

Discovision Assoc. v Fuji Photo Film Co.

2008 NY Slip Op 32353(U)

August 12, 2008

Supreme Court, New York County

Docket Number: 0601859/2007

Judge: Herman Cahn

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

PRESENT: Cahn

PART 49

Index Number : 601859/2007

DISCOVISION ASSOCIATES

vs

FUJI PHOTO FILM CO.,

Sequence Number : 005

DISMISS ACTION

INDEX NO. _____

MOTION DATE _____

MOTION SEQ. NO. _____

MOTION CAL. NO. _____

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

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

FILED

AUG 19 2008

COUNTY CLERK'S OFFICE
NEW YORK

Dated: 8/12/08

[Signature]

J.S.C.

Check one: FINAL DISPOSITION NON-FINAL DISPOSITION

Check if appropriate: DO NOT POST REFERENCE

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 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.

-----X

FUJIFILM CORPORATION,

Third Party Plaintiff,

-against-

Index No. 591099/07

PRODISC TECHNOLOGY, INC., RITEK
CORPORATION, DAXON TECHNOLOGY, INC.,

Third Party Defendants.

-----X

HERMAN CAHN, J.:

Third-party defendants Prodisc Technology, Inc., Ritek Corporation (Ritek) and Daxon Technology, Inc. move to dismiss and/or stay the third-party action on the grounds of lack of personal jurisdiction and an arbitration agreement between the parties, CPLR 3211 (a).

FACTS

In the main action, plaintiff Discovision Associates contends that defendants breached a non-exclusive patent licensing agreement relating to optical media, which was entered into in

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1995 by Discovision and defendant Fuji. In the third-party action, Fuji seeks contractual and common-law indemnification from the third-party defendants who supply the optical media which is the subject of the breach of contract claims.

Fuji is a Japanese corporation with its principal place of business in Tokyo, Japan. Ritek is a Taiwanese corporation with its principal place of business in Hsin-Chu Industrial Park, Taiwan. Prodisc is a Taiwanese corporation with its principal place of business in Taipei Hsien, Taiwan. Daxon is a Taiwanese corporation with its principal place of business in Guishan, Taoyuan 333, Taiwan. Ritek and Daxon contend that the Court lacks personal jurisdiction over them, and must dismiss the claims against them on that ground.

Additionally, all third-party defendants maintain that Fuji's claims are subject to arbitration, and that the Court must, therefore, dismiss or stay Fuji's claims against Prodisc. The arbitration agreement provides an alternative basis for dismissing the claims against Ritek and Daxon.

Each of the three third-party defendants entered into purchase agreements with Fuji's subsidiary, Hong Kong Fuji PhotoLogistics Limited, now named Fujifilm Hong Kong Limited (Fuji Hong Kong). Pursuant to the purchase agreements, Fuji Hong Kong agreed to purchase optical storage media from each third-party defendant. The agreements provide:

No modification, amendment, supplement to, or waiver of this Agreement shall be binding upon the parties hereto unless made in writing and duly signed by the parties hereto.

* * *

The parties shall use all reasonable efforts to resolve amicably any dispute that may arise concerning this Agreement through direct discussions. In the event that any dispute is not resolved by the foregoing procedure in a reasonable period, such disputes arising out

of or in connection with this Agreement shall be finally settled by arbitration by three arbitrators conducted in English language

Purchase Agreement, ¶¶ 13.2, 13.6. Arbitration was to be held in Japan or Taiwan, depending on which company was involved. The parties' agreements were to be construed in accordance with New York law. Fuji commenced the third-party action without seeking to arbitrate its claims against any of the third-party defendants.

Fuji contends that, on December 29, 2005, Daxon sent Fuji's Taiwanese counsel a letter in which it agreed to exercise its best efforts to assist Fuji in the event it was sued by Discovision. Fuji does not include a copy of that letter. Fuji states that in a follow-up telephone call, Kevin Chen of Daxon stated that Daxon would indemnify Fuji.

Fuji includes a letter from Prodisc, dated October 2, 2006, in which Prodisc agreed to be "solely liable for all legal consequences, including claims, lawsuits, complaints . . . resulting from the importation, distribution or sales of all these Prodisc-made CD-R, DVD-R, DVD-RW, and DVD+R products" It further agreed to be "solely liable for the any [*sic*] such legal consequences . . . arising out of or relating to any allegation that the Prodisc-made . . . products infringe the patents, trademarks, trade secrets, and/or other intellectual property of any party" Wolinsky Aff., Exh. T.

Fuji avers that it was in communication with the third-party defendants throughout 2006-2007, and notified them of the within lawsuit, and reminded them of their commitment to defend and indemnify Fuji. It further maintains that it wrote to all three third-party defendants in July 2007, to notify them that it had filed the third-party complaint, and met with each of them in October to discuss the litigation. Fuji states that representatives of each of the companies said that

they would assist in showing that their products did not violate the patents.

Prodisc does not deny that New York can exercise jurisdiction over it, and is not challenging the third-party complaint on the basis of jurisdiction.

Daxon maintains that it has never transacted business in New York or any other jurisdiction in the United States. It has not contracted to supply products in New York, has no branch office or subsidiary in New York, has no agents, bank accounts, property or leases in New York, and has no contract with any Fuji entity doing business in New York.

Fuji contends that Daxon, as a member of the BenQ group, has corporate affiliations that could permit jurisdiction to be asserted over it. The BenQ Group is a group of 12 companies that share resources and leverage synergies. It has a sales office in Irvine, California, and its website lists retailers throughout New York that sell BenQ products.

Ritek also claims that it never transacted business in New York or contracted to supply products in New York. It does not own any bank account, property or leases in New York. Nor does it have any branch office, representative agent or subsidiary in New York. Ritek owns a British Virgin Islands corporation which owns a California corporation named Advanced Media, Inc. (AMI). Ritek contends that AMI is an entirely separate entity from Ritek. AMI currently sells Ritek products, and plans to sell products from other suppliers as well.

Fuji notes that Ritek's website refers to AMI as Ritek's American branch office, and trades under the name Ritek USA. While Ritek asserts that AMI plans to sell products from other suppliers, it currently sells only Ritek products. Fuji contends that Ritek USA sells or has sold Ritek's products through retailers such as OfficeMax, RadioShack, Walmart and Microcenter, which collectively have hundreds of locations throughout New York State. Ritek USA also

solicited customers during at least two trade shows that took place at the Jacob Javits Convention Center in New York City. Fuji avers that Ritek has other American subsidiaries and affiliates as well. It does not, however, proffer evidence to that effect.

DISCUSSION

Jurisdiction

Ritek and Daxon contend that they are not doing business in New York, as defined in CPLR 301, nor have they transacted business in New York out of which this controversy arose, as defined in CPLR 302. Moreover, they assert that they do not even have minimal contacts with New York which would be necessary in order to meet due process requirements established under the United States Constitution. *See Hanson v Denckla*, 357 US 235 (1958). Therefore, Ritek and Daxon seek dismissal of the third-party complaint, as against them, for lack of personal jurisdiction.

Fuji seeks an order granting it discovery so that it can establish that this court can assert jurisdiction over Ritek and Daxon. Fuji maintains that the corporate affiliates and subsidiaries that they have been able to locate from public sources demonstrate a sufficient start that would justify enabling Fuji to seek discovery on the jurisdictional issue. Further, Fuji asserts that the agreements that Ritek and Daxon made to defend and indemnify Fuji are, by themselves, a sufficient basis to assert jurisdiction.

With respect to Fuji's assertions regarding Ritek and Daxon's alleged agreements to defend and indemnify it, its position is unconvincing. Initially, the Court notes that Fuji has not submitted any evidence that either corporation made such a written agreement. Second, Fuji does not assert that any such agreement provided that Ritek or Daxon would perform any service in

New York. The cases upon which Fuji relies all involved defendants who agreed to perform services in New York. *See Skrabalak v Rock*, 208 AD2d 1100, 1102 (3d Dept 1994); *A.I. Trade Fin. v Petra Bank*, 989 F2d 76 (2d Cir 1993); *Chemco Intl. Leasing v Meridian Eng'g*, 590 F Supp 539 (SDNY 1984).

In order to have a court assert jurisdiction over a non-domiciliary defendant, a plaintiff must establish that the defendant is either doing business in New York, or transacts business out of which the cause of action arose. CPLR 301, 302. Here, there is no assertion that either Ritek or Daxon does business in New York, or that they transacted business in New York out of which the underlying cause of action arose. Fuji relies on subsidiaries and affiliates of Ritek and Daxon to justify asserting jurisdiction over them.

While it is true that, in certain circumstances, a defendant can be subject to jurisdiction here based upon the activities of a subsidiary or affiliate, before such jurisdiction can be asserted, not only must the connection between the two entities justify a conclusion that the defendant was doing business through the subsidiary or agent, but that subsidiary or agent must itself be subject to the jurisdiction of this Court. Fuji has not made any such showing. Rather, Fuji acknowledges that both entities, AMI and BenQ, are based in California. The only connection that Fuji has offered is that products that they sell are available in various large retail stores in New York. However, the fact that national chains like Walmart and OfficeMax sell products distributed by AMI or BenQ does not establish that either entity is doing business in New York that would subject it to New York jurisdiction, much less on a matter that does not arise out of such sales. *See Andrew Greenberg, Inc. v Sir-Tech Software, Inc.*, 297 AD2d 834, 837 (3d Dept 2002); *see also Burger King Corp. v Rudzewicz*, 471 US 462, 475 (1985). Fuji's bald assertion that BenQ

“unquestionably does business throughout New York,” without any supporting evidence, does not suffice to demonstrate BenQ’s presence in New York. Thus, even if Fuji presented some basis to believe that BenQ and AMI were mere departments of Daxon and Ritek, Fuji has still failed to demonstrate sufficient facts that would warrant permitting Fuji to obtain discovery from the third-party defendants.

Arbitration Clause

Fuji contends that each of the third-party defendants entered into a collateral agreement with it to assist in the defense and to provide indemnification with respect to Discovision’s claims, and those commitments were not subject to an arbitration provision. Therefore, Fuji maintains that the arbitration provision does not apply to this matter.

Since the Court does not have jurisdiction over Ritek or Daxon, this issue, with respect to them, is moot. The Court notes, however, that Fuji has not submitted any evidence that either Ritek or Daxon executed a written amendment to the purchase order agreement. Such written amendment would be required in order for it to be enforced. Thus, if the Court had jurisdiction over Ritek and Daxon, the complaint, as against them, would probably still have to be dismissed because of the arbitration provision.

Fuji submits a letter from Prodisc, in which Prodisc agrees to accept certain liability if Fuji were sued. Fuji contends that this letter constitutes a specific commitment to defend and indemnify it with respect to Discovision’s claims, and does not contain an arbitration clause.

Prodisc asserts that the letter provided to Fuji arose out of allegations by Koninklijke Philips Electronics N.V., and was never meant to modify the purchase agreement with Fuji. Further, the letter did not state that it would indemnify Fuji for any action brought by Discovision;

it was limited to losses arising out of claims that Prodisc's products infringed on the patents of another party. Additionally, it was not signed by all the parties.

The letter submitted by Fuji is not signed by all the parties to the purchase agreement. Therefore, by the clear terms of the purchase agreement, it cannot modify that agreement. Consequently, even if the letter would otherwise permit Fuji to avoid arbitration, the failure of all parties to sign it precludes any modification of the purchase agreement. Additionally, as noted by Prodisc, the letter stated only that it would indemnify Fuji for claims based upon patent infringement. The complaint in the main action does not assert patent infringement. It asserts breach of a licensing agreement. Discovision and Fuji entered into that agreement, in part, to avoid determining whether or not there was patent infringement. Thus, Discovision's instant action does not fall within the parameters of the letter.

Fuji contends that there are conditions precedent to arbitration which have not been fulfilled and, therefore, it is not obligated to arbitrate the parties' dispute. It avers that there has been cooperation among the parties, and none of the parties ever indicated that there was any dispute. It further asserts that third-party defendants have not used all reasonable efforts to resolve any dispute amicably, which is a required precondition to any dispute being arbitrable.

Fuji's assertion that there is no dispute is rebutted by the fact that third-party defendants have disputed Fuji's version of the events. The assertion that it can avoid arbitration by asserting that not all reasonable efforts have been made to resolve the dispute amicably is similarly unconvincing. The agreement does not provide that arbitration cannot be held until all reasonable efforts have been made. It provides that if any dispute is not resolved, any such dispute shall be finally settled by arbitration. The stated preferences of resolving matters amicably was not

intended to permit Fuji to litigate the matter in court rather than to submit to arbitration by the mere expedient of asserting that not all reasonable effort was made to resolve the matter. Neither the language of the agreement, nor the underlying intent, can be construed to reach such a result. Consequently, Fuji has failed to demonstrate that it is not bound by the arbitration agreement.

In the event that Fuji commences an arbitration proceeding against Prodisc, which proceeding cannot reasonably expeditiously be held, through no fault of Fuji, the parties are granted leave to seek reargument of this motion as to Prodisc.

CONCLUSION

Accordingly, it is hereby

ORDERED that the motion of third-party defendants is granted as follows:

(i) the third-party complaint is dismissed as against defendants Ritck Corporation and Daxon Technology, Inc. for lack of personal jurisdiction;

(ii) the third-party action is stayed as against Prodisc Technology, Inc. pending the outcome of arbitration between Fuji and Prodisc; and it is further

ORDERED that the main action shall continue.

Dated: August 12, 2008

FILED
AUG 19 2008
COUNTY CLERK'S OFFICE
NEW YORK

ENTER:

Alan Cook

J.S.C.