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TO BE PUBLISHED

Commonwealth of Kentucky
Court of Appeals

NO. 2016-CA-001081-MR

THE MOSTERT GROUP, LLC

APPELLANT

v.

APPEAL FROM FAYETTE CIRCUIT COURT
HONORABLE THOMAS L. CLARK, JUDGE
ACTION NOS. 06-CI-0292 AND 08-CI-06239

PAUL MOSTERT

APPELLEE

OPINION
REVERSING AND REMANDING

** ** * * * * *

BEFORE: COMBS, D. LAMBERT AND NICKELL, JUDGES.

COMBS, JUDGE: The Mostert Group, LLC, (TMG), appeals from an order of the Fayette Circuit Court granting partial summary judgment in favor of Dr. Paul Mostert. Based upon our review of the record and the applicable law, we reverse and remand.

The facts material to the issue to be decided on appeal in this case are not in dispute. Mostert is a retired professor of mathematics. With the assistance of computer programmers at the University of Kentucky and funds from the National Science Foundation's Small Business Innovation Research Program, Mostert developed certain computer software and other technology and intellectual property for the purpose of collecting and analyzing data derived from video images of a Thoroughbred in motion. Mostert used the technology in the operation of a business that purported to utilize observations of a racehorse's "way of going" to evaluate its biomechanical efficiency in order to assist clients in their racing stock and breeding decisions.

Mostert decided that the business should be operated as a limited liability company with multiple members. In October 2003, TMG was organized. At that time, Mostert and TMG entered into a "Contribution Agreement." Mostert agreed to contribute assets to TMG that included all of Mostert's rights to "computer and telecommunication equipment, software programs, *source codes*, object codes, information systems, proprietary interfaces, routines, modules, procedures, functions, program specifications and related documentation. . . ." (Emphasis added.) In exchange, Mostert accepted 200 shares of stock in TMG; \$64,213.00; and a promissory note from the company.

Pursuant to the terms of the parties' agreement, TMG executed a \$500,000.00 promissory note payable to Mostert. The final installment of the note's repayment was due on January 1, 2009. TMG's debt was secured by collateral that included "[a]ny and all rights of [Mostert] to the following 'Software,' and any corresponding patents, trademarks and copyrights: . . ." A second agreement, "the security agreement," entered into the equation. The security agreement specifically identified the "Software" as: the EquiTrax System; PalmProphet; Compute2000; Old LandScape Model; New LandScape Model; MareMatch 10.2; NetMatch; StalMatch12 Program; and The Mostert Business System.

Under the express terms of the parties' security agreement, Mostert was permitted to perfect his security interest through his possession of the collateral. Mostert also retained possession of the source codes underlying the software products described in the security agreement.

In 2006, TMG filed a civil action against Mostert. The complaint included claims for misappropriation of trade secrets; breach of contract; fraud; unjust enrichment; breach of fiduciary duty; and conversion. Mostert filed an answer and counterclaim. He claimed that TMG had defaulted on the security agreement and sought judgment and an order that TMG turn over the collateral to a receiver. TMG filed a motion seeking an order requiring Mostert to produce the

source codes that he had agreed to transfer to TMG under the terms of the parties' Contribution Agreement. TMG's motion was denied.

In a civil action commenced in 2008, TMG again alleged that Mostert had failed and refused to deliver the source codes correlated to the EquiTrax software as required by the parties' Contribution Agreement. TMG alleged that its inability to access the source codes had proven detrimental to its business since the software product could not be efficiently updated and enhanced without it. Finally, TMG alleged that under these circumstances and pursuant to the terms of the note, it was entitled to withhold the final installment of its indebtedness. TMG sought a judgment declaring that it was within its rights to withhold the final installment due on January 1, 2009.

In response, Mostert claimed that he was entitled to retain possession of the source codes as collateral under the terms of the parties' security agreement. While TMG conceded that Mostert may have a security interest in the EquiTrax software product, it argued that he did not have a security interest in the source codes. Ultimately, the circuit court ordered that the 2008 action be consolidated with the 2006 action.

In April 2014, TMG filed a motion for partial summary judgment on its claims that Mostert had breached the terms of the parties' Contribution Agreement by wrongfully retaining the source codes. Again, Mostert argued that

the terms of the security agreement authorized him to retain the source codes as collateral until TMG had paid the debt in full. Following a hearing, the circuit court determined that an issue of fact precluded the entry of summary judgment.

In a motion filed in 2016, TMG proposed that if Mostert were required to turn over the source codes, it would post a bond in the amount claimed by Mostert to remain outstanding under the terms of the promissory note. Eventually, the circuit court ordered TMG to pay into court a cash bond of \$250,000.00. Mostert was ordered to turn over the source codes.

Once he had turned over the source codes, Mostert filed a motion for partial summary judgment seeking the unpaid balance due under the terms of the promissory note. In July 2016, following a hearing, the circuit court granted the motion for partial summary judgment and ordered TMG to pay to Mostert the sum of \$265,104.00 – an amount that included certain claimed expenses and interest. This appeal followed.

On appeal, TMG contends that the trial court erred by granting the partial motion for summary judgment. We agree.

Upon our review of the entry of summary judgment, we decide whether the trial court correctly determined that there were no genuine issues of material fact and that the moving party was entitled to judgment as a matter of law. CR 56; *Steelvest, Inc. v. Scansteel Serv. Ctr., Inc.*, 807 S.W.2d 476 (Ky. 1991).

We do not defer to the trial court's determination; instead we review the issue *de novo*. *Lewis v. B & R Corp.*, 56 S.W.3d 432 (Ky. App. 2001).

TMG contends that the trial court erred by granting partial summary judgment since Mostert failed to show that he was entitled to judgment as a matter of law. It argues that the trial court erred in concluding that the source codes were included in the collateral that Mostert was entitled to retain until the promissory note had been paid in full and by failing to conclude that Mostert first breached the parties' agreement by failing to turn over the source codes immediately -- as had been expressly provided in the parties' Contribution Agreement.

Again, the parties' "Contribution Agreement" provided that Mostert would turn over to the company assets that included all of his rights to "computer and telecommunication equipment, software programs, *source codes*, object codes, information systems, proprietary interfaces, routines, modules, procedures, functions, program specifications and related documentation. . . ." (Emphasis added.) In exchange, Mostert accepted 200 shares of stock in TMG; \$64,213.00; and a promissory note from the company.

We find no merit in Mostert's argument that "Software" as that term is used in the parties' security agreement includes the source codes that were written to develop EquiTrax System, PalmProphet, Compute2000, and the other enumerated software products purchased by TMG. Source code consists of the

programmer's instructions or formal design plan for a software product. Source code is developed in ordinary human language. It is then translated into binary computer language, which is referred to as object code. Source Code and Software is the end-product of the compilation of the source code and object code; it is the interface between the software user and the computer. Code and software are not remotely synonymous. They have vastly different properties and are directed at different end-users. Software users often interact with software without any understanding of or use for the sources codes underlying the software product's development.

If the parties had intended that Mostert would retain possession of the source codes as part of the collateral described in their security agreement, they could have -- and should have -- so specified. In their Contribution Agreement, the parties expressly identified and included "source codes" as an asset distinct and different from "software programs." It is of no consequence to our analysis that in other context and situations, the term "software" (as distinguished from "hardware") might also be used to encompass "source code." However, under the circumstances of this case, it is plain that the parties intended to treat "source codes" as discrete from "software." "Source codes" were specifically included in the Contribution Agreement and were conspicuously omitted from the security agreement. Consequently, we must conclude that Mostert was the first to breach

the parties' agreement by failing to provide to TMG the source codes identified in the Contribution Agreement.

Our jurisprudence recognizes the “fundamental principle in the law of contracts that before one may obtain the benefits the contract confers upon him, he himself must perform the obligation which is imposed upon him.” *Hall v. Rowe*, 439 S.W.3d 183 (Ky. App. 2014) (quoting *W. Kentucky Coal Co. v. Nourse*, 320 S.W.2d 311, 314 (Ky. 1959)). Mostert’s breach excused the obligation of TMG to perform further under the parties’ agreement, and Mostert was not entitled to summary judgment in his effort to enforce the terms of the promissory note.

We reverse the partial summary judgment of the Fayette Circuit Court and remand for additional proceedings.

ALL CONCUR.

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