UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

----------X

CICEL (BEIJING) SCIENCE & TECHNOLGY CO., LTD.,

Plaintiff,

-against-

MISONIX, INC.,

Defendant.

----------X

MEMORANDUM & ORDER
17-CV-1642 (GRB)

GARY R. BROWN, United States District Judge:

Some things are just easy.

Notwithstanding four years of hard-fought litigation, numerous court rulings, hundreds of filings encompassing thousands of pages, and a summary judgment motion that fills a bookshelf, this case turns on three questions that, properly phrased, almost answer themselves. First, upon discovering that Cicel, its main distributor in China, was likely engaged in bribery of government employees in connection with the sale of its products, did Misonix have to continue its relationship with Cicel? Second, did Misonix defame Cicel by accurately disclosing this information in its SEC filings? Third, did Misonix have the right to secretly purloin Cicel's customer lists and pricing information?

The answer is, uniformly, no. As such, Misonix's motion is largely granted. The only vestige of this overly litigated dispute is Cicel's trade secret claim, leaving one interesting question that must be answered by the parties: is the game worth the candle?

DISCUSSION

Misonix's motion for summary judgment is decided under the oft-repeated and well understood standard for review of such matters, as discussed in *Bartels v. Inc. Vill. of Lloyd Harbor*, 97 F. Supp. 3d 198, 211 (E.D.N.Y. 2015), *aff'd sub nom. Bartels v. Schwarz*, 643 F. App'x 54 (2d Cir. 2016), which discussion is incorporated by reference herein. The procedural and factual background set forth in Judge Spatt's October 7, 2017 Memorandum and Order (dismissing all counts other than the breach of contract count), Judge Locke's April 11, 2019 Memorandum and Order (granting a protective order in connection with an internal investigation)[1] and Judge Spatt's January 23, 2020 Memorandum and Order is referentially incorporated herein.

1. *Discovery and Disclosure of Bribery Allegations and the Termination of the Distribution Agreement*

The undisputed facts conclusively evidence Cicel's involvement in illegal conduct, first raised by David Battles,[2] a former Misonix employee. In April 2016, he wrote to the CFO, stating:

> China is a country that is notorious for corruption, the head of the company is reported as having many high-ranking contacts in government (including government hospitals) and, they have been known for engaging in possible bribery (paying a now dismissed, Misonix representative as a consultant, presumably for favoritism in pricing, etc.). Cicel is also known to charge unrealistically high prices for our products (approximately a 10x markup in some cases, where most international distributors are happy with a 1.7x markup). Please note that I have no evidence that there actually has been any violations of the FCPA by our distributor in China, I am only raising this to your attention because certain things seem to fit the profile that was included in the training materials I was recently given, which stated that I should report any similar situations to either the CFO or the CEO.

[1] Much ink has been spilled and energy expended (before both Judge Locke and the undersigned) regarding Misonix's unusual and nettlesome invocation of attorney-client privilege as to its internal investigation. This amounted to "sound and fury signifying nothing," given the unassailable evidence obtained independent of that investigation. William Shakespeare, *Macbeth*, Act. V, Scene V.

[2] Cicel tries to paint Battles as a besieged employee who raised the issue solely to seek whistleblower protection. It matters little, as Battles' allegations are fully corroborated by indisputable statements by Cicel's employees.

DE 177-7 at 5. A few days later, following a conversation with May Lee, the owner of Cicel, Battles added:

> I told her that one observation that was causing concern was the unusually high sales prices for our BoneScalpel (reported in some cases to be in the $300,000 to $400,000 range which would have reflected more than a 30x markup. Ms. Li [sic] acknowledged that there had been sales in that price range but that the presence of other similar technologies in the marketplace had since driven these prices down to around $185,000 (since our prices have been raised to $22,500, that would be an 8.2x markup.) However, as Ms. Li explained, virtually all BoneScalpel sales involve at least a year's supply to [sic] tubing (50) and blades (30).
>
> Ms. Li further explained to me the way medical equipment sales are conducted in China. Cicel sells directly to hospital in only about 30% of cases. In these cases, the doctor does not expect any payment for himself, but rather he seeks funding and support for his department. Examples might be; [sic] a requirement that Cicel support research projects for the next five years, or that Cicel would provide funding so that the surgeons can visit meetings and conferences for the next five years, etc. In virtually all cases of direct sales, there are extensive extra benefits that Cicel must provide and therefore calculate into the price charged for the device. Apparently these funds are channeled through third parties to avoid the appearance that cash is going to enrich the doctors personally.
>
> The other 70% of Cicel's sales go through sub-distributors. Cicel performs all the sales and promotion and after-sale service in these cases and the sub-dealer is only there to handle the financial transaction – to effectively facilitate an illegal payment to the doctor. In fact; [sic] approximately half of the sub-distributors that Cicel works with are owned by the surgeon who is purchasing the device. In all sub-distributor transactions, the surgeon names the price and the specific sub-distributor that he wants to work with.

DE 177-8 at 3.

Misonix's investigation of these allegations yielded incontrovertible proof, mainly in the form of emails authored by Cicel's management. In August 2013, a Cicel employee wrote:

> we have to admit that the market environment in China now is very complicated, many businesses under the counter. People are alwasy [sic] seeking for money and benefit, from top to bottom, which is beyond our control. Then in such cases, we definitely seek cooperation with sub-dealers or other sources. On one hand, to be honest, we have no idea in what way they will manage everything; on the other hand, we could not be responsible for any behaviors by sub-dealers.

DE 178-7 at 3. A September 2014 email from another Cicel employee states:

> You may notice that most of the products were sold by distributors. As you know, there are many deals under the table, which Cicel could not handle by itself, so we have to seek for partners in such a situation. We will make direct sales only when there is a firm connections [sic] between Cicel and hospitals, or hospitals will ask us to make direct sales with them.

DE 178-8 at 4. Later that month, another Cicel employee informed the Company's owner, May Lee, that:

> As you may know, APD [a Cicel sub-distributor] has good experiences [sic] on handling business under the table. Sometimes, it's very helpful, but sometimes it could be very danderous [sic]. So for big cities, such as Shanghai and Guangzhou, we could not take the risk. We would rather be safe. But for some small place, where under table business is very popular and well accepted, APD may help, or may be [sic] we could cooperate with them on some specific project. But we should be very careful about the territory and we should have full supervision for their behaviors during the whole process, which we believe it's [sic] best for our mutual benefit.

DE 178-9 at 3. Three months later, a Cicel employee noted:

> In China, the surgeons usually get a low salary, so they prefer incentive sales, which stimulates the growth of a large demand of under-table deals. This is our national situation. Cicel never do [sic] these deals, we have to go through our sub-dealers if we want to do the business.

DE 178-3 at 3. Finally, in January 2015, an email from May Lee, Cicel's owner, stated:

> Indeed, China government has made some big movements on anti-corruption, but such hidden rules still exist in medical industry, especially orthopedics. You may make the investigation through Angie or your resources on the bribes in orthopedics, which is appalling. Cicel is not able to handle this kind of matters, so we have to find partners (sub distributors) to help us. They may do some promotion, but Cicel will be the only one to provide training and service to our end customers.

DE 178-2 at 3. Taken together, this undisputed[3] evidence establishes that Cicel was using illegal methods in connection with the contract.

[3] That several authors of these bombshells later disavowed knowledge of phrases like "under the table" and "under the counter" does not raise an issue of fact. *See* DE 208-1, ¶ 39. In some sense, such denials strengthen the unassailable import of these communications.

But there's more. As a result of the investigation, Misonix learned that Cicel had been fined by the Chinese Government in 2014 for commercial bribery and failed to disclose this fact. While counsel for Cicel endeavors to mischaracterize the incident, the Chinese language document plainly indicates that Cicel "us[ed] property or other means to bribe to sell or purchase goods." DE 89-1 at 10 (imposing fine of 150,00 yuan, approximately $24,000). While this activity may not have involved Misonix's products, *see* Oct. 27, 2021 Hr. Tr. at 14:10-13, the imposition of this sanction during the agreement and its concealment from Misonix further supports defendants' case.

Unsurprisingly, given the existential threat to public companies posed by *potential*[4] Foreign Corrupt Practices Act (FCPA) violations,[5] Misonix quickly terminated its agreement with Cicel and commenced an internal investigation, voluntary self-reporting and public disclosure.[6] "[D]efendants certainly had a right and an obligation to act promptly to protect themselves from FCPA liability." *Fabri v. United Techs. Int'l, Inc.*, 387 F.3d 109, 123 (2d Cir. 2004). Under New York law, the well-documented illegal conduct here renders the contract unenforceable.

---

[4] Cicel speciously argues that "Misonix did not follow the DOJ's guidance and, instead, self-disclosed prematurely before it was aware of an offense." *See* DE 218-2 at 9. Yet the one DOJ memorandum submitted by Cicel (and cherry-picked from a wide array of authorities) requires, for example, "[p]rovision of all facts relevant to *potential* criminal conduct by all third-party companies" in order to receive credit for full cooperation. *Id.* at 42 (emphasis added).

[5] *See, e.g.*, GlaxoSmithKline plc., Exchange Act Release No. 79005 (SEC Sept. 30, 2016) (enforcement action based on payment to Chinese health care professionals); Bristol-Myers Squibb Comp., Exchange Act Release No. 76073 (SEC Oct. 5, 2015) (same); Wong, et al., "The Foreign Corrupt Practices Act and Pharma in the Chinese Market" (2010) available at gibsondunn.com. ("China possesses certain cultural and governmental particularities that pose specific problems to Western companies considering investment or opening operations there. The vast majority of the healthcare system in China is run by the Chinese government, putting many doctors firmly under the purview of the FCPA as 'foreign officials.' In addition, cultural traditions such as 'red envelopes,' as well as long-established business practices such as paying commissions to doctors, increase the potential likelihood of FCPA violations.").

[6] Cicel argues that Misonix "sought to benefit financially from getting rid of Cicel." DE 218-2 at 18. This contention is fundamentally ridiculous. For public companies, FCPA disclosures are anathema, and this case is no exception: as a result of the disclosure, Misonix had to bear millions in legal and investigation costs, resolve a derivative lawsuit (*see Feldbaum v. Misonix*, 17-CV-3385(ADS), DE 60 ($500,000 settlement)), loss of reputation and, of course, defend the instant case. DE 208-1, ¶ 31 (identifying $2.6 million in investigative and legal costs). Cicel's contention that Misonix took these steps "to further its business interests," DE 218-2 at 18, is, therefore, absurd.

McConnell v. Commonwealth Pictures Corp., 7 N.Y.2d 465, 471 (1960) ("a party will be denied recovery even on a contract valid on its face, if it appears that he has resorted to gravely immoral and illegal conduct in accomplishing its performance"). This holds true for violations of foreign law, including Chinese anti-bribery laws. *See Lehman Bros. Com. Corp. v. Minmetals Int'l Non-Ferrous Metals Trading Co.*, 179 F. Supp. 2d 118, 138 (S.D.N.Y. 2000) ("New York law does not ignore an illegality in China. A contract that is illegal in its place of performance is unenforceable in New York if the parties entered into the contract with a view to violate the laws of that other jurisdiction.").

Thus, defendant is entitled to summary judgment on the breach of contract claims.

Defamation

Endeavoring to contain the damage, Misonix made voluntary disclosures to the Department of Justice and the Securities and Exchange Commission. Then:

> On September 28, 2016, Misonix disclosed in an 8-K filing that it had contacted the Securities and Exchange Commission and the U.S. Department of Justice "to voluntarily inform both agencies that the Company may have had knowledge of certain business practices of the independent Chinese entity that distributes its products in China, which practices raise questions under the Foreign Corrupt Practices Act . . . ."

DE 183-18. Cicel brings a defamation claim based solely[7] on this filing.

Attorneys for Misonix argue that the statement cannot be defamatory because it's *true*. They're right about that. *Guccione v. Hustler Mag., Inc.*, 800 F.2d 298, 301 (2d Cir. 1986) ("truth is an absolute, unqualified defense to a civil defamation action") (citation omitted). Counsel for

[7] Judge Spatt limited the defamation claim to this one 8-K filing, finding other claims time-barred. *Cicel (Beijing) Sci. & Technology Co. v. Misonix, Inc.*, 2020 WL 376581, at *7 (E.D.N.Y. Jan. 23, 2020).

Cicel's arguments to the contrary amount to nothing more than obfuscation.[8] Thus, summary judgment will be entered in favor of Misonix on the defamation claim.

Theft of Trade Secrets

It is undisputed that Misonix obtained certain information from Cicel including customer lists, margins and pricing data.[9] "To succeed on a claim for the misappropriation of trade secrets under New York law, a party must demonstrate: (1) that it possessed a trade secret, and (2) that the defendants used that trade secret in breach of an agreement, confidential relationship or duty, or as a result of discovery by improper means." *Faiveley Transp. Malmo AB v. Wabtec Corp.*, 559 F.3d 110, 117 (2d Cir. 2009) (citation omitted). In addition, "[u]nder New York law, a 'distributorship agreement may, in some rare instances, create a confidential relationship out of which duty of fiduciary care arises.'" *Abernathy-Thomas Eng'g Co. v. Pall Corp.*, 103 F. Supp. 2d 582, 602, 604 (E.D.N.Y. 2000) (citation omitted).

Under the leadership of its prior CEO, and before the termination of the contract, Misonix enticed a former Cicel employee to provide a "business plan," with mutual assurances that Cicel would not be advised of the transaction. DE 208-1, ¶¶ 99, 176. There are factual disputes as to whether this activity would constitute "discovery by improper means" under the trade secret doctrine, as well as whether Misonix and Cicel enjoyed a confidential relationship. *See Abernathy-*

[8] Though the Court need not reach the issue, the statements are also likely subject to immunity. *See Loughlin v. Goord*, No. 20-CV-6357 (LJL), 2021 WL 3932616, at *14 (S.D.N.Y. Sept. 1, 2021), reconsideration denied, No. 20-CV-6357 (LJL), 2021 WL 4523504 (S.D.N.Y. Sept. 30, 2021) ("the New York Court of Appeals would conclude that the 10-Q statement at least is subject to a qualified privilege"); *see also Betz v. Fed. Home Loan Bank of Des Moines*, No. 4:21-CV-00022, 2021 WL 3046888, at *9-10 (S.D. Iowa July 19, 2021) (qualified privilege may apply to statement made in Form 8-K).

[9] Misonix argues, unpersuasively, that Cicel's customer lists and pricing data are not trade secrets. *See Intertek Testing Servs., N.A., Inc. v. Pennisi*, 443 F.Supp.3d 303, 341 (E.D.N.Y. Mar. 9, 2020) (client list and pricing information that did "not appear to be otherwise readily ascertainable to others in the industry" were trade secrets because of "the care with which plaintiff guarded such information"). Given that a former Cicel employee asked Misonix to not share a 2014 "business plan" and that the Misonix representative promised he would "protect the info," DE 208-1, ¶ 99, Misonix's argument that the business data at issue do not constitute trade secrets strains credulity.

Thomas Eng'g Co., 103 F. Supp. 2d at 602–04. Thus, summary judgment must be denied as to the trade secret claim.

That does not end the inquiry, however. The parties quarrel over whether Cicel can demonstrate damages as to this limited (and perhaps tenuous) claim. Despite the voluminous record (or perhaps because of its heft), the evidence of damages is unclear. As such, Cicel would be advised to carefully consider whether continuing its efforts here represents a judicious use of resources.[10]

CONCLUSION

For the reasons set forth, summary judgment is GRANTED as to the breach of contract and defamation claims, and DENIED as to the trade secret claims. Plaintiff will submit a status update within 14 days of the date of this Order.

SO ORDERED.

Dated: Central Islip, New York
January 20, 2022

/s/ Gary R. Brown
HON. GARY R. BROWN
United States District Judge

[10] For avoidance of doubt, should the plaintiff opt to continue this endeavor, the Court will require plaintiff to demonstrate "to a 'reasonable probability that the claim is in excess of the statutory jurisdictional amount' of $75,000." *Hicks v. Leslie Feely Fine Art, LLC*, No. 1:20-CV-1991(ER), 2021 WL 982298, at *4 (S.D.N.Y. Mar. 16, 2021) (quoting *Tongkook Am., Inc. v. Shipton Sportswear Co.*, 14 F.3d 781, 784 (2d Cir. 1994)).