "It [decline of Aramark offer] was at the end of the whole thing ... It was after all these letters went back and forth, and we decided we were going to back down to Kinko's bullied attempt, we were going to call Aramark, call it off ... because one day hopefully they're [Kinko's] telling the truth and they're going to buy us"); *id.* at 86:13-17, "Q. In this letter [July 21st Letter] Mr. Connors made clear that Kinko's wasn't interested in the proposals you made in your July 15th letter. Right? A. That's Correct").

[6] Schmitt Aff., Ex. 3, Struhl Dep. at 71:20-25, 72:1-5, "Q. You knew you could go forward with Aramark if you wanted to, right? A. Yes. Q. You knew that Kinko's said, it had decided not to make a proposal to buy Awards at that time, right? A. That's correct. Q. You knew that Kinko's had no contractual obligation to buy Awards at any time. Right? A. That's correct".

granted and plaintiff's claim for fraud is dismissed.

Breach of Contract

Plaintiffs' breach of contract claim stems from defendants' unilateral termination of the Agreement on September 23, 2003, without providing written notice of breach and extending to plaintiffs an opportunity to cure. Plaintiffs set forth several alternative legal theories in support of their breach of contract claim. First, plaintiffs assert that the parties orally modified the Agreement to contain an invoicing requirement, obligating Kinko's to send monthly invoices, the receipt of which was a condition precedent to plaintiffs' obligation to remit rent payments, which defendants dispute. Second, plaintiffs argue that Kinko's waived their right to strictly impose the deadline of the 15th of each month. Finally, plaintiffs maintain that Kinko's improperly terminated the Agreement by not providing written notice of non-performance and extending an opportunity to cure to Inspire or its guarantor, B2B, which Kinko's was required to do under the Agreement and Guaranty prior to termination.

Here, the Agreement itself does not obligate Kinko's to send invoices reflecting the amount of rent due, nor does it condition Inspire's payment of rent on the receipt of such an invoice. The Agreement simply requires Inspire to pay the previous month's rent by the 15th of the following month, which rent amount was revised pursuant to the first amendment to the Agreement. The parties amended the Agreement two times and in writing, in December of 2002 and March of 2003, respectively (Berg Aff., Ex.

3). Neither amendments changed the due date of the monthly rent payments, required Kinko's to send any invoice or conditioned the payment of rent upon Inspire's receipt of invoices. Awards' principal, Cohen, himself acknowledged that the Agreement did not contain an invoice requirement and neither did he ever propose to include such a requirement in the Agreement (Schmitt Aff., Ex. 5, Cohen Dep. at 137:19-25).

The Agreement does contain a provision barring oral modifications, providing that all modifications or amendments to the Agreement must be in writing to be enforceable (Agreement § 10.4). It is well-established under New York law that proscriptions against oral modifications in agreements will be enforced, binding the parties to the writing, particularly where the only proof of the alleged modification is the oral exchange between the parties themselves (*Rose v Spa Realty Associates*, 42 NY2d 338, 343 [1977]; *see also*, as to proscriptions against oral modifications in lease agreements, *Machado v Clinton Housing Development, Inc.*, 20 AD3d 307 [1st Dept 2005]). Rather, where an agreement contains a no-oral modification provision, an oral modification claim can be pursued only where there is partial performance or other conduct unequivocally referable to the alleged modification (*Rose, supra*, 42 NY2d at 343). Conduct by the party seeking to enforce the alleged oral modification that is consistent with the terms of the written agreement necessarily defeats any contention of partial performance and, correspondingly, of detrimental reliance (*SAA-A, Inc. v Morgan*

Stanley Dean Witter & Co., 281 AD2d 201, 203 [1st Dept 2001]).

The record here reveals that Kinko's sent invoices to plaintiffs until February of 2003, when the first amendment to the Agreement was executed, and thereupon ceased to send invoices. Subsequent to Kinko's cessation of transmitting invoices, Inspire's rental payments began trickling in beyond the 15th of the following month.[7] It is undisputed that a payment was made in September for the months of May through July, despite Kinko's failure to send an invoice; rather, the parties held a meeting to discuss the delinquent rent and Kinko's sent an Excel spreadsheet (Transcript at 27:7-11). That Kinko's sent invoices when it was not required by the Agreement and later ceased such practice does not effect a modification of the written language of the Agreement, where, as here, plaintiffs remitted rental payments even in the absence of receiving an invoice. Performing an act consistent with the written language of the Agreement subsequent to the alleged oral modification or inconsistent with the alleged modification necessarily defeats any contention that the parties orally modified the Agreement to contain an invoice requirement, in addition to defeating plaintiffs' argument that they detrimentally relied on the alleged oral modification (*SAA-A, Inc.*, *supra*, 281 AD2d at 203). Plaintiffs do not submit any additional admissible evidence tending to raise a disputed fact

---

[7] It is undisputed that the February monthly fee was paid by Inspire in May, the March monthly fee was paid in June (*id.*), the April monthly fee was paid in August, and the monthly fees for June through July were paid in September (Schmitt Aff., Ex. 9, Deering Dep.)

that the parties orally modified the Agreement to include an invoice requirement as a condition precedent to remittance of rent payments.

An issue of fact is raised, however, as to whether Kinkos' failure to strictly impose the deadline of the 15th of each month effects a waiver, precluding it from taking action to obtain timely rent payments in the future. It is well-established that the long-standing acceptance of delinquent rental payments may constitute a waiver of a landlord's right to strictly enforce the deadline for payment of rent in certain circumstances (*East 4th Street Garage, Inc. v L.B. Management Co.*, 172 AD2d 292, 292 [1st Dept 1991]; *61 East 72nd Street v Zimberg*, 161 AD2d 542, 542-543 [1st Dept 1990]), and may vest in the tenant an implied right to cure based upon the landlord's past acceptance of delinquent rental payments (*TSS-Seedman's, Inc. v Elota Realty Corp.*, 72 NY2d 1024, 1027 [1988], *rearg denied* 73 NY2d 852 [1988]), which issue is generally one of fact to be determined by the fact-finder (*Dice v Inwood Hills Condominium*, 237 AD2d 403, 404 [2nd Dept 1997]).

Here, it is undisputed that Kinko's never complained about Inspire's rent delinquency until approximately one week prior to terminating the Agreement (Transcript at 52:7-9; Kinko's Res. to Interrogatories #9). Accordingly, summary judgment of the breach of contract claim is denied insofar as plaintiffs allege waiver.

As for the manner in which Kinko's terminated the Agreement, plaintiffs argue that Kinko's improperly terminated the Agreement

without extending Inspire or its guarantor, B2B, written notice and an opportunity to cure, which Kinko's was obligated to provide in the absence of a material breach on the part of Inspire.

Dealing first with the Guaranty,[8] where it is undisputed that defendants did not provide written notice to B2B, the issue is whether the Guaranty required Kinko's to provide written notice to B2B of Inspire's failure to pay August rent and extend B2B the opportunity to cure, on Inspire's behalf.

The Court of Appeals recently articulated that "a guaranty is to be interpreted in the strictest manner" (*White Rose Food v Saleh*, 99 NY2d 589, 591 [2003]; *Tucker Leasing Capital, Corp. v Marin Medical*, 833 FSupp 948, 957 [EDNY 1993], "[T]o determine the nature of each guaranty, the courts should give effect to the plain meaning of the language employed ... the writing should be enforced according to its terms").

Here, the language of the Guaranty does not contain any requirement on the part of Kinko's to either notify or provide written notice of Inspire's failure to perform. Rather, the Guaranty merely provides that in the event of Inspire's default,

---

[8] Under the Guaranty, "In the event Inspire fails to perform, satisfy or observe any term or condition of the Agreement, Guarantor [B2B] will promptly and fully perform, satisfy and observe the obligation or obligations in the place of Inspire to the same extent that Inspire is obligated under the Agreement. Upon receipt of written notice by Guarantor of any uncured breach or default by Inspire under the terms of the Agreement, Guarantor shall have ten (10) days from receipt of notice to cure any breach or default by Inspire (Berg Aff., Ex. 3).

B2B will provide full performance on Inspire's behalf, which performance is triggered by Kinko's provision of written notice only. Neither does the language of the Guaranty grant Inspire an absolute right to cure, as the right to cure is triggered by Kinko's provision of written notice.

Furthermore, under the written terms of the Agreement, the terms of the Guaranty were intended to run in favor of the obligee, Kinko's, and not Inspire (Berg Aff., Ex. 3, "[I]n consideration for, and as an inducement to Kinko's ... B2B guarantees to Kinko's ... the performance of obligations of Inspire under the Agreement"). Accordingly, under the plain language of the Guaranty, Kinko's was not required to notify B2B of Inspire's failure to perform or to extend an opportunity to cure, as the Agreement vested the right to effect a cure in B2B only, which Kinko's necessarily waived by proceeding to termination.

The court is therefore presented with the unusual scenario whereby the obligor, Inspire, is seeking to invoke rights against the obligee, Kinko's, for failing to enforce its rights against the guarantor, B2B. Under well-established guaranty principles, however, a guaranty is regarded as a separate, independent contract between the guarantor and the obligee, and is collateral to the contractual obligation between the obligee and the obligor (*Fehr Bros., Inc. v Scheinman*, 121 AD2d 13, 15 [1st Dept 1986]). Inspire, a contracting party to an Agreement that is separate from the agreement between Kinko's and B2B, therefore retains no

implicit right to compel performance of any provision of the Guaranty, particularly where the Guaranty itself contains no language obligating Kinko's to perform that very act.

Neither do plaintiffs cite any authority tending to support the principle that an obligor retains any right to compel performance by the obligee, allowing for the extension of an opportunity to cure where the guaranty grants no such explicit right.

As for the termination provision in the Agreement, in previously denying plaintiffs' motion for partial summary judgment, this Court found that § 6.1 [b] of the Agreement is not exclusive and therefore the written notice requirement and cure period contained in that section would not have to be adhered to in the event of a material breach (*Inspire Someone, LLC v Kinko's, Inc.*, NY Sup Ct, May 5, 2004).[9] Thus, given that Kinko's indisputably terminated the Agreement without providing written notice and extending an opportunity to cure to Inspire pursuant to the termination provision contained in the Agreement, the Court must necessarily determine whether Inspire's repeated delinquency in paying rent and failure to pay the August rent altogether amounted to a material breach of the Agreement.

---

[9] Section 6.1[b] of the Agreement states that [e]ither party may terminate this Agreement if this Agreement is demonstrably injurious in a significant and consequential fashion to such Party's business and such injury is not cured or capable of being cured within sixty (60) days (the "Cure Period") after written Notice of Inquiry (...) from the terminating Party to the non-terminating Party is received.

A material breach is generally regarded as a breach which "substantially defeats" the purpose of an agreement in such a fundamental way as to "defeat the object of the parties in making the contract", and otherwise occurs where a party fails to perform a substantial part of the agreement (*Callanan v Powers*, 199 NY 268 [1910]), performance of which was the initial inducement for entering the agreement (17A Am Jur 2d, Contracts: Material Breach § 706). Moreover, in determining the materiality of the breach, courts generally consider the extent to which the non-breaching party will be prejudiced or damaged by the lack of full performance (*id.*).

Here, payment of rent and revenue share payments earned by the development of plaintiffs' business concept in Kinkos' retail locations was the primary consideration under the Agreement. Indisputably, however, Kinko's accepted Inspire's late rental payments for the months of February through July. Kinko's has not demonstrated how the failure to timely receive rent for the month of August "substantially defeated" the parties' objective in contracting, particularly where Inspire and its guarantor, B2B, were ready, willing and able to fully perform, and where Kinko's had repeatedly accepted late payments. Neither has Kinko's established how it was prejudiced by the delay in receiving rent. Moreover, an e-mail exchange between Kusin and Kinko's executive, Tamke, dated five days before Kinko's termination of the Agreement, suggests that other factors may have contributed to

the termination beyond late rental payments.[10] The e-mail did not mention Inspire's failure to timely pay rent.

Therefore, because issues of fact are raised as to whether the particular conduct complained of, delinquent rent payments, constituted a material breach under the circumstances (*RR Chester, LLC v Arlington Bldg. Corp.*, 22 AD3d 652, 654 [2nd Dept 2005]), summary judgment is denied on this issue.

Misappropriation of Trade Secrets

Inspire and Kinko's executed a non-disclosure agreement in April of 2002 (Berg Aff., Ex. 20). Here, it is undisputed that FedEx came into possession of an internal analysis of the Awards business that Kinko's conducted on June 26, 2003 ("June 26th Analysis"), because FedEx produced a portion of this document in the course of discovery (Berg Aff., Ex. 49, Production of Documents by FedEx). Defendants' witness testified that he believed Kinko's provided the document to FedEx (Berg Aff, Ex. 50, Henning Dep. at 33:5-25), although he did not know whether Kinko's had obtained Awards' consent prior to disclosing the document (*id.* at 34:15-25).

Evidence tending to establish possession of confidential material is sufficient to raise a triable issue of fact regarding misappropriation of trade secrets (*compare, Falconwood Corp. v*

---

[10] Berg Aff., Ex. 40, Kusin e-mail dated September 18, 2003, "We now have learned that Aramark is the company thinking about investing in Awards.com ... We are not happy with our agreement with Awards.com; it isn't nearly as buttoned down as it should be on the rules of engagement, so we are going to attempt to re-write our agreement at this juncture in return for meeting with Aramark".

In-Touch Technologies, Ltd., 227 AD2d 215, 216 [1st Dept 1996], the absence of any evidence of possession or use of alleged confidential software defeats a claim for misappropriation of trade secrets on summary judgment). Furthermore, while the June 26th Analysis is identified on its face as containing proprietary and confidential information, whether this document qualifies as a trade secret under New York law is an issue of fact (*Chevron U.S.A., Inc. v Roxen Service, Inc.*, 813 F2d 26, 29 [2nd Cir 1987]), determination of which is inappropriate on a summary judgment motion (*Baez v Rahamatali*, _ NYS2d _, 2005 WL 3489500, *2 [1st Dept 2005], "issue finding and not issue resolution is a court's proper function on a motion for summary judgment"). Accordingly, because issues of fact are raised regarding how FedEx came into possession of allegedly confidential information, in addition to whether the information itself constitutes a trade secret, summary judgment as to this claim is denied.

Lost Profits Damages

Defendants move for summary judgment on the issue of whether plaintiffs' projections of lost profits may represent a measure of damages at trial. Recovery of lost future profits in a breach of contract action is permitted as consequential damages upon the demonstration that, (1) such damages were actually caused by the breach (*Coastal Aviation, Inc. v Commander Aircraft Company*, 937 FSupp 1051, 1064 [SDNY 1996], *affd* 108 F3d 1369 [2nd Cir 1997]), (2) the damages were within the contemplation of the parties at the time of contracting, and (3) the damages are capable of

measurement by "proof with reasonable certainty" (*Kenford Co., Inc. v Erie County*, 67 NY2d 257, 261 [1986], *app dismissed* 72 NY2d 939 [1988], *order revd* 73 NY2d 312 [1989], *app dismissed* 74 NY2d 712 [1989]). Whether such damages were within the contemplation of the parties is a question of foreseeability (*Ashland Management Incorp. v Janien*, 82 NY2d 395, 403 [1993]).

Here, assuming *arguendo* that Kinko's did breach the Agreement, there is no doubt that the damages plaintiffs claim, lost profits from the operation of Inspire's "store-in-stores" in Kinko's locations, is directly traceable to Kinko's alleged breach of that Agreement.

Plaintiffs submit an expert report which values the Agreement and the first and second amendments, and concludes that the net present value of lost cash profits at the time of termination was between $176 to $276 million (Expert Report, para. 14-15). As for the determination of whether the parties contemplated the liability for such damages, however, plaintiffs submit evidence establishing that at the time of contracting all parties shared the expectation that the Agreement between Inspire and Kinko's would be successful and bring increased value to both companies. The relevant standard is not whether the parties foresaw profitability or even lost profits in the event of a breach (*Kenford Co., Inc., supra*, 73 NY2d 319), but whether the parties reasonably foresaw or contemplated being held liable for the other's losses in the event of a breach (*Maimis-Knox Group, Ltd. v Grand Cent. Zocalo, LLC*, 5 AD3d 129, 129 [1st Dept 2004]).

Plaintiffs submit no evidence establishing that the parties contemplated or otherwise discussed economic loss as a basis for damages or that Kinko's could potentially be held liable for Inspire's lost profits (*id.*; *Bialystoker Center & Bikur Cholim, Inc. v LES*, 801 NYS2d 776, _, 2005 WL 1490284 [NY Sup App Term 1st Dept 2005]; *Kenford Co., Inc., supra*, 73 NY2d 315; *see* also, Birdoff & Pieper, *Keeping Damages in Mind From the Start*, NYLJ, June 20, 2005, at col 3, "in preparing for a case involving lost profits, an attorney should examine the contract terms and/or negotiations that preceded the contract, to ascertain whether the parties contemplated lost profits as an element of damages"; *compare*, *Ashland Management Incorp., supra*, 82 NY2d at 405, lost profit damages recoverable where evidence established that the issue of future earnings was contemplated, analyzed and fully debated by the parties at the time of contract negotiations and where plaintiff's employment contract contained a provision tying his compensation to the amount of future profits a particular investment model earned).

Rather, the only evidence submitted establishing the circumstances surrounding the negotiation and execution of the Agreement is that which establishes that Kinko's viewed the Awards' relationship as having significant value. As the standard for this element of lost profits damages is whether at the time of contracting, it was foreseeable that the parties would be liable for the other's losses (*Maimis-Knox Group, Ltd., supra*, 5 AD3d 129), and not merely whether the parties viewed

their relationship as valuable or anticipated success, plaintiffs are not entitled to rely on projections of lost profits as an element of damages.

Moreover, unlike in *Ashland Management Incorp., supra*, 82 NY2d at 405, where the contract at issue contained a provision that set forth anticipated minimum levels of earnings the parties expected to obtain and upon which plaintiff's compensation was based, here, the only provision which refers to future profits is that which obligates Inspire to pay a certain percentage of revenue share profits to Kinko's.[11] Therefore, to the extent that this provision may be regarded as reflecting the parties' contemplation of liability for future profits, recovery of these profits is unequivocally limited to Kinko's, and not Inspire.

While plaintiffs are correct in arguing that damages for lost profits are recoverable in New York if the damages are capable of reliable measurement, as discussed above, a party seeking to recover them must first establish that these damages were contemplated by the parties (*Kenford Co., Inc., supra*, 67 NY2d at 261). As plaintiffs here fail to raise a triable issue of fact regarding whether the parties contemplated lost profits at the time of contract negotiation, summary judgment is granted

---

[11] *See*, Agreement, § 3.2 [a], "Inspire will pay Kinko's an annualized amount (the "Revenue Share Payment Guarantee") for each Store-in-Store Business ... The Revenue Share Payment Guarantee shall be a guaranteed minimum floor to Kinko's entitlement to a revenue share payment ... for each Store-in-Store Business equal to: (A) The Applicable Percentage multiplied by Net Sales ... plus (B) two and a half percent (2.5%) multiplied by Net Sales ... multiplied by two (2)").

as to whether plaintiffs may use lost profits projections as a measure of damages at trial.

Accordingly, it is

ORDERED that the motion for summary judgement is denied as to breach of contract on the issues of waiver and material breach, and misappropriation of trade secrets, and is otherwise granted. Plaintiffs' claims for fraud and lost profits damages are dismissed.

Dated: January 17, 2006

J.S.C.

CHARLES E. RAMOS J.S.C.

Counsel are hereby directed to obtain an accurate copy of this Court's opinion from the record room and not to rely on decisions obtained from the internet which have been altered in the scanning process.