

COURT OF APPEALS OF NEW YORK

Israel v. Chabra

12 N.Y.3d 158 (2009) · Decided March 26, 2009

SUMMARY

The New York Court of Appeals answered a certified question from the United States Court of Appeals for the Second Circuit concerning General Obligations Law § 15-301(1) and conflicting provisions in a guaranty. The Court held that the statute does not abrogate common-law rules of contract interpretation or require a no-oral-modification provision to take precedence over another contractual provision. The certified question, as reformulated, was answered in the negative.

CASE DETAILS

COURT	Court of Appeals of New York
WRITING FOR THE COURT	Grafteo, J.; Ciparick, J.; Read, J.; Smith, J.; Pigott, J.; Jones, J.
JURISDICTION	New York
DECIDED	March 26, 2009
DISPOSITION	other
PROCEDURAL POSTURE	The New York Court of Appeals answered a certified question from the United States Court of Appeals for the Second Circuit concerning the effect of General Obligations Law § 15-301(1) on conflicting provisions in a guaranty.
STANDARD OF REVIEW	The court addressed a certified question of New York law.
PRECEDENTIAL VALUE	Published New York Court of Appeals opinion; binding authority on the interpretation of General Obligations Law § 15-301(1) and conflicting contractual provisions under New York law.
PARTIES	Surinder S. Chabra v. Michael Israel, Steven Israel

TOPICS

contract interpretation

statutory interpretation

employment contracts

commercial litigation

appellate procedure

PRACTICE AREAS

Contracts

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Employment Law

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QUESTIONS PRESENTED

1. Whether General Obligations Law § 15-301(1) requires a contractual writing requirement to take precedence over an allegedly conflicting advance-consent clause in a guaranty.
2. Whether General Obligations Law § 15-301(1) abrogates the common-law rules of contract interpretation used to determine which of two conflicting contractual provisions governs.
3. Whether New York follows a categorical rule that the first of two irreconcilable contract clauses controls.

HOLDINGS

1. General Obligations Law § 15-301(1) does not abrogate the common-law rules of contract interpretation traditionally used to determine which conflicting contractual provision governs.
2. General Obligations Law § 15-301(1) plays no role in determining whether the guaranty's advance-consent clause or writing requirement takes precedence.
3. The Court of Appeals declined to endorse the categorical rule that the first of two irreconcilable contractual provisions governs.

KEY QUOTATIONS

“This legislative history reveals that, in drafting General Obligations Law § 15-301 (1), the Legislature did not intend to interfere with the ability of parties to craft specific contract terms governing their rights; if parties decide to include a “no oral modification” clause in their agreement, the statute is intended to facilitate its enforcement.” (12 N.Y.3d at 167)

“As Green makes clear, when a “no oral modification” clause purportedly conflicts with another clause in a contract, every attempt should be made to harmonize the two provisions using common-law tools of contract interpretation.” (12 N.Y.3d at 167)

“Finally, although we have not been asked to interpret the language in the guaranty, we note that this Court has not endorsed the “first clause governs” view of contract interpretation and we decline to do so now.” (12 N.Y.3d at 168)

FACTUAL BACKGROUND

Michael and Steven Israel entered employment agreements with AMC Computer Corporation and separately received a letter of intent concerning substantial bonus payments. After the bonus obligation was transferred to AMC, Chabra personally guaranteed the payments, subject to an advance-consent clause and a writing requirement concerning later amendments to the employment agreements. AMC later entered revised payment schedules, and Chabra signed those amendments only in his corporate capacity. After AMC stopped making payments, the Israels sought enforcement of the guarantees.

PROCEDURAL HISTORY

Plaintiffs sued in the United States District Court for the Southern District of New York to enforce Chabra's personal guarantees of bonus payments. The District Court granted plaintiffs summary judgment, holding

Chabra personally liable for the remaining balances. The Second Circuit disagreed with aspects of the District Court's analysis and certified a question concerning whether General Obligations Law § 15-301(1) alters the common-law rules for resolving conflicting contract provisions. The New York Court of Appeals accepted and reformulated the question and answered it in the negative.

DISPOSITION

other

CASES CITED

- Beatty v. Guggenheim Exploration Co., 225 N.Y. 380 (1919)
- Cammack v. Slattery & Bro., 241 N.Y. 39 (1925)
- Cochran v. Taylor, 273 N.Y. 172 (1937)
- DFI Communications v. Greenberg, 41 N.Y.2d 602 (1977)
- Green v. Doniger, 300 N.Y. 238 (1949)
- Israel v. Chabra, 537 F.3d 86 (2d Cir. 2008)