

IN THE SUPERIOR COURT OF THE STATE OF DELAWARE

IN AND FOR NEW CASTLE COUNTY

REMBRANDT TECHNOLOGIES, )  
L.P., )  
 )  
Plaintiff, )  
 )  
v. ) C.A. No. 07C-09-059-JRS  
 )  
HARRIS CORPORATION, )  
a Delaware corporation, )  
 )  
Defendant. )

Date Submitted: August 27, 2008

Date Decided: October 31, 2008

**MEMORANDUM OPINION**

*Upon Consideration of Defendant's  
Motion for Partial Summary Judgment.*

**GRANTED.**

*Upon Consideration of Plaintiff's  
Motion for Partial Summary Judgment  
and Dismissal of Counterclaims for Lack of Jurisdiction.*

**DENIED.**

Collins J. Seitz, Jr., Esquire, Matthew F. Boyer, Esquire and Christos T. Adamopolous, Esquire, CONNOLLY BOVE LODGE & HUTZ LLP, Wilmington, Delaware. Attorneys for Plaintiff.

Philip A. Rovner, Esquire and Sarah E. Diluzio, Esquire, POTTER ANDERSON & CORROON LLP, Wilmington, Delaware; Henry C. Bunsow, Esquire and Karin Kramer, Esquire, HOWREY LLP, San Francisco, California. Attorneys for Defendant.

**SLIGHTS, J.**

## I.

This declaratory judgment action is a state-court companion to patent litigation pending in the United State District Court for the District of Delaware (the “patent litigation”) involving U.S. Patent No. 5,243,627 (the “‘627 patent”). The ‘627 patent relates to technology for error correction in digital data transmission systems used in high definition televisions (“HDTV”). The parties in this litigation dispute whether the current holder of the ‘627 patent, plaintiff, Rembrandt Technologies, L.P. (“Rembrandt”), must give the defendant, Harris Corporation (“Harris”), a license to the ‘627 patent on reasonable and non-discriminatory (“RAND”) terms.

Rembrandt, through its complaint and proposed amended complaint, seeks a preemptive declaration that it owes no license to Harris or, alternatively, that this licensing dispute cannot be adjudicated until certain factual and legal issues are either acknowledged by Harris here or resolved in the patent litigation.<sup>1</sup> Harris, through its counterclaim, seeks a declaration that Rembrandt owes it a license on RAND terms, and further seeks a declaration of what those terms should be. According to Harris, these matters can be resolved separate and apart from the patent litigation. Presently before the Court are the parties’ cross motions for partial summary judgment and

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<sup>1</sup>Harris initially filed an action for declaratory judgment against Rembrandt in the United States District Court for the Middle District of Florida, but the action was dismissed for lack of personal jurisdiction. Rembrandt then filed this action for declaratory relief on essentially the same claims that had been raised by Harris in Florida.

Rembrandt's motion to dismiss for lack of subject matter jurisdiction.

After carefully considering the cross motions, fully briefed and presented with oral argument, the Court has concluded that, according to the clear and unambiguous terms of the 1995 patent statement issued by Rembrandt's predecessor, AT&T, Rembrandt owes Harris a license to the '627 patent under RAND terms to the extent the patent is "essential" to the implementation of the HDTV standard set by the Advanced Television System Committee ("ATSC"). Harris is entitled to a trial to resolve any remaining disputed factual issues relating to Rembrandt's licensing obligations; it need not await the determination of "essentiality" in the federal patent litigation before it can obtain the declaratory relief it seeks here. The Court can presume essentiality, without making that factual or legal determination, in order to resolve this limited aspect of the parties' larger dispute in a manner most efficient for the parties and the Court. Accordingly, Harris' motion for partial summary judgment is **GRANTED** and Rembrandt's motion for partial summary judgment and dismissal of counterclaims is **DENIED**.

## II.

### A. The Parties

Rembrandt is a New Jersey Limited Partnership engaged in patent enforcement activities. The '627 patent was originally issued to AT&T IPM Corp. ("AT&T") in

September, 1993. AT&T assigned the patent to Lucent Technologies, Inc. which, in turn, assigned it to Paradyne Corporation. Rembrandt acquired the patent from Paradyne on December 9, 2004.

Harris is a Delaware corporation with headquarters in Melbourne, Florida. It is an international communications and information technology company that, *inter alia*, manufactures and sells transmission equipment for digital and HDTV broadcasting. In doing so, it has employed technology that Rembrandt alleges is covered by the '627 patent.

#### **B. The ATSC Standard and Patent Policy**

The ATSC is a non-profit standard-setting organization comprised of various constituents of the television broadcast industry. It was established in cooperation with the United States government to set standards that will ensure that HDTV in this country is of the highest quality and that technology related to HDTV is “interoperable with other media.”<sup>2</sup> After much work, a group of entities charged with developing HDTV technology, known as the “Grand Alliance,” prepared a standard in conjunction with the ATSC that would ensure that HDTV systems developed in this country were of the highest quality. This standard, ATSC A-53, was adopted by the Federal Communications Commission in 1996, giving it the force of law.

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<sup>2</sup>See [www.atsc.org](http://www.atsc.org)

In recognition that all companies seeking to compete in the HDTV industry would have to comply with the ATSC standard, the ATSC promulgated a patent policy to ensure that the standard could be implemented within the industry without undue hardship. Pursuant to this patent policy, members of the Grand Alliance committed to the FCC that they would license the technology necessary to comply with the ATSC standard on RAND terms to the extent patents held by member companies were “essential” to the standard. This commitment eventually took the form of a “patent statement” submitted by members of the Grand Alliance to the ATSC. AT&T, a member of the Grand Alliance, submitted its patent statement to the ATSC in 1995, and the statement was reiterated by AT&T’s successor, Lucent Technologies, in 1996. AT&T’s patent statement, given by its President, James E. Lamar, provided in pertinent part:

[W]e will license our patents which relate to the ATSC Standard for HDTV, to the extent that the claims of such patents are directed toward and are essential to the implementation of the Standard. Such licenses will be granted under reasonable terms and conditions on a non-discriminatory, non-exclusive basis. Such reasonable terms and conditions would include a reasonable royalty and a grant of licenses to us.<sup>3</sup>

For purposes of this litigation, the parties agree that Harris’ television products comply with the ATSC standard.

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<sup>3</sup>D.I. 96, at Ex. 9.

### **C. Rembrandt Acquires and Seeks To Enforce The '627 Patent**

As stated, Rembrandt acquired the '627 patent in December, 2004. Thereafter, it set about enforcing the patent against potential infringement. To this end, currently pending in the United States District Court for the District of Delaware is consolidated multi-district litigation in which Rembrandt is seeking to enforce its '627 patent against several alleged patent infringers. In that litigation, Rembrandt has maintained that the '627 patent is essential to the ATSC standard. The defendants, it appears, have denied that the '627 patent is valid and have denied that it is essential to ATSC standard. Apparently, an admission of essentiality by Harris in this litigation would be tantamount to an admission of infringement that could be used against defendants in the patent litigation.

### **D. Rembrandt Acknowledges That It Is Bound By AT&T's Patent Statement**

Rembrandt's initial complaint in this action called the question of whether it was bound by AT&T's patent statement. Through discovery, however, it now appears that, at the time it acquired the '627 patent, Rembrandt had notice (either constructive or actual) of AT&T's commitment in its patent statement to grant licenses on essential patents. For purposes of this litigation, Rembrandt has now acknowledged that it is bound by that commitment. It appears that Rembrandt also acknowledges that Harris is a third party beneficiary of AT&T's commitment to license essential patents and

that Harris may enforce that commitment to the extent the contractual conditions precedent are satisfied.<sup>4</sup> Rembrandt has not, however, conceded that Harris is entitled to a license in the absence of an agreement or determination that the '627 patent is essential to the ATSC standard.<sup>5</sup>

### III.

The controversy here boils down to this: Harris has asked the Court to declare that it is entitled to a license on the '627 patent on RAND terms and wants the Court to set those terms, all without determining whether the '627 patent is essential to the ATSC standard. According to Harris, there is no material issue of disputed fact as to essentiality since Rembrandt has consistently maintained that the "627 patent is essential. To require Harris to admit as much in this litigation, says Harris, would serve no legitimate purpose and would serve only to provide Rembrandt with an undeserved strategic advantage in the patent litigation. Rembrandt, on the other hand, argues that the clear and unambiguous language of the patent statement upon which Harris seeks relief requires Rembrandt to license only those patents that are essential

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<sup>4</sup>See D.I. 122 (Rembrandt answering brief implicitly conceding that Rembrandt is bound by AT&T's patent statement and that Harris may avail itself of that contractual commitment, but arguing that Harris may do so only after a determination is made (by litigation or stipulation) that the '627 patent is essential to the ATSC standard); D.I. 148 (same concession made at oral argument); D.I. 127, Ex. A, ¶4 (proposed amended complaint in which Rembrandt states: "To bring this dispute to resolution, Rembrandt is willing to license the '627 patent to Harris on RAND terms (such terms to be determined by the Court), provided that Harris agrees that the '627 patent is in fact essential to the ATSC standard...").

<sup>5</sup>*Id.* As discussed below, Rembrandt has not conceded other factual issues relating to Harris' entitlement to the license, e.g., waiver, estoppel, and other affirmative defenses.

to the ATSC standard. According to Rembrandt, since essentiality is at the heart of the patent infringement litigation, this Court lacks subject matter jurisdiction to make that determination. Thus, according to Rembrandt, if Harris is unwilling to concede essentiality in this litigation, then Harris cannot obtain a license on the '627 patent until the issue of essentiality is resolved.

Harris replies by urging the Court not to place it in the “damned if you do, damned if you don’t” box that Rembrandt is seeking to place it in here. Harris argues that the Court need not secure a confession on essentiality before it turns to the matter of setting RAND terms for the license. Rather, the Court can assume essentiality, since neither party has indicated in this litigation that the '627 patent is not essential, and move directly to the terms on which the license will be granted.

#### IV.

Harris has moved the Court for partial summary judgment on Rembrandt’s initial claim for declaratory relief in which it sought a declaration that it is not obliged to offer a license to Harris because it is not bound by the AT&T patent statement. As previously noted, that claim has been abandoned by Rembrandt in favor of a defense to Harris’ counterclaim in which Rembrandt contends that Harris is not entitled to a license because it continues to dispute whether *vel non* the '627 patent is essential.<sup>6</sup>

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<sup>6</sup>Rembrandt has reserved the right to argue that its contractual obligations do not extend beyond the terms of the AT&T patent statement. Rembrandt also reserves the right to argue that Harris’ request for a license was not timely made such that Harris has waived its contractual right to a license. Both matters are fact-intensive and not susceptible to summary disposition.

During the course of briefing the cross motions the parties have addressed in detail the *bona fides* of Harris' counterclaim and Rembrandt's defense to that claim. Accordingly, for the sake of efficiency, the Court will deem Harris' current motion as a motion for partial summary judgment on Count I of Rembrandt's complaint and on Count VI of Harris' counterclaim (in which it seeks a declaration that it is entitled to a license on the '627 patent on RAND terms).

Rembrandt has moved for partial summary judgment on Harris' counterclaim on the ground that the claim is not ripe for decision until the issue of essentiality is addressed, either by stipulation of the parties or by decision in the patent litigation. Rembrandt has also moved to dismiss the counterclaim on the ground that the Court lacks subject matter jurisdiction to resolve a substantial predicate issue in this licensing dispute - - the essentiality of the '627 patent.

The Court's principal function when considering a motion for summary judgment is to examine the record to determine whether genuine issues of material fact exist.<sup>7</sup> Summary judgment will be granted if, after viewing the record in a light most favorable to a non-moving party, no genuine issues of material fact exist and the moving party is entitled to judgment as a matter of law.<sup>8</sup> If, however, the record reveals that material facts are in dispute, or if the factual record has not been

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<sup>7</sup> *Oliver B. Cannon & Sons, Inc. v. Dorr-Oliver, Inc.*, 312 A.2d 322, 325 (Del. Super. Ct. 1973).

<sup>8</sup> *Id.*

developed thoroughly enough to allow the Court to apply the law to the factual record *sub judice*, then summary judgment will not be granted.<sup>9</sup>

The moving party bears the initial burden of demonstrating that the undisputed facts support his legal claims.<sup>10</sup> If the motion is properly supported, then the burden shifts to the non-moving party to demonstrate that there are material issues of fact for resolution by the ultimate fact-finder or that the legal theories raised in support of the motion are deficient.<sup>11</sup> As stated, when reviewing the record, the Court must view the evidence in the light most favorable to the non-moving party.<sup>12</sup>

A motion to dismiss for lack of subject matter jurisdiction can take either of two forms: it can attack subject matter jurisdiction based on the face of the complaint, or it can attack subject matter jurisdiction in fact (a so-called “factual attack”).<sup>13</sup> When considering on attack based on the face of the complaint, the court must accept all allegations in the complaint as true.<sup>14</sup> When evaluating a factual attack on the court’s subject matter jurisdiction, however, contrary to the procedure invoked by other Rule

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<sup>9</sup> *Ebersole v. Lowengrub*, 180 A.2d 467, 470 (Del. 1962).

<sup>10</sup> *Moore v. Sizemore*, 405 A.2d 679, 680 (Del. 1979) (citing *Ebersole*, 180 A.2d at 470).

<sup>11</sup> *See Brzoska v. Olson*, 668 A.2d 1355, 1364 (Del. 1995).

<sup>12</sup> *See United Vanguard Fund, Inc. v. Takecare, Inc.*, 693 A.2d 1076, 1079 (Del. 1997); *Brzoska*, 668 A.2d at 1364.

<sup>13</sup> *See Mortensen v. First Fed. Savings & Loan Assoc.*, 549 F.2d 884, 891 (3d Cir. 1977).

<sup>14</sup> *Id.*

12 motions,<sup>15</sup> the court is “free to weigh the evidence and satisfy itself as to the existence of its power to hear the case.”<sup>16</sup> As the court considers whether it has subject matter jurisdiction over a dispute, “no presumptive truthfulness attaches to plaintiff’s allegations [in its complaint], and the existence of disputed material facts will not preclude the court from evaluating for itself the merits of jurisdictional claims.”<sup>17</sup> The burden is upon the plaintiff (or counterclaim plaintiff) to prove “that jurisdiction does in fact exist.”<sup>18</sup>

In this case, Rembrandt has mounted a factual attack on the Court’s subject matter jurisdiction over Harris’ counterclaims. Accordingly, to the extent necessary, the Court will look beyond the allegations in the pleadings to determine whether it has jurisdiction to adjudicate those claims.

## V.

Harris’ right to a license, if any, is a creature of contract. Absent the AT&T patent statement, neither Harris nor any other participant in the HDTV industry practicing the ATSC standard would have a right to a license on the ‘627 patent.<sup>19</sup>

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<sup>15</sup>See e.g. *Ramunno v. Cawley*, 705 A.2d 1029, 1034 (Del. 1998)(consideration of factual matters outside the pleadings converts Rule 12 motion to a motion for summary judgment under Rule 56).

<sup>16</sup>*Mortensen*, 549 F.2d at 891.

<sup>17</sup>*Id.*

<sup>18</sup>*Id.*

<sup>19</sup>D.I. 148 at 5 (transcript of oral argument on motion for summary judgment).

Accordingly, the Court must look first to the contract to determine the rights and obligations of the parties. If the contract requires Rembrandt to license only those patents that are, in fact, essential to the standard, then the Court must determine whether a determination of essentiality is required in this litigation and, if so, whether it has subject matter jurisdiction to make the essentiality determination in this case. If the Court decides that it has jurisdiction over this dispute, then the Court must go on to address whether the dispute is ripe for resolution and, if so, the manner in which it will be addressed going forward. This is the analytical roadmap the Court will follow to resolve the cross motions.

**A. The AT&T Patent Statement Is Unambiguous**

The construction, meaning and legal effect of a written instrument is a matter of law for the Court.<sup>20</sup> In this case, both parties have agreed that the AT&T patent statement is clear and unambiguous.<sup>21</sup> Not surprisingly, however, both parties differ as to the meaning of its terms. And both have offered extrinsic evidence as further support of their competing interpretations of the contract terms in the event the Court finds ambiguity. Accordingly, the Court must first determine whether the patent statement is ambiguous before endeavoring to construe its terms.

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<sup>20</sup>See *Hudson v. State Farm Mut. Ins. Co.*, 569 A.2d 1168, 1170 (Del. 1990).

<sup>21</sup>See D.I. 122 at 15 (Rembrandt Reply Brief: “Giving the language used in the [patent statement] its plain meaning...”); D.I. 148 at 10 (Counsel for Harris at oral argument: “The language of the [patent statement] I think is very clear on this particular point...”).

## 1. The Parol Evidence Rule

The parol evidence rule requires that “[w]hen two parties have made a contract and have expressed it in a writing to which they have both assented as the complete and accurate integration of that contract, evidence, whether parol or otherwise, of antecedent understandings and negotiations will not be admitted for the purpose of varying or contradicting the writing.”<sup>22</sup> To comply with this rule, the court must begin its construction of the contract by determining whether the contract clearly and accurately reflects the agreement of the parties.<sup>23</sup> A contract is not rendered ambiguous simply because the parties disagree as to the meaning of its terms.<sup>24</sup> Ambiguity does arise, however, when the contract provisions in controversy “are reasonably or fairly susceptible of different interpretations or may have two or more different meanings.”<sup>25</sup> If, after careful consideration, the court determines that the contract is a clear and accurate reflection of the parties’ intended agreement, extrinsic evidence will not be considered and the interpretation is limited to the four corners of

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<sup>22</sup>26 CORBIN ON CONTRACTS § 573 (1960).

<sup>23</sup>*Interim Healthcare, Inc. v. Spherion Corporation*, 884 A.2d 513, 546 (Del.Super.Ct. 2005)(citations omitted), *aff’d*, 886 A.2d 1278 (Del. 2005)(table).

<sup>24</sup>*Id.* at 547.

<sup>25</sup>*Id.* (citing *Rhone-Poulenc Basic Chem. Co. v. American Motorists, Ins. Co.*, 616 A.2d 1192, 1196 (Del. 1992)).

the contract.<sup>26</sup> “The true test is not what the parties to the contract intended it to mean, but what a reasonable person in the position of the parties would have thought it meant.”<sup>27</sup>

After carefully reviewing the AT&T patent statement, the Court concurs with the parties - the contract is not ambiguous. As explained below, when considered from the perspective of a “reasonable person’s” interpretation of the terms, guided by settled principles of contract construction, the patent statement clearly defines the patent holder’s obligation to offer licenses on essential patents. Accordingly, the Court will not consider the extrinsic evidence offered by either party when construing the patent statement. The review will be limited to the “four corners” of the document.<sup>28</sup>

## **2. The Four Corners Interpretation of the Patent Statement**

To reiterate, the AT&T patent statement reads, in pertinent part:

[W]e will license our patents which relate to the ATSC Standard for HDTV, to the extent that the claims of such patents are directed toward and *are essential* to the implementation of the Standard. Such licenses will be granted under reasonable terms and conditions on a non-

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<sup>26</sup>*Id.*

<sup>27</sup>*Lorillard Tobacco Co. v. American Legacy Found.*, 903 A.2d 728, 740 (Del. 2006)(citations omitted).

<sup>28</sup>Specifically, the Court will disregard the extensive “industry practice” evidence submitted by both parties. How standard-setting organizations, the HDTV industry, or intellectual property commentators interpret and/or implement licensing obligations *vis a vis* industry standards cannot amend or alter the clear and unambiguous provisions of the AT&T patent statement.

discriminatory, non-exclusive basis. Such reasonable terms and conditions would include a reasonable royalty and a grant of licenses to us.<sup>29</sup>

As remarkable as it may seem, the highlighted words - - only two words - - embody the entirety of this controversy. Rembrandt argues that “are essential” means “are, *in fact*, essential.” It contends that essentiality in fact is required before the licensing obligation is triggered. If the parties cannot agree whether the patent is essential, then a *determination* of essentiality is required before Rembrandt can be compelled to license its patent. Harris, on the other hand, contends that “are essential” means “are *declared* [by the patent holder] to be essential.” It contends that once Rembrandt declares a patent to be essential to the ATSC standard, Rembrandt must license that patent in accordance with the AT&T patent statement.

In a sense, both parties are correct in their interpretation of the operative language of the AT&T patent statement - - Rembrandt in a literal sense and Harris in a practical sense. As discussed below, “are essential” means what it says - - the patents referred to in the patent statement are those that are, in fact, essential to the standard. How one practically considers whether a patent is essential, however, from the perspective of a “reasonable person in the parties’ position,” depends largely on the context in which the question is raised.<sup>30</sup>

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<sup>29</sup>D.I. 96, at Ex. 9 (emphasis supplied).

<sup>30</sup>See *Lorillard Tobacco Co.*, 903 A.2d at 740.

**a. The Plain Meaning of The Contract**

As to the literal interpretation of the disputed phrase, basic rules of grammar expose the plain meaning of the words. “Are” is the present plural of the verb “to be.”<sup>31</sup> A noun (“patents”) followed by the verb to be (“are”), a so-called “linking” verb, followed by an adjective (“essential”), presents the classic example of a subject being linked directly to its complement.<sup>32</sup> In the case of the patent statement, the reference to “patent” is linked directly to the adjective “essential” by the verb “are” - meaning that AT&T committed to license those patents that had attained the “state of being” essential to the ATSC standard.<sup>33</sup> By definition, this means Rembrandt must license only those patents that are, in fact, essential to the standard. To hold otherwise would be to twist and torture the abundantly clear and unambiguous language of the contract.<sup>34</sup>

**b. A Practical Application of the Contract’s Plain Meaning**

When Rembrandt initiated this declaratory judgment action in this Court, it

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<sup>31</sup><http://www.merriam-webster.com/dictionary/are.htm> When terms are not defined, Delaware courts will not hesitate to look to dictionaries for help in defining those terms. *See Lorillard Tobacco Co.*, 903 A.2d at 738.

<sup>32</sup>*See* <http://www.grammar.ccc.commnet.edu/grammar/verbs.htm>

<sup>33</sup><http://www.merriam-webster.com/dictionary/are.htm> (Defining “Is” and “Are”).

<sup>34</sup>Unlike some, the Court does not subscribe to the notion that the verb “is” or its plural “are” can be the subject of ambiguity. The Court is satisfied, therefore, that the proper interpretation of the patent statement does not “depend on what the meaning of the word is is.”

contested whether it was bound by the AT&T patent statement. Through discovery, Rembrandt has determined that its position on this issue was not grounded in fact and, to its credit, it has now conceded the point. Throughout the litigation, Rembrandt has maintained that the '627 patent is essential to the ATSC standard. In patent parlance, it has "declared" the patent to be essential. Harris argues that, for purposes of this litigation and this Court's interpretation of the AT&T patent statement, the '627 patent is essential because Rembrandt has declared it to be essential. Harris' practical interpretation of the contract is well founded. Rembrandt (the plaintiff) has alleged that its '627 is essential and Harris (the defendant), while not admitting the point, has not disputed it either. There is, therefore, "no genuine issue [of] material fact" with respect to essentiality.<sup>35</sup>

**c. The Patent Litigation Complicates The Interpretation of The Contract**

Notwithstanding its declaration that the '627 patent is essential, Rembrandt urges the Court to extract from Harris an admission of essentiality as a predicate to any judicial declaration that Rembrandt owes a license to Harris on the patent. Of course, Harris' admission of essentiality here would amount to an admission of

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<sup>35</sup>See Del. Super. Ct. Civ. R. 56(c). See also *Nokia Corp. v. Qualcomm, Inc.*, 2006 WL 2521328 at \* 1 (D. Del.)("It is not necessary ... to determine whether the patents at issue are in fact "essential" because Defendant has already voluntarily declared them essential."); *Vines v. Hodges*, 422 F. Supp. 1292, 1296 n. 2 (D. D.C. 1976)(only disputed issues of material fact will preclude summary judgment); *Woods v. New York*, 469 F. Supp. 1127, *aff'd*, 614 F.2d 1293 (2d Cir. 1979)(unrebutted assertions of fact deemed "undisputed" for summary judgment purposes).

infringement in the federal patent litigation. Advantage Rembrandt.

Not to be outflanked, Harris has taken Rembrandt's declaration of essentiality in the patent litigation, uncontradicted in the summary judgment record *sub judice*, and has demanded from Rembrandt a license on RAND terms pursuant to the AT&T patent statement. At the same time that Harris seeks to utilize Rembrandt's declaration of essentiality to its advantage in this litigation, Harris' customers are contesting essentiality in the ongoing patent litigation. Thus, if it prevails here, Harris will obtain its license from Rembrandt on RAND terms and enjoy the benefits of that license while simultaneously it endorses a challenge in the federal court to the very factual predicate (essentiality) upon which the license was issued. Advantage Harris.

To some extent, the Court finds itself in the role of unwitting pawn in the larger dispute that exists between Rembrandt and Harris and Rembrandt and other members of the HDTV industry. It is difficult to discern who, as between Harris and Rembrandt, is "gaming" the Court more. Both have cried foul. At the end of the day, in the Court's mind, the penalties offset. The Court is willing to help the parties resolve this limited aspect of their larger dispute, but only to the extent that the resolution is real and results from a meaningful use of the Court's (and the litigants') time and energy. This litigation will proceed to conclusion, but only if the Court is and continues to be satisfied that it is resolving a ripe, *bona fide* controversy.

## **B. This Court Has Subject Matter Jurisdiction Over This Dispute**

Rembrandt correctly observes that if this Court had to determine whether the ‘627 patent is essential before it determines whether Rembrandt owes a license to Harris, then this Court would lack subject matter jurisdiction over this entire controversy. In order for the Court to determine, on a disputed record, whether the ‘627 patent is, in fact, essential to the ATSC standard, the Court first would have to determine whether the ‘627 patent was valid (patent validity) and, if so, whether implementation of the standard would infringe the patent (infringement). Both issues are matters of federal statutory law over which the federal courts have exclusive subject matter jurisdiction.<sup>36</sup>

After carefully considering the parties’ positions regarding the procedural posture in which the Court will interpret the AT&T patent statement, the Court has determined that it need not “determine” whether the ‘627 patent is essential when Rembrandt itself has vehemently maintained that its patent is essential, both here and in the patent litigation, and the record provides no basis (one way or the other) to question that assertion.<sup>37</sup> For purposes of this litigation, the ‘627 patent is, in fact,

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<sup>36</sup>See 28 U.S.C. §1338(a) (“jurisdiction shall be exclusive of the courts of the states in patent ... cases.”).

<sup>37</sup>See *Nokia*, supra.

essential because Rembrandt has declared it essential.<sup>38</sup> Thus, the Court can properly exercise subject matter jurisdiction over this contractual licensing dispute because it will not allow the parties to submit and will not consider matters of federal patent law in this litigation.<sup>39</sup>

**C. The Court Will Resolve The Waiver And Other Affirmative Defenses And, If Appropriate, Will Determine RAND Terms For The License**

“The Court, in furtherance of convenience or to avoid prejudice, or when separate trials will be conducive to expedition and economy, may order a separate trial of any claim ... or of any separate issue ... or issues.”<sup>40</sup> The issue of essentiality is “separable” from the other issues implicated by the parties’ claims and cross claims and can be tried separate and apart from the claims at issue here.<sup>41</sup> The mere fact that

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<sup>38</sup>To reiterate, the Court has not considered the issue of essentiality on the merits so this decision can have no fact or issue preclusive effect in the federal patent litigation. *See Higgins v. Walls*, 901 A.2d 122, 137 (Del. Super. Ct. 2005)(“In order for collateral estoppel to apply, ... the prior issue [has to have been] finally adjudicated on the merits....”).

<sup>39</sup>The Court notes that, in addition to challenging subject matter jurisdiction, Rembrandt has challenged one of “the four prerequisites” for declaratory judgment jurisdiction -- “ripeness.” *See Schick Inc. v. ACTWU*, 533 A.2d 1235, 1238 (Del. Ch. 1987)(noting that four prerequisites for an “actual controversy” that can be resolved by declaratory judgment are: “(1) It must be a controversy involving the rights or other legal relations of the party seeking declaratory relief; (2) it must be a controversy in which the claim of right or other legal interest is asserted against one who has an interest in contesting the claim; (3) the controversy must be between parties whose interests are real and adverse; (4) the issue involved in the controversy must be ripe for judicial determination.” The Court will address the ripeness argument below.

<sup>40</sup>Del. Super. Ct. Civ. R. 42(b).

<sup>41</sup>*See, Nokia Corp.*, 2006 WL 2521328, at \* 2; *Ericsson Inc. v. Samsung Elect. Co., Ltd.*, 2007 WL 1202728, at \* 2 (E.D. Tex. Apr. 20, 2007).

the ‘627 patent is the subject of a separate patent validity and infringement action does not preclude Harris from seeking to enforce any rights it may have to a license on the patent.<sup>42</sup>

Pursuant to its authority under Rule 42(b), the Court has determined that a separate trial of the following issues “will be conducive to expedition and economy:”<sup>43</sup> (1) whether Harris has waived its right to a license on the ‘627 patent;<sup>44</sup> (2) whether Harris is estopped from seeking a license on the ‘627 patent;<sup>45</sup> (3) whether Harris’ claim to a license is barred by “applicable limitations doctrines” or “laches;”<sup>46</sup> (4) whether Rembrandt is excused from performance by virtue of Harris’ “material breach” of contract;<sup>47</sup> and (5) to the extent Rembrandt’s affirmative defenses are not valid, the appropriate, binding RAND terms for the license.<sup>48</sup>

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<sup>42</sup>*See Medimmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 127 S.Ct. 764, 773 (2007).

<sup>43</sup>*See* Del. Super. Ct. Civ. R. 42(b); *Ericsson Inc.*, 2007 WL 1202728, at \*2 (applying Rule 42 to order trial of licensing issues separate from patent issues).

<sup>44</sup>*See* D.I. 16 (Rembrandt response to Amended Counterclaim, Third Affirmative Defense).

<sup>45</sup>*See Id.* at Second Affirmative Defense.

<sup>46</sup>*See Id.* at Fourth and Eighth Affirmative Defenses.

<sup>47</sup>*See Id.* at Tenth Affirmative Defense.

<sup>48</sup>The Court recognizes that time remains on the dispositive motion deadline set by the Court and that some of these issues may be resolved by further motion practice or stipulation of the parties. For purposes of clarity, the Court notes that Rembrandt’s First, Fifth, Sixth, Seventh, Ninth, Eleventh, Twelfth, and Thirteenth Affirmative Defenses are rejected either because they have been abandoned by Rembrandt or for reasons stated in this opinion.

One final point must be addressed. Prior to submitting the cross motions *sub judice* for decision, the parties discussed whether the issues in controversy could be narrowed and, in this regard, discussed whether royalties paid on the license would be non-refundable in the event the licensing agreement was collaterally attacked in the patent litigation. They were unable to agree on this point. The Court has considered this question in the context of its “ripeness” analysis. In keeping with the Court’s admonition that it will resolve this licensing dispute as requested by Harris, but only in a meaningful way, the Court’s declaratory judgment will include a provision that all royalties paid pursuant to the RAND license will not be subject to refund in the event the license is collaterally attacked (either because the ‘627 patent is deemed invalid or otherwise). As explained below, in the absence of such a declaration, the Court’s declaratory judgment would be not only purely advisory but illusory as well.

Delaware courts will not sanction the use of the Declaratory Judgment statute “as a means of eliciting advisory opinions from the courts.”<sup>49</sup> “In determining whether an action is ripe for judicial determination, a practical judgment is required.”<sup>50</sup> And, when exercising this “practical judgment,” our courts are urged to employ a “common sense evaluation” of the legal issues presented and the circumstances in which they are raised to determine if an actual controversy exists and

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<sup>49</sup>See *Stroud v. Milliken Ent., Inc.*, 552 A.2d 476, 479 (Del. 1989).

<sup>50</sup>*Id.* at 480.

whether the court's decision will resolve that controversy.<sup>51</sup>

Here, the Court has concluded that it can adjudicate the claims for declaratory relief notwithstanding that the patent upon which these claims are based is subject to attack in the patent litigation. Harris has represented that once the Court's declaratory judgment is entered as a final judgment (after any appeals have been exhausted) it will comply with that judgment in all respects, including paying any royalty fees required by the license that is given.<sup>52</sup> The Court takes Harris at its word. If, by virtue of determinations made in the patent litigation, Harris has a collateral basis to attack the license, then it may do so. The Court's determination of Rembrandt's licensing obligations would not have been advisory since that license will govern the parties relationship until such time as it is modified by the parties or set aside by a court of competent jurisdiction. Stated differently, the license, determined by declaratory judgment to be valid and binding, will finally resolve and define the parties' *contractual* rights regarding use of technology covered by the '627 patent - - a matter currently in dispute between the parties.<sup>53</sup> If, however, Harris also seeks to recoup

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<sup>51</sup>*Id.* at 480-81. *See also N. Am. Phillips Corp. v. Aetna Cas. & Surety Co.*, 565 A.2d 956, 961 (Del. Super. 1989) ("When deciding whether an issue is ripe for adjudication the Court must do a balancing test. The Court must use its judicial discretion based on the factors of each case . . .").

<sup>52</sup>D.I. 142, at 8.

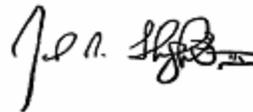
<sup>53</sup>In making this determination, the Court has weighed the well-settled competing interests implicated by the ripeness analysis - - the desire for prompt resolution of disputes and the hardship of delay weighed against the prospect of future factual developments affecting the determination to be made, the need to conserve scarce resources and policies of the law touching upon the subject matter of the dispute. *See Schick*, 533 A.2d at 1239.

license royalties it has paid to Rembrandt pursuant to declarations of this Court (made at Harris' [and Rembrandt's] request), then this Court's and the parties' time, energy and resources will have been entirely wasted by the pretrial proceedings and trial that will follow in this case. Under this scenario, the parties would be returned to the *status quo ante* that existed before the Court's judgment. Should Harris prevail, the resulting declaratory judgment must clearly convey that the license Harris receives is valid and binding upon the parties unless and until declared otherwise, and that any such declaration would not have retroactive effect. Otherwise, the Court would have resolved a purely "hypothetical" dispute that was not ripe for decision. Common sense dictates that the Court not countenance such an outcome.<sup>54</sup>

## VI.

Based on the foregoing, Harris' motion for partial summary judgment on Count I of Rembrandt's Complaint is **GRANTED**. Rembrandt's motion to dismiss Harris' counterclaims for lack of subject matter jurisdiction is **DENIED**. Rembrandt's motion for partial summary judgment on Harris's counterclaims is also **DENIED**.

**IT IS SO ORDERED.**



Judge Joseph R. Slights, III

Original to Prothonotary

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<sup>54</sup>See *Stroud*, 552 A.2d at 480.