SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK: PART 54

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BIOENERGY LIFE SCIENCE, INC., a Delaware corporation,

Index No.: 650602/2014

DECISION & ORDER

Plaintiff,

-against-

RIBOCOR, INC. (f/k/a BIOENERGY, INC.), a Minnesota corporation,

Defendant.

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SHIRLEY WERNER KORNREICH, J.:

Defendant RiboCor, Inc. moves, pursuant to CPLR 3211, to dismiss the complaint.[1] Defendant's motion is granted in part and denied in part for the reasons that follow.

I. Procedural History & Factual Background

Plaintiff, Bioenergy Life Science, Inc., sells D-ribose[2] to companies that use it in food and dietary supplements. Defendant uses D-ribose related technology for various commercial purposes, such as developing pharmaceutical drugs. On August 24, 2011, the parties entered into an Asset Purchase Agreement (the APA), pursuant to which, *inter alia*, plaintiff purchased defendant's intellectual property, including its D-ribose patents. The APA contains representations and warranties including, *inter alia*, that defendant was transferring all of its D-ribose patents to plaintiff, a complete list of which was to be attached to the APA. Additionally,

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[1] The complaint has not been amended. While a redacted "amended complaint" was filed on June 18, 2014 (*see* Dkt. 25), this was done because the court denied plaintiff's motion to file the original complaint under seal. *See* Dkt. 14. Since the complaint discusses sensitive patent information contained in the APA, plaintiff was permitted to file a publicly redacted version. The court was provided with an unredacted version. As this motion does not reach the merits of the breach of contract claims, the court will not discusses the terms of the APA that are redacted. The issues on this motion – whether plaintiff has validly pleaded a fraud claim (it has not) and whether this action belongs in federal court (it does not) – do not turn on the specifics of the APA.

[2] *See* http://en.wikipedia.org/wiki/Ribose.

pursuant to a Patent Agreement entered into in conjunction with the APA, plaintiff granted defendant a license to sell products using the patents in certain contractually defined markets. Defendant was not permitted to sell products using the patents outside of those markets. The contracts provide for jurisdiction and venue in this court.

Plaintiff commenced this action on February 24, 2014, asserting five causes of action: (1) breach of the APA; (2) breach of the Patent Agreement; (3) specific performance of the APA; (4) fraudulent inducement of the APA; and (5) fraudulent concealment. Simply put, plaintiff alleges that defendant failed to disclose the existence of certain patents that, under the APA, should have been transferred to plaintiff. Plaintiff seeks an order compelling defendant to transfer those patents. Plaintiff also alleges that defendant has been selling products utilizing the patents outside of the permitted markets in violation of the Patent Agreement. Further, plaintiff alleges that defendant's failure to fully disclose all of its patents constitutes fraudulent inducement.

Defendant now moves for partial dismissal of two portions of the complaint.[3] First, defendant moves to dismiss the fraud causes of action for failure to state a claim and for being duplicative of the breach of contract claims. As discussed below, dismissal of the fraud claims is warranted. Second, defendant avers that the portion of this case that supposedly turns on the validity of the subject patents must be dismissed and litigated in federal court. As explained below, this argument has no merit.

II. Discussion

On a motion to dismiss, the court must accept as true the facts alleged in the complaint as well as all reasonable inferences that may be gleaned from those facts. *Amaro v Gani Realty Corp.*, 60 AD3d 491 (1st Dept 2009); *Skillgames, LLC v Brody*, 1 AD3d 247, 250 (1st Dept

[3] The court will not address the timeliness of the motion since the court rejected plaintiff's argument that the motion is untimely at oral argument. *See* Dkt. 50 (11/25/14 Tr. at 3-4).

2003), citing *McGill v Parker*, 179 AD2d 98, 105 (1992); *see also Cron v Harago Fabrics*, 91 NY2d 362, 366 (1998). The court is not permitted to assess the merits of the complaint or any of its factual allegations, but may only determine if, assuming the truth of the facts alleged, the complaint states the elements of a legally cognizable cause of action. *Skillgames*, *id.*, citing *Guggenheimer v Ginzburg*, 43 NY2d 268, 275 (1977). Deficiencies in the complaint may be remedied by affidavits submitted by the plaintiff. *Amaro*, 60 NY3d at 491. "However, factual allegations that do not state a viable cause of action, that consist of bare legal conclusions, or that are inherently incredible or clearly contradicted by documentary evidence are not entitled to such consideration." *Skillgames*, 1 AD3d at 250, citing *Caniglia v Chicago Tribune-New York News Syndicate*, 204 AD2d 233 (1st Dept 1994). Further, where the defendant seeks to dismiss the complaint based upon documentary evidence, the motion will succeed if "the documentary evidence utterly refutes plaintiff's factual allegations, conclusively establishing a defense as a matter of law." *Goshen v Mutual Life Ins. Co. of N.Y.*, 98 NY2d 314, 326 (2002) (citation omitted); *Leon v Martinez*, 84 NY2d 83, 88 (1994).

A. The Fraud Claims

"The elements of a cause of action for fraud [are] a material misrepresentation of a fact, knowledge of its falsity, an intent to induce reliance, justifiable reliance by the plaintiff and damages." *Eurycleia Partners, LP v Seward & Kissel, LLP*, 12 NY3d 553, 559 (2009). Pursuant to CPLR 3016(b), "the circumstances constituting the wrong shall be stated in detail." *Pludeman v Northern Leasing Sys., Inc.*, 10 NY3d 486, 491 (2008).

Plaintiff's fraud claims are not viable. Putting aside the question of whether the complaint has the specificity required by CPLR 3016(b), the fraud alleged is not a viable claim. Where the fraud could have been discovered with reasonable due diligence, a plaintiff cannot

claim reasonable reliance. *Mountain Creek Acquisition LLC v Intrawest U.S. Holdings, Inc.*, 96 AD3d 633, 634 (1st Dept 2012), citing *UST Private Equity Invs. Fund v Salomon Smith Barney*, 288 AD2d 87, 88 (1st Dept 2001) ("a sophisticated plaintiff cannot establish that it entered into an arm's length transaction in justifiable reliance on alleged misrepresentations if that plaintiff failed to make use of the means of verification that were available to it"); *Stuart Silver Assoc. v Baco Dev. Corp.*, 245 AD2d 96, 98-99 (1st Dept 1997) ("Where a party has the means to discover the true nature of the transaction by the exercise of ordinary intelligence, and fails to make use of those means, he cannot claim justifiable reliance on defendant's misrepresentations"). Plaintiff did not plead that it could not have conducted due diligence that would have revealed the non-disclosed patents. Plaintiff, therefore, has not pleaded the element of reasonable reliance.[4]

More importantly, fraud predicated on nothing more than defendant's alleged intention not to perform its contractual obligations is not a viable cause of action. *MP Innovations, Inc. v Atlantic Horizon Int'l, Inc.*, 72 AD3d 571, 573 (1st Dept 2010) ("a fraud claim does not lie where it simply 'alleges that a defendant did not intend to perform a contract with a plaintiff when he made it.'"), quoting *Gordon v Dino De Laurentiis Corp.*, 141 AD2d 435, 436 (1st Dept 1988); *see NY Univ. v Continental Ins. Co.*, 87 NY2d 308, 318 (1995). Such a claim is simply a breach of contract, which defendant conceded was properly pleaded in this case.[5] Moreover,

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[4] That the APA contains a warranty that all patents were disclosed does not obviate the due diligence requirement. Warranty claims (contract actions) do not have a reasonable reliance element, but fraud claims (tort actions) do, even if they cover the same subject matter as the warranty. *See Assured Guar. Mun. Corp. v DLJ Mortg. Capital, Inc.*, 44 Misc3d 1206(A), at *4-5 (Sup Ct, NY County 2014), accord *CBS Inc. v Ziff-Davis Pub. Co.*, 75 NY2d 496, 503 (1990).

[5] Defendant's only argument is in respect to the specific performance claim, which it argues must be dismissed for lack of jurisdiction over the patents, which are purportedly beyond the reach of this court's jurisdiction. Defendant is wrong. As plaintiff correctly argues, it is well settled that

where, as here, the alleged fraud arises from the same facts and implicates the same duties as the breach of contract claim, and where the alleged damages are the same, the fraud claim must be dismissed as duplicative. *See Mosaic Caribe, Ltd. v AllSettled Group, Inc.*, 117 AD3d 421, 422-23 (1st Dept 2014), citing *Manas v VMS Assocs., LLC*, 53 AD3d 451, 453 (1st Dept 2008).

Plaintiff's fraud claims are an iteration of its claim that defendant breached the APA's representations and warranties. Here, since the fraud claims are simply that defendant failed to disclose and transfer certain patents – a breach of the APA – and that defendant never intended to do so,[6] plaintiff's remedy lies exclusively in enforcing the APA. Plaintiff is not entitled to anything more than it contractually bargained for. The fraud claims, therefore, are dismissed.

B. Patent Claims

Defendant argues that certain of the parties' claims and defenses are predicated on the validity and construction of the subject patents and must be litigated in federal court. Defendant is wrong. It is well settled that "actions involving contracts relating to patents … are not considered suits arising under [patent] laws, and are properly brought in the State court, **even if the validity of the patent may somehow be involved and the plaintiff could have brought suit for its infringement in the Federal court**." *Am. Harley Corp. v Irvin Indus., Inc.*, 27

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this court has inherent in rem jurisdiction over out-of-state personal property whose ownership is litigated in New York pursuant to a valid exercise of jurisdiction of the parties, which is indisputably the case here. *See Hotel 71 Mezz Lender LLC v Falor*, 14 NY3d 303, 312 (2010) ("where a court acquires jurisdiction over the person of one who owns or controls property, it is equally well settled that 'the court[ ] can compel observance of its decrees by proceedings in personam against the owner within the jurisdiction.'"), quoting *Koehler v Bank of Bermuda Ltd.*, 12 NY3d 533, 539 (2009); *see also Mishcon de Reya N.Y. LLP v Grail Semiconductor, Inc.*, 2011 WL 6957595, at *5-6 (SDNY 2011) (applying this rule to patent located outside New York). It should be noted that, like the patent jurisdictional issue discussed below, defendant does not proffer any argument in reply, thereby conceding this issue.

[6] At oral argument, it was suggested that the patents would be voluntarily be transferred, but nothing in the record indicates whether this occurred. The status of these patents will be addressed at the preliminary conference, scheduled below.

NY2d 168, 172 (1970) (emphasis added). "In other words, the fact that the foundation for suit is a contract granting patent rights and that the plaintiff must rely on the patent in support of his cause of action is not determinative and neither vests the Federal court with jurisdiction nor deprives the State court of power to entertain the action." *Id.* Indeed, the federal courts have recently so held. *See generally NeuroRepair, Inc. v The Nath Law Group*, 2015 WL 178302 (Fed Cir Jan. 15, 2015), accord *Gunn v Minton*, 133 SCt 1059 (2013); *see also Wawrzynski v H.J. Heinz Co.*, 728 F3d 1374 (Fed Cir 2013). Defendant does not cite to or discuss the factors, set forth in these cases, used by the federal courts to determine if federal subject matter jurisdiction exists over purely state law claims which supposedly "'arise under' federal patent law." *See NeuroRepair*, 2015 WL 178302, at *3 (the claim must involve "a patent law issue that is '(1) necessarily raised, (2) actually disputed, (3) substantial, and (4) capable of resolution in federal court without disrupting the federal-state balance approved by Congress."), quoting *Gunn*, 133 SCt at 1065. The omission of this analysis from defendant's brief is fatal to its argument.

The cases defendant relies on in its opening brief are inapposite. *Von Kageneck v Cohen, Pontani, Lieberman & Pavane*, 301 AD3d 363 (1st Dept 2003) is no longer good law due to the Supreme Court's rejection of subject matter jurisdiction in malpractice cases predicated on "analysis and application of patent law." *See Gunn*, 133 SCt at 1065 ("state legal malpractice claims based on underlying patent matters will rarely, if ever, arise under federal patent law for purposes of § 1338(a)"). Moreover, *Research Corp. v Singer-Gen. Precision, Inc.*, 36 AD2d 987 (3d Dept 1971), merely concerned whether a state court action should be stayed while a parallel federal action was actually being litigated. Regardless, as more recent cases citing *Research Corp.* make clear, breach of contract claims involving patents "are properly brought in the State

court." *See Beckmann v Kryzak*, 2013 WL 373324 (Sup Ct, Albany County 2013), quoting *Am. Harley*, 27 NY2d at 172. Accordingly, it is

ORDERED that the motion by defendant RiboCor, Inc. to dismiss the complaint is granted in part and denied in part as follows: (1) the fourth and fifth causes of action for fraud and fraudulent inducement are dismissed; and (2) the motion is otherwise denied; and it is further

ORDERED that the parties are to appear in Part 54, Supreme Court, New York County, 60 Centre Street, Room 228, New York, NY, for a preliminary conference on February 24, 2015 at 10:30 in the forenoon; and it further

ORDERED that before the preliminary conference, the parties must read and comply with the court's rules, and the joint status letter discussed therein must be e-filed and faxed to Chambers (212-952-2777) no later than February 20, 2015 at 4:00 pm.

Dated: February 3, 2015

ENTER:

J.S.C.