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IN THE SUPREME COURT OF THE STATE OF DELAWARE

LG ELECTRONICS, INC. Plaintiff Below, Appellant, v. INTERDIGITAL COMMUNICATIONS, INC., INTERDIGITAL TECHNOLOGY CORPORATION, and IPR LICENSING, INC., Defendants Below, Appellees.	)	**PUBLIC VERSION FILED: OCTOBER 31, 2014** No. 475,2014 ON APPEAL FROM C.A. NO. 9747-VCL IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

APPELLANT'S OPENING BRIEF

FISH & RICHARDSON P.C.
Jeremy D. Anderson (#4515)
Joseph B. Warden (#5401)
222 Delaware Avenue, 17th Floor
P.O. Box 1114
Wilmington, DE 19899-1114
(302) 652-5070

Attorneys for Plaintiff Below-Appellant LG Electronics, Inc.

Dated: October 13, 2014

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NATURE OF PROCEEDINGS

On June 9, 2014, Plaintiff Below-Appellant LG Electronics, Inc. ("LG") filed its Verified Complaint against Defendants Below-Appellees InterDigital Communications, Inc., InterDigital Technology Corporation, and IPR Licensing Inc. (collectively "InterDigital"), asserting a claim that InterDigital had breached the parties Agreement Governing Confidential Settlement Communications (the "Non-Disclosure/Use Agreement" or "NDA") by disclosing certain confidential information during a pending arbitration regarding a separate agreement. As relief for the breach, LG sought a declaration that InterDigital was in breach of the NDA, a mandatory injunction requiring InterDigital to withdraw the impermissibly disclosed confidential information, and an injunction prohibiting InterDigital from future disclosure of confidential information in breach of the NDA.

On June 23, 2014, InterDigital moved to dismiss LG's claims pursuant to the *McWane* doctrine, in favor of the pending arbitration. On August 20, 2014, after holding that "the language [of the NDA] is not sufficiently clear to constitute an agreement to arbitrate the dispute," the Court of Chancery nonetheless granted InterDigital's motion to dismiss in favor of arbitration. On August 28, 2014, LG filed a notice of appeal of the Court of Chancery's Opinion and Order granting InterDigital's motion to dismiss. This is LG's Opening Brief on appeal.

[redacted]

SUMMARY OF ARGUMENT

The Court of Chancery's dismissal of LG's claims in favor of an existing first-filed arbitration was reversible error for at least three reasons.

1. First, because the Court of Chancery expressly held—and InterDigital did not dispute—that "the language [of the NDA] is not sufficiently clear to constitute an agreement to arbitrate the dispute," LG's claims are not substantively arbitrable. And because substantive arbitrability is required as a threshold question and should have resulted in denial of InterDigital's motion, the Court of Chancery should never have reached InterDigital's *McWane* arguments, much less granted InterDigital's motion under *McWane*. The court erred by foregoing the requisite threshold substantive arbitrability analysis and, instead, subordinating the arbitrability question to *McWane's* first-filed analysis. The Court of Chancery compounded its error by holding that, because the NDA does not expressly prohibit arbitration, LG did not have any right to demand a judicial forum.

2. Second, the Court of Chancery erred by holding, in effect, that *McWane* provides an exception to the law regarding substantive arbitrability. This holding, if allowed to stand, would compel arbitration of claims for which a party did not provide a clear expression of intent to arbitrate, especially if there is an existing arbitration involving related issues. Neither this Court's precedent, the policy underpinnings of *McWane*, nor the facts of this case warrant an exception to

[redacted]

this Court's substantive arbitrability jurisprudence. Accordingly, the Court of Chancery erred by disregarding substantive arbitrability in favor of *McWane*.

3. Third, although the Court of Chancery should not have applied *McWane* in the first place, it erred in applying *McWane* by reasoning that the Arbitral Tribunal has the authority to provide prompt and complete relief and by determining that LG's claims are functionally identical to the issues raised in the arbitration. Because the Tribunal is restricted to, at most, deciding issues arising under a certain Patent Licensing Agreement (which is indisputably properly the subject of the arbitration) and attendant evidentiary issues, the Tribunal lacks the power to adjudicate LG's substantive claim for breach of the NDA. Accordingly, the Tribunal does not have the power to declare whether InterDigital breached the NDA or to issue the injunctive relief requested by LG. Also, because the separate and unrelated agreement governing the arbitration circumscribes the Tribunal's authority to the arbitrated dispute, the Tribunal cannot issue an injunction against InterDigital's future disclosure of Settlement Communications in other forums, such as the currently-stayed action between LG and InterDigital pending in the U.S. District Court for the District of Delaware. Similarly, because the Tribunal can only address evidentiary issues attendant to the unrelated license agreement and because it cannot interpret or apply the NDA, there is no functional identity between the issues in this action and the issues in the arbitration.

[redacted].

STATEMENT OF FACTS

A. The Parties Enter into a Patent Licensing Agreement

On January 18, 2006, LG and InterDigital entered into a Wireless Patent License Agreement (the "PLA") granting LG a broad license to certain InterDigital patents in exchange for [redacted]. [A-15 at ¶ 9; A-56-58.] Under Article V of the PLA, the parties agreed that any dispute arising under the PLA that the parties could not resolve through good faith negotiations would be submitted "to arbitration administered by the AAA." [A-15 at ¶ 10; A-63 at §§ 5.1-5.2.]

Despite LG's ongoing license to the asserted patents and the PLA's mandatory arbitration provision, InterDigital moved to amend its complaint in an existing United States International Trade Commission ("ITC") investigation to allege that LG infringed certain asserted patents covered by the PLA. [A-16 at ¶ 11.] The ITC granted InterDigital's motion on December 5, 2011. [*Id.* at ¶ 12.]

On January 20, 2012, LG moved to terminate the ITC investigation because the PLA covers LG's products and any dispute under the PLA is subject to arbitration under Article V of the PLA. [A-16 at ¶ 13.] The ITC Administrative Law Judge ("ALJ") granted LG's motion to terminate the ITC proceeding on June 4, 2012, and the ALJ's decision became the ITC's Final Determination on July 6, 2012, when the full Commission declined to review the ALJ's decision.

[redacted].

[*Id.* at ¶ 14.]

On appeal, the Federal Circuit reversed and remanded the ITC's decision that LG's license claim is subject to arbitration under the PLA. [A-17 at ¶ 16; A-69-95.] However, after LG filed a petition for *certiorari*, InterDigital withdrew its underlying ITC complaint against LG and declined to defend its position in the U.S. Supreme Court. [A-17 at ¶ 17; A-163-174; *see also* A-222-223.] Subsequently, on April 21, 2014, the U.S. Supreme Court granted LG's petition for *certiorari* and ruled in LG's favor, vacating the Federal Circuit's decision and ordering the case dismissed upon remand. [A-17 at ¶ 18; A-101-121.]

B. Initiation of the Arbitration and Execution of the NDA

On March 19, 2012, shortly after filing its motion to terminate the ITC proceeding, LG commenced an arbitration proceeding under Article V of the PLA, (the "Arbitration"), seeking a declaration that the PLA covers the patents asserted by InterDigital. [A-17 at ¶ 19.] Two months later—[redacted]—LG and InterDigital executed the NDA. [A-20 at ¶ 20; A-26-31.] The NDA, which is the agreement at the heart of this case, governs the use by LG and InterDigital of Settlement Communications, which are defined as:

> *All communications, discussions, positions taken, and documents and information* exchanged between IDC and LG and their respective counsel *with respect to* the resolution of the Litigation and/or *the licensing of any patents*, including communications, discussions, positions taken, and documents and information exchanged or

[redacted].

undertaken *at any time* . . . .

[A-27 at § 1 (emphasis added).] By its plain language, the NDA precludes Settlement Communications from being "used, referenced, or relied upon in any existing or future legal, judicial, administrative or arbitration proceeding." [*Id.*] Thus, because the Arbitration was an "existing . . . arbitration proceeding," the NDA specifically prohibited either party from using or referring to Settlement Communications during the Arbitration.

Notably, although the NDA precluded the use of Settlement Communication in any existing or future arbitration, the parties jointly decided not to include in the NDA (unlike the PLA) a provision requiring arbitration of disputes arising under the NDA. Rather, section 9 of the NDA provided that "any Party shall have the right, *in addition to all other remedies at law or in equity*, to have the provisions of this Agreement *specially enforced by any court*, agency, or tribunal having personal jurisdiction over the Party in alleged breach of this Agreement and to seek a temporary or permanent injunction or court order prohibiting the allegedly breaching Party . . . from such unauthorized use or disclosure of any Settlement Communications or Confidential Information." [A-30 at § 9 (emphases added).]

C. InterDigital Breaches the NDA

On April 19, 2013, LG submitted its opening arbitration brief to the three-member arbitration panel (the "Tribunal"). [A-18 at ¶ 22.] In that brief, LG

[redacted].

informed the Tribunal that "[redacted] because the parties' NDA prohibited the use of such evidence in any proceedings. [A-214-215.]

On May 1, 2013, after LG informed the Tribunal that LG would not be relying on Settlement Communications in order to comply with the NDA, [redacted]. [A-34.] Specifically, InterDigital requested that the Tribunal enter [redacted] [*Id.*] Despite the NDA's clear and unambiguous definition of Settlement Communications as encompassing communications exchanged "at any time," [redacted]. [A-35-37.] InterDigital also asked the Tribunal to order LG to [redacted] [A-34.]

On May 3, 2013, [redacted]

[redacted].

[A-48-49.] LG also informed the Tribunal that it would not be submitting any witness statements, because doing so would be a breach of the NDA. [A-42.]

On May 8, 2013, the Tribunal [A-21 at ¶ 27; A-98.] The Tribunal further explained that, if it ever became necessary to address the dispute, it viewed the issue as "one of the admissibility of evidence rather than of the [meaning] of the NDA." [*Id.*] The Tribunal did, however, grant InterDigital's request to extend the time for LG to submit any witness statements. [A-98-99.] On May 10, 2013, LG again informed InterDigital that LG would not breach the NDA by submitting any witness statements or Settlement Communications. [A-21 at ¶ 28; A-175-176.]

Three weeks later, despite the NDA's prohibition on the use of Settlement Communications in any proceeding, [A-21 at ¶ 29.]

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D. The Arbitration Is Stayed and Resumed

On June 7, 2013, the Federal Circuit issued its order reversing the ITC decision terminating the ITC proceeding. [A-22 at ¶ 30; A-69-95.] In light of that order, the parties jointly requested a stay of the Arbitration pending resolution of LG's petition for *certiorari* to the U.S. Supreme Court. As discussed above, the Supreme Court granted LG's petition on April 21, 2014, vacating the Federal Circuit's decision. [A-17 at ¶ 18; A-101-121.] Thereafter, the parties asked the Tribunal to lift the stay and resume the Arbitration. [A-22 at ¶ 31; A-51-54.] Because the Arbitration resumed at the same point as when the stay was imposed, LG requested that InterDigital cure its breach of the NDA by withdrawing its Arbitration response brief and supporting documents (such as witness statement and exhibits), and by re-filing the brief after removing all Settlement Communications. [A-22 at ¶ 32.] LG further requested confirmation that InterDigital had no intention of disclosing or relying on any other Settlement Communications, in further breach of the NDA, during the arbitration proceedings. [*Id.*] InterDigital did not respond to LG's request. Given InterDigital's disregard of its contractual obligations, LG filed its complaint in the Court of Chancery to remedy InterDigital's breach and enjoin it from further breaches of the NDA.

[redacted]

ARGUMENT

I. BECAUSE LG'S CLAIMS FOR BREACH OF THE NDA ARE NOT SUBSTANTIVELY ARBITRABLE, THE COURT OF CHANCERY ERRED BY DISMISSING LG'S CLAIMS IN FAVOR OF ARBITRATION

A. Question Presented

Must a party be required to arbitrate its claims for breach of contract and injunctive relief even though the contract at issue does not contain an arbitration provision and expressly allows for claims to be brought in a judicial forum?

This question was preserved before the Court of Chancery at A-140-154.

B. Scope of Review

This Court reviews decisions granting a motion to dismiss *de novo*. *Sagarra Invesiones, S.L. v. Cementos Portland Valderrivas, S.A.*, 34 A.3d 1074, 1078 (Del. 2011). Likewise, "a question of substantive arbitrability is decided by the Court of Chancery as a matter of contract law and reviewed by this Court *de novo*." *DMS Properties-First, Inc. v. P.W. Scott Assocs., Inc.*, 748 A.2d 389, 391 (Del. 2000).

C. Merits of the Argument

1. The Court of Chancery erred by performing a *McWane* analysis despite finding no agreement to arbitrate

"A party cannot be forced to arbitrate the merits of a dispute . . . in the absence of a clear expression of such intent in a valid agreement." *James & Jackson, LLC v. Willie Gary, LLC*, 906 A.2d 76, 79 (Del. 2006). Accordingly,

[redacted]

whether there is "a clear expression of intent" to arbitrate—known as substantive arbitrability—is the "gateway question" or "threshold question" with respect to any motion to dismiss in favor of arbitration. *Id.*

Here, it is undisputed that the NDA—the only agreement on which LG relies for its claims for breach of contract and injunctive relief—does ***not*** contain any agreement to arbitrate disputes arising from that contract. Indeed, the Court of Chancery expressly recognized that "the NDA does not contain an arbitration provision" and found that "LG is correct that the language is not sufficiently clear to constitute an agreement to arbitrate the dispute." [Op.[1] at 2, 6, 7.] InterDigital also conceded that there is no arbitration provision in the NDA. [A-239:2-9 (InterDigital conceding at oral argument that "[w]e have not contended that the NDA has a mandatory arbitration clause. We don't make that argument. . . . We're not saying that there is a[n] arbitration clause in the NDA.").]

The undisputed absence of an arbitration provision, coupled with the unqualified rule that a party cannot be forced to arbitrate a dispute for which it did not clearly agree to arbitration, should have mandated the denial of InterDigital's motion to dismiss. However, notwithstanding Delaware law that substantive arbitrability is the "gateway" or "threshold question" with respect to a motion to

[1] The August, 20 2014 Opinion and August 20, 2014 Order of the Court of Chancery, which are the subject of this appeal, are attached as Exhibits 1 and 2 to this brief.

[redacted]

dismiss in favor of arbitration, the Court of Chancery did not perform a threshold substantive arbitrability analysis and instead analyzed InterDigital's motion under the *McWane* doctrine, subordinating the substantive arbitrability question to *McWane*'s first-filed analysis. [*See* Op. at 4-6.]

By subordinating the arbitrability question to *McWane*, the Court of Chancery fundamentally altered the legal standard for arbitrability, asking not whether LG had *clearly expressed its intent* to arbitrate the NDA dispute—as this Court's substantive arbitrability jurisprudence requires—but asking only whether the Tribunal *could* provide prompt and complete justice as *McWane* asks. By asking the wrong question, the Court of Chancery arrived at the wrong answer, as addressed in detail below.

2. LG's claims are not substantively arbitrable

a) LG did not agree to arbitrate claims arising under the NDA and, therefore, has the right to have its claims addressed in a judicial forum

An agreement to arbitrate a given dispute requires "a clear expression of such intent in a valid agreement." *DMS Properties*, 748 A.2d at 391. Where no clear expression of intent exists, a party "has a right to have the merits of [a] dispute adjudicated *ab initio* by a court of competent jurisdiction." *Id.*

On its face, the NDA shows that there is no "clear expression of intent" to arbitrate disputes arising from the NDA, as required by this Court's precedent.

[redacted]

Instead, Section 9 of the NDA specifically contemplates that disputes may be decided in a judicial forum—such as the Court of Chancery—stating that

> any Party shall have the right, ***in addition to all other remedies at law or in equity***, to have the provisions of this Agreement ***specially enforced by any court***, agency, or tribunal having personal jurisdiction over the Party in alleged breach of this Agreement and to seek a temporary or permanent injunction or court order prohibiting the allegedly breaching Party . . . from such unauthorized use or disclosure of any Settlement Communications or Confidential Information.

[A-30 at § 9 (emphases added).] Thus, in addition to not requiring arbitration, the NDA specifically empowers LG to do exactly what occurred here: to seek judicial enforcement of the NDA, including injunctive relief.

Once the Court of Chancery correctly recognized that "the language [of the NDA] is not sufficiently clear to constitute an agreement to arbitrate the dispute," [Op. at 7], Delaware law required the court to allow the judicial action to proceed. Instead, because the word "tribunal" in Section 9 of the NDA was—in the court's view—"broad enough to include arbitral tribunals" and the "reference to 'agency' suggests that the parties did not intend to limit themselves strictly to judicial fora," the Court of Chancery erroneously held that "the NDA is not dispositive. It neither empowers InterDigital to force LG to arbitrate the dispute nor entitles LG to insist

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on a judicial forum." [*Id.*][2]

This holding contradicts this Court's decision in *DMS-Properties*, which held that absent a clear expression of intent to arbitrate, a party "has a right to have the merits of [a] dispute adjudicated *ab initio* by a court of competent jurisdiction." 748 A.2d at 391. Under *DMS-Properties*, the NDA *is* dispositive, and the fact that "the language [of the NDA] is not sufficiently clear to constitute an agreement to arbitrate the dispute," [Op. at 7], entitles LG to insist on a judicial forum, *DMS-Properties*, 748 A.2d at 391. It is irrelevant whether the NDA could be read as also permitting arbitration because, at a minimum, the NDA allows the non-breaching party to choose its forum. Since there is no clear expression of intent to arbitrate disputes arising under the NDA, LG has the right to have this dispute "adjudicated *ab initio* by a court of competent jurisdiction." *Id.*

b) The Court of Chancery erred in considering LG's claims as an evidentiary matter incidental to the PLA arbitration

In subjugating its consideration of arbitrability to the *McWane* analysis, the Court of Chancery turned the required arbitrability question upside down: Instead of asking whether the NDA expressly *requires* arbitration, the Court of Chancery

[2] The term "tribunal" is not specific to arbitration and applies to a host of entities with jurisdiction over possible intellectual property disputes between the parties, such as for example the Intellectual Property Tribunal of the Korean Intellectual Property Office. *See* http://www.kipo.go.kr/kpo/user.tdf?a=user.english.html.HtmlApp&c=30300&catmenu=ek30300 (last visited July 7, 2014).

[redacted].

considered whether the NDA expressly *prohibits* arbitration. Then, having determined arbitration was not clearly prohibited, the court held that the Tribunal could address the dispute as "an evidentiary matter incidental to the arbitration" under the PLA. [Op. at 6-9.] This analysis is legally erroneous. Because the Court of Chancery found that there was no clear intent to arbitrate, it should never have reached the *McWane* question at all.

At the outset, the Court of Chancery's characterization of LG's claims as addressing only an "evidentiary dispute," or "a procedural issue," is incorrect. [Op. at 8-9.] LG filed its Chancery action to protect its confidential Settlement Communications and to remedy a breach of contract. This request for protection and remedy does not arise from a *procedural* right to confidentiality with respect to the Settlement Communications. Instead, LG has a *substantive* right under a binding contract to have those communications remain confidential, including the right for those communications to be excluded from the Arbitration and to remain confidential from the Tribunal and all other third parties. [*See* A-27 at § 1.] InterDigital undisputedly breached the contract with LG, thus causing LG substantive—not procedural—harm because the breach exposed the Tribunal to confidential Settlement Communications despite LG's bargained-for right for the Arbitration to be free of any such communications. That substantive right to preclude those communications from being referenced in the first place is

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significantly more robust than any procedural right to have the Tribunal disregard Settlement Communications as an evidentiary matter, especially if the consideration of the communications, in disposing of any evidentiary or procedural question, irreversibly infects the Tribunal's consideration of the arbitration proceeding's merits. The Court of Chancery's characterization of LG's claims pays short shrift to LG's bargained-for rights and bargained for mechanism for vindicating those rights. [*See* A-30 at § 9 (allowing a claim for breach to be brought in "any court").]

Because LG's claims relate to *substantive* confidentiality rights under the NDA, the broader dispute raised in LG's Court of Chancery complaint is not an evidentiary dispute; it is a dispute over InterDigital's breach of contract. While the Tribunal might be able to decide evidentiary matters—such as whether certain communications are admissible as parol evidence—a preliminary contract question must still be resolved before any Settlement Communications could be admitted (or rejected) as an evidentiary matter: Does the NDA prohibit InterDigital from submitting or relying on Settlement Communications in the first place? Nothing in the PLA empowers the Tribunal to answer that question or to adjudicate the breach of contract arising from InterDigital's submission of and reliance on such communications.

This distinction between evidentiary issues and substantive contract rights is

[redacted].

not merely trivial or technical. First, treating LG's claims as a purely evidentiary matter to be resolved by the Tribunal ignores that one of the very rights that LG and InterDigital bargained for was to keep Settlement Communications from being disclosed to or considered by any fact finder or adjudicator in any dispute between the parties, such as the pending Arbitration or District of Delaware litigation. To resolve the parties' NDA dispute regarding InterDigital's prohibited use of and disclosure of Settlement Communications, the Tribunal would necessarily have to consider the substance of those communications. Allowing the Tribunal to address the dispute causes LG a substantive harm contrary to the parties' bargained-for agreement embodied in the NDA.

Second, the distinction between evidentiary issues and substantive rights impacts the scope and character of the relief that LG can obtain. For example, as an evidentiary matter the Tribunal might be able to exclude Settlement Communications under the parol evidence rule. But, even were the Tribunal to do so, its refusal to consider those communications would not erase or otherwise remedy InterDigital's initial breach. InterDigital's disclosure of and reliance on those communications still violated the NDA, and still harmed LG (at least by exposing the Tribunal to the substance of those communications). The Tribunal's refusal to consider those communications as an evidentiary matter would, at most, mitigate the need for LG to seek one form of relief—an injunction on the use of

[redacted].

those communications in the Arbitration. But, apart from that form of relief, LG will still have both a claim for a declaratory judgment that InterDigital's improper use is a breach of the NDA and a right to seek an injunction against future breaches. A declaration that InterDigital breached the NDA by submitting Settlement Communications in the first place is also material to a future petition to vacate the arbitration award. Nothing in the Tribunal's power to decide evidentiary issues under the PLA empowers that Tribunal to declare the meaning of the NDA, to declare InterDigital in breach of the NDA, or to issue prospective injunctive relief reaching beyond the bounds of the Arbitration itself.

c) The cases cited by the Court of Chancery to support its opinion are not applicable

Because the Court of Chancery's opinion fails to recognize the distinction between evidentiary issues and substantive rights, the cases cited to support its holding that the Tribunal can address the dispute as an evidentiary matter incidental to the Arbitration are off-point.

In *SOC-SMG, Inc. v. Day & Zimmerman, Inc.*, the court held that an arbitrator could address accusations of discovery abuse and attorney misconduct, because these accusations arose directly from breaches of a Contribution Agreement. 2010 WL 3634204, at *2 (Del. Ch.). In that case, however, the Contribution Agreement itself contained the arbitration clause. *Id.* It was not the

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case—as it is here—that a separate agreement contained a substantively bargained for right to confidentiality, including the right to keep certain communications away from a fact finder and the right to bring a claim in a judicial forum.

In *Trustmark Insurance Co. v. John Hancock Life Insurance Co.*, the Seventh Circuit held that arbitrators could construe a separate confidentiality agreement that did not contain its own arbitration clause. 631 F.3d 869, 874 (7th Cir. 2011). But, in *Trustmark*, the parties had entered into "comprehensive arbitration clauses" in which "the parties *did* agree to arbitrate their disputes about reinsurance," and the Seventh Circuit found that the confidentiality agreement was "presumptively within the scope of the reinsurance contract's comprehensive arbitration clauses, *which cover all disputes arising out of the original dispute*." 631 F.3d 869, 874 (emphasis added). Here, by contrast, LG and InterDigital do not have a comprehensive arbitration clause in which they agree to arbitrate all disputes arising from the original dispute. Rather, they originally agreed to arbitrate *only* disputes arising under the PLA, not any other disputes. Not surprisingly, the Court of Chancery recognized, as it must, that the present dispute arises not from the PLA, but from the NDA. [Op. at 5 ("[T]he parties also agree that the specific matter at issue in this case arises out of the NDA, which does not contain an arbitration provision.").] And here the NDA was executed (with no arbitration clause) long after the parties executed the PLA's limited arbitration

[redacted]

clause.

As another key distinction between this case and *Trustmark,* the NDA expressly allows for judicial resolution of disputes arising under the NDA—a fact absent from *Trustmark*. Hence, even if the PLA might otherwise have been read as encompassing the NDA—which it does not—Section 9's carve-out allowing for judicial relief prevents LG from being forced to arbitrate this dispute. That conclusion has been reached in less compelling circumstances by both this Court and the Court of Chancery. *See, e.g., James & Jackson, LLC v. Willie Gary,* 906 A.2d 76, 78-79 (Del. 2006); *Medicis Pharm. Corp. v. Anacor Pharms. Inc*., 2013 WL 4509652 (Del. Ch.).

Indeed, in *Willie Gary,* this Court faced an arbitration provision requiring that "[a]ny controversy or claim arising out of or relating to this Agreement or the breach of this Agreement shall be settled by arbitration . . . ." 906 A.2d at 79. However, the agreement subsequently referred to "judicial determination" of certain claims related to dissolution and further provided that the parties had the right to bring claims "to prevent breaches of the provisions of this agreement and specifically to enforce the terms and provisions hereof in any action instituted in any court in the United States." *Id.* at 80-81. In light of that judicial carve-out, notwithstanding the requirement to arbitrate "any controversy or claim," this Court held that it was "impossible to conclude that [plaintiff] must press a claim for

[redacted]

dissolution before an arbitration in the first instance, when the Agreement itself expressly refers to a judicial determination of whether grounds for dissolution exist, and the dissolution provisions of the Agreement then go on to refer to the involvement of a 'court of competent jurisdiction.'" *Id.* at 81. Here, likewise, even if the arbitration provision of the PLA could otherwise be construed as encompassing claims arising under the NDA, it is "impossible to conclude that [LG] must press a claim for [breach] before an arbitration in the first instance," *id.*, when the NDA itself expressly refers to "enforce[ment] by any court." [A-30 at § 9.].

Similarly, the Court of Chancery's decision in *Medicis* is persuasive. In that case, the parties were involved in arbitration regarding a license agreement, when one of them filed suit in the Court of Chancery seeking specific performance of the same agreement. *Medicis*, 2013 WL 4509652, at *1. That agreement called for arbitration of certain disputes, but provided that, notwithstanding the agreement to arbitrate "each Party shall have the right to institute judicial proceedings . . . in order to enforce the instituting Party's rights hereunder through specific performance, injunction, or similar equitable relief." *Id.* at *6. In light of that reservation of "the right to institute judicial proceedings," the court denied a motion to dismiss in favor of arbitration, finding that the dispute was not substantively arbitrable. *Id.* at *12. Notably, in *Medicis*, because the arbitration

was the first-filed proceeding involving the same parties and the same substantive issues, the defendant "contend[ed] that this Court . . . should consider the first-filed status of its arbitration demand." *Id.* at *10. However, the Court of Chancery, explained that it "[d]id not find . . . that the order of filing is dispositive in this case" because the agreement "expressly provide[d] the right to institute judicial proceedings." *Id.* As in *Medicis*, notwithstanding that the Arbitration was first-filed and notwithstanding whether the PLA's arbitration provision could otherwise be construed as covering disputes arising under the NDA (which it cannot), the NDA's clear reservation of the right to seek judicial enforcement of the NDA prevents LG from being forced to arbitrate this dispute.

[redacted].

II. THE *MCWANE* DOCTRINE SHOULD NOT PROVIDE AN EXCEPTION TO SUBSTANTIVE ARBITRABILITY

A. Question Presented

Can a court dismiss a plaintiff's claim under *McWane* in favor of a first-filed arbitration when there is no clear expression of intent to arbitrate the dispute relating to the dismissed claim, when it was the plaintiff, not the defendant, that initiated the first-filed arbitration, and when the arbitration panel cannot in any event address the substantive claim nor grant the requested relief?

This issues was preserved before the Court of Chancery at A-138-140, 155-156.

B. Scope of Review

This Court reviews decisions granting a motion to dismiss de novo. *Sagarra Invesiones*, 34 A.3d at 1078. Whether the Court of Chancery's application of *McWane* conflicts with this Court's substantive arbitrability jurisprudence should be reviewed *de novo*. *DMS-Properties*, 748 A.2d at 391.

C. Merits of the Argument

For the reasons articulated *supra* Part I, LG's claims are not substantively arbitrable. The answer to that threshold question should end the inquiry regarding InterDigital's motion to dismiss, without need to consider *McWane*. The Court of Chancery's decision, however, effectively holds that *McWane* provides an exception to this Court's substantive arbitrability rules by allowing arbitration of

[redacted].

claims despite a lack of a clear expression of intent to arbitrate, especially if there is an existing arbitration involving similar issues. Delaware law provides no basis for such an exception, nor are there any good reasons for creating such an exception now—particularly on the facts of this case.

The Court of Chancery's decision to apply *McWane* was based, in part, on a misstatement of the record below. The Court of Chancery stated that

> *The parties agree that the Tribunal at least has the power to determine if the underlying dispute is arbitrable,* and the parties also agree that the specific matter at issue in this case arises out of the NDA, which does not contain an arbitration provision. This case therefore presents the rare instance when both the arbitral tribunal and the court have jurisdiction such that *McWane* could apply.

[Op. at 5.] Contrary to the Court of Chancery's statement, LG *never* agreed that "the Tribunal at least has the power to determine if the underlying dispute is arbitrable." [*Id.* (not citing any record cite for support).] As the record makes clear, LG argued that because "the contract at issue—the NDA—contains no arbitration provision and, therefore, does not 'generally provide[] for arbitration of all disputes . . . the question of substantive arbitrability should be answered by this Court." [A-140 n.7.] As discussed above, the NDA does not contain any arbitration provision, such that the Tribunal has no authority to decide any issues under the NDA including whether the underlying NDA dispute is arbitrable. Consequently, the Court of Chancery's erroneous belief that *McWane* applies

because "both the tribunal and the court have jurisdiction," provides independent grounds to reverse that decision.[3]

Separately, neither the facts of this case nor the policy underpinnings of *McWane* warrant applying *McWane* as an exception to the substantive arbitrability rules. The primary underpinning of *McWane* is "the policy that favors strong deference to a plaintiff's initial choice of forum," *Lisa, S.A. v. Mayorga*, 993 A.2d 1042, 1047 (Del. 2010), and the related principle that "a defendant should not be permitted to defeat the plaintiffs' choice of forum in a pending suit by commencing litigation involving the same cause of action in another jurisdiction of its own choosing," *McWane Cast Iron Pipe Corp. v. McDowell-Wellman Engineering Co.*, 263 A.2d 281, 283 (Del. 1970). Notably, the Court of Chancery has previously declined to apply *McWane* where a second-filed action was not brought to defeat a plaintiff's original choice of forum. *See E.I. du Pont de Nemours & Co. v. Bayer CropScience, L.P.*, 2008 WL 2673376, at *4 (Del. Ch.) (declining to apply *McWane* when there was "no evidence that [plaintiff] filed its complaint in

[3] The Court of Chancery's erroneous statement that both the Tribunal and the court have jurisdiction in this matter demonstrates that court's failure to recognize that there are two sides to the substantive arbitrability question. That is, the Court of Chancery appears to treat the substantive arbitrability question as determining only whether a court of law has jurisdiction. What the Court of Chancery fails to acknowledge is that the lack of clear expression of intent to arbitrate disputes under the NDA means not only that the Court of Chancery *does* have jurisdiction to take up the dispute, but also that the Tribunal *does not*. Because only the Court of Chancery has jurisdiction over the dispute, there was no basis for that court to exercise discretion under *McWane* and dismiss in favor of arbitration.

[redacted]

response to [defendants' first-filed] complaint" because "one of the underlying principles of the *McWane* doctrine is that a plaintiff's choice of forum should be respected . . . and a defendant should not be allowed to engage in forum shopping by subsequently filing its own complaint in another court").

That policy consideration favoring a plaintiff's choice of forum counsels *against* application of *McWane* in this case, because it was LG—not InterDigital—that initiated the original Arbitration. LG is the plaintiff in *both* forums: LG initiated the Arbitration to address one dispute (InterDigital's breach of the separate PLA) and LG commenced this suit to address a distinct dispute (InterDigital's breach of the NDA). By dismissing this action in favor of arbitration, the Court of Chancery disregarded "the policy that favors strong deference to a plaintiff's"—i.e. LG's—"initial choice of forum." *Lisa*, 993 A.2d at 1047.

The other significant policy consideration for applying *McWane* is "considerations of comity." *Ingres Corp v. CA, Inc.*, 8 A.3d 1143, 1145 (Del. 2010). That consideration, similarly, does not warrant application of *McWane* in this case [redacted] [A-98.] The Tribunal further clarified that, [redacted]

[redacted].

[redacted] [*Id.*] Thus, because [redacted], considerations of judicial comity present no impediment to the Court of Chancery resolving LG's claims regarding the meaning of the NDA. Accordingly, even setting aside the controlling and dispositive substantive arbitrability question, application of *McWane* is not warranted in this case.

[redacted].

III. EVEN IF *MCWANE* GOVERNED, THE COURT OF CHANCERY'S DECISION WAS IN ERROR BECAUSE THE TRIBUNAL IS NOT CAPABLE OF DOING "PROMPT AND COMPLETE JUSTICE" AND BECAUSE THERE IS NOT A FUNCTIONAL IDENTITY OF ISSUES

A. Question Presented

Can a court dismiss a claim for breach of contract in favor of arbitration when the arbitrators lack the authority to find liability for breach and when the plaintiff seeks injunctive relief extending beyond the scope of the arbitration?

This issue was preserved before the Court of Chancery at A-156-158.

B. Scope of Review

This Court reviews the decision granting a motion to dismiss *de novo*. *Sagarra*, 34 A.3d at 1078. Although a decision to stay or dismiss pursuant to *McWane* is discretionary, this Court reviews the Court of Chancery's application of the correct legal standards *de novo*. *See, e.g.*, *SIGA Techs. Inc. v. PharmAthene, Inc.*, 67 A.3d 330, at 341 (Del. 2013).

C. Merits of Argument

Although *McWane* is inapplicable for the reasons discussed above, the Court of Chancery should have denied InterDigital's motion even under a *McWane* analysis. *McWane* provides that a court may dismiss or stay a Delaware action when "a prior action, involving the same parties and issues, is pending elsewhere in a court capable of doing prompt and complete justice." *Ingres*, 8 A.3d at 1145.

[redacted]

At least two of the *McWane* elements—"capable of doing prompt and complete justice" and "involving … the same issues"—are not met here.

1. *McWane* does not apply to arbitration proceedings

Before the issuance of the decision below, no Delaware court had ever held that *McWane* applies to arbitration proceedings. This is unsurprising because whether a claim can be submitted to arbitration implicates questions of substantive arbitrability, and a party cannot be forced to arbitrate a claim that it did not agree to submit to arbitration. Since arbitration requires "a clear expression of such intent in a valid agreement," it is unlikely a situation would develop where a claim is properly subject to both arbitral and judicial forums. *See Willie Gary*, 906 A.2d at 79. The Court of Chancery erred by creating such a conflict.

Using *McWane* to dismiss a claim in favor of a pending arbitration, when the parties did not agree to arbitrate that claim, impermissibly circumvents the long-standing prohibition against forcing parties to arbitrate disputes. Thus, there are good reasons for this Court to hold that *McWane* is altogether inapplicable when it comes to arbitrations, as the proper inquiry should instead focus on arbitrability. Indeed, that is what the Court of Chancery held in *Medicis* when, despite defendants' argument for the court to "consider the first-filed status of its arbitration demand," the court "[d]id not find . . . that the order of filing is dispositive" because the agreement expressly allowed for "the right to institute

[redacted]

judicial proceedings." 2013 WL 4509652 at *10. If the opinion in this case is allowed to stand, any party—regardless of whether the party is a sophisticated corporation or a consumer—would be compelled to arbitration as long as there is a co-pending arbitration proceeding, even if the proceeding involves unrelated issues. This result is legally, equitably, and policy-wise erroneous.

2. The "prompt and complete justice" requirement of *McWane* is not met

As discussed *supra* Part I(C)(2)(b), even if the Tribunal could address the present dispute as an evidentiary matter, it cannot address LG's substantive claim for breach of contract. It cannot issue a declaratory judgment that InterDigital is in breach, which, apart from resolving the immediate evidentiary dispute, could also be relevant to a possible petition to vacate any future arbitration award. Nor can the Tribunal issue an injunction prohibiting InterDigital from future breaches of the NDA outside of the arbitration. These points are clear and undisputed. Hence, *McWane*'s "prompt and complete justice" requirement is not met.

The Court of Chancery's holding that, LG's claims are unripe to the extent they seek relief beyond what the Tribunal can grant, is legally flawed both because it confuses relief with ripeness, and because it impermissibly narrows the scope of relief LG is entitled to. "Generally, a dispute will be deemed ripe if 'litigation sooner or later appears to be unavoidable and where the material facts are static." *XI Specialty Ins. Co. v. WMI Liquidating Trust*, 93 A.3d 1208, at 1217 (Del. 2014)

[redacted].

(internal quotation marks and citations omitted). "A dispute will be deemed not ripe where the claim is based on 'uncertain or contingent events that may not occur." *Id.* Here, the events giving rise to LG's claim are not "uncertain or contingent." *Id.* The events occurred when InterDigital submitted Settlement Communications as part of its arbitration brief and provided the Tribunal with witness statements that it intends to use at trial. Thus, LG's claim for breach of contract—which is a substantive issue and falls outside the scope of the Tribunal's power over evidentiary issues—is undeniably ripe. To the extent the Court of Chancery held that LG's breach of contract claim was unripe, that is legal error.

If, instead, the Court of Chancery meant to hold that LG's requested *relief* is unripe, that was also legal error. Even assuming that the ripeness doctrine requires not only claims to be ripe, but forms of relief to be ripe (a legal principle for which LG has found no authority), the ripeness inquiry "requires a common sense assessment of whether the interests of the party seeking immediate relief outweigh the concerns of the court in postponing review until the question arises in some more concrete and final form." *XI Specialty*, 93 A.3d at 1217 (internal quotation marks and citations omitted). As one form of LG's requested relief for InterDigital's past breach of the NDA, LG asked the Court of Chancery to enjoin InterDigital from breaching the NDA again in the future. This is a common form of relief when a party has been found in breach of a confidentiality obligation. For

[redacted].

example, in *eCommerce Indus., Inc. v. MWA Intelligence, Inc.*, 2013 WL 5621678, at *52 (Del. Ch.), after the Court found that a defendant had "materially breached the confidentiality provisions" of a contract, the court ordered that the defendant was "enjoined from breaching the confidentiality provisions in the future." *Id.* (emphasis added). Similarly, in *Venoco, Inc. v. Eson*, 2002 WL 1288703 (Del. Ch.), after holding that defendants had breached their fiduciary duties by disclosing confidential information to a third party, the court "enjoin[ed] them from disclosing any confidential Venoco information to third parties in the future." *Id.* at *8. Those results are consistent with the principle that "[i]njunctions may, of course, be issued where the evidence establishes a pattern of conduct from which a court may and does conclude that there is a reasonable apprehension of risk of future breaches." *Thorpe v. Cerbco, Inc.*, 1996 WL 560173, at *4 (Del. Ch.).

In the present case, there is certainly "a reasonable apprehension of risk of future breaches," *id.*, arising from the facts that (1) InterDigital has *already* breached the NDA in one ongoing proceeding; (2) InterDigital has made clear that it does not view the NDA as prohibiting disclosure of Settlement Communications occurring prior to the NDA's execution; and (3) the parties are presently engaged in another litigation in the District of Delaware involving similar issues for which Settlement Communications could become relevant. Absent a judicial order resolving the parties' disputed interpretations of the NDA, nothing prevents

[redacted].

InterDigital from again disclosing Settlement Communications tomorrow, either as part of the parties' pending District of Delaware litigation, or in some other forum. The Court of Chancery's holding that LG's request to resolve the meaning of the NDA and enjoin such disclosures is "unripe" effectively means that LG cannot seek relief until after InterDigital breaches the NDA again—at which point, the damage will have been done. Under these circumstances, this is a case where "the interests of the party seeking immediate relief"—i.e., LG—"outweigh[s] the concerns of the court in postponing review." *XI Specialty*, 93 A.3d at 1217.

Aside from the erroneous basis for the Court of Chancery's holding of unripeness, the facts of the present case amply satisfies the ripeness doctrine under Delaware caselaw. "[A] dispute will be deemed ripe if litigation sooner or later appears to be unavoidable and where the material facts are static." *XI Specialty*, 93 A.3d at 1217 (internal quotation marks and citations omitted). When deciding whether a claim is ripe, "Delaware courts look at whether the interests of those who seek relief outweigh the interests of the court and of justice in postponing review until the question arises in some more concrete and final form." *Id.* (internal quotation marks and citations omitted).

With respect to "the concerns of the court in postponing review," the only question for the Court of Chancery to decide is a purely legal question: Whether the NDA applies to Settlement Communications occurring "at any time", [A-27 at

[redacted].

§ 1], or only to Settlement Communications that post-date the NDA. The answer to that question will be the same in the Arbitration as it will be in the pending litigation in the District of Delaware and in every other forum where it will arise. Therefore, this is not a case where "the prospect of future factual development . . . might affect the determination to be made." *TVI Corp. v. Gallagher*, 2013 WL 5809271, at *18 (Del. Ch.). For that reason, there is no benefit in delaying review.

With respect to the interest of LG, should the Court of Chancery decide LG's claims, the meaning of the NDA will be decided once and for all. If, instead, this Court affirms the dismissal in favor of arbitration, the NDA would have to be addressed by the Tribunal (which cannot declare the meaning of the NDA), in the U.S. District Court for the District of Delaware, and potentially in additional forums in the future. Thus, LG has a significant interest in having the meaning of the NDA decided promptly and correctly, once and for all.

Fundamentally, the evidentiary question before the Arbitration Tribunal is entirely different from the relief requested in this action to remedy a breach of a separate contract. Hence, even if the Arbitration Tribunal refuses to consider Settlement Communications as an evidentiary matter, it will not provide LG with the requested and needed declaratory and injunctive relief to prevent InterDigital from committing further breaches of the NDA. As a result, the "prompt and complete justice" requirement of *McWane* cannot be met.

[redacted]

3. The Arbitration does not involve the same issues

McWane requires that the issues be "substantially or functionally identical." *See, e.g., Chadwick v. Metro Corp.*, 856 A.2d 1066 (Del. 2004) (table). The extent of identity between the issues in this action and the Arbitration does not meet this threshold. Although a potential evidentiary question may ultimately be addressed in the Arbitration, the interpretation of the NDA and InterDigital's breach of that agreement cannot be addressed in the Arbitration—[redacted]

Moreover, the Tribunal cannot address the breach of the NDA because it lacks the authority to construe, interpret, and apply the NDA. *See supra* Part I(C)(2)(b). Accordingly, because the Tribunal cannot possibly address the key issues in this action—the meaning of the NDA and whether InterDigital is in breach of the NDA—there is no "functional identity" of issues between this action and the Arbitration.

CONCLUSION

For the foregoing reasons, LG respectfully requests that this Court reverse the Court of Chancery's decision dismissing LG's claims in favor of arbitration, vacate its order of dismissal, and remand for further proceedings.

[redacted]

FISH & RICHARDSON P.C.

/s/ Jeremy D. Anderson

Jeremy D. Anderson (DE Bar No. 4515)
Joseph B. Warden (DE Bar No. 5401)
222 Delaware Avenue, 17th Floor
P.O. Box 1114
Wilmington, Delaware 19899
(302) 652-5070

Attorneys for Plaintiff Below-Appellant LG Electronics, Inc.

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