

IN THE SUPERIOR COURT OF THE STATE OF DELAWARE

THE STATE OF DELAWARE,)

Plaintiff,)

ex rel.)

WILLIAM SEAN FRENCH,)

Plaintiff-Relator,)

C.A. No. N13C-06-289 PRW CCLD

v.)

CARD COMPLIANT, LLC, *et al.*,)

Defendants.)

Submitted: January 16, 2018

Decided: April 30, 2018

MEMORANDUM OPINION AND ORDER

Upon Defendants' Motion for Summary Judgment,

DENIED.

Thomas E. Brown, Esquire, Edward K. Black, Esquire (argued), Stephen G. MacDonald, Esquire, Deputy Attorneys General, Delaware Department of Justice, Wilmington, Delaware, Attorneys for the State of Delaware.

Stuart M. Grant, Esquire, Mary S. Thomas, Esquire (argued), Laina M. Herbert, Esquire, Vivek Upadhyia, Esquire, Grant & Eisenhofer P.A., Wilmington, Delaware, Attorneys for Plaintiff-Relator William Sean French.

Kenneth J. Nachbar, Esquire, Michael Houghton, Esquire, Matthew R. Clark, Esquire, Barnaby Grzaslewicz, Esquire, Morris, Nichols, Arsht & Tunnell LLP, Wilmington, DE, Ethan D. Millar, Esquire, Of Counsel (*pro hac vice*), J. Andrew Howard, Esquire, Of Counsel (*pro hac vice*), Alston & Bird LLP, Los Angeles, CA, William R. Mitchelson, Jr., Esquire, Of Counsel (*pro hac vice*)(argued), Jason D. Popp, Esquire, Of Counsel (*pro hac vice*), Alston & Bird LLP, Atlanta, GA,

Attorneys for Defendants Apple American Group LLC, CBC Restaurant Corp., Il Fornaio (America) Corporation, Noodles & Company, and Shutterfly, Inc.

Stephen E. Jenkins, Esquire, Catherine A. Gaul, Esquire, Ashby & Geddes, Wilmington, Delaware, Richard M. Zuckerman, Esquire, Of Counsel (*pro hac vice*)(argued), Sean Cenawood, Esquire, Of Counsel (*pro hac vice*), Kiran Patel, Esquire, Of Counsel (*pro hac vice*), Catharine Luo, Esquire, Of Counsel (*pro hac vice*), Dentons US LLP, New York, NY, Attorneys for Defendants Card Compliant, LLC, Cardfact I, Inc., Cardfact II, Inc., Cardfact III, Inc., Cardfact IV, Inc., Cardfact V, Inc., Cardfact VI, Inc., Cardfact VII, Inc., Cardfact VIII, Inc., Cardfact IX, Inc., Cardfact X, Inc., Cardfact XI, Inc., Cardfact XII, Inc., Cardfact XIII, Inc., Cardfact XIV, Inc., Cardfact XV, Inc., Cardfact XVI, Inc., Cardfact XVII, Inc., Cardfact XVIII, Inc., Cardfact XIX, Inc., Cardfact XXI, Inc., Cardfact XXVI, Inc., Cardfact XXVII, Inc., Cardfact XXIX, Inc., Cardfact XXX, Inc., Cardfact XXXI, Inc., Cardfact XXXII, Inc., Cardfact XXXIII, Inc., Cardfact XXXIV, Inc., Cardfact XXXV, Inc., Cardfact XXXVI, Inc., Cardfact XXXVII, Inc., CARDCO Holding, Inc., CARDCO CI, Inc., CARDCO CV, Inc., CARDCO CVIII, Inc., CARDCO CXI, Inc., CARDCO CXII, Inc., CARDCO CXV, Inc., CARDCO CXVI, Inc., CARDCO CXVII, Inc., CARDCO CXIX, Inc., CARDCO CXX, Inc., CARDCO CXXI, Inc., CARDCO CXXII, Inc., Darden SV, Inc., as successor by merger to CARDCO CXXIV, Inc., CARDCO CXXV, Inc., CARDCO CXXVI, Inc., CARDCO CXXVII, Inc., CARDCO CXXVIII, Inc., CARDCO CXXXII, Inc., CARDCO CXXXIII, Inc., CARDCO CXXXIV, Inc., CARDCO CCCIII, Inc., CARDCO CCCIV, Inc., CARDCO CCCVI, Inc., CARDCO CX, Inc., and CARDCO DI, Inc.

Colm F. Connolly, Esquire, Jody C. Barillare, Esquire, Morgan, Lewis & Bockius LLP, Wilmington, Delaware, Gregory T. Parks, Esquire, Of Counsel (*pro hac vice*), Ezra D. Church, Esquire, Of Counsel (*pro hac vice*), Courtney McCormick, Esquire, Of Counsel (*pro hac vice*), Morgan Lewis & Bockius LLP, Philadelphia, PA, Attorneys for Defendants Hanna Anderson, LLC, Nash-Finch Company, Pamida Stores Operating Co., LLC and Shopko Stores Operating Co., LLC.

David S. Eagle, Esquire, Michael W. Yurkewicz, Esquire, Klehr, Harrison Harvey Branzburg LLP, Wilmington, Delaware, Martin I. Einstein, Esquire, Of Counsel (*pro hac vice*), David Swetnam-Burland, Esquire, Of Counsel (*pro hac vice*), Stacy O. Stitham, Esquire, Of Counsel (*pro hac vice*), Brann & Isaacson, Lewiston, ME, Attorneys for Defendant Overstock.com, Inc.

Brian M. Rostocki, Esquire, Benjamin P. Chapple, Esquire, Reed Smith LLP, Wilmington, Delaware, Michael J. Wynne, Esquire, Of Counsel (*pro hac vice*), David A. Rammelt, Esquire, Of Counsel (*pro hac vice*), Reed Smith LLP, Chicago, IL, Attorneys for Defendant Einstein Noah Restaurant Group, Inc.

Brian E. Farnan, Esquire, Farnan LLP, Wilmington, Delaware, Shawn J. Organ, Esquire, Of Counsel (*pro hac vice*), Joshua M. Feasel, Esquire, Of Counsel (*pro hac vice*), Organ Cole LLP, Columbus, OH, Attorneys for Defendant Vacation Properties United Ltd.

WALLACE, J.

I. INTRODUCTION¹

Plaintiff-Relator William Sean French (“French”) and the State of Delaware (“Delaware,” and together with French, the “Plaintiffs”) brought this action pursuant to Delaware’s False Claims and Reporting Act (“DFCRA”) alleging that CardFact, Ltd. (“CardFact”), its successor-in-interest Card Compliant LLC (“Card Compliant”), and the Retailers² entered into a contractual scheme designed to deprive Delaware of hundreds of millions of dollars to which it was lawfully entitled under Delaware’s Abandoned and Unclaimed Property Law (“DUPL” or the “Escheat Law”).³ The abandoned property at issue in this case are the unredeemed

¹ The parties to and the subject of this *qui tam* action have been set forth in the Court’s prior opinions and orders and will not now be fully recounted. *See, e.g., State ex rel. French v. Card Compliant LLC, et. al.*, 2015 WL 11051006 (Del. Super. Ct. Nov. 23, 2015) (“*Card Compliant I*”); *State ex rel. French v. Card Compliant LLC, et. al.*, 2017 WL 1483523 (Del. Super. Ct. Apr. 21, 2017) (“*Card Compliant II*”). The Court will instead concentrate here on the factual and procedural background necessary to the resolution of this discrete summary judgment motion.

² The remaining defendants in this case fall into three groups: (1) CardFact, including Card Compliant and the 56 non-Delaware legal entities created by and affiliated with CardFact and Card Compliant, hereinafter collectively referred to as “the Card Companies”; (2) eleven Delaware-incorporated retailers that entered into Card Services Agreements (“CSAs”) with the Card Companies including: (i) Apple American Group, LLC (“AAG”); (ii) CBC Restaurant Corp. (“CBC”); (iii) Il Fornaio (America) Corporation (“Il Fornaio”); (iv) Noodles & Company (“Noodles”); (v) Hanna Andersson, LLC (“Hanna Andersson”); (vi) Nash-Finch Company (“Nash-Finch”); (vii) Pamida Stores Operating Co., LLC (“Pamida”); (viii) Shopko Stores Operating Co., LLC (“Shopko”); (ix) Overstock.com, Inc. (“Overstock”); (x) Shutterfly, Inc. (“Shutterfly”); (xi) Einstein Noah Restaurant Group, Inc. (“ENRG”), (i) to (xi) of which are collectively referred to herein as the “Retailers”; and (3) Vacation Properties United Ltd., formerly CardFact, Ltd. (“Vacation Properties”). The Card Companies, the Retailers and Vacation Properties are collectively referred to herein as the “Defendants.”

³ *See* Compl. ¶ 1, *State ex rel. French v. Card Compliant LLC*, C.A. No. N13C-06-289 PRW CCLD (Del. Super. Ct. June 28, 2013) (D.I. 1); DEL. CODE ANN. tit. 6, §§ 1201-1211 (2012) (Delaware False Claims and Reporting Act) [hereinafter “DFCRA”]; DEL. CODE ANN. tit. 12, §§

balances of gift cards issued by the Retailers to its customers for goods and services at their respective places of business.

Under the DUPL's Sections 1199 and 1201, "holders"⁴ of abandoned property must file a report of such property with the State and must pay or deliver to the State Escheator all property specified in that report. Plaintiffs assert that Defendants knowingly and intentionally attempted to circumvent this requirement with respect to gift cards by creating "shell" companies in jurisdictions like Ohio and Florida where unredeemed balances on gift cards are not subject to state escheat. A Card Company and a Retailer would then "issue" gift cards from the non-Delaware entity or contractually assign the Retailer's existing obligations to its creditors (*i.e.*, cardholding retail customers) to a "shell" company pursuant to a Card Services Agreement ("CSA") so that the Retailer "ceased" to be the "holder" of the obligation. Plaintiffs contend that such a CSA was a sham because the property was never in fact transferred to the "shell" company and the parties otherwise failed to adhere to the CSA's other terms.⁵

1130–1190 (2012) (Delaware's Unclaimed Property Law) [hereinafter "DUPL"].

⁴ Under Section § 1198(7) of DUPL, "holder" means "any person having possession, custody or control of the property of another person"

⁵ The "shell" companies to which Plaintiffs refer to in their pleadings are the non-Delaware Card Companies and are commonly referred to in the abandoned property industry as "giftcos." Under "giftco" planning structures, a Delaware-incorporated retailer forms a subsidiary single-purpose entity—a "giftco"—to issue its gift cards and to bear any liabilities associated with the

Defendants argue that the assignments to the non-Delaware entities were valid and enforceable and therefore the Retailers had no obligation to pay the value of the unredeemed gift cards to Delaware under its Escheat Laws. Nor, they say, could their actions constitute fraud under the DFCRA since their view of their obligations was “objectively reasonable” as Delaware had issued no authoritative guidance to the contrary. Defendants further claim that the reasonableness of their position is bolstered by the fact that Delaware consistently approved such gift card structures in audits and voluntary disclosure agreement (“VDA”) proceedings with the Delaware Department of Finance.

At the conclusion of factual discovery, remaining Defendants collectively brought this Motion for Summary Judgment seeking the dismissal of all claims. For the reasons set forth herein, that Motion is **DENIED**.

II. PROCEDURAL HISTORY

In June 2013, French filed a *qui tam* complaint asserting claims against the Defendants under §§ 1201(a)(4) and (a)(7) of the DFCRA. Within a month, Delaware moved to intervene. The Court granted the State’s motion and the complaint was unsealed. The case was then removed to federal court. There, Defendants moved to dismiss. But before that motion was addressed, the case was

cards. That retailer’s giftco is domiciled in some state that exempts gift card liabilities from escheat. The retailer then contracts its giftco to sell and redeem its gift cards.

sent back to this Court. Defendants were granted leave to refile their motion to dismiss here. In 2015, Defendants' dismissal motion was granted, in part, and denied, in part, by a predecessor judge of this Court.⁶

In 2016, five Defendants moved to dismiss or, in the alternative, for summary judgment alleging that the Court lacked subject matter jurisdiction due to the administrative proceedings bar found in 6 *Del. C.* §1206(b).⁷ After the voluntary dismissal of two of the moving Defendants, the Court, last year, granted summary judgment for the remaining three.⁸

The now-remaining Defendants filed this joint Motion for Summary Judgment. The Court has heard argument and allowed supplemental briefing thereon.

III. FACTUAL BACKGROUND

CardFact was formed in the State of Ohio in 2003. French is a resident of Columbus, Ohio, a former employee of CardFact and the brother-in-law of

⁶ In *Card Compliant I*, Defendants' Motion to Dismiss was granted with respect to all claims asserted under 6 *Del. C.* § 1201(a)(4), but denied with respect to all claims asserted under 6 *Del. C.* § 1201(a)(7).

⁷ All parties agreed that the version of the DFCRA's Administrative Proceedings Bar extant from June 30, 2000, to July 23, 2013, was applicable here. Six *Del. C.* § 1206(b) then provided that "[i]n no event may a party bring an action under this chapter which is substantially based upon allegations or transactions which are the subject of a civil suit or an administrative proceeding in which the Government is already a party." DEL. CODE ANN. tit. 6, § 1206(b) (2012).

⁸ In *Card Compliant II*, the Court dismissed claims against Ralph Lauren Corp., Ruth's Hospitality Group, Inc. and Shell Oil Co.

CardFact's founder, Ted Ziegler ("Ziegler"). CardFact's principle business was providing card services to companies incorporated in Delaware and other states that require that the unredeemed value of gift cards escheat to the state.⁹ In order to entice the Retailers to enter into the CSAs with the Card Companies, CardFact and Card Compliant promised the Retailers in its marketing materials that they would not have to change anything about the way the Retailers were running their gift card programs. Under Defendants' giftco structure, the Retailers would continue to issue and redeem their gift cards and retain the possession, custody and control of the value of the unredeemed gift cards.¹⁰

After Ziegler sold CardFact to its competitor Card Compliant in 2009, French took a job at Card Compliant, "providing customers with 'legislative updates' regarding escheat law as well as 'educating' Card Compliant clients about the company's 'product portfolio.'"¹¹ When French left Card Compliant, he provided his new employer with a list of Card Compliant's clients, including the Retailers named in this case.¹²

⁹ Compl. ¶ 14.

¹⁰ See, e.g., Exhibits 12, 13 and 14 of Pl.'s Prin. Op. Br. in Supp. of their Mot. for Summ. J. (hereinafter "Pl.'s Prin. Op. Br.").

¹¹ Defs.' Prin. Op. Br. in Supp. of their Mot. for Summ. J. at 30 (hereinafter "Defs.' Prin. Op. Br.").

¹² *Id.*

At issue in this case are CSAs entered into between the non-Delaware Card Companies and the Delaware-incorporated and/or -organized Retailers.¹³ Under the CSAs, the Card Companies began issuing gift cards for the Retailers and were assigned the unredeemed gift card balances that had not yet entered dormancy. Although the terms of the CSAs were revised slightly over the years and modified to accommodate specific Retailers, the CSAs entered into between the Card Companies and the Retailers contain the same fundamental terms. Each CSA states, in relevant part:

- CardFact shall manufacture and deliver, or shall instruct, or may authorize [Client] to directly instruct applicable third-party manufacturers of the Cards to manufacture and deliver, the Cards pursuant to the Orders.
- [Client] agrees to permit CardFact to market the cards in [Client's] stores and otherwise related venues with the consent of the [Client] . . . and CardFact agrees to . . . so market, the Cards . . .
- All cards shall clearly state that CardFact is the issuer of the Card
- During the terms of this Agreement, CardFact shall be liable to the Cardholders for all unredeemed Cards, and obligated to satisfy the debts presented by said Cards. It is the intention of the Parties that CardFact is the holder of any unclaimed property with respect to Cards issued during the Term of this Agreement and any now existing Cards issued prior

¹³ Defs.' Prin. Op. Br. at 1.

to the date of this Agreement with respect to which no statutory dormancy period has run.

A fair reading of the record could cause one to question whether the parties complied with any of these foregoing terms.¹⁴

IV. STANDARD OF REVIEW

This Court's Civil Rule 56 permits summary judgment upon a showing "that there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law."¹⁵ Summary judgment will not be granted if there is a material fact in dispute or if "it seems desirable to inquire thoroughly into [the facts] to clarify the application of the law to the circumstances."¹⁶ In considering the motion, "[a]ll facts and reasonable inferences must be considered in a light most favorable to the non-moving party."¹⁷ The moving party bears the burden of establishing the non-existence of any material issue of fact; upon such a showing the non-moving party must then establish that a genuine issue of material fact exists.¹⁸

¹⁴ See, e.g., Exhibit 15 at 74:17–75:1 of Pls.' Prin. Op. Br.

¹⁵ SUPER. CT. CIV. R. 56(c).

¹⁶ *Ebersole v. Lowengrub*, 180 A.2d 467, 468–69 (Del. 1962).

¹⁷ *Nutt v. A.C. & S. Co., Inc.*, 517 A.2d 690, 692 (Del. Super. Ct. 1986).

¹⁸ *Jackson v. Minner*, 2013 WL 4538321, at *1 (Del. Aug. 23, 2013).

If the matter depends to any material extent upon a determination of credibility, summary judgment is inappropriate.¹⁹ And generally, “trial courts should act . . . with caution in granting summary judgment . . . [and] the trial court may . . . deny summary judgment in a case where there is reason to believe that the better course would be to proceed to a full trial.”²⁰

V. DISCUSSION

A. DFCRA’s Scierter Requirement Does Not Readily Lend to the Grant of Summary Judgment

Defendants argue that the undisputed facts demonstrate that the Retailers had no legal obligation to pay the unredeemed balances on gift cards issued by and assigned to the Card Companies and that Plaintiffs cannot, as a matter of law, establish a DFCRA fraud claim.

The DFCRA’s Section 1201(a)(7) imposes liability upon anyone who knowingly makes, uses, or causes to be made or used, a false record or statement to conceal, avoid, or decrease an obligation to pay or transmit money or property to the Government . . .²¹

¹⁹ *Cerberus Int’l, Ltd. V. Apollo Mgmt., L.P.*, 794 A.2d 1141, 1150 (Del. 2002).

²⁰ *Id.* (quoting *Anderson v. Liberty Lobby Inc.*, 477 U.S. 242, 225 (1986)).

²¹ DEL. CODE ANN. tit. 6, § 1201(a)(7) (2012). Because French’s Complaint was filed on June 28, 2013, the Court here cites the relevant substantive language of this statutory provision that existed from June 30, 2000, to July 23, 2013.

The statute defines “knowingly” as having “actual knowledge of the information; . . . [acting] in deliberate ignorance of the truth or falsity of the information; or . . . [acting] in reckless disregard of the truth or falsity of the information.”²² It further provides that “no proof of specific intent to defraud is required.”²³

Defendants try to convert the typically “fact-intensive inquiry” required to prove scienter in a false claims action into a legal question capable of resolution at the summary judgment stage.²⁴ The Court can’t do so here. Defendants’ subjective beliefs on the validity of the giftco structure remain at issue and the record contains numerous disputed factual issues that preclude resolution of Defendants’ scienter on summary judgment.²⁵

As this Court has observed earlier, case law on the federal False Claims Act, the DFCRA’s federal analogue, is informative when interpreting our state false claims statute.²⁶ And under that federal case law generally, “[t]he issue of whether

²² DEL. CODE ANN. tit. 6, § 1202(3) (2012). This definition has not changed since the DFCRA’s first enactment in June 30, 2000.

²³ *Id.*

²⁴ *United States v. Quicken Loans Inc.*, 239 F. Supp. 3d 1014, 1025 (E.D. Mich. (2017) (quoting *United States ex. rel. K&R Ltd. P’Ship v. Mass. Hous. Fin. Agency*, 456 F. Supp. 2d 46, 61 (D.D.C. 2006)); *United States ex. rel. McCreedy v. Columbus/HCA Healthcare Corp.*, 251 F. Supp. 2d 114, 120 (D.D.C. 2003) (scienter under the False Claims Act is a “fact-intensive inquiry”).

²⁵ *See, e.g.*, Exhibit A to Pls.’ Prin. Op. Br.

²⁶ *See Card Compliant II*, 2017 WL 1483523, at *10 (noting that federal decisions on the False Claims Act, “[t]he federal analogue to the DFCRA[,] is informative when deriving the proper

[a] Defendant[']s[] interpretation . . . negates scienter c[an] not be determined as a pure issue of law” so, instead, a “Relator is entitled to develop evidence of scienter at trial.”²⁷ Courts have been “lenient in allowing scienter issues to withstand summary judgment based on fairly tenuous inferences because such issues are appropriate for resolution by the trier of fact.”²⁸ This Court must decline to supplant this case’s ultimate trier of fact and must deny summary judgment. The Plaintiffs must be given the opportunity to present to a jury evidence of Defendants’ actual knowledge, subjective belief, and purported bad faith.

B. The *Texas* Trilogy and The Law of this Case

The rules governing the priority to escheat unclaimed intangible property where there are conflicting claims between states were established under federal

definition of ‘administrative proceeding’ under our statute”); *Card Complaint I*, 2015 WL 11051006, at *6 (“Delaware authority interpreting the DFCRA is scant. Since the DFCRA is modeled after the federal False Claims Act, the court will look to federal case law for guidance.”) (internal citations omitted). *See also State ex rel. Higgins v. SourceGas, LLC*, 2012 WL 1721783, at *4 (Del. Super. Ct. May 15, 2012); *State Dep’t of Labor – Div. of Unemp’t Ins. v. Pasquale*, 2015 WL 5461540, at *3 (Del. Super. Ct. Sept. 17, 2015).

²⁷ *United States ex. rel. Colquitt v. Abbott Laboratories, et al.*, 2016 WL 3571329, at *2 (N.D. Tex. Mar. 8, 2016); *see also United States ex. rel. Wuestenhoefler v. Jeffereson*, 105 F. Supp. 3d 641, 668 (N.D. Miss. 2015) (denying summary judgment due to a “genuine issue of material fact as to whether [defendants] . . . deliberately chose to remain ignorant” as that showing of “scienter . . . is sufficient for liability under the [False Claims] Act”).

²⁸ *United States ex. rel. Feldman v. Van Gorp*, 674 F. Supp. 2d 475, 481 (S.D.N.Y. 2009) (quoting *In re DDAVP Direct Antitrust Litig.*, 585 F.3d 677, 693 (2d. Cir. 2009)).

common law by a series of cases known as the *Texas* trilogy.²⁹ Under these rules, the Court applies a three-step analysis to these disputes: first, “determin[ing] the precise debtor-creditor relationship as defined by the law that creates the property at issue”; second, identifying whether or not the creditor’s address is recorded; and third, “if . . . the debtor’s records disclose no address for a creditor . . . award[ing] the right to escheat to the State in which the debtor is incorporated.”³⁰

Applying these rules in *Card Compliant I*, a predecessor judge in this case determined:

With respect to Count One, under (a)(7), even if the CSAs were not shams, the court must determine the relevant debtor [for escheat purposes].

* * *

CardFact and the Retailers cannot contract amongst themselves to avoid the obligations to their customers (or Delaware). The only relationship involving the creditor (the customer) is the one between the creditor and the Retailers, in contrast to the Retailers relationship with CardFact. Because the creditor-Retailer relationship is the relevant relationship, the Delaware-based Retailers are the relevant debtors for escheat purposes. Again, that is true if the Retailers and CardFact have their CSAs.³¹

²⁹ See *Texas v. New Jersey*, 379 U.S. 674 (1965); *Pennsylvania v. New York*, 407 U.S. 206 (1972); *Delaware v. New York*, 507 U.S. 490 (1993).

³⁰ *Delaware*, 507 U.S. at 500.

³¹ *Card Compliant I*, 2015 WL 11051006, at *6.

Plaintiffs asserts that this ruling should stand, because “[s]uch a situation is guided by the doctrine of the law of the case.”³² In turn, Plaintiffs say, the Court should not revisit the predecessor judge’s ruling absent the extraordinary circumstances that allow for reconsideration only of decisions that are clearly wrong.³³ Defendants argue that the prior ruling of this Court was based on an incomplete record and the judge assigned to the case at that time did not have the benefit of any of the documents and testimonial evidence from confidential audits and VDAs in which Delaware consistently took the position that when a gift card is assigned before dormancy the Card Company/Non-Delaware Subsidiary is the relevant debtor for escheat purposes.³⁴ Plaintiffs are correct; the law of the case applies because Defendants have failed to establish that the prior ruling was clearly wrong and that extraordinary circumstances exist so as to permit this Court to second-guess the earlier decision.

Delaware courts consistently “take a dim view of a successor judge in a single case overruling a decision of his predecessor.”³⁵ Such a rule of law promotes

³² Pl.’s Prin. Op. Br. at 57–58.

³³ Pl.’s Prin. Op. Br. at 57–58.

³⁴ Defs.’ Prin. Op. Br. at 62.

³⁵ *Frank G.W. v. Carol M.W.*, 457 A.2d 715, 718 (Del. 1983); *May v. Bigmar, Inc.*, 838 A.2d 285, 288 n.8 (Del. Ch. 2003) (“The ‘law of the case’ doctrine requires that issues already decided by the same court should be adopted without relitigation, and once a matter has been addressed in a procedurally appropriate way by a court, it is generally held to be the law of that case and will

“fundamental fairness and . . . judicial efficiency”³⁶ and ensures that parties are not “entrapped by varying philosophies of different judges of the same Court in the case.”³⁷ But the law of the case doctrine is “not an *absolute* bar to reconsideration of a prior decision that is clearly wrong, produces an injustice or should be revisited because of changed circumstances.”³⁸ The doctrine only applies “provided the facts underlying the ruling do not change.”³⁹

Here, the facts underlying the ruling in *Card Compliant I* have not changed. Defendants continue to assert that the CSAs constitute valid assignments of the Retailers’ obligations to the [Subsidiaries] and argue that the Retailers were not the relevant “debtors” and consequently were not subject to Delaware’s Escheat Laws.⁴⁰ The only “change in circumstance” Defendants point to is the fact that the evidence in the record after discovery shows that in certain nonpublic audits and VDAs

not be disturbed by that court unless compelling reason to do so appears.”) (internal quotation marks omitted).

³⁶ *Zirn v. VLI Corp.*, 1994 WL 548938, at *2 (Del. Ch. Sept 23, 1994).; *Frank G.W.*, 457 A.2d at 719 (“Considerations of courtesy and comity are particularly relevant in Delaware where it is not unusual for our Superior Court to have various judges involved at different stages of protracted cases.”)

³⁷ *Frank G.W.*, 457 A.2d at 719.

³⁸ *Gannett Co., Inc. v. Kanaga*, 750 A.2d 1174, 1181 (Del. 2000) (emphasis in original).

³⁹ *State v. Wright*, 131 A.3d 310, 321–322 (Del. 2016).

⁴⁰ *Card Compliant I*, 2015 WL 11051006 at *4.

Delaware took the position that gift cards assigned before dormancy to a non-Delaware giftco were not subject to the Delaware Escheat Laws. That's not the type of "extraordinary circumstance[] where justice demands the revisiting the merits of the parties' claims."⁴¹

C. *Marathon Petroleum* Supports a View that Delaware May Look Into (and Past) the Formalities of a Giftco's Structure.

The United States Court of Appeals for the Third Circuit's recent decision in *Marathon Petroleum Corp. v. Sec'y of Finance*⁴² further supports a finding that summary judgment is inappropriate here. *Marathon Petroleum* involved the State of Delaware's unclaimed property audit of Marathon Petroleum Corporation ("Marathon") and its Delaware affiliate, Speedway LLC ("Speedway"). Marathon and Speedway had formed Ohio subsidiaries in 2001 and 2002 (the "Ohio Subsidiaries"), respectively, to issue their gift cards. Several years after the audit had commenced, Delaware asked questions about the Ohio Subsidiaries and requested that Marathon and Speedway produce: the articles of incorporation for each of the Ohio Subsidiaries; the governing contracts between each of Marathon and Speedway and the Ohio Subsidiaries; and numerous other related documents. Marathon and Speedway complied with the initial request. But after Delaware

⁴¹ *Frank G.W.*, 457 A.2d at 719.

⁴² 876 F.3d 481 (3d Cir. 2017).

requested further documentation, Marathon, Speedway and the Ohio Subsidiaries brought an action in federal district court.

There they claimed that the federal common law rules in *Texas v. New Jersey*⁴³ barred Delaware from conducting an audit examining whether the funds paid for gift cards issued by the Ohio Subsidiaries were held by Marathon and Speedway and therefore subject to escheatment by Delaware. The district court dismissed the action holding that private parties cannot invoke the *Texas* rules to challenge a state's authority to escheat property.⁴⁴

On appeal, the Third Circuit vacated the district court's decision finding that private parties have standing to invoke the *Texas* rules.⁴⁵ And, importantly here, the Court that went on to hold that "[t]he *Texas* cases do not prevent Delaware from examining books and records to determine the true holder of abandoned property."⁴⁶ In determining that Delaware had the power to look beyond the four corners of the contracts and into the course of conduct between Marathon, Speedway and the Ohio Subsidiaries, the Third Circuit explained that

[t]he *Texas* trilogy does not stand for the proposition that states must ignore anything beyond the pages of the

⁴³ 379 U.S. 674 (1965).

⁴⁴ *Marathon Petroleum*, 876 F.3d at 487–88.

⁴⁵ *Id.* at 492-96.

⁴⁶ *Id.* at 499 (citing *Delaware v. New York*, 507 U.S. at 499).

contract. “[D]etermining the precise debtor-creditor relationship,” [], may at times be a fact-based inquiry into whether the formalities of corporate separateness have been observed, not just in theory but in practice. . . . We do not read the *Texas* trilogy as foreclosing a state’s right to conduct an appropriate examination to determine if there is fraud or another basis for determining that property may be escheated, even if a contract viewed in isolation might suggest otherwise.⁴⁷

Earlier in this case, corporate Defendants sought refuge through application of the DFCRA’s Administrative Proceedings Bar.⁴⁸ Then their position was that if Delaware had previously engaged in the very type of statutory audits (and VDA procedures) the Third Circuit spoke on to examine their giftco activities and escheat obligations, then the Defendants had been subject to the type of “administrative proceedings” that would preclude this Court from exercising subject matter jurisdiction over the State’s civil suit here.⁴⁹ To act as a bar, those prior administrative proceedings must have been “substantially based upon allegations or transactions which are the subject of a civil suit or an administrative proceeding in which the Government is already a party.”⁵⁰ It would be indeed incongruous if the

⁴⁷ *Id.* at 500–01 (citations omitted).

⁴⁸ *Card Compliant I*, 2015 WL 11051006 (dismissing Pantry, Inc.); *Card Compliant II*, WL 1483523 (dismissing others).

⁴⁹ *Card Compliant II*, 2017 WL 1483523, at *3; *Card Compliant I*, 2015 WL 11051006, at *4.

⁵⁰ DEL. CODE ANN. tit. 6, § 1206(b) (2012). Again, § 1206(b) has been amended since this suit was first filed. *See* 79 Del. Laws ch. 141, § 1 (2013) (codified at 6 *Del. C.* § 1206 (2013)).


administrative proceeding meant to discover and enforce a Defendant's true escheat obligation could cover more ground than a *qui tam* suit claiming fraud in the same allegations or transactions.

Plaintiffs here question the course of dealings between the Card Companies and the Retailers and whether the Defendants acted in accordance with the terms of the CSAs thereby calling into question the underlying debtor-creditor relationship. The record shows that the facts upon which that determination depends remain heavily disputed. As such, summary judgment is inappropriate and must be denied.

VI. CONCLUSION

Accordingly, for the reasons stated above, Defendants' Motion for Summary Judgment is **DENIED**.

IT IS SO ORDERED.



Paul R. Wallace, Judge

But as this was the wording of the Administrative Proceedings Bar extant from June 30, 2000, to July 23, 2013, all parties agree it is this version that applies in this case.