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

PRESENT: HON. RICHARD [illegible] PART 56

Index Number : 603906/2006
SPATARO, MAURIZIO
vs
CONCEPT TWO ACCESSORIES
Sequence Number : 001
SUMMARY JUDGMENT

INDEX NO. _____
MOTION DATE 8/20/07
MOTION SEQ. NO. _____
MOTION CAL. NO. _____

[illegible] papers, numbered 1 to _____ were read on this motion to/for _____

	PAPERS NUMBERED
Notice of Motion/ Order to Show Cause — Affidavits — Exhibits ...	
Answering Affidavits — Exhibits	
Replying Affidavits	

Cross-Motion: ☑ Yes ☐ No

Upon the foregoing papers, it is ordered that this motion

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

[illegible] DISPOSED IN ACCORDANCE WITH [illegible]

FILED
OCT 31 2007
COUNTY CLERK'S OFFICE
NEW YORK

Dated: 10/23/07

HON. [illegible] J.S.C.

Check one: ☐ FINAL DISPOSITION ☒ NON-FINAL DISPOSITION

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK: AS PART 56

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MAURIZIO SPATARO,

Plaintiff

- against-

CONCEPT TWO ACCESSORIES, LLC,
CONCEPT ONE ACCESSORIES,
SAM HAFIF and
THE HELEN WELSH GROUP

Defendants

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Index No: 603906/2006

DECISION

RICHARD B. LOWE III, J:

In the instant action, Plaintiff Maurizio Spataro ("Spataro") brings a cause of action for the breach of a trademark license agreement against Defendants Concept Two Accessories, LLC ("Concept Two"), Concept One Accessories ("Concept One"), Sam Hafif ("Hafif") and the Helen Welsh Group ("HWG") (Collectively, "the Defendants"). In the instant motion, the Plaintiff seeks partial summary judgment and rescission of the Trademark License Agreement. The Defendants oppose Plaintiff's motion for summary judgment and also seek to dismiss the breach of contract claim against Concept One, Hafif and HWG. The Defendants also move to dismiss Plaintiff's claim for fraudulent inducement.

BACKGROUND

Spataro is the owner of the trademark "Maurizio Spataro" (hereafter, "the Spataro trademark"). Concept Two is a domestic limited liability company organized under the laws of New York. Concept One is a licensing firm that engaged in the manufacturing and design of various accessories. Hafif is President and CEO of Concept Two and

Concept One respectively. HWG is a women's accessories showroom and product development studio catering to Specialty and Department stores.

On June 1, 2006 Spataro and Defendant Concept Two entered into a trademark license agreement in which the exclusive use of the Spataro trademark was granted to Concept Two until December 31, 2009 *(Ex. A, ¶ 1 (a) and 2)*. The license was given to Concept Two for the purpose of manufacturing and distributing licensed women's bags, accessories and other products throughout the world to vendors and merchants *(Id)*.

Spataro alleges a breach of the Trademark License agreement. In particular, he alleges he is owed payment of advance royalties in the amount of $50,000.00 which he claims became due January 2, 2007 pursuant to paragraph (3)(c) of the Trademark License agreement.[1] As well, he alleges he is entitled to payment in the amount of $10,946.75 for product samples he delivered to Defendants for the purposes of sale and distribution of products bearing the Spataro trademark *(See, Dushaj Aff., ¶ 4)*. Plaintiff claims that these facts are not in dispute and he moves for partial summary judgment on these claims. He also seeks termination of the contract on the ground of material breach.

Plaintiff also claims fraudulent inducement into the contract. He argues that on June 1, 2006 Concept Two entered into a written agreement to sub-license and/or transfer the Spataro trademark to Defendant HWG without prior written consent of the Plaintiff thereby breaching paragraph (12) the Trademark License agreement.[2] In particular,

[1] Paragraph 3 (c) of the Trademark License agreement provides in part: "Upon execution of this Agreement, Licensee shall pay to Licensor an advance in the amount of $50,000, and on January 2, 2007, Licensee shall pay to Licensor another advance in the amount of $50,000..."*(Notice of Cross-Motion, Exhibit A)*.

[2] Paragraph 12 of the Trademark License agreement provides in part: "Licensee shall have the right to sublicense any or all of the rights under this Agreement... to any third party deems satisfactory by Licensee, provided that Licensee shall insure that each sublicense's activities comply the applicable terms

Plaintiff claims that Concept Two intentionally induced him to enter into the Trademark License agreement, knowing that control of the trademark would be improperly diverted to HWG.

Lastly, Spataro also argues false representations and/or an intentional concealing of material information as to the terms of the Trademark License agreement *(Ex. B, ¶ 37).* In particular, Spataro argues that Concept Two and Hafif on or about May 8, 2006 accepted Spataro's negotiations regarding the specific territory of sales as not worldwide, However the two defendants caused the omission and/or deletion from the agreement with respect to this term in bad faith with intent to defraud. Further, Spataro argues defendants never intended to make second advance payment of $50,000 *(Id, ¶ 38-39).* Based on that Plaintiff also alleges fraudulent inducement into the Trademark License agreement.

Defendants oppose the motion arguing they were fraudulently induced by Spataro into entering into the Trademark License agreement. In particular, they claim that on or about April 7, 2006, at Hafif's offices, Plaintiff and his former wife, Alisa Spataro a/k/a Alisa Grimaldi, represented to Hafif and Helen Welsh, inter alia, that Plaintiff had a 5,000 piece order from Neiman Marcus and a $1.5 million order from a Canadian retailer. Defendant argues that Plaintiff did not have these orders and intentionally deceived Hafif to enter into the license agreement *(Hafif affidavit, ¶ 4).* Hafif also argues that he was not aware of the falsity of the representations and would not have entered into the Trademark License agreement but for the misrepresentation *(Hafif affidavit, ¶ 4-5).*

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of this Agreement. Licensee shall further have the right to transfer of assign all of a portion of its rights under this Agreement to any purchaser of its business... Licensee may not transfer or assign its rights hereunder, without prior written consent of Licensee." *(Notice of Cross-Motion, Exhibit A).*

Based on these facts, defendants cross-move to dismiss based on fraudulent inducement into the contract.

Defendants also move to dismiss Plaintiff's claim of fraudulent inducement to the contract. They allege that it is impossible to proceed on both a contract claim and a fraudulent inducement claim. Defendants argue that at the summary judgment stage Plaintiff should make an election whether to proceed on the breach of contract claim or on the fraudulent inducement claim.

Defendants also move to dismiss the breach of contract action as to Hafif and Concept One. Defendants allege that those parties are non-signatories to the trademark license agreement and therefore are not in privity of contract with Spataro and can not be liable under the contract.

DISCUSSION

1. *Plaintiff's motion for a partial summary judgment.*

"Any party may move for summary judgment in any action, after issue has been joined." *(CPLR 3212 (a))*. On a motion for summary judgment, upon proofs submitted by the parties, the court determines whether a triable issue of fact exists. Summary judgment is granted "only if no genuine, triable issue of fact is presented." (*See, Ugarriza v Schmieder,* 46 NY2d 471, 474 [1979]). "It is the movant who has the burden to establish his entitlement to summary judgment as a matter of law" (*Ferrante v American Lung Ass'n,* 90 NY2d 623, 631 [1997]).

A party can oppose the motion by showing that a triable issue exists. "Summary judgment may not be granted whenever ... there is doubt as to the existence of a triable issue or when the issue is arguable" (*Falk v Goodman,* 7 NY2d 87, 91 [1959]).

Generally, when deciding a motion for summary judgment the court only determines existence of issues, it does not determine the merits of such issues. "Issue-finding, rather than issue-determination, is the key to the procedure" (*Esteve v Abad,* 271 AD 725, 727 [1st Dept 1947]).

Plaintiff moves for partial summary judgment arguing there is no factual issue as to Defendant's breach of the contract through non-payment of advanced royalties and product samples. Defendants do not dispute non-payment. However, they oppose arguing they were fraudulently induced into the contract and they argue that under the terms of the agreement they are not liable for the payment of product samples.

Defendants argue that such payments for product samples are precluded by paragraph 4(a) of the Trademark License agreement. Under the agreement the Plaintiff, not Defendant, is responsible for expenses related to the product samples. Plaintiff opposes and refers to the "practice between parties" as grounds for payment for such samples despite the contract terms saying otherwise.

The language of the Trademark License agreement in paragraph 4(a) is unambiguous. It provides that

> Licensor shall provide at its cost such assistance and creative guarantee with respect to the design and creation of the Licensed Products as Licensee may reasonably request. Licensor shall design and supply to Licensee designs, art work and like materials with respect to four seasonal collections of Licensed Products per year...

While the express language of a written agreement generally controls, an exception exists where the parties' course of performance establishes a waiver or modification of the written terms of the agreement consistent with UCC 2-209. "Once a contract is formed, the parties may ... change their agreement by another agreement, by course of performance, or by conduct amounting to a waiver or estoppel." (*CT Chems., Inc. v Vinmar Impex, Inc.,* 81 NY2d 174, 179 [1993]). However, "mere conclusory statements of law, which are unsupported by allegations of fact, may not be utilized to supply material facts by inference" (*De Marco v County of Nassau,* 18 AD2d 999 [2nd Dept 1963]). Plaintiff does not come forward with any evidence of such alleged prior practice between the parties. The Plaintiff's affidavit is devoid of any facts supporting the alleged prior practice. Therefore, Plaintiff fails to meet his burden. For this reason summary judgment as to the payment for the product samples is denied.

Moreover, fraudulent inducement, claimed by the Defendants, constitutes a "complete defense" to a breach of contract claim (*New York Yellow Pages, Inc. v Growth Personnel Agency, Inc.,* 98 Misc.2d 541, 543 [1979]). In *Manufacturers & Traders Trust Co. v. Schiferle* (134 AD2d 892, 893 [4th Dept 1987]) the Court ruled that fraud in the inducement is a factual issue that is "sufficient to preclude summary judgment."

"To plead a cause of action for fraud, a party must allege the elements of representation of a material existing fact, falsity, scienter, justifiable reliance and damages" (*Bramex Associates, Inc. v CBI Agencies, Ltd,* 149 AD2d 383, 384 [1st Dept 1989]). In addition, pursuant to CPLR § 3016 (b) Defendants must plead specific facts that indicate fraudulent inducement into a contract (*Id).* (*See also, Callas v Eisenberg,* (192 AD2d 349 [1st Dept 1993]).

A court will decide whether specificity requirements were met based on the circumstances of each case. However, case law suggests some indication as to when the particularity requirement is met. The moving party should specify persons who misrepresented facts and also plead factual details as to the time and place where the misrepresentation took place (*New York Fruit Auction Corp. v New York,* 81 AD 2d 159, 161 [1st Dept 1981]). Requirements of particularity are also met when the moving party specifies in what manner any statements were fraudulent, how they relied upon them, or how injury was related to them (*Ressis v Herman,* 122 AD2d 516, 517 [3rd Dept 1986]).

Defendants have demonstrated with required particularity that a triable issue exists as to whether there was a fraudulent inducement into the Trademark License Agreement. Defendants , through the Hafif affidavit, sufficiently specified the persons who made a misrepresentation to them, and the time and place of such misrepresentations. In particular they claim that misrepresentation occurred at Hafif's office on or about April 7, 2006. Also they alleged who made the misrepresentation; Plaintiff and his former wife Alisa Spataro a/k/a Alisa Grimaldi. Defendants also plead as to the manner by which the statements were fraudulent and how the Defendants relied upon them. In particular, Defendants alleges that Plaintiff and his former wife represented to them that he had a 5,000 piece order from Neiman Marcus and a $1.5 million order from a Canadian retailer. Defendant argues that Plaintiff did not have these orders and intentionally deceived Hafif to enter into the agreement *(Hafif affidavit, ¶ 4).* Defendant alleged that were harmed by such false representation when it turned out that the value of the Spataro Trademark is less then it was represented to be. Defendants also argue they were not aware of the falsity of the representations and would not enter into

the Trademark License agreement but for the misrepresentation *(Hafif affidavit, ¶ 4-5)*. Thus, the defendants meet the requirement of specificity when pleading fraudulent inducement.

The contract claims cannot be dismissed however because Spataro has submitted an affidavit arguing that at no time were such representations made (*Spataro Aff. ¶ 5)*. Spataro also alleges that Hafif never mentioned the purported misrepresentations during telephone conversations held immediately prior the commencement of this action (*Id at ¶ 4)*. He alleges he possesses recorded conversations which evidence this fact (*Id at ¶ 3)*.

There is an issue of fact as to whether the Defendants' were fraudulently induced into entering in to the contracts. Therefore, the Plaintiff's motion for partial summary judgment is denied and the defendants' motion to dismiss the contract claims is denied..

2. *Defendants' cross-motion to dismiss the contract claim as to Concept One, HWG and Hafif.*

Defendants cross-move to dismiss the cause of action for breach of contract as to those defendants who are non-signatories to the Trademark License agreement. Plaintiff concedes that the cause of action should be dismissed as to HWG *(Dushaj Aff., ¶ 6)*. However, he still seeks to bring the cause of action against Hafif, Concept One and Concept Two.

The Trademark License agreement is signed by Hafif as a Director of Concept Two. A party may not assert a claim to recover damages for breach of contract against a party with whom it is not in privity (*Perma Pave Contracting Corp. v Paerdegat Boat & Racquet Club, Inc.,* 156 AD2d 550, 551 [2nd Dept 1989]). In the matter at bar no privity

of contract exists between Plaintiff and Concept One because Concept One is not a signatory to the contract.

A non-party to a contract can be liable for the breach of contract when it is an alter ego of a signatory to a contract. However, mere allegations based on an "alter ego" theory are not sufficient. In *Brainstorms Internet Mktg. v USA Networks, Inc.*, (6 AD3d 318, 319 [1st Dept 2004]) the court ruled that

> Plaintiffs' conclusory allegations that [Defendant] was the alter ego of the nonsignatory defendants were insufficient to sustain the action as against the nonsignatories, particularly since they were unaccompanied by allegations supporting the inference that [Defendant] was utilized by the nonsignatories for fraud, malfeasance or other inequity.

Similarly in this case, Plaintiff claims that some relationship might exist between Concept One and Concept Two. However, he offers no supporting allegations that Concept Two was used as an "alter ego" of Concept One for fraud or other inappropriate purpose.

Finally, Hafif as a Director and CEO can not be personally liable for the obligations of Concept Two. New York law is clear that "an agent will not be personally bound unless there is clear and explicit evidence of the agent's intention to substitute or superadd his personal liability for, or to, that of his principal" (*Mencher v Weiss,* 306 NY 1, 4 [1953]; *Salzman Sign Co. v Beck,* 10 NY2d 63, 67 [1961]). There is no such evidence in the present case. Hafif signed the Trademark License agreement as CEO for Concept Two, and not individually.

For all these reasons Defendants motion to dismiss the claim for breach of contract as to Defendants Concept One, HWG and Hafif individually is granted.

3. *Defendant's cross-motion to dismiss the Plaintiff's claims for fraudulent inducement.*

Defendants argue that the cross-motion to dismiss the cause of action for fraudulent inducement should be granted because Plaintiff chose to proceed on a breach of contract claim in the instant motion for summary judgment.

A plaintiff may seek recovery on alternative theories. However, "he must make an election of remedies at trial or upon submission of a motion for summary judgment" (*Unisys Corp. v Hercules, Inc.*, 224 AD2d 365, 367 [1st Dept 1996]; *See also, H.B.L.R., Inc. v Command Broadcast Assoc., Inc.*, 156 AD 2d 151, 152 [1st Dept 1989]). Plaintiff's motion for summary judgment is a "procedural equivalent of a trial" (*Falk v Goodman*, 7 NY2d 87, 91 [1959]).

Plaintiff, in his complaint asks the court to find either a breach of contract or, alternatively to find, that the parties did not enter into a legally binging Trademark License agreement because of the Defendants' fraudulent inducement (*Ex. B, ¶ 45)*. However, at this stage, the summary judgment stage, plaintiff must elect the cause of action on which to seek recovery.

In this motion for summary judgment, Plaintiff has chosen to proceed on a breach of contract claim. Thus, he elected to enforce the contract, not to claim that the contract never existed. Therefore, the claim for fraudulent inducement into a contract should be dismissed.

Moreover, mere intention not to honor a contract is not sufficient to claim fraudulent inducement (*Caniglia v Chicago Tribune-New York News Syndicate*, 204 AD2d 233, 234 [1st Dept 1994]).

In this case, Plaintiff claims that Defendants never intended to pay a second advance royalty payment of $50,000.00 and intended to breach the Trademark License agreement by entering into the contract with HWG. In both claims plaintiff seeks recovery for the breach of the existing Trademark License agreement. However, in New York "a contract action may not be converted into one for fraud by the mere additional allegation that the contracting party did not intend to meet his contractual obligation" (*Comtomark v Satellite Communications Network,* 116 AD 2d 499, 499 [1st Dept 1986]). Plaintiff's claim for fraudulent inducement is not supported by adequate facts.

For all the above reasons Defendant's motion to dismiss the cause of action for fraudulent inducement should be granted.

4. *Plaintiff's motion for the termination of the Trademark License agreement*

In his motion for partial summary judgment Plaintiff also makes an application to terminate the Trademark License Agreement based upon a material breach by the Defendant Concept Two. Plaintiff claims that Defendants materially breached the Trademark License agreement when they did not make an advance royalty payment of $50,000, nor pay for the product samples. Plaintiff also claims that Defendants materially breached the Trademark License agreement when on June 1, 2006 Concept Two entered into a written agreement to sub-license and/or transfer the Spataro trademark to Defendant HWG without the prior written consent of the Plaintiff.

As a general rule, rescission of a contract is permitted when the breach of a contract is so significant that it substantially defeats its purpose (*Lenel Sys. Intl., Inc. v Smith,* 34 AD 3d 1284, 1285 [4th Dept 2006]). However, the issue of termination of a

contract can only be determined on a motion for summary judgment when there are no questions of fact as to the breach of contract (*Id*).

As to non-payment of advanced royalties and non-payment for the product samples, this court has already found that the Defendants have sufficiently plead they were fraudulently induced into the present Trademark License Agreement and that they are not obligated to pay for the product samples.

Additionally, as to the alleged transfer of Plaintiff's trademark to HWG without consent of the Plaintiff, Spataro claims that the Defendants "*either granted a sub-license and/or outright transfer* of the Spataro Trademark to Defendant HWG" *(Complaint, ¶ 23),* (emphasis added). Although Defendants do not raise this argument, there is a difference between sub-license and transfer made in the Trademark License agreement.

The Trademark License agreement in paragraph (12) provides in part:

> Licensee *shall have the right to sublicense* any or all of the rights under this Agreement... to any third party deems satisfactory by Licensee, provided that Licensee shall insure that each sublicense's activities comply the applicable terms of this Agreement. Licensee shall *further have the right to transfer or assign* all of a portion of its rights under this Agreement to any purchaser of its business... Licensor *may not transfer or assign* its rights hereunder, *without prior written consent* of Licensee. *(Notice of Cross-motion, Exhibit A)*. (Emphasis added).

Therefore, it is clear that only transfer or assignment of rights requires prior written consent of the Licensee, while sublicensing can be made without prior written consent of the Licensee. Plaintiff in his complaint fails to specify whether the Defendants sub-license or transfer the Trademark in issue to the HWG.

For these reasons there are issues of fact that prevent recession of the Trademark License agreement at that time. The motion of the Plaintiff should be denied at this time.

CONCLUSION

Therefore, based of foregoing, it is hereby

ORDERED that Plaintiff's motion for partial summary judgment and termination of the Trademark License agreement is denied; and further

ORDERED that Defendants' cross-motion to dismiss the cause of action for fraudulent inducement and to dismiss the contract claims as to HWG, Concept One and Sam Hafif is granted, and otherwise denied.

This shall constitute the order and decision of the Court.

Dated: October 23, 2007

ENTER:

J.S.C.