

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

MACY'S, INC. AND MACY'S
MERCHANDISING GROUP, INC.,

Plaintiffs,

v.

J.C. PENNEY CORPORATION, INC.,

Defendant.

Index No. 652861/2012

Hon. Jeffrey K. Oing
(IAS Part 48)

**DEFENDANT J.C. PENNEY CORPORATION, INC.'S
MEMORANDUM OF LAW IN OPPOSITION TO
MOTION FOR PRELIMINARY INJUNCTION**

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TABLE OF CONTENTS

	<u>Page</u>
TABLE OF AUTHORITIES	iii
PRELIMINARY STATEMENT	1
STATEMENT OF FACTS	3
A. The Macy’s Agreement.....	3
B. MSLO’s Activities After Entering Into the Macy’s Agreement.....	5
C. The JCP Agreement	5
D. The Macy’s/MSLO Litigation	7
ARGUMENT	9
I. STANDARDS FOR ISSUING A PRELIMINARY INJUNCTION	9
II. MACY’S SEEKS TO CHANGE, NOT PRESERVE, THE STATUS QUO	10
III. MACY’S CANNOT SHOW BY CLEAR AND CONVINCING EVIDENCE THAT IT IS LIKELY TO PREVAIL ON THE MERITS	12
A. Macy’s Cannot Show By Clear and Convincing Evidence That It Is Likely To Succeed on Its Tortious Interference Claim	12
B. Macy’s Has Failed to Show It Is Likely To Succeed on Its Claim of Unfair Competition	16
IV. MACY’S HAS NOT, AND CANNOT, SHOW BY CLEAR AND CONVINCING EVIDENCE THAT IT WILL SUFFER IRREPARABLE HARM ABSENT A PRELIMINARY INJUNCTION	19
A. There Is No Conceivable Ongoing Breach Of Macy’s Purported Exclusive Rights	19
B. JCP’s Public Announcements Are Not Causing Macy’s Irreparable Harm	20

C. JCP’s Acquisition and Use of Designs Provided By
MSLO Is Not Causing Macy’s Any Irreparable Harm.....21

V. THE BALANCE OF EQUITIES TILTS SHARPLY IN JCP’S FAVOR..... 23

VI. IN THE EVENT A PRELIMINARY INJUNCTION ISSUES,
MACY’S SHOULD BE REQUIRED TO POST AN UNDERTAKING 24

CONCLUSION..... 25

TABLE OF AUTHORITIES

	<u>Page(s)</u>
Cases	
<i>I Model Mgm't, LLC v. Kavoussi</i> , 82 A.D.3d 502 (1st Dep't 2011)	17
<i>A&M Exports, Ltd. v. Meridien Int'l Bank, Ltd.</i> , 222 A.D.2d 378 (1st Dep't 1995)	25
<i>Ahead Realty LLC v. India House, Inc.</i> , 92 A.D.3d 424 (1st Dep't 2012)	17
<i>Automated Waste Disposal, Inc. v. Mid-Hudson Waste, Inc.</i> , 50 A.D.3d 1072 (2d Dep't 2008)	10
<i>Berman v. Sugo LLC</i> , 580 F. Supp. 2d 191 (S.D.N.Y. 2008).....	17
<i>Caldwell Mfg. Co. v. Amesbury Grp. Inc.</i> , No. 11-cv-6183T, 2011 U.S. Dist. LEXIS 89447 (W.D.N.Y. Aug. 11, 2011).....	21, 23
<i>Catalogue Serv. of Westchester, Inc. v. Henry</i> , 107 A.D.2d 783 (2d Dep't 1985)	23
<i>County of Westchester v. United Water New Rochelle</i> , 32 A.D.3d 979 (2d Dep't 2006)	15
<i>Debenture Trust Co. of N.Y. v. Maverick Tube Corp.</i> , 593 F.3d 458 (2d Cir. 2010).....	13
<i>Dennis v. Buffalo Fine Arts Acad.</i> , 15 Misc. 3d 1106A, 2007 N.Y. Misc. LEXIS 941 (Sup. Ct. Mar. 21, 2007)	23-24
<i>Dental Health Assocs. v. Zangeneh</i> , 267 A.D.2d 421 (2d Dep't 1999)	10, 15
<i>Doe v. Axelrod</i> , 73 N.Y.2d 748 (1988)	10
<i>Eagle Contronics, Inc. v. Pico Prods., Inc.</i> , 256 A.D.2d 1202 (4th Dep't 1998).....	17
<i>Faberge Int'l, Inc. v. Di Pino</i> , 109 A.D.2d 235 (1st Dep't 1985)	10
<i>Foster v. Churchill</i> , 87 N.Y.2d 744 (1996)	13, 16
<i>Gen. Sec., Inc. v. APX Alarm Solutions, Inc.</i> , 647 F. Supp. 2d 207 (S.D.N.Y. 2009).....	17

<i>Headquarters Buick-Nissan, Inc. v. Michael Oldsmobile</i> , 149 A.D.2d 302 (1st Dep’t 1989)	19
<i>High Falls Brewing Co., LLC v. Boston Beer Corp.</i> , No. 10 CV 6100, 2012 U.S. Dist. LEXIS 88535 (W.D.N.Y. June 26, 2012).....	16
<i>Hirsch v. Food Res., Inc.</i> , 24 A.D.3d 293 (1st Dep’t 2005)	16
<i>In re Faiveley Transp. Malmo AB</i> , No. 08 Civ. 3330, 2009 U.S. Dist. LEXIS 97283 (S.D.N.Y. Oct. 7, 2009)	18
<i>Invesco Institutional (N.A.), Inc. v. Deutsche Inv. Mgm’t</i> , 74 A.D.3d 696 (1st Dep’t 2010)	10, 23
<i>ITC Ltd. v. Punchgini, Inc.</i> , 9 N.Y.3d 467 (2007)	17
<i>Klein, Wagner & Morris v. Lawrence A. Klein, P.C.</i> , 186 A.D.2d 631 (2d Dep’t 1992)	23
<i>L-3 Commc’ns Corp. v. Kelly</i> , No. 14971-05, 2005 N.Y. Misc. LEXIS 2720 (N.Y. Sup. Ct. Aug. 18, 2005).....	18, 23
<i>Louie v. David & Chiu Place Rest., Inc.</i> , 261 A.D.2d 150 (1st Dep’t 1999)	25
<i>Marietta Corp. v. Fairhurst</i> , 301 A.D.2d 734 (3d Dep’t 2003)	18
<i>Matter of 35 N.Y.C. Police Officers v. City of N.Y.</i> , 34 A.D.3d 392 (1st Dep’t 2006)	10
<i>Merrill Lynch Realty Assocs., Inc. v. Burr</i> , 140 A.D.2d 589 (2d Dep’t 1988)	15
<i>Metito (Overseas) Ltd. v. GE Co.</i> , No. 05 Civ. 9478, 2009 U.S. Dist. LEXIS 12590 (S.D.N.Y. Feb. 18, 2009)	17, 18
<i>Mike’s Train House, Inc. v. Broadway Ltd. Imports</i> , 708 F. Supp. 2d 527 (D. Md. 2010)	21, 22, 23
<i>NCC Sunday Inserts, Inc. v. World Color Press, Inc.</i> , 759 F. Supp. 1004 (S.D.N.Y. 1991).....	15, 16
<i>Reiss v. Fin. Performance Corp.</i> , 97 N.Y.2d 195 (2001)	13
<i>Savage v. Galaxy Media & Mktg. Corp.</i> , No. 11 Civ. 6791, 2012 U.S. Dist. LEXIS 93944 (S.D.N.Y. July 5, 2012).....	16
<i>Sterling Fifth Assocs. v. Carpentille Corp.</i> , 5 A.D.3d 328 (1st Dep’t 2004)	23

<i>U.S. Re Companies, Inc. v. Scheerer</i> , 41 A.D.3d 152 (1st Dep’t 2007)	23
<i>United for Peace and Justice v. Bloomberg</i> , 5 Misc. 3d 845, 783 N.Y.S.2d 255 (Sup. Ct. 2004)	23, 24
<i>Wheaton/TMW Fourth Ave., LP v. NYC Dep’t of Bldgs.</i> , 65 A.D.3d 1051 (2d Dep’t 2009)	10
<i>White Plains Coat & Apron Co., Inc. v. Cintas Corp.</i> , 8 N.Y.3d 422 (2007)	13, 16
Statutes	
CPLR 6301	10
CPLR 6312	24
CPLR Article 63	9
Other Authorities	
RESTATEMENT (SECOND) OF TORTS, § 766	16

PRELIMINARY STATEMENT

As Plaintiffs Macy's Inc. and Macy's Merchandising Group, Inc. (collectively "Macy's") characterize it, their motion is a modest one: to extend this Court's July 30 Preliminary Injunction (the "July 30 Injunction") against Martha Stewart Living Omnimedia, Inc. ("MSLO") so as to apply to J.C. Penney Corp., Inc. ("JCP"). Were that truly the gist of the motion, the request would indeed be modest, though unnecessary.

But that is not what this case is about. The July 30 Injunction prohibits MSLO from taking action with regard to the "manufacture, marketing, distribution or sale of any Martha Stewart-branded products" in Exclusive Product Categories (as that term is defined in the Macy's Agreement¹). Although the July 30 Injunction did not apply to JCP, JCP had, and has, every intention of abiding by it. Mangone Aff., ¶ 5; Rutenis Aff., ¶ 6. Macy's hardly needs to file a separate lawsuit merely to assure application of that Order to JCP.

What Macy's wants instead is far beyond both this Court's July 30 Injunction and Macy's Agreement: a sweeping prohibition barring JCP and MSLO from working together to design, promote, or do anything else with regard to Macy's Exclusive Product Categories products that are **not** Martha Stewart-branded. This is a right Macy's does not have, and one that cannot be created via the "drastic remedy" of a preliminary injunction.

First, Macy's does not show clearly and convincingly that it will prevail on the merits. Macy's merits arguments are almost exclusively tied to a claim that JCP cannot sell Martha Stewart-branded merchandise in Exclusive Product Categories. But even were that claim well

¹ The Macy's Agreement is attached as Exhibit A to the Affidavit of Leonard Marcus ("Marcus Aff."), sworn to August 14, 2012. JCP also cites below to the Affidavit of Michael A. Platt ("Platt Aff."), sworn to August 15, 2012; the Affidavit of Lisa Gersh ("Gersh Aff."), sworn to August 29, 2012; the Affidavit of Patricia Pollack ("Pollack Aff."), sworn to August 29, 2012; the Affidavit of Ken Mangone ("Mangone Aff."), sworn to August 28, 2012; the Affidavit of Paul Rutenis ("Rutenis Aff."), sworn to August 28, 2012; the Affirmation of Martin D. Edel ("Edel Aff."), dated August 29, 2012; and Plaintiffs' Complaint ("Compl.").

founded (and JCP believes it is not),² it cannot justify a preliminary injunction prohibiting the promotion or sale of goods that are **not** Martha Stewart-branded. *See* Points II and III below.

Second, Macy's cannot establish any irreparable injury it will suffer absent an injunction. The parade of horrors articulated in Macy's Memorandum of Law ("Macy's Memo") relates almost entirely to an imagined threat concerning the promotion or sale of products that **are** Martha Stewart-branded. Once that false fear is set aside, Macy's claimed injuries devolve into generalized assertions—all made with no evidentiary support—that some vague trade secret information might somehow be revealed. *See* Point IV below.

Third, the balance of equities favors JCP. JCP has paid millions of dollars for MSLO's designs, which will form a major part of JCP's transformed home store. JCP accepts that it cannot use Martha Stewart Marks to brand those products to the extent that the products fall within this Court's July 30 Injunction, so long as the order is in effect. But to say that JCP's investment, coupled with the significant costs of making models and molds for those products, must be made worthless is a hardship indeed. Worse, Macy's timing is impeccable. Having delayed suing JCP for a half year, Macy's suddenly seeks preliminary relief at a time it knows every second is critical. JCP is poised to order the production of goods from its manufacturers. Its inability to do so and to promote its spring product line pending this motion works a far greater hardship than any ephemeral injury Macy's might suffer. *See* Point V below.

In short, this is not a case about whether this Court should extend its prior order to JCP. Rather, it is a back door attempt by Macy's to obtain expansive injunctive relief to enforce a contractual right that it does not have and to avoid fair competition from a transformed JCP.

² JCP recognizes that this Court found that Macy's was likely to prevail in its claim against MSLO on this theory. Respectfully, JCP believes that the evidence will ultimately show that Macy's suit against MSLO is unjustified, and that its tort claims against JCP are ill-founded as well, even as to goods that do carry a Martha Stewart brand and are in the Macy's Exclusive Product Categories.

STATEMENT OF FACTS

A. The Macy's Agreement

On April 3, 2006, Macy's and MSLO entered into a contract by which MSLO would design certain products for sale at Macy's stores. The Macy's Agreement, which is at the heart of this case, was very detailed. The parties defined critical terms, setting forth carefully each party's rights and the limitations on those rights. Macy's blithely characterizes the contract as an "exclusive" one, implying that it bars MSLO from engaging in any activity with any department store other than Macy's save only certain carve-outs. That is an oversimplification.

In fact, Macy's bargained only for limited "exclusive" rights. First, the products for which there was any exclusivity were confined to the "Exclusive Product Categories," as defined in the contract. Macy's Agreement, § 1. With regard to certain other categories, defined in the contract as those in the "Macy's Product Line," Macy's had essentially a right of first refusal. *Id.* But as to other product categories, Macy's had no exclusivity rights whatsoever.³

Second, even as to products within the Exclusive Product Categories, Macy's so-called "exclusive" rights were not unlimited. Rather, those rights were delimited in two places within the contract. First, in Section 2(b) of the Macy's Agreement, dealing with the grant of the license, MSLO agreed not to enter into any:

agreement . . . pursuant to which it . . . **licenses the Licensed Property,^[4] the Stewart Property or any Martha Stewart Mark** to any third party . . . in connection with the manufacture, marketing, distribution or sale in the Territory

³ The categories over which Macy's has no exclusivity rights include, but are not limited to, "stationery; paper and other craft-related products; food and wine; lighting; furniture; mattresses; area rugs, framed art; paint; and fixtures and furnishings generally associated with home construction or improvement, including without limitation hardware, cabinets, flooring, carpet tiles, faucets, appliances, doors and windows, shades and blinds, and closet organizing systems." Macy's Agreement, § 1.

⁴ The "Licensed Property" means the Trademark, "the non-exclusive use of each element of the Stewart Property solely in connection with the Trademark," and the "exclusive use in the Territory of product designs, trade dress and other materials developed by MSLO in connection with its activities under Section 4" of the Macy's Agreement. Macy's Agreement, § 2(a).

of items within the Exclusive Product Categories or authorizes the distribution or sale of any items within the Exclusive Product Categories **that include the Licensed Property, the Stewart Property or any Martha Stewart Mark** in the Territory^{5]}

Similarly, in Section 18(b) of the Macy's Agreement, setting forth MSLO's non-compete obligations, MSLO was prohibited from entering into:

any new agreement . . . with any department store or manufacturer or other retailer of department store merchandise that promotes the sale of any items included as Bridal Products or within the Exclusive Product Categories **that are branded with the Trademark or any Martha Stewart Mark** . . .

"Martha Stewart Marks" meant "any existing or future MSLO mark **that features the phrase 'Martha Stewart' or any derivation thereof**" Macy's Agreement, § 1. The "Stewart Property" meant "the name, likeness and signature of Martha Stewart." *Id.*

Putting these contractual terms together, then, Macy's rights of "exclusivity" were (at most) limited to products that: (1) were within the definition of "Exclusive Product Categories" **and** (2) were branded with the Martha Stewart Mark, were Stewart Property, or constituted the specific designs MSLO actually created for Macy's. As to other merchandise, MSLO was under no "exclusive" obligation to Macy's at all.⁶

The Macy's Agreement also imposed on MSLO certain design obligations, and they, too, were carefully delimited in the contract. In Section 4 of the Macy's Agreement, MSLO agreed to:

establish the concepts, designs and product selections in collaboration with [Macy's] (the "Design Direction") for the Exclusive Products and any Branded Non-Exclusive Products to be manufactured by [Macy's] (together, the "Macy's Manufactured Products") and each Party's design personnel shall work in cooperation with each other and with the manufacturing personnel of [Macy's] . .

⁵ Bolded emphasis is added throughout the Memorandum unless otherwise stated.

⁶ There are other limitations on exclusivity in the Macy's Agreement as well. For example, MSLO has the right to sell even branded Exclusive Product Category merchandise in an MSLO store. *See* Macy's Agreement, § 8(c)(ii).

. to design and create Macy's Manufactured Products consistent with the Design Direction established by MSLO in collaboration with [Macy's]

Notably absent is any language imposing a prohibition on MSLO providing design services for third parties, even as to items in the Exclusive Product Categories. That omission is consistent with the language in Sections 2(b) and 18(b) quoted above, neither of which mentions a prohibition on design activities. Rather, the exclusivity obligations are consistently anchored to products that are branded with a Martha Stewart Mark.

B. MSLO's Activities After Entering Into the Macy's Agreement

Both before and after MSLO entered into the Macy's Agreement, MSLO has continued to design products under names unrelated to Martha Stewart. Pollack Aff., ¶ 9. For example, MSLO designed products for nationally-acclaimed chef Emeril Lagasse under the name "Emeril." *Id.* Although many of these products were within the definition of "Exclusive Product Categories," none of the "Emeril" and similar products was branded with any Martha Stewart Mark. *Id.* Martha Stewart herself frequently promoted those product lines. *Id.* Macy's did not complain about the sale or marketing of those products, nor did MSLO seek Macy's permission to do so. *Id.*

C. The JCP Agreement

In 2011, JCP began a transformation. JCP elected a new Chief Executive Officer, Ron Johnson, who, after spending 15 years as a merchandising executive at Target, created the wildly successful Apple stores. His mission is to transform fundamentally JCP and the retail experience in much the same way that he created a unique experience for Apple shoppers. Platt Aff., Exs. F, G. A significant aspect of this change is the home transformation, reflecting a major shift in JCP's marketing and merchandise and a repositioning of JCP in the marketplace. *Id.*

At the same time that JCP began its home transformation, MSLO was looking for a strategic partner willing to make a substantial equity infusion and also enter into a strategic alliance with the company. Compl., ¶ 60. MSLO's desire for such an alliance and JCP's transformation created the perfect pairing. In December 2011, JCP and MSLO entered into contracts whereby JCP made a substantial investment in MSLO and MSLO agreed to design a wide variety of products for JCP (for which JCP would, of course, pay a separate fee) (the "JCP Agreement"). Platt Aff., Ex. C.

JCP was aware that MSLO had a contractual arrangement with Macy's. Accordingly, the JCP Agreement went to great lengths to assure that MSLO could comply with its contractual obligations to Macy's. Among other provisions, for example, the JCP Agreement allowed MSLO to continue to design products pursuant to relationships with existing licensees (including Macy's). JCP Agreement, §§ 2(a), (b). In addition, the JCP Agreement provided that MSLO would have no liability to JCP for any actions MSLO was required to take to honor the terms of the Macy's Agreement or for any claims against JCP by Macy's based upon the Macy's Agreement. *Id.*, § 16. It further provided that MSLO would be excused from certain obligations under the JCP Agreement to the extent that a court found that such obligations would constitute a breach of the Macy's Agreement, provided that JCP and MSLO work together to put into effect as much of the JCP Agreement as possible **without** violating any court order. *Id.* Thus, MSLO was free to honor its contract with Macy's—including any provisions relating to exclusivity—without fear that such conduct would constitute a breach of the JCP Agreement or subject it to any claim by JCP.

After the JCP Agreement was executed, MSLO began rendering designs for JCP for products to be sold pursuant to that contract. Mangone Aff., ¶ 7. Although Macy's contends

(without admissible evidentiary support) that in doing so MSLO essentially turned over to JCP the designs previously delivered to Macy's under the Macy's Agreement, the evidence is to the contrary. MSLO carefully tailors each design to the particular retailer selling the product. Pollack Aff., ¶ 5. Inasmuch as every retailer is different, so too the designs MSLO creates for one store are different from those created for another. *Id.* As such, the MSLO designs for JCP are necessarily different from those created for Macy's. *Id.* To the same effect, MSLO takes seriously its confidentiality obligations, and so has been careful not to use any proprietary Macy's information in its JCP designs. *Id.*, ¶¶ 7-8.

Pursuant to the terms of the JCP Agreement, JCP has already paid MSLO [REDACTED] of the [REDACTED] it is obligated to pay for the product designs received. Mangone Aff., ¶ 7. In addition, JCP has invested substantial time and resources on project management, construction, sourcing product, marketing, and other activities, incurring expenses [REDACTED] [REDACTED] Rutenis Aff., ¶ 11.

D. The Macy's/MSLO Litigation

JCP and MSLO announced their strategic alliance on December 6, 2011. Macy's reaction was swift. Threatened by stiff competition from a newly transforming JCP, in January 2012, Macy's sued MSLO, but not JCP, seeking to enjoin MSLO from performing under the JCP Agreement. Since that time, Macy's and MSLO have conducted discovery and exchanged documents, all under the protection of a strict confidentiality order.

On July 13, 2012, this Court heard oral argument on Macy's motion for a preliminary injunction. At the hearing, both parties agreed that MSLO had the right to design, and JCP had the right to sell, products outside the Exclusive Product Categories. Following a lengthy argument, and notwithstanding what the Court characterized as a "sharp" factual dispute concerning whether **Macy's** had breached the Macy's Agreement so as to preclude Macy's from

extending the Agreement beyond January 2013, the Court decided to issue a limited preliminary injunction. Platt Aff., Ex. M at 141-57.

On July 30, 2012, this Court entered its Preliminary Injunction. The July 30 Injunction states that MSLO is prohibited from:

Performing under, or taking any steps in furtherance of, the [JCP Agreement] as it relates to the manufacture, marketing, distribution, or sale of any Martha Stewart-branded products in the following categories, denominated as the Macy's "Exclusive Product Categories" in the [Macy's Agreement].

Significantly, the Court rejected Macy's proposed inclusion of a prohibition of design activities under the JCP Agreement. Edel Aff., Ex. A. Upon learning of the July 30 Injunction, JCP took immediate steps to honor its terms. Rutenis Aff., ¶¶ 6, 9. Accordingly, JCP will not include the name "Martha Stewart" (or any derivation thereof), or her likeness or signature, on any product covered by the Injunction. [REDACTED] *Id.*, ¶ 8 & Ex.

A.

On July 30, 2012, MSLO participated in a press call. During that call, MSLO's CEO stated that MSLO intended to go forward with the JCP Agreement, and that nothing in the July 30 Injunction changed that because the Macy's suit dealt with "how certain products are branded and sold" as opposed to the validity of the JCP Agreement. Platt Aff., Ex. O; Gersh Aff., ¶ 7.

After the July 30 Injunction issued, Macy's sprung into action to suppress competition. On August 9, 2012, Macy's sent an email to product manufacturers doing work for JCP. Mangone Aff., ¶ 13 & Ex. A. In that email, Macy's characterized the Court's July 30 Injunction as prohibiting MSLO "from taking any additional steps in furtherance of its JC Penney contract as it relates to the [Exclusive Product Categories]." *Id.*, Ex. A. It did so even though it knew that the July 30 Injunction (i) did **not** prohibit MSLO from continuing design work even on such

products, and (ii) was expressly limited to “Martha Stewart-branded products”—a limitation Macy’s conveniently de-emphasized. *Id.*

On August 16, 2012, Macy’s sued JCP seeking a preliminary injunction, purportedly because the July 30 Injunction did not apply to JCP. In support of its position, Macy’s relied largely on MSLO’s July 30 statement that it was going forward with its obligations to JCP, leaping to the remarkable conclusion that MSLO had decided to announce to the world its intent to ignore this Court’s order, rather than the more reasonable (and accurate) conclusion that MSLO was referring to the many aspects of the JCP Agreement that were not enjoined. *Gersh Aff.*, ¶¶ 5-8. Worse, although JCP did not make the statement in question, Macy’s wrongly assumed that unless separately enjoined, JCP would violate the Injunction with impunity. *Rutenis Aff.*, ¶¶ 6-8.

Macy’s motion comes at a critical time. JCP is poised to place orders with its manufacturers to assure that products will be ready for JCP’s spring season. *Rutenis Aff.*, ¶ 10; *Mangone Aff.* ¶ 9. Every day of delay escalates the cost of this manufacturing and the risk that the merchandise will need to be ordered on a rush basis at substantial additional cost, and that its best merchandise will not be in the stores. *Rutenis Aff.*, ¶¶ 9-10; *Mangone Aff.*, ¶ 10. Whether a matter of unfortunate timing or deliberate strategy, Macy’s motion, if not promptly rejected, will have a substantial impact on JCP far beyond that it would have were the suit timely brought.

ARGUMENT

I.

STANDARDS FOR ISSUING A PRELIMINARY INJUNCTION

A preliminary injunction is, as this Court has previously stated, a “drastic remedy.” *Platt Aff.*, Ex. M at 6-7. The standards for a preliminary injunction under CPLR Article 63 are well-known: “[A] movant must demonstrate by clear and convincing evidence, (1) a likelihood of the

ultimate success on the merits, (2) the prospect of irreparable injury if the provisional relief is withheld, and (3) if the balance of equities is in [the movant's] favor." *Id.* at 7 (citing *Invesco Institutional (N.A.), Inc. v. Deutsche Inv. Mgm't*, 74 A.D.3d 696, 697 (1st Dep't 2010)); *see also* CPLR 6301; *Doe v. Axelrod*, 73 N.Y.2d 748, 750 (1988). A movant's failure to demonstrate any one, much less all three, prongs by clear and convincing evidence, mandates denial of its request for a preliminary injunction. *Faberge Int'l, Inc. v. Di Pino*, 109 A.D.2d 235, 240 (1st Dep't 1985). Moreover, to sustain its heavy burden, Macy's must show by "clear and convincing evidence" "a clear right to that relief under the law and the undisputed facts." *Wheaton/TMW Fourth Ave., LP v. NYC Dep't of Bldgs.*, 65 A.D.3d 1051, 1052 (2d Dep't 2009). Where there are "sharp disputes" of facts, there can be no "clear right to relief" and a preliminary injunction will not lie. *Dental Health Assocs. v. Zangeneh*, 267 A.D.2d 421, 421 (2d Dep't 1999).

II.

MACY'S SEEKS TO CHANGE, NOT PRESERVE, THE STATUS QUO

On a motion for a preliminary injunction, the movant bears the burden of showing that a preliminary injunction is necessary to maintain the status quo, rather than to determine the parties' ultimate rights. *Matter of 35 N.Y.C. Police Officers v. City of N.Y.*, 34 A.D.3d 392, 394 (1st Dep't 2006); *see also Automated Waste Disposal, Inc. v. Mid-Hudson Waste, Inc.*, 50 A.D.3d 1072, 1073 (2d Dep't 2008). The main thrust of Macy's Memo is devoted to justifying an order compelling JCP to abide by the July 30 Injunction against MSLO. Macy's Memo at 1. However, there is no need for such an order, for JCP intends to honor that Injunction. *Mangone Aff.*, ¶ 5; *Rutenis Aff.*, ¶ 6.

The true question before this Court, then, is not whether JCP can sell Martha Stewart-branded products⁷ in Macy's Exclusive Product Categories while the July 30 Injunction persists—it can't—but rather whether JCP and MSLO can design, promote, manufacture, distribute, market, and sell products **not** carrying the Martha Stewart brand, and thus **not** covered by the July 30 Injunction. The answer to that question is “yes.”

Macy's seeks to go far beyond the existing July 30 Injunction. Under the terms of that Order, MSLO is enjoined only from “[p]erforming under, or taking any steps in furtherance of, [the JCP Agreement], as it relates to the manufacture, marketing, distribution, or sale of any **Martha Stewart-branded products** in the following categories, denominated as the Macy's ‘Exclusive Product Categories’ in the [Macy's Agreement].” Platt Aff., Ex. N at 2. Yet, Macy's would balloon the July 30 Injunction's scope to reach all Products in the Exclusive Product Categories **without regard to the need for a Martha Stewart brand** on those products. *See* Order to Show Cause, at 1-2. Specifically, Macy's seeks a sweeping, loosely-worded preliminary injunction prohibiting JCP from (among other things): “(2) **using the designs it obtained** from MSLO for products within Macy's Exclusive Product Categories; (3) **advertising or making any public statements** that products within Macy's Exclusive Product Categories that are covered by the JCP/MSLO Agreement will be available for purchase through J.C. Penney; and (4) taking **any further steps** to interfere with Macy's contract rights under the [Macy's Agreement].” *Id.*

By contrast, in its Complaint, Macy's seeks only a “permanent injunction enjoining J.C. Penney from violating the Macy's Agreement by using Martha Stewart's name or likeness in

⁷ JCP interprets the term “Martha Stewart-branded products” as used in the Court's July 30 Injunction to mean products that are branded with a Martha Stewart Mark or Stewart Property, as those terms are defined in the Macy's Agreement.

connection with the manufacture, marketing, sale or distribution or [sic] products in Macy's Exclusive Product Categories." Compl., Prayer for Relief, ¶ 3. No mention is made of designs or of products **not** containing Martha Stewart's name or likeness. Thus, the proposed preliminary relief goes much farther than the ultimate relief sought in the case. That is hardly maintaining the status quo.

This problem is especially acute with regard to designs JCP already has in hand and that are intended for sale in the spring. JCP has largely paid for those designs, has created models and molds for them, and teed up the manufacturing process at a cost of millions of dollars. Mangone Aff., ¶¶ 7-13; Rutenis Aff., ¶¶ 8-11. Every day JCP must delay starting the manufacturing process or proceeding with its legitimate product promotion causes **JCP** irreparable harm and changes the status quo. *Id.*

III.

MACY'S CANNOT SHOW BY CLEAR AND CONVINCING EVIDENCE THAT IT IS LIKELY TO PREVAIL ON THE MERITS

The bulk of Macy's brief is an exercise in mis-direction. The question is not, as Macy's would argue, whether JCP interfered with the Macy's Agreement generally (although it did not). Rather, the question is whether Macy's will prevail on the merits **as they pertain to the preliminary injunction sought**. Because the only injunctive relief truly at issue here is Macy's request that JCP be prohibited from conduct **not** related to the sale of Martha Stewart-branded merchandise in Exclusive Product Categories, Macy's must show that it is likely to prevail in that specific regard. This, Macy's has failed to do.

A. Macy's Cannot Show By Clear and Convincing Evidence That It Is Likely To Succeed on Its Tortious Interference Claim

Under New York law, a claim for tortious interference with contract requires: "[i] the existence of [plaintiff's] valid contract with a third party, [ii] defendant's knowledge of that

contract, [iii] defendant’s intentional and improper procuring [iv] of a breach, and [v] damages.” *White Plains Coat & Apron Co., Inc. v. Cintas Corp.*, 8 N.Y.3d 422, 426 (2007); *Foster v. Churchill*, 87 N.Y.2d 744, 749-50 (1996). To prevail, Macy’s must demonstrate clearly and convincingly that language in the Macy’s Agreement prohibits MSLO and JCP from collaborating on products that are **not** Martha Stewart-branded.

Macy’s does not quote a single provision of the Macy’s Agreement in support of this crucial aspect of its claim—an omission that seems shocking until one recognizes that Macy’s must have decided to forego reliance on the contract for the source of its rights because the Agreement **expressly does not extend to the conduct Macy’s seeks to enjoin**.

Section 18(b) of the Macy’s Agreement—the “Non-Competition by MSLO” provision—is the part of the contract devoted to limiting MSLO’s rights to enter into arrangements with Macy’s competitors and the place one would expect to find the broad restriction Macy’s seeks to impose. Yet that clause bars MSLO only from entering into a contract that “promotes the sale of any items included as Bridal Products or within the Exclusive Product Categories **that are branded with the Trademark or any Martha Stewart Mark . . .**” Macy’s Agreement, § 18(b). Macy’s broader interpretation only makes sense by deleting this express limitation. The Court’s job is to interpret the Macy’s Agreement as written, not to rewrite it or to delete language, as Macy’s would do. *Debenture Trust Co. of N.Y. v. Maverick Tube Corp.*, 593 F.3d 458, 469-72 (2d Cir. 2010); *Reiss v. Fin. Performance Corp.*, 97 N.Y.2d 195, 199 (2001) (courts “may not by construction add or excise terms, nor distort the meaning of those used and thereby make a new contract for the parties under the guise of interpreting the writing” (internal quotation marks omitted)). The same analysis holds true for Section 2(b), dealing with MSLO’s grant of a license to Macy’s. Again, the exclusivity language is limited to agreements allowing

the use of the specific goods actually designed for Macy's or Exclusive Products with "the Stewart Property or any Martha Stewart Mark." Macy's Agreement, § 2(b).

Macy's has, in the past, suggested that Section 4 ("Product Development and Design") contains the non-competition right as it pertains to designs. One is left to wonder why the parties would put such a key non-competition provision there rather than in the section entitled "Non-Competition by MSLO," but even putting that oddity to one side, the fundamental problem with Macy's argument is that Section 4 just does not have the language Macy's needs. One reads that Section in vain to find even one word purporting to make MSLO's design obligations "exclusive" to Macy's. That omission is hardly accidental. The parties could have included a requirement that, as to Exclusive Product Categories, MSLO would design products only for MSLO. But this court should not "interpret" the contract to add a term the parties deliberately omitted, especially when the added term contravenes the express limitation in Section 18(b).

Unable to rely on the contract, Macy's instead refers to statements made from the bench at the July 13 hearing. But those statements do not carry the day. First, those statements as they concerned MSLO designs were **not** included in the actual July 30 Injunction. Second, JCP did not participate in that hearing. As such, Macy's attempt at quasi-collateral estoppel fails. And third, read in context, the Court's comments were part and parcel of its rejection of MSLO's argument that JCP could sell products that **were** Martha Stewart-branded so long as the sales were made via a MSLO store at JCP.⁸

The most that can be said for the statements upon which Macy's relies is that the Court expressed concerns as to the practicality of allowing MSLO to design products in the same product category for two entities, even if only one entity could brand that product with Martha

⁸ Again, respectfully, JCP believes that this Court's holding in that regard was in error. Nonetheless, JCP recognizes the Order's effect while it is in force.

Stewart's name. But there is nothing improper or unlawful about a contract that allows one designer to do work for more than one entity. Here, MSLO expressly reserved to itself the income stream flowing from the design of products **not** carrying a Martha Stewart Mark, even within Macy's Exclusive Product Categories, and Macy's agreed to that reservation. This Court should not rewrite the deal the parties struck solely for ease of application.

Moreover, even as to Martha Stewart-branded products, Macy's argument fails, for Macy's has not demonstrated by clear and convincing evidence: (i) there is a valid contract between Macy's and MSLO; (ii) JCP intentionally and improperly procured a breach of that contract; or (iii) that JCP acted with "malice or illegality."

If Macy's did not properly exercise its option to renew the Macy's Agreement, it would expire on January 31, 2013. *See* Platt Aff., Ex. M at 33-34. At the July 13 hearing, this Court recognized that "there is a sharp dispute as to whether MSLO's counterclaim [alleging that Macy's could not extend the contract because it is in breach] is valid." Platt Aff. Ex. M at 142-43. There can be no "clear right to the relief" where there are "sharp disputes" that go to the merits. *Dental Health Assocs.*, 267 A.D.2d at 421; *see County of Westchester v. United Water New Rochelle*, 32 A.D.3d 979, 980 (2d Dep't 2006); *Merrill Lynch Realty Assocs., Inc. v. Burr*, 140 A.D.2d 589, 592-93 (2d Dep't 1988).

Similarly, although Macy's has alleged an "intentional and improper" procurement of a breach by JCP, it offers no facts in support of its conclusory assertion. Yet such facts are necessary to serve as the basis for the drastic remedy of a preliminary injunction. *See NCC Sunday Inserts, Inc. v. World Color Press, Inc.*, 759 F. Supp. 1004, 1016 (S.D.N.Y. 1991) (tortious interference requires more than mere knowledge of existing contract or that "one's actions may cause the breach of an existing contract;" rather, there must be a showing of

“improper, malicious or unjustified conduct”);⁹ *see also* RESTATEMENT (SECOND) OF TORTS, § 766. Moreover, the JCP Agreement includes a number of provisions that show the parties were aware of the Macy’s Agreement and intended that MSLO **not** breach that Agreement. *E.g.*, JCP Agreement, §§ 2(a), 2(b), 16(b), 19(c).¹⁰

JCP’s conduct also is protected by the economic interest defense. Actions taken by a defendant “to protect its own legal or financial stake in the breaching party’s business” cannot give rise to a tortious interference claim. *White Plains Coat*, 8 N.Y.3d at 426; *Foster*, 87 N.Y.2d at 750-51. A plaintiff may only overcome the “economic interest” defense by showing the defendant was “motivated by malice or employed illegal means to safeguard its interest.” *Foster*, 87 N.Y.2d at 750-51; *Hirsch v. Food Res., Inc.*, 24 A.D.3d 293, 296-97 (1st Dep’t 2005); *Savage v. Galaxy Media & Mktg. Corp.*, No. 11 Civ. 6791, 2012 U.S. Dist. LEXIS 93944, at *28-30 (S.D.N.Y. July 5, 2012). JCP became a significant shareholder of MSLO when it invested \$38.5 million in MSLO. Compl., ¶ 16. JCP’s actions to preserve the financial health of an ailing MSLO, as a matter of law, “were economically justified” absent evidence of malice or illegality. *Foster*, 87 N.Y.2d at 750-51; *see also Savage*, 2012 U.S. Dist. LEXIS 93944, at *36-37. Macy’s makes no adequate evidentiary showing to rebut this defense.

B. Macy’s Has Failed to Show It Is Likely To Succeed on Its Claim of Unfair Competition

Macy’s also fails to meet its burden of proving, by clear and convincing evidence, that it is likely to succeed on its unfair competition claim. “The essence of an unfair competition

⁹ While the Court applied Illinois law, that law is the same as New York law on this issue. *NCC* has been cited with approval by courts applying New York law. *E.g.*, *High Falls Brewing Co., LLC v. Boston Beer Corp.*, No. 10 CV 6100, 2012 U.S. Dist. LEXIS 88535, at *10-11 (W.D.N.Y. June 26, 2012).

¹⁰ In addition, at the time JCP and MSLO entered into the JCP Agreement, they developed areas for MSLO’s designs for Martha Stewart-branded products in the Exclusive Product Categories that they believed would not breach the Macy’s Agreement, namely, the MSLO store under Section 8(c)(ii), an express exception to Sections 2(b) and 18(b) of the Macy’s Agreement.

claim under New York law is that the defendant has misappropriated the labors and expenditures of another.” *Metito (Overseas) Ltd. v. GE Co.*, No. 05 Civ. 9478, 2009 U.S. Dist. LEXIS 12590, at * 38 (S.D.N.Y. Feb. 18, 2009) (Lynch, J.) (quoting *Berman v. Sugo LLC*, 580 F. Supp. 2d 191, 208 (S.D.N.Y. 2008); see also *ITC Ltd. v. Punchgini, Inc.*, 9 N.Y.3d 467, 477 (2007) (same). Even if those requirements are met (which they are not here), the plaintiff must also show a “bad-faith misappropriation of a commercial advantage.” *Ahead Realty LLC v. India House, Inc.*, 92 A.D.3d 424, 425 (1st Dep’t 2012); see also *1 Model Mgm’t, LLC v. Kavoussi*, 82 A.D.3d 502, 504 (1st Dep’t 2011); *Eagle Contronics, Inc. v. Pico Prods., Inc.*, 256 A.D.2d 1202, 1203 (4th Dep’t 1998) (in dismissing claim, holding “the gravamen of a claim of unfair competition is the bad faith misappropriation of a commercial advantage belonging to another by infringement or dilution of a trademark or trade name or by exploitation of proprietary information or trade secrets”).

First, Macy’s fails to show JCP misappropriated or exploited confidential records or proprietary information. Macy’s does not show: (i) JCP infringed or diluted any trademark or trade secret that belonged to Macy’s, or (ii) JCP has misappropriated or exploited any trade secret or proprietary information of Macy’s. What Macy’s relies on instead is the conclusory assertion that MSLO has supposedly incorporated Macy’s valuable and proprietary knowledge into the designs it has provided to JCP. See Marcus Aff. ¶ 18. These assertions are wholly inadequate to support Macy’s claim of unfair competition, let alone strong enough to warrant a preliminary injunction. See *Gen. Sec., Inc. v. APX Alarm Solutions, Inc.*, 647 F. Supp. 2d 207, 213-14 (S.D.N.Y. 2009) (dismissing unfair competition claim based on misappropriation of property where plaintiff does not allege any use of its name or property by the competitor;

insufficient to claim that defendants unfairly took advantage of plaintiff's marketing efforts to gain customers).

Second, lacking evidence, Macy's resorts to the inevitable disclosure doctrine. As Macy's own authority *L-3 Commc'ns Corp. v. Kelly*, No. 14971-05, 2005 N.Y. Misc. LEXIS 2720, at *13 (Sup. Ct. Aug. 18, 2005) (cited in Macy's Memo at 23) instructs, however, "the doctrine of inevitable disclosure is *disfavored*" in New York. Emphasis added. This doctrine is generally limited to cases involving a high ranking employee going over to a competitor and taking a company's trade secrets with him or her (certainly not the case here). See *In re Faiveley Transp. Malmo AB*, No. 08 Civ. 3330, 2009 U.S. Dist. LEXIS 97283, at *15-16 (S.D.N.Y. Oct. 7, 2009); *Metito*, 2009 U.S. Dist. LEXIS 12590, at *36-37 (rejecting "inevitable disclosure" doctrine in the context of an unfair competition claim, holding employee assuming similar position with competitor "does not, without more, make it inevitable that he will use or disclose . . . trade secret information" (internal quotation marks omitted)); *Marietta Corp. v. Fairhurst*, 301 A.D.2d 734, 736 (3d Dep't 2003) (declining to apply inevitable disclosure doctrine where plaintiff's former vice president of sales and marketing took a position with a direct competitor as president of operations with responsibilities of a senior salesperson). Further, the inevitable disclosure doctrine requires a strong showing, not made here, that disclosure of a trade secret is truly inevitable before a court will invoke it, let alone use it as the sole basis for a preliminary injunction, because it "treads an exceedingly narrow path through judicially disfavored territory." *Metito*, 2009 U.S. Dist. LEXIS 12590, at *33 (internal quotation marks omitted). Indeed, absent evidence of actual misappropriation by an employee, the doctrine should be applied "in only the rarest of cases." *Id.* (internal quotation marks omitted).

Third, Macy's fails to identify even generally the allegedly "confidential proprietary knowledge" that Macy's purportedly developed. The closest Macy's comes is Marcus's statement referring to "impart[ing]" to MSLO what he calls Macy's confidential information about "colors, shapes, patterns, price points, etc., [which] result in the highest levels of sales." Marcus Aff., ¶ 13. Those are not, and cannot be, trade secrets, as the information is readily available to any consumer or competitor who walks into a Macy's store.

Fourth, Macy's fails to proffer evidence of bad faith, as required under New York law. See *Headquarters Buick-Nissan, Inc. v. Michael Oldsmobile*, 149 A.D.2d 302, 304 (1st Dep't 1989) (requiring bad faith to be shown by use of dishonest means or a scheme designed solely to produce damages).

IV.

MACY'S HAS NOT, AND CANNOT, SHOW BY CLEAR AND CONVINCING EVIDENCE THAT IT WILL SUFFER IRREPARABLE HARM ABSENT A PRELIMINARY INJUNCTION

A. There Is No Conceivable Ongoing Breach Of Macy's Purported Exclusive Rights

Macy's principal argument—that it is incurring irreparable harm from the purported ongoing breach of Macy's "exclusive right to use Martha Stewart's name and likeness in connection with the manufacture, promotion, distribution, and sale" of certain categories of goods (Macy's Memo at 1)—rests solely on Macy's wholly erroneous assumption that JCP will not honor the July 30 Injunction. Indeed, nine of the eleven paragraphs describing the purported harm to Macy's in the Marcus Aff. (the only evidence as to the supposedly "irreparable" harm Macy's presents) goes to that point alone. Compare Marcus Aff. ¶¶ 6-10, 12, 17, 19, 20, with *id.*, ¶¶ 13, 18. Because the July 30 Injunction (which JCP will honor) already precludes any

purported ongoing breach of Macy's purported contractual exclusivity rights, Macy's is incurring no ongoing harm whatsoever, much less immediate and irreparable harm.

B. JCP's Public Announcements Are Not Causing Macy's Irreparable Harm

Macy's next offers the utterly vague and unsubstantiated argument that certain JCP "public announcements regarding the JCP Agreement" are doing irreparable harm to Macy's "goodwill" by "attempt[ing] to convince the public that Macy's will no longer be the only retailer at which customers can purchase Martha Stewart-branded products within the Exclusive Product Categories." Macy's Memo at 20. This argument, too, is a non-starter for a host of reasons. *First*, Macy's does not even *identify* these purported announcements in its argument. *Id.* Indeed, the only JCP announcements referenced in Macy's brief occurred many months ago, *id.* at 11-12, and cannot possibly form the basis for a claim of immediate irreparable harm, especially given Macy's decision to wait months before suing JCP.

Moreover, Macy's knows full well that it cannot bar JCP from speaking publicly about its agreement with MSLO. Macy's admits—and this Court has recognized—that JCP can sell hundreds of MSLO products as to which Macy's has no claim of exclusivity. Platt Aff., Ex. M at 143-44 ("Of course, nothing precludes MSLO from coming up with ideas for J.C. Penney that do not fall within the Exclusive Product Category."). JCP thus has every right to inform consumers that they will be able to purchase MSLO products at JCP. In contrast, Macy's makes no showing whatsoever that current JCP announcements are telling consumers they can purchase Martha Stewart-branded products in the Exclusive Product Categories at JCP. Shoppers will not think they can get Macy's exclusive Martha Stewart-branded products at JCP because they can't and JCP is not saying anything to the contrary.

Furthermore, Macy's sole purported "evidence" for this imaginary irreparable harm is Marcus's speculation that JCP announcements are somehow leading consumers to believe that products now available at Macy's will be available at JCP in the near future. Marcus Aff., ¶ 19. This is woefully insufficient. *See, e.g., Caldwell Mfg. Co. v. Amesbury Grp. Inc.*, No. 11-cv-6183T, 2011 U.S. Dist. LEXIS 89447, at *9, 11-12 (W.D.N.Y. Aug. 11, 2011) (denying preliminary injunction where, inter alia, plaintiff's "vague claims of potential harm" from loss of goodwill were "speculative," "conclusory," and not supported by evidence notwithstanding declaration from President and Vice-President of Sales and Marketing); *Mike's Train House, Inc. v. Broadway Ltd. Imports*, 708 F. Supp. 2d 527, 532-33 (D. Md. 2010) ("Mere speculation about possible market share losses is insufficient evidence of irreparable harm" even though declaration came from company's founder and owner).¹¹

C. JCP's Acquisition and Use of Designs Provided By MSLO Is Not Causing Macy's Any Irreparable Harm

Macy's also contends that JCP's acquisition and use of designs provided by MSLO is causing Macy's irreparable harm. Macy's Memo at 22-24. However, because the Macy's Agreement does not prohibit MSLO from designing non-Martha Stewart-branded products for Macy's competitors, even within the Exclusive Product Categories, Macy's has no right to prevent MSLO from doing so, and it suffers no legally cognizable harm. *See* discussion at Section III.A. above. Indeed, since at least 2006, MSLO has designed products within the "Exclusive Product Categories" under names unrelated to Martha Stewart, such as the "Emeril" kitchen products. Pollack Aff., ¶ 9. Macy's never complained of this conduct, nor was Macy's

¹¹ By way of contrast, in the cases cited in Macy's brief in which courts found irreparable harm, plaintiffs submitted substantial, concrete, admissible evidence of significant harm to support such findings.

consent ever sought. In addition, Martha Stewart herself frequently promoted those product lines, again without any complaint or permission from Macy's. *Id.*

Macy's nonetheless contends that MSLO designs provided to JCP "necessarily incorporate Macy's own trade secrets" "regarding the most effective way to design and sell Martha Stewart products," which Macy's purportedly spent "millions of dollars" developing. Macy's Memo at 24. Again, Macy's provides no valid supporting evidence for its hollow allegations. Instead, Macy's cites to vague and conclusory statements in the Marcus Aff. that the purported "millions of dollars" in development expenditures actually took the form of "mark-downs of Martha Stewart products that did not sell well." Marcus Aff., ¶ 13. Such unsubstantiated claims, unsupported by actual sales data, identification of particular products—or, indeed, any documentation of any kind whatsoever—are patently insufficient. *See Mike's Train House*, 708 F. Supp. 2d at 532-33.

Even if Macy's had provided admissible evidence that it had really expended substantial sums to develop knowledge for enhancing the designs for the MSLO products sold at Macy's, there is no basis to suppose this would be disclosed to JCP. Again, Macy's evidence on this point consists of a single conclusory, foundationless statement from Marcus: "[T]he designs that MSLO gives to J.C. Penney would inevitably incorporate the confidential proprietary knowledge that Macy's has spent years and millions of dollars to develop." Marcus Aff., ¶ 18. In fact, because MSLO's product designs are *store-specific*—*i.e.*, MSLO designs *differently* for JCP than for Macy's—any purported Macy's-specific information imparted to MSLO would not be incorporated into MSLO designs for JCP. Pollack Aff., ¶¶ 5, 8. In addition, MSLO has been careful not to divulge any confidential information that it might have received from Macy's, even to the extent such information would be relevant to MSLO's designs. *Id.*, ¶¶ 7-8.

Finally, Macy's reliance on the disfavored "inevitable disclosure" doctrine has no application here. A plaintiff cannot establish irreparable harm under the inevitable disclosure doctrine absent evidence demonstrating "actual theft, misappropriation, or disclosure." *L-3 Commc'ns*, 2005 N.Y. Misc. LEXIS 2720, at *15 (denying motion for preliminary injunction where plaintiff arguing inevitable disclosure "failed to make the evidentiary showing" that defendant used plaintiff's trade secret); *see also Catalogue Serv. of Westchester, Inc. v. Henry*, 107 A.D.2d 783, 784 (2d Dep't 1985) (evidence through affidavit of plaintiff's vice-president that defendant used plaintiff's "confidential trade-secret information to siphon off" its customers" fell "far short of establishing" basis for preliminary injunctive relief), cited in *L-3 Commc'ns*, 2005 N.Y. Misc. LEXIS, at *13. Here, too, even if the "inevitable disclosure" doctrine applied at all—and it does not—Macy's purported evidence falls "far short" of what would be required for preliminary injunctive relief. *See generally Caldwell*, 2011 U.S. Dist. LEXIS 89447, at *13 (conclusory, speculative affidavits unsupported by evidence "cannot establish irreparable harm"); *Mike's Train House*, 708 F. Supp. 2d at 532-33 (same).

V.

THE BALANCE OF EQUITIES TILTS SHARPLY IN JCP'S FAVOR

A preliminary injunction is not available where the moving party cannot show, by clear and convincing evidence, that the balance of equities lies in its favor. *Invesco*, 74 A.D.3d at 697; *U.S. Re Companies, Inc. v. Scheerer*, 41 A.D.3d 152, 154 (1st Dep't 2007); *Sterling Fifth Assocs. v. Carpentille Corp.*, 5 A.D.3d 328, 329 (1st Dep't 2004); *Klein, Wagner & Morris v. Lawrence A. Klein, P.C.*, 186 A.D.2d 631, 633 (2d Dep't 1992). In addition, the balance of the equities will not lie in the plaintiff's favor when the plaintiff is "guilty of unreasonable delay." *United for Peace and Justice v. Bloomberg*, 5 Misc. 3d 845, 849 (Sup. Ct. 2004); *see also Dennis v. Buffalo Fine Arts Acad.*, 15 Misc. 3d 1106A, 2007 N.Y. Misc. LEXIS 941, at *13-14 (Sup. Ct.

Mar. 21, 2007) (three week delay after learning of facts upon which movants sought injunction tips balance of equities in favor of respondents). Macy's cannot establish that it will suffer any irreparable harm if it does not obtain the injunctive relief it seeks through this motion. By contrast, a further injunction could prevent JCP from moving forward with the manufacture of non-branded MSLO-designed products on which JCP has already spent substantial sums of money, thereby delaying the date when such products will be available in JCP stores, causing irreparable harm to JCP sales, its goodwill with customers, and its relationships with its manufacturers and suppliers. *Rutenis Aff.*, ¶¶ 8-11; *Mangone Aff.*, ¶¶ 9-13. In light of Macy's attempt to use the injunction to gain competitive rights for which it did not bargain, the balance lies in JCP's favor.

Finally, although Macy's has known of the JCP Agreement since December 2011, Macy's waited more than half a year to bring its action against JCP and its motion for a preliminary injunction, delaying until a time when the harm to JCP from the requested relief would be very substantial. *Id.* Macy's decision to delay in seeking a preliminary injunction against JCP for more than half a year is itself cause to deny the motion. *See United for Peace and Justice*, 5 Misc. 3d at 849 (denying preliminary injunctive relief where plaintiff engaged in "inexcusable and inequitable delay").

VI.

IN THE EVENT A PRELIMINARY INJUNCTION ISSUES, MACY'S SHOULD BE REQUIRED TO POST AN UNDERTAKING

Under CPLR 6312(b), prior to the Court's issuance of a preliminary injunction, Macy's must provide an undertaking "in an amount to be fixed by the court, that the plaintiff, if it is finally determined that he or she was not entitled to an injunction will pay to the defendant all damages and costs which may be sustained by reason of the injunction." CPLR 6312(b). Such

damages include attorneys' fees. See *Louie v. David & Chiu Place Rest., Inc.*, 261 A.D.2d 150, 151-52 (1st Dep't 1999); *A&M Exports, Ltd. v. Meridien Int'l Bank, Ltd.*, 222 A.D.2d 378, 380 (1st Dep't 1995).

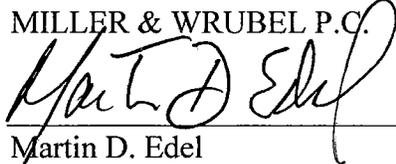
Here, an improvidently granted preliminary injunction would be costly. *Rutenis Aff.*, ¶¶ 8-11; *Mangone Aff.*, ¶¶ 9-13. As a result, this Court should require a substantial undertaking.

CONCLUSION

For all of the foregoing reasons, Macy's motion for a preliminary injunction should be DENIED.

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