STATE OF NEW YORK
SUPREME COURT COUNTY OF MONROE

WILLIAM H. THOMPSON and
WALTER TOOMBS,

Plaintiff,

v.

MICHAEL P. McQUEENY,
MICHAEL SERVENTI,
DOUGLAS M. VANOORT, JENNIFER
CHALMERS BALBACH, 331 HOLDING, INC.,
SUMMER STREET CAPITAL FUND I, LP,
SUMMER STREET CAPITAL NYS FUND, LP,
RAND CAPITAL SBIC, LP, RAND CAPITAL
CORPORATION and ONONDAGA VENTURE
CAPITAL FUND, INC.,

Defendant.

DECISION AND ORDER

Index #2007/07194

Plaintiffs, William H. Thompson and Walter F. Toombs, moves pursuant to CPLR 3212(e) for an order granting partial summary judgment on their first, second, and fifth causes of action, specifically enforcing the terms of a certain Letter Agreement, dated January 18, 2007, and directing defendants to, among other things: (1) cause the formation of a 331 Holding, Inc. subsidiary ("NewCo"), (2) elect plaintiffs as the sole directors and officers of NewCo, (3) place ownership of US patents #7,027,431 and #6,108,331 in NewCo, (4) distribute all of the NewCo's equity out to its shareholders, to the exclusion of defendants, and (5) enjoining defendants from assigning, selling or otherwise transferring the ownership of US Patent #6,108,331 to anyone other than NewCo. Defendants, Michael P. McQueeney, Michael Serventi, Douglas M. Vanoort, Jennifer Chalmers Balbach, 331 Holding, Inc., Summer Street Capital Fund I, LP, Summer Street Capital NYS Fund, LP, Rand Capital SBIC, Rand Capital Corporation and Onondaga Venture Capital Fund Inc., cross move for an order permitting them to amend their answer and counterclaims to assert affirmative defenses and counterclaims for rescission and reformation based upon mutual mistake.

The parties appeared before the court in conference on October 25, 2007 to be heard on an order to show cause with a temporary restraining order. The order to show cause seeks a preliminary injunction enjoining and restraining defendants (and all others acting in concert with them), during the pendency of this action and until further order of the court, from selling, transferring, otherwise disposing of, or encumbering US Patents #6,108,331 and #7,027,431. The court also granted a TRO temporarily enjoining and restraining defendants from selling, transferring, otherwise disposing of, or encumbering US Patents #6,108,331 and #7,027,431, and from taking any further action as may be violative of the January 18, 2007 Letter Agreement.

This case arises over two patents, known herein as the "'331 Patent" and the "'431 Patent," both of which - it is undisputed - were covered technology invented by plaintiff Thompson. Prior to January 18, 2007, USTEC (now known as 331 Holding) was the owner of both patents and was in the business of the development and distribution of residential wiring infrastructure systems for video, date, and voice applications. USTEC was founded by plaintiff Thompson in 1992.

Prior to January 18, 2007, USTEC became indebted to several entities ("the Senior Lenders"), including the defendant entities. These loans were sought by USTEC at the end of 2002 and in early 2003 to infuse capital into USTEC, which, it is alleged, had spent years manufacturing and marketing its products but had not yet turned a profit. It is alleged by plaintiff that defendant Summer Street, one of the Senior Lenders, dominated and controlled USTEC's board of directors as a result of various loan and related agreements. The Summer Street employees or affiliates allegedly dominating USTEC's board of directors prior to January 17, 2007, consisted of the individual defendants herein.

Plaintiffs allege that Summer Street group determined that it wanted payments on the USTEC debts as soon as possible. There is no indication that USTEC was in default or delinquent, and USTEC had entered into forbearance agreements with the Senior Lenders in 2006, containing an outside date of January 1, 2008. Alleging that it sought to raise capital, defendants contend that USTEC's board of directors entered into negotiations for the sale of substantially all of USTEC's assets to two different entities and that the auction process continued through the Fall of 2006.

Plaintiff Thompson alleges that he took issue with the board's ultimate choice as between the two offers and, as a member of the board, sent a letter to his fellow directors on January 16, 2007, explaining that the plan was not in USTEC's best interests. In particular, Thompson objected that the immediate sale of USTEC's assets without finding for the patents sufficient to exploit them would only benefit the senior lenders, who would obtain both immediate satisfaction on the loans and continued control over USTEC's remaining assets. Ultimately, however, plaintiffs agreed to the sale of USTEC's assets to OnQ/LeGrande ("the LeGrande transaction") based upon various conditions set forth in the January 2007 Letter Agreement plaintiff now seeks to enforce, including the immediate formation of NewCo, capitalization of NewCo by USTEC, plaintiff's control of NewCo as sole directors and officers, and exclusion of the '331 and '431 patents from the LeGrande Transaction. Plaintiff's rely in particular on the following passage of the Letter Agreement:

> Patent No. 331 will remain in USTEC and USTEC will attempt to sell this patent and the Purchasers will retain all proceeds from such sale to satisfy the outstanding loan obligations due to the Purchasers after the partial satisfaction of the obligations of USTEC to the Purchasers upon completion of the Legrande Transaction. If the sale of Patent No. 331 does not occur by December 31, 2007, then USTEC will sell Patent No. 331,

> free and clear of all liens or encumbrances of any kind to NewCo for $1.00 and no other consideration or obligations. USTEC will covenant and agree that any sale of Patent No. 331 prior to December 31, 2007 will not encumber the use of Patent No. 431.

January 2007 Letter Agreement, ¶4(a). To complete the LeGrande transaction, Thompson also gave a release to LeGrande from any claims he had arising out of his relationship with USTEC, and which contained a non-compete clause which only excepted "Permitted Products" based on the '331 and '431 Patents excluded from the LeGrande asset transfer. Release and Acknowledgment, at ¶5(b). Compliance with the Letter Agreement was stated to be a condition for the individual plaintiffs to "vote their shares in favor of the LeGrande Transaction." Letter Agreement, ¶5.

Plaintiffs allege that USTEC is now about to consummate a transaction for the sale of the '331 patent to an outside party. Plaintiffs allege that this sale will render the '431 Patent worthless. It is alleged that the '431 Patent is an improvement, which introduced a wireless component, on the technology of the '331 patent. The '431 Patent, however, is subject to a Terminal Disclaimer, demanded by the patent's office, which places conditions upon it and affects its ability to be separated from the '331 patent, as discussed more fully *infra*. USTEC was able to overcome the double patent rejection (due to the similarities between the '331 Patent and the '431 patent) by filing the Terminal Disclaimer.

Summary Judgment

It is well settled that "the proponent of a summary judgment motion must make a prima facie showing of entitlement to judgment as a matter of law, tendering sufficient evidence to demonstrate the absence of any material issues of fact." Alvarez v. Prospect Hosp., 68 N.Y.2d 320, 324 (1986) (citations omitted). See also Potter v. Zimber, 309 A.D.2d 1276 (4th Dept. 2003) (citations omitted). "Once this showing has been made, the burden shifts to the nonmoving party to produce evidentiary proof in admissible form sufficient to establish the existence of material issues of fact that require a trial for resolution." Giuffrida v. Citibank Corp., 100 N.Y.2d 72, 81 (2003), *citing* Alvarez, 68 N.Y.2d at 324. "Failure to make such showing requires denial of the motion, regardless of the sufficiency of the responsive papers." Wingrad v. New York Univ. Med. Ctr., 64 N.Y.2d 851, 853 (1985) (citation omitted). See also Hull v. City of North Tonawanda, 6 A.D.3d 1142, 1142-43 (4th Dept. 2004). When deciding a summary judgment motion, the evidence must be viewed in the light most favorable to the nonmoving party. See Russo v. YMCA of Greater Buffalo, 12 A.D.3d 1089 (4th Dept. 2004). The court's duty is to determine whether an issue of fact exists, not to resolve it. See Barr v. County of Albany, 50 N.Y.2d 247 (1980); Daliendo v Johnson, 147 A.D.2d 312, 317 (2nd Dept. 1989) (citations omitted).

Here, plaintiffs move for summary judgment on the first three causes of action. The first cause of action seeks declaratory relief, specifically a declaration that:

> 331 Holding is obligated to obtain a covenant-not-to-sue with regard to infringement claims from any proposed purchaser of the '331 Patent, its successors and assigns, running in favor of the '431 Patent, that neither Newco nor Thompson is required to provide a reciprocal covenant to '331 Holding or anyone else, that, in the event that ownership of the Patents may not be separated without impairing the enforceability of the '431 Patent, the sale of the '331 Patent to a third party may not proceed, and that 331 Holding, Inc. is obligated to immediately consummate the transactions contemplated by the said Letter Agreement, including transferring good title to the '431 Patent to Newco.

Complaint, ¶44. The second cause of action seeks specific performance of the Letter Agreement, in particular with ¶4(a) quoted above. The fifth cause of action seeks injunctive relief restraining and enjoining defendants from selling, transferring, or otherwise disposing of the '331 Patent in violation of the terms of the January 2007 Letter Agreement and/or from otherwise violating the terms of the January 2007 Letter Agreement.

"'The best evidence of what parties to a written agreement intend is what they say in their writing.'" Greenfield v. Philles Records, 98 N.Y.2d 562, 569 (2002), *quoting* Slamow v. Del Col, 79 N.Y.2d 1016, 1018 (1992). "Thus, a written agreement that is complete, clear and unambiguous on its face must be enforced according to the plain meaning of its terms." Id.

> A familiar and eminently sensible proposition of law is that, when parties set down their agreement in a clear, complete document, their writing should as a rule be enforced according to its terms. Evidence outside the four corners of the document as to what was really intended but unstated or misstated is generally inadmissible to add to or vary the writing (see, e.g., Mercury Bay Boating Club v. San Diego Yacht Club, 76 N.Y.2d 256, 269-270, 557 N.Y.S.2d 851, 557 N.E.2d 87; Judnick Realty Corp. v. 32 W. 32nd St. Corp., 61 N.Y.2d 819, 822, 473 N.Y.S.2d 954, 462 N.E.2d 131; Long Is. R.R. Co. v. Northville Indus. Corp., 41 N.Y.2d 455, 393 N.Y.S.2d 925, 362 N.E.2d 558; Oxford Commercial Corp. v. Landau, 12 N.Y.2d 362, 365, 239 N.Y.S.2d 865, 190 N.E.2d 230). That rule imparts "stability to commercial transactions by safeguarding against fraudulent claims, perjury, death of witnesses * * * infirmity of memory * * * [and] the fear that the jury will improperly evaluate the extrinsic evidence." (Fisch, New York Evidence § 42, at 22 [2d ed].) Such considerations are all the more compelling . . . where commercial certainty is a paramount concern.

W.W.W. Associates, Inc. v. Giancontieri, 77 N.Y.2d 157, 162 (1990). See also, Beal Sav. Bank v. Sommer, 8 N.Y.3d 318, 324 (2007); Lee v. Tetra Tech, Inc., 14 Misc.3d 1235(A), *5 (Sup.Ct. Monroe Cty. 2007). "Whether a contract is ambiguous is a question of law and extrinsic evidence may not be considered unless the document itself is ambiguous." South Rose Associates, LLC v. International Business Machines Corp., 4 N.Y.3d 272, 277-78 (2005). See also, Lee, 14 Misc.3d at *6 (stating that the extrinsic evidence "is not admissible so long as the court finds that the contractual provisions in question are unambiguous”).

A court should strive to give “full meaning and effect” to the contract’s provisions. Beal Sav. Bank, 8 N.Y.3d at 324; Excess Ind. Co. Ltd. v. Factory Mut. Ins. Co., 3 N.Y.2d 577, 582 (2004). “[A] contract should be ‘read as a whole, and every part will be interpreted with reference to the whole; and if possible it will be so interpreted as to give effect to its general purpose.’” Beal, 8 N.Y.3d at 325, *citing* Matter of Westmoreland Coal Co. v. Entech, Inc., 100 N.Y.2d 352, 358 (2003).

> Under the traditional principles of contract law, the parties to a contract are free to make their bargain, even if the consideration exchanged is grossly unequal or of dubious value (*see*, Spaulding v. Benenati, 57 N.Y.2d 418; Harner v. Sidway, 124 NY 538; 3 Williston, Contracts §7:21, at 390 [Lord 4th ed.]; Restatement [Second] of Contracts §74, comment *e*; §79, comment *c*). Absent fraud or unconscionability, the adequacy of consideration is not a proper subject for judicial scrutiny (Spaulding v. Benenati, *supra*, at 423). It is enough that something of “real value in the eye of the law” was exchanged (*see*, Mencher v. Weiss, 306 NY 1, 8).

Apfel v. Prudential-Bache Sec., Inc., 81 N.Y.2d 470, 475-76 (1993). “Far from consideration needing to be coextensive or even proportionate, the value or measurability of the thing forborne or promised is not crucial as long as it is acceptable to the promisee.” Weiner v. McGraw-Hill, Inc., 57 N.Y.2d 458 (1982).

The January 2007 Letter Agreement contained express provisions placing obligations on defendants upon the closing of the LeGrande transaction. Specifically, defendants were required to form and capitalize NewCo; elect plaintiffs as sole shareholders and directors of NewCo; transfer the '431 Patent and all related confidential information to NewCo; and following NewCo's formation and the assignment of '431 Patent, distribute all equity of NewCo out to its stockholders, excluding defendants, all pursuant to ¶4(a). It is undisputed that the LeGrande transaction has been consummated.

Defendants claim that, at best, the last sentence of Paragraph 4(a), prohibiting a sale of the '331 Patent that encumbers the use of the '431 Patent, creates a contractual ambiguity arising from the parties' mutual mistake in failing to comprehend the effect of the Terminal Disclaimer. On the strength of this contention alone, defendants seek denial of the summary judgment motion and an order allowing them leave to amend to assert counter-claims for rescission and reformation based upon mutual mistake.

The court perceives no ambiguity in the January 2007 Letter Agreement. Paragraph 4(a) prohibits USTEC (now known as 331 Holding, Inc.) from selling the '331 Patent in any manner that would encumber the use of the '431 Patent. USTEC is allowed, however, to sell the '331 Patent so long as the use of the '431 Patent is not encumbered. That the grant to USTEC to sell the

‘331 Patent is allegedly curtailed by the last sentence of Paragraph 4(a) is of no moment. Defendants contracted for, and received, the ability to sell the ‘331 Patent, if it could, prior to the end of 2007, providing it could do so without encumbering the use of the ‘431 Patent. That such a sale may be difficult to accomplish without encumbering the ‘431 Patent is irrelevant; consideration was received by USTEC, and the adequacy thereof is not a proper subject of scrutiny for the court. <u>See</u> <u>Apfel</u>, 81 N.Y.2d 476.

Defendants’ claims of mutual mistake do not change the result herein. Here, the Letter Agreement, particularly when read in conjunction with the Terminal Disclaimer, precludes USTEC from transferring the ‘331 Patent to any entity other than the entity possessing the ‘431 Patent, which is presently NewCo:

> The owner hereby agrees that any patent so granted on the instant application shall be enforceable only for and during such period that it and the prior patent are commonly owned.

Plaintiffs’ Exhibit H, August 21, 2000 Terminal Disclaimer. Defendants incorrectly conclude that the parties’ alleged mutual mistake in failing to comprehend the effect of the Terminal Disclaimer requires denying the motion for summary judgment.

The parties all recognized that a sale of the ‘331 patent might encumber the ‘431 patent. USTEC’s Board of Directors Mtg. Minutes, October 25, 2006 (“further work must be done to clarify how to best protect Patent 7,027,431 if it is not acquired along with the other patents.”); USTEC’s Bd. of Directors Mtg., Minutes, November 27, 2006 (USTEC hasn’t quite figured out how to adequately protect the wired/wireless patent, which they see as a derivative of patent #6,108331.”). Thompson avers that, prior to execution of the Letter Agreement, “defendants represented to me at a meeting of the USTEC Board that it had been determined that the ownership of the ‘331 and the ‘431 Patents could be separated,” and that defendants were relying on the advice of their patent counsel, Brown & Michaels, P.C., for this proposition. Thompson alleges further that he was not convinced, and that, notwithstanding this advice, he insisted on language being inserted into the Letter Agreement which ensured that any separate sale of the ‘331 patent not encumber the ‘431 Patent. Defendants eventually agreed to this language. See Letter Agreement ¶4(a)(last sentence). Defendants dispute that they told Thompson that they had concluded that separate ownership was possible, but they do not dispute through an affidavit of one with personal knowledge of the discussions between Hartrick and Thompson that the matter of divided ownership was discussed at length as Thompson maintains, defendants do not dispute that Thompson required addition of the last sentence of ¶4(a), which USTEC and its counsel proposed evidently to assuage Thompson’s concerns, nor do they or can they dispute that they agreed to it. Indeed, they acknowledge through the extensive affidavit of patent counsel that Thomson placed a furious number of unsuccessful phone calls to patent counsel at about the time the parties negotiated the Letter Agreement just prior to the closing of the LeGrande transaction, and that neither Thompson nor defendants ever asked for an opinion on the subject despite several related inquiries concerning whether they could be separately exploited.

Thompson and Hartrick both acknowledge that it was only since execution of the Letter Agreement in January that they came to realize that the Terminal Disclaimer had the effect of preventing any separate sale of the '331 Patent. But defendants' reliance on their failure to comprehend the legal ramifications of the Terminal Disclaimer to justify rescission/reformation misses the mark entirely. The important point is that the parties clearly understood that they were agreeing to the terms of the Letter Agreement, which was on both sides amply supported by other consideration, despite uncertainty concerning whether the '331 Patent could be sold independently of the '431 Patent. Furthermore, the Letter Agreement clearly contemplated that it might not be capable of independent sale, because a clause of the Agreement contemplated a sale to NewCo, which would own the '431 Patent, for nominal consideration if defendants were unsuccessful for any reason in consummating a separate sale (the practical end of the matter), and because of the last sentence of ¶4(a) which expressly and unambiguously provided for the possibility that a sale of the '331 Patent might infringe the '431 Patent (the legal end of the matter), in which case both parties agreed that a sale by defendants would not be permitted.[1]

Thus, although "[i]t is well settled that the courts will not adopt an interpretation that renders a contract illusory when it is clear that the parties intended to be bound thereby" Blandford Land Clearing Corp. v. Natl. Union Fire Ins. Co. of Pittsburgh, Pa., 260 A.D.2d 86, 94 [1st Dept 1999]; see also,

[1] Taking ¶4(a) "on its face," this is the only plausible reading of the Letter Agreement. Chimart Associates v. Paul, 66 N.Y.2d 570, 572-73 (1986); Sullivan v. Troser Management, Inc., 34 A.D.3d 1233 (4th Dept. 2006). That this reading precisely fits the parole evidence submitted gives confidence, but ultimately is of no moment. Chimart Associates v. Paul, 66 N.Y.2d at 572-73; Robinson v. Robinson, 81 A.D.2d 1028, 1029 (4th Dept. 1981); Lee v. Tetra Tech, Inc., 14 Misc.3d 1235(A), 836 N.Y.S.2d 500 (Table), 2007 WL 602576 (Sup. Ct. Monroe Co. 2007). Hartrick offers no other plausible interpretation of ¶4(a) in his affidavit, but rather contends that the discovery in April that the Terminal Disclaimer prevented separate ownership "left the meaning of the contract uncertain and internally inconsistent." Defendants' Memorandum (of 10-24-2007), at 14-15. But the point is not, as defendants would have it in their Memorandum, id., at 13-15, that the agreement should be read only to permit a sale to plaintiffs, but is rather that whatever sale did occur not encumber the '431 Patent, a possibility the last sentence of ¶4(a) expressly and unambiguously was designed to address. So the Letter Agreement, in addition to whatever other benefit it conferred on defendants in the context of the overall LeGrande transaction (see text, below), conferred on defendants the right to sell the '331 Patent to a third party, but only if such a sale would not encumber the '431 Patent. There is no ambiguity in that, particularly in view of the sophisticated nature of this commercial transaction among seasoned businessmen, who presumably would have an idea of what value that limited right to sell would have to them in the context of the overall picture. Defendants' attempts to read ambiguity into the Letter Agreement by reference to the rule against illusory contracts, and the ultimate effect of defendants' failure to perceive the restrictions on separate ownership contained in the Terminal Disclaimer at the time they agreed to the terms of the Letter agreement, is treated in the text, above.

Zurakov v. Register.Com, Inc., 304 A.D.2d 176, 179 [1st Dept 2003]), defendants' claim that plaintiff's interpretation of the Letter Agreement would render it an illusory contract cannot be sustained. The requirement of mutuality only "mean[s] that each party must be bound *to some extent*." Dorman v. Cohen, 66 A.D.2d 411, 415 (1st Dept. 1979)(emphasis supplied)("mutuality of obligation does not mean equality of obligation"). "If there is consideration for the entire agreement that is sufficient; the consideration supports the arbitration option, *as it does every other obligation in the agreement*." Sablosky v. Edward S. Gordon Co., Inc., 73 N.Y.2d 133, 137 (1989)(emphasis supplied). Although the holding in Sablosky came in the context of discrediting the mutuality of remedy theory upon which the arbitration clause was attacked in that case, the court made clear that it was drawing on general principles of mutuality of obligation/consideration it declared in a prior case: "our recent statement in Weiner v. McGraw-Hill, Inc., 57 N.Y.2d 458 that, "while coextensive promises may constitute consideration for each other, 'mutuality', in the sense of requiring such reciprocity, is not necessary when a promisor receives other valid consideration" (id., 57 N.Y.2d at 464)." Sablosky v. Edward S. Gordon Co., Inc., 73 N.Y.2d at 137. See, to the same effect, 1A

Arthur L. Corbin, Corbin on Contracts, § 152 (1963).[2]

A transaction is supported by consideration when something of "real value" to the parties is exchanged. Apfel v. Prudential-Bache Securities, Inc., 81 N.Y.2d 470 (1993). The adequacy of consideration is not the proper subject of judicial scrutiny when some benefit was received. Id. 81 N.Y.2d at 476; Laham v. Chambi, 299 A.D.2d 151 (1st Dept. 2002); Dafnos v. Hayes, 264 A.D.2d 305, 306 (1st Dept. 1999). "Under the traditional principles of contract law, the parties to a contract are free to make their bargain, even if the consideration exchanged is grossly unequal or of dubious value." Apfel v. Prudential-Bache Securities Inc., 81 N.Y.2d at 476. "The court does not exercise a visitatorial function over the express contracts of individuals with corporations, and does not set them aside on the regret or repentance of litigants, or upon the showing that the contract was improvident, or the conditions

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[2] Inasmuch as this is a specific performance case, it must be observed that mutuality of remedy is no longer seen as a prerequisite for obtaining such relief. 1A Arthur L. Corbin, Corbin on Contracts, § 152 at 3 (1963)(the term "mutuality of remedy, many times given as a requirement for granting the remedy of specific enforcement, but with so many exceptions that they occupy substantially the whole field"); E. Allan Farnsworth, Farnsworth on Contracts §12.4, at 165 (3d ed. 2004)("most troublesome of these rules was the now discredited 'mutuality of remedy' rule, under which the injured party's right to specific relief depended on whether it would have been available to the other party"). "Mutuality of remedy is not essential to an action for specific performance." Strassburg v. Ricotta, 104 A.D.2d 723 (4th Dept. 1984)(citing Walter v. Hoffman, 267 N.Y. 365).

thereof unfair, or that the expectations were illusory." Garvey v. New York Building Loan Banking Co., 57 App. Div. 193 (2d Dept. 1901)(reformation denied).

Accordingly, it is important to consider the "other consideration" given to defendants in the Letter Agreement, ultimately the Thompson faction's agreement to vote their shares in favor of the LeGrande transaction, a not inconsiderable benefit standing by itself, in the broader context of USTEC's possible infringement claim against LeGrande's subsidiary, Ortronics, which made a product which arguably infringed the two patents at issue here, and LeGrande's ultimate decision that it was not interested in purchasing those two patents, thereby permitting USTEC to retain and exploit them. Yet as part of the LeGrande transaction, USTEC, and Thompson individually, were required to give the LeGrande purchasers releases protecting LeGrande and its subsidiary, Ortronics, from the assertion of any infringement claims the holders of the '331 and '431 Patents might have had. Forbearance from asserting a right is adequate, and additional, consideration given by plaintiffs as part of the overall transaction which permitted inter alia, immediate payments of some $8,000,000 to defendants reducing USTEC's indebtedness to the senior lender defendants. Hamer v. Sidway, 124 N.Y. 538 (1891); All Terrain Properties, Inc. v. Hoy, 265 A.D.2d 87, 94 (1st Dept. 2000)("settled that forbearance is valuable consideration supporting the enforcement of an obligation”).

It is also worthwhile to note that, Hartrick’s assertion that he did not know, until months after the Letter Agreement was signed and the closing of the LeGrande transaction, of the Terminal Disclaimer and its effect on the two patents, comes coupled with his acknowledgment, in particular, that defendants “never sought guidance on it” despite defendants’ concerted efforts to discern “the practical ability to exploit the ‘431 Patent as a derivative of ‘331.” (emphasis supplied). Any examination of the practical ability to separate ownership of the two patents necessarily must, in any reasonable due diligence process, concern the publicly filed documents in the Patent Office showing that the ‘431 Patent was issued in consideration of the Terminal Disclaimer. Defendant’s failure to discern its contract rights precludes the equitable relief they seek. Gimbel Bros. v. Brook Shopping Ctrs., 118 A.D.2d 532, 536 (2d Dept. 1986). As in Estate of Hatch, ex rel. Ruzow v. NYCO Minerals Inc., 270 A.D.2d 590 (3d Dept. 2000), by virtue at least of Thompson’s insistence on the last sentence of ¶4(a), “defendant[s] were on notice that its understanding of its contractual obligations may have been erroneous, yet chose not to investigate." Id. 270 A.D.2d at 592.[3] Defendants as the proponent of rescission/reformation here, fares no better than the proponent of the same relief in Weissman v. Bondy & Schloss, 230 A.D.2d 465, 468-69 (1st Dept. 1997). Cf., Symphony Space, Inc. v. Pergola Properties, Inc., 88 N.Y.2d 466, 484-85 (1996).

Of additional note on the rescission issue, restoration in the complicated context of the LeGrande transaction, the release agreements in favor of LeGrande or its subsidiary, and the pay-off of a substantial portion if not all of the notes, etc., held by the senior lender's, does not appear to be possible. Certainly, the defendants proffering the rescission/reformation remedy do not address this essential ingredient of their proposed causes of action, because they only address that aspect of the Letter Agreement which concerns the two patents at issue, without regard to the overall transaction of which the Letter Agreement was only a part. In the circumstances, and given the difficulties which attend undoing the entire transaction and making an order of restitution due upon rescission so as to achieve, "as nearly as possible, . . . plac[ing] the parties in their original positions before the sale," "we might well find

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[3] Patent counsel insists that he was not asked by anyone to give an opinion on the divisibility of ownership of the two patents. Given what he admits he was asked to opine on, his affidavit is notable in that he provides no explanation for why he did not address the divisibility of ownership issue, and the Terminal Disclaimer in particular.

rescission impossible." Vitale v. Coyne Realty, Inc., 66 A.D.2d 562, 563 (4th Dept. 1979)(per curiam). Defendants have failed completely to address how it is that they propose to undo, or equitably adjust the substantial other benefits they obtained from consummation of the Legrande closing and the execution of the Letter Agreement. Their proposed "solution" concerns but a small part of a complicated transaction.

At bottom, defendants fail on this motion to sufficiently raise issues of "mutual mistake or fraud [which] may furnish the basis for reforming a written agreement." Chimart Associates v. Paul, 66 N.Y.2d 570, 573 (1986). "The proponent of reformation must "show in no uncertain terms, not only that mistake or fraud exists, but exactly what was really agreed upon between the parties." Id. 66 N.Y.2d at 574 (underscoring the "heavy presumption" that the written agreement manifests the true intention of the parties). Defendants do not adduce the "'high level' of proof in evidentiary form" that would be needed ultimately to sustain their claim. Chimart Associates, 66 N.Y.2d at 574. See Seebold v. Halmar Const. Corp., 146 A.D.2d 886, 887 (3d Dept. 1989)("reformation of a contract is allowed only where mutual mistake or fraud is established by proof of the highest order"). See Nicholas J. Masterpol, Inc. v. Travelers Inc. Companies, 273 A.D.2d 817 (4th Dept. 2000)("either a mutual mistake or a unilateral mistake coupled with fraud"). As such, defendants' proposed amendment to its answer patently lacks merit and must be denied. See Bellevue Builders Supply, Inc. v. Audubon Quality Homes, Inc., 213 A.D.2d 824, 825 (3d Dept. 1995).

Plaintiff's motion for summary judgment is granted as follows. On the first cause of action, plaintiffs' motion for summary judgment seeking a declaration is granted and it is declared that: (1) in the event that ownership of the Patents may not be separated without impairing the enforceability of the '431 patent, the sale of the '331 Patent to a third party may not proceed; (2) 331 Holding, Inc. is obligated to immediately consummate the transactions contemplated by the January 2007 Letter Agreement, and (3) 331 Holding is obligated to obtain a covenant not to sue with regard to infringement claims from any proposed purchaser of the '331 Patent, its successors and assigns running in favor of the '431 Patent, and neither NewCo nor Thompson is required to provide a reciprocal covenant.

On the second cause of action, plaintiffs are entitled, and are hereby granted, specific performance of the January 2007 Letter Agreement, to the extent of directing defendants to: (1) cause the formation of a 331 Holding, Inc. subsidiary ("NewCo"), (2) elect plaintiffs as the sole directors and officers of NewCo, (3) place, in the fullness of time as prescribed in the Letter Agreement, ownership of US patents #7,027,431 and #6,108,331 in NewCo for nominal consideration if and when the conditions otherwise prescribed for such transfer in the Letter Agreement are fulfilled (thereby maintaining common ownership unless a sale to a third party, not encumbering the '431 Patent, may be achieved in the prescribed time frame, a possibility not now foreseen), (4) distribute, again in the fullness of time, all of the NewCo's equity out to its shareholders, to the exclusion of defendants, and (5) enjoining defendants from assigning, selling or otherwise transferring the ownership of US Patent #6,108,331 otherwise than as prescribed in ¶4 of the Letter Agreement as interpreted herein. Finally, on the fifth cause of action, plaintiffs have demonstrated a likelihood of success (as discussed above), irreparable harm, and tipping of the equities in their favor. As such, plaintiffs have established their entitlement to a permanent injunction restraining and enjoining defendants from selling, transferring or otherwise disposing of the '331 patent in violation of the terms of the January 2007 Letter Agreement and/or from otherwise violating the terms of the January 2007 Letter Agreement as interpreted herein.

The motion to amend is denied.

SO ORDERED.

KENNETH R. FISHER
JUSTICE SUPREME COURT

DATED: November 6, 2007
Rochester, New York