

NOT TO BE PUBLISHED WITHOUT THE APPROVAL
OF THE COMMITTEE ON OPINIONS

EAST SALEM HOLDINGS LLC,

Plaintiff,

v.

EAST SALEM 2001 L.L.C.; KSW, L.L.C.;

PENDLETON SALEM L.L.C.; and GKS

SALEM, L.L.C.,

Defendants.

SUPERIOR COURT OF NEW JERSEY

CHANCERY DIVISION: BERGEN COUNTY

DOCKET No. F-017741-16

OPINION

Argued: September 15, 2017

Decided: September 27, 2017

Appearances: Craig L. Steinfeld for plaintiff (Sherman Wells Sylvester & Stamelman, attorneys)

Robert P. Shapiro and David O. Marcus for defendants (ShapiroCroland, attorneys)

HON. EDWARD A. JEREJIAN, J.S.C.

This matter is before the court by way of a motion for summary judgment filed by the Plaintiff on August 4, 2017. Defendants filed an opposition on September 1, 2017.

Defendants' opposition to the instant motion for summary judgment is predicated upon a purported oral agreement between Plaintiff and Defendants for Defendants to purchase an interest in the note and mortgage.

Here, Plaintiff has established the following uncontested material facts to demonstrate its right to foreclose:

1. Defendants East Salem 2001 L.L.C.; KSW, L.L.C.; Pendleton Salem L.L.C. and GKS Salem, L.L.C. borrowed \$5,000,000.00 from Bear Stearns Commercial Mortgage, Inc. and on July

6, 2005, signed a Note.

2. That same day, East Salem 2001 L.L.C; KSW, L.L.C.; Pendleton Salem L.L.C. and GKS Salem, L.L.C. executed a Mortgage in favor of MERS, as nominee for Bear Stearns Commercial Mortgage, Inc., covering premises at 25 East Salem Street, Hackensack, New Jersey. This Mortgage was recorded.
3. This Mortgage was assigned by Bear Stearns Commercial Mortgage, Inc. to LaSalle Bank N.A.
4. Thereafter, this Mortgage was assigned by MERS to U.S. Bank National Association by assignment effective December 13, 2011.
5. Defendant defaulted on August 1, 2015 and remains in default.
6. Notice of Intention in form complying with the requirements of the statute was sent on August 12, 2015 (more than 30 days prior to the commencement of suit).
7. Thereafter, this Mortgage was assigned by U.S. Bank National Association to East Salem Holdings LLC by assignment dated May 24, 2016.
8. Suit was commenced on June 24, 2016.

The only material issues in a foreclosure proceeding are the validity of the mortgage, the amount of indebtedness, and the right of the mortgagee to foreclose on the mortgaged property. Great Falls Bank v. Pardo, 263 N.J. Super. 388, 394 (Ch. Div. 1993); see also Thorpe v. Flore Moore Corp., 20 N.J. Super. 34, 37 (App. Div. 1952) (“Since the execution, recording, and non-payment of the mortgage was conceded, a prima facie right to foreclose was made out”). If the defendant’s answer fails to challenge the essential elements of the foreclosure action, plaintiff is entitled to strike defendant’s answer. Old Republic Ins. Co. v. Currie, 284 N.J. Super. 571, 574 (Ch. Div. 1995); Somerset Trust Co. v. Sternberg, 238 N.J. Super. 279, 283 (Ch. Div. 1989).

The purpose of summary judgment is to “avoid trials which would serve no useful purpose and to afford deserving litigants immediate relief.” Judson v. Peoples Bank & Trust Co., 17 N.J. 67, 74 (1954). Summary judgment should be granted “if the pleadings, depositions, answers to interrogatories and admissions on file, together with the affidavits... show that there is no genuine issue as to any material fact challenged and that the moving party is entitled to a judgment or order as a matter of law.” N.J.S.A. 4:46-2(c). An issue of fact is genuine if, construing all evidence and reasonable inferences in the light most favorable to the non-moving party, would require submission of the issue to the trier of fact. Ibid.

In the instant case, the material facts as they exist and have been revealed in the extensive discovery, including the communications between the parties and admissions made at deposition, are not in dispute. Rather, the dispute concerns the interpretation of this evidence and whether an enforceable oral agreement was formed between the parties. Thus, the instant matter is ripe for summary judgment. N.J.S.A. 4:46-2(c).

Breach of Contract and Specific Performance

To prevail on a breach of contract claim, a party must prove a valid contract between the parties, the opposing party’s failure to perform a defined obligation under the contract, and that the breach caused the claimant to sustain damages. Murphy v. Implicito, 392 N.J. Super. 245, 265 (App. Div. 2007). A contract arises from offer and acceptance and must be sufficiently definite “that the performance to be rendered by each party can be ascertained with reasonable certainty.” Weichert Co. Realtors v. Ryan, 128 N.J. 427, 435 (1992) (quoting West Caldwell v. Caldwell, 26 N.J. 9, 24–25 (1958)). Thus, an enforceable contract can only exist if the parties agree on the essential terms and manifest an intention to be bound by those terms. Weichert Co. Realtors, supra, 128 N.J. at 435 (citing West Caldwell, supra, 26 N.J. at 24–25). However, if the parties do not agree to one or more

essential terms, the agreement is unenforceable. Weichert Co. Realtors, *supra*, 128 N.J. at 435 (citing Heim v. Shore, 56 N.J. Super. 62, 72–73 (App. Div. 1959); *see also* Morgan v. Sanford Brown Institute, 225 N.J. 289 (2016) (“An enforceable agreement requires mutual assent, a meeting of the minds based on a common understanding of the contract terms.”)).

Further, “to establish a right to the remedy of specific performance, a [party] must demonstrate that the contract in question is valid and enforceable at law.” Marioni v. 94 Broadway, Inc., 374 N.J. Super. 588, 589–90 (App. Div. 2005), *certif. denied* 183 N.J. 591 (2005). Further, the terms of the contract must be clear. Estate of Cohen ex rel. Perelman v. Booth Computers, 421 N.J. Super. 134, 149–50 (App. Div. 2011), *certif. denied*, 208 N.J. 370 (2011). A court should not order specific performance unless the terms of the contract are definite and certain enough so the court may order what the parties must do with precision. Satellite Entm’t Ctr., Inc. v. Keaton, 347 N.J. Super. 268, 276–77 (App. Div. 2002); Graziano v. Grant, 326 N.J. Super. 328 (App. Div. 1999).

Where an alleged contract for the sale of an interest in the note and mortgage of a property is formed by oral agreement a high evidentiary standard of proof is required. N.J.S.A. 25:1-13(b). Specifically, “the existence of an [oral] agreement between the parties as well as its essential terms must be proved by clear and convincing evidence.” Morton v. 4 Orchard Land Trust, 180 N.J. 118, 126 (2004) (citing New Jersey Law Revision, *Report and Recommendations Relating to Writing Requirements for Real Estate Transactions, Brokerage Agreements and Suretyship Agreements 2* (1991)). The New Jersey Law Revision Commission’s commentary states that “a determination of whether the parties made an agreement by which they intend to be bound” is to be based upon “[t]he circumstances surrounding a transaction, the nature of the transaction, the relationship between the parties, [and] their contemporaneous statements and prior dealings.” *Ibid.* In the instant case, Defendants are wholly unable to demonstrate that such an oral agreement was made.

Here, the parties discussed—but did not agree to—a deal whereby the parties would share an interest in the loan between April 2016 and May 2016. Plaintiff outlines multiple e-mails between Mark Tress and Moshe Mendlowitz (on behalf of Plaintiff) and Norman Feinstein (on behalf of Defendants). On April 11, 2016, Feinstein met with and made a proposal to Tress and Mendlowitz; however, the parties did not make an agreement. In an e-mail dated April 19, 2016, Tress confirmed that the parties did not reach an agreement and proposed instead that borrowers provide a deed-in-lieu of foreclosure. On April 25, 2016, Tress asked Feinstein to “advise today of your intent.” On May 4, 2016, Tress and Mendlowitz met with Feinstein and David Schick, and Plaintiff claims that they did not come to an agreement. Tress against sent an email that night stating, “All, thanks against for tonights [sic] meeting. Looking forward to a meeting of the minds. Regards.” On May 9, 2016, Feinstein made a proposal to Tress, and Tress made a counter-proposal to Feinstein in an e-mail dated May 10, 2016:

norman, I spoke with moshe last night and we have a fair proposal for all, i believe this will make for a harmonious relationship and hopefully will lead to other deals :we put up 2.3 million with the rights to put a loan lien on the property. You put up 1.7 (which should include closing and brokerage costs) and were 60/40 percent of the debt and your money as well will come out first before the split. We understand that the operating agreement will give all parties fair share of rights, buy sell etc that we are confident we can work through quickly. Let me know thanks. P.s we are closing on the 17th b.

Feinstein forwarded Tress’s email to his partner, Jon Hanson, advising, “I offered them 50/50 deal last night. Below is their counter.” On May 12, 2016, Mendlowitz sent an email to Richard Kelin, an attorney and former law partner of Feinstein, asking Kelin to draft an operating agreement in anticipation of a potential agreement with Borrowers. That same day, Feinstein responded to the email, stating that minor modifications were needed. Mendlowitz responded informing Feinstein that he has not heard back from Kelin.

On May 18, 2016, Feinstein congratulated Plaintiff on the acquisition of the loan and proposed terms for a potential agreement between the parties in an e-mail to Mendlowitz:

Moshe: Mazel Tov again on closing the loan with C3. Pursuant to our discussion this morning, we are prepared to move forward as follows:

1. 50/50 on costs to buy mortgage
2. You or your investor to have a first lien position with a coupon of 7%
3. We will have a second lien position with a coupon of 9%
4. Upon a capital event in which all of the pref and capital is repaid, your percentage goes to 60% and we go to 40%
5. We deliver a tenant for 23,479 sq./ft. within 90 days upon the minimum terms:
 - a. \$17 gross rent 3% bumps per annum
 - b. 10 year term (tenant really wants 15 years)
 - c. Tenant pays electric of \$1.75
 - d. Six months free rent plus 2 months in 10th year
 - e. As IS
 - f. Leasing commission 7.5%
6. If we fail to deliver Tenant, you have option to buy our deed for \$400K or keep us in deal at same terms
7. Control rights to be negotiated
8. If we refinance and lender does not permit secondary lien, we will revert to a preferred equity position

Please get back to me with your comments. Best!
Norman

Mendlowitz responded with a counterproposal:

I spoke it over. For the most part we are ok with this with a few minor changes. Firstly we feel the buyout option of \$400k if you don't deliver the tenant is heavy. 300k is more reasonable. And in the event we choose to keep you in regardless and not buy you out, as opposed to lowering your equity down to 20 percent we feel a fair penalty would be that you stop getting your 9 percent pref at that point (after the 90 days expires until we find a new tenant)

Where does the proposed lease stand at this point? If it's ready to be signed but not signed yet Can you send us the lease to look over before we finalize it with the tenant? Feel free to block out the name if that makes you feel more comfortable. We just would love some input prior to committing to a tenant for 10 to 15 years. In addition, 7.5 percent brokerage commission seems very high.

Feinstein advised that they were unwilling to “move off their proposal” and that they were confident they would “get the lease done.” Mendlowitz responded:

If you are confident the lease will get done then the 9 percent interest that I want to go away as a penalty in the event it doesn't happen shouldn't bother you. Would you consider doing 1 million instead of 2 for 20 percent as opposed to 40. Basically the same deal just half. If that's the case then the 9 percent wouldn't bother me as much (although I do think it should go down somewhat as a penalty) as I won't be as concerned of racking up accrued interest while we are waiting on another tenant.

Mendlowitz followed up in an e-mail dated May 18, 2016:

Norman, if we're going to be partners I need you to be more responsive respectively. One way or another I would like to put this to bed. I am doing everything I can within reason to try to make this work and your not making it easy. It seems every time I have a conversation with you or make a suggestion that would take us two steps forward we are left hanging. Communication is important if we are to be partners!

Please don't confuse our willing to make a deal with you as weakness as we are very tempted to just go the long haul here but I am trying to do the sensible right thing. However I can't and will not chase you for a response constantly. Please show some flexibility for both your sake and ours because very soon I won't be able to!

Thanks for understanding.

By e-mail dated May 19, 2016, Mendlowitz again reached out to Feinstein about a response to Mendlowitz's comments and proposals. Feinstein responded by e-mail dated May 24, 2016, asking “Are we moving forward?”. Mendlowitz responded, “My partner went to Israel. I spoke to him about it and he says that we will all sit down when he gets back and figure something out.”

However, negotiation over the agreement never resumed and, in fact, the parties' communications dissolved into animosity just two days later on May 26, 2016. The parties exchanged insults and threats of legal action, culminating in Feinstein himself writing in an e-mail dated May 26, 2016 to Mark Tress that “[w]e are done communicating.”

On June 20, 2016 Defendants sent a letter to Plaintiff in an attempt to revive the negotiations. The language of the letter demonstrates that Defendants intended it to serve as confirmation of Plaintiff's acceptance of the contractual terms previously offered by Defendants in the May 18, 2016 e-mail from Feinstein to Mendlowitz to which Mendlowitz responded, "we are ok with a few minor changes."

Defendants argue that as a result of that e-mail the parties had reached an oral agreement as to the essential terms of the contract, namely, two million dollars to purchase an interest in the note and mortgage, and that this oral agreement is sufficient to render the contract enforceable.

To the contrary, Plaintiff argues that the terms being negotiated were never accepted. For example, Defendant's preferential rate of return if it did or did not deliver the tenant. In the May 18th e-mail it was proposed by Feinstein that the Plaintiff would receive a 7% preferred return and Defendants a 9% preferred return, yet, in the June 20th Letter and Defendant's Counterclaim rates of 7% and 6% were proposed for Plaintiff and Defendants respectively.

Next, the option price to Plaintiff to acquire Defendant's fee interest should Defendants be unable to consummate the lease with CBH was not set. In the May 18th e-mail Feinstein proposed a buyout price of \$400,000 but in his e-mail response Mendlowitz stated, "we feel the buyout option of \$400k if you don't deliver the tenant is heavy. 300k is more reasonable."

In that same e-mail response Mendlowitz also took issue with the proposed brokerage commission rate of 7.5%, stating that he and his partners felt it was "very high."

Additionally, Plaintiff contends that even the two million dollar price was not yet settled. Later on May 18th, after Plaintiff was told by Feinstein that the Defendants were "firm on [their] proposal," Mendlowitz asked if the Defendants "[w]ould you consider doing 1 million instead of 2 for 20 percent as opposed to 40. Basically the same deal just half."

Plaintiff also points out that Defendants ignore the statement from Norman Feinstein himself, contained in an e-mail dated that same day, in which he states “[w]e have not agreed on a firm deal yet,” a statement Plaintiff argues confirms that there was never a true meeting of the minds.

In addition, Plaintiff argues, Norman Feinstein made several admissions at his deposition that indicate no agreement had been reached. Feinstein admitted at deposition that, on May 26, 2016, Tress advised him that there was no deal between the parties; that, prior to May 26, 2016, there was no written confirmation between the parties with respect to the terms of any purported agreement; that there is no written agreement between the parties regarding the terms of a purported agreement to share an interest in the Loan; and that, in the ordinary course, any agreement between the parties would have been reduced to a writing.

Defendants argue that sometime after the parties agreed that Defendants would invest \$2,000,000 for a 50% interest in the note and mortgage Plaintiff agreed to more favorable terms with a Third Party Investor. Defendants allege that after this agreement took place Plaintiff continued negotiations with Defendants in bad faith and that terms of the deal that were previously deemed non-material suddenly became material terms. However, the e-mail communications referenced above make it apparent that no firm deal had been reached on any of the terms of the agreement at any point. The fact that Plaintiff eventually formed an agreement with a Third Party Investor is immaterial to the prior failure of Plaintiff and Defendants to reach an agreement and the breakdown in negotiations that occurred.

Here, no reasonable fact-finder could determine that an agreement was reached. The record reflects that the parties did not come to an agreement on essential contractual terms. Thus, a “meeting of the minds” could not have occurred, and a contract between the parties cannot exist. With no contract in existence, a breach of contract could not have possibly occurred. Similarly, as

there was no agreement reached, the remedy of specific performance is unavailable to defendants.

As a result, Defendants have not raised a valid defense to the foreclosure action. Under New Jersey law where there is proof of execution, recording, and non-payment of the note and mortgage, a mortgagee has established a *prima facie* right to foreclose. Thorpe v. Flore Moore Corp., 20 N.J. Super. 34 (App. Div. 1952). Having failed to establish an overriding defense to Plaintiff's established right to foreclose, the foreclosure may proceed.

Tortious Interference

Defendants allege that Plaintiff committed tortious interference with contract and tortious interference with prospective economic advantage by informing a substantial tenant of their intention to foreclose, frustrating Defendants' ability to complete a refinancing of the property that would have resulted in satisfaction of the loan and subjecting Defendants to liability to a potential claim by the broker and manager of the Property.

To substantiate a claim for tortious interference with contractual relations, a plaintiff must show: "(1) the existence of the contract...; (2) interference which was intentional and with malice; (3) the loss of the contract or prospective gain as a result of the interference; and (4) damages." Velop, Inc. v. Kaplan, 301 N.J. Super. 32, 49 (App. Div. 1997) (citing Printing Mart-Morristown v. Sharp Electronics Corp., 116 N.J. 739, 751-52 (1989)), certif. granted, 152 N.J. 9 (1997), and appeal dismissed, 153 N.J. 45 (1998). The Court has defined "malice" as "harm . . . inflicted intentionally and without justification or excuse." Printing Mart, supra, 116 N.J. at 751 (citing Ranier's Dairies v. Raritan Valley Farms, Inc., 19 N.J. 552, 563 (1955)).

To establish a cause of action under tortious interference with prospective economic advantage, a party is required to prove "(1) unlawful, intentional interference with [its] prospect of, or reasonable expectation of, economic advantage, and (2) a reasonable probability that plaintiff

would have received the anticipated economic benefits had there been no interference.” Harper-Lawrence, Inc. v. United Merchants and Mfrs., Inc., 261 N.J. Super., 554, 568 (App. Div. 1993) (quoting Snyder Realty v. BMW of N. America, 233 N.J. Super. 65, 76, certif. denied, 117 N.J. 165 (1989)).

Proof of the first element requires a showing that Plaintiff’s conduct was “injurious and transgressive of generally accepted standards of common morality or of law.” Sustick v. Slatina, 48 N.J. Super. 134, 144 (App. Div. 1957) (quoting Di Cristofaro v. Laurel Grove Memorial Park, 43 N.J. Super. 244, 255 (App Div. 1957)). Whether the alleged tortfeasor’s conduct constitutes tortious interference with prospective economic advantage depends on whether that conduct is “sanctioned by the ‘rules of the game.’” Harper-Lawrence, supra, 261 N.J. Super. at 568 (quoting Sustick, supra, 48 N.J. Super. at 144); see also Harris v. Perl, 41 N.J. 455, 461 (1964) (The law protects against “sharp dealing or overreaching or other conduct below the behavior of fair men similarly situated.”). “There can be no tighter test of liability in this area than that of the common conception of what is right and just dealing under the circumstances.” Sustick, supra, 48 N.J. Super. at 144.

Plaintiff argues that plaintiff’s actions were not “unlawful” as plaintiff had the right to do so under the terms of the loan documents to consummate the lease with Comprehensive. The Assignment of Leases provides:

Section 3.1 REMEDIES OF LENDER. Upon or at any time after the occurrence of a default under this Assignment beyond any applicable notice and cure periods or an Event of Default (as defined in the Security Agreement) (a “Default”), the license granted to Borrower [to collect and receive rents] shall automatically be revoked, and Lender shall immediately be entitled to possession of all Rents In addition, Lender, or Assignee acting on behalf of and at the sole discretion of Lender in its capacity as Lender’s nominee, may, at its option . . . dispossess Borrower and its agents and servants from the Property . . . and take possession of the Property . . . and have, hold, manage, lease and operate the Property on such terms and for such period of time as Lender may deem proper. . . . In addition, upon the

occurrence of a Default, Lender at its option, may . . . (2) exercise all rights and powers of Borrower, including, without limitation, the right to negotiate, execute, cancel, enforce or modify Leases.

Plaintiff thus argues that Plaintiff's actions were "sanctioned by the rules of the game." Section 3.1 of the Loan Documents quoted above provides the Lender or its Assignees the right to negotiate and execute leases. Thus, Plaintiff did not act with malice or act unlawfully when it exercised its right to enter negotiations or discussions with the potential tenant.

Plaintiff also argues that the terms of the lease signed by the tenant and the terms of the lease prepared by the Defendants were substantially the same and thus Defendants were not in any different position than if they had entered the lease with the tenant prior to Plaintiff exercising its rights to take possession of the Property. An essential element of tortious interference with contract and tortious interference with prospective economic advantage is that the claimant suffered a loss of prospective gain or economic advantage. As the lease ultimately entered into by the tenant was substantially similar to the lease prepared by Defendants, the Defendants did not find themselves in a worse position as a result of Plaintiff's communications with the tenant and the essential element of both tortious interference claims is unmet.

Defendants, however, argue that Plaintiff's alleged interference subjected the Defendants to a claim on the part of the participating broker and manager of the Property for recovery of a commission for the consummation of the lease. Yet, "failure to satisfy the requirement for allegation of facts demonstrating that a plaintiff has suffered or will suffer damage can be fatal to a claim." Printing Mart-Morristown, *supra*, 116 N.J. at 760 (citing Norwood Easthill Associates v. Norwood Easthill Watch, 222 N.J. Super. 378 (App. Div. 1988)). Defendants concede that they have not suffered any damages and that the possible suit by the broker/manager represents only "potential damages that may be realized." In light of the actual benefit received by Defendants by the lease of

a substantial portion of the Property by the subject tenant, Defendant fails to show sufficient damages to substantiate its claims of tortious interference.

Here, no reasonable fact-finder could determine that the Plaintiff tortuously interfered with the Defendant's contract or prospective economic advantage. Plaintiff merely exercised its right, as Assignee of the Note, to negotiate and execute leases for the Property. As the entered-lease was substantially similar to the lease drafted by the Defendants, Defendants did not find themselves in a worse position as a result of Plaintiff's communications with the tenant. Further, Defendant's alleged harm is speculative and falls short when compared to the actual benefit it received by the lease being consummated by Plaintiff and the tenant.

Conclusion

Even construing all evidence and reasonable inferences in a light favorable to the non-moving party it is clear that the parties never consummated their negotiations with an oral agreement and that no tortious interference occurred.

While the parties may have negotiated vigorously over a period of time no "meeting of the minds" was reached as to any of the terms of the agreement. Additionally, while it is undisputed that Plaintiff contacted the prospective tenant of the 24,000 sq. ft. space and informed the tenant of its intent to foreclose, Plaintiff was exercising rights afforded to it in the Assignment of the Loan. By entering into a lease that was substantially similar to the lease drafted by the Defendants, Plaintiff did not leave the Defendants in a worse off position and, in fact, conferred a benefit on Defendants.

Therefore, for the foregoing reasons, Plaintiff's motion for summary judgment is hereby granted. An order accompanies this decision.

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East Salem Holdings LLC

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CIVIL ACTION

**ORDER (1) STRIKING DEFENDANTS'
AMENDED ANSWER, (2) DISMISSING
DEFENDANTS' COUNTERCLAIM
AND (3) REFERRING THIS MATTER TO
THE FORECLOSURE UNIT AS AN
UNCONTESTED MATTER**

THIS MATTER, having been opened to the Court by Sherman Wells Sylvester & Stamelman LLP, attorneys for plaintiff East Salem Holdings LLC (“Plaintiff”), for an Order (i) striking the Amended Answer filed by defendants East Salem 2001 L.L.C., KSW, L.L.C., Pendleton Salem L.L.C. and GKS Salem, L.L.C (collectively, “Defendants”), (ii) dismissing Defendants’ Counterclaim, and (iii) referring this matter to the Foreclosure Unit as an uncontested matter, and upon notice to counsel for Defendants, and the Court having considered the papers in support of an opposition to said motion, and upon the pleadings and proceedings had to date herein, and for good cause shown;

IT IS on this 27th day of September; 2017;

ORDERED that the Amended Answer filed by Defendants be and hereby is stricken, and it is further

ORDERED that Defendants' Counterclaim be and hereby is dismissed in its entirety with prejudice; and it is further

ORDERED that this action be and hereby is remanded to the Foreclosure Unit to proceed as an uncontested matter; and it is further

ORDERED that a true copy of this Order and Judgment be served on counsel for Defendants within seven (7) days of the date hereof.



HON. EDWARD A. JEREJIAN, J.S.C.

Motion was:

Opposed [X]

Unopposed []