IN THE SUPERIOR COURT OF THE STATE OF DELAWARE

IN AND FOR NEW CASTLE COUNTY

STMICROELECTRONICS N.V. and STMICROELECTRONICS INC.,	)	
Plaintiffs,	)	
	)	C.A. No. 08C-09-099 MMJ
v.	)	
AGERE SYSTEMS, INC. and LSI CORPORATION,	)	
Defendants.	)	

Submitted: March 6, 2009
Decided: May 19, 2009

On Defendants' Motion to Dismiss the Complaint or, in the Alternative, to Stay the Case Pending Resolution of the First-Filed Actions Pending in the ITC and the Eastern District of Texas.
DENIED.

MEMORANDUM OPINION

James S. Green, Sr., Esquire, Kevin A. Guerke, Esquire, Seitz, Van Ogtrop & Green, P.A., Wilmington, Delaware, Attorneys for Plaintiffs

Rodger D. Smith II, Esquire, Morris, Nichols, Arsht & Tunnell LLP, Wilmington, Delaware, Attorneys for Defendants

JOHNSTON, J.

This case began with alleged infringement of the "'335 Patent." [1] The Patent concerns a method for producing semiconductor integrated circuit devices using tungsten metallization. Fortunately, the instant motion does not require that the Court have any technical understanding of the '335 Patent.

Three actions are pending: in the United States District Court for the Eastern District of Texas ("EDTX"); before the United States International Trade Commission ("ITC"); and in this Court. Defendants have moved to dismiss the Delaware case on the grounds that neither plaintiff has standing and that plaintiffs have failed to state a valid breach of contract claim. In the alternative, defendants request that the Delaware action be stayed pending resolution of the underlying factual issues in the first-filed EDTX and ITC cases.

FACTUAL AND PROCEDURAL CONTEXT

The Patent License Agreement

Plaintiff STMicroelectronics N.V. ("ST") is a corporation organized under the law of the Netherlands. ST is a holding company, with no independent operational capability. Plaintiff STMicroelectronics, Inc. ("ST Inc.") is a wholly-owned subsidiary of ST. ST Inc., a Delaware corporation, is the operating

[1] U.S. Patent No. 5,227,335.

company responsible for all of ST's importation and sale of ST product in the United States.

Defendant LSI Corporation ("LSI") is a wholly-owned subsidiary of defendant Agere Systems, Inc. ("Agere"). Both defendants are Delaware corporations. LSI acquired the '335 Patent from Lucent Technologies, Inc, which had acquired the Patent from the American Telephone & Telegraph Company.

The agreement at issue is one of a sequence of license assignments, beginning in 1983, among the parties' predecessors in interest. Effective September 11, 1996, ST Inc. became licensed to practice the '335 Patent.

Pending Litigation

On April 18, 2008, LSI and Agere filed two related actions alleging infringement of the '335 Patent. In both the EDTX and ITC cases, ST was named as a defendant. ST Inc. is not named in either suit. Neither complaint claims that ST is a party to any agreement with LSI or Agere. LSI and Agere do not allege that ST holds a license to the '335 Patent.

ST and ST Inc. assert that "[a]ll devices sold by ST and ST Inc. in the United States that allegedly are made using the method claimed in the '335 patent are imported through ST Inc. and/or sold by ST Inc., and thus are licensed products by virtue of the Patent License Agreement." ST and ST Inc. argue that

all infringement allegations brought by LSI and Agere, against ST, relate to product sold by ST Inc. pursuant to the license agreements. ST and ST Inc. claim that each suit against them on the '335 Patent by LSI and Agere is a breach of the 1983 and 1996 contracts. ST and ST Inc. interpret the contracts as agreements not to sue for breach of the '335 Patent.

LSI and Agere counter that to the extent such agreements were made, the promise was not to sue ***ST Inc***. Because LSI and Agere have sued ***ST*** (a non-signatory, non-third-party beneficiary under the contracts), and not ST Inc., there has been no breach of contract. Further, LSI and Agere contend that regardless of whether ST's products are sold and imported exclusively by ST Inc., nothing in the license agreements precludes them from bringing suit against non-parties such as ST.

By statute, the EDTX action has been stayed until the ITC action is resolved. LSI and Agere state that trial is scheduled before the ITC in 2009. ST and ST Inc. argue that the EDTX stay cannot be lifted until all appeals from the ITC's determination have been exhausted; therefore, the EDTX case likely will not re-commence until 2010.

During the hearing before this Court on March 6, 2009, LSI and Agere stated that they had received certain requested documentation from ST and ST Inc.

The documentation demonstrated that ST Inc. is licensed. Therefore, LSI and Agere agreed to dismiss ST from the ITC proceedings.

In this action, ST and ST Inc. are seeking damages, measured as litigation expenses and attorneys fees incurred in ITC proceedings. ST and ST Inc. claim that they should not have been part of such proceedings. Claims in the ITC action include breach of contract, abuse of process, and breach of the implied covenant of good faith and fair dealing. These claims also are asserted in the Delaware action.

Plaintiffs' client representatives, through counsel, represented to the Court during the March 6th hearing that they were not seeking any damages in connection with EDTX action. Therefore, because LSI and Agere have agreed to release ST from the ITC proceedings, defendants assert that damages in the Delaware action can be determined at this time.

DISCUSSION

Motion to Stay - McWane *Factors*

_____If there is a prior pending action in another jurisdiction, this Court may dismiss or stay the Delaware action. Even when the prior action involves the same parties and the same issues, a stay is not a matter of right. However, after considering the facts and circumstances, the Court should freely exercise discretion in favor of a stay if the prior pending action: (1) is in a court capable of

doing prompt and complete justice; (2) involves the same parties; and (3) involves the same issues.[2]

As a general rule, litigation should remain in the first-filed forum. A defendant should not be permitted to defeat the plaintiff's choice of forum by commencing litigation involving the same cause of action in another jurisdiction. Comity and the orderly and efficient administration of justice ordinarily grant priority to the first forum.[3]

There is no dispute that the EDTX action is pending.

However, that case is stayed until the ITC proceedings have concluded, including appeals. Defendants argue that the ITC matter will be resolved at the latest by 2010 because the '335 Patent expires mid-2010. If any party appeals, the EDTX case remains stayed by statute. During the March 6th hearing, defendants declined to commit to waive their rights to appeal. Plaintiffs argue that appeals could extend the EDTX stay until 2013 or 2014.

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[2] *McWane Cast Iron Pipe Corp. v. McDowell-Wellman Eng'g,* 263 A.2d 281, 283 (Del. 1970).

[3] *Id.*; *see United Phosphorus, Ltd. v. Micro-Flo, LLC,* 808 A.2d 761, 764 (Del. 2002).

Plaintiffs contend that the EDTX is not a court capable of doing complete justice.

It is unclear whether the EDTX court would have supplemental jurisdiction to hear the breach of contract issue as a counterclaim. If the EDTX court has supplemental jurisdiction, it is uncertain whether that court will exercise its discretion to accept jurisdiction. The complicating factors are that the underlying EDTX case is grounded in patent infringement; there are over 20 other defendants; and the breach of contract claim relates only to ST and ST Inc.

Defendants argue that plaintiffs can assert a Rule 11 claim for fees in the ITC action. [4]

Rule 11 sanctions are designed to deter abusive litigation and protect the integrity of the judicial process. The Court must carefully assess whether the parties, or their counsel, have acted in bad faith. An award of fees under Rule 11 is a punitive sanction. Prudent restraint must be exercised by parties in demanding Rule 11 censure. Rule 11 should not be used for its *in terrorem* effect. Counsel should not consume the court's time unless the opposing parties or counsel have

[4]Defendants also argue that federal statutory law permits fee shifting in patent cases. However, it is unclear whether fee shifting would apply for recovery of fees and costs incurred in ITC proceedings.

acted in an egregious manner, and there has been a good faith attempt to resolve the underlying issues. Courts must reserve Rule 11 awards for situations in which sharp practice and obstructive conduct must be reprimanded as a deterrent against future unprofessional and deleterious behavior.

An award of attorneys' fees as a Rule 11 sanction is not a substitute for damages for breach of contract. Sanctions and damages awards are qualitatively different. Even in cases where damages are measured as litigation costs and attorneys' fees, Rule 11 is not the appropriate mechanism to obtain relief.

Plaintiffs argue that the pending cases do not involve the same parties.

ST Inc. is not a party in the EDTX action. Additionally, ST Inc. is neither a necessary nor indispensible party in the pending patent infringement litigation. It is unclear whether the EDTX court would exercise its discretion to add ST Inc. as a permissible party.

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The Court finds that there is a prior pending action. However, the EDTX case is stayed for an indeterminate period of time. The EDTX action involves patent infringement. It is unclear whether the claims in the Delaware case - breach of contract, abuse of process, and breach of the implied covenant of good faith and

fair dealing - can or will be heard in the EDTX case. The EDTX case does not involve the same legal and factual issues.

THEREFORE, having considered defendants' motion to stay this action pursuant to the *McWane* factors, the Court hereby denies the stay.

Motion to Dismiss

Agere and LSI filed a 12(b)(6) Motion to Dismiss for failure to state a claim upon which relief can be granted. The Court must determine whether plaintiffs have a viable cause of action.[5] ST and ST Inc.'s claim may not be dismissed "unless it appears to a certainty that under no set of facts which could be proved to support the claim asserted would the plaintiff be entitled to relief."[6] When applying this standard, the Court will accept as true all well-pleaded allegations.[7] If ST and ST Inc. may recover, the Court must deny the motion to dismiss.[8]

Defendants argue that ST lacks standing to enforce the 1983 and 1996 agreements.

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[5] *Proctor v. Taylor*, 2006 WL 1520085, at *1 (Del. Super.).

[6] *Plant v. Catalytic Constr. Co.,* 287 A.2d 682, 686 (Del. Super. 1972).

[7] *Spence v. Funk*, 396 A.2d 967, 968 (Del. 1978).

[8] *Id.*

Because ST is not a signatory to the agreements, ST must be a third-party beneficiary to bring a breach of contract claim against defendants. Under New York law,[9] "A party asserting third-party beneficiary rights must establish: (1) the existence of a valid and binding contract between other parties, (2) that the contract was intended for [the party's] benefit and (3) that the benefit to [the party] is sufficiently immediate, rather than incidental, to indicate the assumption by the contracting parties of a duty to compensate [the party] if the benefit is lost."[10]

Plaintiffs argue that ST has standing to assert the non-contract claims for breach of the implied covenant of good faith and fair dealing and abuse of process. Plaintiffs also claim that ST is indeed a third-party beneficiary to the contract. Plaintiffs posit that when a parent company (ST) is sued for authorized acts of its subsidiary (ST Inc.), the parent has standing to enforce the underlying agreements.

Resolution of the issue of ST's standing involves a review of the underlying intent of the 1983 and 1996 agreements. The agreements expressly authorize ST Inc. to have its product made by ST for import. However, the 1983 agreement contemplates "personal performance" and express written consent for transfer of a party's licenses or rights.

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[9]The 1983 agreement specifies that it is governed by New York Law.

[10]*See Mendel v. Henry Phipps Plaza West, Inc.,* 844 N.E.2d 748, 751 (N.Y. 2006); *Parker & Waichman v. Napoli,* 29 A.D.3d 396, 398-99, 815 N.Y.S.2d 71, 74 (N.Y.App.Div. 2006).

Defendants contend that ST Inc. has failed to allege breach of contract.

Because defendants promised not to sue ST Inc., and defendants have sued ST, *not* ST Inc., defendants agree that there has been no breach.

Plaintiffs counter that defendants agreed to grant ST Inc. a license to utilize the '335 Patent. Therefore, it is a breach of the license agreements for defendants to allege in the EDTX and ITC actions that importation of product under license by ST Inc. constitutes an act of infringement giving rise to a claim for damages and injunctive relief against ST. Plaintiffs apply the same reasoning to their claims for breach of the implied covenant of good faith and fair dealing. Plaintiffs have pled that defendants' EDTX and ITC suits constitute efforts to subvert the contract by preventing performance or withholding benefits from plaintiffs.

Plaintiffs argue that they have properly plead abuse of process.

The elements of abuse of process are: (1) an ulterior improper purpose; and (2) a willful act improperly used in the regular conduct of proceedings.[11] Assessment of abuse of process involves investigation into and interpretation of the intent of the persons invoking the process. Such issues are difficult to resolve prior to discovery.

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[11] *Toll Bros., Inc. v. Gen. Accident Ins. Co.,* 1999 WL 744426, at *5 (Del. Super.), *aff'd*, 2000 WL 1897393 (Del.)

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At this stage of the proceedings, in the context of a Rule 12(b)(6) motion to dismiss, all well-pleaded allegations must be accepted as true.[12] The intentions of the parties to the 1983 and 1996 agreements, and the intentions of the defendants in bringing the EDTX and ITC actions, involve factual and legal determinations that cannot be resolved without additional discovery.[13]

THEREFORE, defendants' motion to dismiss the complaint is hereby DENIED.

IT IS SO ORDERED.

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The Honorable Mary M. Johnston

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[12] *Spence v. Funk,* 396 A.2d 967, 968 (Del. 1978).

[13] *Gantler v. Stephens,* 2009 WL 188828, at *5 (Del.) ("Dismissal is appropriate only if it appears 'with reasonable certainty that, under any set of facts that could be proven to support the claims asserted, the plaintiff ouwld not be entitled to relief.'").