SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK: PART 45

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JAKKS PACIFIC, INC.,

Plaintiff,

-against-

WICKED COOL TOYS, LLC and, JEREMY PADAWER,

Defendants.

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DECISION AND ORDER

Index No. 159812/2015

Mot. Seq. 001

HON. ANIL C. SINGH, J.:

Plaintiff JAKKS Pacific, Inc. ("JAKKS") moves pursuant to CPLR 3212 for summary judgment on defendants WICKED COOL TOYS, LLC.'s ("WCT") and Jeremy Padawer's three counterclaims. Defendants WCT and Padawer oppose.

JAKKS and WCT are competitors in the toy industry. Defendants' three counterclaims arise from alleged actions of plaintiff JAKKS after WCT was awarded the exclusive global license to manufacture and market Cabbage Patch Kids ("CPK") dolls for Original Appalachian Artworks, Inc. ("OAA"), the CPK license holder.

CPK is a globally recognized brand and for the preceding ten years, JAKKS had operated as the exclusive CPK licensee. Then in May 2014, the CPK license was awarded by OAA to WCT, whose co-president Jeremy Padawer, previously

served as a JAKKS executive. After WCT was awarded the license, JAKKS allegedly began to sell its remaining CPK inventory to retailers in large quantities and at lower than usual prices in a practice that WCT brands "flooding and dumping." Further, WCT alleges that JAKKS did not adequately market and support the CPK brand during the holiday season before JAKKS's license expired, initiated the current litigation solely to harm WCT, and intentionally harmed WCT's relationship with retailers.

WCT's first counterclaim of tortious interference with prospective economic advantage alleges that JAKKS intentionally interfered with the existing business relationship and agreement between WCT and OAA for the CPK license. Further, WCT alleges that JAKKS acted solely out of malice and used improper means to interfere.

WCT's second counterclaim of unfair competition alleges that JAKKS, while still holding the CPK license, misappropriated, in bad faith, WCT's right to financially benefit from CPK dolls under their exclusive license with OAA.

Finally, WCT's third counterclaim states that the above described alleged JAKKS conduct of "dumping and flooding" and intentionally inflicting harm upon WCT sounds in prima facie tort.

In response, plaintiff JAKKS has moved for summary judgment on all three counterclaims. In seeking summary judgment on the counterclaim of tortious

interference with prospective economic advantage, plaintiff argues that there can be no showing of tortious interference with prospective economic advantage when a binding agreement has already been entered into by the counterclaimant and that there has not been an adequate showing of wrongful or solely malicious conduct on the part of the counterclaim defendant.

Jack McGrath, the Chief Operating Officer of JAKKS submits an affidavit in support of summary judgment. McGrath states that the reduction of advertising expenditure saved money and was in the Company's "best self-interest." (McGrath add. at ¶ 14). Similarly, selling the goods at discount "eliminated inventory problems and maximized revenue during the period of its exclusive license." (Id. at ¶ 15).

Analysis

The standard for summary judgment is well settled. "The proponent of a summary judgment motion must make a prima facie showing of entitlement to judgment as a matter of law, tendering sufficient evidence to eliminate any material issues of fact in the case." Winegrad v. New York Univ. Med. Ctr., 64 N.Y.2d 851, 853 (1985). Despite sufficiency of the opposing papers, the failure to make such a showing requires denial of the motion. Id. Summary judgment is a drastic remedy and should only be granted if the moving part has sufficiently

established that it is warranted as matter of law. See Alvarez v. Prospect Hosp., 68 N.Y.2d 320, 324 (1986).

Moreover, summary judgment motions should be denied if the opposing party presents admissible evidence establishing that there is a genuine issue of fact remaining. Zuckerman v. City of New York, 49 N.Y.2d 557, 560 (1980). "In determining whether summary judgment is appropriate, the motion court should draw all inferences in favor of the non-moving party and should not pass on the issues of credibility." Garcia v. J.C. Duggan, Inc., 180 A.D.2d 579, 580 (1st Dept 1992) (citing Assaf v. Ropog Cab Corp., 153 A.D.2d 520, 521 (1st Dept 1989)). The court's role is "issue finding, rather than issue determination." Sillman v. Twentieth Century Fox- Film Corp., 3 N.Y.2d 395, 404 (1957) (internal quotations omitted).

First Counterclaim

Defendants have asserted a tortious interference with prospective economic advantage counterclaim, alleging that plaintiff tortuously interfered with their prospective relationships with OAA and downstream retailers.

Existing binding economic relationship

"Tortious interference with prospective economic relations requires an allegation that plaintiff would have entered into an economic relationship but for the defendant's wrongful conduct." Vigoda v. DCA Prods. Plus Inc., 293 A.D.2d

265, 266 (1st Dept 2002). Accordingly, a claim for interference with prospective economic advantage requires the alleged harmed relationship to still be prospective. In NBT Bancorp Inc. v. Fleet/Norstar Financial Group, Inc., 87 N.Y.2d 614, 621 (1996), the court clearly delineated between claims for tortious interference with contract and tortious interference with prospective economic relations, stating that claims arising from existing contracts and those arising from mere prospective rights sound in two different torts. For defendants' counterclaim of tortious interference with prospective economic relationship with OAA to stand, there must not be a binding agreement between the two parties.

Defendants argue that their contract with OAA is not final and that as a result, their claim correctly sounds in tortious interference with prospective economic advantage. Defendants cite Constantin Associates v. Kapetas, 17 Misc. 3d 1137(A), 851 N.Y.S.2d 68 (Sup. Ct. 2007). "In this case, a claim of tortious interference with contract would require allegations of: (1) the existence of a valid contract between defendants and a third-party..." Id (citing Lama Holding Co. v. Smith Barney, Inc., 88 N.Y.2d 413, 424 (1996)). Defendants thus argue that the agreement with OAA is not a valid contract. However, for the purposes of tortious interference, an agreement need not be final to be a fully binding valid contract. Rather, "the imposition of liability for intentional interference with performance of a contract to which the competitor is a party must depend on the worth and

significance of the objective interest to be protected." Guard-Life Corp. v. S. Parker Hardware Mfg. Corp., 50 N.Y.2d 183, 193 (1980).

Here, a binding economic relationship has been entered into between OAA and WCT. In defendants' answer and counterclaim, defendants state "WCT and OAA had a business relationship, whereby WCT was awarded an exclusive CPK license." (Counterclaim ¶ 66). Further, OAA itself published an article announcing that "it has entered into a strategic and worldwide licensing agreement" with WCT for CPK dolls and calling WCT a "partner" as well. (Affirmation in Reply, Exhibit A). There is an enforceable agreement between OAA and WCT. Whether every facet of the global licensing contract was finalized is immaterial. No matter how the defendants choose to characterize their relationship with OAA, the relationship is binding and precludes a claim for tortious interference with a prospective economic relationship. As defendants have admitted during oral argument, their agreement with OAA gives license to manufacture and market CPK dolls. Therefore, under the standard of Vigoda, there can be no valid tortious interference with economic advantage claim as JAKKS's conduct is not a but for cause of OAA and WCT not entering into an economic relationship. See Vigoda, 293 A.D.2d at 266.

As established in the binding cases of Vigoda and NBT Bancorp., as a matter of law, there can be no claim for tortious interference with prospective

economic advantage, or tortious interference with business relations, if relations have already progressed to the level of a binding contractual relationship.

Furthermore, defendants' contention that there is no binding contract between themselves and OAA necessarily dictates that their argument will run into a more stringent wall. "[W]here a suit is based on interference with a nonbinding relationship, 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 at 190. As shown below, defendants have not satisfied such requirement either.

Wrongful Conduct

Defendants argue that plaintiff tortiously interfered with their prospective economic relations with downstream retailers as well as with OAA. "[A] counterclaim for tortious interference with prospective economic relations... requires a showing that the interference was accomplished by wrongful means or with malicious intent." Arnon Ltd. (IOM) v. Beierwaltes, 125 A.D.3d 453, 453 (1st Dept 2015). Wrongful means have been held to include physical violence, threats, fraud or misrepresentation, breach of fiduciary duty, civil suits and criminal prosecutions, and some degrees of economic pressure. See Carvel Corp., 3 N.Y.3d at 191; See also Jurlique, Inc. v. Austral Biolab Pty., Ltd., 187 A.D.2d 637 at 639 (2nd Dept 1992).

JAKKS's minimal marketing strategy, "flooding and dumping," and communications with downstream retailers do not on their face fall within the established lists of wrongful conduct at law. In Carvel, there was held to be no wrongful conduct where the defendant's actions consisted of interfering with their franchisees' relationships with customers for at least some business reasons. See Carvel Corp., 3 N.Y.3d at 190. Wrongful conduct is not simply any interference that causes a claimant harm. In Carvel the Court understood such a danger and was reluctant to stretch the recognized category of wrongful conduct to include business decisions with at least some economic basis. Id at 191.

Plaintiff argues that its actions did not reach the level required of wrongful means by law. Defendants allege that plaintiff's "flooding and dumping" of their CPK inventory at low prices and failure to sufficiently market CPK during the busy holiday season fall within the established list of wrongful means. They do not and there is no genuine issue of material fact. While the aforementioned business practice may have been financially harmful for defendants, it does not rise to the level of wrongful as a matter of law, especially in light of the economic motivations for plaintiff's actions.

In the alternative, defendants argue that plaintiff's civil suit constitutes wrongful conduct for the purposes of tortious interference. However, a civil suit must be "frivolous" to constitute a wrongful means. Arnon Ltd., 125 A.D.3d at 453

(citing Paglaccio v. Holborn Corp., 289 A.D.2d 85, 85 (1st Dept 2001). There has been no showing that plaintiff's suit against defendants WCT and Padawer is frivolous and thus cannot constitute the wrongful conduct required for a prima facie showing of tortious interference with prospective economic relations.

The defendants' focus on the alleged wrongful means used by the plaintiff to undermine the defendant's established binding relationship with OAA is still not dispositive to the tortious interference counterclaim at hand. The defendant's tortious interference argument fails because there is an exclusive licensing agreement in place between WCT and OAA and as a matter of law there was no wrongful action taken by the plaintiff.

Solely malicious conduct

To make a showing of an action to be solely malicious, a claimant must demonstrate the actions in question to be truly solely motivated by malice without any motivation by economic self-interest. Out of the Box Promotions, LLC. v. Koschitzki, 55 A.D.3d 575, 577 (2nd Dept 2008). The court in Guard-Life Corp. adds that, while "status as a competitor does not protect the interferer from the consequences of his interference with an existing contract, it may excuse him from the consequences of interference with prospective contractual relationships, where the interference is intended at least in part to advance the competing interest of the

interferer." Guard-Life Corp. v. S. Parker Hardware Mfg. Corp., 50 N.Y.2d 183, 190-91 (1980).

JAKKS and WCT are competitors and were competitors at the time of JAKKS's allegedly malicious conduct. As Guard-Life established, if in a claim for tortious interference with prospective economic advantage, the alleged interferer is also a competitor of the claimant, and if the interferer has shown any non-malicious motivation for its actions, the tortious interference claim cannot stand on its fours.

Defendants have not raised an issue of fact to eliminate the possibility that JAKKS's actions in part were motivated by economic self-interest to reduce advertising costs and inventory as its licensing agreement with OAA was set to expire. Accordingly as a matter of law, JAKKS cannot be liable as its actions were not solely driven by malice.

Defendants' tortious interference with prospective economic advantage counterclaim must be dismissed.

Second Counterclaim

Plaintiff also seeks summary judgment on defendants' unfair competition counterclaim.

To sustain a claim of unfair competition, the defendants must show that the plaintiff "misappropriated the [defendants'] labors, skills, expenditures, or good

will and displayed some element of bad faith in doing so." Abe's Rooms, Inc. v. Space Hunters, Inc., 38 A.D.3d 690, 692 (2nd Dept 2007). JAKKS's practices of selling its inventory of CPK dolls cheaply and in mass and communicating with retailers about WCT does not constitute the misappropriation of WCT's labor, skill and money. JAKKS was the lawful license holder for the CPK line at the time of the alleged unfair competition. JAKKS was well within its rights to sell CPK products as it saw fit, subject to its license with OAA.

Additionally, an unfair competition claim must contain the requisite element of either "a confidential relation between the parties or a valid agreement to refrain from the alleged unfair competition" to establish bad faith misappropriation. V. Ponte & Sons, Inc. v. Am. Fibers Int'l. 222 A.D.2d 271, 271 (1st Dep't 1995).

Defendants have not sufficiently established the requisite confidential relationship between JAKKS and themselves nor the misappropriation of good will to sustain a counterclaim of unfair competition. No relationship of any kind was entered into between JAKKS and WCT. JAKKS had only ever entered into an agreement with OAA for the CPK license, to which WCT was at best a third party.

Defendants have not met their burden for the unfair competition counterclaim and summary judgment on defendants' unfair competition is granted.

Third Counterclaim

Finally, plaintiff seeks summary judgment on defendants' counterclaim of prima facie tort.

While defendants assert that a party may plead a traditional tort and prima facie tort in the alternative on the same facts, defendants have not met their burden for a showing of prima facie tort. Prima facie tort consists of four elements: "(1) intentional infliction of harm, (2) causing special damages, (3) without excuse or justification, (4) by an act or series of acts that would otherwise be lawful." Curiano v. Suozzi, 63 N.Y.2d 113, 117 (1984). Further, a prima facie tort claim fails when it has not been shown that the sole motivation of the action in question was disinterested malevolence or, as in the matter at hand, pure malice. See Id.

JAKKS's motivation at least in part for its practice of selling its large CPK inventory at low prices was business-related in its objective of reducing costs and maximizing revenue. Further, as illustrated regarding the solely malicious prong of the tortious interference counterclaim, WCT has not shown that JAKKS's actions were entirely motivated by malice. WCT therefore cannot meet their burden of showing that plaintiff JAKKS's actions were solely motivated by pure malice.

Moreover, a claim of prima facie tort requires well-pleaded special damages. Vigoda, 293 A.D.2d at 266. Where "[a]ll that plaintiffs have alleged is lost future income, conjectural in identity and speculative in amount... this is an insufficient

allegation of damages to support a cause of action for prima facie tort." Id. A prima facie tort claim requires specificity with regard to the special damages element.

Defendants have alleged special damages in the very way that the Vigoda Court has held to be insufficient. Defendants are seeking $20 million in special damages for lost future income because of JAKKS's conduct of "flooding and dumping" and contacting retailers. The deficiency lies in defendants' own attempt to quantify the minimum $20 million they seek with the required specificity in the face of plaintiff's motion for summary judgment. Defendants, in response, alleged a total loss of sales of $5.1 million. The discrepancy highlights the fact that the sum of special damages defendants have alleged is highly speculative.

Plaintiff's motion for summary judgment on defendants' prima facie tort counterclaim is granted.

Accordingly it is,

ORDERED that plaintiff's motion for summary judgment is granted and defendants' counterclaims are dismissed with prejudice.

Date: July 6, 2016
New York, New York

Anil ~~C. Singh~~