[* 1]

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

PRESENT: HELEN E. FREEDMAN PART 39
Justice

Madison Apparel Group Ltd.,

Plaintiff,

- v -

Hachette Filipacchi Presse, S.A. et al.,

Defendants

INDEX NO. 601405/07

MOTION DATE

MOTION SEQ. NO. 01

MOTION CAL. NO.

FILED
JAN 02 2008
COUNTY CLERK'S OFFICE
NEW YORK

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

In this action by a trademark licensee that claims that defendants fraudulently induced it to terminate its license, defendants move for an order dismissing the complaint pursuant to CPLR Rules 3211(a)(1) and (7). For the reasons set forth below, the motion is granted in part and denied in part.

Allegations – In its complaint, plaintiff Madison Apparel Group Ltd. ("Madison") contends the following: in September 2004, Madison, which sells women's intimate apparel products under brands licensed with third parties, entered into a License Agreement (the "License Agreement") with defendant Hachette Filipacchi Presse, S.A.("Hachette Presse"), which publishes the fashion magazine *Elle* and owns the "ELLE" trademark (the "Trademark") in North America. Defendant Hachette Filipacchi Media U.S., Inc. ("Hachette Media") is affiliated with Hachette Presse, and the complaint alleges that Hachette Media acted as the "authorized U.S. agent of and acted in concert with [Hachette Presse] with respect to the matters described [in the

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

complaint]."

Under the License Agreement, Hachette Presse granted Madison the license to use the Trademark in the United States and Canada as a name-brand for women's underwear, sleep wear, and lounge wear. The Agreement granted Madison an initial license term from August 26, 2004 through December 31, 2008, and afforded it the option to renew the license for two successive three-year terms.

After the parties executed the Agreement, Madison developed its line of *Elle*-branded apparel and introduced it in the fall of 2005. Madison alleges that

> [a]lthough the License Agreement was limited to women's intimate apparel, at all relevant times, both [Madison] and [defendants] believed that the future success of the licensed products would depend in large part on the availability in the marketplace of a line of women's apparel and sportswear bearing the [Trademark] that would complement and bolster the sales of [Madison's *Elle*-branded] line of intimate apparel. Department and specialty stores typically seek to carry brands that transcend individual departments, meaning that a brand whose scope extends no further than one product category like intimates is at a disadvantage as far as store buyers are concerned. In addition, because women's intimate apparel is a product category that is vastly smaller than women's apparel and sportswear as a whole, a brand used only in connection with intimate apparel is much more difficult for consumers to recognize and seek out in the department and specialty store channels of trade.

According to Madison, from the beginning of the license term, defendants assured plaintiff that they were trying to license the Trademark for its use in North America for lines of women's apparel and sportswear, or to market such goods itself. Madison alleges that "[a]t various points in 2005,"it asked defendants about their progress, who told plaintiff that "while such efforts were ongoing, they were not close to fruition."

Plaintiff further alleges that in approximately late 2005, defendants' representatives advised Madison's President, Steven Kattan, that they were negotiating with Saks, Inc. for a licensing deal, but in early 2006 defendants told Kattan that the negotiations had been fruitless.

Shortly thereafter, the complaint alleges, Kattan again "raised with [d]efendants the importance of launching a line of women's apparel and sportswear under the [Trademark]."

Defendants advised Madison that they had started negotiations with a "major department store chain." They would not identify the chain, plaintiff alleges, but revealed that it was one of the Sears, Kohl's or J.C. Penney's department store chains. In April 2006, Kattan allegedly spoke with Marianne Guarnieri, Director of Licensing for Hachette Media, who told Kattan that the latest negotiations had fallen through. At that time, Kattan requested that Hachette Presse agree to terminate the License Agreement early.

According to Madison, Guarnieri's statements to him in April 2006 were inaccurate. At that time, defendants allegedly were negotiating with Kohl's Corp. ("Kohl's"), which operates one of the nation's largest department store chains, to license the Trademark for a line of women's apparel and sportswear.

In August 2006, Kattan advised Guarineri in writing that Madison was "winding down our Elle program." In the same letter, Kattan stated that "I'm sure that you would agree that we have all put in an extraordinary effort to make this work but without a sportswear presence in the department store channel, creating a viable business for this product line is an impossible feat." According to the complaint, in September 2006 defendants sent plaintiff a draft of a proposed letter agreement that terminated the License Agreement as of December 31, 2006 (the "Termination Agreement"). Madison executed the Termination Agreement shortly thereafter without changing it, and alleges that "[a]t no time prior to the execution . . . did [d]efendants advise [p]laintiff of the discussions with Kohl's that were ongoing as of that date . . . ." Madison further claims that, if had known about those discussions, it would not have entered into the Termination Agreement, "since the only basis for doing so was the absence of a line of ELLE-branded women's sportswear and apparel from the marketplace, and [d]efendants' professed inability to locate a suitable licensee or retailer for such goods."

In February 2007, Hachette Media announced that "one or both of [d]efendants or their affiliates had entered into a multi-year license agreement with Kohl's to develop an ELLE-

branded line of women's apparel (including intimate apparel) to be sold in the United States exclusively at Kohl's stores." In response, plaintiff filed this lawsuit in April 2007. The complaint asserts three causes of action: (1) the first, sounding in "fraudulent concealment," alleges that both defendants induced Madison to enter into the Termination Agreement by "deliberately, willfully and maliciously conceal[ing] from [p]laintiff" that they were negotiating a licensing deal with Kohl's; (2) the second, asserted against Hachette Presse, seeks "rescission based on unilateral mistake" of the Termination Agreement on the ground that defendants "were aware that, as a result of [their] silence, [Madison] was operating under a mistaken belief concerning the likelihood of [its] future sales of . . . apparel and sportswear under the [Trademark.]"; and (3) the third asserts that Hachette Presse breached the implied covenant of good faith and fair dealing in the License Agreement by wrongfully inducing Madison to enter into the Termination Agreement.

Motion: Fraud and Rescission – Seeking dismissal, defendants first argue that the fraudulent concealment claim fails because they had no duty to disclose their alleged negotiations with Kohl's to Madison. They correctly point out that Madison and defendants were parties to an arms'-length business transaction, and "in the absence of a confidential or fiduciary relationship between the [parties] imposing a duty to disclose, [a defendant's] mere silence, without some act which deceived [plaintiff], cannot constitute a concealment that is actionable as fraud." *Mobil Oil Corp. v. Joshi*, 202 A.D.2d 318, 318 (1st Dept. 1994). However, when viewed in the light most favorable to plaintiff, the allegations in the complaint amount to a claim that defendants actively deceived Madison about whether they were fruitfully negotiating with Kohl's, as opposed to a claim that defendants merely concealed that state of affairs. According to the complaint, Ms. Guarnieri, while allegedly speaking on behalf of both defendants, told Kattan that discussions with Kohl's "had ceased and that there was no prospect of an agreement being reached with that chain." Madison alleges that defendants knowingly made this false statement

to induce Madison to execute the Termination Agreement. Those allegations make out a claim of misrepresentation, even if Madison mislabels it a claim for concealment.

Defendants next contend that Madison cannot show that it justifiably relied on any misrepresentation by defendants that the Kohl negotiations had failed, because the Termination Agreement indicates that Madison entered into the contract for a different reason. Defendants point out that the recitals in the Termination Agreement explicitly state that the parties had agreed to terminate the License Agreement "because of the decision of Hudson Bay, Parisian and Dillards department stores to stop selling [Madison's ELLE-branded products.]" However, in a supporting affidavit, Kattan claims that defendants had drafted the Termination Agreement, and that, although Kattan knew that the recital in the Termination Agreement about Madison's reason for terminating was "erroneous," Kattan executed the contract on Madison's behalf without correcting the draft because his main concern was terminating the License Agreement, and because he viewed the error as "immaterial." Madison also submits Kattan's letter to Guarnieri of August 2006, which supports plaintiff's claim that it wanted to terminate the License Agreement because Hachette Presse had failed to obtain "a sportswear presence in the department store channel" to complement plaintiff's apparel line. Accordingly, Madison has made out a claim that it justifiably relied on defendants' alleged misrepresentations, because the record is ambiguous as to why plaintiff terminated the License Agreement, and any ambiguity is to be construed in the plaintiff's favor at this stage in the proceedings.

Finally, defendants argue that Madison fails to state its fraud claim with the requisite particularity under CPLR 3016(b). However, plaintiff's allegations that it specifically inquired about third-party licensing deals, and that defendants falsely told them that their negotiations with Kohl's had failed, "allege the misconduct complained of in *sufficient detail* to inform the defendants of the substance of the [fraud] claims." *Bernstein v. Kelso & Co.*, 231 A.D.2d 314, 320 (1st Dept. 1997) (emphasis in original). Accordingly, the motion to dismiss the first cause of

action is denied.

Hachette Presse argues that plaintiff's rescission claim depends on the viability of its fraud claim. Since Madison states a fraud claim, it has also made out a claim for rescission based upon unilateral mistake.

The claim for breach of the implied covenant of good faith and fair dealing in the License Agreement is dismissed. An implied contractual covenant must be consistent with the written terms of the agreement. *SNS Bank, N.V. v. Citibank, N.A.*, 7 A.D.3d 352, 354 (1st Dept. 2004). Moreover, the implied covenant of good faith and fair dealing cannot be construed so as to create independent contractual rights. *See Natl. Union Fire Ins. Co. of Pittsburgh, PA v. Xerox Corp.*, 25 A.D.3d 309, 310 (1st Dept. 2006). Madison claims Hachette Presse breached a duty under the License Agreement to apprise plaintiff of its negotiations with third parties about introducing new lines of ELLE-branded apparel. But the License Agreement does not impose that obligation on Hachette Presse, and it has no direct bearing on Madison's central right under the contract: to market ELLE-branded intimate apparel.

Finally, Madison's request for punitive damages is dismissed. Defendants' alleged fraud against plaintiff is insufficiently egregious to warrant punitive damages, and it is not directed at the public generally. *See Rocanova v. Eq. Life Assur. Soc. Of U.S.*, 83 N.Y.2d 603, 613 (1994).

ORDERED that defendants' motion to dismiss the complaint is granted only to the extent that the third cause of action and plaintiff's claim for punitive damages are severed and dismissed, and it is further

ORDERED that the first and second causes of action shall continue, and it is further

ORDERED that the Clerk is directed to enter judgment accordingly, and it is further

ORDERED that defendants are directed to answer the complaint within ten days after service upon them of a copy of this order and decision, and it is further

ORDERED that the parties are directed to appear for a preliminary conference before the Court on January 29, 2008 at 9:30 a.m. (Courtroom 208, 60 Centre St., NY, NY).

Dated: December 26, 2007

Helen E. Freedman, *J.S.C.*

Check one: ☐ FINAL DISPOSITION ☐ NON-FINAL DISPOSITION

Check if appropriate: ☐ DO NOT POST