

IN THE SUPERIOR COURT OF THE STATE OF DELAWARE
IN AND FOR NEW CASTLE COUNTY

BLOCK FINANCIAL CORPORATION,)
)
Plaintiff/Counterclaim Defendant,)
) C.A. No. 03C-04-010
v.)
)
INISOFT CORPORATION,)
)
Defendant/Counterclaim Plaintiff.)

Submitted: July 12, 2006
Decided: October 30, 2006

*Upon Consideration of Plaintiff Counterclaim Defendant's Motion for
Summary Judgment*
DENIED.

*Upon Consideration of Defendant Counterclaim Plaintiff's Motion for
Summary Judgment*
DENIED IN PART, GRANTED IN PART.

*Upon Consideration of Defendant Counterclaim Plaintiff's Motion for
Sanctions*
DENIED.

Memorandum Opinion

C. Barr Flinn and Adam W. Poff, Esquires, Young Conaway Stargatt & Taylor, Wilmington, Delaware, Attorneys for Block Financial Corporation.

David L. Finger, Esquire, Finger & Slanina, Wilmington, Delaware; Sherri L. Eisenpress, Esquire, Reiss, Eisenpress, LLP, New York, New York; Lloyd M. Eisenberg, Esquire, Eisenberg & Carton, Bellmore, New York, Attorneys for Inisoft Corporation.

SCOTT, J.

INTRODUCTION

Before the Court are motions for partial summary judgment filed by Plaintiff Counterclaim Defendant Block Financial Corporation (“Block”) and Defendant Counterclaim Plaintiff Inisoft Corporation (“Inisoft”) and a motion for sanctions filed by Block. Block has moved for partial summary judgment on Inisoft’s misappropriation of trade secret (Count II) and fraud and negligent misrepresentation (Counts I & III) counterclaims. Inisoft has moved for summary judgment on its contract counterclaims (Counts IV & V), Block’s contract claims (Counts IV, V, VI & XI), Block’s fraud claims (Counts II, III, VIII & IX) and Block’s economic duress claim (Count I). Inisoft’s motion for summary judgment on the economic duress claim is **GRANTED** because claims of economic duress based on threats of contractual and legal rights are not sustainable. However, because there are material facts in dispute on the trade secret, fraud and negligent misrepresentation, and contract claims those motions for summary judgment are **DENIED**. In addition, the Court determines that Block’s motion for sanctions is premature at this time, therefore, it is **DENIED**.

FACTS

Block is a Delaware corporation, with its principal office in Kansas City, Missouri. It is engaged in the provision of tax preparation services,

including an internet tax preparation service. Inisoft is a Delaware corporation with its principal offices in Toronto, Canada. It was engaged in the licensing of software, including software to support tax preparation services.

Block, responding to competitive pressures in the late 1990s, moved into the Internet tax preparation service business. Its initial attempt was unsuccessful and its problems were so severe that its relationships with the providers of its Internet portals were in jeopardy. Thus, in the spring of 2000, Block turned to Inisoft to salvage its software problems. Inisoft had helped to develop an Internet tax service in Canada. The contractual relationship between Block and Inisoft was initially defined in an e-mail sent on June 24, 2000. By September 2000, Block had identified problems with Inisoft's software. In an effort to remedy these shortcomings, Block sought access to Inisoft's source codes. That resulted in an agreement (the so-called "Limited Agreement") which allowed Block access to the source codes and further structured the rights and obligations of the parties.

On November 2, 2000, Block and Inisoft entered into an agreement ("November 2 Agreement") by which Block was granted a license to use software provided by Inisoft ("Inisoft Software"). The Inisoft Software was comprised of an "interview development tool" and a "web engine."

Pursuant to the terms of the November 2 Agreement, Block had a legal right to use the Inisoft Software until the earlier of September 30, 2003 or termination of the Agreement by either party.

Block filed this action on November 5, 2001 in the Court of Chancery seeking a declaratory judgment, rescission, injunctive relief and monetary damages based on claims of breach of contract and fraudulent inducement. The case was subsequently dismissed for lack of jurisdiction and reinstated in the Superior Court. Counts I-III of the Complaint seek rescission of the various agreements between Block and Inisoft on grounds of economic duress, fraudulent inducement, and inducement by negligent misrepresentation. Through counts IV-VI of the Complaint, Block asks for a declaration that Inisoft materially breached the November 2 Agreement, that Block is entitled to develop its own web engine and other software, and that Block was entitled to terminate the November 2 Agreement. Counts VIII-XI set forth claims for damages arising out of fraud, negligent misrepresentation, detrimental reliance and breach of the November 2 Agreement.

On April 4, 2003, Inisoft answered the Complaint, denying that it had breached the license agreement and insisting that Block continue paying for the software. Inisoft asserted counterclaims for fraud, negligent

misrepresentation, misappropriation of trade secrets, breach of contract, and breach of the implied duty of good faith and fair dealing.

STANDARD OF REVIEW

The Court may grant summary judgment if it concludes that “the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to summary judgment as a matter of law.”¹ The moving party bears the initial burden of showing that no material issues of fact are present.² Once such a showing is made, the burden shifts to the nonmoving party to demonstrate that there are material issues of fact in dispute.³ In considering a motion for summary judgment, the Court must view the record in a light most favorable to the nonmoving party.⁴ The Court’s decision must be based solely on the record presented and not on all evidence “potentially possible.”⁵

DISCUSSION

A. Block’s Motion for Summary Judgment on Inisoft’s Counterclaim for Misappropriation of Trade Secret

¹ Super. Ct. Civ. R. 56(c); *Burkhart v. Davies*, 602 A.2d 56, 59 (Del. 1991).

² *Moore v. Sizemore*, 405 A.2d 679, 680 (Del. 1979).

³ *Id.* at 681.

⁴ *Burkhart*, 602 A.2d at 59.

⁵ *Rochester v. Katalan*, 320 A.2d 704, 708 (Del. 1974) (citing *United States v. Article Consisting of 36 Boxes*, 284 F.Supp. 107 (D. Del. 1968), *aff’d*, 415 F.2d 369 (3d Cir. 1969)).

Block's motion for summary judgment on Inisoft's misappropriation of trade secrets counterclaim is premised upon responses to interrogatories and 30(b)(6) testimony that it contends demonstrate that Inisoft did not have a trade secret because the purported trade secrets were obsolete and destroyed. Block further alleges that the testimony whereby it was acknowledged that the source code was on a server that had been sold demonstrates that Inisoft abandoned any secrecy in May 2001. At oral argument, counsel for Inisoft raised the issue that they had not yet had an opportunity for experts to examine Block's source code to determine whether Block utilized any of Inisoft's technologies in the software that it continues to use.

*Savor, Inc. v. FMR Corp.*⁶ involved a misappropriation of trade secrets claim in which the defendant had moved for summary judgment on the grounds that the undisputed facts of record revealed that the plaintiff had failed to identify the manner in which any trade secret it may have possessed was misappropriated by the defendant.⁷ The defendant's motion was premised upon plaintiff's responses to interrogatories that it contended were insufficient to raise a factual issue with respect to the existence and/or

⁶ 2003 WL 21054394 (Del. Super.).

⁷ *Id.* at *1.

misappropriation of a trade secret.⁸ After reviewing the record, the Court determined that entry of judgment would be premature because the Court was “not inclined to rule on a record which is comprised only of ‘first-cut’ interrogatory answers ... and self serving affidavits.”⁹ The Court further outlined that depositions, expert reports and/or Rule 26(b) disclosures, with follow-up expert discovery should be made a part of the record before the Court considered another motion for summary judgment.¹⁰

Since the facts and issues in the present case are analogous to those in *Savor* the Court determines that summary judgment would be premature and inappropriate at this time. Inisoft has not yet had an opportunity for experts to examine Block’s source code to determine whether Block utilized any of Inisoft’s technologies and Block’s motion is premised upon responses to interrogatories and 30(b)(6) testimony that it contends demonstrate that Inisoft did not have a trade secret. Considering the record in the present case “[p]rudence dictates that further discovery be permitted before requests for dispositive relief are entertained.”¹¹ The motion for summary judgment is DENIED as to the misappropriation of trade secret claim with leave to renew after further development of the record.

⁸ *Id.*

⁹ *Id.*

¹⁰ *Id.*

¹¹ *Id.*

B. Block's Motion for Summary Judgment on Inisoft's Counterclaims for Fraud

In its motion for summary judgment Block contends that Inisoft's fraud counterclaims fail as a matter of law for three reasons. First, Block argues that many of the alleged misrepresentations refer simply to promises made in the parties contract, and therefore, cannot support a claim for fraud or negligent misrepresentation. Second, as to two representations, Block contends that Winston's deposition testimony demonstrates that Inisoft had no basis to allege that Block knew the representations were false when made. Third, as to the remaining three representations listed in Inisoft's interrogatory response 36, Block alleges that they should be dismissed for lack of detrimental reliance. In response, Inisoft rebuts these allegations and contends that summary judgment should be granted in its favor.

The Court finds that Inisoft's fraud claims do not appear to derive from terms in the agreements. Rather, these claims are directed at Block's actions and representations which induced Inisoft to enter into the November 2 Agreement. Therefore, summary judgment cannot be granted on this basis. Moreover, the evidence and materiality of any misrepresentations made by Block clearly turn on facts which the parties dispute. Block cannot viably assert that, as a matter of law, the Court should determine they made

no fraudulent statements prior to the execution of the agreement.¹²

Consideration of fraud requires inquiry at trial as to the allegedly fraudulent party's intent.¹³

In the present case, there are significant material issues of fact surrounding whether the statements made were false and the knowledge and intentions when the statements were made. Inisoft has not clearly admitted that they knew at all relevant times that the representations made by Block were not true. Since the determination of this dispute will depend upon the credibility of the witnesses and the weight given to their testimony, it should remain an area for the jury to consider. Both parties ought to have the opportunity to argue before a trier of fact concerning this issue. Moreover, the question of reliance, particularly whether it was reasonable, is generally a question of fact that cannot be determined on summary judgment.¹⁴ Thus, because it is the opinion of the Court that there are still genuine issues of material fact in dispute on this claim, the motions for summary judgment on the fraud and negligent misrepresentation claims are DENIED.

C. Inisoft's Motion for Summary Judgment on its Breach of Contract Counterclaim and Block's Contract Claims

¹² *Fort Howard Cup Corp. v. Quality Kitchen Corp.*, 1992 WL 207276, at *3 (Del. Super.).

¹³ *Id.*

¹⁴ *Wilmington Trust Co. v. Aetna Cas. & Sur.*, 690 A.2d 914, 916 (Del. 1996).

The Court finds that summary judgment cannot be granted on the breach of contract claims because there are facts in dispute as to whether Inisoft breached the November 2 Agreement. Specifically, the parties dispute whether Inisoft breached its representation in Section 9.1(d) that it was the “owner or authorized licensee” of the software. Second, there is an issue of material fact as to whether there was an obligation for Inisoft to correct the alleged defects in its software. To demonstrate that it did not have an obligation to correct the alleged defects Inisoft points to a statement made by Block in which Block claims that they had rectified all problems with the Inisoft software prior to executing the November 2 Agreement. Inisoft, therefore, argues that Block’s “laundry list” of complaints, regarding the Inisoft web engine on November 22, 2000, was made in bad faith to avoid making payments. Inisoft further alleges that the emails between Jeff Yabuki and Jim Rose demonstrate Block’s bad faith. Block, however, has offered alternative explanations for the same emails which suggest that there was no bad faith. The Court determines that a jury is best suited to determine the meaning of these emails and whether Inisoft was obligated to correct the alleged defects in its software.

The Court further finds that a genuine issue of material fact exists as to whether Block had substantially developed an alternative to the defective

web engine. Pursuant to Section 4.2 of the November 2 Agreement Block agreed not to “utilize any Replacement Software in providing the H & R Service.” In other words, Block agreed not to use or develop any alternative to the Inisoft Software, including their web engine. Inisoft contends that Block breached this provision “as of the moment that it executed the Agreement”¹⁵ because they had already abandoned the Inisoft engine, i.e., the HRB1 Engine, in favor of the Nexgenix HRB2 Engine before entering the November 2 Agreement. Inisoft supports this allegation with evidence showing that Block provided Inisoft’s source code to Celeritas Technologies and paid Celeritas to study Inisoft’s source code to create an “alternative” product. Block, however, asserts that it was relying on a substantial component of Inisoft’s software, the interview development tool, in the creation of the Nexgenix HRB2. Thus, the Nexgenix HRB2 was a “modification,” a procedure that Block was expressly licensed to perform, rather than a “replacement” of Inisoft’s software. Both parties have provided ample evidence in arguing opposing claims. Therefore, the Court finds that the determination of whether the Nexgenix HRB2 Engine was a “replacement” is a decision properly suited for the jury. Because there are

¹⁵ Def. Countercl. Ans. Br., D.I. 59, at 27.

material facts in dispute the Court denies the motion for summary judgment on the breach of contract claims.

D. Inisoft's Motion for Summary Judgment on Block's Fraud Claims

Inisoft argues that summary judgment should be granted on Block's fraud claims because there is evidence that Block did not rely on Inisoft's representations concerning the quality of its existing software. In support of its claim, Inisoft relies upon a July 17, 2000 Microsoft Consulting Services report to Block, emails in late August and early September dealing with the subsequent testing of the Inisoft software, a September 20, 2000 report prepared for Block entitled "An Analysis of the Iniforms Engine Product," and a Celeritas Technologies reported dated September 27, 2000 entitled "H & R Block Alternatives to Inisoft."

In response, Block contends that there is ample evidence that they did rely upon Inisoft's representations. Specifically, Block alleges that they agreed to pay the license fees for only the object code because Inisoft had told them that its software "worked," had been "used successfully ... the prior year," was "stable" and "scaled." Furthermore, Block asserts that they relied upon Inisoft's statements even after the Microsoft report because Microsoft was merely "pitching for business" and had yet to validate its opinion that the software would "most likely fall short of requirements."

Moreover, Microsoft's opinion was formulated after discussing the design of the software with Inisoft but before testing. Furthermore, on that same day Inisoft's president told Block that it knew its software better than Microsoft and knew that it would work with what Block was doing in the United States. Whether Block relied on Inisoft's representation concerning the quality of its existing software and whether this reliance was justified are questions of fact for the trier to determine based on all of the circumstances. Therefore, Inisoft's motion for summary judgment on Block's fraud claims is hereby DENIED.

E. Inisoft's Motion for Summary Judgment on Block's Economic Duress Claim

In its motion for summary judgment, Inisoft also alleges that Block's economic duress claim fails, as a matter of law, because Block will not be able to establish the third element of such an action. If that were correct, litigation on this claim would end here. The Court agrees that Block's economic duress claim fails as a matter of law.

While the elements of economic duress have been described in various forms, there are essentially three elements that are required. There must be: (1) a "wrongful" act, (2) which overcomes the will of the aggrieved

party, (3) who has no adequate legal remedy to protect himself.¹⁶ In claiming economic duress, one must be deprived of the free exercise of his will through wrongful threats or acts directly against a person's business interest.¹⁷ Generally, the threat to exercise a legal or contractual right that the maker of the threat clearly holds is not, in and of itself, improper.¹⁸

In this case, Block argues that the November 2 Agreement was procured under duress consisting of wrongful actions by Inisoft, which include: making improper threats by obtaining illicit leverage through its fraudulent misrepresentations and delays and by threatening, if Block did not sign the Limited Agreement promptly, that Inisoft would not provide Block with the source code to evaluate and fix Inisoft's software, and, if Block did not sign the November 2 Agreement, that Inisoft would discontinue permitting Block to use its software and would not cooperate further in Block's efforts to fix its software.¹⁹

¹⁶ *Cianci v. Jem Enterprise, Inc.*, 2000 WL 1234647, at *9 (citing *Way Road Development Co. v. Snavely*, Del. Super., C.A. No. 89C-DE-48, 1992 WL 19969, at *3, Toliver, J. (Jan. 31, 1992)).

¹⁷ *R.M. Williams Co. v. Frabizzio*, Del. Ch., C.A. No. 9834, 1990 WL 18399, at *4, fn 3, Chandler, V.C. (Feb. 22, 1990) (Mem. Op.) (citing *Fowler v. Mumford*, Del. Super., 102 A.2d 535 (1954)).

¹⁸ *Cianci v. Jem Enterprise, Inc.*, Del. Ch., C.A. 16419-NC, 2000 WL 1234647, at *9, Lamb, V.C. (Aug. 22, 2000).

¹⁹ Compl. at ¶ 99.

In response, Inisoft argues that the present case is analogous to *Coca-Cola Bottling Co. of Shreveport, Inc. v. Coca-Cola Co.*²⁰ In that case, the plaintiffs contended that the company improperly threatened to withhold diet Coke syrup unless they assented to the terms of the Temporary Amendment.²¹ As “islands in a sea of diet Coke” they were left with no alternative but to acquiesce.²² The court concluded that while the company may have driven a hard bargain when it refused to supply plaintiffs with diet Coke unless they signed the Temporary Amendment mere hard bargaining is insufficient to constitute duress.²³ The court noted that in every contract negotiation there is an implied threat that the party will not perform unless his terms are accepted.²⁴

Like *Coca-Cola Bottling Co. of Shreveport, Inc.*, the Court finds that the “threats” and related activity attributed to Inisoft consist of nothing more than hard-bargaining business tactics. Because claims of economic duress based on threats of contractual and legal rights are not sustainable,²⁵ it is unnecessary for the Court to consider the question of whether Block’s claim

²⁰ 769 F.Supp. 671 (D.Del. 1991).

²¹ *Id.* at 738.

²² *Id.*

²³ *Id.* (citations omitted).

²⁴ *Id.*

²⁵ *E.I. Du Pont de Nemours and Co. v. Custom Blending International Inc.*, Del. Ch., C.A. No. 16295-NC, 1998 WL 842289, at *4, Strine, V.C. (Nov. 24, 1998).

satisfies the last element of duress.²⁶ Accordingly, the Court must award judgment as a matter of law to Inisoft. Inisoft's motion for summary judgment on Block's economic duress claim is thereby GRANTED.

F. Block's Motion for Sanctions

Block has filed a motion for sanctions alleging that Inisoft, having falsified the date of the purported license agreement between Inisoft and its Canadian affiliate and Winston's handwritten dating of his signature and having supported the false date with false testimony, should be ordered to reimburse Block for the legal fees and costs that it incurred in uncovering the truth. Block expects that those fees and costs will exceed \$25,000. The Court determines that Block's request for legal fees and costs incurred in uncovering the truth is premature at this time.

In addition, Block argues that Inisoft should be further sanctioned, with an order precluding it from submitting any evidence about the supposed third version of the license agreement, in view of its witnesses' testimony that they could not recall any other version of the agreement or any reason why they would have back-dated the purported license agreement. As support for this proposition Block relies upon *Combs v. Rockwell Int'l*

²⁶ *Cianci*, 2000 WL 1234647, at *11.

*Corp.*²⁷ In that case the court dismissed with prejudice and granted Rule 11 sanctions against a party and its counsel because the attorney, in an effort to avoid summary judgment, made substantive changes to the party's deposition testimony in violation of FRCP 30(e).²⁸ In the present case, the Court determines that Inisoft's conduct has not risen to the same egregious level of fraud as the party in *Combs*. Moreover, *Combs* is not binding precedent. At this time, the Court is unwilling to preclude Inisoft from submitting any evidence about the supposed third version of the license agreement. Therefore, Block's motion for sanctions is **DENIED**.

IT IS SO ORDERED.

Judge Calvin L. Scott, Jr.

²⁷ 927 F.2d 486, 488 (9th Cir. 1991).

²⁸ *Id.* at 488-489.