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

PRESENT: BERNARD J. FRIED Justice

PART 60

FBEM 601770-6

ZEPKA, Rodger. PLAINTIFF

- v -

NEXXAE Group. DEFENDANT

INDEX NO. ~~601770-2006~~

MOTION DATE

MOTION SEQ. NO. #002

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

This motion is decided in accordance with the accompanying memorandum decision.

SO ORDERED

FILED
JUL 18 2007
COUNTY CLERK'S OFFICE
NEW YORK

Dated: 7/17/07

J.S.C. BERNARD J. FRIED J.S.C.

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

Check one: ☐ FINAL DISPOSITION ☒ NON-FINAL DISPOSITION

Check if appropriate: ☐ DO NOT POST

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK: PART 60

----------x

RODGER ZEPKA, ELENO RAMOS, ENVIOS RD CORPORATION, AND DOMINICAN COMMUNICATION CORPORATION,

Plaintiffs, Index No.: 601770/06

- against -

NEXXAR GROUP, INC.,

Defendant.

----------x

APPEARANCES:

For Plaintiffs:

Porzio, Bromberg & Newman P.C.
156 West 56th Street
New York, New York 10019
(Gary M. Fellner)

For Defendant:

Kirkland & Ellis LLP
153 East 53rd Street
New York, New York 10022
(Abigail M. Diaz-Pedrosa, S. Christoper Bowden, Mark McKane)

FRIED, J.:

Motion sequence numbers 002 and 004 are consolidated for disposition.

This action stems from an alleged agreement between defendant Nexxar Group, Inc. (Nexxar) and plaintiffs Rodger Zepka, Eleno Ramos, Envios RD Corporation (Envios) and Dominican Communications Corporation (DCC), that Nexxar would acquire all shares of Envios and DCC (Acquisition Agreement).

Plaintiffs move, pursuant to CPLR 3025, for leave to amend the complaint (Complaint) in the proposed form annexed to their motion papers (Proposed Amended Complaint) (002). In the Proposed Amended Complaint, plaintiffs seek to assert six causes of action, to wit, breach of contract, fraudulent concealment, declaratory judgment, injunction, reimbursement of funds, and

contributory trademark infringement. The three new causes of action are for breach of contract, fraudulent concealment and contributory trademark infringement (new causes of action).

Nexxar cross-moves to compel arbitration. Nexxar submits that the new causes of action arise out of an alleged Stock Purchase Agreement, one of a number of agreements executed in connection with the Acquisition Agreement, which includes a mandatory arbitration clause that dictates that all disputes arising under the Stock Purchase Agreement are to be litigated before the American Arbitration Association (AAA) (002).

In addition, Nexxar renews its motion for summary judgment as against plaintiffs seeking an order for payment of $5.5 million dollars allegedly due to Nexxar under a promissory note dated February 18, 2005 (Promissory Note) (004).

For the following reasons, only plaintiffs' motion to amend the Complaint is granted.

On February 18, 2005, Nexxar agreed to purchase all of the outstanding stock of plaintiffs Envios and DCC at a price of $42 million. The Acquisition Agreement consisted of a number of related agreements, which were entered into on the same date. The agreements included: (1) Stock Purchase Agreement; (2) Security Agreement; (3) Guarantee and Pledge Agreement; and (4) Promissory Note.

The Stock Purchase Agreement defines the rights and obligations of each party with respect to the acquisition, including termination. The Promissory Note provides for an advancement of money in the amount of a $5.5 million from Nexxar to plaintiffs in anticipation of the acquisition of Envios and DCC. Pursuant to the terms of the Promissory Note, Envios and DCC promised to pay the principal amount of $5.5 million, as follows:

(a) 120 days after notice by Lender of termination of the Stock Purchase

> Agreement pursuant to Section 10.1 (e) thereof, if such notice is based on a willful breach by Sellers of any of their representations, covenants or warranties in Section 4 or Section 6 thereof; or
>
> (b) upon termination of the Stock Purchase Agreement pursuant to Section 10.1 (d) thereof; or
>
> (c) provided neither (a) or (b) has occurred, then on the latest to occur of the following -
>
> (i) May 18, 2006;
>
> (ii) the first anniversary of the date that Guarantors give notice of termination of the Stock Purchase Agreement pursuant to Section 10.1 (c) thereof;
>
> (iii) the first anniversary of the date that Lender gives notice of termination of the Stock Purchase Agreement pursuant to Section 10.1 (e) thereof, if such notice is based on a non-willful breach by the Sellers of any of their representations, covenants or warranties in Section 4 thereof; or
>
> (iv) the first anniversary of the date that Lender gives notice of termination of the stock Purchase Agreement pursuant to Section 10.1 (h) thereof.
>
> Notwithstanding the foregoing, the principal and interest of this Note shall become payable in full upon an Event of Default as described herein. If no Event of Default shall have occurred . . ., then the outstanding principal balance of this Note shall be forgiven and released and the Note shall be treated . . . as paid in full, upon the Closing as defined in the Stock Purchase Agreement[.]

As such, if the acquisition occurred, the payment obligations under the Promissory Note would be waived and the $5.5 million would have been deducted from the purchase price. However, if the Stock Purchase Agreement was terminated, the date on which payment on the Promissory Note is due varied depending on the grounds for termination of the Stock Purchase Agreement.

The Stock Purchase Agreement's Termination Rights provision, 10.1, specifically provides:

This Agreement may be terminated in writing at any time prior to the Closing date:

(a) by the written consent of Purchaser and Sellers;

(b) by Purchaser or Sellers if the Closing Date shall not have occurred on or before February 10, 2006;

(c) by Sellers if the condition set forth in Section 7.6 (a) [No Material Adverse Effect; Updated Financials] has not been met and Purchaser refuses to close based solely on that condition, . . .;

* * *

(e) by Purchaser in the event of any material breach by either Sellers or the Companies of any of its agreements . . . contained in this Agreement or the Ancillary Agreements and the failure of Sellers or the Companies to cure such breach within fifteen days after receipt of notice from Purchaser requesting that such breach be cured;

(f) by Sellers in the event of any material breach by Purchaser of any of its agreements . . . contained in this Agreement or the Ancillary Agreements and the failure of Purchaser to cure such breach within fifteen days after receipt of Notice from Sellers requesting such breach be cured;

(g) by Purchaser if the $5.5 million dollar promissory note of the Companies to Purchaser or even date herewith for any reason become and payable in full prior to Closing; or

(h) by Purchaser if the conditions in Section 7.14 [Hemisferio Contract] have not been satisfied.

The fact that the Closing has not occurred because any of the conditions set forth in Articles 7 [Conditions Precedent to Obligations of the Purchaser] or 8 [Conditions Precedent to Obligations of Sellers] has not been satisfied shall not in and of itself be deemed a breach of this Agreement.

The rights of termination under this Section 10.1 are in addition to any other rights either Party may have under this Agreement or otherwise, and the exercise of a right of termination will not be an election of remedies.

As discussed in detail my prior decision, dated January 8, 2007, Nexxar contends that it

refused to close the Acquisition Agreement because plaintiffs failed to satisfy Section 10.1 (h), that is that the terms that plaintiffs agreed to with its agent, Hemisferio, were not satisfactory to Nexxar. Plaintiffs initially claimed that they terminated the Stock Purchase Agreement on February 3, 2006 because Nexxar refused to close on the Stock Purchase Agreement solely because plaintiffs could not satisfy Section 10.1 (c) of the Stock Purchase Agreement by declaring that they had suffered no material adverse effects.

However, on September 19, 2006, Nexxar's former Chief Executive Officer, Frank Angrisani, was deposed. Based on Angrisani's testimony, plaintiffs now claim that it was actually Nexxar who failed to meet its obligations under the Acquisition Agreement, and not plaintiffs. Angrisani averred that, in mid-2005, a subsidiary of Nexxar suffered severe setbacks, which resulted in annual losses to the company of approximately $4 million, and that as a result, Nexxar lost the financial stability to move forward with the Acquisition Agreement.

The Promissory Note specifically refers to the Stock Purchase Agreement with respect to the termination of the agreement; however, nowhere is there any specified default provision triggering repayment of the $5.5 million loan if Nexxar breached the Stock Purchase Agreement as plaintiffs allege (see Promissory Note, ¶ 8).

In addition, as part of the acquisition deal, plaintiffs allegedly permitted Nexxar's use of their trademark "Pronto Envios" (the Trademark) with the understanding that, if the Acquisition Agreement were to fall through, Nexxar's use of the Trademark would discontinue immediately. According to plaintiffs, Nexxar continued to use the Trademark after its expiration.

As to jurisdiction: (a) the Promissory Note provides that the parties agree to submit to the "non-exclusive jurisdiction of any New York State court or Federal court of the United States of

America sitting in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Note or any of the other Loan Documents to which it is a party ..." (Promissory Note, ¶ 10); and (b) the Stock Purchase Agreement provides, among other things, for arbitration as the exclusive remedy.

Nexxar claims that the new causes of action fall within the purview of the arbitration provision of the Stock Purchase Agreement and should, therefore, be submitted to arbitration.

Motion to Amend the Complaint

It is well settled that leave to amend a complaint should be freely granted absent prejudice to the defendant (see CPLR 3025 (b); see also Liebowitz v Mount Sinai Hosp., 296 AD2d 340 [1st Dept 2002]). In the Complaint, plaintiffs allege that Nexxar acted in bad faith in failing to go forward with the proposed acquisition (Complaint, ¶ 11). Plaintiffs therefore sought a declaration as to both parties' rights and obligations under the Acquisition Agreement. In the Proposed Amended Complaint, plaintiffs seek to add three new causes of action for breach of contract, fraudulent concealment and trademark infringement claims. These claims are based on facts and circumstances which could have caused "neither surprise nor cognizable prejudice" to Nexxar (see Ward v Eastchester Health Care Ctr., LLC, 34 AD3d 247, 248 [1st Dept 2006], citing Zaid Theatre Corp. v Sona Realty Corp., 18 AD3d 352 [1st Dept 2005]). In fact, Nexxar does not contend that it would be prejudiced, but rather simply suggests that the new claims fail to state a cause of action.

Under New York law, the elements of a breach of contact claim are: (1) existence of a contract between the parties; (2) performance by plaintiff; (3) breach by defendant; and (4) damages incurred by plaintiff (Furia v Furia, 116 AD2d 694, 695 [2d Dept 1986]). There is no dispute that

the parties formed a contract. Plaintiffs allege that they performed all of their contractual obligations under the Acquisition Agreement, but that it was Nexxar who allegedly breached the agreement by failing to, among other things, obtain necessary funding commitments and/or governmental "change in control" permits, and disclose financial problems or effects they had on Nexxar's shares. Plaintiffs claim that, due to their reliance on Nexxar's representations, plaintiffs suffered damages, including, but not limited to, allowing other business opportunities to pass. This is sufficient to state a cause of action for breach of contract.

The Proposed Amended Complaint sufficiently alleges representations of material fact, falsity, scienter, reliance and injury to state a claim of fraudulent concealment (Small v Lorillard Tobacco Co., 94 NY2d 43, 57 [1999]).

As to the cause of action for contributory infringement under 15 USC § 1114 and 15 USC § 1125, to state a claim, plaintiffs must allege that (1) they had a valid mark subject to protection, and (2) defendant's mark results in a likelihood of confusion among prospective customers as to the source of the goods (see Clinique Laboratories, Inc. v DEP Corp. d/b/a Basique Labs, Inc., 945 F Supp 547, 550 [SD NY 1996]). Federal trademark registration conclusively establishes a plaintiff's ownership of a valid mark (id.). There is no dispute that plaintiffs own the exclusive right to the Trademark. Plaintiffs claim that Nexxar continued to use the Trademark beyond its expiration, which is likely to confuse consumers since both Nexxar and Envios are international money transmittal businesses. The facts as alleged are satisfactory to state a claim for trademark infringement.

Thus, because the Proposed Amended Complaint sufficiently pleads claims for breach of contract, fraudulent concealment and contributory trademark infringement, the motion to amend is

granted.

Cross Motion to Compel Arbitration

Nexxar asserts that the new claims must be submitted to arbitration as agreed to by the parties in the Stock Purchase Agreement. Plaintiffs contend that, upon a review of the parties' contract as a whole, i.e., looking at the entire breadth of the interrelated agreements, there is inconsistency as to the intent to arbitrate, and therefore, arbitration should not be compelled. "[O]n a motion to compel or stay arbitration, the court's role is that of gatekeeper, limited to deciding only three threshold questions: whether the parties made a valid agreement; if so, whether the parties complied with the agreement; and whether the claim sought to be arbitrated is barred by the statute of limitations" (see Cooper v Bruckner, 21 AD3d 758, 759 [1st Dept 2005], citing CPLR 7503, [other citations omitted]). At issue, is whether the claims relating to the Promissory Note fall within the scope of the arbitration clause contained in the Stock Purchase Agreement.

The dispute resolution provision, section 11.8 in the Stock Purchase Agreement, provides, among other things:

> Except (i) for claims for equitable relief and (ii) a party's right to enforce an arbitral award pursuant hereto, the arbitration provisions set forth herein shall be the exclusive remedy in respect of any dispute arising under or connected with this Agreement . . ..

This "arbitration clause is a broad one as it indicates a clear intent by the parties to arbitrate, without any limitation, all issues relating to the [Stock Purchase Agreement], since it provides for arbitration of 'all disputes arising in connection with the [Stock Purchase Agreement]'" (see Matter of Same Time Holdings Ltd. and Red Board Ltd., 12 Misc 3d 1186 (A), 824 NYS2d 766 [NY Sup, NY County 2006], citing PaineWebber Inc. v Bybyk, 81 F3d 1193, 1198 [2d Cir 1996] [other

citations omitted]; see also Bayly, Martin & Fay, Inc. v Glaser, 92 AD2d 850 [1st Dept], aff'd 60 NY2d 577 [1983]). "Because of the State policy of giving broad, full effect to arbitration clauses, . . . the disputes arising under the three agreements should be resolved through the arbitration procedure provided for by the primary agreement," i.e., the Stock Purchase Agreement (Bayly, Martin & Fay, Inc.., 92 AD2d at 851, citing Matter of Weinrott [Corp.], 32 NY2d 190, 196 [1973] [other citations omitted]; see also Blatt v Sochet, 199 AD2d 451 [2d Dept 1993]; Alsy Corp. v Gindel, 197 AD2d 492 [1st Dept 1993] [the interrelation of employment agreements, certification of incorporation and termination agreements fell within the ambit of broad arbitration clause of the termination agreement]). Moreover, "there is no question that there is 'a reasonable relationship between the subject matter of the dispute and the general subject matter of the underlying contract[s]'" (Alsy Corp., 197 AD2d at 492-493, quoting Matter of Nationwide Gen. Ins. Co. v Investors Ins. Co. of Am., 37 NY2d 91, 96 [1975]).

Similar to this case, in Blatt, there was a conflict between two provisions in a stock purchase agreement. The first of the two provisions provided that any dispute concerning the sale or disposition of the stock would be enforceable in a court of equity by a decree of specific performance (Blatt, 199 AD2d at 452). The other paragraph stated that "[a]ny controversy arising under this agreement shall be settled by arbitration under the rules then obtaining of the American Arbitration Association" (id.) Likewise, here, there are two conflicting provisions within the Promissory Note and the Stock Purchase Agreement. Specifically, the Promissory Note provides for resolution of disputes in either a state or federal court in New York City, whereas the Stock Purchase Agreement broadly provides for arbitration with respect to "any dispute arising under or connected with" the Stock Purchase Agreement. In Blatt, the Second Department held that "[w]here there is a broad

arbitration agreement, the scope of the arbitration clause is determinable by arbitration" and that while the issue concerning Blatt's status as a shareholder was subject to arbitration, the remaining issue did not arise under the agreement which included the arbitration clause. For these reasons, the action was stayed pending arbitration (id.).

While Blatt may be otherwise relevant authority, Nexxar waived its right to arbitration by participating in the instant litigation. A defendant's right to compel arbitration and the right to stay the action does not remain absolute, but may be waived by, for example, interposing a counterclaim, giving notice of trial, or participating in discovery (see Sherrill v Grayco Bldrs., Inc., 64 NY2d 261 [1985]; De Sapio v Kohlmeyer, 35 NY2d 402 [1974] [procuring deposition of plaintiff and interposing a cross claim on apportionment of liability constitutes waiver of any right to arbitration]; Accessory Corp. v Capco Wai Shing, LLC, 39 AD3d 344 [1st Dept 2007] [in dicta, participation in discovery would have constituted an affirmative acceptance of judicial forum]; Stark v Molod Spitz DeSantis & Stark, P.C., 29 AD3d 481 [1st Dept 2006]; Bucci v McDermott, 156 AD2d 328 [1st Dept 1989] [participation in litigation for one year waives right to arbitration]). "Once the right to arbitrate a particular dispute has been lost by an election to litigate it cannot be recaptured" (Sherrill, 64 NY2d at 274).

Here, Nexxar brought a counterclaim to recover the advanced deposit under the Promissory Note, served discovery requests and sought summary judgment. Nexxar's document demand, dated May 24, 2006, seeks, among other things, "Documents or communications, . . . relating to the Stock Purchase Agreement [and] [a]ny and all documents relating to the allegations in paragraph 10 of the Complaint that "Defendant . . . falsely accused plaintiffs of breaching the SPA." Moreover, Nexxar, in its original summary judgment papers, specifically relied on the Stock Purchase Agreement with

respect to the alleged termination of the agreement and monies due on the Promissory Note. So, too, does plaintiffs' defense to repayment of the Promissory Note relates to Nexxar's alleged failure to comply with its obligations under the Stock Purchase Agreement. Based on Nexxar's active participation in this litigation, as well as its reliance on the Stock Purchase Agreement, Nexxar has waived its right to compel arbitration (see Stark, 29 AD3d at 485-486 [defendants waived contractual right to compel arbitration where they actively participated in a special proceeding and two plenary actions that involved matters falling within the ambit of the arbitration clause]).

Accordingly, Nexxar's cross motion to compel arbitration and stay the proceedings is denied.

Nexxar's Renewed Motion for Summary Judgment

On March 30, 2007, Nexxar filed a renewed motion for summary judgment seeking an order for immediate payment of the $5.5 million allegedly owed on the Promissory note, after I disposed of an order to show cause on the same grounds, dated February 5, 2007. Technically, the motion should have been brought as a motion to renew pursuant to CPLR 2221. On that ground alone this motion should be denied. Nevertheless, I will consider the motion on its merits.

Nexxar claims that analysis of this motion is tantamount to summary judgment in lieu of a complaint under CPLR 3213. Plaintiffs, on the other hand, contend that the motion should be denied because, among other things, there are interrelated agreements, including a promissory note, which are expressly intertwined and signed simultaneously, that must be construed together.

"When an action is based upon an instrument for the payment of money only or upon any judgment, the plaintiff may serve with the summons a notice of motion for summary judgment and the supporting papers in lieu of a complaint" (CPLR 3213, quoted in Weissman v Sinorim Deli, Inc., 88 NY2d 437, 443 [1996]). As with any motion for summary judgment, there must be no genuine

issues of material fact. The First Department has held that, under CPLR 3213, a prima facie case is made if the movant proves (1) that the instrument in question, on its face, is an instrument for the payment of money only, and (2) that the non-moving party did not pay the instrument in accordance with the stipulated terms (HSBC Bank USA v IPO, LLC, 290 AD2d 246 [1st Dept 2002]; Seaman-Andwall Corp. v Wright Machine Corp., 31 AD2d 136 [1st Dept 1968], affd 29 NY2d 617 [1971]). If outside proof is necessary to substantiate that it is an instrument for the payment of money only, then the note does not satisfy the requirements of CPLR 3213 (Mike Nasti Sand Co., Inc. v Almar Landscaping Corp., 34 AD2d 554 [2d Dept 1970]).

The terms of the Promissory Note clearly are intertwined with the terms of the Stock Purchase Agreement. Since there are triable issues of fact as to whether Nexxar failed to perform its obligations under the Stock Purchase Agreement, use of accelerated judgment under CPLR 3213 is precluded (see Kerin v Kaufman, 296 AD2d 336 [1st Dept 2002]; Manufacturers Hanover Trust Co. v Hixon, 124 AD2d 488 [1st Dept 1986]; Dresdner Bank AG [New York Branch] v Morse/Diesel, Inc., 115 AD2d 64, 67 [1st Dept 1986]).

Therefore, Nexxar's renewed motion for summary judgment under a CPLR 3213 analysis is denied.

Nexxar further argues that even if CPLR 3213 is unavailable as a procedural remedy, it is entitled to summary judgment pursuant to CPLR 3212, relying on the statement in my previous order, dated January 8, 2007, that "[a]ccepting the Plaintiff's argument as true, the note would not be due until February 3, 2007." However, I went on to state that there were a number of factual issues surrounding plaintiff's claim and that, in short, the issue was inappropriate for summary judgment. In denying Nexxar's summary judgment motion on its counterclaim for breach of the

Promissory Note, I held that there were "a number of factual issues as to how the [Stock Purchase Agreement] was terminated," and by whom that "must be addressed at trial". Those issues are still not resolved. Rather, the Proposed Amended Complaint raises even more questions of fact than initially presented to the court, as set forth above.

Accordingly, Nexxar's motion for summary judgment is denied.

Accordingly, it is

ORDERED that the motion for leave to amend the complaint by plaintiffs Rodger Zepka, Eleno Ramos, Envios RD Corporation and Dominican Communications Corporation (002) is granted, and the amended complaint in the proposed form annexed to the moving papers shall be deemed served upon service of a copy of this order with notice of entry thereof; and it is further

ORDERED that the defendant Nexxar Group, Inc. shall serve an answer to the amended complaint within 20 days from the date of said service; and it is further

ORDERED that defendant Nexxar Group, Inc.'s cross motion to compel arbitration (002) is denied; and it is further

ORDERED that defendant Nexxar Group, Inc.'s motion for summary judgment (004) is denied.

Dated: July 17, 2007

ENTER:

J.S.C. BERNARD J. FRIED J.S.C.