

Necessary Objects, Ltd. v MOD Jewelry, Inc.

2008 NY Slip Op 33112(U)

November 17, 2008

Supreme Court, New York County

Docket Number: 100674/08

Judge: O. Peter Sherwood

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

PRESENT: O. PETER SHERWOOD
Justice

PART 61

NECESSARY OBJECTS, LTD.,

Plaintiff,

- v -

MOD JEWELRY, INC.

Defendant.

INDEX NO. 100674/08

MOTION DATE Sept. 3, 2008

MOTION SEQ. NO. 001

MOTION CAL. NO. 87

The following papers, numbered 1 to 6 were read on this motion for summary judgment

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

Answering Affidavits — Exhibits _____

Replying Affidavits _____

PAPERS NUMBERED

1-3

4-5

6

Cross-Motion: Yes No

Upon the foregoing papers, it is ordered that this motion for summary judgment is resolved in accordance with the annexed decision and order decided this same date.

FILED

NOV 20 2008

COUNTY CLERK'S OFFICE
NEW YORK

Dated: 11/17/08

O.P. Sherwood

O. PETER SHERWOOD, J.S.C.

Check one: FINAL DISPOSITION NON-FINAL DISPOSITION

Check if appropriate: DO NOT POST

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

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK: PART 61

-----X
NECESSARY OBJECTS, LTD.,

Plaintiff,

-against-

MOD JEWELRY, INC.

Defendant.

DECISION AND
ORDER

Index No. 100674/08

FILED

NOV 20 2008

-----X
O. PETER SHERWOOD, J.:

COUNTY CLERK'S OFFICE
NEW YORK

In this action to recover compensatory damages and, breach of a licensing agreement, plaintiff moves for an order pursuant to CPLR § 3212 granting summary judgment in its favor on the first, second and third causes of action alleged in the complaint, severing the fourth cause of action for reasonable attorney's fees, and dismissing defendant's counterclaims.

Plaintiff Necessary Objects, Ltd. ("Necessary Objects" or "plaintiff") is a designer and manufacturer of young women's clothing and accessories which has registered its mark "Necessary Objects" on the principal register of the United States Patent and Trademark Office. Defendant MOD Jewelry, Inc. ("MOD Jewelry" or "defendant") is a designer, manufacturer, wholesaler and retailer of silver and gold jewelry. On May 1, 2006, Necessary Objects and MOD Jewelry entered into an agreement whereby Necessary Objects licensed its "Necessary Objects" trademark to MOD Jewelry "in connection with the production, manufacture, distribution, advertising, merchandising, promotion and sale solely and only of jewelry manufactured from sterling silver" ("the License Agreement"). The parties later amended the License Agreement on December 28, 2006, to provide that MOD Jewelry was permitted to use the trademarked name "Necessary Jewels by Necessary Objects". The term of the License Agreement was from May 1, 2006 through July 31, 2009, which was broken down into three annual periods (License Agreement ¶ 2)¹. During each of the annual periods, MOD Jewelry was required to pay certain guaranteed minimum royalties and advertising

¹All references herein to numbered paragraphs are to provisions in the License Agreement.

shares, the first of which was to be paid upon the signing of the License Agreement and the remaining payments were to be made in quarterly installments for each annual period (*see*, License Agreement ¶ 8.1, ¶ 8.3).

On December 11, 2007, attorneys for Necessary Objects sent written notice of default to MOD Jewelry as required by the License Agreement (¶ 16.1 [a]) stating that MOD Jewelry had defaulted in the minimum royalties and advertising share payments due on August 1, 2007 and November 1, 2007, respectively, and was also possibly in default in failing to manufacture and distribute the licensed products for a period of sixty (60) days or more. MOD Jewelry was given a ten-day cure period after which the License Agreement would be deemed terminated without further notice. Upon MOD Jewelry's failure to cure, Necessary Objects deemed the License Agreement terminated as of December 22, 2007. Pursuant to ¶17.1 of the License Agreement all royalty payments (including but not limited to the minimum royalty and advertising share payments) for the remainder of the term to the extent not paid became accelerated, due and payable to Necessary Objects.

Necessary Objects then commenced this action alleging breach of the License Agreement and seeking to recover \$36,000 on the first cause of action for breach of the agreement in defendant's failure to make the payments due on August 1, 2008 and November 1, 2007, and \$225,000 on its second cause of action for all royalty payments due for the remainder of the License Agreement. Plaintiff further sought to enjoin MOD Jewelry from any use of its licensed marks and the return of any materials in defendant's possession containing the licensed marks (third cause of action) and an award of reasonable attorney's fees (fourth cause of action) (License Agreement ¶ 17.3).

In its answer, MOD Jewelry acknowledged that it entered into the License Agreement, but denied that it was in default under the terms of such agreement. Rather, defendant contended that the parties were engaged in negotiations and had been acting in a manner contrary to termination of the License Agreement. The answer asserted five affirmative defenses, namely, that the action was barred by the doctrines of waiver, estoppel, unclean hands and failure to mitigate damages, the complaint did not state a cause of action upon which relief could be granted and plaintiff's own

breach of the License Agreement excused defendant's performance under such agreement. Defendant also interposed two counterclaims for damages based upon breach of contract and breach of the covenant of good faith and fair dealing implicit in all contracts. The counterclaims are predicated, *inter alia*, upon defendant's allegations that Necessary Objects failed to provide meaningful cooperation in the development and distribution of the Necessary Jewels line; unnecessarily withheld its approval of various designs, marketing materials and samples; gave insufficient or no direction to MOD Jewelry in the development of the Necessary Jewels product line; unreasonably delayed providing its customer list to MOD Jewelry; failed to include MOD Jewelry in its fashion events for the Necessary Objects clothing line; and withheld or delayed its approval of MOD Jewelry's request to add certain specialty retailers and boutique jewelry stores to the list of Permitted Channels of Distribution.

Necessary Objects now moves for summary judgment arguing that MOD Jewelry breached the License Agreement by failing to pay the guaranteed minimum royalties and minimum advertising share due on August 1, 2007 and November 1, 2007, and, upon termination of the License Agreement, by failing to provide Necessary Objects with a complete and accurate schedule of its inventory of licensed products (License Agreement ¶ 17.4) and to deliver to Necessary Objects all stencils, prints, artwork, sketches and other design material containing the licensed marks (License Agreement ¶ 17.6). Necessary Objects contends that the terms of the License Agreement are unambiguous and any extrinsic evidence is not permissible to alter its terms. Plaintiff states that it fully performed its obligations under the License Agreement and that defendant's contentions in support of its counterclaims would require the Court to re-write the parties' License Agreement. Specifically, plaintiff states that under the terms of the License Agreement it had no obligation to promote defendant's jewelry line, provide approval of the Necessary Jewels line of products, furnish customer lists, or approve additional retailers. Plaintiff further contends that it was not responsible for defendant's failure to successfully market the licensed jewelry line and that the sole cause of defendant's breach of the agreement was its unilateral determination that the jewelry line was cost prohibitive.

In opposition, defendant argues on the basis of CPLR § 3212 (f) that the plaintiff's motion is premature as plaintiff has failed to respond to defendant's document requests which would have yielded evidence relevant to MOD Jewelry's defense that plaintiff's conduct excused defendant's performance under the License Agreement and caused injury to the defendant. Defendant avers that Necessary Objects continued to do business with MOD Jewelry after the payments due August 1, 2007 and November 1, 2007 went unpaid, including inviting MOD Jewelry on January 25, 2008, to participate in a fashion show; asking MOD Jewelry on November 22, 2008, how many "necessary Objects" holiday cards it would need; and advertising the licensed products and Necessary Object's relationship with MOD Jewelry on its website as recently as June 26, 2008. MOD Jewelry argues that by this conduct Necessary Objects waived its right to enforce the terms of the License Agreement and declare it terminated.

Defendant further challenges plaintiff's motion insofar as it seeks dismissal of MOD Jewelry's counterclaims. Contrary to plaintiff's contention that it had no obligation with respect to marketing, advertising or otherwise assisting MOD Jewelry in developing the jewelry line under the "Necessary Objects" mark, defendant asserts that the main goal of the License Agreement was to exploit the goodwill in the Necessary Objects brand with a branded jewelry collection and that the parties contemplated at the time of entering into the License Agreement that they would work together in developing a marketing strategy and product line that would complement the Necessary Objects clothing line. With this in mind, the License Agreement provided for the parties to meet on a regular basis to discuss and develop proposals. Defendant contends that plaintiff provided little or no direction or feedback on the designs, marketing proposals and samples furnished by MOD Jewelry and failed to meet with defendant's representatives at any regular frequency despite MOD Jewelry's frequent requests, causing a "disconnect" between the Necessary Objects clothing line and the jewelry collection. Defendant argues that such conduct constituted a breach of the License Agreement.

As to the second counterclaim alleging a breach of the covenant of good will and fair dealing, defendant asserts that plaintiff's course of conduct following the signing of the License Agreement

frustrated MOD Jewelry's development and distribution of the Necessary Jewels line. Specifically, defendant states that plaintiff failed to provide its customer list to MOD Jewelry until September 2006, three months after the License Agreement was signed, and that the list so provided was outdated and useless; that plaintiff insisted that MOD Jewelry list the plaintiff's corporate office contact information on its catalogues and website, but failed to inform such corporate personnel about the Necessary Jewels line of products so that potential customers were rebuffed and it failed to rectify the situation despite defendant's complaints as early as mid-August 2006; and displayed other jewelry instead of the Necessary Jewels line of products with its clothing line at its fashion shows thereby damaging the image of the Necessary Jewels product line in the market place. While acknowledging that the License Agreement did not expressly forbid such conduct, defendant contends that any reasonable person standing in MOD Jewelry's shoes would believe that Necessary Objects would not abandon its licensee in such a manner once the License Agreement was signed.

In reply, Necessary Objects disputes that it acted in any manner so as to waive MOD Jewelry's default under the License Agreement. Although it did not send a formal notice of default until December 11, 2007, it points to a series of letters between its attorney and the attorney representing MOD Jewelry which indicated as early as September 11, 2007, that it believed MOD Jewelry's request in a letter dated July 17, 2007, to terminate the parties' relationship, constituted a termination of the License Agreement, and that despite discussions about a possible settlement or modification of the License Agreement, it repeatedly reaffirmed its intent to enforce its rights under the License Agreement. No modification of the License Agreement was made and MOD Jewelry never cured its breach of the License Agreement by making the required payments. Moreover, plaintiff asserts that any claim that it breached the License Agreement is based upon obligations not provided for in the License Agreement or that are directly contradicted by the terms of the License Agreement. Necessary Objects contends that its only obligation under the terms of the License Agreement was to meet with MOD Jewelry's representatives to determine whether the Necessary Jewels product line comported with the Necessary Objects mark.

At the outset, defendant's claim that summary judgment should be denied as premature because plaintiff failed to comply with its discovery demands and sought extensions of the date to

provide such discovery solely to buy time to prepare the instant motion for summary judgment is unavailing. As the Appellate Division, First Department stated in *Voluto Ventures, LLC v Jenkins & Gilchrist Parker Chapin, LLP*, 44 AD3d 557 [2007]: “To avail oneself of CPLR 3212 (f) to defeat or delay summary judgment, a party must demonstrate that the needed proof is within the exclusive knowledge of the moving party, that the claims in opposition are supported by something other than mere hope or conjecture, and that the party has at least made some attempt to discover facts at variance with the moving party’s proof [citation omitted]”. Here, defendant asserts that plaintiff’s motion for summary judgment is supported by the affidavit of William Kaufman, the CEO of Necessary Objects, and that it has not had the opportunity to depose Mr. Kaufman. However, defendant makes no assertion as to what evidence exclusively within plaintiff’s knowledge and necessary to opposing the instant motion would be produced thereby. The Court finds that defendant’s argument is speculative and based upon nothing more than mere hope and conjecture which is insufficient to defeat a motion for summary judgment (*see, Waverly Corp. v City of New York*, 48 AD3d 261, 265 [1st Dept. 2008]).

Interpretation of unambiguous contracts is a function for the court in the first instance (*see, Chimart Assoc. v Paul*, 66 NY2d 570, 572-573 [1986]). In performing this duty, the Court must ascertain the intention of the parties at the time they entered into the contract and if their intent is ascertainable from the plain meaning of the language employed in the contract, matters extrinsic to the contract may not be considered (*see, Evans v Famous Music Corp.*, 1 NY3d 452, 458 [2004]). “The threshold decision on whether a writing is ambiguous is the exclusive province of the court” (*Sutton v East Riv. Sav. Bank*, 55 NY2d 550, 554 [1982]), the test being whether the contract on its face is reasonably susceptible of more than one interpretation (*see, Evans v Famous Music Corp., supra; McCabe v Witteveen*, 34 AD2d 652 [2d Dept. 2006]). If such an ambiguity is discerned, the Court may nevertheless determine the meaning of the ambiguous language on a motion for summary judgment (*see, Evans v Famous Music Corp., supra* at 459; *Carvel Corp. v Rait*, 117 AD2d 485, 488 [2d Dept. 1986]). If the opposing party contends that the contract is ambiguous and that extrinsic evidence is necessary to resolve the ambiguity, such party must disclose in evidentiary form

the particular parol evidence upon which it relies (*see, Carvel Corp. v Rait, supra*). Otherwise, the contract document is the only item for the Court to interpret.

The record before the Court fails to reveal the existence of a triable issue with respect to the interpretation of the License Agreement which would preclude the entry of judgment as a matter of law on the plaintiff's first and second causes of action for breach of contract and on the third cause of action for a permanent injunction. The License Agreement clearly indicates that although defendant as Licensee was to seek plaintiff's approval as to: (1) third-party manufacturers (§ 1.7); (2) the design, materials, tags, labels, packaging, concepts, sketches, prints, colorations, fabrications, artwork and samples ("collectively, "Concepts") (§ 3.2 [a]); (3) the styles, designs, packaging, contents, workmanship and quality of all Licensed Products (§ 4.2); (4) the samples of each finished Licensed Product together with tags, labels and packaging to be used in connection therewith (§ 4.3); (5) proposed advertising, promotional and publicity copy, finished artwork for tags, labels, packaging, received and the like and all printed matter of any kind on which the Licensed Mark appears (§ 4.4); and (6) advertising campaigns including trade advertisements (§ 5.3), the License Agreement further provides that as to any such items "received physically by Licensor [Necessary Objects], that are not approved in writing within ten (10) business days after their actual receipt by Licensor [Necessary Objects] shall be deemed approved" (§ 3.2 [a], § 4.3, § 4.4, § 5.3). Thus, plaintiff correctly avers that the License Agreement does not support defendant's contention that alleged delays on the part of Necessary Objects in approving the design, marketing materials or samples in the Necessary Objects jewelry line of Licensed Products constituted a breach of the agreement. Rather, when such written approval was not forthcoming, MOD Jewelry was entitled to proceed without it.

The License Agreement also indicates that the defendant was fully responsible for developing a business and marketing strategy for the Necessary Objects jewelry line including "sales projections by pricing strategy and promotional, advertising and marketing plans" (§ 3.1). In this regard, MOD Jewelry was required to "use its best efforts to actively promote the Licensed Products and exploit the license granted" (§ 5.2). Defendant was expected to maintain a design team, a sales force and a public relations department to create, develop and promote the Licensed Product line, solicit for

markets and distribute the Licensed Product (¶3.3, ¶6.2, ¶6.3). Paragraph 3.5 of the License Agreement further provides that:

The parties acknowledge that in providing any information to the Licensee pursuant to this Agreement, Licensor is acting in an advisory capacity only and to protect the Licensed Mark and Licensor's interest therein. *Accordingly, Licensor shall have no responsibility for the operation or production of the marketing, manufacturing, distribution or sales facilities contemplated under this Agreement or for any decisions that may be made in connection therewith, or for the performance of the Licensed Products, whether upon the recommendation of Licensor or otherwise.* [emphasis added].

The License Agreement indicated that: "In entering this Agreement, Licensee has not relied upon any representations of the Licensor * * * except as contained in this Agreement, and Licensor has made no representation as to the suitability or fitness of the Licensed Mark to Licensee's purposes. Licensor has made no representation or undertaking with respect to any marketing or other support, except as specifically provided in this Agreement (¶7.2). The License Agreement "contains the entire understanding and agreement between the parties * * * with respect to the subject matter * * *, supersedes all prior oral and written and agreements relating thereto, and may not be modified, discharged or terminated orally" (¶22.6).

The foregoing provisions of the License Agreement evince in clear and unmistakable terms an understanding that plaintiff's role in the development of the Necessary Objects jewelry line was to be primarily advisory and limited to protecting the Licensed Mark. The License Agreement does not show that the parties intended Necessary Objects to actively participate in the design, manufacture, promotion or distribution of the Licensed Product. Accordingly, defendant's counterclaim for breach by plaintiff in fulfilling its obligations under the contract is not supported by the record and must be dismissed.

The Court will next consider defendant's second counterclaim for breach of an implied covenant of good faith. As the Court of Appeals stated in *511 West 232nd Owners v Jennifer Realty Co.* (98 NY2d 144, 153 [2002]), and more recently reaffirmed in the case of *Evans v Famous Music Corp.* (1 NY3d *supra* at 462): "In New York, all contracts imply a covenant of good faith and fair dealing in the course of performance. This covenant embraces a pledge that 'neither party shall do

anything which will have the effect of destroying or injuring the right of the other party to receive the fruits of the contract'. While the duties of good faith and fair dealing do not imply obligations 'inconsistent with other terms of the contractual relationship', they do encompass 'any promises which a reasonable person in the position of the promisee would be justified in understanding were included'" [citations omitted].

In its affirmation in opposition, defendant specifies the conduct on plaintiff's part that it contends constituted a breach of the implied covenant of good faith and fair dealing, to wit, that its corporate personnel were not adequately apprised of the Necessary Objects jewelry line so as to properly respond to potential customers; that contact information was improperly listed in a website thereby impeding potential customers' contact with MOD Jewelry; and that plaintiff did not invite defendant to participate in fashion shows featuring Necessary Objects clothing line, but rather showed its clothing with jewelry manufactured by other designers and thereby damaged the Necessary Objects jewelry line. The specified conduct, while evincing a lack of a coordinated effort to assist defendant in the sale and distribution of the Licensed Product, does not appear to have been a deliberate effort or plan on plaintiff's part to injure defendant or deprive the defendant of the benefits of the License Agreement, particularly when, as noted, the plaintiff's primary obligation under the contract was advisory. Accordingly, the Court finds defendant's second counterclaim to also be lacking a substantial basis in the record.

Defendant next claims that plaintiff waived enforcement of the terms of the License Agreement by its post-termination conduct. Plaintiff contends that throughout the exchange of e-mails and correspondence between the parties relative to a possible modification of the License Agreement, it consistently stated that it fully intended to enforce its rights under such agreement. Plaintiff notes that no agreement to modify the License Agreement was ever reached nor did it excuse defendant's default in making the requisite minimum royalty and advertising share payments.

"A waiver is the voluntary abandonment or relinquishment of a known right. It is essentially a matter of intent which must be proved" (*Jefpaul Garage Corp. v Presbyterian Hosp.*, 61 NY2d 442, 446 [1984]). It may be inferred by words, a course of conduct or a failure to act that "evinces

an intent not to claim the purported advantage” (*Hadden v Consolidated Edison Co. of N.Y.*, 45 NY2d 442, 446 [1978]; see, *Fundamental Portfolio Advisors v Tocqueville Asset Management*, 22 AD3d 204, 209 [1st Dept. 2005]). A waiver must be “clear, unequivocal and deliberate” (*Silverman v Silverman*, 304 AD2d 41, 46 [1st Dept. 2003]) “unmistakably manifested” and “not lightly presumed” (*Navillus Tile v Turner Constr. Co.*, 2 AD3d 209, 210 [1st Dept. 2003]). The burden of proving a waiver is upon the party asserting such defense (see, *City of New York v State of New York*, 40 NY2d 659, 669 [1976]).

Here, the defendant has failed to meet this substantial burden of establishing a waiver. Defendant’s assertion that the provisions of the License Agreement were supplanted or modified by the parties’ course of conduct is belied by the plaintiff’s repeated statements in its correspondence with defendant that it considered the License Agreement terminated by defendant’s defaults under its terms and intended to enforce its rights thereunder. The fact that the plaintiff continued to respond to defendant’s requests for a termination of the parties’ relationship and a possible modification of the terms of the License Agreement does not evince a knowing, clear, unequivocal and deliberate relinquishment of its rights to terminate the License Agreement and accelerate the payments due. The conduct referred to by the defendant is insufficient to permit the inference of an intent to waive the defendant’s performance under the License Agreement. This is especially so in view of the non-waiver clause in the License Agreement which provides: “No waiver by Licensor, whether express or implied, of any provision of this Agreement, or of any breach or default thereof, shall constitute a continuing waiver of such provision or of any other provision of this Agreement. Acceptance of payments by Licensor shall not be deemed a waiver by Licensor of any violation, breach or default by Licensee under any provisions of this Agreement” (§22.5). Although there are instances where waivers are found even in the face of a non-waiver clause (see, *Fundamental Portfolio Advisors v Tocqueville Asset Management*, *supra* at 216 [dissenting opn.]), such is not the case here as it may not be said that the course of conduct of the parties gave rise to a reasonable expectation that the provisions of the License Agreement would not be enforced. In any event, even if it may be said that plaintiff waived defendant’s performance in the first instance by engaging in settlement talks with the defendant, its December 11, 2007, letter terminating the License Agreement

clearly withdrew any such agreement to waive performance (*see, Bank Leumi Trust Co. of N.Y. v Block 3102*, 180 AD2d 588, 590 [1st Dept. 1992], *lv denied* 80 NY2d 754 [1992]).

Accordingly, it is

ORDERED, that plaintiff's motion for summary judgment is granted in its favor and against defendant on the first, second and third causes of action in the complaint as follows:

1. Plaintiff is granted judgment on the first cause of action in the amount of \$36,000 and \$225,000 on the second cause of action, together with interest as prayed for allowable by law until the entry of judgment, as calculated by the Clerk of the Court, and thereafter at the statutory rate, together with costs and disbursements to be taxed by the Clerk upon submission of an appropriate bill of costs;

2. Plaintiff is awarded judgment on the third cause of action and the defendant, its officers, agents, employees and all others acting in concert with it who have knowledge of the judgment to be entered hereon are hereby restrained from any direct or indirect use of the "Necessary Objects" trademark, or any variation or simulation thereof, including manufacturing and/or marketing the "Necessary Objects" trademark, defendant is directed to transfer to plaintiff all registrations, filings and rights defendant has in the "necessary Objects" trademark and defendant shall deliver to plaintiff all stencils, prints, artwork, sketches and other design material and all other material in defendant's possession containing the "necessary Objects" trademark; and it is further

ORDERED, that defendant's counterclaims are dismissed; and it is further

ORDERED, that the fourth cause of action is severed and the issue of attorney's fees is hereby referred to the Special Referee Clerk for assignment to a Special Referee to be determined who shall hear the issue of reasonable attorney's fees; and it is further

ORDERED, that the plaintiff shall produce at the hearing before the Special Referee all records, documents, statements or other proof relevant to the issue for which the hearing shall be conducted; and it is further

ORDERED, that plaintiff's attorney shall serve a copy of this order on the Clerk of the Special Referee Clerk, Room 119M at 60 Centre Street, New York, N.Y. 10007.

This constitutes the decision and order of the court.

DATED: 11/17/08

ENTER,

O.P. Sherwood

J.S.C.

FILED
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COUNTY CLERK'S OFFICE
NEW YORK