

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE
IN AND FOR NEW CASTLE COUNTY

HIFN, INC.,	)	
	)	
Plaintiff/	)	
Counterclaim-Defendant,	)	
	)	
v.	)	C.A. No. 1835-VCS
	)	
INTEL CORPORATION,	)	
	)	
Defendant/	)	
Counterclaim-Plaintiff.	)	

MEMORANDUM OPINION

Date Submitted: February 28, 2007

Date Decided: May 2, 2007

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STRINE, Vice Chancellor.

I. Introduction

In September 2002, Intel Corporation entered into a contract with Hifn, Inc. in which Intel promised to pay Hifn \$2 million to develop certain network encryption technology. Intel did not pay, and Hifn has sued to recover the contract price. This is the court's opinion on Intel's motion for summary judgment, which is based on Intel's contention that it is excused from paying because Hifn breached the contract by failing to timely perform.

The contract at issue arose because both Hifn and Intel were interested in certain technology that a third party, NetOctave, had been developing. The codename for that technology was "TopCat." Hifn hoped to develop encryption processing chips that utilized TopCat, which it intended to market widely to downstream manufacturers. Intel hoped to use a similar encryption processing device in its own products. The TopCat technology, however, was not complete and needed further development. NetOctave was in financial trouble and needed to sell the incomplete technology. The deal that the parties struck was that Hifn would buy TopCat from NetOctave and finish its development. Hifn would then either grant Intel a non-exclusive license to the finished technology, or would sell its TopCat chips to Intel at most-favored-customer pricing. In exchange, Intel would pay Hifn a \$2 million fee for developing the chips.

From the outset, both Hifn and Intel understood that TopCat's profitability turned largely on the parties' ability to get their products to market quickly. TopCat was a "one gigabit part," which would eventually become obsolete as the market demanded faster technology. Hifn's own internal marketing documents suggested that it needed full production chips by the fourth quarter of 2003 at the latest. Accordingly, the contract

between Hifn and Intel provided for “target dates” for the completion of various phases of the project, which suggested that the parties expected Hifn to complete TopCat by May 2003.

Hifn did not even come close to meeting either the target dates stated in the contract or its own estimation of when it needed the completed technology. It did not have production quality chips ready until July 2004, more than a year after the contractual target. Even then, the technology did not work because Hifn had not completed the related software. That was not done until December 2004. In short, Hifn took more than three times longer than the contract contemplated to complete performance. It even missed its own estimation of the market window by over a year. Hifn admits that the delays were material and that those delays resulted in TopCat’s commercial failure. By the time Hifn completed the technology, neither Intel nor anyone else had any use for it and Hifn ultimately sold less than 800 TopCat chips.

Those stark facts strongly support Intel’s claim that Hifn materially breached the contract by failing to timely perform. In this opinion, although I reject Intel’s contention that time was of the essence in the contract, I conclude that Hifn failed to perform within a reasonable time and thus committed a total breach of the contract on that basis.

The complexity in this case, however, stems from Intel’s own behavior, and in particular its failure to hold Hifn to strict compliance with the target dates from the outset. Throughout the first half of 2003, Hifn informed Intel of numerous delays in the TopCat project, which Intel never substantially complained about. Rather, Intel continually encouraged Hifn to perform, with engineers from the two companies meeting as often as

once a week. Intel did regularly ask about the production schedule and kept getting assuring responses, but ones that always indicated further slippages. Then, at a meeting in October 2003, Intel told Hifn that it no longer had any use for the technology and that it would not pay the \$2 million. Intel proposed putting the contract “on ice,” which, in effect, would have suspended the contract while giving Intel the option of reinstating it if it later desired to do so. That proposal was motivated by Intel’s decision, for reasons unrelated to Hifn’s delays, not to pursue the project in which it planned to use TopCat.

Hifn contends that the “on ice” proposal was a repudiation of the contract, which excused Hifn from its duty to perform and entitled it immediately to seek damages for breach. As I discuss, that contention fails, and Intel’s behavior does not preclude a grant of summary judgment in its favor on Hifn’s \$2 million damages claim. Importantly, Hifn admits that: (1) its decision to develop TopCat was unrelated to its contract with Intel; (2) the back-and-forth between it and Intel did not cause Hifn to incur any substantial expense; and (3) nothing Intel did, including its alleged repudiation, contributed, in any meaningful way, to Hifn’s failure to perform within a reasonable time. As a result, this case does not implicate any of the special contract law principles that apply to contracts for custom work or for the sale of custom-made goods. Because the contract asked Hifn to do nothing more than it was planning to do already, none of Intel’s initial temporal lenity prejudiced Hifn in any way.

Moreover, Intel did not repudiate the contract, and its subjective motivations for wanting out of the deal did not affect the legal rights that flowed from Hifn’s failure to perform. By October 2003, Hifn was already materially late, and Intel believed that it was

in a strong negotiating position to alter the deal in light of the fact that it had no present plans to use the TopCat chip. In response to the “on ice” proposal, Hifn acknowledged its own failure of performance, and, instead of giving Intel a hard date in the reasonable future on which it would perform and demanding full payment, Hifn tried to renegotiate the price term, offering to accept just \$500,000. In other words, Hifn did not treat the “on ice” proposal as a repudiation, but rather as a negotiation that flowed from Hifn’s own delays.

Finally, even if the “on ice” proposal was a repudiation, Hifn would still not be entitled to recover damages. Hifn admits Intel’s “on ice” proposal did not derail Hifn’s efforts to complete the project as quickly as it could, and Hifn was unable to perform for reasons unrelated to Intel’s alleged repudiation. Hifn’s attempt to punish Intel for a “repudiation” that had no impact on its own failure to perform within a reasonable time fails under well-recognized legal principles. Therefore, Intel’s motion for summary judgment must be granted.

II. Factual Background¹

A. Hifn’s And Intel’s Interests In TopCat

Hifn is a publicly-held technology company whose business centers on designing silicon chips that support security applications in computer networking and storage.² In 2002, it was pursuing a strategic partnership with QLogic Corporation jointly to develop and sell an iSCSI storage interface that would incorporate both a QLogic host bus adaptor

¹ These are the facts taken in the light most favorable to Hifn.

² Deposition of Hifn’s Chief Executive Officer, Chris Kenber (“Kenber Dep.”) at 13.

and a Hifn encryption processor.³ The project required the Hifn part to use a technology called internet protocol security (“IPSec”). The wrinkle in the plan was that Hifn did not yet have an iSCSI-compliant IPSec chip in development, and both Hifn and QLogic feared that Hifn lacked the internal know-how to develop the necessary technology from scratch in time to hit the market window.⁴

The solution to that wrinkle involved a start-up company called NetOctave that had done a substantial amount of the design and engineering work on an iSCSI-compliant IPSec chip that it had codenamed “TopCat.”⁵ Hifn knew that NetOctave was struggling financially and was “looking to sell some of [its] technology in order to keep going.”⁶ Hifn saw an opportunity to acquire TopCat and develop a finished iSCSI-compliant IPSec chip faster.⁷

But Intel was also interested in NetOctave’s TopCat technology. In fact, Intel was an investor in NetOctave and had a right of first refusal over TopCat.⁸ Although as of September 2002 Intel had no concrete plans to incorporate the TopCat chip into any specific Intel product, Intel did not want to lose its rights to the technology. Intel informed Hifn that Intel intended to exercise its right of first refusal unless the parties could work out a deal that would allow Intel access to the TopCat technology.⁹

³ Kenber Dep. at 87.

⁴ Deposition of Hifn’s Chief Technology Officer, Russell Dietz (“Dietz Dep.”) at 16.

⁵ As of November 12, 2002, the TopCat project was 80% to 90% complete. Affidavit of Stephen C. Norman (“Norman Aff.”), Ex. 14.

⁶ Deposition of Hifn’s Vice President of Sales, Marketing, and Operations, Thomas Moore (“Moore Dep.”) at 17.

⁷ *Id.* at 33.

⁸ *Id.* at 36.

⁹ Kenber Dep. at 15.

During the negotiations between Intel and Hifn, both parties knew that, due to the nature of the TopCat technology, time to market was critical for the TopCat project. The TopCat chip was a one gigabit part.¹⁰ Eventually, the market would not be interested in an encryption processor that ran at that speed, and would insist on faster technology. Indeed, as stated, Hifn's motivation for acquiring TopCat in the first place rather than developing its own iSCSI-compliant IPsec chip from scratch was to get the chip to market at the appropriate time. Hifn's internal marketing documents emphasized that "[t]ime to market is critical with this device,"¹¹ stating that sample chips needed to be available by June 2003, pre-production parts by September 2003, and volume production parts in the fourth quarter of 2003.¹²

B. The Contract

On September 8, 2002, Intel and Hifn entered into the IPsec Technology License and Purchase Agreement (the "Agreement"), the basic terms of which provided that Hifn would acquire TopCat and finish the development of the technology and that Intel would pay Hifn \$2 million over several installments.¹³ In return, Intel got two sets of rights to TopCat. First, it got a perpetual, non-exclusive license to the TopCat technology, which it could use to make its own iSCSI-compliant IPsec chips. Second, Intel would have the right to purchase completed TopCat chips from Hifn at most-favored-customer pricing.

¹⁰ Deposition of Intel's Business Development Manager, John Griffiths ("Griffiths Dep.") at 92.

¹¹ Norman Aff., Ex. 30.

¹² *Id.* Intel shared Hifn's concerns about timeliness, noting that it had to hit the market in a "very narrow window." Deposition of Intel executive Timothy Towell ("Towell Dep.") at 33-34. When Intel finally decided on a project in which to use TopCat, its own marketing documents stated that "timely availability of the [TopCat chip] is a risk factor." Norman Aff., Ex. 29.

¹³ Affidavit of Jason C. Jowers ("Jowers Aff."), Ex. 2.

The Agreement stressed that Hifn's plans were to develop TopCat chips for the general market.¹⁴ Kenber, Hifn's CEO, "emphasized from Day 1 [that he] had no interest in building a custom product for Intel."¹⁵ He specifically told his TopCat team that "Intel gets what QLogic gets, nothing more nothing less."¹⁶ As such, the Agreement did not require Hifn to do any extra work or to make any special design changes for Intel.¹⁷ As a result, Hifn viewed the Agreement as a no-lose situation. Thomas Moore, Hifn's Vice President of Sales, Marketing, and Operations testified at his deposition that "it seemed . . . like a good business decision on Hifn's part. We would get the technology, we would finish it and build it. Intel would be a customer for the technology, that's not a bad thing."¹⁸

Attachment C to the Agreement provided that Intel would pay Hifn \$250,000 upon the occurrence of each of three development "milestones,"¹⁹ and \$1.25 million in "royalties" over the first year in which the TopCat chips were available. Particularly important in this dispute is that Attachment C to the Agreement lists target dates for each of the three milestones. The contract language states:

(a) \$250,000 paid within 30 days of Intel's acceptance of the Hifn demonstration and delivery to Intel of the final IPsec Technology. (target date: November 1, 2002)

¹⁴ *Id.* (reciting that "Hifn will secure exclusive and non-exclusive rights to certain IP [from NetOctave] for the purposes of building commercial merchant market silicon products").

¹⁵ Kenber Dep. at 92-93. Kenber repeatedly highlighted this point in his deposition, going on to state: "And, therefore, what we were planning to ship to Intel was a standard product. And it was the same product that we would ship to QLogic." *Id.*

¹⁶ Norman Aff., Ex. 15.

¹⁷ Norman Aff., Ex. 37 (Hifn's Responses to Intel's Requests for Admission, No. 54).

¹⁸ Moore Dep. at 39-40.

¹⁹ The word "milestones" is not used in the Agreement. It is the word that the parties have used to describe the three events upon completion of which Hifn would be entitled to bill Intel. See Intel's Opening Brief at 7; Hifn's Answering Brief at 7.

(b) \$250,000 paid within 30 days of Intel's acceptance of Hifn tapeout²⁰ and Intel [sic] receipt of a complete manufacturing package. (target date: 3/31/03)

(c) \$250,000 paid within 30 days of Intel's acceptance of production silicon (target date: 5/31/03)

(d) Notwithstanding these provisions, these schedules may be adjusted by mutual agreement upon Hifn analysis of the RGMII requirement and completion of Hifn's due diligence with NetOctave.²¹

With respect to the permitted modifications to the target dates under Attachment C, § (d), Hifn admits that the RGMII requirement did not add to any delay because Hifn never developed an RGMII interface.²² Nor does Hifn make a claim that it learned anything in due diligence with NetOctave that required the schedule to be changed.

The provisions of the Agreement that address modifications generally and termination are also relevant. Section 12.8 of the Agreement states, “[n]o amendment to, or modification of, this Agreement shall be binding unless in writing and signed by a duly authorized representative of both parties.”²³ Section 11.2.1 states, “[e]ither party shall have the right to terminate this Agreement should the other party materially default in the performance of any of its obligations if, within thirty (30) days after written notice, the defaulting party has failed to cure the default.”²⁴ In the event that Hifn materially breached the Agreement and failed to cure within the thirty-day period, Intel was entitled to the

²⁰ “Tapeout” refers to the completion of the engineering design and the project’s transition to the manufacturing phase. Deposition of Intel’s TopCat Project Manager, Michael Sherbourne (“Sherbourne Dep.”) at 46-47.

²¹ Jowers Aff., Ex. 2.

²² Dietz Dep. at 35.

²³ Jowers Aff., Ex. 2.

²⁴ *Id.*

TopCat technology royalty free.²⁵ That is, it would still be entitled to a non-exclusive license to the completed technology (once that technology was finally completed), and would not have to pay Hifn any part of the \$2 million.

C. The Back-And-Forth Between Intel And Hifn

The crux of this dispute centers on the post-contracting communications between Intel and Hifn. Although Intel and Hifn dispute the legal ramifications of those communications, they do not dispute any of the relevant facts regarding the extensive back-and-forth.

The first of the target dates specified in the Agreement was supposed to be a November 1, 2002 simulation of the TopCat technology. That date came and went without any comment from either party. In fact, representatives of Intel and Hifn did not meet regarding the TopCat project for the first time until November 11, 2002 at a meeting the parties dubbed the “Kickoff Meeting.”²⁶ It appears that nothing was said at this meeting regarding Hifn’s failure to meet the first target date.

Intel did not express its first schedule-related concerns until January 2, 2003, inquiring in an email, “What is the status of the [TopCat chip] (still on track for Tape out?),” to which Hifn responded, “[t]he project is still holding to schedule.”²⁷ Timing issues were also discussed at a meeting on January 30, 2003, during which Hifn and Intel had an “open and clear” discussion regarding schedules.²⁸ Those discussions involved Hifn’s

²⁵ *Id.*

²⁶ Jowers Aff., Ex. 3.

²⁷ Jowers Aff., Ex. 26.

²⁸ Deposition of Hifn’s TopCat Product Line Director, Robert Doud (“Doud Dep.”) at 26-27.

understanding that Intel expected to incorporate TopCat chips into products that it would release in the fourth quarter of 2003.²⁹

The scheduling issues were discussed at the January 30 meeting in the context of certain design changes to the TopCat chips that Intel suggested. The design changes were related to a project called “Crestview” that had just been given the go-ahead at Intel.

Crestview was a network interface card that would contain both the TopCat chip and another chip that Intel was designing called “Cranbrook.” To accommodate the Crestview project, Intel asked that the TopCat chips be altered to encompass a SerDes interface. It also asked that the chips support the handling of fragmented packets. Assuming the design changes were implemented, Intel informed Hifn that it was prepared to accept the TopCat chips as late as November 2003.³⁰

Intel’s request for design changes caused a minor dispute between Intel and Hifn. The Agreement did not require Hifn to make any design changes and Hifn objected to doing this extra work, informing Intel that adding a SerDes interface would negatively affect Hifn’s ability to produce the chips on a timely basis.³¹ Intel thus dropped that request and opted to use a separate adaptor chip to solve the interface problem.³²

²⁹ Internal Hifn documents discussing the meeting state: “If [Intel doesn’t] have [software] answers by early February, it will impact [sic] their ability to develop products to release in ’03 — may not enable product rollout.” Jowers Aff., Ex. 23 at 3.

³⁰ Jowers Aff., Ex. 1 at 6.

³¹ Jowers Aff., Ex. 5 (email from Hifn’s Kenber to Intel noting that “[t]he (requested?) redesign would impact [sic] the current schedule”).

³² Hifn points out that Intel continued to insist that TopCat support fragmentation. But Hifn does not contend that Intel’s insistence in any way contributed to the delays that plagued the TopCat project. Kenber Dep. at 79-80.

At the January 30 meeting, Hifn gave Intel the first in a series of notices about TopCat's delays, informing Intel that Hifn was a few weeks behind — specifically that tapeout of the Hifn chip had “slipped” from March 31 to April 22.³³ But Hifn did not let on that more delays were to come. In fact, in early February, Kenber wrote to Tim Towell at Intel, saying, “we are making good progress on the current TopCat program and are close to schedule.”³⁴ In early April, though, at the next face-to-face meeting, Hifn told Intel that Hifn's schedule had slipped another month for the hardware aspects of the project.³⁵ At that meeting, Hifn told Intel that it expected the first chips to be produced by the end of August 2003.³⁶ Upon hearing that news, an Intel employee noted, “this should not cause a problem for us.”³⁷

Over the next several weeks, the engineers from the two companies communicated regularly about the technical aspects of the project. At top management levels, Intel's TopCat project manager, Michael Sherbourne, and his counterpart at Hifn, Bob Doud expressed some mutual confusion about exactly what performance was required of Hifn at each target date. The two managers sought to clarify what would be expected of Hifn at

³³ Jowers Aff., Ex. 22.

³⁴ Jowers Aff., Ex. 5.

³⁵ Jowers Aff., Ex. 11.

³⁶ *Id.*

³⁷ *Id.* The parties disagree over what the employee was referring to when he wrote this. Intel claims that he was merely referring to the fact that a hardware slip on Hifn's end would not affect Intel's software development work. In the context of this motion, I will accept Hifn's interpretation of the statement that Intel would have found it acceptable to have the first chips produced at the end of August 2003.

each milestone stage and toward that end began jointly to draft a document entitled “Statement of Work.”³⁸ It appears that this document was never substantially completed.³⁹

On May 21, Sherbourne and Doud had a phone conversation discussing scheduling issues. Hifn’s Doud informed Intel’s Sherbourne that Hifn was looking at another eight to ten week slip in the schedule.⁴⁰ Many of the delays were caused by problems Hifn was having with a third-party vendor, Phillips, to whom it had outsourced the design of the physical layout of the chip.⁴¹ During TopCat’s development, Phillips was closing its design centers, and, as a result, Hifn’s project was shuttled around to various facilities, which required Hifn to deal with constant changes in the Phillips personnel devoted to the project.⁴² Hifn’s CEO Kenber admitted that nothing could have been done by Intel to speed up Hifn’s ability to meet the contract milestones.⁴³ Doud also admitted that no complaining by Intel would have sped up the process.⁴⁴

According to Hifn’s Project Manager Doud, during the May 21 phone conversation, Intel’s Sherbourne also discussed schedule slips on Intel’s part with respect to the Crestview project and specifically, the Cranbrook chips.⁴⁵ As stated, both the TopCat and Cranbrook chips would be incorporated into Crestview. Doud noted that he expected the TopCat chip to be available before the first Cranbrook chip, “in the November [2003] timeframe.”⁴⁶

³⁸ Jowers Aff., Ex. 12.

³⁹ *Id.*

⁴⁰ Jowers Aff., Ex. 30.

⁴¹ *Id.*; see also Doud Dep. at 66-67.

⁴² *Id.*

⁴³ Kenber Dep. at 102-03.

⁴⁴ Doud Dep. at 133-34.

⁴⁵ *Id.* at 129.

⁴⁶ Jowers Aff., Ex. 13.

In June, Sherbourne drafted a document entitled “Hifn Milestone Plan” that listed the expected date of tapeout as September 12 and the date of the first engineering prototypes as November 6.⁴⁷ Those dates later slipped to September 26 and November 20.⁴⁸ Intel has described the delays as “akin to water torture” — Hifn’s projections were continually slipping little-by-little.⁴⁹ By early July, Intel began to express some internal grumblings about the delays in the TopCat project.⁵⁰ But those concerns were not communicated to Hifn.⁵¹

The last communication between Intel and Hifn before the October 8 “on ice” meeting is an August 14 email from Hifn’s Kenber to Tim Towell and John Griffiths at Intel:

We are expecting to tape out the [TopCat] chip by the end of the quarter [September 30, 2003]. By the terms of our agreement, Intel will at that point owe Hifn \$250,000, which we expect to bill you on or prior to September 30.

There is also a provision in our agreement obligating Intel to an additional \$250,000 . . . payment upon your acceptance of a demonstrated full simulation. This actually precedes the tapeout obligation.

We should discuss how to complete this second item — I see no reason why it cannot be completed prior to the end of the quarter.⁵²

⁴⁷ Jowers Aff., Ex. 28.

⁴⁸ Jowers Aff., Ex. 29.

⁴⁹ See Intel’s Opening Brief at 11.

⁵⁰ See Jowers Aff., Ex. 15 (email from Tim Towell to John Griffiths: “How far behind the contract milestones is HiFn from [] your read of the contract, and your understanding of the deliverables to Intel . . .”).

⁵¹ Hifn’s Kenber testified that no negative input was communicated to him before October. Kenber Dep. at 101-02.

⁵² Jowers Aff., Ex. 16.

D. Intel Kills The Crestview Project

As stated, Intel's use for the TopCat chip was in a network interface card that it had codenamed "Crestview." Crestview would incorporate the TopCat chip and a chip Intel was developing called "Cranbrook." Cranbrook was dependent on another project, codenamed "Alvarado," that Intel had outsourced to another third party, Lucent.⁵³

By March 2003, Intel had received the Alvarado technology from Lucent and found that it was flawed. A status report from Intel's "New Technologies Team" reflects that Intel concluded at that time that Alvarado was an unmarketable part because it produced too many errors.⁵⁴ As for the Cranbrook project, the status report simply states, "Nuff said."⁵⁵ That document was dated March 18, 2003, many months before the October 8 "on ice" meeting. At some point, the Cranbrook and Crestview projects were put on hold, although it is unclear exactly when that happened.⁵⁶

In late August, in a series of emails, Intel began to discuss other uses for the TopCat chip. The discussions noted that the "Hifn engagement appears to have gone back-burner" and that "Hifn [was] very late on its deliverables."⁵⁷ Intel anticipated re-negotiating the Agreement in light of the delays and sought to determine whether the various divisions within Intel were planning on using the TopCat chip in any upcoming projects.⁵⁸ Intel

⁵³ Towell Dep. at 66-68.

⁵⁴ Jowers Aff., Ex. 8.

⁵⁵ *Id.*

⁵⁶ Intel's executives testified that Crestview was put on hold sometime before October 2003, but could not remember precisely when. *E.g.*, Griffiths Dep. at 85.

⁵⁷ Jowers Aff., Ex. 17.

⁵⁸ *Id.* (reflecting Intel's understanding that Hifn was "very late on its deliverables," and its desire to get a "better fix" on Intel's "expected utilization of Hifn's material before engaging with [Hifn's] CEO in a possible renegotiation").

eventually concluded that “[t]here does not seem to be a lot of demand” for Hifn’s TopCat technology.⁵⁹

E. The “On-Ice” Meeting And Subsequent Negotiations

Despite Hifn’s announcement in August that tapeout for the TopCat chip would occur before the end of the third quarter (i.e., September 30, 2003), by early October, Hifn still had not achieved tapeout or any of the contract milestones. John Griffiths from Intel scheduled a meeting with Chris Kenber at Hifn’s offices for October 8, 2003. He did not give any advance notice of the subject matter of the meeting. At the meeting, Griffiths stated that Intel had concluded that the market window for a one gigabit part had passed and expressed Intel’s desire to put the Agreement “on ice.”⁶⁰ The substance of that proposal was that, rather than declare a material breach of the Agreement, which, according to its terms, would have given Intel the right to license the completed TopCat technology royalty free if Hifn proved unable to cure the breach within thirty days, Intel and Hifn would simply suspend the Agreement until Intel was able to find a use for the TopCat chips.⁶¹ Hifn would not deliver anything to Intel, and Intel would have no financial obligation to Hifn, but would have a right to reactivate the Agreement (and the consequent obligation to pay the \$2 million) if it later desired to use TopCat. In essence, Intel desired to retain an option to acquire for \$2 million a license to the TopCat technology and the right to buy the chips at most-favored-customer pricing.

⁵⁹ *Id.*

⁶⁰ Griffiths Dep. at 92.

⁶¹ Jowers Aff., Ex. 32 (email from Kenber to John Griffiths summarizing Intel’s proposal and making Hifn’s counter proposal).

Hifn did not accept Intel's proposal. But importantly, it did not stand firm on its contract rights by insisting that Intel pay the full contract price. As important, Hifn did not give Intel a hard date for when it would have the project completed. Rather, in a subsequent email exchange, Hifn made a counter proposal that Intel pay Hifn \$500,000 by the end of 2003.⁶² Intel would then continue to have the right to buy the TopCat chips at most-favored-customer pricing without having to pay the remaining \$1.5 million. With respect to this proposal, Kenber noted, "[m]y sole object is to record a legitimate \$500k in revenue to Hifn this quarter."⁶³

Intel refused to accept the counter proposal and continued to push for its "on-ice" proposal. Intel suggested that its only other alternative was to terminate the Agreement under the contractual termination provision "for breach due to Hifn's failure to deliver."⁶⁴ Intel expressed reluctance with respect to that alternative, stating, "[t]his is a road that we would prefer to not go down because of its obvious impacts [sic] on the overall relationship."⁶⁵

Throughout the post-October 8 negotiations, Hifn continued to work on the TopCat project. As Hifn's CEO Kenber put it, "I certainly didn't tell [the TopCat team] to stop work. Indeed, since I testified that the work they were doing wasn't unique to Intel, what

⁶² *Id.*

⁶³ *Id.*

⁶⁴ *Id.*

⁶⁵ *Id.*

work would they have stopped doing?”⁶⁶ Hifn did not attempt to send any deliverables to Intel, citing Intel’s specific instructions not to deliver.⁶⁷

F. TopCat’s Failure In The Market

Hifn completed tapeout of the TopCat chip sometime in November 2003.⁶⁸ But it did not send sample chips to customers until January 2004 and did not ship production quality chips until June 2004.⁶⁹ Even then, the chips could not be used commercially for another six months because Hifn did not complete the essential and contractually-mandated supporting software until December 2004.⁷⁰ In sum, although the contractual target dates called for completed performance in about eight months, it took Hifn more than twenty-seven months to finish the job — more than three times longer than expected. Hifn does not attribute any of these delays to its back-and-forth with Intel.⁷¹

The TopCat chips were profoundly unsuccessful in the market. Hifn sold only 723 chips in total.⁷² Gross revenues were only \$55,254 — materially below Hifn’s original expectations.⁷³ Hifn’s strategic partner, QLogic, bought only 120 of the TopCat chips and never sold any products that incorporated them. That is, the iSCSI storage interface that prompted Hifn to get involved in the TopCat project in the first place never made it to

⁶⁶ Kenber Dep. at 137-38.

⁶⁷ Jowers Aff., Ex. 32.

⁶⁸ *Id.*

⁶⁹ Norman Aff., Ex. 18.

⁷⁰ *Id.*

⁷¹ Kenber Dep. at 125-26.

⁷² Deitz Dep. at 40.

⁷³ *Id.*

market. QLogic even complained to Hifn that it lost substantial amounts of business because of Hifn's delays.⁷⁴

Hifn attributes TopCat's failure, in part, to its inability to bring the technology to market fast enough.⁷⁵ Hifn's Doud acknowledged that, when the parties entered into the Agreement, it would not have been "realistic" to expect the project to take as long as it did.⁷⁶ Other Hifn employees also described the delays as commercially material. With regard to a bonus plan for the engineers involved in the TopCat project, Tom Ebzery, Hifn's Program Manager for TopCat, wrote in an email dated November 11, 2003, "[o]bviously we have experienced significant delays on the TopCat program for a variety of reasons. While Chris [Kenber] and the rest of the executive team are clearly disappointed with the delays, they understand that many circumstances were beyond our control."⁷⁷ The engineers' bonus pool was cut by 40% at that time and further cuts attributable to the subsequent delays were made later.⁷⁸

III. Legal Standard

In resolving this summary judgment motion, I apply the familiar Rule 56 standard, under which judgment is granted when the moving party demonstrates that there are no genuine questions of material fact and that it is entitled to judgment as a matter of law.⁷⁹

⁷⁴ QLogic complained that one of its major customers decided to buy host bus adaptors from a vendor other than QLogic because staying with the QLogic product, which relied on Hifn's TopCat chip, "put too much risk in [the customer's] schedule." Moore Dep. at 58-60.

⁷⁵ Deitz Dep. at 40 ("Oh, the difference was significant because, you know, the market had changed in addition to, you know, the issues of the delay, so it was a combination.").

⁷⁶ Doud Dep. at 111-12.

⁷⁷ Norman Aff., Ex. 33.

⁷⁸ Deposition of Thomas Ebzery ("Ebzery Dep.") at 55-56.

⁷⁹ *E.g., Scureman v. Judge*, 626 A.2d 5, 10 (Del. Ch. 1992).

The burden is on the moving party to prove an absence of a material issue of fact and the court must review all evidence in the light most favorable to the non-moving party.⁸⁰

When the moving party puts facts into the record which, if undenied, would entitle it to summary judgment, the burden shifts to the opposing party to present some evidence to show the existence of a material factual dispute.⁸¹ If it does not, judgment as a matter of law will be granted against it.

Resolving this summary judgment motion requires me to interpret the plain language of the Agreement, which provides that “[a]ny claim arising under or relating to this Agreement shall be governed by the internal substantive laws of the State of Delaware.” I therefore apply Delaware’s well-understood principles of contract interpretation.

Summary judgment is the proper framework for enforcing unambiguous contracts because there is no need to resolve material disputes of fact.⁸² A determination of whether a contract is ambiguous is a question for the court to resolve as a matter of law.⁸³ Delaware adheres to the “objective” theory of contracts — a contract’s construction should be that which would be understood by an objective, reasonable third party.⁸⁴

⁸⁰ *Id.* at 10-11.

⁸¹ *E.g., Tanzer v. Int’l Gen. Indus., Inc.*, 402 A.2d 382, 385 (Del. Ch. 1979); COURT OF CHANCERY RULE 56(e) (“When a motion for summary judgment is made and supported as provided in this Rule, an adverse party may not rest upon the mere allegations or denials of his pleading, but his response, by affidavits or as otherwise provided in this Rule, must set forth specific facts showing that there is a genuine issue for trial. If he does not so respond, summary judgment, if appropriate, shall be entered against him.”)

⁸² *E.g., Pellaton v. The Bank of New York*, 592 A.2d 473, 478 (Del. 1991).

⁸³ *E.g., Reardon v. Exch. Furniture Store, Inc.*, 188 A. 704, 707 (Del. 1936).

⁸⁴ *E.g., Cantera v. Marriott Senior Living Services, Inc.*, 1999 WL 118823, at *4 (Del. Ch. 1999).

“Contract terms themselves will be controlling when they establish the parties’ common meaning so that a reasonable person in the position of either party would have no expectations inconsistent with the contract language.”⁸⁵

IV. Analysis

A. Was Time Of The Essence In The Agreement?

Intel initially contends that time was of the essence in the Agreement and that Hifn breached by failing to comply strictly with the target dates. When time is of the essence in a contract, a failure to perform by the time stated is a material breach of the contract that will discharge the non-breaching party’s obligation to perform its side of the bargain.⁸⁶ Whether time is of the essence in a contract turns in the first instance on whether the contract explicitly states so.⁸⁷ When the contract fails to contain a time of the essence clause, time will only be of the essence if the circumstances surrounding the contract or the parties’ course of dealing clearly indicate that strict compliance with a specified timeframe was intended.⁸⁸

Although Intel concedes that the Agreement contains no express time of the essence language, it contends that the target dates were intended to be a strict and unforgiving delivery schedule. Intel also makes the more general argument that the short shelf life of products like the TopCat chip in the technology industry and the parties’

⁸⁵ *Eagle Indus., Inc. v. DeVilbiss Health Care, Inc.*, 702 A.2d 1228, 1232 (Del. 1997).

⁸⁶ 15 WILLISTON ON CONTRACTS § 46:3 (4th ed. 2000).

⁸⁷ *E.g., Silver Properties, LLC v. Megee*, 2000 WL 567870, at *2 (Del. Ch. 2000); *see also* 15 WILLISTON ON CONTRACTS § 46:3 (“The first point to be considered when the inquiry is whether time is of the essence is whether the parties have expressly made it so.”).

⁸⁸ *Silver Properties*, 2000 WL 567870, at *2.

understanding that they needed to hit a narrow market window indicate that the parties intended time to be of the essence here. I address each of these contentions separately.

1. The Target Dates Themselves Do Not Make Time Of The Essence

Intel's reliance on the target dates as evidencing an intent to make time of the essence is misplaced for several reasons. First, the word "target" itself does not connote a hard and fast deadline. Rather, a "target" is more ordinarily defined as a "goal to be reached."⁸⁹ It expresses an aspiration, not a deadline or a requirement. Hitting the target dead-on is preferred. But usually anywhere in the near vicinity is good enough. In other words, the use of a "target date" does not suggest an intent that a failure to strictly adhere to that date would result in a material breach of the Agreement.

Moreover, the placement of the target dates in the contract suggests that they were intended to carry less importance in the Agreement than Intel suggests. The target dates do not appear in the main text of the Agreement, but in a separate "Attachment" that deals primarily with payment terms and not with the time for performance. If the target dates were intended to carry such clout, they would be expected to be featured more prominently.

Also, the contract itself suggests some amount of temporal flexibility in that the \$1.25 million royalty payments do not provide for specific payment dates, but provide for payments to begin in the first quarter in which the TopCat chips become available.⁹⁰

⁸⁹ See, e.g., THE AMERICAN HERITAGE DICTIONARY OF THE ENGLISH LANGUAGE, available at <https://www.dictionary.reference.com/browse/target> (defining "target" as, "a goal to be reached").

⁹⁰ Jowers Aff., Ex. 2.

That suggests that the parties were not entirely sure at the time of contracting precisely when that would be.

Finally, even if the target dates were intended to be a delivery schedule as opposed to an aspiration, the mere specification of particular dates for delivery ordinarily is not enough to make time of the essence. “Where a time of delivery is specified without being made of the essence, it is contemplated that there shall be reasonable compliance therewith in accordance with the standards of the industry.”⁹¹ The law presumes contracting parties are familiar with time of the essence clauses and that they know how to make time of the essence if they so desire, especially in contracts between sophisticated business entities like Intel and Hifn. Courts are reluctant to read contract provisions into agreements like these when they easily could have been included by the parties themselves.⁹² As a result, the mere listing of dates for performance in the Agreement (if that is even what the target dates are) does not aid Intel in establishing that time was of the essence.

2. The Extrinsic Evidence Shows That Time Was Not Of The Essence

When a contract does not contain a time of the essence clause, courts look to the surrounding circumstances to determine whether the parties intended strict compliance with a particular timeframe.⁹³ The circumstances clearly show the parties here did not. First, TopCat was a project that required substantial engineering and design work on

⁹¹ *J.A. Jones Const. Co. v. City of Dover*, 372 A.2d 540, 550 (Del. Super. 1977).

⁹² *E.g., Allied Capital Corp. v. GC-Sun Holdings, L.P.*, 910 A.2d 1020 (Del. Ch. 2006).

⁹³ *Steuart Petroleum Co. v. Salomon, Inc.*, 1989 WL 100517, at *8 (Del. Super. 1989) (citing *Siegal v. Banker*, 486 A.2d 1163 (D.C. App. 1984)).

Hifn's part. In contrast to the simple manufacture of an already-designed microchip, one would ordinarily expect this type of intellectual work to involve some temporal uncertainty. The final target date was more than eight months out from the signing of the contract. It is difficult to imagine that the parties thought they could pinpoint the exact dates for such an extended delivery schedule, especially in light of the nature of the work.

The behavior of both parties further reflects that time was not of the essence in that the contract contemplated a continuing exchange of information between Intel and Hifn and representatives from the two parties did not even meet for the first time until ten days after the first target date. Had the parties intended strict compliance with the dates, they would be expected to have gotten together before then.

I am also unpersuaded by Intel's contention that time was of the essence because both parties knew that they were under a time crunch and that they had to hit a very narrow market window. The parties generally felt that they needed TopCat completed by the fourth quarter of 2003. But the final target date was months earlier, in the middle of the second quarter. It appears that they left themselves breathing room. Indeed, counsel for Hifn conceded at oral argument that if Hifn had been a week or a month late, Intel "would not be here."⁹⁴

Finally, I reject Intel's contention that time was of the essence because technology products like the TopCat chip are subject to short shelf lives and rapidly changing prices. Accepting such an argument would judicially insert a time is of the essence clause automatically into every contract within the sphere of technology development. That

⁹⁴ Transcript of Oral Argument (Feb. 28, 2007) at 7.

would be inconsistent with fundamental rules of contract interpretation, which require strict adherence to the language of the contract when its terms are clear.⁹⁵ Therefore, I hold that time was not of the essence in the Agreement.⁹⁶

B. Is There A Material Question Of Fact As To Whether Hifn Performed Within A Reasonable Time?

When time is not of the essence in a contract, a party still commits a material breach when it fails to perform within a reasonable time.⁹⁷ In this regard, the fact that time is not of the essence in the Agreement does not mean that the target dates in the Agreement are meaningless. Indeed, the Agreement itself emphasizes their importance by providing for the dates to be modified only upon the occurrence of certain

⁹⁵ *E.g., MHM/LLC, Inc. v. Horizon Mental Health Mgmt., Inc.*, 1996 WL 592719, at *2 (Del. Ch. 1996).

⁹⁶ My conclusion that the target dates represented aspirational goals and not a strict delivery schedule essentially disposes of Hifn's waiver and modification arguments, which the parties debate at length in their briefs. Hifn has argued that through the substantial back-and-forth between Hifn and Intel during the first half of 2003, Intel waived or modified the target dates by acquiescing in Hifn's delayed performance. Those waiver and modification arguments raise a number of issues, such as whether the common law or the Uniform Commercial Code applies to this unique contract. The issue comes up because those two bodies of law differ in their treatment of modifications without consideration. *Compare* 6 *Del. C. § 2-209* (providing that consideration is not necessary to support a contractual modification under the UCC); *with Continental Ins. Co. v. Rutledge & Co.*, 750 A.2d 1219, 1230 (Del. Ch. 2000) (consideration is required for modification at common law). But ultimately, I do not have to answer that academic choice of law question. Because the target dates do not set a strict delivery schedule, it is unclear precisely what Intel would have waived or how Intel would have modified the contract in the first instance. When time is not of the essence, the UCC and the common law of contracts both require performance within a reasonable time. *See* 6 *Del. C. § 2-309*; *J.A. Jones Const. Co.*, 372 A.2d at 550. As I discuss, the post-contracting communications between the parties are relevant in determining the reasonableness (or unreasonableness) of Hifn's delays, but the communications do not amount to a waiver of any requirement that Hifn ultimately perform within a commercially reasonable amount of time, nor does Hifn make such an argument.

⁹⁷ *E.g., J.A. Jones Const. Co.*, 372 A.2d at 550; *see also Delaware Fin. Mgmt. Corp. v. Vickers*, 1999 WL 458633, at *7 (Del. Super. 1999) (citing *Martin v. Star Publishing Co.*, 126 A.2d 238 (Del. 1956)) ("The general rule is that where no time for performance is fixed, a court will imply a reasonable time for performance.").

conditions.⁹⁸ The fact that those conditions never occurred and that the parties never explicitly modified their agreed goal of completing the TopCat project in about eight months is important in determining whether completion of the technology in December 2004 (a full twenty-seven months from start to finish) was reasonable. In other words, the contractual targets provide a sound basis for inquiring whether the delays were reasonable. Although the targets were not rigid, they were a negotiated part of the Agreement and represent the parties' commercial expectations about the general timeframe required for commercially reasonable performance. The more temporally deviant the performance is from those targets, and the commercial context those targets portray about the market window for TopCat, the easier it is to conclude that the delays were unreasonable.

In addressing this issue, I am mindful of the procedural posture in which it is presented. Whether a party to a contract performed within a reasonable time is ordinarily a question of fact and thus often inappropriate for resolution at the summary judgment stage.⁹⁹ That does not mean, though, that reasonableness can never be decided as a matter of law or that a party to a contract can always survive summary judgment merely by parroting the general rule that reasonableness is a question of fact. Courts of this state have recognized that a reasonableness inquiry such as this one can be decided on

⁹⁸ Jowers Aff., Ex. 2 at Attachment C.

⁹⁹ *E.g.*, *Dechant v. Williams*, 1990 WL 1104786, at *2 (Del. Ch. 1990) (noting that the determination of whether a party to a contract performed within a reasonable time is rarely appropriate on a summary judgment motion); *see also Mercedes-Benz of North America, Inc. v. Norman Gershman's Things To Wear, Inc.*, 596 A.2d 1358, 1363 (Del. 1991) (holding that the trial court properly submitted to the jury the factual question of whether an acceptance was revoked within a reasonable time).

summary judgment in appropriate cases.¹⁰⁰ The issue is whether Hifn has satisfied its burden of presenting evidence from which a rational trier of fact could conclude that it performed within a reasonable time.¹⁰¹ Because Hifn has introduced no evidence to support a claim that it performed within a reasonable time, it has not satisfied that burden.

Intel has made a very strong showing that the amount of time it ultimately took Hifn to complete the TopCat project was unreasonable. That showing is based on the following undisputed facts: (1) although the target dates suggested completion of the project in about eight months, it took Hifn more than three times as long — a full twenty-seven months — to produce functioning technology; (2) Hifn’s own marketing documents stated that full-volume production parts needed to be available in the fourth quarter of 2003, a full year before Hifn actually had the technology ready; (3) Hifn blames TopCat’s failure in the market, at least partly, on the delays; (4) QLogic said that the TopCat chips were too late, bought only 120 of them, and never sold any products that incorporated them; (5) QLogic complained that it lost a major customer as a result of Hifn’s delays; (6) Hifn itself cut the bonuses for the TopCat engineers because of the delays; (7) Hifn itself characterized the delays as “significant;” and (8) Hifn itself

¹⁰⁰ See *Belanger v. Fab Indus., Inc.*, 2005 WL 1076064, at *2 (Del. Ch. 2005) (holding that a party’s delay in filing a certificate of dissolution was reasonable as a matter of law); *Architectural Signage Co., Inc. v. Minker Const., Inc.*, 1996 WL 453457, at *3 (Del. Super. 1996) (rejecting plaintiff’s argument that reasonableness is a factual question and holding that, based on the undisputed facts, defendants rejected goods within a reasonable time as a matter of law); see also *Union Oil Co. of California v. Mobil Pipeline Co.*, 2006 WL 3770834, at *10-12 (Del. Ch. 2006) (holding that one party’s withholding of consent to another party’s financial responsibility under transfer restriction provisions in a shareholder’s agreement was reasonable as a matter of law); *Seaford Golf and Country Club v. E.I. DuPont de Nemours and Co.*, 2006 WL2666215, at *5 (Del. Super. 2006) (noting that summary judgment is appropriate where a trial would offer nothing additional to assist the court as trier of fact in making the decision).

¹⁰¹ E.g., *Tanzer*, 402 A.2d at 385.

recognized that it would not have been realistic to expect, from the outset, that the TopCat project would take as long as it actually did. This last point is important because courts of this state have recognized that performance does not occur within a reasonable time when it goes “beyond a reasonable period one would expect for completion of such a contract.”¹⁰² Upon entering into the contract, the parties knew that time to market was critical. Intel bargained for Hifn to develop the technology in a timeframe that would allow Intel to profitably utilize it and Hifn did not deliver within that timeframe.

Hifn does not dispute any those facts, but rather tries to de-emphasize the time crunch under which the parties knew, from the outset, they were operating. Hifn highlights that at the time of contracting, Intel had not yet identified a product in which it would use TopCat, that the Agreement provided for most-favored-customer pricing for a full five years from the date of contracting, and that with its “on ice” proposal, Intel contemplated reinstating the contract, which suggests that Intel still thought the technology might be useful at some point in the future.

But none of those facts help Hifn. Even though, as of September 2002, Intel had not yet decided how it would use TopCat, that does not alter the fact that both parties understood that the market window for the TopCat chip would require it to be available by the end of 2003. Hifn was aware early on that Intel needed production chips “in the November [2003] timeframe” to incorporate them into its Crestview project.¹⁰³ Indeed, all of the back-and-forth between Hifn and Intel from January 2003 until the “on ice”

¹⁰² *Hadley v. Krolick*, 1999 WL 1847376, at *4 (Del. Com. Pl. 1999).

¹⁰³ *See Jowers Aff.*, Ex. 13.

meeting was consistent with both parties' original projections that the TopCat project needed to be completed by the fourth quarter of 2003. When it became obvious that Hifn could not meet that deadline, it is not surprising that Intel felt it had the bargaining position to make its "on ice" proposal. The fact that Intel contemplated the possibility of reinstating the contract on the prospect that a use for TopCat *might* later materialize does not alter the fact that Intel had made a reasonable conclusion in October 2003 that the market window for TopCat had, in fact, passed and that it likely would not ever have any such use. Moreover, the fact that the contract had a five-year limit on the most-favored-customer pricing actually better supports Intel's position because the five years was measured from the date of contracting. As a result of Hifn's delays, Intel would have only gotten the benefit of less than three years of beneficial pricing instead of the four plus years it had bargained for.

The conduct of the parties from the time of contracting until the "on ice meeting" is also highly relevant in determining whether Hifn performed within a reasonable time. In this regard, Hifn highlights Intel's failure from the outset to require strict compliance with the target dates and its "out of the blue," unilateral demand to put the Agreement "on ice," which it did (1) only after it decided to kill the Crestview project for other reasons (i.e., because the Alvarado chip was no good), and (2) without giving Hifn any notice of its intentions. Based on those points, Hifn claims that there is a factual question as to whether Intel acted in good faith, which Hifn claims is a component of reasonableness.

But, as stated, all of the communications between Intel and Hifn suggested that Intel needed the chips by the end of 2003. Intel never suggested that performance beyond that timeframe would be acceptable. In fact, Intel even dropped its request for design changes upon learning that they would hamper Hifn's ability to deliver the chips on time.¹⁰⁴ Therefore, the communications between the parties do nothing to establish that Hifn's *year-and-a-half delay* was reasonable.

Moreover, to the extent that Hifn is contending that Intel's subjective motivations for wanting out of the contract give rise to an inference that it acted in bad faith, that argument fails under settled law. In Delaware, a party to a contract is entitled to rely on the terms of the contract regardless of the subjective motivations influencing its actions.¹⁰⁵ The fact that Intel may have had independent reasons to avoid its obligations under the Agreement does not mean that Intel was not allowed to exercise its contract rights according to the contract's terms. Indeed, because by late 2003 Intel was no longer planning to use the TopCat chips, Hifn was in the vulnerable position of having to rely on its ability to legally enforce its contract rights in order to get paid. When Intel proposed putting the Agreement on ice in October, Hifn knew that it had to perform fast if it had any hope of collecting under the Agreement. But Hifn did not, because it could not, give Intel any hard date on which it would have the project completed. Rather, Hifn merely tried to renegotiate the Agreement's price terms. The substantial concession in price that

¹⁰⁴ See Jowers Aff., Ex. 5.

¹⁰⁵ *Katz v. Oak Industries, Inc.*, 508 A.2d 873, 880-81 (Del. Ch. 1986).

Hifn was willing to make suggests it too understood that its performance under the Agreement was woefully slow.¹⁰⁶

Had Hifn ultimately performed by the end of 2003 or even perhaps the first few months of 2004, this might be a different case. I say “might” because I need not determine what actually would have been a reasonable amount of time for the performance of this contract. I need only determine whether it was reasonable for Hifn finally to complete performance in December 2004. Hifn has failed to raise a factual question over whether that delay was reasonable and I conclude, as a matter of law, that it was not. When a manufacturer such as Hifn takes more than three times as long as the negotiated production target to hit the mark, and when the undisputed record illustrates the manufacturer’s own recognition of the importance of timely production, it is in no position to claim to have acted with the alacrity required to support a damages claim.

C. Is Hifn Entitled To A Remedy Notwithstanding Its Untimely Performance?

Hifn’s failure to raise a factual question about whether it performed its end of the bargain within a reasonable time essentially disposes of Hifn’s \$2 million damages claim. Intel’s obligation to pay was contingent on Hifn’s performance under the contract.¹⁰⁷

When a party commits a material breach by failing to perform within a reasonable time, it

¹⁰⁶ Hifn makes much of the fact that it reached “tapeout” for the TopCat chip within a few weeks of the “on ice” meeting and that, before the meeting, Hifn had informed Intel that tapeout was imminent. But Intel did not bargain for tapeout, it bargained for completed technology, which as of the “on ice” meeting was still nowhere in sight.

¹⁰⁷ Restatement (Second) of Contracts § 254 (1981) (“If the parties are to exchange performances under an exchange of promises, each party’s duties to render performance are generally regarded as conditional on the other party’s performance, or at least on his readiness to perform.”).

excuses the other party's performance.¹⁰⁸ Hifn's final argument, which it makes in a fairly imprecise manner, is essentially that through Intel's "on ice" proposal, Intel repudiated the contract, which caused Intel to commit the first material breach.¹⁰⁹ As a result of that repudiation, Hifn contends that: (1) it immediately became entitled to recover its expectation damages, which would be exactly \$2 million dollars here because the Agreement did not impose any additional costs on Hifn; and (2) Hifn was excused from performing under the contract. Although it does not couch its argument in these terms, Hifn essentially contends that it is entitled to a remedy for Intel's anticipatory breach notwithstanding the fact that it failed to perform within a reasonable time. That contention fails for two reasons, which I discuss separately.

1. Intel's "On-Ice" Proposal Was Not A Repudiation

"A repudiation of a contract is an outright refusal by a party to perform a contract or its conditions."¹¹⁰ A statement of intent not to perform unless terms different from the original contract are met is a repudiation.¹¹¹ The mere entry into negotiations to change the terms of a contract, however, is not sufficient to establish a repudiation. To constitute a repudiation, a request for modification of contract terms must be accompanied by an absolute refusal to perform unless the request is granted.¹¹² Moreover, a party's good faith belief that the other is already in breach of the agreement does not privilege a party

¹⁰⁸ *National Commodity Corp. v. American Fruit Growers*, 70 A.2d 28, 36 (Del. Super. 1949)

¹⁰⁹ See Restatement (Second) of Contracts § 253 (1981) (providing that a repudiation gives rise to a claim for damages for total breach).

¹¹⁰ *PAMI-LEMB I Inc. v. EMB-NHM, L.L.C.*, 857 A.2d 998, 1014 (Del. Ch. 2004) (citing *CitiSteel USA, Inc. v. Connell Ltd. P'ship*, 758 A.2d 928, 931 (Del. 2000)).

¹¹¹ *Id.*

¹¹² 17A AM. JUR. 2d, *Contracts* § 728 (2d ed. 2007).

to repudiate its obligations.¹¹³ “[A] party acts at his peril if, insisting on what he mistakenly believes to be his rights, he refuses to perform his duty.”¹¹⁴

In making its repudiation arguments, Hifn points to the fact that Intel’s “on ice” proposal contained an unambiguous statement that Intel was not going to honor its obligations under the Agreement. That is, Intel instructed Hifn not to deliver the technology and told Hifn it was not going to pay.¹¹⁵ Hifn contends that, at that time, it was not yet in breach of the Agreement (or at least that there is a factual question as to whether it was in breach at that time) and that Intel’s unilateral declaration that it was no longer obligated to pay in accordance with the contract terms, which it made without giving Hifn any prior notice that the delays were a problem for Intel, amounted to a repudiation.

But Hifn’s arguments ignore the broader context in which Intel made the “on ice” proposal. By the time of the October 2003 meeting, Hifn was already very late in performing the contract. It had still not even achieved the first milestone that had been scheduled for a target date of more than eleven months earlier. Although Intel’s good faith belief that Hifn was already in breach of the Agreement did not entitle it to repudiate if Hifn was not in fact in breach at that time (a question that I do not address), it did give Intel substantial bargaining leverage to try to renegotiate the terms of the Agreement,

¹¹³ *Record Club of America, Inc. v. United Artists Records, Inc.*, 643 F. Supp. 925, 939 (S.D.N.Y. 1986).

¹¹⁴ Restatement (Second) of Contracts § 250 (1981), comment d, at 274-75 (1981).

¹¹⁵ *Jowers Aff.*, Ex. 32.

which is what Intel had set out to do.¹¹⁶ Intel could have tried to invoke the termination provision in the Agreement. It would have had a reasonable probability of success had it tried to obtain a judicial declaration that Hifn was already in breach. That would have given Intel a royalty-free license to the TopCat technology if Hifn was unable to cure within thirty days — which it indisputably could not have done. As a result, because it was obvious at the time that Hifn would not be able to complete the project within that thirty-day period, Intel was in a position of negotiating strength.

But Intel did not want to resort to the termination provision. For one thing, it hoped to preserve the business relationship between the firms going forward.¹¹⁷ Also, Intel hoped to preserve its right to most-favored-customer pricing if it later desired to use TopCat. Under the termination provision, Intel would lose its right to that benefit, and would instead have to either manufacture the TopCat chips itself using the royalty-free license or else pay full price to buy them from Hifn. Intel’s “on ice” proposal was essentially a request to alter the termination provision in a manner that more closely resembled a mutually-satisfactory bargain. Instead of getting a royalty-free license, which is not really what Intel wanted and would have resulted in zero compensation to Hifn, Intel offered to alter the Agreement to give it an option at the full contract price to acquire the most-favored-customer pricing benefit, which is what it really wanted. From Hifn’s perspective, that would have at least given Hifn the chance of getting some cash

¹¹⁶ See Jowers Aff., Ex. 17 (expressing Intel’s desire to renegotiate the Agreement in light of Hifn’s late delivery).

¹¹⁷ See Jowers Aff., Ex. 32 (“Our second alternative is to simply terminate the agreement for breach due to Hifn’s failure to deliver. This is a road that we would prefer not to go down because of its obvious impacts [sic] on the overall relationship.”).

out of the deal if Intel decided later to use TopCat. In other words, the “on ice” proposal was, in essence, a compromise in which Intel would forgo exercising its contractual termination right, in which case Hifn would have gotten nothing, if Hifn would agree to convert the contract into an option, in which case Hifn would retain at least a chance of getting paid.

Importantly, Hifn’s response to Intel’s “on ice” proposal confirms that it treated the proposal as a negotiation of the type described above, and not as a repudiation. Hifn did not attempt to assert its contract rights or take the position that it was not in breach. Although it knew that it was late in performing its obligations, Hifn did not give Intel a hard date on which it would complete TopCat, and it did not demand full payment. Rather, Hifn recognized its own failure of performance and on that basis made a counter proposal, apparently motivated by a desire to meet a short-term revenue goal, that involved a huge concession in price — it offered to take just \$500,000 (25% of the contract price) in full settlement of all of Intel’s obligations under the contract.

Therefore, rather than illustrating Intel’s absolute refusal to comply with the terms of the Agreement, the October 8 “on ice” meeting and subsequent communications show that the parties attempted to come to a mutually-satisfactory resolution that took account of the fact that the contractual termination provisions were not particularly attractive to either party in light of commercial realities brought about by Hifn’s failure to complete the project on time. Hifn’s Kenber testified that he considered Hifn and Intel to be “in

negotiation.”¹¹⁸ In fact, when making its “on ice” proposal, Intel specifically stated that it was open to hearing any counter proposal that Hifn had to offer.¹¹⁹ The negotiations were apparently lengthy, as evidenced by the fact that Hifn did not file suit seeking to recover the contract price until June 2005, more than a year-and-a-half after the “on ice” meeting. Of course, the fact that the parties were not able to come to a mutually-satisfactory resolution does not mean that Intel committed an anticipatory breach by trying to reach one.

2. The Alleged “Repudiation” Did Not Cause Hifn’s Failure To Perform

Even if Intel did repudiate the Agreement in October 2003, that fact would not entitle Hifn to a remedy in this case. The traditional rule with respect to repudiation is that when one party repudiates a contract, the non-repudiating party is discharged from its obligation to perform, and can immediately seek damages for the repudiatory breach.¹²⁰ That rule, however, comes with an important qualifier, which is that the non-repudiating party cannot recover damages for the repudiatory breach if it subsequently proves unable to perform its side of the bargain.¹²¹ In other words, if the non-repudiating party was incapable of performing anyway, it is not entitled to recover damages for the repudiation.

A repudiation “merely excuses subsequent acts which otherwise could have, and

¹¹⁸ Kenber Dep. at 126 (“I think I remember giving [the TopCat team] an update. But I think my point was we’re in negotiation. I don’t know when the endpoint of that negotiation is.”).

¹¹⁹ Jowers Aff., Ex. 32 (email from Intel’s John Griffiths to Hifn’s Chris Kenber: “We’re open to working together to identify additional options in this matter. Let me know if you would like to arrange a time for further discussions along this vein.”).

¹²⁰ *E.g.*, *Morgan v. Wells*, 80 A.2d 504, 506 (Del. Ch. 1951); Restatement (Second) of Contracts § 255 (1981).

¹²¹ 13 WILLISTON ON CONTRACTS § 39:41 (4th ed. 2000) (explaining that in order for the non-repudiating party to recover damages, “[i]t is essential that the promisor’s conduct in repudiating the contract be the cause of the promisee’s failure to perform.”)

presumably would have, been performed.”¹²² As the Restatement (Second) of Contracts § 254(1) puts it, “[a] party’s duty to pay damages for total breach by repudiation is discharged if it appears after the breach that there would have been a total failure by the injured party to perform his return promise.”¹²³

Case law in this area is fairly sparse, likely because in the case of a repudiation, the non-repudiating party ordinarily ceases efforts to perform the contract and simply seeks damages.¹²⁴ The repudiating party typically has no reason to suspect that the non-repudiating party would have been unable to perform, and unless the repudiating party raises the issue, the non-repudiating party is not required to prove a present ability to perform.¹²⁵ As a result, there do not appear to be any Delaware cases on point, but the Restatement’s approach to this topic is sound.¹²⁶

¹²² *Bay State Smelting Co. v. Ferric Industries, Inc.*, 292 F.2d 96, 100 (1st Cir. 1961).

¹²³ See also Restatement (Second) of Contracts § 255 (1981) (“Where a party’s repudiation *contributes materially* to the non-occurrence of a condition of one of his duties, the non-occurrence is excused.”) (emphasis added). “[T]he repudiation must contribute materially to the non-occurrence of the condition, and if the condition would not have occurred in any event, its non-occurrence is not excused. In such a case both parties are discharged.” *Id.* at comment a.

¹²⁴ See, e.g., *Faw, Cason & Co. v. Ballard*, 1984 WL 548381, at *1 (Del. Super. 1984).

¹²⁵ 13 WILLISTON ON CONTRACTS § 39:41 (4th ed. 2000).

¹²⁶ The Restatement explains the rule as follows:

If the parties are to exchange performances under an exchange of promises, each party’s duties to render performance are generally regarded as conditional on the other party’s performance, or at least on his readiness to perform. This principle applies even though one party is already in breach by repudiation. His duty to pay damages is discharged if it subsequently appears that there would have been a total failure of performance by the injured party.

Restatement (Second) of Contracts § 254 (1981), comment a.

The point of this rule is that the law does not seek to punish a party for committing an anticipatory breach because repudiations are generally efficiency maximizing.¹²⁷ Rather, the law seeks to promote frank communication between parties to contracts and seeks to encourage a party who has decided it will breach to inform the other side of that fact quickly so as to prevent a waste of effort, expense, and resources.¹²⁸ When the non-repudiating party learns of the repudiation, it can, and is typically required to, take steps to minimize the effort and expense spent on tasks that will not be met with a return performance.¹²⁹ If, by making a repudiation, a party gave up its right to claim that its duty to perform was discharged by the other side's inability to perform it would likely be deterred from repudiating, especially in situations when it appears possible that subsequent developments might render the non-repudiating party unable to perform or otherwise excuse the repudiating party's performance. In such a situation, a party would likely be well counseled not to repudiate, with the result that valuable information that could have prevented needless effort and expense would be withheld from the other side. As a result, the Restatement recognizes that the better rule is to allow a party to repudiate

¹²⁷ 13 WILLISTON ON CONTRACTS § 39:37 (4th ed. 2000) ("The rationale . . . is the prevention of economic waste, in the sense that following a clear repudiation, the other party should not be required to perform the formal, economically wasteful, and useless act of performing."); Restatement (Second) of Contracts § 255 (1981), comment a ("[N]o one should be required to do a useless act.")

¹²⁸ See Arthur Rosett, *Partial, Qualified, and Equivocal Repudiation of Contract*, 81 COLUM. L. REV. 93, 108 (1981) (suggesting that the law should encourage parties to contracts to communicate and should applaud efforts by either side to salvage as much as possible from the transaction without risking later being forced to pay damages for repudiation).

¹²⁹ Restatement (Second) of Contracts § 350 (1981), comment b ("Once a party has reason to know that performance by the other party will not be forthcoming . . . he is expected to take such affirmative steps as are appropriate in the circumstances to avoid loss by making substitute arrangements or otherwise.")

without prejudice to its right later to contend that it was excused from performing because it turned out that the non-repudiating party could not have performed anyway.¹³⁰

As discussed at length, Hifn did not perform its end of the bargain under the Agreement because it did not complete the TopCat project within a reasonable time. To be blunt, Hifn was way late — taking over three times longer than the contract estimated, in a market that Hifn knew required expedition. Hifn was not even within shouting distance of a reasonably-timely performance. Its failure to perform on time was a total breach of the contract that would have excused Intel from paying the \$2 million contract price.¹³¹ Hifn admits that its failure to perform was not caused in any way by Intel’s alleged repudiation.¹³² It also admits that it did not change position in reliance on anything that Intel did.¹³³ As a result, even assuming Intel repudiated the Agreement, its

¹³⁰ The rule is related to the doctrine of excuse by supervening event. See Daniel J. Bussel, *Liability for Concurrent Breach of Contract*, 73 WASH. U. L. Q. 97, 131 (1995). Judge Learned Hand explained the principle like this:

It is, indeed, one of the consequences of the doctrine of anticipatory breach that, if damages are assessed before the time of performance has expired, the court must take the chance of forecasting the future as best it can. That does not mean that it will ignore what has happened, when the period of performance has already expired. Damages never do more than restore the injured party to the position he would have been in, had the promisor performed; this is not a rule peculiar to anticipatory breach, though that is an instance. Hence it is always an answer, in that or other similar situations, to show that, had the contract continued, the promisee would not have been entitled to the performance, though he was apparently so entitled when the promisor disabled himself or repudiated.

New York Trust Co. v. Island Oil & Trans. Corp., 34 F.2d 653, 654 (2d Cir. 1929).

¹³¹ *J.A. Jones Const. Co.*, 372 A.2d at 550.

¹³² Kenber Dep. at 125-26.

¹³³ *Id.*; see also *Bay State Smelting Co.*, 292 F.2d at 100 (noting that a repudiation “made no difference” because the non-repudiating party did not change position in reliance on it and it did

obligation to compensate Hifn with damages was discharged by Hifn's failure of performance.

V. Conclusion

For the reasons stated, Intel's motion for summary judgment is granted and Hifn's breach of contract claim against Intel is dismissed. The parties shall collaborate and present a schedule for the completion of this case, if Intel still wishes to pursue its counterclaim. IT IS SO ORDERED.

not affect the non-repudiating party's attempts to satisfy a contractual condition that it ultimately proved unable to satisfy).