UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

----------X

G. BENEDIKT KARLOVY VARY, s.r.o.,

Plaintiff,

Civ. Action No.
10-CV-03539 (ALC)

- against -

MINNERS DESIGNS, INC.,

Defendant.

----------X

MEMORANDUM OF LAW IN SUPPORT OF
PLAINTIFF'S MOTION FOR SUMMARY JUDGMENT

TRAUB LIEBERMAN STRAUS &
SHREWSBERRY LLP
Mid-Westchester Executive Park
Seven Skyline Drive
Hawthorne, NY 10532
(914) 347-2600
sstraus@traublieberman.com

Attorneys for Plaintiff

Of Counsel:
Stephen D. Straus
Andrew N. Adler

TABLE OF CONTENTS

TABLE OF AUTHORITIES

Cases

Statutes

Treaties

Secondary Sources

PRELIMINARY STATEMENT

Plaintiff G. Benedikt Karlovy Vary, s.r.o. ("GBKV" or "plaintiff") submits this memorandum of law in support of its motion for summary judgment in the amount of $92,230.31 plus pre-judgment interest and costs, dismissal the counterclaims of defendant Minners Design, Inc. ("Minners" or "defendant") with prejudice, and such other and further relief as the Court deems just and proper.

This matter concerns certain unpaid bills for products manufactured, sold, and delivered by plaintiff to defendant. Defendant bought the goods, did not dispute the invoices within a reasonable amount of time, and specifically attested to the fact that it owed the amounts stated in the invoices. Thus, defendant is liable on causes of action for "account stated" (*see* Argument Point II., *infra*) and breach of contract (*see id.* Point III., *infra*).

Defendant does not dispute that it still owes about $72,000 plus interest dating back to 2007 and 2008. At most, defendant avers that it was additionally invoiced about $20,000 for goods delivered on "consignment," that is, goods for which plaintiff continued to hold title and for which defendant would have to pay only when it actually sold such items. Yet, as a matter of law, defendant waited too long to complain about the alleged consignments and thus stands liable for the full $92,230.31 stated in the unpaid invoices and in a formal statement signed by defendant as "Debtor." If, however, the Court disagrees on this point, then plaintiff is still entitled to $71,842.91 plus interest and, in addition, to the unsold inventory allegedly delivered on consignment. (*See id.*).

Defendant advances a counterclaim predicated upon plaintiff's alleged breach of a "sole distributor contract" ("SDC") that purportedly binds the parties. This counterclaim fails for four different reasons. Firstly, the distributorship contract was never validly transferred as a legally-binding document. Under applicable Austrian law, each successive assignment of the SDC

required the consent of both the assignor and the assignee. There is no evidence that such consents were given or received during a chain of assignments. (*See id.* Point IV., *infra*).

Secondly, again under governing Austrian law, the SDC did not survive after plaintiff's purchase of trademarks and design patents. The law did not imply a license to defendant, so defendant was permitted to sell the merchandise only at plaintiff's sufferance, not as a perpetual right. (*See id.* Point V., *infra*).

Thirdly, by engaging in competitive conduct expressly proscribed by the SDC, defendant materially breached the contract long before any alleged violation by plaintiff. Defendant's misconduct discharged plaintiff from any further obligation under the contract. (*See id.* Point VI., *infra*).

Finally, defendant also materially breached the SDC via its failure to pay the invoices. Again, its initial violation discharged plaintiff and extinguishes the counterclaim. (*See id.* Point VII., *infra*).

STATEMENT OF FACTS

The Court is respectfully referred to the accompanying Declaration of Marek Stanzel ("Stanzel Dec."), the Declaration of Andrew N. Adler ("Adler Dec."), their respective exhibits, and plaintiff's Local Rule 56.1 Statement ("Stmt."), which are incorporated herein by reference. This section furnishes a summary of the most pertinent facts.

A. The Underlying Purchase & Sale of Goods

Plaintiff is a Czech company that manufactures a line of restaurant-use porcelain tableware known as "Lilien." Between March 2007 and December 2008, defendant agreed to purchase various Lilien items from plaintiff, as memorialized in certain invoices. (Stmt. ¶¶ 2-3). The

invoices required payment within thirty days. (*Id.* ¶ 4). Defendant accepted delivery of all shipments without voicing any complaints as to quantity, quality, condition or price. (*Id.* ¶¶ 5-6). Defendant has nevertheless failed to pay and/or made incomplete payments on the invoices in question. (*Id.* ¶¶ 7, 19).

On a summary of invoices prepared by plaintiff (Stanzel Dec. Ex. A), the third column lists the date payment is due, and the fifth column lists the amount unpaid for that invoice.[1] Thus, for instance, the five invoices maturing on May 29, 2008 still had a total principal amount due of $11,785.71 in 2009; and one of the invoices maturing on September 29, 2008 still had a principal amount due of $32,377.65 in 2009.

Defendant owes a total principal amount of $92,230.31 under the invoices, exclusive of interest. (*See id.*). On or about February 15, 2009, defendant's president, Maureen Cole ("Cole"), signed a "Reconciliation Balance Sheet" ("RBS") that identifies defendant as "Debtor" and plaintiff as "Creditor" and confirms that the amount owed under the subject invoices indeed equals $92,230.31. (Stmt. ¶ 8).

On or about October 9, 2009, plaintiff's lawyers sent to defendant a letter demanding payment of the outstanding amount within twenty-one days. (Adler Dec. Ex. A). A copy of the RBS was attached to the October 2009 demand letter. Defendant's attorney responded later in October 2009, asserting several excuses for defendant's failure to pay and/or claiming set-off rights. (Adler Dec. Ex. B).

B. <u>The Sole Distributorship Contract ("SDC")</u>

On or about October 19, 1984, defendant entered into a "Sole Distributor Contract"

[1] As translated from Czech, "vydaná" means "issued"; "splatnost" means "maturity"; "celk. částka" means "total amount"; and "nezaplaceno" means "unpaid."

("SDC") with an Austrian company called Österreichische Sanitär-, Keramik- und Porzellan-Industrie Aktiengesellschaft ("ÖSPAG"). (Stmt. ¶ 20). The SDC "assigns [defendant] the sole distributorship, and sales-agency of hotel-crockery of the trade mark 'Lilien Porzellan' for the territory of the United States of America." (*Id.* ¶ 21).

However, in the SDC, defendant reciprocally promised "not to sell any other hotel-crockery than Lilien Porzellan, except hotel-crockery produced in the United States and Denby Stoneware and any other ceramic product [defendant] currently distributes" as of October 19, 1984. (*Id.* ¶ 22). Defendant admits that it repeatedly breached this promise. (*Id.* ¶¶ 24-27).

As shown below, plaintiff acquired rights to use the "Lilien" name for its porcelain products via a chain of asset sales and corporate acquisitions flowing originally from ÖSPAG. Beyond defendant's mere assertion, though, no evidence in the record shows that plaintiff knew about the SDC's existence before October 28, 2009. (*Id.* ¶ 35). Rather, the evidence unequivocally displays that plaintiff was voluntarily permitting defendant to function as the distributor of Lilien products, at plaintiff's sufferance. (*See, e.g., id.* ¶¶ 36-39).

After defendant stopped paying its bills, and after it started importing and selling other goods in violation of the SDC, plaintiff insisted that defendant pay its long overdue invoices before plaintiff would sell it more merchandise. (*Id.* ¶¶ 29-34). Plaintiff remained in default, and in the autumn of 2009, plaintiff began to sell and/or consign Lilien brand products to a competitor of defendant's. (*Id.* ¶ 34).

C. <u>The Corporate & Bankruptcy Transactions</u>

Although ÖSPAG (which signed the SDC with defendant in 1984) still exists, it did not retain rights to the "Lilien" name. Instead, a series of other corporations acquired such rights. In 1997, a new Austrian company called Lilien Porzellan GmbH ("LP") was incorporated. At first,

LP was created as a wholly-owned subsidiary of ÖSPAG. Then, after a management buy-out, complete ownership of LP was transferred to a company called Porzellanfabrik Langenthal AG ("Lagenthal"). Langenthal also acquired a Czech manufacturer of professional tableware known as Hotelový Porcelán Karlovy Vary a.s. ("Hotelový"). In 2001, LP and Hotelový separately filed for bankruptcy. (Stmt. ¶¶ 40-43).

In August 2002, plaintiff purchased assets from the receiver (trustee) of the Hotelový bankruptcy estate, including a factory. Then, in December 2002, plaintiff purchased assets from the liquidator of the LP bankruptcy estate, including trademarks and design patents for Lilien tableware. (*Id.* ¶¶ 44-46). Plaintiff then began to sell such products to defendant for distribution in the United States.

D. Procedural History

Efforts to collect the amounts due having failed, plaintiff filed its amended complaint on or around April 29, 2010. (Adler Dec. Ex. C). The amended complaint contains three causes of action — account stated, breach of contract, and unjust enrichment — based on the facts and circumstances surrounding the sale of goods at issue herein.

On or about June 4, 2010, defendant filed its answer and asserted a counterclaim for breach of the SDC. (Adler Dec. Ex. D). Plaintiff filed an answer to the counterclaim on or about June 25, 2010. (Adler Dec. Ex. E).

This litigation was beset by delays. Eventually, plaintiff's deposition was taken in November 2012, and a few days thereafter the parties agreed, and the Court so ordered, a discovery completion deadline of June 28, 2013, including both factual and expert disclosure. (Docket # 25).

On that date, defendant requested a 90-day extension of time. The Court granted the application but ordered, "No further extensions" beyond September 27, 2013 (Docket # 28; Stmt.

¶ 14). Defendant was well aware of this final deadline but missed it and has not produced any documents responsive to plaintiff's Second Demand for Production or plaintiff's Expert Report on applicable Austrian law (both served on May 15, 2013). (Stmt. ¶ 14).

The Court also ordered that the parties file any dispositive motions by October 28, 2013.

ARGUMENT

I.

STANDARD OF REVIEW

Under Fed. R. Civ. P. 56, the Court should grant summary judgment if the non-moving party "fails to make a showing sufficient to establish the existence of an element essential to that party's case, and on which that party will bear the burden of proof at trial." *Celotex Corp. v. Catrett*, 477 U.S. 317, 322, 106 S. Ct. 2548 (1986). "The party opposing the motion must come forward with specific facts showing that there is a genuine issue for trial." *Blakeman v. Walt Disney Co.*, 613 F. Supp.2d 288, 300 (E.D.N.Y. 2009). However, "the mere existence of *some* alleged factual dispute between the parties alone will not defeat a properly supported motion for summary judgment." *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 249-50, 106 S. Ct. 2505 (1986) (emphasis added). Nor will summary judgment be defeated if, after the moving party had met its burden of production, the non-movant advances only "colorable" or insufficiently probative evidence, *id.*, 477 U.S. at 247-52, or a factual scenario plainly contradicted by the summary judgment record. *Scott v. Harris*, 550 U.S. 372, 380, 127 S. Ct. 1769 (2007).

On the record herein, defendant has failed to raise any genuine dispute of material fact, and plaintiff is entitled to judgment as a matter of law on both its own causes of action and the counterclaim.

II.

SUMMARY JUDGMENT IS APPROPRIATE ON PLAINTIFF'S ACCOUNT STATED CAUSE OF ACTION

First, the Court should rule in plaintiff's favor on the cause of action for "account stated." Under New York law, to recover on a claim for an account stated, the plaintiff must prove that:

> (1) an account was presented; (2) it was accepted as correct; and (3) the debtor promised to pay the amount stated. The second and third requirements (acceptance of the account as correct and a promise to pay the amount stated) may be implied if a party receiving a statement of account keeps it without objecting to it within a reasonable time….

Abbas Corp. Ltd. v. Michael Aziz Oriental Rugs, Inc., No. 10 Civ. 3440, 2011 U.S. Dist. LEXIS 122688, *7-8 (S.D.N.Y. Oct. 17, 2011).

Thus, under a claim for an account stated, "[e]ven though there may be no express promise to pay, yet from the very fact of stating an account, a promise arises by operation of law as obligatory as if expressed in writing." *IMG Fragrance Brands, LLC v. Houbigant, Inc.*, 679 F. Supp. 2d 395, 411-412 (S.D.N.Y. 2009).

In the case at bar, defendant has not adequately disputed the factual basis of this cause of action. Defendant admitted that it purchased the subject porcelain pursuant to the invoices; accepted delivery of the goods; and failed to pay the purchase price. Moreover, defendant did not voice any complaint within a reasonable amount of time regarding delivery, quantity, quality or price, or concerning any alleged "consignment" arrangement.

All of the subject invoices, except one for merely $210.71, matured by November 27, 2008. (*See* Stanzel Dec. Ex. A).[2] By their terms, payments on these invoices were due within thirty days. Yet defendant did not complain seasonably as these invoices became payable.

[2] The final invoice matured on January 14, 2009. (*See id.*).

Additionally, defendant expressly acknowledged in the formal RBS that it owed all amounts in issue. (*See* Stanzel Dec. Ex. B). The RBS identifies defendant as the "Debtor" and plaintiff as the "Creditor." It also identifies the amount owed, without any reservation as to quality, quantity, price or delivery of the goods, as $92,230.31. (*Id*.) It does not mention consignment or classify any materials as having been delivered on consignment. (Stmt. ¶ 11). Hence, this RBS comprises an admitted liability for the stated account balance.

A self-serving assertion by defendant's president, Maureen Cole, at her deposition does not alter the outcome. Cole testified that, after she executed the RBS, her lawyer wrote to counsel for plaintiff (or for plaintiff's predecessor in interest) and "disputed the amount and explained that there were consignment ware and a misapplied consignment payment." (Stmt. ¶ 12). However, in post-deposition document demands, plaintiff requested the alleged correspondence between the parties' attorneys. Defendant knowingly missed the Court-ordered "final deadline" and failed to produce any such documents. (*Id*. ¶¶ 13-14).

To defeat summary judgment, the opposing party may not merely point to unsupported allegations but must substantiate its allegations with "significantly probative" evidence that would permit a finding in its favor. *Anderson*, *supra*, 477 U.S. at 247-52. If the non-movant provides "absolutely no documentary evidence" to validate its "self-serving allegations," the Court should grant summary judgment. *See, e.g., Cole v. Homier Distrib. Co., Inc.*, No. 4:07CV1493, 2009 U.S. Dist. LEXIS 23641, *19-21 (E.D. Mo. Mar. 20, 2009).

Here, no evidence in the record supports Cole's proclamation that her lawyer may have timely objected to the RBS. Indeed, the only written evidence shows an unreasonable delay before defendant objected (that consignment may have altered the amount defendant owed on the invoices): Prior to signing the RBS, the parties had communicated concerning the possibility that

some goods delivered were done so on consignment. (Stmt. ¶ 9). Yet Cole admits in writing, several weeks after she signed the RBS, that she had been reviewing invoices to see which ones might reflect consigned goods, but that she had "'sat' on this for a very long time." (*Id*. ¶ 16). Because defendant unreasonably waited "a very long time," it is conclusively bound by the account stated in each invoice and in the RBS.

Defendant's counsel transmitted a letter to plaintiff's counsel eight months after the RBS, proffering alleged excuses for non-payment. (Adler Dec. Ex. B). These excuses were offered too late. In any event, they did not extinguish the legal effect of the RBS or, for that matter, each individual invoice, all but one of which matured back in 2008 without any protestations by defendant.

Therefore, as a matter of law, plaintiff is entitled to judgment for the full unpaid amount of the subject invoices, plus pre-judgment interest at the statutory annual rate of nine per cent (9%), accruing from the dates payment on each invoice became late. *See Abbas Corp.*, 2011 U.S. Dist. LEXIS 122688, at *9 (citing N.Y. C.P.L.R. §§ 5001, 5004); *Orthopedic Spine Care of Long Is., P.C. v. Ingardia*, No. 09 Civ. 2757, 2011 U.S. Dist. LEXIS 96665, *10 (E.D.N.Y. Aug. 25, 2011).

III.

PLAINTIFF SHOULD ALSO PREVAIL ON SUMMARY JUDGMENT FOR ITS BREACH OF CONTRACT CLAIM

In the alternative, plaintiff is entitled to recover for defendant's breaches of contract.

The United Nations Convention on Contracts for the International Sale of Goods (the "CISG" or the "Convention"), 15 U.S.C. App., governs the contracts between the parties herein for the sale of goods. CISG, Art. 1(1)(a). Plaintiff is based in Czechia, and defendant is based in the United States; both nations ratified the Convention and became "Contracting States" thereto.

(Stmt. ¶¶ 1-2; List of CISG Contracting States, Adler Dec. Ex. N).

The Convention does not apply to distributorship contracts, such as the SDC. Courts interpreting the CISG have concluded that it does not extend to agreements creating a framework for the future sale of goods but not establishing specific terms for quantity and price. *See, e.g.*, *Amco Ukrservice v. American Meter Co.*, 312 F. Supp.2d 681, 686-87 (E.D. Pa. 2004). Additionally, the Convention does not construe the "validity" of any contract. CISG, Art. 4. The Convention, however, applies to each individual purchase order and sale concluded by the parties under a distribution agreement. M. Killian, *CISG & the Problem with Common Law Jurisdictions*, 10:2 J. TRANSACTIONAL L. & POLICY 217, 237 (Spring 2001).

Under the Convention, a buyer must "examine the goods, or cause them to be examined, within as short a period as is practicable in the circumstances" after their arrival. CISG, Art. 38(1), (2). "The buyer loses the right to rely on a lack of conformity of the goods if he does not give notice to the seller specifying the nature of the lack of conformity within a reasonable time…." *Id.* Art. 39(1), (2). For breach of contract by the buyer, the seller "may require the buyer to pay the price." *Id.* Art. 62. Damages for breach of contract "consist of a sum equal to the loss, including loss of profit, suffered by the other party as a consequence of the breach." *Id.* Art. 74. The same result would be reached under the sale of goods provisions of the Uniform Commercial Code were that statute applicable.[3]

In the instant matter, plaintiff has successfully demonstrated — and defendant has

[3] Where goods have been accepted but the buyer fails to pay the purchase price as it becomes due, the seller may maintain an action for the price of the goods. N.Y. U.C.C. § 2-709(1)(a). To recover, the seller must demonstrate that: "(1) it had a contract with the buyer, (2) the buyer failed to pay the purchase price, and (3) the buyer accepted the goods." *Silvermark Corp. v. Rosenthal & Rosenthal, Inc.*, 18 Misc.3d 1124A, 856 N.Y.S.2d 503 (Sup. Ct. New York County 2008) (citing *Weil v. Murray*, 161 F. Supp.2d 250, 254-55 (S.D.N.Y. 2001)). "Goods that a buyer has in its possession necessarily are accepted or rejected by the time a reasonable opportunity for inspecting them passes." *Weil*, 161 F. Supp.2d at 256 (citing N.Y. U.C.C. § 2-606(1)).

expressly admitted — the existence of contracts for the sale of goods, as well as acceptance of the goods. Defendant failed to tender payment for the accepted goods and voiced no objections to them at the time they were delivered or for many months thereafter. As discussed above, plaintiff issued various invoices from March 2007 through December 2008. For instance, about seventeen months passed between the first opportunity to object to merchandise identified by the May 29, 2008 invoices and defendant's objection concerning allegedly consigned goods on October 28, 2009. Clearly, defendant waited an unreasonable amount of time to object. As a matter of law, defendant has thus breached the parties' purchase and sale agreements and stands liable for the full outstanding balance.

Even if this Court determines that a question of fact exists as to whether defendant is liable to pay plaintiff for goods allegedly on consignment, the Court should still grant summary judgment and order defendant to (1) pay $71,842.91 plus pre-judgment interest and (2) return all consigned but unsold goods to plaintiff. At her deposition, Cole stated that the value of the alleged consignment lots was approximately $20,000 and that she would search through her records to determine the exact amount. Although plaintiff demanded such records, defendant never disclosed any. The only evidence of the precise amount is plaintiff's president's recollection of the figure $20,387.40, which figure was stated in an email between the parties. (Stmt. ¶ 15).

Discovery has concluded. It is undisputed that defendant owes plaintiff, at minimum, the pre-interest amount of $92,230.31 (the total invoiced but unpaid amount) minus $20,387.40 (the amount that defendant alleges was delivered merely on consignment), which equals $71,842.91. In addition to an award of that amount plus interest, plaintiff is entitled to receive any consigned but unsold goods returned. Defendant avers that plaintiff delivered such goods on consignment, meaning if they are not sold, they remain plaintiff's property. In that case, defendant cannot deny that it has retained product for many years in which it holds no proprietary interest. Plaintiff

deserves the disgorgement of this inventory if the Court rules that plaintiff cannot recover on this motion the $20,387.40 owed for the alleged "consignment lots."

The CISG entitles the aggrieved party to receive an award of interest on the price of the goods or any others sum in arrears. CISG Art. 78. Furthermore, under New York law, a party that breaches a contract must pay interest accruing from the "earliest ascertainable date the cause of action existed." N.Y. C.P.L.R. § 5001(b). In the instant case, plaintiff is entitled to interest accruing as of the dates payment under each of the subject invoices became overdue — i.e., the dates defendant breached the respective contracts. Interest is recoverable at the statutory rate of nine percent (9%) annually. N.Y. C.P.L.R. § 5004; *Weil v. Murray*, 161 F. Supp. 2d 250, 257 (S.D.N.Y. 2001).[4]

IV.

THE COUNTERCLAIM FAILS BECAUSE THE SOLE DISTRIBUTOR CONTRACT WAS NEVER VALIDLY ASSIGNED

Because no entities in a chain of corporate transactions consented to the assignment of the SDC from one entity to another, the SDC was not legally transferred among such entities. Therefore, the SDC was not a legally operative document during the time frame in which defendant alleges plaintiff broke that contract. As such, the counterclaim (averring plaintiff's breach of the SDC) must fail.

As a preliminary matter, plaintiff notes that Austrian law governs the validity *vel non* of the assignments or transfers of the SDC. To determine choice of law for contracts, New York applies

[4] Alternatively, summary judgment is appropriate on plaintiff's unjust enrichment cause of action if, for any reason, the contractual obligations between the parties are unenforceable. Unjust enrichment exists where a benefit has been conferred upon the defendant, and, in the absence of a valid and enforceable contract, the defendant retains such benefit without tendering adequate compensation. *See, e.g., Wiener v. Lazard Frères & Co.*, 241 A.D.2d 114, 119, 672 N.Y.S.2d 8 (1st Dep't 1998). In the present matter, defendant does not dispute that it received goods from plaintiff and has not paid for such goods. Defendant has accordingly been unjustly enriched by its improper conduct.

the "grouping of contacts" or "significant relationship" approach. Under that approach, the Court applies the law of the state or country which has "the most significant relationship to the transaction and the parties." *Zurich Ins. Co. v. Shearson Lehman Hutton, Inc.*, 84 N.Y.2d 309, 317-18, 618 N.Y.S.2d 609 (1994). In this regard, New York follows the Restatement (Second) of Conflict of Laws. *Id.* Specifically, in determining the "validity of an assignment of a contractual right," the rights "as between the assignor and the assignee are determined by the local law of the [place] which, with respect to the particular issue, has the most significant relationship to the assignment and the parties." RESTATEMENT (SECOND) OF CONFLICT OF LAWS § 209.

In the case *sub judice,* a series of Austrian companies bought and sold shares and assets. The Austrian bankruptcy court supervised some of these transactions. (Stmt. ¶¶ 40-46). Austria holds the prime interest in the effects of these corporate stock purchases, bankruptcy proceedings, and bulk asset sales. No country besides Austria has a paramount relationship to these assignments, which always involved at least one Austrian domiciliary and usually two. Refusing to apply Austrian law here would be akin to refusing to apply American law to determine what contracts were discharged in an American bankruptcy proceeding or what contractual liabilities a "successor enterprise" retains after a corporate acquisition consummated between two American companies.[5]

The report of plaintiff's expert on Austrian law explains that, according to the applicable Austrian legal rule, "Assignment of a contract requires the consent of all parties, that is, the remaining [party], the assignor and the assignee." (Declaration of Dr. Walter Friedrich ["Friedrich

[5] Further, the SDC's original signatories intended Austrian law to apply in judging its "validity," for they invoked several phrases that are alien to American law and presumably have more precise connotations in Austria. Such phrases include, "The validity of this contract is unlimited," and the SDC's first sentence, "ÖSPAG assigns Minners Designs the sole distributorship, and sales-agency of hotel- crockery…." (Adler Dec. Ex. O). To the extent that the SDC became binding on the instant parties, though, plaintiff presumes that New York State law governs the parties' domestic performance under that agreement.

Dec."], Adler Dec. Ex. K, ¶ 17 & Ex. 4). Under this rule, each successive purchase of rights or obligations under the SDC requires the consent of the assignor and assignee in that transaction. Yet there is no evidence that any of the relevant entities consented:

Firstly, Lilien Porzellan GmbH ("LP") acquired the Lilien brand. (Stmt. ¶ 40). Even assuming that LP validly replaced ÖSPAG as party to the SDC, nothing signals that either ÖSPAG or LP consented to the assignment of the SDC from the former to the latter. (Friedrich Dec. ¶¶ 20, 21).

Next, LP filed for bankruptcy, and an Austrian company called Oswald Maschinen und Betriebsverwertungs GmbH ("Oswald") bought LP's assets from the bankruptcy estate. (Stmt. ¶ 46). No evidence suggests that Oswald's consent was sought or received. (Friedrich Dec. ¶ 23).

Thirdly, plaintiff bought from Oswald the intellectual property for Lilien tableware. (Stmt. ¶ 45). Especially given that limited context, plaintiff's expert concludes that plaintiff never consented to any assignment of the SDC from Oswald to itself. (Friedrich Dec. ¶ 24).

Defendant cannot even raise a triable issue about whether plaintiff or Oswald knew about the SDC's existence. Defendant's president merely conjectures that plaintiff knew about it. She also claims that defendant's trade catalogues mentioned an exclusive arrangement. (Deposition of Maureen Cole ["Cole Dep."], Adler Dec. Ex. G, at 30-31). But, when asked to produce any such catalogues or other proof, defendant disclosed nothing.

Plaintiff's president testified that he would have remembered if an exclusive arrangement had been in effect, and he has no such memory. (Deposition of Marek Stanzel ["Stanzel Dep."], Adler Dec. Ex. H, at 14; *cf. id.* at 15 ("At that time I had no knowledge about any obligation to sell only Lilien.")). Furthermore, the only pertinent written evidence in this lawsuit evinces that plaintiff never treated its relationship with defendant as exclusive in a permanent or legally binding sense, and that defendant knew about but never corrected this supposedly misguided

assumption:

On December 23, 2005, plaintiff's director of sales wrote to defendant's sales manager as follows:

> Thank you for your proposals concerning new Lilien Promotion…. We need a real volume in the States — we are holding exclusivity on Lilien with you and would like to do the same in the future, but volumes should be higher. It is our task for the next few years. (Stmt. ¶ 36).

This correspondence reveals that plaintiff was permitting defendant to function as the *de facto* exclusive distributor of Lilien products in the United States at the end of 2005. But, the correspondence also shows that defendant did not know that a contract mandated a perpetual and irrevocable exclusivity. If plaintiff had perceived such a permanent, binding relationship, it would not have written that it "would like to do the same in the future" so long as defendant and the economy performed well enough. Rather, defendant would have remained *obliged* to "do the same in the future" regardless of sales volumes. Defendant apparently remained silent in the face of plaintiff's manifestation of its ignorance of the SDC. (Stmt. ¶ 37).[6]

Moreover, defendant began to violate crucial terms of the SDC well before plaintiff allegedly did so. (*See* Argument Point VI., *infra*). Yet plaintiff did not protest. This silence comprises further substantiation that plaintiff did not even know about the SDC.

The SDC is not mentioned in LP Purchase Agreement or in an exhaustive catalogue of contracts plaintiff assumed responsibility for when it bought the assets of the bankruptcy estate of the factory-owning corporation, Hotelový. (Stmt. ¶¶ 41-42, 44, 51; *see also* Friedrich Dec. ¶ 26

[6] On June 21, 2006, plaintiff again wrote to defendant, stating in part, "[W]e have been discussing opportunities how to increase our presence [in the] U.S. market. [Plaintiff] is acknowledging [defendant] as its prime and preferred partner and gateway to [the] U.S. market." (Stmt. ¶ 38). Defendant's president read this letter but did not respond to or question this comment. (*Id.* ¶ 39). While this 2006 communication does not specifically mention Lilien products, it once again sounds the refrain that defendant is merely a preferred partner and that, if plaintiff so desires, plaintiff can terminate the relationship without legal consequences. Again, defendant did not disabuse plaintiff of its allegedly mistaken belief.

(SDC never assigned to Hotelový)).

Nobody had informed plaintiff about the decades-old SDC. Thus, plaintiff did not manifest — and could not have manifested — consent to the assignment of the SDC to itself. So, too, defendant admits that defendant itself did not expressly consent to ÖSPAG, LP, or Oswald concerning any assignment of the SDC to or from such entities. (Stmt. ¶ 50).

In summary, no proof exists that any of the requisite consents (of ÖSPAG, LP, Oswald, plaintiff, or defendant) was in fact given or received. The SDC could not legally be transferred unless an unbroken chain of effective assignments occurred. As plaintiff's expert and other evidence amply demonstrates, that did not happen, so the SDC does not encumber the assignees. In other words, the SDC was extinguished and could not bind the instant parties. Therefore, the Court should dismiss the counterclaim, which is based solely upon an alleged breach of the SDC.

V.

THE SDC DID NOT SURVIVE AS AN OBLIGATION OF PLAINTIFF'S AFTER ITS PURCHASE OF LILIEN PORZELLAN'S INTELLECTUAL PROPERTY

As noted above, plaintiff bought intellectual property rights from Oswald, the liquidator of LP's bankruptcy estate. Even if, *arguendo*, the SDC had been validly assigned from ÖSPAG to LP to Oswald to plaintiff, it did not become an obligation of plaintiff's due to plaintiff's purchase of the "Lilien" brand from Oswald.

Austrian law expressly governs the Purchase Agreement between plaintiff and Oswald. (LP Purchase Agreement, Adler Dec. Ex. U, § 11). According to plaintiff's expert, Austrian law does not deem the SDC a license of intellectual property that survives the Oswald-to-plaintiff sale. (Friedrich Dec. ¶ 25). That is, under Austrian law, the sale of trademarks and design patents does not mandate an implied license in favor of an erstwhile distributor to continue to use such intellectual property. The LP Purchase Agreement confirms this understanding by declaring, *inter*

alia, that plaintiff "has sole right to dispose freely of the contractual trademarks and design patents… at its own discretion and to use and deploy these without restriction in all countries…." (LP Purchase Agreement § 7).

Plaintiff, thus permitted to use or license the "Lilien" brand and designs without restriction, never became beholden to a perpetual, exclusive distributorship. Instead, plaintiff chose to permit defendant to distribute Lilien brand goods at plaintiff's sufferance. The SDC did not survive the foreign asset sale. Therefore, the counterclaim based on plaintiff's alleged breach of the SDC must fail as a matter of law.

VI.

BY ENGAGING IN EXPRESSLY FORBIDDEN COMPETITIVE SALES, DEFENDANT BREACHED THE SDC BEFORE PLAINTIFF'S ALLEGED BREACH, THUS DISCHARGING ANY FURTHER OBLIGATION BY PLAINTIFF

In its counterclaim, defendant alleges that plaintiff breached the exclusivity arrangement in the SDC by selling Lilien brand products to a competitor. Defendant has no cause to complain, however, because it materially breached the SDC in two ways before any alleged violation by plaintiff. Defendant thereby in effect repudiated the SDC, and plaintiff then could permissibly disregard that contract.

In this section, we show that defendant engaged in sales expressly forbidden by the SDC.

Under New York law, the non-breaching party to a contract is discharged from further performance of its contractual obligations when the other party's breach is "material." *See, e.g.*, *Medical Malpractice Ins. Assoc. v. Hirsch (In re Lavigne)*, 114 F.3d 379, 387 (2d Cir. 1997).

The SDC contains only six paragraphs, and the first two constitute the critical ones. In paragraph one, ÖSPAG assigns the sole distributorship to defendant. (Stmt. ¶ 21). In paragraph two, defendant reciprocally "agrees not to sell any other hotel-crockery than LILIEN PORZELLAN, except hotel-crockery produced in the United States and Denby Stoneware and any

other ceramic product [defendant] currently distributes" as of October 19, 1984. (*Id.* ¶ 22).

Defendant admits that it sold such forbidden products. (*See id.* ¶¶ 24-25). Specifically, defendant admits that before January 1, 2009 but not before October 19, 1984 it sold hotel-crockery in the United States that was produced outside of the United States by or on behalf of (1) Steelite International and (2) Pillivuyt, or those entities' affiliates or agents. (*Id.* ¶¶ 26-27).

Undisputedly, plaintiff did not begin to sell or consign Lilien brand merchandise to defendant's competitor until the autumn of 2009 (*id.* ¶ 34), well after defendant's material breaches, which, by its own admissions and corroborated by other evidence, commenced before 2009 (*id.* ¶¶ 24-27). In other words, by the time of the acts defendant complains of in the counterclaim, plaintiff had already been discharged from its contractual responsibilities, by operation of law, due to defendant's prior, serious breaches. Hence, plaintiff could not have violated the SDC, and the counterclaim must fall.

Defendant may suggest that plaintiff waived its right to "walk away" from the SDC because plaintiff knew about defendant's sales of forbidden products but did not protest. This defense is meritless.

"Waiver is an intentional relinquishment of a known right and should not be lightly presumed." *Gilbert Frank Corp. v. Federal Ins. Co.*, 70 N.Y.2d 966, 968, 525 N.Y.S.2d 793 (1988). "There must be a clear manifestation of an intent by [the waiving party] to relinquish her known [contractual] right and mere silence, oversight or thoughtlessness in failing to object to a breach of the contract will not support a finding of waiver." *Kasper Global Collection & Brokers Inc. v. Global Cabinets & Furniture Mfrs., Inc.*, No. 10 CV 5715, 2013 U.S. Dist. LEXIS 95633, *66-67 (S.D.N.Y. Jul. 1, 2013) (quoting *Beth Israel Med. Ctr. v. Horizon Blue Cross & Blue Shield of N.J., Inc.*, 448 F.3d 573, 585 (2d Cir. 2006)).

Plaintiff herein could not have waived its rights under the SDC when defendant started to

break that agreement for the simple reason that, as detailed in Point IV. above, defendant did not even know about the SDC's existence. For example, at his deposition, plaintiff's president was asked, "[W]as Mrs. Cole or Minners free to sell porcelain manufactured by your competitors?," to which he replied, "[W]e were not ever of any obligation why Minners wouldn't be allowed to sell." (Stanzel Dep. at 16, lines 3-8; *see also id.* at 16, lines 9-16).

Of course, plaintiff could not intentionally relinquish a "known" right that it did not discern it possessed. *See Eastman Chem. Co. v. Nestlé Waters Mgmt. & Tech.*, No. 11 Civ. 2589, 2012 U.S. Dist. LEXIS 141281, *8-10 & n.1 (S.D.N.Y. Sep. 28, 2012) (a party cannot waive its contractual rights without knowledge of the other party's breach). Plaintiff did not protest defendant's material breaches because plaintiff did not realize defendant was betraying a legally-binding promise. Under the circumstances, plaintiff's silence did not and could not have excused defendant's violations. Those violations canceled any further obligation of plaintiff to comport with the SDC's strictures.

VII.

VIA REPEATED FAILURES TO PAY INVOICES, DEFENDANT AGAIN VIOLATED THE SDC BEFORE PLAINTIFF'S ALLEGED BREACH, THEREBY DISCHARGING PLAINTIFF'S DUTIES

Defendant breached the SDC in another way as well, by not paying many of its bills. (*See* Argument Point II., *supra*).

"The failure to tender payment is a material breach of a contract." *Jafari v. Wally Findlay Galleries*, 741 F. Supp. 64, 67-68 (S.D.N.Y. 1990). Such a material breach discharges the other party from its own contractual duties. *Id.* at 68; *see also, e.g., Imtrac Indus., Inc. v. Glassexport Co.*, No. 90 Civ. 1022, 1996 U.S. Dist. LEXIS 1022, *17-20 (S.D.N.Y. Feb. 1, 1996).

Refusal of an exclusive distributor to pay for the goods it receives must be characterized as a material breach of a perpetual exclusivity contract. Otherwise, an intolerable situation would

result, in which the seller could not legally change partners and would, literally forever, be at the mercy of a serially delinquent distributor. Surely, the law does not condone such a dilemma.

In the instant matter, defendant admits that it failed to pay numerous invoices well before plaintiff refused to sell more goods to it. Plaintiff was fulfilling defendant's orders for Lilien brand products as of May 31, 2008. (Stmt. ¶¶ 28-29). By that time, defendant was in arrears by over ten thousand dollars. Consequently, plaintiff was legally discharged from further performance under the SDC.

Defendant cannot marshal a cogent argument that plaintiff waived its right to full payment. In January 2009, the parties discussed plaintiff's position that it would not ship further products to defendant until the latter paid all amounts still outstanding. (Stmt. ¶ 30). Plaintiff confirmed its position and explained its rationale, which defendant accepted. (*Id.* ¶¶ 31-32). In subsequent emails in January and February 2009, plaintiff unequivocally stated that it would not sell additional product to defendant — unless and until defendant paid its "over-matured liabilities" in full. (*Id.* ¶ 33).

Then, on February 11, 2009, plaintiff's head of sales wrote to defendant's president and reiterated, "We have prepared further steps how to continue in our mutual business but before these steps will be discussed we must be clear on the outstanding payment = the amount of 72,000 USD must be paid." (*Id.*).

Soon thereafter, the parties signed the RBS. This sequence of writings exhibits plaintiff's stance, which it never retracted, that no further goods would be forthcoming until defendant tendered payment. In other words, plaintiff duly preserved its right to be relieved from its performance under the SDC due to defendant's breach (even though plaintiff did not perceive that the SDC existed).

Defendant persisted in its failure to fully pay — which is why plaintiff resorted to this

litigation. Defendant cannot now complain that plaintiff stopped shipping goods to it or was forced by defendant's misbehavior to conduct business with another distributor.

CONCLUSION

Based on the foregoing, plaintiff is entitled to summary judgment on all causes of action in the amended complaint. Plaintiff respectfully requests this Court to grant this motion and order judgment of $92,230.31 (the principal sum due on the invoices) plus statutory interest at an annual rate of 9%, costs, and such other and further relief as the Court deems just and proper. On multiple grounds, plaintiff is also entitled as a matter of law to the dismissal with prejudice of the counterclaim.

Dated: October 28, 2013
Hawthorne, New York

TRAUB LIEBERMAN STRAUS & SHREWSBERRY LLP

By: /s/ Stephen D. Straus

Stephen D. Straus (SS 6183)
Andrew N. Adler (AA 7923)
Mid-Westchester Executive Park
Seven Skyline Drive
Hawthorne, New York 10532
(914) 347-2600
sstraus@traublieberman.com

Attorneys for Plaintiff