

Levy Group, Inc. v L.C. Licensing, Inc.

2010 NY Slip Op 33800(U)

October 12, 2010

Sup Ct, New York County

Docket Number: 650034/10

Judge: Barbara R. Kapnick

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

PRESENT: **BARBARA R. KAPNICK**

PART 39

Index Number : 650034/2010

LEVY GROUP INC.

vs.

L.C.LICENSING INC.

SEQUENCE NUMBER : 001

DISMISS ACTION

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INDEX NO. 650034/10

MOTION DATE _____

MOTION SEQ. NO. 001

MOTION CAL NO. _____

d 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**

NYS SUPREME COURT
RECEIVED

OCT 19 2010

MOTION SUPPORT OFFICE

Dated: 10/12/10



BARBARA R. KAPNICK J.S.C.
J.S.C.

Check one: FINAL DISPOSITION NON-FINAL DISPOSITION

Check if appropriate: DO NOT POST REFERENCE

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

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK: IAS PART 39

-----X

THE LEVY GROUP, INC.,

Plaintiff,

-against-

L.C. LICENSING, INC. and LIZ CLAIBORNE,
INC.,

Defendants.

-----X

BARBARA R. KAPNICK, J.:

DECISION/ORDER
Index No. 650034/10
Motion Seq. No. 001

In this action arising out of the rights to the world-famous "Liz Claiborne" and "Claiborne" Marks, plaintiff The Levy Group ("Levy") seeks to recover damages against defendants L.C. Licensing, Inc. ("LCL") and Liz Claiborne, Inc. ("Claiborne") for: (i) breach of contract (first cause of action); (ii) breach of the covenant of good faith and fair dealing (second cause of action); and (iii) promissory estoppel (third cause of action) and against defendant Claiborne only for (iv) tortious interference with contract (fourth cause of action).

Defendants LCL and Claiborne now move, under motion sequence number 001, for an order pursuant to CPLR 3211(a)(1) and (a)(7) dismissing the plaintiff's Complaint in its entirety on the grounds that there is a defense founded upon documentary evidence and for failure to state a cause of action. Defendants also move pursuant

to Commercial Division Rule 11(d) and CPLR 3303(a) and 3214(b) to stay discovery pending resolution of this motion.¹

Background

The following facts are taken from the Complaint, unless otherwise noted.

On December 1, 1997, Levy and LCL entered into an agreement (the "License Agreement") granting Levy the exclusive right to sell and distribute men's and women's outerwear and rainwear (the "Merchandise") bearing Liz Claiborne Marks (the "Marks") throughout the United States and Puerto Rico. On April 29, 2002, the License Agreement was amended (the "Third Amendment") to grant the plaintiff the right to renew the License Agreement every five years until December 31, 2028 and to renegotiate royalty payments and sales minimums. In 2008, plaintiff exercised the option to renew the License Agreement for another five years.

The License Agreement provides in the Preamble that the "licensee is desirous of associating its products with the (Marks) so as to obtain the benefit of the goodwill associated therewith."

¹ The Court granted that portion of the motion seeking to stay discovery during the oral argument held on May 12, 2010.

Paragraph 34 of the License Agreement (Licensor's Approval or Consent)² provides that:

[t]he parties hereby agree and acknowledge that the highest standards and reputation and established image, prestige and goodwill within the 'better zone' for women's apparel products (as such term is understood in the industry) are associated with the "Liz Claiborne" name, the [Marks] and with the businesses and products of [LCL] and their respective affiliates and licensees, and that the operations of the license granted hereunder and the Person who own the license or any equity interest in Licensee will reflect upon and affect such standards, reputation, image, prestige and goodwill. Accordingly, [Plaintiff] agrees and acknowledges that any approval or consent of Licensor is required hereunder ... may be based upon subjective standards intended to maintain such standards, reputation, image, prestige and goodwill, and the quality and reputation of Liz Merchandise.

Other references to the "high quality", "prestige" and "goodwill" associated with the Marks are found throughout the License Agreement in sections delineating acknowledgments, restrictions or requirements on the part of plaintiff only. License Agreement §2.1 provides in relevant part that:

[l]icensor retains and reserves any and all rights to use and exploit, and to grant to any other Person the right to use and exploit, any Licensed Mark . . . and any designs, names or other items supplied by Licensor hereunder in connection with any and all products and services, other than Merchandise bearing the Licensed Marks,...

² The plaintiff refers to this paragraph as the "Bilateral Agreement."

The Complaint alleges that prior to entering into the Third Amendment, Levy had had discussions with a major Claiborne competitor regarding a license to design, manufacture and sell the competitor's outerwear in lieu of renewing the License Agreement. Levy claims that in order to induce it to renew the License Agreement, Claiborne agreed, *inter alia*, to extend the length of the Agreement, and that plaintiff relied on Claiborne's continued obligation to protect the prestige and reputation associated with the Marks and its continued right to sell the Merchandise to a network of "better zone" department stores.

The Complaint further alleges that as a result of many years of effort and investment, Levy has developed a large network of "better zone" retailers which purchase large volumes of the Merchandise. "Better zone" is a clothing industry term referring to stores associated with higher quality, reputation and prices, such as Macy's and Dillard's.

Notwithstanding all this, on October 7, 2009, Claiborne entered into an agreement with J.C. Penney Corporation ("JCPenney") granting it the exclusive worldwide license to use the Marks in connection with certain products, not including the Merchandise (the "Penney License").

The Complaint alleges that JCPenney is not considered a "better zone" retailer and that the defendants previously required Levy under the Second Amendment to the License Agreement (the "Second Amendment") to use the less prestigious "Crazy Horse" trademark, also owned by Claiborne, rather than the Marks if Levy wished to sell Merchandise to JCPenney.

According to the Complaint, now that the Marks will appear on items sold in JCPenney, "better zone" retailers will no longer purchase plaintiff's Merchandise. Moreover, JCPenney is under no obligation to purchase the Merchandise from Levy, and even if it did, it could not match the volume of sales which Levy had previously developed with the "better zone" retailers. Furthermore, Levy's margin of profit on any sales to JCPenney would be lower because it is not a "better zone" retailer. The Complaint alleges that all of these factors will result in a decline in net sales of tens of millions of dollars annually and will make it more difficult, if not impossible, for Levy to meet its net sales minimums that trigger its right to renew the License Agreement.

Discussion

I. Breach of Contract

Defendants argue that plaintiff's breach of contract claim should be dismissed pursuant to CPLR 3211(a)(1) and (a)(7) on the

grounds that the written contract conclusively establishes a defense as a matter of law. Specifically, defendants contend that §2.1 of the License Agreement grants defendants broad rights to license the Marks to any person so long as it does not include the Merchandise. Moreover, §1.3 of the License Agreement provides that it was "understood and agreed that Licensor retains all rights of creation and exploitation with respect to all other products other than Merchandise . . .," and the Penney License includes a specific carve-out for defendants' pre-existing licensees, including the license with Levy.

In addition, defendants assert that nothing in the plain language of the License Agreement either obligates defendants to maintain the "reputation and prestige" of the Marks by not entering into an agreement similar to the Penney License, or grants Levy the unequivocal right to sell exclusively to "better zone" stores. On the contrary, defendants argue that the terms of the Agreement cited by Levy in the Complaint, such as §2.4,³ are designed to police the conduct of Levy as LCL's licensee, not to create any

³ §2.4 of the License Agreement provides in relevant part that "[l]icensee shall sell Liz Merchandise only to those specialty shops, department stores and other retail outlets which sell in the Territory Merchandise similar in quality and prestige to Merchandise bearing the 'Liz Claiborne' name, and whose operations are consistent with the quality and prestige of the 'Liz Claiborne' name, the Licensed Marks and the Liz Standards..."

duty on the part of the defendants to maintain the "reputation and prestige" of the Marks as "better zone" brands, as Levy claims.

Plaintiff argues in opposition that (i) the repeated references to the Marks' value, prestige and goodwill throughout the License Agreement, (ii) the Bilateral Acknowledgment in Paragraph 34 and (iii) the License Agreement's statement of plaintiff's desire to benefit from the goodwill associated with the Marks collectively express an obligation on the part of Claiborne to protect the Marks' "better zone" standards. Plaintiff argues that it was this obligation which triggered the defendants' breach.

However, the License Agreement here was negotiated by sophisticated and well-counseled parties, and under such circumstance, the Courts are "extremely reluctant to interpret an agreement as impliedly stating something which the parties have neglected to specifically include." *Worcester Creameries Corp. v City of New York*, 54 AD3d 87, 91 (3rd Dep't 2008); see also *Vermont Teddy Bear Co. v 538 Madison Realty Co.*, 1 NY3d 470, 475 (2004). "[I]t is a basic contract principle that 'when parties set down their agreement in a clear, complete document, their writing should . . . be enforced according to its terms' (citations omitted)." *TAG 380, LLC v ComMet 380, Inc.*, 10 NY3d 507, 512-513 (2008).

Paragraph 2.1 of the License Agreement contains clear and unambiguous language in favor of Claiborne's right to license the Marks to any Person, with a carve-out for the Merchandise. While plaintiff argues that the License Agreement obligates Claiborne to protect the Marks' high quality and standards, there is no provision which specifically provides for this obligation.

Certainly, as plaintiff points out, references to the reputation and prestige of the Marks are peppered throughout the License Agreement, yet, none of these references imposes an obligation to maintain those standards upon Claiborne. To the contrary, those references are found in sections which impose obligations on Levy. Even the plain language of the Bilateral Acknowledgment in Paragraph 34, in which both parties acknowledge the high standards associated with the Marks, describes only the subjective standards which Claiborne may use in exercising its rights of approval or consent in regard to Levy's use of the Marks.

If restrictions upon Claiborne's actions which might harm the value of the Marks were contemplated by the parties to the Agreement, those restrictions should have been clearly and expressly included in the License Agreement.

Plaintiff also argues that the reservation of rights language found in Paragraphs 1.3⁴ and 2.1 of the License Agreement is boilerplate language which is contradicted by the more specific language found in the Bilateral Acknowledgment in Paragraph 34, and thus does not grant Claiborne an express unfettered right to enter into licensing agreements with other Persons. In support of this position, plaintiff relies on the case of *Carvel Corporation v Noonan*, 79 FSupp2d, 53 (D. Conn. 1997). The *Carvel* case involved a dispute between a franchisor and franchisee concerning the validity of a wholesale ice cream distribution program. The franchisor originally provided a type A agreement under which a "unique system" was created and the franchisees were the exclusive distributors of the franchisor's ice cream and were provided limited territorial protection. Subsequently, in response to a changing market, the franchisor introduced a modified type B agreement which provided for supermarket distribution and eliminated the prior territorial protection. The franchisor brought a declaratory judgment action concerning the validity of its supermarket distribution program and moved for summary judgment.

⁴ Paragraph 1.3 of the License Agreement provides in relevant part that "[t]he term 'Merchandise' shall mean and be limited to women's fashion outerwear and rainwear ... and shall not include any other items whatsoever; it being understood and agreed that Licensor retains all rights of creation and exploitation with respect to all other products other than Merchandise ..."

The Court granted the motion to the extent that it found that a supermarket did not violate the express terms of the type B agreement because the agreement expressly reserved to the franchisor the right to sell its products through other delivery systems. The Court, however, denied the motion in all other respects, holding that factual issues existed as to whether the supermarket program deprived the original franchisees of their right to receive the benefit of their agreements, since they "could have reasonably expected, at the time of contracting, that Carvel would not use such a system to compete directly against them, especially since distribution to supermarkets and other retail outlets was not a practice that existed prior to the agreement." *Carvel Corporation v Noonan, supra* at 66.

Plaintiff argues that the type A franchise agreement at issue in *Carvel* contains an "Acknowledgments" paragraph, similar to the "Bilateral Acknowledgment" in Paragraph '34 of its License Agreement, that specifically provides that, "[t]he parties acknowledge and agree that there has been created a unique system for the production, distribution and merchandising of Carvel products..."

The type A agreement's "Acknowledgments" paragraph also contained a reservation of rights clause which specifically

provided that the franchisees were afforded "only with a limited license to manufacture and sell certain specified Carvel products at retail, and only from the unique type of retail store specified herein as a Carvel store. All other rights in and to the names 'Carvel' and the Carvel trademarks are reserved to Carvel as the owner of that name and those trademarks."

The Court in *Carvel* held that the reservation of rights paragraph did not implicitly authorize Carvel to distribute ice cream outside the "unique system", and analogously, plaintiff argues that the License Agreement at issue herein does not expressly grant Claiborne the right to license the Marks to persons outside the "better zone". Further, plaintiff suggests that just as in *Carvel*, Claiborne's right to license the Marks to "any other Person" contradicts that portion of the "Bilateral Acknowledgment" in Paragraph 34 that expressly contemplates that the Marks are associated with the "better zone".

Defendants contend that plaintiff's argument conspicuously ignores the key difference between the type A agreement and the agreement at issue here.⁵ Specifically, defendants point out that unlike the type A agreement which includes only a general

⁵ Plaintiff never discussed in its Memorandum of Law the distinctions between the type A and type B agreements in the *Carvel* case.

reservation of rights, Paragraph 2.1 of the License Agreement expressly reserves LCL's rights to license the Marks to "any other Person."

This Court finds that the language contained in the type B agreement is more akin to Paragraph 2.1 which includes an express reservation of rights, and that the defendants have simply exercised a clearly expressed right reserved to them in the License Agreement. Thus, that portion of defendants' motion seeking to dismiss the breach of contract claim is granted.

II. Breach of the Covenant of Good Faith and Fair Dealing

In New York, all contracts imply a covenant of good faith and fair dealing in the course of performance (citations omitted). 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" (citation omitted). While the duties of good faith and fair dealing do not imply obligations "inconsistent with other terms of the contractual relationship" (citation omitted), they do encompass "any promises which a reasonable person in the position of the promisee would be justified in understanding were included" (citation omitted).

511 W. 232nd Owners Corp. v Jennifer Realty Co., 98 NY2d 144, 153 (2002).

Nonetheless, defendants argue that the plaintiff's claim for breach of the covenant of good faith and fair dealing should be

dismissed in the instant case because it is duplicative of plaintiff's claim for breach of contract - namely, the execution of the JCPenney lease - and involves the same purported injury - namely, the profits Levy alleges it will lose from reduced sales to "better zone" retailers. See, *Amcan Holdings, Inc. v Canadian Imperial Bank of Commerce*, 70 AD3d 423 (1st Dep't 2010); *AJW Partners LLC v Itronics Inc.*, 68 AD3d 567 (1st Dep't 2009); *Logan Advisors, LLC v Patriarch Partners, LLC*, 63 AD 3d 440 (1st Dep't 2009).

Plaintiff denies that the implied covenant claim is duplicative because it is based not only upon the License Agreement itself, but also the parties' understanding and course of dealing prior to entering into the License Agreement, their conduct over ten years of doing business together and the renegotiation of the renewal rights in 2002.

However, the License Agreement specifically provides as follows:

21. Integration. This Agreement (including the Exhibits hereto) sets forth the entire agreement and understanding between the parties relating in any way to the use of the Licensed Marks, or to the subject matter hereof and supersedes and merges all prior discussions, arrangements and agreements between them.

22. Amendments. This Agreement may not be amended or modified except by written instrument signed by each of the parties hereto.

Plaintiff alternatively argues that it has stated a claim for breach of the covenant of good faith and fair dealing by alleging that defendants, by entering into the Penney license which permits the Claiborne Marks to be sold on items in JCPenney, after previously requiring Levy to use the less prestigious Claiborne trademark "Crazy Horse" it if wished to sell its merchandise to JCPenney, have potentially destroyed Levy's "better zone" business and deprived Levy of the benefit of "the fruits of the contract." See, *Zurakov v Register.Com, Inc.*, 304 AD2d 176 (1st Dep't 2003); *Carvel Corporation v Noonan*, *supra*.

However, plaintiff's claim for breach of the implied covenant of good faith and fair dealing seeks to nullify an express and unambiguous term of the License Agreement, namely, LCL's right to grant to "any other Person", whether in or out of the "better zone", a license for the use of the Marks with respect to products other than outerwear. The implied covenant "cannot be construed so broadly as effectively to nullify other express terms of a contract, or to create independent contractual rights (citations omitted)." *Fesseha v TD Waterhouse Inv. Servs.*, 305 AD2d 268 (1st Dep't 2003). See also, *National Union Fire Ins. Co. of Pittsburgh*,

PA v Xerox Corp., 25 AD3d 309 (1st Dep't 2006), lv to app disp'd, 7 NY3d 886 (2006).

Accordingly, that portion of defendants' motion seeking to dismiss the implied covenant claim is granted.

III. Promissory Estoppel

Defendants next argue that plaintiff's promissory estoppel claim should be dismissed because the promise allegedly relied upon by plaintiff arises from a valid and enforceable contract between the parties. *Celle v Barclays Bank P.L.C.*, 48 AD3d 301 (1st Dep't 2008); *Brown v Brown*, 12 AD3d 176 (1st Dep't 2004). According to the Complaint, "[t]o induce [the plaintiff] to renew the [License] Agreement ... [Claiborne] agreed to extend the length of the [License] Agreement by twenty-five years. This agreement between the parties is reflected in the Third Amendment to License Agreement, dated April 29, 2002." (Complaint ¶37-38). The Complaint itself makes clear that the very promises which allegedly gave rise to the promissory estoppel claim are now reflected in the License Agreement and the Amendment. As such, plaintiff's cause of action for promissory estoppel is dismissed.

IV. Tortious Interference with Contract


A tortious interference claim requires "the existence of a valid contract between the plaintiff and a third party, defendant's

knowledge of that contract, defendant's intentional procurement of the third-party's breach of the contract without justification, actual breach of the contract, and damages resulting therefrom (citations omitted)." *Lama Holding Co. v Smith Barney*, 88 NY2d 413, 424 (1st Dep't 1996). Since this Court has already dismissed the plaintiff's breach of contract claim, the tortious interference claim cannot succeed as a matter of law. Defendants' motion to dismiss this claim is thus granted.

The Clerk may, therefore, enter judgment dismissing plaintiff's Complaint in its entirety with prejudice and without costs or disbursements.

This constitutes the decision and order of this Court.

Dated: October 12, 2010


BARBARA R. KAPNICK
J.S.C.

BARBARA R. KAPNICK
J.S.C.