

**BLOGS**

Contracts

California Federal Court Grants Summary Judgment to Distributor for Breach of Exclusivity Provision by Supplier

A federal court in California recently granted partial summary judgment in favor of a distributor of wine corks for breach of an exclusivity provision following the supplier's sale of certain corks in the United States. *M.A. Silva Corks USA, LLC v. M.A. Silva Holdings, Inc.*, 2024 WL 1180999 (N.D. Cal. Mar. 18, 2024).

A federal court in California recently granted partial summary judgment in favor of a distributor of wine corks for breach of an exclusivity provision following the supplier's sale of certain corks in the United States. *M.A. Silva Corks USA, LLC v. M.A. Silva Holdings, Inc.*, 2024 WL 1180999 (N.D. Cal. Mar. 18, 2024). The parties entered into a supplier and distribution agreement under which Corks USA was the exclusive distributor and marketer for Corticas corks in the United States. Corticas was required to inform Corks USA if it learned of any new potential customer in the United States and to pay Corks USA a referral fee if the person became a direct customer of Corticas. Corks USA was also granted a license to use the name "M.A. Silva" in connection with its sale and distribution of corks. Without notifying Corks USA, Corticas began selling corks to a direct competitor of Corks USA over a period of four years. Corks USA then filed suit against Corticas for multiple RICO violations, fraud, conspiracy to commit fraud, tortious interference with contract, tortious breach, breach of fiduciary duties, and breach of contract. Corks USA moved for partial summary judgment on its claims for fraud, tortious interference and breach, breach of fiduciary duty and breach of contract, arguing that Corticas violated the Agreement's exclusivity provision when it sold corks to a direct competitor of Corks USA without notifying Corks USA or paying them a referral fee. Corticas argued that this did not violate the exclusivity provision of the Agreement because under the Agreement they were only prohibited from selling M.A. Silva-branded corks to companies looking to resell M.A. Silva-branded corks in the United States.

The court granted Corks USA's motion for summary judgment in part. It concluded that the language in the Agreement was clear in stating that Corticas agreed to sell "to no other person in the United States" except for Corks USA. Because the court found the Agreement to be unambiguous, the court did not need to consider extrinsic evidence of the Agreement's meaning. The court held that Corticas breached the Agreement when it sold corks to a competitor of Corks USA without its knowledge and by failing to pay Corks USA a referral fee. As a result, the court granted summary judgment to Corks USA for Corticas' breach of the exclusivity provision. The court denied the motion for summary judgment, however, as to the breach of contract claims for untimely and poor-quality deliveries, concluding that Corks USA had failed to present sufficient evidence that would entitle it to judgment as a matter of law. Finally, Corks USA alleged that various entities related to Corticas were its alter ego and should be liable for its

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conduct. Because of the amorphous nature of the test and fact intensive inquiry, the court declined to make a determination at this procedural posture, and without an alter ego determination it could not resolve Corks USA's claims for tortious interference, breach of fiduciary duty, and fraudulent concealment claims on summary judgment.