

FRANK LaLOGGIA,

Plaintiff,

v.

DOCUMENT SECURITY SYSTEMS, INC. f/k/a  
NEW SKY COMMUNICATIONS, INC.,

Defendant.

---

DECISION AND ORDER

Index #2005/08307

Plaintiff, Frank LaLoggia, moves pursuant to CPLR §3212(b & e) for an order dismissing defendant's counterclaims as barred by the statute of limitations. Defendant, Document Security Systems, Inc., cross moves pursuant to CPLR §3025 for leave to file and serve an amended answer. Following receipt of the cross motion, the court was notified that the parties consent to amendment of the answer.

This action arises out of an agreement entered into by plaintiff, Frank LaLoggia, and defendant, Document Security Systems, Inc. ("DSS"), f/k/a New Sky Communications, Inc. ("New Sky") on July 2, 1996.<sup>1</sup> Section 1 of the agreement provided that plaintiff was to be paid 3,000,000 shares of New Sky, in advance, for consulting services rendered between July 2, 1996 and July 2, 1999. The New Sky shares were, in fact, paid to plaintiff by July 9, 1996.

---

<sup>1</sup>New Sky was renamed DSS in 2002.

Plaintiff's complaint, however, arises out of more recent dealings between the parties, and concerns a distribution arrangement between defendant and MGM. The complaint alleges breach of contract and seeks issuance of an additional 3,000,000 shares of defendant's stock to plaintiff, in consideration of plaintiff having secured a distribution deal with MGM dated December 24, 2002, for the motion picture, "Lady in White." The complaint was filed and served in July 2005, alleging two causes of action. The first alleges that defendant breached the parties' agreement by failing to pay 3,000,000 shares of common stock to plaintiff for securing the deal with MGM, and the second alleges that defendant was unjustly enriched because it is receiving royalties arising out of the parties' agreement without paying all of the agreed upon consideration to plaintiff. The answer and counterclaims were filed and served in August 2005. Plaintiff filed and served a reply to the counterclaims, pleading the statute of limitations as a defense to each of the three counterclaims. Discovery between the parties then ensued, including the exchange of documents and depositions of plaintiff, DSS' president, Charles LaLoggia, and former DSS president Carl Reynolds.

In its first counterclaim, DSS contends that plaintiff did not render the required consulting services pursuant to the parties' earlier arrangement in 1996 during the required time

frame. DSS' claim is based, at least in part, on a July 2, 1997 letter from plaintiff to his cousin, Charles LaLoggia, who was not an officer, director or employee of New Sky at the time. DSS' first counterclaim claims damages for the value of the 3,000,000 shares issued to plaintiff in 1996.<sup>2</sup> Sometime between January 6, 1998 and March 30, 1998, New Sky issued an additional 3,000,000 shares of common stock to plaintiff pursuant to Section 9 of the 1996 agreement, in consideration for plaintiff securing a DVD distribution deal with Elite Entertainment for the film "Lady in White." DSS' second counterclaim contends that plaintiff knew that the Elite DVD deal conflicted with an existing distribution agreement and, therefore, that there was no consideration for the issuance of the shares. The third counterclaim is based on the allegations in the first two counterclaims and contends that plaintiff was unjustly enriched when he received the 6,000,000 shares in July 1996 and March 1998.

**Summary Judgment**

Plaintiff made a prima facie showing that the counterclaims are time barred. Defendant argues that, because the counterclaims are asserted defensively as setoffs and arise from the same transaction or occurrence upon which the complaint

---

<sup>2</sup> The shares received by plaintiff in 1996 were sold by him before 2001.

depends, they are authorized by CPLR §203(d). CPLR §203(d) states:

A defense or counterclaim is interposed when a pleading containing it is served. A defense or counterclaim is not barred if it was not barred at the time the claims asserted in the complaint were interposed, except that if the defense or counterclaim arose from the transactions, occurrences, or series of transactions or occurrences, upon which a claim is asserted in the complaint depends, it is not barred to the extent of the demand in the complaint notwithstanding that it was barred at the time the claims asserted in the complaint were interposed.

See also, Bloomfield v. Bloomfield, 97 N.Y.2d 188, 192-93 (2001); United States Fidelity and Guaranty v. Delmar Dev. Partners, LLC, 22 A.D.3d 1017, 1020 (2005); DeMille v. DeMille, 5 A.D.3d 428, 429 (2d Dept. 2004); Coppola v. Coppola, 260 A.D.2d 774 (3d Dept. 1999); Town of Amherst v. County of Erie, 247 A.D.2d 869 (4<sup>th</sup> Dept. 1998); Macaluso v. United States Life Ins. Co., 2004 WL 1497606, \*7 (S.D.N.Y. 2004). Thus, a counterclaim will not be time-barred where it "arises from, and directly relates to, plaintiff's claim. . . ." Bloomfield, 97 N.Y.2d at 193. In such a circumstance, the defendant is permitted "to interpose that counterclaim to the extent of the demand in the complaint notwithstanding that the counterclaim was barred at the time the complaint was interposed." Town of Amherst, 247 A.D.2d at 869 (emphasis supplied). CPLR §203(d) permits a "defendant to assert

an otherwise untimely claim which arose out of the same transactions alleged in the complaint, but only as a shield for recoupment purposes, and does not permit a defendant to obtain affirmative relief." DeMille, 5 A.D.3d at 429. See generally, 118 E. 60<sup>th</sup> Owners v. Bonner Props., 677 F.2d 200, 203-04, cited in Bloomfield, 97 N.Y.2d at 193; Town of Amherst, 247 A.D.2d at 869; Enrico, 252 A.D.2d at 430; Sklansky v. Donowski, 10 Misc.3d 134(A) at \*1 (Sup. Ct. App. Term 2<sup>nd</sup> & 11<sup>th</sup> Dist. 2005).

Where an untimely counterclaim is interposed and the court's review of the counterclaim reveals that it does not arise from "the transactions, occurrences, or series of transactions or occurrences" upon which the complaint is based, equitable recoupment will not save the counterclaim from an attack based upon the statute of limitations. See Matter of SCM Corp., 40 N.Y.2d 788, 791 (1976). Thus, our Court of Appeals recognizes the distinction between recoupment and setoff. Id. 40 N.Y.2d at 791 (where respondent's claim "d[id] not seek a recovery-back predicated on some act or fact growing out of the matter constituting the cause or ground of the action brought, but is instead a setoff - a separate and distinct claim"). "'The recoupment doctrine is a limited one and should be narrowly construed.'" Global Crossing Bandwith, Inc. v. Centrix Telecom, LLC, 2004 WL 2284737, \*2 (W.D.N.Y. 2004), quoting In re Richard McMahon, 129 F.3d 93, 97 (2d Cir. 1997). "'Where the contract

itself contemplates the business to be transacted as discrete and independent units, even claims predicated on a single contract will be ineligible for recoupment.'" Westinghouse Credit Corp. v. D'Urso, 278 F.3d 138, 147 (2d Cir. 2002), quoting In re Malinowski, 156 F.3d 131, 135 (2d Cir. 1998). Thus, even where claims arise from the same contract, equitable recoupment will not be available where the claims do not arise from the same transaction: "Claims that do not arise out of reciprocal contractual obligations or the same set of facts are not part of the same transaction for recoupment purposes." Global Crossing Bandwith, Inc. v. Centrix Telecom, LLC, supra.<sup>3</sup>

Despite the fact that plaintiff's claims and defendant's counterclaims arise from the same agreement, however, "defendan[t] . . . failed to show that . . . [its] claim 'aris[es] out of some feature of the transaction upon which the plaintiff's action is grounded.'" Rochester Health Network, Inc. v. Rochester Hospital Service Corp., 123 A.D.2d 509, 510 (4<sup>th</sup> Dept. 1986) (quoting Bull v. United States, 295 U.S. 247, 262). This is borne out by a simple examination of the provisions of

---

<sup>3</sup> For this reason, the court must examine the contractual provisions at issue for the purpose of determining whether the counterclaims seek recoupment, or instead seek setoff. To this limited extent, consideration of the merits is unavoidable, despite defendant's argument to the contrary in its March 3<sup>rd</sup> letter. Of course, the examination required is only of the agreement and the pleadings themselves, not any disputed issues of fact. The factual material set forth in Plaintiff's Response to Defendant's Sur-Reply Brief, at pp. 4-5, is disregarded.

the 1996 agreement. Sections one and two of the agreement obligated plaintiff to render consulting services on a non-exclusive basis as required by defendant's predecessor's Board of Directors for a three year period beginning July 2, 1996. Section three of the agreement contemplated payment to plaintiff of 3 million shares upon execution of the agreement. Section four contemplated payment to plaintiff of another 3 million shares for "past services" in connection with a movie entitled "The Giant." Sections five, six, seven, and ten of the agreement involve assignment of each party's interests in certain movie properties, which does not in a material way bear on the considerations governing disposition of this motion.

Section eight of the contract "appoints LaLoggia as exclusive sales agent and licensor for other released films owned by New Sky, 'FEAR NO EVIL,' and 'LADY IN WHITE.'" Section eight promises plaintiff a discreet compensation package "for any sales he arranges" and otherwise provides for a split of receipts relating to these two films. Section nine of the agreement promises plaintiff "additional compensation for securing a new production or distribution deal" for five named films (enumerated in the disjunctive, "or"), consisting of "a fee in the form of a grant of an additional 3,000,000 common shares of New Sky Stock . . . when such deal is secured in writing."

The foregoing provisions manifestly describe

compartmentalized performances of each party plainly and expressly referable to identified and discreet performances already performed or expected of the other party. Moreover, performance by each side of the promises contained in sections one, two, three, and four of the agreement, upon which the counterclaims are based, may be complete quite without regard to whether plaintiff performed anything which might entitle him to payment of additional money or stock pursuant to sections eight and nine of the agreement (upon which plaintiff's complaint is based). Which is another way of saying that none of the performances identified in sections one through four of the agreement are referable to any of the performances identified in sections eight and nine of the agreement, and visa versa.<sup>4</sup> Accordingly, this a case "[w]here the *contract itself*

---

<sup>4</sup> Defendant contends that the consulting services duties imposed on him by sections one and two are linked to section eight's grant to plaintiff of an exclusive sales agency in connection with the film "LADY IN WHITE" because plaintiff secured a laser disc deal with Elite Entertainment during the three year period he was providing consulting services. Whether that characterization is accurate is not material here, because the agreement plainly treats each such film transaction separately. Whether the Elite deal in 1996 tread on existing assigned rights of defendant's predecessor thus has nothing remotely to do with whether plaintiff performed a discreet service to plaintiff in connection with the 2002-2003 MGM deal under section eight and nine entitling him to the additional compensation described in those two sections. That the same film is involved is of no aid to defendant. Defendant's argument would come into play for recoupment purposes only if plaintiff's complaint sought compensation under sections eight or nine for the 1996 Elite deal. The complaint cannot be read to present such a claim.

contemplates the business to be transacted as discrete and independent units.'" Westinghouse Credit Corp. v. D'Urso, 278 F.3d at 147 (emphasis supplied) (quoting In re Malinowski, 156 F.3d at 135). See also, id., describing the contract at issue in Conoco, Inc. v. Styler (In re Peterson Distributing, Inc.), 82 F.3d 956, 962-62 (10<sup>th</sup> Cir. 1996) as involving an "overarching distributorship agreement [which] governed many different types of sales and related activities, which were considered separate transactions." The court agrees with plaintiff, therefore, that this case is controlled by Rochester Health Network, Inc. v. Rochester Hospital Service Corp., 123 A.D.2d 509, 510 (4<sup>th</sup> Dept. 1986).

**Motion to Amend**

A stipulated order granting the motion to amend is issued herewith.

CONCLUSION

Plaintiff's motion for summary judgment dismissing the counterclaims is granted. The motion to amend is granted.

SO ORDERED.

---

KENNETH R. FISHER  
JUSTICE SUPREME COURT

DATED: March 22, 2006  
Rochester, New York