Event Cardio Group Inc. v Life Med. Tech., Inc.
2017 NY Slip Op 30035(U)
January 9, 2017
Supreme Court, New York County
Docket Number: 650074/2016
Judge: Robert R. Reed
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SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK : IAS PART 43
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EVENT CARDIO GROUP INC. and EFIL SUB OF ECG, INC.,

Plaintiff,

-against- Index No. 650074/2016

LIFE MEDICAL TECHNOLOGIES, INC.,

Defendant.
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ROBERT R. REED, J.:

This action involves a license agreement, entered into on October 17, 2014, between defendant Life Medical Technologies, Inc. (LMT), as licensor, and plaintiff Efil Sub of ECG, Inc. (EFIL), an affiliate of plaintiff Event Cardio Group Inc. (ECGI), as licensee, to manufacture and distribute a product called BreastCare DTS, which is described as an adjunct to mammography and other procedures for the detection of breast disease, including breast cancer.

Defendant LMT moves, by order to show cause, for a preliminary injunction requiring that: 1) plaintiffs ECGI and EFIL (together, ECGI/EFIL) be prevented from making payment of $600,000 to Ambumed Inc., or any other parties, pending resolution of this action; 2) ECGI surrender all LMT intellectual property relating to BreastCare DTS, specifically any improvements made to it by Ceres Technologies (Ceres), and that LMT be allowed to contact Ceres to work their own design and build of the production line for BreastCare DTS; 3) ECGI/EFIL

produce documents in response to plaintiff's first request for documents; 4) the court enforce the terms of the licensing agreement and return all rights for the BreastCare DTS device to LMT; and 5) ECGI/EFIL deposit a bond in escrow in the amount of $2,500,000, to ensure that there will be sufficient funds to pay LMT if it is successful in litigating its counterclaims against ECGI/EFIL.

Under Article 2 of the license agreement, EFIL acquired the exclusive right to manufacture and market BreastCare DTS in the United States, Canada, and Asia, and the non-exclusive right to the rest of the world (Open Territories), other than Latin America, Mexico and "The Carribean Sea," including the Bahamas. LMT retained a right of first refusal with respect to the Open Territories. Pursuant to paragraph 3.02 of the agreement, if EFIL wishes to sell products in any of the Open Territories, it must expend at least $100,000 towards its sales effort or have had $10,000 worth of net sales within 180 days, or pay liquidated damages to LMT, and LMT will have the exclusive right to market the product.

The complaint alleges that, by investing in LMT, and agreeing to pay some of LMT's creditors and to market BreastCare DTS, ECGI rescued LMT from the verge of bankruptcy, which had resulted from mismanagement by LMT's chairman of the board and vice president of business development, Carol Fitzgerald. The

complaint further alleges that, because of her long familiarity with the product, ECGI/EFIL, nonetheless, hired Fitzgerald as a consultant to assist plaintiff with marketing the device.

The complaint alleges that in March 2015, in accordance with the licensing agreement, EFIL designated certain territories, including Australia, as additional marketing territories. In March and April 2015, ECGI/EFIL then entered into a series of agreements with Medpac, an Australian company, which sought a sub-license to develop and market BreastCare DTS. Under that $2 million sub-license agreement with ECGI, Medpac allegedly paid $500,000 to ECGI, receiving a promissory note from plaintiff and exclusive distribution rights for BreastCare DTS. According to the complaint, however, utilizing confidential information that she obtained from ECGI/EFIL, Fitzgerald sought to interfere with Medpac's future investments in ECGI/EFIL by falsely representing to Medpac that ECGI/EFIL did not have a license to market the product in Australia, to cause Medpac to declare that ECGI was in breach of the promissory note and agreement and demand immediate payment of the note.

On November 30, 2015, LMT issued a notice to declare plaintiff in breach of the licensing agreement in connection with the sub-licensing agreement plaintiffs entered into with Medpac. According to LMT, although EFIL had notified LMT on March 26, 2015 that it claimed Australia, New Zealand and several other

countries as Open Territories, it had not provided evidence of expending at least $100,000 towards sales efforts or having net sales of at least $10,000, as required by section 3.02 of the licensing agreement. LMT's notice of breach asserted that penalties were due to it and that the sub-licensing rights to the Open Territories claimed by plaintiffs had reverted to LMT, and that unless the breach was cured within 60 days, LMT would take action to protect its rights under the contract.

According to plaintiffs, they have met the $100,000 expenditure requirement by paying more than $500,000 to settle judgments entered against LMT, Fitzgerald, and the LMT directors, which otherwise would have resulted in LMT losing its patent for BreastCare DTS.

The complaint further alleges that LMT also sought to interfere with the relationship between ECGI/EFIL and Ceres, the company that was developing a manufacturing process for the product for plaintiffs, by demanding information regarding the production line that Ceres was developing for plaintiffs. The complaint alleges that before providing the information to LMT and Fitzgerald, plaintiff required defendant and Fitzgerald to sign a non-disclosure agreement, which they refused to do. Then, on December 21, 2015, by means of what plaintiffs characterize as a bad faith request, LMT sought, pursuant to section 7.01 (a) of the licensing agreement, to obtain information from Ceres

regarding its "improved intellectual property" (Affidavit of Carol Fitzgerald, ¶ 14), including information regarding the work that Ceres had produced, "including the contract for Ceres to build a new BreastCare DTS production line." Letter from Carol Fitzgerald, dated December 21, 2015 at 2, Fitzgerald affidavit, exhibit B.

Finally, on December 31, 2015, LMT wrote to plaintiffs demanding "milestone payments" and "minimum royalty payment" for sales of sub-licenses, pursuant to sections 3.02, 3.03 and 3.04 of the licensing agreement.

The complaint asserts three causes of action: 1) for a declaratory judgment that plaintiff had met the expenditure requirement of paragraph 3.03 and, therefore, is not in breach of the licensing agreement; 2) breach of the covenant of good faith and fair dealing by LMT in issuing the default notice in order to deprive ECGI/EFIL of its rights to receive its benefits under the licensing agreement; and 3) tortious interference with prospective economic relations by seeking to induce Medpac to cease investing in ECGI/EFIL.

LMT answered and counterclaimed, alleging that, under the licensing agreement, LMT had a right to share information regarding any developments or improvements made to the BreastCare DTS device, and that LMT requested access to work performed by Ceres on the development of the device, but that plaintiff

refused such access. LMT further alleges that EFIL breached the licensing agreement by wrongfully claiming and reselling the rights to certain countries when they did not have the right to do so, and by ignoring LMT's right of first refusal with respect to those countries. For that reason, according to LMT, on November 30, 2015, it sent plaintiff the notice of breach of contract, and although plaintiff had 60 days to cure, the breach was never cured.

LMT asserts two counterclaims: 1) breach of contract against EFIL for failing to cure in response to the November 30, 2015 notice of breach, and failing to make payment in response to the December 31, 2015 request for payment in connection with the breach; and 2) breach of contract against ECGI for denying LMT access to view and inspect any improvements made to the BreastCare DTS device by Ceres, resulting in LMT's loss of several potential investors.

"A party seeking a preliminary injunction must demonstrate, by clear and convincing evidence, (1) a likelihood of success on the merits, (2) irreparable injury absent the granting of the preliminary injunction, and (3) a balancing of the equities in the movant's favor." *Gilliland v Acquafredda Enters., LLC*, 92 AD3d 19, 24 (1ST Dept 2011), citing CPLR 6301; *Nobu Next Door, LLC v Fine Arts Hous., Inc.*, 4 NY3d 839, 840 (2005). Where the alleged harm is compensable in money damages, it is not

considered irreparable harm. *LGC USA Holdings, Inc. v Taly Diamonds, LLC*, 121 AD3d 529, 530 (1st Dept 2014).

In its first request for preliminary relief, LMT alleges that on June 30, 2016, ECGI entered into a stock purchase agreement to acquire the outstanding shares of Ambumed, Inc. (Ambumed), a company which provides electrocardiography support, including a 24-hour/day monitoring center under the name National Cardiac Monitoring Center (NCMC). LMT alleges that, if the transaction were to take place, it would drastically deplete plaintiffs' resources and would likely cause plaintiffs to be incapable of making payments due to LMT. Therefore, pending resolution of this action, LMT first seeks an order preventing ECGI/EFIL from making the payment of $600,000 to Ambumed, which LMT alleges is due on closing.

In response to defendant's motion, plaintiffs submit the affidavit of John Bentivoglio, the president of ECGI amd EFIL, who states that, on July 13, 2016, five days before defendant's motion was filed, ECGI closed on the acquisition of Ambumed. Since the $600,000 was to be paid to Ambumed on closing of the stock purchase, the court concludes that defendant's request to "estop" plaintiffs from making that payment to Ambumed or any other party has been rendered moot by the closing, and defendant's first request for preliminary relief is, therefore, denied.

LMT next requests that ECGI be ordered to surrender all LMT intellectual property relating to BreastCare DTS, specifically any improvements made to the device by Ceres, and that LMT be permitted to contact Ceres to work their own design and build of the production line for production and sale of the device for its Latin American territories. According to LMT, Ceres had been required to sign a non-compete and non-disclosure agreement with plaintiffs which prohibited Ceres from meeting with LMT.

In their response to defendant's motion, plaintiffs submit the affidavit of Kevin Brady, president and CEO of Ceres, who states that Ceres was hired by plaintiffs to develop a plan for a production line for the BreastCare DTS device should the production move forward, and that no modifications or improvements have been made to the design of the device by Ceres. Brady indicates that Ceres's work has been limited to the feasibility and scope of work for Ceres's production line. Brady further states that he is not aware of any reason that LMT could not take the technical specifications for the device which originated with LMT and were provided to Ceres, and work with another company to develop the device.

In addition, on November 22, 2016, counsel for plaintiffs wrote to the court, with a copy to counsel for defendant, indicating that in an effort to resolve the dispute, "and without prejudice to plaintiffs' position that no intellectual property

under the licensing agreement was, in fact, at issue," plaintiffs had "waived, with respect to Defendant, its non-compete and non-disclosure provisions regarding Ceres Technology, Inc., and have agreed that LMT may have access to the feasibility study" being developed by Ceres. Letter of Alexander Tripp, dated November 22, 2016.

To the extent that LMT is seeking access to changes in its intellectual property made by Ceres, it has failed to respond to Brady's sworn statement that no such improvements to the device have been made. Nor has LMT responded to Tripp's letter indicating that LMT may now contact Ceres, and may have access to the feasibility study conducted by Ceres. For these reasons, LMT's second request is moot as well.

LMT next asks that the court require plaintiffs to produce documents in response to "Plaintiff's First Request for Documents, which were served on or around June 15, 2006."[1] Order to Show Cause at 2. LMT has failed to provide the court with its document requests, though plaintiffs have provided their responses and objections to the requests which contain the 52 numbered requests, and which were served on defendant on or about July 8, 2016. More important, LMT has failed to submit an

[1] The court assumes that the reference to "plaintiff's" request for documents is either a typographical error and was intended to refer to "defendant's" document request or was intended to refer "counterclaim-plaintiff."

affirmation that counsel for defendant has conferred with counsel for plaintiffs in a good faith effort to resolve the discovery issues raised by the motion as required by 22 NYCRR 202.7. *See Yargeau v Lasertron*, 74 AD3d 1805, 1806 (4th Dept 2010). LMT's request for an order requiring plaintiffs to produce documents requested by LMT is, therefore, denied.

LMT next requests that the court enforce the terms of the licensing agreement and that all rights for the BreastCare DTS device be returned to LMT. It is unclear to the court specifically which terms of the licensing agreement LMT is asking the court to enforce in connection to its motion for preliminary relief, but to the extent that it is seeking the money damages specified in its counterclaims, money damages are not relief that can properly be obtained by means of a preliminary injunction. *See LGC USA Holdings, Inc. v Taly Diamonds, LLC*, 121 AD3d at 530.

With respect to its request that all rights for the BreastCare DTS device be returned to LMT, it is unclear to the court whether defendant is seeking to terminate the licensing agreement, relief it did not seek in its counterclaims, or whether it is seeking access to its intellectual property with respect to BreastCare DTS. In any case, such relief, if justified, would, at best, be appropriate as final and not preliminary relief, since "a mandatory preliminary injunction (one mandating specific conduct), by which the movant would

receive some form of the ultimate relief sought as a final judgment, is granted only in unusual situations, where the granting of the relief is essential to maintain the *status quo* pending trial of the action." *Jones v Park Front Apts., LLC*, 73 AD3d 612, 612 (1st Dept 2010)(internal quotation marks and citation omitted). No such unusual situations exist here.

Finally, LMT seeks an order requiring ECGI/EFIL to post a $2.5 million bond to ensure that, should LMT be successful on its counterclaims, there will be sufficient funds to pay the amount owed. As discussed above, a party seeking a preliminary injunction must show, among other things, that it will be irreparably harmed absent the granting of preliminary relief. *Gilliland v Acquafredda Enters., LLC*, 92 AD3d at 24. Furthermore, alleged harm that is compensible in money damages, is not considered irreparable harm. *LGC USA Holdings, Inc. v Taly Diamonds, LLC*, 121 AD3d at 530. Perhaps for that reason, it is rare that the party seeking injunctive relief, here, defendant (counterclaim-plaintiff), is the party seeking the posting of a bond. Rather, most frequently, the posting of an undertaking is required from the party seeking the injunction, to insure that, "if it is finally determined that he or she was not entitled to an injunction, [that party] will pay [the party enjoined] all damages and costs which may be sustained by reason of the injunction." CPLR 6312 (b). There have been occasions, however,

where a defendant has been ordered to place funds in escrow pending the conclusion of the litigation -- though, even then, the plaintiff seeking the escrow order was directed to post an undertaking in connection with the requested preliminary injunction. *360 W. 11th LLC v ACG Credit Co. II, LLC*, 46 AD3d 367 (1st Dept 2007). Granting an undertaking is within the discretion of the court; however, in exercising its discretion, "the court must not consider defendants' speculative or conclusory claims of potential financial losses." *Peyton v PWV Acquisition LLC*, 35 Misc 3d 1207(A), 2012 NY Slip Op 50598(U), *4-5 (Sup Ct, NY County), *affd* 101 AD3d 446 (1st Dept 2012). Here, LMT has merely made conclusory allegations that, should plaintiffs acquire the 24-hour cardiac monitoring center which LMT describes as a call center, plaintiffs' resources would be substantially depleted and they would be unable to fulfill their financial obligations to defendant if it is successful on its counterclaims. Such conclusory assertions are insufficient to support an order requiring plaintiffs to post a $2.5 million bond. It is, therefore, not necessary for the court to reach the likelihood that LMT will, in fact, succeed on the merits of its counterclaims, or the balance of equities regarding the requested bond.

Accordingly, it is hereby

ORDERED that the motion of defendant Life Medical

Technologies, Inc. is denied in its entirety.

Dated: January 9, 2017

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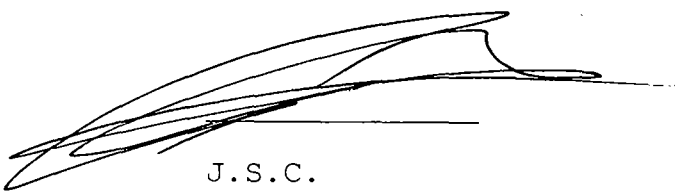

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