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 6 VERMONSTER, LLC

7  
 8 UNITED STATES DISTRICT COURT  
 9 NORTHERN DISTRICT OF CALIFORNIA  
 10

11  
 12 LYNCH MARKS, LLC,  
 13  
 14 Plaintiff,  
 15 v.  
 16 VERMONSTER, LLC,  
 17 Defendant.

Case No.: 05-5178 BZ

ANSWER AND COUNTERCLAIM BY  
 VERMONSTER LLC

18  
 19 VERMONSTER, LLC,  
 20 Counterclaimant,  
 21 v.  
 22 LYNCH MARKS, LLC,  
 23 Counterdefendant.  
 24

25  
 26  
 27  
 28 C05-5178-BZ  
 Vermonster Answer &  
 Counterclaim

ANSWER

Defendant Vermonster, LLC, (“Vermonster”), in response to the Complaint filed by Plaintiff Lynch Marks, LLC, (“Lynch Marks”) admits, denies, and alleges as follows:

1. Vermonster lacks sufficient knowledge or information to enable it to form a belief as to the truth of the allegations of paragraph 1 of the complaint and on that basis denies them.

2. Vermonster admits the allegations of paragraph 2 of the Complaint.

3. Vermonster admits the allegations of paragraph 3 of the Complaint.

4. Vermonster admits the allegations of paragraph 4 of the Complaint.

5. Vermonster admits the allegation of paragraph 5 of the Complaint.

6. Answering the allegations of paragraph 6 of the complaint, Vermonster admits that Lynch Marks markets software products called PS|Ship to law firms and, assuming that the term “Lynch Marks software” is coextensive with the PS|Ship products, that the description of the software’s purpose and the example are, generally, accurate, except, as noted below, for the use of the term “Invoice Server.” Vermonster specifically denies that Lynch Marks owns the intellectual property rights in all PS|Ship products. Vermonster denies the remaining allegations of paragraph 6 generally and specifically to the extent that they use the term Invoice Server instead of EDI Server and to the extent that they mischaracterize Label Server and EDI Server as core components.

7. Answering paragraph 7 of the Complaint, Vermonster admits that it has developed, installed, and debugged PS|Ship products, enhancements, and upgrades, and has provided support to customers who have purchased and installed PS|Ship products. Vermonster avers that those activities were, at times and to varying degrees, done at the request and in collaboration with Lynch Marks; and that, to varying degrees and according to different terms, Lynch Marks paid Vermonster for those activities. Vermonster admits that Messrs. Kaney and Powers are residents of Boston and have at all times operated as employees, agents, and principals of Vermonster. Vermonster admits that Mr. Roche is a resident of Newton,

1 Massachusetts, and has at all times operated as a contractor and agent of Vermonster.

2 Vermonster denies the remaining allegations in paragraph 7 generally and specifically denies the  
3 characterization of the business relationship and of any purported agreement between the parties.

4 8. Answering paragraph 8 of the Complaint, admits that Lynch Marks has paid  
5 Vermonster money for software development, installation, and support related to the PS|Ship  
6 products. Vermonster lacks sufficient information or knowledge to form a belief as to the truth  
7 of the \$500,000 figure and therefore denies that allegation. Vermonster denies the remaining  
8 allegations of paragraph 8.

9 9. Answering paragraph 9 of the Complaint, Vermonster admits that the parties  
10 signed the “Term Sheet” and that Exhibit A is a true and accurate copy of the Term Sheet.  
11 Vermonster denies that the Term Sheet sets forth the material terms of the parties’ contractual  
12 relationship.

13 10. Answering paragraph 10 of the Complaint, Vermonster admits that the parties  
14 never subsequently executed a further written agreement. Vermonster denies the remaining  
15 allegations of paragraph 10.

16 11. Answering paragraph 11 of the Complaint, Vermonster admits that Exhibit B is a  
17 true and accurate copy of the Assignment of Intellectual Property Rights. Vermonster denies the  
18 remaining allegations in paragraph 11.

19 12. Answering paragraph 12 of the Complaint, Vermonster admits that it has received  
20 money from Lynch Marks; that it has developed further versions of and upgrades to PS|Ship  
21 products, including Label Server and EDI Server; that it has provided installation and support  
22 services to customers who have purchased one or more PS|Ship products (“PS|Ship customers”),  
23 including PS|Ship customers located in California. Vermonster denies the remaining allegations  
24 of paragraph 12

25 13. Vermonster denies the allegations in paragraph 13 of the Complaint.

26 14. Answering paragraph 14 of the Complaint, admits that Lynch Marks has paid  
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1 some amounts to Vermonster for development and installation of PS|Ship products, and for  
2 support provided to PS|Ship customers. Vermonster is without knowledge of information  
3 sufficient to admit or deny that the amount paid was in excess of \$500,000 and on that basis  
4 denies the figure. Vermonster denies the remaining allegations of paragraph 14 generally and  
5 specifically to the extent that they do not fully or properly characterize the nature of the  
6 Vermonster work or the compensation Lynch Marks paid; do not fully or properly characterize  
7 the purpose of the \$24,000 check; refer to a product “Invoice Server version 2;” and do not  
8 properly characterize Lynch Marks’s contribution to a project to create a new invoice-processing  
9 product.

10 15. Answering paragraph 15 of the Complaint, Vermonster admits that it has  
11 indicated that it may market an invoice-processing product of its own. Vermonster denies that it  
12 has refused to deliver the version of Label Server it agreed to develop (“Label Server v3”) that it  
13 has promised delivery of Label Server v3 by a certain date that it has failed to provide a  
14 timetable for providing Label Server v3, and that it has demanded additional payments from  
15 Lynch Marks. Vermonster denies the remaining allegations in paragraph 15 generally and  
16 specifically denies the allegations to the extent that they assume an obligation on Vermonster’s  
17 part to deliver a new invoice-processing product and that a single contract governs the  
18 relationship between Lynch Marks and Vermonster.

19 16. Answering paragraph 16 of the Complaint, Vermonster admits that Exhibit C is a  
20 true and correct copy of a November 14, 2005 e-mail from Vermonster to employees of  
21 Bingham McCutcheon but denies the characterization of the content, purpose and effect of that  
22 e-mail. Vermonster denies the remaining allegations of paragraph 16 generally and specifically  
23 to the extent that they purport a single agreement governing the relationship between Vermonster  
24 and Lynch Marks.

25 17. Answering paragraph 17 of the Complaint, Vermonster lacks sufficient  
26 information or knowledge regarding the purported meaning of the term “software” as used  
27

1 therein to enable it to respond to the allegations of paragraph 17 and on that ground denies them.

2 Vermonster denies the remaining allegations of paragraph 17.

3 18. Answering paragraph 18 of the Complaint, Vermonster admits that Exhibit D is a  
4 true and accurate copy of correspondence it received from Lynch Marks's counsel on or about  
5 November 14, 2005. Vermonster denies the characterization of the content purpose and effect of  
6 that letter and denies the allegations contained in that letter. Vermonster denies the remaining  
7 allegations in paragraph 18 generally and specifically to the extent that they assume an  
8 obligation on Vermonster's part to deliver a new invoice-processing product and that they  
9 characterize any purported agreement between the parties.

10 19. Answering paragraph 19 of the Complaint, Vermonster realleges its responses to  
11 paragraphs 1 through 18 of the Complaint as though fully set forth herein.

12 20. Answering paragraph 20 of the Complaint, Vermonster admits that it has received  
13 varying amounts of money from Lynch Marks to engage in various software development  
14 projects. Vermonster denies the remaining allegations of paragraph 20 generally and specifically  
15 denies the characterization of any purported agreement between the parties.

16 21. Answering paragraph 21 of the Complaint, Vermonster admits that it has received  
17 varying amounts of money from Lynch Marks to engage in various software development  
18 projects. Vermonster denies the remaining allegations in paragraph 21 generally and specifically  
19 denies the characterization of any purported agreement between the parties.

20 22. Answering paragraph 22 of the Complaint, Vermonster admits that it has  
21 provided support to PS|Ship customers in exchange for payment from Lynch Marks. Vermonster  
22 denies the remaining allegations in paragraph 22 generally and specifically denies the  
23 characterization of any purported agreement between the parties

24 23. Vermonster denies the allegations of paragraph 23 of the Complaint.

25 24. Answering paragraph 24 of the Complaint, Vermonster admits that it has received  
26 varying amounts of money from Lynch Marks to engage in various software development  
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1 projects. Vermonster is without knowledge of information sufficient to admit or deny that the  
2 amount paid was in excess of \$500,000 and on that basis denies the allegation. Vermonster  
3 denies the remaining allegations in paragraph 24 generally and specifically denies the  
4 characterization of the business relationship and the characterization of any purported agreement  
5 between the parties.

6 25. Vermonster denies the allegations in paragraph 25 of the Complaint.

7 26. Vermonster seeks the same declaration of rights and duties Lynch Marks requests  
8 in paragraph 26 of the Complaint.

9 27. Answering paragraph 27 of the Complaint, Vermonster incorporates and reasserts  
10 its responses to paragraphs 1 through 18 of the complaint as though fully set forth herein.

11 28. Answering paragraph 28 of the Complaint, admits that it has received varying  
12 amounts of money from Lynch Marks to engage in various software development projects.  
13 Vermonster denies the remaining allegations of paragraph 28 generally and specifically denies  
14 the characterization of any purported agreement between the parties.

15 29. Answering paragraph 29 of the Complaint, Vermonster admits that it has received  
16 varying amounts of money from Lynch Marks to engage in various software development  
17 projects. Vermonster denies the remaining allegations of paragraph 29 generally and specifically  
18 denies the characterization of any purported agreement between the parties.

19 30. Answering paragraph 30 of the Complaint, Vermonster admits that it has  
20 provided support to PS|Ship customers in exchange for payment from Lynch Marks. Vermonster  
21 denies the remaining allegations of paragraph 30 generally and specifically denies the  
22 characterization of any purported agreement between the parties.

23 31. Answering paragraph 31 of the Complaint, Vermonster admits that it has received  
24 varying amounts of money from Lynch Marks to engage in various software development  
25 projects. Vermonster is without knowledge of information sufficient to admit or deny that the  
26 amount paid was in excess of \$500,000 and on that basis denies the figure. Vermonster denies  
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1 the remaining allegations of paragraph 31.

2 32. Answering paragraph 32 of the Complaint, Vermonster admits that it has  
3 provided support to PS|Ship customers in exchange for payment from Lynch Marks. Vermonster  
4 denies the remaining allegations of paragraph 32 generally and specifically denies the  
5 characterization of any purported agreement between the parties, that it has refused to support  
6 any PS|Ship customers; and that it has attempted to disrupt and injure any working relationship  
7 between Lynch Marks and a customer of Lynch Marks's.

8 33. Answering paragraph 33 of the Complaint, Vermonster denies that Lynch Marks  
9 is entitled to return of the software referred to therein and respectfully requests that the Court  
10 deny Lynch Marks's request for relief as set forth in paragraph 33 of the Complaint.

11 34. Answering paragraph 34 of the Complaint, Vermonster denies that Lynch Marks  
12 is entitled to the order requested and respectfully requests that the Court deny Lynch Marks's  
13 request in paragraph 34 of the Complaint.

14 35. Answering paragraph 35 of the Complaint, Vermonster realleges its responses to  
15 paragraphs 1 through 18 of the Complaint as though fully set forth herein.

16 36. Vermonster denies the allegations of paragraph 36 of the Complaint.

17 37. Answering paragraph 37 of the Complaint, admits that it has received varying  
18 amounts of money from Lynch Marks to engage in various software development projects.  
19 Vermonster denies that it undertook any software development projects pursuant to the Term  
20 Sheet. Vermonster denies the remaining allegations of paragraph 37 generally and specifically  
21 denies the characterization of any purported agreement between the parties.

22 38. Answering paragraph 38 of the Complaint, Vermonster admits that it has received  
23 varying amounts of money from Lynch Marks to engage in various software development  
24 projects. Vermonster denies that it undertook any software development projects pursuant to the  
25 Term Sheet. Vermonster denies the remaining allegations of paragraph 38 generally and  
26 specifically denies the characterization of any purported agreement between the parties.

1           39.     Answering paragraph 39 of the Complaint, Vermonster admits that it has  
2 provided support to PS|Ship customers in exchange for payment from Lynch Marks. Vermonster  
3 denies the remaining allegations in paragraph 39 generally and specifically denies the  
4 characterization of any purported agreement between the parties.

5           40.     Answering paragraph 40 of the Complaint, Vermonster admits that it has received  
6 varying amounts of money from Lynch Marks to engage in various software development  
7 projects. Vermonster is without knowledge of information sufficient to admit or deny that the  
8 amount paid was in excess of \$500,000 and on that basis denies the figure. Vermonster denies  
9 that it has failed to deliver software that it has committed to develop within an agreed-upon  
10 budget and in a viable and working state; and that it has demanded further payments from Lynch  
11 Marks to deliver software it has committed to develop. Vermonster denies the remaining  
12 allegations in paragraph 40 generally and specifically denies the characterization of any  
13 purported agreement between the parties.

14           41.     Answering paragraph 41, Vermonster admits that it has provided support to  
15 PS/Ship customers in exchange for payment from Lynch Marks. Vermonster denies the  
16 remaining allegations of paragraph 41 of the Complaint and specifically denies that it has refused  
17 to support any PS|Ship customers.

18           42.     Vermonster denies the allegations of paragraph 42 of the Complaint and  
19 specifically denies that Lynch Marks has sustained damages in any sum or at all.

20           43.     Answering paragraph 43 of the Complaint, Vermonster realleges its responses to  
21 paragraphs 1 through 18 of the Complaint as though fully set forth herein.

22           44.     Answering paragraph 44 of the Complaint, admits that it has received varying  
23 amounts of money from Lynch Marks to engage in various software development projects.  
24 Vermonster neither admits nor denies the allegations of paragraph 44 of the Complaint to the  
25 extent that the allegations purport to state legal conclusions. Vermonster denies the remaining  
26 allegations of paragraph 44 generally and specifically to the extent that they purport a single  
27



1 agreement governing a single project to create software; and that they, by failing to define  
2 “package of software,” make it impossible to admit or deny the allegations.

3 45. Answering paragraph 45 of the Complaint, Vermonster admits that it has received  
4 varying amounts of money from Lynch Marks to engage in various software development  
5 projects. Vermonster denies the remaining allegations in paragraph 45 generally and specifically  
6 denies the characterization of any purported agreement between the parties.

7 46. Answering paragraph 46 of the Complaint, Vermonster admits that it has  
8 provided support to PS|Ship customers in exchange for payment from Lynch Marks. Vermonster  
9 denies the remaining allegations in paragraph 46 generally and specifically denies the  
10 characterization of any purported agreement between the parties

11 47. Answering paragraph 47 of the Complaint, Vermonster admits that it has received  
12 varying amounts of money from Lynch Marks to engage in various software development  
13 projects. Vermonster is without knowledge of information sufficient to admit or deny that the  
14 amount paid was in excess of \$500,000 and on that basis denies the figure. Vermonster denies  
15 that it has failed to deliver software that it has committed to develop within an agreed-upon  
16 budget and in a viable and working state; and that it has demanded further payments from Lynch  
17 Marks to deliver software it has committed to develop. Vermonster denies the remaining  
18 allegations in paragraph 47 generally and specifically denies the characterization of any  
19 purported agreement between the parties.

20 48. Answering paragraph 48 of the Complaint, Vermonster admits that it has received  
21 certain payment for services from Lynch Marks. Vermonster denies that it has failed to turn over  
22 code for EDI Server or Label Server v3; and that it has wrongfully retained and converted code  
23 or money. Vermonster denies the remaining allegations in paragraph 48 generally and  
24 specifically denies the characterization of any purported agreement between the parties.

25 49. Vermonster denies the allegations in paragraph 49 of the Complaint.

26 50. Vermonster denies the allegations in paragraph 50 of the Complaint.

27 51. Answering paragraph 51 of the Complaint, Vermonster realleges its responses to

1 paragraphs 1 through 18 of the Complaint as though fully set forth herein.

2           52.     Answering paragraph 52 of the Complaint, admits that it has received varying  
3 amounts of money from Lynch Marks to engage in various software development projects.  
4 Vermonster is without knowledge or information sufficient to form a belief as to the truth of the  
5 \$500,000 figure and therefore denies the allegation as it pertains to the \$500,000 figure.  
6 Vermonster denies that it has ever been unwilling or unable to create or deliver Label Server v3;  
7 and that it has ever misrepresented or concealed its ability or willingness to create or deliver a  
8 new invoice-processing product. Vermonster denies the remaining allegations of paragraph 52  
9 generally and specifically to the extent that they assume an obligation on Vermonster's part to  
10 deliver a new invoice-processing product and that they characterize any purported agreement  
11 between the parties.

12           53.     Answering paragraph 53 of the Complaint, Vermonster admits that it has  
13 provided support to PS|Ship customers for whom it was subsequently paid by Lynch Marks.  
14 Vermonster is without knowledge or information sufficient to form a belief as to the truth of the  
15 \$500,000 figure and therefore denies the allegation as it pertains to the \$500,000 figure.  
16 Vermonster denies that it has ever been unable or unwilling to provide support; and that it has  
17 ever misrepresented or concealed its ability or willingness to provide support. Vermonster denies  
18 the remaining allegations in paragraph 53 generally and specifically denies the characterization  
19 of the business relationship and the characterization of any purported agreement between the  
20 parties.

21           54.     Vermonster denies the allegations in paragraph 54 of the Complaint.

22           55.     Vermonster denies the allegations in paragraph 55 of the Complaint.

23           56.     Vermonster denies the allegations in paragraph 56 of the Complaint.

24           57.     Vermonster denies that allegations in paragraph 57 of the Complaint and  
25 specifically denies that Lynch Marks has suffered damages in any sum or at all.

26           58.     Vermonster denies the allegations in paragraph 58 of the Complaint.

27           59.     Answering paragraph 59 of the Complaint, Vermonster realleges its responses to

1 paragraphs 1 through 18 of the Complaint as though fully set forth herein.

2 60. Answering paragraph 60 of the Complaint, Vermonster admits that it is aware that  
3 Lynch Marks has business relationships; and that Lynch Marks has a business relationship with  
4 Bingham McCutcheon. Vermonster denies the remaining allegations in paragraph 60 generally  
5 and specifically to the extent that the phrase “if not contractual agreements” cannot be admitted  
6 or denied.

7 61. Vermonster denies the allegations in paragraph 61 of the Complaint.

8 62. Vermonster denies the allegation of paragraph 62 of the Complaint and  
9 specifically denies that it has solicited PS|Ship clients or has attempted to interfere with Lynch  
10 Marks’s ongoing client relationships or contract and the characterization of any purported  
11 agreement between the parties.

12 63. Vermonster denies the allegations in paragraph 63 of the Complaint and  
13 specifically denies that Lynch Marks has suffered damages in any sum or at all.

14 64. Vermonster denies the allegations in paragraph 64 of the Complaint.

15 **AFFIRMATIVE DEFENSES**

16 65. As a First Affirmative Defense, Vermonster alleges that the Complaint, and each  
17 cause of action therein, fails to state facts sufficient to state a claim upon which relief can be  
18 granted.

19 66. As a Second Affirmative Defense, Vermonster alleges that the Complaint, in  
20 whole or in part, fails to plead fraud with particularity. (Fed. R. Civ. P. 9(b)).

21 67. As a Third Affirmative Defense, Vermonster alleges that the Complaint, in whole  
22 or in part, fails to plead that all conditions precedent to any purported agreement or contract have  
23 been performed or have occurred. (Fed. R. Civ. P. 9 (c)).

24 68. As a Fourth Affirmative defense, Vermonster alleges that the Complaint is barred,  
25 in whole or in part, by the Statute of Frauds.

26 69. As Fifth Affirmative Defense, Vermonster alleges that the claims purportedly  
27

1 stated in the Complaint are barred, in whole or in part, by a failure of consideration.

2 70. As a Sixth Affirmative Defense, Vermonster alleges that the relief sought by the  
3 Complaint is barred, in whole or in part, because, to the extent any agreement or contract existed  
4 between Vermonster and Lynch Marks, some or all of the conditions precedent to such  
5 agreement or contract were not performed, did not occur, or both.

6 71. As a Seventh Affirmative Defense, Vermonster alleges that the relief sought by  
7 the Complaint is barred, in whole or in part, because, to the extent any agreement or contract  
8 existed between Vermonster and Lynch Marks, Vermonster fully performed its obligations under  
9 said agreement or contract.

10 72. As an Eighth Affirmative Defense, Vermonster alleges that the relief sought by  
11 the Complaint is barred, in whole or in part, because, to the extent any agreement or contract  
12 existed between Vermonster and Lynch Marks, Lynch Marks breached its obligations under said  
13 agreement or contract, thereby discharging any obligations of Vermonster to Lynch Marks.

14 73. As a Ninth Affirmative Defense, Vermonster alleges that the claims purportedly  
15 stated in the Complaint are barred, in whole or in part, by Lynch Marks's lack of reasonable  
16 reliance upon Vermonster's alleged misrepresentations.

17 74. As a Tenth Affirmative Defense, Vermonster alleges that the relief sought by the  
18 Complaint is barred, in whole or in part, because Lynch Marks failed to mitigate its damages.

19 75. As an Eleventh Affirmative Defense, Vermonster alleges that the relief sought by  
20 the Complaint is barred, in whole or in part, because any injury or damage that Lynch Marks  
21 may have suffered was not caused by the alleged conduct of Vermonster of which Lynch Marks  
22 complains.  
23

24 76. As a Twelfth Affirmative Defense, Vermonster alleges that the relief sought in the  
25 Complaint is barred, in whole or in part, by the doctrine of estoppel.  
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27 77. As a Thirteenth Affirmative Defense, Vermonster alleges that the relief sought in  
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1 the Complaint is barred, in whole or in part, by the doctrine of waiver.

2 78. As a Fourteenth Affirmative Defense, Vermonster alleges that the claims  
3 purportedly stated in the Complaint are barred, in whole or in part, by the doctrine of privilege of  
4 competition.

5 79. Vermonster expressly reserves the right to assert additional defenses, as they  
6 become known through the course of discovery.

7  
8 **COUNTERCLAIM**

9 Defendant and Counterclaimant Vermonster alleges:

10 **PARTIES**

11 1. Vermonster, LLC, (“Vermonster”) is a Delaware limited liability company with  
12 its principal place of business in Boston, Massachusetts.

13 2. Vermonster is informed and believes and thereupon alleges that  
14 Counterdefendant, Lynch Marks, LLC, (“Lynch Marks”) is a California limited liability  
15 company with its principal place of business in Albany, California.

16 **JURISDICTION**

17 3. In the event this Court deems that subject matter jurisdiction exists as to Lynch  
18 Marks’s claims and without waiver, Vermonster alleges that this Court has jurisdiction over this  
19 Counterclaim and that venue of the matters alleged in this Counterclaim is proper under 28  
20 U.S.C. § 1391(a)(1).

21 **GENERAL ALLEGATIONS**

22 4. In 2002, Vermonster designed and developed an application for the creation of  
23 FedEx shipping labels (“PS|Ship v1”).

24 5. PS|Ship v1 is comprised of core components and a label-generating module.

25 6. Between 2002 and 2004, Vermonster designed and developed various  
26 enhancements and new versions of PS|Ship.  
27

1           7.       For enhancements and new versions of PS|Ship completed before 2005, the  
2 parties negotiated a purchase price, Lynch Marks made a down payment (half the purchase  
3 price), Lynch Marks paid down the balance with a portion of each sale, and Lynch Marks paid a  
4 royalty of 15%.

5           8.       FedEx gives its customers the option to receive invoices electronically in various  
6 formats, including Electronic Data Interchange (“EDI”) format.

7           9.       One of the enhancements Vermonster designed and developed was a module to  
8 import and process EDI-formatted electronic invoices from FedEx.

9           10.      On or about February 2003 Vermonster and Lynch Marks entered into an oral  
10 agreement whereby Lynch Marks agreed to pay Vermonster eighteen thousand dollars (\$18,000)  
11 and a 15% royalty for the Fed Ex EDI - processing module.

12           11.      Vermonster built the Fed Ex EDI - processing module.

13           12.      On or about March 2003, Vermonster installed the FedEx EDI -processing  
14 module at a client site and continued to make modifications and enhancements through 2003.

15           13.      Beginning in 2003, Lynch Marks marketed the core components of PS|Ship and  
16 the FedEx EDI-processing module as “EDI Server.”

17           14.      EDI Server is currently installed and in use at more than ten law firms.

18           15.      EDI Server is the product referred to in the Assignment of Intellectual Property  
19 Rights as EDI/Invoice Server v 1.xx.xxxx.

20           16.      Once Lynch Marks started marketing and selling EDI Server, Lynch Marks  
21 marketed the core components of PS|Ship and the label-generating module as “Label Server.

22           17.      Between 2002 and 2004, Lynch Marks paid Vermonster a total of \$169,600  
23 (exclusive of royalty) for the development of PS|Ship v1, enhancements, and new versions,  
24 including EDI Server.

25           18.      Lynch Marks paid Vermonster at least \$50,000 in royalties on the sale of PS|Ship  
26  
27

1 v1, enhancements, and new versions, including EDI Server.

2 Label Server v3

3 19. In the fall of 2003, Vermonster proposed a completely new version of PS|Ship, a  
4 version in which it would be possible to ship using UPS (and ultimately other vendors) and  
5 manage electronic invoices from United Parcel Service (“UPS”) (and ultimately other vendors).

6 20. The new version of PS|Ship proposed by Vermonster would have a framework  
7 that would ultimately include core components, a general label-generating module, vendor-  
8 specific label-generating modules, general invoice-translating and invoice-processing modules,  
9 and vendor-specific invoice-translating and invoice-processing modules.

10 21. The parties came to refer to the new framework as PS|Ship version 3 (PS|Ship  
11 v3).

12 22. The parties came to refer to the core components, the general label-generating  
13 module, and the vendor-specific label-generating modules as Label Server version 3 (Label  
14 Server v3).

15 23. On or about December 2003, Vermonster and Lynch Marks entered into an oral  
16 agreement pursuant to which Vermonster agreed to build and Lynch Mark to purchase Label  
17 Server v3.

18 24. Lynch Mark agreed to pay ninety thousand dollars (\$90,000) and a 15% royalty to  
19 Vermonster for the Label Server v.3.

20 25. The parties did not set or otherwise agree to a delivery date for the Initial Label  
21 Server v3 Project.

22 26. In August 2004, Vermonster installed Label Server v3 at a client, where it has  
23 been in use since.

24 27. In 2004, Vermonster and Lynch Marks negotiated a new price, one-hundred thirty  
25 five-thousand dollars (\$135,000), plus a 15% royalty for the Initial Label Server v3.

26 28. Vermonster has delivered multiple versions of Label Server v3, the latest of  
27

1 which has seven identified bugs, none of which have prevented Lynch Marks from installing  
2 Label Server v3 at more than 10 customer sites.

3 29. Lynch Marks has not paid the entire \$135,000 price.

4 30. Between November 22, 2005, and December 14, 2005, Vermonster sent Lynch  
5 Marks e-mails in which it, among other things, listed what Vermonster considered to be the  
6 outstanding development items for Label Server v3, expressed Vermonster's ability and  
7 willingness to deliver the outstanding development items for Label Server v3, and requesting  
8 clarification on the terms of the sale of Label Server v3.

9 Label Server v3 Terms

10 31. Lynch Marks owes Vermonster an unrestricted 15% royalty from sales of Label  
11 Server v3 and its enhancements.

12 32. Pursuant to the various agreements between the parties, the sale of Label Server  
13 v3 imposes no obligations on Vermonster to provide support for Label Server or any other  
14 PS|Ship products.

15 33. The agreements between the parties included no obligations to obtain certification  
16 of Label Server v3 with the FedEx Certified Provider program.

17 34. None of the agreements between Vermonster and Lynch Marks imposed any  
18 restriction on Vermonster against competing with Lynch Marks.

19 35. Vermonster has never promised delivery of Label Server v3 by a certain date.

20 36. Lynch Marks has told Vermonster that Lynch Marks does not owe a perpetual  
21 15% royalty on Label Server v3 and its enhancements.

22 37. Lynch Marks has told Vermonster that the right to a royalty imposes an obligation  
23 on Vermonster to provide ongoing support services to Lynch Marks and to PS|Ship customers.

24 38. Lynch Marks has told Vermonster that a restriction against competing with Lynch  
25 Marks arises out of the sale of Label Server v3 to Lynch Marks.

26 39. Lynch Marks told Vermonster that Lynch Marks considered much of the support  
27 and installation services that Vermonster performed in 2005 were a part of Vermonster's Label



1 Server v3 development obligations and not independent services for which Lynch Marks was  
2 obligated to compensate Vermonster.

3 40. Support and installation services do not, under the terms of the agreements  
4 between the parties, constitute development services.

5 41. The potential value of the contested royalty, delivered support, support  
6 obligations, and right to compete exceed the \$124,000 and royalties that Lynch Marks has paid  
7 Vermonster for Label Server v3.

8 Invoice Server Functional Specification Document

9 42. On or about September 29, 2005, Vermonster provided Lynch Marks with a  
10 functional specification document for a new invoice-processing product.

11 43. On or about October 13, 2005, Vermonster told Lynch Marks that it did not have  
12 permission to share the technical specification document with third parties.

13 44. On or about November 10, 2005, Vermonster again told Lynch Marks that it did  
14 not have permission to share the technical specification document with third parties.

15 45. Lynch Marks has shared the functional specification document with third parties.

16 Miscellaneous

17 46. Lynch Marks has not made commercially reasonable investments in PS|Ship sales  
18 and marketing.

19 47. Since October 7, 2005, Lynch Marks has received payments from customers for  
20 the purchase of licenses for PS|Ship products.

21 48. Lynch Marks last made a royalty payment to Vermonster on or about October 7,  
22 2005.

23 49. Since October 7, 2005, Lynch Marks has not provided any accounting of royalty  
24 payments owed to Vermonster.

25 50. In 2005, Vermonster provided enhancement, support, and installation services to  
26 Lynch Marks for which Lynch Marks has refused to pay.

1 **First Claim for Relief**

2 **(Breach of Contract -Label Server v3)**

3 51. Vermonster re-alleges and incorporates by reference each and every allegation of  
4 each preceding paragraph in this counterclaim as though fully set forth herein

5 52. Pursuant to the terms of the agreement between the parties, as set forth herein,  
6 Lynch Marks agreed to pay to Vermonster an ongoing 15% royalty on sales of EDI Server.

7 53. Pursuant to the terms of the agreement between the parties, as set forth herein  
8 Lynch Marks agreed to pay Vermonster an ongoing 15% royalty on sales of Label Server v3.

9 54. Since October 7, 2005, Lynch Marks invoiced customers for licenses of EDI  
10 Server and Label Server v3.

11 55. Since October 7, 2005, Lynch Marks has receive payment for licenses of EDI  
12 Server and Label Server v3.

13 56. Vermonster has fully performed in accordance with its obligations pursuant to the  
14 agreements between the parties. Alternatively any failure to perform is excused by Lynch  
15 Marks' breach of contract and acts and omissions.

16 57. Lynch Marks has breached its contractual obligation by its failure to pay any  
17 royalty or provide an accounting for royalty since October 7, 2005.

18 58. As a result of Lynch Marks's breach of its contractual obligations, Vermonster  
19 has been damaged in that it has not been paid those royalties to which it is entitled. Such  
20 damages are currently unknown however Vermonster is informed and believes that said  
21 damages exceed \$200,000.

22 59. In addition Vermonster seeks rescission of the Label Server v3 contract and,  
23 among other things, voiding of the Assignment of Intellectual Property Rights and return of the  
24 full and exclusive intellectual property rights in Label Server v3 to Vermonster.

25 **Second Claim for Relief**

26 **(Breach of Contract - Enhancements, Support and Installation)**

27 60. Vermonster re-alleges and incorporates by reference each and every allegation of

1 each preceding paragraph in this counterclaim as though fully set forth herein.

2 61. In accordance with the agreements between the parties and at Lynch Marks's  
3 request, Vermonster created enhancements and performed support and installation services on  
4 Lynch Marks' behalf.

5 62. In breach of its contractual obligations Lynch Mark has failed and refused to pay  
6 Vermonster the reasonable and agreed upon value of said support and installation services and  
7 has further failed and refused to pay for said enhancements

8 63. Vermonster has sustained damages as a result of said breach in that it has not  
9 been paid for the installation and support services in an amount to be proven at trial.

10 **Third Claim for Relief**

11 **Breach of Fiduciary Duty**

12 64. Vermonster re-alleges and incorporates by reference each and every allegation of  
13 each preceding paragraph in this counterclaim as though fully set forth herein.

14 65. Vermonster sold PS|Ship v1 and all subsequent upgrades and new versions to  
15 Lynch Marks on an exclusive basis.

16 66. Royalties are a significant portion of the compensation from Lynch Marks to  
17 Vermonster for the development of PS|Ship.

18 67. The combination of exclusive rights and a royalty obligation creates in Lynch  
19 Marks a fiduciary duty to use best commercial efforts to sell PS|Ship.

20 68. Lynch Marks breached its fiduciary obligations to Vermonster by failing to use its  
21 best commercial efforts to sell PS/SHIP.

22 69. As a direct and proximate result of Lynch Marks breach of its fiduciary  
23 obligations, Vermonster has damaged in that it has been deprived of reasonable royalties.

24 70. Lynch Marks conduct in breaching its fiduciary duties was done maliciously and  
25 oppressively. Accordingly, Vermonster is entitled to an award of punitive damages in an  
26 unspecified amount to be determined by the fact finder and to be paid by Lynch Marks in order  
27 to deter and punish such conduct under California Civil Code Section 3394.

1 71. Vermonster, additionally, seeks rescission of the Label Server v3 contract and,  
2 among other things, voiding of the Assignment of Intellectual Property Rights and return of the  
3 full and exclusive intellectual property rights in Label Server v3 to Vermonster.

4 **Fourth Claim for Relief**

5 **Declaratory Relief**

6 72. Vermonster re-alleges and incorporates by reference each and every allegation of  
7 each preceding paragraph in this counterclaim as though fully set forth herein.

8 73. The parties disagree about Lynch Marks's royalty obligation with regard to Label  
9 Server v3.

10 74. The parties disagree about whether Lynch Marks's Label Server v3 royalty  
11 obligation imposes support obligations on Vermonster.

12 75. The parties disagree about whether Lynch Marks's Label Server v3 royalty  
13 obligation imposes a restriction on Vermonster's right to compete.

14 76. The parties disagree about whether Lynch Marks's Label Server v3 royalty  
15 obligation imposes a restriction on Vermonster's right to solicit.

16 77. The parties disagree about the scope of Vermonster's obligations with regard to  
17 Label Server v3.

18 78. The parties disagree about the extent to which Vermonster has met its obligations  
19 to deliver Label Server v3.

20 79. The disagreements between the parties relate to material terms of the agreements  
21 between the parties

22 80. The parties do not have a binding agreement with regard to Label Server v3.

23 81. Vermonster seeks relief in the form of a declaration that there is no agreement  
24 between Vermonster and Lynch Marks for the sale of Label Server v3, a declaration that the  
25 Assignment of Intellectual Property Rights is void and that Vermonster is the full and exclusive  
26 owner of all intellectual property rights in the PS|Ship products, and an injunction prohibiting  
27 Lynch Marks from the sale of any of the PS|Ship products.

1 **Fifth Claim for Relief**

2 **Conversion- Invoice Server Spec**

3 82. Vermonster re-alleges and incorporates by reference each and every allegation of  
4 each preceding paragraph in this counterclaim as though fully set forth herein.

5 83. The Invoice Server Spec is Vermonster work product and Vermonster property.

6 84. Vermonster has demanded that Lynch Marks not share the Invoice Server Spec  
7 Document with other parties.

8 85. Vermonster is informed and believes and thereupon alleges that Lynch Marks has  
9 improperly and without authorization shared the Invoice Server Spec document with other  
10 parties.

11 86. By sharing the Invoice Server Spec document with other parties, Lynch Marks  
12 has interfered with Vermonster's exclusive right to the document and has diminished the value  
13 of the document.

14 87. Lynch Marks conduct in converting Vermonster's property was carried out with a  
15 willful and conscious disregard for Vermonster's rights. Accordingly, Vermonster is entitled to  
16 an award of punitive damages in an unspecified amount to be determined by the fact finder and  
17 to be paid by Lynch Marks in order to deter and punish such conduct under California Civil  
18 Code Section 3394.

19 WHEREFORE, Vermonster prays for judgment as hereinafter set forth.

20 **PRAYER**

21 **ON THE COMPLAINT**

- 22 A. Judgment for defendant on all Claims;  
23 B. For costs of Suit herein incurred; and  
24 C. For such other and further relief as the Court deems just and proper.

25 **ON THE COUNTERCLAIM**

- 26 A. For Judgment agsint Lynch Marks in an amount to be proven at trial;  
27 B. For costs of suit herein incurred;

1 C. For a declaration that Lynch Marks has breached its contractual and fiduciary  
2 duties to Vermonster and award restitution to Vermonster on the purported contract to sell Label  
3 Server v3, including, but not limited to, the return to Vermonster of full and exclusive  
4 intellectual property rights to Label Server v3, payment by Lynch Marks of revenue received for  
5 the sale of Label Server v3 licenses, and voiding of the Assignment of Intellectual Property  
6 Rights document;

7 D. For a declaration that there is no agreement between the parties to sell Label  
8 Server v3 and award restitution to Vermonster, including, but not limited to, the return to  
9 Vermonster of full and exclusive intellectual property rights to Label Server v3, payment by  
10 Lynch Marks of revenue received for Label Server v3 licenses, and voiding of the Assignment of  
11 Intellectual Property Rights document;

12 E. For an order prohibiting Lynch Marks from any use or possession of  
13 Vermonster's property and a prohibition against any effort by Lynch Marks to attempt to sell,  
14 market, distribute to others, or otherwise commercialize any PS|Ship products or upgrades or  
15 enhancements to or new versions or derivative works of any PS|Ship products.

16 F. For reasonable attorneys fees and costs incurred herein to the extent permitted by  
17 the applicable law;

18 G. For punitive damages; and

19 H. For such other and further relief as the Court deems just and proper.

20  
21 DATED: February 27, 2006

21 NUETZEL & BLOMBERG LLP

22  
23  
24 BY: \_\_\_\_\_/s/\_\_\_\_\_  
25 Victoria R. Nuetzel  
26 Attorneys for Defendant and  
27 Counterclaimant Vermonster, LLC