Smart Trike, MNF, PTE, Ltd. v Smart Trike, LLC
2013 NY Slip Op 33240(U)
January 22, 2013
Sup Ct, NY County
Docket Number: 650376/2012
Judge: Shirley Werner Kornreich
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SUPREME COURT OF THE STATE OF NEW YORK — NEW YORK COUNTY

PRESENT: JUSTICE SHIRLEY WERNER KORNREICH
Justice

PART 54

Smart Trike

INDEX NO. 650376/12

MOTION DATE 1/11/13

- v -

MOTION SEQ. NO. 1

Smart Trike

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 ...	9, 33-46
Answering Affidavits — Exhibits	47-51
Replying Affidavits	

Cross-Motion: ☐ Yes ☒ No

Upon the foregoing papers, it is ordered that ~~this motion~~ the Decision & Order dated January 22, 2013 and issued on January 23, 2013 is hereby rescinded and the e-filing clerk is directed to delete the document (e-filed doc. no. 52) from the NYSCEF system. Motion Seq. no. 001 is decided in accordance with the attached Decision & Order.

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

Dated: 1/23/13

SHIRLEY WERNER KORNREICH J.S.C.

J.S.C.

Check one: ☐ FINAL DISPOSITION ☒ NON-FINAL DISPOSITION

Check if appropriate: ☐ DO NOT POST ☐ REFERENCE

☐ SUBMIT ORDER/ JUDG. ☐ SETTLE ORDER/ JUDG.

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK: PART 54
--X
SMART TRIKE, MNF, PTE, LTD.,

Index No.: 650376/2012

Plaintiff,

DECISION & ORDER

-against-

SMART TRIKE, LLC, ROBERT KRAMER and
JOSEPH JANOWSKI,

Defendants.
--X
SHIRLEY WERNER KORNREICH, J.:

Defendants Smart Trike, LLC (k/n/a Piermont Products LLC) (Piermont), Robert Kramer, and Joseph Janowski move for partial dismissal of the Amended Complaint (AC), pursuant to CPLR 3211(a)(1), (7), & (8), and for sanctions against plaintiff, Smart Trike, MNF, PTE, Ltd. (Smart Trike), pursuant to 22 NYCRR §130-1.1. For the reasons that follow, the motion is granted in part and denied in part.

I. Factual Background & Procedural History

As this decision involves a motion to dismiss, the facts recited are taken from the AC.

Smart Trike is a Singapore limited liability company that manufactures and distributes children's toys. AC ¶¶ 5, 9. Kramer and Janowski are the principal owners of Piermont, a New Jersey limited liability company. ¶¶ 6-8. In March 2009, Smart Trike entered into a written agreement with Piermont (the 2009 Agreement), whereby Piermont would be "the sole and exclusive representative of Smart Trike in the United States and Canada with regard to the products manufactured by Smart Trike." ¶ 14. In order to induce Smart Trike to enter into the

2009 Agreement, defendants purportedly made the following representations and promises: (1) "That Kramer would be actively engaged in the marketing of Smart Trike products"; (2) "That Kramer would be available, and had the available time, to devote to the business of being the exclusive representative of Smart Trike in the United States and Canada and that he would invest most of his time towards that end"; (3) "That Smart Trike would solicit other mass market retailers to grow the business, as the Toys "R" Us exclusive agreement was set to expire in December 2011"; and (4) "That Defendants would provide a forecast plan, monthly reporting and would assist in collection efforts from customers to ensure prompt payment for goods sold." ¶ 15.

On October 8, 2010, Smart Trike and Piermont amended the 2009 Agreement by entering into a Representation and Agency Agreement (the 2010 Agreement). ¶¶ 3, 14. Section 2B of the 2010 Agreement obligated Piermont to reach a "minimum annual turnover" of $9 million for the calendar year 2011. ¶ 16. Section 3 set forth Piermont's responsibilities as follows: (1) meeting with customers on a regular basis; (2) submitting and maintaining a forecast plan detailed by customer, product and price for each calendar year; (3) assisting in collection efforts from customers to whom goods were sold on behalf of Smart Trike; (4) maintaining serviceability, help-lines and spare parts for Smart Trike; (5) reporting progress with each major customer or group of customers on a monthly basis; and (6) establishing a mechanism for weekly reports to be provided to Smart Trike. ¶ 17. Section 4 memorializes the fact that Smart Trike "holds the exclusive right and title to the logo and Trademark 'Smart Trike'" and that Piermont was being granted "limited right and license to use the Trademark during the term of

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this Agreement and solely to the extent necessary for the sale, marketing and servicing of the Products and Territory." ¶ 17.

Smart Trike alleges that Piermont committed numerous breaches of the 2010 Agreement, including the failure to fulfill the duties set forth in Section 3. ¶ 19. Smart Trike also alleges that defendants failed to remit certain customer payments to Smart Trike. *Id.* As a result of these alleged actions, on November 9, 2011, Smart Trike served defendants with a Notice of Termination of the 2010 Agreement. ¶ 20.

Five days later, on November 14, 2011, Smart Trike commenced an action in the United States District Court for the Southern District of New York against defendants. On January 11, 2012, defendants filed a motion to dismiss the federal action. On January 30, 2012, Smart Trike filed a Notice of Voluntary Dismissal, discontinuing the federal action without prejudice, and filed the instant action on February 9, 2012. The original state complaint mimicked the federal action, except for a claim for enforcement of a personal guarantee that was not asserted. On April 9, 2012, defendants filed a motion dismiss the original complaint. After which, Smart Trike filed this April 17, 2012 AC. It sets forth eight causes of action: (1) breach of contract; (2) declaratory judgment regarding the termination of the 2010 Agreement; (3) fraud; (4) breach of fiduciary duty; (5) trademark infringement under the Lanham Act; (6) unfair competition and false designation of origin under the Lanham Act; (7) trademark infringement, unfair business practices, and unfair competition under New York General Business Law (GBL) § 349; and (8) conversion. Defendants move to dismiss the first cause of action against the individual defendants and the third to eighth causes of action against all of the defendants.

In a stipulation between the parties, So Ordered by this court on December 11, 2012, the parties agreed to re-file their briefs under motion sequence 001 to reflect the fact that Smart Trike had filed the AC, the only substantive change in which was the proper reference to and attachment of the 2010 Agreement instead of the 2009 Agreement. As such, the Court will only consider the parties' recent submissions: (1) e-filed document nos. 33-46, filed by defendants on December 14, 2012; and (2) e-filed document nos. 47-51, filed by Smart Trike on January 11, 2013.[1]

II. Motion to Dismiss

On a motion to dismiss, the court must accept as true the facts alleged in the complaint as well as all reasonable inferences that may be gleaned from those facts. *Amaro v Gani Realty* Corp., 60 NY3d 491 (2009); *Skillgames, L.L.C. v Brody*, 1 AD3d 247, 250 (1st Dept 2003) (citing *McGill v Parker*, 179 AD2d 98, 105 (1992)); *see also Cron v Harago Fabrics*, 91 NY2d 362, 366 (1998). The court is not permitted to assess the merits of the complaint or any of its factual allegations, but may only determine if, assuming the truth of the facts alleged, the complaint states the elements of a legally cognizable cause of action. *Skillgames*, *id.* (citing *Guggenheimer v Ginzburg*, 43 NY2d 268, 275 (1977)). Deficiencies in the complaint may be remedied by affidavits submitted by the plaintiff. *Amaro*, 60 NY3d at 491. "However, factual allegations that do not state a viable cause of action, that consist of bare legal conclusions, or that are inherently incredible or clearly contradicted by documentary evidence are not entitled to such

[1] The court notes that Smart Trike's brief was due on January 4, 2013, and was inexcusably filed a week late without leave of this court. This prevented defendants from timely filing reply papers, which were due on January 11, 2013. After a January 14, 2013 telephone conference with the court, defendants gave up their right to reply papers given the lengthy procedural history and concomitant delay and the expected arrival of principals of Smart Trike to the United States for depositions (the Court had instructed the parties not to conduct these depositions until the instant motion was decided).

consideration." *Skillgames*, 1 AD3d at 250 (citing *Caniglia v Chicago Tribune-New York News Syndicate*, 204 AD2d 233 (1st Dept 1994)). Further, where the defendant seeks to dismiss the complaint based upon documentary evidence, the motion will succeed if "the documentary evidence utterly refutes plaintiff's factual allegations, conclusively establishing a defense as a matter of law [citation omitted]." *Goshen v Mutual Life Ins. Co. of N.Y.*, 98 NY2d 314, 326 (2002); *Leon v Martinez*, 84 NY2d 83, 88 (1994).

A. Breach of Contract

At the outset, the Court notes that defendants do not move to dismiss Smart Trike's breach of contract claim against Piermont, but only against the individual defendants, Kramer and Janowski, on the ground that they are not parties to the 2010 Agreement. Confusingly, Smart Trike does not address defendants' arguments and instead focuses exclusively on issues relating to the 2009 Agreement that were mooted by the filing of the AC and this round of briefing. Regardless, as neither Kramer nor Janowski were parties to the 2010 Agreement, the breach of contract claims against them are dismissed.

B. Fraud

To properly plead a cause of action for fraud, the complaint must contain allegations of a representation of material fact, falsity, scienter, reliance, and injury. *Small v Lorillard Tobacco Co.*, 94 NY2d 43, 57 (1999). Moreover, pursuant to CPLR 3016(b), the circumstances constituting the fraud must be stated in detail. *Id.*

The alleged fraud concerns representations and promises made by defendants before the parties entered into the 2009 Agreement. Smart Trike cannot maintain that it was fraudulently induced to enter into the 2010 Agreement based on statements made in connection with a prior,

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separate contract.[2] That being said, Smart Trike cannot otherwise maintain a claim for fraud because the alleged fraudulent statements merely relate to defendants' prospective performance under a written contract. *See MP Innovations, Inc. v Atlantic Horizon Int'l., Inc.*, 72 AD3d 571, 573 (1st Dept 2010) (quoting *Gordon v Dino De Laurentis Corp.*, 141 AD2d 435, 436 (1st Dept 1988)) ("a fraud claim does not lie where it simply 'alleges that a defendant did not intend to perform a contract with a plaintiff when he made it.'"). The proper cause of action is for breach of contract, which was properly pled. Hence, Smart Trike's fraud claim is dismissed.

C. Breach of Fiduciary Duty

A fiduciary duty is a relationship of higher trust that arises out of an obligation to act for or give advice to another upon matters within the scope of the relation. *EBCI, Inc. v Goldman Sachs*, 5 NY3d 11, 31 (2005). It is a fact specific relationship, grounded in a higher level of trust than normally is present in the marketplace in an arms-length business transaction. *Id.*; *RNK Capital LLC v Natsource*, 76 AD3d 840 (1st Dept 2010).

Smart Trike argues that defendants owed it fiduciary duties because the 2010 Agreement was an exclusive marketing agreement whereby "[d]efendants were completely in charge of [Smart Trike's] marketing in the United States." *See* Plaint Mem., p. 13-14. Even assuming that a fiduciary relationship existed between the parties, Smart Trike's cause of action for breach of fiduciary duty is dismissed as improperly duplicative of its breach of contract claim because the 2010 Agreement, the detailed contract negotiated between two business entities, "cover[s] the precise subject matter of the alleged fiduciary duty." *Celle v Barclays Bank P.L.C.*, 48 AD3d 301, 302 (1st Dept 2008) (quoting *Pane v Citibank, N.A.*, 19 AD3d 278, 279 (1st Dept 2005)).

[2] The 2010 Agreement states that it "cancels any previous agreement made between the parties."

D. Claims Under The Lanham Act

Smart Trike asserts claims for trademark infringement, unfair competition, and false designation of origin under § 43(a) of the Lanham Act, 15 USC § 1125(a). "The Lanham Act prohibits the use in commerce, without consent, of any registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods, in a way that is likely to cause confusion . . . To prevail on a trademark infringement claim . . . a plaintiff must demonstrate that it has a valid mark entitled to protection and that the defendant's use of it is likely to cause confusion." *Time, Inc. v Petersen Pub. Co.*, 173 F3d 113, 117 (2d Cir 1999) (internal citations and quotations marks omitted). An allegation of trademark infringement must contain more than a mere conclusive assertion that a defendant's conduct violated the Lanham Act, but must allege specific facts that indicate how defendant infringed on plaintiff's trademark. *Dow Jones & Co. v. Int'l Securities Exchange, Inc.*, 451 F3d 295, 307 (2d Cir 2006); *see also Felix the Cat Productions, Inc. v California Clock Co.*, 2007 WL 1032267, at *4 (SDNY 2007) ("The mere assertion of trademark infringement, without any factual allegations of the nature of the infringement, simply does not give Defendants fair notice of the claims against them.").

"Where parties enter into an agreement governing their respective rights in a trademark, the contract itself defines their rights in the mark and determines the remedies available for an allegedly unauthorized use of the mark. When such a contract exists, a party may not sue for a violation of the trademark laws unless he can establish that the contract has been breached." *Society for Advancement of Educ., Inc. v Gannett Co.*, 1999 WL 33023, at *9 (SDNY 1999) (citing *Affiliated Hosp. Prods., Inc. v Merdel Game Mfg. Co.*, 513 F2d 1183, 1186 (2d Cir 1975)).

Smart Trike argues that it properly pled its Lanham Act claims because "Smart Trike has a mark and the Complaint alleges Defendants used it and caused confusion." *See* Plaint. Mem., p. 17. However, the AC contains no facts that indicate how defendants *unlawfully* used its trademark. Instead, as defendants correctly argue, the AC merely parrots the elements of the Lanham Act without providing any description of what defendants did that would give rise to such claims. Further, it fails to allege how defendants' actions breached the 2010 Agreement with respect to the alleged trademark violations. The only two alleged facts that are arguably relevant are: (1) that Piermont (which used to also be called "Smart Trike") improperly maintained the same company name of plaintiff after the 2010 Agreement was terminated; and (2) that Piermont continued to sell Smart Trike's products after the 2010 Agreement was terminated. Neither allegation, however, is in violation of the 2010 contract.

First, pursuant to Section 12A of the 2010 Agreement, within 30 days of termination of the contract, Piermont was required to change its name to something other than "Smart Trike." The 2010 Agreement was terminated on November 9, 2011. In a Certificate of Amendment filed with the New Jersey Division of Revenue dated November 23, 2011, Piermont changed its name from "Smart-Trike USA LLC" to "Piermont Products LLC." *See* Ex. 4 to the Affirmation of Charles L. Rosenzweig, Esq. dated December 14, 2012. Consequently, Piermont complied with Section 12A of the contract governing the licensing rights.

Second, Smart Trike's allegations regarding post-termination sales are not supported by law. "As a general rule, trademark law does not reach the sale of genuine goods bearing a true mark even though the sale is not authorized by the mark owner." *Polymer Technology Corp. v Mimran*, 975 F2d 58, 61 (2d Cir 1992). "[T]he unauthorized sale of a trademarked article does

not, without more, constitute a Lanham Act violation." *H.L. Hayden Co. of New York, Inc. v Siemens Medical Systems, Inc.*, 879 F2d 1005, 1023 (2d Cir 1989). To allege a valid Lanham Act claim, the plaintiff must "connect the infringing activity to the likelihood of consumer confusion." *TechnoMarine SA v Jacob Time, Inc.*, 2012 WL 5278539, at *8 (SDNY 2012).

Smart Trike does not specify how much post-termination sale of its products took place by defendants. Nor does the AC contain any facts regarding how any such sales would cause a likelihood of consumer confusion. The Lanham Act claims, therefore, are dismissed. Again, these issues properly lie in the breach of contract claim.

E. Common Law Trademark Infringement and Unfair Competition

The elements of a common law trademark infringement claim are the same as the elements of a claim under the Lanham Act. *See Brown v It's Entertainment, Inc.*, 34 F Supp2d 854, 858 (EDNY 1999) (citing *Standard & Poor's Corp. v Commodity Exchange, Inc.*, 688 F2d 704 (2d Cir 1982)). To state a claim for trademark-related unfair competition, a plaintiff must allege that the defendants violated the Lanham Act in bad faith. *Girl Scouts of U.S.A. v Bantam Doubleday Dell Pub. Group, Inc.*, 808 F Supp 1112, 1131 (SDNY 1992). As discussed *supra*, part II.D, Smart Trike failed to state a claim for trademark infringement under the Lanham Act. Ergo, its common law trademark infringement and unfair competition claims cannot withstand dismissal.

F. Claims under GBL § 349

"Section 349 (a) of the General Business Law encompasses deceptive acts or practices in the conduct of any business, trade or commerce or in the furnishing of any service in this State. Section 349 governs consumer-oriented conduct, and on its face, applies to virtually all

economic activity. Generally, claims under the statute are available to an individual consumer who falls victim to misrepresentations made by a seller of consumer goods through false or misleading advertising." *Small*, *supra*, 94 NY2d at 55 (internal citations omitted). In other words, to state a claim under GBL § 349, a plaintiff must allege that "(1) the challenged transaction was 'consumer-oriented'; (2) defendant engaged in deceptive or materially misleading acts or practices; and (3) plaintiff was injured by reason of defendant's deceptive or misleading conduct." *Denenberg v Rosen*, 71 AD3d 187, 194 (1st Dept 2010).

As discussed *supra*, part II.D, Smart Trike failed to allege any facts suggesting that defendants' actions deceived consumers. More to the point, GBL § 349 is a statute designed to protect consumers, not, as here, commercial litigants who are in dispute over an alleged breach of contract. *See N.Y. Univ. v Continental Ins. Co.*, 87 NY2d 308, 321 (1995). As a result, this cause of action is dismissed.

G. Conversion

To establish a cause of action for conversion, plaintiff must establish that "(1) plaintiff had legal ownership or an immediate superior right of possession to specific identifiable personal property, and (2) defendant exercised unauthorized dominion over the property to the exclusion of the plaintiff's rights." *Aetna Cas. & Sur. Co. v Glass*, 75 AD2d 786 (1st Dept 1980). "A cause of action for conversion cannot be predicated on a mere breach of contract." *Fesseha v TD Waterhouse Investor Servs., Inc.*, 305 AD2d 268, 269 (1st Dept 2003). A plaintiff may maintain a claim for conversion if defendant is alleged to have breached a duty that arises independent of the contract. *Kopel v. Bandwidth Technology Corp.*, 56 AD3d 320 (1st Dept 2008).

Smart Trike alleges that defendants "have received payments for the sale of products from customers which they are obligated to remit to [Smart Trike]." AC ¶ 58. Between Smart Trike and Piermont, such obligation is governed by Section 3 of the 2010 Agreement. Thus, the claim is governed by the contract and must be dismissed. However, it is not clear if Kramer and Janowski have possession of the subject customer payments or if such money is merely held in Piermont's corporate bank accounts because the AC ambiguously alleges that "defendants" converted the money. The conversion claim is dismissed against Kramer and Janowski, without prejudice, with leave to re-plead if plaintiff can allege facts about the money being in Kramer and Janowski's possession.

III. Motion for Sanctions

"Conduct is frivolous under 22 NYCRR 130–1.1 if it is completely without merit and cannot be supported by a reasonable argument for an extension, modification, or reversal of existing law, or it is undertaken primarily to delay or prolong the resolution of the litigation, or to harass or maliciously injure another." *Yan v Klein*, 35 AD3d 729 (2d Dept 2006). This Court has discretion to sanction a party who engages in frivolous conduct. *Guberman v Rudder*, 85 AD3d 683, 684-85 (1st Dept 2011); *Yan, supra* (awarding costs to defendant where plaintiff "continued to press the same patently meritless claims.").

The instant motion to dismiss has effectively been pending for over a year, starting with the motion to dismiss in the federal action. The arguments made in this round of briefing are almost identical to the arguments made in the motion to dismiss in the prior federal action and the motion on the original complaint. Clearly, delay has been caused by plaintiff's venue change, amendment of the complaint and failure to file its opposition papers timely. Plaintiff's

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dilatory conduct was compounded by the lack of merit of the majority of its pleadings. For example, plaintiff was on notice that Piermont timely changed its name from "Smart Trike" before the instant action was commenced and before the AC was filed. Nonetheless, plaintiff sued Piermont as "Smart Trike" in the original complaint (which was filed almost three months after Piermont changed its name), continued to do so in the AC (without even adding some qualifying language, such as "k/n/a") despite the fact that Piermont raised this issue in its motion to dismiss the original complaint, and made a demand for "An Order requiring Defendants to take such actions to amend the Trade Name of "Smart Trike, LLC" (AC, p. 13). *See Timoney v Newmark & Co. Real Estate, Inc.*, 299 AD2d 201, 202 (1st Dept 2002) (quoting *Hypo Holdings, Inc. v Chalasani*, 280 AD2d 386, 387 (1st Dept 2001)) (plaintiff's conduct is frivolous where "there is no arguable merit to plaintiff's numerous . . . arguments which 'are rife with speculation and innuendo seeking merely to obscure the real issue[s] in the case.'"). Plaintiff's overall course of conduct verges on the frivolous. The court, however, in its discretion, will not sanction plaintiff at this point, but cautions plaintiff that should it act in such manner to waste the time and money of defendants and the time of this court, the court will not hesitate to impose sanctions. Accordingly, it is

ORDERED that the motion to dismiss by defendants Smart Trike, LLC, Robert Kramer, and Joseph Janowski against plaintiff Smart Trike, MNF, PTE, Ltd. is granted to the extent of: (1) dismissing all the causes of action against Kramer and Janowski with prejudice, except the eighth cause of action (conversion), which is dismissed without prejudice; and (2) dismissing the third through eighth causes of action against Smart Trike, LLC, k/n/a, Piermont Products LLC (fraud, breach of fiduciary duty, trademark infringement under the Lanham Act, unfair

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competition and false designation of origin under the Lanham Act, trademark infringement, unfair business practices, and unfair competition under GBL § 349, and conversion) with prejudice; and it is further

ORDERED that this action shall bear the following caption:

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK: PART 54
--X
SMART TRIKE, MNF, PTE, LTD., Index No.: 650376/2012

Plaintiff,

-against-

PIERMONT PRODUCTS LLC f/k/a SMART TRIKE, LLC, ROBERT KRAMER and JOSEPH JANOWSKI,

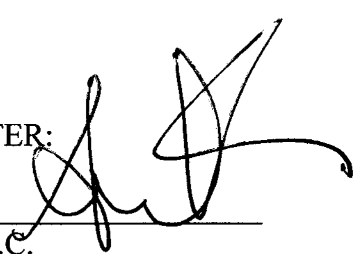
Defendant.
--X

; and it is further

ORDERED that the parties are to appear in Part 54, Supreme Court, New York County, 60 Centre St., rm. 228, New York, N.Y., for a conference on January 29, 2013 at 10:00 in the forenoon.

Dated: January 22, 2013

ENTER:



J.S.C.