Tyco Elec. Subsea Communications, LLC v Opnext, Inc.
2012 NY Slip Op 33439(U)
August 13, 2012
Supreme Court, New York County
Docket Number: 652438/11
Judge: Melvin L. Schweitzer

SUPREME COURT OF THE STATE OF NEW YORK
NEW YORK COUNTY

PRESENT: HON. VERNON S. BROADUS J.S.C. PART 45
Justice

Tyco Electronics

-v-

OPNEXT, INC.

INDEX NO. 652438/11

MOTION DATE _____

MOTION SEQ. NO. 001

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 by defendant to dismiss the Complaint herein is GRANTED per the attached Decision and Order.

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

Dated: August 13, 2012

HON. VERNON S. BROADUS, J.S.C.

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: IAS PART 45

TYCO ELECTRONICS SUBSEA COMMUNICATIONS, LLC.,	
Plaintiff,	Index No. 652438/11
-against-	DECISION AND ORDER
OPNEXT, INC.,	Motion Sequence: 001
Defendant.	

Melvin L. Schweitzer, J.

This is an action to recover damages arising from defendant's alleged failure to develop and manufacture certain equipment for plaintiff's undersea fiberoptic cable systems pursuant to the parties' written agreements. Defendant now moves to dismiss for failure to state a claim, failure to plead fraud with particularity, and pursuant to documentary evidence (CPLR 3211[a][1] and [a][7]; 3016[b]).

Background

The Complaint

The following facts are taken from the complaint and the relevant transactional documents submitted in connection with this motion. Plaintiff Tyco Electronic Subsea Communications (Tyco) is in the business of constructing integrated undersea fiberoptic cable systems which are comprised of subsystems that include transponders of optical and electrical signals to send information (O'Neill Aff., Exh 3, p. 1). Defendant Opnext, Inc. (Opnext) designs, develops, manufactures and sells coherent transceivers modules (Modules) used as

components in transponders (Id). The Modules are intended to convert digital data into a format that can be transmitted over the optical fiber used in Tyco's cable systems (Compl. ¶ 1).

In January 2009, Opnext approached Tyco about developing a Module for Tyco's system (Compl. ¶ 8). At a meeting in February 2009, Opnext represented that its program to develop a 100G Module product for major customers in the terrestrial market was fully-funded and well-advanced, and that it could develop a 40G Module appropriate for Tyco's undersea needs because it would use hardware identical to the 100G Module (Compl. ¶ 9). The heart of the Module was a custom-design application-specific integrated circuit (ASIC), which Opnext stated would be designed for both the 100G and 40G operations (Compl. ¶ 10).

During the next few months, Opnext made a number of representations regarding the then-current state of the development of its Module. Among other things, Opnext represented that it was "ahead of the market," "far along" and had made "significant progress" in developing the Module; that it had experience and success in making integrated circuits in a previous 40G product; that any risk in the program was substantially reduced by a variety of methods including the implementation of certain algorithms; and that it had already implemented all algorithms and had chosen a silicon technology and understood the "gate count" needed for implementation (Compl. ¶ 11). The parties understood that timely development of the Module was critical to Tyco's business (Compl. ¶ 12).

In September 2009, the parties executed a Letter of Intent and NRE[1] Agreement (LOI) (Compl. ¶ 14; O'NEILL Aff., Exh. 2). As relevant here, Article 2.1.1 of the LOI provided:

[1] "NRE" means non-recurring engineering and refers to the one-time cost incurred in researching, developing, designing and testing a new product.

> In exchange and consideration for Tyco Telecom's performance of its obligations under Sub-Article 2.2.2, Opnext agrees to:
>
> (i) Deliver a "Hurricane" 100G working development prototype (the "100G Prototype"), which shall include soft decision FEC capability, to Tyco Telecom's lab in Eatontown, New Jersey, on or prior to January 8, 2010;
>
> * * *
>
> (iv) Deliver a "Hurricane 40G or "Stinger" 40G development prototype (the "40G Prototype") which is not required to include soft decision FEC capability to Tyco Telecom's lab in Eatontown, New Jersey on or prior to February 5, 2010. The 40G Prototype shall support a minimum of 5,000 ps/nm chromatic dispersion tolerance, and Opnext shall use reasonable efforts to exceed such specification and provide an updated 40G prototype specification on or prior to November 30, 2009 . . .

(LOI, p. 2).

As relevant here, Article 2.1.2 of the LOI provided that:

> In exchange and consideration for Opnext's performance of its obligations under Sub-Article [2.1.1] Tyco Telecom agrees to:
>
> (I) pay, against receipt of a corresponding invoice, a $1,000,000 USD non-refundable payment 30 days from receipt of invoice . . .

(LOI, p. 3). Pursuant to LOI, Annex 1, section 1.1, the $1,000,000 was invoiced upon signing of the agreement (Exh. 2, p. 8). Section 1.6 of Annex 1 to the LOI provided as follows:

> Delay of any of the NRE milestones
>
> o A three month delay results in a 5% penalty payment to Tyco Telecom of paid NRE (excluding Payment 1). A six month delay results in an additional 5% penalty payment to Tyco Telecom of paid NRE (excluding Payment 1).
>
> o A twelve month delay allows Tyco Telecom an option to terminate the Contact. Should Tyco Telecom elect to terminate the Contract, an additional payment penalty of all remaining paid NRE (excluding $300,000 of Payment 1) will be made to Tyco Telecom, $300,000 will be converted into a credit for Opnext products and Tyco Telecom shall thereafter have no further obligations pursuant to the Contract.

[* 5]

In January 2010, Opnext announced, prior to and during an optical communications industry conference, that it had delivered a 100G prototype to another customer and it had performed well. Tyco asked for access to such a prototype after Opnext announced that it needed extra time to produce the 40G prototype. Opnext responded that it could not do so due to other customer commitments (Compl. ¶ 16).

On March 30, 2010, the parties executed a Development and Manufacturing Agreement (the Manufacturing Agreement). Under that agreement, Opnext agreed to provide "all the services necessary for design, development, documentation, qualification and manufacture" of the Modules, qualification text results for the Modules; prototype Modules; and the use of a prototype (Compl. ¶ 17; Manufacturing Agreement Article 1.1). Sections 1.1 and 1.8 of Exhibit A to the Manufacturing Agreement established certain milestones, which included delivery of a 40G/100G coherent development demonstrator prototype by February 5, 2010; 40G/100G prototype line modules by July 31, 2010; and 40G/100G line module by January 11, 2011. Under Section 1.2 of Exhibit A, Opnext was entitled to payments of $500,000 for each of those milestones. Section 1.8 of Exhibit A provided that Tyco's payments would be reduced up to10% for delays beyond a three-month grace period, and Tyco agreed that "such penalty payments shall constitute [Tyco's] sole remedy with respect to any good faith delay by Opnext in meeting any of its obligations" with respect to the milestones. Tyco had the option to terminate the Manufacturing Agreement if Opnext failed to meet any of the milestones within twelve months of the specified date.

[* 6]

Opnext also made the following representations regarding the status of its coherent module program:

> Opnext believes it has made significant progress in its 100G coherent PM-QPSK development program. The dual multiplexer IC . . . has been fully tested and the design has been verified . . . An ADC test chip has been taped out using the BGA package design as well as the same 65nm CMOS process and foundry as the final modem chip . . . The modem algorithms have been implemented and tested . . . Opnext has scheduled support for a 40G/100G FPGA-based prototype trial equipment in May 2010.

(Compl. ¶ 21; Manufacturing Agreement Article 42).

Article 32 of the of the Manufacturing agreement limited the damages recoverable as follows:

> Other than respect to a breach of a party's obligations pursuant to Article 13 [Intellectual Property Indemnification] or 18 [Use of Information] of this Agreement, neither party shall be entitled to any anticipatory profits or incidental, special, or consequential damages with respect to any alleged breach of this agreement or any indemnification obligations under this Agreement. Other than respect to Article 13 or 18 of this Agreement, under no circumstances and under no legal theory, whether in tort (including negligence), contract or otherwise, shall either party be liable to the other party for any damages in an amount greater than the sum of (1) the then-paid NRE payments paid pursuant to Section 1.2 of Exhibit A of this Agreement and (ii) the then-paid payments for purchases of products pursuant to Section 1.5 of Exhibit A of this Agreement.

Finally, Article 38 of the agreement provided:

> The provisions of this Agreement supersede all contemporaneous oral agreements and all prior oral and written agreements or discussions of [Tyco] and Opnext with respect to the subject matter of this Agreement, including without limitation, that certain Letter of Intent by and between Opnext and [Tyco] dated as of September 11, 2009.

In May 2010, Opnext advised Tyco that the Modules would be delayed by two months. In June, Opnext disclosed that the Module would require considerably more power than it originally

represented, and that the problem would require a complete reworking of Tyco's equipment. Opnext also stated that it would not be able to even discuss the issue for more than a month (Compl. ¶ 25). Thereafter, Opnext failed to produce working prototypes for the 40G and 100G demonstrators (Compl. ¶¶ 29-33).

In spring and summer 2010, Tyco told Opnext that the delays were causing serious conflicts with its resource planning and putting the entire program for which the Module was being developed in jeopardy (Compl. ¶ 34). Despite Tyco's requests for an explanation and review of the delays, Tyco failed to provide a satisfactory response, other than pointing to internal management personnel problems (Compl. ¶¶ 34-35).

In September 2010, Opnext advised Tyco that it would not be providing a complete Module at all, but merely a "reference design." Contrary to the parties agreement, Opnext stated that it would only provide a list of components and some instruction on how to assemble them, leaving the design, reliability and manufacturing issues to Tyco (Compl. ¶ 26). At the end of September 2010, Opnext disclosed that its internal ASIC chip design using 65 nanometer technology was a failure because it consumed too much power, and that it would have to start from scratch, switching to a 40 nanometer technology which would require an additional 18-month delay (Compl. ¶ 41). Approximately two weeks later, Opnext revealed that it would attempt to procure a modem chip from a third party, but would be incapable of providing the algorithms for it (Compl. ¶¶ 43-34).

Tyco terminated the Manufacturing Agreement on February 7, 2011 (Compl. ¶ 48). In March 2011, Opnext sold the intellectual property underlying the technology it had been developing for Tyco to another company, Juniper Networks, Inc., for $26 million (Compl. ¶ 3).

Tyco commenced the instant action on September 2, 2011. The complaint sets forth six causes of action, for (1) breach of the LOI, (2) breach of the Manufacturing Agreement, (3) breach of warranty under the Manufacturing Agreement, (4) fraudulent inducement, (5) unjust enrichment and (6) money had and received.

Discussion

The motion to dismiss is granted. Any claims Tyco may have had under the LOI were clearly extinguished by the Manufacturing Agreement, and the remaining claims are either barred by the terms of that later agreement or are insufficiently pled.

Count I of the complaint alleges that the LOI "is a valid enforceable agreement" and that Opnext breached it by failing to deliver the modules, chips and prototypes. However, the Manufacturing Agreement plainly worked a novation of the LOI. "It is well settled that where the parties have clearly expressed or manifested their intention that a subsequent agreement supersede or substitute for an old agreement, the subsequent agreement extinguishes the old one and the remedy for any breach thereof is to sue on the superseding agreement, " *Lnzro Pizza Empire, Inc. v Brown*, 229 AD2d 947, 948 (4th Dept 1996).

The elements of a novation, or substituted agreement, "include a previous valid obligation, agreement of all parties to the new obligation, extinguishment of the old contract, and a valid new contract," *Wasserstrom v Interstate Litho Corp.*, 114 AD2d 952, 954 (2d Dept 1985); *see DCA Advertising, Inc. v The Fox Group, Inc.*, 2 AD3d 173 (1st Dept 2003). The validity of the original and new agreements is not disputed here, nor is the parties' consent to the new contract. Only the extinguishment of Opnext's liabilities under the LOI is in issue.

The rule applied in determining whether a new contract extinguishes liability for pre-existing breaches of, or claims under, a prior agreement is that "in general no such claim can be made unless expressly or impliedly reserved upon the rescission," *Mallad Const. Corp. v County Fed. Sav. & Loan Assn.*, 32 NY2d 285, 293 (1973), *quoting Eames Vacuum Brake Co. v Prosser*, 157 N.Y. 289, 295 (1898). While in the normal course such claims might be the subject of a general release, the fact that a formal release is neither demanded nor given is not dispositive, *Mallad*, 32 NY2d 285, 290; *BNP Paribas Mortg. Corp. v Bank of America, N.A.*, 778 F Supp 2d 375 (SD NY 2011). Instead, the court discerns intent from the language actually employed by the written instruments before it, *Mallad*, 32 NY2d 285, 291; *Leeward Isles Resorts, Ltd. v Hickox*, 49 AD3d 277 (1st Dept 2008); *Northville Indus. Corp. v Fort Neck Oil Terms. Corp.*100 AD2d 865 (2d Dept 1984), *aff'd* 64 NY2d 290 (1985).

The question of novation may be decided as a matter of law if the language evinces a "plain and unambiguous" purpose to supersede the terms of one contract with another, *Northville*, 100 AD2d 865, 868. Collecting cases in *Globe Food Servs. v Consolidated Edison.* 184 AD2d 278 (1st Dept 1992), the First Department noted that phrases such as "a revocation and cancellation of the prior agreement," "supersedes" any prior agreement and " in lieu of and shall supersede" any prior agreements were sufficiently "definitive" to effect a novation *de jure*, *Globe Food*, 184 AD2d 278, 278. *See Leeward Isles Resorts, Ltd. v Hickox*, 49 AD3d 277, 278 (1st Dept 2008) (loan agreement which "supersede[d] and replace[d]" earlier agreement effected a novation); *see also Health-Chem Corp. v Baker*, 915 F2d 805, 811 (2d Cir 1990) ("the word 'supersede' has been defined at various times to mean 'set aside,' 'annul,' 'displace,' 'make void,' and 'repeal'").

Here, the Manufacturing Agreement unambiguously declared that it would "supersede all contemporaneous oral agreements and all prior oral and written agreements or discussions . . . with respect to the subject matter of this Agreement," and made specific reference to the LOI. Short of a release, the parties could not have more clearly expressed their intention to extinguish any obligations or liability remaining under the LOI. The claim under that agreement must therefore be dismissed, *see L-3 Communications Corp. v OSI Systems, Inc.*, 2004 WL 42276, *9 (SD NY 2004) ("The language of the Amended LOI clearly indicates the parties' intent to supersede the original LOI . . . [t]herefore, any action by OSI for breach of contract must be brought under the Amended LOI).

In view of this determination, plaintiff's argument's that the $1,000,000 payment it made under the LOI was not "non-refundable" or "unconditional" are academic. Plaintiff never exercised its rights to seek the percentage or partial refund under section 1.6 of Annex 1 to the LOI. Instead, it expressly excused those delays and extinguished any possibility of a refund by electing to agree to a new schedule under a new, superseding contract which did not include any provision for return of the original payment. Insofar as the claims for money had and received and unjust enrichment are merely quasi-contractual claims which seek to recover the same damages as those available under the failed LOI, they must be dismissed as well, *see Apfel v Prudential–Bache Secs.*, 81 NY2d 470 (1993); *Clark–Fitzpatrick, Inc. v Long Is. R.R.*, 70 NY2d 382 (1987); *TADCO Const. Corp. v Dormitory Authority of State of NY*, 93 AD3d 619 (1st Dept 2012); *Lum v New Century Mortg. Corp.*, 19 AD3d 558 (2d Dept 2005).

Plaintiff also argues that its rights under the LOI might be preserved if, pursuant to its claim under Count IV for fraudulent inducement, the Manufacturing Agreement is rescinded.

However, that cause of action fails as well. As discussed above, in the Manufacturing Agreement Tyco expressly disclaimed reliance on all contemporaneous and prior, written and oral representations, with special reference to the LOI. A claim for fraudulent inducement may not be maintained "where the person claiming to have been defrauded has by his own specific disclaimer of reliance upon oral representations himself been guilty of deliberately misrepresenting his true intention," *Citibank, N.A. v Plapinger*, 66 NY2d 90, 94 (1985). Although a general, standard form, "bare bones" clause will ordinarily not bar an inducement claim, *LibertyPointe Bank v 75 East 125th Street, LLC*, 95 AD3d 706 (1st Dept 2012), a negotiated provision between sophisticated parties will suffice, *see Citibank*, 66 NY2d 90, 94; *HSH Nordbank AG v UBS AG*, 95 AD3d 185 (1st Dept 2012); *Capricorn Investors III, L.P. v Coolbrands Int't, Inc.*, 66 AD3d 409 (1st Dept 2009); *Emfore Corp. v Blimpie Associates, Ltd.*, 51 AD3d 434 (1st Dept 2008) ("The disclaimers were not generalized boilerplate exclusions, but were contained in a separate rider, which plaintiff's principal read and initialed, stating specifically that she was not relying on any representations by defendants"); *Marine Midland Bank, N.A. v Embassy East, Inc.*, 160 AD2d 420 (1st Dept 1990) (fraud in the inducement defense precluded where guarantees stated that they would "not be changed or affected by any representation, oral agreement, act or thing whatsoever, except as herein provided").

In this case, Tyco's disclaimer was not part of a boilerplate form. It appeared in an agreement that was not merely negotiated, but part of renegotiations between sophisticated parties engaged in a high-technology venture. It incorporated by reference the LOI and all of the oral and written representations made in connection therewith, and declared that they would play

no part in the parties new agreement -- which itself set forth new and different representations and supplied the remedies for their breach.

Moreover, the Manufacturing Agreement was executed in the context of Opnext's known and repeated failures to meet various milestones. In view of the foregoing, plaintiff's attempted reliance on any alleged oral representations is wholly unreasonable. Additionally, the court concurs with defendant that the core of plaintiff's allegations relate to non-actionable "statements of predictions or expectation" regarding its future progress with the products, *ESBE Holdings, Inc. v Vanguish Acquisition Partners, LLC*, 50 AD3d 397, 398 (1st Dept 2008); *see Albert Apartment Corp. v Corbo Co.*, 182 Ad3d 500 (1st Dept 1992).

Finally, plaintiff's two contract claims under the Manufacturing Agreement must be dismissed. As set forth above, Article 32 precluded either party from recovering "any damages in an amount greater than the sum of (1) the then-paid NRE payments paid pursuant to Section 1.2 of Exhibit A of this Agreement and (ii) the then-paid payments for purchases of products pursuant to Section 1.5 of Exhibit A of this Agreement." Plaintiff does not allege that it made any such payment. Rather, it is apparently seeking the "anticipatory profits or incidental, special, or consequential damages," specifically excluded by Article 32, or the $1,000,000 it paid under the superseded LOI. Because the Manufacturing Agreement "is a negotiated commercial agreement between sophisticated parties and the exclusion provision is clear and conspicuous, the limitation of liability is not unconscionable and is therefore enforceable," *Biotronik A.G. v Conor Medsystems Ireland, Ltd.*, 95 AD3d 724, 725 (1st Dept 2012).

Accordingly, it is

ORDERED, that defendant's motion to dismiss the complaint is granted and the complaint is dismissed in its entirety, with costs and disbursements to defendants as taxed by the Clerk of the Court, and it is further

ORDERED, that the Clerk is directed to enter judgment accordingly.

Dated: ~~July~~ August 13, 2012

ENTER:

J.S.C.

MELVIN L. SCHWEITZER
J.S.C.