

Axios Prod., Inc. v Time Mach. Software, Inc.

2010 NY Slip Op 32772(U)

October 4, 2010

Supreme Court, Suffolk County

Docket Number: 13825/10

Judge: Elizabeth H. Emerson

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SHORT FORM ORDER

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NO.: 13825-10

**SUPREME COURT - STATE OF NEW YORK
COMMERCIAL DIVISION
TRIAL TERM, PART 44 SUFFOLK COUNTY**

COPYPRESENT: Honorable Elizabeth H. Emerson_____
AXIOS PRODUCTS, INC., x

Plaintiff,

-against-

TIME MACHINE SOFTWARE, INC.,

Defendant.

xMOTION DATE: 6-3-10
SUBMITTED: 7-29-10
MOTION NO.: 001-MOT D
002-XMD

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Upon the following papers numbered 1 24 read on this motion for preliminary injunction and cross-motion to dismiss ; Order to Show Cause and supporting papers 1-11 ; Notice of Cross Motion and supporting papers 12-20 ; Answering Affidavits and supporting papers 21-23 ; Replying Affidavits and supporting papers 24 ; it is,

ORDERED that the motion by the plaintiff for a preliminary injunction is granted as to the *SmartProduction* software only; and it is further

ORDERED that, pending further order of the court, the defendant is enjoined and restrained from interfering with the plaintiff's exclusive and nonexclusive rights to license, market, and distribute the *SmartProduction* software in the United States and Canada; and it is further

ORDERED that, pending further order of the court, the defendant is enjoined and restrained from entering into any agreements to license, market, and distribute the *SmartProduction* software in the United States and Canada which provide for superior licensing rights than those given to the plaintiff under the parties' Marketing Agreement and First Amendment thereto; and it is further

ORDERED that, pending further order of the court, the defendant is enjoined and restrained from enforcing its termination of Axios' right to license and support the *SmartProduction* software in a manner that is inconsistent with the prior course of conduct and business dealings of the parties including, but not limited to, interfering with or withholding the delivery of license passwords, trial passwords, and second-level product support, as well as restricting or withholding in any manner the delivery of a fully functional copy of the *SmartProduction* software product for installation on Axios' systems, together with all associated passwords, to enable Axios to fulfill its first-level support obligations to its customers; and it is further

ORDERED that the plaintiff post an undertaking pursuant to CPLR 6312(b); and it is further

ORDERED that, if the parties cannot stipulate to an appropriate amount, they shall submit papers to the court regarding the amount of the undertaking no later than November 5, 2010; and it is further

ORDERED that the motion is otherwise denied; and it is further

ORDERED that the cross motion by the defendant for an order dismissing the complaint for lack of personal jurisdiction is denied.

The plaintiff, Axios Products, Inc. ("Axios"), is a New York corporation whose principal place of business is in Suffolk County, New York. The defendant, Time Machine Software, Inc. ("TMS"), is an Israeli corporation whose principal place of business is in Tel-Aviv, Israel. TMS, which designs and creates computer software programs, does not maintain an office in the State of New York.

On July 16, 1998, Axios and TMS entered into an agreement that gave Axios the right to license, market, and distribute a computer software program known as *DataMate* for an initial term of one year (the "Marketing Agreement") with automatic renewals for additional one-year periods subject to the termination rights of the parties. The Marketing Agreement gave Axios the exclusive right to license and distribute *DataMate* to a group of potential customers identified in Exhibit A thereto and a nonexclusive right to license and distribute *DataMate* to any other potential customers in the United States and Canada. TMS was free to engage other distributors to license and distribute *DataMate* to any potential customers other than the ones identified in Exhibit A.

Pursuant to Exhibit B of the Marketing Agreement, Axios was required to meet licensing goals of at least \$800,000 in the agreement's first year and \$500,000 in its second year. The failure to meet such goals gave TMS the right to terminate Axios' exclusive licensing rights upon 60 days' prior written notice. Additionally, if Axios did not achieve minimum licensing

goals of \$200,000 in the initial one-year period and in any subsequent one-year period thereafter, TMS had the right to terminate the Marketing Agreement upon 90 days' prior written notice. Termination of the Marketing Agreement, however, did not affect Axios' right to provide maintenance services to any and all of its existing customers as of the effective date of termination. Moreover, the Marketing Agreement gave Axios 90 days after the effective date of termination to consummate any license transactions with customers with whom it was in active negotiations as of the effective date of termination.

On September 27, 1999, the parties amended the Marketing Agreement (the "First Amendment"). In § 3 of the First Amendment, the parties acknowledged that neither the licensing goals nor the minimum licensing goals for *DataMate* had been met by Axios. TMS waived any and all of its rights under the Marketing Agreement arising from Axios' failure to meet such goals. TMS agreed that the licensing goals for *DataMate* were rendered null and void for the remainder of the term of the Marketing Agreement. TMS also agreed that the provisions of § 2.1 of the Marketing Agreement, which gave TMS the right to terminate Axios' exclusive licensing rights upon 60 days' prior written notice, no longer applied to *DataMate*.

The First Amendment amended the Marketing Agreement to include an additional computer software program known as *SmartProduction*. The term of the First Amendment was two years with automatic renewals for additional one-year periods subject to the termination rights of the parties. Pursuant to Schedule 1 of the First Amendment, Axios was required to meet licensing goals for *SmartProduction* of \$200,000, \$550,000, and \$950,000, respectively, in the first, second, and third years of the amendment. The failure to meet such goals gave TMS the right to terminate Axios' exclusive right to license *SmartProduction* upon 60 days' prior written notice. Additionally, Schedule 2 of the First Amendment set forth minimum licensing goals for the first three years of the amendment that were greater than the \$200,000 minimum licensing goals found in the Marketing Agreement. The failure to meet the minimum licensing goals gave TMS the right to terminate all of Axios' rights with respect to *SmartProduction* upon 90 days' prior written notice. Moreover, any notice of termination was required to specify whether the terminating party was terminating the Marketing Agreement, the First Amendment, or the exclusivity rights granted to Axios thereunder.

On January 1, 2003, the parties amended the Marketing Agreement to include another computer software program known as *SmartAnalyzer* (the "Second Amendment"). The Second Amendment gave Axios the right to license and distribute the *SmartAnalyzer* product on a nonexclusive basis only. The term of the Second Amendment was two years with automatic renewals for additional one-year periods subject to the termination rights of the parties. Like the First Amendment, the Second Amendment required Axios to meet minimum licensing goals for the first three years of the amendment and gave TMS the right to terminate Axios' rights with respect to *SmartAnalyzer* upon 90 days' prior written notice if such goals were not met. Moreover, any notice of termination was required to specify whether the terminating party was terminating the Marketing Agreement or the Second Amendment.

By a letter dated November 20, 2008, TMS notified Axios that it was exercising its right to terminate both the Marketing Agreement and the Second Amendment and that the termination would be effective 90 days therefrom. In a series of e-mails in December 2008, the parties agreed that the termination was effective 90 days from November 20, 2008, and that Axios had another 90 days, or until May 16, 2008, to consummate any sales.

A dispute subsequently arose regarding Axios' right to continue to license and upgrade the *SmartProduction* software for one of its customers, i.e., JP Morgan Chase. TMS took the position that, after May 16, 2008, Axios did not have the right to license, market, or distribute any of TMS's products in the United States and that Axios' rights were limited to providing maintenance services to its previously licensed customers, including JP Morgan Chase. This action ensued.

The complaint contains causes of action for breach of contract and injunctive relief. Axios alleges that TMS did not terminate the First Amendment and improperly terminated the Marketing Agreement and the Second Amendment. Axios further alleges that TMS breached the parties' agreements by refusing to allow Axios to continue to license products to JP Morgan Chase, by entering into a new licensing agreement for the *SmartProduction* software with a direct competitor of Axios, and by giving that competitor a list of Axios' customers. Axios moves for a preliminary injunction, inter alia, enjoining TMS from interfering with Axios' rights under the Marketing Agreement and its amendments. TMS cross moves for an order dismissing the complaint for lack of personal jurisdiction.

Axios served TMS pursuant to Business Corporation Law § 307 (b)(2) by leaving a copy of the process against TMS with the Secretary of State and mailing a copy of the same to TMS at its address in Israel by registered mail. TMS contends that service of process upon the Secretary of State is not permitted under the Hague Convention and that article 10 thereof does not permit service of process by mail.

The Hague Convention on the Service Abroad of Judicial and Extrajudicial Documents in Civil or Commercial Matters (20 UST 361, TIAS No. 6638 [1969]) is a multilateral treaty designed to simplify the methods for serving process abroad to assure that defendants sued in foreign jurisdictions receive actual and timely notice of suit and to facilitate proof of service abroad (*see, Fernandez v Univan Leasing*, 15 AD3d 343, 344 [2nd Dept]). Pursuant to the Hague Convention, the primary method of service is through the Central Authority established by each member state. The use of the Central Authority, however, is not mandatory (*see, Canizio & Singh, Service of Process and the Hague Convention*, NYLJ, Aug. 27, 2010). Article 19 of the Hague Convention permits service by any method permitted by the internal laws of the country in which service is being made (*see, Fernandez v Univan Leasing, supra* at 344). Moreover, contrary to TMS's contentions, article 10 permits service of process by mail directly to the person abroad provided that the State of destination does not object in its ratification to such service (*Id.* at 344). Article 10 provides as follows:

Provided the State of destination does not object, the present Convention shall not interfere with -

(a) the freedom to send judicial documents, by postal channels, directly to persons abroad,

(b) the freedom of judicial officers, officials or other competent persons of the State of origin to effect service of judicial documents directly through the judicial officers, officials or other competent persons of the State of destination,

(c) the freedom of any person interested in a judicial proceeding to effect service of judicial documents directly through the judicial officers, officials or other competent persons of the State of destination.

It is undisputed that the State of Israel is a signatory to the Hague Convention and that it objected to paragraphs (b) and (c) of article 10.

At issue here is the use of the word “send” in paragraph (a), as opposed to the use of the word “service” in paragraphs (b) and (c). TMS urges this court to adopt the interpretation adopted by the First and Third Departments, which hold that article 10 (a) was meant to authorize something other than “service” in the legal sense, such as the mere transmittal of notices and legal documents, and not the service of process that initiates a lawsuit and secures jurisdiction over an adversary party (*see, Sardanis v Sumitomo Corp.*, 279 AD2d 225, 229 [1st Dept]; *Reynolds v Woosup Koh*, 109 AD2d 97, 99 [3rd Dept]). That interpretation, however, has not been followed in the Second Department and is not binding on this court. The Second Department has followed the Fourth Department in interpreting the word “send” in article 10 (a) as synonymous with “service” and permitting service of process by registered mail when, as here, the State of destination has not objected to the use of postal channels under article 10 (a) (*see, Fernandez v Univan Leasing*, 15 AD3d 343, 344-345 [2nd Dept]; *Risew v Yamaha Motor Co.*, 129 AD2d 94, 97-98 [4th Dept]). Moreover, a Special Commission of the Hague Convention that met in 2003 considered the issue and concluded that the term “send” in article 10 (a) is to be understood as meaning “service” through postal channels (*see, Canizio & Singh, Service of Process and the Hague Convention*, NYLJ, Aug. 27, 2010). The U. S. State Department has, likewise, stated that it is incorrect to suggest that the Hague Convention prohibits as a method of service the sending of a copy of the summons and complaint by registered mail to a defendant in a foreign country (*Id.*). Accordingly, the court finds that service was proper, and the defendant’s cross motion to dismiss the complaint is denied.

A preliminary injunction is a provisional remedy designed to maintain the status quo between the parties during the course of litigation (*see, Uniformed Firefighters Assn. of*

Greater N.Y. v City of N.Y., 79 NY2d 236, 239). To be entitled to a preliminary injunction, the moving party must establish (1) the likelihood of success on the merits, (2) irreparably injury absent granting the preliminary injunction, and (3) a balancing of the equities in its favor (*see*, **Ruiz v Meloney**, 26 AD3d 485, 485-486). The decision to grant or deny a preliminary injunction rests in the sound discretion of the court (**Id.** at 486). Even when the facts are in dispute, a court may still find a likelihood of success on the merits. Conclusive proof is not required (**Id.** at 486; CPLR 6312[c]).

Contrary to TMS's contentions, the documentary evidence does not establish that the First Amendment, which gave Axios the right to license and distribute the *SmartProduction* software, was terminated. Pursuant to § 5 of the First Amendment, any notice of termination was required to specify whether the terminating party was terminating the Marketing Agreement, the First Amendment, or the exclusivity rights granted to Axios thereunder. The termination notice issued by TMS on November 20, 2008, notified Axios that TMS was exercising its right to terminate the Marketing Agreement and the Second Amendment. There is no evidence in the record that TMS exercised its right to terminate the First Amendment. While Axios agreed in an e-mail dated December 8, 2008, that the termination was effective 90 days from November 20, 2008, and that Axios had another 90 days, or until May 16, 2008, to consummate any sales, that e-mail clearly referred to the termination notice dated November 20, 2008, which did not include the First Amendment. Accordingly, the court finds that Axios has established that it is likely to succeed in demonstrating that the First Amendment and its right to license and distribute the *SmartProduction* software were not terminated.

Generally, preliminary injunctive relief is not available to a party seeking money damages on a breach-of-contract claim (**Dinner Club Corp. v Hamlet on Olde Oyster Bay Homeowners Assoc.**, 21 AD3d 777, 778). However, loss of customer good will, sales, and market share can constitute irreparable harm for preliminary injunction purposes (*see*, **Alside Div. of Associated Materials v Leclair**, 295 AD2d 873, 874; **Sylmark Holdings, Ltd. v Silicone Zone Intl. Ltd.**, 5 Misc 3d 285, 299). The court finds that Axios has a real and legitimate interest in preventing its competitors from exploiting the customer relationships and goodwill that it has developed in licensing and distributing the *SmartProduction* software. Moreover, TMS acknowledged in the Marketing Agreement that it would be impossible to measure in money the damages that may accrue from a failure or breach of any of the material obligations thereunder and waived any claim or defense that Axios has an adequate remedy at law. Accordingly, the court finds that Axios has established that it will suffer irreparable injury if a preliminary injunction is not granted with respect *SmartProduction*.

While it is possible that TMS may lose some business as a result of Axios' enforcement of the exclusivity terms of the First Amendment, those are the terms for which TMS bargained and to which it expressly agreed (*see*, **Private One of New York, LLC v JMRL Sales & Service, Inc.**, 21 Misc 3d 1106[A] at *10). A preliminary injunction will maintain the status quo, prevent any further alleged breach of the First Amendment by TMS, and result in no

demonstrated harm or prejudice to TMS (**Id.**). As Axios correctly points out, TMS will continue to receive royalties from Axios for its sale of *SmartProduction*. Under these circumstances, the court finds that, at least with respect *SmartProduction*, the injuries sustained by Axios without a preliminary injunction will be more burdensome than any alleged harm to TMS caused by the imposition of a preliminary injunction (**Id.**). Accordingly, the court finds that Axios has established that a balancing of the equities is in its favor with respect to *SmartProduction*.

With regard to the *DataMate* and *SmartAnalyzer* software, the documentary evidence clearly establishes that TMS notified Axios that it was exercising its right to terminate both the Marketing Agreement and the Second Amendment by a letter dated November 20, 2008. In an e-mail dated December 8, 2008, Axios agreed that the termination was effective 90 days from November 20, 2008, and that it had another 90 days, or until May 16, 2008, to consummate any sales. The record reveals that the *DataMate* software, which was specifically designed to address computer problems caused by the turn of the millennium (Y2k), is no longer being marketed. Moreover, Axios' right to license and distribute the *SmartAnalyzer* software is not an exclusive right. The court finds that, under these circumstances, Axios has failed to demonstrate its entitlement to preliminary injunctive relief with regard to the *DataMate* and *SmartAnalyzer* software. Accordingly, Axios' motion for a preliminary injunction is granted as to the *SmartProduction* software only.

HON. ELIZABETH HAZLITT EMERSON

Dated: October 4, 2010

J.S.C.