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SUPREME COURT OF THE STATE OF NEW YORK — NEW YORK COUNTY

PRESENT: HON. RICHARD B. LOWE, III *Justice* PART 56

Ross Systems

- v -

NOW Solutions

INDEX NO. 600629/04

MOTION DATE 7/24/06

MOTION SEQ. NO. 005

MOTION CAL. NO. _____

The following papers, numbered 1 to _____ were read on this motion to/for _____

	PAPERS NUMBERED
Notice of Motion/ Order to Show Cause — Affidavits — Exhibits ...	
Answering Affidavits — Exhibits	
Replying Affidavits	

Cross-Motion: ☐ Yes ☐ No

Upon the foregoing papers, it is ordered that this motion

FILED
DEC 07 2006
COUNTY CLERK'S OFFICE
NEW YORK

MOTION IS DECIDED IN ACCORDANCE WITH ACCOMPANYING MEMORANDUM DECISION

RECEIVED
DEC 06 2006
IAS MOTION SUPPORT OFFICE

Dated: 11/30/06

HON. RICHARD B. LOWE, III
J.S.C.

Check one: ☐ FINAL DISPOSITION ☒ NON-FINAL DISPOSITION

Check if appropriate: ☐ DO NOT POST ☐ REFERENCE

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

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK

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ROSS SYSTEMS, INC.

Plaintiff,

Index No. 600679/04

-against-

NOW SOLUTIONS, L.L.C.,

Defendants

----------X

Hon. Richard B. Lowe, III:

This action arises out of the February 28, 2001 sale of certain of plaintiff's business assets to the defendant, and plaintiff's claim that defendant defaulted on a promissory note which was executed contemporaneously with the sale of assets.

The complaint alleges that on February 28, 2001, the parties entered into an Asset Purchase Agreement (APA), a Distribution Agreement (DA), and a Transitional Services Agreement (TSA) in order to effectuate the sale of plaintiff's assets to defendant.

Defendant's answer contains counterclaims and affirmative defenses.

In motion sequence #005, plaintiff has moved for summary judgment on defendant's fourth counterclaim for breach of a covenant to distribute assets to defendant at closing, the sixth counterclaim for conversion, and the seventh counterclaim for account stated.

The defendant's answer alleges that plaintiff materially breached the parties' agreements by failing to credit defendant with the correct adjustments to the purchase

price of the assets, failing to credit defendant for maintenance and licensing fees which defendant claims to be entitled to, by improperly retaining one or more copies of the software defendant had purchased from plaintiff, and by utilizing said software, and related items, illegally, and for outstanding rent due to defendant, and by breaching a covenant not to compete contained in the parties' agreements.

Defendant alleges that its counterclaims are authorized by a contractual indemnification and set-off provision contained in the APA.

The defendant's fourth counterclaim seeks damages based on plaintiff's wrongful retention and use of copies of defendant's software. That claim states, in relevant part:

> Plaintiff materially breached Article 6.1.7 of the Asset Purchase Agreement by retaining one or more copies of the HRCS software module and related HR Optional Modules and utilizing same without permission.

Article 6.1.7 of the APA states:

> Delivery of Purchased Assets. Commencing on the Closing Date, Seller shall cause to be delivered into the possession or control of Purchaser all of the Assets, which shall include, without limitation, the original copies of the Contracts, the original copies of all records, files, documents, correspondence and papers pertaining to the Assets, source code, work-in-progress, research and development and code pertaining to Version 6.0 (Resynt.employee) and all other intellectual property owned or used by Seller specifically in connection with the Assets or the Business.

The Issue of Federal Preemption

Plaintiff argues that this counterclaim is preempted by federal copyright law, Copyright Act of 1976, 17 USC § 301, since it is a dispute involving the alleged misuse of copyrighted computer software. Subdivisions (a) and (b) (3) of section 301 state that only "legal or equitable rights ... within the general scope of copyright" are preempted by the statute. Common-law rights which retain elements that are different in kind from copyright infringement have been held not to be the equivalent of a claim of copyright infringement, and are not preempted by the federal statute. *Meyers v Waverly Fabrics,* 65 NY2d 75 (1985). While a claim of unfair competition, or interference with contract relations is the equivalent of a copyright infringement action, common-law claims of breach of trust, or an invasion of personal rights, contain elements that are different from copyright infringement. *Id.* For the same reason, claims of breach of contract are not preempted, while claims of unauthorized use are considered to arise out of the exclusive rights of use and reproduction which are protected by the federal copyright law. *Hicinbothem v Natural Golf Corp.*, 266 AD2d 637 (3rd Dept 1999).

Defendant concedes that plaintiff was authorized to retain two sets of software, after the purchase closed, for demonstration purposes only. However, plaintiff is alleged not to have used the retained software for any client demonstrations, but instead to have appropriated the software for its own internal business uses.

In *Hicinbothem*, relied on by plaintiff in urging federal preemption, the parties'

dispute was found to have been preempted by federal copyright law since plaintiffs' complaint did not allege that defendant had breached any promise made in the parties' contract, or infringed on any contractually created rights. In holding that the dispute was preempted by federal copyright law, the Court noted that the parties' agreements were not even part of the record, despite plaintiffs' reference to the agreements in the appellate brief.

Hicinbothem is not controlling here, where defendant's counterclaim for illegal use of software rests on the terms of the parties' APA, and specifically section 6.1.7 of that agreement, and on plaintiff's alleged breach of its contractual obligation to turn all assets over to the defendant. The holding in *Meyers* is instructive here. *Meyers* involved claims for breach of contract and false labeling of a fabric design, which plaintiff conceded was a copyrightable design. There, the Court found that nothing in the copyright legislation diminishes a party's right to contract with another, and to sue for breach of contract. However, claims for unauthorized licensing, damages to reputation through inferior quality of the licensed product, and interference with contractual relationships were held to have been preempted since they were not different in kind from claims for copyright infringement.

Here, defendant's counterclaims arise directly from alleged breaches of contract, and these claims, including the fourth counterclaim for illegal use of defendant's software, contain elements additional to claims for copyright infringement. The court

finds that it does have subject matter jurisdiction over this claim, and that this matter has not been preempted by federal copyright law.

Material Issues of Fact and the Fourth Counterclaim

Next, plaintiff argues that it did deliver the required software to defendant after the asset sale closed, and that it lawfully retained copies of the software, pursuant to the terms of the DA, which had been executed at the closing. Plaintiff points to the deposition testimony of defendant's present and former CEO's to support its claim that defendant received all of the assets it was entitled to at the closing of the asset sale. In its Statement of Material Facts Not in Dispute, submitted pursuant to Rule 19-a of the Rules of the Commercial Division, plaintiff concedes that there is a dispute between the parties regarding the final schedule of assets which were to be transferred to defendant.

Defendant's Rule 19-a statement also refers to the dispute among the parties regarding the final schedule of assets, claiming that the dispute involves the very software in issue in its fourth counterclaim.

A movant's burden on a motion for summary judgment is to establish that there are no material issues of fact. *Zuckerman v City of New York,* 49 NY2d 557 (1980). Once a movant has met this burden, the party opposing the motion must come forward with proof of the existence of a triable issue. *Indig v Finkelstein*, 23 NY2d 728 (1968).

The dispute identified in plaintiff's Rule 19-a statement goes to the very heart of defendant's fourth counterclaim. By conceding that a dispute exists with respect to the

schedule of assets, plaintiff has failed to sustain its burden of establishing that there are no material issues of fact with respect to the defendant's fourth counterclaim, and the motion for summary judgment is denied with respect to this counterclaim.

The Sixth Counterclaim; Conversion

Defendant's sixth counterclaim, based on plaintiff's alleged conversion of defendant's assets, alleges, in relevant part:

> Plaintiff is in possession in [*sic*] of Defendant's property, specifically, cash in an amount not less than $73,129.47, no part of which has been paid despite due demand.

Plaintiff seeks summary judgment on this claim, arguing that it is identical to the breach of contract claim alleged in the fifth counterclaim. In nearly identical language, the fifth counterclaim alleges that plaintiff breached the parties' TSA by failing to forward to defendant certain cash receipts received after the closing, in the amount of $73,129.47.

A simple breach of contract action will not be considered a tort unless there has been a violation of a legal duty independent of the contract itself. *Clark-Fitzpatrick, Inc. v Long Island Rail Road Co.*, 70 NY2d 382 (1987). A party cannot simply recast its contract based claim as a tort claim. *Peters Griffin Woodward, Inc. v WCSC, Inc.* (88 AD2d 883 (1st Dept 1982). To prevail on a claim for conversion, a party must prove unlawful or wrongful acts that are distinct from acts which are alleged to have violated

the contract. *Fesseha v TD Waterhouse Investor Services, Inc.*, 305 AD2d 268 (1st Dept 2003).

Plaintiff argues that both the breach of contract and conversion counterclaims arise out of the TSA and concern the cash receipts received by plaintiff after the asset sale closed. Since defendant cannot point to any evidence that plaintiff violated any duty other than the contractual one in the TSA contract, plaintiff is entitled to summary judgment on the counterclaim for conversion.

The Seventh Counterclaim: Account Stated

Plaintiff also seeks summary judgment with respect to defendant's seventh counterclaim, for an account stated.

Defendant's answer alleges, for its seventh counterclaim:

> Defendant delivered the Inter-company Account to Plaintiff in or about February 2002. Plaintiff agreed that it owed Defendant the amount stated therein. At this time, Plaintiff is indebted to Defendant in the amount of $73,129.47, no part of which has been paid despite due demand.

An account stated "'is an account balanced and rendered, with an assent to the balance express or implied; so that the demand is essentially the same as if a promissory note had been given for the balance.'" *Parker Chapin Flattau & Klimpl v Daelen Corp.*, 59 AD2d 375, 377 (1st Dept 1977) (citation omitted).

CPLR 3016 (f) articulates the standard of specificity required in pleading a claim based on an account stated. The statute states, in relevant part:

> In an action involving the sale and delivery of goods, or the performing of labor or services, or the furnishing of materials, the plaintiff may set forth and number in his verified complaint the items of his claim and the reasonable value or agreed price of each.

Where an account is rendered giving a balance, the party receiving the account must, within a reasonable time, examine it and object to it, if he disagrees with its accuracy. *Peterson v IBJ Schroder Bank & Trust Co.*, 172 AD2d 165 (1st Dept 1991). Silence will be deemed acquiescence to the balance stated in the account unless fraud, mistake or other equitable defenses are raised. *Id.* at 165. A question as to whether an account has been stated is one of law, rather than one of fact. *Steingart Assocs., Inc. v Sandler*, 28 AD2d 801 (3rd Dept 1967).

Defendant has failed to plead or prove an account stated with the specificity required by CPLR 3016 (f). Although there are allegations in the defendant's answer which tend to show how defendant reached the sum alleged in the seventh counterclaim, these allegations, pleaded in conclusory terms, fail to satisfy the specificity requirement of the statute.

Since the issue of the existence of an account stated is one of law, and defendant has failed to satisfy its burden of pleading or proving such claim with specificity, plaintiff's motion for summary judgment with respect to the seventh counterclaim is granted, and the seventh counterclaim is dismissed.

Accordingly, it is

ORDERED that plaintiff's motion for summary judgment is granted in part, and the sixth and seventh counterclaims contained in defendant's answer are dismissed; and it is further

ORDERED that plaintiff's motion is denied in all other respects.

Dated: November 30, 2006

ENTER:

J.S.C.

HON. RICHARD B. LOWE, III