UNITED STATES DISTRICT COURT
DISTRICT OF CONNECTICUT

SIGNATURE MARKETING PTY. LTD.	:	
and JAYFIELD PTY. LTD.,	:	
Plaintiffs,	:	
	:	
v.	:	Civil Action No. 3:00 CV 2264 (CFD)
	:	
SLIM PRINT INTERNATIONAL, LLC	:	
ET AL.,	:	
Defendants.		

RULING ON OBJECTIONS
TO MAGISTRATE JUDGE'S RECOMMENDED RULING

On February 27, 2001, Magistrate Judge William I. Garfinkel issued a recommended ruling on the motion of the defendants, Slim Print International, LLC ("Slim Print"), Mayfairs Wholesale Pty. Ltd. ("Mayfairs"), David McBride ("McBride"), Max Muller ("Muller"), and Promat LLC ("Promat"), to compel arbitration and stay the case [Document #15].[1] Magistrate Judge Garfinkel recommended that this Court compel the plaintiffs, Signature Marketing Pty. Ltd. ("Signature"), and Jayfield Pty. Ltd. ("Jayfield"), to arbitrate their claims against the defendant Slim Print, but decline to compel the plaintiffs to arbitrate their claims against the defendants Mayfairs, McBride, Muller, and Promat. Further, Magistrate Judge Garfinkel recommended that this Court stay the plaintiffs' motion for prejudgment remedy against Slim Print, but decline to stay that motion against Mayfairs, McBride, Muller, and Promat, and decline to stay the plaintiffs'

[1]On April 23, 2001, this Court referred to Magistrate Judge Garfinkel the plaintiffs' motion for a preliminary injunction, prejudgment remedy, and expedited discovery [Document #3]. In taking up that referral, Judge Garfinkel also ruled on the motion to compel arbitration and stay the case. The Court treats Magistrate Judge Garfinkel's ruling on the defendants' motion to compel arbitration and stay the case [Document #15] as a recommended ruling, and thus, reviews the objections to that ruling de novo. See 28 U.S.C. § 636(b)(1); Fed. R. Civ. P. 72(b).

motion for preliminary injunction as to any of the defendants. Finally, Magistrate Judge Garfinkel recommended that this Court decline to stay discovery in the case. The defendants object to Magistrate Judge Garfinkel's recommended ruling [Document #28].

I. Background[2]

The plaintiff Signature is an Australian company that manufactures and distributes launderable nitrile rubber-backed runners, i.e., non-slip counter and bar mats, imprinted with corporate and sports messages and logos (hereinafter "mats"). The mats were developed by Signature and Signature's affiliate, also an Australian company, the plaintiff Jayfield. Jayfield owns a patent granted in Australia governing the form and construction of the mats, and Stephen Robert Carkeek, a principal of Signature, owns the rights to a pending patent application for the mats in the United States and licenses those rights to Signature. Signature has also filed a trademark application for the mats with the United States Patent and Trademark Office.

In March 1998, the defendant McBride was employed by Signature as a sales representative for Signature's mats. McBride signed a confidentiality agreement dated March 2, 1998 in connection with his employment at Signature. In March 1999, McBride introduced defendants Muller and Mayfairs, a company owned by Muller and his family, to Signature's management to discuss Mayfairs becoming Signature's exclusive distributor for Signature's mats in the United States. Signature then permitted Mayfairs to conduct a market survey in the United States to explore market opportunities for the sale of its products. Signature contemplated that, should the preliminary investigation evidence sufficient interest, Signature would appoint Mayfairs

[2]The relevant facts discussed herein are drawn from allegations of the complaint, and the exhibits thereto, or are otherwise reflected in the record.

as Signature's exclusive United States distributor for the mats and McBride would transfer his employment to Mayfairs to support the distribution of Signature products.

During April and May 1999, Muller and McBride traveled to the United States to conduct their market analysis for Signature's products. They reported back to Signature that the mats were new to the United States marketplace and that there was a favorable reception to the possible sale of Signature mats to United States customers. Signature and Muller then began negotiating the terms of a distribution agreement, and Muller proposed and Signature agreed to the creation of a new company to act as Signature's United States distributor based in Connecticut. On June 9, 1999, the new company was formed as a Connecticut limited liability company, Slim Print International, LLC. Subsequently, McBride terminated his employment with Signature and commenced employment as Slim Print's general manager; Slim Print was controlled and operated by Muller, Mayfairs, and McBride. On June 18, 1999, Signature and Slim Print executed a written distribution agreement ("Distribution Agreement"). The Distribution Agreement contained, inter alia, an arbitration clause.

Between October and December 1999, Slim Print distributed Signature's mats to United States customers pursuant to the Distribution Agreement. On January 6, 2000, after Signature was allegedly unable to deliver certain mats on Slim Print's requested dates, Slim Print requested that Signature confirm the termination of the Distribution Agreement. On January 10, 2000, Muller and McBride formed a Connecticut limited liability company, defendant Promat. On March 1, 2000, Signature served a Notice of Breach of the Distribution Agreement on Slim Print and mailed copies to Muller and McBride. On November 28, 2000, the plaintiffs, Signature and Jayfield, filed this complaint.

In their complaint, the plaintiffs allege that the defendant Slim Print breached the Distribution Agreement,[3] as well as a duty of good faith and fair dealing. The plaintiffs also set forth various related claims alleging that all of the defendants engaged in the manufacture, advertisement, and sale of goods which are "identical or substantially similar" to those manufactured by Signature, contracted with a manufacturer to supply them with such products, contacted potential customers for such products, and, in various advertising media, "palmed off" Signature's products as the defendants' own.[4]

The defendants Slim Print, Mayfairs, McBride, Muller, and Promat filed a motion for an order pursuant to 9 U.S.C. § 3 of the Federal Arbitration Act ("FAA") and 9 U.S.C. §§ 201 et seq. of the Convention on the Recognition and Enforcement of Foreign Arbitral Awards ("Convention") staying this action and compelling the plaintiffs to arbitrate all of their claims against all of the defendants in Queensland, Australia.[5] Magistrate Judge Garfinkel issued a recommended ruling that this Court grant in part, and deny in part, the defendants' motion. Although the Magistrate Judge recommended that this Court compel the plaintiffs to arbitrate their claims against Slim Print, he recommended that the Court decline to compel the plaintiffs to arbitrate their claims against the defendants Mayfairs, McBride, Muller, and Promat, on the basis that, as non-signatories to the Distribution Agreement, they could only compel the plaintiffs to

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[3]This Count also appears to be alleged as to McBride. See Compl. ¶44.

[4]The plaintiffs assert such claims against the defendants mentioned here, as well as John Doe defendants (1-10). Such John Doe defendants, however, have not yet been identified and were not parties to the instant motion to compel arbitration and stay the case.

[5]There is no apparent dispute that personal jurisdiction exists here. As well, there is apparent subject matter jurisdiction under the Lanham Act and the FAA, pursuant to 28 U.S.C. § 1331.

arbitrate their claims against them if they were intertwined or linked with the claims involving the signatories. Finding that such claims were not so intertwined or linked, the Magistrate Judge recommended that this Court decline to compel the plaintiffs to arbitrate such claims with the non-signatory defendants. The Magistrate Judge also recommended that this Court decline to stay discovery or the plaintiffs' motion for a preliminary injunction, but stay the plaintiffs' motion for prejudgment remedy as to defendant Slim Print only. The defendants object to the Magistrate Judge's recommended ruling.

II. Discussion

A. Motion to Compel Arbitration

The parties do not object to Magistrate Judge Garfinkel's recommendation that the Court compel the plaintiffs to arbitrate their claims against Slim Print, pursuant to the Distribution Agreement arbitration clause.[6] The clause provides in pertinent part:

> 17.1 Any dispute, difference or question which may arise at any time hereafter between the Company and the Distributors[7] with respect to the true construction of this Agreement or the rights and liabilities of the parties hereto shall except as provided by clauses 17.1 and 17.2 herein or unless otherwise herein expressly provided be referred to the decision

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[6]As part of his recommended ruling, Magistrate Judge Garfinkel appears to have concluded that 1) the Distribution Agreement contains a valid arbitration agreement, 2) all the claims asserted as to Slim Print in the plaintiffs' complaint fall within the scope of the arbitration clause, and 3) all such claims, including the federal statutory claim, are arbitrable. See Genesco Inc., v. T. Kakiuchi & Co. Ltd., 815 F.2d 840, 844, 846 (2d Cir. 1987) (setting forth such factors in determining whether to compel arbitration and holding that all claims touching matters covered by the parties' arbitration agreement must be arbitrated, "whatever the legal labels attached to them"); Norcom Electronics Corp. v. CIM USA Inc., 104 F. Supp. 2d 198, 206 (S.D.N.Y. 2000) (finding Lanham Act claim to be arbitrable). The parties do not object to these determinations. As such, they are adopted. Additionally, the parties have not challenged that the FAA and the Convention grant this Court the authority to compel arbitration.

[7]"Company" is defined in the Distribution Agreement as Signature, while "Distributors" is defined as Slim Print and its assignees.

of a single arbitrator in Queensland [Australia] . . . .[8]

The defendants object, however, to Magistrate Judge Garfinkel's recommendation that the Court decline to compel the plaintiffs to arbitrate with the defendants who were not signatories to the Distribution Agreement, Mayfairs, McBride, Muller, and Promat.

The Second Circuit has stated that a court may "'estop a signatory from avoiding arbitration with a non-signatory when the issues the non-signatory is seeking to resolve in arbitration are intertwined with the agreement that the estopped party has signed.'" Smith/Enron Cogeneration Ltd. Partnership v. Smith Cogeneration Int'l, Inc., 198 F.3d 88, 97-98 (2d Cir. 1999) (quoting Thomson-CSF, S.A. v. American Arbitration Assoc., 64 F.3d 773, 779 (2d Cir. 1995)). Factors to consider in making this determination include: 1) whether there is a close relationship between the different defendant entities; 2) whether the claims asserted against the non-signatory defendant are closely intertwined with the duties and obligations arising under the agreement containing the arbitration clause; and 3) whether it would be inequitable to permit the signatory to assert the agreement as a basis for bringing suit against the non-signatory, and at the same time allow the signatory to circumvent the arbitration clause within that same agreement. See Norcom, 104 F. Supp.2d at 203 (considering such factors); see also Chase Mortgage Company-West v. Bankers Trust Company, No. 00CIV8150 (MBM), 2001 WL 547224, at *2 (S.D.N.Y. May 23, 2001) (same).

Whether the claims are "closely intertwined" with the duties under the Distribution

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[8]Section 17.2 of the Distribution Agreement provides: "In the event of any dispute concerning the amount of any moneys due or payable by either party to the other under this agreement a certificate as to the amount signed by an external auditory . . . shall be conclusive and binding on both parties."

Agreement here has also been characterized as an inquiry into whether the claims "arise out of" or are "integrally related" to the Distribution Agreement, Thomson-CSF, 64 F.3d at 780, or whether "the nonsignatory's liability is directly linked to its own conduct and/or that of a signatory defendant under the agreement containing the arbitration clause." Orange Chicken, L.L.C., v. Nambe Mills, Inc., No. 00Civ.4730(AGS), 2000 WL 1858556, at *6 (S.D.N.Y. Dec. 19, 2000). The Fifth Circuit has described the analysis as a question of whether the signatory "raises allegations of substantially interdependent and concerted misconduct by both the non-signatory and one or more of the signatories to the contract." Grigson v. Creative Artists Agency, L.L.C., 210 F.3d 524, 527 (5th Cir. 2000).

Applying these principles here, the Court finds that the signatory plaintiffs are estopped from avoiding arbitration with the non-signatory defendants as to the claims asserted against them. With regard to the first factor in the inquiry, the Court finds that a close relationship exists between the non-signatory and signatory defendants. The individual defendants, Muller and McBride, and the company, Mayfairs, clearly have a close relationship with Slim Print, as they operate and control Slim Print. The company, Promat, also has a close relationship with Slim Print, as it was founded and is operated and controlled by Muller and McBride. The plaintiffs contend in their complaint that Promat is "an *alter ego* and instrumentality of SLIM PRINT and the other Defendants." Compl. ¶ 48.

As to the second factor, the Court finds that the claims against the non-signatory defendants are closely intertwined with the duties and conduct of the signatory defendant under the Distribution Agreement. An examination of the alleged conduct underlying the claims against the non-signatory defendants and the claims against the signatory defendant for violation of the

Distribution Agreement reveals that the same activity is the basis for both claims.[9] Count Three, asserted against the all defendants, alleges that the defendants "palmed off" Signature's products in violation of section 43(A) of the Lanham Act. That claim is directly linked to the conduct underlying Slim Print's alleged violation of its duties under 6.4, 6.6, 6.11, 7.5, and 12 of the Distribution Agreement:

> 6.4 To indicate capacity in which acting – will in all correspondence and other dealings relating directly or indirectly to the sale or other dispositions of the Products clearly indicate that they are acting as distributors;
>
> 6.6 To safeguard Company's commercial monopoly rights – will immediately bring any improper or wrongful use in the Territory of the Company's patents, trade marks, emblems, designs, models or other similar industrial or commercial monopoly rights which come to their notice or to the attention of the Company and will in and about the execution of their duties use every effort to safeguard the property rights and interests of the Company and will assist the Company at the request of the Company in taking all steps to defend the rights of the Company other than by the institution of legal proceedings;
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> 6.11 Not to tamper with markings etc – will not alter, obscure, remove, conceal or otherwise interfere with any markings or name plates or other indication of the source of origin of the goods which may be placed by the Company on the Products;
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> 7.5 To safeguard Distributors' exclusive rights – Distributor will use its best endeavors to safeguard the sole and exclusive rights thereby granted to the Distributors including the taking of such steps as may be available to it to prevent the infringement of those rights by other Distributors or agents of the Company and to prevent the infringement of its patents, trade marks, emblems, designs and other similar industrial or commercial monopoly rights within the Territory;
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> 12 The Distributors undertake that they will not at any time after the making of this

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[9] Counts One and Two of the Complaint appear to be alleged only as to Slim Print. However, in Count One, the plaintiffs refer to "MCBRIDE's breach of contract." Compl. ¶44. The plaintiffs may have been referring to McBride's alleged breach of his Confidentiality Agreement. Again, this is unclear. To the extent McBride is alleged to have breached the Distribution Agreement, that claim is clearly intertwined with the Distribution Agreement. To the extent McBride is alleged to have breached his Confidentiality Agreement, the Court finds that this claim is intertwined with Slim Print's duty of confidentiality, and alleged breach of that duty, pursuant to section 12 of the Distribution Agreement, see infra.

> Agreement divulge any information in relation to the Company's affairs or business or method of carrying on business.

Indeed, the plaintiffs argue that the defendants formed Promat and engaged in such activities in order to avoid Slim Print's obligations under the Distribution Agreement: "MULLER, MAYFAIRS, McBRIDE, and perhaps other John Doe defendants had been actively conspiring for a period of time . . . to attempt to discover or manufacture some pretext to terminate the Distribution Agreement – as part and parcel of a scheme to set up a competing business to SIGNATURE (essentially misappropriating SIGNATURE's intellectual property and palming off SIGNATURE's PRODUCTS and MATS as SLIM PRINT's own) . . . ." Compl. ¶ 32.

Count Four, alleging common law unfair competition and trademark infringement, also asserted against all defendants, is also closely linked to Slim Print's obligations under, and alleged violations of, the above sections of the Distribution Agreement, as well as Slim Print's duties under, and alleged violations of, section 6.2:

> 6.2 *Not to be concerned with competing products* – will not without the previous consent in writing of the Company be concerned or interested either directly or indirectly in the manufacture, production, importation, sale or advertisement of any goods in the Territory which are like or similar to or which either alone or in conjunction with some other product perform or are designed to perform the same or a similar function to or which might otherwise compete or interfere with the sale of any of the Products.

Again, the plaintiffs themselves claim that "MULLER and MCBRIDE, in a secretive manner, formed defendant PROMAT . . . . as an instrumentality to attempt to side-step the non-compete and confidentiality provisions," Compl. ¶ 33, and that "[d]efendants conspired to breach the Distribution Agreement by setting about to directly engage in the manufacture, advertisement and sale of goods in the United States which are identical or substantially identical to SIGNATURE's PRODUCTS and which compete or interfere with the sale of SIGNATURE's PRODUCTS in the

United States." Compl. ¶ 36.

Count Five alleges that all defendants used documents, information, and tangible items acquired from the plaintiffs in confidence and under a duty of confidentiality and a duty not to misappropriate plaintiffs' intellectual property. It appears that this claim refers to Slim Print's duties of confidentiality and to safeguard the property rights and interests of Signature under sections 6.6, 7.5, and 12 of the Distribution Agreement. Thus, the claim that the defendants capitalized on Slim Print's violation of such duties is clearly intertwined with such duties under the Distribution Agreement.

Count Six, asserting a claim of interference with prospective advantage against all defendants, is closely connected to section 6.2 of the Distribution Agreement, Slim Print's covenant not to be "concerned" with competing products, as well as 6.6, Slim Print's duty to safeguard the property rights and interests of Signature. In addition, to the extent Count Six alleges tortious interference with contract, that claim is based upon Slim Print's alleged failure to adhere to its duties under the contract. Again, that the claims against the non-signatory defendants and Slim Print allege "substantially interdependent and concerted misconduct" is confirmed by the plaintiffs' assertions in their complaint that "SLIM PRINT's motivation in breaching its contractual obligations was to injure SIGNATURE's reputation with prospective purchasers of rubber-backed bar runners in the United States and to facilitate SLIM PRINT's entry into this market on its own account through defendant PROMAT, an *alter ego* and instrumentality of SLIM PRINT and the other Defendants." Compl. ¶ 48.

Count Seven alleges the plaintiffs are entitled to an accounting concerning the aforementioned claims against all the defendants; thus, this claim is also intertwined with Slim

Print's duties and obligations under the Distribution Agreement. Finally, Count Eight, alleging infringement and misappropriation of Signature's intellectual property rights in violation of the Connecticut Unfair Trade Practices Act is also closely intertwined with Slim Print's duties under, and alleged violation of, its duty to safeguard the property rights and interests of Signature under sections 6.6, 7.5, and 12 of the Distribution Agreement, as noted above.

With regard to Magistrate Judge Garfinkel's assertion that "there was no reason for the parties to contemplate that they would ever be in an arbitration with newly-formed companies that were not signatories on the issues involved here," the Court disagrees and finds that the alleged activity is what Signature attempted to guard against in formulating the Distribution Agreement and its terms. This is not a case where the non-signatory defendants are wholly separate entities from the signatory defendant, but rather, they–Mayfairs, McBride, and Muller–control and operate the signatory defendant. Moreover, as mentioned earlier, the plaintiffs themselves contend that Promat is an "alter ego" of Slim Print and the other defendants. That the plaintiffs would have to arbitrate claims that arise directly from, or are closely related to, the Distribution Agreement with the persons who control and operate Slim Print should have been anticipated when they entered into the Distribution Agreement with Slim Print.

In light of the foregoing, the Court finds that the each of the claims the non-signatory defendants are seeking to resolve in arbitration is intertwined with the conduct and obligations of Slim Print under the Distribution Agreement, and thus, the plaintiffs are estopped from avoiding arbitration with the non-signatory defendants as to each of these claims. Magistrate Judge Garfinkel's recommended ruling is REJECTED in that respect. Accordingly, that portion of the defendants' motion which requests the Court compel arbitration is GRANTED to the extent that the plaintiffs are ordered to arbitrate all of the claims against all of the defendants pursuant to the terms of the arbitration clause in the Distribution Agreement.

B. Motion to Stay the Case

The defendants also object to that portion of Magistrate Judge Garfinkel's recommended ruling declining to stay discovery or the application for preliminary injunction.

There is a presently a circuit split[10] on the issue of whether courts are stripped of subject matter jurisdiction once arbitration is ordered pursuant to the Convention and thus, whether they may order provisional remedies in aid of such arbitration. The Second Circuit has held, however, that the Convention does not divest a court of jurisdiction and does not preclude a court from issuing provisional remedies in aid of arbitration. See Borden, Inc. v. Meiji Milk Products Co., Ltd., 919 F.2d 822, 826 (2d Cir. 1990) (holding that granting preliminary injunctive relief in aid of arbitration "is consistent with [the Convention's] provisions and spirit").[11] Such relief is also available when arbitration is ordered pursuant to the FAA. See Norcom, 104 F. Supp. 2d at 207 (citing Roso-Lino Beverage Distribs., Inc. v. Coca-Cola Bottling Co., 749 F.2d 124, 125 (2d Cir. 1984) (per curiam)).

Accordingly, that portion of the defendants' motion which requests a stay of the plaintiffs' motion for preliminary injunction and a stay of discovery is DENIED to the extent that the

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[10] See, e.g., McCreary Tire & Rubber Co. v. CEAT, 501 F.2d 1032 (3d Cir. 1974) (reversing district court order refusing to vacate an attachment, because "[t]he Convention forbids the courts of a contracting state from entertaining a suit which violates an agreement to arbitrate"); I.T.A.D. Assoc. v. Podar Bros., 636 F.2d 75, 77 (4th Cir. 1981) (citing McCreary in reversing district court order of attachment in dispute to be arbitrated).

[11] Borden has been called into question, but not overruled, by the Second Circuit's opinion in David L. Threklkeld & Co. v. Metallgesellschaft Ltd., 923 F.2d 245, 253 n.2 (2d Cir. 1991).

preliminary injunction hearing may proceed in aid of arbitration and discovery may proceed in a manner consistent with the scope of the preliminary injunction in aid of arbitration.[12]

Finally, that portion of Magistrate Judge Garfinkel's recommended ruling staying the plaintiffs' request for prejudgment remedy against Slim Print is REJECTED, and that portion declining to stay such request against the non-signatory defendants is APPROVED, although on a basis different from Magistrate Judge Garfinkel's. As noted above, the Second Circuit has declared that a court may order provisional remedies in connection with a controversy submitted to arbitration under the Convention. See Borden, 919 F.2d at 826. Additionally, as Judge Learned Hand noted in Murray Oil, it is consistent with the goals and purposes of the FAA to issue such relief and "make as effective as possible recovery upon [arbitration] awards, after they have been made, which is what provisional remedies do." Murray Oil Products Co. v. Mitsui and Co., 146 F.2d 381, 384 (2d Cir. 1944).

According to Fed. R. Civ. P. 64, a district court may order prejudgment relief "under the circumstances and in the manner provided by the law of the state in which the district court is held." Fed. R. Civ. P. 64. The defendants assert that a stay of such relief until arbitration "commences" is required pursuant to Conn. Gen. Stat. § 52-422 and Goodson v. State, 653 A.2d 177 (Conn. 1995) (providing that prejudgment relief under § 52-422 may be granted only when an arbitration is pending). However, Conn. Gen. Stat. § 52-422 only applies when the underlying dispute has been submitted to arbitration under the Connecticut Arbitration Act. See Conn. Gen. Stat. § 52-422 ("At any time before an award is rendered pursuant to an arbitration *under this*

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[12]Further details on the scope of discovery shall be taken up by Magistrate Judge Garfinkel at the preliminary injunction hearing.

chapter, [a court] may make forthwith such order or decree . . . as may be necessary to protect the rights of the parting pending the rendering of the award . . . .") (emphasis added). Connecticut's prejudgment remedy statute, Conn. Gen. Stat. § 52-578a et seq., governs the relief sought here and lacks any mandate to stay the relief until arbitration commences.

Recognizing, however, the sound policy behind Connecticut's mandate that a prejudgment remedy hearing not go forward until the parties have taken affirmative steps toward arbitration, and Fed. R. Civ. P. 64's requirement that the action for which prejudgment remedies are sought be commenced prior to the issuance of such remedy, the Court directs Magistrate Judge Garfinkel to confirm that affirmative steps have been taken toward arbitration before he deals with the request for prejudgment remedies. That notwithstanding, the Court does not find that a stay of the prejudgment remedy request is required and that portion of the defendants' motion which requests such a stay is DENIED.

III. Conclusion

For the foregoing reasons, the Magistrate Judge's recommended ruling is APPROVED and ADOPTED in part, and REJECTED in part, and, as outlined above, the defendants' motion to compel arbitration and motion to stay the case [Document #15] is GRANTED in part, and DENIED in part.

SO ORDERED this _______ day of December 2001, at Hartford, Connecticut.

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CHRISTOPHER F. DRONEY
UNITED STATES DISTRICT JUDGE