IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

eCOMMERCE INDUSTRIES, INC., OMD CORPORATION, LA CROSSE, MANAGEMENT SYSTEMS, INC., FMAUDIT, LLC, DIGITAL GATEWAY, INC., and TECH ANYWARE, LLC, Plaintiffs/Counterclaim-Defendants, v. MWA INTELLIGENCE, INC., Defendant/Counterclaimant.	C.A. No. 7471-VCP

OPINION

Submitted: April 10, 2013
Decided: September 30, 2013
Revised: October 4, 2013

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PARSONS, Vice Chancellor.

In this breach of contract action, one party to an exclusive marketing, license, and distribution agreement brings contract and tort claims against the other parties to that agreement and their affiliated companies. The licensee initially commenced litigation in California. The defendants named in that action, including the licensors, are the plaintiffs in this action. The plaintiffs brought suit in this Court seeking a declaratory judgment that the agreement properly was terminated, injunctive relief relating to the agreement's confidentiality and termination provisions, and an award of their attorneys' fees in prosecuting this action. The defendant-licensee in this action asserted counterclaims similar to those it brought initially in California, including claims for breach of contract, breach of the implied covenant of good faith and fair dealing, tortious interference with contract, and tortious interference with prospective economic advantage. The defendant seeks monetary damages and an award of its attorneys' fees.

This Opinion constitutes my post-trial findings of fact and conclusions of law on the plaintiffs' claims and the defendant's counterclaims. For the reasons that follow, I conclude that those plaintiffs who were parties to the exclusive marketing, license, and distribution agreement breached the non-compete provision of that agreement or, alternatively, the implied covenant of good faith and fair dealing. I also find that their parent and a sister company are liable in tort for tortious interference with contract, and that the sister company also is liable for interference with prospective economic advantage. The additional named plaintiffs, *i.e.*, FMAudit and Tech AnyWare, are not liable in contract or tort. I award the defendant-licensee damages against the licensors, their parent, and a sister company, jointly and severally, in the amount of $190,437.87 plus pre-judgment and post-judgment interest at the legal rate.

As to the plaintiffs' requests for declaratory and injunctive relief, I find that the agreement properly was terminated and I order the defendant to comply with the agreement's termination and confidentiality provisions. Because the plaintiffs and the defendant prevailed on significant portions of their claims and counterclaims, respectively, I deny the requests for attorneys' fees of both sides and require each side to bear their own fees and expenses.

I. BACKGROUND

A. The Parties

Plaintiff eCommerce Industries, Inc. ("ECI") is a Delaware corporation with its principal place of business in Forth Worth, Texas. ECI provides business management and e-commerce systems software for a number of industries, including the office equipment industry. ECI's clients include companies that manufacture, sell, and service office equipment such as photocopiers and printers.

ECI wholly owns three other plaintiffs in this action: OMD Corporation ("OMD"), a Missouri corporation; La Crosse Management Systems, Inc. ("La Crosse"), a Wisconsin corporation; and Digital Gateway, Inc. ("DGI"), a Utah corporation. Collectively, ECI, OMD, La Crosse, and DGI are referred to as the "ECI parties."

Plaintiff FMAudit, LLC ("FMAudit") is a Missouri limited liability company that sold substantially all of its assets to ECI in March 2011. FMAudit currently conducts no business. Plaintiff Tech AnyWare, LLC ("Tech AnyWare") is a Utah limited liability company.

The defendant is MWA Intelligence, Inc. ("MWA"),[1] a Delaware corporation with its principal place of business in Scottsdale, Arizona. MWA also participates in the office equipment industry. MWA provides software designed to allow businesses ranging from international office equipment dealers to local photocopy stores to serve their customers better and to manage both their businesses and mobile service fleets.

B. Facts

Two types of software important in the office equipment industry are relevant to this litigation: "backend" software and "frontend" software. Backend, or "Enterprise Resource Planning" ("ERP"), software helps a copier dealer manage the "backend" of its business such as inventory, accounts receivable, and accounts payable. The frontend software contains functionality that helps an office equipment business interact with its customers. One function of frontend software is to monitor a customer's machine usage, collecting data on such things as malfunctions or consumption of ink and paper; this is called "device management software." Another function of frontend software, called "remote service software," is to assist service technicians in the field.

An office equipment dealer typically requires both frontend and backend software. A dealer's frontend system must integrate with its backend system. The parties to this litigation own the rights to various frontend and backend products. The chart below

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[1] MWA is sometimes also referred to as "MWAi" in trial exhibits and testimony.

depicts the ownership structure of these products at the time this litigation began. The companies and products are discussed in detail *infra* in this Section.

	FRONTEND		BACKEND / ERP
Company:	*Device Management*	*Remote Service*	
ECI	FMAudit		
OMD		~~SOTG~~ (shelved)	Vision
La Crosse		~~Tech-Raptor~~ (shelved)	NextGen
DGI		~~Remote Tech~~ (sold to Tech AnyWare)	e-automate 8.0
Tech AnyWare		Remote Tech	
MWA	IDM	IS	
SAP			Business One

1. ECI acquires OMD and La Crosse

ECI acquired OMD in December 2006. Shortly thereafter, ECI pursued an acquisition of La Crosse. At a tradeshow in early 2007, ECI approached the president and 50 percent co-owner of La Crosse, John Brostrom, to inquire about purchasing the company.[2] Brostrom and his partner eventually agreed to the proposed transaction, and ECI acquired La Crosse in June 2007. Brostrom remained on as president of La Crosse after the acquisition.[3]

When ECI acquired La Crosse, it did not attempt to move OMD customers to the newer technology available from La Crosse. Rather, it operated the two companies in

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2 Tr. 859–63 (Brostrom). Citations in this format are to the trial transcript. Where, as here, the identity of the testifying witness is not clear from the text accompanying the footnote, the witness's surname is indicated parenthetically.

3 Tr. 865 (Brostrom).

parallel. ECI wanted to provide its customers with options because different customers value different feature functionality and price ranges.[4]

2. The Exclusive Agreement between OMD, La Crosse, and MWA

OMD, La Crosse, and MWA entered into an Exclusive Marketing, License and Distribution Agreement on December 20, 2007 (the "Exclusive Agreement" or "Agreement"). By this time, OMD and La Crosse were wholly owned subsidiaries of ECI. ECI, however, is not a party to the Agreement.

In the Agreement, OMD and La Crosse granted to MWA a perpetual, irrevocable, worldwide, exclusive right to grant sublicenses and to market, provide, distribute, and license their frontend products, "Service-on-the-Go," or "SOTG," and "Tech-Raptor," respectively (the "Licensed Software").[5] One purpose of the Agreement was to capitalize on MWA's frontend software, called "Intelligent Service" or "IS," and OMD and La Crosse's backend software, "Vision" and "NextGen," respectively. OMD's Vision backend system has been in the market for twenty to twenty-five years and is considered one of the most feature-rich platforms available.[6] La Crosse's NextGen backend system also has been in the market for a number of years. When La Crosse entered the market, its backend was a "next generation" product that offered the latest technology. One of

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4 Tr. 46 (Gruenewald).

5 Tr. 357 (Kushner).

6 Tr. 46 (Gruenewald).

the benefits of the La Crosse backend system is that it has an "open architecture" that allows users to integrate their applications into it.[7]

a. Compatibility and on-going maintenance

Under the Agreement, OMD and La Crosse undertook not to "take any actions nor make any modifications to the Licensed Software or their respective software products that would prevent the Licensed Software from interoperating with their respective Backend Systems."[8] Notably, this compatibility provision applies only to actions that would prevent the Licensed Software from interoperating with the "Backend Systems." It does not mention MWA's frontend software IS in this context. The Agreement defines "Backend Systems" to include OMD and La Crosse's Vision and NextGen systems, "and all improvements, updates, upgrades, versions, releases and next generation products for all of the foregoing."[9] Although the parties agreed that OMD and La Crosse would not take action to prevent interoperation between the Licensed Software and the Backend Systems, the parties also agreed that OMD and La Crosse would have no on-going maintenance and support obligations. In that regard, Section 2.2.5 of the Agreement states:

> From and after the Effective Date, neither OMD nor La Crosse nor any of their Affiliates shall have any obligation to support, maintain, enhance, develop or revise the Licensed Software. OMD and La Crosse shall not, and shall not

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7 Tr. 611 (Alexander).

8 JX 34 § 2.1.2.

9 JX 34 § 1.2 (emphasis added).

> authorize or assist any third party to, knowingly take or refrain from any action that will adversely affect compatibility of the Licensed Software with the Backend Systems, any ERP system owned or licensed by OMD or La Crosse, as the case may be, or any MWAi products or services.[10]

b. Right of first negotiation

In addition, the Agreement provides MWA with a right of first negotiation to negotiate an exclusive license in the event OMD or La Crosse acquired any ERP or backend system other than the Backend Systems:

> If OMD or La Crosse licenses or otherwise acquires any other ERP or backend system other than the Backend Systems, OMD and La Crosse will promptly notify MWAi in writing and will offer MWAi a right of first refusal to negotiate an exclusive license to integrate and provide the Licensed Software or any other frontend system for use in connection with such ERP or backend system and the parties will negotiate the terms of such license, including without limitation applicable license fees, in good faith using all reasonable efforts for a period of one hundred twenty (120) days, which period may be extended upon mutual written agreement of the parties.[11]

Notably, this right of first negotiation provision arises only if OMD or La Crosse licenses or acquires another ERP or backend system. Unlike several other provisions, this one does not extend to actions by "Affiliates" of OMD and La Crosse.

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10 JX 34 § 2.2.5.

11 JX 34 § 2.1.3.

c. Non-compete

Other key sections of the Agreement include the non-compete provisions. The non-compete provision governing OMD and La Crosse's actions provides:

> During the Term, OMD and La Crosse each agree that it will not, and will cause its Affiliates not to, design, develop, market, license or distribute software or technology that competes with the Licensed Software in the Office Machines Industry anywhere in the world. Software or technology shall be deemed to compete with the Licensed Software if it (i) contains the same or substantially similar features and functionality as the Licensed Software and (ii) is intended for use by and is marketed, licensed or distributed to individuals or entities in the Office Machines Industry in the United States.[12]

A similar provision governs MWA's obligation not to compete with the Backend Systems.[13] That provision, however, includes the following additional sentence: "Notwithstanding the foregoing, nothing herein prohibits MWAi from making the Licensed Software or any other product or service compatible with any other ERP or backend system, provided that in doing so or as a result thereof MWAi does not compete with OMD or La Crosse in violation of this Section 2.1.5."[14]

d. Confidentiality and limitations on liability

The following provision of the Exclusive Agreement sets forth the parties' agreement as to confidentiality:

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[12] JX 34 § 2.1.4.

[13] *See* JX 34 § 2.1.5.

[14] *Id.*

> Neither party shall, without the prior written consent of the other party, disclose or use (except as expressly permitted by, or required to achieve the purposes of, this Agreement) the Confidential Information of the other party, during or at any time after the Term of this Agreement. Each party agrees that it will treat all Confidential Information of the other Party with the same degree of care as it accords to its own Confidential Information and each party represents that it exercises reasonable care to protect its own Confidential Information. The receiving party may disclose Confidential Information if required by a governmental agency, by operation of law, or if necessary in any proceeding to establish rights or obligations under this Agreement, provided that the receiving party gives the disclosing party reasonable prior written notice sufficient to permit the disclosing party an opportunity to contest such disclosure.[15]

"Confidential Information" is defined as follows:

> "<u>Confidential Information</u>" means *this Agreement*, the Licensed Software, Customer Data and any other written or electronic information that is either (i) marked as confidential and/or proprietary, or which is accompanied by written notice that such information is confidential and/or proprietary, or (ii) not marked or accompanied by notice that it is confidential and/or proprietary but which, if disclosed to any third party, could reasonably and foreseeably cause competitive harm to the owner of such information. Confidential Information shall not include information which, as demonstrated by the receiving party, is: (i) publicly available, (ii) lawfully obtained by a party from third parties without restrictions on disclosure, or (iii) independently developed by a party without reference to or use of Confidential Information.[16]

MWA's senior managers all understood the Exclusive Agreement was confidential.[17]

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[15] JX 34 § 5.1.

[16] JX 34 § 1.5 (emphasis added).

[17] Tr. 705 (Stramaglio); Tr. 800 (Ueda); Mammoser Dep. 26.

As reflected in Section 6.3 of the Exclusive Agreement, the parties also agreed to limit their liability for breaches of the Agreement. Liability for two classes of violations, however, explicitly were excluded from the limitation: violations of intellectual property rights and breaches of Article V regarding confidentiality. The limitation of liability provision states in full:

> Except for any party's violation of another party's intellectual property rights or a breach of any party of Article V (Confidentiality) of this Agreement, under no circumstances shall any party be liable to the other parties for any special, incidental, indirect, statutory or consequential damages (including lost revenue or profits) resulting from, arising out of, or related to its performance or failure to perform any of its obligations under, or breach of, this Agreement, whether or not a party has been advised, knew, or should have known, of the possibility of such damages. Except for each party's respective indemnification obligations for infringement set forth herein, a violation by any party of another party's intellectual property rights or a breach by any party of Article V (Confidentiality) of this Agreement, each party's maximum cumulative liability arising from or related to this Agreement for any cause whatsoever, regardless of the form of any claim or action, whether based in contract, tort or any legal theory, shall not exceed the aggregate fees paid by MWAi to OMD and La Crosse pursuant to this Agreement [*i.e.*, $950,000].[18]

3. Contemplated partnership among OMD, La Crosse, and MWA

By obtaining an exclusive license to the Licensed Software, MWA hoped to be able to shelve those products and attempt to sell only its IS frontend product to customers. Although MWA would continue to support customers using the Licensed Software, MWA would not actively sell SOTG or Tech-Raptor. In fact, OMD and

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18 JX 34 § 6.3. In the Agreement, this provision appears in all capital letters.

La Crosse acknowledged in the Agreement that "MWAi has no obligation to market, license or distribute the Licensed Software and that MWAi may at any time transition End Users and other end users from the Licensed Software to MWAi's or a third party's products and/or services."[19] Of the 700 customers that used OMD and La Crosse frontend systems when the Agreement was executed in 2007, MWA succeeded in selling the IS product to only 70 of those customers.[20]

4. DGI competed in the market with ECI and MWA

DGI was a powerful competitor to both ECI and MWA. DGI sold an ERP system called "e-automate," which competed with OMD's Vision and La Crosse's NextGen. DGI also sold a frontend product called "Remote Tech" that only integrated with e-automate.[21] Remote Tech competed with SOTG, Tech-Raptor, and MWA's IS, all of which apparently could be integrated with e-automate at one point.

Thus, e-automate and Remote Tech made up an "integrated offering" available from a single supplier, DGI. Following the Agreement, Vision or NextGen and IS, SOTG, or Tech-Raptor represented a second integrated offering available through the coordinated marketing efforts of MWA and OMD or La Crosse.

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19 JX 34 § 2.1.1.

20 Tr. 782 (Ueda).

21 *See* Tr. 1000 (Davis).

5. ECI reorganizes its leadership; relations with MWA deteriorate

In mid-2008, ECI underwent significant leadership changes. Around that time, Ron Books was ECI's president and COO; Laryssa Alexander was the president of OMD;[22] and Brostrom was the president of La Crosse. In January 2009, Books became ECI's CEO and he hired Trevor Gruenewald as COO.[23] As part of the leadership changes, Books terminated Brostrom as La Crosse's president. Alexander became president of La Crosse by the end of 2008.

In March 2009, Brostrom approached Mike Stramaglio, MWA's president and CEO, to ask for a job. MWA hired Brostrom as vice president of support and customer services.[24]

Books described the leadership changes in mid-2008 as an attempt by ECI to shift its short-term focus into a long-term strategy to build stronger partnerships with customers. ECI sought to overcome some negative customer responses to decisions made by prior management.[25] It adopted a customer-first attitude. OMD and La Crosse's partnership with MWA facilitated this goal by allowing the companies to offer their

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22 Tr. 524 (Alexander).

23 Tr. 286 (Books); Tr. 7 (Gruenewald).

24 Tr. 874 (Brostrom).

25 *See* Tr. 573–74 (Alexander) (discussing rate increases that occurred shortly after ECI acquired OMD and La Crosse and resulted in dissatisfaction among customers).

customers strong integration and complete, front-to-back solutions.[26] OMD, La Crosse, and MWA engaged in joint marketing campaigns, supported each other at trade shows, engaged in joint selling efforts, and worked together on customer issues.[27] ECI supported these marketing campaigns as the company offering the OMD and La Crosse backend solutions.

Eventually, however, the relationship deteriorated. From OMD and La Crosse's perspective, MWA was free-riding on their efforts.[28] Because of the Exclusive Agreement, OMD and La Crosse customers were required to use MWA's frontend product IS. In OMD and La Crosse's view, however, MWA failed to provide good customer service and support and did not offer competitive pricing. According to OMD and La Crosse representatives, their customers had to pay double or triple for MWA's IS platform than what those customers had been paying for SOTG or Tech-Raptor. Creating further problems, MWA fell behind in testing software updates and thereby delayed customer access to updated, enhanced software.[29]

The parties disagree as to how MWA handled these problems. OMD and La Crosse accuse MWA of "finger-pointing" rather than solving problems as they arose. MWA, on the other hand, denies those accusations. It recalls customer issues being

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[26] Tr. 56 (Gruenewald).

[27] *Id.*; Tr. 627 (Alexander).

[28] Tr. 227, 284–85 (Books); JX 447.

[29] Tr. 628–29 (Alexander).

handled together with the ECI team as a partnership. I find OMD and La Crosse's description of the situation to be more credible and reliable. In any event, these issues drove a wedge in the relationship among MWA, OMD, and La Crosse.

6. E-automate emerges as the dominant backend system

By early 2009, e-automate had begun to dominate Vision and NextGen in the market.[30] Customers who were frustrated with ECI based on prior price increases, for example, found e-automate to be an attractive alternative. DGI's products also were seen as more technologically advanced than OMD and La Crosse's ERPs, which were perceived as stagnant.[31] The newest version of e-automate made available during the time period relevant to this litigation is e-automate 8.0. The e-automate 8.0 release contains a ".net" software base, which, at the time of the parties' dispute, was the most technologically advanced offering in the market. This new version did not integrate with MWA's IS frontend. E-automate 8.0 and Remote Tech were better priced than offerings by OMD, La Crosse, and MWA.[32] Furthermore, DGI's CEO, Jim Phillips, was an

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[30] *See* JX 63 (February 2, 2009 email stating: "The loss of customers from MWA migrating off [ECI's] platform onto [DGI's] is so discouraging"); JX 66 (February 10, 2009 email in which Books notes: "Losing customers to DGI at a pretty significant pace").

[31] Tr. 665 (Stramaglio).

[32] Tr. 666 (Stramaglio).

aggressive and skilled marketer who successfully took many customers away from OMD and La Crosse.[33]

ECI ultimately decided to purchase DGI.[34] At first, Books explored ideas with Stramaglio on how to address the threat that DGI posed to both of their companies.[35] Thus, MWA knew that ECI was considering the acquisition of DGI and even supported the idea.[36] MWA itself had meetings with Phillips to discuss a relationship between MWA and DGI. At one meeting in 2010, Brostrom, MWA's COO, informed Phillips generally that MWA had paid approximately $1 million for the rights to OMD and La Crosse's frontend products and that those companies could not sell competing frontend products.[37] Eventually, however, it was ECI and DGI who entered confidential negotiations regarding a potential acquisition.[38]

7. ECI negotiates with Phillips and purchases DGI

Just as Phillips was an aggressive competitor in the marketplace, he was a forceful salesman in his negotiations with ECI to sell DGI. Phillips believed in the value of his

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33 Tr. 36 (Gruenewald); JX 105 (reflecting an acknowledgment by MWA representatives in 2009 that ECI had lost "too many deals to E-Automate the past two years").

34 Tr. 236 (Books).

35 JX 65.

36 Tr. 667–68 (Stramaglio).

37 Tr. 100–02 (Phillips); Tr. 392–94 (Kushner).

38 Tr. 42, 76–77 (Gruenewald).

company and in the value that an ECI–DGI combination would produce. He pushed hard to make the sale at a $32 million sales price, which he called a "32-Power Right," using a football analogy.[39] In May 2011, as part of his sales pitch, Phillips sent Books an email with his "thoughts that may help [Books] in his preparation."[40] In keeping with the football theme, Phillips opened by telling Books that "the right play to call is 32 Power on NOW!"[41] As part of his plan, Phillips suggested that:

> The MWA Killer should be articulated right out of the gate what our intentions [are]. We will integrate DGI's Remote Tech to OMD & LMS to get those revenues on D-Day or at least announce what we're doing so MWA can't counter with a long term contracting strategy. . . . We want to focus our attention on a blend of Giants and good mid size dealers so we can generate major new revenue by replacing not only OMD/LMS but also MWA and BEI. We can do between 100–150 per year based on the size mix. We can target these activities to maximize the roll-up. This will be fun.[42]

On August 9, 2011, ECI and DGI signed a letter of intent (the "LOI") for ECI to acquire DGI.[43] The LOI provided for a purchase price of $25 million and a potential earn-out for DGI shareholders, including Phillips, of $7 million.[44] Under the earn-out, DGI would

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39 *See* Tr. 128 (Phillips).

40 JX 183.

41 *Id.*

42 *Id.*

43 *See* JX 225.

44 *See id.*; JX 181 (May 6, 2011 email from Books discussing Phillips getting a "$3mm retention bonus" as part of the DGI acquisition and benefitting from an "earn-out through 2012.")

receive $3.00 for every $1.00 of EBITDA earned by OMD, La Crosse, and DGI in calendar years 2011 and 2012 in excess of $12.75 million, up to a maximum payment of $7 million. The LOI also provided:

> DGI's "Remote Tech" software products and the business, operational, development and sales/marketing aspects related thereto would be divested into a newly formed entity owned by the existing shareholders of DGI (or such other party as [mutually] agreed by DGI and ECI) and independently operated by them under a structure to be agreed to prior to Closing, subject to ECI's retention of a right of first refusal to acquire the "Remote Tech" business, shares and/or assets for a purchase price of $1.00 and such other terms and conditions as ECI may designate.[45]

On the last point quoted above, Books testified that similar $1 repurchase options were in the majority of ECI's LOIs.[46]

ECI also anticipated that its acquisition of DGI would lead to $1 million in cost synergies. ECI planned to remove duplicative functions like human resources and billing.[47] It also intended to eliminate duplicative development efforts on similar products. For example, before ECI acquired DGI, OMD was working on a major upgrade of its backend system from its legacy code base to .net, and from its older database to the newer database Sequel.[48] At the time of the acquisition, DGI was about to

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45 JX 225 § 6.

46 Tr. 349.

47 Tr. 75 (Gruenewald).

48 Tr. 75–76.

launch an upgrade to e-automate, e-automate 8.0, which contained the .net code base.[49] After ECI purchased e-automate, therefore, ECI had a .net offering and no longer needed the anticipated .net version of OMD's Vision. Consequently, OMD cancelled the development efforts to upgrade its backend to .net, which had required three to four employees' full-time effort.[50] ECI and OMD focused instead on enhancing OMD's current platform. Approximately twelve to fifteen employees were laid off after the acquisition, two or three of whom were developers.[51] ECI did not intend to shut down OMD and La Crosse and switch all of their customers to e-automate, at least not in the foreseeable future.[52] ECI remained committed to supporting customers who wanted to buy or continue using an OMD or La Crosse backend system.[53]

As part of its due diligence, ECI considered how to consummate the ECI–DGI deal without violating the Exclusive Agreement or any other agreements to which ECI, OMD, or La Crosse was a party.[54] Also during the leadup to the contemplated ECI–DGI transaction, Alexander emailed user manuals for SOTG and Tech-Raptor to DGI and

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49 Tr. 334 (Books) (recalling that e-automate 8 was in beta with a few customers at the time of the acquisition).

50 Tr. 76 (Gruenewald).

51 Tr. 636 (Alexander).

52 Tr. 313 (Books).

53 *See* JX 310 (September 28, 2011 email between Books and Alexander developing a strategy on how to communicate to customers post-acquisition and agreeing "[i]f someone wanted to buy a La Crosse system tomorrow, we would sell it").

54 Tr. 66 (Gruenewald).

copied ECI's general counsel, Gordon Kushner, on the exchange.[55] She informed DGI that the user manuals were confidential information of ECI and that she was disclosing the manuals subject to the terms of an April 13, 2011 Confidentiality and Non-Disclosure Agreement between DGI and ECI.

ECI and DGI consummated their transaction on September 15, 2011. DGI merged into a subsidiary of ECI created for the acquisition and DGI continued as the surviving corporation. The final consideration ECI agreed to pay to DGI conformed to what the parties had agreed to in the LOI: $25 million in cash and a potential $7 million earn-out.[56]

8. DGI sells Remote Tech to Tech AnyWare

ECI knew that it could not purchase DGI unless DGI divested itself of the Remote Tech product line. This is because OMD and La Crosse agreed in the Exclusive Agreement not to, and to cause their Affiliates not to, design, develop, market, license, or distribute a product that competes with the Licensed Software, *i.e.*, SOTG and Tech-Raptor. As frontend remote service software, Remote Tech competes with the Licensed Software. To accomplish the divestment of Remote Tech, ECI and DGI identified DGI's outgoing president, James Davis, as a willing purchaser. Davis's interest, however, did not emerge until the day before the ECI–DGI transaction closed.

Davis began working at DGI in 2002 and was intimately familiar with Remote Tech. As a DGI executive, Davis participated in the process involved in selling the

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55 *See* JX 239.

56 *See* JX 271.

Remote Tech product line.[57] DGI first unsuccessfully attempted to sell Remote Tech to companies in the office equipment industry, namely, Net Endeavor and W/. In that context, on or about September 13, 2011, Davis prepared a rough draft business plan for the proposed sale of Remote Tech.[58] In these draft documents, DGI contemplated retaining 95% of Remote Tech's EBITDA after the sale. In the draft documents, Davis explained that "[d]ue to an existing agreement with [MWA], ECI cannot design, develop, market or distribute any product that competes with [IS], MWAi's remote technician management product."[59] On September 14, 2011, Davis came to the conclusion that he personally could purchase Remote Tech and take it forward.

Davis decided this was a valuable opportunity for him as "it's [not] every day you come across the opportunity for a seller-financed, zero down purchase of intellectual property and the opportunity to run a company."[60] The next day, Davis formed Tech AnyWare as a Utah LLC. Davis is the sole member of Tech AnyWare. Kushner, ECI's general counsel, wrote and filed Tech AnyWare's articles of organization. Kushner also drafted the three documents that memorialized the Remote Tech sale: the asset purchase

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57 Tr. 935 (Davis).

58 *See* JX 256.

59 *Id.* Davis learned about the existence of the Exclusive Agreement from Phillips and understood that the Agreement prohibited ECI from designing, developing, marketing, or distributing a product that competes with IS. Tr. 993–95.

60 Tr. 939.

agreement, a services agreement, and a right of first refusal.[61] Having reviewed those documents the previous night, Davis, through his new company Tech AnyWare, purchased Remote Tech on September 15, 2011.[62]

Under the terms of the agreements, Tech AnyWare purchased Remote Tech by agreeing to pay DGI 95% of the monthly EBITDA from Remote Tech in perpetuity. This obligation related to the EBITDA from the Remote Tech product only; it did not apply to earnings Tech AnyWare might achieve selling other products. DGI also retained a call right to repurchase Remote Tech for four times the trailing twelve months' EBITDA of Remote Tech, not including the 95% of EBITDA that Davis already had to pay as part of the purchase price.[63]

Davis manages Tech AnyWare independently. He does not report to ECI or DGI. Davis has hired four people since forming the company, and he determines the salary of Tech AnyWare's employees. Shortly after Tech AnyWare purchased Remote Tech, ECI representatives suggested that Davis hire a salesperson. Davis, however, declined to do so.[64] On behalf of Tech AnyWare, Davis has entered into over 100 agreements.[65] The

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61 *See* JX 268; JX 269; JX 270.

62 Tr. 940–41 (Davis).

63 Tr. 987 (Davis).

64 Tr. 83 (Gruenewald).

65 Tr. 948–55 (discussing various agreements).

company maintains its own bank account and pays its own taxes.[66] When Tech AnyWare purchased Remote Tech in September 2011, approximately 500 customers were using that product. Since then, Davis has added approximately 62 new customers.[67]

9. Transitioning Remote Tech from DGI to Tech AnyWare

For approximately two weeks after Tech AnyWare purchased Remote Tech, Davis kept his office at DGI.[68] When he relocated his office, Davis remained in the same building, which Phillips owned, but moved to a different floor.

Before DGI sold the Remote Tech product line to Tech AnyWare, DGI had a "try and buy" program in place to sell Remote Tech to e-automate users.[69] Under this program, a customer signed a sales order for Remote Tech, but was not required to pay upfront. The customer would receive an invoice at the end of a ninety-day trial period and could choose between buying the product at a discounted price or not buying it.[70] Tech AnyWare continued the program to the extent that it gave those customers who had signed sales orders while DGI owned Remote Tech the same choice to pay the discounted price or not buy, if the trial period ended when Tech AnyWare owned Remote Tech.[71]

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66 Tr. 954–56 (Davis).

67 Tr. 967–68.

68 Tr. 160 (Phillips).

69 *See* Tr. 1000–01 (Davis).

70 *See* Tr. 1000.

71 Tr. 1002 (Davis); Tr. 199–200 (Phillips).

Davis took calls from customers calling about the program while he was on DGI's sales floor.[72] If such a customer elected not to be invoiced, Davis would try to address their concern and convince the customer to buy.

When DGI received requests from customers to purchase Remote Tech, DGI would forward those leads to Davis.[73] DGI informed its sales staff after the acquisition that they no longer could sell Remote Tech. One DGI representative informed a customer that DGI had divested Remote Tech because "ECI has a non-compete agreement with MWAi and cannot: 1) Design[,] 2) Develop[,] 3) Market[, or] 4) Distribute any product which would compete with the MWAi remote technician offerings."[74] When customers who were using an earlier version of e-automate than e-automate 8.0 asked DGI sales representatives about their options for remote capability, DGI informed them that they had two options: they could use Tech AnyWare's Remote Tech or MWA's IS.[75] When customers using e-automate 8.0 asked DGI about their options, DGI referred them to Tech AnyWare, because MWA's IS did not integrate with e-automate 8.0.[76]

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72 Tr. 1002–03. DGI's "sales floor" consists of a set of four cubicles that DGI salespeople occupy. *Id.* at 1003.

73 Tr. 1004 (Davis); *see also* JX 348; JX 413.

74 JX 314.

75 JX 334; Tr. 196–98 (Phillips).

76 Tr. 196–98.

DGI's position regarding integrating e-automate 8.0 with IS was, "[w]e don't have a contractual agreement to integrate with MWAi and don't want to!"[77] According to ECI and DGI, this decision simply reflected the reality that fewer than 10 of 1,000 customers for earlier versions of e-automate used MWA.[78] With such a low demand, integrating e-automate 8.0 with MWA was not a priority for ECI or DGI. When MWA asked to integrate with e-automate 8.0, DGI did not say MWA could never integrate with e-automate 8.0, but MWA interpreted DGI's response to mean that the integration was not going to happen.[79] Books offered MWA the option of funding the effort to integrate IS with e-automate 8.0, or doing it after hours on MWA's own, rather than waiting for DGI to make it a priority.[80] But, nothing came of this offer.

When DGI recommended that one customer switch from MWA to Remote Tech, the customer inquired: "Can I ask why you didn't recommend just keeping MWA and use it with e-auto and not purchase Remote Tech until after my contract expired?"[81] Phillips replied, "[You're] going on 8.0[,] the newest release that MWA doesn't integrate with. It's better integrated in every way and you'll save money year in and year out with

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[77] JX 364.

[78] Tr. 335 (Books); Tr. 672 (Stramaglio).

[79] *See* Tr. 680 (Stramaglio) ("[W]e were slow-go'd."), 832–33, 838 (Ames); JX 414.

[80] Tr. 335–36 (Books); JX 414.

[81] JX 500.

Remote Tech."[82] Gordon Flesch, one of MWA's biggest clients, asked DGI in December 2011, "what is the normal process for MWA getting access to the [e-automate 8.0] updates?"[83] Although Gordon Flesch ultimately switched to Remote Tech, it informed MWA that it would have stayed with MWA if MWA had integrated with e-automate 8.0.[84]

Shortly after the ECI–DGI acquisition, a DGI sales representative sent a customer a quote for both e-automate and Remote Tech. Both quotes came from DGI, but they were sent as two separate documents: (1) a Remote Tech quote on Tech AnyWare's letterhead with Davis's phone number and email address as contact information; and (2) a quote for e-automate licenses on DGI letterhead with the DGI sales representative's contact information.[85] Phillips was included in this email exchange, but Davis was not. Several months later, in May 2012, a sales representative who marketed all of OMD, La Crosse, and DGI's products, referred a customer to Remote Tech. Instead of passing the sales lead to Davis, the representative himself simply organized a Remote Tech demo for the customer.[86]

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82 *Id.*

83 JX 364.

84 Tr. 826 (Ueda).

85 JX 311.

86 JX 465.

10. Post-acquisition structure: the "OE Division"

After ECI purchased DGI in September 2011, DGI became a part of ECI's office equipment division (the "OE Division"). At this point, the OE Division consisted of DGI, OMD, and La Crosse. In the wake of the acquisition, ECI created a new branding strategy. ECI marketed the offerings of the three OE Division companies under the "DGI" brand as a division of "ECI Software Solutions."[87] Phillips became president of the OE Division, overseeing the day-to-day business of OMD, La Crosse, and DGI.[88] Alexander remained president of OMD and La Crosse. As OMD and La Crosse informed their customers: "While our parent company remains ECi Software Solutions, Digital Gateway will represent the office equipment division, which encompasses the OMD, La Crosse and e-automate solutions."[89]

In addition, OMD's business development manager, Craig Fitzpatrick, became a salesperson for OMD, La Crosse, and e-automate.[90] Fitzpatrick began reporting to DGI.[91]

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87 JX 370.

88 JX 271 § 1.10(f)(vi); Tr. 336 (Books) ("Laryssa [Alexander] runs [OMD and La Crosse], as the president of OMD and La Crosse and reports in to [Phillips], so ultimately, he has a say there, but Laryssa runs the day-to-day of OMD and La Crosse."); JX 414.

89 JX 426.

90 JX 379 at 11005.

91 *Id.*

11. ECI's Acquisition of FMAudit

In March 2011, six months before the DGI acquisition, ECI purchased substantially all of the assets of FMAudit. FMAudit produced a device management system.[92] Device management systems are considered frontend software, but they serve a different purpose than remote service solutions such as SOTG and Tech-Raptor. The FMAudit software did not include remote service functionality.[93]

12. The California Complaint

On April 12, 2012, MWA filed a complaint against ECI, OMD, La Crosse, DGI, and Tech AnyWare in a California state court (the "California Complaint"). The California Complaint quoted from the Exclusive Agreement between OMD, La Crosse, and MWA and included an unredacted copy of the Agreement as an exhibit. The California Complaint contained the following nine counts: (1) breach of contract against the "ECI Licensing Parties," defined to include ECI, OMD, and La Crosse; (2) breach of the implied covenant of good faith and fair dealing against the ECI Licensing Parties; (3) specific performance and injunctive relief against DGI; (4) interference with contract against ECI; (5) interference with prospective economic advantage against ECI; (6) interference with contract against FMAudit; (7) interference with prospective economic advantage against FMAudit; (8) interference with contract against DGI and Tech

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[92] Tr. 65 (Gruenewald).

[93] Tr. 333 (Books).

AnyWare; and (9) interference with prospective economic advantage against DGI and Tech AnyWare.

MWA's Stramaglio indirectly caused a copy of the California Complaint, complete with an unredacted copy of the Agreement without its exhibits, to be sent to an industry media source, Frank Cannata, who publishes "LiveWire." Initially, Stramaglio, on behalf of MWA, denied under oath "directly or indirectly facilitating the distribution of the California Complaint to media sources within the industry, specifically to a media organization that distributes a publication titled 'LiveWire.'"[94] Plaintiffs ultimately learned, however, that it was MWA's attorney who sent a copy of the California Complaint and Agreement to Cannata.[95] At trial, Stramaglio admitted that he "requested [his] attorney to speak to Mr. Cannata and make a decision as to whether or not he should send the complaint."[96]

13. OMD and La Crosse purport to terminate the Exclusive Agreement

On April 26, 2012, OMD and La Crosse sent MWA written notices purporting to terminate the Agreement pursuant to Section 4.2.1 based on MWA's allegedly material breach of Section 5.1 regarding confidentiality.[97] Although MWA did not respond to the

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[94] Tr. 765–66 (Stramaglio) (quoting paragraph 34 of MWA's verified answer and counterclaim, which Stramaglio verified); JX 515 ¶ 34.

[95] *See* Tr. 766-67 (Stramaglio).

[96] Tr. 766 (Stramaglio).

[97] JX 457.

letters,[98] Stramaglio believed at the time that the Agreement had been terminated by OMD and La Crosse's letters.[99]

14. MWA partners with SAP

Its relationship with OMD and La Crosse having broken down, MWA sought alternatives. Just after learning that ECI acquired DGI in September 2011, MWA wanted to proceed quickly to develop a relationship with another company that produced an ERP.[100] SAP America, Inc. ("SAP") supplied a backend system called "Business One." By November 2011, MWA had identified SAP as a potential partner. On November 11, 2011, MWA and SAP entered into a non-disclosure agreement.[101] By June 2012, MWA had become a reseller for SAP's Business One,[102] and began marketing and distributing SAP's Business One ERP software system.[103] Business One competes with OMD and La Crosse's Vision and NextGen ERPs. In that regard, Stramaglio understood that, if the Exclusive Agreement remained in effect, by marketing SAP, MWA was violating Section 2.1.5 of that Agreement.[104]

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98 Tr. 532 (Alexander).

99 Tr. 754.

100 Tr. 717–18 (Stramaglio).

101 JX 398; Tr. 719–20 (Stramaglio).

102 JX 481; Tr. 729.

103 Tr. 715 (Stramaglio).

104 Tr. 714–17.

On July 2, 2012, OMD and La Crosse sent alternative termination letters to MWA asserting that MWA's activities with SAP provided an independent basis for termination of the Agreement under Section 4.2.1.[105] MWA responded to these letters on July 13, 2012 and claimed that OMD and La Crosse continued to be obligated to perform under the Agreement and demanded that they comply with the Agreement.[106]

C. Procedural History

ECI and the other Plaintiffs filed a three-count complaint in this Court on April 30, 2012. Count I is for breach of contract; Count II seeks a declaratory judgment and specific performance of the Agreement's termination provision; and Count III seeks a declaratory judgment that Plaintiffs have not breached or tortiously interfered with the Agreement or with any prospective economic advantage of MWA. MWA filed its answer and counterclaim on August 1, 2012 (the "Counterclaim"). The eight-count Counterclaim asserts claims nearly identical to those in the California Complaint, except that it does not contain a count for specific performance and injunctive relief against DGI. The California action has been stayed pending the outcome of this litigation.

D. Parties' Contentions

Plaintiffs deny that ECI's acquisition of DGI violated the Exclusive Agreement among OMD, La Crosse, and MWA. They contend that the component of DGI that was problematic under the Exclusive Agreement—*i.e.*, the Remote Tech product line—

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105 *See* JX 491; JX 492.

106 *See* JX 502.

validly was sold to an independent third party. In that regard, Plaintiffs deny that Tech AnyWare is affiliated with OMD, La Crosse, DGI, or ECI and aver that it does not qualify as an "Affiliate" under the Exclusive Agreement.

For their part, Plaintiffs profess to have acted in strict compliance with the Exclusive Agreement, but claim MWA has disregarded its obligations thereunder. Plaintiffs contend that MWA materially breached the Exclusive Agreement by not honoring the confidentiality provision when MWA: (1) publicly disclosed material terms of the Agreement in the California Complaint; (2) attached the Agreement to the publicly available California Complaint; and (3) caused its attorneys to send a copy of the California Complaint and the Agreement to Cannata. Plaintiffs argue that MWA also breached the Agreement by designing, developing, marketing, licensing, or distributing software or technology that competes with OMD and La Crosse's ERP through its relationship with SAP.

MWA asserts that OMD and La Crosse violated several express provisions of the Agreement, including Sections 2.1.2 and 2.2.5 regarding compatibility, 2.1.4 regarding the non-compete obligations, and 2.1.3 regarding MWA's right of first negotiation for an exclusive license to any backend system that OMD or La Crosse licensed or acquired other than the Backend Systems. Alternatively, MWA maintains that, even if the Court finds that OMD and La Crosse did not breach the express provisions of the Agreement, their actions violated the implied covenant of good faith and fair dealing. As to the additional Counterclaim Defendants, MWA contends that they all are liable in tort. That is, MWA has accused ECI, DGI, and Tech AnyWare of interfering with the Exclusive Agreement and with MWA's prospective economic advantage.

II. ANALYSIS

A. Complaint Count I: Breach of Contract Against MWA

Each party bears the burden of proving each element of its claims or counterclaims by a preponderance of the evidence.[107] To be successful on a breach of contract claim, a party must prove: (1) the existence of a contract; (2) the breach of an obligation imposed by the contract; and (3) damages that the plaintiff suffered as a result of the breach.[108] To satisfy the final element, a plaintiff must show both the existence of damages provable to a reasonable certainty, and that the damages flowed from the defendant's violation of the contract.[109] Here, the existence of a valid contract is uncontested, so my analysis focuses on the elements of breach and damages.

1. Breach

Plaintiffs accuse MWA of committing a material breach of the Agreement that permitted OMD and La Crosse to terminate the Agreement pursuant to Section 4.2.1.[110]

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107 *See In re Mobilactive Media, LLC*, 2013 WL 297950, at *9 (Del. Ch. Jan. 25, 2013).

108 *Barkerman v. Sidney Frank Importing Co.*, 2006 WL 3927242, at *19 (Del. Ch. Oct. 10, 2006).

109 *LaPoint v. AmerisourceBergen Corp.*, 2007 WL 2565709, at *9 (Del. Ch. Sept. 4, 2007).

110 *See* JX 34 § 4.2.1 (permitting OMD or La Crosse to terminate the Agreement if "MWAi materially breaches any representation, warranty, covenant or agreement in this Agreement and such breach is not cured by MWAi within thirty (30) days

"A party is excused from performance under a contract if the other party is in material breach thereof."[111] "The converse of this princip[le] is that a slight breach by one party, while giving rise to an action for damages, will not necessarily terminate the obligations of the injured party to perform under the contract."[112] "The question whether the breach is of sufficient importance to justify non-performance by the non-breaching party is one of degree and is determined by 'weighing the consequences in the light of the actual custom of men in the performance of contracts similar to the one that is involved in the specific case.'"[113]

> A "material breach" is a failure to do something that is so fundamental to a contract that the failure to perform that obligation defeats the *essential purpose* of the contract or makes it impossible for the other party to perform under the contract. In other words, for a breach of contract to be material, it must "go to the root" or "essence" of the agreement between the parties, or be "one which touches the

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of its receipt of written notice from either OMD or La Crosse specifying the breach"). OMD and La Crosse sent written notice to MWA on April 26, 2012 regarding MWA's alleged breach of the confidentiality provisions. They sent a second written notice on July 2, 2012 regarding MWA's alleged breach of the non-compete provisions. *See* JX 457, JX 491, JX 492; *see also* Transcript of Post-Trial Oral Argument ("Arg. Tr.") 15–16 (characterizing the second letter as a backup termination letter).

111 *BioLife Solutions, Inc. v. Endocare, Inc.*, 838 A.2d 268, 278 (Del. Ch. 2003).

112 *E. Elec. & Heating, Inc. v. Pike Creek Prof'l Ctr.*, 1987 WL 9610, at *4 (Del. Super. Apr. 7, 1987), *aff'd*, 540 A.2d 1088 (Del. 1988).

113 *Id.* (citation omitted).

> fundamental purpose of the contract and defeats the object of the parties in entering into the contract."[114]

The Restatement (Second) of Contracts (the "Restatement") identifies a number of relevant factors for "determining whether a failure to render or to offer performance is material."[115] Those factors include:

> (a) [T]he extent to which the injured party will be deprived of the benefit which he reasonably expected; (b) the extent to which the injured party can be adequately compensated for the part of that benefit of which he will be deprived; (c) the extent to which the party failing to perform or to offer to perform will suffer forfeiture; (d) the likelihood that the party failing to perform or to offer to perform will cure his failure, taking account of all the circumstances including any reasonable assurances; and (e) the extent to which the behavior of the party failing to perform or to offer to perform comports with standards of good faith and fair dealing.[116]

Plaintiffs' first argument is that MWA committed a material breach when it publicly filed the California Complaint, which discussed the Agreement and contained as an exhibit an unredacted copy of the Agreement without exhibits. According to Plaintiffs, this disclosure violated MWA's obligation under Section 5.1 of the Agreement to keep the Agreement and its terms confidential. Plaintiffs contend that this breach was material because confidentiality was an essential term of the Agreement. MWA defends on several grounds. It argues that: (1) the Agreement does not qualify as "Confidential

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114 *Shore Invs., Inc. v. Bhole, Inc.*, 2011 WL 5967253, at *5 (Del. Super. Nov. 28, 2011) (quoting 23 Williston on Contracts § 63:3 (4th ed.)) (emphasis added).

115 *Restatement (Second) of Contracts* [hereinafter *Restatement*] § 241 (1981).

116 *Id.*; *see also BioLife Solutions, Inc.*, 838 A.2d at 278.

Information" under the Agreement; (2) Plaintiffs themselves disclosed the terms of the Agreement, further indicating that the Agreement is not confidential; (3) even if MWA violated Section 5.1 by disclosing Confidential Information, that breach was not material and, thus, OMD and La Crosse had no basis for their purported termination; and (4) in any event, Plaintiffs have failed to state a breach of contract claim because OMD and La Crosse suffered no damage.

a. Is the Agreement Confidential Information?

I consider first whether the Agreement is "Confidential Information." Section 5.1 provides:

> *Neither party shall*, without the prior written consent of the other party, *disclose* or use (except as expressly permitted by, or required to achieve the purposes of, this Agreement) *the Confidential Information of the other party*, during or at any time after the Term of this Agreement. Each party agrees that it will treat all Confidential Information of the other Party with the same degree of care as it accords to its own Confidential Information and each party represents that it exercises reasonable care to protect its own confidential Information. *The receiving party may disclose Confidential Information* if required by a governmental agency, by operation of law, or *if necessary* in any proceeding *to establish rights or obligations under this Agreement*, *provided that the receiving party gives the disclosing party reasonable prior written notice sufficient to permit the disclosing party an opportunity to contest such disclosure*.[117]

[117] JX 34 § 5.1 (emphasis added).

The Agreement defines Confidential Information to mean, among other things, "*this Agreement*, the Licensed Software, [and] Customer Data."[118]

MWA contends that, although Confidential Information includes "this Agreement," the Agreement is not "Confidential Information *of the other party*." This argument is unpersuasive. If the Agreement is not the Confidential Information of the other party, then it would be the information of neither party. A more reasonable interpretation is that the Agreement is the Confidential Information of both parties and is therefore covered by the terms of Section 5.1.

Section 5.1 provides that each party will treat "all Confidential Information of the other party with the same degree of care as it accords to its own Confidential Information, and each party represents that it exercises reasonable care to protect its own Confidential Information." By implication, each party covenanted through this provision to exercise reasonable care to protect the Confidential Information of the other party. MWA could have taken, but did not take, reasonable steps to maintain the confidentiality of the Agreement when it commenced legal proceedings against Plaintiffs in California. Instead, MWA made the Agreement a public document. Not only did MWA publicly file both the California Complaint and the Agreement, it also caused the California Complaint and the Agreement to be disseminated to a well-known industry media source, Cannata. Foreseeably, Cannata published a summary of the California Complaint in his publication LiveWire and informed his subscribers that the Complaint "is a public

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[118] JX 34 § 1.5 (emphasis added).

document and available to anyone who cares to read it."[119] Cannata also gave MWA permission freely to forward the LiveWire article to third parties,[120] which MWA proceeded to do.[121] In taking these actions, MWA ignored its obligation to exercise reasonable care to protect the Confidential Information embodied in the Agreement. Rather, MWA orchestrated the dissemination of Confidential Information throughout the industry in violation of Section 5.1.

MWA's final argument regarding its alleged disclosure of Confidential Information is that, absent the relevant schedules, the terms of the Agreement do not constitute Confidential Information. In support of this argument, MWA highlights that DGI informed its customer Toshiba on September 30, 2011 that, before the ECI-DGI transaction took place, DGI sold its Remote Tech business to Tech AnyWare because ECI and its affiliates could not design, develop, market, or distribute a product that competes with MWA's IS.[122] Before ECI acquired DGI, however, MWA, through Brostrom, already had informed DGI's Phillips of these terms. At that time, Phillips was under no contractual obligation to refrain from sharing the information he learned from MWA with other DGI employees. Furthermore, Section 5.1 of the Agreement only binds parties to the Agreement not to disclose the Confidential Information of the other party.

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[119] JX 442.

[120] *Id.*

[121] *See* JX 448.

[122] *See* JX 314.

Thus, even after ECI acquired DGI, DGI arguably had no contractual obligation not to disclose the information it had learned from MWA.

In any event, the first instance of disclosure of these terms of the Agreement appears to be attributable to MWA, not to OMD or La Crosse or even their Affiliates. Moreover, the disclosure of the existence of a non-compete among OMD, La Crosse, and its Affiliates does not, in and of itself, constitute a breach of the confidentiality provision. The provision allows each party to disclose or use Confidential Information "to achieve the purposes of[] this Agreement."[123] Thus, the parties' disclosure to various business partners, in general terms, of certain limitations on their ability to compete in the marketplace does not support MWA's argument that the Agreement and all of its provisions thereby ceased to be Confidential Information under the Agreement.

MWA similarly argues that Plaintiffs' confidentiality claim should fail because Alexander disclosed to DGI in September 2011 confidential SOTG and Tech-Raptor user manuals. According to MWA, this was a willful and malicious attempt to provide to MWA's competitor confidential information that MWA had licensed under the Agreement. Jenna Mammoser, MWA's vice president of client services, testified that the user manuals greatly would assist a competitor because they detailed the feature set for the licensed applications and provided a how-to user guide.[124]

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[123] JX 34 § 5.1.

[124] Tr. 848–89.

In reply, Alexander testified that the five or six year-old user manuals, and the SOTG and Tech-Raptor products themselves, were obsolete by 2011 when she shared the manuals with DGI.[125] Furthermore, there is no evidence that the manuals, which were OMD and La Crosse's intellectual property, contained any trade secrets.[126] According to Plaintiffs, the manuals provided only a high level review of the solutions provided and could not be used to build a competitive remote service solution.[127] Alexander made this disclosure to DGI on September 2, 2011, shortly before ECI purchased DGI. The disclosure also was made expressly subject to the Confidentiality and Non-Disclosure Agreement between ECI and DGI.[128] That agreement required DGI to use the information for the limited purpose of evaluating a possible transaction with ECI.[129] Under these circumstances, I find unconvincing MWA's assertion that Alexander disclosed the confidential user manuals to DGI "for the sole reason of assisting MWA's competitor, DGI to further design and develop (and ultimately sell) its competing Remote Tech product."[130] Rather, it appears to have been part of the due diligence conducted in

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[125] Tr. 604.

[126] *See* Tr. 375 (Kushner) (explaining that the manuals were merely "how-to" guides intended for users and did not contain information that could cause competitive harm to ECI).

[127] Tr. 604–06 (Alexander); Tr. 374–75 (Kushner). Alexander did not recall why she sent the user manuals to DGI. Tr. 598–99.

[128] *See* JX 239.

[129] *See* JX 173 at 2.

[130] Def.'s Opening Post-Trial Br. 42.

anticipation of the ECI–DGI transaction, and due care was exercised to prevent its further dissemination. Thus, I find that this limited disclosure of the SOTG and Tech-Raptor user manuals to DGI did not violate the confidentiality provisions of the Agreement.

MWA also emphasizes that OMD and La Crosse did not pursue a breach of contract action against MWA immediately on learning of Brostrom's disclosure of the Agreement's general terms to Phillips. According to MWA, this fact demonstrates that Plaintiffs themselves do not think the Agreement's terms are Confidential Information. MWA's disclosure of some general terms of the Agreement to a single individual, however, is materially different from the disclosure that forms the basis for OMD and La Crosse's claim in this action, namely, publicly filing the Agreement in a California court and causing it to be distributed in the industry. Plaintiffs reasonably could have concluded that the disclosure to Phillips did not warrant the time and expense of litigation. Thus, Plaintiffs' failure to bring a breach of contract action against MWA does not cause me to alter my finding that the Agreement, by its express terms, does qualify as Confidential Information.

b. Did MWA's disclosure of the Agreement violate Section 5.1?

MWA next argues that, even if the Agreement is Confidential Information, the disclosure of the Agreement was not a violation of Section 5.1 because that section authorizes the disclosure of Confidential Information when "necessary in [a] proceeding to establish rights or obligations under [the] Agreement." MWA has not shown, however, that its public disclosure of the Agreement was necessary. For example, MWA could have, but did not, file the complaint in the California Action under seal. MWA also could have redacted the Agreement to conceal its more sensitive provision such as the exclusive and perpetual nature of the license and the pricing and discount terms.

Moreover, even if the disclosure had been necessary, MWA did not comply with the notice requirements of Section 5.1 to take advantage of the exception for necessary disclosures. MWA had to "give[] the disclosing party [*i.e.*, OMD or La Crosse] reasonable prior written notice sufficient to permit the disclosing party the opportunity to contest such disclosure." MWA gave no notice to OMD or La Crosse before it filed the California Complaint. Thus, MWA has not shown that it qualified for the "necessity" exception to Section 5.1 before it disclosed an unredacted copy of the Agreement in connection with the filing of the California Complaint. MWA, therefore, breached Section 5.1.

c. Was MWA's breach material?

The next issue I must decide is whether MWA's disclosure of Confidential Information in connection with the filing of its Complaint constitutes a material breach of the Agreement. MWA contends that, under the Delaware Supreme Court's decision in *Qualcomm Inc. v. Texas Instruments, Inc.*,[131] the breach of a confidentiality provision in an exclusive marketing, license, and distribution agreement is not a material breach. Plaintiffs counter that confidentiality was material to this Agreement. In support of this argument, Plaintiffs stress that: (1) the office equipment industry is highly competitive and OMD and La Crosse would not have entered into the Agreement without the

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131 875 A.2d 626 (Del. 2005).

confidentiality provisions; (2) the parties devoted an entire Article, Article V, to "confidentiality"; and (3) the parties limited liability for a breach of the Agreement by either party subject to only two exceptions, one of which was for violations of Article V.

Although New York law applied in *Qualcomm* and Delaware law applies here, under both New York law and Delaware law, a breach must go to the root of the parties' agreement to be material.[132] In addition, both New York and Delaware courts look to the factors set forth in Section 241 of the Restatement to determine whether a breach is material. Thus, the Supreme Court's analysis and holding in *Qualcomm* are informative in this case.

As previously noted, the first Restatement factor is the extent to which the injured party will be deprived of the benefit it reasonably expected. The benefits of the Exclusive Agreement to OMD and La Crosse included the $950,000 fee that MWA paid, MWA's non-compete obligations, and the parties' mutual obligation to abide by the confidentiality provisions. MWA's disclosure of Confidential Information, in and of itself, did not deprive OMD and La Crosse of the fee MWA paid or of the benefit of MWA's non-compete obligations. The disclosure of Confidential Information did affect, however, the parties' ability to compete in the industry. The disclosure of the Agreement informed Plaintiffs' competitors of the terms of the license to MWA and the price OMD and La Crosse accepted for those terms. OMD and La Crosse considered it important

[132] *See id.* at 628.

that the terms of the Agreement not be disclosed to others in the industry.[133] Moreover, MWA's deliberate dissemination of the Agreement to a media source aggravated the harm to Plaintiffs by making it a near certainty that OMD and La Crosse's competitors would find out the terms of the Agreement. MWA's actions, therefore, did deprive OMD and La Crosse of an important part of the benefit they reasonably expected under the Exclusive Agreement.

The second Restatement factor is the extent to which the injured party can be compensated adequately for the part of the benefit of which he will be deprived. Here, it would be difficult to quantify the damage done to OMD and La Crosse through the disclosure of the Agreement and its terms. At the time of MWA's breach, some industry participants already knew of the Agreement and some of its general terms, such as the fact that ECI could not compete with MWA's IS. Most of the Agreement's specific terms, however, were unknown until MWA disclosed the Agreement.[134] Furthermore, the difficulty in quantifying the damages for a breach of the confidentiality provisions is probably why the parties included these provisions in the Agreement and carved them out from the limitation of liabilities section. I also find that MWA's disclosure of the Agreement has disadvantaged Plaintiffs in their negotiations with potential clients and is

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133 Tr. 362–64 (Kushner).

134 *See* Tr. 705–09 (Stramaglio).

likely to continue to do so in the future.[135] Compensating Plaintiffs for this type of damage would be difficult, if not impossible.

The third factor is the extent to which the party failing to perform will suffer forfeiture. Where a finding of materiality would result in a forfeiture, "the Restatement counsels that a breach is less likely to be regarded as material."[136] In this case, if the Court finds that MWA's breach was material and that OMD and La Crosse validly terminated the Agreement, MWA will suffer a forfeiture of the exclusive license to the Licensed Software, for which it paid $950,000 in December 2007. MWA also will lose the benefit of the non-compete provision that prohibits OMD and La Crosse from competing with the Licensed Software. In addition, a valid termination by OMD and La Crosse would require MWA to comply with the termination provisions in the Agreement. Those sections provide that, if the Agreement is terminated: MWA must cease providing the Licensed Software to end users; MWA must assign to OMD and La Crosse any end user agreements, subject to OMD and La Crosse's assumption of the rights and obligations under those agreements; and MWA must return to OMD and La Crosse all copies of the Licensed Software and any Confidential Information provided by OMD and La Crosse to MWA.[137]

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135 Tr. 375–76 (Kushner).

136 *Qualcomm Inc.*, 875 A.2d at 629.

137 *See* JX 34 § 4.3.

In *Qualcomm*, if the Delaware Supreme Court had held the defendant's breach to be material, the plaintiff would have retained the right to continue to use the defendant's patents, but the defendant would have lost its rights to the plaintiff's patents. Here, the imbalance that was present in *Qualcomm* does not exist. MWA would lose its exclusive license to the Licensed Software as well as the end user agreements related to that software. But, OMD and La Crosse would not continue to benefit from the Agreement. Indeed, MWA already has deprived OMD and La Crosse of the benefit of the Agreement's non-compete provisions. MWA stopped complying with the non-compete provisions at least as early as the time it filed the California Complaint. Stramaglio considered the Agreement to be terminated at that point. Immediately on learning of the ECI–DGI acquisition in September 2011, MWA began seeking to develop a relationship with another company that could supply an ERP.[138] By June 2012, MWA had entered into a formal agreement with SAP to market and distribute SAP's ERP software system. That would have been a breach of the Agreement, if the Agreement had remained in effect. Thus, although MWA would suffer a forfeiture if I find its earlier breach of the confidentiality provision to be material, the effect on MWA would be less harsh than the result in *Qualcomm* because termination of the Agreement would relieve MWA of its obligations vis-à-vis OMD and La Crosse. In addition, MWA's actions in disregarding the non-competition provisions or, in MWA's words, "mitigating its damages," buffer the harshness of a finding that would result in forfeiture.

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[138] Tr. 717–18 (Stramaglio).

The fourth factor is MWA's ability to cure its breach. In *Qualcomm*, the defendant had attempted to minimize the effect of its disclosure by instructing its employees not to make such disclosures in the future, by removing the confidential information from its website, and by continuing to perform under the agreement. In stark contrast here, MWA has not attempted to cure its breach. It has not provided any reasonable assurances that it intends to cure its breach. To the contrary, MWA resisted sealing the California Complaint after OMD and La Crosse objected to its having publicly filed that Complaint with the Agreement attached. MWA also sent the Complaint and the Agreement to Cannata, thereby facilitating the disclosure of OMD and La Crosse's Confidential Information throughout the industry. MWA cannot cure that breach. In addition, MWA has ceased performing under the Agreement and unapologetically has begun marketing a backend system that competes with OMD and La Crosse's Backend Systems.

The last factor a court should consider in determining whether a breach is material is the extent to which the breaching party complied with standards of good faith and fair dealing. In *Qualcomm*, the Supreme Court held that a breach was not material simply because the defendant's disclosure of confidential information was intentional and motivated by self-interest. Rather, the Court observed that, at most, the severity of the rule that requires a finding of materiality only when the breach destroys the object of the contract should be "somewhat relaxed" when the breach was deliberate.[139] Because the

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[139] *Qualcomm Inc.*, 875 A.2d at 630.

parties continued to perform under the license agreement in *Qualcomm*, the Supreme Court held that the disclosure of information there did not meet even the "somewhat relaxed" standard of materiality.

In this regard, the circumstances of this case again differ from those in *Qualcomm*. The parties here are not performing under the Agreement. In addition, MWA deliberately caused the California Complaint and the Agreement to be sent to Cannata and was not motivated merely by self-interest but by an intent to harm Plaintiffs. I also take seriously the fact that in MWA's Counterclaim, which Stramaglio verified was "true and correct to the best of [his] knowledge, information and belief," MWA falsely denied "directly or indirectly facilitating the distribution of the California Complaint to media sources within the industry, specifically to a media organization that distributes a publication titled 'LiveWire.'"[140] By the time MWA filed its Counterclaim on August 2, 2012, Stramaglio knew MWA's attorney had sent the California Complaint and the Agreement to Cannata.[141] At best, the false denial in the Counterclaim carelessly resulted from the expedited nature of this litigation, as MWA suggests. At worst, Stramaglio intentionally misrepresented the facts as he knew them. In any event, I find that MWA's actions in this regard warrant "somewhat relaxing" the standard for finding materiality.

In sum, the first, second, fourth, and fifth Restatement factors weigh in favor of a finding of materiality. In addition, in the circumstances of this case, the counterbalancing

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[140] JX 515 ¶ 34; *see also* Tr. 764–67 (Stramaglio).

[141] Tr. 764–67 (Stramaglio).

fact that MWA will suffer a forfeiture to some extent does not deserve sufficient weight to overcome the otherwise strong showing in support of a finding of materiality. Thus, having considered the Restatement factors, I conclude that MWA's breach of the confidentiality provisions was material. In reaching this conclusion, I consider it particularly important that the confidentiality provisions were central to the parties' agreement—as evidenced by both the testimony of Plaintiffs' witnesses and the carve-out from the limitation on liability provision. It also is significant that MWA made no attempt to cure its breach and fought Plaintiffs' efforts to ameliorate the situation. Instead, MWA demonstrated a lack of good faith by sending the Complaint and Agreement to Cannata and later obfuscating the circumstances in which that occurred. Finally, MWA has been proceeding as if the Agreement were terminated by, for example, ignoring the Agreement's non-compete provisions.

Because I conclude that MWA's breach of Section 5.1 of the Agreement in April 2012 was a material breach, I further hold that OMD and La Crosse validly terminated the Agreement on April 26, 2012, when they sent notice to MWA of its material breach and MWA failed to respond or attempt to cure its breach. Based on these conclusions, I do not reach the issue of whether MWA's relationship with SAP constitutes a separate material breach of the Agreement.

d. Damages in fact

MWA also contends that Plaintiffs have failed to prove damages, a necessary element of a breach of contract claim. Thus, according to MWA, even if it committed a material breach of the Agreement, OMD and La Crosse still have failed to prove their breach of contract claim. A plaintiff must prove its damages by a preponderance of the evidence.[142] Preponderance of the evidence means "by the weight of the evidence under all the facts and circumstances proved."[143] Under Delaware law, a breach of contract claim requires a showing of compensable injury.[144] A plaintiff must prove its damages "with a reasonable degree of precision and cannot recover damages that are 'merely speculative or conjectural.'"[145]

In this case, OMD and La Crosse's damage claim is based, in large part, on the impairment of their position in negotiations that resulted from MWA's disclosure of the specific terms of the Exclusive Agreement. Plaintiffs also contend that the dissemination of the Agreement harmed relationships that they recently had rebuilt with their clients.[146] As a specific example of their decreased negotiating position, Kushner described a negotiation that he was involved in on behalf of DGI with a large copier manufacturer.[147] The negotiation took place over the course of six to eight months. After MWA disclosed the Agreement, the copier manufacturer made requests that led Kushner to wonder

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142 *Great Am. Opportunities, Inc. v. Cherrydale Fundraising, LLC*, 2010 WL 338219, at *22 (Del. Ch. Jan. 29, 2010).

143 *Warwick v. Addicks*, 157 A. 205, 206 (Del. Super. 1931).

144 *See Kronenberg v. Katz*, 872 A.2d 568, 606 & n.77 (Del. Ch. 2004).

145 *Id.* at 609.

146 *See* Tr. 532 (Alexander).

147 *See* Tr. 376–77 (Kushner).

whether the copier manufacturer was using information it had learned regarding the terms of the Agreement against Kushner in their negotiations.

Kushner credibly testified that OMD and La Crosse would not have entered into the Exclusive Agreement if its terms were not confidential.[148] Part of the reason for this was because parties negotiating against OMD and La Crosse would have a competitive edge if they understood what terms OMD and La Crosse had agreed to in a similar transaction in the past. I infer from the specific example Kushner provided that OMD and La Crosse suffered an adverse effect from the disclosure of the Agreement and its terms. In a competitive industry, parties strengthen their negotiating position by obtaining as much information as possible about the party with whom they are negotiating. Knowledge of license terms to which a party has been willing to agree and which it generally does not make public is valuable information. Thus, I conclude that Plaintiffs have proven by a preponderance of the evidence that MWA's disclosure of the Agreement did cause damage to OMD and La Crosse.

2. Remedies

As noted previously, Plaintiffs maintain that to quantify the damage to OMD and La Crosse would be difficult or impossible. Instead of a monetary award, they seek an order (1) requiring MWA specifically to perform and immediately to comply with the Confidentiality provisions, (2) enjoining MWA from breaching the Confidentiality provisions, (3) declaring that Plaintiffs properly terminated the Agreement, and (4)

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148 Tr. 364 (Kushner).

ordering MWA specifically to perform and immediately to comply with its termination obligations under the Agreement. In Section 5.1, the parties agreed that they would not "disclose or use" the other party's Confidential Information "during or at any time after the Term of this Agreement." Thus, I grant Plaintiffs' requested relief. That is, I declare that MWA materially breached the Agreement and that Plaintiffs properly terminated the Agreement as of April 26, 2012, and I order MWA to comply with Article IV, regarding the Term and Termination, and Article V, regarding Confidentiality, of the Agreement.

B. Counterclaim Count I: Breach of Contract Against OMD and La Crosse

Having determined that the Exclusive Agreement was terminated as of April 26, 2012, I consider next whether MWA has proven that, before that time, OMD and La Crosse committed any of the multiple breaches of the Exclusive Agreement that MWA alleges.[149] The parties have not adduced any evidence impugning the validity and enforceability of the Exclusive Agreement during the period from December 20, 2007 to April 26, 2012.[150]

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149 In its Counterclaim, MWA asserts Count I for breach of contract and Count II for breach of the implied covenant of good faith and fair dealing against ECI, OMD, and La Crosse. Although MWA's post-trial arguments are less than clear on which Plaintiffs it contends are liable for its various claims, MWA appears to argue only that OMD and La Crosse, and not ECI, are liable for Counts I and II. MWA also avers, in relation to its claim for breach of Section 2.1.3 of the Agreement (the right of first refusal to negotiate), that OMD, La Crosse, and DGI breached the Agreement because, MWA argues, OMD, La Crosse, and DGI effectively acted as one as part of the OE Division. I address this argument *infra*.

150 MWA alleges that OMD and La Crosse committed material breaches of the agreement prior to April 26, 2012, but there is no evidence, nor does MWA appear to argue, that the contract or MWA's obligations under the confidentiality

1. Compatibility: Sections 2.1.2 and 2.2.5

MWA first argues that OMD and La Crosse breached the Agreement by failing to ensure that e-automate 8.0 was compatible with MWA's IS. Two provisions govern compatibility obligations. First, Section 2.1.2, titled "Compatibility," provides: "[N]either OMD nor La Crosse shall take any actions nor make any modifications to the Licensed Software or their respective software products *that would prevent the Licensed Software from interoperating with their respective Backend Systems*."[151] Second, Section 2.2.5 entitled "No On-going Maintenance and Support Obligations" states:

> From and after the Effective Date, neither OMD nor La Crosse nor any of their Affiliates shall have any obligation to support, maintain, enhance, develop or revise the Licensed Software. *OMD and La Crosse shall not*, and shall not authorize or assist any third party to, knowingly *take or refrain from any action that will adversely affect compatibility of the Licensed Software with* [1] *the Backend Systems*, [2] *any ERP system owned or licensed by OMD or La Crosse*, as the case may be, *or* [3] *any MWAi products or services*.[152]

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provisions of the Agreement were terminated by those breaches. The termination article of the Agreement, Article IV, requires, as a prerequisite to terminating the contract, that the non-breaching party provide written notice to the breaching party of its intent to terminate as well as a thirty-day opportunity to cure any breach. *See* JX 34. Because MWA did not provide such notice to OMD or La Crosse after their alleged breaches of the Agreement, the earliest date upon which the contract may have been terminated is April 26, 2012, when OMD and La Crosse provided MWA with written notice of their intent to terminate the contract in response to its breach of the confidentiality provision.

151 JX 34 § 2.1.2 (emphasis added).

152 *Id*. § 2.2.5 (emphasis added).

The definition of "Licensed Software" appears in Section 1.12, which states that it "means, collectively, the Services-On-The-Go and Tech-Raptor Software."[153] The definition does not include IS. The Backend Systems are defined to mean Vision, NextGen, and all "improvements, updates, upgrades, versions, releases and *next generation products* for all of the foregoing," *i.e.*, for Vision and NextGen.[154]

MWA's argument that OMD and La Crosse breached Sections 2.1.2 and 2.2.5 rests on two disputed premises: first, that IS implicitly is included in the definition of "Licensed Software"; and, second, that e-automate 8.0 is a "next generation product" for Vision and NextGen. With regard to its first premise, MWA maintains that "[t]he Exclusive Agreement implicitly recognizes that OMD and La Crosse's pledge to do nothing to affect the interoperability of SOTG and [Tech-Raptor] [with the Backend Systems] secures the same interoperability with IS."[155]

Section 2.1.2 appears in Article II of the Exclusive Agreement, entitled "Distribution Rights, License and Other Rights and Obligations." Section 2.1.1 grants MWA a perpetual, irrevocable, worldwide, exclusive right to, among other things, market, distribute, and license SOTG and Tech-Raptor. Section 2.1.2 then provides that OMD and La Crosse shall not take any action that would make those products incompatible with OMD and La Crosse's respective Backend Systems.

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153 *Id*. § 1.12.

154 *Id*. § 1.2 (emphasis added).

155 MWA's Post-Trial Answering Br. 24.

Thus, under the plain language of the Agreement, the compatibility obligation imposed by Section 2.1.2 as to the Backend Systems directly applies only to OMD's and La Crosse's frontend products. When contract language is clear and unambiguous, courts interpret the contract in accordance with the ordinary and usual meaning of the language.[156] In connection with granting a broad license to MWA for their software, OMD and La Crosse promised to take no action that would make that Licensed Software incompatible with their Backend Systems, defined to include upgrades to those backend systems. OMD and La Crosse also agreed in Section 2.2.5 not to take any action that will adversely affect compatibility of the *Licensed Software* with "any ERP system owned or licensed by OMD or La Crosse" or with "any MWAi products or services." The Latter clause would include IS. Neither Sections 2.1.2 and 2.2.5, nor any other provision of the Agreement, however, constitutes an undertaking by OMD or La Crosse to maintain compatibility between IS, a frontend product they do not own or control, and a backend product not owned or licensed by OMD or La Crosse, such as e-automate 8.0.

MWA attempts to circumvent this apparent flaw in its logic by contending the e-automate 8.0 is a "next generation product" for OMD and La Crosse's Vision and NextGen backend systems. That is, MWA argues that e-automate 8.0 falls within the portion of the definition of Backend Systems that includes "all improvements, updates, upgrades, versions, releases and next generation products for [the Vision and NextGen software products]." The evidence shows that e-automate 8.0 is a ".net" product that was

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156 *See Nw. Nat'l Ins. Co. v. Esmark, Inc.*, 672 A.2d 41, 43 (Del. 1996).

developed independently of and that is qualitatively different from, the Vision and NextGen products. OMD and La Crosse were losing sales of backend systems to DGI before ECI acquired DGI, due to the popularity of e-automate. ECI addressed that issue when it acquired DGI, but ECI, not OMD or La Crosse, controlled e-automate after the merger. Based on these facts, it would be unreasonable to construe the Exclusive Agreement between OMD, La Crosse, and MWA, and particularly Section 1.2 of that Agreement, to mean that e-automate 8.0 constitutes a "next generation" product for either Vision or NextGen.

It is true, as MWA emphasizes, that after the merger OMD reduced, if not entirely ceased, its efforts to develop a .net version of Vision. Instead, OMD and La Crosse began to promote their sister company DGI's e-automate 8.0 product. Under the Agreement, however, OMD and La Crosse had no obligation to develop a .net version of their Backend Systems. In addition, there is no evidence that OMD or La Crosse stopped supporting Vision and NextGen after the ECI–DGI merger. There also is no express provision of the Agreement that required OMD and La Crosse to make a backend system, such as e-automate 8.0, that they promoted, but did not own or license, compatible with IS. For all of these reasons, I reject MWA's contention that OMD and La Crosse breached the compatibility obligations imposed by the Exclusive Agreement.

2. Non-compete: Section 2.1.4

MWA next accuses OMD and La Crosse of breaching Section 2.1.4, the non-compete provision. That Section states:

> During the Term, OMD and La Crosse each agree that it will not, *and will cause its Affiliates not to*, design, develop, market, license or distribute software or technology that competes with the Licensed Software in the Office Machines Industry anywhere in the world. Software or technology shall be deemed to compete with the Licensed Software if it (i) contains the same or substantially similar features and functionality as the Licensed Software and (ii) is intended for use by and is marketed, licensed or distributed to individuals or entities in the Office Machines Industry in the United States.[157]

Under the Agreement, Affiliate means

> a corporation, partnership, joint venture or other entity controlling, controlled by or under common control with a party. As used in this definition, "control" (and its correlative meanings, "controlled by" and "under common control with") shall mean possession, directly or indirectly, of *power to direct or cause the direction of management or policies* (whether through beneficial ownership of securities or other ownership interests, by contract or otherwise).

ECI and DGI are Affiliates of OMD and La Crosse. MWA contends that Tech AnyWare also is an Affiliate.

MWA makes four arguments as to how OMD and La Crosse breached Section 2.1.4. First, MWA argues that Tech AnyWare is an Affiliate of OMD and La Crosse and that, therefore, Tech AnyWare's distribution of Remote Tech—a product that competes with the Licensed Software—violates Section 2.1.4. Second, MWA contends that DGI engaged in designing, developing, and marketing Remote Tech in violation of Section 2.1.4. Third, MWA contends that ECI's purchase of FMAudit violates the non-compete

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[157] JX 34 § 2.1.4 (emphasis added).

provision because FMAudit contains substantially similar features and functionality as the Licensed Software. Lastly, MWA argues that La Crosse assisted Sharp in developing Sharp's remote service solution, which amounts to designing or developing software or technology that competes with the Licensed Software in violation of Section 2.1.4.

Because it depends on facts pertinent to another claim, I reserve my analysis of MWA's second argument – that the non-compete provision was breached through DGI's post-acquisition activities – until the discussion *infra* in Part II.B.4. The following discussion focuses on MWA's remaining three arguments for a breach of the non-compete provision.

a. Tech AnyWare

Tech AnyWare markets, licenses, and distributes a product that competes with the Licensed Software. Tech AnyWare's Remote Tech directly competes with both the Licensed Software and MWA's IS. This competition would violate OMD and La Crosse's obligations under Section 2.1.4, however, only if Tech AnyWare qualifies as an "Affiliate" under the Agreement. To prove that Tech AnyWare is an Affiliate, MWA must demonstrate that it is "controlling, controlled by or under common control *with a party*," *i.e.*, with OMD or La Crosse. The Agreement defines control as the "power to direct or cause the direction of management or policies."

MWA appears to argue that Tech AnyWare is under common control with parties OMD and La Crosse. First, MWA contends that OMD, La Crosse, and Tech AnyWare are under common control by DGI. Alternatively, MWA argues that ECI controls all of OMD, La Crosse, DGI, and Tech AnyWare. According to MWA, this control is demonstrated by ECI having orchestrated the eleventh-hour sale of DGI's Remote Tech business to Tech AnyWare. MWA maintains that Tech AnyWare simply is a placeholder for the Remote Tech product line until ECI can put MWA out of business and repurchase that asset.[158]

DGI indisputably has a large economic interest in Tech AnyWare. DGI has a right to 95% of Tech AnyWare's EBITDA from Remote Tech in perpetuity.[159] Tech AnyWare was formed to purchase the Remote Tech business. Although Tech AnyWare is developing at least one additional product, Remote Tech remains its main product offering.[160] DGI has a perpetual right to repurchase the Remote Tech business at any time for four times Remote Tech's twelve-month trailing EBITDA, net of the 95%

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158 MWA adduced some evidence that ECI may have considered integrating OMD and La Crosse with Remote Tech, which ECI could not have done consistently with its non-competition obligations under the Agreement. *See* JX 379 (Books and Gruenewald stating in a January 2012 DGI meeting recap the action item "Laryssa, Lon and Jim to decide on TechAnyWhere [sic] OMD/La Crosse integration strategy); JX 332 (email from a La Crosse operations manager to Alexander stating "Ron and Trevor made it clear [to a conference group] that we will be integrating with eautomate products and they called out Tech AnyWare"). Having considered the record as a whole, however, I find that MWA failed to demonstrate by a preponderance of the evidence the existence of any concrete plan to that effect or that any such plan ever was implemented. *See* Tr. 311–12, 342–43 (Books) (denying that he planned to integrate Remote Tech with OMD and La Crosse).

159 *See* JX 268; JX 270; Tr. 958–59 (Davis); Tr. 80 (Gruenewald).

160 Tr. 981 (Davis).

Remote Tech EBITDA payments to DGI.[161] Thus, DGI has a direct interest in Tech AnyWare being a profitable company, at least with regard to its Remote Tech asset.

MWA must demonstrate more than that DGI had an economic interest in Remote Tech, however. MWA must demonstrate that DGI or ECI possess the power to cause "the direction of management or policies" of Tech AnyWare. In this regard, MWA argues that DGI sets Tech AnyWare's budget. Shortly after ECI purchased DGI, DGI's chief financial officer, Glenn Etherington, and its controller, David Smith, prepared a budget related to Tech AnyWare. Etherington credibly testified that the "budget" DGI prepared was an internal DGI document created by DGI to give the company some expectation of how much money it would receive from its right to 95% of Remote Tech's EBITDA.[162] Both Etherington and Davis, Tech AnyWare's principal, testified that only Davis sets Tech AnyWare's budget.[163] No contemporaneous evidence contradicts this testimony. Indeed, shortly after the ECI–DGI transaction, DGI suggested to Davis that Tech AnyWare immediately add a salesperson because DGI believed this was necessary

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[161] *See* JX 269 § 6.1; JX 420; Tr. 1072 (Etherington) ("If [Remote Tech's EBITDA] is a million dollars before the royalty payment, it's $50,000 after the royalty payment, and I would exercise my right for a total of $200,000.").

[162] JX 300; JX 391; Tr. 1054–57.

[163] Tr. 955 (Davis); Tr. 1054 (Etherington).

for Tech AnyWare to achieve the numbers DGI expected from Remote Tech sales.[164] But, Davis decided not to add a salesperson at that time.[165]

MWA also contends that ECI unilaterally changed the terms of the Remote Tech sales documents. This argument is contradicted by Etherington's and Davis's testimony. Although Davis testified that the documents were "re-negotiated twice," they appear to have been changed three times.[166] DGI first proposed that the agreement be modified so that, while it would receive the same percentage of Remote Tech's EBITDA, *i.e.*, 95%, the percentages allocated to the asset purchase agreement and to the services agreement would change.[167] Davis agreed to that change, and there was no evidence that it was likely to have an adverse impact on Tech AnyWare. Another change modified the purchase price for the sale of the Remote Tech business to Tech AnyWare from $2 million to specified EBITDA payments that continued in perpetuity.[168] Davis expressed concern about this change, but ultimately accepted it.[169] An additional amendment to the sales documents was made at Davis's request after his tax accountant identified a tax

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164 *See* JX 391.

165 Tr. 83 (Gruenewald).

166 Tr. 986; Tr. 958.

167 Tr. 990 (Davis).

168 JX 362.

169 *Id.*

problem.[170] Etherington agreed to that change as long as the economic terms remained the same, which they apparently did.[171]

The evidence shows that, by virtue of its 95% EBITDA interest in Tech AnyWare's Remote Tech asset, DGI retains a significant interest in Tech AnyWare. Tech AnyWare was created at the eleventh hour of the ECI–DGI transaction. The terms Davis agreed to appear extremely favorable to DGI, although Davis paid no money beyond the EBITDA commitment. Indeed, during the agreement renegotiation, Davis himself expressed the following concern to DGI: "[T]he only real possibility of a winning exit for me is if ECi repurchases the Remote Tech product from Tech AnyWare, but there appears to be no real incentive for ECi to ever do that."[172]

Davis's ruminations, however, do not demonstrate that the parties considered Tech AnyWare to be a mere placeholder for Remote Tech. Rather, the record shows that ECI focuses on backend products and its main purpose in purchasing DGI was to gain access to DGI's next generation backend system e-automate 8.0. ECI knew that under the Exclusive Agreement, its ability to work with the Remote Tech product was limited.[173] One possibility was to shelve the product.[174] From Phillips's point of view, DGI was less

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170 Tr. 1053 (Etherington); Tr. 1029 (Davis).

171 Tr. 1054.

172 JX 362.

173 *See* Tr. 240–41 (Books); Tr. 38 (Gruenewald).

174 Tr. 38 (Gruenewald).

valuable without the Remote Tech asset and he wanted to retain its revenue stream to make his earn-out.[175] Phillips also felt a commitment to his Remote Tech customers. So, for him and DGI, shelving the product was not an option.[176] ECI was committed to purchasing DGI, however, so ECI worked with Phillips to arrive at a mutually acceptable solution: selling Remote Tech to Tech AnyWare so the product could remain on the market and contribute to Phillips's ability to meet the earn-out and ECI could purchase DGI and e-automate 8.0 without violating the Agreement.[177]

Based on this evidence, MWA has not met its burden to demonstrate that Tech AnyWare is an Affiliate as that term is defined in the Exclusive Agreement. The parties to the Agreement agreed, in relevant part, that to be an Affiliate an entity had to be under common control with a party and that "control" "shall mean possession, directly or indirectly, of *power to direct or cause the direction of management or policies* (whether through beneficial ownership of securities or other ownership interests, by contract or otherwise)."[178]

The record shows that Davis alone directs the management and policies of Tech AnyWare. He sets Tech AnyWare's budget. He hires and fires employees and sets employee salaries. Employees report to Davis. He enters agreements on behalf of Tech

175 Tr. 142–44 (Phillips). Remote Tech accounted for approximately ten percent of DGI's revenue and approximately twenty-five percent of its profit. Tr. 143–44.

176 Tr. 38 (Gruenewald); Tr. 104 (Phillips).

177 Tr. 37–38 (Gruenewald).

178 JX 34 § 1.1 (emphasis added).

AnyWare. He attends trade shows for Tech AnyWare and markets Remote Tech. He has begun to develop at least one product in addition to Remote Tech. MWA's strongest argument that Tech AnyWare is nonetheless an Affiliate of OMD and La Crosse is that the three companies are under the common control of DGI. This argument stems from the fact that DGI's Phillips heads ECI's OE Division, which operationally includes OMD, La Crosse, and DGI, and Phillips stands to benefit through the earn-out from DGI's contractual right to receive 95% of the Remote Tech EBITDA. Having carefully considered that and MWA's other arguments, I find that MWA has not shown by a preponderance of the evidence that either ECI or DGI exercised control over Tech AnyWare within the meaning of the Agreement. Thus, MWA has not proven that Tech AnyWare is an Affiliate under the Agreement, and Tech AnyWare's activities do not constitute a breach of the non-competition requirement in Section 2.1.4.

b. FMAudit

The evidence overwhelmingly indicates that FMAudit is a frontend product that is complementary to, not competitive with, remote service solutions such as SOTG and Tech-Raptor. FMAudit provides a device management solution, which is a different application than remote service solutions such as SOTG and Tech-Raptor.[179] The FMAudit product does not include a remote service product.[180] "FMAudit [software]

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179 Tr. 67 (Gruenewald).

180 Tr. 333 (Books).

collects raw data and filters and triggers a notification. The remote service application then takes over and utilizes the information."[181]

When ECI undertook to purchase FMAudit, it performed due diligence to discover whether the FMAudit product had "the same or substantially similar features and functionality as the Licensed Software."[182] Of the features that were part of this analysis, FMAudit had 11% of those features while SOTG had 98% and Tech-Raptor had 65%.[183] In addition, ECI purchased FMAudit in March 2011, but it was not until MWA initiated litigation in California on April 12, 2012, that MWA asserted ECI's purchase of FMAudit was in breach of the Agreement. Furthermore, by devoting only five sentences in its opening brief to this argument,[184] MWA effectively concedes the lack of support in the record for its claim that OMD and La Crosse breached the Agreement when their Affiliate ECI purchased FMAudit. MWA relies on conclusory evidence to argue that FMAudit "transcends" the office equipment and office products vertical and that "some of the features and functionalities of FMAudit cross into the office equipment vertical."[185] MWA has not proven by a preponderance of the evidence, however, that FMAudit

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181 Tr. 1087 (Tetu).

182 Tr. 631 (Alexander).

183 *See* Tr. 633–34 (Alexander); JX 156.

184 Nor did MWA expound on this argument in its reply brief, which simply relies on the FMAudit-related argument that was set out in its opening brief. *See* Def.'s Answering Post-Trial Br. 23 n.16.

185 Tr. 1091 (Tetu). Kevin Tetu is the president of the FMAudit business unit at ECI.

contains "substantially similar features and functionality" as the Licensed Software. Thus, ECI's purchase of FMAudit in March 2011 and subsequent activities in marketing and selling that product did not amount to a breach of Section 2.1.4 of the Agreement.

c. Sharp

Lastly, MWA argues that La Crosse assisted a non-party to the Agreement, Sharp, in "developing" its remote service solution in violation of Section 2.1.4 when La Crosse authorized Sharp to use NextGen's stored procedures. This access to NextGen's stored procedures enabled Sharp to connect its remote service solution, Mobile Workforce, to the La Crosse NextGen ERP software that Sharp used in its business. Without access to the logic behind the stored procedures, any attempt by Sharp to integrate its remote service solutions with NextGen would have failed.[186]

In its answering post-trial brief, but not in its opening brief, MWA relies on trial testimony by Brostrom repeating a statement allegedly made to him by another person, Tyler Pongratz, who was employed by La Crosse when the statement was made. Brostrom testified that Pongratz told him in 2010 that earlier that same year, in his role as an employee of La Crosse, Pongratz had informed a programmer for Sharp which stored procedures he needed to use to be able to integrate with La Crosse's NextGen.[187] According to Brostrom, without this information, Sharp could not have integrated its own

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[186] Tr. 877–78 (Brostrom).

[187] *See* Tr. 885–86.

frontend system with La Crosse's NextGen backend system. But, with this "key," Sharp was able to integrate its applications with NextGen.

At trial, Plaintiffs objected to Brostrom's testimony as hearsay. MWA responded that Pongratz's statement was not hearsay under Delaware Rule of Evidence 801(d)(2)(D), because it was offered against a party and was a statement made during the existence of the employment relationship by an "agent or servant" concerning a matter within the scope of his employment. I allowed Brostrom's testimony subject to the parties' ability to address any objection in the post-trial briefing. Because MWA did not appear to rely on this contested testimony in its opening brief, Plaintiffs understandably did little to expand on their objection to it in their answering brief. MWA, therefore, arguably waived its reliance on Brostrom's testimony.[188]

Even considering Brostrom's testimony, however, MWA has not proven that La Crosse's actions with regard to Sharp amount to "design[ing], develop[ing], market[ing], licens[ing] or distribut[ing] software or technology that competes with the Licensed Software." One of the attractive features of La Crosse's NextGen system was its "open architecture" that allowed users to integrate their applications into La Crosse's backend system.[189] Plaintiffs presented credible evidence that under the April 10, 2006 license

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[188] *See Thor Merritt Square, LLC v. Bayview Malls LLC*, 2010 WL 972776, at *5 (Del. Ch. Mar. 5, 2010) ("The failure to raise a legal issue in an opening brief generally constitutes a waiver of the ability to raise that issue in connection with a matter under submission to the court.").

[189] Tr. 611 (Alexander).

agreement between Sharp and La Crosse, Sharp had the right to access and use La Crosse's stored procedures. In a May 2010 letter to Sharp, La Crosse confirmed that Sharp had the right to "use the Database Objects [*i.e.*, stored procedures,] to develop, strictly for its own internal business purposes, software applications that communicate and/or interface with the Covered Software."[190] The record does not show that Sharp used the stored procedures for anything other than its own internal business purposes. In addition, Alexander explained to Brostrom, who worked for MWA at that time, "[a]s you are aware, La Crosse customers have always had the capability to create custom applications and integration with the core products."[191] Thus, La Crosse openly communicated with Sharp in this regard and MWA knew about such communications.

MWA has not shown that the information Pongratz purportedly gave to Sharp was outside of the scope of what Sharp was entitled to receive under its agreement with La Crosse. Similarly, MWA has failed to show that La Crosse's actions with regard to Sharp exceeded La Crosse's rights under the Exclusive Agreement. The action of providing Sharp with stored procedures to create its own remote service product for its own internal use appears to have been within the scope of Sharp's rights under its license agreement with La Crosse. There is no evidence to support the assertion that Sharp's

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190 JX 123. The "Covered Software" includes NextGen and Tech-Raptor. JX 124.

191 JX 122 (May 11, 2010 email from Alexander to Brostrom reminding Brostrom "[y]ou said that it was not unusual for customers to write their own custom applications that integrate with the core product set and that the open architecture of the La Crosse products was one of its stronger selling points and a significant benefit to customers").

remote service solution was software that competed with the Licensed Software under the terms of the Agreement. It was proprietary software, intended for Sharp's internal use only, and thus was not intended to be "marketed, licensed, or distributed . . . in the United States." MWA, therefore, has failed to demonstrate that La Crosse violated the non-compete provision of the Agreement when it provided NextGen's stored procedures to Sharp.

3. Right of first refusal to negotiate: Section 2.1.3

MWA also contends that OMD and La Crosse breached the Agreement by failing to offer to MWA a right of first refusal to negotiate an exclusive license to e-automate 8.0 after ECI purchased DGI. In Section 2.1.3, the parties agreed:

> If OMD or La Crosse licenses or otherwise acquires any other ERP or backend system other than the Backend Systems, OMD and La Crosse will promptly notify MWAi in writing and will offer MWAi a right of first refusal to negotiate an exclusive license to integrate and provide the Licensed Software or any other frontend system for use in connection with such ERP or backend system and the parties will negotiate the terms of such license, including without limitation applicable license fees, in good faith using all reasonable efforts for a period of one hundred twenty (120) days, which period may be extended upon mutual written agreement of the parties.

This Section does not say that it extends to acquisitions by OMD or La Crosse *Affiliates*. Thus, MWA's argument that Section 2.1.3 was breached rests on the premise that DGI, OMD, and La Crosse operated as a single actor, the "OE Division," under their common parent company ECI. According to MWA, when ECI acquired DGI and its main product e-automate, it was as if OMD and La Crosse licensed or otherwise acquired another backend system thereby triggering OMD and La Crosse's obligation to offer MWA a right of first refusal to negotiate an exclusive license to that backend system. Alternatively, MWA appears to argue that the action of ECI in acquiring the e-automate backend system should be attributed to OMD and La Crosse. In other words, MWA also seeks to pierce the corporate veil among OMD, La Crosse, DGI, and ECI with respect to the acquisition of the e-automate software.

"To pierce a corporate veil, a plaintiff must show that the interests of justice require it because matters like fraud, public wrong, or contravention of law are involved."[192] "Mere control and even total ownership of one corporation by another is not sufficient to warrant the disregard of a separate corporate entity."[193] "Absent a showing of a fraud or that a subsidiary is in fact the mere alter ego of the parent, a common central management alone is not a proper basis for disregarding separate corporate existence."[194] This Court will disregard the corporate form only in the "exceptional case."[195] In *Vichi v. Koninklijke Philips Electronics N.V.*, this Court granted summary judgment against a claim that the corporate formalities attendant to the far-

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192 *BASF Corp. v. POSM II Props. P'ship, L.P.*, 2009 WL 522721, at *8 n.50 (Del. Ch. Mar. 3, 2009) (citing *Pauley Petroleum Inc. v. Cont'l Oil Co.*, 239 A.2d 629, 633 (Del. 1968)).

193 *Skouras v. Admiralty Enters., Inc.*, 386 A.2d 674, 681 (Del. Ch. 1978) (citing *Buechner v. Farbenfabriken Bayer Aktiengesellschaft*, 154 A.2d 684 (Del. 1959)).

194 *Id.* (citing *Pauley Petroleum, Inc. v. Cont'l Oil Co.*, 231 A.2d 450 (Del. Ch. 1967), *aff'd*, 239 A.2d 629 (Del. 1968)).

195 *See Case Fin., Inc. v. Alden*, 2009 WL 2581873, at *4 (Del. Ch. Aug. 21, 2009).

flung Philips family of companies should be disregarded, notwithstanding Vichi's argument that "Philips acted and operated through a network of subsidiaries and employed a corporate philosophy or slogan of 'One Philips.'"[196]

MWA argues, without citing any legal support, that OMD and La Crosse breached Section 2.1.3 of the Agreement because OMD, La Crosse, DGI, and ECI effectively are one actor. MWA first contends that OMD, La Crosse, and DGI amount to one company because ECI consolidated them into a single division and caused them to function as one business unit. To support its argument, MWA emphasizes that ECI expected $1 million in synergies among OMD, La Crosse, and DGI after ECI purchased DGI.[197] Under the terms of ECI's acquisition of DGI, Phillips would run the OE Division.[198] Indeed, DGI's earn-out was based, in part, on the EBITDA achieved by OMD, La Crosse, and DGI.[199] Furthermore, ECI planned to market e-automate 8.0 as the "next generation" backend product for the OE Division.[200] Although ECI still planned to support the legacy products of OMD and La Crosse, Books informed the OE Division that, "our next gen solution is eauto, we sell eauto in almost 100[%] of new deals."[201] Books also supported

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196 62 A.3d 26, 48–49 (Del. Ch. 2012).

197 *See* JX 178; Tr. 74–75 (Gruenewald).

198 JX 271 § 1.10(vi).

199 JX 271; JX 212.

200 JX 202 at 2539; JX 178.

201 JX 403 at 12886.

Phillips's goal to migrate forty-six large and twelve very large OMD and La Crosse customers to e-automate.[202] In one magazine article, DGI was marketed as "the new standard," with e-automate, ECI/OMD, and ECI/La Crosse listed as the "division of ECi Software Solutions."[203]

After ECI acquired DGI, some of OMD and La Crosse's accounting was done from DGI's Utah office.[204] OMD, La Crosse, and DGI, however, each are incorporated separately. There is no evidence to suggest that these subsidiaries of ECI failed to maintain their corporate formalities. Some managers and officers have roles in more than one ECI subsidiary. For example, Books acts as the sole director for each of OMD, La Crosse, and DGI.[205] Kushner is ECI's general counsel and vice president; he also serves as secretary for each of ECI's U.S. subsidiaries.[206] Alexander is the president of both OMD and La Crosse. Yet, OMD, La Crosse, and DGI sign and perform contracts in their

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[202] JX 380A; Tr. 280–81 (Books); *see also* JX 426 at 2872 (letter from OMD, La Crosse, and DGI to OMD and La Crosse customers informing them of the new branding of OMD, La Crosse, and e-automate all under DGI as the representative of this suite of ECI solutions); JX 403; Tr. 209–12 (Phillips).

[203] JX 370.

[204] Tr. 546 (Alexander).

[205] Tr. 220–21 (Books).

[206] Tr. 351.

own names.[207] In addition, each ECI subsidiary is responsible for its own budget and profit and loss statements,[208] and hires and maintains its own employees.[209]

OMD, La Crosse, and DGI actively engaged in a cross-marketing effort. OMD and La Crosse's backend systems were yesterday's news; e-automate 8.0 represented the future. OMD and La Crosse continued to support customers who were using their "legacy" backend systems after the ECI–DGI transaction. But, the OE Division marketed e-automate 8.0 as the backend system of the future with its .net technology. OMD discontinued development of a .net solution after ECI acquired DGI.[210] As of 2011, ECI aimed to have the OE Division sell e-automate in "almost 100[%] of *new deals*."[211] Thus, MWA has demonstrated that OMD, La Crosse, and DGI all were promoting e-automate 8.0 and were branded as one OE Division.

MWA has failed, however, to adduce evidence that OMD, La Crosse, and DGI effectively operated as one company, or that they must be treated as a single entity to avoid fraud or a miscarriage of justice.[212] In a footnote in its answering brief, MWA

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207 Tr. 9–10, 85 (Gruenewald); Tr. 201 (Phillips); Tr. 540, 614–15, 619–20 (Alexander); *see also* JX 457 (Alexander sending separate termination letters to MWA on behalf of OMD and La Crosse).

208 Tr. 10 (Gruenewald); *see also* Tr. 540–41 (Alexander).

209 Tr. 10 (Gruenewald); *see also* Tr. 540–41, 615–19 (Alexander).

210 Tr. 75–76 (Gruenewald).

211 JX 403 (emphasis added).

212 *See Pauley Petroleum, Inc. v. Cont'l Oil Co.*, 231 A.2d 450, 453 (Del. Ch. 1967) *aff'd*, 239 A.2d 629 (Del. 1968) (holding that corporate entities may be

suggests that it relies on the "alter ego," or "instrumentality," theory to attribute the actions of the ECI subsidiaries to one another.[213] This theory requires a showing of total domination or control, or a showing that the "corporations are so closely intertwined that they do not merit treatment as separate entities."[214] MWA did not show that these entities failed to adhere to their separate corporate formalities. To the contrary, the evidence demonstrates that OMD, La Crosse, and DGI maintained control over their separate corporate affairs, albeit under the direction of their parent company ECI. There also was no showing that the separate corporate existence of these entities constituted a fraud or public wrong, or was in contravention of law.[215] OMD, La Crosse, and DGI had overlapping management and coordinated some of their marketing efforts. But, "common central management alone is not a proper basis for disregarding separate

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disregarded "only in the interest of justice, when such matters as fraud, contravention of law or contract, public wrong, or where equitable consideration among members of the corporation require it, are involved").

213 *See* Def.'s Answering Post-Trial Br. 28 n.19.

214 *Jackson v. Gen. Elec. Co.*, 514 P.2d 1170, 1173 (Alaska 1973); *see also Stinnes Interoil, Inc. v. Petrokey Corp.*, 1983 WL 21115, at *1–2 (Del. Super. 1983) (relying on the Alaska Supreme Court's decision in *Jackson*); *Geyer v. Ingersoll Publ'ns Co.*, 621 A.2d 784, 793 (Del. Ch. 1992) (noting that a court may pierce the corporate veil "where a subsidiary is in fact a mere instrumentality or alter ego of its owner.").

215 *See BASF Corp. v. POSM II Props. P'ship, L.P.*, 2009 WL 522721, at *8 n.50 (Del. Ch. Mar. 3, 2009) ("To pierce a corporate veil, a plaintiff must show that the interests of justice require it because matters like fraud, public wrong, or contravention of law are involved." (citing *Pauley Petroleum*, 239 A.2d at 633)); *Stinnes*, 1983 WL 21115, at *1 & n.3 (stating that the instrumentality theory typically requires a showing of fraud or improper purpose).

corporate existence."[216] In sum, the evidence demonstrates that OMD, La Crosse, DGI, and their parent company ECI are distinct corporations.

Moreover, MWA's contention that OMD and La Crosse breached Section 2.1.3 largely is based on the argument that e-automate 8.0 must be a backend system "license[d] or otherwise acquire[d]" by those companies because OMD and La Crosse no longer plan to upgrade their Vision and NextGen backend systems to the next generation .net technology. OMD and La Crosse, however, had no obligation under the Agreement to upgrade the Backend Systems. In that regard, the only obligation they had related to Backend Systems was to avoid taking any action that would adversely affect compatibility of the Licensed Software with the Backend Systems.[217] Moreover, unlike several other provisions in the Agreement, Section 2.1.3 does not apply to Affiliates. Thus, under the express language of the Agreement, the right of first refusal to negotiate was not triggered by OMD and La Crosse's Affiliate ECI's acquisition of DGI and DGI's backend system, e-automate 8.0.

4. Non-compete applied to OMD, La Crosse, and Affiliates: Section 2.1.4

MWA claims that OMD and La Crosse breached the non-compete provision of the Agreement, Section 2.1.4. I addressed three of MWA's four arguments for breach of the

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216 *Skouras v. Admiralty Enters., Inc.*, 386 A.2d 674, 681 (Del. Ch. 1978) (citing *Pauley Petroleum*, 231 A.2d 450); *see also Mabon, Nugent & Co. v. Texas Am. Energy Corp.*, 1990 WL 44267, at *5 (Del. Ch. 1990) ("Under Delaware law, the separate corporate existences of parent and subsidiary will not be set aside merely on a showing of common management of the two entities . . . .").

217 *See* JX 34 §§ 2.1.2, 2.2.5.

non-compete provision *supra* in Part II.B.2 and found that none of them supported a finding that Section 2.1.4 had been breached. MWA's last remaining ground for asserting a breach of that non-compete provision is that OMD, La Crosse, and DGI, an Affiliate of OMD and La Crosse, engaged in designing, developing, and marketing Remote Tech – a product that competes with the Licensed Software.

Section 2.1.4 of the Agreement prohibits OMD, La Crosse, and their Affiliates from: "design[ing], develop[ing], market[ing], licens[ing] or distribut[ing]" a product that competes with the Licensed Software.[218] DGI became an Affiliate of OMD and La Crosse when ECI purchased DGI on September 15, 2011, thereby placing OMD, La Crosse, and DGI under the common control of ECI. The relevant time period for analyzing whether DGI's actions breached the non-compete is thus from September 15, 2011 to April 26, 2012, the date the Agreement was terminated. Hence, I have excluded any instances of competitive activity by DGI before or after the relevant time period from my consideration of whether DGI's activities breached the Agreement.

Before its acquisition by ECI, DGI owned the rights to Remote Tech, which is frontend, remote service software that competes with the Licensed Software. Although DGI divested itself of the Remote Tech product line before it was acquired by ECI, MWA contends that DGI continued to design, develop, and market Remote Tech after DGI became an Affiliate, in violation of Section 2.1.4. Plaintiffs counter that once DGI

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[218] JX 34.

became an Affiliate, it ceased all marketing and development activities related to Remote Tech, which, by then, was wholly owned by Tech AnyWare.

Besides focusing on DGI's alleged marketing activities, MWA also claims that DGI, by allowing Remote Tech to integrate with e-automate 8.0, effectively helped to design and develop Remote Tech in violation of the Agreement. E-automate 8.0, however, was developed and appears to have been integrated with Remote Tech before the ECI-DGI acquisition; that is, before DGI became an OMD or La Crosse Affiliate.[219] Furthermore, MWA did not adduce any specific evidence that DGI provided design or development assistance related to Remote Tech after it divested the Remote Tech product line to Tech AnyWare in connection with ECI's acquisition of DGI. There is, therefore, no persuasive evidence that DGI's post-acquisition conduct included designing or developing Remote Tech.

Whether DGI's or the other Plaintiffs' post-acquisition activities amounted to "market[ing]" Remote Tech, however, is less clear. The particular circumstances of this case, including DGI's financial interest in Remote Tech and the unique compatibility between e-automate 8.0 and Remote Tech, leave open the possibility that DGI (and to a lesser extent ECI, OMD, and La Crosse) may have been indirectly marketing Remote

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[219] *See* JX 202 (July 2011 email from Books to ECI Board noting that DGI has "a new .NET, cloud-based solution that they have just launched to the marketplace"). The record is not entirely clear as to when Remote Tech was integrated with e-automate 8.0. Approximately 50% of the e-automate customers, however, used Remote Tech. *See* Davis Dep. at 22. Thus, a reasonable inference is that the two technologies were integrated at the time of e-automate 8.0's release. MWA has not submitted any evidence to the contrary.

Tech without actively selling or advertising it. Thus, in determining whether Plaintiffs marketed Remote Tech, I must examine (1) DGI's alleged direct marketing activities and (2) DGI, ECI, OMD, and La Crosse's alleged indirect marketing activities.

a. Direct marketing

After ECI purchased DGI, DGI informed its sales staff that they could not sell Remote Tech.[220] With only one apparent exception, the record shows that DGI complied with these new marching orders, at least until DGI considered the Agreement to have been terminated.

The exception occurred in late September 2011, when a DGI sales representative sent a quote both for Remote Tech and for e-automate to a customer without including Tech AnyWare's Davis on the exchange.[221] But, the quote that related to Remote Tech did identify Tech AnyWare as the company that sold that product and Davis as the contact person. All other instances in which DGI arguably participated in Remote Tech sales beyond merely passing on a sales lead took place after April 26, 2012, and are therefore not relevant to my analysis. Based on this evidence, I find that MWA failed to prove that DGI directly marketed Remote Tech in violation of § 2.1.4.

Plaintiffs concede, however, that although DGI stopped selling Remote Tech after being acquired by ECI, DGI continued to provide certain training and support services to Tech AnyWare related to Remote Tech. These services consisted of customer support,

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[220] Tr. 196 (Phillips).

[221] JX 311.

training services for Remote Tech users, and the performance of certain back office functions.[222] Notwithstanding MWA's accusations of breach, Plaintiffs deny that these activities violated the Agreement, because neither training nor support fall under the categories of activity prohibited by the non-compete provision.

I agree. MWA has not shown that these training and support activities constituted designing, developing, licensing, or distributing Remote Tech. Whether those DGI activities amounted to continuing to "market" Remote Tech even after the acquisition is a closer question. Webster's New World Dictionary defines "market" to mean "1. to send or take to market[,] 2. to offer for sale[,] 3. to sell."[223] In that context and based on the limited nature of DGI's support and training activities related to Remote Tech, I find that those activities did not rise to the level of selling Remote Tech or offering it for sale, and thus did not constitute prohibited marketing.

After considering the other evidence on which MWA relies,[224] I conclude that DGI did not continue to directly market Remote Tech after ECI purchased DGI. Before April 26, 2012, and with the one exception described above, DGI referred customers who inquired about Remote Tech to Davis and Tech AnyWare. DGI did not "offer to sell" Remote Tech to its customers. Nevertheless, MWA asserts that DGI's e-automate 8.0

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[222] JX 353.

[223] Webster's New World Dictionary of the American Language 868 (2d ed. 1986).

[224] *See, e.g.*, JX 311; JX 348; JX 404; JX 413; JX 422; JX 453; JX 465; JX 500; JX 510.

customers effectively were required to purchase Remote Tech as their frontend because Remote Tech was the only frontend product with which e-automate 8.0 integrated at the time. Even if that assertion is true, however, it does not support a finding that DGI directly engaged in impermissible marketing of a frontend product, as DGI itself neither advertised nor sold the competing software.

b. Indirect marketing

Still, there remains the possibility that DGI, ECI, OMD, and La Crosse breached the non-compete provision of the Agreement by engaging in *indirect* marketing of Remote Tech. In assessing whether the actions of Plaintiffs constituted indirect marketing of Remote Tech, it is helpful to review some of the relevant background.

ECI acquired DGI because e-automate successfully was displacing OMD and La Crosse's backend systems in the market.[225] E-automate was a competitive threat when the Exclusive Agreement was executed.[226] Indeed, during their period of cooperation, ECI and MWA discussed how to address the threat DGI posed to both companies through its e-automate backend system, which competed with OMD and La Crosse, and its Remote Tech frontend system, which competed with MWA's IS. Eventually, Books determined that ECI had to acquire DGI. In pursuing such a transaction, ECI was mindful of the Agreement's non-compete provision, which applied to ECI as an OMD

[225] Tr. 49 (Gruenewald).

[226] *See* JX 105 (December 10, 2009 email discussing the customers ECI had lost to e-automate over the past two years).

and La Crosse Affiliate. That provision precluded Affiliates from competing with the Licensed Software – *i.e.*, SOTG and Tech-Raptor. The Agreement, however, did not preclude Affiliates from licensing or acquiring a backend system.[227] Thus, to avoid violating the non-compete provision, ECI and DGI arranged for DGI to sell its Remote Tech product line before the acquisition.

The process that resulted in ECI's acquisition of DGI involved DGI selling Remote Tech at the last minute to Tech AnyWare, a newly formed entity owned by a DGI insider, Davis, and agreeing to allow Tech AnyWare to make the purchase without paying any money upfront by agreeing to pay DGI 95% of Remote Tech's EBITDA in perpetuity.[228] DGI also received the right to buy back Remote Tech for four times Remote Tech's twelve-month trailing EBITDA, net of the 95% EBITDA to which DGI was entitled. After the DGI acquisition, ECI organized DGI, OMD, and La Crosse into a single OE division headed by Phillips, the former CEO of DGI. Phillips and the other shareholders of DGI had an earn-out right under the acquisition that could be as high as $7 million. The earn-out was based on the combined EBITDA of OMD, La Crosse, and DGI, which included the 95% of Remote Tech EBITDA from Tech AnyWare.[229]

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[227] If OMD or La Crosse licensed or acquired a new backend system, however, MWA would have had a right of first negotiation regarding an exclusive license to provide a frontend system compatible with that new backend system. *See* JX 34 § 2.1.3.

[228] Tr. 82 (Gruenewald).

[229] *See* JX 186 at 7274 (explaining the high points of the DGI acquisition and noting that Phillips would lead the OE Division, that the earn-out would be based on the

ECI and Phillips strongly favored selling e-automate over the OMD and La Crosse backend products and encouraged both old and new customers to buy e-automate 8.0.[230] The goal of the OE division became to "sell e-auto in almost 100[%] of new deals,"[231] as well as to migrate preexisting OMD and La Crosse customers to e-automate.[232] Although Phillips had an incentive to see OMD, La Crosse, and DGI all thrive, a side benefit to Phillips of increasing the OE Division's sales of e-automate 8.0 was a related increase in sales of Remote Tech because no other frontend system integrated with e-automate 8.0 at the time. Phillips stood to benefit from DGI's 95% share of Remote Tech's EBITDA with Tech AnyWare, because it increased his chances of making the earn-out.

The result of the structure crafted by ECI, and adhered to by DGI, OMD, and La Crosse, was to cut MWA off from sales of IS. The OE Division exclusively promoted e-automate 8.0 as its "next generation" backend system, and e-automate 8.0 did not integrate with IS. Compounding the negative impact on MWA, the OE Division no longer was promoting the OMD and La Crosse "legacy" products or planning to upgrade those products to the next generation .net technology.

As expected, the OE Division's concerted efforts to sell e-automate 8.0 had the effect of promoting sales of a product that competes with the Licensed Software—

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overall success of and growth in the OE vertical, and that the "[r]etention bonus and earn-out would ensure commitment").

230 JX 403.

231 *Id*. at 12886.

232 JX 380A.

Remote Tech. Any increase in sales of Remote Tech by Tech AnyWare could be expected materially to benefit ECI and Phillips, because the earnings from Remote Tech had accounted for nearly twenty-five percent of DGI's profits.[233] Furthermore, Phillips, who was placed in charge of the OE Division, was a former principal of DGI and knew that the earnings from Remote Tech would be key to enabling DGI to meet its earn-out targets.[234] Thus, although OMD, La Crosse, and their Affiliates apparently were careful not to "market" Remote Tech directly, they had no hesitation in referring customers for e-automate 8.0 to Tech AnyWare.

In terms of MWA, Plaintiffs manifested little, if any, regard for MWA's rights under the Exclusive Agreement. For example, when MWA requested that DGI integrate IS with e-automate 8.0, DGI refused on the ground that IS was too low a priority. DGI did not foreclose completely the possibility that MWA one day could integrate its IS frontend product with e-automate 8.0, but DGI had little or no interest in moving that integration process forward.[235] DGI's actions were not wholly unjustified, because around the time MWA wanted to integrate with e-automate 8.0, fewer than 10 of 1,000

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233 Tr. 143-44 (Phillips).

234 *See* Tr. 142-44 (Phillips).

235 JX 364 (December 28, 2011 email among Phillips, Davis, and others stating: "We don't have a contractual agreement to integrate with MWAi and don't want to!"); JX 500 (July 11, 2012 email from Lioce Group, a DGI customer, asking why a DGI representative "didn't recommend just keeping MWA and using it with e-auto and not purchas[ing] Remote Tech until after my contract expired?"). *See also supra* notes 79–80 and accompanying text.

DGI customers used IS.[236] Some customers, however, seemed inclined to remain with MWA and questioned why they were being required to switch to Remote Tech if they upgraded to e-automate 8.0.[237] One of those customers, Gordon Flesch, had been with MWA for a number of years and provided substantial sales revenue to MWA.

Although DGI, OMD, and La Crosse may not have actively sold or advertised Remote Tech, the consequence and intended result of their campaign to maximize sales of e-automate 8.0 (without granting MWA integration rights) was to promote sales of the competing frontend product Remote Tech while preventing MWA from competing for those sales with its IS product. I find that this conduct amounted to indirect marketing of Remote Tech by OMD, La Crosse, and their Affiliates in breach of Section 2.1.4 of the Agreement.

C. Counterclaim Count II: Breach of Implied Covenant of Good Faith and Fair Dealing Against OMD and La Crosse

MWA's final contractual argument is that, even if OMD and La Crosse complied with the express provisions of the Agreement, they violated the Agreement's spirit and purpose and deprived MWA of the benefit it reasonably expected. "Under Delaware law, the implied covenant of good faith and fair dealing inheres in every contract."[238]

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[236] Tr. 335 (Books); Tr. 672 (Stramaglio).

[237] *See* JX 364 (Gordon Flesch, a significant customer inquired, "[D]o you know if MWAi has been granted access to your enhancements for V 8.0? If not, what is the normal process for MWAi getting access to updates?").

[238] *Amirsaleh v. Bd. of Trade of City of New York, Inc.*, 2009 WL 3756700, at *4 (Del. Ch. Nov. 9, 2009).

Applying the implied covenant is a "cautious enterprise."[239] "Delaware's implied duty of good faith and fair dealing is not an equitable remedy for rebalancing economic interests after events that could have been anticipated, but were not, . . . later adversely affected one party to a contract. Rather the covenant is a limited and extraordinary legal remedy."[240] Because the Court holds someone responsible for an implied duty when it finds a breach of the implied covenant of good faith and fair dealing, "it is critical that the standard be rigorous, that the obligation breached be clearly implied, and that the party act with an improper state of mind, that is, bad faith."[241] "A party does not act in bad faith by relying on contract provisions for which that party bargained where doing so simply limits advantages to another party."[242]

As the Delaware Supreme Court recently explained:

> Under Delaware law, a court confronting an implied covenant claim asks whether it is clear from what was expressly agreed upon that the parties who negotiated the express terms of the contract would have agreed to proscribe the act later complained of as a breach of the implied covenant of good faith—had they thought to negotiate with respect to that matter. While this test requires resort to a counterfactual world—what if—it is nevertheless appropriately restrictive

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239 *Nemec v. Shrader*, 991 A.2d 1120, 1125 (Del. 2010).

240 *Id.* at 1128.

241 *Liberty Prop. Ltd. P'ship v. 25 Mass. Ave. Prop.*, 2009 WL 224904, at *5 (Del. Ch. Jan. 22, 2009); *see also Allen v. Encore Energy P'rs*, – A.3d –, –, 2013 WL 3803977, at *7 n.46 (Del. July 22, 2013) ("[T]here is no difference between 'bad faith' and 'a lack of good faith' in the context of the implied covenant of good faith and fair dealing.").

242 *Nemec*, 991 A.2d at 1128.

> and commonsensical. . . . "[G]ood faith" does not envision loyalty to the contractual counterparty, but rather faithfulness to the scope, purpose, and terms of the parties' contract. Both necessarily turn on the contract itself and what the parties would have agreed upon had the issue arisen when they were bargaining originally.[243]

A claim under the implied covenant generally cannot be based on conduct that the Agreement authorizes or that the parties could have anticipated at the time of contracting.[244] Rather, a court only will imply contract terms "when the party asserting the implied covenant proves that the other party has acted arbitrarily or unreasonably, thereby frustrating the fruits of the bargain that the asserting party reasonably expected."[245] Importantly, the implied covenant of good faith and fair dealing only runs between the parties to a contract[246] – in this case OMD, La Crosse, and MWA.

As discussed in the preceding section, I find that OMD and La Crosse's participation in a corporate structure that encouraged and benefitted from sales of Remote Tech, while denying MWA access to e-automate 8.0, constituted indirect marketing of Remote Tech and was therefore a breach of the express non-compete provision. Even if, contrary to that conclusion, the prohibition on "market[ing]" in the Agreement were held

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[243] *Gerber v. Enters. Prods. Hldgs., LLC*, 67 A.3d 400, 418–19 (Del. 2013) (quoting *ASB Allegiance Real Estate Fund v. Scion Breckenridge Managing Member, LLC*, 50 A.3d 434, 440–42 (Del. Ch. 2012), *rev'd on other grounds*, 68 A.3d 665 (Del. 2013)).

[244] *Nemec*, 991 A.2d at 1125–26; *see also Gerber*, 67 A.3d at 419 n.48.

[245] *Nemec*, 991 A.2d at 1126.

[246] *Gerber*, 67 A.3d at 421 n.53.

not to encompass indirect marketing of the kind conducted by OMD, La Crosse, and their Affiliates, I would find the conduct of those parties to have constituted a breach of the implied covenant of good faith and fair dealing by OMD and La Crosse.

I begin my analysis by identifying the fruits of the bargain MWA reasonably expected at the time it negotiated the Exclusive Agreement. Based on the express terms of the Agreement, MWA reasonably could have expected that its contractual relationship with OMD and La Crosse guaranteed that it would be the frontend provider for Vision and NextGen, as well as any next generation backend system offered by OMD or La Crosse. MWA covered itself by requiring that the Licensed Software remain compatible with the Backend Systems, which effectively guaranteed that MWA's IS also would remain compatible with the Backend Systems.[247] Furthermore, if OMD or La Crosse licensed or otherwise acquired a new backend system, the parties covenanted that MWA would have a right of first refusal to negotiate an exclusive license to integrate and provide "the Licensed Software or any other frontend system for use in connection with such ERP or backend system."[248]

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[247] The Agreement did not expressly impose an obligation on OMD or La Crosse to maintain compatibility between the Backend Systems and IS. It did require them, however, to maintain compatibility between the Backend Systems and the Licensed Software and not to take any action that would "adversely affect compatibility of the Licensed Software with . . . any MWAi products or services." JX 34 § 2.2.5. Thus, MWA reasonably could have expected that the Backend Systems would remain compatible with IS.

[248] JX 34 § 2.1.3.

MWA's licensing and integration rights did not extend to backend software licensed or acquired by an OMD or La Crosse Affiliate. The parties did agree, however, that OMD, La Crosse, and their Affiliates would not compete with MWA in the frontend software market and, specifically, that they would not "design, develop, market, license or distribute" competing software or technology.[249] Thus, while MWA had no contractual right to integrate its frontend software with the backend software of an OMD or La Crosse Affiliate, it reasonably could have expected that OMD and La Crosse Affiliates would not compete with MWA or engage in conduct that intentionally undermined its competitive footing in the frontend software market.

MWA asserts that OMD and LaCrosse breached the implied covenant of good faith and fair dealing in two ways: (1) by failing to allow MWA to connect to e-automate 8.0; and (2) through the ECI parties' control and support of Remote Tech. I consider it most instructive to consider those challenged actions and the other relevant conduct of OMD, LaCrosse, and their Affiliates in the aggregate. The cumulative effect of the actions taken by the ECI parties after the ECI/DGI acquisition was to gut the purpose of the non-compete clause that the parties negotiated. DGI and ECI may not have sold Remote Tech directly, but by retaining a 95% interest in its EBITDA, they had a strong self-interest in maximizing Tech AnyWare's sales of Remote Tech. Similarly, the ECI parties may not have advertised Remote Tech directly, but by attempting to maximize sales of the backend system e-automate 8.0, which was uniquely compatible with Remote

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[249] JX 34 § 2.1.4.

Tech, they effectively (and intentionally) sought to accomplish the same thing. OMD, La Crosse, and the other ECI parties thus encouraged and benefitted from the sale of competing frontend software at MWA's expense, the very thing that the non-compete provision was intended to prevent. Thus, even assuming, contrary to my previous holding, that the ECI parties' indirect marketing of Remote Tech does not fall within the express scope of the non-compete clause's prohibition on "market[ing]" of frontend software that competes with the Licensed Software or IS, there can be little doubt that their conduct denied MWA the fruits of its bargain.

When it entered into the Exclusive Agreement, MWA could not have foreseen the corporate structure and marketing plan in which OMD and La Crosse participated after ECI acquired DGI and e-automate 8.0. When ECI acquired DGI, it also acquired its e-automate 8.0 technology – backend software that was uniquely compatible with a frontend system, Remote Tech, that was not available from MWA. This alone was not unforeseeable. The Agreement anticipated the possibility of OMD or La Crosse acquiring a new backend system that was not integrated with MWA's frontend software and provided MWA with a right of first negotiation as to an exclusive integration and licensing agreement under such circumstances.[250] Yet, the parties apparently also recognized that other acquisitions were possible. Section 2.1.3 of the Agreement, for example, suggests that the parties foresaw that an OMD or La Crosse affiliate, such as ECI, might acquire or license a new backend system and not license or sell it through

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[250] JX 34 § 2.1.3.

OMD or La Crosse. Under those circumstances, the Agreement does not grant MWA any negotiation or integration rights. Thus, the acquisition by ECI of backend technology that did not integrate with MWA's IS, in and of itself, would not breach the express terms of the Agreement or the implied covenant.

By the time ECI acquired the rights to e-automate 8.0, however, DGI also had retained a 95% income interest in the only frontend software with which e-automate 8.0 then integrated, *i.e.*, Remote Tech. This gave DGI, and hence ECI, an incentive to try to maximize sales of Remote Tech, even at the expense of MWA. ECI compounded the harm to MWA by placing the OE Division, comprised of DGI, OMD, and La Crosse, under the direction of Phillips, a former principal of DGI who had a significant financial interest in increasing sales of both e-automate 8.0 and Remote Tech to enable him and DGI to make their earn-out. In that obviously conflicted context, ECI still denied a request from MWA to integrate its IS frontend with e-automate 8.0, which would have made IS a viable frontend alternative to Remote Tech for users of e-automate 8.0. Nothing in the record supports an inference that the parties to the Agreement anticipated a structure whereby an OMD or La Crosse affiliate actively would attempt to maximize the sales of competing frontend technology, in which sales they had a direct financial interest, but do so only indirectly in an effort to avoid their obligations to MWA.

OMD and La Crosse's role within the post-acquisition structure was also unforeseeable. Following the DGI acquisition, OMD and La Crosse discontinued all efforts to develop further the Backend Systems and were placed in a consolidated division of ECI, the OE Division, headed by DGI's Phillips. The goal of the OE division was to sell exclusively e-automate 8.0 in future sales and to migrate users off of OMD and La Crosse's backend systems and onto e-automate 8.0. It may have been foreseeable that OMD and La Crosse eventually might discontinue development of the Backend Systems.[251] But, it was not foreseeable that OMD and La Crosse would do so in order to promote, and funnel customers toward, an Affiliate's backend technology, in part for the purpose of encouraging sales of frontend software that competed with MWA. Thus, I find that MWA could not reasonably have foreseen the post-acquisition structure and conduct of the ECI parties in relation to e-automate 8.0 and Remote Tech.

Furthermore, I find that the conduct of OMD, La Crosse, and their Affiliates substantially deprived MWA of the benefit for which it bargained and that the parties would have agreed to proscribe those indirect marketing activities had they negotiated with respect to them at the time of the Agreement. The language of the Agreement shows that MWA successfully negotiated to be the exclusive provider of frontend systems for the Backend Systems offered by OMD and La Crosse, namely, Vision and NextGen and "all improvements, updates, upgrades, versions, releases and next

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251 During the negotiation of the Exclusive Agreement, MWA may have expected that OMD and La Crosse would develop next generation versions of the Backend Systems. It was not unforeseeable or a breach of the Agreement, however, for OMD and La Crosse to cease development of their various systems. Regarding their frontend systems, an express provision of the Agreement provides that "neither OMD nor La Crosse nor any of their Affiliates shall have any obligation to support, maintain, enhance, develop or revise the Licensed Software." JX 34 § 2.2.5. As to the Backend Systems, although "Backend Systems" is defined by the Agreement to include next generation versions of Vision and NextGen, *see* JX 34 § 1.2, nothing in the Agreement requires OMD or La Crosse to develop any such next generation system.

generation products" for them.[252] MWA also obtained a right of first negotiation for similar exclusive rights as to any other ERP or backend system licensed or acquired by OMD or La Crosse. In addition, MWA obtained undertakings from OMD and La Crosse to ensure the continued interoperability of their Licensed Systems (and, effectively, IS) with their Backend Systems. The question presented here is to what rights, if any, would the parties have agreed if, as occurred here, OMD and La Crosse began to steer business toward a backend system offered by a sister ECI company, while being careful not to offer or license the system themselves. The answer appears to be that MWA would fall back on the non-compete provision it negotiated to prevent OMD, La Crosse, or their Affiliates from competing for frontend business related to the new backend system, and then proceed to compete vigorously for that business.

In this case, however, the ECI companies did more than market the latest backend system in e-automate 8.0. They knew that Remote Tech was a successful product and represented the only frontend system compatible with e-automate 8.0. ECI also knew that, because it and its affiliates could not market Remote Tech, they would have to divest that line of business from DGI. If ECI and DGI had arranged for the sale of Remote Tech to an independent third party, the analysis as to the implied covenant would be quite different. That did not occur, however. Instead, ECI cooperated in the sale of Remote Tech to a DGI insider, Davis, and his new company, Tech AnyWare. More importantly, because DGI retained a right to receive 95% of the EBITDA of Remote

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[252] JX 34 § 1.2.

Tech in perpetuity, ECI and DGI created an inherent conflict of interest on their part in the sense that they would benefit financially if a customer that purchased e-automate 8.0 also purchased Remote Tech, rather than IS or any other frontend product. One manifestation of that conflict of interest, as well as of the ECI companies' lack of concern about MWA's ability to realize the fruits of its bargain in the Exclusive Agreement, was DGI's refusal to facilitate IS's integration with e-automate 8.0.[253]

If the parties to the Exclusive Agreement had foreseen the situation that currently exists, I am confident they would have proscribed it. They might have done so, for example, by including language to ensure that, if an Affiliate acquired a different backend system, MWA would be given an equal opportunity to compete for the frontend business associated with that system with all other suppliers.

I consider next the final element of a breach of the implied covenant claim, namely, whether OMD and La Crosse acted in "bad faith."[254] "A party does not act in bad faith by relying on contract provisions for which that party bargained where doing so simply limits advantages to another party."[255] "'[G]ood faith' does not envision loyalty

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253 Plaintiffs' argument that they told MWA that it could develop the necessary integration on its own time and using its own resources rings hollow in this context. Based on DGI's conflicted position, MWA reasonably could have believed that, even if it made that investment, MWA still would not be given the opportunity to compete with DGI and Tech AnyWare on a level playing field.

254 *See Amirsaleh v. Bd. of Trade of City of New York, Inc.*, 2009 WL 3756700, at *5 (Del. Ch. Nov. 9, 2009) ("[T]o prove a breach of the implied covenant plaintiff must demonstrate that defendants acted in 'bad faith.'").

255 *Nemec v. Shrader*, 991 A.2d 1120, 1128 (Del. 2010).

to the contractual counterparty, but rather faithfulness to the scope, purpose, and terms of the parties' contract."[256] "Incorporating a mental state or other tort-like concepts assists in measuring when a defendant's conduct passes beyond what the contracting parties would have agreed to in their original bargaining positions. It does not convert a breach of the implied covenant into a tort."[257]

Under the terms of the Agreement, OMD and La Crosse agreed that they would not, and would cause their affiliates not to, "design, develop, market, license, or distribute software or technology that competes with the Licensed Software."[258] The non-compete provision further provides that "[s]oftware or technology shall be deemed to compete with the Licensed Software if it: (1) contains the same or substantially similar features and functionality as the Licensed Software and (ii) is intended for use by and is marketed, licensed, or distributed to individuals or entities . . . in the United States."[259] Under this definition, I find that IS would compete with the Licensed Software, and, thus, Section 2.1.4 also prohibits competition with IS.

Against this backdrop, OMD and La Crosse participated in ECI's vision for the OE Division, which led them to stop developing and, in large part, promoting their own

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256 *Gerber v. Enters. Prods. Hldgs., LLC*, 67 A.3d 400, 418–19 (Del. 2013) (quoting *ASB Allegiance Real Estate Fund v. Scion Breckenridge Managing Member, LLC*, 50 A.3d 434, 440–42 (Del. Ch. 2012)).

257 *Scion*, 50 A.3d at 444.

258 JX 34 § 2.1.4.

259 *Id.*

products. Instead, they began to promote a competing backend system as the OE Division's next generation product.[260] The effect of this was both to deprive MWA of the business that it anticipated from its exclusive licensing agreement with OMD and La Crosse and to give a competitive advantage to Remote Tech, a frontend product that competed with MWA's software.

The most striking evidence of bad faith on the part of the ECI parties originated from the principals of ECI and DGI.[261] The record also supports, however, a finding that OMD and La Crosse acted in bad faith. OMD and La Crosse knew that e-automate 8.0 was uniquely compatible with Remote Tech and that transitioning customers away from OMD and La Crosse's backend systems and onto e-automate 8.0 would result in losses for MWA.[262] Despite this, OMD and La Crosse participated in the plan to sell new customers almost exclusively e-automate 8.0, without giving MWA a reasonable opportunity to integrate with e-automate 8.0 so it could compete with Tech AnyWare on a level playing field. Alexander knew that Books considered e-automate to be the next generation .net solution for La Crosse.[263] She even cautioned Books that customers "feel La Crosse is a next generation solution and if we say [that e-automate is the .net next generation solution], it will confirm their suspicions of our long term plans but I'm not

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[260] *See* JX 426.

[261] *See infra* notes 277–278 and accompanying discussion.

[262] *See* Tr. 575 (Alexander) (agreeing that, when OMD and La Crosse lose a backend customer, MWA loses a frontend customer).

[263] *See* JX 310.

sure there is a way around this."[264] In addition, after ECI acquired DGI, OMD's business development manager, Fitzpatrick, became the salesman for the OE Division and began reporting to DGI, *i.e.*, Phillips.[265]

In the aggregate, this evidence demonstrates that OMD and La Crosse participated in ECI's plan for the future of the OE Division and, in doing so, deliberately undermined the scope, purpose, and terms of the Exclusive Agreement. Thus, even if the conduct of the ECI parties in indirectly marketing Remote Tech were outside of the scope of the express non-compete provision, OMD and La Crosse would be liable nonetheless for breaching the implied covenant of good faith and fair dealing.

D. Counterclaims Count III and VII: Interference with Contract

MWA asserts claims for interference with contract against ECI, DGI, and Tech AnyWare.[266] "Under Delaware law, the elements of a claim for tortious interference with a contract are: (1) a contract, (2) about which defendant knew, and (3) an intentional act that is a significant factor in causing the breach of such contract, (4) without justification, (5) which causes injury."[267] "A claim of tortious interference with a contractual right

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[264] *Id.*

[265] JX 379 at 11005.

[266] MWA did not pursue Counts V and VI of its Counterclaim for interference with contract and interference with prospective economic advantage against FMAudit in its post-trial briefing or at argument. Hence, I find for FMAudit on these Counts.

[267] *Bhole, Inc. v. Shore Invs., Inc.*, 67 A.3d 444, 453 (Del. 2013).

requires, *inter alia*, a contract, a breach of that contract, and an injury."[268] The tort is "intended to protect a promisee's economic interest in the performance of a contract by making actionable 'improper' intentional interference with the promisor's performance."[269]

To determine whether a party's acts were improper, or without justification, the Restatement (Second) of Torts identifies the following factors as being important:

> (a) the nature of the actor's conduct; (b) the actor's motive; (c) the interests of the others with which the actor's conduct interferes; (d) the interests sought to be advanced by the actor; (e) the social interests in protecting the freedom of action of the actor and the contractual interest of the other; (f) the proximity or remoteness of the actor's conduct to the interference; and (g) the relations between the parties.[270]

In the case of a claim for interference by a corporation with the contract rights and obligations of its affiliate, "the non-breaching party must show that the corporate defendant was not pursuing in good faith the legitimate profit seeking activities of its affiliated enterprise that was a party to the contract."[271] The affiliate defendant must have "sought not to achieve permissible financial goals but sought maliciously or in bad faith to injure the plaintiff."[272]

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268 *Goldman v. Pogo.com, Inc.*, 2002 WL 1358760, at *8 (Del. Ch. June 14, 2002).

269 *Shearin v. E.F. Hutton Gp.*, 652 A.2d 578, 589 (Del. Ch. 1994).

270 *Restatement (Second) of Torts* § 767 (1979); *see also Shearin*, 652 A.2d at 590.

271 *Bhole, Inc.*, 67 A.3d at 453 (citation and alterations omitted).

272 *Id.*

As previously discussed, OMD, La Crosse, and MWA entered into an Exclusive Marketing, License and Distribution Agreement on December 20, 2007. The Agreement was terminated by OMD and La Crosse on August 26, 2012, in response to MWA's material breach of the confidentiality provision. Before the termination of the Agreement, however, OMD and La Crosse themselves breached the contract by violating its non-compete provision or, alternatively, by violating the implied covenant of good faith and fair dealing.

1. ECI and DGI

As an initial matter, ECI, DGI, and Tech AnyWare knew about the Exclusive Agreement.[273] I consider first whether MWA has proven that ECI and DGI tortiously interfered with the Exclusive Agreement because the facts regarding these two entities are overlapping. ECI and DGI must have engaged in an intentional act that was a significant factor in causing OMD and La Crosse to breach the express non-compete provision or, alternatively, the implied covenant of good faith and fair dealing.

ECI and DGI negotiated a deal whereby DGI would become part of the OE Division. Over twenty percent of the purchase price (or $7 million) was in the form of a DGI earn-out. The earn-out was based on the success of OMD, La Crosse, and DGI, and ECI and DGI expected a significant part of DGI's profits to come from its 95% interest in Tech AnyWare's EBITDA from Remote Tech – the only frontend product that could integrate with DGI's e-automate 8.0 software. ECI designated Phillips to run the OE

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[273] *See* Tr. 98 (Phillips); Tr. 234 (Books); Tr. 995 (Davis).

Division at a time when he was motivated to drive customers to e-automate 8.0 to capture the e-automate and Remote Tech EBITDAs. ECI and DGI also directed OMD and La Crosse to stop promoting their own products and to encourage sales of e-automate 8.0 as the OE Division's next generation solution. ECI, and perhaps to a lesser extent DGI, orchestrated the structure that I have found to be a breach of the express non-compete provision and the implied covenant. For these reasons, and those discussed at length in Parts II.B.4 and II.C, *supra*, I find that ECI and DGI's intentional acts were a significant factor in causing OMD and La Crosse's breaches.

MWA also must show that ECI and DGI's actions were without justification. To do this, MWA must demonstrate that ECI, as OMD and La Crosse's parent company, and DGI, as an affiliated company, acted improperly, in that they "[we]re not pursuing in good faith the legitimate profit seeking activities of [their] affiliated enterprise that was a party to the contract."[274] I also note that this Court has held that "[i]f one is privileged by reason of a recognized relationship [*i.e.*, a parent–subsidiary relationship] to discuss the financial welfare of an affiliated party, one may in good faith suggest that a termination of a contract, and the assumption of any resulting liability, would be beneficial to that party."[275]

In this regard, ECI and DGI created the OE Division structure to pursue profit seeking activities *for ECI and its OE Division*, but not necessarily for OMD and La

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[274] *Bhole, Inc.*, 67 A.3d at 453 (citation and alterations omitted).

[275] *Shearin v. E.F. Hutton Gp.*, 652 A.2d 578, 591 (Del. Ch. 1994).

Crosse. ECI intended to promote and sell the OE Division's next generation solution e-automate 8.0 to almost all new customers. Another goal of the OE Division was to migrate customers off of OMD and La Crosse's backend systems and onto e-automate 8.0. This plan would be profitable for DGI (and potentially its former owners), the OE Division as a whole, and ECI. It is unclear, however, what benefit, if any, this plan was intended to produce for OMD and La Crosse, the parties to the contract, particularly when considered in light of the potential for liability from their breach of contract. Therefore, I find that ECI and DGI's interference with the contract among OMD, La Crosse, and MWA was neither justified nor privileged.

MWA also has adduced evidence that OMD and La Crosse's breach of contract caused them to suffer damages. MWA's damages and their quantification are discussed in greater detail *infra* in Part II.F. For purposes of establishing liability, I focus on whether MWA has shown it suffered some damage from the alleged tortious interference. In that regard, I find that if MWA had been able to integrate IS with e-automate 8.0, thereby ameliorating OMD and La Crosse's breach of the Agreement, MWA would have lost fewer customers to Remote Tech and would have been able to compete successfully for frontend sales to e-automate 8.0 users, thus increasing its revenues. I find, therefore, that ECI and DGI's interference with OMD and La Crosse's contract with MWA caused damage to MWA.

In addition to the preceding elements, MWA's claim of tortious interference against OMD and La Crosse's affiliated companies requires a showing that those companies "sought maliciously or in bad faith to injure the plaintiff."[276] The evidence in the record amply demonstrates that ECI and DGI were aware of the damage that their OE Division strategy would cause to MWA.[277] Despite this understanding, ECI and DGI adopted a circumscribed and self-serving reading of OMD and La Crosse's contractual obligations under the Agreement. They then relied on that reading to enable ECI and its affiliates to encourage and benefit from the sale of Remote Tech by Tech AnyWare while making no effort to minimize or eliminate their conflict of interest or to integrate IS with e-automate 8.0 so that it could compete on equal footing. There is even some evidence to suggest that harming MWA was part of ECI and DGI's corporate strategy as to e-automate 8.0.[278] Taken together, this evidence shows the existence of bad faith on the part of ECI and DGI.

I therefore find ECI and DGI liable for tortiously interfering with the contract among OMD, La Crosse, and MWA by causing OMD and La Crosse to breach their express or implied obligations under that contract.

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276 *Bhole, Inc. v. Shore Invs., Inc.*, 67 A.3d 444, 453 (Del. 2013).

277 *See* JX 184 (May 6, 2011 letter from Phillips to Books referring to their plan for industry domination as the "MWA Killer"); JX 486 (June 26, 2012 letter from Phillips stating "To [sic: Too] bad Mike [Stramaglio] isn't going to be in the dealer channel to greet his new toy, SAP.").

278 *See* JX 490 (July 1, 2012 letter from Phillips saying "[Stramaglio is] dead and Ron [Books] wants him buried.")

2. Tech AnyWare

There is no evidence that Tech AnyWare acted with an improper motive or engaged in an intentional act that was a significant factor in causing the breach of the Agreement.[279] Tech AnyWare knew of the existence of the Exclusive Agreement. It knew that DGI had to sell or shelve the Remote Tech product line before ECI purchased DGI because, as far as Tech AnyWare's principal Davis understood, ECI could not "design, develop, market or distribute any product that competes with [IS]."[280] With that understanding, Davis, as a DGI executive, participated in DGI's effort to sell the Remote Tech business, and he ultimately decided that he would be interested in buying Remote Tech. Davis formed Tech AnyWare and had it acquire the Remote Tech business from DGI "to do good for [his] family."[281] MWA has not demonstrated that Tech AnyWare acted with any intent to cause OMD or La Crosse to breach the Agreement or the implied covenant of good faith and fair dealing. Thus, I conclude that MWA has failed to prove its claim against Tech AnyWare for tortious interference with the Agreement.

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279 Tech AnyWare asserts that Utah law should apply to this aspect of MWA's claims under the "most significant relationship" test. I need not decide this issue, however, because MWA has failed to prove its claim for tortious interference under either Delaware or Utah law. *See Anderson Dev. Co. v. Tobias*, 116 P.3d 323, 331 (Utah 2005) ("To succeed on [a claim for interference with existing contractual relationships [or] prospective relationships of economic advantage], a plaintiff must demonstrate that (1) the defendant intentionally interfered with the plaintiff's existing or potential economic relations, (2) for an improper purpose or by improper means, (3) causing injury to the plaintiff." (citations and alterations omitted)).

280 JX 256.

281 Tr. 988.

E. Counterclaim Counts IV and VIII: Interference with Prospective Economic Advantage

MWA also alleges that ECI, DGI, OMD, La Crosse and Tech AnyWare interfered with MWA's prospective economic advantage. To establish such a claim, MWA must show: (1) a reasonable probability of a business opportunity, (2) intentional interference by the defendant with that opportunity, (3) proximate causation, and (4) damages.[282] The tort of interference with prospective economic advantage "must be considered in light of a defendant's privilege to compete or protect his business interests in a fair and lawful manner."[283] MWA alleges that ECI and La Crosse intentionally interfered with MWA's relationship with Sharp and that ECI, DGI, OMD, and Tech AnyWare improperly interfered with MWA's relationship with Gordon Flesch.

For the same reasons stated above, I find that Tech AnyWare did not engage in any intentional tortious interference related to MWA's prospective business opportunities. Tech AnyWare was "privilege[d] to interfere within the limits of fair competition with prospective business opportunities."[284] It did so by promoting Remote Tech after it purchased that asset from DGI. MWA adduced no evidence that Davis or

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282 *DeBonaventura v. Nationwide Mut. Ins. Co.*, 428 A.2d 1151, 1153 (Del. 1981).

283 *Beard Research, Inc. v. Kates*, 8 A.3d 573, 608 (Del. Ch. 2010); *DeBonaventura v. Nationwide Mut. Ins. Co.*, 419 A.2d 942, 947 (Del. Super. 1980) ("The elements of [tortious interference with contract and tortious interference with prospective economic advantage] are similar but not identical, the principal distinction between them being the availability to the defendant of a privilege to interfere within the limits of fair competition with prospective business opportunities.").

284 *DeBonaventura*, 419 A.2d at 947.

Tech AnyWare interfered with MWA's business through conduct outside of the limits of fair competition. Thus, MWA failed to prove its claim against Tech AnyWare for tortious interference with prospective economic advantage.

With regard to ECI and DGI, MWA challenges their actions in relation to two customers: Sharp and Gordon Flesch. As to Sharp, MWA argues that ECI knew that MWA had a long-standing relationship with Sharp that created a reasonable business expectancy. MWA contends that, in violation of the Agreement, La Crosse assisted Sharp in developing its own remote service solution that integrates with NextGen and that Sharp ceased using MWA as a result.

I found in Part II.B.2.c *supra* that MWA had failed to prove that La Crosse breached the Agreement by allowing Sharp to create its own remote service solution. Similarly, MWA has not proven that MWA had a reasonable probability of a business opportunity with Sharp. The evidence indicates the parties anticipated that Sharp would create its own remote service solution, and that La Crosse and Sharp provided for that possibility in the license agreement they entered into before the Exclusive Agreement even came into being.[285]

Moreover, Plaintiffs demonstrated that one reason Sharp created its own remote service solution was because Sharp disliked the extent of redundancy between IS and

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[285] *See* JX 124 (May 20, 2010 letter from Alexander confirming that Sharp has the right to develop its own software applications under La Crosse and Sharp's April 10, 2006 software maintenance and license agreement).

NextGen.[286] MWA worked with Sharp to reduce redundancies, but Sharp still was not satisfied with the result.[287] Thus, I find that MWA has not proven by a preponderance of the evidence that Plaintiffs were the proximate cause of MWA losing Sharp's business. For these reasons, I will dismiss MWA's tortious interference with prospective economic advantage claim as to Sharp.

MWA's second argument is that ECI, DGI, and OMD knew of MWA's long-standing relationship with Gordon Flesch and knew that Gordon Flesch wanted to continue that relationship. MWA contends that ECI, DGI, and OMD improperly interfered with this relationship by engaging in a bad faith scheme to cut off MWA from e-automate 8.0, while promoting that backend system and thus Remote Tech, which integrated with it.

Plaintiffs counter that, before the ECI-DGI acquisition, Gordon Flesch already had decided to transition to e-automate 8.0 and to use Remote Tech as its frontend software. They support this allegation with evidence that, by the time Tech AnyWare purchased the Remote Tech business, Gordon Flesch had entered into an active contract with e-automate and acquired 250 Remote Tech licenses.[288] Thus, according to Plaintiffs, to prove its tort claim, MWA must demonstrate that, but for the wrongful conduct MWA

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286 *See* JX 123A.

287 *Id.*

288 *See* JX 268 at 69 (showing Gordon Flesch with 250 active Remote Tech licenses at the time of the asset purchase agreement between Tech AnyWare and DGI).

alleges, Gordon Flesch would have chosen to cancel its licenses with Remote Tech and to renew instead with MWA. Plaintiffs assert that MWA failed to meet that burden, because the record shows a market history of customers leaving IS for Remote Tech even when both products were integrated equally with earlier versions of e-automate than e-automate 8.0.

During the period that it was an active user of IS, Gordon Flesch maintained 275 IS licenses.[289] Thus, the fact that Gordon Flesch already had purchased 250 Remote Tech licenses by the time DGI sold Remote Tech to Tech AnyWare is strong evidence that, before ECI acquired DGI on September 15, 2011, Gordon Flesch already had decided to transition from IS to Remote Tech as its frontend software.

The evidence also indicates, however, that Gordon Flesch was not planning to make that transition immediately. As of December 2012, Gordon Flesch was on schedule to "go-live" with e-automate 8.0 at an unspecified future date.[290] The company also had indicated to DGI that it intended to continue using IS through the go-live date and then to transition to Remote Tech at a later time.[291] In fact, when it became apparent that IS might not be compatible with e-automate 8.0 by the go-live date, Gordon Flesch's CFO, Keith Breunig, accused the DGI team of "dropping the ball."[292]

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289 *See* JX 507.

290 *See* JX 352.

291 *See id.*

292 *Id.*

On December 20, 2011, Breunig asked Lon Price, the Senior VP of Sales and Marketing at DGI, "do you know if MWAi has been granted access to your enhancements for V 8.0? If not, what is the normal process for MWAi getting access to updates?"[293] Price responded, "MWAi has not been granted access to V8.0. . . . We propose that GFC Go-Live with Remote-Tech."[294] DGI indicated that it had no contractual obligation to integrate e-automate 8.0 with MWA and did not want to.[295] Gordon Flesch ultimately cancelled its MWA contract, including all 275 licenses to IS, on March 30, 2012.[296]

While MWA may not have had a reasonable probability of a long term business relationship with Gordon Flesch, the evidence shows that it did have a reasonable probability of continuing to serve Gordon Flesch for a reasonable transition period following the e-automate 8.0 go-live date. DGI intentionally interfered with this business expectancy by aiding and abetting OMD and La Crosse's breach of the non-compete provision or of the implied covenant of good faith and fair dealing by denying MWA the ability to integrate its frontend software with e-automate 8.0. These actions did not fall within the scope of DGI's privilege to compete or protect its business interests in a fair and lawful manner. As of September 15, 2011, DGI had divested its Remote Tech

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293 JX 364.

294 *Id.*

295 *See id.*

296 *See* JX 507.

product line to Tech AnyWare. DGI also was an Affiliate of OMD and La Crosse, and thus subject to the non-compete provision of their Agreement with MWA. DGI, therefore, was not entitled to foster the indirect marketing of Remote Tech or to advance its own financial interest in Remote Tech by denying MWA the ability to compete for frontend sales to e-automate 8.0 users.

By denying MWA the ability to integrate its frontend with e-automate 8.0, DGI proximately caused Gordon Flesch to cancel its licenses with IS and switch to Remote Tech sooner than it otherwise would have. Hence, MWA has suffered at least some damage due to the loss of the additional business it would have received from Gordon Flesch had its IS technology been integrated with e-automate 8.0. DGI is therefore liable for interfering with MWA's prospective economic advantage in that regard and for any resulting damages.

MWA has not adduced, however, any persuasive evidence linking OMD or ECI to DGI's tortious conduct pertaining to MWA's expectation of business from Gordon Flesch. Thus, I will dismiss MWA's claim against OMD and ECI for interference with prospective economic advantage.

F. Damages

MWA seeks an award of damages in compensation for Plaintiffs' wrongful conduct.[297] MWA has the burden of proving its damages by a preponderance of the

[297] Plaintiffs, by contrast, requested special relief in lieu of damages for MWA's breach of the Agreement's confidentiality provision, which was granted *supra* in Part II.A.2.

evidence.[298] Delaware does not "require certainty in the award of damages where a wrong has been proven and injury established."[299] Indeed, "[t]he quantum of proof required to establish the amount of damage is not as great as that required to establish the fact of damage."[300] Responsible estimates of damages that lack mathematical certainty are permissible so long as the court has a basis to make such estimates.[301] Furthermore, public policy has led Delaware courts to show a general willingness to make a wrongdoer "bear the risk of uncertainty of a damages calculation where the calculation cannot be mathematically proven."[302] Nevertheless, when acting as the fact finder, this Court may not set damages based on mere "speculation or conjecture" where a plaintiff fails adequately to prove damages.[303]

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[298] *Great Am. Opportunities, Inc. v. Cherrydale Fundraising, LLC*, 2010 WL 338219, at *22 (Del. Ch. Jan. 29, 2010).

[299] *Del. Express Shuttle, Inc. v. Older*, 2002 WL 31458243, at *15 (Del. Ch. Oct. 23, 2002) (quoting *Red Sail Easter Ltd. P'rs v. Radio City Music Hall Prods., Inc.*, 1992 WL 251380, at *7 (Del. Ch. Sept. 29, 1992)).

[300] *Total Care Physicians, P.A. v. O'Hara*, 2003 WL 21733023, at *3 (Del. Super. July 10, 2003).

[301] *Del. Express Shuttle*, 2002 WL 31458243, at *15 (quoting *Red Sail Easter*, 1992 WL 251380, at *7).

[302] *Great Am. Opportunities*, 2010 WL 338219, at *23 (citing *Duncan v. TheraTx, Inc.*, 775 A.2d 1019, 1023 (Del. 2001); *Henne v. Balick*, 146 A.2d 394, 396 (Del. 1958); *Gotham P'rs, L.P. v. Hallwood Realty P'rs, L.P.*, 855 A.2d 1059, 1067 (Del. Ch. 2003); *Dionisi v. DeCampli*, 1995 WL 398536, at *18 (Del. Ch. June 28, 1995)).

[303] *Medek v. Medek*, 2009 WL 2005365, at *12 n.78 (Del. Ch. July 1, 2009) (quoting *Henne*, 146 A.2d at 396).

In that regard, both parties presented damages experts to assist the Court in its calculation of damages. I have considered the reports and testimony of both Defendant MWA's expert, Laura Stamm, and Plaintiffs' expert, Philip Green. To avoid adding further to this already lengthy opinion, however, I have not attempted to address each of the numerous points of disagreement between the damages experts.

MWA calculated its damages based on the assumption that, once ECI acquired DGI, MWA's contractual right of first negotiation was triggered with respect to e-automate.[304] MWA posits that, if that right of first negotiation had been honored, negotiations would have resulted in MWA obtaining an exclusive license to integrate and provide frontend products for use in connection with e-automate. MWA claims additional damages resulting from ECI's purchase and marketing of FMAudit, as well as from the assistance La Crosse provided to Sharp in developing its own frontend software. In total, MWA estimates the present value of its lost profits, and hence its damages, at $24,199,526.[305]

In response, Plaintiffs assert that MWA's estimates of its lost profits stem almost entirely from the erroneous assumption that MWA had a right of first negotiation with respect to e-automate, and that MWA's damages claim must fail if the Court rejects that assumption. Plaintiffs also allege that MWA's damages calculation suffers from numerous methodological errors and relies on a number of unreasonable assumptions,

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[304] *See* JX-529, Expert Report of Laura Stamm ("Stamm Rpt."), ¶¶ 21-22.

[305] *Id.* App. B, Ex. 1.

including that a right of first negotiation as to e-automate would have resulted in MWA obtaining an exclusive and perpetual license.[306] Lastly, Plaintiffs contend that, even if MWA succeeds in demonstrating that it suffered lost profits, Section 6.3 of the Agreement bars MWA from recovering those damages, thus precluding any award of damages in its favor.

1. The "but-for" world

The remedy for a breach of contract is intended to give the non-breaching party the benefit of the bargain by putting that party in the position it would have occupied but for the breach.[307] In assessing damages for breach of contract and related claims, it is therefore important to consider how the positions of the parties would differ in the "but-for" world – *i.e.*, the hypothetical world that would exist if the Agreement had been fully performed.

MWA's expert crafted her but-for world on the assumption that MWA had a contractual right of first negotiation as to e-automate 8.0.[308] In Stamm's report, she asserts that if this right had been honored by the ECI parties, the negotiations would have been successful and MWA would have obtained an exclusive, perpetual right to provide the frontend software for e-automate 8.0.[309] Stamm further posits that all current Remote

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306 *See* Pl.'s Answering Post-Trial Br. 39-41; JX-532, Rebuttal Expert Report of Philip Green ("Green Rpt.").

307 *Cenencor Int'l, Inc. v. Novo Nordisk A/S*, 766 A.2d 8, 11 (Del. 2000).

308 *See* Stamm Rpt. ¶¶ 21-22.

309 *See id.* ¶ 22.

Tech users would have switched to IS within two years of ECI's September 2011 acquisition of DGI.[310]

The MWA expert's opinion, therefore, rests primarily on the flawed assumption that MWA had a right of first negotiation as to e-automate 8.0. As discussed in Part II.B.3 *supra*, I find that MWA did not have a right of first negotiation as to e-automate because it was not a backend system that OMD or La Crosse had "licensed or acquired." In its post-trial answering brief, MWA contends that its damages calculation does not depend entirely on a finding that MWA had a right of first negotiation. Instead, MWA also argues that it would have obtained an exclusive, perpetual license to provide the frontend software for e-automate if OMD, La Crosse, and their Affiliates had complied with their non-compete obligations. Specifically, MWA asserts that the non-compete provision precluded the ECI parties from selling Remote Tech to the "sham entity" Tech AnyWare and that DGI would not have been able to locate another buyer. Thus, according to MWA, DGI's only profitable option would have been to negotiate an exclusive license with MWA.

I find unpersuasive MWA's alternative theory for how the ECI parties' compliance with their obligations would have resulted in MWA obtaining an exclusive, perpetual license. The sale of Remote Tech to Tech AnyWare on the terms that were agreed on did not, in and of itself, result in a breach of the Agreement. Moreover, even if DGI could not have sold Remote Tech to Tech AnyWare without breaching the

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[310] *See id.* ¶¶ 27-30.

Agreement, MWA has not shown that ECI and DGI could not have found an alternative buyer for Remote Tech. In that regard, I note that Remote Tech was a lucrative frontend product that accounted for nearly twenty-five percent of DGI's profits at the time of its sale to Tech AnyWare.[311]

Unquestionably, the last minute sale of Remote Tech to Davis's Tech AnyWare for 95% of the future EBITDA attributable to Remote Tech had the trappings of an insider deal. Nonetheless, I found in Part II.B.2.a that Tech AnyWare is owned and managed independently by Davis, and is not a mere "sham entity" or puppet under the control of DGI. Furthermore, the involvement of Tech AnyWare did not make a breach of the non-compete provision inevitable; rather, two other actions by ECI and DGI did. First, Phillips, and those associated with the "old" DGI, had a financial interest in the success of Remote Tech. Yet, the ECI parties put Phillips in charge of the OE Division and the post-merger DGI and did nothing to protect against the predictable breach of the Agreement's non-compete provision that resulted. And, second, the ECI parties not only engaged in an active and intentional effort to encourage sales of Remote Tech, but also denied MWA the ability to integrate with e-automate 8.0, thus preventing MWA from competing for those sales on an equal footing.

In the but-for world that would exist absent Plaintiffs' breach, therefore, ECI still would own DGI and e-automate, and Tech AnyWare would own Remote Tech. OMD, La Crosse, and their Affiliates, however, would have complied scrupulously with the

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[311] Tr. 143-44 (Phillips).

non-compete provision of the Agreement. They would have done this by taking appropriate measures to safeguard against Phillips' and DGI's conflict of interest and to respect MWA's rights under the Exclusive Agreement. This would have included establishing a more arm's length relationship with Tech AnyWare and ensuring that OMD, La Crosse, and their Affiliates did not even indirectly "market" or promote Remote Tech.[312] In addition, in the but-for world, the ECI parties would have permitted MWA to integrate the Licensed Software and, by extension, IS, with e-automate 8.0.

2. Applicability of the limitation on liability

Before calculating damages, I consider, as a threshold matter, the applicability of the limitation of liability provision of the Agreement, Section 6.3, to any award of damages in this case. That provision asserts that, except for violations of the confidentiality terms of the Agreement or of another party's Intellectual Property Rights, no party shall be liable to the other parties for any "special, incidental, indirect, statutory or consequential damages (including lost revenue or profits)" arising out of or related to that party's breach of the Agreement.[313] Section 6.3 also specifies that, subject to the same exceptions regarding confidentiality and Intellectual Property Rights, each party's "maximum cumulative liability arising from or related to the agreement for any cause whatsoever . . . whether based in contract, tort or any other legal theory, shall not exceed

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[312] That is, while DGI could have retained its 95% interest in EBITDA attributable to Remote Tech, it could not have shown any preference for Remote Tech in the marketplace.

[313] JX 34 § 6.3. In the Agreement, this provision appears in all capital letters.

the aggregate fees paid by MWAi to OMD and La Crosse pursuant to this Agreement [*i.e.*, $950,000].”[314] The Agreement defines Intellectual Property Rights to include all rights in or arising out of patents, inventions, trade secrets, proprietary information, copyrights, and “any other proprietary rights anywhere in the world.”[315]

Plaintiffs contend that MWA’s breach of contract claim against OMD and La Crosse falls within the limitation of liability provision because it arises out of OMD and La Crosse’s alleged breach of the Agreement and because neither of the two exceptions applies. Plaintiffs further assert that MWA’s alleged lost profit damages are consequential damages, and, therefore, are barred by the limitation on liability.

In response, MWA argues that the limitation on liability should not apply to its claim against OMD and La Crosse for three reasons. First, MWA asserts that its claim arises from either a violation of its Intellectual Property Rights or a breach of the article on confidentiality. Second, MWA contends that a limitation on liability cannot shield a party from liability arising from bad faith conduct. Lastly, MWA urges this Court to set aside the limitation on liability provision because it has failed of its essential purpose.

Having reviewed the record and considered the arguments on both sides, I conclude that MWA’s breach of contract claim against OMD and La Crosse falls under the express terms of the limitation on liability provision and is subject to neither of its two exceptions. MWA’s claim is brought against its two contractual counterparties and

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314 *Id.*

315 JX 34 § 1.9.

arises out of a breach of the non-compete provision of the Agreement. I have found no breach of confidentiality on the part of OMD or La Crosse, and their breach of the non-compete provision cannot reasonably be described as a violation of MWA's Intellectual Property Rights, even given that term's broad definition under the Agreement. MWA's right to sell the Licensed Software free from competition was a *contractual* right, not a *proprietary* right. Moreover, the mere fact that MWA's claim involves licensed intellectual property does not bring it within the exception. If it did, then nearly any claim brought under the Agreement would fall under the exception as well, thus causing the exception to swallow the rule.

I also am unconvinced by MWA's argument that the limitation on liability should be held invalid due to Plaintiffs' bad faith. Under Delaware law, limitation on liability clauses that preclude various types of damages, such as consequential damages, are typically enforceable.[316] Moreover, there does not appear to be any Delaware precedent for striking a limitation on contractual liability because of a party's willful or bad faith breach of the contract.[317] Most of the cases cited by MWA to suggest that a limitation on

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316 *See Eisenmann Corp. v. Gen. Motors Corp.*, 2000 WL 140781, at *22 (Del. Super. Jan. 28, 2000) (enforcing a limitation of liability provision stating that "neither party shall be liable to the other for consequential damages whatsoever and/or lost profit"); *Yellow Book USA v. Sullivan*, 2003 WL 1848650, at *7 (Del. Com. Pl. Feb. 20, 2003) (upholding a limitation of liability clause).

317 The primary case relied on by MWA for the principle that a showing of fault or bad faith alone will invalidate a limitation on liability is *J.A. Jones Construction Co. v. City of Dover*, 372 A.2d 540, 547 (Del. Super. 1977). There, despite a contractual limitation on liability for delays, the court denied summary judgment on breach of contract and tort claims arising from the city's allegedly unreasonable

liability will be set aside due to willful misconduct or bad faith involved contractual provisions that purported to limit *tort* liability, which is liability arising from breach of a duty that does not arise under contract.[318] With respect to limitations on contractual liability, freedom of contract would suggest that parties to a contract should be entitled to draft agreements so as to avoid certain of the duties and liabilities that are normally part of a contractual relationship.[319] Had the parties desired to carve out an exception to the Agreement's limitation of liability provision for instances of bad faith or willful breach, they could have done so, but they did not. For this reason, and because of the sophisticated nature of the parties, I find that, even if Plaintiffs breached the Agreement in bad faith, that would not absolve MWA from the consequences of the limitation on liability provision to which it agreed.

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delay in connection with a construction contract. That case is distinguishable, however, because there the court interpreted the contract itself as limiting liability only in the case of reasonable delays. I also note that most jurisdictions require a showing of substantive or procedural *unconscionability* before they will invalidate a limitation on contractual liability. 24 Williston on Contracts § 65:6 (4th ed.). Unconscionability has not been alleged or shown in this case.

318 *See, e.g.*, *Data Mgmt. Internationale, Inc. v. Saraga*, 2007 WL 2142848 (Del. Super. July 25, 2007) (holding that an exculpatory clause in a contract would not exonerate a party from liability for the intentional tort of conversion).

319 Delaware has a strong presumption in favor of freedom of contract. *See Benihana of Tokyo, Inc. v. Benihana, Inc.*, 891 A.2d 150, 172 (Del. Ch. 2005), *aff'd*, 906 A.2d 114 (Del. 2006) (recognizing the "fundamental principle that parties should have the freedom to contract and that their contracts should not easily be invalidated").

Lastly, MWA's argument that the limitation on liability fails of its essential purpose and, therefore, should be set aside is unpersuasive. The "fails of its essential purpose" standard applies in cases decided under Section 2-719 of Title 5A of the Delaware Code, Delaware's version of the Uniform Commercial Code.[320] The contract at issue in this case, however, is a license agreement, not a contract for the sale of goods. Section 2-719 is therefore inapplicable.

For the foregoing reasons, I conclude that the limitation on liability provision applies to MWA's breach of contract claim against OMD and La Crosse. I consider *infra* the consequences of this conclusion on MWA's ability to recover lost profit damages from OMD and La Crosse based on their breach of the non-compete provision.

The limitation on liability section does not apply to MWA's tort claims against ECI and DGI because they were not parties to the Exclusive Agreement.

3. Damages calculations

MWA claims lost profit damages arising from seven different sources because of Plaintiffs' wrongful conduct: (1) Remote Tech customers as of the time of DGI's acquisition of ECI who would have become IS users; (2) IS users who switched to Remote Tech after the acquisition; (3) new users of e-automate 8.0 that would have

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320 Section 2-719(2) provides that "[w]here circumstances cause an exclusive or limited remedy to fail of its essential purpose, remedy may be had as provided in this title." *See, e.g.*, *Beal v. Gen. Motors Corp.*, 354 F. Supp. 423 (D. Del. 1973) (applying this standard to a contract for the purchase of a truck); *Delmarva Power & Light Co. v. ABB Power T&D Co.*, 2002 WL 840564 (Del. Super. Apr. 30, 2002) (applying this standard to a contract for the purchase of equipment).

become IS users; (4) lost cross-sales of IDM (MWA's frontend, device management software); (5) lost cross-sales of iGPS (a GPS tracking service that enables dealers to view customer and technician locations); (6) lost profits after 2013; and (7) lost profits due to the loss of business from Sharp.

I have determined that the limited assistance La Crosse provided to Sharp in its development of proprietary remote service software for its own internal use was not a violation of the Agreement's non-compete provision. As such, I deny the damages that MWA claims are attributable to the lost revenue from Sharp.

I also deny all of MWA's claimed damages for lost profits after 2013. I have determined that the Agreement between MWA, OMD, and La Crosse validly was terminated by OMD and La Crosse on April 26, 2012, in response to MWA's material breach of the confidentiality provisions. After that date, therefore, the ECI parties had no duty to avoid competing with MWA's frontend software or to ensure its integration with future versions of e-automate. To the contrary, after termination of the Agreement, the ECI parties could have reacquired Tech AnyWare from Remote Tech, strongly encouraged their customers to purchase only Remote Tech as frontend software, and denied MWA the ability to integrate with later versions of e-automate. Under those circumstances, it is more likely than not that any new IS users MWA might have gained in the hypothetical "but-for" world because of the integration of IS with e-automate 8.0 eventually would switch to Tech AnyWare to ensure that their frontend software would remain compatible with future versions of e-automate and would be supported by DGI. Due to inertia, this transition would not be immediate, but could be expected both to take place before release of the next version of e-automate and to have a negative effect on MWA's sales of IS well before that.[321] Based on the evidence presented, I find that any claim by MWA for lost profits for the period after the end of calendar year 2012 is merely speculative; therefore, I do not award MWA any damages for the period after December 31, 2012.

In the following sections, I consider what portion of MWA's alleged damages from the remaining five categories should be awarded for each claim.

a. Breach of the non-compete provision

As previously discussed, MWA's claim for breach of contract against OMD and La Crosse is subject to the Agreement's limitation on liability. There remains, however, the question of whether the limitation on liability precludes MWA from recovering any damages for lost profits from OMD and La Crosse. In significant part, the limitation on liability precludes a party to the Agreement from recovering, on any breach of contract claim, "any special, incidental, indirect, statutory or consequential damages (including lost revenue or profits)" from another contracting party.[322] The issue here is whether the limitation on "consequential damages" effectively bars MWA from recovering any damages whatsoever.

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[321] The record supports the inference that new versions of e-automate were released approximately every two years. *See* Tr. 831-32 (Ames) (testifying that IS integrated with e-automate version 7.6.1 and partially with version 7.6.5); Tr. 751 (Stramaglio) (testifying that IS first integrated with e-automate sometime in 2008 or 2009).

[322] JX 34 § 6.3.

Black's Law Dictionary defines consequential damages as "losses that do not flow directly and immediately from an injurious act but that result indirectly from the act."[323] As to when lost profits are considered consequential damages, I accept the Second Circuit's cogent explanation in *Tractebel Energy Marketing v. AEP Power Marketing*.[324] There, the court held that lost profits are considered consequential damages when "as a result of the breach, the non-breaching party suffers loss of profits on collateral business arrangements."[325] By contrast, lost profits are not considered consequential damages when "profits are precisely what the non-breaching party bargained for, and only an award of damages equal to lost profits will put the non-breaching party in the same position he would have occupied had the contract been performed."[326]

With respect to a non-compete provision or agreement, I conclude that the profits of the product line or business that is being protected from competition constitute the benefit for which the protected party bargained. Furthermore, lost profits on the part of the non-breaching party are the direct and natural consequence of breaching a non-

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323 (9th ed. 2009).

324 487 F.3d 89 (2d Cir. 2007).

325 *Id.* at 109.

326 *Id.* at 109-10. The court applied this principle in the context of a contract dispute in which the non-breaching party lost profits due to the contractual counterparty's failure to pay what he owed under the contract. Here, the non-compete provision constituted an important part of what MWA bargained for – *i.e.*, assurance that its IS software would enjoy a strong competitive position. The reasoning of *Tractebel*, therefore, would extend to MWA's lost profits related to IS.

compete provision. The language of the limitation on liability provision in question here suggests that the parties did not intend to preclude direct damages.

Because lost profits are the type of damage most likely to result from a breach of a non-compete provision, I consider lost profits to be in the nature of direct damages in this case. Lost profits due to the loss of sales of IS represent losses that flow directly and immediately from OMD's and La Crosse's injurious acts. Under the reasoning of the *Tractebel* case, therefore, they are not "consequential" damages. Hence, I do not construe the limitation of liability provision in Section 6.3 of the Agreement, which precludes any incidental, indirect, or consequential damages, as encompassing MWA's lost profits with respect to IS, caused by OMD and La Crosse's breach of the non-compete provision. Any other interpretation would be unreasonable, in my view.

I therefore will allow MWA to recover on its breach of contract claim against OMD and La Crosse the lost profits attributable to lost sales of IS. MWA may not recover on this claim, however, its alleged lost profits owing to lost cross-sales of IDM or iGPS. Those collateral products were not protected from competition under the Agreement and any lost profits with respect to those products rightly can be considered consequential damages. That is, lost profits on sales of IDM or iGPS would result only indirectly from the alleged injurious act and represent profits on collateral business arrangements.

With respect to lost customers, MWA claims that ten of its IS customers terminated their contracts with MWA shortly after ECI's acquisition of DGI and the release of e-automate 8.0. MWA alleges that this occurred because IS was not able to integrate with e-automate 8.0. Two of the ten customers in this group, the Sumner Group and Woodhull, cancelled their contracts with MWA after termination of the Exclusive Agreement in April 2012. Thus, I do not consider any lost revenues from those customers to be part of MWA's damages. For the remaining eight customers, I find the record supports the inference that they would have continued using IS until approximately the end of 2012, but for the fact that the ECI parties steered those customers toward Tech AnyWare and denied MWA the ability to integrate with e-automate 8.0. Most of these customers were longtime users of MWA software.[327] Although six of the eight relevant customers already had purchased licenses in Remote Tech before the DGI acquisition,[328] I find, as I did with respect to Gordon Flesch, that these customers would have retained IS for a reasonable transition period following the release of e-automate 8.0, but for the fact that IS was incompatible. I therefore award MWA lost profits for those customers for the months between the date of each customer's cancellation and the end of 2012.

For this calculation, I assume that revenues from each customer ceased beginning the month after that customer provided notification of cancellation, unless cancellation occurred on the first of the month. Thus, the total lost revenues from MWA's lost

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327 The ten customers who left MWA for Remote Tech following the release of e-automate 8.0 had been with MWA for an average of 6.3 years, with five of the ten having been with the company for at least 9 years. *See* Stamm Rpt., App. B, Ex. 6.

328 *See* Tr. 965 (Davis); JX 268.

customers amounts to: $160,320.39.[329] Assuming a 35% profit margin,[330] this amounts to $56,112.14 in lost profits.

For the other two categories of lost profits that MWA claims as to IS, MWA calculated damages on the assumption that, in the but-for world, it would have had an exclusive license to provide the frontend software for e-automate 8.0. MWA posits that, as a result of this license, 10% of previous users of Remote Tech would have switched immediately to IS on the date of the DGI acquisition, with all remaining prior users of Remote Tech switching to IS within two years. MWA further assumed that all the new customers that Remote Tech gained following the DGI acquisition would have become new users of IS instead. For the customers who would have transitioned to IS from Remote Tech and for all new IS customers, MWA claims that, because it would have

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329 *See* Stamm Rpt., App. B, Ex. 8.

330 Plaintiffs' expert, Green, conducted a regression analysis of MWA's past financial statements and determined that MWA's incremental costs could be expected to constitute 72% of its sales, implying a profit margin of only 28%. *See* Green Rpt. 16-17, Ex. D. By contrast, MWA's expert, Stamm, used account analysis methodology to estimate MWA's profit margin. *See* Stamm Rpt. ¶¶ 43-46, App. B, Ex. 7. Her review consisted of "gaining an understanding of the nature of each individual expense line item and how it would be expected to change with changes in revenue, as well as an analysis of how each expense has historically changed with revenue." *Id.* ¶ 44. Based on her analysis, Stamm estimated that MWA's margin of profit on its lost revenues would have been 41%. *Id.* ¶ 46. I find that individualized account analysis can give an expert insight into a company's incremental costs beyond what a pure regression analysis can provide. On the other hand, I also credit Green's criticism that account analysis methodology leaves room for subjectivity and bias, two elements that are absent from a pure regression analysis. Having considered these factors and reviewed the expert opinions of both sides in detail, I conclude that 35% is a reasonable estimate of MWA's profit margin on its alleged lost revenues.

faced minimal competition as the exclusive frontend supplier for e-automate, it could have charged a higher price of $44 per license rather than $34 per license, which is the average price MWA charged during the period from December 2007 to August 2012.[331]

As discussed *supra*, however, the ECI parties' compliance with their contractual obligations would not have resulted in MWA obtaining an exclusive license with respect to e-automate. Rather, MWA would have been permitted to integrate IS with e-automate 8.0 and to compete with Remote Tech for frontend sales without interference from the ECI parties. I therefore reject MWA's claim that it could have charged prices for IS beyond its average price of $34 per license, and I reduce its claimed lost revenues proportionately. Furthermore, because MWA's integration with e-automate 8.0 would have been nonexclusive, and it therefore would have competed with Remote Tech in the market, further discounting of MWA's alleged lost profits is appropriate to account for the fact that MWA would not have captured all the potential frontend business from users of e-automate.

Remote Tech and IS are the two main competitors in the frontend software market.[332] Market evidence from before ECI's acquisition of DGI, however, suggests that Remote Tech enjoyed substantially more success. Remote Tech was one third as expensive as IS, and the competition from Remote Tech had caused MWA to suffer

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331 *See* Stamm Rpt. ¶ 30, App. B, Ex. 4.

332 At trial, limited evidence was adduced regarding the existence of another frontend software competitor, but its effect on the market appears to have been *de minimis*. *See* Tr. 974-76 (Davis).

substantial losses in the years leading up to ECI's acquisition of DGI. Thus, in a state of fair competition between IS and Remote Tech, I estimate that MWA's IS probably would not have achieved more than a 30% share of the frontend software market. To compute MWA's lost profits from new users of e-automate 8.0, therefore, I apply a 70% discount to the revenues figures for the relevant periods, reflected in Exhibit 2 to Stamm's report, to account for an estimated capture rate of only 30%.

For MWA's claimed lost profits from users of Remote Tech at the time of the DGI acquisition that it alleges would have converted to IS, I similarly assume that only 30% of those users eventually would have transitioned to IS,[333] rather than 100%, as MWA claims. Due to inertia, that transition would have occurred gradually, but I find that MWA's projection of a two-year transition period properly accounts for this. Thus, discounting MWA's estimate of lost profits from this category of damages by 70% also appears to be appropriate.

For the foregoing reasons, I reduced MWA's claimed lost revenues for the relevant period to account for competitive pricing and the fact that it would not be an exclusive supplier of frontend systems for e-automate 8.0. Applying these modifications,

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333 The ECI parties assert that there is market history of customers leaving IS for Remote Tech, but no evidence of the opposite occurring, even when both products were integrated equally with earlier versions of e-automate. This one-way migration occurred, however, during a time when DGI controlled an integrated system of e-automate and Remote Tech. In the but-for world relevant here, the ECI parties would have controlled only e-automate, and Remote Tech would have been exposed to open competition. In that new environment, it is reasonably likely that IS would have fared better against Remote Tech than it had in previous years.

I award MWA damages from lost sales of IS through the end of 2012, assuming, as above, a profit margin of 35%. This results in $134,325.73 in additional damages.

Thus, I hold OMD and La Crosse jointly and severally liable for a total of $190,437.87 to be paid to MWA.

b. Tort claims

I next consider the damages that MWA incurred due to ECI and DGI's tortious interference with contract, and DGI's tortious interference with prospective economic advantage.

"The traditional measure of damages is that which is utilized in connection with an award of compensatory damages, whose purpose is to compensate a plaintiff for its proven, actual loss caused by the defendant's wrongful conduct."[334] In contract, the remedy is calculated to compensate the non-breaching party for the loss of the benefits of its bargain (*i.e.*, the benefit it would have received had the contract been performed). In tort, the remedy is calculated to make the injured party whole, by compensating it for the harm suffered due to the tortfeasor's wrongful act. In a tortious interference with contract case, these two measures of damages might coincide, as the harm suffered by the tort victim due to the tortfeasor's wrongful act is often the loss of the benefits of its bargain.

To a large extent, that is the case here, as MWA's loss of the benefits of its Agreement with OMD and La Crosse was the foreseeable and natural consequence of

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[334] *Strassburger v. Earley*, 752 A.2d 557, 579 (Del. Ch. 2000).

ECI and DGI's tortious interference with that contract. I therefore hold ECI and DGI jointly and severally liable for the damages that I awarded to MWA for OMD and La Crosse's breach of contract, namely, $190,437.87.

Because ECI and DGI are not parties to the Exclusive Agreement, however, they are not protected by its limitation on liability. Thus, there remains the possibility that ECI and DGI may be liable for consequential damages caused by OMD and La Crosse's breach. In this case, that would be the damages for lost cross-sales of IDM and iGPS, which damages MWA cannot recover from OMD and La Crosse directly. Having considered that possibility in the context of assuming that ECI and DGI are liable for any consequential damages resulting from OMD and La Crosse's breach of contract, I conclude that MWA has failed to meet its burden of proving the existence of additional damages related to IDM and iGPS.

Regarding the damages MWA claimed based on cross-sales of IDM and iGPS, I first note that neither of these products is included in, or contemplated by the terms of, the Exclusive Agreement. In addition, MWA's expert, Stamm, assumed a but-for world where MWA enjoyed an exclusive licensee position as to e-automate in perpetuity. The but-for world that I have concluded applies is much different. In that world, MWA would not enjoy an exclusive position and the time horizon would be only approximately fifteen months.

As to the IDM product, it serves what Stamm described as "the growing market for Managed Print Services (MPS)."[335] The market leader in this area is FMAudit with 75% of the market. Stamm assumed that the sales efforts that had been directed by ECI toward FMAudit would be redirected to IDM, but that assumption conflicts with my rejection of MWA's claims as to FMAudit in this Opinion. Stamm also mentions the fact that MWA received a patent relevant to the IDM area in March 2011, which it believed would provide it with a significant strategic advantage. Similarly, she relied on favorable cooperation between MWA and companies like Samsung (announced in April 2012) and Intel. Based on this and other information, Stamm "assumed that MWAi will be able to license IDM to 50% of all new IS customers."[336] In calculating lost revenues from cross-sales of IDM, Stamm also assumed that MWA would acquire a specific number of dealers as customers each month in perpetuity, that each dealer would have an average of 24 technicians, and that each technician would be responsible for 342 devices, for which a one-time fee of $9 per device would be charged. Because the relevant time period under the Court's but-for world ends in December 2012, and Stamm offered virtually no hard numbers in terms of the sales correlation between IS and IDM before the relevant period, I consider the evidence offered by MWA as to IDM to be too speculative to enable this Court to make a responsible estimate of damages to MWA due to the loss of potential cross-sales of IDM.

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335 Stamm Rpt. ¶ 37.

336 *Id*. ¶ 40.

iGPS was not introduced until July 2011, three and a half years after the parties entered into the Exclusive Agreement. Using the same mistaken but-for world, Stamm assumed that 10% of lost IS customers would license iGPS. As with IDM, however, she provided no analytical support for that assumption, such as an analysis of MWA's actual attachment rate for iGPS in relation to IS. For these and the other reasons mentioned in the discussion of IDM, I conclude that MWA has not met its burden to prove by a preponderance of the evidence the nature and extent of any damages it suffered in terms of lost sales of iGPS.

As to MWA's claim for tortious interference with prospective economic advantage against DGI, I award damages equal to MWA's lost profits caused by the premature loss of business from Gordon Flesch. That amount is a subset of the damages for the loss of IS customers that I calculated for MWA's breach of contract claim. Calculating damages in the same manner here as I did there, I find that the damages attributable to the loss of business from Gordon Flesch are $40,138.40 of the $190,437.87 that I awarded to MWA for OMD's and La Crosse's breach of contract. DGI is liable to MWA for that amount based on its tortious interference with prospective economic advantage. These damages, however, already are included in those that I awarded for DGI and ECI's tortious interference with contract. This claim, therefore, does not result in any additional monetary liability for DGI.

G. Attorneys' Fees

Both Plaintiffs and Defendant have requested an award of attorneys' fees in their favor. Delaware follows the American Rule, under which each party must bear its own litigation expenses, including attorneys' fees, absent certain exceptions that warrant a shifting of such fees.[337]

One exception to this rule is that a court may award attorneys' fees if the parties have agreed by contract to shift the costs and expenses of litigation.[338] This is the sole exception invoked by both sides in their requests for attorneys' fees. It applies here, as Section 9.12 of the Exclusive Agreement between OMD, La Crosse, and MWA specifies that "[i]n the case of any litigation or other action or proceeding arising out of this Agreement or the transactions contemplated hereby the non-prevailing party shall pay and be solely responsible for the reasonable out-of-pocket expenses, including reasonable legal fees, expenses and disbursements . . . incurred by the prevailing party."[339]

In this action, however, neither Plaintiffs nor Defendant qualifies as "the prevailing party." Each of the three parties to the Agreement—OMD , La Crosse, and MWA—successfully prevailed on one or more of the material claims at issue in this case. Yet, each of OMD, La Crosse, and MWA also has been found to have materially breached the Agreement and to owe some form of meaningful relief to its contractual counterparty. The likely purpose of Section 9.12 was to protect innocent parties under

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337 *FGC Hldgs. Ltd. v. Teltronics, Inc.*, 2007 WL 241384, at *5 (Del. Ch. Jan. 22, 2007).

338 *Jackson's Ridge Homeowners Ass'n v. May*, 2008 WL 241617, at *1 n.3 (Del. Ch. Jan. 23, 2008); *see also Scion Breckenridge Managing Member, LLC v. ASB Allegiance Real Estate Fund*, – A.3d –, 2013 WL 1914714 (Del. May 9, 2013).

339 JX 34.

the contract from the costs of spurious litigation. Here, each party to the contract advanced at least one successful claim against one of its counterparties. In these circumstances, I conclude that none of those parties can be said to qualify as "the prevailing party" under the Agreement. I therefore deny Plaintiffs' and Defendant's requests to be awarded attorneys' fees.

H. Costs

Court of Chancery Rule 54(d) creates another, more limited exception to the general American Rule whereby costs "shall be allowed as of course to the prevailing party unless the court otherwise directs."[340] Under Rule 54(d), the "prevailing" party is a party who successfully prevails on the merits of the main issue or the party who prevailed on *most* of her claims.[341] Courts interpret the term "prevailing" to mean that a party need not be successful on all claims, but rather must succeed on a general majority of claims.[342]

For similar reasons to those articulated in the previous section, I find that OMD, La Crosse, and MWA do not qualify as "prevailing" parties for purposes of Rule 54(d). I also find that ECI and DGI are not prevailing parties, given their significant tort liability.

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340 For the purposes of Rule 54(d), costs include "expenses necessarily incurred in the assertion of a right in court, such as court filing fees, fees associated with service of process or costs covered by statute. . . . [I]tems such as computerized legal research, transcripts, or photocopying are not recoverable." *See FGC Hldgs. Ltd. v. Teltronics, Inc.*, 2007 WL 241384, at *17 (Del. Ch. Jan. 22, 2007).

341 *See id.*; *Brandin v. Gottlieb*, 2000 WL 1005954, at *27 (Del. Ch. July 13, 2000).

342 *See FGC Hldgs.*, 2007 WL 241384, at *17.

The only parties who unambiguously prevailed on the claims that were asserted against them are FMAudit and Tech AnyWare. Pursuant to Rule 54(d), therefore, I award costs to FMAudit and Tech AnyWare, to be paid by MWA.[343] All other parties shall bear their own costs.

III. CONCLUSION

For the foregoing reasons, I have reached the following conclusions in this matter.

Plaintiffs' Complaint consists of three counts. Count I asserts that MWA breached the terms of its Exclusive Agreement with OMD and La Crosse. Count II claims that Plaintiffs are entitled to a declaratory judgment to this effect and further asserts that MWA is required to specifically perform its obligations under the termination provision of the Agreement. As to Counts I and II, I rule in Plaintiffs' favor. I therefore declare that MWA materially breached the confidentiality provisions of the Exclusive Agreement and that, on that basis, Plaintiffs properly terminated the Agreement as of April 26, 2012. I further adjudge that MWA must comply with the requirements of Article IV, regarding the term and termination of the Agreement, and Article V, regarding confidentiality. In particular, MWA: (1) must specifically perform and comply with the confidentiality provisions of the Agreement; (2) is enjoined from breaching the confidentiality provisions in the future; and (3) must specifically perform and comply with its termination obligations under Section 4.3 of the Agreement.

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[343] MWA shall be required to pay only those costs unique to FMAudit and Tech AnyWare plus those parties' portion of any costs that were shared among Plaintiffs.

Count III states that Plaintiffs are entitled to a declaratory judgment that Plaintiffs have neither breached the Agreement nor tortiously interfered with the Agreement or any prospective economic advantage of MWA. To the extent that I find in favor of MWA on its Counterclaims, discussed below, I will enter judgment in favor of MWA on Count III. To the extent that I find in favor of one or more Plaintiffs on MWA's Counterclaims, I will enter judgment in favor of those Plaintiffs on the affected portions of Count III.

As to MWA's Counterclaims, Count I asserts claims against OMD and La Crosse for breach of Sections 2.1.2, 2.1.3, 2.1.4, and 2.2.5 of the Agreement, which deal with compatability, non-competition, and MWA's claimed right of first negotiation, among other things. Judgment will be entered in favor of OMD and La Crosse and against MWA on MWA's allegations of breach of their obligations as to compatibility (Sections 2.1.2 and 2.2.5) and as to the right of first refusal to negotiate (Section 2.1.3). There were many facets to MWA's claims for breach of the non-compete provision of the Agreement. To the extent MWA asserted such a claim against Plaintiffs Tech AnyWare and FMAudit, judgment will be entered in favor of those two Plaintiffs and against MWA. I also find that MWA failed to prove its claim for breach of the non-compete with respect to La Crosse's provision of stored procedures for NextGen to Sharp. I further hold that OMD and La Crosse breached the non-compete provision of the Agreement by indirectly marketing, and failing to cause their Affiliates not to indirectly market, the Remote Tech frontend system in competition with MWA. Thus, judgment will be entered in favor of MWA and against OMD and La Crosse on that aspect of MWA's Counterclaim.

On Count II of the Counterclaim, which asserts a claim for breach of the implied covenant of good faith and fair dealing, I find in favor of MWA, but only in the alternative. That is, if my conclusion that OMD and La Crosse breached the non-compete provision of the Agreement because they or their Affiliates indirectly marketed Remote Tech is upheld, MWA's claim for breach of the implied covenant will be moot. Otherwise, I intend my entry of judgment against Plaintiffs OMD and La Crosse on Count II of the Counterclaim to govern.

Regarding Counterclaims III and VII for tortious interference with contract, MWA proved its claims against Plaintiffs ECI and DGI, but not against Plaintiff Tech AnyWare. Accordingly, I will enter judgment in favor of MWA and against ECI on Counterclaim III and in favor of MWA and against DGI on Counterclaim VII, and I will dismiss Counterclaim VII against Tech AnyWare.

As to MWA's Counterclaim Counts IV and VIII for tortious interference with prospective economic advantage, Tech AnyWare is entitled to judgment in its favor and against MWA on Count VIII. I also will dismiss MWA's tortious interference with prospective economic advantage claim as it relates to dealings with Sharp. In terms of MWA's tortious interference claim regarding its former customer Gordon Flesch, I find that DGI is liable to MWA under Count VIII for interfering with that prospective relationship for a limited period of time around when Gordon Flesch expected to "go live" with the e-automate 8.0 backend system. MWA failed to prove its claim in Count IV against ECI and that aspect of the Counterclaim will be dismissed.

I will dismiss Counts V and VI of MWA's Counterclaim, which claim tortious interference with contract and with prospective economic advantage against FMAudit.

Plaintiffs did not seek any damages; therefore, I award no damages to Plaintiffs. Having carefully considered MWA's claims for damages, I grant them in part and deny them in part. Specifically, on MWA's breach of contract claim against OMD and La Crosse, and on MWA's tortious interference with contract claim against ECI and DGI, I award MWA a total of $190,437.87 in damages, for which OMD, La Crosse, ECI, and DGI are jointly and severally liable. On MWA's claim of interference with prospective economic advantage against DGI, I award MWA $40,138.40 in damages, which damages are subsumed in those awarded on MWA's claim against DGI for tortious interference with contract, and which, therefore, will not result in additional monetary liability for DGI. I also grant MWA pre-judgment and post-judgment interest on the damages awarded to it at 5% over the Federal Reserve discount rate, the legal rate of interest under 6 *Del. C.* § 2301, compounded monthly. All other requests for damages by MWA are denied.

All parties have requested an award of the attorneys' fees and expenses they incurred in connection with litigating this matter. For the reasons stated in this Opinion, I deny those requests in all respects. I also hold that each party should bear its own costs within the meaning of Court of Chancery Rule 54(d), with the exception of Plaintiffs Tech AnyWare and FMAudit, to whom I award costs as provided herein against MWA, because they are prevailing parties under Rule 54(d).

Counsel for the parties shall confer and promptly submit a proposed form of Final Judgment.