

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

THE KAYO CORP.,

Plaintiff,

v.

FILA U.S.A., INC.,

Defendant.

Case No. 18-cv-03981-AKH

**JUDGMENT AGAINST  
FILA U.S.A., INC.**

This matter having come before the Court for trial pursuant to Rule 52(a) of the Federal Rules of Civil Procedure on July 6, 2022, both parties appearing by counsel, the Court having reviewed the pleadings filed herein and the evidence before the Court and heard arguments of counsel, all as set forth in the July 6, 2022 transcript attached hereto as **Exhibit A**, and the Court being fully advised of all relevant information and evidence, and having entered its findings of fact and conclusions of law on the record; now, therefore, it is:

**ADJUDGED AND DECREED** that Plaintiff The Kayo Corp. (“Plaintiff”) is granted Judgment against Defendant Fila U.S.A., Inc. (“Defendant” and/or “Fila”) and Judgment is hereby entered in the amount of \$732,666.00 plus nine (9) percent interest in the amount of \$177,116.00 making the total amount of the Judgment \$909,776.00. Plaintiff will also be awarded costs as the prevailing party to be taxed by the Clerk on notice.

ENTER:

/s/ Alvin K. Hellerstein

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Alvin K. Hellerstein  
U.S. District JudgeDated: August 1, 2022

# EXHIBIT A

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1 UNITED STATES DISTRICT COURT  
2 SOUTHERN DISTRICT OF NEW YORK

3 THE KAYO CORP.,

4 Plaintiff,

5 v.

18 Civ. 3981 (AKH)

6 FILA U.S.A., INC.,

7 Defendant.

8 -----x  
9 New York, N.Y.  
July 6, 2022  
2:34 p.m.

10 Before:

11 HON. ALVIN K. HELLERSTEIN,

12 District Judge

13 APPEARANCES

14 FOSTER GARVEY PC  
15 Attorneys for Plaintiff  
16 BY: ANDREW J. GOODMAN

17 ARENT FOX LLP  
18 Attorneys for Defendant  
19 BY: KATHLEEN R. HEILMAN

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1 (Case called)

2 MR. GOODMAN: For plaintiff, Andrew Goodman, Foster  
3 Garvey.

4 Your Honor, would you prefer with or without masks?

5 THE COURT: If you are comfortable without masks, I  
6 would rather without masks.

7 So it's Andrew Goodman for the plaintiff, Kayo?

8 MR. GOODMAN: Yes, your Honor.

9 THE COURT: And Katie Heilman for the defendant, Fila?

10 MS. HEILMAN: That's correct, your Honor.

11 THE COURT: So let me work out some ground rules with  
12 you. The closest analogy to what we're doing is a summary  
13 trial. I've told you before that you folks are both ready for  
14 trial, you've gone through mediation without success. I told  
15 you that because of a jam-up of criminal trials, it will be  
16 well into the fall and perhaps the winter before I could reach  
17 you, so I suggested this procedure, the form of a summary  
18 trial.

19 I thought that the following might be a good way to  
20 go: Mr. Goodman will go first for half hour, Ms. Heilman will  
21 then go for a half hour, you'll each have 15 minutes to rebut  
22 the other, and I'll be making comments interspersed along the  
23 way.

24 What is it that you would like from me, Mr. Goodman?

25 MR. GOODMAN: A judgment, your Honor, in the sum of

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1 one million --

2 THE COURT: No, I know your addendum. At the end of  
3 today, should I be declaring a judgment for one side or the  
4 other? I think not.

5 MR. GOODMAN: I think, your Honor, what would be most  
6 helpful would be a determination that the contract required  
7 notice of default, which was not given.

8 THE COURT: That's the key issue of the case?

9 MR. GOODMAN: Yes, your Honor.

10 THE COURT: Do you want me to deliver that without  
11 witnesses?

12 MR. GOODMAN: Yes, your Honor.

13 THE COURT: How about you, Ms. Heilman?

14 MS. HEILMAN: I think, your Honor, that ruling that  
15 the plaintiff's performance was not reasonable and that the  
16 plaintiff failed to perform --

17 THE COURT: Well, you want me to determine the case,  
18 also?

19 MS. HEILMAN: I believe you can. I think, typically,  
20 that's a fact issue. I think here, the record is relatively  
21 black and white and you could make that determination based on  
22 the evidence that we present today.

23 THE COURT: Will there be any credibility issues?

24 MS. HEILMAN: I don't believe so. I think you could  
25 make that determination based on the documents, determine that

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1 there was no performance, and that the agreement automatically  
2 terminated or was abandoned.

3 THE COURT: In other words, you want me to make the  
4 factual determinations, if I'm able to, from your delivery of  
5 your arguments at the end of the day, in effect turning this  
6 into a bench trial on a Rule 52 type of findings of fact and  
7 conclusions of law at the end of it.

8 MR. GOODMAN: Your Honor, from plaintiff's  
9 perspective, there are factual issues as to performance, if you  
10 get to performance. If you find on the absence of notice, you  
11 don't have to get to performance, but if your Honor finds that  
12 notice was either not required or given, then we do get to the  
13 performance issues, your Honor. There we do have live  
14 testimony.

15 THE COURT: I take it from what you want is that both  
16 of you would like me, if I can, to make whatever determinations  
17 I'm able to make on the basis of the record you present today.  
18 If I can't rule, just figure out then what we do with those and  
19 how we will proceed.

20 Is that satisfactory, Mr. Goodman?

21 MR. GOODMAN: Yes, your Honor.

22 THE COURT: And Ms. Heilman?

23 MS. HEILMAN: Yes, your Honor.

24 THE COURT: The next thing I want from both of you,  
25 because this is not an ordinary way of proceeding, is a

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1 statement that you will not seek to recuse me on the basis of  
2 knowledge that I'm acquiring today.

3 MR. GOODMAN: Your Honor, plaintiff definitely will  
4 not seek to recuse you based on today's proceeding.

5 THE COURT: Ms. Heilman.

6 MS. HEILMAN: I will not, as well.

7 THE COURT: Okay. So then we can proceed.

8 I do not plan to conduct any mediations with you today  
9 or maybe ever, and nothing will be *ex parte*. So everything  
10 will be in open court and on the record.

11 So why don't we begin with Mr. Goodman. You have a  
12 half hour. It is now twenty minutes to 3:00.

13 MR. GOODMAN: May I sit, your Honor, or should I  
14 stand?

15 THE COURT: Whatever is more convenient to you.

16 MR. GOODMAN: Okay. It will be easier, given my  
17 glasses and the documents, to sit.

18 THE COURT: It's okay with me.

19 MR. GOODMAN: Thank you, your Honor.

20 So obviously the place where we start is the agreement  
21 itself. The agreement is in the binder we have given your  
22 Honor, which is the one with the orange cover.

23 THE COURT: I have the agreement.

24 MR. GOODMAN: We are dealing with paragraph 2.1, that  
25 *proviso* that begins the last three lines of page 2. With

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1 respect to Zumiez, Pacific Sunwear, and Tilly's. The licensor  
2 shall have the right to sell -- licensor would be Fila. Fila  
3 shall have the right to sell products branded with the Fila and  
4 F-Box trademarks that are not intended specifically for the  
5 skateboarding market so long as the licensor consults with the  
6 licensee prior to any sale being made and licensee shall be  
7 entitled to a commission of 7 percent of the net purchase price  
8 received by licensor.

9 The parties understood that this required Fila to go  
10 through Kayo to get to those three outlets. On document No. 6  
11 in the binder, your Honor, is a series of emails, I would like  
12 to point your Honor to the second page that bears Bates number  
13 Fila 000461.

14 THE COURT: This is tab 6?

15 MR. GOODMAN: Yes, your Honor.

16 THE COURT: All right.

17 MR. GOODMAN: Actually, I'm sorry. Wrong email. I  
18 want to get to that one later. I want to look at the January  
19 18th email.

20 THE COURT: Which one?

21 MR. GOODMAN: January 18th, 2015.

22 THE COURT: How many pages is it?

23 MR. GOODMAN: I'm sorry. I'm not off to a great start  
24 here. Let me then go to number 40, page 2.

25 THE COURT: You want me to go to tab 40?

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1 MR. GOODMAN: 40, yes. You will see from that tab  
2 that in January and February of --

3 THE COURT: You should have done this electronically  
4 rather than these cumbersome books.

5 MR. GOODMAN: Sorry, your Honor.

6 THE COURT: Okay. I've got 40.

7 MR. GOODMAN: On the second page of 40 is an email,  
8 dated January 25th, 2016, from Jennifer Estabrook, who was at  
9 that point in time the general counsel and COO of Fila, and  
10 they're in the middle of negotiating in January of 2016 with a  
11 sales rep that would cut out Kayo from a number of possible  
12 accounts. On January 25th, Ms. Estabrook wrote --

13 THE COURT: Don't you think it would make more sense  
14 to start with the agreement itself and what you consider was a  
15 breach? There was a notice of termination that was sent via  
16 Fila.

17 MR. GOODMAN: Correct.

18 THE COURT: Fila contends that it sent it because they  
19 were non-curable breaches. You contend that it was an  
20 improvident sending, a breach of contract by Fila. That's the  
21 major issue of this case.

22 MR. GOODMAN: Yes, your Honor.

23 THE COURT: So why don't we focus on the major issue  
24 of this case.

25 MR. GOODMAN: Yes, your Honor. So that's paragraph

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1 15.2 of the agreement.

2 THE COURT: Okay. So what was the termination? I'd  
3 like to see what, in effect, was the termination.

4 MR. GOODMAN: The termination is a February 10th, 2017  
5 email in our book at 1B, as in boy.

6 THE COURT: In 1B?

7 MR. GOODMAN: B as in boy, your Honor.

8 THE COURT: I have it. And it reads, by Jennifer  
9 Estabrook, chief operating officer of Fila, writing to the  
10 president, Troy Morgan, of Kayo. Dear Troy, the purpose of  
11 this letter is to notify you that pursuant to section 15.2(i)  
12 of the agreement --

13 And let's look at 15.2(i) of the agreement to see what  
14 it says. A licensee sells products outside the territory.  
15 That's 15.2(i). That, pursuant to that section, Fila is  
16 exercising its right to immediately terminate the agreement as  
17 a result of Kayo's complete failure to exercise any of its  
18 rights or fulfill any of its obligations under the agreement  
19 for a period of over 18 months. During this period,  
20 representatives of Fila attempted numerous times to contact  
21 you, your lawyer, and your finance team and received no  
22 response. At this point, these breaches are not capable of  
23 being cured. Given these breaches of the agreement and Kayo's  
24 complete lack of business etiquette, there is simply no  
25 interest or appetite to try to build a relationship with you or

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1 your company.

2 Maybe let me change this procedure and just ask now,  
3 Ms. Heilman, these questions.

4 Was 15.2 a mistake?

5 MS. HEILMAN: Actually, there are two 15.2(i)'s.

6 There is, if you look up into the body of the paragraph that  
7 starts: "Licensor may terminate," you'll see romanette (i),  
8 immediately upon any material breach of any --

9 THE COURT: I need to regulate the sound.

10 (Pause)

11 Licensor may terminate this agreement, and the license  
12 is granted hereunder, immediately upon any material breach of  
13 any of the provisions hereof by licensee which is not capable  
14 of being cured.

15 Now, you're saying that because Kayo did not -- and you  
16 don't say why -- exercise any of its rights or fulfill any of  
17 its obligations for a period of over 18 months, shouldn't you  
18 have given a notice to cure?

19 MS. HEILMAN: There are actually two possible grounds  
20 for termination. So that was the provision that was  
21 referenced.

22 THE COURT: Well, that's the only provision that  
23 counts then.

24 MS. HEILMAN: So in Fila's view, by this point, it was  
25 18 months into an agreement term that contemplated certain work

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1 that was going to be done by Kayo.

2 THE COURT: Isn't this a situation of right to cure?

3 MS. HEILMAN: No. I believe -- Fila does not believe  
4 that there was --

5 THE COURT: I know, but what did the agreement say?

6 MS. HEILMAN: There is no obligation to provide a  
7 notice to cure.

8 THE COURT: Part 2 says, upon any material breach of  
9 any of the provisions hereof by licensee which is capable of  
10 being cured and is not cured within 45 days.

11 So how about 4, licensee fails to submit to licensor  
12 for its prior approval any product advertising material or  
13 plan.

14 MR. GOODMAN: That's explicitly --

15 THE COURT: Cease, Mr. Goodman.

16 MR. GOODMAN: I apologize. I thought your Honor was  
17 done.

18 THE COURT: Number 6, licensee fails to fulfill any  
19 other material obligations it may have, and it specifics which  
20 ones.

21 MS. HEILMAN: I agree with that is what the agreement  
22 says. I think those are examples of what constitute  
23 non-curable material breaches. I don't know that the agreement  
24 says that a non-curable breach is defined as the following.

25 There is also a provision on the following page,

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1 section 15.4.

2 THE COURT: Can I read this language. The following  
3 constitute a non-curable material breach. Is that not a  
4 covenant or is it just a preparatory wish?

5 MS. HEILMAN: It's an example of what constitutes a  
6 non-curable material breach. Here, the conduct went beyond --

7 THE COURT: It doesn't say example. It doesn't say  
8 for example.

9 MS. HEILMAN: It does not say defined as.

10 THE COURT: Following a non-curable material breach.

11 MS. HEILMAN: I agree there is some ambiguity. I  
12 would point out that the failure to submit product advertising  
13 materials or plans was not the only issue here. There was  
14 several other issues of complete and utter failure to  
15 communicate for an 18-month period.

16 THE COURT: Are you not bound by the notice of  
17 termination you give?

18 MS. HEILMAN: I believe that the Court could also find  
19 an alternative ground for termination under section 15.4, which  
20 is automatic termination provision based on the record  
21 evidence.

22 THE COURT: Let's read it. There is three sections  
23 under there, and 4 is blank. Which subsection are you relying  
24 on?

25 MS. HEILMAN: Subsection 3.

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1 THE COURT: Either party becomes unable to pay its  
2 debts as they fall due or becomes unable in the other party's  
3 reasonable opinion to fulfill all of its material obligations  
4 thereunder. Is that what you're working on?

5 MS. HEILMAN: The second clause, in the other party's  
6 reasonable opinion could not fulfill all of its material  
7 obligations.

8 THE COURT: So you then have the obligation to show  
9 that your termination was reasonable, right?

10 MS. HEILMAN: I believe the plaintiff has the  
11 obligation to prove that their performance was reasonable.

12 THE COURT: No. No. The way I read it is it's an  
13 exception. Either party becomes unable to pay its debts as  
14 they fall due, or becomes unable in Fila's reasonable opinion  
15 to fulfill all of its material obligations thereunder. Since  
16 it's your reasonable opinion that counts, you have the burden.

17 MS. HEILMAN: Correct.

18 THE COURT: So why don't we let Ms. Heilman then speak  
19 about how she will prove that her opinion that the notice of  
20 termination was reasonable.

21 MS. HEILMAN: So I think it might be helpful to step  
22 back and talk about the nature of the arrangement generally and  
23 what was sort of bargained for here.

24 So you have, under the agreement --

25 THE COURT: Don't we find this in the agreement

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1     itself?

2             MS. HEILMAN:  Yes, we will find this in the agreement  
3     itself.

4             THE COURT:  Because the agreement says it's the entire  
5     agreement, doesn't it?

6             MS. HEILMAN:  It does.

7             THE COURT:  The cause is 18.4.  This agreement sets  
8     forth the entire agreement and the standing with respect to the  
9     business hereby contemplated by and between the parties.  This  
10    agreement shall not be altered or amended except by writing  
11    duly executed by the parties.

12            So we have to find the obligation that has not been  
13    performed within the four corners of this agreement.

14            MS. HEILMAN:  So I would refer back to section 2.1,  
15    which is grant of licenses.  That is where Fila granted Kayo  
16    the exclusive nontransferable right and license to use the  
17    Skate Trademark in connection with the manufacturer marketing  
18    and sale of the products, and the products is defined above in  
19    section 1.10, products shall mean products branded with a Skate  
20    Trademark.

21            THE COURT:  Set forth in Schedule A.  Schedule A says,  
22    street and skateware apparel limited to short-sleeve T-shirts,  
23    long-sleeve T-shirts, jackets, sweatshirts, sweatpants, pants,  
24    shorts and footwear in all cases branded Fila Skateboarding.

25            MS. HEILMAN:  Correct.

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1 THE COURT: So I guess it's failure to make progress  
2 on these products. Is that what we're talking about?

3 MS. HEILMAN: Yes, this was to be a completely new  
4 product line for Fila. Fila had never before ventured into the  
5 skate market.

6 THE COURT: So working with Kayo is that Kayo had  
7 considerable experience in the skate market?

8 MS. HEILMAN: Correct. So Fila is a very experienced  
9 licensor, it's a licensed business, it routinely works with  
10 licensees to market its products.

11 THE COURT: So what did Kayo fail to do?

12 MS. HEILMAN: Kayo failed to develop, market, or sell  
13 any products.

14 THE COURT: Is there a provision here that gives a  
15 time period?

16 MS. HEILMAN: There isn't, but the law requires that  
17 when you have an exclusive license that contemplates the  
18 payment of royalties, you have a duty to act reasonably because  
19 you're essentially excluding the licensor from the market and  
20 they're expecting profits in return, royalty payments. So  
21 there is an abundance of case law, as I'm sure you're well  
22 aware, that requires the licensee to engage in reasonable  
23 efforts to develop in market and sell the licensed products.

24 THE COURT: At any point in time, did you write a  
25 letter to Kayo complaining about its lack of performance?

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1 MS. HEILMAN: They did reach out. There was at least  
2 one email about a year into the agreement where the then  
3 general counsel, who is now Fila's president, reached out and  
4 asked for who is the contact for royalty reporting.

5 THE COURT: Can you point me to that email?

6 MS. HEILMAN: Sure. Tab 42.

7 THE COURT: Your book?

8 MS. HEILMAN: My book.

9 MR. GOODMAN: It is also in ours, your Honor.

10 THE COURT: I haven't ruled yet. You're not supposed  
11 to duplicate exhibits.

12 What do you want me to read?

13 MS. HEILMAN: So the email is just what's on this  
14 page, your Honor. It's from Jennifer Estabrook, dated May  
15 23rd, 2016, which was about one year into the agreement term –  
16 the agreement was effective as of June 15th, 2015 – saying can  
17 you please let me know who the contact is at Kayo for royalty  
18 reporting. Ms. Estabrook testified that in her experience,  
19 this is the apparatus of communication between the licensor and  
20 the licensee, is the royalty report. By this point, they have  
21 heard nothing from Kayo. A year into the agreement, she sent  
22 this email and received no response.

23 THE COURT: I can't hold this is any kind of a notice  
24 of poor performance, not from this document.

25 Are there any other documents?

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1 MS. HEILMAN: There were also other indicators that  
2 there was nothing happening with this contemplated skate line.

3 THE COURT: For example.

4 MS. HEILMAN: There was no social media activity.

5 I want to also direct your Honor to some other  
6 provisions of the agreement.

7 The agreement at section 5.2 contemplated that  
8 licensees shall deliver to licensor for its approval one  
9 concept design or color sketch of each product to be  
10 distributed by licensee hereunder. That never happened. It's  
11 an admission, Kayo's witnesses admitted that no concept  
12 designs, sketches, product samples. This provision also  
13 references product samples being provided. None of those  
14 things were provided.

15 THE COURT: Did you ever complain?

16 MS. HEILMAN: They did not, your Honor, to -- I mean,  
17 in Fila's experience, the way that the licensing agreement  
18 works is that it's typically the licensee that has a sense of  
19 urgency and is pushing to get products approved and is in  
20 constant contact trying to collaborate with Fila, presenting  
21 designs for its approval. They're very eager to generate  
22 sales.

23 THE COURT: It may be, but that sentence is not a  
24 non-curable breach that's curable within 45 days, and if there  
25 isn't a cure within 45 days, you have a right to terminate.

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1 The separate sentence reads, upon request, Kayo shall deliver  
2 to Fila for its approval one current production sample of such  
3 requested product together with the tags, labels, and packaging  
4 to be used in connection therewith.

5 Is there proof of any request made by Fila?

6 MS. HEILMAN: No, there was not a request made. But  
7 as I mentioned, in Fila's experience, it's the licensee that  
8 does the work, which distinguishes a license arrangement from a  
9 distribution arrangement.

10 THE COURT: This is the specific covenant under the  
11 agreement which is curable, which you did not give notice to  
12 cure.

13 MS. HEILMAN: There is also a provision -- the  
14 following provision is a requirement that the licensee submit  
15 proposed advertising materials to the licensor for approval.  
16 That also never happened.

17 THE COURT: Upon request.

18 MS. HEILMAN: And in section 4.1, the licensee --

19 THE COURT: Before you finish with 5.2, it  
20 specifically says Fila's request, doesn't it?

21 MS. HEILMAN: 5.3 does not say that.

22 THE COURT: Under upon request, Kayo shall deliver to  
23 Fila for its approval, et cetera.

24 MS. HEILMAN: Production sample. I'm sorry. Not the  
25 following sentence, the following paragraph, 5.3.

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1 THE COURT: Within a reasonable period of time prior  
2 to the dissemination of any advertising material, licensee  
3 shall submit such proposed advertised material to licensor for  
4 approval.

5 So if you didn't get it, you had to ask.

6 MS. HEILMAN: That is not Fila's --

7 THE COURT: With notice, that's curable.

8 MS. HEILMAN: That's not their experience with dozens  
9 other licensees worldwide and decades of experience. They  
10 don't follow up and sort of chase licensees. The expectation  
11 is that the licensee will do the work to generate the products  
12 and generate the sales.

13 THE COURT: Mr. Goodman, what in this document makes  
14 this a curable breach?

15 MR. GOODMAN: Everything is a curable breach except  
16 for those that are non-curable 1, 2, and 3.

17 THE COURT: Let's read it together. 15.2, is it?

18 MR. GOODMAN: Yes, your Honor.

19 THE COURT: Immediately upon any material breach of  
20 any of the provisions hereof by licensee which is not capable  
21 of being cured.

22 I can't hold that failures of 5.2 and 5.3 are not  
23 curable.

24 MR. GOODMAN: That's correct, your Honor.

25 THE COURT: Ms. Heilman.

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1 MS. HEILMAN: I'm sorry. I didn't quite catch what  
2 you said.

3 THE COURT: I can't hold that any obligation of a  
4 product of Kayo to be deformed under 5.2 or 5.3 is a  
5 non-curable obligation. If there is a failure to perform,  
6 there is an obligation to give notice to cure before you  
7 terminate.

8 MS. HEILMAN: Which specific provision, are you  
9 referring to 5.2(iv)?

10 THE COURT: The ones you were talking about, 5.2, 5.3.

11 MS. HEILMAN: Also, I just wanted to call your  
12 attention to one other provision that's made explicit, that's  
13 the licensee in section 4.1, licensee shall use commercially  
14 reasonable efforts.

15 THE COURT: Licensee shall only be permitted to sell  
16 the products in the authorized distribution channels. I think  
17 that's section D, right?

18 MS. HEILMAN: Section 4.1.

19 THE COURT: The authorized distribution channels on  
20 the list of companies that are set out in schedule B.

21 MS. HEILMAN: That's right.

22 THE COURT: Licensee shall use commercially reasonable  
23 efforts to market the products and the collaboration with  
24 licensor in store, online, and through its traditional and  
25 social media activities.

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1           Again, this is curable. Under the regime of the  
2           contact, Kayo is entitled to a 45-day right of cure, and if it  
3           doesn't accomplish what it has to accomplish in 45 days, you  
4           have an absolute right to terminate, but you didn't give that.

5           MS. HEILMAN: Correct. There were a number of other  
6           issues beyond just the failure to present the product designs.  
7           There was, as I mentioned, no apparent outward signs that they  
8           were doing any business.

9           Another big issue is that Kayo, during the agreement  
10          negotiations, represented that it had these flagship retail  
11          stores in these prominent locations that would be a very  
12          significant source of significant distribution channel for the  
13          skate products that would be developed.

14          THE COURT: Excuse me. On a schedule B, you both  
15          agreed on the stores, whether flagship or not flagship, there  
16          is a long list of stores, covering several pages.

17          MS. HEILMAN: There is an offering memorandum provided  
18          to Fila during the negotiations that made these representations  
19          about the store. Fila's witness testified that she understood  
20          that the store was going to be implicit in the arrangement.  
21          The store closed right after the agreement was signed and Kayo  
22          never notified Fila of the store closing.

23          THE COURT: May I see it?

24          MS. HEILMAN: The offering memorandum? Tab 12.

25          THE COURT: I have it. It's an email from Simon

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1 Grensted of Kayo to Jennifer Lopez of Fila.

2 Here is the corporate profits document I had  
3 mentioned. Directing them to our website may be of use, also,  
4 but I will leave that for you to decide. I should have the  
5 next term of the agreement to you by tomorrow. Looks like we  
6 are really close. I don't think any contention items remain.  
7 I look forward to hearing how it goes with the online skating  
8 company.

9 MS. HEILMAN: The attachment is the document that I  
10 was referencing that made representations about the prominence  
11 of the store.

12 THE COURT: Where do I find that?

13 MS. HEILMAN: The very next page that was attached to  
14 that email.

15 THE COURT: It's a blurb about the Kayo corp.

16 MS. HEILMAN: Correct. The third paragraph is where  
17 it talks about how it recently opened a flagship retail store  
18 in a highly visible location ripe with potential. Further  
19 secures --

20 THE COURT: What does this have to do with anything?

21 MS. HEILMAN: This was part of the discussions and of  
22 the agreement, that it had this flagship store, it had this  
23 ability to distribute these products. So it was extremely  
24 concerning when Fila learned that the store was closed  
25 unbeknownst to Fila, and Kayo didn't communicate that to Fila.

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1 THE COURT: Did you give them a notice of cure that  
2 you have to make up for what you sold here in other places?

3 It's plain to me, Ms. Heilman, that you didn't operate  
4 pursuant to the agreement, that you gave a hasty termination  
5 when there was a right to cure. I mean, you can go through  
6 example after example, but they all come down to the same  
7 thing, all these are curable. They may not have been able to  
8 cure, but they had a 45-day right to try, and that they were so  
9 incapable of doing anything, that had to be recited. They had  
10 to have a chance to show that they could do it.

11 MS. HEILMAN: That would potentially read the section  
12 15.4 automatic termination provision out of the agreement  
13 because it realizes that that provision contemplates that there  
14 are some circumstances that are so exceptional and so beyond  
15 the pail of the licensor's experience where, if there is  
16 nothing happening, there is no communication, there is no  
17 outward sign of any business. Another indication is that Fila  
18 heard that there was some financial difficulty that Kayo was  
19 experiencing, lack of financing --

20 THE COURT: Let's let Mr. Goodman answer that.

21 What was Kayo doing during the first year of this  
22 agreement?

23 MR. GOODMAN: Kayo was doing designs and drawings,  
24 which it forwarded to Fila on January --

25 THE COURT: Show me.

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1 MR. GOODMAN: That's exhibits 35 and 36. Once we get  
2 to issues of performance, your Honor --

3 THE COURT: Mr. Goodman, let's go very slowly so I can  
4 see as you go along. This is documentary, we have no  
5 witnesses, so let me look at the documents.

6 MR. GOODMAN: Does deposition testimony count, your  
7 Honor?

8 THE COURT: Yes.

9 MR. GOODMAN: Let me, if I may direct your Honor's  
10 attention --

11 THE COURT: Let me look at 35 and 36 first. You said  
12 it, let me look at it.

13 MR. GOODMAN: Those are the wrong numbers. I'm sorry,  
14 your Honor. I apologize. 30 and 31.

15 THE COURT: Why don't you guys have help with all the  
16 things you have to master yourself?

17 MR. GOODMAN: The associate who was working on this  
18 case with me, your Honor, is on her honeymoon.

19 THE COURT: Okay. I've got 30. What do you want me  
20 to look at?

21 MR. GOODMAN: Those are all the drawings and the  
22 mockups.

23 THE COURT: Of what?

24 MR. GOODMAN: Of the proposed skate program between  
25 Fila and Kayo.

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1 THE COURT: What did you do with those?

2 MR. GOODMAN: We sent them to Fila on January 10th,  
3 2017. There was a series of emails, your Honor.

4 THE COURT: So that's a year and a half into the  
5 agreement.

6 MR. GOODMAN: Yeah, but there had never been any  
7 notice. But when we get into the performance and we call  
8 witnesses -- and why I said we would need witnesses because we  
9 do have testimony --

10 THE COURT: Let me get some dates clear first.

11 The inception date was when?

12 MS. HEILMAN: June 15, 2015.

13 THE COURT: And the first notice given by Kayo about  
14 its performance is when?

15 MR. GOODMAN: Well, the first written notice was  
16 January 10th, 2017. Mr. Morgan is prepared to testify that he  
17 was in constant verbal communication with Mr. Epstein of Fila.  
18 In fact, there are documents in the record that show that not  
19 only were they working on the designs that were transmitted on  
20 January 10th, 2017, but they were also recruiting a sponsor for  
21 the Fila marks, and we have those documents --

22 THE COURT: What was the date of termination,  
23 Ms. Heilman?

24 MS. HEILMAN: I believe it was February 10th, 2017.

25 THE COURT: So one month after you receive Fila's

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1 mockup, you terminate?

2 MS. HEILMAN: I think, by this point, the ship had  
3 sailed for Fila, to be candid.

4 Just to respond to Mr. Goodman's comments about  
5 constant contact with Mr. Epstein, that's --

6 THE COURT: I'm not interested in that. I'm just  
7 focusing on this.

8 So I'm looking at tab 30, Fila's skateboarding product  
9 initiatives, February 2016 to January 2017. So eight months  
10 after the inception date, you're getting a pretty full book of  
11 products.

12 MS. HEILMAN: It would be 18 months, your Honor. And  
13 there is no evidence in the record that Fila received this.  
14 Fila's witness has a shoe designer, has a vague recollection  
15 that he received a package that may have had some sketches in  
16 them that showed, in his view, that they had an intent to begin  
17 work on the product --

18 THE COURT: You're saying this document was not  
19 received?

20 MS. HEILMAN: I don't believe that there is any clear  
21 recollection that this was received and it's at odds with the  
22 testimony in the record with what Fila believe it received.

23 THE COURT: You believe, Mr. Goodman, it was sent?

24 MR. GOODMAN: Yes, and we have the documentary  
25 evidence and the deposition testimony, your Honor.

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1           Let's start with, if I may, the deposition testimony  
2 of the person who was coordinating and who introduced --

3           THE COURT: You're going to offer that, you're telling  
4 me about that. Is there a document that covers this?

5           MR. GOODMAN: Email, your Honor, document 12.

6           THE COURT: Document 12 in your book?

7           MR. GOODMAN: Yes, your Honor. There is a series of  
8 email communications back and forth --

9           THE COURT: Wait a minute. Let's do one at a time,  
10 Mr. Goodman, one at a time.

11           This is an email from Mark Eggert. Who is he with?  
12 He is vice president of footwear design and advance concepts of  
13 Fila?

14           MR. GOODMAN: Correct, your Honor.

15           THE COURT: And he sends it to John Epstein of Kayo.

16           MR. GOODMAN: Your Honor, 12 is a January 10th, 2017  
17 email from Troy --

18           THE COURT: I've got the wrong -- sorry. This is from  
19 Troy Morgan to Mark Eggert of Fila. Troy Morgan was Kayo. Hi,  
20 Mark. It's been a while. I hope you're good. I want to reach  
21 out and see if we can get the ball rolling again on modifying  
22 the Original Tennis and the Original Fitness to be ready to  
23 launch and skate. Not sure how the timing is for you, but we  
24 are fully ready with a great game plan. Please let me know if  
25 I can forward you some notes to get started, and maybe we can

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1 jump on a call to go over some details in the notes.

2 This is dated January 10, 2017.

3 MR. GOODMAN: Correct, your Honor.

4 THE COURT: This doesn't say they forwarded anything.

5 MR. GOODMAN: Then you look at the next email, your  
6 Honor, which is Mr. Morgan -- I'm sorry. It is Eggert back to  
7 Morgan.

8 THE COURT: Where do I find that?

9 MR. GOODMAN: That's 13.

10 THE COURT: Eggert to Epstein.

11 MR. GOODMAN: It says I'll be happy to look at the  
12 product.

13 THE COURT: Where?

14 MR. GOODMAN: The first one. This is Eggert to  
15 Epstein, who is the president, wrote back, said, I'd be happy  
16 to look into product again and I asked him if he knew where we  
17 stand as far as any contract. I said I'd be able to chat after  
18 we're back from China.

19 THE COURT: And Mark Eggert, again, is Fila or Kayo?

20 MS. HEILMAN: He's a shoe designer for Fila.

21 MR. GOODMAN: He's the head designer.

22 THE COURT: He's with Fila and he writes to Epstein,  
23 who is?

24 MR. GOODMAN: The president.

25 THE COURT: Of?

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1 MR. GOODMAN: Fila.

2 THE COURT: So this is one Fila person to another?

3 MR. GOODMAN: Correct.

4 THE COURT: What do you want me to take from this?

5 MR. GOODMAN: That, in fact, Mr. Eggert expressed to  
6 today Kayo that they were ready to proceed and told Mr. Epstein  
7 just that fact.

8 THE COURT: Mr. Goodman, I don't want you to shift  
9 from product to product. The question I put to you is what  
10 proof do you have that that fixed chief of materials, showing  
11 product design and the like, is sent on January 10, 2017?

12 MR. GOODMAN: Tab 16.

13 THE COURT: Don't tell me the tab, that you don't know  
14 for sure. Is it tab 16 that I'm going to find this?

15 MR. GOODMAN: Tab 16.

16 THE COURT: And this is from Eggert to Morgan? Thanks  
17 for following up, we got the package in, looks pretty good.  
18 We'll get into it a bit and we'll get back to you as soon as we  
19 get something.

20 MR. GOODMAN: That's it. That's it.

21 THE COURT: This is a response to an email of  
22 February 7 from Troy Morgan. Hi, Mark. Following up again to  
23 see if you received a package with notes on the OF and OT.

24 What is OF and OT?

25 MS. HEILMAN: Original Fitness and Original Tennis.

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1 Those are the Fila Heritage shoes.

2 THE COURT: Does this pertain to that document that  
3 was at 40?

4 MR. GOODMAN: Yes, your Honor.

5 THE COURT: How do I know it pertains to that  
6 document?

7 MR. GOODMAN: Mr. Eggert's testimony, your Honor.

8 THE COURT: Where shall I find it?

9 MR. GOODMAN: So his deposition transcript is at tab  
10 28, starting on page 96 and going through page 111.

11 THE COURT: Where is the testimony about sending that  
12 sheath of materials?

13 MR. GOODMAN: It's page 110, line 17, through page  
14 111, line 5, line 10, line 22.

15 THE COURT: Just a minute. Don't do that. Read the  
16 testimony into the record that you think is relevant, giving  
17 page and line references.

18 MR. GOODMAN: This is page 110, line 3.

19 "Q. So at that time, Kayo was communicating to you and sending  
20 you mockups and going forward with the process; correct?"

21 MR. GOODMAN: There was an objection. Answer over  
22 objection.

23 "A. There was a package there. To my recollection, I don't  
24 believe I received mockups, but I would presume that it was  
25 more of competitive samples and evidently a document of some

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1 sort.

2 "Q. Did -- what was in the package conveyed to you when you  
3 received it, the impression that Kayo was working on the file  
4 at Kayo project?

5 "A. I would put it as intent to work on the Kayo Fila project.

6 "Q. Did you have the same intent as of February 8th, 2017?

7 "A. Yes.

8 "Q. When you said the package looks pretty good, was that  
9 truthful at the time you said it?

10 "A. Yes, I have no reason to believe otherwise.

11 "Q. Now, the next phrase reads, let me get into it a bit and I  
12 will get back to you as soon as I get something together. Do  
13 you see that?

14 "A. Yes.

15 "Q. What were you going to look into?

16 "A. From what I gather in looking at the previous exhibit,  
17 there were samples of some sort and a document in there,  
18 perhaps requesting or suggesting some design ideas to which I  
19 would presumably put that information together and submit  
20 something back out to Troy.

21 "Q. And that would be in the normal course?

22 "A. Yes."

23 THE COURT: How does that show that there was  
24 performance going on by Kayo, which, if you didn't like, you  
25 would have to give a notice of some kind of breach and

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1 opportunity to cure?

2 MS. HEILMAN: I think, by this point, it was too late.  
3 I think Mr. Eggert is a shoe designer. He's not Fila's  
4 management. At this point, Fila's management already had  
5 serious concerns about Kayo's performance and believed that the  
6 agreement had been abandoned or had been terminated.

7 THE COURT: Mr. Eggert had been set up to perform with  
8 and to work with Kayo. The notice of termination doesn't come  
9 until a month later. This is January.

10 MS. HEILMAN: If I could direct your attention back to  
11 tab 33 in our binder.

12 THE COURT: I have it. What do you want me to take  
13 from this?

14 MS. HEILMAN: This is a January 2016 email where there  
15 is some discussion about this other sales agent that Fila  
16 ultimately engaged to pursue sales with these retailers, who  
17 were skatecentric, that Fila was interested in distributing its  
18 skate and non-skate products to.

19 In the context of this email chain, Kayo came up --

20 THE COURT: Excuse me. Tell me what I should read.

21 MS. HEILMAN: You can read the very first page, Bates  
22 label 460. You have Mark Eggert saying, in January of 2016 -  
23 now this is only about six months into the agreement - have  
24 heard nothing from Troy. Meaning Troy Morgan, Kayo's  
25 president. Then you have Mr. Epstein, the then president of

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1 Fila saying, amazing. Jennifer, let's discuss. Whatever  
2 happened to Willy Wonka.

3 So this, again, goes back to the representations that  
4 Mr. Morgan made at the outset. There are a number of documents  
5 and early communications between Mr. Epstein and Mr. Morgan  
6 where Mr. Morgan conveyed he was the Willy Wonka of the  
7 skateboarding industry. There was a sense of fervor and  
8 urgency to get this deal done so that he could get to work on  
9 these skate products. So Fila had heard nothing, and this is  
10 only six months into the agreement, and they're expressing some  
11 surprise.

12 Now fast forward to tab No. 43 --

13 THE COURT: I'm not finished with tab 33. Who's Todd  
14 and his group?

15 MR. GOODMAN: That's an important issue --

16 MS. HEILMAN: Todd Milspa is with the sales agency  
17 that Fila ultimately engaged to pursue sales to these  
18 skatecentric retailers when Kayo did not perform.

19 THE COURT: In place of Kayo?

20 MS. HEILMAN: Correct. Well, initially, it was  
21 supposed to not be in place of Kayo. They engaged Money Ruins  
22 Everything - it's the name of the company - they were going to  
23 pursue other retailers, but then when Kayo did not perform,  
24 Money Ruins Everything ultimately stepped in and engaged these  
25 skatecentric retailers.

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1 MR. GOODMAN: Your Honor, may I broaden this  
2 perspective a little bit and talk about Money Ruins Everything  
3 and talk about what really happened?

4 THE COURT: No.

5 MR. GOODMAN: Okay.

6 THE COURT: How do I deal with what Mr. Goodman has  
7 presented to me? Is Mark Eggert not an executive of Fila?

8 MS. HEILMAN: I believe he had the title of vice  
9 president, but he is in footwear designs. He's not Fila's  
10 management, and that's in the record, as well.

11 THE COURT: Do you have any explanation why he's  
12 receiving documents and information from Troy Morgan?

13 MS. HEILMAN: He would be the person who would have  
14 provided comments on a design. If Mr. Morgan needed some  
15 specifications or shoe specifications or design specifications,  
16 he would be the person that would provide, because the intent  
17 of the agreement was that Kayo was actually going to work from  
18 an existing Fila shoe mold. They weren't going to start from  
19 scratch, if you will. They were going to take the Original  
20 Fitness and the Original Tennis shoe and sort of modify the  
21 sole of the shoe to make it fit for skateboarding. So Mark  
22 Eggert would have been the point of contact for those types of  
23 technical questions.

24 THE COURT: Mr. Goodman, where is the document we  
25 looked at before, the sheath of products and advertising?

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1 MR. GOODMAN: That's 30 and 31.

2 THE COURT: This is all footwear?

3 MR. GOODMAN: Yes, your Honor. There is some  
4 clothing, but it's --

5 THE COURT: There is clothing, also?

6 MR. GOODMAN: More than two pages, but it's  
7 predominantly footwear.

8 THE COURT: So why wasn't this performance under the  
9 agreement?

10 MS. HEILMAN: I don't know that it's entirely clear  
11 from the record or the witness testimony that this is exactly  
12 the document that Mr. Eggert received. And by the pint in time  
13 that Mr. Eggert received anything from Kayo, by that point, if  
14 Fila's management viewed the contract as having been abandoned  
15 or terminated, given the fact that they felt conduct of the  
16 licensee was so at odds with the representations and  
17 discussions during the negotiation period, which are also  
18 reflected in the record.

19 MR. GOODMAN: Your Honor, this is attorney  
20 representation and the underlying evidence is to the contrary.

21 MS. HEILMAN: It's not --

22 MR. GOODMAN: February 8th of 2017, Fila received a  
23 written confirmation by email from Zumiez that it agreed to  
24 enter an agreement with Fila through this MRE. It is no  
25 coincidence that that happened on February 8th and the

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1 termination letter got sent on February 10th.

2 THE COURT: What was the name of that other company?

3 MR. GOODMAN: Zumiez, Z-u-m-i-e-z. If your Honor goes  
4 back to 2.1, you'll see that Zumiez is one of the three  
5 retailers as to which Kayo was entitled to receive commission.

6 THE COURT: Presumably, because it introduced?

7 MR. GOODMAN: What's that, your Honor?

8 THE COURT: Presumably because it introduced Fila to  
9 Zumiez?

10 MR. GOODMAN: Your Honor, it doesn't say that, but on  
11 the other hand, there is an email from Mr. Morgan to  
12 Mr. Epstein showing him Mr. Morgan's relationship with Zumiez.  
13 That is in the latter part of the book, 39, the second page  
14 of --

15 THE COURT: 39 only has one?

16 MR. GOODMAN: Yes. The second email is from Zumiez to  
17 Mr. Morgan about the nature of their relationship. That's  
18 July 21st, 2015. On July 22nd, 2015 --

19 THE COURT: Wait a minute. Tell me where I should go.

20 MR. GOODMAN: Okay. This is 39, your Honor.

21 THE COURT: Number 39?

22 MR. GOODMAN: Yes.

23 THE COURT: It's an email. It's two pages. It's  
24 email traffic between Troy Morgan and Jennifer Lopez.

25 MR. GOODMAN: No, your Honor. I know which book, if

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1 you look in plaintiff's book, 39, there are two emails.

2 THE COURT: Which is your book?

3 MR. GOODMAN: The one with the orange cover.

4 THE COURT: Got it, 39. It's email traffic between  
5 Jennifer Lopez and Troy Morgan.

6 MR. GOODMAN: No, your Honor. The bottom one is from  
7 Josh Birch to Troy Morgan on July 21 --

8 THE COURT: Is that what you want me to look at?

9 MR. GOODMAN: Yes.

10 THE COURT: So let me do it. What do you want me to  
11 take from this document?

12 MR. GOODMAN: And then look at the one above that by  
13 which Mr. Morgan sent this email to Mr. Epstein.

14 What I would like you to take from these documents,  
15 your Honor --

16 THE COURT: This is October 18, 2017?

17 MR. GOODMAN: No, your Honor. It's July 21st and  
18 July 22nd, 2015.

19 THE COURT: I see. So from this, you want me to take  
20 that the Zumiez was introduced to Fila by you, by Kayo?

21 MR. GOODMAN: No, your Honor. It doesn't say that.  
22 What it does say, though, is the relationship between Zumiez  
23 and Kayo, the contract does not require --

24 THE COURT: That's why I would infer that there was an  
25 obligation to pay royalties by Fila to Kayo, even though Fila

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1 sold directly to Zumiez.

2 MR. GOODMAN: That's correct, your Honor, without  
3 regard to whether there was an introduction --

4 THE COURT: This is not part of our case.

5 I have to say, Ms. Heilman, from everything I've seen,  
6 you did not comply with the contract to give notice to cure.

7 MS. HEILMAN: I think, at a minimum, your Honor, it  
8 would behoove you to hear testimony from the Fila witnesses  
9 about the unique circumstances of this arrangement and why they  
10 believed they could invoke section 15.4 and 15.2(i),  
11 non-curable material breach.

12 THE COURT: Were these depositions taken?

13 MS. HEILMAN: There were depositions taken and there  
14 was testimony taken.

15 THE COURT: Why don't you point me to the depositions.

16 MS. HEILMAN: Turn to tab 2.

17 MR. GOODMAN: Whose depositions?

18 MS. HEILMAN: This is Jennifer Estabrook, who was  
19 Fila's then general counsel, who is now Fila's president.

20 MR. GOODMAN: It's also tab 27 in our book, your  
21 Honor.

22 THE COURT: Please don't do that.

23 MR. GOODMAN: I'm sorry. I was just trying to be  
24 helpful.

25 THE COURT: You're not helpful. Don't interrupt each

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1 other.

2 I'm on tab 2, deposition of Jennifer Estabrook.

3 MS. HEILMAN: So there are several references I'll  
4 point your Honor to. The first one is on page 1 of 3.

5 THE COURT: Yes. What do you want me to read?

6 MS. HEILMAN: Beginning at line 16. This is  
7 Ms. Estabrook responding to, why don't you follow up after you  
8 didn't hear back after you sent the email regarding the royalty  
9 reporting.

10 THE COURT: Read the question and answer, please.  
11 Where is the question --

12 MS. HEILMAN: I'm trying to locate the question  
13 myself. I believe it's at the top of page 104.

14 THE COURT: Top of 104?

15 MS. HEILMAN: At line 2.

16 THE COURT: Line 2.

17 "Q. So is it your testimony that the May 23, 2016 email --

18 THE COURT: And what was that?

19 MS. HEILMAN: That's the email she sent inquiring  
20 about the contact for royalty reporting almost a year into the  
21 agreement when they had heard nothing.

22 THE COURT: Sorry?

23 MS. HEILMAN: The email that Ms. Estabrook sent Kayo  
24 in May of 2016, approximately a year into the agreement's term,  
25 inquiring about the contact for royalty reporting that went

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1       unanswered.

2                   THE COURT:   Yes.

3       "Q.   So is it your testimony that that email was sent in the  
4       ordinary course of business like you would with any of your  
5       other licensees?

6       "A.   Yes.   You are mischaracterizing it.   I'm asking for a  
7       royalty report because there was no communication from Kayo  
8       corporation."

9                   THE COURT:   What do you want me to take from this?

10                  MS. HEILMAN:   If you continue down to the bottom of  
11       page 103, beginning at line 16.

12       "A.   I'm just going to give the same answer.   We are a licensed  
13       business..."

14                  THE COURT:   That?   So the question is, she's not  
15       getting royalties.   So Fila is complaining it's not getting  
16       royalties and Kayo is telling us that it's working on  
17       development, and if you felt that the development was too slow  
18       or that you were entitled immediately to royalties of a certain  
19       level, you had to do that.   The agreement doesn't establish a  
20       time by which Kayo has to offer sales.

21                  MS. HEILMAN:   It doesn't, but the law implies an  
22       obligation to act reasonably, and if you hear nothing from your  
23       licensee almost a year into the agreement, that's cause for  
24       significant concern.

25                  THE COURT:   I would agree if you expect royalties

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1 immediately, that will be a concern, but it's also a  
2 requirement to give a notice to cure.

3 What in this agreement, Mr. Goodman, tells me that it  
4 was an obligation of Kayo immediately to sell and not to  
5 develop?

6 MR. GOODMAN: Nothing, your Honor. It's quite to the  
7 contrary.

8 THE COURT: Tell me how you read this agreement.

9 MR. GOODMAN: The very fact that there are no  
10 timelines, for one. There is testimony, there is a letter.

11 THE COURT: Let's look at the agreement.

12 MR. GOODMAN: Okay. There is absolutely no timeline  
13 here, your Honor. Then, if you go to 15, the termination  
14 provision, 15.2(vi) says --

15 THE COURT: Excuse me. Doesn't 5.1, 5.2, 5.3, and 5.4  
16 deal with advertising material which has to precede any  
17 effective selling, and the fact that it has to be accepted and  
18 approved by Fila suggest that there is a period of development  
19 that's involved? We also know that, up to the time in the  
20 agreement, Fila was not selling skateboards and it had no  
21 products that was involved in skateboard sales and was looking  
22 to Kayo for help to develop products. That's how I understand  
23 this agreement.

24 MR. GOODMAN: Correct, your Honor.

25 THE COURT: It would be nice to point me to some

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1 testimony that says something like that.

2 MR. GOODMAN: There is Ms. Estabrook's testimony on  
3 page 51, starting at line 7.

4 THE COURT: Okay. I'm there.

5 "Q. To the best of your present recollection, what was  
6 discussed about the term of the agreement prior to July 2nd,  
7 2015 with the representatives of Kayo in which you participate?

8 "A. I distinctly remember Mr. Morgan being concerned about the  
9 longevity of this agreement.

10 "Q. To the best of your recollection, what did Mr. Morgan say  
11 during these conversations regarding the longevity of this  
12 agreement?

13 "A. I remembered him wanting to make sure that our ability to  
14 terminate this license at the end of the initial term was very  
15 limited. I mean -- let me restate that. He was very concerned  
16 that there be an opportunity for him to have control over the  
17 renewal of this license. He did not want to invest time, and  
18 effort, and money, and then have us and build up Fila  
19 Skateboarding as a brand and have us take it back and take it  
20 over."

21 MR. GOODMAN: There is also a precontract  
22 communication between Mr. Morgan and Ms. Blacker and  
23 Mr. Epstein, Ms. Estabrook and Mr. Eggert at Fila. That's  
24 document 37 in our book.

25 THE COURT: Okay.

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1 MR. GOODMAN: And the penultimate paragraph.

2 THE COURT: I anticipate the first two years being a  
3 lot of marketing work supported by small sales volume and this  
4 is why we need this to be a long-term partnership, that one.

5 MR. GOODMAN: Yes, your Honor.

6 THE COURT: That's a pretty powerful comment,  
7 Ms. Heilman.

8 MS. HEILMAN: Yes, I think it was contemplated that  
9 there would be a development period. I think this testimony  
10 that he just referenced goes back to the idea that Kayo was  
11 going to pour all of its energy and effort into building this  
12 brand and it pushed for exclusivity, it pushed for a longer  
13 term, and that was why it was so shocking to Fila that the  
14 performance and the conduct was so at odds with the fervor and  
15 the intensity of the negotiation period.

16 THE COURT: I recognize all that, but that just  
17 evidences more the requirement of a notice to terminate, notice  
18 to cure.

19 The only thing I find in this agreement that sets a  
20 standard of how much selling there should be is in 15.1 where  
21 if Kayo does not achieve net sales exceeding \$850,000, there is  
22 no obligation to extend the initial term of five years, and  
23 there is no statement in here that those sales have to be  
24 occurring in any particular part of the five-year period.

25 MS. HEILMAN: That's right, your Honor. I think --

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1 THE COURT: The end of the initial term in net sales  
2 have to exceed that.

3 MS. HEILMAN: That's right, but if you're still in the  
4 exploratory design phase, this is 18 months in, and this is  
5 also testimony of Ms. Estabrook that, by that point, you still  
6 have to go through the process of submitting design to Fila for  
7 approval, a sample, then have you to go through a four- to  
8 six-month period of manufacturing, then a sale period. So by  
9 that point - and this is her testimony - there was no curable  
10 breach because, by this point, they didn't have the ability to  
11 develop sales within the time period that was contemplated.

12 THE COURT: Ms. Heilman, from everything that's shown  
13 to me so far, this is not a non-curable breach. This is not  
14 within the meaning of 15.2 or the meaning of 15.4(iii). I have  
15 to hold that your termination notice was breached.

16 MS. HEILMAN: I believe, your Honor, if you look at  
17 some of the additional testimony, that this was not just a  
18 situation with --

19 THE COURT: Where do I look?

20 MS. HEILMAN: On page 121 of Ms. Estabrook's  
21 testimony.

22 THE COURT: Ms. Estabrook was a general counsel,  
23 wasn't she?

24 MS. HEILMAN: She was.

25 THE COURT: She was not a principle involved in the

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1 development of the products. Her testimony is really hearsay.

2 What page do you want me to look at?

3 MS. HEILMAN: Page 121. She served in dual roles.

4 She was a business person and general counsel. She was --

5 THE COURT: But there's no evidence --

6 MS. HEILMAN: -- licensing since 2007.

7 THE COURT: There was no evidence that she was charged  
8 in the actual production.

9 Page 121, I have it.

10 MS. HEILMAN: So she's talking about at line 13. I'm  
11 sorry. If you scroll up to line 4, in the fall of 2016, we  
12 were discussing the absence of Kayo. And then if you scroll  
13 down to line 13, the gist of the conversations were that Troy  
14 basically had disappeared shortly after we signed the contract  
15 and that there had been various reach-outs that were  
16 unresponded to. And then we heard -- we were curious as to why  
17 somebody who was so dead set on getting this license and  
18 protecting it and worrying about the term and not protecting  
19 what he was going to build would go completely dark for such a  
20 long period of time. So we were discussing and then we heard  
21 that the reason was because he didn't have financing --

22 THE COURT: -- the testimony. The gist of the  
23 conversations, these were internal conversations at Fila. The  
24 gist of the conversations were that Troy -- I guess that means  
25 Troy Morgan of Kayo -- basically had disappeared shortly after

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1 we signed the contract and that there had been various  
2 reach-outs that were unresponded to. And then we heard -- then  
3 we were curious as to why somebody who was so dead set on  
4 getting the license and protecting it and worrying about the  
5 term and not protecting what he was going to build would go  
6 completely dark for such a long period of time. So we were  
7 discussing and then we heard that the reason was because he  
8 didn't have financing. So we were discussing what to do at  
9 that point in time.

10 You know, again, this is something that you put to the  
11 other party. Let me see your production schedule, let me see  
12 that you have adequately financed this, but you didn't.

13 In any event, Ms. Estabrook is a general counsel who  
14 justified the termination and she's not a principal who has  
15 knowledge, really.

16 I have to repeat, I have to find that the termination  
17 was a breach.

18 Let's go on the next question. How do you prove your  
19 loss commissions?

20 MR. GOODMAN: Thank you, your Honor. There are two  
21 other elements of damage beyond the loss commission, one is for  
22 the renewal period and the other is factual out-of-pocket  
23 expenses.

24 THE COURT: Well, you have to prove that you would  
25 reach \$850,000 in net sales.

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1 MR. GOODMAN: Correct, your Honor.

2 THE COURT: So let's look at the additional period  
3 first. How do you prove lost commissions in the initial  
4 period?

5 MR. GOODMAN: We have an expert report, your Honor.  
6 The expert report is document 32, and the expert computes the  
7 actual loss commissions at page 25 of 35 of his report. Now,  
8 that's virtually illegible to my eyes. So we have reproduced,  
9 your Honor, for ease of reference in a blowup that is  
10 significantly more legible, if I may hand it up.

11 THE COURT: Tell me, in words first, where are we.

12 MR. GOODMAN: Document 32.

13 THE COURT: I have that.

14 MR. GOODMAN: Page 25 of 35.

15 THE COURT: So these are a set of projections, I'm  
16 sure.

17 MR. GOODMAN: No, these are actuals, your Honor.

18 THE COURT: These were actual sales?

19 MR. GOODMAN: Correct, your Honor.

20 THE COURT: What do they show? I can't read this.

21 MR. GOODMAN: It shows actual commissions at 7 percent  
22 due on actual sales for the initial term of \$761,411.24.

23 THE COURT: \$761,411 and?

24 MR. GOODMAN: 24 cents.

25 THE COURT: Any comment about that figure,

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1 Ms. Heilman?

2 MS. HEILMAN: So the commissions are obviously a  
3 percentage of Fila's net sales, so there is really not much to  
4 dispute here, but for whatever reason, our calculations are  
5 different. We have 732 or thereabouts. I believe there was a  
6 brief period before the expiration of the initial term where we  
7 didn't have actual sales, so it could be a difference of  
8 projections. We probably just have to reconcile the  
9 differences.

10 THE COURT: Mr. Goodman is saying these are not  
11 projections, they were actual sales.

12 MS. HEILMAN: I can't explain the discrepancy, but we  
13 worked from Fila's own members with Fila's personnel who are in  
14 the business of computing commissions, and that's their job,  
15 and they calculated a different number.

16 THE COURT: Can you explain your calculation.

17 MS. HEILMAN: 7 percent of net sales to a non-Fila --  
18 actually, it's possible. I believe some initial spreadsheets  
19 that were produced included some products that were, I think,  
20 not supposed to be included. It was only supposed to be  
21 non-Fila products and there was some sales maybe to Canada that  
22 were included. So I do believe that there are some  
23 discrepancies that could be ironed out. Our sales, we verified  
24 and reverified --

25 THE COURT: So there is some number between \$732,000

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1 and \$761,000 that would reflect the loss commissions not paid  
2 to Kayo?

3 MS. HEILMAN: For the entire term. But I don't know  
4 that you would automatically find that he was entitled to  
5 commissions for the entire term, I think perhaps up to the  
6 termination date. I mean, the termination was the termination  
7 and --

8 THE COURT: There was a duty to mitigate.

9 MS. HEILMAN: I believe that there was a duty to  
10 mitigate and this is a windfall situation, right? He didn't do  
11 the work to introduce --

12 THE COURT: Have either of you briefed that issue?

13 MS. HEILMAN: Excuse me? I'm sorry.

14 THE COURT: Have either of you briefed that issue,  
15 whether --

16 MS. HEILMAN: No.

17 THE COURT: -- there was? Was this contract supposed  
18 to be an exclusive on the part of Kayo, meaning that it could  
19 not manufacture for others?

20 MS. HEILMAN: Kayo was given the exclusive right to  
21 manufacture skate products only.

22 THE COURT: But was it allowed to expand its business  
23 and deal with others?

24 MS. HEILMAN: Beyond the authorized distribution  
25 channels in the agreement?

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1 THE COURT: Different product, for example.

2 (Indiscernible crosstalk)

3 MR. GOODMAN: Your Honor eliminated all those damages  
4 by --

5 THE COURT: Would you please answer my question. What  
6 was Kayo's business?

7 MR. GOODMAN: Kayo's business was skateboards, the  
8 sale, distribution of skateboards and attendant products. The  
9 sales to Zumiez and Tilly's, the three outlets that we're  
10 talking about, that was on any product that was sold by Fila to  
11 those three outlets.

12 THE COURT: You calculated that?

13 MR. GOODMAN: Yes. So the total sales based on  
14 discovery, based on Fila's sales to Zumiez, Tilly, and PacSun  
15 totaled \$10 million during the first term, not counting any  
16 renewals, during the first term totaled \$10,877,303.49.

17 THE COURT: You're entitled to 7 percent of that?

18 MR. GOODMAN: Yes, your Honor.

19 THE COURT: And you calculated that?

20 MR. GOODMAN: Yes, your Honor, and it's \$761,411.24.

21 THE COURT: So that's the number you gave me before?

22 MR. GOODMAN: Yes, your Honor.

23 THE COURT: So that \$761,411 is the sum of the  
24 commissions that you were supposed to get?

25 MR. GOODMAN: During the first term, during the

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1 initial term.

2 THE COURT: Weren't you required to pay commissions to  
3 Fila?

4 MR. GOODMAN: No, your Honor. That was on something  
5 different. Your Honor already has eliminated that aspect of  
6 the case in your *in limine* rulings. We were supposed to pay  
7 Fila a royalty on Fila-branded skateboard products, but those  
8 never went to market because of what we were talking about  
9 during the course of this afternoon, the submission and  
10 approval and so forth.

11 So there are two separate buckets here in 2.1, your  
12 Honor. The one bucket, what we're talking about, is the sales  
13 that Kayo would have had of the Fila-branded merchandise.

14 THE COURT: How much was that?

15 MR. GOODMAN: Your Honor eliminated that. Your Honor  
16 knocked that out as being too speculative.

17 THE COURT: I knocked out your claim for damages?

18 MR. GOODMAN: No, you knocked out my claim for lost  
19 profits, your Honor.

20 THE COURT: We're talking about commissions.

21 MR. GOODMAN: But the commissions are not on that  
22 breach. The commissions are on the Zumiez, Tilly's, and PacSun  
23 sales of any Fila product by Fila, and that's the \$761,000  
24 number that we've been talking about.

25 THE COURT: Excuse me one moment.

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1 (Pause)

2 So the damages are between \$732,000 and \$761,000 for  
3 the loss commissions and I will give you an opportunity to work  
4 out the precise number

5 MS. HEILMAN: Your Honor, I just clarify that, would  
6 your Honor consider that the damages should be the commissions  
7 that were earned up until the termination? I mean, this is in  
8 the provision --

9 THE COURT: This is the initial term.

10 MS. HEILMAN: No, I'm talking about up until 2017 of  
11 February when the agreement terminated.

12 MR. GOODMAN: Your Honor has already ruled that the  
13 termination was a breach.

14 THE COURT: Just a minute. If you mean up to the  
15 termination date, no. If your termination is a breach, they're  
16 entitled to commissions through that initial period, all sales  
17 you made to the three companies, and you said you calculate  
18 about \$732,000. Mr. Goodman has a calculation that he's given  
19 to you of \$761,000. If you take issue with anything in there,  
20 I'll give you some time to work it out, otherwise you'll be  
21 liable for \$761,411.24 plus interest.

22 Is there an interest figure in the agreement?

23 MR. GOODMAN: No, your Honor, not for this. But there  
24 was a motion made to strike a claim for interest, which your  
25 Honor denied. New York legal rate is 9 percent. Our expert

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1 did a 20-percent calculation.

2 THE COURT: I'm bound to give 9 percent?

3 MR. GOODMAN: Yes.

4 THE COURT: What binds me to give 9 percent?

5 MR. GOODMAN: It is a diversity case, your Honor,  
6 9 percent is the New York legal rate under the CPLR.

7 THE COURT: Does diversity carry forward with  
8 interest?

9 MR. GOODMAN: The interest runs from the date that the  
10 commission should have been paid, which is within 30 days.

11 THE COURT: I'd like to see some law that binds me to  
12 9 percent.

13 MR. GOODMAN: Sure.

14 THE COURT: How much is the figure at 9 percent?

15 MR. GOODMAN: \$177,286. So our total with interest on  
16 loss commission incomes for the initial term comes out to  
17 \$938,697.

18 THE COURT: Okay.

19 MR. GOODMAN: Then there was \$21,961 of out-of-pocket  
20 expenses.

21 THE COURT: Where are you allowed to recover?

22 MR. GOODMAN: So there was on standard breach of  
23 contract damages to be made whole in reliance on the licensee  
24 agreement.

25 THE COURT: What in the licensee agreement covers this

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1 point?

2 MR. GOODMAN: No, the licensee agreement does not,  
3 your Honor.

4 THE COURT: So why are you entitled to it?

5 MR. GOODMAN: Because under New York law, breach of  
6 contract damages is to put the plaintiff in the position, as  
7 you know, as it would have been had the contract been  
8 performed. That flowed directly from the breach.

9 THE COURT: So what in the contract gives you  
10 entitlement to those kinds of expenses?

11 MR. GOODMAN: No, your Honor, but it doesn't bar it  
12 either.

13 THE COURT: So why are you telling it to me if there  
14 is no authorization in the contract for it?

15 MR. GOODMAN: Because it's the direct and natural  
16 consequence of the breach, your Honor. Without the breach,  
17 that \$21,000 would not have had to have been paid.

18 THE COURT: What makes up this \$21,000?

19 MR. GOODMAN: It was a payment made to a skateboarder  
20 with whom Kayo had entered into an agreement to sponsor the  
21 Fila-Kayo skateboard product. That agreement is in --

22 THE COURT: Wasn't that something that was required to  
23 be done by Kayo under the contract?

24 MR. GOODMAN: It was not required, your Honor. It was  
25 part of the overall strategy --

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1 THE COURT: -- marketing --

2 MR. GOODMAN: Yes.

3 THE COURT: And you were compensated by commissions.

4 I hold that you're not entitled to that amount.

5 MR. GOODMAN: Then what's left is the renewal period.

6 THE COURT: Now how do you prove you have exceeded  
7 \$850,000 in net sales?

8 MR. GOODMAN: In January of 2016, contemporaneously,  
9 Kayo also entered into a similar collaboration with Adidas.  
10 That collaboration is not in the record. It was in the  
11 documents we provided at document No. 26 and based on the sales  
12 information that's part of No. 26, the sales information, it  
13 was a three-month period, the sales information appended to the  
14 agreement in No. 26. The expert reviewed and calculated at  
15 \$354,000 for one quarter. So now we're looking at, if you take  
16 one quarter in U.S. sales of \$354,000 in the Adidas deal, one  
17 year, that would have been \$1.4 million and change, and five  
18 years of that would have been \$7 million-plus.

19 THE COURT: Now the agreement, tell me if I'm right,  
20 talks about \$850,000 of net sales in the final year of the  
21 initial term; am I right?

22 MR. GOODMAN: I'm double checking, your Honor. I  
23 don't want to guess.

24 THE COURT: It says, provided that in the event that  
25 at the end of the initial term the net sales of the products

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1 exceeds \$850,000.

2 MR. GOODMAN: Yes. So it's for the entire initial  
3 term, your Honor, not just the last year.

4 THE COURT: Ms. Heilman.

5 MS. HEILMAN: The Adidas-DGK comparison is not a valid  
6 comparator.

7 THE COURT: Let's interpret this agreement first.

8 MS. HEILMAN: I don't read it as requiring \$850,000 in  
9 the last year, I just read it as requiring \$850,000 in sales in  
10 the initial term. And there is no factual predicate that they  
11 would have achieved that because there were no skate products  
12 ever developed, and you can't rely on sales of Adidas. Adidas  
13 is not on the same footing of Fila, it's a massive company.  
14 There is also sales under the DGK brand, which is a very well  
15 established skate brand that's been around for decades. That's  
16 Kayo's brand, is the DGK brand. So you can't compare sales by  
17 Kayo of new Fila skate products that consumers have never heard  
18 of with sales of DGK products by Adidas.

19 THE COURT: DGK is Kayo?

20 MS. HEILMAN: That's their brand. So they were  
21 co-branded with the Adidas logo. So they were Adidas-DGK  
22 co-branded products sold and manufactured by Adidas.

23 THE COURT: So your argument is there is no separate  
24 selling shown by DGK?

25 MS. HEILMAN: So there were no sales under this

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1 agreement. So what they did is they used the Adidas DGK  
2 collaboration, a separate agreement as a yardstick to  
3 extrapolate and project hypothetical sales under this  
4 agreement. I'm saying you can't do that --

5 THE COURT: Had they been performed or been allowed to  
6 perform your agreement, would they also have been able to  
7 perform for Adidas?

8 MS. HEILMAN: It's completely speculative. I mean,  
9 it's apples and oranges.

10 THE COURT: Is there anything that barred them from  
11 their agreement with Adidas if they were to continue to perform  
12 under the license agreement?

13 MS. HEILMAN: No. I think, potentially, they may have  
14 been barred under their Adidas agreement, but think it's --

15 THE COURT: I don't think mitigation is applicable. I  
16 think they're entitled to the full loss commissions and I'm  
17 still on this question, we're still on this issue of whether or  
18 not there was or could be a successive term based on the level  
19 of net sales. I don't think, Mr. Goodman, that your production  
20 for Adidas is comparable. I don't think it's of evidentiary  
21 value.

22 MR. GOODMAN: Your Honor, given that the defendant's  
23 breach foreclosed any performance under the initial term of the  
24 agreement, we can't look to anything involving Fila in the  
25 skateboard market.

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1           Secondly, as your Honor knows, apparently the analogue  
2 doesn't have to be specific, it just has to be to a reasonable  
3 degree of certainty if we were dealing here with a close  
4 question. If we're talking if the Adidas net sales would have  
5 been, let's say, a million over a five-year period, then he had  
6 you to do a close calculation, it becomes a tougher comparison.  
7 If we're looking for a reasonable predicate, a reasonable basis  
8 and remembering that the inferences are construed against the  
9 party breaching the agreement, since the Adidas number would  
10 have come to, over five years, over \$7 million, and we're  
11 talking roughly 10 percent, is it a reasonable basis under  
12 these facts and circumstances, given that the breach by Fila  
13 made a more specific comparison possible, is it a reasonable  
14 basis to say that they would have done with Fila approximately  
15 10 percent of what they did with Adidas? I think that's a  
16 fairly safe assumption.

17           THE COURT: I recognize the presumptions and the  
18 assumptions, but damages also have to be proved. I have no  
19 ratios to work on between Fila's sales and Adidas's sales. I  
20 can't tell whether they're comparable, whether Adidas is a much  
21 more marketable item than Fila, I can't decide on the market  
22 penetration, and I can't make any comparison between what you  
23 did with Adidas and what you did with Fila. I am not able to  
24 say that the net sales would have exceeded \$850,000 for the  
25 initial term and you had no right to a successive term, unless

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1 you exceeded \$850,000 in net sales.

2 Accordingly, I hold that you are not entitled to loss  
3 commissions in the renewal period. So your total damage,  
4 subject to further working with Ms. Heilman, is \$938,697. When  
5 you submit any agreement, I will grant judgment for that  
6 amount.

7 So I find that this agreement is the entire agreement  
8 of the parties. The arguments in the counterclaims for fraud  
9 in the inducement are outside this agreement and not  
10 contemplated by this agreement, and that this agreement is the  
11 entire agreement between the parties. It has no room for fraud  
12 in the inducement.

13 Under this agreement, the termination rights to  
14 non-curable breaches are limited and defined that the slowness  
15 in production complained of by Fila were curable, at least Kayo  
16 had the right to try to cure within the 45-day period provided  
17 in the agreement, and that termination without a right to cure  
18 under paragraph 15.1, 15.2, and 15.4 was not appropriate and  
19 was a breach. Fila has not been able to show that it had good  
20 reason for all this treatment of any slowness on the part of  
21 Kayo as a non-curable breach under 15.4. And it fails on its  
22 burden to show that its actions were reasonable.

23 Moreover, the instances of what is a curable breach  
24 set out in seven subparagraphs under 15.2 cover the items sold  
25 here. Subparagraph 4, failing to submit the licensor for its

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1 prior approval any product, advertising material, or plan and  
2 failure to fulfill any of the material obligations under the  
3 agreement.

4           The evidence shows that a full package of materials  
5 for the development and sale of the shoes that were a key part  
6 of the product was submitted January 10 of 2017, that there  
7 were conversations back and forth about it, which were boarded  
8 by the notice of termination on February 10, 2017, and whether  
9 it was a reflection of what Fila might have thought was a more  
10 favorable deal with another company or exasperation with Kayo  
11 is not important. What is material is that Kayo had right to a  
12 45-day period to cure and it was not given this right.  
13 Accordingly, I hold that Fila breached the contract.

14           I had held previously that Kayo was not entitled to  
15 lost profits, and I incorporate here my findings and  
16 conclusions in that previous decision.

17           I hold that Kayo is entitled to prove its lost  
18 commissions on sales directly made by Fila through the three  
19 companies mentioned in the agreement, that the total is  
20 \$761,411.24 subject to any correction on the part of Fila, at  
21 9 percent interest, which is the state rate of interest, is  
22 appropriate, again, subject to being shown by Fila that a  
23 lesser rate is the correct rate, and that the total of the loss  
24 commissions and the interest is \$938,697.

25           I'll give the parties a week to work out any

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1 disagreements, and if there can't be a workout, Kayo should  
2 submit a form of judgment giving it the amount I mentioned  
3 \$938,697 inclusive of interest. It should break out the  
4 principal and the interest.

5 Anything further, Mr. Goodman?

6 MR. GOODMAN: No, your Honor. Thank you very much.

7 THE COURT: Ms. Heilman?

8 MS. HEILMAN: Just in the event that Kayo does not  
9 accept our correction, is there a mechanism by which we could  
10 raise that with the Court?

11 THE COURT: Yes, the mechanism is my individual rule  
12 2.E. Write me a joint letter within that week giving me your  
13 respective positions and I will rule upon it and, if necessary,  
14 call you for an oral argument to explain the positions.

15 MS. HEILMAN: And that goes both to the commissions  
16 and the availability and amount of interest?

17 THE COURT: Yes, everything having to do with damages.

18 I thank you very much. My only observation is that  
19 you took upon yourselves much too much work, you need help.

20 I'm returning these books.

21 \* \* \*