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

PRESENT: HON. RICHARD B. LOWE, III Justice

PART 56

Picked From

INDEX NO. 115955/08

MOTION DATE

MOTION SEQ. NO. 001

Aimee Lynn

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

MOTION IS DECIDED IN ACCORDANCE WITH ACCOMPANYING MEMORANDUM DECISION

UNFILED JUDGMENT

This judgment has not been entered by the County Clerk and notice of entry cannot be served based hereon. To obtain entry, counsel or authorized representative must appear in person at the Judgment Clerk's Desk (Room 141B).

[redacted] This judgment has not been entered by the County Clerk and notice of entry cannot be served based hereon. To obtain entry, counsel or authorized representative must appear in person at the Judgment Clerk's Desk (Room 141B).

HON. RICHARD B. LOWE, III

Dated: 7/14/09

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 : IAS PART 56

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PICKED FRESH LICENSING, LLC,

Petitioner.

- against -

AMIEE LYNN, INC.,

Respondent.

----------x

Index No. 115955/08

RICHARD B. LOWE III, J.:

Petitioner, Picked Fresh Licensing, LLC ("Picked Fresh"), moves, pursuant to CPLR article 75, for an order staying the counterclaims of respondent, Amiee Lynn, Inc. ("Amiee Lynn") in an arbitration proceeding pending before the American Arbitration Association.

Amiee Lynn opposes the petition and cross-moves, pursuant to CPLR 404 and 7503, to dismiss the petition and compel arbitration of the counterclaims.

BACKGROUND

The following facts are gleaned from the parties' submissions. In November 2005, the parties entered into an Exclusive Sublicense Agreement ("ESA"), pursuant to which Picked Fresh granted Amiee Lynn the exclusive right and license to design, manufacture, and sell merchandise bearing the trademarks "Apple Bottoms" and "Apple Bottoms (and Design)" (the "licensed products") (ESA, Not of Pet, Exh A). By letter agreement, dated August 30, 2007, the parties amended the ESA, *inter alia*, to expire on November 1, 2007 (*id.*).

Paragraph 6 of the ESA required Amiee Lynn to pay Picked Fresh a stated guaranteed minimum royalty during the contract period and any renewal period. In addition, paragraph 7 required Amiee Lynn to pay Picked Fresh royalties at a rate of nine percent of net sales of the licensed products.

Paragraph 9 of the ESA, entitled "Books and Records," required Amiee Lynn to maintain accurate books and records with respect to the sourcing, manufacture, and sale of the licensed products, and the computation of royalties with respect thereto, during the contract period and for two years thereafter. Paragraph 9 also authorized Picked Fresh to inspect and copy said books and record at certain specified times upon reasonable advance notice to Amiee Lynn. Paragraph 9 further states:

> If such inspection reveals that the [Amiee Lynn] has failed to properly account for and pay Royalties to [Picked Fresh] hereunder, and the amount which [Amiee Lynn] has failed properly to account for and pay for any Contract Year exceeds five percent (5%) or more, than [sic] in addition to paying [Picked Fresh] such past due royalties and late fees due thereon, [Amiee Lynn must] reimburse [Picked Fresh] for its expenses (including, without limitation, travel expenses, accommodations and local meal expenses) incurred in conducting such examination

(*id.*).

Paragraph 40 of the ESA states that if a dispute arises under said agreement which cannot be resolved, then "the dispute will be exclusively submitted to binding arbitration and resolved by a single arbitrator (who will be a lawyer) in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect" (*id.*). Paragraph 41 states that the prevailing party will be entitled to seek and collect attorneys' fees and related litigation expenses.

A dispute under the ESA arose between the parties concerning the scope of Picked Fresh's authority to review Amiee Lynn's books and records. In October 2008, Picked Fresh filed a demand for arbitration with the American Arbitration Association. The demand for arbitration essentially alleges (1) that Amiee Lynn wrongfully refused to permit Picked Fresh to inspect Amiee Lynn's books and records; (2) that Picked Fresh is entitled to a full accounting

and any underreported royalties; and (3) that Picked Fresh is entitled to late fees, attorneys' fees, and expenses related to the arbitration.

On November 14, 2008, Amiee Lynn filed an answer and counterclaims with the American Arbitration Association. The first counterclaim alleges, *inter alia*, that in July 2005, Amiee Lynn and an affiliate of respondent, named Picked Fresh Designing, LLC, entered into negotiations concerning a Design Consultation Agreement ("DCA"), pursuant to which Amiee Lynn would pay the affiliate a fee equal to five percent of net sales for design consultation services in connection with, *inter alia*, the creation and development of concepts and designs for the licensed products; that Amiee Lynn made the required payments; and that the affiliate breached the DCA by failing to provide the design consultation services for which Amiee Lynn made payment. The second counterclaim alleges that the additional $281,334 payment made by Amiee Lynn were merely royalty payments under the ESA for the benefit of Picked Fresh, and that requiring Amiee Lynn to make said payments breached the ESA. The third counterclaim alleges that Picked Fresh was unjustly enriched by retaining the additional $281,334 payment made by Amiee Lynn. The fourth counterclaim seeks attorneys' fees, costs, and expenses incurred in connection with the instant dispute.

Picked Fresh now moves for an order staying Amiee Lynn's counterclaims on the ground that said counterclaims are not subject to arbitration as there is no valid agreement to arbitrate.

Amiee Lynn cross-moves to dismiss the petition and compel arbitration of its counterclaims.

DISCUSSION

Generally, on a motion to compel or stay arbitration, a threshold question for the Court is whether the parties made a valid agreement to arbitrate (*see* CPLR 7503; *Matter of Smith*

Barney, Harris Upham & Co. v Luckie, 85 NY2d 193, 201-202 [1995]). Only parties who expressly agree to arbitrate can be compelled to do so (*Marben Realty Co. v Sweeney*, 87 AD2d 561, 562 [1st Dept 1982]). A party cannot be compelled to forgo the right to seek judicial relief and instead submit to arbitration "unless the agreement to arbitrate expressly and unequivocally encompasses the subject matter of the particular dispute" (*Bowner v Bowner*, 50 NY2d 288, 293-294 [1980]). The burden of proof is on the party seeking arbitration (*see Marben Realty Co. v Sweeney, supra*).

Here, Amiee Lynn fails to sustain its burden of establishing an agreement to arbitrate claims arising under the alleged DCA so as to substantiate its first counterclaim. Amiee Lynn acknowledges that it merely entered into negotiations for a nonparty affiliate of respondent to provide design consultation services for a fee. The submissions contain nothing to establish that Amiee Lynn and the nonparty affiliate ever entered into the DCA, or into any arbitration agreement. Nor is there anything to compel Picked Fresh to arbitrate claims arising under the alleged DCA.

It is well established that "only an explicit and unequivocal agreement to use arbitration as the exclusive method of dispute resolution gives rise to an obligation to arbitrate" (*M.I.F. Sec. Co. v Stamm & Co.*, 94 AD2d 211, 212 [1st Dept 1983]). The reason for this requirement is that by agreeing to arbitrate, a party waives in large part many of its normal rights under the procedural and substantive law of the State, and it would be unfair to infer such a significant waiver on the basis of anything less than a clear indication of intent" (*id.* [internal citations omitted]).

Amiee Lynn's argument that the counterclaim is inextricably intertwined with the royalty dispute under the ESA is unavailing. "[I]nterrelatedness, standing alone, is not enough to submit

a nonsignatory to arbitration" (*TNS Holdings v MKI Sec. Corp.*, 92 NY2d 335, 340 [1998]). Thus, the first counterclaim seeking arbitration for the alleged breach of the DCA is stayed pending the outcome of arbitration.

However, the second counterclaim alleging breach of the ESA by Picked Fresh clearly falls under the provision in paragraph 40 of the ESA that the parties submit to arbitration "a dispute arising under this agreement which cannot be resolved" (ESA, Not of Pet, Exh B). Thus, the branch of the petition that seeks to stay arbitration of the second counterclaim for breach of the ESA is denied.

The third counterclaim alleging unjust enrichment is also stayed pending the outcome of arbitration. A claim for unjust enrichment is a quasi contractual claim that is barred when there is an express contract at issue that governs the subject matter of the unjust enrichment claim (*Clark-Fitzpatrick v Long Is. R.R.*, 70 NY2d 382, 388 [1987]).

The fourth counterclaim, seeking attorneys' fees, costs, and expenses incurred in connection with the instant dispute arises under paragraph 41 of the ESA and, as such, may properly be submitted to arbitration. Thus, the branch of the petition that seeks to stay arbitration of the fourth counterclaim is denied.

Accordingly, it is

ORDERED and ADJUDGED that the petition to stay arbitration of respondent's counterclaims is granted to the extent that the first and third counterclaims are stayed pending arbitration and it is otherwise denied; and it is further

ORDERED and ADJUDGED that the cross motion to dismiss the petition and compel arbitration of respondent's counterclaims is granted to the extent of directing arbitration of the second and fourth counterclaims and it is otherwise denied; and it is further

ORDERED that the first and third counterclaims are stayed pending the outcome of arbitration.

This constitutes the decision and judgment of the Court.

Dated: July 14, 2009

ENTER:

HON. RICHARD B. LOWE, III

J. S. C.