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Re: *Texas Instruments Inc. v. Qualcomm Inc.*
Civil Action No. 20569

Dear Counsel:

This letter summarizes the reasons for my June 30, 2004 bench ruling. Pending before me on that date were the following motions: (1) Qualcomm moved for summary judgment as to whether Texas Instruments breached the confidentiality provision of the patent portfolio agreement ("PPA") between the parties; (2) TI and Qualcomm both moved for summary judgment as to whether the breach of the PPA's confidentiality provision was "material"; (3) Qualcomm moved for summary judgment as to whether it breached the most favored nations ("MFN") provision of the PPA; (4) TI moved for summary judgment as to the causation of Qualcomm's damages; (5) TI moved for summary judgment as to its unclean hands defense; and (6) TI moved to compel the production of several of Qualcomm's license agreements with third parties.

Confidentiality Provision. Qualcomm's motion for summary judgment that TI breached the confidentiality provision in Article 9.12 of the PPA is granted. Article 9.12 requires that both Qualcomm and TI (and their respective subsidiaries) keep the terms of the PPA confidential unless one of the seven

enumerated exceptions applies.

REDACTED

. This disclosure was a violation of Article 9.12. For this reason, Qualcomm's motion for summary judgment that TI breached Article 9.12 is granted.

Material Breach. Although TI breached the confidentiality provision in Article 9.12, TI's breach was not a "material" breach as a matter of New York law.[1] For that reason, TI's motion for summary judgment as to no material breach is granted. Under New York law, "for a breach of a contract to be material, it must go to the root of the agreement between the parties"[2] or "defeat[] the object of the parties in making the contract and deprive the injured party of the benefit that it justifiably expected."[3] Initially, I denied TI's motion to dismiss Qualcomm's claims based on TI's breach of the confidentiality provision because the case was still "in its infancy and the true extent of TI's breach, if any, of the confidentiality provision and the corresponding impact on the Agreement [were] unknown."[4] I granted Qualcomm the opportunity to muster evidence to support its claim that TI's breach was material. Qualcomm has failed in this effort. Although TI breached the confidentiality provision in the PPA, the breach was not material as a matter of law.

The PPA was the mechanism by which the parties intended to share their respective patent portfolios **REDACTED** without fear of litigation, **REDACTED**

[1] The parties agree that the PPA is governed by New York law.

[2] *Frank Felix Assoc., Ltd. v. Austin Drugs, Inc.*, 111 F.3d 284, 289 (2d Cir. 1997) (citations and internal quotations omitted); *see also Certain Underwriters at Lloyd's of London v. McDermott Int'l, Inc.*, 2002 WL 22023, at *4 (E.D. La. 2002) ("breach must go to the root of the agreement.") (interpreting New York law) (citations and internal quotations omitted); *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.").

[3] *ESPN, Inc. v. Office of Comm'r of Baseball*, 76 F. Supp.2d 416, 421 (S.D.N.Y. 1999) (citations and internal quotations omitted).

[4] *Texas Instruments, Inc. v. Qualcomm, Inc.*, 2004 Del. Ch. LEXIS 25, at *14-15 (Del. Ch. Mar. 15. 2004).

REDACTED.[5] In other words, the PPA was an agreement to **REDACTED** respective intellectual property rights **REDACTED**. The PPA is not a confidentiality agreement. Nor was confidentiality identified by the parties as a critical term or goal of the PPA. The "root of the agreement" or the "essence of the contract" was patent peace between Qualcomm and TI. The agreement itself makes this abundantly clear.

Qualcomm's senior vice president and general counsel conceded that TI's breach of Article 9.12 did not frustrate the parties' patent peace: "I don't believe the breach by TI vitiates or undercuts or alters TI's covenants not to assert its patents against Qualcomm."[6] He also conceded that "I don't think that there is anything about what TI has done that would **REDACTED**."[7] I have no doubt that Qualcomm believes the PPA's confidentiality provision was important, but as "[i]mportant as the preservation of confidentiality might have been . . . , there is no doubt that it was ancillary to the principal objective"[8] of the PPA, namely, patent peace. TI's motion for summary judgment on the materiality of the breach is granted.

REDACTED. Qualcomm's motion for summary judgment that it did not violate the **REDACTED** provision in Article 8 of the PPA is granted.

REDACTED . . ."[9] TI contends that Qualcomm is **REDACTED**

[5] Compl. Ex. A, Patent Portfolio Agreement at 4 (hereinafter "Agreement")

REDACTED

[6] Dep. Louis Lupin, 229:24-230:8.
[7] *Id*. at 230:12-20.
[8] *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).
[9] Agreement, Article 8.1(a) & (b).

REDACTED

."[10] TI's argument misses the mark for four reasons.

First, Qualcomm's own integrated circuits business does not fall within the definition of "Company," as that term is used in the PPA.[11] It is clear from the terms of the PPA that Qualcomm's own integrated circuits business is not a Company. By way of contrast, a third party or "Spinco" (a defined entity created to address the *planned* spin off of Qualcomm's own integrated circuits business) fall within the definition of Company. Qualcomm's integrated circuits business, however, is not a third party and is not Spinco. Qualcomm never in fact spun off its integrated circuits business. Had the spin-off occurred, the circumstances might be different. But this Court will not rewrite the terms of the PPA to reflect a hypothetical transaction when the terms of the PPA are clear and unambiguous.

Second, this Court must consider the PPA based on the state of facts that existed at the time of breach, not on the basis of hypothetical facts. The undisputed record does not support TI's contention that Qualcomm is the successor or acquirer of Spinco after it was dissolved.

REDACTED

. Spinco's inclusion in the definition of "Company" recognized the possibility that Qualcomm *might* spin-off its integrated circuits business to a separate and distinct publicly traded entity. TI knew all along that the spin-off was a possibility, but by no means an absolute certainty.[12] Had TI desired, it could have negotiated for the inclusion of language that would protect it from the

[10] Amend. Compl. ¶ 11.

[11] Agreement, Article 8.1 (c) ("For purposes of Article 8, "Company" shall mean any third party (except a SUBSIDIARY of QUALCOMM), including SPINCO or its successors or acquirer . . . .").

[12] Holland Dep. at 42-44. In response to the question of whether TI and Qualcomm discussed whether the spin off was an absolute certainty, Mr. Holland, TI's lead negotiator stated, "I remember Mr. Telecky pointing out to Qualcomm that there were no – you know, no guarantees in, in life, so to speak, that the economic conditions . . .could change, and Qualcomm may decide . . . it wasn't economically advantaged to spin off SpinCo." *Id*. Likewise in response to the question of whether "there was no certainty or guarantee that they [Qualcomm] would ever in fact spin off [the] business," Mr. Holland stated, "That's correct." *Id*. at 110-11; *see also* Compl. ¶ 5 ("At the time of the negotiation of the Agreement, however, Qualcomm had announced its *intent* to spin off its semiconductor business into a separate company, Spinco. The *possibility* of this spin-off added a layer of complexity to the negotiation of the Agreement.") (emphasis added).

situation of which it now complains. The PPA, however, was not written in that manner and this Court should not rewrite the PPA to protect TI from a course of events that TI knew was a distinct possibility. Sophisticated parties should not expect courts to rewrite their agreements.

Third, the PPA is clear and "unambiguous on its face and the product of long negotiation between sophisticated parties . . . ."[13] The plain language of the PPA does not support TI's argument that **REDACTED** . By failing to include Qualcomm's own integrated circuits business in the definition of Company, the PPA envisions a situation where Qualcomm could, before the *intended* (but by no means guaranteed) spin-off of its integrated circuits business, **REDACTED** . Thus, the PPA's terms make it clear that Qualcomm intended to protect its competitive position, at least until (if ever) a spin-off occurred.

Finally, Article 8.3(b) (the **REDACTED** provision) prohibits TI from contending that **REDACTED** . For these reasons, Qualcomm's motion for summary judgment that it did not violate Article 8.1 of the PPA is granted.

Causation. TI's motion for summary judgment for failure of causation of damages is denied. The facts surrounding the issue of causation of damages are in dispute. It is not entirely clear why negotiations broke down between Qualcomm and certain potential licensees following TI's breach of the confidentiality provision of the PPA. TI contends that there were major unresolved issues with Qualcomm's putative licensees, including disputes over **REDACTED** . Ultimately, the salient facts regarding the breakdown in negotiations are in dispute, making this issue unsuitable for summary judgment.

Unclean Hands. TI's motion for summary judgment based on the defense of unclean hands is denied. TI contends that Qualcomm itself violated the PPA's confidentiality provisions by discussing **REDACTED** numerous

[13] *Interactivecorp (f/k/a USA Interactive) v. Vivendi Universal, S.A.*, Del. Ch., C.A. No 20260, at 49, Lamb, V.C. (June 30, 2004).

times, including statements to the media and statements in Qualcomm's 10-Ks. The precise nature of these disclosures, and who made them, are warmly contested issues of fact. Accordingly, it is premature to rule on the unclean hands defense.

Motion to Compel. TI's motion to compel the production of certain license agreements between Qualcomm and ASIC manufacturers is granted. The highly redacted license agreements produced thus far, to the extent they are ASIC license agreements, are of little or no use to TI. The ASIC license agreements, however, are relevant to the determination of damages that Qualcomm might be entitled to receive as a result of TI's breach of the confidentiality provision. Without the ASIC license agreements, it would be difficult, if not impossible, to compare Qualcomm's present situation with what it would have been absent breach of the confidentiality provision.[14] Counsel should agree on a method to exchange the ASIC license agreements in a manner in which TI can discern the royalty terms between Qualcomm and other ASIC manufacturers.

Conclusion. For the reasons briefly described above, I conclude that although TI breached the PPA's confidentiality provision, it does not rise to the level of a material breach. As a result, TI's motion for summary judgment as to no material breach of the confidentiality provision is granted. Qualcomm's cross motion for summary judgment that the breach of the confidentiality provision was material is denied. Qualcomm's motion for summary judgment that it did not violate Article 8.1 of the PPA is granted. TI's motions for summary judgment based on unclean hands and causation of damages are denied. And TI's motion to compel the production of Qualcomm's ASIC license agreements is granted.

A three-day trial is scheduled to commence in Georgetown, Delaware on Monday, August 16, 2004. As a result of my decisions on the various motions, trial will be limited to the issues of causation and damages arising from TI's breach of the confidentiality provision. Please advise me if the limited remaining issues will require all three days that have been set aside.

IT IS SO ORDERED.

Very truly yours,

/s/ William B. Chandler III

William B. Chandler III

[14] Qualcomm is not required to produce its license agreements with handset manufacturers.