

**L-3 Communications Corporation v Safenet, Inc.**

2006 NY Slip Op 30027(U)

September 8, 2006

Supreme Court, New York County

Docket Number: 6\_30060/1686

Judge: Richard B. Lowe

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

PRESENT: Howe  
Justice

PART 5607

L-3 Communications

INDEX NO. 601686/06

MOTION DATE 8/11/2006

MOTION SEQ. NO. 102

MOTION CAL. NO. \_\_\_\_\_

- v -

Safenet, Inc.

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 is

Rendered moot by decision in Motion Sequence 001.

**FILED**  
SEP 21 2006  
NEW YORK  
COUNTY CLERK'S OFFICE

Dated: 9/8/2006

Richard E. Lome III  
J.S.C.

Check one:  FINAL DISPOSITION  NON-FINAL DISPOSITION

Check if appropriate:  DO NOT POST

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

SUPREME COURT OF THE STATE OF NEW YORK  
COUNTY OF NEW YORK : IAS PART 56

-----X  
L-3 COMMUNICATIONS CORPORATION,  
Plaintiff,

Index No. 601686/2006

- against -

**DECISION  
AND ORDER**

SAFENET, INC.,  
Defendant.  
-----X

**RICHARD B. LOWE, III, J.:**

Defendant Safenet, Inc. (Safenet) moves, pursuant to CPLR 3211 (a) (4) and (a) (10), to dismiss the Complaint or, in the alternative, a stay of these proceedings for, *inter alia*, breach of contract and fraudulent inducement.

**BACKGROUND**

Plaintiff L-3 Communications Corporation (L-3) entered into a Joint Development and License Agreement (the "License Agreement") with Cylink in March 2001. At that time, Cylink had no affiliation with Safenet. In February 2003, Cylink became a wholly-owned Safenet subsidiary.

Pursuant to that License Agreement, Cylink gave L-3 a license to use Cylink's "NetHawk" technology, which enables one to send secure communications between nodes of a network, such as the internet. Under the terms of the License Agreement, Cylink gave L-3 an exclusive license to use Cylink's NetHawk technology to develop and bring to market an encryptor, which uses classified encryption algorithms and cannot be sold, or even developed, without advance permission from the National Security Agency (NSA). L-3 agreed to pay royalties on its sales. In December 2003, Cylink and L-3 amended the License Agreement to make L-3's license to use NetHawk technology

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perpetual, and to convert L-3's obligation to pay quarterly royalties on its sales into a lump-sum, one-time payment.

Meanwhile, in June 2002, the United States Department of Defense (DOD), through its Maryland Procurement Office, entered into a Memorandum of Agreement with a company called Mykotronx, Inc. (Mykotronx), a company based in California, to develop secure telecommunications equipment for the DOD, including an encryptor known as KIV-7M. This KIV-7M was designed in compliance with the DOD's "Crypto Modern" initiative and in conformance with the DOD's Link Encryptor Family Interoperability Specification (LEFIS). This encryptor also uses classified encryption algorithms and that, like other kinds of such equipment, cannot be developed or sold without the approval of the NSA.

Mykotronx was a subsidiary of a company called Rainbow Technologies, Inc (Rainbow Technologies). Until 2004, these companies had no affiliation with SafeNet. In 2004, two years after Mykotronx entered into the Memorandum of Agreement, Rainbow Technologies was acquired by SafeNet and was held as a wholly-owned SafeNet subsidiary until December 2005, at which time Rainbow Technologies merged into SafeNet. Mykotronx then became a wholly-owned subsidiary of SafeNet, but with its own structure, facilities, technologies, directors, officers, and offices.

In 2005, once the encryptor developed by Mykotronx under the 2002 Memorandum of Agreement - the KIV-7M - had been fully certified, the DOD, through its Maryland Procurement Office, entered into a so-called Indefinite Delivery/Indefinite Quantity contract with Mykotronx to purchase up to \$150 million worth of KIV-7Ms and accessories. Mykotronx is the only company in the world that offers this encryptor, in full compliance with the LEFIS and the DOD Crypto

Modern initiative, and serves a vital national security market that cannot be served by any other product.

In 2004, the DOD, through its Maryland Procurement Office, amended the 2002 Memorandum of Agreement with Mykotronx, allowing Mykotronx to develop a network adapter card that can be used with the KIV-7M to give the KIV-7M the ability to encrypt network communications.

In April 2006, L-3 sent a letter accusing SafeNet of violating L-3's exclusive license by using NetHawk technology in the KIV-7M and the development of this network adapter card. L-3 also claims that SafeNet orally agreed to be bound by a non-competition provision in L-3's License Agreement with Cylink when that Agreement was amended in 2003, and that sales of the KIV-7M and the development of the network adaptor card were prohibited by that non-competition provision. SafeNet sought to assure L-3 that Mykotronx was not using NetHawk technology in the KIV-7M nor in the development in the network adapter card to be used with the KIV-7M. However, because of its agreement with the DOD, SafeNet and Mykotronx brought suit on May 8, 2006 against L-3 in the State of Maryland for a declaratory judgment. Plaintiff L-3 has a motion to dismiss pending as to that litigation.

The plaintiff commenced this action by filing a Summons and Complaint, dated May 11, 2006. The plaintiff alleges four causes of action: breach of contract (first and second causes of action); fraudulent inducement (third cause of action), and; breach of forum selection provision (fourth cause of action).

## DISCUSSION

The defendant moves to dismiss the Complaint pursuant to CPLR 3211 (a) (4) and (a) (10), or, in the alternative, stay this action pending an outcome in an action filed in Maryland. Basically, the defendant argues that because there is an action filed and pending in Maryland first, this action should be dismissed or at least stayed pending a resolution pursuant to CPLR 3211 (a) (4). The defendant also avers that the plaintiff failed to join a necessary party to this litigation, and, under CPLR 3211 (a) (10), the court should dismiss this action. The court entertains the motion to dismiss pursuant to CPLR 3211 (a) (4) prior to reviewing the motion to dismiss pursuant to CPLR 3211 (a) (10).

### I. CPLR 3211 (a) (4)

SafeNet moves to dismiss the Complaint, or, in the alternative, stay this action, pursuant to CPLR 3211 (a) (4) because SafeNet, as a plaintiff in the Maryland action, filed suit against L-3 in a Maryland state court prior to the institution of this action in this court over the same contractual agreement at issue here. L-3 argues that, while the Maryland action was first filed, this action is required to be maintained in New York and dismissed in Maryland pursuant the forum selection clause found in the License Agreement.

Pursuant to CPLR 3211 (a) (4), the party may move to dismiss the Complaint where “there is another action pending between the parties for the same cause of action in a court of any state or the United States.” There is no dispute that SafeNet filed an action in Maryland prior to the institution of this action, nor is there any question that both actions involve the interpretation and allege breaches of the License Agreement at issue. Thus, pursuant to CPLR 3211 (a) (4), a motion

to dismiss ought to be granted because there is another action pending concerning the same facts and circumstances.

Here, the plaintiff avers that the forum selection clause requires the maintenance of this action in New York, arguing that the parties selected the courts of New York as the exclusive forum to hear disputes arising from this agreement. The defendant conversely argues that while there is a forum selection clause, the clause is not a mandatory clause requiring the selection of a particular court in New York, but a permissive clause allowing the parties to select any court in the United States.

The forum selection clause found in the License Agreement reads:

**Governing Law.** This Agreement shall be governed in all respects, including as to validity, interpretation and effect, by the internal laws of the State of New York without giving effect to the conflict of choice of laws rules thereof. *The Parties hereby irrevocably submit to the non-exclusive jurisdiction of the courts of the State of New York and the federal courts of the United States of America located in the Southern District of New York solely in respect of the interpretation and enforcement of the provisions of this Agreement and of the documents referred to in this Agreement, and hereby waive and agree not to assert as a defense in any action, suit or proceeding for the interpretation or enforcement hereof or of any such document, that it is not subject thereto or that such action, suit or proceeding may not be brought or is not maintainable in said courts or that the venue thereof may not be appropriate or that this Agreement or any of such documents may not be enforced in or by said courts. All claims with respect to such action or proceeding shall be heard and determined in such a New York state or federal court.* The parties hereby consent to and grant any such court jurisdiction over the person of the Parties and over the subject matter of any such dispute.

(See License Agreement § 8.6 [emphasis added]).

The court will not reach the issue regarding the interpretation of the governing law as the very same issue is the subject of a motion before the Maryland court. The claims asserted and

the issues involved are identical in each action. It is well settled law that courts are to follow the “first-filed” rule and grant priority to the earlier filed action (*White Light Productions v On The Scene Productions, Inc.*, 231 AD2d 90, 93 [1st Dept 1997]). The Maryland action was filed and served four days before plaintiff’s service and filing in New York. The Maryland court is also considering a motion to dismiss which requires an interpretation of the governing law clause. Were this court to review the issue, there is a risk of inconsistent conclusions. Therefore, on these grounds, the action is most appropriately stayed or dismissed.

## II. CPLR 3211 (a) (10)

The defendant also moves to dismiss this action pursuant to CPLR 3211 (a) (10) for failure on the part of the plaintiff to bring in Mykotronx, which the defendant claims is a necessary party. Here, the defendant argues that Mykotronx is a necessary party and, as such, should have been brought into this litigation. The plaintiff, conversely, argues that Mykotronx need not be brought into this litigation because this is a dispute over the License Agreement and because the products at issue, the KIV-7M and accessories, are SafeNet’s products. As well, the plaintiff avers that Mykotronx is not a necessary and indispensable party because the interests of its parent would encompass that of the subsidiary. The court finds plaintiff’s argument unconvincing.

In a motion to dismiss pursuant to CPLR 3211 (a) (10), a party may move to dismiss based upon the fact there is an “absence of a person who should be a party.” Pursuant to CPLR 1001 (a), a party “who might be inequitably affected by a judgment in the action shall be” enjoined.

Here, the plaintiff points to the Form 8-K filed with the United States Securities and Exchange Commission and a SafeNet press release to suggest that the KIV-7M and related accessories are SafeNet’s creations and not of Mykotronx. As such, the plaintiff argues, these

demonstrate that these products are within SafeNet's authority and, therefore, the defendant's argument as to joining a necessary party is inapplicable. While the plaintiff alleges that KIV-7M and accessories are the products of SafeNet, it cannot be doubted that the products at issue are Mykotronx's products. The Memorandum of Agreement with the Maryland Procurement Office of the DOD for the creation of the KIV-7M was entered into by the DOD and Mykotronx alone. As well, the agreement to develop related items to the KIV-7M is also signed between the DOD and Mykotronx alone. These agreements aptly exhibit Mykotronx's control over these products. Though Mykotronx may be a subsidiary of SafeNet, only Mykotronx has the authority to create, maintain, and properly use the KIV-7M and related accessories.

Here, what L-3 seeks in its breach of the Licensing Agreement cause of action is to basically bar Mykotronx from selling the KIV-7M and related accessories because L-3 claims that these products contain "NetHawk" technology. Indeed, this claim shows the indispensability of Mykotronx in this action. While the plaintiff claims that SafeNet can adequately protect Mykotronx's interests and, as well, suggests that Mykotronx could seek to intervene, such arguments are inapposite where the "parent [and] subsidiary or affiliated corporations are treated separately and independently" (*Alexander & Alexander, Inc. v Fritzen*, 114 AD2d 814, 815 [1st Dept 1985]; see also *Meshel v Resorts Int'l of New York, Inc.*, 160 AD2d 211, 213 [1st Dept 1990]). Here, the plaintiff has not shown that SafeNet completely dominates and controls Mykotronx's corporate form to warrant such a finding or disregard for the non-party in this action (*id.*). As such, the plaintiff is required to join Mykotronx in this action and has failed to.

Finally, because this court has no jurisdiction over Mykotronx - it has no contacts with this state - the court finds that the court in Maryland would be a more suitable forum to resolve such

issues since the court in Maryland would plainly have jurisdiction over this matter. Accordingly, the court grants the motion to dismiss for failure to join a necessary party (*accord Greenspan v O'Rourke*, 27 NY2d 846 [1970]).

**CONCLUSION**

Based on the foregoing, it is hereby

ORDERED that defendant Safenet, Inc.,'s Motion to Dismiss is granted and the Complaint is dismissed with costs and disbursements as taxed by the clerk of the court; and it is further

ORDERED that the clerk of the court is directed to enter judgment.

THIS CONSTITUTES THE DECISION AND ORDER OF THE COURT.

**Dated:** September 8, 2006

**ENTER:**



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

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