

Corporate & Financial Weekly Digest

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Delaware Chancery Court Rejects Unsupported Fraudulent Inducement Defense

The Delaware Chancery Court rejected a defendant's fraud in the inducement defense where, at the summary judgment stage, the defendant (a) failed to come forward with specific facts showing that the counterparty knowingly made false statements and (b) did not make a proper showing under Rule 56 as to why additional discovery was warranted.

Plaintiff Corkscrew Mining Ventures, Ltd. sued defendant, Preferred Real Estate Investments, Inc. (PREI), seeking specific performance of an agreement obligating PREI to purchase Corkscrew's remaining 12% interest in a mining quarry business. PREI argued that it was fraudulently induced to enter into that contract because Corkscrew misrepresented facts concerning potential environmental liabilities at the quarry in an earlier but related agreement in which PREI purchased 88% of Corkscrew's interest.

In support of its summary judgment argument, PREI submitted an affidavit from its Vice President asserting that Corkscrew in fact made misrepresentations regarding potential environmental issues at the quarry. The Chancery Court rejected the affidavit as too conclusory because it failed to identify any hazardous substances found at the quarry or any other specific facts that would show a misrepresentation by Corkscrew.

The Chancery Court also declined to allow additional discovery on the ground that the case had been pending for more than a year, and because PREI had not made a proper showing as to why additional discovery should be permitted under Rule 56.

Because PREI had not supported its fraud in the inducement defense, and the agreement was otherwise valid and enforceable, the Chancery Court awarded summary judgment to Corkscrew and ordered specific performance of the contract. (*Corkscrew Mining Ventures, Ltd. v. Preferred Real Estate Investments, Inc.*, C.A. No. 4601-VCP (Del. Ch. Feb. 28, 2011))

Katten Muchin Rosenman LLP
Charlotte Chicago Irving London Los Angeles New York Washington, DC