IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN AND FOR NEW CASTLE COUNTY

TEXAS INSTRUMENTS INCORPORATED,	)	
Plaintiff,	)	
	)	Civil Action No. 20569
QUALCOMM INCORPORATED,	)	
Defendant.	)	

MEMORANDUM OPINION

Date Submitted: February 25, 2004
Date Decided: March 15, 2004

Jesse A. Finkelstein, Frederick L. Cottrell, III, and Jeffrey L. Moyer, of RICHARDS, LAYTON & FINGER, Wilmington, Delaware; OF COUNSEL: Terence M. Murphy, Joseph L. McEntee, and Thomas R. Jackson, of JONES DAY, Dallas, Texas; and Jay C. Johnson, of TEXAS INSTRUMENTS INCORPORATED, Dallas, Texas, Attorneys for Plaintiff.

Thomas C. Grimm, Jon E. Abramczyk, Susan D. Wood, and Jason A. Cincilla, of MORRIS, NICHOLS, ARSHT & TUNNELL, Wilmington, Delaware, Attorneys for Defendant.

CHANDLER, Chancellor

Plaintiff Texas Instruments, Inc. ("TI") filed this lawsuit against Qualcomm, Inc. alleging breach of contract. Specifically, TI has alleged that Qualcomm breached a Patent Portfolio Agreement ("Agreement") executed by the parties on December 8, 2000. TI requests, among other things, an order of specific performance: (1) requiring Qualcomm to perform all of its obligations under the Agreement; (2) awarding TI damages for Qualcomm's alleged breach; and (3) enjoining Qualcomm from further violating the Agreement by "making false and misleading statements regarding TI's rights."[1] Qualcomm has counterclaimed, alleging that TI breached the Agreement's confidentiality provisions.

Pending before the Court is TI's motion to dismiss Qualcomm's counterclaim for failure to state a claim for which relief can be granted. For the reasons set forth in greater detail below, I deny TI's motion to dismiss.

I. PROCEDURAL AND FACTUAL BACKGROUND

Both TI and Qualcomm manufacture and sell integrated circuits used to manufacture cellular phones.[2] Qualcomm is a leading designer and supplier of Code Division Multiple Access chipsets and system software. The system software and CDMA chipsets are used in various products, including base stations, handsets and modems. Qualcomm has maintained a position in the forefront of

[1] Compl. ¶ 22.
[2] All facts referenced in this opinion are drawn from the complaint and the counterclaim and any documents incorporated therein.

CDMA technology and, as such, has developed and owns a significant amount of intellectual property that it licenses to telecommunications and electronics companies, as well as integrating it into products that it manufactures. As a result of Qualcomm's stronghold, any company that develops, manufactures or sells products that implement CDMA technology must obtain a license from Qualcomm.

REDACTED

Several sections of the Agreement are relevant to the present litigation and, accordingly, I will address each part of the Agreement separately.

A. The Agreement

1. Material Goals of the Agreement

In the opening pages of the Agreement, both TI and Qualcomm recite the material goals of the Agreement. TI and Qualcomm, for example, acknowledge that a material goal of the Agreement is to "provide each of them and their SUBSIDIARIES with worldwide freedom to manufacture, sell, offer to sell and to import PRODUCTS without concern that they will be subject to PATENT infringement LITIGATION."[3] Likewise, TI and Qualcomm also acknowledge that

[3] Compl. Ex. A, Agreement at 4 (emphasis in original).

they entered into the Agreement to address difficulties of entering into covenants not to assert patents in different countries.[4]

REDACTED

[4] *Id.* at 3.
[5]

REDACTED

[6] **REDACTED**

REDACTED

3. Confidentiality Provision

Pursuant to the terms of Article 9.12 of the Agreement, both TI and Qualcomm (and their subsidiaries) agreed to keep the terms of the Agreement confidential. Article 9.12 contains several exceptions, including an exception that allows either TI or Qualcomm (or their subsidiaries) to disclose the terms of the agreement "with the prior written consent of the other PARTY . . . ."[8]

4. Termination Provisions

Article 7 of the Agreement contains provisions that allow either TI or Qualcomm to terminate the Agreement upon the occurrence of certain events. Article 7.2 addresses the parties' termination rights in the event that the opposing party is in material breach of the Agreement. If either party, for example, materially breaches the Agreement, the party in breach of the Agreement has forty-five days to cure the breach after receiving written notice from the non-breaching party.[9]

REDACTED

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[7] **REDACTED**

[8] *Id.* at 9.12(a)

[9] *Id*. at 7.2.

Despite their efforts to address their respective termination rights, the parties failed to include a formal definition of materiality in the Agreement.

B. The Agreement is Allegedly Breached

TI claims that Qualcomm is in breach

REDACTED

[10]**REDACTED**
[11]**REDACTED**
[12]**REDACTED**

C. The Pending Lawsuit

On September 23, 2003, TI filed its lawsuit in this Court alleging breach of contract.[13] In its prayer for relief, TI asks this Court to compel specific performance of the Agreement and grant "an injunction restraining and enjoining Qualcomm from making false and misleading statements regarding a result of Qualcomm's alleged breach of the Agreement.

On October 30, 2003, Qualcomm filed its answer and counterclaim.[14] In its counterclaim, Qualcomm takes the position that TI breached the confidentiality TI's rights under the Agreement."[15]

REDACTED

[13] The litigation between the parties began in the Delaware Superior Court. Qualcomm filed a lawsuit against TI in the Superior Court on July 25, 2003. In this lawsuit, Qualcomm sought a judicial declaration that Qualcomm was entitled to terminate the Agreement and receive damages because of TI's breach of the confidentiality provision in the Agreement. In response, TI filed a lawsuit in this Court. Qualcomm voluntarily dismissed the Superior Court action without prejudice to avoid having duplicative lawsuits that arose out of the same Agreement.

[14] The counterclaim seeks the same relief that Qualcomm originally sought in the Superior Court of Delaware.

[15] Compl. ¶ 22(e).

REDACTED

Qualcomm now seeks a declaratory judgment, asking this Court to determine the rights and obligations of the parties under the Agreement

REDACTED

II. THE APPLICABLE LEGAL STANDARD

In deciding a Rule 12(b)(6) motion to dismiss, the Court must assume that all well-pleaded facts in the complaint or counterclaim are true and view these

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[16]**REDACTED**
[17]**REDACTED**
[18]**REDACTED**
[19]**REDACTED**

facts and all reasonable inferences drawn therefrom in a light that is most favorable to the non-moving party.[20] In viewing these facts and inferences, the Court must "determine with 'reasonable certainty' whether [Qualcomm] would be entitled to relief under any set of facts that could be proven."[21] In the context of a motion to dismiss Qualcomm's counterclaim, the Court will not accept as true conclusory allegations that are unsupported by the facts in the counterclaim.[22] For purposes of a Rule 12(b)(6) motion, the Court's consideration is limited to the facts alleged in the counterclaim, as well as any integral documents incorporated therein.[23]

III. ANALYSIS

Under New York law, which governs the interpretation of the Agreement, "[a] party's obligation to perform under a contract is only excused where the other party's breach of the contract is so substantial that it defeats the object of the parties in making the contract."[24] Stated another way, a party's obligation to perform under a contract is excused when a party's actions result in a material breach. "[F]or a breach of a contract to be material, it must go to the root of the agreement between the parties."[25] Materiality is a fact-specific inquiry determined

[20] *Orman v. Cullman*, 794 A.2d 5, 15 (Del Ch. 2002).
[21] *Id*.
[22] *Id*.
[23] *Id*.
[24] *Frank Felix Assoc., Ltd. v. Austin Drugs, Inc.*, 111 F.3d 284, 289 (2d Cir. 1997).
[25] *Id*. (citations and internal quotations omitted); *see also Certain Underwriters at Lloyd's London v. McDermott Int'l, Inc.*, 2002 WL 22023, at *4 (E.D. La. 2002) ("For a party to be able to terminate its obligations under a contract, the breach must go to the root of the agreement.")

on a case-by-case basis.[26] The question before the Court is whether TI's public statements, an alleged violation of Article 9.12, defeat the object of the parties in making the contract. To perform this fact-specific inquiry, New York courts use the Restatement (Second) of Contracts § 241 ("Section 241") as a guide to determine whether a breach rises to the level of a material breach.[27] Section 241 notes that several circumstances are significant in determining whether a breach is material, including:

> (a) the extent to which the injured party will be deprived of the benefit which he reasonably expected; (b) the extent to which the injured party can be adequately compensated for the part of that benefit of which he will be deprived; (c) the extent to which the party failing to perform or to offer to perform will suffer forfeiture; (d) the likelihood that the party failing to perform or to offer to perform will cure his failure, taking account of all the circumstances including any reasonable assurances; (e) the extent to which the behavior of the party failing to perform or to offer to perform comports with standards of good faith and fair dealing.[28]

(interpreting New York law) (citations and internal quotations omitted); *ESPN, Inc. v. Office of Comm'r of Baseball*, 76 F. Supp.2d 416, 421 (S.D.N.Y.,1999) ("Materiality goes to the essence of the contract. That is, a breach is material if it defeats the object of the parties in making the contract and 'deprive[s] the injured party of the benefit that it justifiably expected.'"); *Zim Israel Navigation Co., Ltd. v. Indonesian Exports Dev. Corp.*, 1993 WL 88223, at *2 (S.D.N.Y. 1993) ("Whether a breach is . . . material is an alternate formulation of the question of whether a breach 'goes to the essence' of the contract.").

[26] *Lloyd's London*, 2002 WL 22023, at *4; *Zilkhu v. Mutual Life Ins. Co. of New York*, 732 N.Y.S.2d 51, 51 (N.Y. App. Div. 2001).

[27] *Frank Felix Assoc.*, 111 F.3d at 289 (considering factors delineated in Restatement (Second) of Contracts § 241).

[28] Restatement (Second) of Contracts § 241.

At the present time, there are so few facts before the Court that it cannot conclude that the alleged breach of the confidentiality provision is immaterial. For this reason, the Court cannot grant TI's motion to dismiss.

The Court must reach this conclusion for several reasons. Qualcomm has met its burden by alleging facts that establish a *prima facie* case for a breach of the Agreement. Qualcomm has alleged facts that, if accepted as true, may support a finding that the alleged disclosures "go to the root of the agreement between the parties"[29] and that the "breach of the contract is so substantial that it defeats the object of the parties in making the contract."[30]

REDACTED

Stated another way, this Court cannot conclude that the alleged breach is immaterial as a matter of law.

This is not to say that TI cannot negate the allegations and inferences in Qualcomm's counterclaim as more facts come to light. At the present time, however, TI's reliance on two New York cases that address the breach of a

[29] *Frank Felix Assoc.*, 111 F.3d at 289 (citations and internal quotations omitted).
[30] *Id*. (citations and internal quotations omitted).
[31] **REDACTED**

confidentiality provision in a contract is unhelpful in advancing its position that the alleged breach is immaterial. In support of its claim, TI points to *In re Ivan Boesky Securities Litigation*, which held that a breach of a confidentiality provision that is ancillary to a stock-ownership restructuring agreement does not give rise to a material breach.[32] TI also points to *Certain Underwriters at Lloyd's, London v. McDermott International, Inc*., which held that when a confidentiality provision is "buried at the end of the [agreement] under the 'Miscellaneous Provisions' section, along with other boilerplate terms", a breach of the confidentiality provision will not constitute a material breach of the contract.[33] In *Lloyd's*, the court went on to note that the plaintiff failed to illustrate how the disclosure "defeat[s] the object of the parties in making the contract."[34]

In the circumstances here, these cases do not support TI's motion to dismiss. First, the procedural posture in both *Boesky* and *Lloyd's* differs from the present case. Both *Boesky* and *Lloyd*'s were decided on motions for summary judgment, where the record was more developed.[35] In contrast, this is a motion to dismiss, a

[32] *In re Ivan Boesky Sec. Litig.*, 825 F. Supp. 623, 636 (S.D.N.Y. 1993), *aff'd*, 36 F.3d 255 (2d Cir. 1994).
[33] *Lloyd's, London*, 2002 WL 22023, at *5.
[34] *Id.* (citations and internal quotations omitted).
[35] *Lipsky v. Commonwealth United Corp.,* 551 F.2d 887, 896 (2d Cir. 1976) (overturning trial court's dismissal because motion to dismiss decided on limited evidentiary record). TI contends that the *Lloyd's* and *Boesky* courts did not rely upon extrinsic evidence in order to determine the materiality issue. But those courts had a record, at least to some extent, that provided a context in which to assess the materiality issue. In addition, the courts were not required to view the

situation where the factual record is undeveloped. In those cases, the Court was able to consider, in the context of a more developed factual record, the breach of the confidentiality provisions and the breach's corresponding impact. In the present case, however, the litigation is in its infancy and the true extent of TI's breach, if any, of the confidentiality provision and the corresponding impact on the Agreement are still unknown. For this reason, the Court is unable to conclude at this stage that the breach is immaterial.

Second, although the confidentiality provision in the present case is in the "Miscellaneous Provisions" section of the Agreement, that does not necessarily mean the parties intended for a breach of the confidentiality provision to be deemed immaterial. As already mentioned, the Agreement fails to define "material," which reasonably suggests the parties intended to determine whether a breach is material on a case-by-case basis.

It is also worth noting that Article 9.1, a Miscellaneous Provision of the Agreement, addresses the representations and warranties that both TI and Qualcomm made to each other. More specifically, Article 9.1(d) states that "[t]he representations and warranties set forth in this Article 9.1 are binding on both PARTIES and their SUBSIDIARIES during the entire term of this Agreement. In addition to *any other material breach of this Agreement*, the PARTIES

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facts in the light most favorable to the non-moving party. A summary judgment motion merely requires the Court to decide if there are disputes of material fact.

acknowledge breach of any such representations or warranties constitutes a material breach of this Agreement."[36] In considering Article 9.1(d) of the Agreement, it is reasonable to conclude that a material breach includes not only a breach of Article 9.1(d), but also could include a breach of other Miscellaneous Provisions, including Article 9.12, the confidentiality provision.[37] Similarly, the Court's conclusion is supported by the fact that the parties carved out certain events that would not constitute a material breach.[38] This casts doubt as to whether a violation of Article 9.12 is *per se* immaterial because had the parties desired they could have carved Article 9.12 out of the definition of a material breach.

TI's position amounts to a *per se* rule that the order in which sections of a contract are drafted should be given great weight to determine whether a breach is material. According to TI, for example, the closer a clause is to the front of an agreement, the more likely a breach of the clause gives rise to a material breach of contract.

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[36] Agreement, Article 9.1(d) (emphasis added).

[37] *VLIW Technology, LLC v. Hewlett-Packard Co.*, 2003 Del. LEXIS 615, at *21 (Del. Dec. 19, 2003) ("Dismissal, pursuant to Rule 12(b)(6), is proper only if the defendants' interpretation is the *only* reasonable construction as a matter of law."). As noted above, what constitutes a material breach is reasonably susceptible to different interpretations. It is reasonable, for example, to conclude that a breach is material if it is a breach of Article 9.1, as well as "*any other material breach*" that might occur, including, but not limited to, a breach of Article 9.12. Agreement, Article 9.1(d) (emphasis added).

[38] Agreement, Article 7.2. Article 7.2 provides that "TI shall not be entitled to terminate this Agreement if QUALCOMM breaches Article 8.1 and fails to correct such breach within such forty-five day period." *Id.*

Although the confidentiality provision is in the miscellaneous section of the Agreement, it does not necessarily follow (as a matter of law) that it is ancillary to the Agreement and its breach is immaterial. It is not clear why the confidentiality provision was placed where it is and it is not appropriate, at this stage, to speculate as to the reasons for that drafting decision. Consider Article 6, entitled Accounting for Taxes, for example, which provides that "[a]ny taxes imposed as a result of the existence of this Agreement or the performance hereunder shall be paid by the party required to do so by law."[39] Article 6 is placed before both Article 9.1 (representations and warranties) and Article 9.12 (confidentiality provisions). Is a breach of Article 6 more likely to constitute a material breach simply because it is not a Miscellaneous Provision placed in Article 9? At this juncture, a question such as this cannot be answered with sufficient confidence to conclude that there is no set of facts under which Qualcomm might prevail on its counterclaim.

IV. CONCLUSION

For the reasons stated in this Memorandum Opinion, I deny TI's motion to dismiss Qualcomm's counterclaim. I ask the parties to confer and agree upon a scheduling order that will enable the Court to resolve this dispute promptly. To that end, the Court is prepared to schedule this case for trial in May or June 2004.

[39] Agreement, Article 6.

Discovery and briefing on any summary judgment motions should be completed in the next sixty days.

IT IS SO ORDERED.