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MK SYSTEMS, INC., Plaintiff, - against - DAVID SCHMIDT, LIFEWAVE PRODUCTS, LLC, Defendants.

04 Civ. 8106 (RWS)

UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK

2005 U.S. Dist. LEXIS 3877

March 10, 2005, Decided
March 16, 2005, Filed

PRIOR HISTORY: *MK Sys. v. Schmidt, 2005 U.S. Dist. LEXIS 1373 (S.D.N.Y., Feb. 1, 2005)*

DISPOSITION: Motion to amend caption granted, and prior order of conditional dismissal vacated. Plaintiff's application to enjoin Georgia litigation denied, and defendants' motions to transfer case granted. Case transferred to United States District Court for Northern District of Georgia.

COUNSEL: [*1] RUBIN BAILIN ORTOLI MAYER & BAKER Attorneys for Plaintiff MK Systems, Inc./Active-8, Inc., New York, NY By: ERIC VAUGHN-FLAM, ESQ. MARC JONAS BLOCK, ESQ. Of Counsel.

A. TODD MEROLLA, P.C. Attorney for Defendants, Atlanta, GE By: A. TODD MEROLLA, ESQ. Of Counsel.

WAGNER, JOHNSTON & ROSENTHAL Attorneys for Defendants, Atlanta, GE.

JUDGES: ROBERT W. SWEET, U.S.D.J.

OPINION BY: ROBERT W. SWEET

OPINION

Sweet, D.J.,

Following the conditional dismissal of the above-captioned action by an opinion and order dated February 1, 2005, *see MK Sys. v. Schmidt, 2005 U.S. Dist. LEXIS 1373, No. 04 Civ. 8106 (RWS), 2005 WL 237755 (S.D.N.Y. Feb. 1, 2005)* (the "Opinion"), familiarity with which is presumed, Active-8, Inc., d/b/a MK Lifepatch Systems, Inc. ("Active-8") submitted a letter-brief dated February 17, 2005 and proof that it has obtained authorization to do business in the State of New York. Active-8's letter-brief having been deemed treatable as a motion to amend the caption, it is granted for the reasons set forth below. In view of the uncontested evidence of Active-8's authorization to do business in the State of New York, Active-8 has cured the violation of *N.Y. Bus. Corp. Law § 1312(a)* [*2] upon which the conditional dismissal set forth in the Opinion was based, and the dismissal is, accordingly, vacated.

The motions previously filed and argued, insofar as they were not fully addressed in the Opinion, are now fully submitted, including the motions of the defendants David Schmidt ("Schmidt") and LifeWave Products, L.L.C. ("LifeWave") (collectively, the "Defendants") to transfer this action to the United States District Court for the Northern District of Georgia, as well as the application made by the then-plaintiff MK for an order staying all proceedings in and enjoining LifeWave from prosecuting an action entitled *LifeWave Products, LLC v. Kline, et al.*, Case No. 04 Civ. 3710, currently pending in the United States District Court for the Northern District of Georgia, Atlanta Division (the "Georgia action"). For the reasons set forth below, the motions to transfer this action to the United States District Court for the Northern District of Georgia are granted, and the application to enjoin the Georgia action is denied.

Prior Proceedings

On October 14, 2004, MK filed the original complaint in this action, asserting three claims against Schmidt and LifeWave: [*3] (i) a claim for fraud in the inducement asserted against both Defendants; (ii) a claim for breach of contract asserted against LifeWave; and (iii) a claim asserted against both Defendants for alleged violations of "the laws of the Food and Drug Administration" (Compl. at P 63) seeking a permanent injunction to prevent Defendants from manufacturing or commercially distributing certain products unless and until the products are "fully compliant with FDA law." (Compl. at P 68).

On December 22, 2004, Schmidt moved to dismiss the complaint pursuant to *Rule 12(b), Fed. R. Civ. P.*, on the grounds that MK lacks capacity to bring the suit and that no private right of action exists under the FDCA, or, in the alternative, to transfer the action to the United States District Court in the Northern District of Georgia pursuant to *28 U.S.C. § 1404(a)*. On January 11, 2005, LifeWave moved to dismiss MK's complaint, adopting the arguments of Schmidt.

One day earlier, by order to show cause dated January 10, 2005, MK moved to stay all proceedings and enjoin LifeWave from prosecuting the Georgia action pursuant to the so-called first-filed [*4] rule. The Georgia action was commenced on December 21, 2004 and involves the same contract and negotiations at issue in the instant action.

On January 14, 2005, Active-8 filed a document in this matter styled a first amended complaint. A hearing was held on the motion to enjoin the Georgia action on January 19, 2005, and the motions to dismiss and transfer the action were heard on January 26, 2005. On January 25, 2005, Defendants filed a motion to dismiss the amended complaint on the ground that Active-8 was not a party to the action or, in the alternative, to transfer the action to Georgia.

On February 1, 2005, the first two claims of the original complaint, based on diversity jurisdiction, were dismissed, MK having failed to establish its capacity to sue with respect to those claims. *See Opinion, 2005 U.S. Dist. LEXIS 1373, 2005 WL 237755, at *3-4*. This dismissal was conditioned "upon MK failing to serve and file . . . proof that it has obtained authority to do business in New York." *Id. 2005 U.S. Dist. LEXIS 1373, [WL] at *6*. The third claim of the complaint, purportedly arising under federal law, was dismissed for want of subject matter jurisdiction. *See id. 2005 U.S. Dist. LEXIS 1373, [WL] at *5*. The Opinion did not dispose of Defendants' alternate [*5] motion for transfer of this case to the United States District Court for the Northern District of Georgia, or address Defendants' arguments for dismissal of the third claim pursuant to *Rule 12(b)(6), Fed. R. Civ. P.*

On February 17, 2005, Active-8 filed proof of its authorization to do business in New York State. Active-8's filing of February 17, 2005 was deemed treatable as a motion to amend the caption, and, following further submissions, the motion was marked fully submitted without oral argument on March 2, 2005.

Discussion

A. *The Motion To Amend The Caption Is Granted and This Action Is Restored*

Thanks, perhaps, to a well placed suggestion by Defendants in their opposition papers to the instant motion to amend the caption, Active-8 has, in reply, submitted documentary evidence demonstrating the nature of the nexus between MK and Active-8, namely, documentary proof of a formal amendment of MK's articles of incorporation changing the name of the corporation to Active-8. With this showing, Active-8 has demonstrated that an amendment of the caption of the current action is warranted in order to reflect the actual name [*6] of the plaintiff. In view of *Rule 15(a), Fed. R. Civ. P.*, which provides that leave to amend a pleading shall be "freely given when justice so requires" and upon Active-8's representation that this amendment "in no way alters the factual issues in this action" and that "the name of the plaintiff has no effect on the contract at issue in this action" (Reply Affirmation of Eric Vaughn-Flam, dated Mar. 1, 2005, at P 10), Active-8's letter-brief, treated as a motion to amend the caption, is therefore granted, and the Clerk of Court is directed to amend the caption of this action accordingly.

In light of the evidence that MK and Active-8 are one and the same entity, and the attendant amendment to the caption, the submission of proof of authorization to do business in the State of New York by Active-8 (rather than MK) is sufficient to cure the violation of *N.Y. Bus. Corp. Law § 1312(a)* upon which the conditional dismissal set forth in the Opinion was based. As no basis appears to doubt Active-8's capacity to sue under the laws of the State of Nevada, *see Opinion, 2005 U.S. Dist. LEXIS 1373, 2005 WL 237755, at *3*, the order of conditional [*7] dismissal is vacated and this action is restored, as are those aspects of the previously pending motions and applications not disposed of by the Opinion.

B. *The Motions To Transfer This Case Is Granted And The Application to Enjoin the Georgia Action Is Denied*

It is a "well-settled principle" in this circuit that where proceedings involving the same parties and issues are pending simultaneously in different federal courts the first-filed of the actions takes priority absent "special

circumstances" or a balance of convenience in favor of the second such action or any subsequent actions. [1] *See First City Nat'l Bank & Trust Co. v. Simmons, 878 F.2d 76, 79 (2d Cir. 1989)*; *see also William Gluckin & Co. v. Int'l Playtex Corp., 407 F.2d 177, 178 (2d Cir. 1969)*. In other words, the presumption is that "the court which first has possession of the action decides it." *800-Flowers, Inc. v. Intercontinental Florist, 860 F. Supp. 128, 131 (S.D.N.Y. 1994)*; *see also Simmons, 878 F.2d at 80*. The party that seeks to deviate from this rule has the burden of demonstrating that circumstances justifying an exception exist. [*8] *See Hanson PLC v. Metro-Goldwyn-Mayer Inc., 932 F. Supp. 104, 106 (S.D.N.Y. 1996)*; *800-Flowers, Inc., 860 F. Supp. at 132*. The determination as to whether there are circumstances warranting a departure from the first-filed rule is committed to the sound discretion of the district court. *See Simmons, 878 F.2d at 77*; *Gluckin, 407 F.2d at 179*.

> 1 Although Defendants have suggested that the first-filed rule is inapplicable here because the Georgia action does not involve the same parties, they have not pressed that argument beyond the first page of their papers submitted in opposition to the application to enjoin the Georgia action. In any event, the first-filed rule applies even where the two actions do not involve all of the same parties. *See, e.g., Meeropol v. Nizer, 505 F.2d 232, 235- 36 (2d Cir. 1974)* (collecting cases).

Courts have recognized the presence of "special circumstances" justifying an exception from the first-filed [*9] rule when the first suit constitutes an "'improper anticipatory filing'" or was motivated solely by forum-shopping. *Toy Biz, Inc. v. Centuri Corp., 990 F. Supp. 328, 332 (S.D.N.Y. 1998)* (citation omitted); *Ontel Prods., Inc. v. Project Strategies Corp., 899 F. Supp. 1144, 1150 (S.D.N.Y. 1995)*. Indeed, the Second Circuit has noted that "the chief 'special circumstance' . . . is our interest in discouraging forum shopping." *Motion Picture Lab. Technicians Local 780 v. McGregor & Werner, Inc., 804 F.2d 16, 19 (2d Cir. 1986)*; *see also Kellen Co. v. Calphalon Corp., 54 F. Supp. 2d 218, 223 (S.D.N.Y. 1999)* ("Most commonly, courts have recognized an exception to the first-filed rule where the first-filed action was instituted by the defendant in the second action, and the defendant won the race to the courthouse under questionable circumstances.").

"Balancing the competing interests, the second exception to the first filed rule, encompasses the same analysis as under a *28 U.S.C. § 1404(a)* transfer motion." *Schnabel v. Ramsey Quantitative Sys., Inc., 322 F. Supp. 2d 505, 514 (S.D.N.Y. 2004)*; [*10] *see also 28 U.S.C. § 1404(a)* ("For the convenience of parties and witnesses, in the interest of justice, a district court may transfer any civil action to any other district or division where it might have been brought."); *800-Flowers, Inc., 860 F. Supp. at 133*; *S-Fer Int'l, Inc. v. Paladion Partners, Ltd., 906 F. Supp. 211, 216 (S.D.N.Y. 1995)*. Accordingly, "because the factors to consider are substantially identical in weighing the balance of convenience for application of the first-filed rule and in ruling on a motion to transfer venue, a single analysis of the factors will resolve both issues." *Everest Capital Ltd. v. Everest Funds Mgmt., L.L.C., 178 F. Supp. 2d 459, 465 (S.D.N.Y. 2002)*; *see also Schnabel, 322 F. Supp. 2d at 514* (collecting cases). Thus, "the first-filed rule does not supersede the inquiry into the balance of convenience under *§ 1404(a)*, and a transfer justified under *§ 1404(a)* is proper even if the action to be transferred was filed before a related action was filed in the transferee district." *Societe Generale v. Fla. Health Scis Ctr., Inc., 2003 U.S. Dist. LEXIS 21502, No. 03 Civ. 5615(MGC), 2003 WL 22852656, at *8 (S.D.N.Y. Dec. 1, 2003)* [*11] (citing *River Road Int'l, L.P. v. Josephthal Lyon & Ross Inc., 871 F. Supp. 210, 214-15 (S.D.N.Y. 1995)*; *Giuliani, S.p.A. v. Vickers, Inc., 997 F. Supp. 501, 504 (S.D.N.Y. 1998))*.

The questions posed by the pending application to enjoin the Georgia action and the motions to transfer this action to Georgia are one and the same, namely, whether making an exception to the first-filed rule is justified by special circumstances or the balance of convenience. Nothing in the record suggests that MK's complaint constitutes an anticipatory filing, nor have Defendants argued that the filing of this suit was solely motivated by forum shopping, which will give rise to an exception to the first-filed rule "where a suit bears only a slight connection to the [forum]." *Toy Biz, 990 F. Supp. at 332*. Departure from the first-filed principle may nonetheless be warranted here if the balance of convenience militates in favor of proceeding in Georgia.

It is undisputed that the present lawsuit "might have been brought" in the United States District Court for the Northern District of Georgia. [*12] *28 U.S.C. § 1404(a)*. Indeed, the contract at issue in this case, to which MK (now Active-8) and LifeWave are parties, expressly provides for such a possibility:

> The parties acknowledge and agree that a substantial portion of the performance under this Agreement shall occur in Gwinnett County, Georgia, United States of America. Accordingly, in the event of litigation or any other dispute pursuant to any term or condition of this Agreement, the parties hereby consent to jurisdiction and venue of the courts in Gwinnett County, Georgia, United States

> of America and the Federal District Court for the Northern District of Georgia, United States of America, and the parties agree that judgment of such courts shall be enforceable against the parties.

(Declaration of David Schmidt, dated Dec. 20, 2004 ("Schmidt Decl."), Exh. A, at P 22.) Accordingly, the only question for resolution here is whether the balance of convenience weighs in favor of that forum. The factors that guide this analysis include:

> (1) the convenience of witnesses; (2) the location of relevant documents and the relative ease of access to sources of proof; (3) the convenience [*13] of the parties; (4) the locus of the operative facts; (5) the availability of process to compel attendance of unwilling witnesses; (6) the relative means of the parties; (7) a forum's familiarity with the governing law; (8) the weight accorded a plaintiff's choice of forum; and (9) trial efficiency and the interests of justice, based on the totality of the circumstances.

800-Flowers, Inc., 860 F. Supp. at 133. Defendants bear the burden of clearly establishing that these factors favor transfer. *See, e.g., S&S Mach. Corp. v. General Motors Corp., 1994 U.S. Dist. LEXIS 13677, No. 93 Civ. 3237 (CSH), 1994 WL 529867, at * 7 (S.D.N.Y. Sept. 28, 1994); Orb Factory, Ltd. v. Design Science Toys, Ltd., 6 F. Supp. 2d 203, 208 (S.D.N.Y. 1998).*

There is no rigid formula for balancing the factors outlined above, and no single one of them is determinative. *See S&S Mach., 1994 U.S. Dist. LEXIS 13677, 1994 WL 529867, at *7*. Instead, weighing the balance among the various factors "is essentially an equitable task" left to the Court's discretion. *Simmons, 878 F.2d at 80*. In performing the balancing analysis the Court must, however, give due deference to the plaintiff's [*14] choice of forum which "should not be disturbed unless the balance of convenience and justice weigh heavily in favor of defendant's forum, especially where as here plaintiff's chosen forum is its principal place of business." *Toy Biz, 990 F. Supp. at 330*.

With respect to the first two factors identified above, namely, the convenience of witnesses and the location of relevant documents, the record does not suggest what witnesses, if any, may be relevant beyond the principals of the parties and the parties themselves, and each party naturally prefers the convenience of litigating in the forum of residence. Accordingly, the scales rest in relative equipoise. Similarly, nothing in the record suggests tipping the balance toward or against transferring the case with respect to the fifth factor, the availability of process to compel attendance of unwilling witnesses, nor has either side offered evidence concerning the relative means of the parties, the sixth factor, that would suggest a tip of the scales.

With respect to the third factor, the convenience of the parties, the underlying contract at issue in this litigation tips the balance toward transferring this action to [*15] Georgia. As this Court has previously observed, "although a permissive forum clause is entitled to less weight than a mandatory one, the fact that both parties initially accepted the jurisdiction of the courts of [a certain jurisdiction] must count. A forum selection clause is determinative of the convenience to the parties." *Orix Credit Alliance, Inc. v. Mid-South Materials Corp., 816 F. Supp. 230, 234 (S.D.N.Y. 1993)* (internal citations omitted); *accord Reliance Ins. Co. v. Six Star, Inc., 155 F. Supp. 2d 49, 58 (S.D.N.Y. 2001)*.

The fourth factor, the locus of the operative facts, is a "'primary factor'" in determining whether to transfer venue. *Mattel, Inc. v. Procount Bus. Servs., 2004 U.S. Dist. LEXIS 3895, No. 03 Civ. 7234 (RWS), 2004 WL 502190, at *4 (S.D.N.Y. Mar. 10, 2004)* (quoting *ZPC 2000, Inc. v. SCA Group, Inc., 86 F. Supp. 2d 274, 279 (S.D.N.Y. 2000)*). The present record establishes that negotiations concerning the underlying contract at issue here occurred both in Georgia and in New York, as well as over the telephone and by facsimile and electronic mail. The lone shipment of products under the contract was delivered from Georgia [*16] to New Jersey, however, and paid for by a non-party, Mark Kline, Incorporated, with a check showing a New Jersey address. In addition, it is alleged that LifeWave, which is in Georgia, breached the contract by selling certain products to other distributors. Although Active-8 has argued that its "customers are primarily located in New York" (Pl. Reply Mem. at 6), no evidence has been submitted to that effect, nor has it been alleged, much less demonstrated on the record, that Active-8's New York customers purchased any of the products at issue, so the relevance of the location of Active-8's customer base is limited at best. [2] In sum, the balance with respect to the fourth factor tips in favor of transfer.

> 2 According to Active-8, the subject products of the agreement between the parties were "un-sellable." (Pl. Reply Mem. at 6; *see also* Compl. at P 43.)

The seventh factor, a forum's familiarity with the governing law, tips decidedly in favor of Georgia, as the parties agreed in the contract at issue here [*17] that the agreement "shall be governed by the laws of the State of

Georgia, United States of America." (Schmidt Decl., Exh. A, at P 22.) Although Active-8 contends that a choice-of-law provision has little jurisdictional effect, citing *Walters v. Woodson, 1987 U.S. Dist. LEXIS 9349, No. 87 Civ. 2500 (CSH), 1987 WL 19026, at *4 (S.D.N.Y. Oct. 16, 1987)* (rejecting the notion that a choice-of-law provision confers personal jurisdiction over a defendant), it has not contested Defendants' assertion that Georgia law governs the state-law contract claims at issue here, nor has it elaborated upon what relevance, if any, *Walters* has here. [3]

> 3 Insofar as restoration of this case under this Court's diversity jurisdiction restored Active-8's sole claim alleged to arise under federal law, Defendants' prior argument for dismissal of that claim pursuant to *Rule 12(b)(6), Fed. R. Civ. P.*, not addressed in the Opinion, *see Opinion, 2005 U.S. Dist. LEXIS 1373, 2005 WL 237755, at *5 n.4*, is likewise renewed. Thus renewed, Defendants' motion to dismiss the third claim of the complaint for failure to state a claim is granted, as no private cause of action to enforce the Federal Food, Drug, and Cosmetic Act, *21 U.S.C. § 301 et seq.*, or its implementing legislation exists. *See Opinion, 2005 U.S. Dist. LEXIS 1373, 2005 WL 237755, at *5.*

[*18] The eighth factor, namely, the weight accorded a plaintiff's choice of forum, does not favor transfer. As Active-8 has observed, "the plaintiff's choice is generally accorded more deference where there is a material connection or significant contact between the forum state and the underlying events allegedly underlying the claim, or where the plaintiff is a resident of the forum district." *Orb Factory, 6 F. Supp. 2d at 210.* No material connection or significant contact between the forum state and the underlying events has been established here beyond the business meeting among Schmidt, the principal of MK, and a third individual in May 2003, attested to by Schmidt. Nor has this action been filed in Active-8's state of incorporation, Nevada. [4] *See 800-Flowers, 860 F. Supp. at 135* (affording the plaintiff's choice of forum less weight and transferring the case when the plaintiff chose a forum that neither corresponded to the locus of operative facts nor was the plaintiff corporation's state of incorporation); *Kwatra v. MCI, Inc., 1996 U.S. Dist. LEXIS 17883, No. 96 Civ. 2491 (DC), 1996 WL 694444, at *4 (S.D.N.Y. Dec. 4, 1996)* (same). This action has been filed, [*19] however, in the district of Active-8's asserted principal place of business, a fact warranting certain deference to plaintiff's chosen forum, *see Toy Biz, 990 F. Supp. at 330*, although such deference is exercised here with certain reservations, in light of the quite recent application and authorization of Active-8 to do business in the forum it claims as its principal place of business.

> 4 On the present record, it appears that MK, now known as Active-8, was incorporated in Nevada, the allegations of the verified complaint concerning MK's incorporation in New York notwithstanding.

The ninth and final factor, trial efficiency and the interests of justice, requires an assessment of the totality of the circumstances. The circumstances here do not suggest, as Active-8 has argued, that the Georgia action was filed as a purely tactical measure or in an otherwise "dubious" fashion. (Pl. Reply Mem. at 5.) To the contrary, the Georgia action was filed by LifeWave, a Georgia entity, concerning an agreement [*20] negotiated, at least in part, in Georgia, concerning products of LifeWave, and governed, according to the terms of the agreement, by Georgia law. Moreover,

> Transfer of an action to a district where a related case is pending enables more efficient conduct of pretrial discovery, saves witnesses time and money in both trial and pretrial proceedings ... thereby eliminating unnecessary expense to the parties while at the same time serving the public interest.

*Foothill Capital Corp. v. Kidan, 2004 U.S. Dist. LEXIS 3634, No. 03 Civ. 3976 (RMB), 2004 WL 434412, at *4 (S.D.N.Y. Mar. 8, 2004)* (quoting *Levitt v. State of Maryland Deposit Ins. Fund Corp., 643 F. Supp. 1485, 1493 (E.D.N.Y. 1986))* (quotation marks omitted and alteration in original); *see generally Wyndham Assocs. v. Bintliff, 398 F.2d 614, 619 (2d Cir. 1968)* (noting the existence of a "strong policy favoring litigation of related claims" in the same forum). Under the totality of the circumstances presented here, the interests of justice and the interests of trial efficiency both weigh in favor of transfer.

In sum, with four factors in equipoise, four factors tipping the scales toward transfer, [*21] and only one factor militating against such transfer, the balance of convenience and justice weights heavily in favor of transferring this action to the United States District Court for the Northern District of Georgia, the forum proposed by Defendants. Accordingly, Defendants have overcome the heavy presumption that this action should remain in New York, and their motions to transfer this action to that forum are granted. The application of MK, now known as Active-8, to enjoin the Georgia action under the first-filed rule is denied, the circumstances of this case warranting departure from that rule.

Conclusion

For the reasons set forth above, the motion to amend the caption is granted and the prior order of conditional dismissal is vacated. The application of MK, now known as Active-8, to enjoin the Georgia action is denied, and Defendants' motions to transfer this case are granted. The Clerk of Court is directed to transfer this case to the United States District Court for the Northern District of Georgia.

It is so ordered.

New York, NY

March 10, 2005

ROBERT W. SWEET U.S.D.J.