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

PRESENT: MELVIN L. SCHWEITZER Justice PART 45

EPIC SPORTS INTERNATIONAL, INC., et al

-v-

SEAN FROST et al

INDEX NO. 651599/2012

MOTION DATE _____

MOTION SEQ. NO. 004

The following papers, numbered 1 to _____, were read on this motion to/for _____

Notice of Motion/Order to Show Cause — Affidavits — Exhibits _____ | No(s). _____

Answering Affidavits — Exhibits _____ | No(s). _____

Replying Affidavits _____ | No(s). _____

Upon the foregoing papers, it is ordered that this motion is to dismiss by defendant Marker Völkl International GMBH (MV) for lack of jurisdiction is GRANTED per the attached Decision and Order.

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

Dated: April 22, 2013

Melvin L. Schweitzer J.S.C.

MELVIN L. SCHWEITZER

1. CHECK ONE: ..... ☐ CASE DISPOSED ☑ NON-FINAL DISPOSITION

2. CHECK AS APPROPRIATE: .....MOTION IS: ☑ GRANTED ☐ DENIED ☐ GRANTED IN PART ☐ OTHER

3. CHECK IF APPROPRIATE: ..... ☐ SETTLE ORDER ☐ SUBMIT ORDER

☐ DO NOT POST ☐ FIDUCIARY APPOINTMENT ☐ REFERENCE

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK : PART 45

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EPIC SPORTS INTERNATIONAL, INC., f/k/a KLIP AMERICA, INC., and AMINCOR, INC.,

Plaintiffs,

-against-

SEAN FROST, EYEBALL PRODUCTIONS, LLC., SAMSUNG C&T AMERICA, MARKER VÖLKL (INTERNATIONAL) GMBH, COMETECH ENTERPRISE CO., and MARSHAL INDUSTRIAL CORP.,

Defendants.

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Index No. 651599/2012

DECISION AND ORDER

Motion Sequence No. 004

**MELVIN L. SCHWEITZER, J.:**

**Preliminary Statement**

Plaintiffs Epic Sports International, Inc. f/k/a Klip America, Inc. (ESI), and Amincor, Inc. (Amincor) bring this action against defendants Sean Frost (Mr. Frost), Eyeball Productions, LLC (Eyeball), Samsung C&T America, Inc. (SCTA), Marker Völkl International GMBH (MV), Cometech Enterprise Co. (Cometech), and Marshall Industrial Corp. (Marshall), alleging violation of ESI's intellectual property rights as well as various breach of contract and tort claims. MV moves to dismiss all claims involving MV pursuant to CPLR 3211(a)(8) for a lack of jurisdiction of MV.

## Background

Factual background

The following facts are taken from the plaintiffs' complaint. ESI, formerly known as Klip America, Inc., is a Nevada corporation with its principal place of business in New York. In September 2008, ESI was heavily indebted to Capstone Business Credit, LLC and Capstone Capital Group I, LLC. Mr. Frost, a principal and president of ESI, had executed a personal guarantee for the debt.

In September 2008, ESI went through a reorganization in which it restructured its outstanding debt. It entered into a Subscription Agreement (Agreement) with Universal Management Corp. (Universal), an entity formed in connection with the reorganization. Mr. Frost executed the Agreement as president of ESI, and individually with regard to certain provisions. Pursuant to the Agreement, Universal received 80% of ESI's stock, Mr. Frost received 20%, and ESI retained exclusive ownership of all properties, personal, real and all intellectual property rights previously owned by it. On September 19, 2008, Mr. Frost entered into an employment agreement with ESI. As part of the reorganization, Mr. Frost's personal guarantees of debt of ESI to Capstone Business Credit, LLC and Capstone Capital Group I, LLC were released.

On October 1, 2008, ESI entered into a License Agreement (MV License Agreement) with MV, a corporation organized and existing under the law of Switzerland and domiciled in Baar, Switzerland, under which ESI received a license to sell and distribute Völkl and Boris Becker merchandise. Pursuant to the terms of the MV License Agreement, ESI developed molds (including Organix and Power Bridge Series molds) and other technology (including Power Arm, BoiSensor, Optispot an DNX technologies) for the purpose of manufacturing Völkl tennis

racquets. The complaint alleges that these molds and technologies constitute ESI's intellectual property.

On October 14, 2010, in an attempt to facilitate the worldwide growth of Völkl sales, ESI signed a Strategic Alliance Agreement (SCTA Alliance Agreement) with SCTA. ESI and SCTA also signed a Limited Sublicense Agreement (MV Sublicense Agreement) setting out the terms of MV product distribution. MV had knowledge of and consented to ESI and SCTA entering into these agreements.

In May 2011, MV notified ESI of material breaches of the MV License Agreement. On July 20, 2011, MV's President visited ESI's office in New York to review the status of the worldwide distribution of Völkl products. In September 2011, upon completion of the review, MV terminated the MV License Agreement with ESI. This resulted in an automatic termination of the MV Sublicense Agreement between ESI and SCTA. Upon termination, ESI was to liquidate the existing inventory of Völkl products, and SCTA was to liquidate all the inventories of Völkl and Boris Becker products.

Allegedly, during his visit to New York, MV's president separately met with Mr. Frost at SCTA. Plaintiffs allege that these parties had discussions regarding the sale of inventory held by SCTA. Plaintiffs allege that beginning in September 2011, when the Agreements were terminated, Mr. Frost no longer made his daily activities known to ESI representatives. Allegedly, SCTA made payments directly to Mr. Frost in connection with the sale of Völkl and Boris Becker products. In addition, Mr. Frost created a new entity called Eyeball Production, LLC, for the purpose of selling and marketing Völkl and Boris Becker products tennis equipment.

Plaintiffs allege that despite SCTA's obligation to stop sales and liquidate inventory, SCTA and Mr. Frost cooperated and continued to sell and distribute Völkl and Boris Becker products that were designed and manufactured on the basis of ESI's molds and technologies. Plaintiffs further allege that despite their demand, Mr. Frost has refused to account for the sale and manufacture of Völkl and Boris Becker products. Plaintiffs assert that this constitutes a violation of ESI's intellectual property rights and a breach of fiduciary duty owed to them by Mr. Frost.

Procedural Background

On June 12, 2012, ESI filed an Amended Complaint and attempted to effect formal service under the CPLR. Based on the Affidavit of Service filed by ESI on July 24, 2012, plaintiffs personally served the New York Secretary of State and sent a copy via registered mail to MV in Switzerland. Plaintiffs failed to provide the signed returned receipt or any other documentation confirming service was either made or refused.

The Amended Verified Complaint filed by plaintiffs contains 248 numbered allegations and 18 Causes of Action, seven of which, the First, Fifth, Sixth, Eleventh, Thirteenth, Fourteenth and Sixteenth are against MV, individually or with others. The First and Sixth Causes of Action allege that MV, along with other defendants, misappropriated ESI's intellectual property by manufacturing, distributing and selling MV products that contained ESI's technology after the termination of the MV License Agreement. The Fifth Cause of Action claims that MV received royalty payments as a result. The Eleventh Cause of Action contends that this misappropriation "constitutes tortious interference with ESI's property and intellectual property rights." In the Thirteenth Cause of Action, plaintiffs contend that MV and others aided Mr. Frost in breaching his fiduciary duties to ESI. The Fourteenth Cause of Action contends that MV and others

engaged in the theft of ESI's property as a result of its alleged conduct. In the Sixteenth Cause of Action, plaintiffs contend that MV breached its fiduciary obligations and duty of good faith and fair dealing to ESI by entering into contracts with the other defendants in connection with the sale and distribution of MV tennis racquets after it terminated the MV License Agreement. All of the tortious conduct alleged by plaintiffs occurred after termination of the contractual arrangements between MV and ESI.

Plaintiffs allege four factual bases for their claim of jurisdiction:

1. MV required Capstone Business Credit, LLC, a New York limited liability company, to guarantee the obligations of Klip under the MV License Agreement.

2. MV wrote to Capstone Business Credit, LLC, on numerous occasions "with regard to the contractual arrangement between the parties."

3. MV's president met with Mr. Frost and other ESI's representatives in New York "for the purpose of reviewing the status of worldwide distribution of Völkl products" on July 20, 2011.

4. MV signed the strategic Alliance Agreement and Limited Sublicense Agreement between ESI and SCTA regarding the distribution of MV's products.

**Discussion**

Service

MV is an entity incorporated and domiciled in Switzerland. Because Switzerland is a signatory to the Hague Convention, its procedures for service are mandatory. *Advanced Aerofoil Techs., AG v Todaro*, 2012 U.S. Dist. LEXIS 12383, *4 (SDNY Jan 31, 2012). Switzerland authorizes service to be made by the Swiss Central Authority upon request of a foreign application. *Id.*; *Picard v Cohmad Sec. Corp. ETC (In re Bernard L. Madoff Inv. Sec. LLC)*, 418 B.R. 75, 82-83 (Bankr. SDNY 2009) (citing Hague Convention, Art. 2-6). Switzerland expressly opposes service by any of the alternative means provided in Article 10 of the Hague Convention.

*See* Hague Convention, Declarations Reservations, 5(a) ("Switzerland declares that it is opposed to the use in its territory of the methods of transmission provided for in Articles 8 and 10"); *Advanced Aerofoil Techs.*, 2012 U.S. Dist. LEXIS 12383 at *5 (denying request to serve defendants domiciled in Switzerland by international courier because Switzerland "explicitly objected to service through postal channels"); *Picard*, 418 B.R. at 82-83 (same).

Domiciliaries of Switzerland can only be served within its border by means of international process through governmental channels, which requires translation of all served documents, including exhibits, into the appropriate language, *i.e.*, French, German or Italian, depending on the location of service within Switzerland. Service of papers by registered mail in English under BCL 307 – the method chosen by the plaintiffs – is not effective in Switzerland. *East Cont'l Gems, Inc. v Yakutiel*, 153 Misc 2d 883, 884-85 (Sup. Ct. N.Y. Cty. 1992). *See Low v Bayerische Motoren Werke. A.G.*, 88 AD2d, 504 (1st Dept 1982) (service of process under BCL 307 not effective in Germany which, like Switzerland, opposes Article 10 of the Hague Convenion).[1]

Even if MV could be served in Switzerland pursuant to BCL 307, the plaintiffs have yet to complete service. Plaintiffs failed to attach a signed return receipt of the service performed by registered mail. Absent a proper Affidavit of Service, service is not complete. *See* BCL 307(d)(2) ("Service of process shall be complete ten days after such papers [*i.e.*, an Affidavit of Service with the required documentation] are filed with the clerk of the court.").

[1] Even if Switzerland had not opposed Article 10 of the Hague Convention, the law in the First Department is that service by mail under BCL 307 does not fall within the alternative methods permitted by Article 10. *Sardanis v Sumitomo Corp.*, 279 AD2d 225, NYS2d 66 (1st Dept 2001) (finding that Article 10(a), which permits sending of judicial documents by postal channels directly to persons abroad, does not apply to the "service" of documents for jurisdictional purposes).

Because BCL 307 is ineffective under the Hague Convention, and because plaintiffs failed to satisfy the requirements of the BCL, proper service upon MV has not been effected. Plaintiffs submit that they should be granted an extension of time pursuant to CPLR 306-b to complete proper service upon MV. As the court finds below that there is no basis for personal jurisdiction over MV, this request for an extension, is denied.

Personal jurisdiction

The second ground for MV's motion to dismiss is lack of personal jurisdiction. CPLR 302 authorizes New York courts to exercise jurisdiction over a foreign corporation for tort and contact claims arising from the transaction of business in New York. Plaintiffs assert that personal jurisdiction arises under CPLR 302 (a) (1), as well as under CPLR 302 (a) (3).

CPLR 302 (a) (1) provides:

> a. Acts which are the basis for jurisdiction. As to causes of action arising from any of the acts enumerated in this section, a court may exercise personal jurisdiction over any non-domiciliary... who...:
>
> 1. transacts any business within the state or contracts anywhere to supply goods or services in the state.

To establish jurisdiction under CPLR 302 (a) (1), plaintiffs must demonstrate both that: (i) MV purposefully transacted business in New York; and (ii) the cause of action arose from that transaction of business. *Johnson v Ward*, 4 NY3d 516, 519 (2005). The first inquiry is whether MV transacted business in New York. While only a single transaction can suffice, the activity in New York must be purposeful. *Kreutter v McFadden Oil Corp.*, 71 NY2d 460, 467 (1988). "Purposeful activities are those with which a defendant, through volitional acts, 'avails itself of the privilege of conducting activities with the forum of the State, thus invoking benefits

and protections of the laws.'" *Fischbarg v Doucet*, 9 NY3d 375, 380 (2007) (quoting *McKee Elec. Co. v Rauland-Borg Corp.*, 20 NY2d 377, 382 (1967)).

The Amended Verified Complaint alleges four facts in support of its claim that MV "engaged in significant transactions within the State of New York, all related to the matters in this complaint." First, it alleges that MV required Capstone Business Credit, LLC, a New York limited liability company, to guarantee the obligations of Klip under the now terminated MV License Agreement. Two appellate division decisions have held that a guarantee of payment in New York can satisfy jurisdictional requirements. *State Bank of India v Taj Lanka Hotels Ltd.*, 686 NYS2d 44, (1st Dept 1999); *Rielly Co. v Lisa B, Inc.*, 586 NYS2d 668 (3d Dept 1992). However, in those cases, unlike here, the party over which jurisdiction was sought was the guarantor. Further, the guarantors were guaranteeing the financial obligations of a New York entity. It was held in both cases that the guarantor had directed commercial activity toward New York and could reasonably anticipate being sued in New York. MV was not purposefully availing itself of the privilege of conducting business in New York by seeking a guarantee by a New York entity of the performance of the MV License Agreement by a non-New York entity. These facts do not give the court personal jurisdiction over MV.

Second, plaintiffs allege that the court has personal jurisdiction because MV wrote Capstone on "numerous occasions" regarding that contractual arrangement, which establishes "purposeful" activity in New York. In general, making telephone calls and sending correspondence to New York is not enough to establish personal jurisdiction. *New World Sourcing Group, Inc. v SGC SA*, 867 NYS2d 376 (Sup Ct NY Cty 2008). Rather, such activities "must be shown to have been 'used by the defendant to actively participate in business transactions in New York.'" *Liberatore v Calvino*, 742 NYS2d 291 (1st Dept 2001). As noted

above, MV did not actively participate in business transactions in New York. It was contacting Capstone to seek a guarantee of Klip's obligations. It was not purposefully invoking the benefits and protections of New York law.

Third, plaintiffs allege that the court has personal jurisdiction because MV's president made one visit to New York to meet with ESI representatives after sending notice of material breaches under the license agreement. This is insufficient to establish personal jurisdiction. *See Cavalier Label Co., Inc. v Polytam, Ltd.* 687 F Supp 872, 876-77 (SDNY 1988) (three total visits from Israel to New York made in efforts to resolve contractual dispute did not satisfy "transacting business" under CPLR 302 (a) (1)).

Finally, plaintiffs argue that the court has personal jurisdiction because MV consented to the MV Sublicense Agreement between ESI and Samsung, a New York corporation. Here, there is no basis for finding that MV was invoking the benefits and protections of the law of New York state.

In addition to establishing that MV engaged in some purposeful conduct in New York, in order to establish personal jurisdiction under CPLR 302 (a) (1), that conduct must be "shown to bear a substantial relationship to the transaction out of which the instant cause of action arose." *McGowan v Smith*, 52 NY2d 268, 272 (1981). That is, "the existence of some articulable nexus between the business transacted and the cause of action sued upon" is essential to conferring jurisdiction under CPLR 302 (a) (1). *Id.; Interface Biomed Labs. Corp. v Axiom Med., Inc.* 600 F Supp 731, 737 (EDNY 1985) (CPLR 302 (a) (1) cause of action must arise from the business transacted).

None of MV's alleged contacts with New York have any connection to the claims asserted. At most, they show an attenuated connection to the performance of the MV License

Agreement. This case is not about MV's performance of that terminated Agreement. Rather, plaintiffs contend that MV misappropriated ESI's intellectual property and/or wrongfully aided others to do so after their contractual relationship ended. Plaintiffs' claims also have nothing to do with the Capstone guarantee or the MV Sublicense Agreement. It can hardly be said that the one visit by MV's President has any relationship to the claims asserted in this case, let alone a substantial one.

All of plaintiff's claims arise out of the fact that MV continues to sell and distribute tennis racquets that allegedly contain ESI's intellectual property, and not any action that took place in connection with the MV License Agreement. *See Interface,* 600 F Supp at 737 (claims for misappropriation of intellectual property, unfair competition and unjust enrichment held to arise out of continued use of intellectual property, and not the prior meetings that resulted in failed joint venture, where property at issue was obtained); *Sterling Television Presentations v Shintron*, 454 F Supp 183, 188 (SDNY 1978) (no personal jurisdiction on misappropriation claim because continued sale of typewriters after termination of marketing agreement did not arise out of the New York contacts- the negotiation of marketing agreement). Accordingly, plaintiffs have failed to allege any facts that confer jurisdiction under CPLR 302 (a) (1).

> CPLR 302 (a) (3) provides for jurisdiction over a non-domiciliary that: Commits a tortious act without the state causing injury to person or property within the state… if he
>
> (i) regularly does or solicits business, or engages in any other persistent course of conduct, or derives substantial revenue from goods used or consumed or services rendered, in the state, or
>
> (ii) expects or should reasonably expect the act to have consequences in the state and derives substantial revenue from interstate or international commerce.

Each element is essential, and the absence of any is fatal to establishing jurisdiction under CPLR 302 (a) (3). *Trafalgar Capital Corp. v Oil Producers Equip. Corp.*, 555 F Supp 305, 310 (SDNY 1983).

Plaintiffs' claims against MV arise out of MV's alleged misappropriation of plaintiff's intellectual property. The court held, in two decisions regarding other defendants in this matter, that there was no protected intellectual property. Consequently, there can be no misappropriation and resulting tort claim. The court does not have jurisdiction over MV under CPLR 302(a)(3).

Accordingly, it is

ORDERED that MV's motion to dismiss pursuant to CPLR 3211 (a) (8) is granted.

Dated: April 22, 2013

ENTER:

J.S.C.

MELVIN L. SCHWEITZER