

JFA Inc. v Docman Corp.

2010 NY Slip Op 32590(U)

September 16, 2010

Sup Ct, NY County

Docket Number: 106739/2009

Judge: Paul Wooten

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SUPREME COURT OF THE STATE OF NEW YORK — NEW YORK COUNTY

PRESENT: HON. PAUL WOOTEN
Justice

PART 7

-----X
JFA INC., a New York Corporation,
Plaintiff,

-against-

THE DOCMAN CORPORATION, JAY BERARDINELL
and Does 1 through 20,
Defendants.

-----X
THE DOCMAN CORPORATION, a New York Corporation,
and JAY BERARDINELLI,
Counterclaim-Plaintiffs,

-against-

JFA INC., JOHN FINN and Does 1 through 20,
Counterclaim-Defendants.

-----X
The following papers, numbered 1 to 2 were read on this motion by defgendant(s) for an order for
summary judgement pursuant CPLR 3212.

Notice of Motlon/ Order to Show Cause — Affidavits — Exhiblts ...
Answering Affidavits — Exhiblts (Memo) _____
Replying Affidavits (Reply Memo) _____

PAPERS NUMBERED	
1	_____

Cross-Motion: Yes No

Counterclaim-defendants JFA Inc. (JFA) and John Finn (Finn) move for dismissal of the counterclaims brought by counterclaim-plaintiffs/defendants the Docman Corporation (Docman) and Jay Berardinelli (Berardinelli).

Bernardinelli is the principal officer of Docman, which, according to the complaint, is an independent contractor providing management solutions that involve the use of computers. Docman was initially retained by JFA in October 2003. On February 9, 2004, JFA and Docman entered into a written agreement for a specific project, whereby Docman would develop a

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custom film production accounting system for JFA, for a fee of \$40,000. The system would be completed on or before April 15, 2005.

Here, the parties differ as to the subsequent facts. JFA alleges that defendants failed to complete the system on the due date and delayed in its completion, and that JFA was compelled to make further payments. Docman claims that it completed the system in a timely fashion and received the fee, plus a project bonus. Docman states that the work provided to JFA was never limited to the accounting system and that in addition, Docman rendered other services, including computer installation, repair, connection and troubleshooting. Moreover, Docman claims that JFA retained Docman on a monthly retainer basis until Docman's termination in May 2009. Docman claims that JFA and its principal Finn owe it money for past services.

JFA's complaint alleges breach of contract, fraud, conversion, misappropriation of trade secrets, negligent misrepresentation and breach of warranty, and seeks money damages and injunctive relief. After moving for dismissal of the complaint, and after having only the ninth cause of action dismissed, Docman and Berardinelli served their answer with five counterclaims. JFA moves for an order to dismiss all five counterclaims on the ground of failure to state a cause of action and/or for lack of subject matter jurisdiction.

The first counterclaim alleges that JFA and Docman entered into an separate oral agreement for a continuous monthly retainer. The amount of the retainer was first unidentified, then orally amended in January 2008 for \$16,000 monthly, and then orally amended again in January 2009 for profit sharing and royalties, and \$12,000 monthly. JFA argues that the oral agreement is unenforceable because it lacks material terms and is too ambiguous. JFA claims that the contract lacks any definition of what Docman's services consisted of, or whether any services were actually performed. Furthermore, the only claimed breach is for May 2009, and it is alleged that the contract was terminated without cause. JFA avers that there is no

allegation that the terms of the contract were anything but "at-will."

The second and third counterclaims allege that JFA and Finn made knowingly false promises to defendants upon which defendants relied to their detriment. The second alleges a promise of profit sharing and the third alleges a promise of royalties. JFA contends that both counterclaims for fraud should be dismissed because they are duplicative of the breach of contract counterclaim. JFA also contends that the elements of fraud are not pleaded with particularity. According to JFA, the allegations relate to things that are to be performed in the future. JFA states that there is no proper allegation of damages in either counterclaim for fraud.

The fourth counterclaim refers to an infringement of intellectual property rights and the fifth counterclaim refers to common law copyright infringement. Here, JFA argues that these matters are preempted by 17 USCA Section 301, and must be brought in federal court pursuant to 28 USCA Section 1338. Therefore, JFA asserts that this court lacks subject matter jurisdiction over the two counterclaims.

In addition, JFA seeks the dismissal of the first affirmative defense, which alleges that the complaint should be dismissed pursuant to CPLR 3211(a) (7). JFA argues that defendants have already moved to dismiss, and that this defense has already been litigated and decided by this court. JFA contends that this affirmative defense should be dismissed as res judicata.

Docman and Berardinelli oppose the motion and argue that they have stated meritorious counterclaims for breach of contract, fraud and misappropriation and misuse of their property.

Defendants state that the first counterclaim alleges an oral agreement that is definite and valid and alleges a breach based on termination without cause and failure to pay. The second and third counterclaims are based upon fraudulent inducement and the elements are said to be sufficiently pleaded. Defendants contend that they have alleged damages based upon misrepresentations made by JFA and Finn.

Docman and Berardinelli argue that the last two counterclaims are not exclusively federal -oriented. They cite the decision of the United States Supreme Court, *Holmes Group, Inc. v Vornado Air Circulation Systems, Inc.*, 535 US 826 (2002). They interpret *Holmes* as concluding that federal jurisdiction generally exists when a federal question is presented on the face of plaintiff's properly pleaded complaint. However, a counterclaim which appears as part of an answer rather than as part of a complaint cannot serve as the basis for arising under federal jurisdiction. Defendants state that based on the aforesaid decision, their counterclaims should not be subject to federal jurisdiction.

Docman and Berardinelli claim that JFA has not produced any documentary evidence that refutes any of their counterclaims.

In reply, JFA states that it is not required to produce documentary evidence to support a motion to dismiss counterclaims. JFA contends that the *Holmes* decision has no applicability in this case, because said decision dealt only with the federal circuit's appellate jurisdiction, not with federal district court jurisdiction, much less federal-state relations. It is JFA's position that state courts have no jurisdiction over copyright claims and the only solution is for defendants to file the copyright claims in federal court as plaintiffs.

On a CPLR 3211 motion to dismiss which is addressed to the pleadings, the court must afford the pleadings a liberal construction, take the allegations as true and afford the proponent the benefit of every possible inference. *DePetrís & Bachrach, LLP v Srour*, 71 AD3d 460, 461 (1st Dept 2010).

"[A]n enforceable contract requires mutual assent to its essential terms and conditions. If an agreement is not reasonably certain in its material terms, there can be no legally enforceable contract." *Edleman v Poster*, 72 AD3d 182, 184 (1st Dept 2010). The doctrine of definiteness or certainty means that a court cannot enforce a contract unless it is able to determine to what the parties have agreed. *See Korff v Corbett*, 18 AD3d 248, 250 (1st Dept

2005).

The oral agreement, as alleged by the parties, provides that there would be a performance of computer services in exchange for a monthly retainer. The monthly retainer is specified in subsequent undisputed amendments. Defendants claimed to have performed the services for which they were retained and to have been terminated without cause and underpaid. The court finds that there has been a sufficient description of an agreement and a sufficient claim for a breach.

"Fraud claims require their proponents to explain in detail the specific circumstances that constitute the fraud." *Sherman v Eisenberg*, 267 AD2d 29, 31 (1st Dept 1999); CPLR 3016 (b). "To establish a claim of fraud, the proponent must allege representations of material existing fact, falsity, scienter, deception and injury." *Sherman v Eisenberg*, 267 AD2d at 31.

Alleged representations of future intent could not support a fraud claim absent an allegation that "would support an inference that the representations were made with a present intention that they would not be carried out." *Papp v Debbane*, 16 AD3d 128, 128 (1st Dept 2005).

"It is well settled that a cause of action for fraud does not arise where the only fraud alleged merely relates to a party's alleged intent to breach a contractual obligation." *767 Third Ave., LLC v Greble & Finger, LLP*, 8 AD3d 75, 76 (1st Dept 2004), citing *Caniglia v Chicago Tribune-New York News Syndicate*, 204 AD2d 233 (1st Dept 1994).

Defendants allege that the parties amended the oral agreement which resulted in the reduction of the monthly retainer from \$16,000 to \$12,000. The amendment was the result of representations made by the counterclaim-defendants in which defendants would receive shared profits and royalties as compensation. According to defendants, the representations were knowingly false at the time they were made. As a result of their reliance on said representations, defendants allegedly suffered damages in an amount to be determined at trial.

Here, defendants have made fraud allegations that are derivative of the breach of contract claim. The representations of a promise to provide compensation can be interpreted as part of the oral agreement. The failure to provide this compensation is related to a breach of contract. These are insufficiently pleaded counterclaims of fraud.

With respect to the remaining counterclaims, defendants have relied on *Holmes* to allow this court to maintain jurisdiction over said counterclaims. However, their reliance is not warranted. *Holmes* applies to those cases that are brought in federal court. This decision is not applicable to cases brought in state courts such as here. The issue to be determined is one of federal preemption.

The counterclaims allege intellectual property and copyright infringement. These matters have traditionally been subject to federal law. 28 USCA Section 1338 (a) provides that the federal district courts shall have original jurisdiction of any civil action arising under any act of Congress relating to copyrights. The Copyright Act completely preempts a common-law copyright cause of action. See *Patrick v Francis*, 887 F Supp 481, 484 (WDNY 1995).

"The Copyright Act exclusively governs a claim for purposes of preemption when (1) particular work to which the claim is being applied falls within the type of works protected by the Copyright Act... and (2) the claim seeks to vindicate legal or equitable rights that are equivalent one of a bundle of exclusive rights already protected by the Copyright Law" *Gusler v Fischer*, 580 F Supp2d 309, 316 (SDNY 2008).

Because of the nature of the allegations in these counterclaims, the court finds that they are related to federal law and subject to the jurisdiction of the federal district court. This court lacks subject matter jurisdiction over the counterclaims and must dismiss them.

Defendants did not address the motion to dismiss the first affirmative defense in their papers. The court shall dismiss the defense, as the issue has already been litigated.

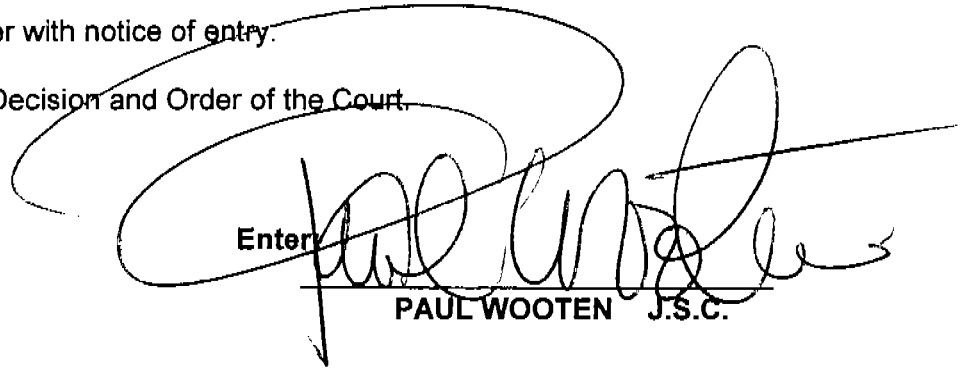
Accordingly, it is

ORDERED that the motion to dismiss is granted in part, and the second, third, fourth and fifth counterclaims and the first affirmative defense of defendants are dismissed; and it is further

ORDERED that plaintiff is directed to serve a reply to the answer within 20 days after service of a copy of this order with notice of entry.

This constitutes the Decision and Order of the Court.

Dated: 9-16-10

Enter  PAUL WOOTEN J.S.C.

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Check If appropriate: : DO NOT POST REFERENCE

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