AMERICAN DIAGNOSTICA

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

AMERICAN DIAGNOSTICA OF CONNECTICUT INC.,

Plaintiff,

-against-

CENTERCHEM, INC. and GRADIPORE LIMITED,

Defendants.

ORDER

94 Civ. 7047 (DC)

APPEARANCES:

BROOKS HAIDT HAFFNER & DELAHUNTY
Attorneys for Plaintiff
By: G.T. Delahunty, Esq.
Alfred L. Haffner, Jr., Esq.
Harold Haidt, Esq.
99 Park Avenue
New York, New York 10016

ROSEN DAINOW & JACOBS, L.L.P.
Attorneys for Defendants
By: James David Jacobs, Esq.
Eugene D. Berman, Esq.
489 Fifth Avenue
New York, New York 10017

CHIN, D.J.

Plaintiff American Diagnostica of Connecticut Inc. moves for reargument of my Memorandum Decision dated February 15, 1996, in which I granted defendants' motion to stay this action pending arbitration. Plaintiff's motion is denied for three reasons.

First, this dispute "arises out of or relates to" the distribution agreement dated June 27, 1991 (the "Agreement") between plaintiff and Gradipore and thus is subject to the Agreement's arbitration clause. The principle dispute between the parties is whether paragraph 15 of the Agreement precludes plaintiff from pursuing the trademark claims asserted in this action. Because this dispute requires an interpretation of the Agreement, it necessarily arises out of or relates to the Agreement. Thus, the arbitration clause applies to this action.

Second, plaintiff's argument that I should not have stayed the action with respect to Centerchem is also rejected. Plaintiff's concern appears to be that Centerchem would not be bound by an Australian arbiter's decision. There is no basis for this concern. Centerchem has represented to the Court that, if plaintiff prevails at the arbitration, it will be bound by such a ruling. If Gradipore prevails at the arbitration then there is no need for Centerchem to be "bound" by that ruling, as it too would have won.

Third, there is no need to lift the stay to allow plaintiff to move for a preliminary injunction. In a letter dated April 1, 1996, Gradipore informed the Court that it would agree to provide the Australian arbiter with the power to order interim relief, such as an injunction. Thus, plaintiff can obtain any preliminary relief it seeks through the arbitration process. Moreover, as discussed above, Centerchem's representation that it would be bound to the arbiter's decision applies to any injunctive relief that may be imposed. Thus, if the arbiter orders Gradipore to stop sending its product to Centerchem, Centerchem would also be prohibited from distributing

that product in the United States.

For these reasons, plaintiff's motion for reargument is denied.

SO ORDERED.

Dated: New York, New York
April 4, 1996

DENNY CHIN
United States District Judge

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

AMERICAN DIAGNOSTICA OF CONNECTICUT INC.,

Plaintiff,

-against-

CENTERCHEM, INC. and GRADIPORE LIMITED,

Defendants.

MEMORANDUM DECISION

94 Civ. 7047 (DC)

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Eugene D. Berman, Esq.
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New York, New York 10017

CHIN, D.J.

In this trademark action, defendants Centerchem, Inc. and Gradipore Limited have moved to stay this action and compel arbitration. Defendants rely on a clause in a distribution agreement dated June 27, 1991 (the "Agreement") providing that disputes "arising out of or related to" the Agreement would be resolved through arbitration. Plaintiff American Diagnostica of Connecticut Inc. argues that none of its claims and only two of defendants' ten counterclaims arise out of or relate to the Agreement. Because I reject plaintiff's arguments and find that

this dispute does indeed arise out of or relate to the Agreement, defendants' motion is granted.

BACKGROUND

Gradipore Limited ("Gradipore") is an Australian company that manufactures and distributes diagnostic chemical reagent products. Centerchem Inc. ("Centerchem") is Gradipore's current distributor of two such products, "LA-Screen" and "LA-Confirm." These reagents are used to determine whether Lupus anticoagulants are present in human body fluids.

In 1990, Gradipore contacted plaintiff about distributing a product called "Lupo-Test," a precursor to "LA-Screen." After some discussions, Gradipore and plaintiff entered into the Agreement, whereby plaintiff became Gradipore's non-exclusive distributor of Lupo-Test. Under the Agreement, plaintiff was responsible for all marketing and advertising of the product. Thus, the product was sold under a name that plaintiff chose, "DVVtest." Also, the product label included plaintiff's trademark. Nevertheless, the Agreement limited plaintiff's rights to use and profit from the product's name. Paragraph 15(a) of the Agreement is particularly relevant:

> [T]he Distributor [plaintiff] acknowledges and agrees that it shall have no right whatsoever to claim costs, damages, reimbursement or compensation from Gradipore in respect of publicity work, advertising or any goodwill created for the said products in the territory, upon or by virtue of or as a result of the expiration or termination of this Agreement.

Agreement at ¶ 15(a).

In addition, the Agreement contained an arbitration clause providing that "any controversy, claim or dispute arising out of or related to this Agreement" shall be referred to arbitration in Sydney, Australia.

Sometime after the parties entered the Agreement, Gradipore began using plaintiff to distribute another product, "DVVconfirm," which was to be used in conjunction with DVVtest. Although the parties corresponded regularly regarding plaintiff's distribution of DVVconfirm, the Agreement was not specifically modified to reference this new product.

Gradipore's last shipment to plaintiff occurred in February 1993. Sometime after Gradipore stopped supplying plaintiff, plaintiff began manufacturing and distributing its own chemical reagents under the names DVVtest and DVVconfirm. Meanwhile, Gradipore entered into an arrangement with Centerchem whereby Centerchem was to distribute Gradipore's chemical reagents under the names LA-Screen and LA-Confirm. Soon thereafter, plaintiff brought this action alleging tradenark and trade dress infringement. Defendants counterclaimed, alleging trademark infringement and breach of contract. Defendants now move to stay this action and compel arbitration.

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DISCUSSION

The Federal Arbitration Act ("FAA") reflects a strong federal policy favoring arbitration as a means of alternative dispute resolution. 9 U.S.C. §§ 1-16, 201-207, 301-307 (1988 & Supp. III 1991); Progressive Cas. Ins. Co. v. C.A. Reaseguradora Nacional de Venezuela, 991 F.2d 42, 45 (2d Cir. 1993); Genesco Inc. v. T. Kakiuchi & Co., 815 F.2d 840, 844 (2d Cir. 1987). A court must stay proceedings and order the parties to arbitrate their dispute if it determines that the parties have agreed in writing to arbitrate an issue or issues. 9 U.S.C. § 2 (1988); McMahan Sec. Co. v. Forum Capital Markets L.P., 35 F.3d 82, 85-86 (2d Cir. 1994); Progressive Cas. Ins. Co., 991 F.2d at 45.

In determining whether the FAA mandates arbitration of a dispute, a court must complete four tasks: first, it must determine whether the parties agreed to arbitrate; second, it must determine the scope of the arbitration agreement; third, it must consider, if federal statutory claims are at issue, whether Congress intended those claims to be nonarbitrable; and fourth, it must determine whether to stay the balance of the proceedings pending arbitration if some, but not all, of the claims in the action are arbitrable. Progressive Cas. Ins. Co., 991 F.2d at 45; Genesco Inc., 815 F.2d at 844.

In this action, the first and third steps are unnecessary; the parties neither contest the existence of an arbitration agreement, nor argue that the federal statutory

claims -- the tradomark claims -- are nonarbitrable. Thus, I must only determine the scope of the Agreement and, if arbitration of only some claims is required, whether to stay the action as to the nonarbitrable claims pending arbitration.

I. The Scope of the Agreement

Because federal policy strongly favors arbitration of disputes, arbitration agreements should be construed as broadly as possible, with any doubts being resolved in favor of arbitration. Moses H. Cone Memorial Hosp. v. Mercury Constr. Corp., 460 U.S. 1, 24-25 (1983); McMahan Sec. Co., 35 F.3d at 88. "'[A]rbitration should be ordered unless it may be said with positive assurance that the arbitration clause is not susceptible of an interpretation that covers the asserted dispute.'" McMahan Sec. Co., 35 F.3d at 88 (quoting S.A. Mineracao Da Trindade-Samitri v. Utah Int'l. Inc., 745 F.2d 190, 194-95 (2d Cir. 1984). This is particularly true where the arbitration clause at issue is a broad clause that refers to all disputes arising out of an agreement. McDonnell Douglas Fin. Corp. v. Pennsylvania Power & Light Co., 858 F.2d 825, 832 (2d Cir. 1988).

Here, the central dispute is whether plaintiff's claims concerning DVVconfirm are within the scope of the Agreement. At first glance, it appears without question that this dispute is within the scope of the Agreement. The arbitration clause at issue is a broad clause referring to all disputes "arising out of or related to" the Agreement. Moreover, the Agreement governed

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Gradipore's anticoagulants. This dispute plainly evolved out of that relationship.

Nevertheless, plaintiff argues that this dispute is not subject to arbitration for two reasons: first, the Agreement only related to DVVtest and thus any issue concerning DVVconfirm does not arise out of or relate to the Agreement; second, because the Agreement contains the term "goodwill" but does not mention tradenark rights, plaintiff's trademark claims and defendants' trademark counterclaims do not arise out of or relate to the Agreement. Because I must construe the arbitration clause of the Agreement "as broadly as possible," however, these arguments are rejected.

As for plaintiff's first argument, it is true that its claims, as well as defendants' counterclaims, involve DVVconfirm. It is also true that DVVconfirm was not, initially, covered by the Agreement. Subsequent correspondence between the parties, however, indicates that the Agreement may have governed plaintiff's distribution of DVVconfirm. Specifically, letters dated May 6 and 11, 1993 from Richard Hart, plaintiff's president, to John Manusu, Gradipore's president, reveal that plaintiff believed that the Agreement set forth its rights regarding DVVconfirm.[1]

[1] Plaintiff directs me to a letter dated March 9, 1992 in support of its argument that the Agreement does not apply to DVVconfirm. That letter, however, appears to refer simply to pricing and minimum purchase agreements and not to the overall distribution agreement.

infringement do not involve DVVconfirm alone. Instead, the allegations involve both DVVconfirm and DVVtest. Plainly, the Agreement pertains to disputes concerning DVVtest. Giving a broad construction to the arbitration agreement, I must find that a dispute involving DVVtest and DVVconfirm -- a related product that is used in conjunction with DVVtest -- also arises out of or is related to the Agreement.

Plaintiff's second argument, that this dispute does not arise out of or relate to the Agreement because it is a trademark action, is equally unavailing. Plaintiff bases this argument on ¶ 15(a) of the Agreement. According to plaintiff, ¶ 15(a) pertains to advertising, marketing, and other costs. Thus, plaintiff argues that the paragraph simply provides that it could not charge Gradipore for any costs it incurred for advertising, marketing or otherwise establishing the product's goodwill should the Agreement be terminated prematurely.

Conversely, defendants interpret ¶ 15(a) as prohibiting plaintiff from bringing damage suits to recover for any goodwill created through marketing Gradipore's products. Thus, relying on the term goodwill, defendants argue that this section forbids plaintiff from bringing infringement claims because a trademark is inseparable from the goodwill that it symbolizes. See 15

U.S.C. § 1060 (1988).

In determining whether the trademark aspects of this action are arbitrable, I must favor arbitration unless I can state with "positive assurance" that the Agreement is not susceptible of an interpretation that covers this dispute. Under this standard, I must find that the trademark claims are arbitrable. Defendants raise a meritorious argument that ¶ 15 of the Agreement prohibits the very action that plaintiff has brought against them. Thus, the dispute plainly is related to the Agreement. The mere fact that plaintiff contests defendants' interpretation of that paragraph, even if it is ultimately proved right, does not change the nature of the dispute.[2] Accordingly, I hold that plaintiff's trademark claims and defendants' trademark counterclaims are subject to the arbitration clause contained in the Agreement.

II. Nonarbitrable Claims

Because I find that the trademark claims are arbitrable and because it is undisputed that defendants' contract claims are arbitrable, the only remaining issue is whether I should stay the action as to the claims against Centerchem. Centerchem has

[2] Strictly speaking, the events underlying plaintiff's complaint, an infringement on its registered trademark, occurred after the termination of the Agreement. Nevertheless, this dispute plainly "involves facts and occurrences that arose before expiration" of the Agreement. Litton Fin. Printing Div. v. National Labor Relations Bd., 501 U.S. 190, 206 (1991). Thus, it is of no consequence that this dispute arises after the Agreement has terminated.

stated that it would stipulate to be bound by the arbitration. Thus, all issues pertaining to Centerchem would be resolved at the arbitration as if it were party to the Agreement. Accordingly, staying this action with respect to the claims against Centerchem is the most reasonable course of action.

CONCLUSION

For the foregoing reasons, defendants' motion to stay this action and compel arbitration is granted. I order arbitration of all claims between plaintiff and Cradipore. The litigation of plaintiff's claims against Centerchem is stayed pending arbitration. The action is placed on the suspense docket pending the outcome of the arbitration.

SO ORDERED.

Dated: New York, New York
February 15, 1996

DENNY CHIN
United States District Judge

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