SUPREME COURT OF THE STATE OF NEW YORK, APPELLATE DIVISION, FIRST DEPARTMENT

644 E. 14th Realty LLC v. Mount Sinai Health System, Inc.

644 E. 14th Realty LLC v. Mount Sinai Health Sys., Inc., 2022 NY Slip Op 02938 (App. Div. 2022) · No. 2021-01219 · Decided May 3, 2022

SUMMARY

The Appellate Division, First Department held that a letter-of-intent provision requiring payment of a $2 million breakup fee was enforceable because it stated unambiguous terms and an intent to be bound. The court dismissed the plaintiff's promissory estoppel and fraud claims because the letter of intent expressly stated that it would not bind either party and therefore plaintiff could not establish justifiable reliance.

CASE DETAILS

COURT	Supreme Court of the State of New York, Appellate Division, First Department
WRITING FOR THE COURT	Renwick, J.P.; Kapnick, J.; Friedman, J.; Rodriguez, J.; Pitt, J.
JURISDICTION	New York
DECIDED	May 3, 2022
DOCKET	2021-01219
DISPOSITION	reversed_and_remanded
PROCEDURAL POSTURE	Defendant appealed from an order denying, in relevant part, its motion to dismiss plaintiff's breach of contract, promissory estoppel, and fraud claims.
STANDARD OF REVIEW	Appellate review of the legal sufficiency of claims on a motion to dismiss; the opinion does not expressly state a separate standard-of-review formulation.
PRECEDENTIAL VALUE	Published New York Appellate Division decision; binding within the First Department subject to higher-court authority.
PARTIES	Mount Sinai Health System, Inc. v. 644 E. 14th Realty LLC

TOPICS

breach of contract · promissory estoppel · fraudulent inducement · contract formation · appellate procedure

PRACTICE AREAS

contracts · real estate · commercial litigation · appellate procedure

QUESTIONS PRESENTED

1. Whether the breakup-fee provision in the letter of intent was enforceable despite the preliminary nature of the letter.
2. Whether plaintiff could maintain a promissory estoppel claim when the letter of intent required a further written agreement and expressly stated that it would not bind either party.
3. Whether plaintiff could maintain a fraud claim based on defendant's alleged nondisclosure of negotiations with a third party and promises to proceed with the transaction.

HOLDINGS

1. The provision in the letter of intent requiring payment of a $2 million fee if either party failed to execute a lease within 120 days was enforceable because its language reflected unambiguous terms and an intent to be bound.
2. The promissory estoppel claim had to be dismissed because reliance on promises to proceed with a transaction is unreasonable as a matter of law when the preliminary agreement expressly requires execution of a further written agreement before either party is contractually bound.
3. The fraud claim had to be dismissed because plaintiff could not establish justifiable reliance on defendant's promises to proceed, even assuming defendant had a duty to disclose its negotiations with a third party.

KEY QUOTATIONS

> *"Should either party fail to execute a lease within 120 days of the execution date of this Letter of Intent, that party shall pay a fee equal to $2 million to the other party as compensation."* ([*1])

> *"Where a term sheet or other preliminary agreement explicitly requires the execution of a further written agreement before any party is contractually bound, it is unreasonable as a matter of law for a party to rely upon the other party's promises to proceed with the transaction in the absence of that further written agreement"* ([*1])

FACTUAL BACKGROUND

The parties executed a February 9, 2018 letter of intent concerning a proposed lease. The letter provided that if either party failed to execute a lease within 120 days, that party would pay the other a $2 million breakup fee. It also stated that the letter of intent would not bind either party, and plaintiff alleged that defendant made promises to proceed with the transaction while negotiating with a third party.

PROCEDURAL HISTORY

Supreme Court, New York County, denied defendant's motion to dismiss the claims. The Appellate Division modified the order to dismiss the promissory estoppel and fraud claims and affirmed the denial of dismissal of the breach of contract claim.

DISPOSITION

reversed_and_remanded

CASES CITED

- Stonehill Capital Mgt., LLC v. Bank of the W., 28 NY3d 439, 448 (2016)
- StarVest Partners II, L.P. v. Emportal, Inc., 101 AD3d 610, 613 (1st Dept. 2012)
- King Penguin Opportunity Fund III, LLC v. Spectrum Group Mgt. LLC, 187 AD3d 688, 689 (1st Dept. 2020)
- Jana L. v. West 129th St. Realty Corp., 22 AD3d 274, 277 (1st Dept. 2005)

OPINION

PER CURIAM.

644 E. 14th Realty LLC v Mount Sinai Health Sys., Inc. (2022 NY Slip Op 02938) 644 E. 14th Realty LLC v Mount Sinai Health Sys., Inc. 2022 NY Slip Op 02938 Decided on May 03, 2022 Appellate Division, First Department Published by New York State Law Reporting Bureau pursuant to Judiciary Law § 431. This opinion is uncorrected and subject to revision before publication in the Official Reports.

Decided and Entered: May 03, 2022 Before: Renwick, J.P., Kapnick, Friedman, Rodriguez, Pitt, JJ. Index No. 651941/20 Appeal No. 15848 Case No. 2021-01219 [*1]644 E. 14th Realty LLC, Plaintiff-Respondent, vMount Sinai Health System, Inc., Defendant-Appellant. Duane Morris LLP, New York (Kevin J. Fee of counsel), for appellant. Stein Adler Dabah & Zelkowitz, LLP, New York (Noam Besdin of counsel), for respondent.

Order, Supreme Court, New York County (Andrea Masley, J.), entered on or about March 11, 2021, which, to the extent appealed from as limited by the briefs, denied defendant's motion to dismiss plaintiff's breach of contract, promissory estoppel, and fraud claims, unanimously modified, on the law, to dismiss the promissory estoppel and fraud claims, and otherwise affirmed, without costs.

The motion court properly denied defendant's motion to dismiss plaintiff's claim for breach of the provision in the February 9, 2018 letter of intent entitling either party to a "breakup fee," which stated, "Should either party fail to execute a lease within 120 days of the execution date of this Letter of Intent, that party shall pay a fee equal to $2 million to the other party as compensation."

Contrary to defendant's contention, this provision of the letter of intent is enforceable, as the language reflects the unambiguous terms of the agreement to pay the fee and an intent to be bound (Stonehill Capital Mgt., LLC v Bank of the W., 28 NY3d 439, 448 [2016]).

The promissory estoppel and fraud claims should have been dismissed. "Where a term sheet or other preliminary agreement explicitly requires the execution of a further written agreement before any party is contractually bound, it is unreasonable as a matter of law for a party to rely upon the other party's promises to proceed with the transaction in the absence of that further written agreement" (StarVest Partners II, L.P. v Emportal, Inc., 101 AD3d 610, 613 [1st Dept 2012]; see also King Penguin Opportunity Fund III, LLC v Spectrum Group Mgt.

LLC, 187 AD3d 688, 689 [1st Dept 2020]). Although the motion court credited plaintiff's argument with respect to the fraud claim that the special-facts doctrine could impose a duty to disclose defendant's negotiations with a third party based on defendant's superior knowledge of those negotiations (Jana L. v West 129th St. Realty Corp., 22 AD3d 274, 277 [1st Dept 2005]), here, as in King Penguin, plaintiff cannot establish justifiable reliance on defendant's promises to proceed with the transaction even if there was such a duty, as the letter of intent expressly stated that it "shall not bind" either party (187 AD3d at 689).

We have considered the parties' remaining contentions and find them unavailing.THIS CONSTITUTES THE DECISION AND ORDER OF THE SUPREME COURT, APPELLATE DIVISION, FIRST DEPARTMENT. ENTERED: May 3, 2022