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

PRESENT: BERNARD J. FRIED PART 60
Justice

TOY PLACE INT'L, INC.,

Plaintiff,

- v -

ORANGE COUNTY CHOPPERS,
ORANGE COUNTY LICENSING, LLC, and
ORANGE COUNTY MERCHANDISING, LLC,

Defendants.

INDEX NO. FBEM 600685-06

MOTION DATE

MOTION SEQ. NO. #001

MOTION CAL. NO.

The following papers, numbered 1 to ____ were read on this motion to/for ____

PAPERS NUMBERED

Notice of Motion/ Order to Show Cause — Affidavits — Exhibits ...

Answering Affidavits — Exhibits

Replying Affidavits

Cross-Motion: ☐ Yes ☐ No

Upon the foregoing papers, it is ordered that this motion

THIS MOTION IS DECIDED IN ACCORDANCE WITH THE

MEMORANDUM DECISION FILED HEREWITH.

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

Dated: 7/27/06

BERNARD J. FRIED J.S.C.

Check one: ☐ FINAL DISPOSITION ☒ NON-FINAL DISPOSITION

Check if appropriate: ☐ DO NOT POST ☐ REFERENCE

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK: IAS PART 60

----------X

TOY PLACE INT'L, INC.,

Plaintiff,

-against-

ORANGE COUNTY CHOPPERS,
ORANGE COUNTY LICENSING, LLC, and
ORANGE COUNTY MERCHANDISING, LLC,

Defendants.

----------X

Appearances:

For Plaintiff:
GREENER & BLANK, LLP
Robert L. Greener, Esq.
183 Madison Ave., Suite 806
New York, NY 10016

For Defendant:
TABNER, RYAN AND
KENIRY, LLP
William J. Keniry, Esq.
Benjamin F. Neidl, Esq.

18 Corporate Woods Blvd.
Albany, NY 12211

Fried, J.:

This is an action for breach of contract, promissory estoppel, fraud, and tortious interference brought by Toy Place Int'l, Inc. ("Toy Place"), a wholesale manufacturer of toys, against the Orange County Choppers companies ("OCC"), well-known designers and builders of custom-made motorcycles and the subjects of the television show "American Chopper." Defendants move to dismiss the complaint, pursuant to C.P.L.R. § 3211(a)(7), based on failure to state a cause of action.

In the complaint, plaintiffs allege the following: In and around 2004 and 2005, OCC retained J2 Licensing to obtain licensing "deals" with manufacturers interested in building

products using the OCC name. (Compl. ¶ 19.) Jim Bell, an agent of J2 Licensing, regularly represented clients like OCC and negotiated deals on their behalf for licensing contracts.

In 2004, Bell made it known to the toy industry that he had the right to license the use of OCC's name and motorcycle designs. It appeared to Toy Place that J2 Licensing and Bell had the actual authority to represent OCC and its subsidiaries for licensing opportunities.

Around December 19, 2004, Neal Kublan, President of Toy Place, approached OCC, seeking to license the rights to OCC's name and motorcycle designs for use in Toy Place's "Steel Tek" line of toys. "Lucy," a person who worked in OCC's in-house licensing department, said that J2 Licensing was handling the OCC licensing rights. (Compl. ¶ 22.) She referred Kublan to J2 Licensing to discuss the possibility of obtaining the rights to OCC's name and designs.

Around December 20, 2004, Kublan called J2 Licensing and spoke to Bell about acquiring a license to OCC's name, trademarks, and motorcycle designs for use in an OCC-Steel Tek line of toys. During the next two weeks, Bernard Barton, Chief Financial Officer of Toy Place, and Bell negotiated the terms of a deal: Under the deal, Toy Place was to pay OCC an advance royalty payment of $30,000 based upon future royalties. Toy Place would also pay OCC a royalty payment of 15%, based upon overall sales. In exchange for the payments, OCC granted Toy Place a license and would provide motorcycle designs to be used to produce an OCC toy motorcycle line under Toy Place's Steel Tek brand name (the "OCC-Steel Tek line"). (Compl. ¶ 26.) Bell stated that he would present the deal to Paul Teutul, a "managing member" of the OCC companies.

On January 6, 2005, Toy Place and OCC memorialized the above terms in a "deal memo." Teutul signed off on the deal on behalf of OCC.

As a result of the representations by Teutul and Bell regarding the agreement, Toy Place notified its sales representatives that it was going to sell the OCC-Steel Tek line. Toy Place did the following: (a) it asked its representatives to notify retail toy buyers of the OCC-Steel Tek line, (b) it created marketing material for the retail toy buyers, © it made preparations to show the OCC-Steel Tek line at Toy Fair, the annual toy buyers trade show, and (d) it requested prototypes of the OCC-Steel Tek line from its factories in China.

Pursuant to the "deal memo," Toy Place requested from OCC the motorcycle designs during "many" calls to Bell and OCC made between January 7, 2005 and February 20, 2005. (Compl. ¶ 30.) Toy Place did not receive any motorcycle designs from OCC. Instead of using actual OCC motorcycle designs at Toy Fair, Toy Place showed mock up prototype motorcycle designs. Bell, who attended Toy Fair, saw Toy Place's mock up prototypes and the accompanying marketing material. Bell raised no objections to Toy Place's display. At the same Toy Fair, Bell told Toy Place that the "deal memo" was signed on January 6, 2005.

Even though Toy Place was unable to provide motorcycle designs of the OCC-Steel Tek line at Toy Fair, several companies expressed interest in ordering the OCC-Steel Tek line.

On or about February 28, 2005, OCC terminated its relationship with Bell and took control over all licensing. OCC assigned Whitney McGuire to manage its in-house licensing program. Kublan and Barton spoke to McGuire about the need for motorcycle designs.

Despite its lack of designs after Toy Fair, Toy Place accepted orders from retailers for the OCC-Steel Tek line. In or around March 2005, Toys R Us placed an order for $220,000 worth of the OCC-Steel Tek Line. Toys R Us required Toy Place to order and maintain an additional $200,000 worth of OCC-Steel Tek inventory so that Toys R Us could place additional orders, if necessary. In addition, E Toys placed an order for $25,000 worth of the OCC-Steel Tek line. Delivery of the OCC-Steel Tek line for both retailers was planned to be in or about July 2005, which was in time for the Christmas selling season. Toy Place did not have motorcycle designs from OCC in late March, when these orders were placed.

On March 29, 2005, Kublan and Barton met with McGuire to discuss the delay in receiving the motorcycle designs. At the March 29, 2005 meeting, OCC expressed its feeling that the OCC-Steel Tek line prototypes were "not satisfactory." (Compl. ¶ 37.) In addition, McGuire told Kublan and Barton that OCC did not want to "upset" another of OCC's licensees by providing motorcycle designs to Toy Place. OCC stated that it was waiting for an "ok" from the licensee before moving forward with the submission of motorcycle designs for the OCC-Steel Tek line. (Id.) Toy Place had not been informed of those objections prior to the March 29, 2005 meeting. OCC did not formally request that Toy Place stop representing or selling the OCC-Steel Tek line. Moreover, OCC did not give notice that it was canceling the January 6, 2005 agreement.

Over the months following March 2005, Toy Place continued to market the OCC-Steel Tek line. In numerous conversations with OCC, Kublan and Barton were told that OCC had to resolve objections from another licensee before moving forward with the

motorcycle designs.

By July 2005, "it became apparent" that OCC was not going to submit motorcycle designs. (Compl. ¶ 43.) Kublan was fearful of defaulting on its purchase orders, because "[f]ailure to deliver purchased goods to retail stores and chains is a major business mistake." (Id.)

Consequently, on August 9, 2005, Toy Place entered into an agreement to produce toy motorcycles under the Steel Tek brand using the "American Chopper" design (the "American Chopper-Steel Tek line"). American Chopper is the name of the television show during which Teutul builds OCC motorcycles. Discovery Channel has the rights to the motorcycles built on American Chopper, rights which are separate from those held by OCC.

The American Chopper brand is not nearly as popular as OCC. (Compl. ¶ 45.) OCC is a very popular brand with "distinct market value" and retailers are more apt to purchase products from manufacturers that bear the OCC brand name. (Compl. ¶¶ 15-16.)

Toy Place delivered the American Chopper-Steel Tek line to Toys R Us by September 2005. The delivery was almost two months late, which "greatly upset" the buyer in charge of the product because it affected merchandising plans for the holiday season. (Compl. ¶ 46.) Toys R Us was also upset at Toy Place's failure to deliver an OCC-branded toy motorcycle; the American Chopper-Steel Tek line was not as marketable as the OCC-Steel Tek line.

The American Chopper-Steel Tek line did not have strong demand, and thus, Toys R Us had to reduce the American Chopper-Steel Tek line's price. As a result, Toys R Us

"demanded" a discount from Toy Place and withheld money from its other sales of Toy Place merchandise to offset the discount demanded. (Compl. ¶ 48.) As of the date of Toy Place's complaint, Toys R Us has withheld $220,000. (Compl. ¶ 49.) Toy Place also continues to hold $200,000 of unsold inventory that Toys R Us did not reorder. (Compl. ¶ 50.)

Toy Place brought this action asserting five causes of action. First, Toy Place claims that OCC breached its contract when it violated the terms of the "deal memo" by not providing motorcycle designs. Second, Toy Place asserts that promissory estoppel binds OCC to its promise to provide motorcycle designs stemming from the "deal memo." Third, Toy Place claims that OCC acted fraudulently when it entered into the "deal memo" without intention of providing motorcycle designs to Toy Place. Fourth, Toy Place claims that OCC tortiously interfered with its business reputation. Finally, Toy Place claims that OCC tortiously interfered with its prospective business relations by withholding its motorcycle design approvals, even though OCC knew of Toy Place's relationships with various customers in the toy industry.

When deciding a motion to dismiss pursuant to CPLR 3211(a)(7), the facts as alleged in the complaint must be accepted as true. A court must accord the plaintiff "the benefit of every possible favorable inference and determine only whether the facts as alleged fit within any cognizable legal theory." (Sokoloff v. Harriman Estates Dev. Corp., 96 N.Y.2d 409, 414 [2001]; Leon v. Martinez, 84 N.Y.2d 83, 87-88 [1994]). "The motion must be denied, if from the pleadings' four corners, 'factual allegations are discerned which taken together manifest any cause of action cognizable at law.'" (Richbell Info. Servs, Inc. v. Jupiter Partners, L.P., 309 A.D.2d 288, 289 [1st Dep't 2003] [quoting 511 W. 232nd Owners Corp.

v. Jennifer Realty Co., 98 N.Y.2d 144, 152 [2002)]]). To survive a motion to dismiss, a party need not produce evidence to support its contentions in a complaint. (P.T. Bank Central Asia v. ABN Amro Bank N.V., 301 A.D.2d 373, 377 [1st Dep't 2003]).

First Cause of Action: Breach of Contract

Toy Place alleges that OCC breached its contract in the January 6, 2005 "deal memo" by failing to provide motorcycle designs to Toy Place. OCC argues that there can be no valid cause of action for breach of contract because Toy Place did not properly allege offer and acceptance, material terms, or performance of the contract.

To state a valid cause of action for breach of contract, plaintiff must allege the terms and existence of a contract between the parties, performance by plaintiff, breach by defendant, and damages incurred by plaintiff. (Kraft v Sheridan, 134 A.D.2d 217, 218 [1st Dep't 1987]; Pernet v. Peabody Engineering Corp., 20 A.D.2d 781, 781 [1st Dep't 1964]). With regard to the terms of the contract, the pleader should "plead its legal effect, as he [or she] understands it and purposes to maintain it." (U.S. Printing & Lithograph Co. v. Powers, 183 A.D. 513, 514 [1st Dep't 1918]; see Promenade v. Schindler Elevator Corp., 1 A.D.3d 240, 241 [1st Dep't 2003]). "Whether a plaintiff can ultimately establish its allegations is not part of the calculus in determining a motion to dismiss." (EBC I, Inc. v. Goldman Sachs & Co., 5 N.Y.3d 11, 19 [2005]).

Here, the Complaint alleges all the elements of a breach of contract action: (1) the existence of a contract in the form of the "deal memo" entered into by both parties; (2) performance by Toy Place by preparing to sell the "OCC-Steel Tek" at Toy Fair and creating

prototypes of the product; (3) breach by OCC by failing to provide designs for the product; and (4) damage to Toy Place in the form of monetary and other loss.

OCC asserts that there was no breach of contract because Toy Place did not sufficiently allege that the agreement, if it exists at all, was enforceable. However, Toy Place alleged facts sufficient to establish, on a motion to dismiss, the enforceability of the agreement. The complaint alleges the amount of royalties to be paid by Toy Place, including a portion to be paid upfront. Also, the complaint alleges OCC had an obligation to grant licensing rights to Toy Place and to provide motorcycle designs to Toy Place for use in production of the OCC-Steel Tek line.

Moreover, the allegation of the proposed "deal memo" itself constitutes a valid offer. The allegation that Teutul signed the "deal memo"— which was communicated to Toy Place through OCC's alleged representative, Jim Bell—constitutes a valid acceptance.

Defendants argue that Toy Place did not produce a copy of the "Deal Memo." Plaintiff's failure to produce the disputed "deal memo" bears no relevance to this motion to dismiss. The question at issue, however, is whether Toy Place has made "factual allegations...which taken together manifest [a] cause of action cognizable at law." (Richbell Info., 309 A.D.2d at 289).

Since Toy Place sufficiently sets forth the elements of a breach of contract, OCC's motion to dismiss the cause of action alleging breach of contract, is denied.

Second Cause of Action: Promissory Estoppel

Toy Place alleges that it was injured by relying on OCC's promises, allegedly set forth in the January 6, 2005 "deal memo." OCC responds that there is not a valid cause of action for promissory estoppel because the alleged promises were unclear and ambiguous as a matter of law.

To establish a viable cause of action sounding in promissory estoppel, a plaintiff must allege (1) a clear and unambiguous promise, (2) reasonable and foreseeable reliance by the party to whom the promise is made, and (3) an injury sustained in reliance on the promise. (Urban Holding Corp. v. Haberman, 162 A.D.2d 230, 231 [1st Dep't 1990]).

For the purposes of this motion, it is evident that the "deal memo" constitutes a clear and unambiguous promise by OCC to license to Toy Place the rights to produce an OCC-Steel Tek line of products and to deliver motorcycle designs for those products. The complaint alleges that the terms of this promise were negotiated with Bell, who, at the time, was an agent of OCC. It alleges further that Teutel signed off on this promise. Such allegations are sufficient to withstand a motion to dismiss.

With respect to reasonable and foreseeable reliance, "a plaintiff...need only plead that he relied on misrepresentations made by the defendant...since the reasonableness of his reliance [generally] implicates factual issues whose resolution would be inappropriate at this early stage." (Knight Secs., L.P. v. Fiduciary Trust Co., 5 A.D.3d 172, 173 [2004]). Here, the complaint alleges that Toy Place relied, not only on OCC's representations that Toy Place would be granted a license, but also on Bell's representation that the deal memo had been

signed by Teutel. Indeed, Toy Place solicited orders for an OCC-Steel Tek line of toys based on representations in the alleged "deal memo."

Furthermore, Toy Place alleged injuries, including $200,000 of unsold inventory and $220,000 withheld by Toys R Us.

The complaint sufficiently alleges the elements of promissory estoppel. OCC's motion to dismiss as to this cause of action is denied.

Third Cause of Action: Fraud

Toy Place claims that OCC acted fraudulently because it "knowingly allowed the Plaintiff to market and sell the line of OCC Choppers. However, Because [sic] of objections made by third party licensee to OCC about the Steel Tek line, OCC never had any intention of providing Chopper designs to Plaintiff." (Compl. ¶ 63.) OCC argues that there is no valid cause of action for fraud because Toy Place merely alleges that OCC entered into an agreement without intent to perform it. OCC also contends that Toy Place's reliance was not reasonable when it accepted purchase orders for the Steel-Tek line after OCC declined its request for product designs. OCC further asserts that the entire complaint with regard to fraud was not pleaded with the sufficient particularity required by C.P.L.R. § 3016(b).

To state a valid cause of action for fraud, a plaintiff must show an intentional "[mis]representation of a material existing fact, falsity, scienter, deception, and injury." (Friedman v. Anderson, 23 A.D.3d 163, 166 [1st Dep't 2005] [citations omitted]). When pleading fraud, "the circumstances constituting the wrong shall be stated in detail." C.P.L.R. § 3016(b). However, § 3016(b) "requires only that the misconduct complained of be set forth in sufficient detail to clearly inform a defendant with respect to the incidents complained of and is not to be interpreted so strictly as to prevent an otherwise valid cause of action in situations where it may be impossible to state in detail the circumstance constituting a fraud." (Lanzi v. Brooks, 43 N.Y.2d 778, 780 [1977] [quotations omitted]; Houbigant, Inc. v. Deloitte & Touche LLP, 303 A.D.2d 92, 97-98 [1st Dep't 2003]).

"A cause of action for fraud does not arise when the only fraud charged relates to a breach of contract." (Tesoro Petroleum Corp. v. Holborn Oil Co., 108 A.D.2d 607, 607 [1st

Dep't 1985]; see also DePinto v. Ashley Scott, Inc., 222 A.D.2d 288, 288 [1st Dep't 1995] [sustaining dismissal of a fraud claim because plaintiff merely alleged that defendant did not intend to meet its contractual obligation]). Failure to fulfill promises to perform acts in the future is a breach of contract, not fraud; the mere allegation that a contracting party did not intend to meet its promise under a contract is not recognized as a misrepresentation of a material fact. (Bronx Store Equip. Co. v. Westbury Brooklyn Assocs., L.P., 280 A.D.2d 352, 352 [1st Dep't 2001]; Comtomark v. Satellite Communications Network, 116 A.D.2d 499, 500-501 [1st Dep't 1986]).

Here, Toy Place simply duplicates its contract claim. The fraud alleged is based on the same facts as those that underlie the contract claim. The facts alleged are not collateral to the contract. (See J.E. Morgan Knitting Mills v. Reeves Bros., Inc., 243 A.D.2d 422, 422-423 [1st Dep't 1997]). "No damages are alleged that would not be recoverable under a contract measure of damage." (Id. at 423). Thus, Toy Place does not properly allege a misrepresentation of material fact.

Furthermore, Toy Place fails to allege that OCC intended to deceive. It may well be that OCC did not intend to fulfill the alleged promise. However, any objection by an OCC third party licensee is merely evidence that OCC did not intend to fulfill its promise; the third party objection does not relate to any intent to deceive Toy Place.

Since Toy Place fails to sufficiently allege a misrepresentation of material fact and deception, Toy Place fails to state a cause of action for fraud, this cause of action is dismissed.

Fourth Cause of Action: Tortious Interference with Business Reputation

In its fourth cause of action, Toy Place claims that OCC should be held liable for tortiously interfering with Toy Place's business reputation.

This does not appear to be a viable cause of action: Plaintiff failed to reveal any authority for this cause of action. Thus, the fourth cause of action is dismissed.

Fifth Cause of Action:: Tortious Interference with Prospective Business Relations

Finally, Toy Place alleges that OCC tortiously interfered with Toy Place's prospective business relations by intentionally withholding its designs even though OCC was aware that withholding those designs would cause substantial interference with Toy Place's prospective customers. OCC replies that Toy Place has not stated a cause of action for tortious interference with prospective business relations because: (a) Toy Place did not allege a valid, binding contract between itself and a third party, (b) Toy Place did not allege an "interference" by OCC, (c) Toy Place did not breach any contract with a third party as a result of OCC's "interference," and (d) OCC's refusal to deliver designs was based on a valid business interest.

Where a suit is based on interference with prospective business relations, "the plaintiff must show that defendant's conduct was not 'lawful' but 'more culpable.' The implication is that, as a general rule, the defendant's conduct must amount to a crime or an independent tort." (Carvel Corp. v. Noonan, 3 N.Y.3d 182, 189 [2004]). Tortious interference with prospective business relations "requires a demonstration that the individual defendant 'intentionally and through wrongful acts prevented a third party from extending a contractual relationship to the plaintiff.'" (Joan Hansen & Co. v. Everlast World's Boxing

Headquarters Corp., 296 A.D.2d 103, 111 [1st Dep't 2002] [quoting Freedman v. Pearlman, 271 A.D.2d 301, 305 [1st Dep't 2000]]; see G.K.A. Beverage Corp. v. Honickman, 55 F.3d 762, 768 [2d Cir. 1995] [dismissing tortious interference claim because alleged conduct was neither dishonest, unfair, or improper nor directed at plaintiff's customers]). Wrongful acts include physical violence, fraud or lawsuits. (Am. Para Prof'l Sys. v. Hooper Holmes, Inc., 13 A.D.3d 167, 169 [1st Dep't 2004]). Conduct constituting tortious interference with business relations is, by definition, conduct directed not at the plaintiff itself, but at the party with which the plaintiff has or seeks to have a relationship. (Carvel Corp., 3 N.Y.3d 182 at 192).

Here, Toy Place fails to allege that OCC intentionally directed wrongful conduct toward a third party. Toy Place merely alleges that OCC "was aware of Toy Place's relationship with its various customers;" Toy Place does not sufficiently allege any "more culpable" conduct by OCC against Toy Place such as violence, fraud or lawsuits. (Carvel Corp., 3 N.Y.3d at 189; see also Am. Para Prof'l Sys., 13 A.D.3d at 169). As such, Toy Place's allegation, that OCC's alleged breach of contract caused injury to Toy Place's business relations, does not justify an exception to the rule that breach of contract, by itself, does not give rise to a tort action. (Ivan Mogull Music Corp. v. Madison-59th Street Corp., 162 A.D.2d 336, 337 [1st Dep't 1990]). "Such an exception has been recognized where a defendant engages in conduct 'for the sole purpose of inflicting intentional harm on plaintiffs.'" (Carvel Corp., 3 N.Y.3d 182 at 190 [quoting NBT Bancorp v. Fleet/Norstar Fin. Group, 215 A.D.2d 990 [3d Dep't 1995]]).

Since Toy Place fails to allege a valid cause of action for tortious interference with prospective business relations, OCC's motion to dismiss this cause of action is granted.

Accordingly, it is

ORDERED that the motion to dismiss is denied as to causes of action 1 and 2, and the motion is granted as to the remaining causes of action, Nos. 3, 4, and 5; and it is further

ORDERED that the parties are to appear in Part 60 for a preliminary conference on September 6, 2006 at 3:00.

Dated: 7/25/06

ENTER:

J.S.C.

BERNARD J. FRIED
J.S.C.