

I. INTRODUCTION

The core of this dispute is no longer whether a contract was breached—that has already been decided—but how much that breach will cost. Plaintiff Autonodyne LLC (“Autonodyne”) terminated its Software License Agreement (the “SLA”) with Defendant Teal Drones, Inc. (“Teal Drones”) following Teal Drones’ established breach. Autonodyne moves for judgment on the pleadings to enforce a post-termination lump sum payment of Fees.

The resolution of this motion turns on two points: the definition of “Fees” and the enforceability of Section 14.4(e). While the Court finds the definition of “Fees” to be clear and unambiguous, the validity of the liquidated damages provision remains a triable issue of fact and law. For this reason, Autonodyne’s Motion for Judgment on the Pleadings is **DENIED**.

II. BACKGROUND¹

A. The Parties²

Plaintiff Autonodyne, Inc. is a Delaware corporation headquartered in Massachusetts.³ It develops software for the automated control of aviation vehicles.⁴

Defendant Teal Drones, Inc. is a Delaware corporation headquartered in Utah.⁵ It is a wholly owned subsidiary of Red Cat Holdings, Inc (“Red Cat”).⁶

B. Software License Agreement

On May 23, 2022, Autonodyne and Teal Drones entered into the SLA.⁷ Under the SLA, Autonodyne granted Teal Drones a non-exclusive license to its avionics software and an exclusive license to certain functionalities.⁸ In exchange, Teal Drones was obligated to pay “Charges,” which included licensing fees⁹ and other amounts determined by the number of Customers who purchased or licensed the covered products.¹⁰

¹ The facts are drawn from the Complaint (D.I. No. 2), Answer (D.I. No. 8), and the documents incorporated therein. Additional facts are drawn from the parties’ briefing. *See* D.I. No. 11 (Mot.), No. 14 (Opp’n), and No. 16 (Reply).

² Although there are additional parties in this consolidated action, Autonodyne’s motion for judgment on the pleadings predates consolidation and does not directly implicate those other parties.

³ Compl. ¶ 3.

⁴ *Id.*

⁵ *Id.* at ¶ 4.

⁶ *Id.*; Answer ¶ 4.

⁷ Compl, Ex. A (hereinafter the “SLA”).

⁸ Compl. ¶¶ 7–11.

⁹ SLA § 8.1.

¹⁰ *See* SLA, Schedule B.

The SLA contained strict confidentiality provisions. It defines “Confidential Information,” to include technical specifications, documentation, and the terms of the SLA itself.¹¹ Disclosure was permitted only as necessary for performance under the SLA.¹² Most relevant to this action, the SLA expressly prohibited public announcements regarding the agreement “without the prior written consent of the other party[.]”¹³ The SLA granted Autonodyne the right to terminate the contract if Teal Drones breached these confidentiality obligations.¹⁴

C. Breach of the SLA

On August 23, 2022, Teal Drones and its parent company, Red Cat, issued a press release describing Teal’s relationship with Autonodyne.¹⁵ The release quoted language from the SLA and characterized Teal Drones’ license to the software as exclusive.¹⁶ Autonodyne did not review or approve the announcement.¹⁷

Three days later, Autonodyne provided written notice of termination to Teal Drones. Autonodyne invoked Sections 14.3(b) and (c) of the SLA, citing Teal Drones’ violations of the agreement’s confidentiality provisions.¹⁸ Under Section

¹¹ Compl. ¶¶ 12–13 (discussing SLA § 9).

¹² *Id.*

¹³ *Id.* at ¶ 13 (quoting SLA § 15.3).

¹⁴ SLA § 14.3(c).

¹⁵ Compl, Ex. C.

¹⁶ *Id.*

¹⁷ Compl, Ex. D (asserting that Autonodyne was unaware of Teal Drone’s press release).

¹⁸ *Id.*

14.4(e), termination for cause triggered an obligation for Teal Drones to pay all “Fees” that would have been payable through the remainder of the contract.¹⁹

D. Procedural History

This action is the latest in a series of lawsuits between the parties. In *Red Cat Holdings, Inc. v. Autonodyne LLC* (“*Red Cat I*”),²⁰ Teal Drones sued Autonodyne for breach of contract, breach of the implied covenant of good faith and fair dealing, declaratory judgment, and injunctive relief.²¹ Teal Drones also asserted claims for tortious interference and declaratory judgment against Daniel Schwinn (“Schwinn”), Autonodyne’s alleged principal equity holder and *de facto* manager.²²

Autonodyne and Schwinn moved to dismiss the claims in *Red Cat I*. The Court of Chancery dismissed all claims against Autonodyne²³ but deferred ruling on the claims against Schwinn.²⁴ The Court of Chancery then declined to exercise subject matter jurisdiction over the remaining claims against Schwinn,²⁵ and transferred them to this Court.²⁶ Separately, Autonodyne filed the instant action, alleging that Teal Drones had breached the SLA.²⁷

¹⁹ SLA § 14.4(e).

²⁰ *Red Cat Hldgs., Inc. v. Autonodyne LLC*, 2024 WL 342515 (Del. Ch. Jan. 30, 2024) (hereinafter “*Red Cat I*”).

²¹ *Id.* at *3.

²² *Id.*

²³ *Red Cat I* at *13.

²⁴ *Red Cat I* at *1 n.2.

²⁵ *Red Cat Hldgs., Inc. v. Autonodyne LLC*, 2024 WL 1120365, at * 3 (Del. Ch. Mar. 14, 2024).

²⁶ *See Red Cat Hldgs., Inc. v. Autonodyne LLC*, 2025 WL 432859 (Del. Super. Feb. 6, 2025) (hereinafter “*Red Cat II*”).

²⁷ D.I. No. 2.

In *Red Cat Holdings, Inc. v. Autonodyne LLC* (“*Red Cat IP*”), this Court considered Schwinn’s motion for judgment on the pleadings. The Court adopted the Court of Chancery’s finding that Autonodyne properly terminated the SLA following Teal Drones’ breach of the confidentiality provisions, and dismissed the tortious interference claim against Schwinn.²⁸ Following the decision in *Red Cat II*, the parties agreed to consolidate the actions under the caption *In re Teal Drone-Autonodyne SLA Litigation*.²⁹

E. The Present Motion

Prior to consolidation, Autonodyne moved for judgment on the pleadings in the instant action.³⁰ Teal Drones opposed the motion, arguing that: (1) Autonodyne failed to demonstrate substantial compliance with the SLA; (2) recovery would be inequitable after termination; (3) Section 14.4(e) is an unenforceable penalty clause; (4) the SLA is ambiguous; and (5) damages remain a disputed issue of material fact.³¹

Autonodyne replied, contending that Teal Drones’ arguments were inapposite and maintaining that Section 14.4(e) is a valid liquidated damages provision.³² The Court heard oral argument on December 11, 2025.³³

²⁸ *Red Cat II*, 2025 WL 432859, at *7. *See also Red Cat I*, 2024 WL 342515, at *7.

²⁹ D.I. No. 19.

³⁰ D.I. No. 11.

³¹ D.I. No. 14.

³² D.I. No. 16.

³³ D.I. No. 22.

III. STANDARD OF REVIEW

After the pleadings are closed, any party may move for judgment on the pleadings.³⁴ The Court will not grant such a motion “unless, after drawing all reasonable inferences in favor of the non-moving party, no material issues of fact exists, and movant is entitled to judgment as a matter of law.”³⁵ Thus, to grant the motion, the Court must find “to a reasonable certainty that the non-movant would not be entitled to relief . . . under any set of facts that could be proven in support of its allegations.”³⁶

IV. ANALYSIS

A breach of contract claim requires a valid contract, a breach by the defendant, and resulting damages. Because a prior judicial determination established that Teal Drones breached the SLA,³⁷ Teal Drones focuses its arguments on the remaining elements. Specifically, it contends that the relevant provisions of the SLA are ambiguous, and that Section 14.4(e) constitutes an unenforceable penalty.³⁸

³⁴ Super. Ct. Civ. R. 12(c).

³⁵ *Ford Motor Co. v. Earthbound, LLC*, 2024 WL 3067114, at *7 (Del. Super. Jun. 5, 2024) (citing *Desert Equities, Inc. v. Morgan Stanley Leveraged Equity Fund II, L.P.*, 624 A.2d 1199, 1205 (Del. 1993)).

³⁶ *Desert Equities, Inc. v. Morgan Stanley Leveraged Equity Fund*, 624 A.2d 1199, 1204 n.7 (Del. 1993) (citing *Warner Communications, Inc. v. Chris-Craft Indus., Inc.*, 583 A.2d 962, 965 (Del. Ch. 1989), *aff'd*, 567 A.2d 419 (Del. 1989)).

³⁷ *Red Cat I* at *4, 7.

³⁸ Teal Drones also argues that Autonodyne failed to substantially comply with its obligations, both before and after the termination of the SLA. Although the Court in *Red Cat I* determined that Teal Drones failed to adequately plead a breach of the contract terms that survived termination (*Red Cat I* at *8–9), that ruling did not address whether Autonodyne substantially

The Court finds that the terms of the SLA are unambiguous. However, on the thin record before it, the Court is unable to resolve whether Section 14.4(e) is a penalty clause.

A. The SLA is Unambiguous

Teal Drones contends that the term “Fees” is ambiguous and requires extrinsic evidence to resolve.³⁹ The Court disagrees. A contract is not ambiguous simply because the parties disagree on its meaning;⁴⁰ ambiguity exists only if the language is reasonably susceptible to two or more interpretations.⁴¹ The plain terms of Section 14.4(e) of the SLA provide that, upon termination:

pursuant to Section 14.3(b) or Section 14.3(c), all Fees that would have become payable had the Agreement remained in effect until expiration of the Term will immediately become due and payable, and OEM shall pay such Fees, . . . within 90 days after the effective date of such termination[.]⁴²

Autonodyne terminated the Agreement pursuant to Sections 14.3(b) & (c), and, under the plain language of the SLA, is entitled to “Fees.”⁴³

The SLA states that “‘Fees’ has the meaning set forth in Section 8.1.”⁴⁴ Section 8.1 establishes that “Charges, prices, and fees (collectively “Charges”) and

complied prior to termination. Because this decision resolves Autonodyne’s motion on other grounds, the Court does not reach the merits of Teal Drones’ position on this issue.

³⁹ Opp’n 22–25.

⁴⁰ *E.I. du Pont de Nemours & Co. v. Allstate Ins. Co.*, 693 A.2d 1059, 1061 (Del. 1997).

⁴¹ *Weinberg v. Waystar, Inc.*, 294 A.3d 1039, 1044 (Del. 2023).

⁴² SLA § 14.4(e).

⁴³ *Id.*

⁴⁴ SLA § 1.

discounts, if any, for Software and Support shall be set forth in Schedule B, unless such Charges are reduced as expressly set forth in this Agreement.”⁴⁵ Schedule B, refers exclusively to “Fees,” and set outs a schedule totaling minimum payments of \$8,250,000 over the contract term.⁴⁶

Teal Drones seizes on the inclusion of the term “Fees” within the collective definition of “Charges” in Section 8.1, and the subsequent use of “Fees” in Schedule B, to argue that it is unclear whether the terms are synonymous. Teal Drones further argues that it is ambiguous whether “Charges” can exist if Autonodyne has not yet provided any “Software” or “Support.”

However, reading Section 14.4(e), Section 8.1, and Schedule B together—as the Court must—the meaning of “Fees” is clear. Section 14.4(e) provides for the recovery of Fees upon valid termination; Section 8.1 establishes Teal Drones’s obligation to pay those Fees in accordance with Schedule B; and Schedule B defines the specific amounts and timing. These deliberate cross-references create an integrated structure that leaves no room for competing interpretations.⁴⁷

Accordingly, the Court holds that the term “Fees,” as used in Section 14.4(e), Section 8.1, and Schedule B of the SLA, is unambiguous.

⁴⁵ SLA § 8.1.

⁴⁶ SLA, Schedule B.

⁴⁷ While Teal Drones is not required to provide an alternative interpretation to demonstrate ambiguity at this stage, its failure to do so effectively asks the Court to find, *sua sponte*, another reasonable reading that gives effect to all the terms of the contract.

B. SLA Section 14.4(e)

Autonodyne, in its reply brief and at oral argument, framed Section 14.4(e) of the SLA as a liquidated damages provision. Liquidated damages are a sum agreed to at the time of contracting to satisfy any loss or injury flowing from a future breach.⁴⁸ Such provisions are intended to provide the parties’ “best guess of the amount of injury that would be sustained” where damages are difficult to measure in advance.⁴⁹ While liquidated damages provisions are presumed valid,⁵⁰ they must manifest the “unambiguous intention of the contracting parties.”⁵¹

Liquidated damages are distinguished from impermissible penalties through a two-part test.⁵² A provision is valid if: (1) “at the time of contracting, the damages the parties might reasonably anticipate were difficult or impossible to ascertain”,⁵³ and (2) “the stipulated amount reasonably estimates the damages that would likely be caused by a breach, or is reasonably proportionate to the damages which have actually been caused by the breach.”⁵⁴ This test requires the court to “consider the

⁴⁸ *Delaware Bay Surgical Servs., P.C. v. Swier*, 900 A.2d 646, 650 (Del. 2006).

⁴⁹ *Id.* (quoting *S.H. Deliveries, Inc. v. TriState Courier & Carriage, Inc.*, 1997 WL 817883, at *2 (Del. Super. May 21, 1997)).

⁵⁰ *S.H. Deliveries, Inc. v. TriState Courier & Carriage, Inc.*, 1997 WL 817883, at *3 (Del. Super. May 21, 1997).

⁵¹ *Ballenger v. Applied Dig. Sols., Inc.*, 2002 WL 749162, at *12 (Del. Ch. Apr. 24, 2002).

⁵² *Kold, LLC v. Croman*, 2014 WL 7008431, at * 4 (Del. Super. Nov. 25, 2014).

⁵³ *Id.*

⁵⁴ *Id.* Other cases have found that a formula, rather than a fixed number, may be an appropriate estimate of damages. See *CRS Proppants LLC v. Preferred Resin Holding Co., LLC*, 2016 WL 6094167, at *4 (Del. Super. Sep. 27, 2016).

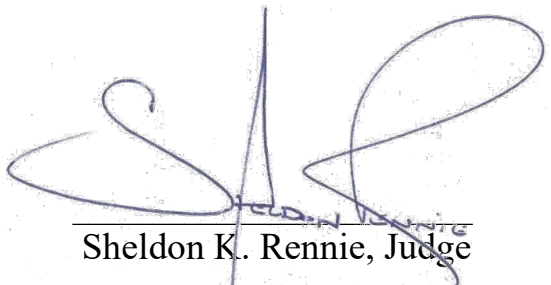
facts, the intention of the parties, and the reasonableness of the stipulation under the circumstances of the case[.]”⁵⁵

On the thin record currently before the Court, it is premature to decide whether \$8.25 million was a reasonable estimate of the damages likely to result from a breach. Although there may be merit to Autonodyne’s argument that \$8.25 million was a reasonable estimate because it represented the minimum amount it expected to receive under the SLA, the Court is reticent to make such a finding before discovery has occurred. Likewise, the Court is unwilling, at this time, to rule that the amount constitutes a penalty.

V. CONCLUSION

While the Court finds the term “Fees” is unambiguous, it cannot determine on this limited record whether Section 14.4(e) constitutes a liquidated damages provision or an unenforceable penalty. Accordingly, Autonodyne’s Motion for Judgment on the Pleadings is **DENIED**.

IT IS SO ORDERED.



Sheldon K. Rennie, Judge

⁵⁵ 24 Williston on Contracts § 65:29 (4th ed.). See also *Unbound P’rs Ltd. P’ship v. Invoy Hldgs.*, 251 A.3d 1016, 1037 (Del. Super. 2021) (denying motions for summary judgment and partial dismissal on the grounds that it was too early in the case to find whether a disputed provision was a penalty or a valid liquidated damages provision).