

STATE OF NEW YORK
SUPREME COURT : COUNTY OF ERIE

CONTACARE

Plaintiff

vs.

CIBA-GEIGY CORPORATION, n/k/a
CIBA VISION CORPORATION

Defendants

**MEMORANDUM
DECISION**

Index No. 668/01

BEFORE:

HON. JOHN M. CURRAN, J.S.C.

APPEARANCES:

Hodgson Russ LLP
Attorneys for Plaintiff
Kyle C. Reeb, Esq., of Counsel

Kelley, Drye & Warren, LLP
Attorneys for Defendant
Robert E. Crotty, Esq., of Counsel
Anjna Kapoor, Esq., of Counsel

CURRAN, J.

Defendant has moved for summary judgment to dismiss the Amended Verified Complaint (“Complaint”). The Complaint contains three causes of action: (1) breach of the License Agreement dated July 16, 1985; (2) fraud as premised on representations allegedly made by defendant concerning the development and marketing of plaintiff’s technology referred to as “TC-75;” and (3) fraud and deceit as premised on representations allegedly made by the defendant that it would use its best efforts to exploit TC-75. During oral argument on the motion, plaintiff’s counsel acknowledged that the second and third causes of action for fraud

were intertwined and that the third cause of action was added essentially as a supplementation to the second cause of action based on discovery plaintiff had taken in the action.

The dispute arises out of a business relationship between plaintiff's predecessor-in-interest, Trans Canada Lenses, Ltd. ("Trans Canada"), and the defendant. Trans Canada developed the TC-75 technology which was comprised of specific formulations and a curing process of soft lens polymers which were in turn used to create a finished contact lens. In October of 1984, defendant's representatives met in Toronto, Canada with Elias Hawa ("Elias"), the former president and sole owner of Trans Canada. In January of 1985, Trans Canada and the defendant executed an Option Agreement which had attached to it two separate License Agreements, one of which is characterized by the defendants as the "Exclusive License Agreement" and the other as the "Non-Exclusive License Agreement." The Option Agreement provided for a six-month evaluation period and would terminate upon the expiration of that period or upon execution of one of the two License Agreements. When the Option Agreement was executed, defendant paid to Trans Canada the \$15,000.00 called for under the terms of that agreement.

In July of 1985, defendant exercised its option to enter into the License Agreement attached to the Option Agreement in the form of "Exhibit B." Defendant's transmittal letter to Trans Canada advising of the exercise of the option refers to the enclosed document as the "Non-Exclusive License Agreement." Defendant also at that time forwarded its payment of \$5,000.00 as required under the terms of the document, referred to by defendant as the "Non-Exclusive License Agreement." The so-called "Exclusive License Agreement" would have required a \$10,000.00 payment upon execution, plus a higher percentage of

royalties in the future than was payable under the so-called “Non-Exclusive License Agreement.”

At approximately the same time, defendant became aware of an opportunity to acquire American Optical Corporation (“American Optical”). Defendant ultimately purchased American Optical in September of 1985, thereby acquiring “Fifilcon” which was an FDA-approved material for use in the development of contact lenses. TC-75 was not FDA-approved at that time.

In Spring of 1986, Stephen Martin (“Martin”), defendant’s executive vice president of technical affairs and business development, contacted Elias to indicate that the defendant did not have the resources to continue developing TC-75 while at the same time developing the products and technologies recently acquired from American Optical. During that conversation, Elias reported that he believed Section 8.1 of the License Agreement prohibited Trans Canada from seeking to have TC-75 developed through others.

By letter dated May 7, 1986, Martin forwarded a proposed Modification Agreement which would permit Trans Canada to disclose the TC-75 knowhow to parties other than the defendant. In that letter, Martin indicated that the TC-75 project was not dead at the defendant but was on hold and that Martin was “unsure as to when or if it would be revitalized.” Elias never signed or returned the Modification Agreement.

Frederick Hawa (“Frederick”), Elias’ son, began participating in Trans Canada’s business in approximately 1985. Frederick has a Bachelor of Science Degree, a Law Degree and a Masters in Business Administration. He has been practicing law since 1988.

From May of 1986 until 2000, neither Elias nor Frederick, nor any Trans Canada representative or lawyer, contacted the defendant to inquire about TC-75. Frederick was aware of the License Agreement between Trans Canada and the defendant at least by 1991. For a period of fourteen years, from 1986 until 2000, no one from Trans Canada claimed that defendant had breached the License Agreement or engaged in any fraud.

During this same time period between 1986 and 2000, plaintiff continued to develop TC-75 and continued to seek business partners who would assist in developing and marketing it. These efforts included contacting Canadian Embassies worldwide seeking the names of contact lens manufacturers and a variety of efforts to contact and do business with manufacturers.

By the time plaintiff commenced this lawsuit in 2001, Elias was “incapacitated” and subsequently died. The record reflects that Frederick was not involved in the negotiations of the agreements at issue here and never had any contact with the defendant until he wrote to the defendant in 2000. At that time, Frederick contacted the defendant concerning the License Agreement. It was at approximately this same time plaintiff claimed that the defendant was marketing products using the TC-75 knowhow. This litigation seeking damages for breach of the License Agreement and for fraud soon followed.

It is well-settled that, upon a motion for summary judgment, a defendant “must affirmatively establish the merits of [its] . . . defense and cannot meet [its] burden by noting gaps in [its] opponents proof” (*Orcutt v Am. Linen Supply Co.*, 212 AD2d 979 [4th Dept 1995]; *Higgins v Pope*, 37 AD3d 1086 [4th Dept 2007]). Until the movant establishes its entitlement to judgment as a matter of law, the burden will not shift to the opposing party to raise an issue

of fact, and the motion should not be granted (*Loveless v Am. Ref-Fuel Co. of Niagara, LP*, 299 AD2d 819, 820 [4th Dept 2002]).

In support of its motion, defendant has submitted the examination before trial and affidavit testimony of Martin and Dr. Paul Nicolson (“Nicolson”). Nicolson was employed for many years in the research and development of contact lens technologies for the defendant. During the relevant time period at issue here, Nicolson was the executive director of materials and solutions development for the defendant. Both Martin and Nicolson have personal knowledge of the pertinent facts as they occurred in the mid-1980's. In opposition to the motion, plaintiff relies upon this same testimony but is otherwise unable to offer the testimony of any witnesses with personal knowledge of the facts as they occurred in the mid-1980's.

As both parties agree, the fundamental issue with respect to the breach of contract cause of action is whether the License Agreement is exclusive or non-exclusive. The first question is whether the language of the License Agreement is plain on its face, thereby obviating the necessity for any construction or interpretation of the contract through extrinsic evidence. The interpretation of an unambiguous contract is a function for the Court (*Pyramid Brokerage Co. of Buffalo, Inc. v. Atlas Auto Glass, Inc.*, ___ AD3d ___, 2007 NY Slip Op 3396 [4th Dept, April 20, 2007]). When the language of a contract is unambiguous, no extrinsic evidence is necessary (*State v Home Indem. Co.*, 66 NY2d 669 [1985]). The rules of contract construction are only to be applied to interpret language of an ambiguous or doubtful meaning (*Central Union Trust Co. v Trimble*, 255 NY 88 [1931]). It is only where the language of a contract is ambiguous, uncertain or susceptible of more than one construction that a court may interfere to construe the language of the agreement (*Gans v Aetna Life Ins. Co.*, 214 NY 326 [1915]).

Defendant relies upon Section 2.1 of the License Agreement which says: “Trans Canada hereby grants to CBC a perpetual worldwide non-exclusive license, with the right to grant sub-licenses, to practice the Knowhow.” Plaintiff relies upon Section 8.1 of the License Agreement which states: “Trans Canada agrees only to disclose the Knowhow to CBC and not to third-parties except as required by law.”

The Court concludes that these two sections in the License Agreement are directly in conflict because having a non-exclusive License Agreement would necessarily mean that Trans Canada was free to disclose the TC-75 knowhow to any third-parties it deemed fit. Plaintiff asserts that the Court should adopt a rule of construction based on which party drafted the contract. Defendant argues that the Court should apply a mutual mistake of fact analysis based on a scrivener’s error. However, the Court concludes that neither proposed rule of construction is appropriate because both such rules ignore the more fundamental rule of contract construction that, when contractual provisions are totally repugnant to one another, the first of two contradictory contract clauses should be the one which is accepted and the subsequent one rejected (*Honigsbaum’s, Inc. v Stuyvesant Plaza, Inc.*, 178 AD2d 702, 704 [3d Dept 1991]; *Cheng Sing Liang v Chwen Jen Huang*, 255 AD2d 671 [3d Dept 1998]; *Brennan v Bally Total Fitness*, 153 F Supp 2d 408 [US Dist Ct, SDNY 2001]). Accordingly, the Court concludes that the License Agreement is a non-exclusive one based on the prominence the parties gave to that language in Section 2.1.

This conclusion is consistent with a plain reading of the overall Option Agreement executed by the parties prior to the License Agreement. The Option Agreement afforded the defendant the option to elect between two different types of license agreements. A

plain reading of those two agreements, attached as exhibits to the Option Agreement, confirms that defendant had the option to choose between an exclusive arrangement with Trans Canada and a non-exclusive one. Under the non-exclusive arrangement, the payment upon execution and royalties were less than the exclusive arrangement. The terms, structure and nature of the transaction are abundantly evident from the documents themselves.

Plaintiff's only remaining argument on the contract claim is that Section 2.1 could be read consistently with Section 8.1. Plaintiff asserts that the reference to the "right to grant sublicenses" defines the License Agreement's use of the word "non-exclusive." However, as the language regarding "sublicenses" is in both of the license agreements attached as exhibits to the Option Agreement, the Court concludes that the "sublicense" language defines only the *extent* of the "license" granted and not the non-exclusive *nature* of the license granted.

Coincident with the conclusion that the License Agreement is non-exclusive, the Court also determines that defendant had no obligation to develop, market or exploit the TC-75 technology (*Blome v Illinois Portland Cement Paving Co.*, 172 Ill App 171 [Ill App Ct 1912]; *Jobbins v Kendall Mfg. Co.*, 196 F 216, 217-218 [D. RI 1912]). In the absence of such an obligation, defendant cannot have been in breach of the contract and the breach of contract cause of action must be dismissed.

Additionally, even if the Court were to accept plaintiff's argument that the defendant had a duty to develop, market and exploit the TC-75 technology, the undisputed facts in the record reflect that defendant has not done so. Nicolson's testimony fully articulates the distinctions between TC-75 and the other products marketed by defendant which plaintiff

claims are derived from or similar to TC-75. The testimony from Frederick, an attorney without the knowledge or expertise to express an opinion on the subject, is insufficient as a matter of law to raise a disputed issue of material fact requiring a trial on this point. The breach of contract claim must be dismissed on this basis as well.

As to the fraud causes of action, plaintiff's counsel agreed at oral argument that the foundation of the fraud claims is the deposition testimony of Nicolson attached as Exhibit P to the Crotty affirmation appearing at pages 85-86 of that transcript. Plaintiff characterizes that testimony as an admission by the defendant that defendant knew before entering into the exclusive License Agreement that the TC-75 process was unworkable and cost prohibitive. Plaintiff thereupon extrapolates to the conclusion that defendant never had any intention of marketing or exploiting TC-75 but entered into the License Agreement with the deceitful purpose of ensuring that TC-75 did not compete against the product acquired by the defendant from American Optical or with any other products to be developed by the defendant.

The Nicolson testimony contains no such admission and the extrapolation that plaintiff makes from this testimony is not borne out by the record through any testimony upon personal knowledge or other admissible evidence. Defendant has instead made a convincing showing, unrebutted by any admissible evidence from the plaintiff, that the acquisition of American Optical was a fortuitous and unexpected event which provided defendant with immediate access to an FDA-approved product. It also was in defendant's judgment more readily marketable and more worthy of the investiture of time and effort to research and develop. Thus, plaintiff has failed to establish any disputed issues of material fact necessitating a trial concerning its allegation that the defendant's representations about its plans to develop,

market and exploit TC-75 were false at the time they were made or that they were expressed with an intent to deceive plaintiff into detrimentally relying upon the defendant's promises to do so (*Regnell v Page*, 54 AD2d 540 [1st Dept 1976]; *T.A.T. Prop. v Concrete Sealants (U.S.), Inc.*, 184 AD2d 689, 689 [2d Dept 1992]); *Sudul v Computer Outsourcing Services*, 868 F Supp 59, 62 [US Dist Ct, SDNY 1994]). For these reasons, the second and third causes of action are dismissed as well.

Based on the foregoing, defendant's motion to dismiss is granted in all respects. Defendant should settle the Order with plaintiff's counsel.

DATED: May 2, 2007

HON. JOHN M. CURRAN, J.S.C.