
IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF UTAH
CENTRAL DIVISION

DIGECOR, INC., a Washington
corporation,

Plaintiff,

v.

E.DIGITAL CORPORATION, a Delaware
corporation,

Defendant.

**FINDINGS OF FACT AND
CONCLUSIONS OF LAW**

Case No. 02:06-CV-00437

Judge Clark Waddoups

This case involves contractual disputes between plaintiff digEcor, Inc. and defendant e.Digital Corporation, the parties responsible for the creation and marketing of a portable in-flight entertainment device known as the digEplayer 5500. By various rulings of the Court and stipulations of the parties, the claims in this case have been reduced to three main causes of action for damages based on three different contracts.¹ First, digEcor claims consequential damages for an alleged delay in delivery of digEplayers under a purchase order issued by digEcor and accepted by e.Digital on November 11, 2005 (the “Purchase Order”). Second, digEcor claims that e.Digital has breached the Digital Rights Management Agreement executed by the parties on November 11, 2005 (the “DRM Agreement”). Specifically, digEcor asserts that e.Digital’s use of digital rights management technology (“DRM”) in its competing portable in-flight player (the eVU) infringes on digEcor’s exclusive license to certain DRM technology under the DRM Agreement. Third, digEcor claims that e.Digital breached the warranty

¹ digEcor also asserts a claim for injunctive relief in connection with one of these contracts.

provision of an agreement executed between the parties on October 22, 2002 (the “October 22 Agreement”) by failing to reimburse digEcor for making warranty repairs.

These three causes of action were tried to the Court during May 2009. The Court heard the testimony of fact and expert witnesses, received additional testimony by deposition, received numerous exhibits into evidence, and heard the arguments of counsel for the parties. The parties submitted proposed findings of fact and conclusions of law on July 10, 2009 and closing argument was heard on July 31, 2009. Based on the evidence presented, the Court enters the following findings of fact and conclusions of law:

I. FINDINGS OF FACT

The Court enters these findings of fact based on a preponderance of the evidence. In assessing the credibility of the witnesses, the Court has considered the sources of each witness’s knowledge; the ability of each witness to observe; the strength of the witness’s memory; each witness’s interest, if any, in the outcome of the litigation; the relationship of each witness to either side of the case; the extent to which each witness’s testimony is either supported or contradicted by other evidence presented at trial, and the witness’s willingness and ability to give reasonably succinct and responsive answers to questions at trial.

The Court notes that it found e.Digital’s witnesses to be credible, while some witnesses offered by digEcor lacked credibility under the above criteria. Specifically, digEcor’s President, Brent Wood, offered self-serving testimony at trial that was often contradicted by his own past testimony (*compare* Tr. 305-309 *with* digEcor 30(b)(6) Dep. p. 74; *and* Tr. 333-336 *with* July 14, 2006 Brent Wood Declaration, ¶ 26, Doc. #17) or with his own private statements in the contemporaneous communications offered in evidence. (*Compare* Tr. 162, 171 *with* Exs. 62 & 71.) At one point during the trial, Mr. Wood stated that his sworn testimony on a crucial issue

(which did not align with digEcor’s litigation position), given in the 30(b)(6) deposition of digEcor, was false. (Tr. 309.) Further, while the Court found digEcor Vice President Chris Wood to be generally credible, documents introduced at trial demonstrate that he was less than candid with e.Digital about the purpose of the inspection performed by digEcor and the extent of the information digEcor learned.² (See Finding No. 71, *infra*.) The Court has incorporated these credibility determinations in reaching the findings discussed below. Finally, the Court notes that the trial was extended by several days to permit digEcor to introduce evidence and testimony beyond the time originally allotted.

Background

1. In early 2002, digEcor (then known as Aircraft Protective Systems, or “APS”) approached e.Digital with a request that e.Digital develop a portable video player designed to allow airlines to offer first-run Hollywood movies and other content to their passengers. (See Uncontroverted Fact ¶ 6(d), Pretrial Order, Docket No. 372, at 10; Ex. 1.) The market space in which this device was intended to compete is known as the In Flight Entertainment, or “IFE” industry. (See Uncontroverted Fact ¶ 6(e).)

2. On October 22, 2002, e.Digital and APS entered into the October 22 Agreement whereby e.Digital agreed to design and assist with the manufacture of an IFE device that eventually became known as the digEplayer 5500. (See Uncontroverted Fact ¶ 6(c); Ex. 1.)

² The independence of Paul Hepworth, digEcor’s expert on the DRM issues, was also questioned prior to trial, due to the past and ongoing business relationship between Mr. Hepworth’s employer, VPI engineering, and digEcor. The Court received written arguments from the parties on this issue and has taken Mr. Hepworth’s possible bias into consideration in weighing the usefulness of his testimony.

3. In October 2004, APS was acquired by Wencor West, Inc., a large, worldwide supplier of airline parts. (*See* Uncontroverted Facts 6(f); Tr. 116.) APS's name was subsequently changed to digEcor. (*See* Uncontroverted Facts, 6(g).)

4. Over the course of their relationship, e.Digital sold more than 9,000 digEplayer 5500s to APS/digEcor, approximately 7,000 of which were sold after the acquisition and name change. (*See* Pre-Trial Order, Uncontroverted Facts ¶¶ 6(f), 6(j).)

5. digEcor purchased digEplayers from e.Digital by issuing purchase orders, which specified the number of digEplayers needed along with a unit price and ship date. (*See, e.g.,* Exs. 12, 18.)

6. The usual practice was for digEcor to specify the color of the digEplayers' plastic shells, as well as the airline logo to be affixed to the shells, either on the purchase order itself or shortly after the purchase order was issued. (*See* Ex. 6 (specifying KLM as airline), Ex. 35 (specifying Martinair as airline), Ex. 18 (4/7/05 P.O. for 1,620 players) *and* Ex. 240, p. 5 (4/8/05 Fred Falk email discussing "1620 Alaska players."); Tr. 879, 999-1000, 1011.) This procedure allowed the plastic shells and the electronic sub-assemblies to be manufactured simultaneously so that the electronic sub-assemblies could be inserted into the plastic shells as soon as they were completed. (*See* Exs. 26, 69, 72; Tr. 1000-01.) The digEplayers could not be completed without the case color and branding information from digEcor. (Ex. 90 at 1; Tr. 580-81, 594.)

7. There were occasions when this practice was not followed. On two purchase orders issued prior to November 2005, digEcor deviated from its usual practice and provided the color and branding information for the shells after the purchase order was issued. (Tr. 481-82, 1000-02.) The deviations occurred when digEcor did not have immediate commitments for sale of the players and delayed providing the information until it had firm commitments to specific

airlines. When this happened, e.Digital repeatedly objected to digEcor's delay and requested that digEcor provide the color and branding information, warning that failure to do so would interfere with the manufacturing process and would result in further delay. (*See* Tr. 1001, 1004, 1011; Exs. 26, 29, 31, 32.)

8. Nevertheless, e.Digital did agree to vary from the usual practice on these two occasions by having the players assembled without the shells, but requiring payment upon completion of the assembly. (Tr. 1071-74.) On those occasions, full payment was made upon completion of assembly. (*Id.*) The assembled players were placed in the cases later and delivered once complete color and other branding information was provided.

9. On the second occasion that e.Digital agreed to deviate from the standard procedure, the parties got into an argument about the expected ship date for the players once the information was provided. Apparently, e.Digital had originally promised that the players would be shipped about three weeks after digEcor provided the information, but then later quoted a ship time of six weeks. (Ex. 22.)

10. When digEcor complained about the additional three weeks, e.Digital responded that "due to the lack of reliable forecasts and inconsistency of orders, the plastics vendor is no longer handling our orders on a priority basis." (*Id.*)

11. The parties entered into and performed purchase orders using the standard process (where color and branding information were provided with or shortly after the purchase order) both before and after the two deviating purchase orders. (Tr. 1002, 1011; Exs. 12, 18, 35.)

12. As early as October 2004 — shortly after APS was acquired by Wencor — e.Digital was considering designing a next generation IFE player to replace the digEplayer 5500. digEcor actively led e.Digital to believe it was seeking e.Digital's input and participation in the

next-generation project. (*See* Tr. 989-93; Exs. 3, 11; Anandpura Dep. p. 205:4-12.) These efforts continued through the early autumn of 2005. (Anandpura Dep. p. 204-05.) At the same time, digEcor was, without telling e.Digital, seeking competing bids from third-parties to design the new player.

digEcor Abandons e.Digital in Favor of the digEplayer XT Product

13. On October 13, 2005, digEcor announced in a press release that Triad Systems Engineering, a company other than e.Digital, would be the “key partner in developing the new version of the digEplayer.” The release also stated that digEcor would continue selling the digEplayer only “[f]or the balance of 2005.” (Ex. 49.) e.Digital first learned of digEcor’s consideration of and decision to contract with Triad as a new “key partner” from digEcor’s press release. In response to e.Digital’s concerns about being “blind-sided” by the announcement, digEcor insisted it had not announced that it was “discontinuing” the 5500 player and that it would “always have [the 5500] players.” (Ex. 53. *See also* Tr. 144, 161-62, 243-45.)

14. Contemporaneous documents introduced at trial demonstrate, however, that it was digEcor’s plan to move its customers from the digEplayer 5500 to sell its next generation player, the digEplayer XT, as early as possible, which it expected to be sometime in the second quarter of 2006. (Exs. 62, 71, 111.) In November 2005, Brent Wood directed a digEcor Regional Sales Manager to get a new airline contact to consider the new player starting in May or June, and that he “would love to get an order from a customer for our new player and not have to use e.Digital.” (Ex. 62.)

15. Ten days later, Brent Wood wrote again to the same Regional Sales Manager that digEcor was “right in the middle of a model change. We all have seemed to believe that delivery would be in the first quarter of 2006 when the current model is all we have and in fact delivery

will be in the second quarter of 2007 when we hope to NOT be selling Model 5500” (Ex. 71, emphasis in original). Mr. Wood continued “WE probably need to pick a date in the second quarter of 2006 AFTER which we cease selling the 5500 model player. . . .” (*Id.*)

16. In the same time frame, digEcor attempted to buy batteries directly from e.Digital’s supplier, rather than through e.Digital as it had done in the past. (Ex. 63.)

17. Based on this evidence, the Court finds that, notwithstanding its statements to e.Digital, it was digEcor’s intention to shift emphasis to its next-generation digEplayer XT and cease offering the digEplayer 5500 in the second half of 2006.

The Purchase Order

18. On November 11, 2005, e.Digital accepted what turned out to be the final purchase order from digEcor. digEcor represented to e.Digital that it needed players “immediately,” and had customers who required players very soon. (Exs. 45, 60, 63.) The Purchase Order requested 1,250 digEplayers and 1,250 digEplayer batteries, with a “ship date” requiring them to be delivered by January 10, 2006. (Ex. 60; Tr. 467, 885.) It also requested an additional 750 players, leaving open the delivery date. (Ex. 60; Tr. 182.)

19. The Purchase Order was expressly made contingent on the parties reaching terms on a written license agreement (the “DRM Agreement”) whereby e.Digital would license to digEcor certain digital rights management technology used to ensure security of the content loaded on the players. (Ex. 60.) It is apparent that the negotiations between e.Digital and digEcor regarding those technology rights had soured and stalled after e.Digital learned that digEcor had contracted with Triad for the next-generation player.

20. Likewise, the DRM Agreement was contingent on the execution of a purchase order for 2,000 digEplayers, 1,250 of which were to be shipped “immediately.” (Ex. 64 ¶ 5.)

Both the DRM Agreement and the Purchase Order provided that the delivery date for 750 players would be confirmed later, with the DRM Agreement specifying that this subsequent order for the remaining 750 players was contingent on meeting the terms of the Purchase Order for the first 1,250 units. (Ex. 64 ¶ 6; Ex. 60.)

21. e.Digital accepted the Purchase Order on November 11, 2005 and the parties executed the DRM Agreement on the same date. (Exs. 60, 63³, 64; Tr. 307-09, 1030.) They were negotiated simultaneously, and as a joint transaction. (Exs. 52, 54, 55; Tr. 1026-30.) They were also contingent upon each other, and contained interlocking terms which the parties viewed as dependent upon each other. (Exs. 60, 64, 123, 138, 141, 172; Tr. 1026-30.)

22. The Purchase Order called for digEcor to make three payments for the 1,250 players and batteries, representing two payments for 25% and one final payment for 50% of the purchase price.

23. digEcor made the first two of these three contractual payments in full prior on the dates specified in the Purchase Order. That is, digEcor made two payments of \$198,437.50 to e.Digital, one on November 15 and one on December 9, 2005. (Uncontroverted Facts 6(m) and 6(n).) These two payments left a balance on the Purchase Order of \$396,875 as of December 9, 2005.

24. e.Digital and Maycom had a similar payment structure for the manufacture of the digEplayers. (Ex. 67.) e.Digital made timely payments to Maycom until the third payment, which was eventually paid in full. (Tr. 1034.)

25. Prior to the Purchase Order, digEcor had complained about Maycom as the manufacturer and requested e.Digital to consider switching to a different manufacturer.

³ Exhibit 63 is a November 11, 2005 Chris Wood e-mail stating “You should be receiving a signed copy of the agreement today and a new PO.”

Maycom was a manufacturing company in Korea that had manufactured nearly every digEplayer previously made. e.Digital responded that it would need a larger order than 1,250 units to justify going to a different manufacturer. (Ex. 57.)

26. The parties jointly agreed that Maycom would be responsible for manufacturing the 1,250 players. (Ex. 64 ¶ 5; Tr. 40, 126, 309-10.) e.Digital placed the order with Maycom on November 12, 2005. (Ex. 67.)

27. In keeping with the parties' practice, and relying on digEcor's representations that it needed players very soon, e.Digital immediately began requesting that digEcor provide the color and branding information for the 1,250 players. (Exs. 69, 70; Tr. 1031-32.)

28. e.Digital was also interested in receiving payment for the 1,250 units to show as revenue for the 2005 year. (Exs. 72, 81.)

29. When digEcor failed to provide the needed information, e.Digital objected to digEcor's delay and continued to demand that digEcor provide the color and branding information, warning that failure to provide the information could result in problems with the manufacturer. (Exs. 72, 74, 123; Tr. 885, 1037-38.)

30. Specifically, e.Digital cautioned that "it takes some of the pressure off of [Maycom] which is not the way to deal with any manufacturer," (Ex. 72) and that "this really disrupts the manufacturing process from a scheduling point of view." (Ex. 74.)

31. On December 5, 2005, with digEcor still not yet having provided color and branding information for the players, e.Digital and digEcor discussed an alternative course of action. That is, Fred Falk, e.Digital's CEO, wrote to Chris Wood of digEcor and offered to proceed under the same course of action that the parties had followed "last year when you couldn't define the customer name until well into the manufacturing process." (Ex. 75.)

32. It is apparent that Mr. Falk was suggesting that the 1,250 units be built up to the subassemblies, leaving only the shell to be added upon digEcor's later direction.

33. Mr. Falk advised that to modify the agreement in this way, "these units will have to be paid for by the end of December regardless if they have shipped or not." (*Id.*) Mr. Falk did not specify any expected ship date as part of this offer.

34. Mr. Wood responded that "We will need confirmation from Maycom that they are in fact completed and only waiting on our decision about shells." (*Id.*)

35. Mr. Falk replied "You're absolutely correct Chris. They HAVE to be complete and waiting for shells. We will stress this to Maycom." (Ex. 75.)

36. As of December 20, 2005, digEcor had not made any additional payment to e.Digital. On that date, Mr. Falk wrote an e-mail to Brent Wood of digEcor indicating that "Chris and I had an understanding (both verbal and in writing) that the 1250 players would be paid for by the end of December." (Ex. 82.)

37. Shortly after Mr. Falk sent that e-mail, Mr. Falk and Brent Wood spoke. In that conversation, Mr. Falk asked to receive a 25% payment (or \$198,437.50) by the end of 2005 and a 25% payment on January, 10, 2006. (Ex. 82.)

38. After that conversation, Brent Wood e-mailed Chris Wood, telling Chris Wood that Mr. Falk "is desperate for cash" and indicating that "I might throw them a bone at the end of the month." (*Id.*)

39. digEcor made neither a 50% payment nor a 25% payment by the end of 2005. Rather, digEcor made a \$100,000 payment to e.Digital on December 23, 2005. (Uncontested Fact 6(o).) This payment still left a balance on the purchase price of the 1,250 units of almost \$300,000.

40. In early January 2006, Brent Wood proposed to Mr. Falk that digEcor would send a local Korean representative to Maycom “to make sure that everything was okay.” (Tr. 1039-40.) Mr. Falk enthusiastically agreed. (*Id.*)

41. On January 9, 2006, digEcor sent a representative to Maycom’s factory with the main purpose of inspecting the extent of completion of the 1,250 units. digEcor specifically instructed its representative to “count the players and make sure they are complete including the 7" LCD screen and the ethernet boards.” (Ex. 88.)

42. The representative visited Maycom and reported to digEcor that “50% of the 7" LCD Screen and Ethernet boards are completed, while the remaining production will be started after receipt of the brand breakdown from E-Digital to digEcor.” (Ex. 88.)

43. digEcor did not forward its representative’s complete report of his inspection to e.Digital at that time.

44. When e.Digital learned that digEcor’s representative had visited Maycom and had completed the “manufacturing inspection,” it wrote, “Unless there are any issues as a result of the inspection, please release the balance owed on the 1,250 piece order by tomorrow’s date.” (Ex. 91.)

45. Brent Wood responded that there were no cases, for which there would need to be a deduction, and “there were not complete components on hand for the full 1250 or at least were not yet assembled.” (*Id.*)

46. On January 10, 2006, notwithstanding the information it had that the units were not complete, digEcor made a payment of \$233,625 to e.Digital (Uncontroverted Fact 6(p); Tr. 198, 1041).

47. This payment, however, was not the balance of the total purchase price. Instead, digEcor withheld \$50,000 for shells that were yet to be designated, \$8,250 for a dispute over headphone jacks and an additional \$5,000 for a dispute over warranty work. (Ex. 95.) Although Mr. Falk of e.Digital indicated that he could “somewhat understand the \$40 hold back for the shells,” it is clear that e.Digital did not agree that any of the deductions were acceptable to it. (*Id.*)

48. As of January 10, 2006, the Purchase Order’s ship date, digEcor had not yet provided branding information for the 1,250 players. This delay obviously made it impossible for e.Digital to fulfill the order by the Purchase Order’s deadline. Accordingly, it was digEcor’s failure to provide color and branding information that caused e.Digital to miss the January 10 ship date. (Ex. 60; Tr. 303, 580, 878.)

49. Once the original ship date had been missed, the parties did not agree on a new date for delivery of the 1,250 players. (Tr. 931.)

50. In addition to the undetermined ship date, the parties were also in an ongoing disagreement about the style of the headphone jacks that were to be used on the 1,250 players, as well as whether the headphone jacks in units shipped on prior orders would be replaced. (Exs. 99, 100, 104, 105, 106.)

51. The parties continued to argue about this issue until well after the original January 10 ship date. (Exs. 99, 100, 104, 105, 106.)

52. On February 22, 2006, digEcor signed a contract with Virgin Blue to deliver 654 digEplayers. The contract required delivery within six weeks and included liquidated damages for late delivery. At the time digEcor signed the contract with Virgin Blue, it did not have a commitment from e.Digital or Maycom for a firm delivery date under the Purchase Order nor an

agreement that it could provide color and branding information to e.Digital and Maycom for less than the full number of 1,250 units.

53. According to a 2008 affidavit by Brent Wood, Maycom represented to digEcor's representative during the January 9, 2006 inspection that Maycom could have the 1,250 players completed and ready to ship in three to four weeks after digEcor specified the color and branding. In that affidavit, Mr. Wood stated that he relied on that representation in making the Virgin Blue contract.

54. At trial, Mr. Wood testified that Mr. Falk verbally confirmed Maycom's representation on this point. (Tr. 328.) This supposed confirmation by Mr. Falk was not something Mr. Wood mentioned in his earlier affidavit. The court does not find Mr. Wood's testimony on this point to be credible and there was no other indication on the record that Mr. Falk made such a representation to Mr. Wood.

55. Instead, the record reflects that as of February 22, 2006, Mr. Falk clearly communicated to Mr. Wood that he viewed four weeks as a "target," but warned that "until the details. . . of the players have been provided to us I can't get a confirmation from Maycom." (Ex. 118.)

56. Immediately after signing the Virgin Blue contract, digEcor provided color and branding information for 714 players and requested delivery of that number. (Exs. 112, 114, 115.)

57. Maycom refused to commit to delivery without complete color and branding information and without full payment. (Exs. 116, 245.)

58. On March 2, 2006, William Blakeley, e.Digital's president at the time, sent digEcor a letter stating that digEcor had breached the Purchase Order and DRM Agreement for,

among other things, failing to deliver branding information and failing to take delivery of the players by January 10, 2006. (Ex. 123; Tr. 584-85, 878-80.)

59. Later that same day (and nearly four months after the Purchase Order was issued and accepted), digEcor notified e.Digital that the 1,250 players should be in generic black cases without any specific customer branding. (Ex. 127.) This was the first time digEcor specified color and branding information for all 1,250 players.

60. On March 3, 2006, digEcor paid e.Digital \$63,250 under protest. (Uncontroverted Fact ¶ 6(s).) With this payment, digEcor had paid in full for the 1,250 players.

61. Based on digEcor's communication, e.Digital immediately instructed Maycom to produce all of the 1,250 players using black plastic cases without any customer name on the front. (Ex. 126.)

62. Unfortunately for all involved, on March 15, 2006, Maycom's president and CEO, Su Won Bae, informed e.Digital by email that Maycom lacked the necessary funds to procure components and labor necessary to manufacture the 1,250 players. (Ex. 144; Tr. 890, 971.) The parties learned that Maycom had misappropriated for other purposes the funds advanced by digEcor for digEplayer assembly. (Exs. 144, 162 at p. 3; Tr. 970-71, 1089-90.)

63. In his email, Mr. Bae stated that his bank had given him until the end of January 2006 to pay his other obligations. (Ex. 144.) The Court notes that Mr. Bae's payment obligations were not due until three weeks after the Purchase Order's January 10 ship date. The evidence is inconclusive, however, as to whether Maycom would have been able to complete the manufacturing of the 1,250 units if digEcor had provided the branding information before January 10.

64. e.Digital immediately informed digEcor of Maycom's financial problems. (Ex. 144.)

65. Both digEcor and e.Digital were completely surprised to learn that Mr. Bae had misappropriated digEcor's funds. (Tr. 891, 1046.) Mr. Falk testified that when he received Mr. Bae's March 15, 2006 email "[he] went crazy" and that the email "just shocked [him]." (Tr. 226.) Mr. Falk also testified that he had no reason to believe or foresee that Maycom would misappropriate the funds advanced by digEcor. (Tr. 356.)

66. e.Digital did not know at the time it received Mr. Bae's email that digEcor had learned by January 9, 2006, that the assembly of the subassemblies was, at most, 50% complete. digEcor had not provided e.Digital with the full inspection report submitted by its representative. (Tr. 323-24, 591-92, 895, 1041.)

67. In the days following receipt of Mr. Bae's email, digEcor instructed e.Digital to continue with Maycom as the manufacturer of the 1,250 players. (Exs. 155, 159; Tr. 898-99, 909-10.)

68. Immediately after learning of Maycom's misfeasance and for months after, e.Digital took actions to secure prompt production of the 1,250 players. (Tr. 916.) These efforts included: immediately traveling to Korea to confer with and apply pressure on Mr. Bae (Ex. 164; Tr. 891-92, 902)⁴; taking inventory of Maycom's assets to assist in their potential sale in an effort to raise capital (Ex. 164; Tr. 893-94, 906-07); hiring Korean counsel to apply legal pressure on Maycom and Mr. Bae personally to perform (Ex. 164; Tr. 903-04); frequent contacts with Mr. Bae (Tr. 903); contacting Maycom's vendors to assist in expediting delivery of component parts (Ex. 164; Tr. 904); investigating alternative manufacturing options in the United States (Ex. 164;

⁴ e.Digital took several subsequent trips to Korea as well. (Tr. 902.)

Tr. 905); conducting discussions with the vendor of the plastic shells concerning acquisition of shells independent of Maycom (Ex. 164; Tr. 906); and purchasing, at its own expense, some of the component parts used to produce the 1,250 players. (Tr. 914.) e.Digital spent approximately 630 man hours during the Spring and Summer of 2006 working to secure production of the players, combined with expenses for travel, parts procurement, and legal assistance. (Tr. 914.)⁵

69. digEcor was less than helpful to e.Digital in these efforts to secure Maycom's performance.

70. For example, before e.Digital first went to Korea after Mr. Bae's admission, Mr. Falk asked Chris Wood for a copy of the inspection report digEcor had conducted on January 9. (Ex. 148.) Mr. Falk explained that he wanted to try to "determine if any progress was made since the inspection." (*Id.*)

71. Chris Wood did not share the report with e.Digital and represented that the inspection was not primarily focused on determining the progress of the order. (*Id.*) This representation, of course, was not an accurate statement of the inspection or its purposes. (*See* Finding No. 41, *supra.*)

72. Chris Wood also instructed the digEcor representative who had performed the inspection not to answer e.Digital's questions about the inspection, further limiting the flow of information to e.Digital. (Ex. 150.)

⁵ In the March 15, 2006 email, Maycom requested a \$460,000 loan from e.Digital. (Ex. 144.) digEcor argues that e.Digital should have made this loan to Maycom, and that if e.Digital had done so, the 1,250 players would have been completed by April 2006. The record does not reflect, however, that e.Digital had that much money on hand, or that it could have raised the money for the purpose of lending it to Maycom, or that it could have otherwise facilitated such a transaction.

73. digEcor also interfered with e.Digital's efforts to pressure Maycom by seeking to purchase batteries directly from Maycom's Korean vendor while the order for the 1,250 players was still outstanding. (Ex. 177.)

74. Finally, it is likely that digEcor hindered e.Digital's progress with Maycom by directly communicating with Maycom during the delay period. (*See, e.g.*, Ex. 170.) It is apparent that digEcor was not coordinating these communications with e.Digital, which probably confused and impeded e.Digital's messages and strategies with Maycom.

75. In sum, digEcor not only contributed to the risk of a delayed manufacture by failing to produce timely color and branding information, it took actions after the risk materialized that likely compounded the delay.

76. e.Digital persisted with its efforts to obtain Maycom's performance, even after digEcor filed its lawsuit for damages on May 4, 2006. (Ex. 180; Tr. 916-17.)⁶

77. After numerous exchanges, on June 14, 2006, counsel for e.Digital told counsel for digEcor that "Maycom feels confident that it will be able to complete that order by the end of July, e.Digital (as well as Maycom) need to know that if Maycom completes the order by the end of July, will digEcor accept delivery of that order, subject to digEcor's inspection and other rights under the Purchase Order?" (Ex 232, digEcor003992.)

78. Maycom remained noncommittal until June 28, 2006 when it said it had found capital and was ready to deliver the 1,250 players by mid to late August. (Ex. 86.) By the time

⁶ Shortly before digEcor filed the present action, Brent Wood sent Mr. Falk and other at e.Digital what was clearly meant to be a warning about this suit. Among other things, Mr. Wood told e.Digital that in his experience, a lawyer could be wrong about a position and "lives to fight another day," but the client would be left "financially dead." (Ex. 158.) Mr. Wood also asserted that something "you learn quickly as an attorney is that the size of the client (financial strength) usually wins." (*Id.*) This type of posturing by digEcor further illustrates its unwillingness to assist e.Digital in working to resolve the situation.

Maycom responded, however, digEcor had already filed suit against e.Digital and the lawyers for both parties were engaged in discussions about how to resolve the delivery of the players.

79. After continuing discussion about a possible settlement and expression of doubt about whether e.Digital and Maycom could in fact deliver the players on that schedule, counsel for digEcor responded on June 29, 2006, that digEcor would accept delivery if before August 31, 2006, but conditioned acceptance on a number of additional conditions. e.Digital did not accept the additional conditions. (Ex. 322.)

80. Discussions continued and on August 7, 2006, counsel for digEcor wrote to counsel for e.Digital that “digEcor will accept the 1,250 digEplayers if they are delivered to digEcor on or before October 15, 2006.” (Ex. 232.)

81. The letter was followed by an email dated the same day from Brent Wood directly to counsel for e.Digital that there had been some miscommunication and the “‘go ahead’ is contingent upon digEcor receiving a signed copy of a sales contract from a large customer” (Ex 232.)

82. During this same time period, digEcor had expected to release its digEplayer XT, which digEcor hoped would obviate the need for continuing orders of players from e.Digital. (See Exs. 71, 158 at p. 2, 183.) When it became clear that the XT would not be ready for production in that time frame, digEcor pressed e.Digital to deliver the 1,250 digEplayer 5500s. (Exs. 184, 196 at p. 3, 232 at 47.)

83. After repeated discussions, digEcor wrote to e.Digital on October 10, 2006 accepting delivery of the 1,250 players. (See Ex. 232 at 47.)

84. e.Digital delivered, and digEcor accepted, the players during the week beginning October 30, 2006. (Uncontroverted Fact ¶ 6(t), Pretrial Order, Docket No. 372, at 12.)

85. Each of the 1,250 players was either sold or leased by digEcor shortly thereafter, and digEcor has also obtained other digEplayer 5500s from other sources since that time. (Tr. 283-84, 1140.)

86. digEcor has never placed the order for the remaining 750 digEplayers called for under both the DRM Agreement and the Purchase Order; e.Digital has stated willingness to produce those players. (Ex. 125; Tr. 285, 343.)

87. e.Digital did not, and does not, have any obligation to provide any additional players to digEcor. (Tr. 444.)

The DRM Agreement

88. digEcor claims that e.Digital breached the DRM Agreement by both failing to deliver a full, functional version of technology the parties contracted for, and by using DRM technology in its own players, despite the provision giving digEcor exclusive rights to use that technology. (Pretrial Order, Docket No. 372, p. 5.)

89. Under the DRM Agreement, e.Digital granted an “unrestricted, unlimited, irrevocable right” to use certain DRM technology defined as the sum of the component parts listed in Addendum One to the DRM Agreement. In exchange, digEcor promised to pay \$25,000 and to issue the Purchase Order. (Ex. 64 ¶¶ 2, 5; Memorandum Decision and Order on Motions, entered on January 19, 2007, Docket No. 65. at 16-17.)

90. The DRM Agreement further provided: “The term of this Agreement shall be until the project is completed or one (1) year whichever is shorter. Either party may terminate this Agreement with thirty (30) days written notice to the other party if there is a material breach of a term of this Agreement or if there is a failure to perform under this Agreement.” (Ex. 64, ¶ 9.)

91. This license is exclusive to digEcor within the “aircraft industry.” (Ex. 64 ¶ 2.)

92. The DRM Agreement stated that “[a]s part of this agreement,” digEcor was obligated to place an order for 1,250 new digEplayers, “deliverable immediately,” plus 750 other players to be released for production “at [digEcor’s] discretion after January 1, 2006.” (Ex. 64 ¶ 5.)

93. The income from the order for the 2000 digEplayers, and the ability to report that revenue in 2005 constituted additional consideration, beyond a one-time \$25,000 payment, to e.Digital for its work on the DRM technology. (Tr. 878-79, 882-83.) Correspondence between the parties shows that digEcor understood that consideration for the DRM Technology was to be largely the profits on the 2000 digEplayers. (Exs. 53, 54, 55.)

94. On March 2, 2006, digEcor received a letter from William Blakely, an officer of e.Digital. In that letter, e.Digital informed digEcor of its position that digEcor’s failure to specify branding information and receive digEplayers by January 10, as well as its refusal to pay the full amount owing under the Purchase Order, was in breach of the Purchase Order and the DRM Agreement. (Ex. 123.)

95. In that letter, Mr. Blakeley requested digEcor’s response as to its “intended method and schedule to cure” the asserted defaults. The request contemplated that digEcor intended to order the remaining 750 players as required by the DRM Agreement. (Ex. 123.) digEcor had, at various times, stated that it may want additional digEplayers. It never, however, requested production of the remaining 750 players. (Tr. 343, 948-49.)

96. digEcor tendered the \$25,000 payment for the DRM technology, but only after e.Digital asserted that digEcor that was in breach of the DRM Agreement. (Exs. 123, 139.) On July 28, 2006, citing digEcor’s rejection of the ordered digEplayers, e.Digital’s counsel notified digEcor that it was terminating the DRM Agreement. (Ex. 232 at p. 23.)

97. e.Digital never accepted payment from digEcor under the DRM Agreement. (Tr. 887, 888.)

98. The DRM technology used in e.Digital's eVU player is different from that specified in the DRM Agreement, and therefore outside the scope of the exclusive license granted to digEcor under the DRM Agreement. The Court finds the testimony of e.Digital's expert credible and persuasive on this point, illustrating that the eVU's DRM technology differs from the DRM technology licensed to digEcor with respect to cryptography (Tr. 723-24, 726), physical barriers (Tr. 726-27), authentication (Tr. 728-29), license recovery process (Tr. 729-31), master key recovery (Tr. 731-32), and license decryption (Tr. 733-34; *see also, generally*, Ex. 237.)

99. The DRM Agreement also provides "DIGECOR's sole and exclusive remedy for any and all claims concerning the DRM project based in contract, tort or otherwise, in law or in equity, including but not limited to, claims based on EDIGITAL's failure to perform under this Agreement, EDIGITAL's breach of this Agreement or EDIGITAL's termination of this Agreement shall be limited to money damages, specifically, the lesser of the actual amount paid under the Agreement or \$25,000 USD." (Ex. 64 at ¶ 11(c).)

100. The DRM Agreement also specifies that "[i]n no event will either party be liable to the other for any . . . consequential damages . . . arising out of or in connection with the DRM project." (*Id.*)

101. No evidence was introduced at trial to show that digEcor has suffered, or may suffer, irreparable harm as a result of e.Digital's actions with respect to the DRM technology. The Court finds no risk of irreparable harm.

102. digEcor claimed that e.Digital had placed a feature in the DRM software that timed it out after one year, but acknowledged that it had developed a way to circumvent that feature and continue the use of the DRM Technology on its existing digEplayers. (Tr. 463.)

103. digEcor presented no evidence of any money damages it incurred to circumvent the time-out feature.

The 750 Players

104. The DRM Agreement provides that digEcor was to order an additional 750 players beyond the original order of 1,250. (Ex. 64 ¶ 5.)⁷ e.Digital was not obligated to deliver such players until digEcor “release[d] the other units for production.” (*Id.*) Because the term of the DRM Agreement was for one year, the court finds that digEcor was required to release the 750 players for production on or before November 11, 2006. digEcor failed to place the order for the 750 additional digEplayers before that date. (Tr. 343, 888-89.) In addition, the requirement that the 750 players be provided was expressly “contingent upon meeting the terms of the PO for the first 1,250 units . . .” (Ex. 64 ¶ 6.) digEcor failed to meet the terms of the PO for the initial 1,250 players, specifically, the failure to provide color and branding information within a reasonable time for the January 10, 2006 ship date.

The October 2002 Agreement

105. As part of the October 2002 Agreement, e.Digital agreed to repair defective digEplayers sold thereunder for a period of twelve months after shipment. (Ex. 1, ¶ H.) The warranty required thirty day’s notice and was conditioned on no misuse or improper repair by digEcor, and that the defective digEplayers be shipped back to e.Digital. (*Id.*)

⁷ The court has reconsidered and amended its prior ruling that the DRM Agreement’s terms do not govern the Purchase Order. After reviewing all of the documents and hearing testimony, the court is convinced that the DRM Agreement and the Purchase Order were meant to be read together.

106. The October 2002 Agreement provides that “[n]o waiver of any provision of this Agreement or any rights or obligations of either party hereunder shall be effective, except pursuant to a written instrument signed by the party or parties waiving compliance.” (Ex. 1, ¶ N.)

107. There was no subsequent modification or waiver of the provision in the October 2002 Agreement requiring digEcor to ship defective digEplayers to e.Digital to activate e.Digital’s warranty obligation, as claimed by digEcor. (Exs. 87, 95; Tr. 1012, 1017-19, 1021-23.) Indeed, digEcor continued to send warranty repairs to e.Digital—conduct that would be inconsistent with digEcor’s alleged oral agreement permitting it to make repairs itself and bill them to e.Digital. (Ex. 87; Tr. 201, 534, 536-37.)

108. At some point, digEcor elected to no longer send the players to e.Digital for warranty repairs, and began performing the repairs itself. These actions were in contravention of the warranty agreement. By undertaking the repairs itself, absent agreement in writing to modify the warranty, digEcor excused e.Digital from its warranty obligation. (Tr. 536-37.)

109. digEcor has not proven any damages with reasonable certainty arising from the alleged violation of the warranty provision in the October 2002 Agreement. (Tr. 540-42, 1135, 1142.) Specifically, digEcor failed to introduce evidence indicating the number of players repaired, the specific repairs made, or the actual cost of performing such repairs. (Tr. 1142.)

II. CONCLUSIONS OF LAW

1. The Court has subject-matter jurisdiction of this case under 28 U.S.C. § 1332(a) as there is complete diversity of citizenship between plaintiff digEcor, a Washington corporation with its principal place of business in Springville, Utah, and defendant e.Digital, a Delaware corporation with its principal place of business in San Diego, California, and as the amount in controversy exceeds \$75,000.

2. Venue is proper in the Central Division of the District of Utah pursuant to 28 U.S.C. § 1391(a)(2) and 28 U.S.C. § 125(2). Both digEcor and e.Digital have argued the case applying Utah law. The court finds that Utah law governs the Purchase Order and the DRM Agreement. By its terms, the October 2002 Agreement is governed by New York law.⁸

3. To recover for breach of contract, digEcor must prove the following by a preponderance of the evidence: “(1) a contract, (2) performance by the party seeking recovery, (3) breach of the contract by the other party, and (4) damages.” *Bair v. Axiom Design, L.L.C.*, 20 P.3d 388, 393 (Utah 2001); *see also Sanpete Water Conservancy Dist. v. Carbon Water Conservancy Dist.*, 226 F.3d 1170, 1177 (10th Cir. 2000).

A. The Purchase Order

4. digEcor has failed to prove by a preponderance of the evidence that it performed under the Purchase Order, that e.Digital breached the Purchase Order, and that digEcor is entitled to any damages.

5. The Purchase Order required shipment of the 1,250 digEplayers on January 10, 2006. For e.Digital to have met that ship date, digEcor was required to provide color and branding information in a timely fashion. The Purchase Order does not address a date when that information was required. In the absence of a specific date, Utah law requires the information to be provided within a reasonable time. *Power Sys. & Controls, Inc. v. Keith’s Elec. Constr. Co.*, 765 P.2d 5, 10 (Ut. Ct. App. 1988).

6. Without the color and branding information, e.Digital could not provide the necessary information to Maycom to complete manufacturing of the 1,250 units. e.Digital

⁸ The October 2002 Agreement expressly states that it “is made in accordance with and shall [be] governed and construed in accordance with the laws of the State of New York.” (Ex. 1, ¶ L.)

repeatedly requested the information and digEcor failed to provide it prior to the January 10, 2006 ship date.

7. The court finds that digEcor's failure to do so was a material breach of the Purchase Order. The breach excused e.Digital from delivering the 1,250 units and, under the first to breach rule, precluded digEcor from later seeking to enforce the shipment date term of the Purchase Order. *Bonneville Distrib. Co. v. Green River Dev. Assocs. Inc.*, 165 P.3d 433 (Ut. App. 2007).

8. The e-mail correspondence of December 5, 2005 between Mr. Falk and Chris Wood of digEcor, however, makes clear that the parties did not understand that the units would be shipped by January 10, 2006 in any event.

9. Instead of holding to the original ship date, Mr. Falk proposed a modification of the terms of the Purchase Order as follows: if digEcor would pay in full for the 1,250 players and batteries by the end of 2005, e.Digital would have the 1,250 subassemblies ready by January 10, 2006.

10. As part of this proposal, Mr. Falk did not specify any new ship date. This is no surprise, since the process of making shells and placing them on the subassemblies could not begin until digEcor specified shell information. It would only be after digEcor made those specifications that e.Digital could be expected to work with Maycom and its plastics vendor to estimate a new ship date.

11. Though it is not entirely clear from his e-mail, the court finds that Chris Wood accepted these modified terms on digEcor's behalf.

12. On December 20, 2005, Mr. Falk verbally proposed another modification to the agreement to Brent Wood, suggesting that digEcor make a payment of 25% of the balance by the

end of the year and 25% on January 10, 2006. There is no indication that digEcor accepted this proposed additional modification.

13. Rather than pay the balance of the Purchase Order by the end of 2005 per the modified agreement, digEcor “threw a bone” to the “desperate” e.Digital by paying it \$100,000 on December 23, 2005.

14. By failing to pay the full balance owed by December 31, 2005, digEcor breached the agreement as modified on December 5, 2005. Accordingly, digEcor had no contractual right to have the 1,250 subassemblies completed by January 10, 2006.

15. Even if digEcor arguably retained a contractual right to have the subassemblies completed by that date by making the partial payment in December, it waived that right on January 9, 2006. As of that date, digEcor knew that at most 50% of the subassemblies were complete. Instead of clearly informing e.Digital of that fact, digEcor made a vague reference to it and made another partial payment on January 10, 2006.

16. digEcor made this payment knowing not only that Maycom was not finished with the subassemblies, but also knowing that time for adding the shells could be six weeks or more once the plastics vendor got the final information about the cases.

17. Despite digEcor’s repeated breaches of the Purchase Order and the modified agreement, e.Digital had accepted about \$650,000 in payments from digEcor as of January 10, 2006. e.Digital’s retention of those payments signaled its continuing agreement to ship the 1,250 players by some unspecified date.

18. digEcor provided the required information for all 1,250 players on March 2, 2006 and made full payment on March 3, 2006. e.Digital accepted these instructions and the payment,

signaling its agreement to ship the 1,250 players to digEcor, and starting the proverbial clock on a new ship date. The parties, however, did not expressly agree on that date.

19. As already mentioned, when there is no express agreement by the parties on a ship date, it is the Court's duty to determine a reasonable time for delivery. "What constitutes a reasonable time depends upon the nature, purpose, and circumstances of the action." *Power Systems*, 765 P.2d at 10 (citing Utah Code Ann. § 70A-1-204(2)).

20. digEcor argues that it would have been reasonable for e.Digital to have delivered the 1,250 players within four weeks from March 3, 2006. This argument is primarily based on Maycom's representations to digEcor and e.Digital that it expected to be able to ship within four weeks of having the color and branding information for all 1,250 digEplayers and full payment.⁹

21. e.Digital, however, never adopted this position in its direct dealings with digEcor. To the contrary, e.Digital had warned digEcor in the past that the plastics vendor had moved the players lower on its list of priorities, which had doubled the expected completion date on a previous order from three to six weeks. Moreover, when digEcor informed e.Digital of the Virgin Blue contract on February 22, 2006, digEcor cautioned that delivery within four weeks after specification would only be a target and hedged on confirming a date until digEcor made a specification for all of the 1,250 shells.

⁹ digEcor also argues that it relied on a December 22, 2005 press release by e.Digital that stating that "We are on schedule to complete and receive payments for approximately \$750,00 in IFE orders this quarter. . ." (Ex. 83) to conclude that the subassemblies would be ready by January 10, 2006. But as of that date, e.Digital had not made any representations to digEcor about the status of the 1,250 players and digEcor was well aware that its own failure to specify shell colors meant that the order for the 1,250 players would not be complete by the end of the quarter. Accordingly, digEcor interpreted the this press release at its own risk and it cannot be reasonably read as e.Digital intending to confirm to digEcor that the subassemblies would be ready.

22. In any event, by March 15, 2006, Maycom had stated that because of its financial difficulties, including apparently the use of at least part of the money paid in advance for the 1,250 digEplayers to pay other creditors, it could not commit to a delivery, let alone a ship date.

23. Accordingly, as of March 15, 2006, unless e.Digital had taken the risk of Maycom's unexpected delay, it is unreasonable to expect e.Digital to have shipped the 1,250 players by early April 2006.

24. The Court finds that it would not be reasonable to assign to e.Digital the risk of the delays caused by Maycom's financial difficulties. To the contrary, as explained below, the Court is satisfied that by its own actions, digEcor itself voluntarily shouldered this risk.

25. e.Digital was dependent upon commitments from both digEcor and Maycom to offer delivery to digEcor on a firm date. digEcor did not specify shell information for all 1,250 players until March 2, 2006, and the earliest it specified information for any shells occurred on February 22, 2006.

26. digEcor made this delay at its own peril. Immediately after the Purchase Order was issued, and many times in prior transactions, e.Digital had vigorously warned digEcor that delays in specifying shell information could lead to delays in manufacturing. It is true that e.Digital never specifically cautioned digEcor of the possibility that Maycom might run out of money to complete the order and that e.Digital was wholly surprised by Maycom's failure. But the possibility that Maycom might temporarily shut down for whatever reason was a risk that was equally evident to both e.Digital and digEcor.

27. Not only was digEcor aware of potential problems with the manufacture of the 1,250 units caused by its delay, it knew as of January 9, 2006 that only half of the subassemblies

had been completed. digEcor's inspection report also stated that work on the other subassemblies would not begin until Maycom had the shell information.

28. digEcor did not give sufficient notice to e.Digital of the fact that the subassemblies were not complete to trigger any duty for e.Digital to scrutinize Maycom. It is clear that e.Digital had been able to rely on Maycom on past orders, so without specific information otherwise, it was reasonable for e.Digital to assume that Maycom had made appropriate progress on the order for the 1,250 players.

29. Brent Wood's email to e.Digital was not sufficiently specific to cause e.Digital concern about the progress of the order. Moreover, digEcor itself assuaged any concern e.Digital may have had about order's progress. Specifically, on January 9, 2006, e.Digital requested payment "[u]nless there are any issues as a result of the inspection" (Ex. 91), and the next day digEcor made a substantial payment to e.Digital. digEcor's stated reasons for its withholdings from that payment were unrelated to the progress of the subassemblies.

30. Accordingly, by January 10, 2006, digEcor knowingly took on the risks associated with Maycom having only completed half of the units and affirmatively gave e.Digital the impression that Maycom had made appropriate progress on the order.

31. Moreover, the evidence indicates that Maycom had financing available to it until the end of January 2006. It is therefore possible that if digEcor had specified the shell information by that time, Maycom would have been able to complete the order more quickly than it ultimately did, and perhaps even by early April 2006.

32. Further, long after the original ship date passed, digEcor continued to argue over whether it was allowed to hold back payment for certain items and how the headphone jack issues

should be resolved. This continued failure to agree on these important items added to the uncertainty and delay already caused by the lack of shell information.

33. As noted above at Finding Nos. 69-75, once Maycom announced that it had misused the funds, digEcor took actions that likely aggravated the delay.

34. On the other hand, the Court concludes that e.Digital's various efforts to obtain performance by Maycom were appropriate and ultimately all that could have been reasonably expected under the circumstances. Given the facts, it would not have been reasonable to expect e.Digital to have made or attempted to facilitate a \$460,000 loan to Maycom.

35. Moreover, even after Maycom finally committed to manufacture the 1,250 players, digEcor continued to argue with e.Digital about the conditions upon which it would accept delivery until late summer 2006, when it finally agreed to accept delivery in October 2006.

36. Resolving when the 1,250 players would be delivered was made more difficult by the strain placed on the relationship between digEcor and e.Digital by digEcor's decision to pursue the development of its next generation player with Triad, a decision e.Digital learned about only by reading the press release. This strain not only impacted the relationship, but also created uncertainty as to the continued need for the digEplayer 5500 and the economic prospects for a continued relationship. The change effectively forced e.Digital from being an OEM supplier to becoming a competitor in the industry.

37. Finally, the timely delivery of the units was impacted by digEcor's attempt to bully e.Digital into meeting its demanded delivery dates. On the eve of filing this suit, Brent Wood taunted that, as the party with the most financial strength, digEcor would prevail in any litigation. (Ex. 158.)

38. Given all of these circumstances, digEcor, not e.Digital, must accept the consequences of digEcor's own untimely compliance with the Purchase Order and its other actions related to the completion and delivery of the 1,250 players. digEcor's conduct made it impossible for e.Digital to complete the Purchase Order by January 10, 2006 and extended the time in which e.Digital could reasonably be expected to deliver the digEplayers.

39. Given the nature of the parties' relationship, the purpose of the contract and the circumstances involved in this case, e.Digital delivered the 1,250 players within a reasonable time. Accordingly, digEcor has failed to prove that e.Digital breached the Purchase Order and any subsequent modifications that were made to it.

digEcor Has Not Proven a Course of Dealing

40. digEcor argues that a course of dealing between the parties established an understanding that allowed digEcor to insist that the subassemblies be completed and the units delivered in quantities fewer than the total number of the Purchase Order. Contrary to this argument, the Purchase Order required e.Digital to ship the 1,250 players by January 10, 2006.

41. There was no course of dealing between the parties that overrode this express term of the Purchase Order. A "course of dealing" is "a *sequence* of conduct concerning previous transactions between the parties" and is relevant to the meaning of a disputed contract only where it may be "*fairly*" regarded "as establishing a common basis of understanding" between the parties. Utah Code Ann. § 70A-1a-303 (emphasis added).¹⁰

¹⁰ digEcor also contends that the deviating purchase orders represented a "course of performance." However, a "course of performance" may only be established in a single transaction that "involves repeated occasions for performance by a party." Utah Code Ann. § 70A-1a-303(1)(a). Such was not the case with respect to the Purchase Order — e.Digital was to deliver the 1,250 players but once. Regardless, the many objections made by e.Digital to digEcor's proposed modus operandi invalidate it as a course of performance. *See* Utah Code Ann. § 70A-1a-303(1)(b).

42. A course of dealing is not established by one or two occurrences when there were multiple other transactions in which the alleged course of dealing was not followed. *See, e.g., Aero Consulting Corp. v. Cessna Aircraft Co.*, 867 F. Supp. 1480, 1490 (D. Kan. 1994).¹¹ In *Aero Consulting Corporation*, for example, the purchaser of an airplane asserted that a course of dealing was established in two prior transactions where the seller reduced the final purchase price of the airplane by a portion of a sales commission that the seller was contractually obligated to pay. *Id.* at 1490. However, because the purchaser had been involved in twelve other similar transactions in which this practice was not followed, the court found “that the evidence failed to establish a course of dealing sufficient to be fairly regarded as a common basis of understanding.” *Id.*

43. In this case, the usual practice of the parties was for digEcor to provide the color and branding information when it issued a purchase order or shortly thereafter. digEcor was able to point to only two prior instances where the parties deviated from this practice. Even in those cases, such a deviation was accepted only over the vigorous objection of e.Digital. These deviating purchase orders were the exception rather than the rule and, therefore, cannot fairly represent a mutual understanding as to e.Digital’s performance obligations under the Purchase Order. As in *Aero Consulting*, the two prior deviations were simply not enough to establish a course of dealing between the parties, particularly as the deviations were both followed by purchase orders that employed the standard procedure.

44. Several other pieces of evidence weigh against a finding that the parties reached an understanding different from that memorialized in the Purchase Order. Prior to issuance of the

¹¹ *See also Remco Equip. Sales, Inc. v. Manz*, 952 S.W.2d 437, 339 (Tenn. Ct. App. 1997) (collecting cases for the proposition that a single transaction does not constitute a course of dealing.)

Purchase Order, digEcor told e.Digital that it needed players “immediately,” and had customers requiring delivery in November and December. Numerous communications between the parties demonstrate the parties’ intention that the players should be delivered within the time frame set by the Purchase Order. digEcor introduced no contemporaneous evidence mitigating the import of these documents—that the parties were operating under the assumption that the January 10 ship date governed.

45. Indeed, after the ship date passed (but before the parties knew of Maycom’s financial misconduct), e.Digital asserted to digEcor that its failure to specify branding information constituted breach of the Purchase Order. (*See* Finding No. 58, *supra*.) One would not expect such a statement from a party who understood that digEcor was free to specify branding on its own timetable.

46. Finally, and most importantly, e.Digital clearly and strongly objected to digEcor’s proposed practice of order-now-specify-later, both with regard to past orders and the Purchase Order. There can be no “common basis of understanding” in a record so rife with these objections. *See Associated Milk Producers, Inc. v. Meadow Gold Dairies, Inc.*, No. 92-C-540, 1992 WL 674734, at *6 (W.D. Wis. Dec. 23, 1992) (“[A] course of dealing cannot be regarded as establishing a common basis of understanding between the parties when one party has specifically objected to the [course] and requested a change.”) (unpublished opinion); *see also Johnson Tire Serv., Inc. v. Thorn, Inc.*, 613 P.2d 521, 523-24 (Utah 1980) (finding course of dealing/course of performance where course continued “without objection” for more than five years) (emphasis added). Indeed, the Court is not aware of even a single case in which an asserted course of dealing was found despite the contemporaneous objection of the other party. Here, e.Digital did not only object to the practice, but gave clear warnings to digEcor that the proposed conduct

posed real risks for the manufacturing process. When those warnings became reality, digEcor then sought to make e.Digital responsible for the very outcome of which e.Digital had warned. Such a result is unwarranted both under the law of course of dealing, and basic principles of fairness.

47. In light of all of the evidence discussed above, the Court finds no “common basis of understanding” supporting a revision of the written terms of the Purchase Order. Accordingly, there is no basis for the court to find that digEcor could expect to make a partial order and then expect delivery four weeks later. The January 10, 2006 ship date governed the parties. Accordingly, digEcor’s failure to abide by that deadline constitutes breach of the Purchase Order.

e.Digital Was Not Obligated To Deliver the 750 Players

48. digEcor argues that it should be compensated for its lost profits and other consequential damages because e.Digital did not deliver the additional 750 players. There is no evidence that digEcor specified a ship date or shell information for the 750 players. Although at various times digEcor said it may place the additional order, such statements were always contingent upon it being able to confirm a contract for the order with an airline. digEcor never placed a firm order for the additional 750 units and cannot claim a breach of the Purchase Order based on those units.

49. Moreover, Digital had no obligation to deliver the additional 750 players contemplated by the Purchase Order because digEcor breached the terms of the Purchase Order by failing to timely provide color and branding information for the 1,250 players. Both meeting the terms of the Purchase Order for the 1,250 units and releasing the 750 players for production were conditions precedent to any obligation by e.Digital to deliver the 750 players. *See Bilanzich v. Lonetti*, 160 P.3d 1041, 1045 & n.4 (Utah 2007); *see also Buchheit v. Cape Toyota-Suzuki, Inc.*,

903 S.W.2d 644, 647 (Mo. Ct. App. 1995) (applying condition precedent analysis in UCC context); *Blair Int'l, LTD. v. LaBarge, Inc.*, 675 F.2d 954, 958 (8th Cir. 1982) (same).

digEcor Is Not Entitled to Recover Damages

50. Because digEcor has failed to prove a breach of the Purchase Order, the court need not address whether it proved damages with sufficient certainty to recover or whether damages would be barred by the damage limitation clause in the DRM Agreement.

51. In any event, any damage to digEcor stemming from the Virgin Blue contract were self-inflicted. That is, before signing the contract with Virgin Blue requiring a six week delivery time for 654 digEplayers, digEcor had not confirmed with Maycom or e.Digital that Maycom's earlier projections of a four week delivery time were still valid. Moreover, digEcor did not specify shell information for all 1,250 players at that time, only specifying colors for 714 players. As discussed above, there was no course of dealing entitling digEcor to expect to be able to specify information for only part of the order. To the contrary, e.Digital had warned digEcor that delays and partial orders caused manufacturing problems.

52. Based on the foregoing, the Court will enter judgment dismissing digEcor's claim for breach of the Purchase Order with prejudice and on the merits.

B. The DRM Agreement

53. digEcor has failed to prove by a preponderance of the evidence that it is entitled to damages or injunctive relief under the DRM Agreement.

54. By failing to perform under the Purchase Order relating to both the order for the 1,250 players and the subsequent order of 750 players, digEcor breached the DRM Agreement, which specifically required digEcor to comply with the terms of the Purchase Order.

55. e.Digital timely notified digEcor of its breaches and justifiably refused to accept any tender of payment for the DRM technology. digEcor's failure to perform under the Purchase Order excused any requirement for e.Digital to provide DRM Technology other than the right to use it on the units that were delivered to digEcor.

56. Because of digEcor's failure to perform under the Purchase Order, the Court need not resolve whether the DRM Agreement absent digEcor's breach would have required e.Digital to tender to digEcor the source code for its proprietary DRM software.

57. Similarly, the Court need not resolve whether e.Digital would have been obligated to provide software patches allowing prior versions of software to function in perpetuity.

58. The court notes, however, that digEcor failed to produce evidence that would have supported such a requirement. In addition, the court notes that the term of the DRM Agreement was expressly stated as one year. There is at least an ambiguity in the DRM Agreement as to whether the "unrestricted, unlimited, irrevocable right to use the DRM technology" was intended to expire at the end of the one year term or continue in perpetuity. The evidence of intent on this issue was inconclusive.

59. Moreover, the DRM technology found in e.Digital's eVU is outside the scope of the exclusive license granted to digEcor under the DRM Agreement, as discussed above.

60. Further, digEcor failed to prove that it is entitled to any damages under the DRM Agreement. Under the Agreement, any consequential damages are barred. Because e.Digital did not accept digEcor's tender of the \$25,000 license fee, the damages cap found in the DRM Agreement limits digEcor's claim for damages to zero.

61. digEcor failed to prove that it would suffer irreparable harm from any alleged breach of the DRM Agreement. Proof of irreparable harm is required to secure injunctive relief.

See Port City Prop. v. Union Pac. R. Co., 518 F.3d 1186, 1190 (10th Cir. 2008) (stating that irreparable harm must be shown as a condition to entry of injunction based on contract).

Moreover, the Court finds that any injury under the DRM Agreement would be adequately redressed by the payment of money damages. Therefore, digEcor is not entitled to any injunctive relief in connection with this claim.

62. Because digEcor has failed to prove irreparable harm, the court need not resolve whether the limitation on damage clause which provides the exclusive remedy under the DRM Agreement is overridden by the provision recognizing the right to injunctive relief.

63. Accordingly, the Court will enter judgment dismissing digEcor's claim for breach of the DRM Agreement with prejudice and on the merits.

C. The October 2002 Agreement

64. digEcor has failed to prove by a preponderance of the evidence that it performed under the October 2002 Agreement, that e.Digital breached the warranty provision of the October 2002 Agreement, and that digEcor is entitled to any damages.

65. Pursuant to the express language of the October 2002 Agreement, e.Digital's warranty obligations are triggered only when digEcor returns broken digEplayers that would otherwise be covered by the warranty provision for e.Digital's inspection and repair.

66. e.Digital did not orally agree that digEcor could perform warranty repairs and then charge back the costs of the repairs to e.Digital, nor did it waive digEcor's obligation to ship warranty repairs to e.Digital.

67. Additionally, under New York law, which governs the October 2002 Agreement, a written agreement containing a provision barring oral modifications "cannot be changed by an executory agreement unless such executory agreement is in writing and signed by the party

against whom enforcement of the change is sought or by his agent.” N.Y. Gen. Oblig. Law § 15-301(1); *see, e.g., Environmental Prods. & Servs., Inc. v. Consolidated Rail Corp.*, 728 N.Y.S.2d 256, 257-58 (N.Y. App. Div. 2001) (finding oral modification unenforceable due to clause in written contract barring oral modifications). The October 2002 Agreement forbids waiver of any right under the contract except by writing signed by the party against whom enforcement is sought. Thus, any alleged oral modification of digEcor’s obligation to ship warranty repairs to e.Digital is unenforceable.

68. Further, digEcor’s alleged performance of warranty repairs appears to have been the result of the demands of digEcor’s clients, who did not accept the delays entailed by shipping broken players to San Diego. Thus, any alleged part performance is not “unequivocally referable” to the alleged oral modification and, therefore, does not qualify for the part performance exception. *See Rose v. Spa Realty Assocs.*, 366 N.E.2d 1279 (N.Y. 1977) (“But it bears repeating, partial performance alone is not enough; the performance must be unequivocally referable to the oral agreement to modify.”).

69. Thus, e.Digital’s warranty obligations under the October 2002 Agreement were not triggered by the alleged warranty repairs performed by digEcor. Therefore, e.Digital did not breach the October 2002 Agreement by refusing to pay for the costs digEcor allegedly incurred in performing these repairs.

70. In any event, digEcor failed to prove any damages for the alleged violation of the October 2002 Agreement with reasonable certainty.

71. Accordingly, the Court will enter judgment dismissing digEcor’s claim for breach of the October 2002 Agreement with prejudice and on the merits.

III. CONCLUSION AND ORDER

72. Based on all of the foregoing, it is hereby ORDERED that all of digEcor's remaining claims against e.Digital are dismissed with prejudice, and digEcor recovers no damages or injunctive relief.

73. Judgment is entered in favor of e.Digital and against digEcor on all claims.

ENTERED this 10th day of September, 2009.



Clark Waddoups
U.S. District Court Judge