To commence the statutory time period of appeals as of right (CPLR 5513[a]), you are advised to serve a copy of this order, with notice of entry, upon all parties.

FILED AND ENTERED
ON MAY ____ 2012
WESTCHESTER
COUNTY CLERK

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF WESTCHESTER
COMMERCIAL DIVISION

Present: HON. ALAN D. SCHEINKMAN,
Justice.

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KONINKLIJKE PHILIPS ELECTRONICS N.V.,

Plaintiff,

-against-

COBY ELECTRONICS CORPORATION,

Defendant.

--X

Index No. 14936/10

Motion Seq. # 005, 006
Motion Date: February 3, 2012

DECISION & ORDER

Scheinkman, J:

Defendant Coby Electronics Corporation ("Coby" or "Coby USA" or "Defendant") moves, pursuant to CPLR 3212, for an order granting it summary judgment dismissing the Complaint of Plaintiff Koninklijke Philips Electronics, N.V. ("Philips" or "Plaintiff") (Motion Seq. #5). Philips opposes the motion. Philips moves, pursuant to CPLR 3212, for partial summary judgment on its breach of contract claim (liability only) and to dismiss the counterclaims of tortious interference with business relations and unfair competition asserted by Coby (Motion Seq. #6). Coby opposes the motion. The motions are consolidated for disposition.

FACTUAL BACKGROUND

This Court has already rendered two detailed decisions on motions in this case: (1) a Decision and Order on Philips' motion to dismiss Coby's defenses and counterclaims dated January 18, 2011 (the "January 2011 Decision"), and (2) a Decision and Order on Coby's Motion to Compel dated October 20, 2011 (the "October 2011 Decision"). Familiarity with the substance of those Decisions is assumed for the purposes of this determination. In the January 2011 Decision, the Court dismissed Coby's Second (Fraud), Sixth (Abuse of Process) and Seventh (Rescission based on Duress/Unconscionability) Counterclaims and Coby's Fourth, Sixth and Seventh Affirmative Defenses. In the October 2011 Decision, discussed *infra*, the Court denied Coby's motion to compel certain disclosure from Philips.

The action was commenced by the filing of a Summons and Complaint on June 9, 2010. A summary of this action was already detailed in this Court's January 2011 Decision. A brief review is essential to putting the present motions into context.

The Complaint contains a single cause of action alleging more than $20 million in damages flowing from claimed breaches by Coby of a number of re-seller agreements (and side letter agreements to these re-seller agreements) permitting Coby to distribute DVD players in the United States. Based on the submissions of the parties, there does not seem to be any dispute that Coby only resells DVD players manufactured by its affiliate - Coby Electronics Co. Ltd. (Coby China). Philips claims that it had a patent licensing agreement with Coby China which allowed the manufacture of DVD players that would otherwise infringe Plaintiff's patents and these re-seller agreements obligated Defendant to pay the royalties on such licenses in the event the Coby China failed to do so.[1] According to Plaintiff, to address Defendant's breaches of the Re-seller Agreements, the parties entered into two different workout agreements – one in 2007 and one in 2009. Plaintiff claims that Defendant breached the underlying agreements and both of the workout agreements; hence, the claim for more than $20 million in damages.

On or about August 23, 2010, Coby answered the Complaint, denying its material allegations, asserting seven affirmative defenses and interposing seven counterclaims.

According to Coby, it is a seller and distributor of consumer electronic products, offering over 250 different audio and video products in various consumer electronics categories (Answer, Counterclaim at ¶ 4). Coby states that it imports and sells products, including DVD players, that it purchases from Coby China (*id.* at ¶ 5). Coby asserts that it is a relatively small, privately held company in the consumer electronics market but despite its size, it is well recognized in the United States, particularly in the DVD player market where it is

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[1] Although the Complaint lists and attaches a total of 8 agreements, Philips has made clear that it is only seeking partial summary judgment on its breach of contract claim with regard to the two re-seller and side letter agreements (leaving the third re-seller/side letter agreements involving DTS technology for trial - Philips' Mem. of Law at 6, n.3). The two re-seller and side letter agreements at issue on Philips' motion are:

(1) Authorized Re-Seller Agreement for DVD Video Players Incorporating AC-3 Technology dated 6/1/05 (the "DVD Re-Seller Agreement") and the side-letter agreement thereto dated October 31, 2005; and

(2) Patent Non-Assertion and Authorized Re-Seller Agreement for DVD Video Players Incorporating AC-3 Technology dated 6/1/05 (the "AC-3 Re-Seller Agreement") and the side-letter agreement thereto dated October 31, 2005.

These two are referred to collectively as "Re-Seller and Side Letter Agreements").

Coby's motion is predicated on Philips' breach with regard to two clauses that are virtually identical in these two agreements as well as well as in a third set: Patent Non-Assertion and Authorized Re-Seller Agreement for DVD Video Players Incorporating DTS Technology dated June 1, 2005 ("DTS Re-Seller Agreement") and the side-letter agreement thereto dated October 31, 2005.

considered one of the top 10 best selling brands of standard DVD players in the United States (*id*. at ¶ 7). By contrast, Philips is described as one of the largest companies in the world with a market value of $29.36 billion (*id*. at ¶ 8). Defendant contends that “Philips-brand DVD players are in direct competition with Coby-brand DVD players in the consumer electronics market” (*id.* at ¶ 10). Coby asserts that it is Philips’ position that “every DVD player that it manufactured or sold requires a license under the Philips DVD player patents” (*id.* at ¶ 12).

Coby alleges, upon information and belief, that it was “the first U.S. company to agree to enter into a re-seller agreement with Philips for DVD players” (*id*. at ¶ 18). Coby asserts that Philips exerted pressure on Coby to enter into the Re-Seller Agreements including: demanding over $10 million from Coby in royalty payments for past sales of DVD players, demanding that Coby exert pressure on Coby China to enter into a manufacturing license agreement with Philips, demanding an accounting for Coby’s past shipments into the United States, threatening Coby with U.S Customs seizures of Coby’s inbound DVD players, and threatening that Philips “would shut down Coby’s suppliers of DVD players” (*id.* at ¶ 24).

Coby asserts that “[t]o ensure that Coby, by entering into the Re-Seller Agreements with Philips, would not be placed at a competitive disadvantage relative to the other companies that sell DVD players, the Side Letters to the Re-Seller Agreements included two ‘Most Favorable Conditions’ (’MFC’) clauses as well as a best efforts clause” (Counterclaims at ¶¶ 21-23).

Coby claims that, based on these material clauses, it understood that “Philips would make best efforts to enter into agreements with all sellers of DVD players in the United States, including Coby’s competitors, and this understanding formed the basis for Coby to execute the Re-Seller Agreements and related agreements” (*id.* at ¶ 26).

Coby alleges that it notified Philips and/or Philips was aware of unauthorized resellers who were selling unlicensed DVD players in the United States in competition with Coby and lists as examples, Haier, Supersonic, and Etech, but that, upon information and belief, Philips did not enter into Re-Seller Agreements with these resellers and has not collected royalties from them (*id.* at ¶ 38). Coby claims that it is aware of at least 170 unlicensed manufacturers and numerous unauthorized resellers of DVD players and that Philips has not pursued these unlicensed manufacturers and resellers with “the same amount of effort that it pursued Coby” (*id.* at ¶ 39).

It is Coby’s position that, based on Philips’ wilful inaction, Philips has granted these manufacturers and resellers effective royalty rates equal or close to zero (*id.* at ¶ 41). Therefore, Coby argues, under the MFC clauses, “Coby has been and continues to be ‘entitled to the same royalty rate as applicable to such third party’ that has effectively paid zero royalty payments to Philips” (*id.* at ¶ 43). Coby contends that by requiring that it pay royalty amounts at a rate that exceeded that paid by numerous third parties, Philips breached the material obligations under the agreements.

In its First Counterclaim for breach of contract, Coby asserts that despite its fulfilment of all material obligations of the Re-Seller Agreements and related agreements, Philips has materially breached these agreements by (1) “failing to use its best efforts to enter into re-seller agreements with all distributors of DVD Players in the United States" (*id*. at ¶ 90); (2) "violating the Most Favorable Conditions clauses of the Side Letters by taking royalty payments from Coby and Coby China at a royalty rate that exceeded the lowest royalty rate that Philips effectively granted to third party manufacturers and distributors of DVD players" (*id*. at ¶ 92); and (3) "violating the Most Favorable Conditions clauses of the Side Letters by failing to offer the more favorable 'material terms' it provided to other manufacturers and distributors of DVD players" (*id*. at ¶ 93).[2] Coby claims that it and Coby China overpaid royalties for DVD players sought in the United States by over $14 million (*id.* at ¶¶ 92, 94).

In support of its Third and Fourth Counterclaims for tortious interference with business relations and unfair competition, respectively, Defendant claims that on or about January 9, 2009, Philips sent letters to retailers which attached a list of companies it claimed were selling unlicensed DVD player and that Coby China was identified on the list. Coby claims that Philips sent this letter to Coby's clients, including Sears, and "that as a result of Philips' false assertions that Coby and/or Coby China is or are 'unlicensed,' Coby has lost large volumes of sales of DVD players and other electronics products to these clients" (*id*. at ¶ 52). Coby further asserts that on or about October 21, 2009, Philips sent a letter to Coby's customers threatening court action and possible triple damages for their willful infringement in purchasing unlicensed products provided by Coby and directing that the customers immediately switch to a licensed producer to avoid additional liability (*id*. at ¶ 53). Coby claims that because of these "letter writing campaigns, Coby has lost substantial sales of DVD players and other electronics products, including large customer accounts" and that these letters have "caused potential new customers to avoid conducting business with Coby" and "damaged Coby's reputation and good will and ... the Coby brand name" (*id*. at ¶ 57). Coby claims that as a result of these false accusations and threats to Coby's customers that they would be sued if they continued to purchase DVD players from Coby, "Philips willfully redirected retailers' and distribution centers' purchase of DVD players from Coby in favor of other re-sellers of DVD players of Philips' choosing" and further caused the retailers and distribution centers to put their own pressure on Coby to accede to Philips' demands for additional royalty payments (*id*. at ¶ 104). Coby asserts that Philips wrongfully interfered with Coby's current and prospective customers and, as a result, Coby has suffered damages in the form of lost sales and profits from existing customers and potential new customers and harm to its reputation, good will and brand name. And, alleges Coby, because Philips engaged in

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[2] Coby's contentions are focused on the granting of lower royalty rates by Philips to other resellers either by failing to enter into re-seller agreements with such resellers (thereby granting them an "effective" royalty rate of zero) or by granting to such resellers lower "effective" rates – *i.e.,* rates lower than those set forth in the contracts. During discovery, Coby sought to obtain all negotiation documents, communications, and financial records involving each of Philips' hundreds of licensees. Philips opposed this request, on the ground, *inter alia*, that the evidence it already disclosed showed that, except in connection with negotiated settlements, the rates published in the relevant agreements were the rates paid. Coby contended that the MFC exclusion for "settlements" was limited to settlements of a court action and settlements following a procedurally specific conferences. For the reasons expressed in the October 2011 Decision, this Court did not agree with Coby's position and denied the requested discovery.

this behavior in wanton and willful disregard of Coby's rights, Philips is liable for punitive damages (*id*. at ¶ 109).

Coby also asserts that Philips' "unfair business practices and unfair licensing practices have unfairly placed Coby at a competitive disadvantage against Coby's competitors in the DVD player market ...." (*id*. at ¶ 61). These unfair practices include Philips' refusal to reduce the royalty rates it charged despite the drastic reduction in sales prices of DVD players as well as the expiration of numerous essential patents and "Philips' selective enforcement and willful inaction against unlicensed manufacturers and unauthorized re-sellers of DVD players and ... repeated demands for additional royalties it knew it was not entitled to under the terms of the Re-Seller Agreements and Side-Letters [which] have forced Coby to incur royalty costs not incurred by Coby's competitors" (*id*. at ¶ 59). These unfair licensing practices are further alleged to have caused Coby to be less competitive price-wise and "at a competitive disadvantage against Coby's competitors, including Philips and re-sellers of Philips-brand DVD players" (*id*. at ¶ 115). Coby seeks the same unspecified damages in the form of lost sales and profits and punitive damages as set forth in the Third Counterclaim.

The parties appeared for a preliminary conference on January 7, 2011 and the Court set a discovery-cut off date for August 16, 2011 and a trial readiness conference for August 9, 2011. However, there were several discovery disputes, one of which resulted in motion practice in connection with Coby's effort to compel disclosure with regard to Philips' general course of dealing with its resellers to show that Philips violated the MFC clause. The Court issued the October 2011 Decision, denying Coby the discovery sought (*see supra*, n.2). Thereafter, the Court issued a Trial Readiness Order on October 27, 2011 certifying that all discovery was complete and setting forth the schedule for all summary judgment motions. These motions ensued.

THE PARTIES' CONTENTIONS

I. COBY'S MOTION FOR SUMMARY JUDGMENT

A. Coby's Contentions in Support of its Motion

Coby requests that this Court grant it summary judgment dismissing Philips' Complaint since the only cause of action asserted in the Complaint is for breach of contract and, says Coby, the evidence Coby obtained during discovery irrefutably shows that Philips breached the clause in the Side Letter Agreements to the Re-Seller Agreements[3] requiring that it use its best efforts to enter into re-seller agreements with all distributors of DVD players

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[3] The best-effort provisions are found at Clause 47 of the Side Letter Agreement to the DVD Re-Seller Agreement, Clause 38 of the Side Letter Agreement to the AC-3 Re-Seller Agreement, and Clause 38 of the Side Letter Agreement to the DTS Re-Seller Agreement.

in the United States.[4] Coby contends that, since Philips cannot show that it has performed all of its material obligations under these agreements, Coby is entitled to summary judgment.

Coby's second basis for dismissal is premised on its contention that Philips breached the provision requiring that it send an invoice to Coby within a specified period setting forth the amounts due[5] and because Philips failed to do so, Coby's obligation as guarantor of Coby China's license obligations never ripened. Because this argument is predicated upon the provisions of the Re-Seller Agreements, it does not deal with Philips' claims to the extent that they arise under the 2007 and/or 2009 workout agreements.

In support, Coby submits an affirmation from its attorney, Eric Syu, Esq., which attaches the pleadings, Philips' Second Supplemental Answers and Objections to Defendant's First Set of Interrogatories, Coby's First Set of Requests for the Production of Documents and Things, the Re-Seller Agreements and Side Letter Agreements, deposition excerpts from the depositions of (1) Brian Wieghaus (Philips' Principal Attorney and Program Manager, Prerecorded Disks for Optical Licensing)[6]; (2) William Lenihan (Philips Director, Optical Licensing); (3) Richard Goldberg (Coby's Former Executive Vice-President in charge of negotiating the Re-Seller and Side Letter Agreements)[7]; (4) Sintia Bos (Philips' employee involved in business intelligence); (5) Robert Van Eijk (Philips Vice President for Intellectual Property & Standards ["IPS"] Licensing), (6) Abel Urbina (Philips Manager, IPS Licensing), (7) Ben Beune (Philips Senior Vice President, IPS); (8) Joey Fu (Philips' employee in charge of preparing the Market Education Letters); (9) John Giametta (Coby's Vice President of Sales); (10) Sam Oh (Coby's Chief Operating Officer); copy of the page from the Dictionary of Business defining "distributor"; correspondence from Coby China and Coby to Philips alerting Philips to various competitors selling DVD players without re-seller agreements and requesting, *inter alia*, that Philips report on its efforts to execute similar re-seller agreements with such competitors (Affirmation of Eric Syu, Esq. dated December 15, 2011 ["Syu Dec Aff."], Exs. 9, 35, 38, 40 [Haier and RJ Technologies]; Exs. 36-37 [Etech, Alak and GPX]; Ex. 39 [Supersonic and Jwin]; an example of the disputed Philips' "Market Education Letter" (hereinafter "MEL"), that forms the basis for Coby's counterclaims for tortious interference and unfair competition (Ex. 10), Philips' letters to distributors of DVD players advising them of their

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[4] According to Coby, the agreements took 18 months to negotiate and Philips proposed what became the final language of the best efforts clause (Coby's Rule 19-a Stmt. at ¶¶17-20).

[5] The provisions are Clause 7 of the Side Letter Agreement to the DVD Re-Seller Agreement, Clause 4 of the Side Letter Agreement to the AC-3 Re-Seller Agreement, and Clause 4 of the Side Letter Agreement to the DTS Re-Seller Agreement.

[6] According to Coby, Wieghaus was Philips' designee to testify about Philips' efforts in trying to sign up other resellers, but was unable to do so (*see* Wieghaus Tr., Ex. 42 to the Affirmation of Eric Syu, Esq. dated December 15, 2011 ["Syu Dec. Aff."]).

[7] Goldberg testified that best efforts clause was there so that Philips would use "the full force of its offices on all competitors that were not signed or were believed to be unlicensed" (Syu Dec. Aff., Ex. 45 at 81).

unauthorized selling of unlicensed DVD players that infringed on Philips' patents and advising how to protect against being sued for infringement (Ex. 11- 8/5/05 letter to General Sound Corp.; Ex. 13- 7/28/05 letter to Mintek Digital Inc.; Ex. 14-12/23/04 letter to Mintek Digital Inc.; Ex. 23 - 4/21/06 letter to Haier; Ex. 33 - email to Haier dated 4/7/09); a transcript from the conference held before this Court on 1/7/11, and an email exchange between counsel concerning the Wieghaus deposition. Also attached are internal communications among Philips' employees concerning, *inter alia*, the intelligence they had obtained concerning infringing DVD player distributors and the efforts they were undertaking to either get such distributors signed up or institute patent infringement lawsuits (*see* Syu Dec. Aff., Exs. 12 (Starlight), 15 (Broksonic), 16 (Haier), 17-18 and 34 (Naxa and Supersonic), 19, 24 and 25 (Terapin Tech, KXD, Mustek, Mintek Digital, and AMW), 21 (Insignia OP Wuxi**,** Best Buy, and Action Electronics).

The Syu Affirmation also attaches early correspondence between Philips and Coby leading up to the negotiations between the parties wherein Philips made various representations that it would be requiring "all resellers of DVD Players in the USA [to] enter into the (i) reseller agreement, (ii) report subsequent units sold & (iii) pay running royalties (iv) $3.50 per player (iv) $0.20 per channel of AC-3 (5.1 Dolby) up to a max. of $0.60 per player" (Email from Bill Lenihan [Philips] to Richard Goldberg [Coby USA] dated 4/5/04, Syu Dec. Aff., Ex. 29). In another email dated 8/30/04, Lenihan wrote to Goldberg and stated that the goal with regard to the Re-Seller Agreement was to (1) protect Coby USA going forward to resolve past due liabilities, and (2) "gain [Coby USA's] confidence that [Philips is] applying similar pressure against those who elect not to cooperate and thereby willfully infringe" (*id.*, Ex. 30). He also attaches correspondence between the parties evidencing the parties' negotiations to show the meaning to be subscribed to the best efforts clause[8] (*id.,* Ex. 32).

Coby contends, and it is undisputed for the purposes of this motion, that Philips engages in market intelligence relying on market reports from NPD, PIERS and Zepol and that Philips produced at least 7,000 pages of this market intelligence in its production (Coby's 19-a Stmt. at ¶¶ 25-26; Philips' Response to 19-a Stmt. ¶¶ 25-26). Coby also relies on a document produced by Philips that it compiled from NPD market information showing, *inter alia,* the companies selling DVD products and their sales figures (Syu Dec. Aff., Ex. 31) (hereinafter "Exhibit 31").[9] Accordingly, it is Coby's position that Philips knew the entities that it needed to

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[8] This evidence may be considered only if the Court finds the provisions at issue ambiguous such that parol evidence is properly admissible.

[9] In its opposition, Philips disputes that Exhibit 31 reflects only DVD sales and also denies that the numbers are accurate. Philips claims that these sales figures are inaccurate since they include "sales of irrelevant products such as DVD Recorders and Blu-ray Players" and further the "information is not comprehensive and does not capture the true sales figures of any branded product" (*see, e.g.*, Philips' Response to Rule 19-a Stmt. at ¶¶ 34, 123, *citing* Ex. 27 to Affirmation of Joseph Yu dated January 19, 2012 ["Yu Jan. Aff"]). Exhibit 27 is an email from Maurice Vlems (Philips' Business Intelligence, IPS) dated March 6, 2008, which states that the data from NPD is incomplete since it "does not have full coverage on USA sales, estimation is 60-70%. For example, Walmart is not included" and does not "cover 'normal product channels' meaning retail which have DVD

pursue to enter into re-seller agreements to comply with this best efforts clause.

Based on the following evidence, Coby argues that it has established Philips' breach of the best efforts clause as a matter of law: (1) the letter from Coby's outside counsel, A. John P. Mancini, Esq. (Mayer, Brown, Rowe & Maw LLP) to Wieghaus dated December 6, 2005 identifying 39 Coby competitors[10] and requesting that Philips report on its efforts in entering into re-seller agreements with such competitors (Syu Dec. Aff., Ex. 9 [hereinafter "Mancini Letter"]); (2) the additional correspondence from Coby noted above; (3) Exhibit 31; (4) the fact that in all of the 74,000 pages of documents produced by Philips concerning its efforts in entering into re-seller agreements, there were no documents produced concerning any efforts made by Philips to sign up 18 U.S. DVD Player brands and/or distributors[11] (all of which except for Electro Brand, Inc., Designer Vision, General Sound, Sakar, and Spectra Merchandising are found on Exhibit 31); and (5) Wieghaus's admissions during his deposition that no efforts were made with such companies to have them enter into re-seller agreements.

Coby also relies on the fact that Philips did not seek to enter into re-seller agreements with retailers (*see* Coby's Rule 19-a Stmt. and Philips' Response at ¶¶ 110-112). One such retailer that Philips failed to pursue was Best Buy with its Insignia brand label.

Players/Recorders as standard product range" (Yu Jan. Aff., Ex. 27).

[10] The 39 companies were AMW, Apex, Astar, Audiovox, Axion, Broksonic (DVD brand distributed by Hatzlachh Supply Inc. - Coby's Rule 19-a Stmt. at ¶ 34), Classic, Craig Electronics, Curtis, Cyberhome, Daytek, Digitrex, Dual Electronics (Namsung America), Dynex, Electro Brand, Emerson, General Sound, GPW, Insignia (Best Buy), Jwin, Lasonic, Lennox, Maxent/Regent USA, Memorex USA, Memcorp, Miniek/Initial, Mustek, Naxa Electronics, NESA (Addvision), Nexxtech, Norcent, Polaroid/Petters, Prosonic, Protron, Sakar, Shinsonic Multi Media, Sungale, Spectra Merchandising, Supersonic, Unirex.

[11] The 18 companies and/or DVD player brands that Philips concedes, based on its response to Coby's Rule 19-a statement, that it did not pursue to enter into re-seller agreements (together with their corresponding sales of DVD players during the years 2005-2010 which is used to contrast against the 2,221,770 DVD players Coby sold during this same period) are: Acomdata (12,457), Aundxion (410,568), Broksonic (25,088) (DVD brand distributed by Hatzlachh Supply Inc. - Coby's Rule 19-a Stmt. at ¶ 34), Buffalo Technology (1,294), Digix Media (10,043), Designer Vision (zero because Designer Vision is not listed on Exhibit 31), Electro Brand, Inc. (zero because Electro Brand is not listed on Exhibit 31), Envizen Digital (4,822), General Sound (zero because General Sound is not listed on Exhibit 31), HUMAX (even though HUMAX is listed on Exhibit 31, the data involved involves sales of irrelevant products and, therefore, according to Philips, its sales of DVD players were zero), Klipsch (9,533), KLH Audio Systems (24,388), Polk (6.437), Rotel (13,089), Sakar (zero because Sakar is not listed on Exhibit 31), Spectra Merchandising (zero because Spectra Merchandising is not listed on Exhibit 31), ViewSonic (6,359) and Westinghouse (7,744). Philips also provides a document evidencing that Designer Vision was put into administration (a process by which a company attempts to reorganize and restructure) since April 2007 (Yu Jan. Aff., Ex. 50) and Philips states that the company is now in liquidation (Philips' Response to Rule 19-a Stmt. at ¶ 56).

Coby argues that while Philips made some contact with the Haier, Mintek Digital, AMW and Supersonic, the effort was minimal, did not result in the execution of re-seller agreements, and did not meet the best efforts required of Philips (*see* Coby's Rule 19-a Stmt. at ¶¶ 114-116, 118, 119). Coby points out that it had notified Philips about its desire that Philips try to sign-up Initial Technology to a re-seller agreement in the Mancini Letter. Coby asserts that while Philips made some contact with Initial Technology and was advised that its supplier was Jiangsu Electronics Group Co. However, because there was some doubt about the supplier, Philips' Senior Intellectual Property Counsel Christopher Horgan had agreed to follow up but never did (id. at ¶ 117).

In support of its alternative theory of breach based on Philips' failure to invoice Coby, Coby merely states that Philips never invoiced Coby for any amounts due and as proof, Coby asserts that despite its requests that Philips produce any such invoices, no such invoices have been produced (Coby's Rule 19-a Stmt. at ¶¶ 120-122).

As its legal argument, Coby asserts that the best efforts clause is clear and unambiguous in its terms and required that: (1) Philips use its best efforts towards all distributors of DVD players in the U.S.; (2) that such best efforts meant, at a minimum, that Philips ask Coby's competitors to sign re-seller agreements "even if it is established that such competitor sold DVD Players from licensed manufacturers;" and (3) that Philips' best efforts with other distributors would be measured within the framework of the best efforts Philips used to have Coby enter into the re-seller agreement (Coby Mem. of Law at 15). Although distributors is an undefined term, Coby argues that the term is "broadly understood to mean a 'company which sells goods for another company which makes them'" (*id., quoting* definition of distributor from the Dictionary of Business, Syu Dec. Aff., Ex. 58). Coby further points out that the breadth of the clause "is ... demonstrated by its inclusion, 'without limitation,' of 'Coby's competitors' in the universe of 'all distributors.' Coby's competitors included any entity selling DVD players in the U.S." (*id.* at 16). As an example, Coby asserts that Best Buy, which sold DVDs under its private label Insignia, was a competitor of Coby's (*id.*).

Anticipating Philips' opposition, Coby argues that distributors are not limited to entities with a certain market share or sales volume nor do they exclude wholesalers or retailers. Because Coby says that the point of the best efforts clause was to level the competitive playing field for Coby – Coby asserts that what is insignificant to Philips "may have a material impact on Coby with its 2.4% market share in 2005" (*id.* at 16).

Coby argues that Philips' efforts with other distributors came nowhere near the efforts it made to get Coby signed up over an 18 month period and Philips has admitted that it "does not pursue distributors (1) whose 'volumes are insignificant,' [according to Lenihan's deposition testimony], those with less than 1% of the market and possibly even those with up to 10% of the market" (Coby Mem. of Law at 20); (2) who are retailers or wholesalers of DVD players, or (3) who sell DVD players as part of computers (*id., citing* Coby's Rule 19-a Stmt. at ¶¶ 29-31, 110).

Coby argues that, even if Philips' conduct is not to be measured by the efforts made to sign Coby up, the standard for best efforts under New York law is the exercise of greater care and diligence beyond mere reasonable care and diligence and requires that a plaintiff pursue all reasonable methods based on the party's own capabilities. Thus, Coby asserts, "Philips was obligated to ... actively and diligently seek to obtain re-seller agreements with all U.S. DVD player distributors ... [and] [t]he record is indisputable that Philips failed to do so" (*id.* at 18). Coby argues that given "Philips' vast resources and market intelligence, its capabilities to exert 'best efforts' to get other DVD player distributors to enter into re-seller agreements were significant" (*id.* at 19). Yet, based on the deposition testimony of Lenihan and Wieghaus, Philips did nothing to line up reseller agreements with the 18 distributors (*id.* at 20). Coby also points out that it is undisputed that Philips did not enter into re-seller agreements with any retailers or any distributors of DVDs in computers.

Coby concludes that Philips' efforts did not even rise to the level of good faith efforts let alone all reasonable methods to the extent of its total capabilities (*id.* at 23).

With regard to its alternative breach based on Philips' failure to invoice Coby for sums due, which Coby contends excused its performance, Coby argues that the Re-Seller Agreements are a form of "guaranty contract, under which Coby's suppliers are principal obligors, Philips is obligee, and Coby is guarantor" and "'[w]here a contract of guarantee specifically provides for notice of default, the failure to give such notice discharges the guarantor's obligations'" (*id.* at 24-25, *quoting Pergament v Herrick Credit Corp.,* 200 NYS2d 535, 540 [Sup Ct Kings County 1960]).

Coby quotes the language from the invoicing clause and argues that based on the timing requirements, Coby's obligation to pay was not triggered until after Philips sent Coby an invoice for payments that had not been made by Coby's supplier.

B. Philips' Opposition

In opposition, Philips provides a Response to Coby's Rule 19-a Statement, an attorney affirmation attaching, *inter alia,* deposition transcripts and documents upon which Philips relies in its Opposition Memorandum, and an affirmation from Brian J. Wieghaus.[12]

In his affirmation, Wieghaus explains why certain companies referenced in Coby's moving papers should not properly be considered companies as to which Philips had an obligation to attempt to enter into re-seller agreements, namely

(1) Action Electronic Co., Ltd. as it "has a current active patent

[12] Wieghaus' affirmation is labeled an affirmation "in support" of Plaintiff's opposition. This nomenclature is confusing and the labeling made it unduly difficult to locate this affidavit amidst the extensive papers submitted. The use of an affirmation is also questionable (though Coby has not raised this point) given that the basis for the use of an affirmation is that Wieghaus is an attorney admitted in New York. However, Wieghaus is an employee of a party, making the use of an affirmation inappropriate (*see Sassower v Greenspan, Kanarek, Jaffe & Funk*, 121 AD2d 549 [2d Dept 1986]). Had this defect been raised by Coby, the defect could have been cured; as there is little point to delaying this decision while the defect is cured, the Court will consider it waived by Coby's non-objection (*see Akamnonu v Rodriguez*, 12 AD3d 187 [1st Dept 2004]).

> license agreement to manufacture and sell products incorporating DVD Player technology";
>
> (2) Starlight Video Limited (a supplier of DVD players to Best Buy) has a current active patent license agreement to manufacture and sell products incorporating DVD Player technology and in July 2007, Philips entered into a settlement with Starlight and other entities for the under-reporting of sales (*see also* Philips Response to Rule 19-a Stmt. at ¶ 111);
>
> (3) In May 2005, Philips sued Orient Power Digital Technology Co. Ltd. (the parent of OP Wuxi, one of the unlicensed suppliers to Best Buy) for patent infringement related to DVD Player technology (*see also* Philips Response to Rule 19-a Stmt. at ¶ 111; and ¶ 113 [Best Buy's brand of DVD player, Insignia, is not listed as having any sales of DVD players during the relevant time period based on Exhibit 31]).
>
> (4) Jiangsu Shinco Electronics Group Co., Ltd. has an active patent license agreement to manufacture and sell products incorporating DVD Player technology during the whole period that the Re-Seller Agreements between Philips and Coby were in place (Affirmation of Brian Wieghaus dated January 19, 2012 ["Wieghaus Jan. Aff."] at ¶¶ 5-7, 14)

He further asserts that although Philips was aware of various companies that sold DVD Players in the United States based on its market intelligence, it used its business judgment to prioritize which companies it approached at a given time to enter into reseller agreements, and which companies it focused on at a given time. That assessment depended upon a number of factors, including, but not limited to, the number of DVD Players understood to be sold by the company, whether the company was understood to be already operating within a licensed framework, and the willingness of the company to engage in discussion with Philips (Wieghaus Jan. Aff. at ¶ 2; *see also* Philips' Response to 19-a Stmt. at ¶ 34).

Another purpose of the Wieghaus affirmation is attach as an exhibit the letter he sent to Coby's outside counsel, A. John P. Mancini, Esq. during the negotiation of the Side Letters to the Re-Seller Agreements and to explain what he, Wieghaus, meant when he said, in the course of negotiating the Side Letters to the Re-Seller Agreements:

> 17. Clause 12.9 is amended to state that we will discuss progress and that Coby's sole and exclusive remedy if it is not happy with Philip's level playing field efforts is to terminate the Agreement on 30 days notice. (in which case it would be in the same position as other's w/o a Re-Seller Agreement)

which was "that just like other companies who did not have a reseller agreement with Philips, we would try to monitor the market to determine whether Coby USA was importing and selling duly licensed DVD products. If we made the determination that Coby USA was selling DVD products that were not duly licensed, we would make a business decision as to next steps, which could include, but [were] not limited to, negotiating with Coby USA to pay royalties on unlicensed DVD products, sending market education letters to companies listing Coby USA as unlicensed, and initiating infringement litigation" (Wieghaus Jan. Aff. at ¶ 4).

Wieghaus also reviews the features of Philips' website and MELs, both of which are components of Philips' licensing strategy.

In broad strokes, Philips' opposition is that Coby's recitation of Philips' failures with regard to re-seller agreements is irrelevant since even if Philips failed to make the requisite best efforts, it still has tendered substantial performance under the Re-Seller Agreements sufficient for it to recover for Coby's breaches. In this regard, Philips asserts that there were three primary purposes for the Re-Seller Agreements, the benefits of which Coby received – *i.e.,* "(1) to be able to legitimately and properly sell licensed DVD Players in the United States, (2) to market its status as an authorized reseller to its current and potential customers, and (3) to avoid suit by Philips" (Philips' Opp. Mem. at 4). In short, Philips contends that the best efforts clause was an immaterial provision in the Re-Seller Agreements such that any breach by Philips would be insufficient to excuse Coby's performance.

Alternatively, Philips argues that the best efforts clause is unenforceable under New York law because the clause lacks the requisite guidelines and criteria to be an enforceable obligation and Coby's interpretation of the clause is unreasonable and inconsistent with the purpose of the Re-Seller Agreements.[13]

In opposition to the branch of Coby's motion which seeks summary judgment dismissing the complaint based on Philips' alleged breach of the invoicing clause, Philips asserts that because Coby and Coby China colluded in a scheme to under-report the number of DVD Players, thus preventing Philips from providing proper invoices, Coby should be estopped from raising this defense (*see* Philips' Opp. Mem. at 22-24). Philips also contends that Coby is not a true guarantor and the law of guarantees should not be applied to the Re-Seller Agreements (*id* at 20-22).

With regard to Philips' substantial performance argument, Philips argues that even if it is assumed that it breached the best efforts clause, the breach is immaterial as a matter of law:

> First, since that clause required Philips only to make efforts to sign up other companies and imposed no express obligation to actually enter into agreements with any number of companies, Coby USA was not guaranteed any specific benefit from that clause. There is

[13]In response to Coby's argument that this framework is what was proposed by Philips' counsel (Coby Mem. of Law at 21), Philips asserts that the language was agreed to by Coby's sophisticated counsel and although it is clear that the parties "disagree as to the *meaning* of the term, it cannot be denied that both parties agreed to the *language*" (Philips' Opp. Mem. at 15, n. 9).

> no basis to speculate whether Philips would have been able to sign up additional companies if it had made the efforts that Coby USA now suggests it should have, or, more importantly, whether signing up such companies would have had any effect on Coby USA's competitive standing. The hypothetical harms that Coby USA may claim it suffered due to Philips' alleged breach of the "best efforts" clause are insufficient to make that alleged breach material ....
>
> * * *
>
> Second, Coby USA had the opportunity to terminate the [re-seller agreements] if it felt that Philips was not making sufficient efforts to sign up resellers. In fact, given the difficulties inherent in evaluating Philips's efforts to sign up additional resellers, this right to terminate was specifically identified as Coby USA's *sole remedy* in the event that Coby USA determined that Philips's efforts were insufficient ... The Court should hold that Coby USA's decision not to terminate the [re-seller agreements] meant that Coby USA was receiving the benefit of its bargain and, therefore, any breach of Philips's so-called "best efforts" obligations was immaterial as a matter of law ....
>
> * * *
>
> Additionally, as a matter of law, Coby USA's decision to continue to keep the [re-seller agreements] in force and enjoy their benefits after Philips's supposed breach of the so-called "best efforts" clause cannot excuse its non-performance .... (Philips' Opp. Mem. at 8-9 [citations omitted])

Philips also asserts an estoppel theory for why Coby should not be permitted to raise Philips' breach of the Re-Seller Agreements as a defense now – *i.e*., that because Coby was kept in the loop of Philips' efforts (Yu Jan. Aff., Exs. 12-15) yet never terminated the Re-Seller Agreements nor indicated its dissatisfaction with Philips' efforts to sign up companies to re-seller agreements (Philips' Opp. Mem. at 10, *citing* Affidavit of William Lenihan, sworn to December 15, 2011 at ¶ 8 and Affirmation of Brian Wieghaus, Esq. dated December 14, 2011 ["Wieghaus Dec. Aff."] at ¶ 22) and instead thanked Philips' for its efforts (Yu Jan. Aff., Ex. 40 and 16), "Coby USA cannot now claim that Philips's 'best efforts' were insufficient and retroactively seek to free itself of its obligations to pay royalties on DVD Players that is sold pursuant to the [Re-Seller Agreements]" (Philips' Opp. Mem. at 10).

With regard to its argument that the best efforts clause is unenforceable as it fails to provide "the requisite guidelines and objective criteria necessary to render such a provision enforceable under New York law" (*id.* at 11), Philips contends that Coby's interpretation of what those efforts entailed (*i.e.*, that Philips pursue every suppler of DVD Players, including the supplier's suppliers, importers, brand-owners and manufacturers, no matter whether the companies had actually made any U.S. sales of unlicensed products and irrespective of how small or how irrelevant they were to Coby's competitive position) is unreasonable, inconsistent with the purpose of the Re-Seller Agreements, and designed to ensure that Philips could never meet such a best efforts obligation.

Philips asserts that the reference that the best efforts should be "measured within the framework of the best efforts used by Philips and the Re-Seller to sign this Agreement" is an insufficient framework since it fails to provide what that framework is or how it should be applied (*i.e.,* length of time negotiating, number of phone calls to be made, etc.). And the 15 month reference provided in the AC-3 and DTS Side Letter Agreements is no better because it does not state what Philips was required to do during that 15 month period. Philips asserts that Wieghaus interpreted the 15 month reference to mean that "Philips's efforts to sign up resellers would be sufficient if it signed up at least one additional company every fifteen months (in which case Philips more than complied)" (*id.* at 12, n.6 *citing* Wieghaus Dec. Aff. at ¶ 19). And Philips points out that the Re-Seller Agreements do not even provide a deadline by which Philips was required to complete those efforts. In this regard, "Philips' efforts to sign up additional companies are continuing ... Coby USA cannot unilaterally impose a deadline when one does not exist in the agreements themselves" (*id.* at 13, n.8, *citing* Wieghaus Aug. Tr. 14:20-23).

In addition to there being an insufficient framework against which to measure Philips' best efforts, Philips asserts that the term distributor is ambiguous since the agreements do not define the term and even Coby responded to the interrogatory requesting that it identify the distributors it believed were covered by the best efforts clause by stating that the term is vague and ambiguous and then followed it up with a supplemental response that "'Distributors of DVD Players in the United States' include[d] 'at least' those that 'distribute' (without defining that term) brands whose names appeared in thousands of pages of import and market data that has been produced by the parties" and "incorporated by reference another response that identified a number of brands, retailers, manufacturers (foreign and domestic), and thousands of pages of discovery from which its answer could be 'further derived'" (*id., citing* Def's Response to 1st Interrog. Nos. 25, 26, Yu Jan. Aff., Ex. 56).

Philips requests that the Court reject Coby's late reliance on the definition of distributor provided in the dictionary, such that it should be read as including "all companies that have sold DVD Players in the United States, including branded resellers (like Coby), non-branded wholesalers, retailers and manufacturers." Philips argues such a definition is improper because it is overbroad and absurd in the context of the agreements as it fails to omit companies that sold an infinitesimally small number of DVD players during the relevant time period (*e.g.*, 1300 DVD players from 2004-2010) or companies that sold products that Coby did not sell (*e.g.,* companies that sold computers with DVD players). It is Philips' position that such a definition was not within the contemplation of the parties since "Philips could not possibly have made 'best efforts' to sign every company that sold DVD Players in the United States to a reseller agreement" (*id.* at 15).

Philips elaborates on the reasons why it views Coby's position as unreasonable – *i.e.,* that Philips had to expend the same number of hours pursuing every other distributor that it did in its pursuit of Coby – by highlighting the evidence Philips submits showing its extensive efforts to sign up Haier, which were ultimately unsuccessful but under Coby's “framework,” this effort would not satisfy the best efforts clause (*id.* at 15, *citing* Yu Jan. Aff., Exs. 33, 34, 35, 36, and Ex. 7 Lenihan Tr. at 232). And, contends Philips, Coby’s position flies in the face of New York law which permits a party under a best efforts clause to “give ‘reasonable consideration to its own interests’ in determining an appropriate course of action to reach the desired result” (*id.* at 11, *quoting Scott-Macon Secs., Inc. v Zoltek Cos., Inc.*, 2005 WL 1138476 at *14 [SD NY 2005], *affd in part and revd in part on other grounds* 2007 WL 2914873 [2d Cir 2007]).

Based on this standard, Philips argues it had every right “to prioritize its efforts based on its reasonable business judgment regarding which companies would provide the greatest return for the efforts invested, and this is what it did” (*id.* at 17). And if Coby had an issue with Philips’ approach, it needed to communicate its dissatisfaction while the Re-Seller Agreements were in effect (*id.* at 17, *citing Western Geophysical Co. of Am. v Bolt Assoc.*, 584 F3d 1164 [2d Cir 1978]). Finally, Philips refers to parol evidence – *i.e.*, the recollection of the meaning of best efforts subscribed by the Philips’ negotiators which is entirely inconsistent with the interpretation being proffered by Coby in this motion – and argues that in such a situation where “there is a lack of mutual assent to a non-essential term where neither party knew or has reason to know the other’s interpretation ... the Court may omit it from the contract as opposed to interpreting the language to give it meaning” (*id.* at 18, *citing U.S. Naval Inst. v Charter Communications Inc.,* 875 F2d 1044, 1050 [2d Cir 1989]).

Alternatively, Philips contends that, if the Court does not accept Philips’ arguments for why the Court need not consider whether or not Philips’ satisfied the best efforts clause based on, *inter alia*, its substantial performance or the unenforceability of that provision, then the motion must nevertheless be denied as there are triable issues of fact over whether Philips satisfied the best efforts clause. Philips cites to the evidence it has provided that it signed up ten companies to re-seller agreements (*id.* at 18, *citing* Lenihan Aff. at ¶ 9), and with regard to the major companies that refused to sign up, Philips pursued them and those companies have since gone out of business (*i.e.*, Cyberhome, Norcent, KXD and Alstar) (*id., citing* Yu Jan. Aff. Exs. 54-55 and Wieghaus March Tr. at 37-38, Yu Jan. Aff., Ex. 5).

Philips disputes that the 18 companies cited by Coby in support of its motion were companies that Philips was required to pursue for re-seller agreements because (1) given their minimal sales of DVD players representing a tiny portion of the market, Philips was entitled to make a reasoned business decision not to pursue Acomdata and at least 12 other brand names, (2) five of the brand names (Humex, Designer Vision, General Sound, Sakar and Spectra Merchandising) had no sales during the 2005-2010 time frame and, therefore, Philips was justified in not pursuing licenses for those brands; and (3) Axion is a brand of a company America Action, which is a subsidiary of Action Electronics Co., Ltd., which has a patent license agreement for Philips’ DVD player patents (*id.* at 19, n.12). As to the alleged insufficiency of Philips’ efforts with regard to Haier, Mintek, Initial Technology, AMW and Supersonic, Philips contends that based on the evidence it has presented concerning such efforts, it is entitled to have a jury determine whether its efforts met the appropriate legal standard (*id.* at 19, 20 n. 13). Philips also contends that its publicity of its re-seller program found on its website as well as the letters it sent to hundreds of recipients on January 12, 2009, May 1, 2007 and October 23, 2007 “informing them about Philips’s patent covering DVD Players and its licensing program ... and encouraging them to purchase only from licensed companies ... constitute a reasonable and commercially viable effort to reach all entities in the marketplace and alert them of their obligations to not infringe on Philips's patent rights and enter into agreements where necessary" (*id.* at 20, *citing Western Geophysical Co. of Am., Inc. v Bolt Assoc., Inc*., 584 F2d 1164 [2d Cir 1978]).

In opposition to the branch of Coby's motion for summary judgment dismissing Philips' complaint based on Philips' failure to provide Coby with invoices, Philips asserts that Coby's reliance on the cases involving guaranty contracts and strict notice provisions are *inapposite* since Coby was not Coby China's guarantor. Indeed, as a re-seller of an infringing good, Coby was primarily liable for any unpaid royalties. Further, if Coby had been a true guarantor under the Re-Seller Agreements, then Coby "would have had to pay royalties on Coby China's DVD Player sales *even if Coby China sold them to a third party or if the DVD Players Coby USA bought from Coby China remained unsold*" but here, Coby only agreed to pay defaulted royalties on units that *Coby USA* sold" (*id.* at 21 [emphasis in original]). Philips explains that the way in which the agreements operated was that Coby principally accrued royalty liabilities for each sale but then was allowed to deduct units for which royalties had been paid. Moreover, Philips argues that this branch of Coby's motion fails because Coby "frustrated Philips's ability to ascertain, let alone issue invoices for, Coby USA's sales" and "*Philips cannot issue invoices for sales that were not reported and were unknown as a result of Coby USA's and Coby China's conspiracy to hide sales*" (*id.* at 23, *citing* Goldberg Tr. at 42-60, Tam Tr. 81-88, Oh Tr. 211-319, J. Kim Tr. at 73-76 [emphasis in original]). Despite this conspiracy, Philips argues that it has presented evidence that it provided the best invoices that it reasonably could by using market intelligence to estimate the number of DVD Players under-reported and thereafter sent invoices to Coby regarding same (*id.* at 23, *citing* Yu Dec. Aff., Exs. 30, 34, 32, Yu Jan. Aff., Exs. 28-31, 41, 42; Philips' Response to Rule 19-a Stmt. at ¶¶ 120-122). Finally, relying on the language of the invoicing clause, section 3.2, Philips argues that it only applied to DVD Players "duly reported by Licensed Suppliers" and unpaid. As such, the invoicing obligation did not extend to unreported sales, which are at issue in this case.

C. Coby's Reply

In further support of its motion, Coby provides a reply memorandum of law and a reply affirmation from its counsel, Eric Syu, Esq.[14] In his affirmation, Mr. Syu adds up the total sales figures from the 18 companies that were not approached by Philips for re-seller agreements to show that the combined sales of all these companies totaled 531,822 DVD players for the years 2005-2010. Syu also attaches additional excerpts from the deposition transcripts of Brian Wieghaus, and Sam Oh, and a copy of an unreported decision cited in its reply memorandum.

In its reply memorandum, Coby rehashes many of the same arguments made in its moving papers – *i.e.*, Philips was required to pursue all distributors no matter how small and that the best efforts clause was a key provision to Coby, the material breach of which by Philips

[14] Syu styles his affirmation as one "in support" of Coby's reply, rather than just a "reply" affirmation. As with Philips, not providing a simple, non-confusing label makes the document harder to identify. Both counsels should avoid this practice in the future.

justified Coby's under-reporting of sales. Coby argues that the standard it proposes was not impossible to meet – it simply means that Philips could not do what it did which was expend absolutely no effort at all with regard to the 18 distributors (Coby Reply Mem. at 11).[15] Coby asserts that Philips' omission of the best efforts provision as one of the three primary purposes of the Re-Seller Agreements is glaring.[16] Moreover, Coby points out that while these companies/brand names may have been insignificant to Philips, they were not to Coby and, indeed, when their total sales are combined (*i.e.*, 531,822), they add up to one quarter of Coby's sales for the same time period.

In response to Philips' argument that its breach was immaterial because Philips did not promise that it would be successful in obtaining the execution of the re-seller agreements by these companies, Coby responds by stating that "just because no final execution of re-seller agreements by all distributors was promised does not mean Philips was excused from its promise to use best efforts to make that happen" and under Philips' reasoning, no breach of the provision would have ever been material – a result contrary to established law.

Coby refutes Philips' argument that Coby's failure to terminate means that the Philips substantially performed by asserting that its decision not to terminate was out of a motivation to stay in good standing with Philips and should not be viewed as an indication that it was satisfied with Philips' efforts. Coby also relies on this Court's January 2011 Decision in which it rejected Philips' argument that Coby was precluded from raising Philips' breach of the best efforts clause as a defense to Philips' breach of contract action simply because the Re-Seller Agreements stated that Coby's only remedy in the event of Philips' breach was to terminate the Re-Seller Agreements.

Coby disputes Philips' contention that the court in *Cary Oil Co. v MG Refining & Mktg., Inc.* (90 F Supp 3d 401 [SD NY 2000]) held that choosing not to terminate for breach means that the breach is not material. Instead, the court found that "[i]t merely means the contract remains in force at the time" and held that based on the pleadings, "'it was impossible to determine as a matter of law ... whether [there] was a material breach' at all" (Coby Reply Mem. at 7, n.4).

In further support of the enforceability of the best efforts clause, Coby points out

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[15] In support of its position that no effort in certain cases can never meet the requirements of a best efforts clause, Coby distinguishes the cases upon which Philips for its position that it can prioritize its efforts based on its reasonable business judgment (Coby Reply Mem. at 11-12).

[16] Coby also attacks Philips' primary purposes since two of the primary purposes could be fulfilled without entering into the Re-Seller Agreements (Coby Reply Mem. at 6). As noted *infra*, given that Philips' own correspondence shows that Philips' recognized that the need to not be put at a competitive disadvantage was a key component to Coby (*i.e,* the best efforts clause was a central component of the parties' deal), at a minimum there is a question of fact as to whether the best efforts clause was a material clause in the Re-Seller Agreements.

that "New York law does not require express objective criteria or guidelines in a 'best efforts' provision in order to enforce it" (*id.* at 8, *citing Ashokan Water Serv., Inc. v New Start, LLC*, 11 Misc 3d 686, 689-9- [Civ Ct Kings County 2006] and the cases cited therein). But in any event, the best efforts clause has an objective measure since it explicitly states that Philips' best efforts is to be measured within the framework of the best efforts used by Philips and Coby to sign the Re-Seller Agreements. Contrary to Philips' position, the framework did not need to also include metrics or variables. Finally, Coby points out that given that it was Philips that proposed the very word "framework," it should not now be heard to say that the word framework causes the best efforts clause to be unenforceable.

With regard to Philips' argument that the term distributor is vague and undefined, Coby asserts that it is not clear if Philips is arguing that the term is ambiguous or that it is indefinite. If the argument is that it is ambiguous, then the test is whether the agreement is susceptible to more than one interpretation, but Philips offers no alternative interpretation. If Philips' argument is that the term is indefinite, such that the best efforts clause "'should be ignored as meaningless,' this is 'at best a last resort'" and it strains credulity that "distributor" is indefinite (*i.e.*, incapable of definition) when dictionaries provide a clear definition" (*id.* at 10).

As to Philips' argument that the clause should be omitted due to lack of mutual assent, Coby responds that this drastic remedy may only apply to a non-essential term and that as already noted above, the best efforts clause was essential to Coby and was the inducement for it to enter into the Re-Seller Agreements. To this end, the Court should reject the Lenihan and Wieghaus "litigation inspired affidavits, that there was no 'meeting of the minds' for mutual assent" (*id.* at 10).

In response to Philips' estoppel argument, Coby points out (1) Philips provides no legal authority for how estoppel may be used not as a defense to a claim but rather as an excuse to Plaintiff's failure to establish the elements of its own claim; (2) contrary to Philips' position, Coby did express its concern with Philips' efforts (*id.* at 11 n.9, *citing* Coby's 19-a Stmt. at ¶ 27, Syu Jan. Aff., Exs. 12, 13 &14) and to the extent it thanked Philips in response to some updates, "quite a few of those updates were outright deceptions, which Coby could not have known at the time" (*id., citing* Coby's Counterstmt. at ¶¶ 109-111); and (3) "estoppel is unavailable to Philips because, as the one obligated to use best efforts, it 'knew of the true facts' regarding its own failure to perform" (*id., quoting Springside Land Co., LLC v Board of Managers of Springside Condominium I,* 56 AD3d 654 [2d Dept 2008]).

In further support of its alternative basis for dismissal, Coby argues that because the invoicing provision does not condition the invoicing obligation on Coby's reporting and, instead, is simply invoked as soon as the "Licensed Manufacturer does not make full payment within 30 days of the original date," and because Philips admits in its own motion for summary judgment and in opposition to this motion that it was "aware for years that Coby's supplier did not make royalty payments for 100% of the DVD players sold" (and indeed condoned such under-reporting and permitted the reporting of less than the number of units actually sold based on the parties' negotiations [Coby Reply Mem. at 15, n.14]), Philips' failure to invoice cannot be excused. Coby rehashes its arguments for why its Re-Seller Agreements should be construed by this Court as a guaranty by rebutting Philips' contentions in this regard. Therefore, since Philips concedes that guaranties are subject to strict notice requirements, once this Court agrees that it is a guaranty, Coby argues that Philips' failure to invoice is fatal to its breach of contract claim. Again, however, Coby does not address why or how the invoicing issue impacts Coby's claims under the two workout agreements.

Countering Philips' contention that based on the language of the invoicing clause, the clause only applied to DVD players that were duly reported by Licensed Suppliers and left unpaid, Coby argues that it does just the opposite – *i.e.,* "it contemplates the possibility that Coby's suppliers may not report all DVD players they sold, in which case Coby would have to pay according to its (higher) reporting. In other words, Philips' invoicing obligation is not conditioned on whether Coby or its suppliers report accurately or report at all; Philips must invoice as soon as the 'Licensed Manufacturer does not make full payment within 30 days of the original due date'" (*id.* at 15).

II. PHILIPS' MOTION FOR SUMMARY JUDGMENT

A. Philips' Contentions

Based on a review of Philips' Rule 19-a Statement and Coby's Counterstatement, much of Philips' *prima facie* showing has to do with establishing the parties' entry into, and the terms of, the Re-seller and Side-Letter Agreements and Coby's alleged breach of its reporting obligations. Philips also establishes the various settlement agreements entered into between Philips and Coby and Philips and Coby China. These factual statements made by Philips in its 19-a Statement stand largely uncontested in Coby's response, and therefore, an exhaustive review of those facts is unnecessary. This is especially true in light of this Court's conclusion, set forth *infra*, that there are triable issues of fact over whether Philips materially breached the best efforts clause. Thus, irregardless of whether Philips established *prima facie* Coby's breach of the Rre-Seller and Side Letter Agreements,[17] there are genuine triable issues of fact as to Philips' own performance. Accordingly, the Court shall generally limit its discussion of Philips' motion to (1) additional evidence and arguments provided by Philips (*i.e.*, the evidence and arguments not already discussed in the context of Philips' opposition to Coby's motion for partial summary judgment) to show either that the best efforts clause is unenforceable or even if it is enforceable, Philips was not in breach of it; and (2) the branches seeking to dismiss Coby's counterclaims for tortious interference with business relations and Unfair Business Practices.

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[17] Philips has provided evidence demonstrating Coby's under-reporting based on (1) a chart it prepared comparing the units reported on Coby's quarterly reports and the sales shown in the discovery produced by Coby in this action (Philips' Mem. of Law at 13); (2) deposition testimony from Albert Tam, Coby China's Executive Director in charge of preparing the reports in which Tam admits to 40-60% under-reporting (Tam Tr. at 81-88); and (3) deposition testimony from Goldberg, Kim and Oh admitting to the under-reporting and the coordination between Coby China and Coby concerning such reports (Goldberg Tr. at 52-60; Kim Tr. at 73-76; Oh Tr. at 211, 219-221). It is Philips' position that it "did not know how many DVD players Coby China manufactured each quarter, it eventually had to accept Coby China's royalty reports and trust that it had reported honestly" (Philips' Mem. of Law at 10, *citing* Beune Tr. at 59).

Plaintiff submits affidavits from Lenihan and Hugo Sakkers (Philips' IPS's General Counsel), and affirmations from Wieghaus[18] and its counsel, Joseph Yu, which attaches excerpts from various deposition transcripts referenced herein, and documentary evidence.

Lenihan avers that with regard to the negotiations of the best efforts clause, which was intended to give Coby comfort that it would not be the only company that Philips approached and signed a re-seller agreement, he does

> not recall any discussion during the negotiations of the Side Letters to the Reseller Agreements regarding how the term "distributor" should be interpreted, nor [does he] recall Philips ever making any specific commitments regarding the types of efforts it would make to sign-up additional resellers or promising to contact a certain number of potential resellers in a given time. Furthermore, [he] never believed that Philips had committed to sign-up every company or individual who resold DVD Players in the United States to an authorized reseller agreement (Affidavit of William J. Lenihan, sworn to December 15, 2011 at ¶ 7).

He attests to the ten companies (in addition to Coby) that have entered into re-seller agreements with Philips since 2005 – Apex Digital, Inc., Curtis International, Ltd., Digital Products, Inc. (a/k/a GPX), E&S International Enterprises, Inc./iSymphony LLC/APH USA, Inc., E&S International Enterprises, Inc., Memcorp, Inc., Petters Consumer Brands, LLC, Proton Digital Corp., S.E.D. International, Inc., and SpecronIQ Digital, Inc. (*id*. at ¶ 9). He contends that Philips made substantial efforts to convince the following companies to sign re-seller agreements: Astar Electronics, Inc., Audiovox Corp., Craig Electronics, Inc., Cyberhome Entertainwood, Inc., Daewoo Electronics America, Dual Electronics (a/k/a Namsung America, Inc.), Haier America Trading, LLC, In-Focus Corp., Griffin International Companies, Inc., Jwin Electronics Corp., K-Group, Lengent Company, Ltd., Lennox USA, Mintek Digital, Inc., Mustek, Inc., Randix Corp. (Starlight) and Orion Electric Co., Ltd. (*id*. at ¶ 13).

Lenihan claims to have spent four years on JWin, three years on Audiovox and Dual, and two years on Haier. With regard to at least two companies (Astar Electronics and Cyberhome) that refused to stop selling unlicensed DVD Players or to sign re-seller agreements, Philips sued these companies and during the lawsuits, the companies filed for bankruptcy (*id*. at ¶ 14).

The purpose of Wieghaus' affirmation is to establish: (1) the royalty rates due under the Re-Seller Agreements; (2) the lack of any breach by Philips concerning the MFC clauses; and (3) Coby's obligation to require in each shipment received from a Licensed Manufacturer that it contain and LSCD[19] and to keep copies of the LSCDs and to report within

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[18]Again, Wieghaus uses an affirmation, though, again Coby does not object.

[19]LSCD stands for License Status Confirmation Document and it is a shipment-specific document issued by Philips to manufacturers having license agreements with Philips. It includes information such as product type, manufacturer, quantities and serial

20 days any shipments received without such purchase orders.

Wieghaus also avers that he and Lenihan were responsible for negotiating the Re-Seller Agreements and that during the negotiations, there was never a discussion regarding how the term “distributor” should be interpreted and Philips never committed to making certain efforts to sign up additional resellers. Further, he never believed that Philips committed to signing up all resellers of DVD Players in the U.S. to re-seller agreements. According to Wieghaus, he was opposed to the best efforts clause unless Coby agreed to (1) the qualifying language in subsections (i) and (ii), and (2) the clause providing that Coby’s only remedy would be to terminate the Re-Seller Agreements on thirty days notice in the event it believed Philips was in breach of the best efforts clause (*id*. at ¶ 18).

He asserts that given that it took 15 months to sign Coby up, Philips could not “reasonably be expected to enter into such extensive negotiations with every distributor of DVD Players in the United States” and it was Wieghaus’s intention that Philips would satisfy the best efforts clause if it signed up at least one company every fifteen months (*id*. at ¶ 19). And if Coby was not satisfied with Philips’ efforts in this regard, he expected that based on paragraph 51 of the Side Letter to the DVD Player Re-Seller Agreement and paragraph 41 of the Side Letter to the AC-3 and DTS Re-Seller Agreements, Coby would provide notice to Philips of such dissatisfaction. He avers that “[a]t no point during the time that the Reseller Agreements were effective did Coby USA indicate that it was dissatisfied with Philips’ efforts to sign up resellers” (*id*. at ¶ 22).

Philips also provides an affidavit from Hugo Sakkers, the purpose of which is to introduce the license agreements entered into with Coby China that he was in charge of negotiating and executing, as well as Philips’ alleged terminations of those agreements in 2006 and 2007 (Affidavit H.B. Sakkers, sworn to December 15, 2011). He avers that he and Ruud Peters were the only IPS employees with authority to bind Philips (*id.* at ¶ 3). Sakkers contends that the Coby China’s license agreements were not in effect during the period between June 11, 2007 and September 10, 2008. According to Sakkers, Coby China has not been licensed since June 17, 2010. In support, Sakkers annexes the various license agreements and termination letters as exhibits to his affidavit.

In support of the branches of its motion seeking to dismiss Coby’s counterclaims for tortious interference with business relations and unfair competition, relying on the evidence presented showing Coby China’s under-reporting of its manufacture and sale of DVD players, Philips asserts that it

> terminated Coby China’s patent license three times: June 20, 2006 (Sakkers Aff., Ex. 4); June 11, 2007 (Sakkers Aff., Ex. 9) and June 17, 2010 (Sakkers Aff., Ex. 17). Each time (save the final termination), the parties negotiated a settlement in which Coby China

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numbers, country of final destination and customer information. This document may be used by licensed manufacturers to confirm to customs officials and customers that the products specified in the LSCD have originated from a licensed manufacturer and have been reported to Philips (Philips’ Mem. of Law at 7, n. 6, *citing* Wieghaus Aff., ¶ 24).

> acknowledged its under-reporting, and Philips issued a new patent license and supplemental agreement. Sakkers Aff., Exs. 5-7 ... Sakkers Aff., Exs. 10-12 ... Coby China has been unlicensed since June 17, 2010 (Philips' Mem. of Law at 11).

According to Philips, Coby China was not reinstated based on the June 2007 termination until September 10, 2008 (Sakkers Aff. at ¶ 11).

Philips rebuts Coby's contention that it should be estopped from collecting royalties under the Re-Seller Agreements "because Philips 'accepted' Coby China's inaccurate royalty reports and did not invoice Coby USA for the under-reported units, and Coby USA somehow relied on this conduct as implicit permission to under-report its sales" by arguing

> [Coby] simply cannot show *unconscionable injury* when its argument basically is that it was harmed because it believed that it was not going to get caught for its under-reporting. Moreover, any reliance by Coby USA as a justification for its under-reporting is unreasonable as a matter of law, particularly in light of the clear reporting and payment obligations and the no-waiver/no oral modification clauses of the [Re-Seller Agreements] and Coby China's license agreements, the dozens of written communications between Philips and Coby China and Coby USA confirming that the Coby entities had to pay royalties on 100% of their sales, Philips' repeated termination of Coby China's license agreement for failing to do so, and the settlement agreements between Philips and Coby USA reiterating Coby USA's obligation to comply with all terms of the [Re-Seller Agreements]" (Philips' Mem. of Law at 17, n. 18 [emphasis in original]).

In support of its motion for summary judgment dismissing the tortious interference counterclaims based on allegations that Philips contacted various retailers including Coby's customers and falsely accused Coby of selling unlicensed DVD players and threatening retailers and distribution centers with lawsuits, Philips argues that, now that discovery is complete, the MELs mailed to retailers in October 2007, May 2008 and January 2009 cannot form the basis of Coby's counterclaims since, by their terms, the letters were limited to Coby China and, moreover, they were entirely accurate. As its evidence, Philips annexes representative samples of all three letters (Wieghaus Dec. Aff., Exs. 2, 3 and 4) and argues that while they all mention, along with hundreds of other companies, Coby Electronics, Ltd. and/or Coby China as companies selling unlicensed DVD Players, they do not mention Coby USA and further, the statements were entirely true since the patent license agreement for Coby China was terminated on June 11, 2007 and was not reinstated until September 10, 2008 – as such, the DVD players Coby China sold during this time were unlicensed. And, Philips contends, with regard to sales made outside this period of termination – June 2007 to September 2008 – Coby China was still unlicensed, at least with regard to some of the sales, because "Coby China's former Executive Director Albert Tam admitted that Coby China under-reported its DVD Player sales and did not apply for LSCDs for all of its DVD Player shipments," which violated section 1.11 in Coby China's 2006 and 2008 Patent License Agreements and section 7(a) of the 2006 Supplemental Agreement.

Philips argues that a truthful statement cannot support a counterclaim for tortious interference. Further, relying on this Court's statement in the January 2011 Decision that in order to succeed, Coby must also satisfy the federal requirement that the notification letters were objectively baseless – *i.e.*, no reasonable litigant could reasonably expect success on the merits of an infringement claim – Philips asserts that its MELs provided truthful notice under the federal patent laws.

And as to the other element that Coby must show to establish its counterclaim – *i.e.,* that it would have received the contract but for Philips' action – based on the deposition testimony from Coby's witnesses, Philips argues that Coby "has provided no direct evidence that it lost any sales because of Philips's alleged statements." Instead, Coby's witnesses have "testified that customers kept purchasing its DVD Players even after they received the letters" (Philips' Mem. of Law at 24, *citing* Giametta Tr. at 199-201, 203-204, 206-207, 211, 223-224, Yu Dec. Aff., Ex. 14), and "even provided strong alternate explanations regarding why retailers might have limited their purchases" (*id*., *citing* Oh Tr. at 250-252 [admitting Sears did not buy from Coby because Coby did not provide LSCDs], Giametta Tr. at 179 [Coby did not offer LSCDs to customers] and 215 [admitting Coby refused to guarantee that it would fix its pricing despite Sear's request]).

With regard to the other alleged tortious interference with Coby's bank line of credit based on Philips' alleged statements to Coby's Fifth Third Bank that Coby had licensing problems with Philips, Philips cites to Coby's witnesses' testimony showing that there is no factual basis that such a statement was made and further, whatever conversation may have transpired between a Philips' representative and the bank representative, it occurred over a year before the termination of the line of credit and numerous other factors may have contributed to the termination of the line of credit (*id*. at 24, n.24, *citing* R. Kim Tr. at 144-147; Lee Tr. at 327-329; 332).

Philips requests that the Court grant summary judgment dismissing the unfair competition claim because the only factual allegation that could support this claim as noted by this Court in its January 2011 Decision – false representatives to a competitor's customer that the competitor was infringing a patent – is without merit for the same reasons that the tortious interference with business relations counterclaim fails. Thus, because Philips' MELs concerning Coby China's sale of unlicensed DVD Players were truthful, there is no basis for Coby's unfair competition claim.

B. Coby's Opposition

In opposition, Coby submits affidavits from Sam Oh, Coby's Chief Operating Officer, Coby's damage expert in this litigation, Dr. Christopher A. Vellturo, and a memorandum of law.[20]

[20] Continuing with the theme of using confusing headings on papers, Coby has uniformly styled its opposition papers as papers "in support" of Coby's opposition to Philips' motion, a practice which, the Court states, again, adds difficulty and delay in sorting through the voluminous papers submitted by both sides.

In his affidavit, Oh states that he was involved in the negotiation of the Re-Seller Agreements and was a key decision-maker with regard to those Agreements. He avers that Wieghaus and Lenihan were the negotiators on behalf of Philips and that no one from Philips ever said or suggested to anyone at Coby that: (1) “it was unreasonable or impossible for Philips to use its best efforts toward all U.S. distributors of DVD Players, as required by the Best Efforts Clause”; or (2) the best efforts clause “was vague or ambiguous”; or (3) “Philips signing up one distributor every 15 months would satisfy the Best Efforts Clause” (Affidavit of Sam Oh, sworn to January 19, 2012 at ¶¶ 5-8).

Oh further explains that he and others at Coby required this best efforts clause (and other clauses) to ensure that Coby was not put at a competitive disadvantage in relation to other U.S. DVD player distributors that did not enter into re-seller agreements with Philips and they advised Philips that this was a condition to the execution of the Re-Seller Agreements. He avers that Wieghaus and Lenihan assured the Coby negotiators that “Philips would establish a level playing field, by, among other things, using best efforts against all U.S. distributors ... [and he] would not have recommended that Coby enter into the Re-Seller Agreements without such assurances” (*id*. at ¶ 10).

Coby provides its expert’s report in support of its claim of damages caused by Philips’ MEL campaign. In his report, in addition to setting forth his qualifications as a economic injury/damages expert, Dr. Vellturo describes his “but for” analysis and how he concludes that should the fact finder determine that Philips engaged in tortious interference and/or unfair competition as a result of the MEL campaign, he “ha[s] determined that Coby suffered a loss of $13.7 million in profits from October 2007 to October 2010" (Expert Report of Dr. Christopher A. Vellturo dated August 10, 2011 at ¶ 6). Dr. Vellturo addresses the main point in Philips’ moving papers – *i.e.*, that there can be no effect on Coby since it was not named in the MELs, only Coby China was named as unlicensed – by explaining that “the MELs had a detrimental effect on Coby’s (U.S.) business because of the negative impact on Coby’s brand. Most of Coby’s customers view Coby China having a licensing issue with Philips the same, for practical purposes, as Coby (U.S.) having a licensing issue with Philips, believing for example that Coby (U.S.) would acquire much of its inventory from Coby China or that the two are related companies” (*id*. at ¶ 36).

Coby’s counter-statement of material facts does not dispute the foundational facts in Philips’ 19-a statement concerning, *inter alia*, the terms of the agreements and the applicable royalty rates. Coby does raise, based on a printout from Philips’ financial database (Syu Jan. Aff., Ex. 27), that there were lower royalty rates being granted than the rates set forth in Philips’ 19-a statement at paragraphs 7 and 9 (*i.e*., that Philips accepted less than the published rates since the standard rate found on one entry was $3.70 rather than the $5.00 referenced by Philips and on another entry, the compliance rate was $1.33 rather than the $3.50 referenced).

Coby disputes the assertions concerning Coby China’s alleged under-reporting and the coordination between Coby China and Coby to under-report their sales in their royalty reports based on the evidence provided in Coby’s opposition that Philips agreed to such under-reporting based on the parties’ good faith negotiations. Coby also disputes the factual assertions concerning Philips’ terminations of the license agreements with Coby China.

Coby's opposition memorandum is largely a restatement of the arguments made in support of its motion concerning Philips' material breach of the best efforts[21] and invoicing clauses. Coby does identify another alleged material breach by Philips – namely, that Philips' breached the MFC clause[22] by applying a rate far less than 100% of what was due and by allowing other manufacturers to sell DVD players with no licenses and with no consequences. Coby contends that it and its suppliers were entitled to the lowest price paid by any other entity, which in some cases, was as low as zero.[23]

Coby asserts that the evidence shows that it has not breached the Re-Seller Agreements because Coby and Coby China paid what Philips agreed should be paid. In support, Coby relies on, *inter alia*, the deposition testimony from Coby China's owner, Young Dong Lee, wherein he testified that there was "'an agreement between [Coby China and Philips]

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[21] The evidence presented in support of this was previously discussed in connection with Coby's motion, but, in summary, it is that Philips did nothing with regard to the 18 resellers and failed to use best efforts with Best Buy (Insignia), Haier America (no correspondence between July 2007 and April 2009), Mintek Digital (re-seller agreement offered in June 2004 but never followed up), JWin (Philips only sporadically contacted JWin with frequent breaks lasting a year and a half and correspondence not forceful enough), and delay of five years in entering into agreement with GPX despite Coby's demands starting in 2004 and continuing thereafter for Philips to negotiate such a re-seller agreement since GPX was Coby's single greatest threat (Coby Opp. Mem. at 6-7). Coby further contends that Philips was dishonest with regard to its efforts since it advised Coby in September 2006 that JWin had agreed to be an authorized reseller when it had not (*id*. at 7, *citing* Syu Jan. Aff., Ex. 15 at '81; Goldberg Tr. at 96-97) and it further advised that they had signed up over 150 companies when in reality it was only 10 (*id*. at 7, *citing* Goldberg Tr. at 96-98).

[22] The MFC Royalty Rate clause provides:

> **Most Favorable Conditions (Royalty Rate):** If non-assert undertakings under the Non-Assert Patents are granted by Philips for Re-Sale Product to a third party under substantially similar conditions, but at a royalty rate ... more favorable to such third party than the rate payable by Re-Seller under this Agreement, Re-Seller shall be entitled to the same royalty rate as applicable to such third party, provided always that this right of Re-Seller shall not apply in respect of cross-license agreements or other agreements providing for a consideration which is not exclusively based on the payment of royalties and further provided that this right of Re-Seller shall not apply in respect of licenses, non-assert undertakings or other arrangements made pursuant to a court decision or the settlement of a dispute between Philips and a third party, irrespective of the nature of such dispute, the terms of the court decision or the settlement terms.

[23] Coby attempts to incorporate the prior arguments it made in connection with its motion to compel (Coby's Opp. Mem. at 20). Coby has not provided the papers to the Court and, in any event, the Court adheres to its prior determination.

that [Coby China] could under-report the number of units' ... [and] Philips communicated this agreement to Coby China on multiple occasions, including during in-person meetings in 2005, 2006, and 2009" (Coby Opp. Mem. at 9, *citing* Lee Tr. at 145, and 143-151). Coby also relies on the deposition testimony of Albert Tam, Coby China's Executive Director that based on a meeting in 2007, Philips stated that it understood that "'there are competitors who did not have to pay the license fee and [can therefore] keep their price low' and that Coby China 'would be put out of ... business' if they paid royalties for every unit ... Philips suggested 'that [Coby China] must at least reach a certain threshold percentage in [its] report and then that would be accepted'; the parties had a 'mutual understanding, without saying'" (Coby Opp. Mem. at 9, *citing* Tam Tr. at 47-48). The gist of Tam's testimony was that representatives of Philips at various meetings in 2005, 2006 and 2009 (*i.e.,* James Liu [Philips' licensing account manager for all of China], Cindy Bian [IP Counsel], Ben Beune [Worldwide Head of Licensing]) told Coby China that they would tolerate under-reporting so long as Coby China reached a certain threshold – *i.e.*, it could not go below 40% (*id.* at 10, *citing* Tam Tr. at 48-49, 51, 82-83, 85-86 [Beune wrote on a blackboard during one of their meetings that Philips agreed to between 60-70%]). In addition, Tam testified that

> Virtually every quarter, Philips approached Coby China regarding its reported figures that "did not match [Philips'] data," and advised that it must hit a certain percentage, usually 40% or 45%. Tam Dep. 82-83. Indeed, there was "no way for Coby [China] to hide any sales under Philips' market research and investigation" because everything is under the Coby brand. Syu 2d Aff. Aff. Ex. 35 at '97. Coby China then "made an adjustment close to that figure;" eventually Philips "would accept [it] and then send [Coby China] an invoice." Tam Dep. 82-83; Syu 2d Aff. Ex. 23. After such acceptance, Philips would not complain or "come after [Coby China] for additional royalty" or further revise the figure. Tam Dep. 85, 139 (*id.* at 11).

Coby argues that reinforcing that these agreements occurred is that Philips never billed it for any shortfall.

In addition to the deposition testimony to establish these negotiated agreements on Coby China's quarterly reports, Coby also relies on various documents in support of its position (*see* Syu Jan. Aff., Ex. 57 [Tam's handwritten notes from a meeting with Philips wherein he wrote that Philips stated "quantity negotiable" regarding the units Coby had to report]; Ex. 34 [email chain among Coby China representatives dated November 10, 2006 showing that Coby China had negotiated with Philips regarding the number of units that had to be reported and Philips agreed that the number of units to be reported for Q3 had to be more than 400,000]; Ex. 35 [email chain dated April 6-8, 2007 among Coby China representatives concerning meeting with Philips on Coby's under-reporting and Philips advising that its "bottom line for Coby's Q4 reporting is 500Kpcs"]).

In support of its contention that the MELs listing Coby China as unlicensed were false, Coby relies on Sakkers Affidavit and its witnesses' deposition testimony wherein they testified that it was understood that the termination letters were really only demands for more money, to which Coby China acceded (Coby Opp. Mem. at 12, *citing* Lee Tr. at 230-31; Tam Tr. 68). Thus, after the termination notice on June 20, 2006, Lee testified that Coby China agreed to Philips' demand for more money and the license was reinstated two days later on June 22, 2006 (a copy of that agreement is annexed as Ex. 5 to the Sakker Affidavit) (*id., citing* Lee Tr. at 205-07). Likewise, immediately after the June 11, 2007 notice of termination, Philips asked for more money and they immediately began negotiating a reinstatement that occurred by September 2007, although the execution of the agreement was delayed until September 10, 2008. As evidence, Coby provides a copy of an unsigned license agreement dated December 18, 2007 (Syu Jan. Aff., Ex. 36) and an email chain among, *inter alia*, Lenihan, Christopher Logan, Director IP Licensing, Jo Cangelosi (Lenihan's secretary), and Marina Hidalgo dated October 25, 2007, wherein Cangelosi writes to Hidalgo that the MEL sent to Hastings Entertainment dated October 23, 2007 stating that Coby is one of the unlicensed suppliers of DVD Video Players and Recorders "is incorrect since Coby has been licensed since September 17, 2007. Please speak to Bill regarding this because letters that you mailed out will need to be resent correcting this" (Syu Jan. Aff., Ex.16). Despite Coby China's request that Philips send out a new letter retracting the prior letter and notifying the companies of Coby China's good standing, Philips refused and instead provided a re-licensed letter that Coby China could send to their customers so that Philips was not "retracting [its] statement to the retailers that the company is not licensed" (*id.*). Coby provides a similar email from Lenihan to Richard Goldberg regarding Philips' sending of the 2008 MEL letter and advising Goldberg that Philips could "go back to [Coby's] customers and advise the present positive status" (Syu Jan. Aff., Ex. 37).

Rebutting Philips' position that the MELs could not have harmed Coby because Coby China and not Coby USA was listed, Coby presents deposition testimony from Oh that Coby's customers, upon seeing Coby China on the list, treated Coby USA as having a license problem with Philips and some made a decision not to purchase DVD products from Coby causing Coby damages (Coby Opp. Mem. at 14, *citing* Oh Tr. at 246-47, 249). Coby also provides an email from Lenihan to Wieghaus dated May 18, 2007 concerning an inquiry from Sears to Philips about the status of Coby, Memorex and GPX on DVD players based on the MELs and Hogan advising that Coby USA is a reseller in good standing (Syu Jan. Aff., Ex. 20). In another email dated March 12, 2009, Philips received a call from a Sears' Senior VP, Procurement, inquiring into Coby's status because they had a RFP from Coby for 495,000 DVD Players, to which Lenihan responded that Coby's supplier Coby China remains unlicensed (Syu Aff., Ex. 21). Lenihan testified that despite the parties having entered into a settlement, Philips never followed up and advised Sears that Coby was licensed.

Coby disputes that the best efforts clause was vague and ambiguous arguing that distributor is a commonly understood term that refers to a company which sells goods for another company that makes them and under such a definition, distributors included all of Coby's competitors, including the retailers that had their own DVDs such as Best Buy. Furthermore, even though there is no deadline for Philips' best efforts, the law imposes a reasonable time and Philips' "multi-year, multi-distributor inaction shows that it flunked" (Coby Opp. Mem. at 16). It is Coby's position that the standard against which Philips' best efforts was to be measured was the efforts it used towards Coby for 15 months including dozens of meeting and phone calls. Coby further requests that the Court reject the statements made by Lenihan and Wieghaus concerning their intent with regard to this clause at the time of the negotiations as parol evidence barred by the unambiguous terms of the agreements and the merger clause found in the agreements.

Coby argues that as a guarantor that can only be liable after being invoiced, "Philips cannot recover from Coby any claimed shortfall based on Philips' acceptance of compromise amounts from Coby China. For example, Philips' written acceptance of under-reported numbers by Coby China, through written invoices signed by a Philips representative modified their license agreement and obviated any obligation for Coby to guarantee unreported units ... Moreover, even if a contract expressly provides for modifications to be in writing, an oral modification will be enforced where it has been fully performed. Here, Philips and Coby China agreed on a compromise number, and Philips then invoiced Coby China and accepted payment. In each instance, their oral modification was fully performed" (Coby Opp. Mem. at 21 [citations omitted]).

In support of its tortious interference counterclaim, Coby refers to the evidence noted above, including its expert report, and argues that it has established all of the elements of its claim: (1) Coby had relationships with retailers; (2) Philips was aware of and interfered with those relationships; (3) Philips' conduct was independently tortious and otherwise actionably wrongful; and (4) the conduct cost Coby profits on lost sales to those retailers.

Coby argues truth is no defense because even if the fact finder were to find the MELs literally true as to Coby China (although the evidence shows that they were not), they were nevertheless knowingly misleading as to Coby since it is undisputed that it was not unlicensed at the time.

C. Philips' Reply

In further support of its motion, Philips' provides an affidavit from Benjamin David Mishkin, Controller of Philips' IPS business unit. The entire purpose of Mr. Mishkin's affidavit is to explain away the three examples cited by Coby as showing that Philips' granted a lower royalty rate than the published rate. Mishkin explains that he was charged with preparing the excerpt of Philips' GALA accounting database (produced to Coby as Philips017286-017732) from which Coby calculated the lower royalty rates for the three companies and set forth in Coby's 19-a Counterstatement (Affidavit of B.D. Mishkin, sworn to January 31, 2012 at ¶ 2). With regard to the first anomaly, an entry showing 2,863 units being reported with a gross amount of $3,807.70 for DVD Video Player (CR) meaning a per unit rate of $1.33 rather than the published compliance rate of 3.50, Mishkin avers that he reviewed this entry and

> concluded that the company at issue, LG Electronics, had not been granted a lower royalty rate. LG Electronics was granted the published rate, but Philips was instructed not to collect the shares of those royalties that were due to its licensing partners (including LG Electronics itself) because LG Electronics had entered into separate agreements with those partners regarding their share of the royalties (*id.* at ¶ 5).

Mishkin attaches the copies of letters regarding LG Electronics' payment of royalties to Philips' DVD Player licensing partners that were previously produced to Coby in this action.

With regard to the other two anomalies, Mishkin avers that the company at issue for both

> Zhongshan Dingcai, had not been granted a lower royalty rate. In fact, Dingcai was invoiced fifteen Unites States Dollars ($15.00) per-unit for delivering those twenty-five thousand (25,000) units without LSCD application (for a total balance owed of $375,000.00), but Philips was able to collect only one hundred thousand United States Dollars ($100,000.00). The entries that Coby USA identified in its Counterstatement reflected Philips' allocation of that partial one hundred thousand United States Dollars ($100,000.00) payment to the various agreements for which Dingcai owed royalties (*id.* at ¶ 95).

Mishkin then attaches a screenshot from Philips' accounting software showing the royalties still owed Dingcai and its classification as a company that has ceased operations and/or whose debt is uncollectable. He avers that this screenshot was also produced during discovery (*id.* at ¶ 10).

Philips also submits another attorney affirmation, the purpose of which is to attach additional excerpts from deposition transcripts and to submit additional exhibits such as emails and renewal and settlement agreements.

In its Reply Memorandum of Law, Philips reiterates many of the same arguments made in its moving papers concerning its substantial performance of the best efforts clause. Philips' disputes that it alone was the drafter of the ambiguous language of that clause and argues, instead, that "[t]he record demonstrates that counsel for both parties negotiated the language of that clause" (Philips' Reply Mem. at 3, n. 2 *comparing* Wieghaus Dec. Aff., Ex. 5 *with* Syu Dec. Aff., Ex. 6, ¶47, Exs. 7 & 8 ¶ 38). Philips also contends that Coby is improperly "spin[ning] an incredible story about how junior Philips employees in Asia (most of whom have left the company) gave Coby China permission (orally, but never in writing) to under-report its sales," which is contradictory to the contemporaneous written record (Philips' Reply Mem. at 1).

Responding to Coby's argument that the Court would impose a reasonable time to the best efforts clause since no duration is set forth in the clause, Philips' asserts that Coby "has no basis to suggest that Philips was required to complete performance prior to the expiration of the Reseller Agreements" (*id.* at 3, n.4).

Philips argues that Coby's position that it should have to have dozens of meetings and phone calls with each distributor every year until they were signed up shows that the clause does not provide an objective standard against which Philips was required to perform and Coby's standard would produce a result that is "absurd, commercially unreasonable or contrary to the reasonable expectations of the parties" (Philips' Reply at 4). It is Philips' position that the problem is not that the key terms (distributor and best efforts) are undefined, it is that they are undefinable and "[a] factfinder interpreting this clause has no objective basis to judge Philips' efforts, and any judgment necessarily will be arbitrary," which is why best efforts clauses are generally unenforceable as a matter of law (Philips' Reply at 5). In response to Coby's evidence showing that it complained about Philips' efforts with regard to a small number of companies, Philips states that while Coby asks about the status of Philips' negotiation with these companies, Coby never followed up by "indicat[ing] that it was dissatisfied with Philips' efforts and certainly never suggested that it would consider Philips to be in breach unless it undertook the massive effort described in its briefs" (Philips' Reply Mem. at 5, n.7).

With regard to the three anomalies cited by Coby in its Counterstatement at ¶¶ 7&9 as showing that Philips granted a lower royalty rate to other companies and thereby violated the MFC clause, Philips relies on the Mishkin affidavit and asserts that Coby's argument is misplaced since it "rests on the mistaken impression that the accounting database records the royalty rates Philips granted. It does not. It records the monies that Philips actually collected and allocated to specific accounts ... Such records may not reflect the actual royalty rate granted to a licensee/reseller if, for example, Philips was unable to collect the full amount due or if royalties collected were allocated to multiple accounts ... There is no legitimate factual dispute regarding Philips' compliance with its MFC obligations" (Philips' Reply at 7).

Countering Coby's evidence that Coby China's and Philips' employees entered into agreements to allow Coby China to under-report its sales, Philips argues that Coby was not a guarantor of Coby China's obligations; rather, Coby had its own direct obligation to pay royalties on DVD players Coby sold (DVD Re-seller Agreement at § 3.1) and to the extent Coby "could demonstrate to Philips' satisfaction that licensed manufacturers paid some of those royalties, Coby USA was entitled to deduct those payments from the royalties that it owed, but it always retained the primary obligation to ensure that royalties were paid on every DVD Player that it sold in the United States" (*id.* at 8).

Alternatively, Philips asserts that even if such agreements were relevant to Coby's obligations, Coby has still not created a triable issue of fact with regard to these alleged oral modifications since the agreements contained no waiver and no oral modification clauses, thereby precluding reliance on such oral modifications (*id.* at 9, *citing* N.Y. General Obligations Law § 15-301 and *Cohen Fashion Optical, Inc. v V&M Optical, Inc,* 51 AD3d 619 [2d Dept 2008]). Philips argues that Coby cannot rely on the invoices Philips sent to Coby China as evidence that Philips accepted in writing Coby China's under-reporting since the invoices expressly stated:

> This invoice is issued on the basis of the information contained in the Royalty Reporting Form submitted to Philips by Licensee. This invoice does not constitute final acceptance by Philips of the number of Licensed Products reported by Licensee per the Royalty Reporting Form ... All Philips' rights under the Agreement(s) remain formally reserved (Philips' Reply Mem. at 9, n. 13).

Further, argues Philips, the Court should not find an exception to the alleged oral modification on the ground that the agreement was fully performed because "there is no evidence that Philips assented to the alleged modification" (Philips' Reply Mem. at 9). Philips argues that the evidence presenting showing Philips' repeated terminations of Coby China's license and default notices demonstrates that Philips did not assent to the modification.

Philips rebuts some of the evidence Coby submitted to show that Coby China was licensed during the June 11, 2007 to September 10, 2008 period by pointing out that later in his deposition, Tam changed his testimony that Coby China was paying royalties during that period (*id.* at 10, n. 15, *citing* Tam Tr. at 90-92). In response to the evidence submitted by Coby showing that even Philips recognized that the licenses had not been terminated (*e.g.*, the Lenihan email chain) and, therefore, the MELs were false, Philips asserts that Lenihan's statement was simply in error and he did not know at the time that the September 2007 settlement had not been finalized, and indeed was not executed until September 2008. Philips points out that in that email chain, Horgan corrects Lenihan and even Lenihan testified at his deposition that he may have been in error. Further, that the documentary evidence provided in the Syu Reply Affidavit shows that Lenihan found out shortly thereafter that there was no finalized settlement between Coby China and Philips.

Responding to Coby's alternative argument that regardless of whether Coby China was licensed or unlicensed during the period, the MELs were false because the retailers could have been misled that it was Coby and not Coby China referenced in the letters, Philips argues that the letters could not have been clearer in that they never mention a Coby entity in the United States nor do they mention Coby Electronics Corporation. Instead, the MELs expressly identify Coby Electronics, Ltd. or Coby Electronics – China. Accordingly, because the MELs were truthful, Philips argues that Coby's tortious interference claim is preempted by federal patent infringement law (Philips' Reply Mem. at 13). According to Philips, the other bases for tort liability raised by Coby for the first time in its opposition – *i.e.,* unfair competition, defamation, violations of General Business Law § 349(a), and threatening retailers with baseless lawsuits – are preempted or defeated based on the truth of the MELs.

Philips disputes that Coby will be able to prove that the MELs led Sears and a few other customers to stop purchasing DVD players because Coby's own executives testified that the decisions were based on completely different concerns (*id.* at 14, *citing* Syu Jan. Aff., Ex. 46 - Oh Tr. at 250-252 and Yu Dec. Aff., Ex. 14 - Giametta Tr. at 179).

THE GOVERNING LEGAL STANDARDS

The proponent of a motion for summary judgment carries the initial burden of production of evidence as well as the burden of persuasion (*Alvarez v Prospect Hosp.,* 68 NY2d 320 [1986]). The moving party must tender sufficient evidence to demonstrate as a matter of law the absence of a material issue of fact. Failure to make that initial showing requires denial of the motion, regardless of the sufficiency of the opposing papers (*Winegrad v New York University Med. Ctr.*, 64 NY2d 851, 643-644 [1985];*Cendant Car Rental Group v Liberty Mut. Ins. Co.*, 48 AD3d 397, 398 [2d Dept 2008]; *Martinez v 123-16 Liberty Ave. Realty Corp.,* 47 AD3d 901 [2d Dept 2008]; *St. Luke's-Roosevelt Hosp. v American Tr. Ins. Co.*, 274 AD2d 511 [2d Dept 2000]; *Greenberg v Manlon Realty, Inc.*, 43 AD2d 968 [2d Dept 1974]).

Once the moving party has made a *prima facie* showing of entitlement to summary judgment, the burden of production shifts to the opponent, who must go forward and produce sufficient evidence in admissible form to establish the existence of a triable issue of fact or demonstrate an acceptable excuse for failing to do so (*Zuckerman v City of New York*, 49 NY2d 557, 562 [1980]; *Tillem v Cablevision Sys. Corp.*, 38 AD3d 878 [2d Dept 2007]). A party opposing summary judgment may not rest on mere conclusions or unsupported assertions (*Sun Yau Ko v Lincoln Sav. Bank*, 99 AD 2d 943 [1st Dept 1984], *affd* 62 NY2d 938 [1984]; *Zuckerman, supra; see also Pierson v Good Samaritan Hosp.,* 208 AD2d 513, 514 [2d Dept 1994]).

The court's main function on a motion for summary judgment is issue finding rather than issue determination (*Sillman v Twentieth Century-Fox Film Corp.*, 3 NY2d 395 [1957]).

The role of the Court is to determine if *bona fide* issues of fact exist, and not to resolve issues of credibility. As the Court stated in *Knepka v Tallman* (278 AD2d 811 [4th Dept 2000]):

> Supreme Court erred in resolving issues of credibility in granting defendants' motion for summary judgment dismissing the complaint ... Any inconsistencies between the deposition testimony of plaintiffs and their affidavits submitted in opposition to the motion present credibility issues for trial *....* (*id.* at 811; *see also Yaziciyan v Blancato*, 267 AD2d 152 [1st Dept 1999] ["The deponent's arguably inconsistent testimony elsewhere in his deposition merely presents a credibility issue properly left for the trier of fact"]).

On the other hand, a party cannot successfully oppose summary judgment by offering an affidavit which reverses his or her prior deposition testimony for the purpose of avoiding the consequences of that testimony (*Colucci v AFC Constr.*, 54 AD3d 798 [2d Dept 2008]; *Israel v Fairharbor Owners, Inc.,* 20 AD3d 392 [2d Dept 2005]; *Smith v Taylor*, 279 AD2d 566 [2d Dept 2001], *lv denied* 96 NY2d 711 [2001]; *Bloom v La Femme Fatale of Smithtown, Inc.*, 273 AD2d 187 [2d Dept 2000]). But, this rule does not apply where the affidavit is not directly contradictory of the prior deposition testimony (*see O'Leary v Saugerties Cent. School Dist.*, 277 AD2d 662 [3d Dept 2000], amplifies the prior testimony (*Castro v New York City Tr. Auth.*, 52 AD3d 213 [1st Dept 2008], or provides a potentially meritorious explanation for any consistency (*see Mickelson v Babcock*, 190 AD2d 1037 [4th Dept 1993] [plaintiff claimed that she suffered from amnesia at time of deposition but had recovered memory by time of affidavit]).

Since summary judgment is a drastic remedy, it should not be granted where there is any doubt as to the existence of a triable issue (*Rotuba Extruders, Inc. v Ceppos*, 46 NY2d 223 [1978]). Thus, when the existence of an issue of fact is even arguable or debatable, summary judgment should be denied (*Stone v Goodson*, 8 NY2d 8 [1960]; *Sillman v Twentieth Century Fox Film Corp.*, *supra*). In reviewing a motion for summary judgment, the Court must accept as true the evidence presented by the nonmoving party and must deny the motion if there is "even arguably any doubt as to the existence of a triable issue" (*Baker v Briarcliff School Dist.*, 205 AD2d 652, 661-662 [2d Dept 1994]).

Whether a written contract is ambiguous is a question of law to be resolved by the court (*Van Wagner Adv. Corp. v S&M Enterprises*, 67 NY2d 186, 191 [1984]). "Construction of an unambiguous contract is a matter of law, and the intention may be gathered from the four corners of the instrument and should be enforced according to its terms" (*Beal Sav. Bank v Sommer,* 8 NY3d 318, 324 [2007]*; Kass v Kass,* 91 NY2d 554, 566 [1998]*; Taussig v Clipper Group, L.P.*, 13 AD3d 166,167 [1st Dept 2004], *lv denied* 4 NY3d 707 [2005]; *1550 Fifth Avenue Bay Shore, LLC v 1550 Fifth Avenue, LLC*, 297 AD2d 781, 783 [2002], *lv denied* 99 NY2d 505 [2003]). "[T]he aim is a practical interpretation of the expressions of the parties to the end that there be a 'realization of [their] reasonable expectations'" (*Brown Bros. Elec. Contr., Inc. v Beam Constr. Corp.*, 41 NY2d 397, 400 [1977], *quoting* 1 Corbin, Contracts § 1). In examining a contract to find the parties' intent as to a particular section, a court should read "the entirety of the agreement in the context of the parties' relationship," rather than isolating distinct provisions out of an entire agreement (*Matter of Riconda*, 90 NY2d 733, 738 [1997]). Thus, "[t]he rules of construction of contracts require [the court] to adopt an interpretation which gives meaning to every provision of a contract or, in the negative, no provision of a contract should be left without force and effect" (*Muzak Corp. v Hotel Taft Corp.*, 1 NY2d 42, 46 [1956]; *see also Excess Ins. Co. Ltd. v Factory Mut. Ins.,* 3 NY3d 577, 582 [2004] [a contract is to be interpreted so that no portion of the contract is rendered meaningless]*; Columbus Park Corp. v Department of Hous. Preserv. & Dev. of City of New York*, 80 NY2d 19, 31 [1992]; *Two Guys from Harrison-New York, Inc. v S.F.R. Realty Assoc.*, 63 NY2d 396, 403 [1984]). Another canon of contract construction is that an agreement will be construed most strongly against the party who prepared it (*Strauss Paper Co., Inc. v RSA Executive Search, Inc*., 260 AD2d 570, 571 [2d Dept 1999]). Here, however, it appears that the Re-Seller Agreements and Side Letter Agreements were negotiated by both sides through their sophisticated counsel. As such, the Court does not see any basis for construing the agreements in favor of either Philips or Coby.

A contract is unambiguous if "on its face [it] is reasonably susceptible of only one meaning ...." (*Greenfield v Philles Records*, *Inc.*, 98 NY2d 562, 570 [2002]). Parol evidence cannot be used to create an ambiguity where the words of the parties' agreement are otherwise clear and unambiguous (*Innophos, Inc. v Rhodia, S.A.*, 38 AD3d 368, 369 [1st Dept 2007], *affd* 10 NY3d 25 [2008]).

LEGAL ANALYSIS

I. COBY'S MOTION FOR SUMMARY JUDGMENT

The predicate for Coby's motion for summary judgment dismissing Philips' one cause of action for breach of contract is that Philips cannot establish an essential element of its claim – *i.e.*, its own performance – and, therefore, based on Philips' breach, Coby was excused from its performance under the Re-seller and Side Letter Agreements.

The elements to be established for a breach of contract cause of action under New York law are: (1) that plaintiff and defendant made a contract; (2) that consideration existed; (3) that the plaintiff performed; (4) that the defendant breached the contract; and (5) that the plaintiff suffered damages as a consequence (4 *N.Y. Practice, Com. Litig. in New York State Courts,* § 59:12 [2d ed]; *see also Brualdi v IBERIA,* 79 AD3d 959, 960 [2d Dept 2010]*; Harsco Corp. v Segui,* 91 F3d 337, 338 [2d Cir 1996]; *WorldCom, Inc. v Sandoval,* 182 Misc 2d 1021, 1023 [Sup Ct NY County 1999]; *Samide v Roman Catholic Diocese of Brooklyn,* 194 Misc 2d 561, 573 [Sup Ct Queens County 2003]).

"Under New York law, a party's performance under a contract is excused where the other party has substantially failed to perform its side of the bargain or, synonymously, where that party has committed a material breach" (*Merrill Lynch & Co., Inc. v Allegheny Energy, Inc*., 500 F3d 171, 186 [2d Cir 2007], *citing Hadden v Consolidated Edison Co. of N.Y.*, 34 NY2d 88, 96 [1974] [assessing substantial performance on basis of several factors, such as the absolute and relative magnitude of default, its effect on the contract's purpose, willfulness, and degree to which injured party has benefitted under contract]; *Frank Felix Assoc., Ltd. v Austin Drugs, Inc*., 111 F3d 284, 289 [2d Cir 1997]).Under New York law, for a breach of a contract to be material, it must "'go to the root of the agreement between the parties'" (*Frank Felix Assoc., Ltd.,* 111 F3d at 289 *quoting Septembertide Pub. B.V. v Stein and Day, Inc.,* 884 F2d 675 [2d Cir 1989]). A party's obligation to perform under a contract is only excused where the other party's breach of the contract is so substantial that it defeats the object of the parties in making the contract (*id., citing Babylon Assoc. v County of Suffolk*, 101 AD2d 207 [2d Dept 1984]).

"Materiality goes to the essence of the contract.... [A] breach is material if it defeats the object of the parties in making the contract and 'deprive[s] the injured party of the benefit that it justifiably expected'" (*ESPN, Inc. v Office of Commr. of Baseball*, 76 F Supp 2d 416, 421 [SD NY 1999], *quoting* Farnsworth, Contracts § 8.16 [3d ed. 1999]). "When one party has committed a material breach, the non-breaching party may either elect to terminate the contract and sue for damages, or continue performance under the contract and sue for partial damages" (*Bresloff-Hernandez v Horn*, 2007 WL 2789500 at * 11 [SD NY 2007]).

Pursuant to the Restatement (2d) Contracts, Section 241:

> In determining whether a failure to render or to offer performance is material, the following circumstances are significant: (a) the extent to which the injured party will be deprived of the benefit which he reasonably expected; (b) the extent to which the injured party can be adequately compensated for the part of that benefit of which he will be deprived; (c) the extent to which the party failing to perform or to offer to perform will suffer forfeiture; (d) the likelihood that the party failing to perform or to offer to perform will cure his failure, taking account of all the circumstances including any reasonable assurances; [and] (e) the extent to which the behavior of the party failing to perform or to offer to perform comports will the standards of good faith and fair dealing.

The issue of whether a party has substantially performed is usually a question of fact and should be decided as a matter of law only where the inferences are certain (*Merrill Lynch & Co., Inc. v Allegheny Energy, Inc*., *supra*, 500 F3d at 186-187, *citing Anderson Clayton & Co. v Alanthus Corp*., 91 AD2d 985 [2d Dept 1983] *quoting* 22 NY Jur 2d, Contracts, § 320, pp. 198–199]). In *Anderson Clayton*, the court found that the primary purpose of the contract had been fulfilled, the breaches alleged by defendant were trivial in nature, particularly when contrasted with the substantial performance tendered by plaintiff pursuant to the terms of the contract, and plaintiff continually proceeded with the utmost good faith. In such a situation, the nonbreaching party is not excused from its obligations under the contract.

In this case, the parties do not dispute the legal principle that a material breach of the Re-Seller Agreements by Philips, if one occurred, could have relieved Coby's duty to perform under those Agreements. They do, however, disagree over whether Philips substantially performed its obligations under those Agreements. Thus, at issue in Coby's motion is whether it has established, *prima facie*, Philips' material breach of either (1) the best efforts clause;[24] or (2)

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[24] Although Philips contends that the three primary purposes of the re-seller and side agreements were fulfilled and that this best efforts clause was immaterial, the Court cannot agree. Philips' prime negotiator, Bill Lenihan, in an early email to Coby concerning the parties' negotiations of the Re-Seller Agreements wrote that he understood that a main consideration for Coby was that it not be put at a competitive disadvantage by entering into

the invoicing clause. Because in opposition to the motion, Philips is arguing that the best efforts clause is unenforceable as vague and ambiguous, the Court shall first address this contention before it proceeds to deciding whether Coby has established, *prima facie*, Philips' material breach of that provision.

A. The Best Efforts Clause is Enforceable But There are Triable Issues of Fact Whether Philips Breached the Clause

The best efforts clause in the DVD Player Side Letter to the Re-Seller Agreement provides that

> With respect to the Licensed Patents, Philips shall use its best efforts (i) to enter into re-seller agreements with all distributors of Re-Sale Products in the Territory, including, without limitation, Re-Seller's competitors as may be notified to Philips by Re-Seller from time to time; provided, however, that (i) Re-Seller acknowledges that if other competitors sell DVD Players from licensed manufacturers, Philips can only ask such competitors to sign an appropriate Re-Seller Agreement and (ii) any such best efforts shall be measured within the framework of the best efforts used by Philips and R-Seller to sign this Agreement (Yu Dec. Aff., Ex. 20 at ¶ 38).

The best efforts clauses in the Side Letter Agreements to the AC-3 and DTS Re-Seller Agreements have the identical language except that they add to the end of the last sentence "namely fifteen months from the start of negotiations" (Yu Dec. Aff., Ex. 20 at ¶ 38).

Based on the language of the best efforts clauses, the Court finds that the clauses are enforceable as there are standards against which Philips' performance may be measured. However, because there are triable issues of fact, the Court shall deny Coby's motion for summary judgment.

The Court shall first address whether the lack of a definition of distributor in the best efforts clause renders it ambiguous. "Ambiguous language is language that is 'capable of more than one meaning when viewed objectively by a reasonably intelligent person who has examined the context of the entire integrated agreement and who is cognizant of the customs, practices, usages and terminology as generally understood in the particular trade or business'" (*Hard Rock Café Intl. (USA), Inc. v Hard Rock Hotel Holdings, LLC*, 808 F Supp 2d 552, 564 [SD NY 2011], *quoting Revson v Cinque & Cinque, P.C.*, 221 F3d 59, 66 [2d Cir 2000]; *see also McDarren v Marvel Entertainment Group, Inc.*, 1995 WL 21448222 at * 3 [SD NY 1995]). A court "should not strain itself to find an ambiguity where words have a definite and precise meaning" (*Pergament Distrib., Inv. v Old Republic Ins. Co.,* 128 AD2d 760, 760 [2d Dept 1987], *lv denied* 70 NY2d 607 [1987]).

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these agreements. That concern was meant to be addressed through the MFC and best efforts clauses. Accordingly, the Court rejects Philips' contention that its breach of the best efforts clause cannot be found, as a matter of law, to be material as the clause itself was inconsequential to the parties' agreements.

Philips has not provided any other reasonable interpretation for the term distributor other than the one offered by Coby, which is based on the Business Dictionary's definition of the term – *i.e.*, company which sells goods for another company which makes them. This definition is similar to the definition of a distributor found in the Merriam Webster Dictionary as "one that markets a commodity, especially a wholesaler." Additional support is found in the obvious fact that the Agreements in question are termed "Re-Seller Agreements" and that Philips was unquestionably well aware of the nature of Coby's business prior to the parties' entry into the subject Agreements.

Further, even though the term "distributor" is not defined in the Re-Seller Agreements, it is unambiguous as a term commonly understood. The term is readily understood in common parlance to mean a middleman-type wholesaler who distributes products purchased from manufacturers and sells those products to retailers which, of course, was precisely what Coby was doing when the parties made the subject Agreements. The fact that the parties specified that such distributors would include but not be limited to "Re-Seller's competitors as may be notified to Philips by Re-Seller from time to time" does not detract from the meaning of the term, but it did impose an obligation on Philips that at a minimum, it had to expend some amount of effort (within its capabilities) to sign up those competitors identified by Coby. This language indeed amplifies the meaning to be ascribed to distributors in that they had to be entities that were in competition with Coby for the sale of DVD players in Coby's distribution chain (*i.e.*, not retailers or manufacturers). Thus, given the context of the term distributor in the best efforts clause and given the context of the parties' entire Agreements, it is clear that the parties were limiting the Resellers of Re-Sale Products in the territory to those companies that were Coby equivalents – *i.e.,* middlemen distributors and not manufacturers or retailers. It was not within the contemplation of the parties that distributors would include a company whose products did not compete with Coby's products – *i.e.,* distributors of DVD players contained in computers and distributors of DVD players that were not selling within the United States (*Reines Distrib., Inc. v Admiral Corp*., 256 F Supp 581 [SD NY 1966]).

The Court will next address the issue of the enforceability of the best efforts clause.

New York case law makes clear that best efforts requires greater care and diligence than the ordinary care and diligence to which the promisor would otherwise be bound to exercise (*Allen v Wiliamsburgh Sav. Bank,* 69 NY 314, 322 [1877]). And best efforts requires more than good faith, which is an implied covenant in all contracts (*Kroboth v Brent*, 215 AD2d 813, 814 [3d Dept 1995]). A promissor may be found to have breached a duty to use best efforts, even if it has not breached the implied duty of fair dealing. "'A best efforts' clause imposes an obligation to act with good faith in light of one's own capabilities' *McDarren v. Marvel Entm't Group, Inc*., No. 94 CIV. 0910, 1995 WL 214482, at * 4 (S.D.N.Y. April 11, 1995) ... "'Best efforts' requires that plaintiffs pursue all reasonable methods ... and whether such obligation has been fulfilled will almost invariably ... involve a question of fact' ... Accordingly, 'the precise meaning of [a] "best efforts" provision [and whether the provision is breached] are factual issues that cannot be resolved on the face of the complaint'" (*Robin Bay Assoc., LLC v Merrill Lynch & Co.*, 2008 WL 75902 * 7 [SD NY 2008]; *Kroboth,* 215 AD2d at 814). A best efforts clause "'does not strip the promising party of its right to give reasonable consideration to its own interests" (*Bloor v Falstaff Brewing Corp*., 601 F2d 609, 614 [2d Cir 1979]).

Because a party may give reasonable consideration to its own interests in determining the appropriate course of action to reach the required result "a party may exercise discretion, within its good faith business judgment, in devising a strategy for achieving the ultimate goal" *(Scott-Macon Sec., Inc., supra*, 2005 WL 1138476 at *14). For Coby to prevail on its contention that Philips breached the best efforts clause, it must show that Philps' efforts did not reflect good faith business judgments (*Travellers Intl. A.G. v Trans World Airlines,* 41 F3d 1570, 1575-1576 [2d Cir 1994]).

Philips argues that because there were no objective criteria in the clause to measure Philips' best efforts, the clause is unenforceable.[25] This argument is based on an Appellate Division, Second Department case, *Strauss Paper Co., Inc. v RSA Executive Search, Inc*., (260 AD2d 570 [2d Dept 1999]).

In *Strauss*, plaintiff and defendant, an executive search firm, entered into an agreement whereby defendant would be paid upon placement completion and in the event the candidate resigned or was terminated within 180 days, defendant would use its best efforts to replace the candidate at no additional charge. Plaintiff paid defendant one-half of a placement fee on a candidate referred by defendant and hired. However, when the candidate was fired within 4 months of hire, plaintiff sought the return of the placement fee it had paid.

In opposition to plaintiff's motion for summary judgment, defendant raised the issue of whether it utilized or was permitted to utilize its best efforts to obtain a replacement candidate and the Second Department held that where "a clause in an agreement expressly provides that a party must use its 'best efforts,' it is essential that the agreement also contain clear guidelines against which to measure such efforts in order for such clause to be enforced ... Since this agreement contained no guidelines to define the term 'best efforts,' the defendant cannot seek to enforce its right to payment under this portion of the agreement" (*Strauss Paper Co.*, 260 AD2d at 571). However, the cases upon which *Strauss* relies make clear that the standards do not necessarily have to be explicit in the agreement if there are standards by which the best efforts may be measured.

This interpretation of the case law is in line with cases subsequent to *Strauss* in which the courts held that the criteria against which the defendant's efforts can be measured must either be stated in the agreement or may be implied from the circumstances of the case (*see 2004 McDonald Ave. Realty, LLC v 2004 McDonald Ave. Corp*., 50 AD3d 1021, 1023 [2d Dept 2008]; *see also Hard Rock Café Intl. (USA), Inc., supra*, 808 F Supp 2d at 562 [""Under New York law, enforcement of a 'best efforts' clause is proper only when there are a 'clear guidelines against which to measure such efforts.' Those guidelines need not be explicit in the agreement"]; *see also Ashokan Water Serv., Inc. v New Start LLC*, 11 Misc 3d 686 [Civ Ct Kings County 2006]).

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[25] In addition to the argument that the clause is unenforceable as it lacks objective criteria, Philips also argues that it is illusory since Philips was not actually required to get the distributors to enter into such re-seller agreements to satisfy its best efforts obligation.

Based on the foregoing, although this Court does not read *Strauss* as creating a hard and fast rule that without objective criteria spelled out in the agreement, a best efforts clause is unenforceable. Moreover, even if Strauss stands for this proposition, it is readily distinguishable from this case where the parties did provide objective criteria from which to gauge Philips' efforts. That guidepost was that the parties were to view Philips' best efforts in light of the efforts of the parties in entering into the Re-Seller Agreements[26] and Philips was explicitly not required to be successful in signing up other companies, it simply was required to ask them to sign up.

The extent of such effort at signing up is, nevertheless, an issue that cannot be decided from the present record since there is clearly a disconnect between Philips and Coby as to the meaning of the effort that was required. Philips argues that if the clause is enforceable, then the meaning of best efforts set forth in the case law must be read into the clause (*i.e.*, "an obligation to act in good faith in light of one's own capabilities" giving "reasonably consideration to its own interests" and that a party "may exercise discretion, within its good faith business judgment, in devising a strategy for achieving the ultimate result") such that Philips cannot have been required to have spent 15 months trying to sign up every U.S distributor of DVD players no matter how small the sales of the company. Philips even suggests that its principal negotiator understood the clause to mean that as long as Philips signed up one company every 15 months, it had met its obligation. By contrast, Coby asserts that the language must be interpreted to mean that Philips had to pursue all distributors of DVD players in the U.S., no matter how small, with the same vigor it used to sign up Coby.

In order to grant Coby summary judgment and dismiss Philips' breach of contract claim[27], the Court would have to find that a reasonable jury could only find that the failures by Philips to either pursue at all, or to pursue vigorously enough, the companies outlined in Coby's moving papers was a material breach of the best efforts clause. Conversely, in order to grant Philips' motion for summary judgment, the Court would have to find that this was the only breach committed by Philips[28] and that the failures outlined by Coby were immaterial breaches of the best efforts clause. As with almost all the cases cited, because best efforts necessarily requires a review of whether Philips pursued all reasonable methods for signing up additional distributors based on its good faith business judgment (keeping in mind the objective standard put into place by the parties), whether Philips fulfilled its obligation necessarily involves a question of fact (*see, e.g., Kroboth, supra, Bloor, supra; Proteus Books Ltd. v Cherry Lane Music Co.,* 873 F2d 502 [2d Cir 1988]; *US Airways Group, Inc. v British Airways PLC,* 989 F Supp 482, 491 [SD NY 1997]; *Robin Bay Assoc., supra,* 2008 WL 2275902 at *7).

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[26] And in the case of the AC-3 and DTS Re-Seller Agreements, an added standard was that the framework for the effort that was expended on the parties' Re-Seller Agreements was to be viewed in light of the "fifteen months from the start of negotiations."

[27] The parties have not addressed how, if at all, a breach by Philips of the best efforts clause in the Re-Seller Agreement Side Letters would impact Philips' claims for damages to the extent predicated on the two subsequent workout agreements.

[28] As noted before, Coby has asserted other breaches against Philips, including its failure to provide invoices and its breach of the MFC clause.

The evidence before the Court shows the existence of clear questions of fact as to whether Philips fulfilled its obligations under that best efforts clause. There are also clear questions of fact as to whether any breach by Philips was substantial.[29] Nor can the Court decide as a matter of law whether Philips substantially performed or whether Coby should be estopped[30] from using the best efforts clause as a defense either because Coby failed to

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[29]Coby has provided evidence that if the standard should be interpreted in accordance with its view, Philips breached the provision since Philips did not make any effort to sign up those 18 companies, at least five of which had been specifically identified by Coby in its Mancini Letter (*e.g.*, Broksonic, Electro Brand, General Sound, Sakar and Specra Merchandising). However, four of those companies admittedly had no sales of DVD players in the U.S. (*i.e.,* General Sound, Sakar, Specra Merchandising and Electro Brand). Philips had sent a letter to General Sound in August 2005 prior to the December 2005 Mancini letter (Syu Dec. Aff., Ex. 11) so whether that letter could be construed as fulfilling Philips' obligation would necessarily be a question of fact. In addition, Philips has provided evidence of its market wide efforts to alert Philips' distributors of their obligations based on its mass mailings of MELs and the information its provides on its website. Again, whether those efforts would be found to be efforts to sign up particular distributors to re-seller agreements necessarily involves a question of fact. Likewise, while Coby has presented *prima facie* evidence that Philips did not make sufficient efforts to sign up Haier, Mintek, Initial Technology, AMW and Supersonic, Philips has countered this evidence with evidence of diligent efforts or other reasons why it was not required to sign up the companies (*see, e.g.,*Syu Aff., Exs. 9, 35, 36-37, 38, 39 and 40). Further, if the clause is interpreted in accordance with one of Philips' interpretations (not the one in which Philips' signing up of one company every 15 months was sufficient), Philips' evidence of having signed up 10 companies, having sued others for patent infringement, and having pursued others to no avail, shows the existence of genuine triable issues of fact as to Philips' breach given such best efforts must be construed in light of the party's good faith business judgment in devising a strategy to meet its obligation. It would not be unreasonable for the trier of fact to conclude that the effort Philips had to expend on a distributor should be measured against the sales of DVD players generated by such distributor, with the greater effort to be expended on the larger distributors. Thus, the effort it expended to get Coby signed up (an entity selling 2,221,770 DVD players during the 2005-2010 period) is worth 15 months of effort whereas Philips' MELs or website was sufficient enough an effort with regard to a distributor of 1294 DVD players during the same period (*i.e.,* Buffalo Technology). Further, because the clause did not provide a specific time limit for Philips to perform, the law would imply a reasonable time (*see, e.g., Schwartz v Rosenberg,* 67 AD3d 770 [2d Dept 2009]), and the trier of fact will thus also have to determine whether Philips' failure to have all U.S. distributors prior to the termination of the parties' relationship meant that Philips materially breached the clause.

[30]Estoppel "is imposed by law in the interest of fairness to prevent the enforcement of rights which would work fraud or injustice upon the person against whom enforcement is sought and who, in justifiable reliance upon the opposing party's words or conduct, has been misled into acting upon the belief that such enforcement would not be sought'" (*Fundamental Portfolio Advisors, Inc. v Tocqueville Asset Mgt., L.P.*, 7 NY3d 96, 106

terminate the agreements based on this breach or, at a minimum, failed to complain about Philps' efforts.[31]

The Court does not agree with Philips' other arguments – *i.e.,* (1) that this best efforts clause was not a primary purpose of the agreements and that because the three primary purposes of the agreements had been fulfilled, any breach by Philips of this clause was trivial (*i.e.,* immaterial) as a matter of law; and (2) that the indefiniteness or ambiguity of the best efforts clause means that there was a lack of mutual assent such that the clause should be omitted from the contract as opposed to interpreting the language to give it meaning.

B. There Are Triable Issues of Fact Over Whether Philips Breached the Invoicing Clause

Section 3.2 of the Re-Seller and Side Letter Agreements obligates Coby to report on a quarterly basis it sales of DVD players. Further, if the sales involved unlicensed manufacturers, Coby was required to remit the royalties due in U.S. dollars within 30 days of March 31, June 30, September 30 and December 31 of each year. If the sales involved a Licensed Manufacturer, then Coby

> shall not be required to pay royalties on such Re-Sale Product if such Manufacturer timely pays the applicable royalties to Philips pursuant to such suppliers' license agreement with Philips ... If the Licensed Manufacturer does not make full payment within 30 days of the original due date, then Philips shall invoice Re-Seller for any amounts still due on or before the last day of the period following the period during which shipment of the Re-Sale Product, to which the payment relates, occurred ....

It is Coby's position that because Philips never provided it with the invoices required by this provision, Philips breached this clause and there is no basis for liability against Coby in this action.

[2006], *quoting Nassau Trust Co. v Montrose Concrete Prods. Corp.*, 56 NY2d 175, 184 [1980]).

[31] Although Philips contends that Coby never complained about its efforts, Coby has presented evidence that Coby China continuously complained to Philips about the competitive disadvantage that it was being placed based on Philips' failure to sign up other manufacturers and resellers and that, as a result, Coby China and Philips had an unwritten understanding that Coby China could significantly under-report its sales so long as it met some threshold of reporting (*e.g.*, 45%). Of course, the trier of fact may use Coby's failure to terminate or complain as evidence that it was satisfied that Philips was fulfilling its obligations under the best efforts clause (*see, e.g., Western Geophysical Co. of Am., Inc. v Bolt Assoc., Inc*., 584 F2d 1164 [2d Cir 1978]; *McDarren v Marvel Entertainment Group, Inc*., 1995 WL 214482 [SD NY 1995]).

The Court disagrees with the premise of Coby's argument and agrees with Philips that this clause pre-supposes that the sales were reported by Coby China and Coby in the first place. This case is not about Coby's failure to make payments on sales reported by Coby China and Coby but not paid for by Coby China. If that were the nature of this action, Coby would have a point. Instead, this action is about Coby's and Coby China's gross under-reporting of sales – *i.e.,* sales not reflected in the quarterly reports. It stands to reason that Philips could not invoice for sales it did not know about.

Moreover, even if the invoicing clause placed an obligation on Philips to estimate the actual sales that were made but not reported based on its own market intelligence, there are questions of fact that would preclude the granting of Coby's motion.

While Coby has presented *prima facie* evidence of Philips' failure to send to Coby the invoices required by the Re-Seller and Side Letter Agreements, Philips has presented evidence creating triable issues of fact over whether (1) it provided such invoices (*see* Yu Dec. Aff., Exs. 30, 32, 34; Yu Jan. Aff., Exs. 28, 31, 41 and 42), or (2) Coby should be estopped from relying on Philips' failure to provide reports since it was the collusion between Coby and Coby China that prevented Philips' performance of its obligation to invoice by providing false royalty reports which substantially under-reported the volume of sales of DVD players in the United States.

It is well settled that a "'party to a contract cannot rely on the failure of another to perform a condition precedent where he has frustrated or prevented the performance of the condition" (*MHR Capital Partners LP v Presstek, Inc*., 12 NY3d 640, 646 [2009], *quoting ADC Orange, Inc. v Coyote Acres, Inc*., 7 NY3d 484, 490 [2006]; *see also RSB Bedford Assoc., LLC v Ricky's Williamsburg, Inc*., 91 AD3d 16, 22 [1st Dept 2011]; *Young v Whitney*, 111 AD2d 1013 [3d Dept 1985]). Here, because Philips' ability to issue invoices was dependent upon Coby's and Coby China's issuance of truthful quarterly royalty reports, the Court concludes that Philips has presented evidence creating triable issues of fact over whether their failure to do so frustrated Philips' ability to perform its obligation to issue invoices to Coby. Accordingly, this branch of Coby's motion shall be denied as there are triable issues of fact over whether Coby's and Coby China's under-reporting "greatly disrupted and frustrated" Philips' performance (*Big Apple Car Inc. v City of New York*, 1995 WL 17960456 [Sup Ct NY County 1995]). And this is so regardless of whether or not Coby's obligation was that of a guarantor of Coby China's obligations or based on its own primary liability *(Manufacturers & Traders Trust Co. v Sullivan*, 188 AD2d 1023 [4th Dept 1992]).

Again, the Court notes that Coby has not shown that, even if it were correct in its argument about the effect of the non-invoicing, Coby would be entitled to summary judgment on that part of Philips' cause of action as rests on the two subsequent workout agreements.

II. PHILIPS' MOTION FOR SUMMARY JUDGMENT

A. Philips' Motion for Summary Judgment on its Breach of Contract Claim Involves Triable Issues of Fact

As there are triable issues of fact over whether Philips' substantially performed the best efforts clause, the branch of Philips' motion seeking summary judgment on its breach of contract claim must necessarily be denied.

B. There Are Triable Issues of Fact Concerning Coby's Counterclaims for Tortious Interference with Business Relations and Unfair Competition

The validity of Coby's counterclaims for tortious interference with business relations and unfair competition arise from Philips' alleged wrongful transmittal of the MELs notifying retailers and other distribution centers that Coby China was an unlicensed supplier of DVD Players that were infringing Plaintiff's patent.

The elements of a cause of action for tortious interference with business relations that Coby must plead are (1) business relations with a third party; (2) Plaintiff's interference with those business relations; (3) that Plaintiff's interference was done either maliciously or was otherwise tortious, and (4) that the Coby suffered damages as a result (*Nadel v Play-By-Play Toys & Novelties, Inc.,* 208 F3d 368, 382 [2d Cir 2000]; *NBT Bancorp Inc. v Fleet/Norstar Fin. Group, Inc.,* 87 NY2d 614 [1996]; *Guard-Life Corp. v S. Parker Hardware Mfg. Corp.*, 50 NY2d 183 [1980]; *Jurlique, Inc. v Austral Biolab Pty., Ltd.,* 187 AD2d 637 [2d Dept 1992]; *Fantaco Enter., Inc. v Iavarone,* 161 AD2d 875 [3d Dept 1990]; *Williams & Co. v Collins, Tuttle & Co.,* 6 AD2d 302 [1st Dept 1958], *lv denied* 5 NY2d 710 [1959]).

"Tortious interference with business relations 'applies to those situations where the third party would have entered into or extended a contractual relationship with plaintiff but for the intentional and wrongful acts of the defendant'" *(M.J. & K. Co., Inc. v Matthew Bender and Company, Inc.*, 220 AD2d 488, 490 [2d Dept 1995], *quoting WFB Telecom., Inc. v NYNEX Corp.*, 188 AD2d 257, 257 [1st Dept 1992], *lv denied* 81 NY2d 709 [1993]). "In such an action '[t]he motive for the interference must be solely malicious, and the plaintiff has the burden of proving this fact' (72 NY Jur 2d, Interference, § 44, at 240)" (*John R. Loftus, Inc. v White*, 150 AD2d 857, 860 [3d Dept 1989]). Thus, the "'defendant's conduct must amount to a crime or an independent tort ... [and] [a] sole exception to this general rule has recognized where a defendant has engaged in conduct 'for the sole purpose of inflicting intentional harm on plaintiff[]'" (*Lawrence v Union of Orthodox Jewish Congregations of Am.,* 32 AD3d 304 [1st Dept 2006]).

It has been held that "wrongful means" includes physical violence, fraud or misrepresentation, civil suits and criminal prosecutions, and some degrees of economic pressure (*NBT Bancorp Inc., supra,* 87 NY2d at 624; *Guard-Life Corp., supra*, 50 NY2d at 191*; BGW Dev. Corp. v Mount Kisco Lodge No. 1552 of Benev. and Protective Order of Elks of U.S. of Am., Inc.,* 247 AD2d 565 [2d Dept 1998], lv denied 92 NY2d 813 [1998]). Thus, "'a defendant's conduct must amount to a crime or an independent tort' (*Carvel Corp. v Noonan*, 3 N.Y.3d 182, 190, 785 N.Y.S.2d 359, 818 N.E.2d 1100 [2004])" or "where a defendant has engaged in conduct 'for the sole purpose of inflicting intentional harm on plaintiff[]'" (*Lawrence, supra*, 32 AD3d at 304, *quoting NBT Bancorp., supra*). Thus, mere self interest or other economic considerations vitiate the wrongful means element (*Monex Fin. Serv., Ltd. v Dynamic Currency Conversion, Inc.,* 62 AD3d 675 [2d Dept 2009]; *Anesthesia Assoc. of Mount Kisco, LLP v Northern Westchester Hosp. Ctr*., 59 AD3d 473, 477 [2d Dept 2009] ["If a defendant shows that the interference is intended, at least in part, to advance its own interests, then it was not acting solely to harm the plaintiff"]).

"The central principle underlying a claim for unfair competition under New York law is that one may not misappropriate the results of the labor, skill and expenditures of another ... An unfair competition claim must also involve some degree of bad faith ... This 'adaptable and capacious tort' proscribes all forms of commercial immorality, the confines of which are marked only by the 'conscience, justice and equity of common-law judges'" (*LinkCo, Inc. v Fujitsu, Ltd.*, 230 F Supp 2d 492, 500-501 [SD NY 2002], *quoting Demetriades v Kaufmann*, 698 F Supp 521, 525 [SD NY 1988]; *see also Electrolux Corp. v Val-Worth, Inc*., 6 NY2d 556, 568 [1959], *quoting Ronson Art Metal Works, Inc. v Gibson Lighter Mfg. Co.*, 3 AD2d 227, 230-231 [1st Dept 1957] ["'Unfair competition is a form of unlawful business injury .... The incalculable variety of illegal commercial practices denominated as unfair competition is proportionate to the unlimited ingenuity that overreaching entrepreneurs and trade pirates put to use'"]). "A claim of unfair competition based on misappropriation generally involves the taking of a property right ... New York courts have found that persons have a protectable property interest in their 'labor, skill, expenditure, name and reputation ....'" (*LinkCo, Inc*., 230 F Supp 2d at 501).

As this Court noted in its January 2011 Decision, because the federal patent laws are implicated by Philips' MELs since such letters are required as a precursor to any patent infringement action, the standard to be applied based on the case of *Hunter Douglas, Inc. v Harmonic Design, Inc*. (153 F3d 1318, 1336 [Fed Cir 1998], *cert denied* 525 US 1143 [1999]) is whether the MELs were sent in bad faith, that is, the claims of infringement were objectively baseless:

> "[F]ederal patent law bars the imposition of liability for publicizing a patent in the marketplace unless the plaintiff can show that the patent holder acted in bad faith." *Hunter Douglas, Inc. v Harmonic Design, Inc*., 153 F.3d 1318, 1336 (Fed.Cir.1998). Federal patent law likewise preempts state-law tort liability when a patentee in good faith communicates allegations of infringement of its patent ... As a result, "bad faith must be alleged and ultimately proven, even if bad faith is not otherwise an elements of the tort claim" (*Dominant Semiconductors SDD.BHD. v Osram GMBH*, 524 F3d 1254, 1260 [Fed Cir 2008], *quoting Zenith Elec. Corp. v Exzec, Inc*., 182 F3d 1340 [Fed Cir 1999]).

The Federal Court of Appeals in *Dominant Semiconductors SDD.BHD.* further held that in order to show bad faith, there must be "'a showing that the claims asserted were objectively baseless' ... To be objectively baseless, the infringement allegations must be such that 'no reasonable litigant could reasonably expect success on the merits'" (*Dominant Semiconductors SDD.BHD.*, 524 F3d at 1260, *quoting GP Indus., Inc. v Eran Indus., Inc*., 500 F3d 1369, 1374 [Fed Cir 2007]).

As noted by this Court in its January 2011 Decision, allegations that a patent holder made false representations to a competitor's customer that it was infringing a patent have supported a common law claim of unfair competition (*see Laser Diode Array, Inc. v Paradigm Lasers, Inc*., 964 F Supp 90, 95 [WD NY 1997]; *Zenith Elect., supra*, 182 F3d at 1]).

Distilled to their essence, the only disputes between the parties with regard to the viability of these counterclaims are whether (1) the statements made in Philips' MELs were at all fraudulent[32] because according to Philips, Coby China was unlicensed at the time of some of these letters because it had been terminated (*i.e.,* the June 11, 2007 to September 10, 2008 time frame) or else the MELs accurately stated that Coby China sold at least some unlicensed DVD Players given that it is undisputed that Coby China was in breach of provisions of its license agreement rendering the sale of some of its DVD players as unlicensed transactions;[33] and (2) Coby has failed to establish that it lost contracts as a result of the MELs (*i.e.*, that it would have had the sale but for Philips' wrongful actions).

The Court finds that on both points, Philips satisfied its *prima facie* burden to show (1) that the statements in the MELs were true and Philips' conduct was not wrongful because it was simply protecting its patent; and (2) Coby has failed to show that it has sustained any damages since its witnesses admitted that the discontinuance of relations occurred more than a year following the letter and the customers had other reasons for discontinuing their relationship with Coby.

In opposition, Coby has presented evidence that the MELs were inaccurate as to Coby China and that Philips knew that Coby China's license had been reinstated (Syu Jan. Aff., Exs. 16, 37). Further, Coby has submitted evidence that the parties operated throughout the entire period as though Coby China was licensed and that the MELs were simply a tactic Philips used to extract additional monies out of Coby China and Coby (*see* Lee Tr. at 230-31). And as to Coby, Coby has presented evidence that during the period in question, Philips acknowledged that Coby was in good standing (*e.g.*, Syu Jan. Aff., Ex. 20), and that while the statements in the MELs did not identify Coby USA in particular, they were materially misleading as to Coby since there is evidence that Coby's customers did not distinguish Coby from Coby China and it

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[32] Coby asserts for the first time in its opposition, that Philips engaged in torts other than simple fraud to support its tortious interference with contract claim – *i.e.*, unfair competition, defamation or deceptive acts under NY General Business Law § 349(a) ("GBL"). Because Coby's unfair competition claim is predicated on the same misrepresentation in the MELs - this is a distinction without a difference. As to the other claims, because this Court is finding that there are triable issues of fact over whether Philips' MELs were materially misleading, the Court need not address whether Philips' conduct is also tortious as a defamation or a deceptive trade act under the GBL. Nor must this Court address Coby's alternative argument that even if not tortious, Philips' conduct was wrongful because "Philips' committed misrepresentations, and threatened retailers with objectively baseless suits, and thereby placed unwarranted economic pressure on them" (Coby's Opp. Mem. at 23).

[33] In support, Philips relies on Tam's deposition testimony wherein he admitted that Coby China under-reported its DVD Player sales and did not apply for LSCDs for all of its U.S. bound shipments (Tam Tr. 31-34), which, according to Tam, violated section 1.11 of the 2006 and 2008 Patent License Agreements (DVD player only licensed when reported to Philips and royalties are paid) and section 7(a) of the 2006 Supplemental Agreement, which stated that DVD Players sold by Coby China would only be considered Licensed Products if covered by an LSCD.

therefore negatively impacted the brand (Oh Tr. at 246-247; Vellturo Aff., Ex. 1 at ¶36[34]). Further, Coby has presented evidence that it lost sales during the periods that Philips had sent the MELs and Coby's expert has opined that there was a "but for" causation between the MELs and Coby's lost sales. Finally, Coby has submitted evidence creating triable issues of fact as to Philips' bad faith based on the emails showing that at least some of Philips' employees alerted the persons responsible for the MELs that the MELs were in error as to Coby China and as to Coby and therefore, Philips had to rectify the error by advising the customers of the "present positive status" of Coby, but then failed to do so (Syu Jan. Aff., Ex. 37).

Based on the foregoing, because there are triable issues of fact over: (1) the truth of the matters asserted in the MELs or at least their ability to mislead people into thinking that Coby was not in good standing with Philips; (2) Coby's claim that Philips was acting in bad faith in listing Coby China when it knew Coby China was still licensed (or at least the parties acted under such assumption) such that the claims of infringement were objectively baseless; and (3) Coby's loss of sales as a result of the MELs, the Court shall deny the branches of Philips' motion for summary judgment dismissing Coby's counterclaims for tortious interference with business relations and unfair competition.

CONCLUSION

The Court has considered the following papers in connection with these motions:

Motion Seq. #005

1) Notice of Motion for Summary Judgment dated December 15, 2011; Affirmation of Eric T. Syu, Esq. dated December 15, 2011, together with the exhibits annexed thereto;

2) Memorandum in Support of Defendant Coby Electronic Corporation's Motion for Summary Judgment dated December 15, 2011;

3) Defendant Coby Electronics Corporation's Statement of Undisputed Material Facts Pursuant to Rule 19-A of the Commercial Division Rules;

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[34] Relying on deposition testimony from Giametta (Tr. at 225-226), Lenihan (Tr. at 345) and Oh (Tr. at 246-247), Coby's expert asserts:

> While the MELs technically listed Coby China as unlicensed, the MELs had a detrimental effect on Coby's (U.S.) business because of the negative impact on Coby's brand. Most of Coby's customers view Coby China having a licensing issue with Philips the same, for practical purposes, as Coby (U.S.) having a licensing issue with Philips, believing for example that Coby (U.S.) would acquire much of its inventory from Coby China or that the two are related companies (Vellturo Aff., Ex. 1 at ¶ 36).

4) Plaintiff's Opposition to Defendant's Motion for Summary Judgment dated January 19, 2012;

5) Koninklijke Philips Electronic N.V.'s Response to Coby Electronic Corporation's Statement of Undisputed Material Facts Pursuant to Rule 19-A of the Commercial Division Rules;

6) Affirmation of Brian J. Wieghaus, Esq. in Support of Plaintiff's Opposition to Defendant's Motion for Summary Judgment dated January 19, 2012 together with the exhibit annexed thereto;

7) Affirmation of Joseph Yu, Esq. in Support of Plaintiff's Opposition to Defendant's Motion for Summary Judgment dated January 19, 2012, together with exhibits annexed thereto;

8) Affirmation of Eric T. Syu, Esq. in Support of Defendant Coby Electronics Corporation's Reply for Its Motion for Summary Judgment dated February 2, 2012, together with the exhibits annexed thereto;

9) Defendant's Reply Memorandum in Support of Motion for Summary Judgment dated February 2, 2012.

Motion Seq # 006

1) Notice of Plaintiff's Motion for Partial Summary Judgment dated December 15, 2012;

2) Affidavit of Hugo Sakkers, sworn to December 15, 2011, together with the exhibits annexed thereto;

3) Affirmation of Joseph Yu, Esq. in Support of Plaintiff's Motion for Partial Summary Judgment dated December 15, 2011, together with the exhibits annexed thereto;

4) Affidavit of William J. Lenihan in Support of Plaintiff's Motion for Summary Judgment, sworn to December 15, 2011 together with the exhibits annexed thereto;

5) Affirmation of Brian Wieghaus, Esq. In Support of Plaintiff's Motion for Partial Summary Judgment dated December 14, 2011 together with the exhibits annexed thereto;

6) Statement of Undisputed Material Facts in Support of Plaintiff's Motion for Summary Judgment dated December 15, 2011;

7) Memorandum in Support of Motion for Partial Summary Judgment dated December 15, 2011;

8) Affirmation of Eric T. Syu, Esq. in Support of Defendant Coby Electronics Corporation's Opposition to Plaintiff Koninklijke Philips Electronics N.V.'s Motion for Partial Summary Judgment dated January 19, 2012 together with the exhibits annexed thereto;

9) Affidavit of Dr. Christopher A. Vellturo in Support of Coby's Opposition to Philips' Motion for Partial Summary Judgment, sworn to January 18, 2012, together with the exhibit annexed thereto;

10) Affidavit of Sam Oh in Support of Defendant Coby Electronics Corporation's Opposition to Plaintiff Koninklijke Philips Electronics N.V.'s Motion for Partial Summary Judgment dated January 19, 2012;

11) Defendant Coby Electronics Corporation's Counterstatement of Material Facts and Additional Disputed Material Facts Pursuant to Rule 19-A of the Commercial Division Rules dated January 19, 2012;

12) Defendant's Memorandum of Law in Opposition to Plaintiff's Motion for Partial Summary Judgment dated January 19, 2012;

13) Affirmation of Joseph Yu, Esq. in Support of Plaintiff's Reply in Support of Its Motion for Partial Summary Judgment dated February 2, 2012 together with the exhibits annexed thereto;

14) Affidavit of Benjamin David Mishkin in Support of Plaintiff's Reply in Support of its Motion for Partial Summary Judgment sworn to January 31, 2012 together with the exhibits annexed thereto;

15) Plaintiff's Reply in Support of Its Motion for Partial Summary Judgment dated February 2, 2012;

Based upon the foregoing papers, and for the reasons set forth above, it is hereby

ORDERED that the motion by Defendant Coby Electronics Corporation for summary judgment dismissing the Complaint of Plaintiff Koninklijke Philips Electronics, N.V. (Motion Seq. #5) is denied; and it is further

ORDERED that the motion by Plaintiff Koninklijke Philips Electronics, N.V. for partial summary judgment (1) granting a judgment of liability only against Defendant Coby Electronics Corporation on Plaintiff's breach of contract cause of action, and (2) dismissing the counterclaims for tortious interference with business relations and unfair competition of Defendant Coby Electronics Corporation, is denied; and it is further

ORDERED that counsel shall appear before this Court on May 11, 2012 at 9:30 a.m. for the purposes of establishing a date for trial, which conference may not be adjourned without the written approval of this Court.

The foregoing constitutes the Decision and Order of this Court.

Dated: White Plains, New York
May , 2012

E N T E R :

____
Alan D. Scheinkman
Justice of the Supreme Court

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