UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

HONEYWELL INTERNATIONAL INC., Plaintiff, -v- ECOER INC. *and* INVERTERCOOL INC., Defendants.	24 Civ. 1464 (PAE) OPINION & ORDER

PAUL A. ENGELMAYER, District Judge:

In 2021, Honeywell International Inc., a household name in home appliances, licensed its trademark to Ecoer Inc. and its subsidiary, InverterCool Inc., aspiring entrants in the high-end heating, ventilation, and air conditioning ("HVAC") market. The parties' collaboration, memorialized in a Trademark License Agreement (the "TLA"), promised mutual benefits: defendants would gain the cachet of the Honeywell brand, while Honeywell would extend its reach into a new product line. However, the venture quickly cooled, with each side accusing the other of breaching the agreement. In October 2022, Honeywell terminated the TLA.

Honeywell brings this action against Ecoer and InverterCool for trademark infringement and breach of contract, alleging unauthorized use of its mark after termination of the TLA. Defendants, in turn, bring counterclaims against Honeywell for violation of the Sherman Act, breach of contract, tortious interference, and related claims. Defendants contend that Honeywell abruptly repudiated the TLA and colluded with a competitor to squeeze them out of the market.

Now pending is Honeywell's motion to dismiss defendants' counterclaims under Federal Rule of Civil Procedure 12(b)(6). For the reasons that follow, Honeywell's motion is granted in part and denied in part.

I. Background[1]

A. Factual Background

1. The Parties

Honeywell is a well-known manufacturer of home appliances and supplier of components for such appliances, including the refrigerants used in HVAC systems. Counterclaims ¶¶ 18–19; *see also* Compl. ¶ 10. Ecoer is a manufacturer of HVAC systems. Counterclaims ¶¶ 8, 15. InverterCool is one of its subsidiaries. *Id.* ¶¶ 9, 35.

2. The Start of the TLA

On August 13, 2021, Honeywell and Ecoer entered into the TLA, which was later transferred to InverterCool with Honeywell's consent. *Id.* ¶¶ 35–36. On October 5, 2021, the parties executed a new TLA, with InverterCool as the licensee and Ecoer as the guarantor. *Id.* ¶ 36; *see also* Compl., Ex. 2 ("TLA"). Under the TLA, Honeywell granted defendants a license to use the Honeywell trademark in connection with certain HVAC products (known as "heat pump HVAC systems") in the United States, Canada, and Mexico. Counterclaims ¶¶ 2–3.

The TLA required defendants to make royalty payments to Honeywell based on the sales of licensed products. *Id.* ¶¶ 3–4. It also imposed obligations on defendants, including to provide a $160,000 letter of credit by December 31, 2021, TLA § 3.5, and to deliver a guaranty signed by Ecoer, *id.* § 3.12. Counterclaims ¶¶ 65–66. Defendants acknowledge that they failed to provide

[1] The facts which form the basis of this decision are taken from the parties' pleadings and the contracts and agreements incorporated by reference into or integral to defendants' counterclaim. In particular, the Court draws on the Complaint and attached exhibits, Dkt. 1 ("Compl."); defendants' answer, Dkt. 17 at 1–14 ("Answer"); and defendants' counterclaims, Dkt. 30 at 15–39 ("Counterclaims"). In resolving the motion to dismiss defendants' counterclaim, the Court considers all well-pleaded facts in the counterclaim to be true and draws all reasonable inferences in defendants' favor. *See, e.g.*, *Koch v. Christie's Int'l PLC*, 699 F.3d 141, 145 (2d Cir. 2012). For exhibits and briefs with both internal and Bates-stamped numbering, the Court cites the Bates-stamped page numbers.

the letter of credit or deliver the guaranty, *id.* ¶¶ 66, 68, 71, but claim to have substantially performed their other obligations under the TLA for more than a year, despite delays caused by Honeywell, *id.* ¶¶ 5, 40–42, 54.

3. The End of the TLA

On August 20, 2022, Lori Murphy, Honeywell's global licensing manager, called Hua Zhang, defendants' chief operating officer, and told her that Honeywell was canceling the TLA due to "broken communications in their internal approval process" for such contracts. *Id.* ¶ 57. Murphy purportedly indicated that Honeywell would compensate defendants for the termination and requested information on defendants' losses. *Id.* ¶¶ 57–59. Defendants allege that they immediately ceased production of additional HVAC units and compiled information on their damages as requested. *Id.* ¶¶ 58–60.

On September 1, 2022, Honeywell sent defendants a notice purporting to terminate their right to sell licensed products in the United States under Section 4.10 of the TLA and alleging that defendants were in breach for failing to provide the letter of credit and signed guaranty. *Id.* ¶¶ 63–65. Defendants contend that this notice was pretextual and in bad faith. *Id.* ¶ 62. On October 5, 2022, Honeywell sent a notice purporting to terminate the entire TLA based on defendants' alleged failure to cure the breaches. *Id.* ¶ 70. As a result of the termination, defendants were unable to fulfill existing orders for the Honeywell-branded HVAC unit. *See id.* ¶¶ 115–16.

Defendants allege that Honeywell's termination of the TLA was actually the result of an unlawful agreement with Trane, one of defendants' competitors in the HVAC market. *Id.* ¶¶ 84–88. They claim that they "learned through Honeywell's attorney, Rudy Telscher, that Honeywell repudiated the TLA at the behest of Trane." *Id.* ¶ 86. Defendants allege that "further investigation" then revealed that "Honeywell and Trane had entered into an agreement to partner

on testing" a new environmentally friendly air-conditioning refrigerant—testing that was ongoing when news of defendants' "Honeywell-branded heat pump system became public in the summer of 2022." *Id.* ¶ 87. Defendants attribute Trane's conduct to the fact that defendants planned to sell the Honeywell-branded HVAC system for approximately 25% less per unit than Trane's comparable model. *Id.* ¶ 104; *see also id.* ¶ 85 (alleging InverterCool's competitors "were concerned with its higher-than-expected projected sales numbers" for the heat pump and thus "pressured Honeywell to terminate the TLA").

Defendants further allege that Honeywell interfered with their business relationships by spreading false information about the termination to InverterCool's distributors to pressure those distributors to abandon InverterCool's products in favor of its competitors. *Id.* ¶ 73.

B. Procedural History

On September 27, 2023, defendants filed an initial complaint against Honeywell, which was assigned to this Court. 23 Civ. 8501, Dkt. 1.

On February 26, 2024, Honeywell filed the operative Complaint against defendants, Dkt. 1, which this Court accepted as related to defendants' earlier action. On February 28, 2024, defendants voluntarily dismissed the prior action, 23 Civ. 8501, Dkt. 24, opting to assert their claims as counterclaims here.

On March 26, 2024, defendants filed an Answer, which included the counterclaims referenced above. Dkt. 17. On May 2, 2024, Honeywell moved to dismiss defendants' counterclaims, Dkt. 24, and filed a memorandum of law in support, Dkt. 25 ("Pl. Br."). Also on May 2, 2024, the Court issued an amend-or-oppose order, requiring defendants to either amend their counterclaims or oppose Honeywell's motion by May 23, 2024, warning defendants that "[n]o further opportunities to amend will ordinarily be granted." Dkt. 27. On May 15, 2024, the

Court held an initial conference, and with all parties' consent, stayed discovery pending the resolution of Honeywell's motion to dismiss. Dkt. 29.

On May 23, 2024, defendants declined to amend their counterclaims, and instead opposed Honeywell's motion. Dkt. 31 ("Def. Br."). On June 6, 2024, Honeywell filed a reply brief. Dkt. 33 ("Pl. Reply Br.").

II. Legal Standard

To survive a motion to dismiss under Rule 12(b)(6), a complaint must plead "enough facts to state a claim to relief that is plausible on its face." *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 570 (2007). A claim is facially plausible "when the plaintiff pleads factual content that allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged." *Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009). A complaint is properly dismissed where "the allegations in a complaint, however true, could not raise a claim of entitlement to relief." *Twombly*, 550 U.S. at 558. When resolving a motion to dismiss, the Court must assume all well-pleaded facts to be true, "drawing all reasonable inferences in favor of the plaintiff." *Koch v. Christie's Int'l PLC*, 699 F.3d 141, 145 (2d Cir. 2012). That tenet, however, does not apply to legal conclusions. *See Iqbal*, 556 U.S. at 678. Pleadings that offer only "labels and conclusions" or "a formulaic recitation of the elements of a cause of action will not do." *Twombly*, 550 U.S. at 555. These principles equally apply to counterclaims. *See Oneida Indian Nation v. Phillips*, 981 F.3d 157, 165 (2d Cir. 2020).

III. Discussion[2]

A. Breach of Contract

Defendants' first counterclaim alleges Honeywell breached the TLA by repudiating it on August 20, 2022 and subsequently terminating it without justification. Counterclaims ¶¶ 89–95. Honeywell argues this claim fails because (1) defendants were in material breach of the TLA, (2) defendants have not adequately alleged an unequivocal repudiation, and (3) defendants elected to continue performance rather than terminate the contract. Pl. Br. at 5–8. These arguments are unpersuasive.

As to Honeywell's first argument, defendants acknowledge they did not provide the letter of credit or signed guaranty as required by the TLA. Counterclaims ¶¶ 66, 68, 71. But under New York law, the fact that a party has breached a contract does not necessarily bar its efforts to enforce that contract. That only occurs as a result of a *material* breach. *Nadeau v. Equity Residential Properties Mgmt. Corp.*, 251 F. Supp. 3d 637, 641 (S.D.N.Y. 2017). At this stage, the Court cannot conclude as a matter of law that defendants' breaches were material. As the Second Circuit has explained, "the question of the materiality of a breach 'is usually a question of fact and should be decided as a matter of law only where the inferences are certain.'" *Orlander v. Staples, Inc.*, 802 F.3d 289, 298 (2d Cir. 2015) (quoting *VFS Fin., Inc. v. Falcon Fifty LLC*, 17 F. Supp. 3d 372, 380 (S.D.N.Y. 2014)). Defendants allege they substantially

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[2] Before addressing the substance of defendants' counterclaims, the Court must determine which state's law applies to defendants' state law counterclaims. The parties have exclusively analyzed the state law counterclaims under New York law. Where "[t]he parties' briefs assume that New York substantive law governs the issues presented, . . . such implied consent is, of course, sufficient to establish the applicable choice of law." *Arch Ins. Co. v. Precision Stone, Inc.*, 584 F.3d 33, 39 (2d Cir. 2009) (quoting *Golden Pac. Bancorp v. FDIC*, 273 F.3d 509, 514 n.4 (2d Cir. 2001)). The Court thus "follow[s] [the parties'] lead" and applies New York law to defendants' state law counterclaims. *Am. Fuel Corp. v. Utah Energy Dev. Co.*, 122 F.3d 130, 134 (2d Cir. 1997).

performed under the TLA for more than a year and that Honeywell acquiesced to their performance without the letter of credit or guaranty. Counterclaims ¶¶ 5, 24. Drawing all reasonable inferences in defendants' favor, the Court cannot determine on the pleadings alone whether defendants' conceded breaches went "to the root of the agreement between the parties." *Frank Felix Assocs., Ltd. v. Austin Drugs, Inc.*, 111 F.3d 284, 289 (2d Cir. 1997).

As to Honeywell's second argument, defendants have adequately alleged an unequivocal repudiation. For a party to have repudiated a contract under New York law, it must have "indicated an unqualified and clear refusal to perform." *De Lorenzo v. Bac Agency, Inc.*, 681 N.Y.S.2d 846, 848 (1998). "Generally, the issue of repudiation or abandonment is an issue of fact." *DiFolco v. MSNBC Cable LLC*, 622 F.3d 104, 112 (2d Cir. 2010). Defendants allege that Lori Murphy, Honeywell's global licensing manager, called Hua Zhang, InverterCool's chief operating officer, on August 20, 2022, and told him that "Honeywell's upper management team" had "directed [her] to cancel the TLA," and that Honeywell would "compensate InverterCool for the termination." Counterclaims ¶ 57. To be sure, as Honeywell notes, defendants also allege that Murphy later hedged her bets; on August 30, 2022, for instance, she told defendants' staff that Honeywell "ha[d] not made a final decision" as to "how to move forward with the relationship." *Id.*, Ex. 5 at 2 (email). But Murphy's August 30 email has no bearing on the operative question here—whether her August 20 phone call included a "positive and unequivocal" statement expressing Honeywell's desire to terminate the contract, *DiFolco*, 622 F.3d at 112 (citation omitted), upon which defendants were entitled to rely, *see Equinox F&B, Inc. v. Roots Pressed Juices LLC*, No. 22 Civ. 681 (AS), 2024 WL 2240230, at *9–10 (S.D.N.Y. May 17, 2024). Whether the statement made by Murphy on August 20 was positive and unequivocal is a question of fact that cannot be resolved on a motion to dismiss.

Honeywell's third argument, relating to defendants' actions after Honeywell's alleged termination, similarly relies on a contested issue of fact. Under New York law, a party "confronted with an anticipatory repudiation" may either "treat the repudiation as an anticipatory breach and seek damages for breach of contract" or "continue to treat the contract as valid and await the designated time for performance before bringing suit." *Lucente v. Int'l Bus. Machines Corp.*, 310 F.3d 243, 258 (2d Cir. 2002); *see also, e.g.*, *Inter-Power of N.Y. Inc. v. Niagara Mohawk Power Corp.*, 686 N.Y.S.2d 911, 913–14 (3d Dep't 1999). What that party may not do is "at the same time treat the contract as broken and subsisting, for one course of action excludes the other." *Lucente*, 310 F.3d at 258 (cleaned up). Defendants allege that their post-repudiation actions—taken in the hopes that aspects of the TLA may be "salvageable"—were designed primarily to "mitigate their damages." Counterclaims ¶ 76. Indeed, defendants referred to their "shock[]" at "Honeywell's decision," *id.*, Ex. 3 at 2 (Aug. 22, 2022 email), promptly compiled a summary of their damages, *see id.*, Ex. 4 at 3 (Aug. 29, 2022 email), and requested "a written/official notice of termination," so that they could "start to put a stop on all [their] current activities" and "minimize . . . future losses," *id.* at 2. Evidence adduced in discovery will shed light on, and may well complicate, this picture. But the pleadings do not establish that defendants took "an action . . . that indicated to" Honeywell that they had affirmatively elected to "await the designated time for performance" in lieu of seeking damages for breach. *Lucente*, 310 F.3d at 258–59.

The Court thus denies Honeywell's motion to dismiss the contract-based counterclaims.[3]

[3] The Court declines at this time to resolve the parties' dispute over the availability of lost profits as damages for defendants' alleged breach of the TLA. This aspect of Honeywell's motion is "procedurally premature." *Okyere v. Palisades Collection, LLC*, 961 F. Supp. 2d 522, 536 (S.D.N.Y. 2013). "A motion to dismiss" under Rule 12(b)(6) "is addressed to a 'claim'—not to a form of damages." *Amusement Indus., Inc. v. Stern*, 693 F. Supp. 2d 301, 318 n.5 (S.D.N.Y.

B. Breach of the Implied Covenant of Good Faith and Fair Dealing

Defendants allege Honeywell breached the implied covenant of good faith and fair dealing by (1) repudiating the TLA in bad faith and (2) delaying the approval of defendants' HVAC system. Counterclaims ¶¶ 118–24. Under New York law, "a covenant of good faith and fair dealing is implied in all contracts." *State St. Bank & Tr. Co. v. Inversiones Errazuriz Limitada*, 374 F.3d 158, 169 (2d Cir. 2004) (citation omitted). "A claim for violation of the covenant survives a motion to dismiss only if it is based on allegations different from those underlying the breach of contract claim, and the relief sought is not intrinsically tied to the damages that flow from the breach of contract." *JN Contemp. Art LLC v. Phillips Auctioneers LLC*, 29 F.4th 118, 128 (2d Cir. 2022).

Both theories are impermissibly duplicative of defendants' breach of contract claim. The first relies on the same alleged conduct as the breach of contract claim—Honeywell's termination of the TLA. Counterclaims ¶¶ 119–22. Although the second theory differs insofar as it focuses on defendants' inability to utilize their "sell-off rights as contemplated by the TLA," *id.* ¶¶ 123–24, it too is duplicative insofar as it is "intrinsically tied to the damages that flow from the breach of contract," *JN Contemp. Art LLC*, 29 F.4th at 128. As defendants concede, the fact that Honeywell "exercise[d] the option to cut off [d]efendants' rights to sell in the U.S." caused

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2010). Lost profits are "a form of damages, not an independent cause of action." *Hunter v. Palisades Acquisition XVI, LLC*, No. 16 Civ. 8779 (ER), 2017 WL 5513636, at *9 (S.D.N.Y. Nov. 16, 2017); *see also Denton v. McKee*, 332 F. Supp. 2d 659, 667 (S.D.N.Y. 2004) (denying motion to dismiss as premature "to the extent it seeks to preclude certain categories of damages"). Although motions to dismiss may be directed at prayers for relief where particular damages are unavailable as a matter of law, *see Doe v. Indyke*, 457 F. Supp. 3d 278, 283–85 (S.D.N.Y. 2020), the availability of lost profits in this case may turn on a factual question—whether Honeywell acted in such bad faith towards defendants that it ought to be unable to enforce the TLA's limitation clause, *see Kalisch-Jarcho, Inc. v. City of New York*, 58 N.Y.2d 377, 385 (1983) (party may not enforce limitation clause if it engages in conduct "in contravention of acceptable notions of morality" that "smacks of intentional wrongdoing"). Resolution of this issue will have to await summary judgment or trial.

harm to defendants only insofar as they were unable to manufacture and sell such Honeywell-branded products post-termination. Def. Br. at 19. In other words, had Honeywell not terminated the TLA, defendants would not have had a need to utilize their sell-off rights nor to complain about the "substantial sums" expended in "manufacturing the product" prior to "repudiation." Counterclaims ¶ 122; *see also* Def. Br. at 19 (arguing that "[d]efendants would not even have begun the manufacturing process" had Honeywell disclosed its plan to terminate the TLA). Because these damages are intrinsically tied to defendants' purported damages for breach of contract, this theory must also be dismissed.[4]

The Court thus grants Honeywell's motion to dismiss the implied-covenant counterclaim.

C. Tortious Interference

Defendants allege Honeywell tortiously interfered with their contractual and business relationships by (1) terminating the TLA in bad faith and (2) falsely spreading rumors about defendants' conduct. Counterclaims ¶¶ 112–17.

Defendants' first theory of tortious interference is impermissibly duplicative of its contract claim. "As a general rule, tortious interference claims that are duplicative of contract claims are precluded." *Lavazza Premium Coffees Corp. v. Prime Line Distributors Inc.*, 575 F. Supp. 3d 445, 471 (S.D.N.Y. 2021) (citation omitted). Defendants allege that they were unable to fulfill "purchase orders in the amount of $3,043,000" due to "Honeywell's unjustified repudiation" of the TLA. Counterclaims ¶ 115. In other words, defendants "assert a tortious-interference claim against the same party that has allegedly breached its contract," and "base[]" that claim "on the same conduct as that which gave rise to the alleged contract breach." *Wiederman v. Spark Energy, Inc.*, No. 19 Civ. 4564 (PGG) (DF), 2020 WL 3965258, at *10

[4] In light of this holding, the Court has no occasion to consider Honeywell's other arguments in support of its motion to dismiss the implied-covenant counterclaim. *See* Pl. Br. at 10–11.

(S.D.N.Y. Mar. 9, 2020), *report and recommendation adopted*, 2020 WL 1862319 (S.D.N.Y. Apr. 14, 2020). That claim is necessarily duplicative of defendants' breach of contract claim and must be dismissed.

Defendants' second theory fails for its lack of specificity. The counterclaims vaguely allege that "Honeywell spread false information to the distributors of [d]efandants' products," and that defendants "have suffered reputational harm and lost goodwill" with "existing and potential distributors" as a result. Counterclaims ¶¶ 116–17. Wholly unstated is to *whom* Honeywell spread false information, *what* Honeywell said, and *what* effect that had, if any, on defendants' *actual* business. A claim for tortious interference with prospective business relations requires "business relations with a third party" and "interference with those business relations." *Nadel v. Play-By-Play Toys & Novelties, Inc.*, 208 F.3d 368, 382 (2d Cir. 2000). Defendants' failure to identify the *specific* business entities Honeywell supposedly influenced is fatal to their claim. *See Katz v. Travelers*, 241 F. Supp. 3d 397, 408 (E.D.N.Y. 2017) (collecting cases); *see also, e.g.*, *Cambridge Cap. LLC v. Ruby Has LLC*, 565 F. Supp. 3d 420, 474 (S.D.N.Y. 2021) (allegation that plaintiff had business relationship with "no fewer than six potential investors" insufficient to state claim); *In re Int. Rate Swaps Antitrust Litig.*, 351 F. Supp. 3d 698, 709–10 (S.D.N.Y. 2018) (allegation that plaintiff had "business relationship[s] with numerous buy-side customers" "too vague to survive" dismissal); *Envirosource, Inc. v. Horsehead Res. Dev. Co.*, No. 95 Civ. 5106 (TPG), 1997 WL 525403, at *2 (S.D.N.Y. Aug. 21, 1997) ("vague allegation" that defendant "interfered with 'at least 5 prospective customers'" "inadequate as a matter of law"). Similarly fatal is defendants' failure to specify *what* Honeywell allegedly told these entities. To constitute tortious interference, the conduct at issue "must amount to a crime or an independent tort." *Carvel Corp. v. Noonan*, 3 N.Y.3d 182, 190 (2004). Without clarity on

precisely how Honeywell interfered with defendants' business relationships, it is impossible to say whether Honeywell committed any independent tort (for instance, defamation). *See, e.g.*, *Friedman v. Coldwater Creek, Inc.*, 551 F. Supp. 2d 164, 171–72 (S.D.N.Y. 2008), *aff'd*, 321 F. App'x 58 (2d Cir. 2009) (allegation of "false statements" insufficient where plaintiff failed to plead statements were defamatory); *Berwick v. New World Network Int'l, Ltd.*, No. 06 Civ. 2641 JGK, 2007 WL 949767, at *14 (S.D.N.Y. Mar. 28, 2007) (same). The counterclaims' allegations on this point are the "[t]hreadbare recitals of the elements of a cause of action" that do not amount to plausible claim. *Iqbal*, 556 U.S. at 678. This theory must also be dismissed.

The Court grants Honeywell's motion to dismiss the tortious-interference counterclaim.

D. Violation of the Sherman Act

Defendants allege Honeywell violated Section 1 of the Sherman Act by forming an agreement with Trane to terminate the TLA and prevent defendants from competing in the HVAC market. Counterclaims ¶¶ 101–11.

1. Existence of an Agreement

Section 1 prohibits "[e]very contract, combination[,] . . . or conspiracy[] in restraint of trade or commerce among the several States." 15 U.S.C. § 1. "Fundamental then to any § 1 claim is the finding of an agreement, express or otherwise, between two or more persons." *Schwimmer v. Sony Corp. of Am.*, 677 F.2d 946, 952 (2d Cir. 1982). At the pleading stage, a plaintiff must allege "enough factual matter (taken as true) to suggest that an agreement was made." *Twombly*, 550 U.S. at 556. Defendants' allegations fall far short of this standard.

In the absence of "direct evidence" that Honeywell "entered into an agreement in violation of the antitrust laws," defendants attempt to rely on "circumstantial facts supporting the inference that a conspiracy existed." *Mayor & City Council of Baltimore v. Citigroup, Inc.*, 709 F.3d 129, 136 (2d Cir. 2013). But defendants' circumstantial evidence amounts to little more

than a "wholly conclusory statement of claim." *Twombly*, 550 U.S. at 561. Defendants rely primarily on the assertion that Trane was "concerned with [defendants'] higher-than-expected projected sales numbers" and thus decided to pressure Honeywell "into terminating the TLA." Counterclaims ¶ 85; *see also id.* ¶ 86 (alleging Honeywell "repudiated the TLA at the behest of Trane").

As an initial matter, this allegation is barebones. Unspecified is how Trane pressured Honeywell, when it did so, what it said to exert pressure, and what (if anything) it offered Honeywell in return. But even assuming *arguendo* that Trane complained to Honeywell at some relevant time about defendants' HVAC system, that does little to support defendants' case. As the Supreme Court has explained, "complaints about price-cutters are natural—and from the manufacturer's perspective, unavoidable—reactions by distributors to the activities of their rivals." *Monsanto Co. v. Spray-Rite Serv. Corp.*, 465 U.S. 752, 763 (1984). "While [defendants] may believe [Honeywell] conspired [with Trane], [Honeywell's] allegedly conspiratorial actions could equally have been prompted by lawful, independent goals which do not constitute a conspiracy"—for instance, the retention of a close business relationship with one customer or another, or the desire to maintain high margins in the HVAC market as a whole. *Twombly*, 550 U.S. at 566–67 (cleaned up). The mere receipt of complaints from defendants' competitors—other Honeywell customers—about defendants' heat pump system is well within "the normal course of business" for a supplier "and do[es] not indicate illegal concerted action." *Monsanto*, 465 U.S. at 763 (citation omitted); *see also Marion Diagnostic Ctr., LLC v. Becton Dickinson & Co.*, 29 F.4th 337, 349–51 (7th Cir. 2022) (plaintiff failed to plausibly plead "a conscious commitment to a common scheme" where defendants, two large distributors, "frequently communicate[d]" with one manufacturer to the exclusion of others, as such communications did

not "indicat[e] . . . collusion" but instead were "just as consistent with [d]istributors' rational, lawful self-interest in encouraging sales with a leading manufacturer"). This allegation does not "nudge[] [defendants'] claim[]"—that Trane and Honeywell formed an agreement, pursuant to which Honeywell would terminate the TLA, and presumably receive something in return from Trane—"across the line from conceivable to plausible." *Twombly*, 550 U.S. at 570.

Defendants' allegation that Honeywell and Trane had a separate agreement to test refrigerants, Counterclaims ¶ 87, does not salvage their claim. The existence of a lawful business relationship does not plausibly suggest a separate, unlawful agreement to restrain trade. *Cf. In re Elevator Antitrust Litig.*, 502 F.3d 47, 51–52 (2d Cir. 2007) (allegations of defendants' antitrust conspiracy in other markets does not suggest a conspiracy in market at issue). "A mere showing of close relations . . . between the alleged conspirators . . . will not sustain a plaintiff's burden [on a motion to dismiss] absent evidence which would permit the inference that these close ties led to an illegal agreement." *Litovich v. Bank of Am. Corp.*, 568 F. Supp. 3d 398, 434 (S.D.N.Y. 2021) (cleaned up). Here, defendants do not plead any facts supporting an agreement between Honeywell and Trane to restrain trade. The allegation that Honeywell and Trane had a lawful agreement to test refrigerants does nothing to make plausible defendants' claim that they had an unlawful agreement to restrain trade.

Defendants' antitrust claim thus fails for its failure to plausibly plead the existence of an agreement between Honeywell and Trane. *See Twombly*, 550 U.S. at 556.

2. Vertical vs. Horizontal Restraint

Even had defendants adequately alleged an agreement, they have not plausibly pled that Honeywell and Trane are horizontal competitors capable of forming a *per se* illegal agreement—the only theory pled in the counterclaims. Counterclaims ¶ 110. "Agreements within the scope of § 1 may be either 'horizontal,' *i.e.*, agreements between competitors at the same level of the

market structure, or vertical, *i.e.*, combinations of persons at different levels of the market structure, *e.g.*, manufacturers and distributors." *Anderson News LLC v. Am. Media, Inc.*, 680 F.3d 162, 182 (2d Cir. 2012) (cleaned up). Unlike horizontal agreements, which are *per se* illegal, vertical restraints "are to be judged according to the rule of reason." *Leegin Creative Leather Prods., Inc. v. PSKS, Inc.*, 551 U.S. 877, 907 (2007).

Honeywell and Trane operate at different levels of the market structure. Honeywell is "one of the largest manufacturers of refrigerants used in HVAC systems in the world," Counterclaims ¶ 18, whereas Trane is a "manufacturer of HVAC systems, including a high-end HVAC heat pump system," *id.* ¶ 86. In other words, Honeywell supplies components (refrigerants) used in the products that Trane manufactures (HVAC systems). That is a paradigmatic vertical relationship. *See Brown Shoe Co. v. United States*, 370 U.S. 294, 323 (1962) ("Economic arrangements between companies standing in a supplier-customer relationship are characterized as 'vertical.'"). As such, any agreement between them would be subject to rule-of-reason analysis, not *per se* condemnation.

Defendants' attempt to characterize Honeywell as a horizontal competitor by virtue of the TLA is unpersuasive. "An arrangement is said to be 'horizontal' when its participants are (1) either actual or potential rivals at the time the agreement is made; and (2) the agreement eliminates some avenue of rivalry among them." 11 Areeda & Hovenkamp, Antitrust Law ¶ 1901b (4th ed. 2020). To compete, two firms must "have the actual or potential ability to take significant business away from each other" based on "the reasonable interchangeability of their products." *Intergraph Corp. v. Intel Corp.*, 195 F.3d 1346, 1355 (Fed. Cir. 1999); *see also, e.g.*, *Hayden Pub. Co. v. Cox Broad. Corp.*, 730 F.2d 64, 71 (2d Cir. 1984). Honeywell's trademark (just like its refrigerant) is not interchangeable with defendants' heat pump. At most, defendants

have alleged a vertical agreement between a supplier, Honeywell, and its customer, Trane, "to exclude another [customer] from a given product"—the use of Honeywell's mark. *JLM Indus., Inc. v. Stolt-Nielsen SA*, 387 F.3d 163, 179 (2d Cir. 2004) (citation omitted). That may be unpleasant for defendants, but "the Sherman Act does not convert all harsh commercial actions into antitrust violations." *Intergraph*, 195 F.3d at 1354. Defendants' failure to plausibly plead that Honeywell and Trane are horizontal competitors offers an independent basis for dismissal of defendants' antitrust claim.[5]

The Court grants Honeywell's motion to dismiss defendants' antitrust counterclaim.

E. Declaratory Relief

Defendants finally move for declaratory judgments that (1) Honeywell's notice of breach and termination of the TLA were ineffective, (2) defendants are excused from curing any alleged

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[5] In their brief, defendants belatedly argue that Honeywell's alleged agreement with Trane constitutes an unreasonable restraint of trade under the rule of reason. Def. Br. at 16–18. That argument fails for two reasons. First, as Honeywell notes, defendants' counterclaims solely alleged a *per se* violation. Counterclaims ¶ 110 ("The agreement between Honeywell and Trane whereby Honeywell cancelled the TLA so that the Honeywell branded heat pump would not be offered for sale in the United States is a horizontal agreement and, therefore, is a per se violation of § 1 of the Sherman Act and [d]efendants have been damaged thereby."). "The law is clear that a party may not amend pleadings through a brief." *Pauwels v. Deloitte LLP*, 83 F.4th 171, 191 n.8 (2d Cir. 2023) (cleaned up). Defendants had an opportunity to amend their counterclaims in response to Honeywell's motion to dismiss, which raised this precise issue, Pl. Br. at 20 n.10, but opted to oppose Honeywell's motion instead. Defendants' rule-of-reason claim is thus waived. *See In re Ins. Brokerage Antitrust Litig.*, 618 F.3d 300, 317 (3d Cir. 2010). Second, such a claim would fail on the merits. At minimum, rule-of-reason analysis requires "an inquiry into market power and market structure designed to assess the combination's actual effect." *Geneva Pharms. Tech. Corp. v. Barr Lab'ys Inc.*, 386 F.3d 485, 496 (2d Cir. 2004). But defendants' counterclaims lack any allegation as to either Trane's or Honeywell's market power. At most, the counterclaims allege that "Trane, *together with Carrier and others*[,] controls at least 50 per cent of the market in the United States" for heat pumps. Counterclaims ¶ 102 (emphasis added). That does not allege how much of the market *Trane* controls relative to *its competitors*. And that alone dooms defendants' claim. *See, e.g.*, *In re Int. Rate Swaps Antitrust Litig.*, 261 F. Supp. 3d 430, 469 (S.D.N.Y. 2017) (rule-of-reason claim dismissed where plaintiff failed to "defin[e] [defendant's] product or geographic market, or, within that market, defin[e] its market share or market power").

breaches or making payments under the TLA, and (3) defendants' continued use of Honeywell's trademarks after termination was not willful infringement under the Lanham Act. Counterclaims ¶¶ 96–100.

Under the Declaratory Judgment Act, 28 U.S.C. § 2201(a), a court "may declare the rights and other legal relations of any interested party seeking such [a] declaration" in "a case of actual controversy." "Even where an actual controversy has been established, a court must still decide whether it will exercise its discretion to entertain a request for declaratory judgment." *Amusement Indus., Inc. v. Stern*, 693 F. Supp. 2d 301, 311 (S.D.N.Y. 2010); *see also Pub. Serv. Comm'n v. Wycoff Co.*, 344 U.S. 237, 241 (1952).

The Court declines to exercise jurisdiction over defendants' claims for declaratory relief for two reasons. First, these claims are duplicative of other claims at issue in this action. Courts have consistently dismissed declaratory judgment claims that raise the same legal issues as other claims in the case. *See EFG Bank AG, Cayman Branch v. AXA Equitable Life Ins. Co.*, 309 F. Supp. 3d 89, 100 (S.D.N.Y. 2018) (collecting cases). Here, the effectiveness of Honeywell's notices of breach and termination (defendants' first counterclaim), and the extent to which Honeywell's conduct excused defendants' obligations under the TLA (defendants' second counterclaim), are at the heart of Honeywell's breach of contract claim and defendants' breach of contract counterclaim. And whether defendants' continued use of Honeywell's trademarks after termination constituted willful infringement (defendants' third counterclaim) is at the heart of Honeywell's Lanham Act claim. Defendants' declaratory judgment claims thus "seek[] resolution of legal issues that will, of necessity, be resolved in the course of the litigation of the other causes of action." *Sofi Classic S.A. de C.V. v. Hurowitz*, 444 F. Supp. 2d 231, 249–50 (S.D.N.Y. 2006). These claims would not clarify the parties' legal relations in any way that will

not already be accomplished by resolving the substantive claims. Such claims are properly dismissed. *See Frontier Airlines, Inc. v. AMCK Aviation Holdings Ireland Ltd.*, 676 F. Supp. 3d 233, 254 (S.D.N.Y. 2023).

Second, defendants' claims improperly seek declarations about past conduct only. A declaratory judgment is meant "to clarify and settle disputed legal relationships and to relieve uncertainty, insecurity, and controversy." *Broadview Chem. Corp. v. Loctite Corp.*, 474 F.2d 1391, 1393 (2d Cir. 1973). But defendants "do[] not seek a prospective determination of [their] rights and responsibilities"—instead, they seek "a finding that [they are] not liable for damages alleged to have already accrued." *Nat'l Union Fire Ins. Co. v. Int'l Wire Grp., Inc.*, No. 02 Civ. 10338 (SAS), 2003 WL 21277114, at *5 (S.D.N.Y. June 2, 2003). Defendants' requests for declaratory judgments all relate to past events: Honeywell's previous notices and termination, defendants' past obligations under the TLA, and defendants' past use of Honeywell's trademarks. "There is no basis for declaratory relief where only past acts are involved." *John Wiley & Sons, Inc. v. Visuals Unlimited, Inc.*, No. 11 Civ. 5453 (CM), 2011 WL 5245192, at *4 (S.D.N.Y. Nov. 2, 2011) (citation omitted); *see also SEC v. Credit Bancorp, Ltd.*, 738 F. Supp. 2d 376, 388 (S.D.N.Y. 2010) (collecting cases). The issues raised by defendants do not present an ongoing controversy requiring prospective clarification. The retrospective focus of defendants' declaratory judgment claims provides an independent basis for these claims' dismissal.

The Court dismisses defendants' declaratory judgment counterclaims.

CONCLUSION

For the foregoing reasons, the Court grants in part and denies in part Honeywell's motion to dismiss defendants' counterclaims. The Court dismisses defendants' counterclaims for (1)

breach of the implied covenant of good faith and fair dealing, (2) tortious interference, (3) violation of the Sherman Act, and (4) declaratory relief. The Clerk of Court is respectfully directed to terminate all pending motions.

Per the Court's prior order, Dkt. 30, the parties are directed to file, by July 30, 2024, a joint case management plan in accordance with the Court's Individual Rules and Practices. The plan should contemplate the completion of fact discovery within four months.

SO ORDERED.

Paul A. Engelmayer
United States District Judge

Dated: July 23, 2024
New York, New York