UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF ILLINOIS

UNITED STATES BANKRUPTCY COURT NORTHERN DISTRICT OF ILLINOIS PS REP. - SIAC

In Re:) Chapter 7
marchFIRST, INC., et al.,) Case No. 01 B 24742
Debtors.) Jointly Administered
) Honorable John D. Schwartz
ANDREW J. MAXWELL, Chapter 7 Trustee for the bankruptcy estate of Debtors,)))
Plaintiff,) Adversary No. 03 A 01412
\mathbf{v} .) Honorable John D. Schwartz
ROBERT F. BERNARD, ROBERT CLARKSON, EDWARD F. SZOFER and BERT B. YOUNG,))
Defendants.)))

ANSWER TO COMPLAINT TO AVOID FRAUDULENT TRANSFERS AND FOR DECLARATORY JUDGMENT

Robert F. Bernard, Robert Clarkson, Edward F. Szofer and Bert B. Young (Defendants), by and through their attorneys, answer the Complaint as follows:

Complaint ¶ 1

While the Insider Directors were managing marchFIRST, they engaged in a variety of conduct designed to create the impression that marchFIRST was enjoying success in the marketplace when, in reality, the company was in profound financial trouble. From the beginning, the Insider Directors engaged in inappropriate investments, improper revenue recognition, over-hiring, excessive real estate spending, and other improper waste of corporate assets, all of which combined to put marchFIRST in serious financial trouble in the company's infancy and to deepen marchFIRST's insolvency. The Insider Defendants continued to engaged in breaches of their fiduciary duty while marchFIRST was in the vicinity of insolvency, and even after it passed the point of insolvency. The Trustee brought an adversary action against the Insider Directors for their breaches of fiduciary duties based on

these abuses, which is pending in this Court as Adversary No. 02 A 00194.

Answer ¶ 1

The allegations in paragraph 1 state legal conclusions to which no answer is required. To the extent further response is required, Defendants admit an action is pending against them in this Court. Defendants deny the remaining allegations in paragraph 1.

Complaint ¶ 2

After the Insider Directors had caused marchFIRST's financial decline through their breaches of their fiduciary duties, they colluded to attempt to deprive marchFIRST of legal recourse against them. Upon leaving their employment with marchFIRST, Defendants Clarkson and Young entered into Separation Agreements with marchFIRST, in which marchFIRST purported to release both Clarkson and Young from causes of action arising out of their employment with marchFIRST. Defendant Szofer, one of their cohorts in the fiduciary breaches that doomed marchFIRST, signed the Separation Agreements on behalf of marchFIRST.

Answer ¶ 2

The allegations in paragraph 2 state legal conclusions to which no answer is required. To the extent further response is required, Defendants admit Clarkson and Young entered into Separation Agreements with marchFIRST in which marchFIRST released Clarkson and Young from causes of action arising out of their employment with marchFIRST. Defendants admit Szofer signed the Separation Agreements. Defendants deny the remaining allegations in paragraph 2.

Complaint ¶ 3

The Insider Directors have raised the releases contained in the Separation Agreements as a defense to the adversary action against them for breaches of their fiduciary duties. They have represented that Young and Clarkson Agreements are the only agreements in which marchFIRST has purported to release any of the Insider Defendants. Significantly, Bernard and Szofer claim that the

releases in the Young and Clarkson Agreements also serve to release the Trustee's claims against them for their breaches of their fiduciary duties, even though they are not signatories to nor named in these agreements. This adversary complaint is to avoid those releases as to all of the Insider Defendants under federal and Illinois law.

Answer ¶ 3

Defendants admit they raised the releases contained in the Separation Agreement as a defense to the adversary action against them and the Separation Agreements are the only agreements in which marchFIRST released the Defendants. Defendants admit they claim that the releases in the Young and Clarkson Agreements also serve to release the claims against Bernard and Szofer as a matter of law.

Complaint ¶ 4

On July 16, 2001, the United States Trustee appointed Mr. Maxwell, a citizen of the State of Illinois, as the chapter 7 trustee for the marchFIRST bankruptcy estates.

Answer ¶ 4

Defendants admit the allegations in paragraph 4.

Complaint ¶ 5

Mr. Maxwell remains the duly appointed, qualified and acting trustee in the above-captioned chapter 7 liquidation proceedings involving marchFIRST and he brings this complaint solely in his capacity as Trustee and not individually.

Answer ¶ 5

Defendants admit the allegations in paragraph 5.

Complaint ¶ 6

On information and belief, Robert F. Bernard is a resident of the State of Illinois. Bernard held various positions with marchFIRST and its predecessor, Whittman-Hart, Inc., including being President, Chief Executive Officer, and a member of the Board of Directors from March 1, 2000 until his resignation on March 12, 2001.

Defendants admit the allegations in paragraph 6.

Complaint ¶ 7

On information and belief, Robert Clarkson is a resident of the State of California. Clarkson was the Chief Operating Officer of marchFIRST from March 1, 2000 until his resignation on October 14, 2000.

Answer ¶ 7

Defendants deny Robert Clarkson resigned from the position of Chief Operating Officer on October 14, 2000. Defendants admits the remaining allegations in paragraph 7.

Complaint ¶ 8

On information and belief, Edward F. Szofer is a resident of the State of Illinois. Szofer held various positions at marchFIRST, including being Chief Development Officer from March 1, 2000 until April 2, 2001 and a member of the Board of Directors from March 1, 2000 until May 14, 2001.

Answer ¶ 8

Defendants admit the allegations in paragraph 8.

Complaint ¶ 9

On information and belief, Bert B. Young is a resident of the State of Utah. Young held various positions at marchFIRST, including Chief Financial Officer and Treasurer from March 1, 2000 until October 31, 2000.

Answer ¶ 9

Defendants admit Young is a resident of the State of Utah. Defendants deny the remaining allegations in paragraph 9.

This is a civil proceeding arising under the Bankruptcy Code or arising in or related to a case under the Bankruptcy Code. This Court has jurisdiction over this complaint pursuant to 28 U.S.C. § 1334(b) and (3) and § 157(a) and (b), and Internal Operating Procedure 15(a) of the Federal District Court for the Northern District of Illinois.

Answer ¶ 10

Defendants admit the allegations in paragraph 10.

Complaint ¶ 11

Venue in this district is proper pursuant to 28 U.S.C. § 1409 (a), (c) and (d). This action is a core proceeding pursuant to 28 U.S.C. §§ 157(b)(2)(A), (E), (F) and (H).

Answer ¶ 11

Defendants admit venue is proper pursuant to 28 U.S.C. § 1409 (a), (c) and (d). The remaining allegations in paragraph 11 state legal conclusions to which no answer is required. To the extent a further response is required, Defendants admit this action purports to be a core proceeding pursuant to 28 U.S.C. §§ 157(b)(2)(A), (E), (F) and (H).

Complaint ¶ 12

The facts underlying the history of the Insider Directors' employment with marchFIRST are set forth more fully in the Trustee's Amended Complaint against them in the Adversary Action against the Insider Directors, alleging breaches of their fiduciary duties (Adversary Number 02 A 00194), and those allegations are hereby incorporated by reference. For the purposes of this complaint, the Trustee will highlight only the relevant facts.

Answer ¶ 12

Paragraph 12 contains no substantive allegations to which a response is required.

To the extent a further response is required, Defendants deny that the Trustee's amended complaint alleges breaches of Defendants' fiduciary duties.

Young entered into a Separation Agreement with marchFIRST dated September 29, 2000 ("Young Agreement"), a copy of which is attached hereto as Exhibit A. Szofer signed the Young Agreement on behalf of marchFIRST as its Chief Development Officer.

Answer ¶ 13

Defendants admit the allegations in paragraph 13.

Complaint ¶ 14

The Young Agreement provided that Young's position and employment as Chief Financial Officer would terminate voluntarily as of October 31, 2000 (the "Separation Date").

Answer ¶ 14

Defendants admit the allegations in paragraph 14.

Complaint ¶ 15

The Young Agreement accelerated the vesting of Young's stock options, and allowed the options to remain exercisable for six months following the Separation Date.

Answer ¶ 15

Defendants admit the allegations in paragraph 15.

Complaint ¶ 16

The Young Agreement also purported to provide mutual releases:

Young, on behalf of himself, his heirs, executors, attorneys, administrators, successors and assigns, hereby fully and forever, to the full extent permitted by law, releases and discharges [marchFIRST] and each of [marchFIRST's] affiliated entities and their directors, officers, employees, accountants, agents and attorneys, past, present and future, and all predecessors, successors and assigns thereof (collectively "Released Parties") from any and all claims, demands, agreements, actions, suits, causes of action, damages, injunctions, restraints and liabilities, of whatever kind or nature, in law, equity or otherwise, whether now know or unknown, or which have ever existed or may now exist...

[marchFIRST], for itself and its subsidiaries, officers, directors, agents, successors and assigns, hereby forever and fully remises, releases, acquits and discharges Young and his heirs, executors, administrators, personal representatives, agents, successors and assigns, of and from any and all actions, causes of action, suits, debts, sums of money, accounts, covenants, contracts, agreements, arrangements, promises, obligations, warranties, trespasses, trots, injuries, losses, damages, claims, demands, or other liability or relicf of any nature whatsoever, whether known or unknown, foreseen or unforeseen, resulting or to result, whether in law or in equity, or before administrative agencies or departments that [marchFIRST] ever had, now has or hereafter can, shall or may have, by reason of or arising out of Young's employment with [marchFIRST]...

Answer ¶ 16

Defendants admit that the Young Agreement does provide mutual releases and that the Trustee accurately quotes the Separation Agreement.

Complaint ¶ 17

The mutual releases were to become effective as of October 31, 2000, Young's Separation Date.

Answer ¶ 17

Defendants admit the allegations in paragraph 17.

Complaint ¶ 18

Clarkson entered into a Separation Agreement with marchFIRST dated October 13, 2000 ("Clarkson Agreement"), a copy of which is attached hereto as Exhibit B. Szofer signed the Clarkson Agreement on behalf of marchFIRST as its Chief Development Officer.

Answer ¶ 18

Defendants admit the allegations in paragraph 18.

Complaint ¶ 19

The Clarkson Agreement provided that Clarkson's last day of employment with marchFIRST was October 14, 2000 (the "Separation Date").

Defendants admit the allegations in paragraph 19.

Complaint ¶ 20

In consideration of the Clarkson Agreement, marchFIRST agreed to provide Clarkson with severance benefits, including payments at Clarkson's final regular rate of pay (\$19,230.76 biweekly) at regular payroll intervals for six months after the Separation Date. The Clarkson Agreement also provided for the acceleration of the vesting of any stock options, to be exercised within nine months of the Separation Date.

Answer ¶ 20

Defendants admit the allegations in paragraph 20.

Complaint ¶ 21

The Clarkson Agreement, like the Young Agreement, also purported to provide mutual releases:

In consideration for the consideration from [marchFIRST] ... [Clarkson], on behalf of [Clarkson] and [Clarkson's] agents, representatives, attorneys, assigns, heirs, executors and administrators, fully releases [marchFIRST] from any and all liability, claims, demands, actions, causes of action, suits, grievances, debts, sums of money, agreements, promises, damages, back and front pay, costs, expenses, attorneys' fees, and remedies of any type, directly or indirectly regarding any act or Agreement, including, without limitation, all claims arising or that arose, or may have arisen out of or in connection with [Clarkson's] employment

[marchFIRST], for itself and its subsidiaries, officers, directors, agents, successors, assigns and the Released Parties, hereby forever and fully releases [Clarkson] and his heirs, executors, administrators. personal representatives. affiliates. agents, successors and assigns, of and from any and all actions, causes of action, suits, debts, sums of money, accounts, covenants, contracts, agreements, arrangements, promises, obligations, warranties, trespasses, torts, injuries, losses, damages, claims, demands or other liability or relief of any nature whatsoever, whether known or unknown, foreseen or unforeseen, resulting or to result, whether in law or in equity, or before administrative agencies or departments that [marchFIRST] ever had, now has, or hereafter can, shall or may

have by reason or arising out of [Clarkson's] employment with [marchFIRST] ...

<u>Answer ¶ 21</u>

Defendants admit that the Clarkson Agreement does provide mutual releases and that the Trustee has accurately quoted the Separation Agreement.

Complaint ¶ 22

Both the Young and the Clarkson Agreements provided that Illinois law would govern.

Answer ¶ 22

Defendants admit the allegations in paragraph 22.

Complaint ¶ 23

At all relevant times, the Insiders Directors were "insiders" of marchFIRST. Insiders of a debtor include its directors and officers. See 11 U.S.C. § 101(31)(b)(i) and (ii).

<u>Answer ¶ 23</u>

The allegations in paragraph 23 state legal conclusions to which no response is required. To the extent further response is required, Defendants deny the allegations in paragraph 23.

Complaint ¶ 24

By at least the time the Young and Clarkson Agreements were executed, marchFIRST was insolvent, as defined by 11 U.S.C. § 101(32)(A): "financial condition such that the sum of such entity's debts is greater than all of such entity's property, at fair valuation..."

Answer ¶ 24

The allegations in paragraph 24 state legal conclusions to which no response is required. To the extent further response is required, Defendants deny the allegations in paragraph 24.

Plaintiff realleges and incorporates by reference paragraphs 1 through 24 above as paragraph 25 of this Complaint.

Answer ¶ 25

Defendants restate and incorporate their answers in paragraphs 1 through 24 as their answer to paragraph 25.

Complaint ¶ 26

On information and belief, the Agreements with Young and Clarkson were made:

- (a) with actual intent to hinder, delay or defraud its creditors; or
- (b) without receiving a reasonably equivalent value in exchange for the Agreements at a time when:
 - (1) marchFIRST was insolvent, or became insolvent as a result of the Agreements; or
 - (2) marchFIRST was engaged or was about to engage in a business or a transaction for which its remaining assets were an unreasonably small capital in relation to such business or transaction; or
 - (3) marchFIRST intended to incur or believed that it would incur debts beyond its ability to pay as they came due.

Answer ¶ 26

Defendants deny the allegations in paragraph 26.

Complaint ¶ 27

The purported release in the Young and Clarkson Agreements, if enforced, would constitute a release of claims against Clarkson and Young worth at least tens of millions of dollars, in exchange for which marchFIRST received from Clarkson and Young only a release of Clarkson and Young's claim against marchFIRST, which claims have no value.

Defendants admit the releases are supported by adequate consideration and bar the claims asserted in the Trustee's Amended Complaint in the Adversary Action. Defendants deny the remaining allegations in paragraph 27.

Complaint ¶ 28

The Agreements constitute fraudulent transfers within the meaning of § 548(a) of Title 11 U.S.C. and should be avoided.

The allegations in paragraph 28 state legal conclusions to which no response is required. To the extent further response is required, Defendants deny the allegations in paragraph 28.

Complaint ¶ 29

Pursuant to § 550(a) of the Bankruptcy Code, Trustee is entitled to recover the present value of the amount of the transfers from the

The allegations in paragraph 29 state legal conclusions to which no response is required. To the extent further response is required, Defendants deny the allegations in Complaint ¶ 30 paragraph 29.

Plaintiff realleges and incorporates by reference paragraphs 1 through 24 above as paragraph 30 of this Complaint.

Defendants restate and incorporate their answers in paragraphs 1 through 24 as their answer to paragraph 30.

Even if the Young and Clarkson Agreements are not avoidable as fraudulent transfers, they are still void and unenforceable.

Answer ¶ 31

Defendants deny the allegations in paragraph 31.

Complaint ¶ 32

The Young and Clarkson Agreements are unenforceable and voidable because Clarkson, Young and Szofer breached their fiduciary duties of loyalty, which as officers and directors they owed to marchFIRST, by entering into the Young and Clarkson Agreements.

Answer ¶ 32

The allegations in paragraph 32 state legal conclusions to which no response is required. To the extent further response is required, Defendants deny the allegations in paragraph 32.

Complaint ¶ 33

The highly unfavorable terms of the Scparation Agreements injured marchFIRST, marchFIRST gained only a release of claims, none of which actually existed, by Young and Clarkson, while in return provided them with vesting of stock options, and release of liability for their numerous and egregious breaches of fiduciary duties. Such a transaction was not fair to marchFIRST, and could only have resulted from Insider Directors' bad faith.

Answer ¶ 33

The allegations in paragraph 33 state legal conclusions to which no response is required. To the extent further response is required, Defendants deny the allegations in paragraph 33.

Complaint ¶ 34

The Separation Agreements served only the personal needs of the Insider Directors, not those of marchFIRST.

Defendants deny the allegations in paragraph 34.

Complaint ¶ 35

The minutes of the Board of Directors' Meeting around the time the Separation Agreements were executed do not reflect that the Separation Agreements were approved or discussed by the Board of Directors.

Answer ¶ 35

Defendants are without knowledge or information sufficient to form a belief as to the truth of the allegations in paragraph 35 and therefore deny them.

Complaint ¶ 36

The Separation Agreements are also voidable because their formation is the result of collusion between the Insider Directors, and was intended to deprive marchFIRST of its rights to legal action against Young and Clarkson for their breaches of fiduciary duty. The circumstances surrounding the Separation Agreements are contaminated by Insider Directors' collusion and deceit.

The minutes of the Board of Directors' Meeting around the time the Separation Agreements were executed do not reflect that the Separation Agreements were approved or discussed by the Board of Directors.

Answer ¶ 36

Defendants deny the allegations in paragraph 36.

Complaint ¶ 37

The Separation Agreements are further voidable because the circumstances surrounding their formation caused the Separation Agreements to be so one-sided and unfavorable to marchFIRST that the Separation Agreements are unconscionable.

Defendants deny the allegations in paragraph 37.

Complaint ¶ 38

Clarkson and Young contend that the purported releases in the Young and Clarkson Agreements bar the Trustee's recovery against them.

Answer ¶ 38

Defendants admit that the releases in the Agreements bar the Trustee's recovery against them.

Complaint ¶ 39

An actual controversy exists between Trustee, on the one hand, and Clarkson and Young, on the other hand.

Answer ¶ 39

The allegations in paragraph 39 state legal conclusions to which no response is required. To the extent further response is required, Defendants admit the allegations in paragraph 29.

Complaint ¶ 40

Plaintiff realleges and incorporates by reference paragraphs 1 though 24 above as paragraph 40 of this complaint.

Answer ¶ 40

Defendants restate and incorporate their answers in paragraphs 1 through 24 as their answer to paragraph 40.

Complaint ¶ 41

Bernard and Szofer rely on the purported releases contained in the Young and Clarkson Agreements as a basis to argue that the Trustee's claims against them have been released. On information and belief, the Agreements with Young and Clarkson were made:

- (a) with actual intent to hinder, delay or defraud its creditors; or
- (b) without receiving a reasonably equivalent value in exchange for the Agreements at a time when:
 - 1. marchFIRST was insolvent, or became insolvent as a result of the Agreements; or
 - 2. marchFIRST was engaged or was about to engage in business or a transaction for which its remaining assets were an unreasonable small capital in relation to such business or transaction; or
 - 3. marchFIRST intended to incur or believed that it would incur debts beyond its ability to pay as they came due.

Defendants admit Bernard and Szofer rely on the releases contained in the Young and Clarkson Agreements as a basis to argue the Trustee's claims against them have been released. Defendants deny the remaining allegations in paragraph 41.

Complaint ¶ 42

The purported release in the Young and Clarkson Agreements, if applicable to Bernard and Szofer, would constitute a release of claims against Bernard and Szofer worth at least tens of millions of dollars, in exchange for which marchFIRST received nothing form Bernard and Szofer.

Answer ¶ 42

Defendants admit the releases are supported by adequate consideration and bar the claims asserted in the Trustee's Amended Complaint in the Adversary Action.

Defendants deny the remaining allegations in paragraph 42.

Complaint ¶ 43

The Agreements constitute fraudulent transfers within the meaning of § 548(a) of Title 11 U.S.C. and should be avoided.

The allegations in paragraph 43 states legal conclusions to which no response is required. To the extent further response is required, Defendants deny the allegations in paragraph 43.

Complaint ¶ 44

Pursuant to §550(a) of the Bankruptcy Code, Trustee is entitled to recover the present value of the amount of the transfers from the Defendant.

Answer ¶ 44

The allegations in paragraph 44 states legal conclusions to which no response is required. To the extent further response is required, Defendants deny the allegations in paragraph 44.

Complaint ¶ 45

Plaintiff realleges and incorporates by reference paragraphs 1 through 24 above as paragraph 45 of this Complaint.

Answer ¶ 45

Defendants restate and incorporate their answers in paragraphs 1 through 24 as their answer to paragraph 45.

Complaint ¶ 46

Even if the Young and Clarkson Agreements are not avoidable against Bernard and Szofer as fraudulent transfers, they are still void and unenforceable as to Bernard and Szofer.

Answer ¶ 46

Defendants deny the allegations in paragraph 46.

The language of the purported release in the Young and Clarkson Agreements does not identify Bernard and Szofer as intended released parties. Accordingly, the releases contained in the Young and Clarkson Agreements do not release Bernard and Szofer.

Answer ¶ 47

Defendants admit the language in the Separation Agreements does not specifically identify Bernard and Szofer by name. Defendants deny the remaining allegations in paragraph 47.

Complaint ¶ 48

Claims of breach of fiduciary duty are not torts under Illinois law. Accordingly, the purported releases in the Young and Clarkson Agreements cannot operate to release Bernard or Szofer as joint tortfeasors.

Answer ¶ 48

The allegations in paragraph 48 state legal conclusions to which no response is required. To the extent further response is required, Defendants deny the allegations in paragraph 48.

Complaint ¶ 49

Bernard and Szofer contend that the purported releases in the Young and Clarkson Agreements bar the Trustee's recovery against them.

Answer ¶ 49

Defendants admit the allegations in paragraph 49.

Complaint ¶ 50

An actual controversy exists between Trustee, on the one hand, and Bernard and Szofer, on the other hand.

<u>Answer ¶ 50</u>

The allegations in paragraph 50 states legal conclusions to which no response is required. To the extent further response is required, Defendants admit the allegations in paragraph 50.

AFFIRMATIVE DEFENSES

First Affirmative Defense

The Defendants, in executing the Separation Agreements, acted at all times in good faith and in the proper exercise of their business judgment, and exercised at least that degree of care, diligence, and skill that ordinarily prudent persons would exercise in similar circumstances.

Second Affirmative Defense

marchFIRST received reasonably equivalent value in exchange for the Separation Agreements.

Third Affirmative Defense

marchFIRST was solvent when the Separation Agreements were executed.

WHEREFORE, Defendants Robert F. Bernard, Robert Clarkson, Edward F. Szofer and Bert B. Young demand judgment dismissing the Trustee's Complaint in its entirety and with prejudice, together with the costs and disbursements associated with the defense of this action, including reasonable attorneys' fees, and such other and further relief as this Court may deem appropriate.

Dated: June 12, 2003

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Respectfully Submitted, Robert F. Bernard, Robert Clarkson, Edward F. Szofer and Bert B. Young

One of Their Attorneys

CERTIFICATE OF SERVICE

I, Bryna J. Dahlin, an attorney, certify that I caused a copy of the foregoing Answer to Complaint to Avoid Fraudulent Transfers and For Declaratory Judgment to be served via messenger delivery upon:

Wendi E. Sloane W. Scott Porterfield Barack, Ferrazzano, Kirschbaum, Perlman & Nagelberg, LLC 333 West Wacker Drive, Suite 2700 Chicago, IL 60606

on this 12th day of June, 2003.

Bryna J. Dahlin