UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

EVERLAST WORLD'S BOXING HEADQUARTERS CORP.,

Plaintiff/Counterclaim Defendant,

v.

TRANSFORM SR LLC, d/b/a SEARS, TRANSFORM KM LLC, d/b/a KMART, and TRANSFORM SR HOLDINGS LLC,

Defendants/Counterclaim Plaintiffs.

Case No.: 1:20-cv-09095-RA

DEFENDANTS' ANSWER, AFFIRMATIVE DEFENSES, AND COUNTERCLAIM

ECF Case

Defendants Transform SR LLC, doing business as Sears ("Sears"), Transform KM LLC, doing business as Kmart ("Kmart"), and Transform SR Holdings LLC ("Transform SR"), together the "Defendants," by their attorneys, DLA Piper LLP (US), as and for their Answer to Plaintiff's Complaint ("Complaint"), state as follows:

NATURE OF THE ACTION

1. Defendants deny the allegations and relief requested in Paragraph 1 of the Complaint.

PARTIES

2. Defendants deny knowledge or information sufficient to form a belief as to the truth of the allegations contained in Paragraph 2 of the Complaint.

3. Defendants admit that Sears is a Delaware limited liability company, and otherwise deny that no indirect member of Sears is a resident of New York state.

4. Defendants admit that Kmart is a Delaware limited liability company, and otherwise deny that no indirect member of Kmart is a resident of New York state.

5. Defendants admit that Transform SR is a Delaware limited liability company, and

otherwise deny that no indirect member of Transform SR is a resident of New York state.

JURISDICTION AND VENUE

6. Defendants deny that the suit is between citizens of different states, and otherwise admit the allegations in Paragraph 6 of the Complaint.

7. Defendants admit that paragraph 7 of the Complaint contains terms from the License Agreement and Performance Bond (the "License Agreement" or "Agreement"),[1] and state that the documents speak for themselves.

8. Defendants admit the allegations contained in Paragraph 8 of the Complaint.

THE LICENSE AGREEMENT AND PERFORMANCE BOND

9. Defendants admit that Paragraph 9 of the Complaint contains terms from the License Agreement, and state that the Agreement speaks for itself.

10. Defendants admit that Paragraph 10 of the Complaint contains terms from the License Agreement, and state that the Agreement speaks for itself.

11. Defendants admit that Paragraph 11 of the Complaint contains terms from the License Agreement, and state that the Agreement speaks for itself.

12. Defendants admit that Paragraph 12 of the Complaint contains terms from the License Agreement, and state that the Agreement speaks for itself.

13. Defendants admit that Paragraph 13 of the Complaint contains terms from the License Agreement, and state that the Agreement speaks for itself.

14. Defendants Sears and Kmart deny the allegations in Paragraph 14 of the Complaint, and state further that no royalty payment was due to Everlast because Defendants Sears and Kmart invoked the force majeure term in Section 20 of the License Agreement (the "Force Majeure

[1] Unless stated otherwise, capitalized terms have the same meaning as in the Complaint.

Term"). A true copy of Defendants' April 22, 2020 letter invoking the Agreement's Force Majeure Term (the "Force Majeure Letter") is attached hereto as **Exhibit A**.

15. Defendants admit the allegations contained in Paragraph 15 of the Complaint.

16. Defendants admit that Paragraph 16 of the Complaint contains terms from the License Agreement, which speaks for itself, and otherwise deny the allegations in Paragraph 16.

17. Defendants Sears and Kmart admit the allegations contained in Paragraph 17 of the Complaint but deny that any royalty was due to Everlast based on the Force Majeure Term. *See* Exhibit A.

18. Defendants admit receiving the July 24, 2020 Default Notice referenced in Paragraph 18 of the Complaint, and state that the July 24, 2020 Default Notice speaks for itself. Defendants otherwise deny the allegations contained in Paragraph 18 of the Complaint.

19. Defendants admit receiving the July 24, 2020 Default Notice referenced in Paragraph 19 of the Complaint, and state that the July 24, 2020 Default Notice speaks for itself. Defendants otherwise deny the allegations contained in Paragraph 19 of the Complaint.

20. Defendant Transform SR admits receiving the July 24, 2020 Default Notice referenced in Paragraph 20 of the Complaint, and states that the July 24, 2020 Default Notice speaks for itself. Defendant Transform SR otherwise denies the allegations contained in Paragraph 20 of the Complaint.

21. Defendants admit the allegations contained in Paragraph 21 of the Complaint. Defendants state further that no royalty was owed to Everlast based on the Force Majeure Term. *See* Exhibit A.

22. Defendants Sears and Kmart deny the allegations in Paragraph 22 of the Complaint, and state further that no royalty payment was due to Everlast based on the Force Majeure Term.

See Exhibit A.

23. Defendants admit the allegations contained in Paragraph 23 of the Complaint.

24. Defendants admit that Paragraph 24 of the Complaint contains terms from the License Agreement, which speaks for itself, and otherwise deny the allegations in Paragraph 24.

25. Defendants admit the allegations contained in Paragraph 25 of the Complaint but deny that any royalty was due to Everlast based on the Force Majeure Term. *See* Exhibit A.

26. Defendants admit receiving the August 27, 2020 Termination Letter referenced in Paragraph 26 of the Complaint, and state that the Termination Letter speaks for itself. Defendants otherwise deny the allegations contained in Paragraph 26 of the Complaint.

27. Defendants admit receiving the Termination Letter referenced in Paragraph 27 of the Complaint, and state that the Termination Letter speaks for itself. Defendants otherwise deny the allegations contained in Paragraph 27 of the Complaint.

28. Defendants admit receiving the Termination Letter referenced in Paragraph 28 of the Complaint, and state that the Termination Letter speaks for itself. Defendants otherwise deny the allegations contained in Paragraph 28 of the Complaint.

29. Defendants admit receiving the Termination Letter referenced in Paragraph 29 of the Complaint, and state that the Termination Letter speaks for itself. Defendants otherwise deny the allegations contained in Paragraph 29 of the Complaint.

30. Defendants admit receiving the Termination Letter referenced in Paragraph 30 of the Complaint, and state that the Termination Letter speaks for itself. Defendants otherwise deny the allegations contained in Paragraph 30 of the Complaint.

31. Defendants admit receiving the Termination Letter referenced in Paragraph 31 of the Complaint, and state that the Termination Letter speaks for itself. Defendants otherwise deny

the allegations contained in Paragraph 31 of the Complaint.

32. Defendants admit receiving the Termination Letter referenced in Paragraph 32 of the Complaint, and state that the Termination Letter speaks for itself. Defendants otherwise deny the allegations contained in Paragraph 32 of the Complaint.

33. Defendants admit receiving the Termination Letter referenced in Paragraph 33 of the Complaint, and state that the Termination Letter speaks for itself. Defendants otherwise deny the allegations contained in Paragraph 33 of the Complaint.

34. Defendants admit that no payment has been made, and otherwise deny the allegations in Paragraph 34 of the Complaint, including that any payment is due and owing based on the Force Majeure Term. *See* Exhibit A.

35. Defendants deny the allegations contained in Paragraph 35 of the Complaint.

36. Defendants admit that Paragraph 36 of the Complaint contains terms from the License Agreement, which speaks for itself, and otherwise deny the allegations in Paragraph 36.

37. Defendants admit that Paragraph 37 of the Complaint contains terms from the License Agreement, which speaks for itself, and otherwise deny the allegations in Paragraph 37.

38. Defendants deny the allegations contained in Paragraph 38 of the Complaint.

39. Defendants admit that Paragraph 39 of the Complaint contains terms from the License Agreement, which speaks for itself, and otherwise deny the allegations in Paragraph 39.

40. Defendants deny the allegations in Paragraph 40 of the Complaint.

FIRST CAUSE OF ACTION FOR BREACH OF CONTRACT
(against Defendants Sears and Kmart)

41. Defendants Sears and Kmart incorporate by reference the responses contained in the prior paragraphs with the same force and effect as if set forth at length herein.

42. Defendants Sears and Kmart admit the allegations contained in Paragraph 42 of the

Complaint, including that the Force Majeure Term is a valid part of the contract.

43. Defendants Sears and Kmart deny the allegations in Paragraph 43 of the Complaint.

44. Defendants Sears and Kmart admit the allegations contained in Paragraph 44 of the Complaint, but deny that any royalty payment is owed.

45. Defendants Sears and Kmart deny that the allegations in Paragraph 45 of the Complaint.

46. Defendants Sears and Kmart deny the Minimum Guaranteed Royalty payment was due to Plaintiff, and otherwise deny knowledge or information sufficient to form a belief as to the truth of the allegations contained in Paragraph 46 of the Complaint.

47. Defendants Sears and Kmart deny knowledge or information sufficient to form a belief as to the truth of the allegations contained in Paragraph 47 of the Complaint.

48. Defendants Sears and Kmart deny the allegations in Paragraph 48 of the Complaint.

49. Defendants Sears and Kmart deny the allegations in Paragraph 49 of the Complaint.

SECOND CAUSE OF ACTION FOR ANTICIPATORY BREACH OF CONTRACT
(against Defendants Sears and Kmart)

50. Defendants Sears and Kmart incorporate by reference the responses contained in the prior paragraphs with the same force and effect as if set forth at length herein.

51. Defendants Sears and Kmart deny the allegations in Paragraph 51 of the Complaint.

52. Defendants Sears and Kmart deny the allegations in Paragraph 52 of the Complaint.

53. Defendants Sears and Kmart deny the allegations in Paragraph 53 of the Complaint.

54. Defendants Sears and Kmart deny the allegations in Paragraph 54 of the Complaint.

55. Defendants Sears and Kmart deny the allegations in Paragraph 55 of the Complaint.

56. Defendants Sears and Kmart deny the allegations in Paragraph 56 of the Complaint.

THIRD CAUSE OF ACTION FOR ACCOUNT STATED
(against Defendants Sears and Kmart)

57. Defendants Sears and Kmart incorporate by reference the responses contained in the prior paragraphs with the same force and effect as if set forth at length herein.

58. Defendants Sears and Kmart admit receiving the invoices referenced in Paragraph 58 of the Complaint, and state that they speak for themselves. Defendants otherwise deny the allegations contained in Paragraph 58 of the Complaint.

59. Defendants Sears and Kmart deny the allegations in Paragraph 59 of the Complaint.

60. Defendants Sears and Kmart deny the allegations in Paragraph 60 of the Complaint.

61. Defendants Sears and Kmart deny the allegations in Paragraph 61 of the Complaint.

FOURTH CAUSE OF ACTION FOR BREACH OF PERFORMANCE BOND
(against Defendant Transform SR Holdings)

62. Defendant Transform SR incorporates by reference the responses contained in the prior paragraphs with the same force and effect as if set forth at length herein.

63. Defendant Transform SR denies the allegations in Paragraph 63 of the Complaint.

64. Defendant Transform SR denies the allegations in Paragraph 64 of the Complaint.

65. Defendants Transform SR denies the allegations in Paragraph 65 of the Complaint.

66. Defendant Transform SR admits receiving written notices from Plaintiff, which speak for themselves, and otherwise denies the allegations in Paragraph 66 of the Complaint.

67. Defendant Transform SR denies the allegations in Paragraph 67 of the Complaint.

68. Defendant Transform SR denies the allegations in Paragraph 68 of the Complaint.

FIFTH CAUSE OF ACTION
FOR ANTICIPATORY BREACH OF PERFORMANCE BOND
(against Defendant Transform SR Holdings)

69. Defendant Transform SR incorporates by reference the responses contained in the prior paragraphs with the same force and effect as if set forth at length herein.

70. Paragraph 70 references terms in the Performance Bond, which speaks for itself. Defendant Transform SR otherwise denies the allegations in Paragraph 70 of the Complaint.

71. Defendants deny the allegations in Paragraph 71 of the Complaint.

72. Defendant Transform SR denies the allegations in Paragraph 72 of the Complaint.

73. Defendant Transform SR denies the allegations in Paragraph 73 of the Complaint.

74. Defendant Transform SR denies the allegations in Paragraph 74 of the Complaint.

SIXTH CAUSE OF ACTION FOR BREACH OF CONTRACT REGARDING SELL-OFF
(against all Defendants)

75. Defendants incorporate by reference the responses contained in the prior paragraphs with the same force and effect as if set forth at length herein.

76. Defendants deny the allegations in Paragraph 76 of the Complaint.

77. Defendants deny the allegations in Paragraph 77 of the Complaint.

78. Defendants admit receiving the correspondence referenced in Paragraph 78 from Plaintiff, and otherwise deny the allegations contained in Paragraph 78 of the Complaint.

79. Defendants deny the allegations in Paragraph 79 of the Complaint.

80. Defendants deny the allegations in Paragraph 80 of the Complaint.

SEVENTH CAUSE OF ACTION FOR TRADEMARK INFRINGEMENT
[LANHAM ACT SECTION 32 (15 U.S.C. § 1114(1))]
(against Defendants Sears and Kmart)

81. Defendants Sears and Kmart incorporate by reference the responses contained in the prior paragraphs with the same force and effect as if set forth at length herein.

82. Defendants Sears and Kmart deny knowledge or information sufficient to form a belief as to the truth of the allegations contained in Paragraph 82 of the Complaint.

83. Defendants Sears and Kmart deny knowledge or information sufficient to form a belief as to the truth of the allegations contained in Paragraph 83 of the Complaint.

84. Defendants Sears and Kmart deny knowledge or information sufficient to form a belief as to the truth of the allegations contained in Paragraph 84 of the Complaint.

85. Defendants Sears and Kmart deny knowledge or information sufficient to form a belief as to the truth of the allegations contained in Paragraph 85 of the Complaint.

86. Defendants Sears and Kmart deny knowledge or information sufficient to form a belief as to the truth of the allegations contained in Paragraph 86 of the Complaint.

87. Defendants Sears and Kmart deny the allegations in Paragraph 87 of the Complaint.

88. Defendants Sears and Kmart deny knowledge or information sufficient to form a belief as to Plaintiff's long, exclusive, and extensive use and promotion of the Trademarks, and otherwise deny the allegations in Paragraph 88 of the Complaint.

89. Defendants Sears and Kmart deny the allegations in Paragraph 89 of the Complaint.

90. Defendants Sears and Kmart deny the allegations in Paragraph 90 of the Complaint.

91. Defendants Sears and Kmart admit receiving the correspondence referenced in Paragraph 91 from Plaintiff, and otherwise deny the allegations contained in Paragraph 91 of the Complaint.

92. Defendants Sears and Kmart deny the allegations in Paragraph 92 of the Complaint.

93. Defendants Sears and Kmart deny the allegations in Paragraph 93 of the Complaint.

94. Defendants Sears and Kmart deny the allegations in Paragraph 94 of the Complaint.

95. Defendants Sears and Kmart deny the allegations in Paragraph 95 of the Complaint.

96. Defendants Sears and Kmart deny the allegations in Paragraph 96 of the Complaint.

97. Defendants Sears and Kmart deny the allegations in Paragraph 97 of the Complaint.

EIGHTH CAUSE OF ACTION FOR FALSE DESIGNATION OF ORIGIN, FALSE DESCRIPTION, and UNFAIR COMPETITION
(LANHAM ACT SECTION 43(a) [15 U.S.C. § 1125(a)])
(against Defendants Sears and Kmart)

98. Defendants Sears and Kmart incorporate by reference the responses contained in the prior paragraphs with the same force and effect as if set forth at length herein.

99. Defendants Sears and Kmart deny the allegations in Paragraph 99 of the Complaint.

100. Defendants Sears and Kmart deny the allegations in Paragraph 100 of the Complaint.

101. Defendants Sears and Kmart deny the allegations in Paragraph 101 of the Complaint.

102. Defendants Sears and Kmart deny the allegations in Paragraph 102 of the Complaint.

103. Defendants Sears and Kmart deny the allegations in Paragraph 103 of the Complaint.

NINTH CAUSE OF ACTION FOR FEDERAL TRADEMARK DILUTION
(LANHAM ACT SECTION 43(c) [15 U.S.C. § 1125(c)])
(against Defendants Sears and Kmart)

104. Defendants Sears and Kmart incorporate by reference the responses contained in the prior paragraphs with the same force and effect as if set forth at length herein.

105. Defendants Sears and Kmart deny the allegations in Paragraph 105 of the Complaint.

106. Defendants Sears and Kmart deny the allegations in Paragraph 106 of the Complaint.

107. Defendants Sears and Kmart deny the allegations in Paragraph 107 of the Complaint.

TENTH CAUSE OF ACTION FOR UNJUST ENRICHMENT
(against Defendants Sears and Kmart)

108. Defendants Sears and Kmart incorporate by reference the responses contained in the prior paragraphs with the same force and effect as if set forth at length herein.

109. Defendants Sears and Kmart deny the allegations in Paragraph 109 of the Complaint.

110. Defendants Sears and Kmart deny the allegations in Paragraph 110 of the Complaint.

ELEVENTH CAUSE OF ACTION FOR PERMANENT INJUNCTION
(against Defendants Sears and Kmart)

111. Defendants Sears and Kmart incorporate by reference the responses contained in the prior paragraphs with the same force and effect as if set forth at length herein.

112. Defendants Sears and Kmart deny the allegations in Paragraph 112 of the Complaint.

113. Defendants Sears and Kmart deny the allegations in Paragraph 113 of the Complaint.

114. Defendants Sears and Kmart deny the allegations in Paragraph 114 of the Complaint.

115. Defendants Sears and Kmart deny the allegations in Paragraph 115 of the Complaint.

TWELFTH CAUSE OF ACTION FOR ATTORNEYS' FEES AND EXPENSES
(against Defendants Sears and Kmart)

116. Defendants Sears and Kmart incorporate by reference the responses contained in the prior paragraphs with the same force and effect as if set forth at length herein.

117. Defendants Sears and Kmart admit that Plaintiff has retained counsel and otherwise deny the allegations in paragraph 117 of the Complaint.

118. Defendants Sears and Kmart deny the allegations in Paragraph 118 of the Complaint.

THIRTEENTH CAUSE OF ACTION FOR ATTORNEYS' FEES AND EXPENSES
(against Defendant Transform SR Holdings)

119. Defendant Transform SR incorporates by reference the responses contained in the prior paragraphs with the same force and effect as if set forth at length herein.

120. Defendant Transform SR admits that Plaintiff has retained counsel and otherwise deny the allegations in paragraph 120 of the Complaint.

121. Defendant Transform SR denies the allegations in Paragraph 121 of the Complaint.

122. Defendant Transform SR denies the allegations in Paragraph 122 of the Complaint.

123. Defendant Transform SR denies the allegations in Paragraph 123 of the Complaint.

AFFIRMATIVE DEFENSES

Defendants do not knowingly or intentionally waive any applicable defense and reserve the right to assert and rely on such other applicable defenses as may become available or apparent during the course of the proceedings.

Defendants further reserve the right to amend their Answer and/or defenses accordingly, and/or delete defenses that they determine are not applicable, during the course of the proceedings.

Without assuming any burdens that they would not otherwise bear, Defendants assert the following defenses:

FIRST AFFIRMATIVE DEFENSE

Plaintiff's claims are barred, in whole or in part, because Plaintiff fails to state a claim upon which relief may be granted.

SECOND AFFIRMATIVE DEFENSE

The Complaint fails, in whole or in part, to state a claim upon which relief may be granted

or for which the relief or recovery sought can be awarded to Plaintiff by virtue of Defendants invoking the Force Majeure Term contained at Section 20 of the License Agreement, and the express language of the Agreement.

THIRD AFFIRMATIVE DEFENSE

Plaintiff's Seventh, Eighth, Ninth, Tenth, and Eleventh Causes of Action fail because the claims are not ripe for adjudication.

FOURTH AFFIRMATIVE DEFENSE

Some or all of the relief sought by Plaintiff is barred because Everlast has failed to establish irreparable injury.

FIFTH AFFIRMATIVE DEFENSE

Defendants' performance under the Agreement was excused pursuant to the doctrine of frustration of purpose.

SIXTH AFFIRMATIVE DEFENSE

Defendants' performance under the Agreement was excused pursuant to the doctrine of commercial impracticability.

SEVENTH AFFIRMATIVE DEFENSE

Defendants' performance under the Agreement was excused as a result of impossibility of performance.

EIGHTH AFFIRMATIVE DEFENSE

Plaintiff's purported claims are barred, in whole or in part, by the equitable doctrines of unclean hands, laches, waiver, mistake, and estoppel. Specifically, Plaintiff fails to acknowledge or recognize the Force Majeure Term in the License Agreement, Defendants' invocation of that term through the Force Majeure Letter, and the impact of invoking the Force Majeure Term.

NINTH AFFIRMATIVE DEFENSE

To the extent that Plaintiff suffered any damages, which damages are denied, any such damages are barred and/or must be reduced on account of Plaintiff's failure to take reasonable steps to mitigate damages.

TENTH AFFIRMATIVE DEFENSE

Plaintiff's causes of action are barred, in whole or in part, because Plaintiff seeks unenforceable liquidated damages.

ELEVENTH AFFIRMATIVE DEFENSE

To the extent any liability is established, Plaintiff's claims, in whole or in part, are subject to a setoff for amounts paid by Defendants under the relevant contract.

TWELFTH AFFIRMATIVE DEFENSE

Defendants at all times acted reasonably and in good faith in performing any obligations under the Agreement.

ADDITIONAL DEFENSES

Defendants reserve the right to assert additional defenses based on information learned or obtained during discovery.

WHEREFORE, Defendants respectfully request that the Court:

A. Dismiss the Complaint in its entirety with prejudice;

B. Deny each and every demand and prayer for relief contained in the Complaint;

C. Award Defendants their costs and reasonable attorneys' fees; and

D. Award Defendants such other and further relief as the Court deems just and proper.

COUNTERCLAIM OF TRANSFORM SR LLC, d/b/a SEARS, TRANSFORM KM LLC, d/b/a KMART, and TRANSFORM SR HOLDINGS LLC

Defendants and Counterclaim Plaintiffs, Transform SR LLC, d/b/a Sears ("Sears"), Transform KM LLC, d/b/a Kmart ("Kmart"), and Transform SR Holdings LLC ("Transform SR") (together "Defendants"), for their counterclaims against Everlast World's Boxing Headquarters Corp. ("Everlast" or "Plaintiff") state as follows:

NATURE OF THE COUNTERCLAIM

124. Defendants-Counterclaim Plaintiffs bring this Counterclaim based on Plaintiff-Counterclaim Defendant Everlast's refusal to honor its contractual commitment to abide by a force majeure provision in Section 20 of the parties' License Agreement (*i.e.*, the "Force Majeure Term"). The Force Majeure Term was invoked through the Defendants' April 22, 2020 Letter (the "Force Majeure Letter"), and in light of the global pandemic caused by the COVID-19 coronavirus, associated government orders that resulted in store closures or service reductions at Defendants' retail stores, and the ongoing impact to retailers like Kmart and Sears that transformed the retail experience and frustrated the commercial purpose behind the License Agreement.

JURISDICTION AND VENUE

125. Jurisdiction is proper in this Court to the extent that supplemental jurisdiction exists pursuant to 28 U.S.C. § 1367.

126. This Court has personal jurisdiction over Everlast because the License Agreement contains a choice of law and forum selection clause whereby the parties expressly agreed that any disputes arising out of the Agreement must be brought in state or federal court in New York County, New York. Moreover, Everlast has, by bringing the above-captioned lawsuit against Defendants, subjected itself to the jurisdiction of this Court. Accordingly, venue is also proper in this Court.

THE LICENSE AGREEMENT AND PERFORMANCE BOND

127. The well-known corporate predecessor to Sears, Sears, Roebuck & Co. began as a mail order catalog company in the early twentieth century. Sears is and has been principally a "brick and mortar" retailer since 1925, however. At one time Sears was the largest retailer in the United States.

128. Similarly, Kmart has a long history as a "brick and mortar" retail store in the United States, with the earliest version of the store dating to 1899. At one time there were over 2,300 Kmart retail stores in the United States.

129. Today, Sears and Kmart are owned by Transform Co., and there are over 100 Sears and Kmart retail stores in the United States.

130. On June 19, 2019, Everlast, as Licensor, executed the License Agreement with Sears and Kmart, individually and collectively defined as the "Licensee," whereby Sears and Kmart licensed from Everlast the right to use certain specified Trade Marks on specified Products in the Territory, through permitted Distribution Channels, for approximately three (3) years (from April 10, 2019 through January 31, 2022). The Agreement includes provisions for royalty payments to Everlast over the term of the License.

131. Distribution Channels is defined in Schedule 7 of the Agreement and includes, first and foremost, Sears and Kmart retail stores.

132. The parties agreed that in the event of a so-called force majeure event, the party affected by the event could invoke the Force Majeure Term to be relieved of its contractual obligations during the pendency of the force majeure event.

133. The Agreement defines "Force Majeure" as:

> any delay, interruption or failure in performance of a Party's obligations under this Agreement caused directly or indirectly by fire, flood, earthquake, explosion or

other casualty, strike, or labor dispute, disruption of telecommunication systems, inability to obtain supplies, fuel, raw materials, labor, transportation of power, war or other violence, accident, malfunction of machinery or apparatus, any law, order, injunction, proclamation, regulation, ordinance, demand or requirement of any government agency, act of God or any similar cause or condition, which is beyond the reasonable control of the affected Party and which has a material adverse effect on its ability to perform its obligations under this Agreement[.]

134. The Force Majeure Term in Section 20 of the Agreement states:

20. Force Majeure

20.1 If and to the extent any Party is prevented or delayed by Force Majeure from performing any of its obligations under this Agreement, it shall promptly notify the other Party, specifying:

(a) the matters constituting the Force Majeure together with such evidence in verification thereof as it can reasonably give;

(b) the period for which it estates that the prevention or delay will continue; and

(c) the steps it has taken to avoid the Force Majeure which steps that Party is obligated to take provided they are reasonable.

20.2 Having complied with **Clause 20** above, the Party so affected shall be relieved of liability to the other for failure to perform or for delay in performing such obligations (as the case may be) but only as directly resulting from the Force Majeure, but shall nevertheless use all commercially reasonable efforts to resume full performance.

135. On or about June 20, 2019, Transform SR provided the Performance Bond to Everlast, promising to be the "primary obligor" for Defendants Sears and Kmart under certain conditions.

136. Any obligation of Transform SR under the Performance Bond is contingent upon an unpaid invoice being "due but unpaid" by Sears and Kmart, and Everlast's certification that "(a) the Licensee has failed to perform the License Agreement in accordance with its terms and conditions; (b) as a result of such failure, the amount claimed is due to you; (c) specifies in what respects the Licensee has so failed; and (d) specifies the amount claims."

THE COVID-19 CORONAVIRUS, GOVERNMENT-MANDATED STORE CLOSURES, AND THE IMPACT ON SEARS AND KMART

137. In December 2019, a previously unknown coronavirus, COVID-19, was discovered in Wuhan, China. Within weeks, the virus spread around the world, first to Italy and Western Europe, and then to the United States.

138. COVID-19 is highly contagious. According to the Centers for Disease Control and Prevention ("CDC"), human-to-human transmission of COVID-19 mainly occurs by inhalation of respiratory droplets spread by coughing or sneezing from an infected individual, particularly where individuals are in close contact with one another, *i.e.*, within about six feet from each other.

139. According to certain health officials, COVID-19 may also spread through an individual's direct contact with contaminated surfaces and then touching the nose, mouth, and eyes, and the virus may also remain on different surfaces for days.

140. COVID-19 spreads most easily in unventilated environments or closed spaces due to high aerosol concentrations of viral material. It is spread by coughing, sneezing, or simply talking or breathing. An infected person may unknowingly infect other persons in the same room just by being in the same space, and may leave enough viral material in such a closed room to infect others who enter the room well after the infected person leaves. There is no way of knowing whether a person entering a retail store, for instance, is infected and contagious.

141. COVID-19 is deadly. Those infected with COVID-19 may experience severe respiratory problems, persistent pain in the chest, bluish lips or face, and more. Infected individuals may require intubation on a ventilator. Studies have found that as many as 67% of those receiving "advanced respiratory support," like intubation, die. One study found that only 14% of COVID-19 patients survive after being placed on a ventilator.

142. Medical science does not yet understand all the health ramifications of COVID-19, even for survivors. COVID-19 may leave survivors with lifelong devastating illnesses. Survivors may experience additional life-threatening conditions or illnesses, including an increased risk of damage to the heart, brain, lungs, and other organs. Furthermore, COVID-19 survivors have exhibited scarred lungs, which health experts believe can lead to long-term breathing problems. The extent of harm caused by COVID-19 to the human body is not yet known.

143. As of the date of this Counterclaim, COVID-19 has infected more than 15.2 million Americans and has killed nearly 300,000 of those Americans infected.

144. Beginning in March 2020, various state and local authorities issued orders that required or resulted in the closure of retail stores to help prevent further spreading of the disease.

145. For example, on March 20, 2020, New York State Governor Andrew Cuomo issued Executive Order 202.8, which ordered all nonessential businesses to "reduce the in-person workforce at any work locations by 100%" effective at 8:00 p.m. on Sunday, March 22, 2020.

146. Similarly, in California, Governor Newsom issued Executive Order N-33-20 on March 22, 2020, which required all "non-essential" Californians, *e.g.*, retail workers, to stay home indefinitely. On July 13, 2020, Governor Newsome announced a statewide prohibition on all indoor operations.

147. Across the United States, state and local governments issued similar orders directing retailers to close business or severely curtail operations.

148. These orders, and the general and widespread public health concerns, prompted the closure of Sears retail stores, including locations that offer Everlast apparel. For example, on March 12, 2020, the Sears store in Willow Grove, Pennsylvania was closed. Stores in California, Puerto Rico and Maine closed in the days that followed, and all remaining Sears stores closed by April 11, 2020, as a result of state and local government orders, public health concerns, or both.

149. Essential groceries and medicine remained available to Kmart shoppers, but new operating procedures, such as reduced store hours, barriers at checkout, and restricted occupancy limits, were implemented. In addition, fitting rooms were closed in all Kmart stores and customers were not allowed to try on any apparel, including Everlast apparel.

150. Even where retail stores were not closed or have reopened, however, the retail experience remains forever changed.

151. For example, a New York retailer must ensure there is a minimum of six feet between individuals, limit occupancy to no more than 50% of the maximum occupancy set by the Certificate of Occupancy, clean and disinfect dressing rooms and other areas of the store, provide employees with personal protective equipment, promote best practices and ensure social distancing through appropriate signage, and screen employees using questionnaires and temperature checks.

152. It is not clear whether, and to what extent, these measures may actually stop the spread of COVID-19, however. In particular, heating, ventilation and air-conditioning ("HVAC") systems in retail stores have been described as possible COVID-19 "super spreaders" because HVAC systems can carry large viral particles. *See* Hartford Healthcare, *Can an HVAC Duct Spread COVID-19 in Offices, Stores and Schools?* (July 13, 2020).

153. For example, an HVAC system was determined to be the source of COVID-19 infection for ten people from three different families eating in a Guangzhou, China restaurant earlier this year. *See* Jianyung, Lu, et al., *COVID-19 Outbreak Associated with Air Conditioning in Restaurant, Guangzhou, China, 2020*, CDC (July 2020).

154. Similarly, an indoor choir practice in Skagit County, Washington attended by a person infected with COVID-19 resulted in 53 infections amongst the 61 attendees, with three people becoming hospitalized and two dying. *See* Lea Hammer, et al., *High SARS-CoV-2 Attack Rate Following Exposure at a Choir Practice — Skagit County, Washington, March 2020*, CDC (May 15, 2020).

155. The future of all indoor retailer, restaurant and commercial office spaces is highly in doubt. To effectively re-allow safe gatherings of people inside and reduce the risk of COVID-19, retail and dining establishments have upgraded their HVAC systems, including replacing HVAC motors and installing new air purification systems. Justin Ho, *As Restaurants Reopen for Indoor Dining HVAC Systems Get an Upgrade*, MARKETPLACE.ORG (Oct. 26, 2020); *see also Indoor Air Considerations: COVID-19*, MINN. DEP'T OF HEALTH (last updated Nov. 23, 2020) ("Managing indoor air will not stop the spread of COVID-19 by itself, but it can lower the number of people infected"); Stephanie Balgeman et. al, *Can HVAC Systems Help Prevent Transmission of COVID-19?*, MCKINSEY & CO. (July 9, 2020). Moreover, in June 2020, Governor Cuomo mandated that malls in the state update their HVAC systems in order to reopen. *Governor Cuomo Announces State to Decide Wednesday Whether to Slow Reopening of Indoor Dining in New York City*, NEW YORK STATE (June 29, 2020).

156. The effectiveness of these strategies to modify air circulation in retail stores is not clear, however.

157. COVID-19 and related government orders continue to interrupt and delay Sears's and Kmart's business. It was not until July 11, 2020, that most Sears stores reopened, while others closed permanently.

158. Even where Sears and Kmart stores have reopened, however, customer traffic remains low compared to pre-pandemic levels.

159. Despite federal guidelines and state-level COVID-19 lockdown orders and preventative measures, there remains significant and deadly community spread in the United States, and indeed, throughout the world. More than 62.6 million COVID-19 cases and 1.46 million deaths have been recorded worldwide.

160. As of the date of this pleading, moreover, the number of cases in the United States is increasing, not decreasing, with health experts promising a "dark" winter before a vaccine may be distributed. New orders requiring people to stay at home or limiting in-person retail – the cornerstone of Sears's and Kmart's business model – are being rolled out or contemplated in California, Ohio, New York and elsewhere.

TRANSFORM INVOKES THE FORCE MAJEURE TERM

161. On April 22, 2020, Transform Co. (the "Company"), on behalf of Sears and Kmart, notified Everlast that Sears and Kmart's business has "come to virtual standstill" due to the "impact of the COVID-19 crisis" and has required the closure of stores and/or restriction of operating hours, the cancellation of the Spring/ Summer retail season, and left the fate of the Fall/ Winter season "unknown." *See* Exhibit A.

162. Transform Co. further explained:

> These unprecedented governmental actions and near catastrophic circumstances have undermined the very purpose for which the Company entered into the License Agreement — namely, the ability to sell merchandise bearing the EVERLAST® and EVERLAST SPORT® brands. Without the ability to sell such merchandise,

> and through no fault of either party, the license has, in effect, become worthless to the Company. Moreover, these events have made it impracticable and impossible for the Company to perform per the terms of the License Agreement. Indeed, without the revenue from merchandise sales, the Company is unable to pay Everlast during this period per the terms of the License Agreement and is forced to suspend any further royalty payments to Everlast. At this juncture, given that it is unknown whether the Company will be able to return to normal operations in short term or whether its operations will continue to be paralyzed by the extended lock-downs and quarantines, the Company is simply unable to make a definitive commitment as to when it will be able to resume such payments.

163. The Company also explained that "the changed circumstances brought on by the COVID-19 crisis and related governmental actions are extreme, unprecedented and uncontrollable, ***falling squarely within the scope of section 20.1 of the License Agreement [i.e., the Force Majeure Term]. Therefore, the Company believes that it is fully justified in suspending its payments to Everlast as discussed above, without any resulting liability, pursuant to section 20 of the License Agreement.***" (Exhibit A, at 2 (emphasis added).)

164. The Company also explained it was taking "necessary steps aimed at managing current and future purchase orders as well as its liquidity in order to withstand this crisis and to position itself to restore its operations after the COVID-19 epidemic abates, but the current effects of the pandemic and the governmental actions leave no room for flexibility or optionality at this time."

165. Finally, the Company noted it "values its relationship with Everlast and would like to discuss these issues in a collaborative fashion," and proposed a teleconference with Everlast.

166. On or around May 13, 2020, Transform Co. and Everlast conducted a teleconference to discuss these issues.

167. By promptly notifying Everlast of their delay, interruption or failure to fulfill their obligations under the Agreement caused directly or indirectly by a force majeure event, *inter alia*, the continuing public health crisis caused by the COVID-19 pandemic, state and local orders closing or limiting business, and the transformation of the retail ecosystem as a result of COVID-19 government closures, Sears and Kmart invoked the Agreement's Force Majeure Term.

168. Defendants complied with all of the requirements of Section 20 of the Agreement, including, *inter alia*, explaining the matters that constitute the force majeure, providing an estimate for the duration of the force majeure, and explaining the reasonable steps taken to avoid the force majeure. Furthermore, Defendants continue to take all commercially reasonable steps to resume full performance.

169. By reason of the foregoing, Sears's and Kmart's performance under the Agreement was excused.

170. Nonetheless, and in breach of the Agreement, Everlast terminated the Agreement with the Defendants on or around August 27, 2020 due to the Defendants' alleged failure to pay the Minimum Guaranteed Royalty payments allegedly owed to Everlast under the Agreement.

171. No such payments were due, however, because Defendants invoked the Force Majeure Term.

172. Nonetheless, Sears and Kmart made royalty payments to Everlast after Everlast's purported termination of the Agreement.

173. Everlast also sought funds in the amount of $500,000 under the Performance Bond from Transform SR on or around July 24, 2020.

174. Everlast's actions were improper because no amounts were "due but unpaid by the Licensee" given Defendants' invocation of the Force Majeure Term months earlier, and despite Everlast's false certification that amounts were due.

175. By reason of the foregoing, Transform SR was not required to perform under the Performance Bond.

COUNT I
BREACH OF CONTRACT

176. Defendants repeat, reallege, and incorporate by reference, paragraphs 1 through 175 of this Counterclaim, as if set forth fully herein.

177. The License Agreement by and between Everlast and Defendants is a valid and binding contract and supported by adequate consideration.

178. Defendants have fully satisfied their obligations under the Agreement.

179. Everlast had a duty to adhere to the provisions of the Agreement.

180. Everlast breached multiple provisions of the Agreement, including:

a. Everlast breached Section 20.2 of the Agreement by not upholding its promise to relieve Defendants from their obligations and any liability under the Agreement, even though Defendants complied with all obligations in the Force Majeure Term.

b. Everlast breached Section 16 by wrongfully terminating the Agreement for reasons other than those listed in Section 16.1.

c. Everlast breached the terms of the Performance Bond by claiming amounts were "due and unpaid" and falsely certifying to Transform SR that Sears and Kmart failed to perform under the License Agreement and allegedly owed amounts to Everlast.

181. Defendants suffered, and will continue to suffer, damages as a proximate result of Everlast's breaches of the License Agreement.

182. Everlast's breaches caused, and will continue to cause, damages to Defendants in the form of attorneys' fees and diminished future revenues if Defendants are prohibited from selling Products containing the Trade Marks licensed under the Agreement.

183. Defendants request monetary damages in an amount to be determined at trial.

COUNT II
BREACH OF THE DUTY OF GOOD FAITH AND FAIR DEALING

184. Defendants repeat, reallege, and incorporate by reference, paragraphs 1 through 183 of this Counterclaim, as if set forth fully herein.

185. New York law recognizes an implied duty of good faith and fair dealing in all contracts to protect a party's reasonable expectations in the absence of the breach of an express term.

186. The parties agreed to the Force Majeure Term to relieve a party of liability in the event of certain unforeseen circumstances, defined as force majeure in the contract.

187. Defendants invoked the Force Majeure Term contained in Section 20 of the Agreement.

188. With this knowledge, Everlast acted in bad faith by terminating the Agreement instead of abiding by Section 20 of the Agreement.

189. Everlast also acted in bad faith by certifying that payment was owed by Transform SR under the Performance Bond, even though no amount was "due but unpaid by the Licensee" because Defendants invoked the Force Majeure Term.

190. Everlast also acted in bad faith by bringing the instant lawsuit after receiving the Force Majeure Letter, failing to reference the Force Majeure Letter in its lawsuit, wrongfully claiming Defendants' breached the License Agreement and infringed upon and/or diluted Everlast's Trade Marks, and forcing Defendants to incur legal fees in defending itself against Everlast's actions.

191. By wrongfully terminating the Agreement, seeking funds under the Performance Bond, and suing despite its knowledge that the Force Majeure Term was invoked and excused Defendants' performance, Everlast denied Defendants the benefit of their bargain in entering into the Agreement.

192. Defendants had a reasonable expectation that Everlast would comply with its promises in the Agreement, including the Force Majeure Term, in addition to the Performance Bond, and honor the Parties' business relationship. It did not. Accordingly, Everlast has breached the duty of good faith and fair dealing implied in the Agreement.

193. Defendants have suffered damages in an amount to be determined at trial.

COUNT III
DECLARATORY JUDGMENT

194. Defendants repeat, reallege, and incorporate by reference, paragraphs 1 through 193 of this Counterclaim, as if set forth fully herein.

195. The Declaratory Judgment Act states that "any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration." 28 U.S.C. § 2201.

196. COVID-19 and government orders caused the closing of numerous stores operated by Sears and Kmart nationwide and devasted Defendants' retail business. It became impossible for Defendants to fulfill their obligations under the License Agreement, and the purpose of the Agreement was frustrated as Defendants could not continue selling Everlast's Products in their establishments.

197. Nevertheless, even though Defendants provided notice of the force majeure event that was COVID-19 and its devasting impact on their business pursuant to Section 20 of the Agreement, Everlast wrongfully terminated the Agreement.

198. Accordingly, Defendant Transform SR also did not breach the Performance Bond as notice was made prior to when the first Royalty payment was due.

199. An actual controversy has arisen in the wake of Everlast's termination of the Agreement without cause, and Defendants' refusal to accept the termination of the Agreement.

200. Pursuant to its authority under the Declaratory Judgment Act, Defendants request that the Court enter a judgment declaring, *inter alia*, the following:

a. The COVID-19 pandemic and related government closures qualify as a force majeure event as defined in the Agreement;

b. Defendants properly invoked the Force Majeure Term in Section 20 of the Agreement through the April 22, 2020 letter;

c. Defendants did not breach the Agreement or Performance Bond;

d. Plaintiff breached the Agreement by falsely claiming amounts are owed under the Agreement;

e. Plaintiff breached the Agreement by unlawfully terminating the Agreement; and

f. Plaintiff breached the Agreement by falsely certifying amounts were owed and seeking compensation under the Performance Bond.

201. Pursuant to Rule 38 of the Federal Rules of Civil Procedure, Defendants demand a trial by jury on all claims and issues so triable.

PRAYER FOR RELIEF

WHEREFORE, having alleged these Counterclaims against Counterclaim Defendant Everlast World's Boxing Headquarters Corp., Counterclaim Plaintiffs Transform SR LLC, Transform KM LLC, and Transform SR Holdings LLC pray that the Court award the following relief:

a. Enter judgment in favor of Defendants-Counterclaim Plaintiffs and against Plaintiff-Counterclaim Defendant;

b. Award damages, including compensatory and/or punitive damages, lost profits, all other appropriate damages, as well as attorneys' fees and costs in an amount to be determined at trial;

c. Declare that Everlast unlawfully terminated the Agreement;

d. Declare that Defendants did not breach the Agreement because they properly invoked the Agreement's Force Majeure Term and their performance was excused under the doctrines of impossibility and frustration of purpose;

e. Award attorneys' fees and costs incurred by counsel for Defendants in this action; and

f. Grant any, other, or further relief as the Court may deem just and proper.

Dated: New York, New York
December 11, 2020

DLA PIPER LLP (US)

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