IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

OVERDRIVE, INC.,	)	
	)	
Plaintiff,	)	
Counterclaim-Defendant,	)	
	)	
v.	)	Civil Action No. 5835-CC
	)	
BAKER & TAYLOR, INC.,	)	
	)	
Defendant,	)	
Counterclaim-Plaintiff.	)	

MEMORANDUM OPINION

Date Submitted: March 14, 2011
Date Decided: June 17, 2011

Michael J. Barrie, of BENESCH, FRIEDLANDER, COPLAN & ARONOFF LLP, Wilmington, Delaware; OF COUNSEL: Mark E. Avsec and Angela R. Gott, of BENESCH, FRIEDLANDER, COPLAN & ARONOFF LLP, Cleveland, Ohio, Attorneys for Plaintiff.

Karen L. Pascale and Michele Sherretta Budicak, of YOUNG CONAWAY STARGATT & TAYLOR LLP, Wilmington, Delaware; OF COUNSEL: James F. Hibey, of STEPTOE & JOHNSON LLP, Washington, District of Columbia, Attorneys for Defendant.

CHANDLER, Chancellor

This lawsuit arises from a failed venture between plaintiff/counterclaim-defendant OverDrive, Inc. ("OverDrive" or "plaintiff") and defendant/counterclaim-plaintiff Baker & Taylor, Inc. ("Baker & Taylor" or "defendant"). Plaintiff, a leader in the field of digital media distribution (i.e., digital audiobooks, eBooks, and music), and defendant, a leading distributor of physical media (i.e., physical books, videos, and music products), entered into an agreement whereby OverDrive would be Baker & Taylor's exclusive provider of digital eBooks, audiobooks and other digital media for distribution to Baker & Taylor's customers (generally libraries and retailers). Baker & Taylor, however, has since begun to develop a competing platform to distribute digital media with a third party, LibreDigital, Inc. ("LibreDigital"). OverDrive believes that Baker & Taylor has breached its exclusive distribution agreement with OverDrive, and that Baker & Taylor is disclosing Overdrive's proprietary trade secrets and confidential information. Accordingly, on September 20, 2010 Overdrive filed this action, alleging a smorgasbord of claims against defendant including misappropriation of trade secrets, breach of contract, and various tort claims.[1] Plaintiff filed an

[1] Defendant had actually commenced suit against plaintiff in Delaware Superior Court three days before plaintiff filed this action, but the parties agreed to stay that action in favor of proceeding here. On October 19, 2010, along with its answer to Counts I and IV of plaintiff's complaint, defendant filed verified counterclaims making essentially the same allegations it had made in the Superior Court action—breach of contract, breach of the implied covenant of good faith and fair dealing, tortious interference with prospective business relations, unfair competition, and violation of the North Carolina Deceptive Trade Practices Statute. Plaintiff filed an answer and affirmative defenses to defendant's counterclaims on December 3, 2010.

amended complaint on December 3, 2010. This is my ruling on defendant's partial motion to dismiss plaintiff's First Amended Complaint ("Complaint").

There are seven counts in the Complaint: misappropriation of trade secrets (Count I), conversion (Count II), fraud (Count III), breach of contract (Count IV),[2] breach of the implied covenant of good faith and fair dealing (Count V), tortious interference (Count VI), and deceptive trade practices (Count VII). Defendant has moved to dismiss Counts II, III, portions of IV, V, VI, and VII of the Complaint (Count I and the portion of Count IV dealing with "Confidentiality Obligations" are not part of this motion). Defendant argues that its exclusivity agreement with OverDrive explicitly provides that Baker & Taylor can continue to work with certain pre-existing partners. Furthermore, defendant argues that plaintiff's tort claims (Counts II, III, VI, and VII) are preempted by its misappropriation of trade secrets claim (Count I) under the Delaware Uniform Trade Secrets Act ("DUTSA"), and that plaintiff's contract claims (Counts IV and V) have fundamental flaws. As explained below, I deny defendant's motion to dismiss Counts II and III, and I grant defendant's motion to dismiss Counts V, VI, and VII. Defendant's motion to dismiss portions of Count IV is granted in part and denied in part.

[2] The breach of contract claim contains three subparts: "Breach of Contract – Confidentiality Obligations" (part one); "Breach of Contract – Exclusivity and Non-Compete Provisions" (part two); and "Breach of Contract – Dispute Resolution" (part three). Defendant has only moved to dismiss parts two and three of this claim.

I. BACKGROUND

Plaintiff OverDrive is a software development and electronic publishing services company engaged in digital media distribution. It provides goods and services that enable publishers, libraries, schools, and retailers to manage and sell digital media (i.e., digital audiobooks, eBooks, music, and videos) to their customers.[3] Defendant Baker & Taylor is an information and entertainment services company that is a leading distributor of physical content (i.e., books, CDs, and DVDs) to libraries, educational institutions, and retailers. Baker & Taylor maintains one of the largest physical inventories of books, videos, and music products in the United States.

On May 22, 2009, OverDrive and Baker & Taylor entered into a Digital Distribution & Technology License Agreement (the "Agreement") for the purpose of forming a "partnership relationship" and a "strategic alliance for the distribution of eBooks and audio books to libraries and retailers."[4] Because Baker & Taylor's distribution expertise had until then been confined to traditional physical formats, it had limited capability to distribute digital media. Baker & Taylor thus wanted to

[3] According to its website, OverDrive works with leading technology companies to develop software and apps for end users to enjoy eBooks, audiobooks and more. "Compatible computers and devices include PC, Mac, iPhone, iPad, Android, BlackBerry and Windows Mobile." *See* http://www.overdrive.com/Software/. For readers who would like to digitally download and read Court of Chancery opinions on your mobile devices, perhaps someday there will be an app for that too!

[4] First Amended Complaint ("Compl.") ¶ 1; Complaint Exhibit A ("Agreement"), at 1.

use OverDrive's services to develop an online platform that would enable them to distribute digital media.

Under the Agreement, OverDrive would be Baker & Taylor's "exclusive provider of aggregated download eBooks and digital audiobook products"—"[w]ith the exception of any [Baker & Taylor] pre-existing agreements as listed on Schedule J" of the Agreement or any modifications to those pre-existing agreements.[5] Schedule J, called "B&T Agreements" simply listed six agreements—there was no description whatsoever of the agreements, nor were the agreements provided to OverDrive.[6] The stated intention of Section 10.1 of the Agreement (the "Exclusivity and Non-Compete" provision) was to "prevent or restrict [Baker & Taylor] . . . from developing and/or offering a catalog of aggregated download eBooks, audiobooks, music and/or video that is directly competitive to the hosted materials" and services provided by OverDrive—subject, of course, to the amorphous "exceptions" listed in Schedule J.[7]

---

[5] Agreement § 10.1.

[6] The entirety of Schedule J is as follows:

> "**B&T AGREEMENTS**
> Ebrary Integration, Services and Support Agreement
> LibreDigital Services Distribution Agreement
> The Gale Group Library Ebook Distribution Agreement
> NetLibrary Library Ebook and Audio Book Independent Sales Representative Agreement
> EBL Joint Marketing Agreement
> Books24x7 Reseller Agreement."

[7] Agreement § 10.1.

Believing that it had entered into an exclusive distribution agreement (and not a "semi-exclusive relationship"[8] as defendant describes it), OverDrive thus proceeded to invest significant resources to custom-develop an online platform that would enable Baker & Taylor to distribute digital media. The platform was based on OverDrive's pre-existing technology and knowledge relating to the distribution, sale, and delivery of various digital media formats, but the "specialized" online digital media platform built especially for Baker & Taylor was "different from any platforms previously utilized by OverDrive and had unique authentication services, special sub-systems, and was far more templated than OverDrive's system."[9] In addition, the platform provided Baker & Taylor with access to OverDrive's custom sales and marketing data, and competitive position systems.[10] Baker & Taylor also gained access to a mass amount of digital media inventory that had been collected and developed by OverDrive over a period of time, as well as a list of OverDrive's biggest accounts and "access to OverDrive's servers and its proprietary digital catalog data feed."[11]

Six months after entering into the Agreement, OverDrive learned that Baker & Taylor had become a distributor and licensor of a new e-Reader called "Blio" which Baker & Taylor had licensed from knfb Reading Technology, Inc.

---

[8] Def.'s Opening Br. 7.
[9] Compl. ¶ 27.
[10] *Id.*
[11] *Id.* ¶ 30.

("KNFB").[12] In November 2009, Baker & Taylor's CEO, Arnie Wight, told OverDrive that Baker & Taylor would use LibreDigital to convert certain files to deliver to KNFB customers. Mr. Wight allegedly told OverDrive, however, that "it was not [Baker & Taylor's] intention to use LibreDigital to deliver digital files to [Baker & Taylor's] retail and public library customers," and that indeed, "in the spirit of [the Agreement], Baker & Taylor will utilize OverDrive for the delivery of digital content of e-books and audio books to Baker & Taylor's retail and public library customers."[13] In December 2009, however, Mr. Wight changed his tune and informed OverDrive that Baker & Taylor was going to use LibreDigital as its distributor of Blio-compatible digital media—including, without limitation, to Baker & Taylor's retail and library customers.[14]

As noted above, LibreDigital is listed as one of Baker & Taylor's pre-existing agreements on Schedule J.[15] Accordingly, defendant argues that the decision to partner with LibreDigital to develop a competing platform for digital media distribution is simply an amendment to a pre-existing agreement, and is explicitly contemplated under the Agreement with OverDrive. Plaintiff, on the other hand, argues that allowing defendant to take such action would

[12] *Id.* ¶ 46.
[13] *Id.* ¶ 53.
[14] *Id.* ¶ 54.
[15] Agreement at Schedule J. The agreement with LibreDigital is identified as the "LibreDigital Services Distribution Agreement."

"fundamentally undermine" the exclusive distribution Agreement between OverDrive and Baker & Taylor.[16]

Plaintiff argues that under the terms of the Agreement, Baker & Taylor agreed that OverDrive would be Baker & Taylor's exclusive provider of downloadable eBooks and digital audiobooks. The only exceptions to the exclusivity provision in the Agreement were specifically identified in Schedule J—pre-existing agreements that Baker &Taylor had with third parties at the time Baker & Taylor and OverDrive entered into the Agreement. But again, Baker & Taylor never provided OverDrive with copies of any of the agreements identified on Schedule J, and it was not until one week before the execution of the Agreement that Baker & Taylor suddenly insisted on the insertion of the provision carving out modifications and amendments to the agreements described on Schedule J from Section 10.1 of the Agreement.[17] In essence, OverDrive alleges that Baker & Taylor used the Agreement as a subversive device to acquire OverDrive's confidential information and trade secrets in order to compete with and undermine OverDrive's digital media business. Consequently, upon unilaterally determining that Baker & Taylor had breached the Agreement and was taking advantage of OverDrive's confidential information and trade secrets to

[16] Pl.'s Answering Br. 6.
[17] Compl. ¶¶ 38-39.

pursue the "Blio" project, OverDrive cut off Baker & Taylor's access to the OverDrive servers and applications.

Defendant, for its part, asserts that the Agreement explicitly permits Baker & Taylor to build a competing digital media distribution platform with LibreDigital under the "exception" in Section 10.1 of the Agreement and Schedule J. Moreover, defendant argues that there is no requirement in the Agreement that Baker & Taylor provide its confidential pre-existing agreements to plaintiff.

The Agreement calls for the parties to "work in good faith to resolve" any disputes arising out of the Agreement before initiating mediation or litigation.[18] To the extent they cannot resolve their differences on their own, the Agreement provides for non-binding mediation. Certain claims, including claims alleging breach of a party's confidentiality obligations or actions for damages and equitable relief, are exempt from the dispute resolution process outlined in the Agreement.[19] On April 13, 2010, Baker & Taylor sent a letter to OverDrive demanding mediation.[20] OverDrive responded, but the parties were unable to resolve their disagreement , and Baker & Taylor cancelled the mediation, leading plaintiff to file suit in this Court.

[18] Agreement § 14.11
[19] *Id.*
[20] Compl. ¶ 82.

II. ANALYSIS

A. Legal Standard

In ruling on a motion to dismiss for failure to state a claim pursuant to Rule 12(b)(6), this Court must accept all well-pled allegations in the complaint as true and draw all reasonable factual inferences in plaintiff's favor.[21] Although the Court need not "blindly accept as true all allegations" (conclusory or otherwise),[22] "[d]ismissal is only appropriate if it appears with reasonable certainty that the plaintiff could not prevail on any set of facts that can be inferred from the complaint."[23]

B. Misappropriation of Trade Secrets Claim (Count I) and Preemption Under the DUTSA

In Count I—which is not part of this motion—plaintiff alleges that Baker & Taylor has misappropriated OverDrive's trade secrets without OverDrive's consent in violation of the Delaware Uniform Trade Secrets Act ("DUTSA"). Specifically, as a result of the Agreement with OverDrive, Baker & Taylor had access to OverDrive's valuable trade secrets and confidential information. According to plaintiff, OverDrive's trade secrets include: "technical data, know-how, research, product plans, products, services, customer lists, markets, software, developments,

---

[21] *Gantler v. Stephens,* 965 A.2d 695, 703 (Del. 2009); *Feldman v. Cutaia*, 951 A.2d 727, 731 (Del. 2008).
[22] *Binks v. DSL.net, Inc.*, 2010 WL 1713629, at *5 (Del. Ch. Apr. 29, 2010).
[23] *Meer v. Aharoni*, 2010 WL 2573767 (Del. Ch. June 28, 2010) (citing *Wal-Mart Stores, Inc., v. AIG Life Ins. Co.*, 901 A.2d 106, 112 (Del. 2006); *VLIW Tech., LLC v. Hewlett-Packard Co.*, 840 A.2d 606, 610-11 (Del. 2003); *Malpiede v. Townson*, 780 A.2d 1075, 1082-83 (Del. 2001)).

inventions, marketing, finances, and other business information disclosed to [Baker & Taylor]"; proprietary sales and marketing materials; trade secrets on how to build, market, promote, and sell certain products; proprietary software and technology; proprietary catalog data feeds and technology related to OverDrive's online digital inventory; and other intellectual property.[24] Plaintiff alleges that such information is not generally known to OverDrive's competitors in the industry,[25] that defendant continues to have knowledge of that information, and that defendant will be unjustly enriched by the continued use of OverDrive's trade secrets and confidential information.

Defendant asserts that this misappropriation of trade secrets claim statutorily displaces all of plaintiff's other tort claims as a matter of law under the DUTSA. The DUTSA "displaces conflicting tort, restitutionary and other law of this State providing civil remedies for misappropriation of a *trade secret*."[26] Accordingly, the DUTSA preserves a single tort cause of action under state law for misappropriation of trade secrets and "eliminate[s] other tort causes of action founded on allegations of *trade secret* misappropriation."[27] The statute explicitly does *not*, however, affect "[o]ther civil remedies that are not based upon

[24] Compl. ¶¶ 89-93.
[25] *Id.* ¶ 92.
[26] 6 *Del. C.* § 2007(a) (emphasis added).
[27] *Leucadia, Inc. v. Applied Extrusion Techs., Inc.*, 755 F. Supp. 635, 637 (D. Del. 1991) (emphasis added).

misappropriation of a trade secret."[28] The key, then, is whether a trade secret in fact exists or is alleged as an element of each claim (i.e., the claim is "based upon" a trade secrets claim) in order for a common law claim to be preempted by the DUTSA. Delaware courts have interpreted this language to mean that the DUTSA preempts claims that are "grounded in the same facts which purportedly support the misappropriation of trade secrets claims."[29] A common law claim is said to be "grounded in the same facts" as a trade secrets claim "if the same facts are used to establish all the elements of both claims."[30]

Construing all factual ambiguities in plaintiff's favor, I cannot say with certainty that plaintiff's conversion (Count II), fraud (Count III), and tortious interference (Count VI) claims are "based upon" plaintiff's claim for trade secrets misappropriation. The success of any of those claims does not *necessarily* depend on the success of plaintiff's misappropriation of trade secrets claim. At this rather early stage of litigation, uncertainty exists as to whether OverDrive's confidential and proprietary information in question is, in fact, a trade secret. If no trade secret was in fact at issue, for example, a conversion claim could still exist based on the misappropriation of confidential information—a finding of a trade secret is not an

---

[28] 6 *Del. C.* § 2007(b)(2).
[29] *Beard Research, Inc. v. Kates*, 8 A.3d 573, 602 (Del. Ch. 2010) (quoting *Ethypharm S.A. France v. Bentley Pharms., Inc.*, 388 F. Supp. 2d 426, 433 (D. Del. 2005)).
[30] *Accenture Global Servs. GMBH v. Guidewire Software Inc.*, 631 F. Supp. 2d 504, 508 (D. Del. 2009); *see also Beard Research, Inc. v. Kates*, 8 A.3d 573 at 602.

essential element of a conversion claim.[31] I thus conclude that it is premature to consider the issue of preemption by the DUTSA at this time—when the question of whether a trade secret was involved cannot be answered with certainty. Therefore, as described in greater detail later, Counts II, III, and VI are not, at this stage, displaced by the DUTSA. I defer consideration of whether these claims are preempted by the DUTSA until the facts are sufficiently developed and become clear after discovery, further briefing or trial in this matter. Plaintiff's deceptive trade practices claim (Count VII), however, *is* based upon the same facts as plaintiff's trade secrets claim. That claim (Count VII) is thus preempted by the DUTSA.

C. Conversion Claim (Count II)

In Count II, plaintiff alleges that defendant "misappropriated OverDrive's confidential information at little or no cost" to Baker & Taylor.[32] Plaintiff asserts that it has made a "substantial investment of time, effort, and money in creating its proprietary property consisting of business, marketing, sales, technology, and customer information," and that it has disclosed this information to defendant.[33]

---

[31] Conversion is "the wrongful exercise of dominion over the property of another, in denial of that person's right, or inconsistent with it." *Kuroda v. SPJS Holdings, L.L.C.*, 971 A.2d 872, 890 (Del. Ch. 2009). There is no element that turns on whether plaintiff's property is "confidential information" or a "trade secret." If it turns out later that plaintiff's conversion claim *is* "based upon" a trade secret, it will be preempted by the DUTSA.
[32] Compl. ¶ 105.
[33] *Id.* ¶ 104.

And plaintiff alleges that defendant wrongfully exerted dominion over OverDrive's property and that plaintiff has been injured thereby.

Defendant argues that plaintiff's conversion claim is preempted by the DUTSA because it is grounded in the same factual allegations as its trade secrets claim—that plaintiff possessed confidential information, that defendant misappropriated that information, and that plaintiff has been injured thereby. As noted earlier, though, the question whether the conversion claim is preempted by the DUTSA depends on whether the information in question was in fact a *trade secret* (not merely confidential information). I thus reserve my consideration of this issue until plaintiff's claim has been sufficiently developed through further proceedings. For now, Count II survives.

D. Fraud Claim (Count III)

In Count III, plaintiff alleges that defendant intentionally misrepresented and omitted material information in its dealings with OverDrive in connection with the execution of the Agreement. In particular, plaintiff alleges that defendant made intentional misrepresentations and omissions relating to (1) the LibreDigital Agreement, (2) defendant's true intentions with respect to the Baker & Taylor-OverDrive Digital Media Platform, and (3) defendant's interest in having LibreDigital provide digital distribution services for it and in developing a competing digital distribution platform. Such misrepresentations and omissions,

according to plaintiff, constitute fraud.[34] Plaintiff's fraud claim survives for the following reasons.

First, plaintiff's fraud claim is not preempted by the DUTSA. Plaintiff alleges that Baker & Taylor fraudulently induced OverDrive to enter into the Agreement in order to misappropriate plaintiff's trade secrets and confidential information. But plaintiff's fraud claim is not a civil remedy solely "based upon misappropriation of a trade secret." Fraud can be based on deceptive conduct relating to contractual promises as well.[35] In order to state a claim for common law fraud, plaintiff must allege "(1) that [] defendant made a false representation, usually one of fact; (2) with the knowledge or belief that the representation was false, or with reckless indifference to the truth; (3) with an intent to induce the plaintiff to act or refrain from acting; (4) that plaintiff's action or inaction was taken in justifiable reliance upon the representation; and (5) damage to the plaintiff as a result of [its] reliance on the representation."[36] That is precisely what plaintiff is arguing here—that Baker & Taylor intentionally deceived OverDrive (i.e., misrepresented the truth and omitted material facts) about its intention to engage in competitive conduct with LibreDigital, knowing that its representations were false, with the intention of inducing plaintiff to enter into the Agreement and develop the

[34] *Id.* ¶ 111.
[35] *See ABRY Partners V, L.P. v. F&W Acquisition LLC*, 891 A.2d 1032, 1050 (Del. Ch. 2006).
[36] *Narrowstep, Inc. v. Onstream Media Corp.*, 2010 WL 5422405, at *12 (Del. Ch. Dec. 22, 2010) (quoting *Grunstein v. Silva*, 2009 WL 4698541, at *12 (Del. Ch. Dec. 8, 2009)).

distribution platform for Baker & Taylor, and then exploiting the specialized knowledge or information it gained from OverDrive, thereby damaging plaintiff and unjustly enriching Baker & Taylor. Plaintiff alleges that had it been aware of defendant's misrepresentations and material omissions, it would never have entered into the Agreement. Construing the factual allegations in the Complaint in plaintiff's favor, OverDrive has at least stated a colorable claim that, if the allegations are found to be true, may be enough for plaintiff to succeed on its fraud claim. Plaintiff's fraud claim, therefore, is not based on trade secrets; it is based on allegations of deliberate and intentional conduct on the part of one party to a contract deceitfully to induce the other party into a sham transaction as a mechanism to learn competitive information and then exploit that information with a third party. This claim is not displaced by the DUTSA, as 6 *Del. C.* § 2007(b) expressly preserves civil claims not based upon trade secrets.

Second, plaintiff's fraud claim would not be barred by the anti-reliance clause in the Agreement if plaintiff's allegations are found to be true. Specifically, plaintiff alleges that OverDrive affirmatively *lied* about the nature and scope of its intentions and relationship with LibreDigital. Defendant argues that plaintiff's fraud claim is barred by the plain language of Section 14.16 of the Agreement, which provides that "[n]either party is relying on any representations, except those

set forth herein, as inducement to execute this Agreement."[37] But plaintiff argues that defendant lied about specific provisions in the Agreement at the time the parties were entering into the Agreement—in particular, Baker & Taylor not only failed (allegedly intentionally) to reveal the actual scope of the LibreDigital relationship and Baker & Taylor's plan to use the digital media distribution information in its planned business relationship with LibreDigital, but defendant also (allegedly) affirmatively represented to OverDrive that the carveouts in Schedule J were nothing to worry about and assured OverDrive that the LibreDigital relationship "was limited to digital book conversion and warehousing services, and would never be expanded to include the distribution of digital content because distribution was going to be OverDrive's exclusive role under the Agreement."[38] Under the teaching of *ABRY Partners V, L.P. v. F&W Acquisition LLC*, use of an anti-reliance clause in such a manner is contrary to public policy if it would operate as a shield to exculpate defendant from liability for its own intentional fraud—"there is little support for the notion that it is efficient to exculpate parties when they lie about the material facts on which a contract is premised."[39] Defendant responds that the public policy exception in *ABRY* is limited to situations where a defendant "intentionally misrepresents a fact

[37] Agreement § 14.16.
[38] Compl. ¶¶ 120-121.
[39] 891 A.2d 1032, 1062 (Del. Ch. 2006).

embodied in a contract," and that the only alleged misrepresentations at issue in this case are pre-contractual statements that were not embodied in the Agreement.[40] I decline to accept defendant's argument because, as noted earlier, Baker & Taylor's (alleged) misrepresentations and omissions with respect to LibreDigital (both the true nature of its relationship and its intention to develop a competitive digital distribution platform) relate directly to Section 10.1 and Schedule J of the Agreement and, indeed, go to the very core of the Agreement between OverDrive and Baker & Taylor. Such material misrepresentations and omissions in the Agreement—if proven to be true—frustrate the very purpose and nature of the Agreement, and OverDrive purportedly would not have entered into the Agreement with Baker & Taylor otherwise. Although the language of the anti-reliance clause in the Agreement is clear and unambiguous, I conclude that it is barred by public policy at this stage, construing facts and inferences in plaintiff's favor and accepting the allegations in the Complaint as true.

Plaintiff's claim, fairly read in the light most favorable to it, is that Baker & Taylor intentionally described its relationship with LibreDigital in a misleading and deceptive manner, knowing that OverDrive would rely on that deceptive representation and knowing that it actually intended to exploit OverDrive's proprietary digital distribution system for its own ends, and to the detriment of

[40] *Id.* at 1036.

OverDrive. Those allegations may be difficult to prove at a trial, but that is the claim asserted in OverDrive's complaint. At this stage, under the plaintiff-friendly standard of Rule 12(b)(6), defendant's motion must be denied.

E. Breach of Contract Claims (Count IV)

Plaintiff's breach of contract claim (Count IV) has three parts: (part 1) "Breach of Contract – Confidentiality Obligations", (part 2) "Breach of Contract – Exclusivity and Non-Compete Provisions", and (part 3) "Breach of Contract – Dispute Resolution". Defendant moves to dismiss only two of those portions of Count IV—parts 2 and 3 (breach of the "Exclusivity and Non-Compete" provisions and breach of the "Dispute Resolution" provision). Plaintiff alleges that Baker & Taylor "breached its promise that OverDrive would be B&T's exclusive provider of downloadable e-books and digital audiobooks during the term of the Agreement"; that Baker & Taylor "breached its promise that it would not develop and/or offer a catalog of directly competitive eBooks and/or audio books"; and that Baker & Taylor breached the dispute resolution provision.[41] For the reasons that follow, plaintiff's claim for breach of the "Dispute Resolution" provision is dismissed, but the breach of the "Exclusivity and Non-Compete" claim survives the motion to dismiss.

[41] Compl. ¶¶ 136-137.

Similar to plaintiff's fraud claim, plaintiff's claim for breach of the "Exclusivity and Non-Compete" provisions is grounded in allegations that defendant intentionally misrepresented the terms and meaning of the provisions in the Agreement. Plaintiff's claim is thus not foreclosed by the Agreement itself at this stage of the proceedings. It is true that Section 10.1 of the Agreement, which states that "OverDrive shall be the *exclusive provider*" of digital media to Baker & Taylor contains an explicit carve-out: "*[w]ith the exception of any B&T pre-existing agreements as listed on Schedule J*," and further excludes "any *modifications* to those B&T preexisting agreements."[42] Similarly, as for the provision prohibiting Baker & Taylor from "developing and/or offering" a directly competitive catalog of download eBooks, Section 10.1 states that it is "[s]ubject to the foregoing exceptions" (namely, Schedule J).[43] As noted earlier, however, there is no description whatsoever of these agreements. Schedule J merely lists the names of six agreements and nothing more. When OverDrive expressed concern about Section 10.1, defendant allegedly assured plaintiff that the intent of the exclusivity provision was exactly that—to create an "exclusive" strategic partnership between OverDrive and Baker & Taylor, without forcing Baker & Taylor to have to terminate whatever pre-existing agreements it had. I do not read the plain language of the Agreement as creating "a semi-exclusive arrangement

[42] Agreement § 10.1 (emphasis added).
[43] *Id.*

with OverDrive."[44] Yes, the Agreement was always subject to the exceptions "identified" in Schedule J, but the clear meaning and intent of the exclusivity and non-compete provisions could fairly be read to create an exclusive arrangement—one in which OverDrive would be the exclusive provider of Baker & Taylor's eBooks and digital audiobook products. The fact that Schedule J "lists" LibreDigital as one of its pre-existing partners explicitly allows Baker & Taylor to work with LibreDigital—it does not give Baker & Taylor free reign to ignore the obvious intent of the Agreement and form a directly competitive platform. As with plaintiff's fraud claim, these allegations may prove extremely difficult to support at trial, but at this stage the claim for breach of the exclusivity provision of the Agreement survives.

As for the dispute resolution provision, Section 14.11 of the Agreement plainly states that it does not apply if more than 60 calendar days have elapsed since the initiation of any resolution process, or when injunctive or other equitable relief is necessary to mitigate damages.[45] Here, it is clear that well over 60 days have passed between the initiation of dispute resolution and the filing of the parties' complaints. Moreover, plaintiff seeks equitable and injunctive relief. In short, plaintiff's claim of breach of the "Dispute Resolution" provision is entirely defective. This portion of Count IV is dismissed.

---

[44] Def.'s Opening Br. 17.
[45] Agreement § 14.11.

F. Breach of the Implied Covenant of Good Faith and Fair Dealing Claim (Count V)

In order to state a claim for breach of the implied covenant of good faith and fair dealing, a party "must allege (1) a specific implied contractual obligation, (2) a breach of that obligation by the defendant, and (3) resulting damage to the plaintiff."[46] Because plaintiff has failed to plead any specific implied contractual obligation or breach of that obligation—two of the essential three elements of this claim—Count V is dismissed.

Plaintiff asserts that an implied covenant of good faith and fair dealing exists when a "contract is silent with respect to the matter at hand and the expectations of the parties were so fundamental that they did not feel a need to negotiate about them."[47] That is not entirely correct. The implied covenant of good faith and fair dealing provides a way to deal with "unanticipated developments or to fill gaps in [a] contract's provisions."[48] But "[t]he implied covenant only applies to developments that could not be anticipated, not developments that the parties simply failed to consider."[49] And it is "only rarely invoked successfully."[50]

---

[46] *Kelly v. Blum*, 2010 WL 629850, at *13 (Del. Ch. Feb. 24, 2010) (quoting *Fitzgerald v. Cantor*, 1998 WL 842316, at *1 (Del. Ch. Nov. 10, 1998).
[47] Compl. ¶ 156.
[48] *Dunlap v. State Farm Fire & Cas. Co.*, 878 A.2d 434, 441 (Del. 2005).
[49] *Nemec v. Shrader*, 991 A.2d 1120, 1126 (Del. 2010).
[50] *Kuroda v. SPJS Holdings, L.L.C.*, 971 A.2d 872, 888 (Del. Ch. 2009) (citing *Superior Vision Servs., Inc. v. ReliaStar Life Ins. Co.*, 2006 WL 2521426, at *6 (Del. Ch. Aug. 25, 2006) ("[I]mposing an obligation on a contracting party through the covenant of good faith and fair dealing is a cautious enterprise and instances should be rare.").

Plaintiff alleges that its expectations when entering into the Agreement (i.e., its expectations in forming a "partnership relationship" with Baker & Taylor for the distribution of digital media) were "so fundamental that OverDrive did not feel a need to negotiate about the nature of B&T's relationship with LibreDigital or B&T's intention to develop the competing Blio product."[51] In essence, plaintiff alleges that defendant failed to honor the parties' expectations because: (1) defendant used the Agreement as a pretense to gain access to OverDrive's confidential business information, and (2) defendant failed to disclose the true nature of its relationship with LibreDigital and its intent to develop the competing Blio project.[52]

Plaintiff is apparently pleading that defendant had an implied contractual obligation to disclose its true intentions and the scope of its agreement with LibreDigital. The problem with plaintiff's claim, however, is that this alleged implied contractual obligation comes straight from the Agreement itself. Delaware courts will not imply a covenant "where the contract addresses the subject of the alleged wrong, but fails to include the obligation alleged."[53] Here, the Agreement explicitly references a relationship between Baker & Taylor and LibreDigital (i.e., LibreDigital is listed in Schedule J), and Section 10.1 of the Agreement allows

[51] Compl. ¶ 161.
[52] *Id.* ¶¶ 159-160.
[53] *Homan v. Turoczy*, 2005 WL 2000756, at *18 (Del. Ch. Aug. 12, 2005).

Baker & Taylor to modify its agreement with LibreDigital.[54] Thus, while it may be true that plaintiff failed to consider the consequences of Section 10.1 of the Agreement, plaintiff was certainly in a position to anticipate obligations or developments arising therefrom. To the extent plaintiff's claims allege that defendant breached that exclusivity provision or misrepresented its true intentions and relationship with LibreDigital to induce plaintiff to enter into the Agreement, those allegations are embodied in plaintiff's breach of contract and fraud claims—there is no separate "implied" covenant or contractual obligation here, though.

Finally, as plaintiff has not identified an implied contractual obligation, plaintiff has also failed to identify any specific breach of an implied covenant. Baker & Taylor was permitted under Section 10.1 and Schedule J of the Agreement to do business with LibreDigital.[55] Whether defendant fraudulently induced plaintiff to enter into the Agreement, or whether defendant breached the exclusivity provision of the contract remains to be seen, but what is clear is that "[t]he express bargain of the parties covers this subject," so there is no implied covenant for defendant to breach.[56] Accordingly, plaintiff's implied covenant claim (Count V) cannot survive.

---

[54] Agreement § 10.1; *id.* at Schedule J.
[55] *See N.K.S. Distributors, Inc. v. Tigani*, 2010 WL 2178520, at *7 (Del. Ch. May 28, 2010).
[56] *See Related Westpac LLC v. JER Snowmass LLC*, 2010 WL 2929708, at *6 (Del. Ch. July 23, 2010).

G. Tortious Interference Claim (Count VI)

In Count VI, plaintiff alleges that Baker & Taylor interfered with OverDrive's existing and prospective business relationships by misappropriating the information from OverDrive and using the information for its own unlawful purposes. Count VI is dismissed because plaintiff fails to allege any breach of a third-party contract. Under Delaware law, the elements of a claim for tortious interference with a contract are well established: "(1) a contract, (2) about which defendant knew and (3) an intentional act that is a significant factor in causing the breach of such contract (4) without justification (5) which causes injury."[57] Put simply, in order "[t]o state a tortious interference claim, a plaintiff must properly allege an underlying breach of contract."[58] Plaintiff's tortious interference claim is based on the allegation that Baker & Taylor is using OverDrive's information to "lure . . . away" OverDrive's customers.[59] Plaintiff concedes that it "has not yet fully developed all of the facts" to support its tortious interference claim, and fails to identify a single contract that has been breached due to defendant's alleged

[57] *Aspen Advisors LLC v. United Artists Theatre Co.*, 861 A.2d 1251, 1265-66 (Del. 2004) (quoting *Irwin & Leighton, Inc. v. W.M. Anderson Co.*, 532 A.2d 983, 992 (Del. Ch. 1987)).
[58] *Allied Capital Corp.*, 910 A.2d at 1036; *see Goldman v. Pogo.com, Inc.,* 2002 WL 1358760, at *8 (Del. Ch. June 14, 2002) ("A claim of tortious interference with a contractual right requires . . . a contract, a breach of that contract, and an injury.").
[59] Compl. ¶ 169.

conduct.[60] Plaintiff has thus not alleged the elements of a claim for tortious interference.

Plaintiff also fails to make out a claim for tortious interference with prospective contractual or business relations. To successfully plead a claim for intentional interference with prospective contractual relations, plaintiff must establish: "(a) the reasonable probability of a business opportunity, (b) the intentional interference by defendant with the opportunity, (c) proximate causation, and (d) damages."[61] Plaintiff has not identified a single customer or prospective business relationship or opportunity that defendant interfered with; nor has plaintiff pled any facts supporting proximate causation or alleging specific damages. Therefore, Count VI is dismissed.

H. Delaware Uniform Deceptive Trade Practices Act Claim (Count VII)

In Count VII, plaintiff brings a claim under the Delaware Deceptive and Unfair Trade Practices Act ("DUTPA"). Plaintiff's DUTPA claim is predicated on Baker & Taylor's alleged misuse of plaintiff's trade secrets to "lure away" plaintiff's customers, and is thus displaced by the DUTSA. Furthermore, the language of Count VII is nearly identical to its tortious interference claim (Count

[60] Pl.'s Answering Br. 33.
[61] *Lipson v. Anesthesia Servs., P.A.*, 790 A.2d 1261, 1285 (Del. Super. 2001).

VI), and the claims are duplicative.[62] Therefore, in addition to being preempted by plaintiff's misappropriation of trade secrets claim under the DUTSA, plaintiff's DUTPA claim is repetitive and is dismissed on the same grounds as its tortious interference claim.

III. CONCLUSION

For the reasons set forth above, defendant's partial motion to dismiss the Complaint is ***denied*** as to Counts II, III, and the second portion of Count IV ("Breach of Contract – Exclusivity and Non-Compete"), and is ***granted*** as to Counts V, VI, VII, and the third portion of Count IV ("Breach of Contract – Dispute Resolution"). In other words, plaintiff's conversion (Count II), fraud (Count III), and "Breach of Contract – Exclusivity and Non-Compete Provisions" (part two of Count IV) claims survive, as do plaintiff's claims for misappropriation of trade secrets (Count I) and "Breach of Contract – Confidentiality Obligations" (part one of Count IV), which were not challenged in this motion. All other counts in plaintiff's Complaint (Counts V, VI, VII, and part three of Count IV) are dismissed.

IT IS SO ORDERED.

---

[62] *Compare* Compl. ¶¶ 164-175, *with* Compl. ¶¶ 176-183. *See Accenture Global Servs. GmbH v. Guidewire Software, Inc.*, 581 F. Supp. 2d 654 (D. Del. 2008) ("In view of the court's finding that [plaintiff's] tortious interference claim was insufficiently pled, and [plaintiff's] failure to identify a rationale under which its unfair competition claim survives this determination, its unfair competition claims are also dismissed.").