LC Footwear, L.L.C. v L.C. Licensing, Inc.
2011 NY Slip Op 33894(U)
November 15, 2011
Supreme Court, New York County
Docket Number: 651907/10
Judge: Barbara R. Kapnick
Cases posted with a "30000" identifier, i.e., 2013 NY Slip Op 30001(U), are republished from various state and local government websites. These include the New York State Unified Court System's E-Courts Service, and the Bronx County Clerk's office.
This opinion is uncorrected and not selected for official publication.

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

PRESENT: BARBARA R. KAPNICK PART 39m
Justice

LC Footwear L.L.C et al

INDEX NO. 651907/10

MOTION DATE

- v -

MOTION SEQ. NO. 001

L.C. Licensing, Inc

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

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

Dated: 11/15/11

BARBARA R. KAPNICK J.S.C.

Check one: ☐ FINAL DISPOSITION ☒ NON-FINAL DISPOSITION

Check if appropriate: ☐ DO NOT POST ☐ REFERENCE

☐ SUBMIT ORDER/ JUDG. ☐ SETTLE ORDER/ JUDG.

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

---------------------------------------x

LC FOOTWEAR, L.L.C., LC FOOTWEAR CONSIGNMENT, L.L.C., LC FOOTWEAR HOLDING, L.L.C., LC FOOTWEAR WHOLESALE, L.L.C. and PL FOOTWEAR, LLC,

Plaintiffs,

-against-

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

Defendants.

---------------------------------------x

DECISION/ORDER
Index No. 651907/10
Motion Seq. Nos. 001 and 003

BARBARA R. KAPNICK, J.:

Motion Seq. Nos. 001 and 003 are consolidated for disposition herein.

Plaintiffs LC Footwear, L.L.C. ("LC Footwear"), LC Footwear Consignment, L.L.C. ("LC Consignment"), LC Footwear Holding, L.L.C. ("LC Holding"), LC Footwear Wholesale, L.L.C. ("LC Wholesale") and PL Footwear, LLC ("PLF") (collectively "Plaintiffs") commenced this action to recover for damages they allege were caused by the failure of defendants L.C. Licensing, Inc. ("L.C. Licensing") and Liz Claiborne, Inc. ("Liz Claiborne") (collectively "Defendants") to fulfill their obligations under a licensing agreement between the various parties.

[* 3]

Background

According to Plaintiffs' Amended Verified Complaint ("Amended Complaint"), Defendants operated a wholesale business in women's career, career-casual, casual and sport shoes (the "Merchandise") prior to 1995. Pursuant to a Purchase Agreement dated June 30, 1995, plaintiff LC Footwear acquired certain assets used in the business of designing, sourcing, marketing and selling merchandise under the "Liz Claiborne" trademark from non-party Liz Claiborne Shoes, Inc. ("LC Shoes") and defendant LC Licensing, in addition to assuming certain related liabilities. LC Footwear became a licensee of a variety of LIZ CLAIBORNE marks under an Amended and Restated License Agreement with LC Licensing dated as of June 30, 1995 (the "First Amended License" or "License Agreement").[1]

The First Amended License authorized plaintiff LC Footwear to manufacture, promote, sell and distribute the Merchandise at wholesale and retail. Plaintiff LC Footwear and defendant LC Licensing entered into a Second Amended and Restated Licence Agreement ("Second Amended License") dated as of January 1, 1997, under which LC Footwear alleges it acquired an exclusive license to use any of the "Licensed Marks," as defined in paragraph 1.2

[1] Plaintiffs allege that non-parties LC Shoes and Liz Holdings, Inc., an affiliate of LC Licensing, each owned a 20 percent equity interest in plaintiff LC Holding until they "returned" their respective interests in April 2009.

[* 4]

thereof,[2] as a trademark in connection with the manufacture, advertising, merchandising, promotion, sale and distribution of the Merchandise. As of January 1, 2005, the Second Amended License was allegedly amended to add LC Holding and LC Wholesale as additional licensees.[3]

A Third Amendment to License Agreement ("Third Amendment") was executed between LC Footwear, LC Holding, LC Wholesale and LC Consignment on the one hand, and LC Licensing on the other hand, as of September 1, 2009, pursuant to which the parties agreed, *inter alia*, to modify the definition of the term "Licensed Marks" as defined in paragraph 1.2. Specifically, Section 1 of the Third Amendment provides as follows:

> Amendment to "Licensed Marks" Definition. The term "Licensed Marks" as defined in Section 1.2 of the License Agreement is hereby amended to (i) include the following trademarks: (a) "LIZ CLAIBORNE NEW YORK", (b) "LIZ & CO." and (c) "LIZ CLAIBORNE FLEX" for the comfort footwear business and (ii) exclude the following trademarks: (a) "RUSS", (b) "FIRST ISSUE", (c) "CRAZY HORSE", (d) "J.H. COLLECTIBLES", and (e) "EMMA JAMES".

---

[2] Section 1.2 of the Second Amended License defines "Licensed Marks" as "(a) "LIZ CLAIBORNE" and associated logomarks (as the same has been changed since September, 1995), and (b) "RUSS", "VILLAGER", "FIRST ISSUE", "CRAZY HORSE", "J.H. COLLECTIBLES" and "EMMA JAMES" and associated logomarks."

[3] Pursuant to a sub-licensing agreement dated January 1, 1997 ("Sublicense"), LC Footwear granted PLF, with the consent of defendant LC Licensing, a sublicense to certain of the trademarks it held pursuant to the License Agreement.

[* 5]

In addition, the first "WHEREAS" clause of the Third Amendment characterizes the Second Amended License as granting LC Footwear (referred to therein as "Retail"), LC Holdings (referred to as "Holdings") and LC Wholesale (referred to as "Wholesale"), "the exclusive right and license to, among other things, establish and develop a business for (among other things) the design, production and distribution of Merchandise, all as defined and set forth in the License Agreement."

Plaintiffs' original Complaint ("Original Complaint") dated November 1, 2010, asserted causes of action for: breach of contract and duty of good faith and fair dealing (Count 1); fraud in the inducement (Count 2); tortious interference with economic advantage (Count 3); equitable relief (Count 4); brand dilution (Count 5); unjust enrichment (Count 6); and declaratory relief (Count 7).

On January 14, 2011, plaintiffs filed their Amended Complaint, in which they assert the following:

Count I: breach of contract for failure to "work cooperatively to pursue sales" of the LIZ & CO brand to J.C. Penney, pursuant to paragraph 20 of the Third Amendment, and for disclosing the Reversion Provision to J.C. Penney that plaintiffs allege caused J.C. Penney to elect not to purchase LIZ & CO merchandise from LC Footwear;

[* 6]

Count II: breach of duty of good faith and fair dealing implied in an alleged oral or implied license;

Count III: breach of duty of good faith and fair dealing by deliberately seeking to prevent plaintiffs from meeting the sales renewal thresholds in the License Agreement;

Count IV: breach of duty of good faith and fair dealing by arbitrarily disapproving of plaintiffs' potential customers;

Count V: breach of duty of good faith and fair dealing by disapproving of plaintiffs' potential customers for a wrongful purpose;

Count VI: breach of duty of good faith and fair dealing by obstructing plaintiffs' ability to comply with the approval process set forth in the License Agreement;

Count VII: declaratory judgment that plaintiff LC Footwear has not breached the License Agreement;

Count VIII: declaratory judgment that the License Agreement does not provide defendants the unfettered right to disapprove plaintiff LC Footwear's customers;

Count IX: fraud in the inducement, in that defendants did not intend to fulfil their promise to cooperate with plaintiffs in seeking business with J.C. Penney, and defendants failed to tell plaintiffs they had disclosed the Reversion Provision to J.C. Penney;

[* 7]

Count X: breach of duty of good faith and fair dealing by granting exclusive licenses to J.C. Penney and QVC, thereby restricting plaintiffs from developing merchandise to cross-market with other customers and then failing to identify any products from QVC or J.C. Penney to cross-market, resulting in decreased benefits to plaintiffs from the License Agreement; and

Count XI: brand dilution by offering various merchandise under the Licenced Marks and similar marks in lower and lower quality outlets over a period of years.

According to the Amended Complaint, since the Licence Agreement did not explicitly include a right to sell LIZ & CO. branded merchandise, LC Footwear sought to amend the License Agreement to allow it to sell LIZ & CO. branded shoes to J.C. Penney and LIZ CLAIBORNE NEW YORK footwear developed in consultation with Isaac Mizrahi, Claiborne's chief designer. LC Footwear executives contacted Barbara Friedman, then President of Licensing for defendants, who allegedly informed LC Footwear that no amendment of the License Agreement was necessary and that LC Footwear was licensed to use any Liz Claiborne mark that included the "Liz" name whether or not it was explicitly included in the

[* 8]

License Agreement.[4]

In reliance on this statement, plaintiffs allege that they manufactured and sold merchandise to J.C. Penney bearing the LIZ & CO. mark in 2007 and 2008,[5] and also sold the LIZ CLAIBORNE NEW YORK footwear developed with Mizrahi in 2008 and 2009, accounting to defendants for each sale and paying royalties thereon without objection.

According to the Amended Complaint, in the spring of 2009, representatives of Liz Claiborne suggested that LC Footwear attempt to revive the LIZ & CO. brand at J.C. Penney, and arranged a meeting on May 5, 2009 with representatives of LC Footwear, J.C. Penney and Liz Claiborne to discuss reinstating LIZ & CO footwear at J.C. Penney for the Spring 2010 season. Thereafter, Cindy O'Connor of Liz Claiborne sent an email to Wayne Weaver, LC Footwear's Chairman and CEO, with a proposed retail sales plan that called for selling the shoes in 400 J.C. Penney Stores.

Upon its execution on September 1, 2009, the Third Amendment licensed the LIZ & CO. mark to LC Footwear. However, it also

---

[4] Plaintiffs do not state precisely when this call or contact allegedly took place.

[5] According to plaintiffs, J.C. Penney canceled orders for LIZ & CO. branded Merchandise for 2009.

[* 9]

included a provision by which all rights to that mark would revert to LC Licensing if LC Footwear was unable to negotiate with J.C. Penney to carry the footwear in at least 100 stores by September 30, 2009 ("Reversion Provision"). At a meeting on September 17, 2009, Jodi Johnson, J.C. Penney's Divisional VP, informed LC Footwear that sales of LIZ & CO. branded footwear "would need to be put on hold until Fall 2010," because of J.C. Penney's "bigger initiatives". As a result, LC Footwear's deal with J.C. Penney never went through and the Reversion Provision was triggered, thereby returning all rights under the LIZ & CO. mark to defendants.

Plaintiffs allege that while they were taking steps to develop the LIZ & CO. line of shoes for J.C. Penney, defendants were already secretly negotiating their own deal with J.C. Penney, which was announced on October 7, 2009, just one week after LC Footwear's rights to the LIZ & CO. mark reverted to Defendants. According to the announcement, defendants' agreement with J.C. Penney provides that it is the "exclusive department store destination for all LIZ CLAIBORNE AND CLAIBORNE branded merchandise in the United States and Puerto Rico," effectively precluding Plaintiffs from selling women's shoes through any other department store outlet and providing J.C. Penney with a LIZ-based mark under which it can source women's shoes without purchasing Merchandise from

plaintiffs. In addition, defendants announced that they were "moving the distribution of the LIZ CLAIBORNE NEW YORK brand designed by Isaac Mizrahi to QVC," with an exclusive license.

According to the Amended Complaint, since October 2009 and particularly since plaintiffs threatened litigation, defendants have taken further steps to undermine and breach the License Agreement and/or the covenant of good faith and faith dealing implied therein, including misusing the "disapproval provision" (Section 6.4[a]) of the License Agreement. Plaintiffs allege that LC Footwear has received inquiries from other department store chains and specialty stores that carry the same quality of goods and provide the same level of service as J.C. Penney and QVC, such as Sears, but defendants have, for the first time in 14 years, asserted an alleged right to disapprove of even LC Footwear's "first quality" customers, an action which Plaintiffs contend is contrary to the License Agreement.

As a result of defendants' actions, LC Footwear alleges that it is facing a future without a customer base and has no way to generate sufficient sales to cover the minimum royalties due under its License Agreement. Without a customer base and without revenue, LC Footwear claims that it faces extinction.

Finally, plaintiffs allege that defendants' harmful conduct in general began in 2006 when it announced it would begin selling apparel products through J.C. Penney bearing the mark LIZ & CO., a mark previously used by defendants exclusively on products sold through better department store channels, such as Macy's. plaintiffs contend that this was a major change in defendants' marketing strategy and that it had a ripple effect on all LIZ-based brands because the products were to be sold at prices 20 to 30 percent less than those sold under the LIZ CLAIBORNE brand.

According to the Amended Complaint, as a result of this shift in strategy, other department stores were alienated and the prestige and cache of the brand was diminished. Specifically, Plaintiffs allege that Macy's cancelled orders for approximately $10 million in LC Footwear Merchandise for which non-cancellable orders had already been placed, forcing LC Footwear to sell off such Merchandise at a substantial loss. Macy's subsequently moved its remaining inventory of LIZ CLAIBORNE branded Merchandise into smaller stores, required LC Footwear to financially support lower margins in these stores, and refused to place orders for additional Merchandise from LC Footwear. Likewise, Belk and Bon-Ton, other allegedly first tier stores, reduced their orders of LIZ CLAIBORNE branded Merchandise.

Plaintiffs allege that as a result of Defendants' recent actions, the market appeal of the LIZ CLAIBORNE brand has waned, sales have been reduced in both LC Footwear's retail and wholesale business, and it has been forced to close retail stores and outlets, in addition to its warehouse. In addition, LC Consignment's entire business has been shut down, as it sold Merchandise to Liz Claiborne retail locations and defendants announced the closing of all retail outlets.

Plaintiffs initially moved for a preliminary injunction (motion seq. no. 001). While that motion was pending before the Court, defendants moved to dismiss the Amended Complaint[6] in its entirety pursuant to CPLR 3211(a)(1) and (a)(7) (motion seq. no. 003).[7] As a ruling in defendants' favor on its motion would render plaintiffs' motion moot, in whole or in part, the Court considers the motion to dismiss first.

---

[6] Defendants previously moved to dismiss the Original Complaint, which motion was withdrawn after plaintiffs filed their Amended Complaint.

[7] Defendants also sought an order staying discovery pursuant to CPLR 3103(a) pending determination of this motion, which was dealt with on the record on June 29, 2011.

DEFENDANTS' MOTION TO DISMISS

Count I: Breach of Contract

In Count I of the Amended Complaint, plaintiffs allege that, pursuant to Paragraph 20 of the Third Amendment, defendants expressly agreed to "work cooperatively with LC Footwear to pursue sales of the LIZ & CO. brand to [J.C. Penney]" ("Cooperation Clause").[8] Specifically, plaintiffs allege that defendants breached this provision by, 1) failing to take steps to aid LC Footwear in achieving sales to J.C. Penney; and 2) disclosing the Reversion Provision contained in the Third Amendment to J.C. Penney after its execution, which plaintiffs allege caused J.C. Penney to elect not to purchase LIZ & CO. merchandise from them.

Defendants argue that plaintiffs fail to state a cause of action for breach of contract, because the obligation to "work cooperatively" is too vague and indefinite to be enforceable as a matter of law. Defendants cite to cases addressing other, similarly vague contractual provisions and contend that here, as in those cases, there are no objective benchmarks or other criteria by which to measure whether defendants' conduct rose to the level of "work[ing] cooperatively." See *Deligiannis v PepsiCo, Inc.*, 757 FSupp 241, 256-257 (SDNY 1991) (defendant's promise to "assist" plaintiffs in acquiring third-party business was too vague to be

---

[8] Amended Complaint ¶ 150.

enforceable as a matter of law); *Pinnacle Books, Inc. v Harlequin Enterprises, Ltd.*, 519 FSupp 118, 121-122 (SDNY 1981) (contract unenforceable where parties agreed to use "best efforts" without objective standards); *Mocca Lounge v Misak*, 94 AD2d 761, 763 (2d Dept 1983) ("even when called upon to construe a clause in a contract expressly providing that a party is to apply his best efforts, a clear set of guidelines against which to measure a party's best efforts is essential to the enforcement of such a clause.").

Alternatively, defendants argue that even if the Cooperation Clause is enforceable, plaintiffs have failed to allege sufficient facts to support a cause of action for breach of the provision. Accepting plaintiffs' allegation that defendants revealed the Reversion Provision to J.C. Penney as true for purposes of this motion, defendants argue that plaintiffs can point to no term in the Third Amendment prohibiting the disclosure of such information. Further, defendants point out that the Licensing Agreement contains a section on Confidentiality, which does not include any reference to the Reversion Provision. As such, defendants assert that their alleged disclosure cannot constitute a breach of contract as a matter of law.

[* 15]

Plaintiffs note, in the first instance, that defendants have not denied that they disclosed the Reversion Provision to J.C. Penney, and also dispute defendants' position that the term "work cooperatively" is unenforceable, pointing to several cases in which "cooperation clauses" have been interpreted and enforced. See *State Farm Indem. Co. v Moore*, 58 AD3d 429, 430 (1st Dept 2009); *Navilia v Windsor Wolf Rd. Props. Co.*, 249 AD2d 658, 660 (3d Dept 1998).

Nor are cases interpreting "best efforts" clauses applicable here, plaintiffs argue, because plaintiffs do not allege that defendants did not cooperate *enough*, but that they actively worked to sabotage plaintiffs' attempts to sell to J.C. Penney. Even if no cause of action for breach of contract may lie in this regard, plaintiffs contend that breach of the duty of good faith and fair dealing surely would.

It is well-settled that,

> before the power of law can be invoked to enforce a promise, it must be sufficiently certain and specific so that what was promised can be ascertained. Otherwise, a court, in intervening, would be imposing its own conception of what the parties should or might have undertaken, rather than confining itself to the implementation of a bargain to which they have mutually committed themselves. Thus, definiteness as to material matters is of the very essence in contract law. Impenetrable vagueness and uncertainty will not do.

Joseph Martin, Jr., Delicatessen v Schumacher, 52 NY2d 105, 109 (1981) (citing 1 Corbin, Contracts, § 95, p 394; 6 Encyclopedia of New York Law, Contracts, § 301; Restatement, Contracts 2d, § 32, Comment *a*).

"[W]here it is clear from the language of an agreement that the parties intended to be bound and there exists an objective method for supplying a missing term, the court should endeavor to hold the parties to their bargain." *Non-Linear Trading Co. v Braddis Assoc.*, 243 AD2d 107, 114 (1st Dept 1998). However,

> [e]ven if the parties believe they are bound [by their contract], if the terms of the agreement are so vague and indefinite that there is no basis or standard for deciding whether the agreement had been kept or broken, or to fashion a remedy, and no means by which such terms may be made certain, then there is no enforceable contract.

Candid Productions, Inc. v International Skating Union, 530 FSupp 1330, 1333-1334 (SDNY 1982) (applying New York law).

In *State Farm Indem. Co. v Moore*, supra, the Court was called upon to determine whether an insurer was entitled to disclaim coverage of its insured based on what it alleged was a refusal to cooperate with its investigation of an accident in which its insured was involved. The insurer made several attempts, through telephone calls and letters, to contact the insured, to no avail, resulting in its disclaiming coverage.

The Court in *State Farm* reaffirmed that an insurer is entitled to disclaim coverage "'[w]hen an insured deliberately fails to cooperate with its insurer in the investigation of a covered incident as required by the policy.'" supra at 430, quoting *Matter of New York Cent. Mut. Fire Ins. Co. (Salomon)*, 11 AD3d 315, 316 (2004). The insurer does, however, have a "very heavy burden," to show that "it diligently acted in seeking the cooperation of the insured, that its efforts were reasonably calculated to bring about the insured's cooperation, and that the insured's attitude 'was one of "willful and avowed obstruction".'" *Id.*, quoting *Thrasher v United States Liab. Ins. Co.*, 19 NY2d 159, 168 (1967).[9]

Navilia v Windsor Wolf Rd. Props. Co., supra, involved a dispute over interest in real property. There, the defendant owned property that was improved by a shopping center. Plaintiff retained a life estate interest in a parcel of property located adjacent to the entrance of the shopping center, with defendant owning a remainder interest. Plaintiff's property was overrun with vegetation and abandoned vehicles, and the buildings located thereon were in a dilapidated condition. The parties entered into a contract by which defendant agreed to pay plaintiff some amount of money in exchange for plaintiff's efforts to clean up the

---

[9] The Court notes that the discussion in *State Farm* and the cases cited therein are all explicitly particular to the insurance context.

property. When certain requirements were discovered in order to obtain the required building permits, plaintiff refused to execute the necessary documents and defendant withheld subsequent payments.

The *Navilia* action was commenced to recover the remaining sums allegedly owed to plaintiff, and the defendant counterclaimed to recover from plaintiff the sums already paid. The *Navilia* Court found that plaintiff failed to comply with conditions precedent and directed the return of all sums paid by defendant. Although the Court made a general reference to the plaintiff's "obligation to cooperate in obtaining zoning approval under paragraph 6 of the agreement," there is not a lengthy discussion of the specific terms at issue. *Id.* at 660. Rather, the Court relies on the plaintiff's failure to comply with the reasonable requests of the defendant in its efforts to obtain the zoning approval, which approval was a necessary condition to fulfilling the contract. *Id.*

The cases cited by defendants make clear that clauses by which there is no objective measure or definition to render enforcement by a Court possible, are too vague as a matter of law to constitute the basis of a breach of contract action. See, e.g., *Pinnacle Books, Inc. v Harlequin Enterprises Ltd.*, supra. The term "work cooperatively," like the promise of a party to use "best efforts" (*Cross Props. v Brook Realty Co.*, 76 AD2d 445 [2d Dept

1980]); *Richbell Info. Servs. v Jupiter Partners*, 309 AD2d 288 [1st Dept 2003]), a promise to "take care of" another party (*Dombrowski v Somers*, 41 NY2d 858 [1977]), or an agreement to perform work at an "agreed price and reasonable value" (*Outrigger Constr. Co. v Bank Leumi Trust Co. of N.Y.*, 240 AD2d 382 [2d Dept 1997]), does not independently lend itself to enforcement without some objective criteria against which to measure performance. Compare *Matter of De Laurentiis (Cinematografica de las Americas, S.A.)*, 9 NY2d 503, 509-510 (1961) (finding that the agreement to "make every effort in good faith" to complete a film was arbitrable, because it was coupled with "an express promise of consultation" and other express obligations of the defendant).

What is lacking in the instant dispute is some objective measure of compliance with the contract language rendering it enforceable.

In the context of the License Agreement at issue in this case, it is clear that the defendants agreed to work with plaintiffs in plaintiffs' effort to secure sales to J.C. Penney. Defendants did not represent that they would take any particular independent action or refrain from any particular conduct, but agreed to cooperate with plaintiffs in *their* efforts. However, plaintiffs have articulated no objective measure of compliance against which

a trier of fact could weigh defendants' conduct. Not only is the License Agreement silent regarding specific actions defendants were required or expected to take in their efforts to "cooperate" with plaintiffs, but the Amended Complaint makes no factual allegations regarding requests or demands made by plaintiffs, like those made in *State Farm* or *Navilia*, with which defendants refused to comply and which a trier of fact could view as evidence of defendants' *lack of cooperation*.

As defendants point out, plaintiffs' only factual allegations in the Amended Complaint in support of Count I are that, "[u]pon information and belief, after the execution of the Third Amendment, Claiborne took no steps to aid LC Footwear in achieving sales to J.C. Penney"[10] and also "disclosed to J.C. Penney the reversion provision contained in the Third Amendment."[11] Absent any allegation that plaintiffs sought to keep the Reversion Provision confidential or private, that plaintiffs asked defendants to refrain from discussing it with J.C. Penney, or any other allegation which could give rise to an inference that this alleged disclosure by defendants, even if true, evidences its failure to

---

[10] Amended Complaint, ¶ 153.

[11] Amended Complaint, ¶ 154. Although plaintiffs also state that defendants "did not work cooperatively" with them "to pursue sales to [J.C. Penney] as required by Paragraph 20 of the Third Amendment," (Amended Complaint ¶ 152), such conclusory allegations are not sufficient to sustain a cause of action.

cooperate, this is insufficient to form the basis of a cause of action for breach of contract.

Count II: Breach of Duty of Good Faith and Fair Dealing (Oral/Implied License)

Plaintiffs allege that, at some point after defendants decided in 2006 to sell LIZ & CO branded merchandise to J.C. Penney, LC Footwear sought to sell LIZ & CO. branded footwear to J.C. Penney. To that end, unnamed "LC Footwear[] executives" contacted Barbara Friedman, then-President of Licensing for either Liz Claiborne or LC Licensing, in an effort to amend the existing License Agreement to include the right to do so.

According to the Amended Complaint:

> 42. Ms. Friedman responded by informing LC Footwear that there was no need to amend the License Agreement because LC Footwear was licensed to use any Claiborne mark that included the "Liz" name (such as LIZ & CO. or LIZ CLAIBORNE NEW YORK) whether or not that mark was explicitly included in the License Agreement.
>
> 43. In reliance on said oral license LC Footwear manufactured and sold merchandise to J.C. Penney bearing the LIZ & CO. mark in 2007 and 2008, accounted to Claiborne for each sale and paid royalties thereon, which were accepted by Claiborne.
>
> 44. In reliance on said oral license, and with Claiborne's approval, in 2008 and 2009 LC Footwear sold a line of LIZ CLAIBORNE NEW YORK footwear developed in consultation with Claiborne's chief designer, Isaac Mizrahi. LC Footwear accounted to

[* 22]

> Claiborne for each sale of LIZ CLAIBORNE NEW YORK branded footwear and paid royalties thereon, which were accepted by Claiborne.
>
> 45. J.C. Penney did not purchase LIZ & CO. branded footwear for 2009.

In Count II of the Amended Complaint, plaintiffs allege that this constituted an oral license "to sell footwear under any 'LIZ' mark, including the LIZ & CO. mark and the LIZ CLAIBORNE NEW YORK mark, . . . on terms identical to the License Agreement,"[12] or, alternatively, that LC Footwear had an implied license to those marks.[13]

Based on this alleged oral or implied license, plaintiffs contend that defendants owed them a duty of good faith and fair dealing, which duty was breached when, upon information and belief, during negotiations for the Third Amendment, defendants disclosed to J.C. Penney the Reversion Provision that would ultimately be included in the Amendment.

Defendants argue that Count II should be dismissed because the alleged "oral license" or "implied license" is unenforceable as a

---

[12] Amended Complaint, ¶ 158.

[13] Amended Complaint, ¶ 159.

matter of law.[14] Defendants contend that "implied licenses" are not recognized by New York law, and argue that, at a minimum, plaintiffs would have to allege facts that tend to demonstrate a "meeting of the minds," which they have failed to do. In addition, defendants contend that the Statute of Frauds, General Obligations Law ("GOL") 5-701(a)(1), bars the alleged oral agreement because it is of indefinite duration and can only be terminated within one year by its breach, since the Licensing Agreement that plaintiffs contend the oral license mirrors is for a period of more than one year.

Plaintiffs deny that the Statute of Frauds applies to bar the oral license at issue here, contending that if the only issue is that of duration - whether terminable at will or coinciding with the term of the License Agreement - the Statute of Frauds should be no bar to enforcement as duration is irrelevant to the issue of whether defendants owed a duty of good faith and fair dealing.[15]

---

[14] Defendants make several arguments against any interpretation of the alleged phone call with Ms. Friedman as a modification of the License Agreement. At oral argument on June 29, 2011, counsel for plaintiffs made clear that his clients are not alleging a modification took place, but rather that an oral or implied license was created, thereby rendering defendants' arguments in this regard moot. Likewise, any arguments contained in plaintiffs' papers regarding oral modification of the License Agreement has been disregarded based on counsel's representation. (See June 29, 2011 Tr. 26:15 - 27:9).

[15] Plaintiffs also point to a letter from Christopher Di Nardo on behalf of Liz Claiborne, dated January 21, 2011,

[* 24]

According to plaintiffs' opposition papers, all of the material terms, including calculation of royalty payments, were based on those in the existing License Agreement.

Plaintiffs also dispute defendants' characterization of the state of the law regarding implied licenses. Not only are such licenses recognized under federal law, they argue, but even if they have not been recognized in New York, defendants cite to no cases disallowing such contracts and plaintiffs urge the Court to apply the law governing oral agreements in general.

The Amended Complaint asserts insufficient facts to support plaintiffs' claim that a new and separate oral license was created. Not only have plaintiffs failed to articulate when and between whom this alleged oral license was created, except in the most general terms, but allegations sufficient to constitute the essential elements of contract formation are missing from the pleadings.

---

purporting to "withdraw[] its approval" for use of the LIZSPORT and LIZ FLEX marks, and argue that it evidences a separate oral/implied license outside the express terms of the License Agreement, since those marks were not explicitly included either. Plaintiffs acknowledge that the LIZ & CO mark is not addressed in Di Nardo's letter, but argue that their rights to the LIZSPORT and LIZ FLEX marks were also derived from the oral/implied license. This writing evidences the parties' agreement, plaintiffs argue, sufficient to overcome the Statute of Frauds.

To sufficiently plead the formation of a contract, oral or otherwise, the plaintiffs must allege an offer, acceptance of the offer, consideration, mutual assent and an intent to be bound. *Kowalchuk v Stroup*, 61 AD3d 118, 121 (1st Dept 2009); 22 NY Jur2d, Contracts 9 (Second Ed 2011).[16]

Here, plaintiffs explicitly allege that they contacted Ms. Friedman seeking to amend the License Agreement, not to seek a new license, and that during the call Ms. Friedman informed their executive that plaintiffs already had the right to use any "Liz" mark. There was no offer or acceptance, but merely an attempted interpretation by one of defendants' executives of plaintiffs' existing relationship with them. There is no evidence of mutual assent or a "meeting of the minds" as to the terms of the purported license. Nor is there any factual allegation in the Amended Complaint to support plaintiffs' argument that the oral license was on the same terms as the then-existing License Agreement, as the parties to this conversation are not alleged to have even discussed terms.

---

[16] There can be no dispute that oral licenses have been recognized in New York and are subject to the same requirements for pleading contract formation. See *D & N Boening v Kirsch Beverages*, 63 NY2d 449 (1984); *Meyers v Waverly Fabrics, Division of F. Schumacher & Company*, 65 NY2d 75 (1985); *Davis & Davis v S & T World Products*, 217 AD2d 645 (2d Dept 1995).

[* 26]

Plaintiffs' reliance on the Di Nardo letter dated January 21, 2011 as evidence of an oral agreement sufficient to overcome the Statute of Frauds is misplaced for two reasons: first, the letter post-dates the parties' Third Amendment, in which plaintiffs have acknowledged that their alleged oral license was reduced to writing and agreed to by the parties; and second, the letter addresses only the LIZ FLEX BY LIZ CLAIBORNE and LIZSPORT BY LIZ CLAIBORNE marks, neither of which are at issue in this action. Similarly, a March 30, 2006 letter from Ms. Friedman, also relied on by plaintiffs, appears to pre-date the alleged oral license and refers only to "LIZ FLEX" and "LIZ CLAIBORNE FLEX" as "licensed marks."

Plaintiffs also argue, however, that the conduct of the parties is evidence of an implied license, pointing to the fact that it paid defendants royalties on the goods manufactured under the LIZ & CO. and LIZ CLAIBORNE NEW YORK marks during the period in question without objection and that those goods required some form of approval by defendants. There is some dispute amongst the parties as to whether New York courts recognize an "implied license," *per se*, defendants contending that the phrase has not been invoked by a majority opinion in the Appellate Division of any Department since *Cahill v Regan*, 4 AD2d 328, 332 (2d Dept 1957), and the plaintiffs urging the Court to apply general contract principals and certain principals of Federal law.

It is well-settled that "[a] contract cannot be implied in fact where there is an express contract covering the subject matter." PJI 4:1; *SAA-A, Inc. v Morgan Stanley Dean Witter & Co.*, 281 AD2d 201, 203 (1st Dept 2001); *Wilmoth v Sandor*, 259 AD2d 252, 254 (1st Dept 1999). There can be no real dispute that the "subject matter" at issue here was covered by the License Agreement, as amended three different times over the course of a lengthy relationship between these parties.

Accordingly, as plaintiffs have failed to allege the existence of a valid and enforceable contract in Count II of the Amended Complaint, their claim for breach of the implied covenant of good faith and fair dealing based on such contract must be dismissed.

Counts III through VI, and X: Other Implied Covenant Claims

Defendants argue that plaintiffs' other five causes of action for breach of the implied duty of good faith and fair dealing are really just attempts to circumvent the express language of the License Agreement and/or Third Amendment, and should be dismissed.

"In New York, all contracts imply a covenant of good faith and fair dealing in the course of performance." *511 W. 232nd Owners Corp. v Jennifer Realty Co.*, 98 NY2d 144, 153 (2002). The covenant "embraces a pledge that 'neither party shall do anything which will

[* 28]

have the effect of destroying or injuring the right of the other party to receive the fruits of the contract,'" *Moran v Erk*, 11 NY3d 452, 456 (2008), quoting *511 W. 232nd Owners Corp. v Jennifer Realty Co.*, supra at 153, even where the conduct is "not expressly forbidden by any contractual provision." *Atlas El. Corp. v United El. Group, Inc.*, 77 AD3d 859, 861 (2d Dept 2010). Further, the duty of good faith and fair dealing can not "be relied on to overcome an explicit clause in the contract...." *Paxi, LLC v Shiseido Americas Corp.*, 636 FSupp2d 275, 286 (SDNY 2009), citing *Moran v Erk*, supra at 459.

In order to establish a breach of the covenant, plaintiffs "must allege facts which tend to show that the defendant sought to prevent performance of the contract or to withhold its benefits from the plaintiff." *Aventine Inv. Mgt. v Canadian Imperial Bank of Commerce*, 265 AD2d 513, 514 (2d Dept 1999); see *Jaffe v Paramount Communications Inc.*, 222 AD2d 17 (1st Dept 1996).

The Court will address each of these Counts separately.

Count III - Renewal Threshold Claim

Paragraph 10 of the Third Amendment provides:

> <u>Renewal Threshold for First Renewal Term.</u> With respect to the First Renewal Term only, Section 10.2 [of the License Agreement] is hereby amended as follows:

> In respect of a possible first renewal term (to expire on December 31, 2015), Licensee must have achieved and reported aggregate sales of Liz Merchandise within the Domestic Territory for each of the Contract Years ended December 31, 2010 and 2011 in an amount equal to or greater than the actual Gross Sales of Approved Liz Merchandise in 2009, excluding sales of Approved Liz Merchandise which uses Associated Trademarks.

In the Amended Complaint, plaintiffs allege that defendants "intentionally sought to impede LC Footwear in making sales to J.C. Penney and other potential customers so as to prevent LC Footwear from meeting the Renewal Threshold included in the Third Amendment."[17] This attempt, plaintiffs allege, constitutes a breach of the duty of good faith and fair dealing.[18]

While defendants contend that this claim is unripe and speculative because the provision states that plaintiffs' failure to meet sales thresholds in either 2010 <u>or 2011</u> shall preclude renewal, and 2011 has not yet concluded, the clause clearly states that sales in *each* of 2010 and 2011 must exceed the sales reported during 2009. Plaintiffs allege, and defendants do not dispute, that sales for 2010 have already proved to be less than those in 2009. As such, this claim does not seek an "advisory opinion," as

---

[17] Amended Complaint, ¶ 168.

[18] Amended Complaint, ¶ 169.

defendants contend, and is clearly ripe for adjudication.[19]

Counts IV and V - Arbitrary Disapproval of Potential Customers and Improper Purpose in Disapproving Customers

Plaintiffs allege, in Count IV, that while defendants have approved J.C. Penney and QVC as outlets meeting the "quality and prestige" requirements of the License Agreement, they have refused to approve Sears, Target, Kohl's, Wal-Mart and K-Mart as outlets for LIZ CLAIBORNE branded merchandise, without any assertion that these outlets fail to meet the same Requirements. Although plaintiffs do not concede that defendants have the right to disapprove of outlets, to the extent that the License Agreement does provide defendants with that discretion, plaintiffs allege that defendants are exercising that discretion arbitrarily and in violation of the implied covenant of good faith and fair dealing.[20]

---

[19] Moreover, by letter dated November 1, 2011, to counsel for plaintiffs, counsel for defendants wrote,

> "we understand from your letter that Footwear did not meet the minimum sales threshold set forth in paragraph 10 of the Third Amendment for 2010 and does not expect to meet the requisite minimum sales threshold for 2011 . . . . As a result . . . the Licence Agreement will terminate on June 30, 2012. . . ."

Thus, this Claim is surely not unripe or speculative now.

[20] It should be noted that, although plaintiffs repeatedly argue in their Memorandum in Support of their Motion for a Preliminary Injunction that they are likely to succeed on their claim for breach of contract related to defendants' disapproval of retailers, neither the Original Complaint nor the Amended Complaint contain a cause of action for breach of contract, *per se*, related

In Count V, plaintiffs allege that the License Agreement prohibits defendants from granting an exclusive license for the LIZ CLAIBORNE NEW YORK mark to QVC for Merchandise covered by the License Agreement, but in an attempt to circumvent that restriction, Claiborne has purported to "disapprove" all other customers for LC Footwear's LIZ CLAIBORNE NEW YORK Merchandise other than QVC, effectively granting QVC an exclusive license that includes footwear.

Defendants point to Section 6.4(a) of the License Agreement,[21]

---

to these allegations. Rather, these allegations form the basis of a claim for "equitable relief" in the Original Complaint, and for breach of the duty of good faith and fair dealing in the Amended Complaint.

[21] Section 6.4(a) of the License Agreement provides:

> Licensee shall sell first quality Liz Merchandise only through Stores and to operators of specialty shops, department stores and other retail outlets which deal in Merchandise similar in quality and prestige to Merchandise bearing each Licensed Mark and whose operations are consistent with the quality and prestige of each Licensed Mark; provided, however, that Liz Merchandise carrying the Associated Trademarks may only be sold to distribution channels approved by Licensor. It is understood that at the current time Liz Merchandise carrying the "Crazy Horse" trademark may only be sold to J.C. Penney and Liz Merchandise carrying the "First Issue" trademark may only be sold to Sears. Licensee may sell Close Out Liz Merchandise through off-price channels approved in advance by Licensor (as of the date hereof, Shoe Carnival, Famous Footwear, TJ Maxx and Marshalls chains are so approved); and may sell Outlet Merchandise to Liz Claiborne outlets and LCF Outlets as provided in Paragraph 6.5(a). Liz Merchandise may not be sold to or through any store within any outlet mall location other

[* 32]

which they contend grants LC Licensing broad discretion to disapprove any retailers to which LC Footwear sells Merchandise bearing the Licensed Marks. There is no express requirement, according to defendants, that they provide any reason or rationale for their disapproval. Defendants argue that both Counts IV and V should be dismissed because LC Licensing bargained for the right to disapprove of retailers at its discretion, and the covenant of good faith and fair dealing cannot undermine that right or afford the plaintiffs more rights than those provided for in the License Agreement, relying heavily on *Moran v Erk*, supra, and its subsequent application in *Paxi, LLC v Shiseido Americas Corp.*, supra.

Plaintiffs oppose the motion, disputing the assertion that Section 6.4(a) permits disapproval of retail outlets for any or no

---

than Liz Claiborne outlets or LCF Outlets opened and operated by Licensee in accordance with the terms hereof. Except as explicitly set forth above in this Paragraph 6.4, no other channels of distribution (including without limitation catalogue sales, telemarketing or on-line services) shall be employed without Licensor's prior express written consent. Licensee shall not make sales of Liz Merchandise to any account (i) which it knows, or reasonably should have known, intends to sell such Merchandise outside of the retail outlets specified above within the Territory, or (ii) which Licensor shall disapprove in writing to Licensee, it being understood and agreed that Licensee may not be able to control the disposition of Close Out Liz Merchandise by its bona fide retail customers in the ordinary course of their business. (Emphasis in original).

reason. Rather, plaintiffs contend that the express language of the section permits LC Footwear to sell first quality Merchandise to any retail outlet that meets quality and prestige requirements.

Defendants' interpretation of Section 6.4(a),[22] that they have unfettered discretion to disapprove of any retailer for any reason or no reason, is based on the last sentence of that section, see supra.

It has long been understood that "[w]here the contract contemplates the exercise of discretion, this pledge includes a promise not to act arbitrarily or irrationally in exercising that discretion." *Dalton v Educational Testing Serv.*, 87 NY2d 384, 389 (1995). Defendants posit, however, that the Court of Appeals recently clarified that where the parties have bargained for explicit disapproval rights, such a promise cannot, in fact, be implied. *Moran v Erk*, supra.

The *Moran* case involved a real estate transaction in which the contract of sale included a contingency clause that read, "This Contract is contingent upon approval by attorneys for Seller and

---

[22] Because a significant portion of defendants' opposition to plaintiffs' Motion for Preliminary Injunction addresses the interpretation of Section 6.4(a), those arguments are considered here in conjunction with defendants' arguments in support of their own Motion to Dismiss, as appropriate.

Purchaser by the third business day following each party's attorney's receipt of a copy of the fully executed Contract (the 'Approval Period') . . . . If either party's attorney disapproves this Contract before the end of the Approval Period, it is void and the entire deposit shall be returned." *Moran* at 454. Ultimately, the Purchasers decided against purchasing the property and instructed their attorney to disapprove the Contract, which she did. *Id.* at 454-455.

The Sellers in *Moran* argued that the Contract's implied covenant of good faith and fair dealing limited the attorney's exercise of discretion under the contingency clause. The Court of Appeals disagreed, holding that,

> where a real estate contract contains an attorney approval contingency providing that the contract is "subject to" or "contingent upon" attorney approval within a specified time period and no further limitations on an approval appear in the contract's language, an attorney for either party may timely disapprove the contract for any reason or for no stated reason. Since no explicit limitations were placed on the attorney approval contingency in the contract in this case, the Erks' attorney's timely disapproval was valid and the contract is void by its express terms.

Id. at 459.

The *Moran* Court further stated that, "the plain language of the contract in this case makes clear that any 'fruits' of the contract were *contingent* on attorney approval, as any reasonable

person in the Morans' position should have understood." *Id.* at 457, citing to *511 W. 232nd Owners Corp. v Jennifer Realty Co.*, supra at 153 (implied covenant of good faith and fair dealing encompasses "promises which a reasonable person in the position of the promisee would be justified in understanding were included." [citations omitted]).

Plaintiffs argue that the rule announced by the Court of Appeals in *Moran* was applied in a very different factual circumstance. Plaintiffs point to subsequent cases in which New York Courts have continued to apply the long-standing rule that the duty of good faith and fair dealing prohibits the arbitrary, capricious or malicious exercise of discretion. See *Gizara v New York Times Co.*, 80 AD3d 1026, 1028 (3d Dept 2011) (contract provision "did not give defendant the right to act arbitrarily or in bad faith when reviewing the refund claims prepared by plaintiffs"); *Atlas El. Corp. v United El. Group, Inc.*, supra at 861 (implied covenant prohibits acting arbitrarily or irrationally in exercising discretion); *Peacock v Herald Sq. Loft Corp.*, 67 AD3d 442, 443 (1st Dept 2009) ("Even if the 1994 agreement does not, on its face, set limits on the board's ability to refuse to approve the scope of work, the contract's implied covenant of good faith and fair dealing would prevent defendants from exercising that power arbitrarily (citation omitted). Whether defendants acted

arbitrarily or unreasonably . . . presents questions of fact that cannot be resolved on this motion to dismiss.").

This Court is not convinced that *Moran* evidences the broad shift in interpreting the implied covenant of good faith and fair dealing urged by defendants. It is true that several Federal District Court cases appear to have applied *Moran* to limit the implied covenant's impact on the right of a party to exercise discretion as it sees fit. *See Paxi, LLC v Shiseido Americas Corp.*, supra at 286 ("the obligation of good faith and fair dealing does not negate a [*sic*] expressly bargained-for clause that allows a party to exercise its discretion, unless that clause imposes a limit on the discretion to be exercised or explicitly states that the duty of good faith and fair dealing applies"); *Serdarevic v Centex Homes, LLC*, 760 FSupp2d 322 (SDNY 2010); *Stokes v Lusker*, 2009 WL 612336, at *8 (SDNY Mar. 4, 2009) ("a discretionary contingency clause does not carry with it an implied duty of good faith, unless it was explicitly part of the bargain"); *Tang Capital Partners, LP v Cell Therapeutics, Inc.*, 591 FSupp2d 666, 673 n.2 (SDNY 2008) (argument that a party's exercise of a discretionary contractual right breached implied covenant was foreclosed by *Moran*).

However, defendants have not cited to, nor has this Court found, any New York State case applying *Moran* in the manner urged by defendants in any context outside of real property transactions involving a similar contingency contract provision. *See e.g., Kim Hung Tsang v Romano*, 31 Misc3d 1202(A) (Sup Ct, Kings Co., March 28, 2011). In fact, more than one New York State case has cited to *Moran* and still applied the implied covenant in the traditional manner, prohibiting a capricious exercise of discretion. *See Gizara v New York Times Co.*, supra at 1027-1028; *Gray & Assoc., LLC v Speltz & Weis LLC*, 22 Misc3d 1124(A) at *10 (Sup Ct., NY Co., Feb. 2, 2009) (citing to *Moran* for principal that every contract contains implied covenant of good faith and fair dealing, then to *Richbell Info. Servs., Inc. v Jupiter Partners, L.P.*, supra at 302, for the proposition that contractual rights may not be exercised in such a way as to deprive the other party of the fruits of the contract).

As the Court of Appeals in *Moran* gave no indication of its intention to overrule established precedent and a long line of cases prohibiting the exercise of discretion pursuant to a contract in an arbitrary or capricious manner or in an effort to deprive the other party of the fruits of the agreement, and there have been no New York State cases applying *Moran* in the manner urged by defendants, this Court declines to do so here. Plaintiffs have,

therefore, alleged sufficient facts to state a claim for breach of the implied covenant of good faith and fair dealing for the alleged arbitrary disapproval of plaintiffs' desired customers and disapproval for a wrongful purpose, as set forth in Count IV and Count V.

Count VI - Obstruction of the Approval Process

Plaintiffs' Amended Complaint alleges that defendants have obstructed LC Footwear's compliance with the portion of the License Agreement that governs the process by which plaintiffs are to work with defendants on Merchandise development. Defendants have accused plaintiffs of non-compliance, but plaintiffs allege that their compliance has been stymied by defendants' own conduct.

Defendants move to dismiss Count VI on the basis that plaintiffs have failed to plead their own compliance, or sufficiently allege a breach of the implied covenant of good faith and fair dealing by Liz Claiborne.

Section 3.2 of the License Agreement sets forth a detailed procedure by which the parties are to confer and work together to coordinate Merchandise being developed by LC Footwear.[23] Defendants

---

[23] Section 3.2(a) contemplates representatives from both sides meeting at least ten weeks prior to the Line Opening Date "to confer on the tone and direction for Merchandise to be

[* 39]

contend, in the first instance, that plaintiffs cannot state a cause of action based on defendants' alleged obstruction where the plaintiffs have failed to allege their own compliance. According to defendants, the submissions described by plaintiffs in the Amended Complaint, "color photos of ongoing product, . . . color photos of prototypes, color photos of original shoes . . . and related material that showed the silhouettes of the shoes and the

---

included within the relevant collection. . . ." Section 3.2(b) provides, *inter alia*, that at least eight weeks in advance, plaintiffs are to provide defendants

> with a program of suggested broad design themes, inspirations, ideas, information and concepts, by classification and by category ("Initial Merchandise Concepts") . . . [which] shall be embodied in verbal, written and pictorial descriptions and presentation materials,

which must include at a minimum "selected prototypical silhouettes and materials demonstrating [plaintiffs'] color direction proposals."

Pursuant to Section 3.2(c), at least four weeks prior to each Line Opening Date, plaintiffs must provide additional information regarding the Initial Merchandise Concepts, including

> a description of each proposed item of Liz Merchandise (by SKU), and a substantial portion of prototypes for a representative cross-section of the Liz Merchandise proposed for inclusion within such collection, together with all actual related materials, final color proposals, last shapes, heel shapes, and any other materials as [defendants] deem[] appropriate (such materials and descriptions, the "Detailed Merchandise Concepts"), together with notification of any items of proposed Merchandise which embody any design, feature or component in which [plaintiffs do] not have exclusive ownership rights.

materials,"[24] fall far short of the requirements of Section 3.2(b). Plaintiffs' shortcomings prevented defendants from properly evaluating the submissions, they argue.

Further, according to defendants, plaintiffs submitted the Detailed Merchandise Concepts before obtaining defendants' approval of the Initial Merchandise Concepts, in violation of the intention, if not the express language, of Section 3.2(b).[25] Defendants simultaneously reject the notion that the License Agreement *requires* them to give plaintiffs any feedback or commentary on submissions that fall short of the requirements of Section 3.2, to the extent plaintiffs base their claim on defendants' failure to do so.

Finally, defendants argue that plaintiffs have failed to identify any specific provision in the Licensing Agreement breached by defendants.[26]

---

[24] Amended Complaint, ¶ 122.

[25] Initial Merchandise Concepts should include material necessary "to enable Licensee and Licensor to determine the types of Merchandise which should be included within the relevant seasonal collection." License Agreement, Section 3.2(b).

[26] It should be noted in this regard that plaintiffs' claim is for breach of the implied covenant of good faith and fair dealing, and not breach of an express term of the Licensing Agreement or Third Amendment.

[* 41]

Plaintiffs, in opposition, argue that the Amended Complaint is not intended to describe every item included in their submissions but is only a partial list. Furthermore, whether the submission is complete or in total compliance with the express terms of the License Agreement is a question of fact inappropriately addressed at this stage. According to plaintiffs, defendants' months-long delay in objecting to plaintiffs' Initial Merchandise Concepts - lodged approximately one month after plaintiffs submitted their Detailed Merchandise Concepts - knowing that plaintiffs believed their submissions to be adequate and were moving forward with design plans based thereon, constitutes a waiver of such objection, demonstrates bad faith and is evidence that defendants intended to injure plaintiffs. Defendants, however, point out that the License Agreement contains a non-waiver clause, which prohibits plaintiffs from contending defendants have waived their contractual right to enforce the approval provisions as written.[27]

---

[27] Section 31 (Waiver) of the License Agreement provides, in relevant part:

> No failure or delay on the part of either party in exercising any power or right under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any such power or right preclude any other or further exercise thereof or the exercise of any other power or right. No waiver by either party of any provision of this Agreement, or of any breach or default, shall be effective unless in writing and signed by the party against whom such waiver is to be enforced.

[* 42]

Defendants' motion essentially asks this Court to evaluate and rule on the adequacy of the plaintiffs' submission(s) based solely on the bare pleadings, a task that is not called for on a motion to dismiss. Plaintiffs were not required to prove, in the Amended Complaint, their full compliance with Section 3.2 in order to allege defendants' breach of the covenant of good faith and fair dealing with regard to that section.

While defendants are correct that there is no express term of the License Agreement requiring them to respond to requests for such information, or to comment on plaintiffs' Initial or Detailed Merchandise Concepts, as previously noted, the implied covenant of good faith and fair dealing is based on the reasonable expectations of the parties and prohibits parties from taking action in a manner intended to deprive the other of the reasonable fruits of the contract. *511 W. 232nd Owners Corp. v Jennifer Realty Co.*, supra at 153 (2002).

Accordingly, the Court declines to dismiss Count VI.

Count X - QVC and J.C. Penney Licenses and Restricting Plaintiffs to doing business with those customers only

Plaintiffs' final cause of action for breach of the covenant of good faith and fair dealing, Count X, is based on the allegation

that Section 3.1[28] of the License Agreement requires LC Footwear to design a seasonal collection with "a number of items of Liz Merchandise which shall specifically coordinate and be capable of being cross-merchandised with specific Liz Claiborne apparel products and specific Liz Claiborne accessories products as [defendants] and [plaintiffs] shall agree."[29] Despite this requirement, according to the Amended Complaint, defendants have failed to identify any apparel or accessories for which it can develop merchandise to coordinate and cross-merchandise.

Plaintiffs essentially allege that the exclusive licenses with J.C. Penney and QVC have deprived them of the ability to develop coordinating and cross-merchandised items for any other retailers, and J.C. Penney has already expressed its intention not to sell LIZ & CO. branded footwear, citing to the Affidavit of Pamela J. Duley, Senior Buyer for Footwear at J.C. Penney, which was submitted in opposition to plaintiffs' motion for a preliminary injunction. Further, according to plaintiffs, "[e]ven if LC Footwear could find customers who do not sell coordinating Claiborne apparel but are willing to sell LC Footwear's cross-market Merchandise, the volume of such sales would be small as compared to LC Footwear's previous

---

[28] While the Complaint alleges that these requirements are found in Section 3.1(a), the Court notes that this is actually found in Section 3.1(b)(i) of the License Agreement.

[29] Amended Complaint, ¶ 225.

ability to sell to the trade, thus damaging LC Footwear."[30]

First, defendants argue that this claim is duplicative of plaintiffs' breach of contract claim asserted in the Original Complaint and since withdrawn, and has merely been refashioned as a breach of implied covenant claim here. Defendants claim that the License Agreement expressly reserves to Liz Claiborne the right to grant licenses to any other licensee so long as such licenses do not overlap with the licenses granted to plaintiffs, which they don't. An implied covenant cannot act to restrict express rights in a contract, they argue, or to "undermine a party's 'general right to act on its own interests in a way that may incidentally lessen' the other party's anticipated fruits from the contract." *M/A-COM Sec. Corp. v Galesi*, 904 F2d 134, 136 (2d Cir. 1990).

In opposition, plaintiffs argue that Section 3.1(b) was for the parties' mutual benefit, so any act that deprived LC Footwear of the fruits of that section is a breach of the implied covenant. Defendants have refused all requests for information necessary to continue cross-merchandising and have thwarted plaintiffs' efforts in this regard, thereby depriving them of the fruits of the Agreement. While the defendants may have had the right to grant the licenses to QVC and J.C. Penney, plaintiffs argue that

---

[30] Amended Complaint, ¶ 232.

defendants may not license to entities that prevent defendants from providing the apparel information necessary for plaintiffs to develop coordinating and cross-merchandise items.

Plaintiffs have failed to state a cause of action under Count X for breach of the implied covenant of good faith and fair dealing. There is no dispute that defendants were expressly permitted to license their marks for apparel and accessories to other entities in the License Agreement. Plaintiffs admit that, at least in the case of J.C. Penney, it is the other licensee and not defendants who have chosen not to develop apparel or accessories with which plaintiffs can develop coordinating merchandise or items appropriate for cross-merchandising. Plaintiffs do not allege that defendants have, but are unwilling to share with them, details and information about apparel and accessories being developed that would be subject to Section 3.2(b); rather, they allege that other licensees are not developing such apparel and accessories, thereby depriving defendants of the ability to provide the necessary information.

The implied covenant of good faith and fair dealing, as noted earlier, cannot be used to add obligations of a party to an agreement that is otherwise silent on the subject. *M/A-COM Sec. Corp. v Galesi*, supra at 136, citing *Van Valkenburgh, Nooger &*

Neville, Inc. v Hayden Pub. Co., 30 NY2d 34, 46 (1972), cert denied, 409 US 875 (1972). This is not a circumstance where the defendants' conduct has "so directly destroy[ed] the value of the contract for [plaintiffs] that the acts may be presumed to be contrary to the intention of the parties." *M/A-COM Sec. Corp. v Galesi*, supra at 136, citing *Roli-Blue, Inc. v 69/70th Street Assocs.*, 119 AD2d 173 (1st Dept 1986). Plaintiffs do not allege that defendants intended or even knew that the other licensees would choose not to develop the subject merchandise. Plaintiffs' allegations, taken as true and given the benefit of every favorable inference, assert nothing more than that defendants have exercised their express contractual right to grant other entities certain licenses, and that plaintiffs have suffered diminished sales as a result.

Count IX: Fraud in the Inducement

Plaintiffs allege that defendants misrepresented a material fact when they promised to "work cooperatively" with plaintiffs, because they had no intention of fulfilling that promise, and that plaintiffs justifiably relied on this promise in entering into the Third Amendment. Plaintiffs further allege that defendants' failure to disclose to them that they had told J.C. Penney about the Reversion Provision constitutes a separate fraud because, had they been aware of such disclosure, plaintiffs would not have

entered into the Third Amendment with the Reversion Provision.

Defendants contend that Count IX should be dismissed because they had no duty to tell plaintiffs whether they did or did not disclose the Reversion Provision to J.C. Penney. Further, defendants argue, plaintiffs have failed to articulate how they detrimentally relied on the alleged omission and what actions they would have taken had they known about the alleged disclosure.

Defendants also argue that it is insufficient, as a matter of law, to base a claim of fraud on allegations that the defendants "never intended to be bound by the representations in the contract or never intended to perform." *In re CINAR Corp. Securities Litigation*, 186 FSupp2d 279, 302 (EDNY 2002). Nor have plaintiffs pled any special damages; in fact, defendants point out, the damages listed under this Count are identical to the damages asserted under the previously asserted breach of contract claim.[31]

Plaintiffs contend that defendants made false statements of intent, sufficient to form the basis of a claim for fraud in the inducement, and that special facts existed so as to create a duty

---

[31] While defendants also argue that this claim is duplicative of the breach of contract claim, this Court's dismissal of Count I renders this argument, and plaintiffs' objections to it, moot.

on the part of defendants to reveal their disclosure of the Reversion Provision to J.C. Penney.

In order to state a claim for fraud, plaintiff must allege "a material misrepresentation of existing fact, made with knowledge of its falsity, an intent to induce reliance thereon, justifiable reliance upon the misrepresentation, and damages." *MBIA Ins. Corp. v Countrywide Home Loans, Inc.*, 87 AD3d 287, 293 (1st Dept 2011).

It is true, as defendants argue, that "[g]eneral allegations that a defendant entered into a contract with the intent not to perform are insufficient to support a fraud claim." *Id.* at 293; see also, *New York Univ. v Continental Ins. Co.*, 87 NY2d 308, 318 (1995). While plaintiffs cite to cases standing for the proposition that a party who fraudulently makes representations of their intent in order to induce the action or inaction of another can be liable for the other party's justifiable reliance, *Channel Master Corp. v Aluminum Limited Sales, Inc.*, 4 NY2d 403, 407-408 (1958); *Sabo v Delman*, 3 NY2d 155, 160 (1957), in those cases, the representations at issue were separate and distinct from the promises contained in the contract.

Accordingly, plaintiffs' cause of action for fraudulent misrepresentation must be dismissed to the extent that it is based

on allegations that defendants included the Cooperation Clause with no present intent to perform.

Plaintiffs also base their fraud claim on the allegation that defendants had a duty to disclose to them that they had already revealed the Reversion Clause to J.C. Penney when the Third Amendment was executed. According to plaintiffs, had they been aware of this, they would not have entered into the Third Amendment as written.

"It is well established that, absent a fiduciary relationship between the parties, a duty to disclose arises only under the 'special facts' doctrine where 'one party's superior knowledge of essential facts renders a transaction without disclosure inherently unfair.'" *Jana L. v West 129th St. Realty Corp.*, 22 AD3d 274, 277 (1st Dept 2005), quoting *Swersky v Dreyer & Traub*, 219 AD2d 321, 327 (1st Dept 1996).

The special facts doctrine "requires satisfaction of a two-prong test: that the material fact was information 'peculiarly within [the] knowledge' of [defendants], and that the information was not such that could have been discovered by [plaintiffs] through the '"exercise of ordinary intelligence."' *Jana L. v West*

129th St. Realty Corp., supra at 278, quoting *Schumaker v Mather*, 133 NY 590, 596 (1892).

Plaintiffs admit that there was no fiduciary relationship and that the parties were engaged in an arms' length business deal, but contend that a special relationship existed by virtue of defendants' superior knowledge of essential facts, specifically, the disclosure of the Reversion Provision to J.C. Penney.

Defendants dispute that the facts were peculiarly within their knowledge, and contend that plaintiffs themselves could have inquired of them or of J.C. Penney, but did not. Nor is there any basis from which to infer that defendants could have known plaintiffs would have acted differently had they been aware of what defendants allegedly disclosed to J.C. Penney.

No amount of diligence could have allowed them to discover this pertinent information, plaintiffs argue, because to question J.C. Penney about the subject would have risked disclosing the Reversion Provision themselves. Further, Plaintiffs contend that the question of reasonable diligence is a question of fact and cannot be determined at this early stage of the litigation.

Plaintiffs' allegations are sufficient to support their claim for fraud in the inducement through material omissions. "[F]raud is sufficiently stated by allegations giving rise to the permissible inferences" that defendants had special knowledge or information not attainable by plaintiff. *Williams v Sidley Austin Brown & Wood, LLP*, 38 AD3d 219, 220 (1st Dept 2007). Whether plaintiffs' efforts constituted the exercise of ordinary intelligence is an issue of fact that cannot be determined at this time. See *Swersky v Dreyer and Traub*, supra at 327-328.

Counts VII and VIII: Declaratory Relief

Plaintiffs assert two claims for declaratory relief, Count VII, seeking a declaration that LC Footwear has not breached the product approval provisions of the License Agreement, and Count VIII, for a declaration that the License Agreement does not give Claiborne the right to disapprove a distribution channel which meets the quality and prestige requirement and that LC Footwear may sell Liz Merchandise through distribution channels which meet the quality and prestige requirements, including, but not limited to, Sears.

Defendants argue that Counts VII and VIII must be dismissed because, 1) declaratory judgment is a form of relief and not an independent cause of action, and 2) such relief is inappropriate

where the plaintiffs have an adequate remedy under another cause of action, such as breach of contract. Defendants argue that the Amended Complaint already asserts causes of action based on the same facts and declaratory relief is merely duplicative.

The Court agrees that Counts VII and VIII are duplicative and must be dismissed. See *Apple Records v Capital Records*, 137 AD2d 50 (1st Dept 1988).

Counts XI: Brand Dilution

Defendants seek dismissal of the brand dilution claim because the only entity who can assert such a claim is the owner of a trademark, not a licensee. See, *Ringling Brothers - Barnum & Bailey Combined Shows v B.E. Windows Corp.*, 937 FSupp 204, 209 (SDNY 1996).

Plaintiffs, in a footnote, concede a likelihood that this claim will be dismissed, citing to this Court's prior decision and order in *The Levy Group, Inc. v LC Licensing, Inc.*, Index No. 650034/10 (October 12, 2010) (Kapnick, J.), but for purposes of appeal,

> adopts the arguments made by the Levy Group plaintiffs in support of a brand dilution claim, and refers the Court to J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition*, 18:44 (4th Ed., 2008), which supports

[* 53]

the viability of such a claim, but will not otherwise address that claim in this brief.[32]

A review of this Court's *Levy Group* decision, however, reveals no specific discussion of a "brand dilution" claim made by plaintiffs in that case, nor is such a cause of action articulated in the *Levy Group* Complaint. Further, the Court has reviewed the opposition papers in *Levy Group*, to which plaintiffs here refer, and can identify no arguments in support of a claim for "brand dilution" as plaintiffs here have articulated it.

In *Levy Group*, plaintiffs asserted a claim for breach of their License Agreement with L.C. Licensing, a defendant in this case as well, contending that the express terms of the License Agreement required L.C. Licensing to maintain a certain level of "quality," "prestige" and "goodwill" with regard to the Liz Claiborne brand, which L.C. Licensing allegedly failed to do. This Court dismissed the breach of contract claim in *Levy Group*, finding that "none of these references imposes an obligation to maintain those standards upon [defendants]. To the contrary, those references are found in sections which impose obligations on [plaintiff]."

---

[32] Pl. Memo in Opposition, page 37, fn. 12.

Here, plaintiffs cite to no provision of the Licensing Agreement upon which the brand dilution claim is based.[33] The Amended Complaint alleges that defendants "diluted the reputation of the LIZ CLAIBORNE brand by offering various merchandise under the Licensed Marks and similar marks in lower and lower quality outlets,"[34] resulting in higher end retail outlets declining to carry plaintiffs' Merchandise and causing a reduction in plaintiffs' sales and profit margins.

As plaintiffs do not allege in the Amended Complaint that they own the marks upon which they base their claim for brand dilution, this cause of action must be dismissed.

PLAINTIFFS' MOTION FOR PRELIMINARY INJUNCTION

By Order to Show Cause, signed on November 8, 2010, plaintiffs sought a preliminary injunction against defendants (Motion Seq. No.

---

[33] The Court notes that Section 3.1(a) specifically requires plaintiffs' Merchandise to "at all times reflect and embody the high standards and reputation, and established prestige and goodwill, of the name and mark 'Liz Claiborne,' including the design content, spirit, quality, style, fit, price point and value which products bearing Licensed Marks have come to represent . . . ." Plaintiffs do not rely on this paragraph, however, and the requirements found therein apply only to plaintiffs' obligations, not those of defendants.

[34] Amended Complaint, ¶ 236.

[* 55]

001).[35] Specifically, plaintiffs seek a preliminary injunction, pursuant to CPLR 6300 *et seq.*, restraining and enjoining defendants from:

(a) interfering with LC Footwear's exclusive right to distribute and sell Merchandise as that term is defined in the [License Agreement], as amended, bearing the trademark LIZ CLAIBORNE and associated logomarks to the trade comprised of operators of specialty shops, department stores and other retail outlets which deal in first quality footwear and whose operations are similar in quality and prestige to [J.C. Penney] and QVC, Inc. by claiming Defendants have the right to disapprove LC Footwear's customers or otherwise interfering with the distribution and sale of Merchandise to any such customers;

(b) manufacturing, distributing, advertising, promoting, offering for sale and selling Merchandise under the trademark LIZ & CO.;

(c) transferring, licensing, authorizing or in any way permitting any third party to manufacture, distribute, advertise, promote, offer for sale and sell Merchandise under the trademark LIZ & CO. and, to the extent such rights in the trademark LIZ & CO. have heretofore been granted to a third party, [ordering that] Defendants shall take all necessary steps to terminate such rights and grant back to LC Footwear the right to manufacture, distribute, advertise, promote, offer for sale and sell Merchandise under the trademark LIZ & CO.; and

(d) terminating the [License Agreement], as amended, on the grounds that L.C. Footwear is in breach of the quality control provisions set forth therein, absent a court order authorizing said termination.

---

[35] Although plaintiffs also sought expedited discovery during the pendency of the motion, this Court declined to grant that relief in the Order to Show Cause.

[* 56]

As noted earlier, plaintiffs amended their Original Complaint after bringing their Order to Show Cause for a preliminary injunction. Prior to oral argument on defendants' motion to dismiss on June 29, 2011, this Court invited the parties to supplement their papers with respect to the preliminary injunction motion to the extent that circumstances had changed since that motion was submitted and argued before the Court. Again at oral argument, on the record, the Court asked the parties to address any manner in which the application for a preliminary injunction was affected by the filing of plaintiffs' Amended Complaint. Both parties maintained that the arguments were substantively the same and that the relief sought did not need to be modified. Therefore, the court evaluates plaintiffs' motion based on the original papers submitted therewith, as applied to the Amended Complaint.

CPLR 6301 provides, in relevant part, that

> A preliminary injunction may be granted in any action where it appears that the defendant threatens or is about to do, or is doing or procuring or suffering to be done, an act in violation of the plaintiff's rights respecting the subject of the action, and tending to render the judgment ineffectual, or in any action where the plaintiff has demanded and would be entitled to a judgment restraining the defendant from the commission or continuance of an act, which, if committed or continued during the pendency of the action, would produce injury to the plaintiff.

To succeed on an application for a preliminary injunction, plaintiffs must demonstrate "a probability of success on the merits, danger of irreparable injury in the absence of an injunction and a balance of the equities in its favor." *Nobu Next Door, LLC v Fine Arts Hous., Inc.*, 4 NY3d 839, 840 (2005); *Doe v Axelrod*, 73 NY2d 748, 750 (1988). "A preliminary injunction is an extraordinary and drastic measure that should not be routinely granted." *ImOn, Inc. v ImaginOn, Inc.*, 90 FSupp2d 345, 349 (SDNY 2000), citing to *Mazurek v Armstrong*, 520 US 968 (1997).

In their motion for a preliminary injunction, plaintiffs argue that they have demonstrated a likelihood of success, particularly on their claim that defendants wrongfully asserted an unfettered right to approve or disapprove of any or all of LC Footwear's customers, regardless of whether the retailer satisfies the quality and prestige requirements, and also on their claim that defendants breached the covenant of good faith and fair dealing by negotiating the Reversion Clause while secretly negotiating an exclusive license with J.C. Penney that included the LIZ & CO. mark.

Additionally, plaintiffs claim they have suffered and will continue to suffer irreparable harm because their business operations have been so badly disrupted that they may be threatened entirely, pointing to the facts averred to in the affidavit of J.

Phillip Dade ("Dade Aff."), Chief Operating Officer of LC Footwear and managing member of LC Holding and PLF, and the affidavit of Gabriele Goldaper, an expert in the apparel industry. Further, plaintiffs point out that Section 20 of the License Agreement contains an acknowledgment by the parties that each would "suffer great and irreparable harm as a result of the breach by the other of any covenant or agreement . . . other than the covenants to make monetary payments . . . ."

Plaintiffs have demonstrated a likelihood of success on the merits on their claim that defendants cannot arbitrarily disapprove of customers pursuant to the implied covenant of good faith and fair dealing. Defendants have failed to offer any explanation for their refusing LC Footwear the right to sell its Merchandise through certain outlets, such as Sears. The Court has already determined, supra, that defendants may not exercise their discretion in violation of the covenant of good faith and fair dealing as a matter of law. Based on the seriousness of the harm that plaintiffs allege their business will suffer if some injunctive relief is not granted and the acknowledgment by the parties in their contract that a breach will constitute irreparable harm, plaintiffs' request for preliminary relief as set forth in section (a) is granted.

[* 59]

Likewise, since this Court has found that plaintiffs have met their burden on Count VI, in which they allege defendants have obstructed LC Footwear's compliance with that portion of the License Agreement that governs the process by which plaintiffs are to work with defendants on Merchandise development, or the quality control provisions, plaintiffs' request for injunctive relief as set forth in section (d) is also granted.

As to sections (b) and (c) of plaintiffs' application for a preliminary injunction, to the extent that the Court has dismissed Count I of the Amended Complaint, in which plaintiffs claimed that defendants' alleged revelation of the Reversion Clause to J.C. Penney breached their obligation under the Third Amendment to "work cooperatively" with plaintiffs in securing a contract with J.C. Penney, and Count II, in which plaintiffs asserted the existence of an oral license for the LIZ & CO. and LIZ CLAIBORNE NEW YORK marks, these particular requests for injunctive relief can be anchored only to plaintiffs' allegation that defendants fraudulently induced them to enter into the Third Amendment (Count IX). As discussed in greater detail, infra, plaintiffs contend that defendants represented that they would "work cooperatively" with plaintiffs, with knowledge at the time such representation was made that they would not do so and would, in fact, seek their own broad agreement with J.C. Penney that included the LIZ & CO. mark.

While plaintiffs have, as noted previously, stated a cause of action for fraud sufficient to overcome defendants' motion to dismiss, plaintiffs are unable to meet the higher burden on a motion for a preliminary injunction of establishing a likelihood of success on the merits. As a general principle, the right to injunctive relief must be supported by the undisputed facts, and is inappropriate where "the right depends upon an issue which can only be decided upon a trial." *Family Affair Haircutters v Detling*, 110 AD2d 745, 747 (2d Dept 1985), quoting *Pine Hill-Kingston Bus Corp. v Davis*, 255 AD 182 (3d Dept 1929); see also *Blueberries Gourmet v Aris Realty Corp.*, 255 AD2d 348, 350 (2d Dept 1998) ("Where the facts are in sharp dispute, a temporary injunction will not be granted.") (internal citations omitted).

Here, the essential allegations of plaintiffs' fraud claim - that defendants never intended to "work cooperatively" and induced plaintiffs to include the Reversion Clause, only to work surreptitiously with J.C. Penney to ensure plaintiffs' efforts would fail - are "in sharp dispute" and are alleged primarily "[u]pon information and belief."[36]

---

[36] The allegation that defendants disclosed the Reversion Clause to J.C. Penney is asserted "[u]pon information and belief," (Amended Complaint ¶ 215), as well as the allegations that the disclosure was intended to cause the reversion (*id.* at ¶ 216) and that defendants did not intend to cooperate with plaintiffs (*id.* at ¶ 217).

Defendants submit the affidavit of Pamela J. Duley ("Duley"), Senior Buyer for non-party J.C. Penney and a member of the team that negotiated the potential agreement between J.C. Penney and LC Footwear for LIZ & CO. branded shoes. Duley denies that J.C. Penney declined to enter into an agreement with plaintiffs because of any conduct by or on behalf of defendants. Rather, she avers, J.C. Penney had three reasons, of which plaintiffs were made aware: 1) LC Footwear was never able to meet J.C. Penney's costing and profitability structure; 2) LC Footwear was never able to successfully differentiate the merchandise it offered from merchandise J.C. Penney already offered more profitably through its private label brands; and 3) during negotiations with LC Footwear, J.C. Penney was undertaking an initiative, or overall strategy, of adjusting its merchandising mix to sell less traditional merchandise and move toward a more modern merchandise mix, and J.C. Penney felt that LC Footwear's shoes were already represented by other traditional brands, such as St. John's Bay. Duley also states that J.C. Penney does not offer shoes bearing the LIZ & CO. mark, and has no plans to do so in the future.

Accordingly, the plaintiffs' motion (motion seq. no. 001) for a preliminary injunction pursuant to CPLR 6300 *et seq.* is granted as to sections (a) and (d) only and is denied as to sections (b) and (c), and the defendants' motion (motion seq. no. 002) for an

order dismissing the Amended Complaint pursuant to CPLR 3211(a)(1) and (a)(7) is granted only to the extent of dismissing Counts I, II, VII, VIII, X, and XI. Further, that portion of Count IX in the Amended Complaint which purports to state a claim for fraud based on defendants' alleged inclusion of the Cooperation Clause with present intent to perform is also dismissed.

Defendants are directed to serve an Answer to the remaining causes of action in the Amended Complaint within 30 days of entry of this Decision. Counsel shall appear for a conference in IA Part 39 on December 21, 2011 at 10:00 a.m.

This constitutes the decision and order of the Court.

Dated: 11/15, 2011

Hon. Barbara R. Kapnick, J.S.C.

BARBARA R. KAPNICK
J.S.C.