

Nanomedicon, LLC v Research Found. of State Univ. of N.Y.
2012 NY Slip Op 30604(U)
March 8, 2012
Supreme Court, Suffolk County
Docket Number: 36815-2010
Judge: Emily Pines
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SHORT FORM ORDER

INDEX NUMBER:

36815-2010

SUPREME COURT - STATE OF NEW YORK
COMMERCIAL DIVISION, PART 46, SUFFOLK COUNTY

***Present:* HON. EMILY PINES**

J. S. C.

Original Motion Date: 10-18-2011

Motion Submit Date: 12-06-2011

Motion Sequence No.: 004 MD

☐ FINAL☒ NON FINAL_____
X

NANOMEDICON, LLC.,

Plaintiffs,

-against-

THE RESEARCH FOUNDATION OF STATE
UNIVERSITY OF NEW YORK., et al,

Defendants.

X

PELAGIA-IRENE GOUMA,

Third Party Plaintiff,

-against-

MEDICON, INC., et al.,

Third Party Defendants.

X

In this action, plaintiff Nanomedicon, LLC ("Nanomedicon") asserts causes of action against defendant The Research Foundation of State University of New York ("Research Foundation") for a judgment declaring the rights and obligations of each under a contract, breach of contract, specific performance, and a permanent injunction. Nanomedicon also asserts causes of action against defendant Pelagia-Irene Gouma ("Prof. Gouma") for breach of contract and tortious interference with prospective economic advantage.

FACTUAL BACKGROUND

According to the Verified Complaint, Nanomedicon is a biotechnology company focused on the discovery and development of hand-held, inexpensive, point-of-care diagnostic devices using a novel nanotechnology based platform. Third-party defendant, Anastasia Rigas (“Rigas”) is a member of Nanomedicon and its President and Chief Executive Officer. The Research Foundation is a private, non-profit, educational corporation that is independent of State University of New York (“SUNY”) and exists to support SUNY. The Research Foundation works with academic and business leaders to support research and discovery leading to inventions, innovation, entrepreneurship, economic opportunity, and public benefit. Among other things, the Research Foundation manages SUNY’s research grants and other sponsored programs. Additionally, it licenses private businesses to commercialize SUNY inventions by granting patent rights in exchange for royalties and other consideration. Gouma is an Associate Professor and Director of the Center for Nanomaterials and Sensor Development in the Department of Materials Science and Engineering at SUNY at Stony Brook. In accordance with the Patents and Invention Policy, SUNY owns all inventions made by faculty members, employees, students, and all others utilizing university facilities at any of the State-operated institutions of SUNY. Those subject to the Patents and Inventions Policy are generally obligated to assign patent rights in their inventions to the Research Foundation, which acts as an agent of SUNY. The Verified Complaint alleges, among other things, that in or about 2006, Prof. Gouma engineered a sensor that is capable of sensing certain gasses, including ammonia gas, and that she patented the sensor and other related technologies on behalf of the Research Foundation.

Confidentiality Agreement

On October 9, 2006, the Research Foundation and Medicon, Inc. entered into a Reciprocal Confidentiality Agreement (“Confidentiality Agreement”) providing for the exchange of certain information between the parties to be kept in confidence. Nanomedicon claims that it is the successor in interest to Medicon. Accordingly, Medicon and Nanomedicon will hereinafter be referred to as Nanomedicon. The initial

term of the Confidentiality Agreement was one year, but it was subsequently extended for a period of ten years.

Research Agreement

In March 2007, the Research Foundation and Nanomedicon entered into a Research Agreement (“Research Agreement”) to promote research related to ammonia sensing. The Research Agreement recites, among other things, that Nanomedicon had approved funding to support a research project entitled “*Developing an on/off ammonia sensor prototype*” (“Project”) to be carried out by Prof. Gouma as FOUNDATION PROJECT DIRECTOR. The Research Agreement obligated the Research Foundation to use its best efforts to conduct and carry out the Project. The initial term of the Research Agreement was from March 1, 2007 through August 31, 2007. The term was subsequently extended through February 29, 2008. Paragraph 7 states that the parties wished to share proprietary information and obligated the parties to use their best efforts to prevent disclosure of information which is clearly marked as proprietary. Paragraph 8 provides, in relevant part:

The FOUNDATION PROJECT DIRECTOR and/or FOUNDATION’S project staff shall have the right to publish the results of any research conducted under this Research Agreement. [Nanomedicon] shall have an opportunity to review and comment upon such publication for a period of sixty (60) days prior to such publication for the purpose of (1) requesting the removal of any Confidential Information prior to publication or (2) identifying possible patentable or copyrightable subject matter.

Option and Exclusive Patent License Agreement

On November 15, 2007, the Research Foundation entered into an Option and Exclusive Patent License Agreement (“OEPLA”) with Medicon, Inc. Among other things, the OEPLA recites the Research Foundation’s desire to have the subject patent rights developed and commercialized and that Nanomedicon represented to the Research Foundation that it would “commit itself to a thorough, vigorous and diligent program of exploiting the PATENT RIGHTS so that public utilization shall result therefrom.” Paragraph 4.1(a) of the OEPLA granted Nanomedicon an exclusive option to a royalty-

bearing limited license in the “Field”¹ and to the “Patent Rights” as defined in the OEPLA, “in accordance with Section 2 of the OEPLA.” Paragraph 4.1(a) further provides, in relevant part:

The term of such license will begin upon the date of exercise by [Nanomedicon] of the Option and will end, with respect to the patent rights granted therein, upon the date of the last to expire patent that might issue upon the PATENT RIGHTS. FOUNDATION further grants to [Nanomedicon] hereunder the limited right to use the PATENT RIGHTS solely for internal research and development purposes during the term of the OPTION. Such internal research includes the right to transfer solely to third parties, solely for engineering, prototyping, testing, and evaluation purposes by such third parties and for no commercial purpose.

Paragraph 4.1(b) of the OEPLA provides, in relevant part:

[Nanomedicon] may exercise the Option anytime during the period starting from the Effective Date and ending on the first anniversary date of this Agreement. During the Option period, [Nanomedicon] shall make a good faith determination of its interest in exercising the Option exclusively at [Nanomedicon’s] expense.

Paragraph 2.1 of the OEPLA provides that the royalty-bearing license under the Patent Rights is “to develop, make, have made, use, sell, offer to sell, lease, and import LICENSED PRODUCTS in the FIELD in the TERRITORY and to provide, develop and perform LICENSED SERVICES in the FIELD in the TERRITORY.”

Paragraph 2.7 of the OEPLA provides, in relevant part:

Options on New Disclosures in the Field. FOUNDATION hereby agrees to provide under confidentiality to [Nanomedicon] a copy of all technology disclosures received from Dr. Gouma in the FIELD

¹ “Field” is defined in the OEPLA as “sensors for determination of specific gases in analysis of mammalian breath, blood, urine and digestive tract excretion and their by-products, excluding the determination of ethanol, and using sensors licensed under this Agreement.

("DISCLOSURE") within thirty (30) days from FOUNDATION'S receipt of disclosure. FOUNDATION agrees to offer [Nanomedicon], under any FOUNDATION intellectual property rights in the FIELD, a sixty (60) day exclusive option to perform due diligence on the invention and its commercial prospects . . . Should [Nanomedicon] decide to enter into licensing negotiations with FOUNDATION during the sixty (60) day option period, FOUNDATION shall grant [Nanomedicon] an additional six month "stand still" period during which FOUNDATION will not offer any third party any rights to the invention. During such stand-still period, the parties shall negotiate in good faith to arrive at reasonable terms and conditions for a license to the invention. If the parties cannot agree on license terms and conditions, the stand-still period ends and FOUNDATION has the right immediately to negotiate and execute a license with any third party on any terms and conditions.

Paragraph 3.1 of the OEPLA provides, in relevant part:

(a) Within twelve (12) months after the EFFECTIVE DATE, [Nanomedicon] shall furnish FOUNDATION with a written research and development plan describing the major tasks to be achieved in order to bring to market a LICENSED PRODUCT or a LICENSED SERVICE, specifying the number of staff and other resources to be devoted to such commercialization effort.

(b) Within sixty (60) days after the end of each calendar year, [Nanomedicon] shall furnish FOUNDATION with a written report . . . on the progress of its efforts during the immediately preceding calendar year to develop and commercialize LICENSED PRODUCTS or LICENSED SERVICES. The report shall also contain a discussion of intended efforts and sales projections for the year in which the report is submitted.

Paragraph 5.3 of the OEPLA provides:

Financial Statements. On or before the ninetieth (90th) day following the close of [Nanomedicon's] fiscal year, [Nanomedicon] shall provide FOUNDATION with [Nanomedicon's] financial statements for the preceding fiscal year including, at a minimum, a balance sheet and an income statement, certified by [Nanomedicon's] treasurer or chief financial officer or by an independent auditor.

Paragraph 8.2 of the OEPLA provides, in relevant part:

Insurance. [Nanomedicon] shall obtain and carry in full force and effect commercial general liability insurance, including product liability

and errors and omissions insurance which shall protect [Nanomedicon] and Indemnitees with respect to covered events covered by Section 8.1(a) above. Such insurance . . . shall list FOUNDATION as an additional insured thereunder . . . [Nanomedicon] shall provide FOUNDATION with Certificates of Insurance evidencing compliance with this Section.

Paragraph 12.3(b) of the OEPLA provides:

Material Breach. In the event [Nanomedicon] commits a material breach of its obligations under this Agreement . . . and fails to cure that breach within sixty (60) days after receiving written notice thereof, FOUNDATION may terminate this Agreement immediately upon written notice to [Nanomedicon].

The Research Foundation and Nanomedicon twice amended the OEPLA, extending its term to June 1, 2010.

By letter dated June 1, 2010, Nanomedicon advised the Research Foundation that Nanomedicon wished to exercise the Option.

By letter dated June 24, 2010, the Research Foundation advised Nanomedicon that it failed to comply with its obligations under the OEPLA in that it (1) failed provide a research and development plan for commercializing the technologies, (2) failed to provide annual written reports of its progress in developing and commercializing the subject technologies, and its intended efforts and sales projections for the next year, (3) failed to provide annual written reports of its commercial activity in connection with the subject technologies, (4) failed to provide certified financial statements after the conclusion of each fiscal year, and (5) failed to obtain insurance and provide certificates of insurance. The Research Foundation advised that the foregoing constituted material breaches of the OEPLA and demanded “prompt action in connection therewith.”

Nanomedicon responded by letter dated August 18, 2010, and provided (1) a Business Plan purporting to detail Nanomedicon’s research and development plan to commercialize the subject technology, (2) progress notes for 2007-2009, (3) commercial activity reports for 2007-2009, and (4) tax returns for 2007-2009. Further, Nanomedicon

advised that it was in the process of obtaining the required insurance and that it expected to have the necessary certificates no later than August 20, 2010. On August 24, 2010, the Research Foundation sent an e-mail to Nanomedicon's insurance agent/broker confirming its official name and address for purposes of a certificate of insurance. On August 25, 2010, the agent/broker responded with an e-mail advising that he hoped to get the certificate to the Research Foundation "shortly."

By letter dated September 7, 2010, the Research Foundation advised Nanomedicon that the reports it provided with its letter dated August 18, 2010, "reveal substantial deficiencies in the company's fitness and ability to commercialize the licensed technology and a lack of compliance with its obligations of diligence under the Agreement." As an example, the Research Foundation advised that the reports "do not specify Nanomedicon staff or other resources dedicated to the project." The Research Foundation also reiterated that Nanomedicon had failed to obtain insurance and provide certificates of insurance. Based upon its view that Nanomedicon failed to comply with the OEPLA and failed to cure its material breaches in a timely manner, the Research Foundation advised that the OEPLA was terminated.

PROCEDURAL BACKGROUND

In its Verified Complaint, Nanomedicon alleges, among other things, that Prof. Gouma was unhappy that the Research Foundation entered into the OEPLA with Nanomedicon and that she "embarked on a campaign of harassment aimed at both Rigas and the Research Foundation with the sole purpose of forcing Nanomedicon and the Research Foundation to renegotiate the License Agreement such that it would only grant Nanomedicon a 'non-exclusive' license over the Patent Rights." It is further alleged that Prof. Gouma threatened to challenge the OEPLA and inhibited Nanomedicon's development of a working prototype device. Nanomedicon also alleges that the Research Foundation failed and refused to negotiate with it in good faith concerning a licensing agreement for intellectual property rights with regard to new technology disclosures provided under paragraph 2.7 of the OEPLA. Further, Nanomedicon alleges that on or about August 18, 2010, it cured the alleged defaults noted by the Research Foundation

by providing the information requested in its letter dated June 24, 2010.

In the first cause of action, Nanomedicon seeks a judgment declaring the rights and obligations of the parties under the OEPLA, including a declaration that Nanomedicon did not breach the OEPLA. The second cause of action is asserted against the Research Foundation for breach of the OEPLA based on its alleged repudiation of its obligations thereunder, as well as its failure and refusal to negotiate in good faith an additional license agreement regarding new technology. The third cause of action seeks specific performance of the OEPLA. The fourth cause of action alleges that both the Research Foundation and Prof. Gouma breached the Research Agreement and Confidentiality Agreement by failing to provide Nanomedicon with 60 days notice of the text of two articles published by Prof. Gouma, one in July 2008 and the other in January 2010, which allegedly disclosed confidential and/or patentable information concerning the Field. The fifth cause of action seeks a permanent injunction barring the Research Foundation from transferring, assigning, soliciting, negotiating, or contracting with any third-party for the licensing rights granted under the OEPLA. The sixth cause of action alleges that Prof. Gouma tortiously interfered with Nanomedicon's prospective economic advantage by making false and malicious statements about Nanomedicon and Rigas to the Research Foundation, and in failing to cooperate in the development and testing of the Field and its related technologies, thereby causing the Research Foundation to terminate the OEPLA.

The Research Foundation now moves for summary judgment dismissing the Complaint as asserted against it. The Research Foundation argues, among other things, that the undisputed facts demonstrate that it properly terminated the OEPLA based on Nanomedicon's failure to meet its obligations under the OEPLA, and its failure to cure the material breaches within 60 days after receiving notice of same from the Research Foundation. It contends that Nanomedicon's failure to obtain insurance is itself a material breach of the OEPLA, and that the failure to provide adequate research and development, progress, and financial reports is also a material breach. It also contends that Nanomedicon's claim for breach of the Confidentiality Agreement should be dismissed because Nanomedicon does not identify any of its confidential information

allegedly disclosed by the Research Foundation. The Research Foundation further argues that the claim for breach of the Research Agreement should be dismissed because the Research Agreement expired by its terms approximately three months before Prof. Gouma published the first article in July 2008.

In opposition to the Research Foundation's motion for summary judgment, Nanomedicon contends (1) the Research Foundation did not serve an answer since this case was remanded from Federal Court, (2) that it has not had an opportunity to conduct discovery, (3) that there are disputed issues of fact concerning the performance of the parties under the OEPLA including (a) whether the Research Foundation breached the various agreements, (b) whether Nanomedicon breached the OEPLA, (c) whether the alleged breaches of the OEPLA by Nanomedicon were material, (d) whether the alleged breaches were cured, (e) whether Nanomedicon substantially complied with the OEPLA, (f) whether the Research Foundation properly terminated the OEPLA, (g) whether Nanomedicon has valid defenses to the alleged breaches of the OEPLA, and (h) whether the Research Foundation frustrated Nanomedicon's ability to perform under the OEPLA.

In an affidavit submitted in opposition to the motion, Dr. Rigas states, among other things, that the term of the Research Agreement was extended until October 31, 2008. Dr. Rigas also states that it was not until June 1, 2010, the date on which Nanomedicon exercised its option under the OEPLA, that its obligation to perform certain conditions under the OEPLA was triggered. With regard to the claim that the Research Foundation breached the OEPLA, Dr. Rigas states that the Research Foundation never entered into good faith negotiations for a license regarding the new technology. Rather, it continued to demand that Nanomedicon agree to revise the OEPLA. Dr. Rigas states that at no time between November 15, 2007, and June 24, 2010, did the Research Foundation request or communicate that it expected a research and development plan, written progress reports, written reports of commercial activity, certified financial statements, or proof of insurance from Nanomedicon, despite numerous discussions between the parties. Thus, Dr. Rigas contends that the Research Foundation waived its rights to these materials. Additionally, Dr. Rigas states that the Research Foundation was fully aware that

Nanomedicon had not begun marketing a prototype device. Further, Dr. Rigas states that on or about August 18, 2010, Nanomedicon cured substantially all the alleged defaults claimed by the Research Foundation by providing substantially all the information requested by the Research Foundation. Dr. Rigas also provides a copy of a Certificate of Liability Insurance dated February 17, 2011, reflecting policy effective dates of August 30, 2010, as evidence of compliance with the insurance requirements of the OEPLA. Additionally, Dr. Rigas states that Nanomedicon never received written notice from the Research Foundation of termination of the OEPLA. Nanomedicon was informed of the termination notice by its counsel.

DISCUSSION

A party moving for summary judgment has the burden of making a prima facie showing of entitlement to judgment as a matter of law, offering sufficient evidence demonstrating the absence of any material issues of fact (*Winegrad v. New York Univ. Med. Ctr.*, 64 NY2d 85, 487 NYS2d 316 [1985]; *Zuckerman v. City of New York*, 49 NY2d 557, 427 NYS2d 595 [1980]). Merely pointing to gaps in the opposing party's proof is insufficient (*Healy v. Damus*, 88 AD3d 848 [2d Dept. 2011]). Once a prima facie showing has been made by the movant, the burden shifts to the party opposing the motion to produce evidentiary proof in admissible form sufficient to establish material issues of fact which require a trial (*see, Zayas v. Half Hollow Hills Cent. School Dist.*, 226 AD2d 713, 641 NYS2d 701 [2nd Dept. 1996]). "[I]n determining a motion for summary judgment, evidence must be viewed in the light most favorable to the nonmovant" (*Pearson v Dix McBride, LLC*, 63 AD3d 895 [2d Dept 2009]). Since summary judgment is the procedural equivalent of a trial, the motion should be denied if there is any doubt as to the existence of a triable issue or when a material issue of fact is arguable (*Salino v IPT Trucking, Inc.*, 203 AD2d 352 [2d Dept 1994]).

The elements of a cause of action for breach of contract are (1) the existence of a contract between plaintiff and defendant, (2) performance by the plaintiff, (3) defendant's failure to perform, and (4) damages resulting from such failure to perform (*see Furia v. Furia*, 116 AD2d 694 [2d Dept. 1986]). "As a general rule, rescission of

a contract is permitted ‘for such a breach as substantially defeats its purpose. It is not permitted for a slight, casual, or technical breach, but . . . only for such as are material and willful, or, if not willful, so substantial and fundamental as to strongly tend to defeat the object of the parties in making the contract’” (*RR Chester, LLC v. Arlington Bldg. Corp.*, 22 AD3d 652, 654 [2d Dept. 2005] quoting *Callanan v. Keeseville, Ausable Chasm & Lake Champlain R.R. Co.*, 199 NY 268, 284 [1910]). Generally, the question whether a breach is material is for the finder of fact but it can be decided by the court as a matter of law where the evidence concerning materiality is clear and substantially uncontradicted (*see WILJEFF, LLC v. United Realty Mgt. Corp.*, 82 AD3d 1616, 1617 [4th Dept. 2011]).

Here, the submissions of the parties, including the affidavits and documents, demonstrate the existence of a multiplicity of issues of fact, including, but not limited to (1) whether Nanomedicon materially breached its obligations under the OEPLA by failing to obtain insurance and provide a research and development plan, progress reports, and financial statements, (2) if so, whether Nanomedicon sufficiently cured the breach within 60 days after receiving written notice thereof from the Research Foundation, (3) whether the Research Foundation breached the OEPLA by failing to negotiate with Nanomedicon in good faith concerning a license agreement pursuant to paragraph 2.7, and (4) whether the Research Foundation breached the Research Agreement and/or Confidentiality Agreement by failing to provide Nanomedicon with 60 days notice of the text of two articles published by Prof. Gouma. Based upon the conflicting assertions of the parties, it cannot be determined, as a matter of law, that Nanomedicon’s failure to obtain insurance and provide reports and other information was so substantial that it tended to defeat the purpose of the OEPLA, i.e. to develop and commercialize technology under the subject patent rights. Moreover, it cannot be determined as a matter of law that the documentation provided by Nanomedicon in responses to the Research Foundation’s notice of material breach was insufficient to cure the purported breach. Additionally, the Research Foundation failed to submit evidence demonstrating that it complied with its obligations under the Confidentiality Agreement and Research Agreement. Given that only limited discovery has taken place to date, Nanomedicon’s failure, in opposition to the motion, to specifically identify the

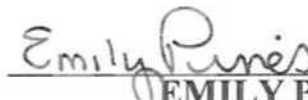
confidential and/or patentable information allegedly disclosed by the defendants is not fatal at this stage. Conflicting evidence has also been presented with respect to the date on which the Research Agreement expired.

Accordingly, it is hereby

ORDERED that the Research Foundation's motion for summary judgment (motion sequence # 004) is denied.

This constitutes the **DECISION** and **ORDER** of the Court.

Dated: March 8, 2012
Riverhead, New York



EMILY PINES
J. S. C.

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☒ NON FINAL

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