

Discovision Assoc. v Fuji Photo Film Co.

2008 NY Slip Op 31697(U)

May 23, 2008

Supreme Court, New York County

Docket Number: 0601859/2007

Judge: Herman Cahn

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PRESENT: Cahn

PART 49

Index Number : 601859/2007
DISCOVISION ASSOCIATES
 vs.
FUJI PHOTO FILM CO.,
 SEQUENCE NUMBER : # 004
 DISMISS

ice

INDEX NO.

601859-07

MOTION DATE

MOTION SEQ. NO.

#004

MOTION CAL. NO.

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

FILED

MAY 30 2008

COUNTY CLERK'S OFFICE
NEW YORK

**MOTION IS DECIDED IN ACCORDANCE
WITH ACCOMPANYING MEMORANDUM
DECISION IN MOTION SEQUENCE**

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

Dated: May 23, 2008

Aen Cahn

J.S.C.

Check one: FINAL DISPOSITION NON-FINAL DISPOSITION

Check if appropriate DO NOT POST REFERENCE

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK: 1AS PART 49

-----X

DISCOVISION ASSOCIATES,

Plaintiff,

-against-

Index No. 601859/07

FUJI PHOTO FILM CO., LTD., FUJIFILM
U.S.A., INC., FUJIFILM RECORDING MEDIA
MFG. U.S.A., INC., FUJI MAGNETICS GMBH,

Defendants.

FILED
MAY 30 2008

COUNTY CLERK'S OFFICE
NEW YORK

HERMAN CAHN, J.:

Defendants Fujifilm U.S.A., Inc. (Fuji USA) and Fujifilm Recording Media Mfg. U.S.A., Inc. (RMM) move to dismiss the complaint as against them, CPLR 3211 (a) (7).

FACTS

Plaintiff Discovision Associates (DVA) brings this breach of contract action against Fuji Photo Film Co., Ltd. (Fuji) and its affiliates, Fuji USA, RMM, and Fuji Magnetics GMBH (Fuji Gm). Fuji and DVA signed a non-exclusive patent licensing agreement for disc products (e.g., CDs and DVDs) and recordable media (e.g., DVD-RWs).

Fuji removed the action to the U.S. District Court for the Southern District of New York. On August 30, 2007, the District Court (Crotty, J.) remanded the action to this court based on the fact that Fuji USA is a New York citizen, and RMM is a Delaware corporation, as are DVA's principals. Defendants now seek dismissal of the action against Fuji USA and RMM in order to enable the action to be removed to the federal court. Defendants contend that those two

defendants are not proper parties to the action because they are not signatories to the agreement, nor are they affiliates listed in Appendix B to the agreement.

The agreement states that Fuji has produced and sold, and intends to continue producing and selling, products which may embody patented inventions covered by DVA patents. The agreement further states that the parties entered into the agreement in order to avoid potential disputes over infringement of DVA patents and determination of royalties due on past, present and future sales. *Lobenfeld Aff.*, Ex. 1, ¶¶ 1.3, 1.5.

Fuji is the only signatory to the agreement. However, Fuji represents in the agreement that the only existing affiliates, as of the effective date of the contract, are listed in Appendix B. *Id.*, ¶ 4.2. That appendix lists only one affiliate, which is not a defendant in this action. The agreement further provides that the affiliates listed are sublicensees, and that Fuji has the power to bind each such affiliate to the terms and conditions of the agreement, and that it would take whatever action is necessary to legally bind such affiliates. *Id.*, ¶ 3.3. Sublicenses would be granted to additional affiliates upon DVA receiving written notice from Fuji setting forth the names and addresses of the additional affiliates, “provided each such notice is given before any sales of Licensed Products by the Affiliate named therein.” *Id.*

The contract provides that Fuji is responsible to pay royalties for each recordable media, video disc, or digital disc which is manufactured, used, leased, sold and/or transferred by or for Fuji and/or its affiliates. The contract does not limit that obligation to affiliates which are sublicensees, but states only “affiliates.” *Id.*, ¶¶ 5.3, 5.4.

In the complaint, DVA alleges that Fuji and its affiliates breached their obligations by failing and refusing to report every “manufacture, use, lease (rent), sale and/or transfer” of

licensed products as required by section 6 of the agreement, and failing to pay royalties as required by section 5 of the agreement. The first cause of action seeks an accounting from Fuji and its affiliates; the second seeks specific performance; the third seeks a preliminary and permanent injunction enjoining Fuji and its affiliates from manufacturing, using, leasing (renting), selling or transferring any licensed product without timely reporting all such activity and paying royalties as required pursuant to the agreement; and the fourth seeks damages for breach of contract.

DISCUSSION

In this pre-answer motion to dismiss, the court must construe the complaint, the contract and any inferences from them in favor of the plaintiff. *Gorelik v Mount Sinai Hosp. Ctr.*, 19 AD3d 319 (1st Dept 2005); *Anguita v Koch*, 179 AD2d 454 (1st Dept 1992). In construing a contract, a “court should give effect to the intent of the parties as revealed by the language and structure of the contract . . . and should ascertain such intent by examining the document as a whole.” *Reda v Eastman Kodak Co.*, 233 AD2d 914, 914 (4th Dept 1996); *see also 150 Broadway N.Y. Assoc. v Bodner*, 14 AD3d 1 (1st Dept 2004).

Here, the document as a whole reveals that the parties intended to avoid disputes regarding possible patent infringement by providing for a manner in which Fuji and its affiliates would pay royalties to DVA, and account for their production and sale of the licensed items. The listed affiliate on Appendix B to the contract was not intended to restrict the agreement to that entity, but to reveal any affiliates of Fuji. Fuji specifically represented that all affiliates were identified in that appendix. Thus, the contract, *ab initio*, was intended to cover Fuji and all affiliates. At this stage, it is unclear whether Fuji USA or RMM were in existence at the time the

contract was entered into, or whether they were affiliates of Fuji at that time. It is also unclear whether or not Fuji ever provided the names of the moving defendants to DVA.

While it is true, as defendants argue, that generally a contract binds only the signatory, where the signatory has the authority to bind its affiliates, those affiliates can also be bound. *Credit Index, LLC v RiskWise Intl., LLC*, 192 Misc 2d 755, 760 (Sup Ct, NY County), *aff'd* 296 AD2d 318 (1st Dept 2002). Here, Fuji represented that it could bind its affiliates, and further represented that it would take whatever action was necessary to bind its affiliates. Further, Fuji agreed to provide information regarding the sale, manufacture and use of licensed products, as well as pay royalties for such products, without regard to whether the affiliates involved were sublicensees. Consequently, the contract can be construed to mean that Fuji bound its affiliates, whether sublicensees or not, to provide information regarding the sale, manufacture and use of licensed items. Under such circumstances, even if the affiliates were not bound to make payments, they would be required to report to DVA, and to allow DVA to audit their records.

The contract does not address the issue of affiliates that are not disclosed. However, in giving effect to the purpose of the contract, it would not seem that the court can, at this point, determine that any affiliate not disclosed would thereby be sheltered from a requirement to reveal its activities involving items covered by the patent which is the subject of the license. As noted by Judge Crotty in his opinion, that would enable Fuji to hide its activities, and evade its obligation to pay royalties required under the contract by creating affiliates without notifying DVA, and shifting its dealings regarding the licensed products to those affiliates. *Lobenfeld Aff.*, Ex. A, at 7 n 3. That, obviously, would circumvent the purpose of the contract, and violate both sections five and six of the contract. The court refuses, at this time, to construe the contract in a

manner that is at such apparent odds with the purpose of the contract.

Consequently, at this juncture, it would be premature to allow the moving defendants to be dismissed from the action.

CONCLUSION

Accordingly, it is

ORDERED that the motion to dismiss is denied; and it is further

ORDERED that the clerk shall enter judgment accordingly.

Dated: May 23, 2008

ENTER:

J.S.C.

FILED
MAY 30 2008
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NEW YORK