Matter of SSL International, PLC v Zook
2006 NY Slip Op 30711(U)
July 7, 2006
Sup Ct, New York County
Docket Number: 103033/06
Judge: Faviola A. Soto

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SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK : IAS PART 7

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In the Matter of the Application of SSL INTERNATIONAL, PLC, SSL HOLDINGS, INC., SSL AMERICAS, INC., SSL AUSTRALIA, PTY and LANGER, INC.,

Petitioners,

INDEX NO. 103033/06

For an Order Pursuant to CPLR 7503(b) Staying Arbitration

-against-

GERALD P. ZOOK,

DECISION & ORDER

Respondent.

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HONORABLE FAVIOLA A. SOTO, J.:

Petitioners brought this proceeding to stay an arbitration proceeding demanded by respondent Gerald P. Zook ("Zook") pursuant to his license agreement with Silipos, Inc. ("Silipos").

Zook cross-moves pursuant to CPLR 7503(a) and the Federal Arbitration Act to compel the arbitration.

In the 1997 license agreement at issue Zook granted Silipos an exclusive license to sell and manufacture various products subject to patents owned by him. Subsequently, one or more of the affiliated SSL petitioners ("SSL") gained ownership of Silipos. Petitioner Langer in turn acquired Silipos from SSL. Thereafter, Zook demanded arbitration against petitioners and Silipos of his claim for unpaid royalties under the license agreement. This proceeding ensued.

Petitioners' position is that they cannot be compelled to arbitrate because they were not

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parties or signatories to the license agreement. Zook counters that petitioners are subject to the agreement's arbitration provision because they are affiliates of Silipos and have derived a direct benefit from his inventions by obtaining from Silipos the right to use them in their own products.

The license agreement is explicitly binding on all "heirs, administrators, successors, ... assigns[,] ... subsidiaries and affiliates of the parties" (¶ 25). Additionally, the agreement, which requires Zook's prior written consent to any assignment (¶ 22.1), specifically provides that "[a]ny assignment or transfer of the rights granted" thereunder "shall be subject to [Zook's] rights ... under th[e] [a]greement; and any assignee or transferee shall be bound to all the terms, conditions and obligations" of the license agreement (¶ 22.2), including the broad arbitration clause which provides that all disputes "arising out of or related to" the agreement "shall be determined by binding arbitration ... in the state of New York in accordance with the Commercial Arbitration Rules of the American Arbitration Association" (¶ 15.1).

The general rule is that only a party that has clearly indicated an intent to be bound by an arbitration provision will be compelled to arbitrate (see TNS Holdings Inc. v. MKI Securities Corp., 92 NY2d 335, 339 [1998]; Matter of Marlene Industries Corp. [Carnac Textiles, Inc.], 45 NY2d 327, 333-334 [1978]). However, "[w]hile it is well settled that a party may not be compelled to arbitrate in the absence of an agreement to do so ..., the fact that [respondent] was not a signatory to the ... agreement[] which contain[s] the agreement to arbitrate is not dispositive" (Matter of Lubin & Schlesinger, Inc. [Scheinberg], 234 AD2d 203, 204 [1st Dept 1996], lv den 89 NY2d 814 [1997], citations omitted).

Although the mere fact that petitioners are affiliates of Silipos and the license agreement binds Silipos' affiliates is not enough to estop them from avoiding arbitration (see Thomson-CSF,

SA v. American Arbitration Association, 64 F3d 773 [2d Cir 1995]), "[t]here are five theories 'for binding nonsignatories to arbitration agreements: (1) incorporation by reference; (2) assumption; (3) agency; (4) veil piercing/alter ego; and (5) estoppel'" (MAG Portfolio Consultant, GMBH v. Merlin Biomed Group LLC, 268 F3d 58, 61 [2d Cir 2001], citing Thomson-CSF, SA v. American Arbitration Assn, supra, 64 F3d at 776; see also In re Corporacion Selee de Venezuela, S.A. [Selee Corporation], 7 Misc 3d 1013(A) [Sup Ct, NY Co, Lippmann, J, 2005]).

Estoppel squarely fits the facts alleged by Zook in his affidavit. "Under the estoppel theory, a company knowingly exploiting an agreement with an arbitration clause can be estopped from avoiding arbitration despite having never signed the agreement" (MAG Portfolio v. Merlin Biomed, supra, 268 F3d at 61). "Put another way, equitable estoppel applies ... when each of a signatory's claims against a nonsignatory makes reference to or presumes the existence of the written agreement, the signatory's claims arise out of and relate directly to the written agreement, and arbitration is appropriate'" (Hoffman v. Finger Lakes Instrumentation, LLC, 7 Misc 3d 179, 185 [Sup Ct, Monroe Co, Fisher, J, 2005], citing Grigson v. Creative Artists Agency, LLC, 210 F3d 524, 527 [5th Cir 2000], rehearing den 218 F3d 745 [2000], cert den 531 US 1013 [2000]).

To the extent that petitioners' counsel argues against the application of the estoppel theory on the substantive ground that petitioners' commercial exploitation of Zook's patents and inventions is outside the scope of the license agreement, that argument is properly raised before the arbitrators. "[U]nder the FAA, 'any doubts concerning the scope of arbitrable issues should be resolved in favor of arbitation, whether the problem at hand is the construction of the contract language itself or an allegation of waiver, delay, or a like defense to arbitrability.'... This

principle is based upon the fact that the FAA is an expression of 'a strong federal policy favoring arbitration as an alternative means of dispute resolution" (JLM Industries, Inc. v. Stolt-Nielsen SA, 387 F3d 163, 171 [2d Cir 2004]).

Accordingly, it is

ORDERED and ADJUDGED that petitioners' application is denied and the petition is dismissed; and it is further

ORDERED that respondent's cross-motion is granted to the extent that petitioners are directed to proceed to the arbitration demanded by respondent in accordance with the license agreement.

This decision constitutes the decision, order and judgment of the court.

DATED: New York, New York
July 7, 2006

FAVIOLA A. SOTO, J.S.C.

Copies mailed

Clerk