

IN THE SUPERIOR COURT OF THE STATE OF DELAWARE

OPTICAL AIR DATA SYSTEMS, LLC,)	
)	
Plaintiff,)	
)	C.A. No.: N17C-05-619 EMD CCLD
v.)	
)	
L-3 COMMUNICATIONS)	
CORPORATION, et al.,)	
)	
Defendants.)	

DECISION AFTER TRIAL

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I. INTRODUCTION AND PROCEDURAL BACKGROUND

This is a civil action assigned to the Complex Commercial Litigation Division of the Court. Plaintiff and Counterclaim Defendant Optical Air Data Systems, LLC (“Optical Air”) is a technology-based small business that designs, engineers, and manufactures Light Detection and Ranging (“LIDAR”) technology. Defendants and Counterclaim Plaintiffs’ L-3 Communications Corporation, Display Systems Division, and L-3 Communications Avionics Systems, Inc. (collectively “L-3”) wanted to purchase rights to Optical Air’s technology. On March 31, 2016, L-3 and Optical Air entered into the Agreements (as defined below). L-3 and Optical Air disagreed about whether another contract (the “Gulfstream Agreement”) between Optical Air and Gulfstream Aerospace Corporation (“Gulfstream”), had an impact on the Agreements. After

some discussions with Optical Air, L-3 attempted to terminate the Agreements due, in part, to the Gulfstream Agreement.

On May 26, 2017, Optical Air initiated this civil action by filing a complaint against L-3. On March 13, 2018, Optical Air filed the First Amended Complaint (the “Amended Complaint”).¹ In the Amended Complaint, Optical Air asserted causes of action (the “Counts”) for: (i) Breach of License Agreement—wrongfully terminated the agreement (“Count 1”); (ii) Breach of License Agreement—denying Optical Air of cure period (“Count 2”); (iii) Breach of Services Agreement—failure to make payments (“Count 3”); (iv) Breach of Services Agreement—wrongfully sent termination letter (“Count 4”); (v) Fraud in the Inducement and Misrepresentation (“Count 5”); (vi) Breach of the Implied Covenant of Good Faith and Fair Dealing (“Count 6”); (vii) Breach of License Agreement—filing of cancellation notice to PTO (“Count 7”); (viii) Intentional Interference with Prospective Business Opportunities—Gulfstream (“Count 8”); (ix) Intentional Interference with Prospective Business Opportunities—Airbus and Airbus Helicopter (“Count 9”); (x) Conspiracy (“Count 10”); and (xi) Defamation (“Count 11”). Upon motion by L-3, the Court dismissed Counts 8 and 9.

On July 6, 2016, L-3 filed its answer to the Amended Complaint and asserted six counterclaims (the “Counterclaims”).² The Counterclaims are (i) Declaratory Relief Pursuant to Superior Court Rule 13 (“Counterclaim 1”); (ii) Unjust Enrichment (“Counterclaim 2”); (iii) Restatement (Second) of Torts § 552 (“Counterclaim 3”); (iv) Breach of Contract—Recessionary Damages (“Counterclaim 4”); (v) Breach of Contract—Benefit of the Bargain Damages (“Counterclaim 5”); and (vi) Breach of the Implied Covenant of Good Faith and Fair Dealing (“Counterclaim 6”). Counterclaim 1 seeks a declaration that the Agreements are not valid,

¹ D.I. No. 59.

² D.I. No. 128.

binding contracts due to Optical Air's alleged fraud in the inducement. L-3 alternatively plead Counterclaims 4, 5 and 6 in the event the Court did not find that the Agreements were rescinded and/or are void.

On October 12, 2018, L-3 moved for summary judgment on all of the Counts and Counterclaims. Optical Air opposed. The Court held a hearing on December 17, 2018 (the "Hearing"). On January 23, 2019, the Court issued a decision (i) entering judgment in favor of L-3 on Optical Air's Counts 5 and 6, (ii) narrowing Optical Air's Counts 10 and 11 to communications with one non-party entity; and (iii) finding that genuine issues as to material facts exist with respect to all remaining Counts and Counterclaims.

On October 15, 2018, Optical Air moved for summary judgment on Counterclaim 3, arguing that the Court lacks subject matter jurisdiction over a negligent misrepresentation claim. L-3 opposed. The Court also heard arguments on this matter at the Hearing. On January 14, 2019, the Court entered judgment against L-3 on Counterclaim 3 but stayed the judgment to allow L-3 to transfer Counterclaim 3 to the Court of Chancery. The Court understands that L-3 did not transfer Counterclaim 3 to the Court of Chancery.

On December 17, 2018, the Court held a pretrial conference. After the pretrial conference, the Court entered the joint proposed stipulation and order (the "Pretrial Stipulation").³

II. THE TRIAL

The Court conducted a bench trial from January 28, 2019 through February 1, 2019 (the "Trial"). The Court then had both parties submit their closing arguments in written form, receiving the final post-trial paper on or about April 15, 2019.

³ D.I. No. 164.

WITNESSES

During the Trial, the Court heard from and considered testimony from the following witness:

Dr. Phillip Rogers
Dr. Elizabeth Dakin
Ronald Aiani, Esquire
Ronald Wojnar
Andrew C. Singer
Michael Dergosits
Frank Bernatowicz
Priyavadayn Mamidipudi
Christopher Kubasik
Dana Trexler Smith
Eric Jenkins, Esquire
Cole Hedden
James Malackowski
Giacomo Mayer
Kris Ganase

All the witnesses testified on direct and were available for cross-examination. The fact witnesses in this civil action were Dr. Rogers, Dr. Dakin, Mr. Aiani, Ms. Mamidipudi, Mr. Kubasik, Mr. Jenkins, Mr. Hedden, Mr. Mayer and Mr. Ganase. The expert witnesses were Mr. Bernatowicz, Mr. Wojnar, Mr. Singer, Mr. Dergosits, Mr. Malackowski and Ms. Trexler.

EXHIBITS

The parties submitted an extensive number of exhibits. Most of these exhibits were admitted without objection. For purposes of this decision, the Court has designated the exhibits submitted by Optical Air as “Pl. Ex. ___” and the exhibits submitted by L-3 as “Def. Ex. ___.”

III. FINDINGS OF FACT

1. The Court notes that, to the extent any of these findings of fact are more appropriately viewed as conclusions of law, the finding of fact will also be deemed a conclusion of law.⁴

BACKGROUND

2. Dr. Rogers and Alisa Rogers created Optical Air in 1990 to take advantage of then recent developments in fiber optic technology to make a practical, lightweight, rugged aircraft system to measure air data that would eventually replace the existing, pitot tube-based technology.⁵

3. Optical Air's system utilizes colored lasers that are pointed at points in advance of an aircraft. The lasers' discharges bounce off of microscopic dust particles that exist naturally in the atmosphere. These discharges change the dust particles' color. Using proprietary algorithms, Optical Air's system measures the change in color of the light bounced back from the particles, giving a direct measure of true air speed, the direction of relevant winds, and flow angles such as the angle of attack and sideslip.⁶ Optical Air's system does not manipulate the flight controls of an aircraft. Instead, this system provides accurate flight data in advance of and around an aircraft at rest or in flight so that the operator can fly the aircraft more smoothly.⁷

4. Optical Air's engineers applied for a patent on ride smoothing utilizing its own or similar technology in 2012 and obtained that patent in 2015.⁸

⁴ See *Bay City, Inc. v. Williams*, 2 A.3d 1060, 1061-62 (Del. 2010); *Osborn ex rel. Osborn v. Kemp*, 991 A.2d 1153, 1158 (Del. 2010); *Reserves Dev. LLC v. Crystal Props., LLC*, 986 A.2d 362, 367 (Del. 2009).

⁵ January Transcript at 45. Hereafter, transcript references will be cited as "Tr. Day_ at ___".

⁶ Tr. Day 1 at 48-51, 54.

⁷ *Id.* at 61-62.

⁸ Pl. Ex. 14; Tr. Day 1 at 185-86.

5. David Hurley is an airline industry executive, one-time paid consultant to Optical Air, and member of the Conquistadors del Cielo (the “Conquistadors”), an aeronautics trade/social club whose members consist of executive throughout the industry.⁹ Russell Ray is another airline industry executive, one-time paid consultant to Optical Air, and former membership chairman of the Conquistadors who was introduced to Optical Air in 2012 in an effort to find investment capital.¹⁰ Mr. Ray and Mr. Hurley coordinated several introductions of Dr. Rogers and Optical Air’s LIDAR technology to industry executives.¹¹

6. Optical Air and Rosemount, a subsidiary of United Technologies Aerospace Systems (“UTAS”), entered into an agreement entitled Program Support Agreement Laser Air Data Sensor System (the “UTAS Agreement”).¹² The UTAS Agreement is dated December 23, 2013.¹³

7. In 2013, Mr. Ray introduced Dr. Rogers to Chris Kubasik.¹⁴ At that time, Mr. Kubasik was an executive at an aerospace-focused investment banking firm known as Seabury Capital Group.¹⁵ Mr. Ray and Dr. Rogers thought Mr. Kubasik could help Optical Air raise capital,¹⁶ including a partner who would license Optical Air’s technology for development and marketing.¹⁷

8. In the Fall of 2014, Mr. Kubasik traveled to Optical Air’s headquarters in Manassas, Virginia.¹⁸ Optical Air presented a review of its technological capabilities and an

⁹ Tr. Day 1 at 62-63, 67-68.

¹⁰ *Id.* at 63.

¹¹ *Id.* at 67-68.

¹² *Id.* at 68-69; Pl. Ex. 4.

¹³ Pl. Ex. 4.

¹⁴ Tr. Day 1 at 70-71.

¹⁵ *Id.*

¹⁶ Tr. Day 4 at 64.

¹⁷ *Id.* at 65.

¹⁸ Tr. Day 1 at 71-73.

array of customers testing its system, including Airbus, Gulfstream, and Boeing.¹⁹ According to Dr. Rogers, one of the documents discussed with Mr. Kubasik was the Research and Development Memorandum of Agreement between Gulfstream and Optical Air, dated August 2, 2013. (the “Gulfstream Agreement”).²⁰

9. Mr. Kubasik’s Seaburry team prepared an analysis of Optical Air’s market projections and financials, ultimately resulting in an offer of assistance in finding Optical Air a strategic partner in exchange for a mixed fee and equity stake in the company.²¹ Seaburry and Optical Air did not enter into any contractual arrangement.

CERTIFICATION²²

10. The Federal Aviation Administration (“FAA”) and the European Aviation Safety Agency normally require parties to go through process before certifying (i) the installation of a product on an airplane, or (ii) that an aircraft or a revised model of an aircraft is safe to fly.²³

11. A “Type Certificate” is the FAA’s form of design approval of an aircraft.²⁴ The FAA issues a Type Certificate when it determines that an aircraft has been properly designed and manufactured, performs properly, and meets the prescribed air worthiness standards.²⁵ The Type Certificate process can be a long, complex and uncertain process that can take several years.²⁶ An aircraft manufacturer must seek additional FAA approval for a redesign or modification of parts installed on a previously Type Certified aircraft.²⁷ If the aircraft manufacturer seeks

¹⁹ *Id.* at 72.

²⁰ *Id.* at 72-73; Pl. Ex. 3.

²¹ Tr. Day 1 at 74.

²² Certification is relevant here as it relates to the marketability of Optical Air’s products and the various agreements between Optical Air and others.

²³ Tr. Day 1 at 83-84.

²⁴ Tr. Day 2 at 40.

²⁵ *Id.*

²⁶ *Id.*

²⁷ *Id.* at 41.

certification of a revised model type, the manufacturer pursues an Amended or Supplemental Type Certificate.²⁸ However, where a supplier has purchased an aircraft and seeks to have that aircraft certified to fly with a new piece of equipment on it that the supplier had developed, the supplier would seek a Supplemental Type Certificate.²⁹ The Supplemental Type Certification process is similar to the Type Certificate process but is case dependent on extensiveness and complexity.³⁰

12. In contrast to the Supplemental Type Certification, the FAA issues a Technical Standard Order Authorization (“TSO”) upon design and production approval of an aircraft appliance or part.³¹ A TSO for a given product would enable the holder of that authorization to market and sell the product for installation on various aircraft, while the manufacturer would need to develop separately the installation approval for the product on its aircraft—the supplemental or amended type certificates.³² The benefit to obtaining a TSO in advance of or in conjunction with a Type Certificate of any kind is one of efficiency. Common substantiation and other hurdles attendant to type certification do not have to be repeated when a product has a TSO.³³

13. After an initial meeting, the FAA and the manufacturer jointly create a plan with measurable outcomes that evolve into a certification process.³⁴ That plan is referred to as a project specific certification plan.³⁵ The FAA and the applicant sign off on the project specific

²⁸ *Id.* at 41-42.

²⁹ *Id.* at 42-43.

³⁰ *Id.* at 43.

³¹ *Id.* at 46-47.

³² *Id.* at 48.

³³ *Id.* at 49-50.

³⁴ *Id.* at 51.

³⁵ *Id.* at 52.

certification plan.³⁶ The existence of such a plan demonstrates a commitment from the FAA to issue a TSO on a specific timeline which a manufacturer can communicate to its customers.³⁷

THE GULFSTREAM AGREEMENT

14. In 2012, Optical Air for a way to get its technology certified by the FAA.³⁸ As such, Optical Air approached Gulfstream.³⁹

15. On August 2, 2013, Gulfstream and Optical Air entered into the Gulfstream Agreement.⁴⁰ The Gulfstream Agreement is entitled “Research and Development Memorandum of Agreement.”⁴¹ The Court has reviewed the Gulfstream Agreement and finds that its purpose is for research and development.⁴²

16. The Preamble to the Gulfstream Agreement provides:

WHEREAS, Gulfstream desires to establish a business agreement with [Optical Air] for the design and development of Optical Air Data System or as “Product(s)” and as further defined in Section 2; to the extent the Product(s) consist of various components, components may be referred to as Product(s) as the context so requires....⁴³

The Preamble defines Optical Air as either “OADS” or “Supplier.”⁴⁴

17. Section 1.1 of the Gulfstream Agreement further addresses its purpose and description, stating that:

Gulfstream and [Optical Air] entered into this Agreement which contemplates the evaluation of a new system for potential use in an Aircraft. The name for the Optical Air Data System will be referred to as Product(s).

³⁶ *Id.*

³⁷ *Id.* at 52-53.

³⁸ Tr. Day 1 at 75, 77.

³⁹ *Id.*

⁴⁰ Pl. Ex. 3 at 1.

⁴¹ *Id.*

⁴² *See, e.g., id.* at Secs. 1.2.5, 1.2.6, 1.3.3, 1.3.4, 2.6.1, 3.3, 3.9.

⁴³ Pl. Ex. 3 at 1.

⁴⁴ *Id.*

This Agreement is for the sale of goods. The Research and Development Program (RDP) described in Section 1.2 is necessary to assure that the Product(s) meet the requirements of this Agreement.⁴⁵

18. Section 14.0 of the Gulfstream Agreement sets out the various intellectual property rights of the parties.⁴⁶ Sections 14.1 and 14.2 provide intellectual property definitions.⁴⁷ In summary, Optical Air's intellectual property is defined as "Supplier Program IP"⁴⁸ and Gulfstream's intellectual property is defined as "Gulfstream Program IP."⁴⁹ "Joint Program IP"⁵⁰ is defined as "Program IP" developed jointly by Gulfstream and Optical Air and is jointly owned by the parties.⁵¹ "Background IP" was defined as each party's intellectual property prior to the agreement and that which was developed afterwards, outside of the agreement.⁵² Under the Gulfstream Agreement, Gulfstream and Optical Air both retain exclusive ownership of its Background IP.⁵³

19. Section 14.2, entitled "IP Ownership," specifically relates to intellectual property ownership.⁵⁴ Under the Gulfstream Agreement, Optical Air granted a non-exclusive, royalty-free, and worldwide license to Gulfstream for some of its LIDAR intellectual property.⁵⁵ The plain language of the Gulfstream Agreement limits the license of Optical Air technology in use and duration.⁵⁶ Section 14.3.2 provides:

[Optical Air] Program License. [Optical Air] hereby grants Gulfstream a non-exclusive, worldwide, royalty free license to use [Optical Air] Program IP, and

⁴⁵ *Id.* at Sec. 1.1.

⁴⁶ *Id.* at Sec. 14.0.

⁴⁷ *Id.* at Secs. 14.1, 14.2.

⁴⁸ *Id.* at Sec. 14.2.1. Optical Air's exclusive ownership of Supplier IP included any changes to the Product resulting from Gulfstream's "Feedback." *Id.*

⁴⁹ *Id.* at Sec. 14.2.2.

⁵⁰ *Id.* at Secs. 14.1, 14.2.3.

⁵¹ *Id.* at Secs. 14.2.1, 14.2.2, 14.2.3.

⁵² *Id.* at Sec. 14.1.

⁵³ *Id.*

⁵⁴ *Id.* at Sec. 14.2.

⁵⁵ *Id.* at Sec. 14.3.2.

⁵⁶ *Id.*

[Optical Air] Background IP that is incorporated into Products, during the Program Duration for the Program Purposes.⁵⁷

20. The use of licensed technology under the Gulfstream Agreement was limited to the “Program Purpose.” Program Purpose means:

...the testing and evaluation of the Products, including their performance, features and functionality, as installed with the Gulfstream Aircraft, for purposes of determining whether to enter a commercial relationship with Supplier for the purchase of the Products.⁵⁸

The Program Purpose, essentially, was for Optical Air and Gulfstream to test and evaluate the product to decide if Gulfstream wanted to enter into a purchase agreement.⁵⁹

21. The Gulfstream Agreement contained “key milestones” that were events intended to indicate accomplishment of each phase of the project,⁶⁰ aimed at installing Optical Air’s hardware in Gulfstream’s airplane.⁶¹ The last of these milestones was the test readiness review on October 28, 2013, later amended without a specific date, but completed after the prototype system had been delivered to Gulfstream in October of 2013.⁶² Optical Air had conducted a single design review of the product’s installation into the test aircraft.⁶³ All of this preceded the very first test flight.⁶⁴

22. Optical Air was specifically responsible for providing a mechanical interface control document, illustrating the device’s attachment to the aircraft.⁶⁵ As supplier, Optical Air provided an electrical interface control document, indicating ground and hot wires.⁶⁶ Optical

⁵⁷ *Id.*

⁵⁸ *Id.*

⁵⁹ *Id.*

⁶⁰ Tr. Day 1 at 79; Pl. Ex. 3 at Sec. 1.2.1.

⁶¹ Tr. Day 1 at 225.

⁶² *Id.* at 82; Pl. Ex. 3 at Sec. 1.2.1.

⁶³ Tr. Day 1 at 81. This design review included a review of article’s installation into the airplane encompassing bracketry and location in advance of ordering parts and ultimately installing the article on the test aircraft. *Id.*

⁶⁴ *Id.* at 81.

⁶⁵ *Id.* at 226-28; Pl. Ex. 3 at Sec. 1.2.

⁶⁶ Tr. Day 1 at 229; Pl. Ex. 3 at Sec. 1.2.

Air also provided a data interface control document which dictates the order in which data output in a standard language is transmitted such that it can be interpreted in that same order and language.⁶⁷ Optical Air delivered the hardware that comprises its system: laser sensors, telescopes, a chassis mounting tray, a cable, a transparent aluminum window insert, a laptop, a rate gyro and the cable that connects it to the box, a 3D model of the outer dimensions of the device, and an off-the-shelf software stress analysis.⁶⁸

23. After flight tests began, the Gulfstream Agreement obliged Optical Air to promptly repair or replace any product or part of the system that needed it.⁶⁹ As such, Optical Air would “troubleshoot” the technology if Gulfstream reported data dropouts or system failures.⁷⁰

24. Under the Gulfstream Agreement, Gulfstream provided an aircraft, a window plug and pressure tested the window insert, made the bolt to attach the device to the plane, and planned the data extraction from the flight tests.⁷¹ Gulfstream also supported Optical Air with Optical Air’s tasks.⁷²

25. Section 17.14 of the Gulfstream Agreement reads:

Provided that Gulfstream decides to certify the Product a primary air data system (Decision), [Optical Air] agrees that from the date of such Decision (the Decision Date) through completion of certification of Product by Gulfstream under this Agreement not to exceed two (2) years, Optical Air will not negotiate or enter into any agreement for the sale, or FAA, or other aviation authority certification of Product(s) intended for use on any non-Gulfstream Business Jet (as defined below)⁷³

⁶⁷ Tr. Day 1 at 230; Pl. Ex. 3 at Sec. 1.2.

⁶⁸ Tr. Day 1, at 235-39; Pl. Ex. 3 at Sec. 1.2.

⁶⁹ Tr. Day 1 at 83; Pl. Ex. 3 at Sec. 1.4.5.

⁷⁰ Tr. Day 1 at 85.

⁷¹ *Id.* at 242-44; Pl. Ex. 3 at Sec. 1.3.

⁷² Tr. Day 1 at 244.

⁷³ Pl. Ex. 3 at Sec. 17.14.

The Gulfstream Agreement further provided that if Gulfstream was “the first to complete certification of the Product as an air data system for Business Jets, and enters into a purchase agreement for Product(s) with [Optical Air],” Optical Air would have owed Gulfstream royalty payments.⁷⁴

26. Gulfstream did not decide to certify the Product as a primary air data system or an air data system for Business Jets.⁷⁵

27. Section 17.14 also contained language that required Optical Air to grant Gulfstream favorable pricing terms under certain circumstances should Optical Air have entered into an agreement for sale with a third party,⁷⁶ or entered into a purchase agreement with Gulfstream.⁷⁷ Neither of these things happened.

28. The Gulfstream Agreement’s period of performance ended when the prototype system was no longer installed on the test aircraft for the purposes of testing and evaluation.⁷⁸

29. The Gulfstream Agreement contained no prohibition against Optical Air licensing its intellectual property portfolio to a third party.⁷⁹

30. In early 2015, Gulfstream purchased a new prototype unit from Optical Air and amended the Gulfstream Agreement to update the milestones. Otherwise, the Gulfstream Agreement remained unchanged.⁸⁰

31. Gulfstream inquired as to how Optical Air intended to produce the technology at scale.⁸¹ That production would have included pursuing certification from the FAA.⁸² Optical

⁷⁴ *Id.*

⁷⁵ Tr. Day 2 at 45, 48.

⁷⁶ Pl. Ex. 3 at Sec. 17.14.

⁷⁷ *Id.*

⁷⁸ Tr. Day 1 at 84-85; Pl. Ex. 3 at Sec. 3.1.

⁷⁹ Pl. Ex. 3.

⁸⁰ Tr. Day 1 at 86; 88-89, 146; Pl. Ex. 221.

⁸¹ Tr. Day 1 at 91.

⁸² *Id.*

Air expressed a need for a strategic partner to accomplish those goals, and Gulfstream volunteered to assist in finding one.⁸³ One of the companies on Gulfstream’s list of potential partners for Optical Air was UTAS.⁸⁴

32. At the time of the Gulfstream Agreement, Optical Air’s system had already been designed and no design changes were made to the product based on any of the testing done by Gulfstream.⁸⁵ There were no advances in the product capability based upon the Gulfstream program.⁸⁶

33. Before the Agreements, Gulfstream did not share flight data with Optical Air apart from a few plotted presentations.⁸⁷ Instead, Optical Air received data from its own device which indicated signal strengths in relation to thresholds and the levels of laser power.⁸⁸ Gulfstream allowed access to this data after each flight to keep the system working so that Optical Air could fulfill its warranty obligations.⁸⁹

34. Prior to entering into its contracts with Optical Air, L-3 knew that Optical Air had signed a contract with Gulfstream.⁹⁰ L-3 believed that the existence of a relationship between Optical Air and Gulfstream meant that Optical Air’s technology was viable—“Gulfstream they would not have gotten that far if [Optical Air’s technology] was not real.”⁹¹

⁸³ *Id.* at 91-92; Pl. Ex. 260 at OADS 007675.

⁸⁴ Tr. Day 1 at 93; Pl. Ex. 21.

⁸⁵ Tr. Day 1 at 137; Tr. Day 3 at 225-26.

⁸⁶ Tr. Day 1 at 138.

⁸⁷ *Id.* at 138, 233, 242.

⁸⁸ *Id.* at 139.

⁸⁹ *Id.* at 139-40, 234-35.

⁹⁰ Tr. Day 4 at 164; Tr. Day 5 at 150.

⁹¹ Def. Ex. 16.

35. The testimony at trial demonstrated that L-3 knew of the existence of the Gulfstream Agreement prior to entering into its contracts with Optical Air; however, it was not clear whether L-3 knew the exact terms and conditions of the Gulfstream Agreement.⁹²

36. Although Optical Air disclosed the contents of its contract with Gulfstream in presentations and PowerPoints presented to others (such as Gulfstream),⁹³ Optical Air did not seem to disclose the contents of its contract with Gulfstream in presentations and PowerPoints presented to L-3.⁹⁴

37. Optical Air hesitated, fearing that the Gulfstream Agreement was covered under a nondisclosure agreement.⁹⁵ Moreover, Optical Air took the position that, as a result of a nondisclosure agreement, Optical Air could not give L-3 a copy of the Gulfstream Agreement.⁹⁶ Optical Air presented testimony that, even though it could not give L-3 a copy of the Gulfstream Agreement, Gulfstream gave Optical Air oral permission to show a copy of the Gulfstream Contract to L-3.⁹⁷

38. The testimony was that no one at Optical Air could remember the name of the person at Gulfstream who Optical Air claims gave Optical Air permission to show a copy of the Gulfstream Agreement to L-3.⁹⁸ Gulfstream denies that it gave Optical Air permission to show L-3 a copy of the Gulfstream Agreement.⁹⁹ The parties presented no written evidence during the Trial that Gulfstream gave Optical Air permission to show a copy of its contract with Optical Air to L-3.

⁹² Tr. Day 4 at 164; Tr. Day 5 at 150.

⁹³ *See, e.g.*, Def. Ex. 130

⁹⁴ Def. Ex. 15 at OADS10543; Def. Ex. 22; Def. Ex. 44; Tr. Day 5 at 115.

⁹⁵ Tr. Day 1 at 108-09.

⁹⁶ *Id.*

⁹⁷ *Id.* at 195.

⁹⁸ *Id.*

⁹⁹ Bristol Dep. at 137-39, 143, 153, 226-27.

39. Mr. Hedden, an L-3 employee, saw the Gulfstream Agreement during due diligence.¹⁰⁰ Mr. Hedden testified that “what we ultimately ended up asking was just to verify that the document existed.”¹⁰¹ Mr. Hedden also testified that he had to ask Optical Air multiple times to confirm the existence of the Gulfstream Agreement.¹⁰² Mr. Hedden testified that he “saw” a copy of the Gulfstream, verified that it was a contiguous document and it was signed by both parties.¹⁰³ Mr. Hedden stated that he did not actually did not review the document.¹⁰⁴ Mr. Hedden testified that he did not read the Gulfstream Agreement because he had been told it was covered by a nondisclosure agreement, and because he had told Optical Air he just needed to verify that the contract existed.¹⁰⁵ Mr. Hedden testified that, if he had learned of the terms of the Gulfstream Agreement, Mr. Hedden would have had to have significant internal conversations at L-3, and would have had to redo the business case.¹⁰⁶

40. There is deposition testimony that Dr. Rogers read the applicable provisions of the Gulfstream Agreement to Mr. Ganase over the phone.¹⁰⁷ Mr. Ganase testified at trial that Dr. Rogers did not read any provisions of the Gulfstream Agreement to him.¹⁰⁸

41. L-3 contends that it first learned of the contents of the Gulfstream Agreement on June 28, 2016.¹⁰⁹ That is the date that Optical Air provided a redacted version of the Gulfstream Agreement to L-3.¹¹⁰ Optical Air’s production of the Gulfstream Agreement caused a great deal of discussion at L-3.¹¹¹

¹⁰⁰ Tr. Day 4 at 164.

¹⁰¹ *Id.*

¹⁰² *Id.* at 165.

¹⁰³ *Id.*

¹⁰⁴ *Id.*

¹⁰⁵ *Id.* at 164-66.

¹⁰⁶ *Id.* at 166.

¹⁰⁷ Dakin Dep. at 374-77.

¹⁰⁸ Tr. Day 5 at 154.

¹⁰⁹ Def. Ex. 59.

¹¹⁰ *Id.*

¹¹¹ *See, e.g.,* Def. Ex. 58; Def. Ex. 60; Def. Ex. 61; Def. Ex. 63.

42. Mr. Ganase testified that he would not have signed the contracts with Optical Air if he had known of the contents of the Gulfstream Agreement.¹¹² Mr. Ganase testified that he nearly “blew up the deal” when he learned of the past contract between Optical Air and Rockwell Collins.¹¹³

43. L-3 provided testimony that, absent exclusivity, L-3’s business case would have to be substantially reworked.¹¹⁴

44. L-3 did not, however, notify Optical Air that Optical Air had breached the Agreements or that Optical Air needed to remedy any defaults on June 28, 2016. Moreover, L-3 did not inform Optical Air that Optical Air had violated any representations or warranties in the Agreements on June 28, 2016.

THE UTAS AGREEMENT

45. Optical Air entered into the UTAS Agreement on December 23, 2013.¹¹⁵ The term of the UTAS Agreement is: (i) ten-years or (ii) the date Optical Air and UTAS closed a “Potential Transaction.”¹¹⁶

46. Optical Air entered into the UTAS Agreement because “[Optical Air] require[d] additional program funding to continue development of New ADS Products prior to the completion of any Potential Transaction.”¹¹⁷ The UTAS Agreement defined a “Potential Transaction” as “a long-term collaborative venture, including, but not limited to, joint venture, equity investment or other strategic transaction.”¹¹⁸

¹¹² Tr. Day 5 at 150.

¹¹³ Id. at 125, 150-51. *See also id.* at 9, 14.

¹¹⁴ Tr. Day 4 at 180; Tr. Day 5 at 14.

¹¹⁵ Pl. Ex. 4 at Sec. 7.1.

¹¹⁶ *Id.* at Sec. 7.1.

¹¹⁷ *Id.* at Background C (“New ADS Products” is defined in Background A).

¹¹⁸ *Id.* at Background B.

47. “Technology” is defined under the UTAS Agreement as “data, information, inventions, improvements, know-how, and trade secrets as embodied in specifications, drawings, reports, computer software or any other tangible medium, whether or not patentable.”¹¹⁹ The UTAS Agreement identified “Background Technology” to mean technology related to any next generation laser air data sensor system products for use in fixed wing aircraft and rotocraft worldwide and further provided that Optical Air would continue to own its own Background Technology.¹²⁰

48. The UTAS Agreement defined “Foreground Technology” as “Technology related to New ADS Products developed in the course of the Program Activities.”¹²¹ Any “Foreground Technology,” was to “be used by the Parties only to carry out their respective obligations” under the UTAS Agreement and would be jointly owned.¹²² Any other use would require mutual agreement.¹²³

49. The parties only did work that fell under the designation of “Background Technology.”¹²⁴ No Foreground Technology was created by either party in the course of the project.¹²⁵

50. Along with meeting certain technology tests and evaluation milestones, UTAS and Optical Air agreed to an “Evaluation Period” during which Optical Air would be subject to a no-shop provision.¹²⁶ During the Evaluation Period, Optical Air could not negotiate or enter into any merger, joint venture, or sale of all or substantially all of its assets.¹²⁷

¹¹⁹ *Id.* at Sec. 1.9.

¹²⁰ *Id.* at Background A, Secs. 1.1, 1.9, 6.1.

¹²¹ *Id.* at 1.3.

¹²² *Id.* at Sec. 6.2.1.

¹²³ *Id.*

¹²⁴ Tr. Day 3, at 187:7-10; Tr. Day 3, at 186:13-187:10; *See, also*, Pl. Ex. 246-250; Kibbe Dep. at 10.

¹²⁵ *Id.*

¹²⁶ Pl. Ex. 4 at Sec. 9.3.

¹²⁷ *Id.*

51. UTAS never submitted a letter of interest, exercised its right of first refusal, or further pursued a deal with Optical Air.¹²⁸ At one point, Optical Air obtained a term sheet from L-3 and provided it to UTAS.¹²⁹ UTAS rejected Optical Air's proposal and made a counter proposal.¹³⁰

52. Under the UTAS Agreement, Optical Air agreed to "pay UTAS a royalty on all sales, leases or other dispositions of New ADS Products" that were not "the sale of single-unit test, development or evaluation prototype hardware."¹³¹

53. Sections 7.2, 7.3 and 7.4 set out when the parties would be in default of the UTAS Agreement and the various rights and remedies upon default.¹³²

54. The default provisions in Section 7.2(a) (relating to breaches of representations and warranties) have a 30-day notice and cure period.¹³³ The default provisions in Section 7.2(b) (relating to insolvency issues) do not have a notice or cure period.¹³⁴ The default provisions in Section 7.2(c) (relating to "otherwise fail[ing] to perform any material obligation hereunder") have a 30-day notice and cure period.¹³⁵

55. Under the UTAS Agreement, Optical Air would be in default if Optical Air "is unable to pay its debts when due for a period of over 90 days."¹³⁶ L-3 contends that Optical Air's failure to pay social security taxes resulted in the IRS placing a lien on Optical Air and thus constituted a default under Section 7.2(b).¹³⁷ The Court does not find that this constituted the

¹²⁸ Kibbe Dep. at 47; *see also* Pl. Ex. 4 at Secs. 9.2, 9.3, 3.4.

¹²⁹ Tr. Day 1 at 122-123.

¹³⁰ *Id.* at 123:14-125:17.

¹³¹ Pl. Ex. 4 at 4.1.

¹³² *Id.* at Secs. 7.2-7.4.

¹³³ *Id.* at Sec. 7.2(a).

¹³⁴ *Id.* at Sec. 7.2(b).

¹³⁵ *Id.* at Sec. 7.2(c).

¹³⁶ *Id.* at Sec. 7.2(b)(5).

¹³⁷ Def. Ex. 137.

type of inability to pay debts as the debts became due under the UTAS Agreement as the issue was remedied by Optical Air.

56. If Optical Air defaulted under the UTAS Agreement, UTAS could receive “(i) an exclusive, irrevocable, paid up, world-wide perpetual license to use and have used [Optical Air’s] Background Technology for the development, manufacture and sale of New ADS Products and (ii) unfettered right to use and practice the Foreground Technology.”¹³⁸

57. Under the UTAS Agreement, Optical Air was required to supply UTAS with a list of Optical Air’s “Background Technology.”¹³⁹ Optical Air’s “Background Technology,” on which UTAS would have an “exclusive, irrevocable, paid up, world-wide perpetual license” in the event of Optical Air’s default.¹⁴⁰

58. The UTAS Agreement called for a separate license agreement to be drafted and executed by the parties to provide for certain rights in the event of default.¹⁴¹ The testimony at the Trial indicated that the parties never drafted or executed such an agreement.¹⁴²

59. The UTAS Agreement appears to have been “forgotten on the shelf” or completed as UTAS indicated to Optical Air that it no longer wished to continue pursuing a relationship.¹⁴³ UTAS did not even expect to receive any royalties under the UTAS Agreement from Optical Air under the UTAS Agreement.¹⁴⁴

60. Optical Air believed that its contract with UTAS had “expired by its terms.”¹⁴⁵

¹³⁸ Pl. Ex. 4 at Section 7.4.

¹³⁹ *Id.* at Sec. 6.1.

¹⁴⁰ Def. Ex. 196; Tr. Day 2 at 158.

¹⁴¹ Pl. Ex. at Sec. 7.4.

¹⁴² Tr. Day 3 at 190-91.

¹⁴³ *See* Kibbe Dep. at 147:3-9 (“Work out of the PSA had been completed and all of the payments had been made . . .”); Rogers Dep. at 222:12-21 (“ . . . that agreement was over and done.”).

¹⁴⁴ Kibbe Dep. at 68:14-22.

¹⁴⁵ Tr. Day 2 at 12-13; Pl. Ex. 265.

61. UTAS has never issued a notice of default to Optical Air.¹⁴⁶

62. UTAS has not demanded royalty payments and Optical Air has not paid UTAS any royalties.¹⁴⁷

63. Optical Air did not tell L-3 of the existence of the UTAS Argeement during due diligence or prior to the Agreement's effective date.¹⁴⁸

64. At a meeting on November 2, 2016, Optical Air told L-3 that the UTAS Agreement had "expired by its terms."¹⁴⁹

65. When Optical Air discussed the UTAS Agreement with L-3 at the November 2, 2016 meeting, Optical Air told L-3 that Optical Air did not think that UTAS had any intellectual property rights under the UTAS Agreement.¹⁵⁰

DUE DILIGENCE AND THE AGREEMENTS

66. As stated above, L-3 and Optical Air engaged in due diligence before executing the Agreements. On September 2 and September 3, 2015, representatives of L-3 visited Optical Air's headquarters.¹⁵¹ The L-3 representatives included Cyro Stone and Mr. Hedden.¹⁵² Mr. Hedden was in charge of due diligence.¹⁵³ The testimony was that Mr. Stone and Mr. Hedden were at Optical Air for two days conducting some due diligence.¹⁵⁴

67. September 3, 2015, Mr. Stone and Mr. Hedden reviewed some of Optical Air's due diligence documents, including documents that Dr. Rogers had gathered. These materials

¹⁴⁶ Kibbe Dep. at 69, 146-47 (stating that at the time Optical Air responded to L-3's due diligence questions, it was not in default under the UTAS Agreement and that the PSA had been completed).

¹⁴⁷ *Id.* at 72, 79-80, 166.

¹⁴⁸ *See* Def. Ex. 133; Tr. Day 1 at 184.

¹⁴⁹ Tr. Day 2 at 12-13; Pl. Ex. 265.

¹⁵⁰ Tr. Day 2 at 13; Pl. Ex. 265.

¹⁵¹ Tr. Day 1 at 95.

¹⁵² *Id.* at 95-96.

¹⁵³ Tr. Day 5 at 8.

¹⁵⁴ Pl. Ex. 126.

included some of the same materials that Dr. Rogers had shown Mr. Kubasik when Mr. Kubasik was at Seabury.¹⁵⁵ As discussed above, the testimony was that the Gulfstream Agreement was one of the documents included in the due diligence materials.¹⁵⁶ Dr. Rogers testified that he showed Mr. Hedden and Mr. Stone the Gulfstream Agreement.¹⁵⁷

68. Mr. Hedden led the L-3 due diligence team and was involved personally in the intellectual property due diligence.¹⁵⁸ As also discussed above, Mr. Hedden admitted that he reviewed a copy of the Gulfstream Agreement. Mr. Hedden testified that, from this review, he was able to determine that it was a continuous document and had a signature page.¹⁵⁹

69. During due diligence, L-3 retained Squire Patton Boggs to review the “public records of the patent” and “make sure that the license was free and clear of any encumbrances of third parties.”¹⁶⁰ It appears that L-3 reached out to various third parties to determine if the third parties had retained rights in Optical Air’s intellectual property.¹⁶¹

70. In March of 2016, L-3 requested a meeting with Optical Air regarding an agreement with Rockwell Collins.¹⁶² Mr. Hedden was present at the meeting; however, the Gulfstream Agreement was not part of the discussion.¹⁶³

71. L-3 and Optical Air executed the Agreements on March 31, 2016 consisting of: (i) the Product Development & Licensing Agreement (the “Licensing Agreement”),¹⁶⁴ (ii) the

¹⁵⁵ Tr. Day 1 at 97:4-9.

¹⁵⁶ *Id.* at 97.

¹⁵⁷ *Id.*

¹⁵⁸ Tr. Day 4, at 158.

¹⁵⁹ *Id.* at 165-66.

¹⁶⁰ Tr. Day 5 at 10-11.

¹⁶¹ Def. Ex. 31; Tr. Day 5 at 26-27.

¹⁶² Tr. Day 5 at 78.

¹⁶³ *Id.* at 78-79.

¹⁶⁴ Def. Ex. 3; Tr. Day 1 at 112.

Agreement-Appendix for Engineering Services for LIDAR Remote Sensing Solutions (the “Services Agreement”),¹⁶⁵ and (iii) the General Terms of Agreement (the “GTA”).¹⁶⁶

72. The goal of L-3’s relationship with Optical Air was to develop, certify and “productize” an air data system based on Optical Air’s technology.¹⁶⁷

73. Under the GTA, Optical Air could “not engage in work or render services which would ethically conflict with the relationship of trust and cooperation created hereby or otherwise conflict with [Optical Air’s] obligations under this GTA.”¹⁶⁸

74. The GTA, in Section 22.3, contains a limitation of liability provision that precludes the recovery of, *inter alia*, lost profits, providing:

NOTWITHSTANDING ANY OTHER PROVISION OF THE GTA AND ANY AGREEMENT-APPENDIX UNDER THIS GTA, IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER FOR ANY INCIDENTAL, INDIRECT OR CONSEQUENTIAL DAMAGES WHATSOEVER, INCLUDING BUT NOT LIMITED TO LOSS OF USE, REVENUE OR PROFIT, REGARDLESS OF NOTICE, ACTUAL OR CONSTRUCTIVE, OF THE POSSIBILITY OF SUCH DAMAGES.¹⁶⁹

The License Agreement also contains a similar limitation of liability provision at Section 12.¹⁷⁰

Section 12 of the License Agreement limits contractual damages not to exceed \$10.0 million in the aggregate.¹⁷¹ The Court will refer to GTA Section 22.3 and License Agreement Section 12 collectively as the “Limitation of Liability Provisions.”

¹⁶⁵ Def. Ex. 2; Tr. Day 1 at 113. The Services Agreement was later modified by the Letter Agreement (discussed below).

¹⁶⁶ Def. Ex. 1; Tr. Day 1 at 113.

¹⁶⁷ Def. Ex. 1; Def. Ex. 2; Def. Ex. 3.

¹⁶⁸ Def. Ex. 1 at Sec. 44.

¹⁶⁹ *Id.* at Sec. 22.3.

¹⁷⁰ Def. Ex. 3 at Sec. 12.

¹⁷¹ *Id.*

75. The GTA allowed Optical Air and L-3 to enter into an Agreement-Appendix (or several Agreement-Appendices). These Agreement-Appendices would be governed by the GTA.¹⁷²

76. The GTA references and acknowledges the License Agreement.¹⁷³ The GTA provides that "...the terms of the License Agreement shall take precedence over any inconsistency between the provision of the License Agreement and any other agreement entered between [L-3 and Optical Air], including but not limited to the GTA."¹⁷⁴

77. Section 2.1.1 of the License Agreement provides L-3 with the exclusive use of Optical Air's then existing technology within the prescribed use field of aerospace (the "Licensed Technology").¹⁷⁵ The Use Field is defined in greater detail at Exhibit C to the License Agreement.

78. This license grant is subject to certain "Reserved Rights" set out in Section 2.1.2:

Without prejudice to the non-compete terms of this Agreement,¹⁷⁶ Licensor specifically and expressly reserves to itself the right to make, have made, import and use Licensed Technology for research and development, test and evaluation, and prototyping of the Licensed Technology and any Modifications, subject to Licensee's rights in Section 2.2.1.¹⁷⁷

79. Section 2.2.3 provides:

Notwithstanding the foregoing, during the Term of this Agreement, Licensor's rights within the Use Field shall be limited to research and development, test and

¹⁷² See Tr. Day 5 at 28-31; Def. Ex. 1 at Sec. 1.1.

¹⁷³ Def. Ex. 1 at Sec. 1.5.

¹⁷⁴ *Id.*

¹⁷⁵ Def. Ex. 3 at Sec. 2.1.2.

¹⁷⁶ Section 26 "Non-Competition" provides in pertinent part that, "Licensor will refrain from either directly or indirectly participating in the *manufacturing and/or selling (and/or licensing to third parties for the sale) of any product, [etc.]* using the Licensed Technology, [etc.] in the Use Field." Again, this section includes the same reservation by Licensor to "engage in research and development, test and evaluation, and prototyping of the Licensed Technology . . ." *Id.* (emphasis added). Moreover, this section states: "Any rights not explicitly granted to Licensee in this Agreement are reserved by [Optical Air]. The license granted hereunder shall not be construed to confer any rights to Licensee by implication, estoppel, or otherwise . . ." *Id.* at Sec. 26.

¹⁷⁷ *Id.* at Sec. 2.2.1. Section 2.2.1 reiterates the reservation of rights for applications within the Use Field and mandates: "Licensor shall promptly disclose to Licensee all material Modifications, developments to the Licensed Technology and Newly Developed Royalty Products with applications in the Use Field." *Id.*

evaluation, and prototyping of the Licensed Technology and any Modifications, subject to Licensee's rights in Section 2.2.1.¹⁷⁸

80. Optical Air represents in Section 4.2.1 of the License Agreement that there are no "encumbrances on the Licensed Technology . . . that may affect [its] use by [L-3]."¹⁷⁹

81. Section 23.2 of the License Agreement further provides that if either party "is in material breach of its obligations or warranties or has made any material misrepresentation," the non-breaching party must provide written notice of breach and the breaching party has a 60-day cure before a party can terminate.¹⁸⁰

82. The Services Agreement is the first Agreement-Appendix to the GTA.¹⁸¹

83. The Services Agreement contained milestones aimed at getting the product certified.¹⁸² These preliminary milestones were fleshed out through future negotiations.¹⁸³ Optical Air's first milestone was to complete a detailed joint statement of work.¹⁸⁴

84. Each milestone corresponded with a fixed payment to Optical Air.¹⁸⁵ The total amount of milestone payments under the Services Agreement is set out in Section 2.2 of the Services Agreement.¹⁸⁶ The remainder was allocated for an aircraft and a reserve,¹⁸⁷ as well as two prototype units.¹⁸⁸

85. Under the Services Agreement, "the Services to be completed by [Optical Air] consist of engineering development and certification engineering of the Light Detection and

¹⁷⁸ *Id.* at Sec. 2.2.3.

¹⁷⁹ Def. Ex. 3 at Sec. 4.2.1.

¹⁸⁰ *Id.* at Sec. 23.2.

¹⁸¹ Tr. Day 5 at 29; Def. Ex. 2 at Sec. 1.2.

¹⁸² Def. Ex. 2 at Sec. 8; Tr. Day 1 at 244-47; Def. Ex. 2, Attachment A at Sec. 2.2.

¹⁸³ Tr. Day 1 at 246.

¹⁸⁴ Tr. Day 1 at 250-53; Def. Ex. 2.

¹⁸⁵ Tr. Day 1 at 247; Def. Ex. 2, Attachment A at Sec. 2.2.

¹⁸⁶ Def. Ex. 2, Attachment A at Sec. 2.2; Tr. Day 1 at 248, 251-252.

¹⁸⁷ Tr. Day 1 at 247:16-18.

¹⁸⁸ Tr. Day 3 at 194-96; Tr. Day 4 at 132.

Ranging (LIDAR) Remote Sensing Solutions Equipment.”¹⁸⁹ In addition, Optical Air was also supposed to develop a product capable of ride smoothing for Gulfstream aircraft.¹⁹⁰

86. Under the Services Agreement, “[Optical Air’s] program communication with L-3 APD customers is expressly prohibited without written approval from the L-3 APD Program Manager.”¹⁹¹

87. The GTA terminated automatically if the Licensing Agreement terminated for any reason.¹⁹² L-3 could terminate the GTA and the Services Agreement for L-3’s convenience.¹⁹³

88. If L-3 terminated the GTA and the Services Agreement for L-3’s convenience, L-3 “will only be liable for the price of the work that has been completed to meet scheduled Delivery dates as of the date of [the] termination notice.”¹⁹⁴

89. The Licensing Agreement attached and incorporated L-3’s business case.¹⁹⁵ Optical Air claims that L-3’s business case reflected Gulfstream’s exclusivity rights under Optical Air’s contract with Gulfstream.¹⁹⁶

90. Mr. Hedden, who drafted L-3’s business case, testified that he did not draft the business case to reflect Gulfstream’s exclusivity rights.¹⁹⁷

91. In a deposition, Gulfstream’s corporate representative testified that Gulfstream did not believe that L-3’s business case allowed Gulfstream to retain the exclusivity, right of first offer, and most favored customer rights granted to it under the Gulfstream Agreement.¹⁹⁸

¹⁸⁹ Def. Ex. 2 at Sec. 2.

¹⁹⁰ *Id.* Attachment A at Sec. 1.2.

¹⁹¹ Def. Ex. 2, Attachment A at Sec. 3.2.1.5.

¹⁹² Def. Ex. 1 at Sec. 31.3; Def. Ex. 2 at Sec. 12.

¹⁹³ Def. Ex. 1 at Sec. 31.2; Def. Ex. 2 at Sec. 12; Tr. Day 5 at 28.

¹⁹⁴ Def. Ex. 1 at Sec. 31.2.

¹⁹⁵ Def. Ex. 3. at Ex. D.

¹⁹⁶ Tr. Day 1 at 97-109; First Am. Compl. ¶53.

¹⁹⁷ Tr. Day 4 at 184; Tr. Day 5 at 134.

¹⁹⁸ Bristol Dep. at 56 and 404.

92. Under the Gulfstream Agreement, Gulfstream’s exclusivity rights extended for two years from the date Gulfstream decided to seek to certify Optical Air’s product for primary air data.¹⁹⁹ The Gulfstream Agreement does not set a date certain for Gulfstream to make a certification decision.²⁰⁰

93. L-3’s business case included business jets manufactured by Gulfstream, Embraer, and Boeing.²⁰¹ L-3’s business case included sales to Embraer for business jets within the first two years of production.²⁰²

94. In the Licensing Agreement, Optical Air “represent[ed] and warrant[ed] that it is the sole owner of the Licensed Technology, that the Licensed Technology does not include any third party’s intellectual property and that [Optical Air] has the right to grant to [L-3] the specific rights set forth herein without violating United States based rights of any third party.”²⁰³ Optical Air “further represent[ed] and warrant[ed] to the best of its knowledge that the Licensed Technology as set forth in this Agreement constitutes all of its technology within the Use Field.”²⁰⁴

95. Under the Licensing Agreement, Optical Air granted L-3:

a worldwide, perpetual, irrevocable, transferable (in accordance with the transferability and sublicensing terms of this Agreement) and exclusive (even as against Licensor and its Affiliates, except as permitted in this Section 2) license under the Licensed Technology to (i) make, have made, use, sell, offer to sell, lease, import, make Modifications to, support, maintain, and otherwise exploit processes or products embodying or utilizing the inventions and technology disclosed in the Licensed Technology and/or claimed in the Patents in the Territory during the term of the Agreement (but not to exceed the lives of the Patents) and (ii) copy, make Modifications to, distribute, perform and display the Licensed technology, in each case, for the Use Field.²⁰⁵

¹⁹⁹ Def. Ex. 4 at Sec. 17.14.

²⁰⁰ *Id.*

²⁰¹ Def. Ex. 3 at Ex. D; Def. Ex. 255; Tr. Day 4 at 184-87; Tr. Day 5 at 137-39.

²⁰² Def. Ex. 3 at Ex. D; Tr. Day 4 at 184-87; Tr. Day 5 at 137-39.

²⁰³ Def. Ex. 3 at Sec. 3.1.

²⁰⁴ *Id.*

²⁰⁵ Def. Ex. 3 at Sec. 2.1.1.

The Licensed Technology to which Optical Air granted L-3 a “worldwide, perpetual, irrevocable . . . and exclusive” license “includes any and all technology developed by or on behalf of [Optical Air] relating to the aviation market.”²⁰⁶ Optical Air did not provide any schedule listing any exceptions to the rights it was granting under Section 2.1.1.²⁰⁷ The “Use Field” under the Licensing Agreement is “all uses and applications for the development and commercialization of the Licensed Technology for Aircraft products for all military, commercial and general aviation.”²⁰⁸

96. Under the Licensing Agreement, Optical Air “reserve[d] to itself the right to make, have made, import, and use Licensed Technology for research and development, test and evaluation, and prototyping of the Licensed Technology and any Modifications, subject to [L-3’s] rights in Section 2.2.1.”²⁰⁹

97. Section 2.2.1 of the Licensing Agreement provides that any “Modifications or further developed Licensed Technology shall be included within the scope with the licenses granted in Section 2.1.”²¹⁰

98. The Licensing Agreement defines “modifications” to “mean modifications, improvements, derivative works, alterations, revisions, variants or revisions to the Licensed Technology.”²¹¹

²⁰⁶ *Id.* at Ex. C.

²⁰⁷ Tr. Day 5 at 34.

²⁰⁸ Def. Ex. 3 at Sec. 1.22.

²⁰⁹ *Id.* at Sec. 2.1.2.

²¹⁰ *Id.* at Sec. 2.2.1.

²¹¹ *Id.* at Sec. 1.8.

99. Optical Air represented that there were “no encumbrances on the Licensed Technology or on any portion of the Licensor’s technology that may affect the Licensed Technology use by [L-3].”²¹²

100. Optical Air represented that there were no “restrictions,” or “subordination to a right of a third party” “that may affect the Licensed Technology use by [L-3] or adversely affect [L-3’s] Business Case.”²¹³

101. The Licensing Agreement controls over the Services Agreement.²¹⁴

102. Absent the Licensing Agreement, there was no reason or need for L-3 to continue purchasing services from Optical Air under the Services Agreement.²¹⁵ According to Mr. Mayer, if L-3 terminated the Licensing Agreement for any reason, L-3 would have terminated the Services Agreement for convenience.²¹⁶

LIMITATION OF LIABILITY AND PAYMENT PROVISIONS

103. Section 12 of the Licensing Agreement contains one of the Limitation of Liability Provisions.²¹⁷ The Limitation of Liability Provisions in the Licensing Agreement and in the GTA preclude recovery of lost profits.²¹⁸ The Limitation of Liability Provision in the Licensing Agreement limits recovery to the “amount of license fees actually paid under this [License] Agreement to the date of the claim.”²¹⁹

²¹² *Id.* at Sec. 4.2.1.

²¹³ *Id.*

²¹⁴ Def. Ex. 1 at Sec. 1.5.

²¹⁵ Tr. Day 5 at 31-32.

²¹⁶ *Id.* at 32.

²¹⁷ Def. Ex. 3 at Sec. 12.

²¹⁸ *Id.*; Def. Ex. 1 at 22.3.

²¹⁹ *Id.*

104. L-3 was required to pay Optical Air \$2 million within thirty days of the signing of the Licensing Agreement.²²⁰ The record demonstrates that L-3 paid Optical Air the \$2 million on a timely basis—*i.e.*, within thirty days of the signing of the Licensing Agreement.²²¹

105. The Licensing Agreement obligated L-3 to pay Optical Air an additional \$1 million on January 15, 2017.²²²

106. L-3 did not pay Optical Air this additional \$1 million. L-3 withheld the additional payment because L-3 contended that Optical Air breached the Licensing Agreement. L-3 provided Optical Air with notice that it had terminated the Licensing Agreement prior to January 15, 2017.²²³

107. Sections 8.1.2 and 8.2 of the Licensing Agreement required L-3 to pay Optical Air additional amounts on specified dates if certain events took place prior to specified dates.²²⁴ The events set forth in Sections 8.1.2 and 8.2 of the Licensing Agreement did not take place by the dates listed in those sections.²²⁵

108. L-3 was required to pay Optical Air a 5% running royalty on all Net Sales.²²⁶ There was no guarantee that Optical Air would receive any particular dollar amount of running royalties.²²⁷ L-3 did not make any sales, and therefore did not pay Optical Air any running royalties.²²⁸

109. Section 14 of the Licensing Agreement provides that “the reasonably prevailing party shall be entitled to recover its reasonable attorneys’ fees and costs incurred in any dispute

²²⁰ *Id.* at Sec. 8.1.1.

²²¹ *Id.*

²²² *Id.*

²²³ *Id.*; Def. Ex. 112.

²²⁴ Def. Ex. 3 at Secs. 8.1.2, 8.2.

²²⁵ *Id.*; Def. Ex. 112.

²²⁶ Def. Ex. 3 at Sec. 3.

²²⁷ Tr. Day 3 at 39.

²²⁸ *Id.*

arising out of this Agreement.”²²⁹ The Court will refer to Section 14 as the “Attorneys’ Fees Provision.”

110. The Attorneys’ Fees Provision provides for “fees on fees.”²³⁰

OFF RAMPS

111. L-3 could terminate the Agreements even if there was not a material breach by Optical Air.²³¹ The Licensing Agreement contains a number of what were characterized as “off ramps.”²³² Section 23.3.2 provides that L-3 may terminate the Licensing Agreement “[a]fter the first 12 (twelve) months from the Effective Date” upon the occurrence of certain events listed at 23.3.2(i) through (ix).²³³ As such, L-3 could exercise an off ramp after the Licensing Agreement’s first anniversary (i.e. March 31, 2017).²³⁴ The Court will refer to Section 23.3.2 at the “Off Ramps Provision” and the events listed at Section 23.3.2(i) through (ix) individually as an “Off Ramp.”

112. L-3 was required to give 90 days’ notice to Optical Air of its intent to “take” an Off Ramp.²³⁵ The earliest time L-3 could give notice of its intent to exercise an Off Ramp would be January 1, 2017–90 days prior to the first anniversary of the Licensing Agreement.²³⁶

113. Under the Off Ramps Provision, L-3 was entitled to terminate the Licensing Agreement if there was an estimate or projection that it would cost more than \$15 million to develop Optical Air’s product.²³⁷ In other words, the Off Ramp did not require L-3 to actually spend more than \$15 million to develop Optical Air’s product. Rather, all that was necessary

²²⁹ Def. Ex. 3 at Sec. 14.

²³⁰ *Id.*

²³¹ Def. Ex. 3 at 23.3.2.

²³² *Id.*; Tr. Day 4 at 36-38.; Tr. Day 5 at 68-70.

²³³ Def. Ex. 3 at Sec. 23.3.2.

²³⁴ *Id.*

²³⁵ *Id.*

²³⁶ *Id.*; Tr. Day 5 at 68.

²³⁷ Def. Ex. 3 at Sec. 23.3.2(ii)(a).

was that there be a projection or an estimate that L-3 would have to spend more than \$15 million to develop Optical Air's product.²³⁸

114. On June 23, 2016, L-3 projected that it would cost \$20.8 million to develop Optical Air's product.²³⁹ On June 23, 2016, L-3 projected that, even after cost cutting, it would still cost \$19.1 million to develop Optical Air's product.²⁴⁰ L-3 made this projection during the initial baseline review for the program.²⁴¹

115. Mr. Ganase, who was ultimately in charge of the project for L-3, directed his team to further reduce the costs of the program.²⁴² Despite efforts, L-3 was unable to reduce the projected costs to less than \$15 million.²⁴³ The testimony at the Trial was that L-3 was not able to reduce the projected costs of the program to less than \$3 million over the \$15 million budget.²⁴⁴

116. L-3 would also be entitled to exercise an Off Ramp if "Boeing and Embraer, or equivalent critical OEM customers to the Licensee's business case, have not entered into a formal Agreement with Licensee to install and Type Certify the Royalty Product on a Forward Fit in production commercial aircraft within 12 (twelve) months from the Effective Date of this Agreement."²⁴⁵

117. A "Forward Fit" contract is one in which an aircraft manufacturer agrees to install a product in new aircraft.²⁴⁶ A "Forward Fit" contract contrasts with either a "Retrofit" contract

²³⁸ *Id.*; Tr. Day 5 at 157 and 189.

²³⁹ Def. Ex. 234 at L107290-93; Tr. Day 4 at 39-45.

²⁴⁰ *Id.*; Tr. Day 4 at 47.

²⁴¹ Tr. Day 4 at 39-40; Tr. Day 5 at 155.

²⁴² Tr. Day 5 at 156; Tr. Day 4 at 41-42.

²⁴³ Tr. Day 5 at 157; Tr. Day 4 at 47-48.

²⁴⁴ *Id.*

²⁴⁵ Def. Ex. 3 at Sec. 23.3.2(iv); Tr. Day 5 at 146.

²⁴⁶ Tr. Day 5 at 146.

(in which a product is “retrofitted” into existing aircraft) or a contract to buy equipment for testing or evaluation purposes.²⁴⁷

118. Boeing told L-3 that it would take between five and ten years for Boeing to agree to install Optical Air’s product in Boeing’s production aircraft on a forward fit basis.²⁴⁸

119. Embraer told L-3 that Embraer did not believe that Optical Air’s product would be ready for forward fit installation for twenty years.²⁴⁹ In addition, Embraer told L-3 that Embraer had “no interest” in replacing traditional air data systems.²⁵⁰ Embraer also told L-3 that Embraer believed that Optical Air’s technology was inferior to that of Optical Air’s competitors.²⁵¹

120. As a result, L-3 concluded on September 21, 2016, that Embraer’s statements “certainly didn’t validate the weight we put on EMB in the business case.”²⁵²

121. L-3 was entitled to exercise an Off Ramp “in the event that the performance of the Royalty Product in the operational environment for the intended function does not meet customer’s requirements such as to materially impact Licensee’s Business Case.”²⁵³

122. A launch customer is necessary to convince the “pragmatic majority” that a product is safe (and worthwhile) to adopt and use.²⁵⁴ Absent a launch customer, a product will not “get off the ground.”²⁵⁵ Losing a launch customer adversely affects the business case.²⁵⁶

²⁴⁷ *Id.*

²⁴⁸ Def. Ex. 235 at L9264; Tr. Day 4 at 49; Tr. Day 5 at 70, 140, 146, 158.

²⁴⁹ Def. Ex. 92 at L12866; Tr. Day 4 at 32-33; Tr. Day 5 at 140-41, 158.

²⁵⁰ Def. Ex. 92 at L12866.

²⁵¹ *Id.*; Tr. Day 5 at 144.

²⁵² Def. Ex. 92 at L12864.

²⁵³ Def. Ex. 3 at Sec. 23.3.2(v).

²⁵⁴ Tr. Day 1 at 105-06; Tr. Day 4 at 184-85.

²⁵⁵ Tr. Day 5 at 148.

²⁵⁶ *Id.* at 56-57; Def. Ex. 63 at L80271.

123. L-3 believed that Gulfstream was the launch customer for Optical Air's product.²⁵⁷ Gulfstream was a potential launch customer for Optical Air's product because Gulfstream is known as a leader when it comes to new technology in the aviation market.²⁵⁸ Additionally, Gulfstream represented approximately 8% of the revenue in the business case.²⁵⁹

124. L-3 was concerned that, as a result of the conflict between the Agreements and the Gulfstream Agreement, L-3 would lose Gulfstream as a launch customer.²⁶⁰

125. Eventually, Gulfstream determined that the performance of Optical Air's product did not meet Gulfstream's requirements.²⁶¹

126. Based on the evidence provided during the Trial, the Court finds that L-3 would have "taken" at least one of the Off Ramps on March 31, 2017 if it had not previously terminated its contracts with Optical Air.

OPTICAL AIR'S REPRESENTATIONS IN ANTICIPATION OF SIGNING THE AGREEMENTS

127. Section 23.2 of the Licensing Agreement provides that a party is in breach of that Agreement if it "has made any material misrepresentation in anticipation of this Agreement."²⁶²

128. In anticipation of signing the Licensing Agreement, L-3 asked Optical Air to make a series of representations in response to written intellectual property questions.²⁶³ L-3's representative testified that L-3 relied on Optical Air's answers to L-3's intellectual property questions when it decided to sign its contracts with Optical Air.²⁶⁴

²⁵⁷ Tr. Day 5 at 148.

²⁵⁸ Tr. Day 4 at 164-65, 184-85.

²⁵⁹ Def. Ex. 63 at L80271; Tr. Day 5 at 56.

²⁶⁰ Tr. Day 5 at 57.

²⁶¹ Bristol Dep. at 19-21, 177; Nale Dep. at 286; Pl. Ex. 234 at OADS017785-87.

²⁶² Def. Ex. 3 at Sec. 23.2.

²⁶³ Def. Ex. 5.

²⁶⁴ Tr. Day 5 at 25, 149.

129. L-3's intellectual property question 5 ("Question 5") asked "[w]ith whom has [Optical Air] engaged in discussions that result in a third party being granted rights to use [Optical Air's] technologies and/or know-how, and what were the results of those discussions?" and "whether any such third party may exercise a right arising from any agreement with [Optical Air] including an option. . . ." ²⁶⁵

130. Question 5 seeks (among other things) information about third party rights that may be contingent on some future date or trigger. ²⁶⁶

131. In response to Question 5, Optical Air disclosed only its contract with Rockwell Collins. ²⁶⁷ Moreover, Optical Air provided L-3 with evidence that Optical Air's contract with Rockwell Collins had been terminated. ²⁶⁸

132. L-3 did follow up with additional due diligence on the Rockwell Collins contract. L-3 asked Optical Air to:

identify and provide copies of any and all agreements [Optical Air] or any of its principal officers have executed with any third parties that have *any potential* to encumber [Optical Air] intellectual property rights, regardless of whether such agreements are deemed active or terminated, and if deemed terminated, definitive evidence of termination. ²⁶⁹

133. On August 2, 2013, Optical Air and Gulfstream had entered into the Gulfstream Agreement. ²⁷⁰ As discussed above, the Gulfstream Agreement was "for the design and development of [an] Optical Air Data Sensor System." ²⁷¹ In addition, the Gulfstream Agreement granted Gulfstream "a non-exclusive, worldwide, royalty free license to use [Optical Air's] Program IP and [Optical Air's] Background IP that is incorporated into Products, during the

²⁶⁵ Def. Ex. 5 at 14.

²⁶⁶ Tr. Day 4 at 225.

²⁶⁷ Def. Ex. 5 at 14.

²⁶⁸ Def. Ex. 31.

²⁶⁹ Def. Ex. 29 (emphasis in original); Tr. Day 5 at 18-21.

²⁷⁰ Def. Ex. 4.

²⁷¹ *Id.* at 1.

Program Duration for the Program Purposes.”²⁷² Optical Air’s contract with Gulfstream also granted Gulfstream a “Limited Background IP License.”²⁷³

134. Optical Air did not disclose its agreement with Gulfstream in response to Question 5.²⁷⁴

135. If Optical Air defaulted under the UTAS Agreement, UTAS receives “(i) an exclusive, irrevocable, paid up, world-wide perpetual license to use and have used [Optical Air’s] Background Technology for the development, manufacture and sale of New ADS Products and (ii) unfettered right to use and practice the Foreground Technology.”²⁷⁵ In the event of default, UTAS would seem to receive a “worldwide, perpetual, irrevocable . . . and exclusive” license in the same technology that Optical Air licensed to L-3 under the License Agreement.²⁷⁶

136. Optical Air did not disclose the UTAS Agreement in response to Question 5.²⁷⁷

137. L-3’s intellectual property question 6 (“Question 6”) asked if Optical Air had any “working relationships where third parties participated in or contributed to the design or development of any of [Optical Air’s] products” or if “[Optical Air] ha[s] any agreements with any of its customers and/or partners that could in any way restrict or limit its business relationship with L-3.”²⁷⁸

²⁷² Def. Ex. at 4 at Sec. 14.3.2.

²⁷³ *Id.* at Sec. 14.3.3.

²⁷⁴ Def. Ex. 5 at 14.

²⁷⁵ Def. Ex. 154 at Sec. 7.4.

²⁷⁶ *Compare* Def. Ex. 3 at Ex. A with Pl. Ex. 4; *see also* Tr. Day 2 at 158-59.

²⁷⁷ Def. Ex. 5 at 14.

²⁷⁸ *Id.* at 15.

138. In response to Question 6, Optical Air said “No.”²⁷⁹ Optical Air also “represent[ed] that there is no Third Party IP involved with or used in the Licensed Technology.”²⁸⁰

139. The Gulfstream Agreement required Optical Air to work in “a collaborative design and development environment in support of Gulfstream Engineering and Program Management initiatives for Integrated Product Team (IPR) development.”²⁸¹ The Gulfstream Agreement provided that Optical Air and Gulfstream would jointly design and develop the design configuration and technical specifications of the product.²⁸² The Gulfstream Agreement provided for the creation of Joint IP.²⁸³

140. Optical Air did not disclose the Gulfstream Agreement in response to Question 6.²⁸⁴

141. The UTAS Agreement provided that, if Optical Air defaulted under the agreement, UTAS would receive “an exclusive, irrevocable, paid up, world-wide perpetual license to use” the patents Optical Air purportedly licensed to L-3.²⁸⁵

142. Optical Air did not disclose the UTAS Agreement in response to Question 6.²⁸⁶

143. Given the wording of Question 5 and Question 6, the Court finds that Optical Air should have disclosed the Gulfstream Agreement and the UTAS Agreement in response to those questions.

²⁷⁹ *Id.*

²⁸⁰ Def. Ex. 25.

²⁸¹ Pl. Ex. 3, Attachment A at Sec. 2.1.

²⁸² *Id.* at Sec. 1.2.4.1.

²⁸³ *Id.* at Secs. 14.1, 14.2.3.

²⁸⁴ Def. Ex. 5 at 15.

²⁸⁵ Def. Ex. 154 at Sec. 7.4; *compare* Def. Ex. 3 at Ex. A with Pl. Ex. 4; *see also* Tr. Day 2 at 158, 161-62.

²⁸⁶ Def. Ex. 5 at 15.

SUBSEQUENT HISTORY

144. There was never a business development agreement between L-3 and Optical Air.²⁸⁷ Business development costs do not appear to be part of the \$15.0 million design and certification budget.²⁸⁸ In addition, Optical Air was not compensated for time spent with clients domestically.²⁸⁹

145. Mr. Ganase testified about an e-mail exchange with his CFOs, Todd Gautier (an L-3 sector president) and Arthur Yeager (Steve Kantor's CFO), about an adjustment for calculating management incentive bonuses because of a huge investment required for out of plan opportunity.²⁹⁰ According to the exchange, Mr. Ganase may have been looking for an adjustment. Mr. Yeager pointed out that Mr. Gautier would not sign off on such a request,²⁹¹ and that Corporate does not grant relief in these situations—"if you don't like the consequences, then don't do it."²⁹² Mr. Ganase responded: "I had a similar discussion with a different group when the decision was made to 'suck up' the Optical Air deal that was not in our plan."²⁹³ Mr. Ganase attributes the origination of the Optical Air program to Mr. Strianese.²⁹⁴

146. Throughout May of 2016, Optical Air and L-3 negotiated an arrangement that would pay for the tasks tied to milestones and pay a monthly stipend that would allow L-3 access to Optical Air so that Optical Air could respond to questions L-3's engineers might have related

²⁸⁷ Tr. Day 1 at 257.

²⁸⁸ *Id.* at 257; Pl. Ex. 66.

²⁸⁹ Tr. Day 1 at 257.

²⁹⁰ Tr. Day 5 at 212-13; Pl. Ex. 54.

²⁹¹ Tr. Day 5 at 214.

²⁹² *Id.*; Pl. Ex. 54.

²⁹³ *Id.*

²⁹⁴ Tr. Day 5 at 224.

to development, production or business development.²⁹⁵ This arrangement remained at the original \$6.0 million allocation for Optical Air.²⁹⁶

147. This revised plan was laid out in a letter agreement, dated May 27, 2016 (the “Letter Agreement.”)²⁹⁷ The parties exchanged drafts of the detailed tasks associated with each milestone in the statement of work through June of 2016.²⁹⁸ Together, the milestone payments and stipends payable to Optical Air totaled \$6,000,000.²⁹⁹ The final milestone was scheduled for March of 2018.³⁰⁰

148. The testimony was that the Letter Agreement ensured monthly payments to Optical Air at a time when Optical Air was having difficulty satisfying expenses. The Letter Agreement broke the monthly payments into “Milestone Payments” and “Stipend Payments.”³⁰¹ The Milestone Payments were \$195,000 per month for the first twelve (12) months and then \$101,000 for the next ten (10) months.³⁰² The Stipend Payments were \$195,000 per month beginning on June 1, 2016 and continue for twelve months. After twelve (12) months, the Stipend Payments decreased to \$101,000 per month for the next ten months.³⁰³ In no event would the total amount of Milestone Payments and Stipend Payments exceed \$6.7 million. As such, L-3 would pay Optical Air a monthly amount of \$390,000 for the first twelve (12) months of the Letter Agreement.³⁰⁴

²⁹⁵ Tr. Day 1 at 260; Tr. Day 4 at 134-36.

²⁹⁶ Tr. Day 1 at 261; Tr. Day 4 at 129-132; Pl. Ex. 66.

²⁹⁷ Tr. Day 1 at 261; Pl. Ex. 57.

²⁹⁸ Tr. Day 1 at 261-62; Pl. Ex. 58.

²⁹⁹ Tr. Day 1 at 263.

³⁰⁰ Tr. Day 1 at 263; Tr. Day 1 at 265.

³⁰¹ Pl. Ex. 57 at 2-3.

³⁰² Id. at 2.

³⁰³ Id. at 3.

³⁰⁴ Id. at 2-3.

149. The Subcontract Statement of Work (the “Amended SSOW”) had to be updated to reflect the Letter Agreement.³⁰⁵ Under the Amended SSOW, L-3 required Optical Air to send L-3 an engineering coordination memo (“ECM”) to obtain milestone requirements.³⁰⁶ Upon submission of the ECM, L-3 had five working days to require additional work or the ECM would have been deemed accepted.³⁰⁷ If L-3 wanted the ECM modified or revised, Optical Air had five working days to resubmit it.³⁰⁸ If that were to have happened, L-3 had two additional days to further reject the ECM and meet with Optical Air to address deficiencies and revise the milestone accordingly.³⁰⁹

150. On May 24, 2016, Dr. Rogers and Ms. Dakin attended a meeting between L-3 and Gulfstream.³¹⁰ In attendance were Dan Nale, Jeff Hausmann, Taylor Smith, and Bill Williams of Gulfstream.³¹¹ Mr. Williams was charged with procurement for hardware on Gulfstream aircraft.³¹² Mr. Ganase attended for L-3.³¹³ The purpose of this meeting was to introduce L-3 to Gulfstream as Optical Air’s licensee.³¹⁴ L-3 presented their roadmap for certification because Gulfstream wanted to be the launch customer.³¹⁵

151. In advance of the meeting between L-3 and Gulfstream, Dr. Rogers provided the L-3 team with a brief history of the project with Gulfstream.³¹⁶ This exchange included discussion of the Gulfstream Agreement and whether it was still active,³¹⁷ and the need to enter

³⁰⁵ Pl. Ex. 61 at OADS0001360.

³⁰⁶ Tr. Day1 at 268-69; Pl. Ex. 61 at Sec. 2.4.1.

³⁰⁷ Tr. Day 1 at 268.

³⁰⁸ *Id.* at 268-69.

³⁰⁹ *Id.* at 269.

³¹⁰ *Id.* at 113.

³¹¹ *Id.* at 115-116; Pl. Ex. 47 .

³¹² Tr. Day 1 at 114-115.

³¹³ *Id.* at 116.

³¹⁴ *Id.* at 116.

³¹⁵ *Id.* at 117.

³¹⁶ *Id.* at 117-18; Pl. Ex. 238.

³¹⁷ Tr. Day 1 at 118.

into Phase II for certification of the product for several applications in which Gulfstream was interested—a matter then under negotiation.³¹⁸

152. As Dr. Rogers explained to Mr. Ganase, Phase II would have required Gulfstream to invest an aircraft for the purpose of conducting Optical Air system specific flight tests at all altitudes, an expensive proposition that Gulfstream did not want to pursue.³¹⁹

153. On June 23, 2016, L-3's team convened to create a baseline program plan to measure and execute the Optical Air program going forward.³²⁰ L-3 anticipated a budget of \$15.0 million for engineering and certification and were projecting costs of approximately \$19.0 million.³²¹ The L-3 team worked to cut expenses to meet the budget.³²²

154. Mr. Jenkins wrote Ms. Rogers in July, 2016, stating “we understand from [Gulfstream] that [Optical Air] is in receipt of permission to share the existing two-way agreement that was disclosed to us during due diligence.”³²³ Ms. Rogers provided a copy the same day.³²⁴

155. According to an internal L-3 presentation dated August 10, 2016, the design and certification schedule required L-3 to hire a laser optics expert.³²⁵ L-3 was still searching for a laser optics expert in September because the company, “lack[ed] expertise to fully transfer [Optical Air] technology”³²⁶ The Court is unaware of evidence that L-3 hired a laser optics expert.

³¹⁸ *Id.* at 119-20; Pl. Ex. 238.

³¹⁹ *Id.* at 121.

³²⁰ Tr. Day 4 at 39-40.

³²¹ *Id.* at 40-41.

³²² Tr. Day 5 at 190; Pl. Ex. 89.

³²³ Tr. Day 4 at 126-27; Pl. Ex. 78.

³²⁴ Tr. Day 4 at 141.

³²⁵ Tr. Day 5 at 182-83; Pl. Ex. 89 at L0106813.

³²⁶ Tr. Day 5 at 195; Pl. Ex. 154 at 3.

156. Upon receipt of Gulfstream's first draft agreement, on or about August 22, 2016, L-3 never negotiated the contract.³²⁷ Mr. Mayer and his associates at L-3 apparently believed that all of the terms in Section 17.14 of the Gulfstream Agreement were enforceable against L-3 and that Gulfstream had an interest in Optical Air's intellectual property.³²⁸

157. Mr. Krause sent an e-mail on August 24, 2016, stating, among other things, that:

Everything is on hold: [Optical Air] is on stop work or a work slowdown, and a payment hold. They are on some sort of work hold. Everything is on hold pending [Mr.] Strianese direction. The plan is to definitely not make the next Stipend payment, but maybe the August milestone if it is completed.³²⁹

158. L-3 continued to believe that Gulfstream owned an interest in Optical Air's intellectual property. On August 30, 2016, L-3 sent a letter (the "August 30 Letter") to Optical Air regarding the Agreement.³³⁰ The August 30 Letter provides:

We have learned, to our complete surprise, that you have apparently previously licensed this same technology to Gulfstream Aerospace Corporation, a wholly owned subsidiary of General Dynamics Corporation . . . [t]his is a material breach of the Licensing Agreement . . . [i]n the face of the very real possibility of your having licensed the same technology twice, and the serious repercussions that would flow from that situation if true, we would have expected complete transparency from you, in a good faith effort to begin to resolve these issues."³³¹

In the August 30 Letter, L-3 seeks a meeting between L-3 and Optical Air.³³²

159. L-3 had done no engineering work to this end by late August and had assigned only one system engineer, Gary Gladis, to the project.³³³

160. Optical Air submitted ECMs that were accepted by L-3 in August and September of 2016.³³⁴

³²⁷ Tr. Day 5 at 95-96; Pl. Ex. 105.

³²⁸ Tr. Day 5 at 92-98; Pl. Ex. 105.

³²⁹ Pl. Ex. 111; Tr. Day 5 at 82.

³³⁰ Pl. Ex. 116.

³³¹ *Id.*

³³² *Id.*

³³³ Tr. Day 3 at 230.

³³⁴ Tr. Day 1 at 269; Pl. Exs. 62, 92, 177.

161. As the September milestone ECM became due, L-3 did not email a link to Optical Air to enable it to deliver the ECM.³³⁵ Optical Air submitted it on September 8, 2016.³³⁶ Ultimately, Optical Air’s credentials for accessing the Citrix server for uploading milestone requirements stopped working.³³⁷

162. Mr. Mayer opines that L-3 couldn’t achieve its goals in the business case with Gulfstream because of the “exclusivity,” royalty, and most favored customer provisions of section 17.14 of the Gulfstream Agreement.³³⁸

163. In 2016, Mr. Ganase was reviewing his sector’s development plan to defer some programs and make room for Optical Air.³³⁹ In August of 2016, L-3 set about identifying programs to target for deferral so that current expenses could be reduced and set in place for the 2017 business plan to enable the sector to meet its current goals and establish the following year’s goals.³⁴⁰ In the August “short fuse drill”, delays of the Optical Air program from months to years were considered.³⁴¹ Later, Optical Air was identified as having been stopped in September of 2016 and considered for restarting after a three-month slip to all program milestones including the TSO authorization milestone (moved from September to December of 2018).³⁴²

164. At trial, Mr. Kubasik stated that it “sounded fair” that the first time he told Phebe Novakovic, of Gulfstream, that Optical Air had exclusively licensed the same technology to two different companies at the same time was the fall of 2016 Conquistador meeting.³⁴³ Mr. Kubasik

³³⁵ Tr. Day 3 at 161-62.

³³⁶ *Id.* at 163; Pl. Ex. 162.

³³⁷ Tr. Day 3 at 167-68.

³³⁸ Tr. Day 5 at 56-57.

³³⁹ *Id.* at 224; Pl. Ex. 25.

³⁴⁰ Pl. Ex. 274; Pl. Ex. 275; Tr. Day 5 at 218-22.

³⁴¹ Pl. Ex. 274

³⁴² Tr. Day 5 at 221; Pl. Ex. 275.

³⁴³ Tr. Day 4 at 77.

doesn't believe that he told her that Optical Air had exclusively licensed the same technology twice on or before August 31, 2016, "because she seemed very surprised on September 8th."³⁴⁴

According to Mr. Kubasik, his conversation with Ms. Novakovic included the following:

I wanted to give you a heads up . . . we have an entity that signed an exclusive agreement with [Optical Air]. . . and we were told by the Gulfstream people that they had an exclusive agreement with [Optical Air] . . . If you hear anything derogatory or untoward about L3, we ought to get the right people to talk about it, because we're not causing any trouble here³⁴⁵

165. Ms. Novakovic purportedly called Gulfstream Chief Engineer, Dan Nale, and told him to not get involved in anything between L-3 and Optical Air.³⁴⁶ Mr. Nale, in turn, contacted Pres Henne who was consulting for Optical Air and Gulfstream and told him that Ms. Novakovic had called him and told him there was a conflict with Optical Air's intellectual property.³⁴⁷

166. Mr. Strianese and Mr. Kubasik were of the belief that Optical Air had double licensed its technology when they attended the September 8, 2016 Conquistador meeting.³⁴⁸ Mr. Kubasik expressed it that way to Ms. Novakovic.³⁴⁹ Mr. Kubasik had been briefed in multiple meetings by the sector president, Mr. Kantor,³⁵⁰ Mr. Ganase, and others.³⁵¹

167. Mr. Mayer is L-3 Technologies Vice President of Contracts, Strategic Contracts and Trade Compliance. Mr. Mayer prepared Mr. Ganase for his August 23, 2016 presentation.³⁵² Mr. Mayer was of the opinion that Optical Air was in breach of its exclusive license agreement

³⁴⁴ *Id.* at 77-78.

³⁴⁵ Kubasik Dep. at 209-19.

³⁴⁶ Pl. Ex. 237.

³⁴⁷ *Id.*

³⁴⁸ Tr. Day 4 at 79-80, 83.

³⁴⁹ *Id.* at 84; Kubasik Dep. at 214-15, 218-19.

³⁵⁰ Tr. Day 4 at 81-82.

³⁵¹ *Id.* at 83, 90.

³⁵² *Id.* at 91.

with L-3 because it had exclusively licensed to Gulfstream the same IP in the same field of use.³⁵³ Mr. Strianese made Mr. Hurley aware of this purported conflict at the September 8, 2016, meeting after being briefed by Mr. Kubasik.³⁵⁴ Mr. Mayer believed that the Gulfstream Agreement granted Gulfstream intellectual property rights to the Optical Air system.³⁵⁵

168. On September 12, 2016, Mr. Ganase addressed the subject after being prepared by Mr. Mayer.³⁵⁶ Mr. Mayer had written his team on September 10, 2016, that his remarks were meant to be a guide for Mr. Ganase's conversation with Mr. Strianese, Mr. Kubasik and Steve Kantor on September 12, 2016.³⁵⁷

169. Mr. Kubasik stated that a three-way meeting among Gulfstream, L-3 and Optical Air to work all of this out was "good" and "a logical next step."³⁵⁸ On September 9, 2016, Mr. Kubasik provided—"I'm not sure we've agreed to anything. We spoke to [General Dynamic's] CEO about the issue, but probably should have meeting with each separately before we agree to a three way."³⁵⁹

170. Mr. Kubasik explained, "I'd say we are all aware of Optical Air's issues and behavior and can do whatever we want. [General Dynamic] wants us involved."³⁶⁰ According to Mr. Kubasik, Optical Air's past issues and behavior amounted to one thing: "The fact that they had entered into two exclusive agreements with two different companies."³⁶¹

171. Mr. Hurley sent Mr. Kubasik an AV Week article featuring Optical Air and providing that Dr. Rogers of "acting as an independent agent, speaking about [Optical Air]

³⁵³ Tr. Day 4 at 95-96.

³⁵⁴ Tr. Day 4 at 96; Strianese Dep. 54-56.

³⁵⁵ Mayer Dep. 208.

³⁵⁶ Tr. Day 4 at 91-92.

³⁵⁷ *Id.* at 93-94; Pl. Ex. 150; Def. Ex. 84, 85.

³⁵⁸ Tr. Day 4 at 99-100; Pl. Ex. 146.

³⁵⁹ *Id.*

³⁶⁰ Tr. Day 4 at 100; Pl. Ex. 146.

³⁶¹ Tr. Day 4 at 101.

technology as if he has ownership and control...”³⁶² Mr. Kubasik asked the company’s vice president of communications responsible for public relations, media relations to find and forward the article to Mr. Strianese, Ralph D’Ambrosia L-3’s CFO, and Ann Davidson, L-3’s General Counsel.³⁶³

172. Representatives of L3 and Optical Air met in Arlington, Texas on September 19, 2016 in part over L-3’s refusal to pay for work delivered and accepted under the Services Agreement (and in part over Gulfstream’s August 23, 2016 letter to Optical Air).³⁶⁴ In follow-up to that meeting, Stuart Mullan, of L-3, reported to Mr. Ganase, Mr. Stone, Mr. Jenkins, and Mr. Mayer that the meeting had not gone well and indicated that they were inclined to hold firm on not paying Optical Air money it was owed for fear of losing “all leverage”.³⁶⁵

173. After the September 19, 2016, meeting in Arlington, Texas, L-3 concluded:

I believe Optical Air is asking us to state clearly that they are in breach, upon which they will the [*sic*] 60 day Cure Period per Article 23.2. During the Cure Period it is likely they will obtain from Gulfstream some sort of relief regarding the IP they licensed to Gulfstream thereby allowing us to continue the Program. I recommend that we should put them formally on notice of a breach, and go down the “Cure” path, but during the “Cure” discussions we insist that Optical Air fully disclose to us any other agreement they may have with anyone else in our Field of Use.³⁶⁶

174. On September 21, 2016, L-3 sent a letter to Optical Air (the “Reservation of Rights Letter”).³⁶⁷ The Reservation of Rights Letter provides:

...L-3 believes that the license rights granted to Gulfstream by [Optical Air] for the same [intellectual property] which was exclusively licensed to l-3 by [Optical Air] under the License Agreement signed on March 31, 2016...constitutes a material breach of our License Agreement.

³⁶² Tr. Day 4 at 102; Pl. Ex. 163.

³⁶³ Tr. Day 4 at 107.

³⁶⁴ Tr. Day 4 at 156; Pl. Ex. 102.

³⁶⁵ Pl. Ex. 164 at L0025250-53.

³⁶⁶ Pl. Ex. 156 at L0112187.

³⁶⁷ Pl. Ex. 168.

L-3 is extremely concerned and is currently assessing the damages L-3 will suffer due to [Optical Air's] breach of contract.

L-3 hereby reserves the right to claim for damages under the License Agreement...and enforce its rights available under the Licenses Agreement and at law.³⁶⁸

175. The Reservation of Rights Letter does not state that the License Agreement, the GTA and the Services Agreement have been terminated. Moreover, the Reservation of Rights does not address Section 23.2 of the License Agreement.³⁶⁹

176. By letter dated September 27, 2016, Optical Air's attorney, Craig Mytelka, notified L-3 of its breach of the Services Agreement for failure to pay.³⁷⁰ By e-mail dated October 10, 2016, Optical Air's business manager, Karen Kraft, sent L-3 a second notice of default for failing to pay stipends and for deliverables.³⁷¹ Optical Air continued to work on milestone deliverables from October through February, including building hardware.³⁷²

177. On October 5, 2016, Steve Wahl, L-3's General Counsel, provided Optical Air a red-lined version of the Gulfstream Agreement, indicating which provisions L-3 wanted removed.³⁷³ This red-line was born of the September 19, 2016, meeting in Arlington Texas in which Optical Air asked L-3 for the specific language in the Gulfstream Agreement that L-3 wanted fixed.³⁷⁴ Optical Air took the position that it could resolve any issue with Gulfstream.³⁷⁵

³⁶⁸ *Id.*

³⁶⁹ *Id.*

³⁷⁰ Tr. Day 1 at 158-159; Pl. Ex. 172.

³⁷¹ Tr. Day 3 at 173-174; Pl. Ex. 198.

³⁷² Tr. Day 3 at 174-175.

³⁷³ Tr. Day 1 at 153-155; Pl. Ex. 261.

³⁷⁴ Tr. Day 1 at 154-55; Tr. Day 1 at 157.

³⁷⁵ Tr. Day 4 at 22.

178. Optical Air never stated it would not enter into a three-way proprietary information agreement (“PIA”) including L-3 and Gulfstream in the hopes of resolving the situation.³⁷⁶ L-3 did not sign off on the PIA circulated by Gulfstream.³⁷⁷

179. At L-3’s insistence, Mr. Mytelka, reviewed all agreements between Optical Air and any customer relating to L-3’s field of use. Mr. Mytelka confirmed to L-3 that Optical Air did not have any agreements that interfered with L-3’s field of use.³⁷⁸

180. On November 2, 2016, L-3 and Optical Air representatives met again, this time in Manassas, Virginia.³⁷⁹ There, Mr. Mayer contended that Optical Air had double licensed its intellectual property.³⁸⁰

181. By November, L-3 felt “there was a trust and intention alignment issues, that even if we did find a way to work through the contract, we had a serious problem.” This “was the straw that broke the camel’s back.”³⁸¹ That is how Mr. Jenkins described that and other conversations between Dr. Dakin and L-3 team members in which Dr. Dakin expressed some concern about working together going forward, including L-3’s engineering team’s refusal to take Optical Air’s call in September and the disabling of the Citrix link for ECM milestone submittal.³⁸² Mr. Ganase viewed Dr. Dakin’s conversation with L-3 engineers as one of a series of events that made continuing the contract untenable.³⁸³

182. Mr. Ganase, due to a conversation with Mr. Nale, believed that Optical Air had been working with Honeywell.³⁸⁴ In November of 2016, Mr. Mayer received a telephone call

³⁷⁶ Tr. Day 1 at 148.

³⁷⁷ Tr. Day 1 at 146-48.

³⁷⁸ Tr. Day 1 at 151-152; Tr. Day 2 at 17-18; Pl. Ex. 186; Pl. Ex. 265.

³⁷⁹ Tr. Day 1 at 160-161.

³⁸⁰ Tr. Day 1 at 161.

³⁸¹ Tr. Day 4 at 31.

³⁸² *Id.* at 128-29.

³⁸³ Tr. Day 5 at 170

³⁸⁴ *Id.* at 170, 177-80.

from Mr. Ganase in which Mr. Ganase advised that Optical Air had been in touch with Honeywell, a competitor of L-3's, about the licensed technology.³⁸⁵

183. L-3's position is "[a]gain, you can figure out a way to work through contractual situations. We were trying to do that, but if two teams of people can't or don't want to work together, this wouldn't work."³⁸⁶

184. Optical Air expressed an interest in addressing the various issues in a three-way meeting involving L-3 and Gulfstream.³⁸⁷ L-3 would not consent.³⁸⁸ Ms. Rogers insisted that "at the end of the day, [Optical Air] will make L-3 comfortable" with the Gulfstream Agreement.³⁸⁹ In response, L-3 stated that it would discuss the matter internally and inform Optical Air of "their decision or plan".³⁹⁰

185. November 21, 2016, L-3 sent Optical Air the "Notice of Rescission/Termination" (the "Termination Notice").³⁹¹ The Termination Notice purports to rescind and, in the alternative, terminate the agreements pursuant to Section 23.2 of the License Agreement due to "material breaches and material misrepresentations."³⁹²

186. The Termination Notice states that the material events were: (i) Optical Air's due diligence responses to Questions 5, 6(A), and 6(B) were misleading as those responses related to the Gulfstream Agreement; (ii) Optical Air having granted a license to Gulfstream with regard to some of the same technology it had licensed to L-3 under Section 2.1.1 of the License

³⁸⁵ *Id.* at 65-66

³⁸⁶ Tr. Day 4 at 31-32. During the Trial, the Court was presented with evidence that supported the fact that Optical Air and L-3 personnel had difficulties working together. For example, L-3 noted—in a "Project Y OADS Discussion" slide presentation dated June 23, 2016—that Optical Air has "demonstrated abusive behavior" and that the "team has been close to losing confidence in the ability to maintain a productive working relationship." Pl. Ex. 66 at L0046961.

³⁸⁷ Tr. Day 1 at 161-62; Tr. Day 2 at 7-8.

³⁸⁸ Tr. Day 1 at 162; Tr. Day 2 at 8; Pl. Ex. 265.

³⁸⁹ Tr. Day 2 at 8-9; Pl. Ex. 265.

³⁹⁰ Tr. Day 2 at 16; Pl. Ex. 265.

³⁹¹ Pl. Ex. 206.

³⁹² *Id.*

Agreement; (iii) Optical Air breached the representations and warranties in Section 3.1 of the License Agreement as Optical Air did not have the “right to grant to Licensee specific rights set forth herein without violating any United States based rights of any third party” because of the Gulfstream Agreement; (iv) Optical Air breached of Section 4.2.1 of the License Agreement because Optical Air had represented that there were no encumbrances on the Licensed Technology as well as no third parties’ restrictions affecting the Licensed Technology that may affect the Licensed Technology use by Licensee or adversely affect Licensee’s Business Case due to the Gulfstream Agreement; (v) Optical Air breached Section 44 of the General Terms of Agreement by engaging in work and rendering services to Gulfstream under the Gulfstream Agreement; and (vi) Optical Air breached Section 3.2.1.5 of the Agreement-Appendix by communicating with Gulfstream directly.³⁹³

187. The Termination Notice also provides that L-3 rejected Optical Air’s explanations regarding the breaches. L-3 addressed Mr. Mytelka’s letter of November 1, 2016—“Its focus on Joint Program IP and Feedback ignores the actual issues, and acknowledges that [Gulfstream] received a license to [Optical Air’s] Background IP, which [Optical Air] purportedly licensed to L-3.”³⁹⁴

188. L-3 went on to state that the business terms of Section 17.14 of the Gulfstream Agreement were binding on L-3, materially limited “[Optical Air’s] ability to satisfy its obligations to L-3” under all agreements, and materially limited “L-3’s ability to obtain the intended benefit of its bargain with [Optical Air].”³⁹⁵

189. The Termination Notice’s final paragraph provides:

³⁹³ *Id.*

³⁹⁴ *Id.*

³⁹⁵ *Id.*

For the reasons set forth above, the License Agreement, the GTA, Appendix and Letter of Agreement are rescinded, with the parties returned to their pre-contractual positions. Additionally and alternatively, these agreements are terminated in accordance with their terms and L-3 is entitled to recover the damages it sustained. Please contact me if you would like to discuss the contents of this letter.³⁹⁶

190. The Termination Notice relies, in part, on the Reservation of Rights Letter.³⁹⁷

The Termination Notice contends that the Reservation of Rights Letter invoked the cure period under the License Agreement.³⁹⁸

191. Mr. Ganase, in consultation with Mr. Wahl, made the decision to terminate L-3's contracts with Optical Air.³⁹⁹

192. The Court has reviewed both the Reservation of Rights Letter and the Termination Notice. The Court finds that the Reservation of Rights Letter did not put Optical Air on notice that it had sixty (60) days to cure any noted defaults under the License Agreement. The Court does find that L-3 first sought to avail itself of its right under Section 23.2 in the Termination Notice. As such, under the License Agreement, Optical Air would have had sixty (60) days from November 21, 2016 to cure any defaults set out the Termination Notice.⁴⁰⁰

193. L-3 filed a notice of its exclusive license with the United States Patent and Trademark Office ("USPTO") on November 12, 2016.⁴⁰¹ In January of 2017, Optical Air discovered that L-3 had filed notice of assignment with the USPTO relating to those patents that were previously the subject of the License Agreement, without reference to the field of use or reservation of rights.⁴⁰² L-3 had never notified Optical Air of its filing, let alone sought its

³⁹⁶ *Id.*

³⁹⁷ *Id.*

³⁹⁸ *Id.*

³⁹⁹ Tr. Day 5 at 66-67; Tr. Day 5 at 173.

⁴⁰⁰ Def. Ex. 3 at Sec. 23.2.

⁴⁰¹ Def. Ex. 118 at OADS722.

⁴⁰² Tr. Day 3 at 181-83.

consent.⁴⁰³ L-3's USPTO filing was the only such recording relating to any intellectual property that was part of the License Agreement.⁴⁰⁴

194. Section 10 of the Licensing Agreement contained a confidentiality provision.⁴⁰⁵ The confidentiality provision of the Licensing Agreement permitted L-3 to disclose confidential information "as reasonably necessary for Licensee to exercise its rights under this Agreement."⁴⁰⁶

195. Section 28 of the Licensing Agreement provides "[n]either Party shall make any news release, public announcement, denial or confirmation of all or any part of the subject matter of this Agreement without prior written approval of the other Party, not to be unreasonably withheld...."⁴⁰⁷

196. At the time L-3 filed its notice of its exclusive license with the USPTO, the Licensing Agreement was in effect, and L-3 had rights to use the patents.⁴⁰⁸ The USPTO accepts filings of notices of exclusive (and non-exclusive) licenses.⁴⁰⁹ The recording of a license is not an uncommon practice.⁴¹⁰

197. Mr. Mayer made the decision to file the notice with the USPTO.⁴¹¹ Mr. Mayer made the decision to file the notice with the USPTO because he had received reports that Optical Air was working with Honeywell, and he wanted to protect L-3's rights.⁴¹² Mr. Mayer filed with

⁴⁰³ *Id.*

⁴⁰⁴ *Id.* at 185.

⁴⁰⁵ Def. Ex. 3 at Sec. 10.

⁴⁰⁶ *Id.*

⁴⁰⁷ *Id.* at Sec. 28.

⁴⁰⁸ Def. Ex. 118 at OADS722; Def. Ex. 112; Tr. Day 2 at 173.

⁴⁰⁹ Tr. Day 2 at 164-65.

⁴¹⁰ *Id.* at 166-67.

⁴¹¹ Tr. Day 5 at 65.

⁴¹² *Id.* at 65-66, 110; *see also* Def. Ex. 107 at L100482; Def. Ex. 111.

the USPTO eight days after Mr. Mayer first received a report that Optical Air was working with Honeywell.⁴¹³

198. When he made the decision to file with the USPTO, Mr. Mayer did not know when, or whether, L-3 would terminate its contracts with Optical Air.⁴¹⁴ Moreover, Mr. Mayer was not involved in the decision to terminate L-3's contracts with Optical Air.⁴¹⁵

199. L-3's description of its exclusive license in its USPTO filing were quoted from the Licensing Agreement.⁴¹⁶

200. Mr. Dergosits, Optical Air's intellectual property expert, testified that there is no requirement that a USPTO filing attach the actual conveyance.⁴¹⁷ Mr. Dergosits also stated that there is no requirement that a USPTO filing mention all of the terms in the conveyance.⁴¹⁸ Finally, Mr. Dergosits provided that "there's nothing inaccurate about what [L-3] did disclose."⁴¹⁹

201. On Friday, February 10, 2017, Optical Air told L-3 to vacate its filing with the USPTO.⁴²⁰ L-3 did so on Monday, February 13, 2017.⁴²¹ L-3's second filing with the USPTO states that L-3 "claims no rights in or to use" Optical Air's patents.⁴²²

202. The Court notes that evidence presented at the Trial showed that Boeing and Airbus continued to do business with Optical Air after L-3's second filing with the USPTO.⁴²³

⁴¹³ Compare Def. Ex. 107 with Def. Ex. 118.

⁴¹⁴ Tr. Day 5 at 66-67.

⁴¹⁵ *Id.*

⁴¹⁶ Compare Def. Ex. 118 at OADS723 with Def. Ex. 3 at Sec. 2.1.1; see also Tr. Day 2 at 170.

⁴¹⁷ Tr. Day 2 at 153.

⁴¹⁸ *Id.*; Tr. Day 4 at 238-39.

⁴¹⁹ Tr. Day 2 at 174; Tr. Day 4 at 239.

⁴²⁰ Def. Ex. 118

⁴²¹ Def. Ex. 119; Tr. Day 5 at 67.

⁴²² Def. Ex. 119 at OADS733.

⁴²³ Tr. Day 4 at 243.

As such, the Court does not see how L-3's filings with the USPTO negatively impacted Optical Air's intellectual property rights.

IV. GENERAL LEGAL PRINCIPLES

The Court will be applying the following general legal principles:

BURDEN OF PROOF BY A PREPONDERANCE OF THE EVIDENCE⁴²⁴

In a civil case, the burden of proof is by a preponderance of the evidence. Proof by a preponderance of the evidence means proof that something is more likely than not. It means that certain evidence, when compared to the evidence opposed to it, has the more convincing force and makes the Court believe that something is more likely true than not. Preponderance of the evidence does not depend on the number of witnesses. If the evidence on any particular point is evenly balanced, the party having the burden of proof has not proved that point by a preponderance of the evidence, and the Court must find against the party on that point.

In deciding whether any fact has been proved by a preponderance of the evidence, the Court may consider the testimony of all witnesses regardless of who called them, and all exhibits received into evidence regardless of who produced them.

In this particular case, Optical Air carries the burden of proof by a preponderance of the evidence on the remaining Counts and L-3 on the remaining Counterclaims.⁴²⁵

EVIDENCE—DIRECT OR CIRCUMSTANTIAL⁴²⁶

Generally speaking, there are two types of evidence from which the fact-finder may properly find the facts. One is direct evidence—such as the testimony of an eyewitness. The other is indirect or circumstantial evidence—circumstances pointing to certain facts.

⁴²⁴ Taken from Superior Court Civil Pattern Jury Instruction 4.1.

⁴²⁵ See, e.g., *Reynolds v. Reynolds*, 237 A.2d 708, 711 (Del. 1967) (defining preponderance of the evidence); *Oberly v. Howard Hughes Medical Inst.*, 472 A.2d 366, 390 (Del. Ch, 1984) (same).

⁴²⁶ Taken from Superior Court Civil Pattern Jury Instruction 23.1.

As a general rule, the law makes no distinction between direct and circumstantial evidence, but simply requires that the Court find the facts from all the evidence in the case: both direct and circumstantial.

EVIDENCE EQUALLY BALANCED⁴²⁷

If the evidence tends equally to suggest two inconsistent views, neither has been established. That is, where the evidence shows that one or two things may have caused the breach/damages: one for which a party was responsible and one for which a party was not. The Court cannot find for the party carrying the burden of proof if it is just as likely that the breach/damages was caused by one thing as by the other. In other words, if the Court finds that the evidence suggests, on the one hand, that Optical Air or L-3 is liable, but on the other hand, that Optical Air or L-3 is not liable; the Court must find for Optical Air or L-3.⁴²⁸

EXPERT TESTIMONY⁴²⁹

The parties presented expert witnesses during the course of the Trial. Expert testimony is testimony from a person who has a special skill or knowledge in some science, profession, or business. This skill or knowledge is not common to the average person but has been acquired by the expert through special study or experience.

In weighing expert testimony, the Court may consider the expert's qualifications, the reasons for the expert's opinions, and the reliability of the information supporting the expert's opinions, as well as the factors previously mentioned for weighing the testimony of any other witness. Expert testimony should receive whatever weight and credit the Court thinks is appropriate, given all the other evidence in the case.

⁴²⁷ Taken from Superior Court Civil Pattern Jury Instruction 4.3.

⁴²⁸ See, e.g., *Eskridge v. Voshell*, 1991 WL 78471, at *3 (Del. April 7, 1991).

⁴²⁹ Taken from Superior Court Civil Pattern Jury Instruction 23.10.

The Court found the expert testimony from Ms. Trexler to be very helpful. Ms. Trexler presented reasonable opinions supported by the record, the terms of the Agreements, and took into account the missed January 15, 2017, milestone payment and a reasonable amount of net profit due to Optical Air for missed milestone and stipend payments between August 1, 2016, and March 31, 2017. The Court found Mr. Bernatowicz's testimony to be less helpful. Mr. Bernatowicz made overly optimistic assumptions that were too speculative given the actual evidence presented at the Trial. Moreover, Mr. Bernatowicz makes revenue assumptions on technology that was unproven in the market with a company (Optical Air) that was having financial problems in 2015-16. Finally, Mr. Bernatowicz's opinions, for the most part, failed to apply the Limitation of Liability Provisions that the Court has found to be enforceable.

Because the Court is not finding liability on any tort theory presented by the parties, the Court discounted entirely Mr. Bernatowicz's tort claim damage opinions

CREDIBILITY OF WITNESSES—WEIGHING CONFLICTING TESTIMONY⁴³⁰

Here, the Court is the sole judge of each witness's credibility. That includes the parties. The Court considers each witness's means of knowledge; strength of memory; opportunity to observe; how reasonable or unreasonable the testimony is; whether it is consistent or inconsistent; whether it has been contradicted; the witness's biases, prejudices, or interests; the witness's manner or demeanor on the witness stand; and all circumstances that, according to the evidence, could affect the credibility of the testimony.

If the Court finds the testimony to be contradictory, the Court may try to reconcile it, if reasonably possible, so as to make one harmonious story of it all. But if the Court cannot do this,

⁴³⁰ Taken from Superior Court Civil Pattern Jury Instruction 23.9.

then it is the Court's duty and privilege to believe the testimony that, in the Court's judgment, is most believable and disregard any testimony that, in the Court's judgment, is not believable.

The Court, as the fact-finder, wants to make some general observations about credibility as it relates to the ultimate verdict. The Court found the fact witnesses to be credible. No one fact witness stood out as more credible or less credible than the other witnesses. For the most part, the Court notes the witnesses were responsive and their testimony was supported by the record submitted during the Trial. The Court makes this finding understanding the bias, prejudices or interests of each witness.

V. HOLDING

a. INTRODUCTION

The Court normally tries to avoid analogies or homilies as these can be seen as misplaced or disrespectful to the parties. In this case, the Court believes an analogy apropos as it relates to the Court's final conclusions. To the Court, after presentation of all the evidence at the Trial, the relationship between Optical Air and L-3 seemed like a hastily arranged marriage with a willingness to overlook flaws quickly followed by a messy divorce with too much fighting and finger pointing. L-3 identified a potentially lucrative and exciting opportunity through a business relationship with Optical Air. Optical Air had been seeking a business connection with a well-funded entity and felt that L-3 satisfied that role. The parties engaged in due diligence, signed up an agreement and then the troubles began. At first, the parties worked together and even amended the Services Agreement. Over time, however, it became clear to L-3 that the financial situation and Optical Air's licensing entanglements warranted a dissolution of the Agreements.

In summary, the Court is finding breaches by both parties on the Agreements; however, the Court does not find that Optical Air or L-3 acted in bad faith or with malice. Instead, the

Court believes that the breaches were due to sloppiness in due diligence, fear and decisions made for economic reasons. Accordingly, the Court will enforce all terms of the Agreements, including the Limitation of Liability Provisions, the Off Ramps Provisions and the Attorneys' Fees Provision.

The Court finds that the disputes between L-3 and Optical Air are contractual in nature and controlled by the Agreements' terms and conditions. The Court, therefore, holds in favor of Optical Air on Counterclaims 1 and 2. The Court also holds that Optical Air has failed to carry its burden of proof, either factually or with respect to damages, on Counts 7, 10 and 11. The Court holds in favor of Optical Air on Counterclaims 4 through 6 because L-3 failed to allow Optical Air an opportunity to cure Optical Air's defaults under the Agreements. Finally, the Court finds in favor of Optical Air on Counts 1 through 4 but notes that Counts 1 and 2 and Counts 3 and 4 really consist of two claims—one for breach of the License Agreement and one for breach of the Services Agreement.

The Court concludes that Optical Air breached certain representations and warranties as those relate to the Gulfstream Agreement, the UTAS Agreement, and licensing. Optical Air should have been more forthcoming in due diligence, especially as that due diligence related to licensing of Optical Air's technology. Optical Air allowed L-3 representatives to review the Gulfstream Agreement, but did not provide a copy to L-3 or disclose its existence in the written representation questions. Optical Air did not even disclose the existence of the UTAS Agreement to L-3 until long after March 31, 2016.

The Court also concludes that L-3 breached the Agreements by failing to allow Optical Air the right to try to remedy the breaches. As such, the Court finds that the Termination Notice was ineffective because L-3 failed to fully comply with Section 23.2 of the License Agreement.

L-3 contended that the breaches were of the type that could not be remedied, but did not allow the process to play out as previously agreed to in the Agreements. Moreover, L-3 relied on the Reservation of Rights Letter but that letter was not sent as a notice under Section 23.2.

In addition, the Court is certain—based on the testimony, the facts, the deteriorating business model and the soured relationship between L-3 and Optical Air—that L-3 would have had the right to and would have exercised, at least, one of the Off Ramps by March 31, 2017—twelve (12) months after the Agreements’ effective date. The Court, therefore, finds and holds that the Agreements would have been terminated, no later than, the one-year anniversary of the Agreements.

b. BREACH OF CONTRACT CLAIMS AND COUNTERCLAIMS

1. The Parties’ Claims for Breach of Contract

Optical Air asserts five breach of contract claims. Counts 1 and 2 are for breach of the License Agreement. Counts 3 and 4 are for breach of the Services Agreement. Count 7 is for breach of the License Agreement and relates to L-3 making the filing with USPTO. In fact, Counts 1 through 4 arise out of the same purported breach—that L-3 wrongfully terminated the Agreements and this caused damage to Optical Air under the Agreements. As set forth below, the Court finds and holds that L-3 wrongfully terminated the Agreements. L-3 had the right to send the Termination Notice; however, L-3 failed to allow for reasonable efforts to cure. L-3’s actions did not allow Optical Air a reasonable opportunity to cure any issues set out in the Termination Notice. Moreover, on the record presented to the Court, the Court cannot hold that efforts to cure would have been futile.

L-3 asserts a number of breach of contract or quasi-contract claims. In the Counterclaims, L-3 seeks a declaration or finding that the Agreements are void (Counterclaim 1)

or voidable (Counterclaim 2). Counterclaims 4 through 6 seek relief, in the alternative, for breach of the Agreements. The Court finds and holds that the Agreements are not void or voidable; however, the Court also has determined that Optical Air breached the Agreements. Optical Air failed to fully disclose the Gulfstream Agreement and/or the UTAS Agreement. Moreover, Optical Air breached representations and warranties in the Agreements which stated that Optical Air had an exclusive and unencumbered right to its LIDAR technology. Optical Air breached the Agreements because it had previously granted Gulfstream and UTAS the same or similar licenses.⁴³¹ The Court agrees with Optical Air that L-3 did not give Optical Air a reasonable opportunity to cure any alleged breaches. Accordingly, while Optical Air breached the Agreements, the Court has determined that L-3 failed to properly follow the terms and conditions of the Agreements after providing the Termination Notice.

The Court will enforce the Limitation of Liability Provisions, the Off Ramps Provision and the Attorneys' Fees Provision of the Agreements.

2. Applicable Law

Under Delaware law, to prove a breach of contract claim, the plaintiff (or counterclaim plaintiff) must show: (1) a contractual obligation; (2) a breach of that obligation; and (3) resulting damages.⁴³² A party harmed by a breach of contract is entitled to compensation that will place that party in the same position that the party would have been in if the other party had performed under the contract.⁴³³

⁴³¹ The Court understands Optical Air's argument that the Gulfstream Agreement is not a breach because Section 2.1.2 of the License Agreement permits Optical Air to do the type of research and development with the licensed intellectual property that it was doing with Gulfstream. However, this does not mean that Optical Air should not have disclosed the existence of the Gulfstream Agreement in due diligence (*i.e.*, as an answer to Question 5 and Question 6) or that the Gulfstream Agreement does not create overlap in the licensed technology. Optical Air basically admitted this when it agreed to approach Gulfstream with a red-lined revised/modified Gulfstream Agreement provided to it by L-3 on October 5, 2016.

⁴³² *Interim Healthcare v. Spherion Corp.*, 884 A.2d 513, 548 (Del. Super. 2005).

⁴³³ *See E.I. DuPont de Nemours and Co. v. Pressman*, 679 A.2d 436, 446 (Del. 1996).

“Material breach acts as a termination of the contract going forward, abrogating any further obligations to perform by the non-breaching party.”⁴³⁴ Although a material breach may allow the non-breaching party to be excused from future performance, a non-material breach does not; instead, the non-breaching party may recover any damages that it can prove.⁴³⁵ Additionally, the non-materially breaching party may still be liable for damages for its own non-material breaches prior to the terminal, material breach.⁴³⁶

“The converse of this principal 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.”⁴³⁷ Failure to perform by the injured party after a non-material breach constitutes breach of contract by the injured party.⁴³⁸ “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.’”⁴³⁹ In *DeMarie v. Neff*, the Delaware Chancery Court stated:

Substantial failure to live up to the material terms of a valid contract nullifies that contract. A party may terminate or rescind a contract because of substantial nonperformance or breach by the other party. Not all breaches will authorize the other party to abandon or refuse further performance. To justify termination, it is

⁴³⁴ *Preferred Invs. Servs. v. T & H Bail Bonds*, 2013 WL 3934992, at *17 (Del. Ch. July 24, 2013) (holding that the defendant was excused from performance going forward after the plaintiff’s material breach).

⁴³⁵ See *Daystar Constr. Mgmt., Inc. v. Mitchell*, 2006 WL 2053649, at *7 (Del. Super. July 12, 2006) (“[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.”). See also *Matthew v. Laudamiel*, 2014 WL 5499989, at *2 (Del. Ch. Oct. 30, 2014) (finding that claims for non-material breach should not be dismissed, which, perhaps, could justify minimal or nominal damages).

⁴³⁶ *Preferred Invs. Servs.*, 2013 WL 3934992, at *21 (“A party who first commits a material breach of a contract cannot enforce the contract going forward. A non-breaching party, however, is not entitled to a windfall. The party in breach is entitled to restitution for any benefit that he has conferred by way of part performance.”) (internal quotation and citation omitted).

⁴³⁷ *Eastern Elec. & Heating, Inc. v. Pike Creek Prof’l Ctr.*, 1987 WL 9610, at *4 (Del. Super. Apr. 7, 1987) (citing 11 WILLISTON ON CONTRACTS § 1292, at 8 (3d ed. 1968)).

⁴³⁸ *Id.*

⁴³⁹ *Eastern Elec. & Heating, Inc.*, 1987 WL 9610, at *4 (Del. Super. Apr. 7, 1987) (citing 4 CORBIN ON CONTRACTS § 946, at 809 (1967); 11 WILLISTON ON CONTRACTS § 1292, at 8-11).

necessary that the failure of performance on the part of the other go to the substance of the contract. Modern courts, and the Restatement (Second) of Contracts, recognize that something more than mere default is ordinarily necessary to excuse the other party's performance in the typical situation, subscribing to the general rule that where the performance of one party is due before that of the other party, such as when the former party's performance requires a period of time, an uncured failure of performance by the former can suspend or discharge the latter's duty of performance only if the failure is material or substantial.⁴⁴⁰

“In other words, the general rule that one party's uncured, material failure of performance will suspend or discharge the other party's duty to perform does not apply where the latter party, with knowledge of the facts, either performs or indicates a willingness to do so, despite the breach, or insists that the defaulting party continue to render future performance.”⁴⁴¹ As such, “the nonbreaching party may not, on the one hand, preserve or accept the benefits of a contract, while on the other hand, assert that contract is void and unenforceable.”⁴⁴²

“Courts in our State [Delaware] and beyond have recognized that contractual notice and cure provisions cannot be ignored no matter how urgently parties may seek to do so when prosecuting breach claims in litigation.”⁴⁴³ In *Cornell Glasgow, LLC v. LaGrange Properties, LLC*,⁴⁴⁴ the Court found that the parties were subject to an unambiguous notice and cure provision and so the parties' failure to comply with the notice and cure provisions extinguished their breach of contract claims. But, the Court found that the Court will excuse a parties' failure

⁴⁴⁰ *DeMarie v. Neff*, 2005 WL 89403, at *4 (Del. Ch. Jan. 12, 2005) (emphasis in original) (internal quotations and citations omitted).

⁴⁴¹ *In re Mobilactive Media, LLC*, 2013 WL 297950, at *14 (Del. Ch. Jan. 25, 2013) (quoting 14 WILLISTON ON CONTRACTS § 43:15 (4th ed. 2004) (internal citations omitted)).

⁴⁴² 14 WILLISTON ON CONTRACTS at 43:15 (footnotes omitted); see also *In re Mobilactive Media, LLC*, 2013 WL 297950, at *14 (Del. Ch. Jan. 25, 2013); *SLMSoft.Com, Inc. v. Cross Country Bank*, 2003 WL 1769770, at *11 (Del. Super. Apr. 2, 2003) (“[T]his Court holds that an obligor who (1) asserts a material breach that arises from an anti-assignment provision that allegedly renders the underlying contract voidable, and (2) fails to void that contract while continuing to perform for assignees, and (3) then admits to the ongoing validity of such contract as against subsequent assignees, is estopped from arguing voidability.”); *Berdel, Inc. v. Berman Real Estate Mgmt., Inc.*, 1997 WL 793088, at *9 (Del. Ch. Dec. 15, 1997) (“Absent evidence of an alleged oral agreement, there is no factual basis for the Court to find that the six documents signed by the Bermans are void or voidable on the grounds of fraud, misrepresentation or breach of contract or of fiduciary duty.”).

⁴⁴³ *Cornell Glasgow, LLC v. LaGrange Properties, LLC*, 2012 WL 6840625, at *13 (Del. Super. Dec. 7, 2012).

⁴⁴⁴ *Id.*

to comply with the notice and cure provisions where complying with the notice and cure provisions would be futile. The Court cited *In re Best Payphones, Inc.*⁴⁴⁵ in establishing a two-part test for determining whether a notice and cure provision was futile: (i) where “the defaulting party expressly and unequivocally repudiates the contract,” or (ii) “where the actions of the defaulting party have rendered future performance of the contract by the nondefaulting party impractical or impossible.”⁴⁴⁶

The standard remedy for breach of contract is based upon the reasonable expectations of the contracting parties.⁴⁴⁷ Expectation damages are measured by determining “the amount of money that would put the promisee in the same position as if the promisor had performed the contract.”⁴⁴⁸ “Damages for a breach of contract must be proven with reasonable certainty. Recovery is not available to the extent that the alleged damages are uncertain, contingent, conjectural, or speculative.”⁴⁴⁹

3. The Court’s Rulings on the Breach of Contract Claims

The Court finds that Optical Air breached certain due diligence representations made in anticipation of the deal with L-3 (namely its answers to Question 5 and Question 6) when it failed to fully disclose the Gulfstream Agreement and the UTAS Agreement.⁴⁵⁰ Moreover, Optical Air breached its representation in the Licensing Agreement that there were “no encumbrances on the Licensed Technology or on any portion of the Licensor’s technology that may affect the Licensed Technology use by [L-3].”⁴⁵¹ Optical Air also breached its representation

⁴⁴⁵*Best Payphones, Inc. v. Manhattan Telec. Corp. (In re Best Payphones, Inc.)*, 432 B.R. 46 (S.D.N.Y. 2010).

⁴⁴⁶ *Id.*

⁴⁴⁷ *See Duncan v. Theratx, Inc.*, 775 A.2d 1019, 1022 (Del. 2001).

⁴⁴⁸ *Id.*

⁴⁴⁹ *Lee-Scott v. Shute*, 2017 WL 1201158, at *7 (Del. Com. Pl. Jan. 30, 2017).

⁴⁵⁰ *See Interim Healthcare*, 884 A.2d at 548; *Goal Media*, 2003 WL 21481147 *1; *see also Akorn, Inc. v. Fresenius Kabi AG*, 2018 WL 4719347, at *77-81 (Del. Ch. Oct. 1, 2018).

⁴⁵¹ *See* Def. Ex. 3 at Sec. 4.2.1.

in the Licensing Agreement that there were no restrictions, or subordination to a right of a third party “that may affect the Licensed Technology use by [L-3] or adversely affect [L-3’s] Business Case.”⁴⁵²

A party cannot claim that a written representation is unenforceable because the counterparty had prior knowledge that the representation was false.⁴⁵³ In addition, under Delaware law, prior knowledge gained through due diligence does not vitiate a breach of a contractual representation.⁴⁵⁴

The Court finds that L-3 had prior knowledge of the Gulfstream Agreement. The Court finds that Mr. Hedden had an opportunity to review the Gulfstream Agreement during due diligence and that, potentially, Dr. Rogers read some of the terms of the Gulfstream Agreement to Mr. Ganase over the phone. While L-3 had notice of the existence of the Gulfstream Agreement, Optical Air was not as forthcoming regarding the full terms and conditions of the Gulfstream Agreement as they related to Optical Air’s intellectual property. The Court does not find that Optical Air was acting in bad faith or intentionally making misrepresentations. Rather, the Court finds that Optical Air was managed by persons that did not fully understand the due diligence process, overreacted to confidentiality provisions and failed to properly communicate with L-3 and Gulfstream with respect to the Gulfstream Agreement out of negligence and fear.

The Court finds that L-3 had no prior knowledge of the UTAS Agreement. If L-3 had prior knowledge, L-3 most certainly would have included the UTAS Agreement as another basis for default in the Termination Notice (and/or the Reservation of Rights Letter). Optical Air should have disclosed the existence of the UTAS Agreement. Optical Air apparently failed to

⁴⁵² *See id.*

⁴⁵³ *See MicroStrategy Inc. v. Acacia Research Corp.*, 2010 WL 5550455, at *13 (Del. Ch. Dec. 30, 2010); *Progressive Int’l Corp. v. E.I. DuPont de Nemours & Co.*, 2002 WL 1558382 *8 (Del. Ch. July 9, 2002).

⁴⁵⁴ *See Interim Healthcare*, 884 A.2d at 548; *Akorn*, 2018 WL 4719347, *77-78, *81 n.756.

disclose the UTAS Agreement because Optical Air’s management felt that the UTAS Agreement had expired by its terms. The Court believes that the record demonstrates that both UTAS and Optical Air seemed to believe that the UTAS Agreement was not enforceable. UTAS may now deny that, but UTAS’s total disregard of what was happening at Optical Air supports the conclusion that UTAS no longer looked to enforce its rights under the UTAS Agreement.

L-3 initially performed under the Licensing Agreement by paying Optical Air a \$2 million milestone payment within thirty days of the signing of the License Agreement.⁴⁵⁵ So, until August 1, 2016, L-3 was performing under the Agreements especially as to Milestone and Stipend Payments. The Court does not find that L-3’s performance was “perfect” but no actions/inactions by L-3 constituted material breaches that would have excused Optical Air from further performance. Moreover, the Court finds that Optical Air failed to demonstrate damages relating to such non-material breaches during the Trial.

Section 23.2 of the License Agreement requires written notice of breach and provides a 60-day cure before a party can terminate. “Where a contract’s terms ‘clearly evidence an intent that litigation be pursued only after notice and an opportunity to cure,’ a party must generally comply with prescribed notice and cure procedures in order to pursue a claim of breach under the agreement.”⁴⁵⁶ A mere filing of a complaint will be insufficient to “afford the receiving party an opportunity to cure its defaults in a non-litigious manner.”⁴⁵⁷ Such a contract provision obligates the parties “to provide...notice of default and opportunity to cure before pursuing remedies for breach in court.”⁴⁵⁸

⁴⁵⁵ See Def. Ex. 3 at Sec. 8.1.1.

⁴⁵⁶ *WyPie Invs., LLC v. Homschek*, 2018 WL 1581981, at *13 (Del. Super. Mar. 28, 2018).

⁴⁵⁷ *Id.*

⁴⁵⁸ *Cornell Glasgow, LLC v. LaGrange Properties, LLC*, 2012 WL 6840625, at *11 (Del. Super. Dec. 7, 2012).

The Court finds that Section 23.2 of the License Agreement is valid. The Court also finds that L-3 provided notice under Section 23.2 through the Termination Notice; however, the Court has determined that L-3 failed to provide Optical Air an actual opportunity to cure. Relying on the Reservation of Rights Letter, the Termination Notice states that the cure period has expired and/or the Agreements are “rescinded.” The Court does not find that the Reservation of Rights Letter began the termination/cure process set out in Section 23.2 of the License Agreement, nor did it put Optical Air on notice that Optical Air had sixty (60) days to cure any purported defaults. Because L-3 did not generally comply with the prescribed notice and cure procedures of Section 23.2, L-3 cannot pursue a breach of contract claim under the Agreements against Optical Air under Delaware law.⁴⁵⁹

L-3 argues that providing an opportunity for Optical Air to cure its breach would have been futile. Specifically, L-3 argues that Optical Air failed to pay a creditor for more than ninety (90) days and so triggered the default provision in the UTAS Agreement. This default provision grants UTAS an exclusive license to some of the LIDAR technology. So, L-3 claims that Optical Air could not cure its defects because it had granted two parties exclusive licenses. As set out above, the Court does not find Optical Air’s dispute with the IRS constituted a default under Section 7.2(b) of the UTAS Agreement.

Moreover, the Court finds issues of cure hypothetical with respect to the UTAS Agreement. L-3 never put Optical Air on notice to cure any defaults relating to the UTAS Agreement. The Court understands that this is, in part, due to Optical Air’s failure to disclose the UTAS Agreement to L-3. But, Optical Air likely failed to disclose the UTAS Agreement because UTAS and Optical Air functioned as if the UTAS Agreement had expired by its terms.

⁴⁵⁹ See, e.g., *WyPie Invs., LLC v. Homschek*, 2018 WL 1581981, at *13 (Del. Super. Mar. 28, 2018); see also *Cornell Glasgow, LLC*, 2012 WL 6840625, at *11.

It is possible that Optical Air could have remedied any potential default caused by the UTAS Agreement given UTAS's lack of interest in the UTAS Agreement.

Similarly, L-3 argues that Optical Air could not cure the breach caused by its grant of rights to Gulfstream because Optical Air could not unilaterally terminate Gulfstream's rights. The testimony demonstrated that communications between L-3 and Optical Air had deteriorated so much that Optical Air felt unable to work with L-3 and Gulfstream to address any issues with the Gulfstream Agreement (which, given the redline proffered by L-3 to Optical Air, does not seem impossible to correct). Moreover, L-3 failed to provide Optical Air clearance to negotiate with Gulfstream or, at the very least, sent mixed messages regarding Optical Air's right to negotiate with Gulfstream. Finally, Optical Air had a viable contractual argument that the Gulfstream Agreement and the Agreements do not create a situation where Optical Air had granted overlapping exclusive licenses. The Court has been persuaded, at times, that the last sentence of Section 2.1.2 of the License Agreement along with the defined terms and scope of the Gulfstream Agreement meant that Optical Air had not granted overlapping licenses to L-3 and Gulfstream. With open negotiations, Optical Air may have gotten Gulfstream and L-3 to come to that same conclusion.

L-3 has failed to demonstrate that any purported breach for which written notice was not given was incurable. L-3's actions denied Optical Air a chance to cure. Consequently, the Termination Notice and L-3's subsequent conduct was a breach of the Agreements.

L-3's failure to pay additional Milestone and Stipend Payments under the Services Agreement (as modified by the Letter Agreement) was a material breach of the agreements.

The Court finds that L-3 breached the Agreements but that the damages from the breach have to be limited when coming to an award. Under Delaware law, the Off Ramps Provision is enforceable.⁴⁶⁰ Moreover, the Limitation of Liability Provisions are valid.⁴⁶¹

The Court determined that L-3 failed to properly utilize Section 23.2 of the License Agreement; however, the Court concludes that the record clearly demonstrates that L-3 would have had the right to exercise, at least, one or two Off Ramps on or about March 31, 2017. Moreover, the Court finds that the record clearly demonstrates that L-3 would have exercised Off Ramps by March 31, 2017. L-3 had already sent the Termination Notice. The testimony at the Trial provided that L-3's management had come to the conclusion (even with cost-cutting, etc.) that it would cost more than \$15 million to develop Optical Air's product. First, L-3 estimated that it would cost \$20.8 million to develop the product. Second, L-3 projected, after cost-cutting exercises, that it would cost \$19.1 million to develop Optical Air's product. Nothing in the record indicates that L-3 ever came up with a budget formula of \$15 million or less to develop the Optical Air products.

In addition, the record provides that L-3 (and/or Optical Air) was not going to be able to enter into formal agreements with Boeing, Embraer or an equivalent OEM custom to install and "Type Certify" the Optical Air product on a commercial aircraft by June 1, 2017. As such, L-3 could have used this Off Ramp to terminate the Agreements.

⁴⁶⁰ See *Goal Media Grp., Inc. v. Teamtalk.com Grp., PLC*, 2003 WL 21481147, at *1 (Del. Super. June 18, 2003); *Eastern Elec. & Heating, Inc.*, 1987 WL 9610, at *5; see also RESTATEMENT (SECOND) OF CONTRACTS § 237, cmt. c.

⁴⁶¹ See *NACCO Indus., Inc. v. Applicia Inc.*, 997 A.2d 1, 35 (Del. Ch. 2009); see also *eCommerce Indus., Inc. v. MWA Intelligence, Inc.*, 2013 WL 5621678, at *45 (Del. Ch. Sept. 30, 2013); *Cornell Glasgow, LLC v. LaGrange Props., LLC*, 2012 WL 2106945, at *8 (Del. Super. June 6, 2012).

The Court finds that the Attorneys' Fees Provision is applicable here.⁴⁶² Because Optical Air is the prevailing party in a dispute arising out of the Agreement, the Court will award Optical Air its attorneys' fees for prosecuting its rights in this civil action.

The factual record is clear that L-3, for valid reasons (under Section 23.2 and/or Section 23.3.2), would have terminated the Agreements no later than March 31, 2017. Accordingly, the Court will limit any damage award using the March 31, 2017 date.

The Court has reviewed the factual record and testimony provided by Ms. Trexler and Mr. Bernatowicz, and finds that Optical Air suffered damages in the amount of \$2,579,500 from L-3's breach of the Agreements—(i) the \$1,000,000 milestone payment due on January 15, 2017; and (ii) \$1,579,500 of net profits from missed milestone and stipend payments due under the Services Agreement.⁴⁶³ Optical Air is also entitled to attorneys' fees under the Attorneys' Fees Provision and pre-judgment interest.

c. L-3 FAILED TO PROVE THAT OPTICAL AIR COMMITTED FRAUD

Through Counterclaim 1, L-3 contends that it is entitled to a declaration that the Agreements are void because of Optical Air's fraud in the inducement. To plead a claim of fraud, L-3 must show (i) a false representation, usually one of fact . . . ; (ii) Optical Air's knowledge or belief that the representation was false, or was made with reckless indifference to the truth; (iii) an intent to induce L-3 to act; (iv) L-3's action or inaction was taken in justifiable reliance upon the representation; and (v) damage to L-3 as a result of such reliance.⁴⁶⁴

⁴⁶² See *SIGA Tech., Inc. v. PharmAthene, Inc.*, 67 A.3d 330, 352-53 (Del. 2013); *Sternberg v. Nanticoke Mem'l Hosp., Inc.*, 62 A.2d 1212, 1218 (Del. 2013); *Mahani v. Edix Media Grp., Inc.*, 935 A.2d 242, 245-46 (Del. 2007).

⁴⁶³ See, e.g., Def. Ex. 252 at 57-58; Def. Ex. 252 at Exs. 8-9. The total unpaid amounts under the Services Agreement between August 1, 2016 and March 1, 2017 is \$2,925,000 (\$195,000 remained unpaid from August 1, 2016 and seven additional Milestone and Stipend payments of \$390,000). The Court then applied the incremental cost arrived at by Ms. Trexler of 46%.

⁴⁶⁴ *Hauspie v. Stonington Partners, Inc.*, 945 A.2d 584, 586 (Del. 2008) (quoting *Gaffin v. Teledyne, Inc.*, 611 A.2d 467, 472 (Del. 1992)).

After listening to the witnesses and reviewing the exhibits, the Court finds that L-3 has not carried its requisite burden of proof on Counterclaim 1. The Court notes that Optical Air ran a sloppy due diligence process. Optical Air, acting out of naïve fear, was too worried about potential breaches of confidentiality provisions and erred by not communicating more with L-3, UTAS and Gulfstream about the Gulfstream Agreement and the UTAS Agreement. The Court, however, cannot characterize Optical Air’s conduct as constituting “intentional misrepresentations” with the intent to induce L-3 to act. At most, the Court finds that Optical Air was negligent.

Counterclaim 2 is for unjust enrichment. A claim for unjust enrichment is not available if there is a contract that governs the relationship between parties that gives rise to the unjust enrichment claim.⁴⁶⁵ The Court has found that a valid set of contracts controls the relationship between Optical Air and L-3. As such, the Court finds in favor of Optical Air on Counterclaim 2.

d. THE COURT FINDS AND CONCLUDES THAT OPTICAL AIR DID NOT CARRY ITS BURDEN OF PROOF ON COUNTS 10 AND 11—CONSPIRACY AND DEFAMATION.

Defamation consists of the “twin torts” of libel (written defamation) and slander (spoken defamation).⁴⁶⁶ “Defamation is generally understood as ‘a false publication calculated to bring one into disrepute.’”⁴⁶⁷ “In general, the scope of liability for slander is not as great as that for libel, and the pleading requirements for slander are more strict.”⁴⁶⁸ To state a claim for defamation, a plaintiff must prove: (i) a defamatory communication; (ii) publication; (iii) reference to the plaintiff; (iv) the third party’s understanding of the communication’s defamatory

⁴⁶⁵ See, e.g., *Kuroda v. SPJS Hldgs., LLC.*, 971 A.2d 872 (Del. Ch. 2009).

⁴⁶⁶ *Read v. Carpenter*, 1995 WL 945544, at *2 (Del. Super. June 8, 1995).

⁴⁶⁷ *Naples v. New Castle County*, 2015 WL 1478206, at *12 (Del. Super. Mar. 30, 2015), *aff’d*, 127 A.3d 399 (Del. 2015) (quoting *Read*, 1995 WL 945544, at *2).

⁴⁶⁸ *Spence v. Funk*, 396 A.2d 967, 970 (Del. 1978).

character; and (v) injury.⁴⁶⁹ Usually, a plaintiff must plead special damages to bring a claim for oral defamation. But, if a plaintiff brings a claim for slander per se, special damages are not required.⁴⁷⁰ The four types of slander per se are: (i) malign one in a trade, business or profession; (ii) impute a crime; (iii) imply one has a loathsome disease; or (iv) impute unchastity to a woman.⁴⁷¹

A publisher is not liable for defamation when the publisher's statements are substantially true.⁴⁷² The Court must consider whether the "gist" or "sting" of the statement is true in order to determine whether it is substantially true.⁴⁷³ A statement is substantially true if an average reader would consider the precise truth to have the same effect as the statement made by the defendant.⁴⁷⁴

The Court previously addressed Counts 10 and 11 when denying L-3's request for summary judgment. The Court narrowed the scope of these claims to purported defamatory statements made to the CEO of Gulfstream's parent, General Dynamics—Ms. Novakovic. Moreover, the Court cautioned Optical Air that defamation claims are fact-intensive and Optical Air needed to substantially develop the record in order to prevail.

After hearing all the evidence at the Trial, the Court does not find that the interactions between L-3 and Ms. Novakovic regarding Optical Air constitute a viable claim for defamation. The interaction was factually based and related to the Gulfstream Agreement and the

⁴⁶⁹ *See Read*, 1995 WL 945544, at *2.

⁴⁷⁰ *Id.*

⁴⁷¹ *Id.*

⁴⁷² *Gannett Co. v. Re*, 496 A.2d 553, 557 (Del. 1985) ("If the alleged libel was no more damaging to the plaintiff's reputation in the mind of the average reader than a truthful statement would have been, then the statement is substantially true.").

⁴⁷³ *Id.*

⁴⁷⁴ *Ramada Inns, Inc. v. Dow Jones & Co.*, 543 A.2d 313, 318 (Del. Super. 1988).

Agreements. The Court finds that Optical Air failed to prove a defamatory statement or any other false statement that was “calculated” by L-3 to disparage or defame Optical Air.

“Civil conspiracy is the combination of two or more persons or entities for an unlawful purpose or for the accomplishment of a lawful purpose by unlawful means, resulting in damages.”⁴⁷⁵ To prove a claim of civil conspiracy, Optical Air needed to show: “(1) two or more persons; (2) an object to be accomplished; (3) a meeting of the minds between or among such persons relating to the object or a course of action; (4) one or more unlawful acts; and (5) damages as a proximate result thereof.”⁴⁷⁶ Optical Air also had to prove the object of the conspiracy, as well as when each conspirator joined the conspiracy.⁴⁷⁷ In addition, Optical Air had to prove an underlying wrong. Civil conspiracy is not an independent cause of action in Delaware and “must arise from some underlying wrong.”⁴⁷⁸

Optical Air’s conspiracy claim argued that Mr. Hurley and Mr. Ray—who are former airline executives and are now part of the Conquistadors—conspired with L-3 to harm Optical Air.⁴⁷⁹ The Court finds that Optical Air failed to prove that there was any agreement between Mr. Hurley, Mr. Ray and L-3 to harm Optical Air either as to Optical Air’s proprietary technology or its business interests. This is true even in connection with L-3’s filing of assignment of license with the USPTO in the time before L-3 issued the Termination Notice.

VI. CONCLUSION

The Court finds in favor of Optical Air on Counts 1 and 4. The Court finds that Counts 2 and 3 are subsumed into and are duplicative of the claims made in Counts 1 and 4. As such, the

⁴⁷⁵ *Connolly v. Labowitz*, 519 A.2d 138, 143 (Del. Super. 1986).

⁴⁷⁶ *See also Metropolitan Life Ins. Co. v. Tremont Grp. Hldgs., Inc.*, 2012 WL 6632681 at *19 (Del. Ch. Dec. 20, 2012).

⁴⁷⁷ *See id.*

⁴⁷⁸ *Rogers v. Bushey*, 2018 WL 818374 at *7 (Del. Super. Feb. 7, 2018).

⁴⁷⁹ First Am. Compl. at ¶¶ 177-81.

damages awarded to Optical Air are to compensate Optical Air for the allegations supporting Counts 1 through 4. The Court finds in favor of Optical Air on Counterclaims 1, 2, 4, 5 and 6. The Court finds in favor of L-3 on Count 7⁴⁸⁰ and Counts 10 and 11.

The Court awards damages as follows: (i) \$1,000,000 to Optical Air for L-3's failure to pay the January 1, 2017 milestone; (ii) \$1,579,500 from L-3's breach of the Services Agreement; (iii) attorneys' fees and expenses incurred by Optical Air in prosecuting its rights under the Agreements in this civil action; and (iv) pre-judgment interest. Optical Air is to submit a memorandum supported by affidavit(s) within thirty (30) days of date of this decision so that the Court may make a determination as to the attorneys' fees and pre-judgment interest owed by L-3 to Optical Air. L-3 will have twenty (20) days to respond to any memorandum filed by Optical Air regarding attorneys' fees and pre-judgment interest.

IT IS SO ORDERED.

December 5, 2019
Wilmington, Delaware

/s/ Eric M. Davis
Eric M. Davis, Judge

cc: File&ServeXpress

⁴⁸⁰ Even if L-3 violated the Agreements by publishing the assignment with the USPTO, the Court finds that Optical Air failed to demonstrate any damages in connection with this breach.