IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN AND FOR NEW CASTLE COUNTY

NUTZZ.COM, LLC and ALEX MESHKIN, Plaintiffs, v. VERTRUE INCORPORATED f/k/a MEMBERWORKS, INC. and JOHN WALTERS, Defendants.	)	Civil Action No. 1231-N
VERTRUE INCORPORATED, Petitioner, v. NUTZZ.COM, LLC and BANG RACING, LLC, Respondents.	)	Civil Action No. 1719-N

MEMORANDUM OPINION

Date Submitted: March 22, 2006
Date Decided: July 25, 2006

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PARSONS, Vice Chancellor.

Pending before the Court are several motions arising from two different civil actions, Nos. 1231-N and 1719-N, relating generally to the same underlying transactions. In 1231-N defendant Vertrue Incorporated f/k/a Memberworks Incorporated ("Vertrue") moved to preclude arbitration of certain claims. Plaintiff Nutzz.com ("Nutzz") filed a corollary motion to stay in favor of arbitration, but later withdrew it.[1] The claims in 1231-N relate to a contract Nutzz and Vertrue entered into on July 16, 2004 to develop a motorsports themed membership program named Nutzz Elite (the "Agreement").[2] The pending motions primarily revolve around whether the underlying claims in each case should remain in this Court or be subject to arbitration pursuant to the Agreement.

In the 1719-N case, respondents Nutzz and Bang Racing, LLC ("Bang") filed a motion to stay or dismiss. The motion seeks dismissal of petitioner Vertrue's petition to appoint a receiver or a stay of 1719-N so the arbitrator can decide the threshold question of arbitrability.

For the reasons stated, I find that counts 1, 2, and 3 of the amended complaint[3] in 1231-N relating to an alleged breach of the Confidentiality Provision in the Agreement are not subject to arbitration and, even if they were, Nutzz waived its right to arbitrate those claims. Thus, I will grant Vertrue's motion to preclude arbitration as to those

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1 Letter from Sean Bellew, Esq., to the Court (Feb. 23, 2006) at 1.

2 Am. Compl. Ex. A (the Agreement).

3 Vertrue designated the counts of the amended complaint using Roman numerals. For ease of reference, however, they are referred to by Arabic numerals in this opinion.

claims, but deny it as to the remaining claims in Nutzz's amended complaint (counts 4-9). As to 1719-N, I have decided to stay that action so the arbitrator can decide whether Vertrue's claim for appointment of a receiver is subject to arbitration. Consistent with that decision, I will not address Vertrue's motion to dismiss 1719-N at this time.

I. BACKGROUND[4]

These actions arise from the Agreement Nutzz and Vertrue entered into on July 16, 2004. The Agreement provided that Vertrue and Nutzz would create and develop a membership club, Nutzz Elite, that would be marketed primarily to NASCAR® enthusiasts and members of Vertrue's other membership programs. For an annual fee of $79.95, a Nutzz Elite member would receive certain benefits, including, but not limited to, a 20% discount on NASCAR® merchandise at NASCAR.com, a 20% discount on gift cards from major retailers, and exclusive access to certain NASCAR® related content on the membership website. In addition, a Nutzz Elite member would be given the opportunity to earn points that could be used to bid on items at an on-line auction hosted by Nutzz.

The pending motions center on the Agreement's arbitration provision. That provision provides as follows:

> With the exception of seeking injunctive or other relief for violation of Section 12 above, any dispute arising out of or relating to this Agreement, including any issues relating to arbitrability or the scope of this arbitration clause, will be finally settled by arbitration in accordance with the rules of

[4] For a more detailed recitation of the facts see *Nutzz.com v. Vertrue Inc.*, 2005 WL 1653974 (Del. Ch. July 6, 2005).

> the American Arbitration Association and the United States Arbitration Act.[5]

Nutzz filed No. 1231-N on April 6, 2005. In its amended complaint Nutzz sought injunctive relief prohibiting defendants' use of confidential and proprietary information

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[5] Agreement ¶ 13. Section 12 of the Agreement, entitled "Confidentiality," provides in pertinent part:

> Confidentiality. In performing their obligations pursuant to this Agreement, each Party hereto (the "Disclosing Party") may disclose to the other Party (the "Receiving Party") certain confidential and proprietary information, including, without limitation, information regarding the Disclosing Party's business, products, services, formats, computer programs, policies, procedures, methods, technical developments, trade secrets, customers, members, clients, financial results, formulas, marketing research and development methods, marketing statistics, product development plans, membership solicitation methods, strategies, research strategies, research data, themes and/or creative ideas related to upcoming Nutzz or MW events or other corporate activity. All such information about the Disclosing Party shall be deemed "Confidential Information." "Confidential Information" shall not include information which (a) was already in the Receiving Party's possession, (b) is generally available to the public other than as a result (directly or indirectly) of disclosure by the Receiving Party or (c) was available to the Receiving Party on a nonconfidential basis from a source other than the Disclosing Party. Each party shall use the Confidential Information of the other Party solely to perform its obligations under this Agreement, and all of the Disclosing Party's Confidential Information shall remain the sole property of the Disclosing Party. The Receiving Party shall hold the Disclosing Party's Confidential Information in the strictest confidence and shall not make any disclosure of such Confidential Information (including methods or concepts utilized in such Confidential Information) to any third party (except as provided under this Section 12) during the term of this Agreement and thereafter without the express written consent of the Disclosing Party.

including software provided by Nutzz to Vertrue, Nutzz's trackside marketing plan and retailers from Nutzz Elite's benefit provider list (counts 1-2). Nutzz also asserted claims against all defendants for: interference with business relations and expectations (count 3); violation of the Delaware Deceptive Trade Practices Act (count 4); conversion (count 5); unfair competition (count 6); breach of fiduciary duty (count 7); defamation (count 8); and misappropriation of trade secrets (count 9).

Shortly after it commenced No. 1231-N, Nutzz moved for expedited proceedings and a temporary restraining order. Nutzz's motion for a TRO asserted that its claims for injunctive relief, breach of contract, and tortious interference with contract arose out of the Agreement's Confidentiality Provision.[6] Among other things, Nutzz alleged that Vertrue breached and continues to breach the Confidentiality Provision of the Agreement and that Vertrue tortiously interfered with the Agreement by, "among other things, causing Vertrue/Memberworks to breach its duty of confidentiality."[7] I denied Nutzz's motion for a TRO on April 14, 2005. Nutzz filed an amended complaint on April 20, 2005. According to Nutzz, the amended complaint primarily addresses Vertrue's "improper and unauthorized use of confidential information in pursuit of the usurpation of a new business."[8]

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6 *See* Mem. in Supp. of Pl.'s Mot. for a TRO and Prelim. Injunctive Relief at 7-8.

7 *Id.* at 7-8.

8 Pls.' Opening Br. in Supp. of its Mot. for a Prelim. Inj. Against Vertrue at 1.

At the outset 1231-N proceeded on an expedited basis. The parties engaged in detailed, expedited discovery. Among other things, Nutzz propounded and Vertrue responded to 32 different categories of document requests and 28 interrogatories. In addition, Nutzz deposed three Vertrue witnesses. On May 3, 2005, Nutzz filed a motion for preliminary injunction, which focused on counts 1, 2, and 9 of the amended complaint.

By memorandum opinion dated July 6, 2005,[9] I denied Nutzz's preliminary injunction motion. In that opinion I noted that:

> [T]he parties agreed that any remedy at law for a breach of the Confidentiality Clause would be inadequate and the non-breaching party would be entitled to obtain injunctive relief without proof of irreparable injury or posting bond. In an effort to take advantage of these provisions, Nutzz explicitly limited its breach of contract claims to violations of the Confidentiality Clause.[10]

In arriving at that conclusion, I limited my breach of contract analysis to alleged breaches of the Confidentiality Provision in reliance on Nutzz's assertion that it had so limited its breach of contract claim to take advantage of the fact that the Agreement did not require the parties to bring claims for breach of the Confidentiality Provision before an arbitrator.[11] I noted, however, that Nutzz's claim that Vertrue misused its Customer

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9 *Nutzz.com*, 2005 WL 1653974.

10 *Id.* at *3.

11 *Nutzz.com*, 2005 WL 1653974, at *7. It is not clear from the record whether the parties contemplated using an arbitrator or an arbitration panel. Therefore, for convenience, I will refer to an arbitrator, which includes an arbitration panel if that is the case.

Information appeared outside the scope of the Confidentiality Provision and was probably subject to arbitration.[12] I also stated that it appeared likely that Nutzz's misappropriation of trade secrets claim should go before the arbitrator because "the linchpin of Nutzz's misappropriation argument is likely to necessitate a determination of the parties' duties and obligations under provisions of the Agreement other than the Confidentiality Clause."[13]

On August 4, 2005, Nutzz served Vertrue with a notice of intention to arbitrate (the "Notice") and filed a Demand for Arbitration with the American Arbitration Association or AAA (the "Demand").[14] The Notice and Demand indicate that Nutzz seeks arbitration of the following claims: (1) that Vertrue breached an exclusivity clause in the Agreement when it marketed its FastTrack Savings program to Nutzz Elite members; (2) that Vertrue breached its obligations under the Agreement to promote the Nutzz Elite program to its own members and business partners; (3) that Vertrue breached its obligations under the Agreement regarding the use of Nutzz's service marks, logos and other proprietary designations; (4) that Vertrue violated both the Connecticut Unfair

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12 *Id.* at *8 ("Because provisions other than the Confidentiality Clause are likely to govern whether Vertrue's use of Customer Information was permissible under the Agreement, that aspect of Nutzz's claim is probably subject to arbitration.").

13 *Id.* at *9. I further stated that "[t]he availability of arbitration to Nutzz as a vehicle to pursue redress for its misappropriation and related claims further supports the conclusion that it has an adequate remedy at law." *Id.* at 10.

14 Pls.' Opening Br. in Supp. of their Mot. to Stay in Favor of Arbitration Ex. B.

Trade Practices Act[15] and the Delaware Deceptive Trade Practices Act through a series of alleged actions, including the transmittal of a March 24, 2005 email to Nutzz Elite members; and (5) that Vertrue misappropriated Nutzz's trade secret information in violation of the Uniform Trade Secret Act, as adopted by both Delaware and Connecticut. Nutzz, however, did not clearly seek to arbitrate claims arising under the Confidentiality Provision until its argument before the Court on February 23, 2006 and its follow-up letter of March 17, 2006. In both those instances, Nutzz expressed its intention to seek arbitration of, among other things, all the claims asserted in the 1231-N action.

Vertrue moved to preclude arbitration of Nutzz's claims in the 1231-N case on October 7, 2005.[16] Vertrue then filed No. 1719-N on October 13, 2005 in which it petitioned for the appointment of a receiver. It alleges that this Court should appoint a receiver to manage Nutzz and Bang's assets because of a serious risk that Nutzz or Bang will transfer or otherwise dissipate their assets and ultimately not have the ability to repay $1.25 million that Vertrue advanced to Nutzz under the Agreement.

II. ANALYSIS

A. Motion to Preclude Arbitration in 1231-N

Vertrue's motion essentially seeks a permanent injunction precluding Nutzz from arbitrating the claims it has asserted in 1231-N. In general, to obtain a permanent injunction the moving party must demonstrate that: "(1) it has proven actual success on

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[15] The Agreement provides for application of Connecticut law. Agreement ¶ 22.

[16] Nutzz and its co-plaintiff Alex Meshkin filed their Opening Brief in Support of Their Motion to Stay in Favor of Arbitration on the same day.

the merits of its claims; (2) irreparable harm will be suffered if injunctive relief is not granted; and (3) the harm that will result if an injunction is not entered outweighs the harm that would befall the [defendant] if an injunction is granted."[17]

Because this case involves a permanent injunction to prevent arbitration, to succeed on the merits Vertrue must prove that the claims in issue are not subject to arbitration or, if they would be, Nutzz is precluded from pursuing arbitration of them. Vertrue contends that at least some of the issues raised in Nutzz's amended complaint are explicitly exempted from the arbitration clause. They further contend that this Court, not the arbitrator, is entitled to determine the arbitrability of those claims. In addition, Vertrue argues that Nutzz has waived or is estopped from asserting its claimed right to arbitrate the claims in 1231-N.

Nutzz disputes each of Vertrue's arguments. It also contends that certain procedural deficiencies in Vertrue's motion to preclude arbitration require denial of that motion. I address that procedural argument first and then turn to the merits of Vertrue's motion.

1. Is Vertrue's motion procedurally defective?

Nutzz asserts that Vertrue's request to preclude arbitration of the claims in 1231-N is procedurally defective because it did not take the form of a complaint and was untimely. In particular, Nutzz contends that under 10 *Del. C.* § 5703(b) Vertrue had to

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[17] *City of Wilmington v. Wilmington FOP Lodge #1*, 2004 WL 1488682, at *3 (Del. Ch. June 22, 2004).

file a complaint to enjoin arbitration to preserve its right to seek the relief requested in its motion.

For purposes of this analysis, I consider both sections 5703(b) and (c) relevant. Those sections provide:

> (b) Application to enjoin arbitration -- Subject to subsection (c) of this section, a party who has not participated in the arbitration and who has not been made or served with an application to compel arbitration may file its complaint with the Court seeking to enjoin arbitration on the ground that a valid agreement was not made or has not been complied with or that the claim sought to be arbitrated is barred by limitation of § 5702(c).
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> (c) Notice of intention to arbitrate -- A party must serve upon another party a notice of intention to arbitrate, specifying the agreement pursuant to which arbitration is sought and the name and address of the party serving the notice, or of an officer or agent thereof if such party is an association or corporation, and stating that unless the party served applies to enjoin the arbitration within 20 days after such service such party shall thereafter be precluded from objecting that a valid agreement was not made or has not been complied with and from asserting in Court the bar of a limitation of time. . . . A complaint seeking to enjoin arbitration must be made by the party served within 20 days after service of the notice or the party shall be so precluded. . . .[18]

In my opinion, neither 10 *Del. C.* § 5703(b) or (c) requires Vertrue to file a motion to preclude in the form of a complaint. First, § 5703(b) only applies to a party that "has not participated in the arbitration and who has not been made or served with an application to compel arbitration." In this case, both Nutzz and Vertrue have actively participated in arbitration. Therefore, § 5703(b) does not apply. Moreover, even if it did

[18] 10 *Del. C.* § 5703.

apply, the statutory language states that a party "may" file a complaint. Since the General Assembly chose to use the word "may" instead of "must" or "shall," the plain language of the statute suggests that filing a complaint is not the only way to satisfy the requirements of § 5703(b). Consequently, even assuming the statute does apply, I hold that Vertrue has substantially complied with § 5703(b) by filing a motion to preclude arbitration in 1231-N, which Nutzz had instituted before its notice of arbitration.

Section 5703(c) also does not apply to Vertrue. That section requires a party to file a complaint seeking to enjoin arbitration within 20 days after service of notice of intention to arbitrate, provided the notice contains certain information. Here Nutzz admittedly has not complied with § 5703(c)'s notice requirements.[19] In particular, Nutzz's notice does not contain the required statement that "unless [Vertrue] applies to enjoin the arbitration within 20 days after such service such party shall thereafter be precluded from objecting that a valid agreement was not made or has not been complied with . . . ."[20] Since Nutzz failed to file a proper notice under § 5703(c), the statute does not require Vertrue to apply to enjoin the arbitration[21] within 20 days of the notice.[22]

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19 Pls.' Answering Br. in Opposition to Vertrue's Mot. to Preclude Arbitration at 10 (acknowledging that "Nutzz did not comply with the explicit terms of 10 *Del. C.* § 5703(c).").

20 10 *Del. C.* § 5703; *see* Pls.' Opening Br. in Supp. of their Mot. to Stay in Favor of Arbitration Ex. B.

21 The statute is ambiguous as to whether § 5703(c) requires a party to file a response to the notice in the form of a complaint. Specifically, the statutory language is not consistent. In describing the notice requirements to commence arbitration, the statute uses broad terms and states that the party seeking to compel arbitration must inform the opposing party that it must "apply to enjoin the arbitration" within

In addition, I note that Nutzz cited no precedent adopting the approach it urges. For all of these reasons, I reject Nutzz's objections to the form and timing of Vertrue's motion to preclude arbitration.

2. Who determines arbitrability?

The parties dispute the scope of the arbitration clause and whether it authorizes the Court or the arbitrator to determine issues of arbitrability. The arbitration clause contains an exception that permits either party to bring a claim in this court for injunctive or other relief for violation of Section 12 of the Agreement, the Confidentiality Provision. The parties dispute, however, whether the arbitration clause also allows a party such as Nutzz to bring claims for violation of the Confidentiality Provision before the arbitrator, as well.

Vertrue asserts that because the Agreement contains a carve out and does not require the submission of all claims to arbitration, the Court and not the arbitrator determines questions of arbitrability. Nutzz contends that the arbitrator must determine substantive arbitrability.

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20 days or it will be precluded from raising certain defenses. Later, § 5703(c) states that the responding party must file a "complaint" seeking to enjoin arbitration within 20 days. Having found § 5703 inapplicable, however, I need not resolve this apparent ambiguity.

[22] Nutzz also contends that due to Vertrue's delay in filing its motion to preclude, the motion is barred by laches. This argument is not persuasive for several reasons. First, Vertrue filed its motion to preclude on or about October 7, 2005, approximately two months after Nutzz's notice of arbitration. Thus, the "delay" was not lengthy. Further, Nutzz did not make clear its intention to arbitrate its claims based on the Confidentiality Provision until sometime in the first quarter of 2006. In these circumstances, I do not consider Vertrue's alleged delay either unreasonable or prejudicial to Nutzz. Thus, there is no basis for barring Vertrue's motion for laches.

Arbitration is a matter of contract and a party cannot be required to submit any dispute to arbitration that they have not agreed to so submit.[23] The court begins by presuming that it will decide the question of whether the parties agreed to submit a particular dispute to arbitration. Accordingly, the "question of arbitrability[] is an issue for judicial determination unless the parties clearly and unmistakably provide otherwise."[24] If the parties agree, however, the question of arbitrability itself may be submitted to the arbitrator.[25]

The question of whether parties agreed to submit their dispute to arbitration is governed by basic principles of contract interpretation.[26] The primary goal of contract interpretation is to attempt to fulfill, to the extent possible, the reasonable shared expectations of the parties at the time they contracted.[27] First, the court must determine whether the parties' intent can be ascertained from the express words they chose or if the agreement is ambiguous.[28] If the terms of the agreement are clear on their face, the court

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23 *James & Jackson, LLC v. Willie Gary, LLC*, 2006 WL 659300, at *1 (Del. Mar. 14, 2006).

24 *Id*. (internal quotations omitted).

25 *DMS Prop.-First, Inc. v. P.W. Scott Assoc., Inc.*, 748 A.2d 389, 392 n.13 (Del. 2000); *Pettinaro Const. Co. v. Harry C. Partridge, Jr., & Sons, Inc.*, 408 A.2d 957, 963 (Del. Ch. 1979).

26 *Delta & Pine Land Co. v. Monsanto Co.*, 2006 WL 1510417, at *3 (Del. Ch. May 24, 2006).

27 *Id.*

28 *Id.*

will give them the meaning that would be ascribed by a reasonable third party. If the language is ambiguous, the court may consider extrinsic evidence.[29]

Vertrue contends that the recent Delaware Supreme Court decision in *Willie Gary*[30] controls this case. In particular, Vertrue asserts that *Willie Gary* stands for the proposition that if the arbitration clause contains a carve out, as it does in the Agreement at issue here, the judge decides the question of arbitrability.

In *Willie Gary*, the court adopted the majority federal view that reference to the AAA rules evidences a clear and unmistakable intent to submit arbitrability issues to the arbitrator.[31] Nevertheless, they held that the federal majority rule did not apply to that case because the arbitration clause did not refer all controversies to arbitration. In such a scenario, the court held, "something other than the incorporation of the AAA rules would be needed to establish that the parties intended to submit arbitrability questions to an arbitrator."[32] On the facts of *Willie Gary*, there was no "something other." Additionally, the court noted that the agreement itself did not envision all claims arising out of it going initially to arbitration because at least one provision of the agreement contemplated early judicial involvement.[33]

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29 *Eagle Indus., Inc. v. DeVilbiss Health Care, Inc.*, 702 A.2d 1228, 1232 (Del. 1997).

30 2006 WL 659300.

31 *Id*. at *3.

32 *Id.*

33 *Id.* at *4.

In this case, like *Willie Gary*, the Agreement contains a carve out. Yet, the facts of the two cases differ materially. Unlike *Willie Gary*, the Agreement between Nutzz and Vertrue explicitly states: "With the exception of seeking injunctive or other relief for violation of Section 12 above, any dispute arising out of or relating to this Agreement, including any issues relating to arbitrability or the scope of this arbitration clause, will be finally settled by arbitration."[34]

Thus, the Agreement shows that the parties clearly and unmistakably intended to submit questions of substantive arbitrability that fall outside the scope of the carve out to the arbitrator. I do not believe, however, the arbitration clause in this case evidences a clear and unmistakable intent to submit the question of arbitrability as to claims that appear to involve violations of the Confidentiality Provision to arbitration. In fact, the Agreement reasonably could be read to exclude from arbitration claims for "injunctive or other relief for violation of Section 12," including any issues relating to arbitrability or the scope of this carve out of the arbitration clause. Nutzz argues to the contrary, but in my opinion there is at least an ambiguity on this point. Therefore, the arbitration clause does not clearly and unmistakably evidence an intent of the parties to submit to arbitration questions over the substantive arbitrability of the Agreement's carve out. Consequently, as in *Willie Gary*, this Court must decide the substantive arbitrability of claims that on their face appear to fall within the Agreement's carve out.

[34] Agreement ¶ 13.

Next, I address the claims about which the parties dispute arbitrability and, to the extent they are arbitrable, whether any equitable defense bars submitting those claims to arbitration. I address the claims in the 1231-N case first and then the 1719-N case.

3. The arbitrability of the claims in the 1231-N case

In my opinion, both parties to this dispute have engaged in aggressive forum shopping. The result is an unnecessarily complex procedural state of affairs. For purposes of the pending motion in 1231-N, the Court must determine which of Nutzz's claims can proceed in this action and which, if any, must be pursued in arbitration.

Nutzz asserts that it has the option of sending all its claims to arbitration. Specifically, Nutzz contends that the Agreement's claim splitting provision allows it to elect among three options: (1) it could seek injunctive or other relief (including monetary damages) for violation of its confidential information before a court; (2) it could seek injunctive relief before a court in aid of its efforts to obtain monetary relief for violation of its confidential information from the arbitrator; or (3) it could forgo seeking injunctive relief before a court and submit the entire dispute to arbitration in the first instance.[35]

Nutzz initially invoked the first option by filing Civil Action No. 1231-N in this Court. Nevertheless, it now seeks to pursue a variation of the third option and submit all of its claims stemming from the Agreement, including the claims in 1231-N, to arbitration. Vertue objects and contends that to the extent Nutzz's claims in 1231-N arise under the Agreement's carve out, those claims are not subject to arbitration.

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[35] Letter from Sean Bellew, Esq. to the Court (Mar. 17, 2006) at 3-4.

I agree with Vertrue's position for the following reasons. Notwithstanding having initially brought its claims in this Court and unsuccessfully sought both a temporary restraining order and a preliminary injunction, Nutzz contends it is still free to bring those same claims anew in an arbitration. Relying on its three option construction of the Agreement, Nutzz essentially contends that it could have filed its claims under the Confidentiality Provision before this Court or the arbitrator, because the Agreement does not prohibit it from doing so. The parties presumably could have agreed to submit disputes arising out of the Confidentiality Provision to either litigation or arbitration had they so intended. To establish a right to arbitrate the claims it originally filed in this Court, however, Nutzz must show that the parties, in fact, agreed to give it that right. "A party cannot be forced to arbitrate the merits of a dispute . . . in the absence of a clear expression of such intent in a valid agreement."[36] Based on my review of the Agreement, I find that it does not reflect a clear expression of intent to arbitrate claims for violation of the Confidentiality Provision, especially when one party already has brought those claims in Court in accordance with the Agreement. Consequently, I reject Nutzz's argument that it has the right to bring claims for violation of the Confidentiality Provision before the arbitrator.

Turning to the claims in the amended complaint in 1231-N, at least counts 1, 2 and 3 seek injunctive or other relief for violation of Section 12 of the Agreement. Indeed,

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[36] *Willie Gary*, 2006 WL 659300, at *2.

counts 1 and 2 expressly refer to confidential information.[37] Thus, the claims in counts 1, 2, and 3 that relate to an alleged breach of the Confidentiality Provision must be pursued in this Court. It seems unlikely, however, that counts 4-8 for violation of the Delaware Deceptive Trade Practices Act, conversion, unfair competition, breach of fiduciary duty, and defamation involve violations of the Confidentiality Provision. Thus, because those claims do not appear to fall within the exception to the arbitration clause, Nutzz may pursue them in arbitration and the arbitrator can decide any related questions of substantive arbitrability.

Count 9 is a misappropriation of trade secrets claim. As I noted in the July 6, 2005 memorandum opinion, the linchpin of Nutzz's misappropriation argument is likely to necessitate a determination of the parties' duties and obligations under provisions of the Agreement other than the Confidentiality Clause. Thus, count 9 also appears to fall outside the scope of the carve out, and is subject to arbitration.

In summary, Vertrue has shown that counts 1, 2 and 3 of the amended complaint in 1231-N are not arbitrable, but has not disproved the arbitrability of the remaining counts. Moreover, even if counts 1, 2 and 3 were arbitrable, Vertrue contends Nutzz is precluded from arbitrating them or any of the claims in 1231-N on grounds of waiver and estoppel.

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[37] Am. Compl. ¶¶ 89 and 92. Count 2 states "Defendant Vertrue/Memberworks has violated its Agreement with Nutzz by its unauthorized use of Nutzz's confidential information." *Id.* ¶ 92.

4. Waiver

Even if Nutzz were correct and all of its claims were arbitrable, Vertrue contends that Nutzz has waived the right to seek arbitration as to any of those claims by actively pursuing them in this litigation. The waiver defense requires clear and convincing evidence of waiver.[38] "Waiver of arbitration is a matter of intention and to constitute waiver there must be an intentional relinquishment of a right with both knowledge of its existence and intention to relinquish it."[39] A party that takes actions inconsistent with his right to arbitration, such as active participation in a lawsuit, shows an intent to relinquish its right to arbitration.[40]

Nutzz asserts that *Parfi Holdings AB v. Mirror Image Internet, Inc.*[41] stands for the proposition that it can still assert the same claims asserted in 1231-N before an arbitrator despite the fact that it has engaged in extensive discovery in 1231-N, including taking written discovery and deposing three Vertrue witnesses, and filed numerous motions with this Court, including several discovery motions and motions for a TRO and preliminary injunction. In *Parfi*, the court stated that the plaintiff had "not waived its right to seek contractual damages related to the Challenged Transactions by actively litigating fiduciary duty claims in this court because the Supreme Court permitted the plaintiffs to

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38 *Zaret v. Warners Moving & Storage*, 1995 WL 56708, at *1 (Del. Ch. Feb. 3, 1995).

39 *James Julian, Inc. v. Raytheon Serv. Co.*, 424 A.2d 665, 668 (Del. Ch. 1980).

40 *Zaret*, 1995 WL 56708, at *1.

41 842 A.2d 1245 (Del. Ch. 2004).

split their claims in this manner."[42] That is not true here. In this case Nutzz has not merely engaged in claim splitting. Rather it has filed claims and, at least in some instances, actively litigated them here and now seeks to bring the same claims before the arbitrator. In these circumstances, the applicability of *Parfi* to the pending motion must be assessed on a claim by claim basis.

This case is more similar to *Zaret v. Warners Moving & Storage*.[43] In *Zaret*, the court held that a plaintiff had waived its right to arbitration because it sought to bring the same claims before an arbitrator that it asserted in a lawsuit in which it resisted defendant's efforts to remove the case to federal court and participated in discovery over a six month period.[44] Similarly, in *Wilshire Restaurant Group, Inc. v. Ramada, Inc.*, the court held that plaintiff waived its right to arbitration by commencing litigation and engaging in substantial discovery.[45] In arriving at its conclusion the court reasoned that "to allow [plaintiff] to arbitrate now would enable it to 'have it both ways,' i.e., it would give [plaintiff] a discovery advantage to which it would not be entitled in arbitration."[46]

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42 *Id.* at 1262.

43 1995 WL 56708.

44 1995 WL 56708, at *2 ("The Superior Court action was over six months old when Zaret requested arbitration. [Defendant] had already spent substantial time and money in its efforts to remove the case to federal court and conduct its discovery. . . . Forcing [Defendant] to resolve this issue in another forum after the litigation in the Superior Court, which Plaintiff chose to initiate, is substantially underway would be unfair to [Defendant].").

45 1990 WL 195910, at *3 (Del. Ch. Dec. 5, 1990).

46 *Id.*

In applying these principles to this case, I begin with counts 1-3 of the amended complaint in 1231-N. At the inception of 1231-N, Nutzz sought expedited proceedings, a TRO and later a preliminary injunction on those claims and count 9, alleging misappropriation of trade secrets. Most of the discovery and argument, as well as most of the Court's July 6, 2005 opinion denying a preliminary injunction, related to those claims. Consequently, I find that Nutzz's active participation in this lawsuit before it filed its notice of arbitration on August 4, 2005, pertained almost exclusively to counts 1-3 and 9. Since August 2005 the arbitration and this litigation have proceeded on parallel tracks with at least somewhat coordinated discovery, as I understand it. In these circumstances, I conclude that Vertrue has not shown a waiver of arbitration as to counts 4-8 of the amended complaint. The waiver analysis below therefore relates only to counts 1-3 and 9.

In many ways, this case presents an even stronger case for waiver than *Zaret* and *Wilshire*. As in those cases, Nutzz has engaged in substantial discovery thereby achieving a discovery advantage it would not be entitled to in arbitration. Further, Nutzz not only engaged in substantial discovery, but moved for a TRO with respect to counts 1, 2, and 9 and a preliminary injunction with respect to counts 1, 2, and 3, was heard on each motion and lost both.

Nutzz cannot substantially invoke the judicial process as it has on counts 1-3 and then re-file the same claims before an arbitrator. To allow such action would substantially and unfairly prejudice Vertrue. Consequently, Nutzz has waived any right it

may have had to pursue arbitration of the claims in counts 1-3 for violation of the Confidentiality Provision that it first filed in this Court.

Vertrue makes a similar argument regarding Nutzz's misappropriation of trade secrets claim in count 9 of the 1231-N case. Nutzz did not litigate this action nearly as actively, however, as to that claim. Thus, Vertrue's waiver argument is less persuasive as to count 9. Further, for the reasons stated in the following section, I have concluded that Vertrue is estopped by its earlier arguments in this case from seeking to preclude Nutzz from submitting count 9 to arbitration.

5. Judicial Estoppel

Vertrue also contends that judicial estoppel bars Nutzz from pursuing the claims it asserted in 1231-N in arbitration. In particular, it contends that because Nutzz previously asserted that it could bring its claims in this Court because they fell within the arbitration clause's carve out for violations of the Confidentiality Provision, Nutzz cannot now assert that those same claims should proceed before the arbitrator. In particular, Vertrue argues that having previously represented that its claims arise out of an alleged breach of the Confidentiality Provision, Nutzz cannot assert otherwise in arbitration to preserve its claims there. Nutzz responds that Vertrue similarly should be barred from arguing that Nutzz's claims must be brought in this Court because they previously argued that certain of Nutzz's claims were subject to mandatory arbitration.

"The doctrine of judicial estoppel precludes a party from advancing an argument that contradicts a position it previously persuaded a court to adopt as the basis for a

ruling."[47] This is the standard against which the Court must evaluate the parties' arguments.

Nutzz chose to file suit in this Court and stated in its motion for a preliminary injunction that "[t]his action is about the improper and unauthorized use of confidential information in pursuit of the usurpation of a new business."[48] Thus, Nutzz expressly argued that this Court had jurisdiction to hear its claims because they fit within the Agreement's carve out for issues brought under the Confidentiality Provision.

Nutzz's amended complaint also characterizes several of its claims as falling within the Agreement's carve out.[49] Nutzz never requested to amend its amended complaint further; rather, it now asserts that even if the claims fall within the exception to the arbitration agreement it still can bring those claims before the arbitrator.

In the first several months of this litigation I denied both Nutzz's motion for a TRO and its motion for a preliminary injunction.[50] In the opinion on the latter motion, I relied on Nutzz's assertion that it had limited its breach of contract claim to take advantage of the fact that the Agreement did not require the parties to bring claims for

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47 *McQuaide v. McQuaide*, 2005 WL 1288523, at *6 (Del. Ch. May 24, 2005).

48 Pls.' Opening Br. in Supp. of its Mot. for a Prelim. Inj. Against Vertrue Inc. at 1.

49 *See* Am. Compl. ¶¶ 53-65, 118-22.

50 I denied Nutzz's motion for a TRO on April 11, 2005 on the record and later entered an opinion denying its motion for a preliminary injunction. *Nutzz.com*, 2005 WL 1653974, at *11.

breach of the Confidentiality Provision before an arbitrator.[51] I also stated that it appeared likely that the misappropriation of trade secrets claim (count 9) should go before the arbitrator because "the linchpin of Nutzz's misappropriation argument is likely to necessitate a determination of the parties' duties and obligations under provisions of the Agreement other than the Confidentiality Clause." In that regard, I adopted Vertrue's argument as the basis for my ruling.

Nutzz cannot now arbitrate claims similar to those in counts 1-3 of this action in the hopes that it will fare better than it has in this Court. Otherwise, Nutzz essentially would have two bites at the apple and be able to walk away from an argument it previously convinced this Court to adopt. Consequently, Nutzz is estopped from bringing any claims in counts 1, 2, and 3 that relate to an alleged breach of the Confidentiality Provision before the arbitrator. Likewise, because I relied on Vertrue's assertions that count 9, and to a lesser degree counts 4-8, should be subject to arbitration in ruling on Nutzz's motion for a preliminary injunction, Vertrue is estopped from seeking to preclude Nutzz from arbitrating that claim.

Based on the conclusions I reached on arbitrability, waiver and estoppel, I find that Vertrue has proven actual success on the merits of its contention that Nutzz should not be able to arbitrate the claims in counts 1-3 for violation of the Confidentiality Provision. I further conclude that Vertrue would be irreparably harmed if those claims were arbitrated in contravention of the parties' Agreement. Lastly, I find that the balance

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[51] *Id.* at *7. This portion of the opinion related to counts 1-3 in the amended complaint.

of the harms to Vertrue and Nutzz, respectively, depending on whether a preclusion order is entered favors Vertrue as to counts 1-3 for the reasons discussed in this opinion. Thus, I will grant Vertrue's motion to preclude arbitration as to the confidentiality-related claims in counts 1-3.

B. Motion to Stay in No. 1719

To enable them to manage their dockets, courts possess the inherent power to stay proceedings.[52] In determining whether to grant a stay, the Court must determine: (1) whether the parties agreed to arbitrate; (2) the scope of the arbitration agreement; (3) if federal statutory claims are asserted; and (4) if some, but not all, of the claims are arbitrable, whether to stay the balance of the proceedings pending arbitration.[53]

Nutzz contends that Vertrue lacks standing to assert its claims in 1719-N in this Court because the arbitration agreement provides an adequate remedy at law. According to Nutzz, all of Vertrue's claims fall within the arbitration clause. In particular, at argument counsel for Nutzz stated: "[w]e believe [the arbitration agreement is] so broadly written that it would encompass a contractual agreement to seek relief[, through the appointment of a receiver,] first with the arbitration panel."[54] Vertrue disputes Nutzz's interpretation of the arbitration clause. The claims asserted by Vertrue in 1719-N arise in part from its payment of $1.25 million to Nutzz under the Agreement and do not

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52 *Salzman v. Canaan Capital Partners, L.P.*, 1996 WL 422341, at *5 (Del. Ch. July 23, 1996).

53 *Fleming & Hall, Ltd. v. Clarendon Nat'l Ins. Co.*, 1998 WL 734772, at *2 (Del. Super. Aug. 27, 1998).

54 Tr. at 61.

appear to relate to alleged violations of the Confidentiality Provision (Section 12). Thus, those claims do not come within the carve out of the arbitration clause. Because I have already ruled that the arbitrator must decide questions of arbitrability as to such claims and Vertrue has not advanced any other persuasive argument for this Court maintaining jurisdiction over its claims, I will stay the 1719-N case at least until the arbitrator determines the arbitrability of Vertrue's claims.

Further, since I hold that this Court cannot address the substance of Vertrue's amended complaint at this time, I also will stay consideration of Nutzz's motion to dismiss pending the arbitration.

III. CONCLUSION

For the reasons stated, I GRANT Vertrue's motion in 1231-N to preclude arbitration of the claims in counts 1, 2, and 3 that relate to an alleged breach of the Confidentiality Provision in the Agreement and I enjoin Nutzz from pursuing such claims in arbitration. In all other respects, Vertrue's motion to preclude arbitration in 1231-N is DENIED. Further, I GRANT Nutzz and Bang's motion to stay the 1719-N case pending arbitration and, accordingly, will stay consideration of their motion to dismiss the 1719-N action, as well.

IT IS SO ORDERED.