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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 NOVEMBER 26, 2014** CASE NO.: No. 475, 2014 ON APPEAL FROM C.A. NO. 9747-VCL IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

APPELLEE'S ANSWERING BRIEF

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NATURE OF PROCEEDINGS

Plaintiff Below-Appellant LG Electronics, Inc. ("LG") and Defendants Below-Appellees InterDigital Communications, Inc., InterDigital Technology Corporation, and IPR Licensing, Inc. (collectively, "InterDigital") are parties to a pending arbitration before the International Centre for Dispute Resolution ("the Arbitration"). The Arbitration addresses the scope of a Wireless Patent License Agreement between InterDigital and LG dated and effective as of January 1, 2006 ("PLA"). A dispute arose in the Arbitration as to whether an agreement between the parties—the Agreement Governing Confidential Settlement Communications ("NDA") executed in May 2012—precludes reliance on certain evidence.

Despite having initially raised this dispute in the Arbitration, LG filed with the Court of Chancery on June 9, 2014, a verified complaint seeking a permanent injunction compelling InterDigital to withdraw evidence it submitted in the Arbitration and to refrain from further alleged breaches of the NDA. On June 23, 2014, InterDigital filed a motion to dismiss LG's complaint based on *McWane Cast Iron Pipe Corp. v. McDowell-Wellman Engineering Co.*, 263 A.2d 281 (Del. 1970). On August 20, 2014, the Court of Chancery granted InterDigital's motion to dismiss. LG appealed the decision below on August 28, 2014, and submitted its Opening Brief on October 13, 2014. On October 27, 2014, the Tribunal issued a ruling on the applicability of the NDA. This is InterDigital's Answering Brief.

SUMMARY OF ARGUMENT

1. *Denied.* The proper inquiry does not begin and end with a substantive arbitrability analysis because the issue before the Court of Chancery was whether LG's complaint should be dismissed based on *McWane*. The Court of Chancery properly exercised discretion under the *McWane* doctrine and refused to "interfere with the Tribunal by providing an *ad hoc* forum for interlocutory review" of procedural or discovery decisions. The practical consequence of adopting LG's proposed approach—beginning any analysis by addressing substantive arbitrability—would be to substantially disrupt arbitrations and burden the Delaware courts. Under LG's approach, any party to arbitration could come to the Delaware courts to obtain rulings on evidentiary issues. In addition, LG ignores the fact that it did, in fact, agree to arbitrate the issue it seeks to have resolved by the Court of Chancery: LG undeniably agreed to arbitrate disputes regarding the PLA, including evidentiary disputes that arise in arbitration. The dispute regarding the applicability of the NDA is just such an attendant dispute.

2. *Denied*. Contrary to LG's assertion, the Court of Chancery did not hold that "*McWane* provides an exception to the law regarding substantive arbitrability." LG raises concerns of a party being compelled to arbitrate in the absence of an agreement to do so, but that concern is illusory here. LG ignores the fact that it agreed in the PLA to arbitrate disputes regarding the PLA, including

attendant evidentiary disputes. As discussed above, LG's proposed alternative would force Delaware courts to intervene in arbitrations and provide mid-arbitration rulings on evidentiary and discovery issues. This is not the law and belies good policy. The Court of Chancery properly dismissed LG's claims.

3. *Denied*. The Court of Chancery properly exercised its discretion under the long-standing *McWane* doctrine to dismiss LG's claims in light of the prior-pending Arbitration. It is indisputable that the Arbitration involves the same parties as this action, and involves the same issue for which the Tribunal can grant prompt and complete justice. While LG argues that the issues are different because its action in Chancery Court seeks relief based on possible "future breaches," the only existing conduct LG alleges to constitute a breach of the NDA is the submission of evidence to the Tribunal. The Tribunal is capable of remedying this purported breach, as demonstrated by the Tribunal's recent decision denying LG's motion for an order precluding InterDigital from relying on the purportedly prohibited evidence. This decision, issued after LG's Opening Brief was filed, highlights how LG is effectively asking the Delaware courts to second-guess the Tribunal mid-arbitration. To the extent LG seeks relief for speculative, unidentified alleged future breaches, the Court of Chancery properly dismissed LG's complaint as unripe.

STATEMENT OF FACTS

A. THE PATENT LICENSE AGREEMENT

In 2006, LG and InterDigital entered into a Wireless Patent License Agreement ("PLA"). (A56). The PLA granted LG a license for third generation (or "3G") wireless telecommunication products for a specified term that expired on December 31, 2010. (A63 at § 4.1; *see* A89). The PLA states that in the event the parties cannot resolve a dispute arising under the PLA among themselves, they shall arbitrate their dispute. (A63-64). The PLA also expressly permits discovery and grants the arbitral tribunal authority to resolve discovery disputes. (A64 at § 5.2(e)). (A64 ("The Arbitration Panel shall decide any dispute regarding such requests for discovery or the adequacy of a discovery response by any party.")).

B. PRIOR PATENT LITIGATION AND ARBITRATION

Although InterDigital attempted to negotiate a renewal of LG's 3G license, the negotiations failed. (B10). As a result, in 2011, InterDigital filed a complaint with the International Trade Commission ("ITC") to bar LG's ongoing importation of 3G wireless products in violation of InterDigital's patent rights. (B10; Op. at 2).

LG filed a motion in the ITC investigation seeking to terminate the investigation as to LG in favor of arbitration, claiming that it has a continuing license for its 3G products under the PLA. (B11; Op. at 2). The Administrative

Law Judge ("ALJ") erroneously terminated the ITC investigation, and InterDigital appealed to the U.S. Court of Appeals for the Federal Circuit. (B11; *see* A70).

The arbitration panel ("Tribunal") set a procedural schedule that required LG to submit its opening brief on the merits on April 19, 2013, and InterDigital to submit its responsive brief on the merits on May 24, 2013. (B64).

C. LG RAISED THE NDA DISPUTE IN THE ARBITRATION

After LG filed its demand for arbitration, the parties entered into the NDA in May 2012 to facilitate settlement discussions taking place in the ITC investigation and related district court litigation. (A27). The NDA's purpose is to protect the confidentiality of "potential" (*i.e.*, prospective) settlement negotiations related to the litigations that are identified in the NDA. (*Id.*). In the Arbitration, LG erroneously asserted that the NDA prohibited the parties from using certain evidence extrinsic to the PLA. (A212-215; *see also* A210).

After LG raised the NDA dispute in the Arbitration, the parties briefed the applicability of the NDA, and the Tribunal issued a ruling on May 8, 2013. (A97). The Tribunal stated that the NDA dispute was an issue "of the admissibility of evidence" and that it would be "premature [redacted]" and "[redacted]" (A98). In InterDigital's May 31, 2013 responsive arbitration brief, [redacted]

[redacted]. (B164).

D. THE ARBITRATION IS PROCEEDING AND LG'S NDA ARGUMENT HAS BEEN CONSIDERED—AND REJECTED

The Arbitration continues towards resolution of whether LG has a continuing license for its 3G products under the expired 2006 PLA. (B16-17). A Final Evidentiary Hearing is scheduled for February 2015. (*See, e.g.*, B71).

On June 7, 2013 (*i.e.*, one week after InterDigital submitted its responsive arbitration brief to the Tribunal), the Federal Circuit issued an opinion on InterDigital's appeal of the ITC decision to terminate the investigation as to LG based on LG's purported license defense. (B15; A90). The Federal Circuit reversed the ITC, holding that "LG's license defense is not plausible. Rather, a cursory review of the relevant provisions in the Agreement confirms that LG no longer holds a license to InterDigital's patents for 3G products." *InterDigital Commc'ns, LLC v. ITC*, 718 F.3d 1336, 1347 (Fed. Cir. 2013), *cert. granted, vacated*, 134 S.Ct. 1876 (2014). In light of the Federal Circuit's decision rejecting LG's license defense, and while LG petitioned the United States Supreme Court for a writ of certiorari, the parties jointly requested a stay of the Arbitration. (B15).

During the pendency of LG's Supreme Court certiorari petition, InterDigital voluntarily moved to terminate the ITC investigation as to LG, allowing for the

investigation to proceed as to the other respondents and facilitating a streamlined appeal of the ITC's patent-specific rulings to the Federal Circuit. (*Id.*). InterDigital's motion was granted, and LG was terminated from the ITC investigation, mooting the appeal (which involved only the question of whether LG would be returned to the ITC investigation). (*Id.*) The Supreme Court then did precisely what it was anticipated it would do: it granted LG's petition and vacated the Federal Circuit's decision on mootness grounds.[1] (B15-16; A102).

After the Supreme Court *vacatur*, InterDigital requested that the Tribunal lift the stay so the Arbitration could proceed. (B16; B68). On June 9, 2014, the Tribunal lifted the stay. (B16; B67).

After the stay had been lifted—indeed, after LG submitted its Notice of Appeal to this Court—the Tribunal requested that [redacted]. (*See* B258). Based on that briefing, the Tribunal decided [redacted]. (B257, B262).[2]

[1] While LG claims that InterDigital "declined to defend its position in the U.S. Supreme Court" (LG Br. at 5), InterDigital moved to withdraw its ITC complaint against LG to proceed with the appeal and subsequent proceedings as to the other respondents. (B15).

[2] The undersigned counsel sought the Clerk of this Honorable Court's advice on how to present the Tribunal's most recent decision and was advised to include it in the appendix.

E. THE COURT OF CHANCERY DECLINED TO INTERVENE

On June 9, 2014, more than a year after the Tribunal had stated that it would address the NDA issue at "an appropriate later date, if, as and when necessary," LG filed suit in the Court of Chancery, seeking injunctive relief compelling InterDigital to withdraw its brief and supporting evidence. (Op. at 4). InterDigital moved to dismiss on the grounds that LG's claims are properly before the Tribunal and, thus, the Court of Chancery should defer to the tribunal under *McWane*. (B1). The Court of Chancery granted InterDigital's motion and dismissed the action under *McWane* after finding that (i) the Arbitration constitutes a prior action, (ii) the Tribunal is capable of doing prompt and complete justice, and (iii) the Arbitration involves the same parties and the same issues. (Op. at 20). LG appeals the decision below and improperly insists that the Delaware courts intervene in the evidentiary dispute before the Tribunal. Because the Tribunal has now resolved the issue in InterDigital's favor (B257), LG is asking the Delaware court not just to intervene, but to second-guess the Tribunal mid-arbitration.

ARGUMENT

I. THE COURT OF CHANCERY PROPERLY EXERCISED ITS DISCRETION IN RULING THAT THE *MCWANE* DOCTRINE APPLIES AND IN DISMISSING LG'S DELAWARE COMPLAINT

A. Question Presented

Did the Court of Chancery correctly rule that all *McWane* elements are met where the prior action is an arbitration and where a party seeks an injunction in the later action to enjoin hypothetical future breaches based only on conduct in the prior action?

This issue was preserved before the Court of Chancery at (B17-20) and (B83-85).

B. Scope of Review

LG incorrectly states that the standard of review is *de novo* ignoring that InterDigital's motion to dismiss was based on the *McWane* doctrine.[3] "In *McWane*, this Court held that Delaware courts should exercise discretion in favor of a stay where a prior action, involving the same parties and issues, is pending elsewhere in a court capable of doing prompt and complete justice." *Ingres Corp. v. CA, Inc.*, 8 A.3d 1143, 1145 (Del. 2010) (citing *McWane*, 263 A.2d at 283). As such, the standard of review is abuse of discretion. *See GM Sub Corp. v. Liggett*

[3] If the Court decides that substantive arbitrability is a threshold issue, the standard of review as to that issue is *de novo*. (*See* LG Br. at 10). Whether the standard of review is *de novo* or abuse of discretion, the result is the same. The Court of Chancery properly exercised its discretion in dismissing LG's action.

Group, Inc., 415 A.2d 473, 477 (Del. 1980) (holding that it was not an abuse of discretion to deny a motion to stay a Delaware action in favor of the suit in the Federal district court); *Chadwick v. Metro Corp.*, 856 A.2d 1066, 1066 (Del. 2004) ("[W]e are satisfied that the trial judge acted appropriately within his discretion by dismissing Chadwick's Delaware complaint in favor of the first-filed Pennsylvania suit."); *Coaxial Communications, Inc. v. CNA Financial Corp.*, 367 A.2d 994, 997 (Del. 1976) ("[D]id the Chancellor abuse his discretion by refusing to stay the action pending a determination of the Federal litigation in Ohio.").

C. Merits of the Argument

The Court of Chancery properly held that the elements of *McWane* are satisfied and, thus, properly exercised its discretion to dismiss LG's complaint. LG attempts to shift focus away from *McWane* and frame the relevant issue as one of substantive arbitrability. LG's misplaced arguments regarding substantive arbitrability are addressed in Sections II and III. As to the real issue, application of *McWane*, LG challenges the Court of Chancery's decision in only limited respects.

First, LG contends without authority that *McWane* is simply inapplicable when the prior action is an arbitration. (LG Br. at 29-30). However, there is not "a principled distinction between a first-filed action in a court in another jurisdiction and a first-filed arbitration," and several policy reasons exist to decline LG's invitation to limit *McWane* in this manner. (Op. at 6).

Second and third, LG contends that "[a]t least two of the *McWane* elements—'capable of doing prompt and complete justice' and 'involving ... the same issues'—are not met here." (LG Br. at 29). Here too, LG misses the mark. LG's arguments regarding the ability of the Tribunal to provide prompt and complete justice and regarding the identity of the issues are premised on speculation and hypotheticals. (LG Br. at 30-35). Thus, the Court of Chancery properly concluded that LG's claims based on possible future conduct are unripe. (Op. at 19). The issues in the proceedings are the same, and the Tribunal can provide prompt and complete justice, which it has done by considering and rejecting LG's argument. (B257).

1. Arbitration is "a prior action" under *McWane.*

According to the long-standing *McWane* doctrine, courts should freely exercise their discretion to dismiss an action where "there is a prior action pending elsewhere, in a court capable of doing prompt and complete justice, involving the same parties and the same issues." *McWane*, 263 A.2d at 283; *see also Lisa, SA v. Mayorga*, 993 A.2d 1042, 1047 (Del. 2010).

LG argues that *McWane* cannot apply where the "prior action" is an arbitration. (LG Br. at 29-30). LG's argument is contrary to authority and policy considerations. Arbitrations have been routinely considered prior actions for the purposes of issue and claim preclusion. *See Appoquinimink Educ. Ass'n v.*

Appoquinimink Sch. Dist., 2003 WL 1794963, at *4-5 (Del. Ch. Mar. 31, 2003), *aff'd*, 844 A.2d 991 (Del. 2004) (considering a prior arbitration to be a "prior action" for purposes of claim preclusion); *Meso Scale Diagnostics, LLC v. Roche Diagnostics GmbH*, 62 A.3d 62, 89 (Del. Ch. 2013) (considering prior arbitration to be a "prior action" but declining to apply collateral estoppel for other reasons); *see also United Indus. Workers v. Gov't of the Virgin Islands, V.I.*, 987 F.2d 162, 169 (3d Cir. 1993) (same); *United States Postal Serv. v. Gregory*, 534 U.S. 1, 16 (2001) (explaining that arbitration awards have the same preclusive effects (Ginsburg, concurring)).

Nothing about arbitrations or in the *McWane* factors suggests that arbitrations should be treated differently from any other prior-filed actions under *McWane*. Considerations of judicial efficiency and certainty that support the application of claim and issue preclusion in arbitrations are some of the same considerations that support the *McWane* doctrine. For instance, the *McWane* doctrine allows courts to "avoid the wasteful duplication of time, effort, and the expense that occurs when judges, lawyers, parties, and witnesses are simultaneously engaged in the adjudication of the same cause of action in two courts." (Op. at 5 (quoting *McWane*, 263 A.2d at 283)). The courts would also "avoid ... the possibility of inconsistent and conflicting rulings and judgments and an unseemly race by each party to trial and judgment in the forum of its choice."

(*Id*. at 5-6 (quoting *McWane*, 263 A.2d at 281)). For these reasons, courts in Delaware routinely apply the *McWane* doctrine to dismiss or stay later-filed actions. *Abraham v. Del. Dep't of Corrections*, 2008 WL 242026 (Del. Ch. Jan. 24, 2008); *Chadwick*, 856 A.2d 1066 (same); *Chaverri v. Dole Food Company, Inc.*, 2013 WL 5977413 (Del. Super. Ct. Nov. 8, 2013); *Kaufman v. Kumar*, 2007 WL 1765617 (Del. Ch. June 8, 2007); *Glen Rose Petroleum Corp. v. Langston*, 2010 WL 2734621 (Del. Ch. July 7, 2010). The Court of Chancery concluded that these "rationales apply with equal force to a first-filed arbitration." (Op. at 6). Thus, "for purposes of *McWane*, there does not appear to be a principled distinction between a first-filed action in a court in another jurisdiction and a first-filed arbitration." (*Id*.).

LG argues that *Medicis Pharm. Corp. v. Anacor Pharms. Inc.*, 2013 WL 4509652 (Del. Ch. Aug. 12, 2013), supports the notion that "*McWane* is altogether inapplicable when it comes to arbitrations, as the proper inquiry should instead focus on arbitrability." (LG Br.at 29). LG is wrong. First, *Medicis* did not even discuss the *McWane* doctrine. As the decision in *Medicis* turns on subject matter jurisdiction, and as there is no discussion of *McWane*, it is not instructive here. In fact, *Medicis* noted that the arbitration was the first-filed action and that the first-filed "status conceivably could play a role in the Court's decision." *Medicis Pharm.*, at *10. Thus, rather than supporting that *McWane* should not apply to

arbitrations, *Medicis* suggests that arbitrations can be considered first-filed actions for comity purposes.[4] Second, the agreement at issue in *Medicis* expressly allowed the parties to bring a judicial proceeding to enforce their rights under the agreement "[n]otwithstanding" the arbitration provisions of the agreement. *Id*. at *6. The court interpreted this to expressly permit the parties to conduct simultaneous arbitration and a judicial proceeding. *Id*. at *12. LG ignores the fact that the NDA contemplates arbitration (*see infra* Section II.C.2), and the PLA empowers the Tribunal to address evidentiary disputes.[5] The PLA does not provide a carve-out for simultaneous judicial proceedings or evidentiary disputes. (*See* A63-64 at §5.2).

2. The Tribunal can provide prompt and complete justice.

Next, LG contends that the Tribunal cannot provide prompt and complete justice because it seeks relief outside the scope of the Arbitration, *e.g.*, "an injunction prohibiting InterDigital from ***future breaches*** of the NDA ***outside of the arbitration***." (LG Br. at 30) (emphasis added).

The Court of Chancery, however, recognized that LG's claim for enjoining breaches outside the scope of the Arbitration "is not yet ripe." (Op. at 19).

[4] The court ultimately dismissed the second filed action, but only because the agreement expressly allowed a simultaneous judicial action. *Id*. at *6, 10-12.

[5] LG's argument regarding what *Medicis* holds regarding arbitrability is addressed below in Section II.C.1.

Specifically, the Court of Chancery explained that "[e]ven taking all of LG's allegations as true, InterDigital has only breached the NDA once, and it has never breached it outside of the arbitration." (*Id*.). Thus, the Court of Chancery correctly concluded that "[t]he only plausibly ripe claim for a permanent injunction would be one barring future breaches of the NDA in submissions to the Tribunal. If LG wishes to press such a claim, it should do so before the Tribunal, not here." (*Id*.).

LG attempts to sidestep this reasoning by arguing that the Court of Chancery is incorrect because "it confuses relief with ripeness." (LG Br. at 30). LG is incorrect regardless of whether LG's claim is viewed from the perspective of ripeness or the scope of relief.

LG relies on the principle that "[g]enerally, a dispute will be deemed ripe if 'litigation sooner or later appears to be unavoidable and where ***the material facts are static***." (LG Br. at 30 (quoting *XL Specialty Ins. Co. v. WMI Liquidating Trust*, 93 A.3d 1208, 1217 (Del. 2014)) (emphasis added)). Yet LG ignores the fact that there are ***no*** alleged facts at all outside of the Arbitration that could be "static." The only alleged or threatened breach is within the bounds of the Arbitration. For example, LG cites three "facts" allegedly demonstrating "a reasonable apprehension of risk of future breaches." (LG Br. at 32). But these "facts" boil down to nothing more than the allegation that InterDigital has breached the NDA

in the Arbitration and conjecture that InterDigital ***may*** do so again. (*Id*.). Thus, there is no "reasonable apprehension" of a future breach and certainly no "static facts" on which a decision can be based.

LG also seeks to avoid the Court of Chancery's reasoning regarding the scope of relief to which it could be entitled. The Court of Chancery explained 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 of duty of a predicable type." (Op. at 19 (quoting *Thorpe v. Cerbco, Inc.*, 1996 WL 560173, at *4 (Del. Ch. Sept. 13, 1996) (Allen, C.)) (emphasis added)). LG acknowledged this case law, but makes the bald assertion that in this case there exists a "pattern of conduct" that creates "a reasonable apprehension of future breaches." (LG Br. at 32). This assertion runs contrary to the Court of Chancery's finding that "LG has made ***no allegation whatsoever*** that there is any 'pattern of conduct' involving the disclosure of Settlement Communications 'elsewhere.'" (Op. at 19 (emphasis added)). The ***only*** alleged breach occurred in the Arbitration. A single alleged breach does not create a "pattern."

To circumvent the Court of Chancery's reasoning on this issue, LG points to the *eCommerce* case as an example where "the court ordered that the defendant was 'enjoined from breaching the confidentiality provisions in the future.'" (LG

Br. at 32 (quoting *eCommerce Indus., Inc. v. MWA, Inc.*, 2013 WL 5621678, at *52 (Del. Ch. Sept. 30, 2013))). Indeed, in *eCommerce*, the Court of Chancery ordered an injunction after determining that Defendant MWA had breached an agreement's confidentiality provision when MWA filed a public, unredacted copy of an agreement with its complaint. *eCommerce Indus.*, at *16-17. Importantly, MWA had sent a copy of the complaint with the attached unredacted agreement to a third party with "an intent to harm Plaintiffs" and "thereby facilitating the disclosure of [the] Confidential Information ***throughout the industry***." *Id.* at *18 (emphasis added). InterDigital does not dispute that the NDA prevents the use of certain information, but disagrees with LG as to the scope of information. InterDigital has taken no efforts to spread throughout the industry the information LG claims is protected by the NDA and has not acted with an intent to harm LG.

Similarly, the facts in *Venoco, Inc. v. Eson*, 2002 WL 1288703 (Del. Ch. June 6, 2012), are inapposite. The defendants were "surreptitiously using their positions as directors, without telling the other directors, to advance their position as shareholders" and "took active steps to conceal their plans." *Id.* at *6-7. In contrast, in the present case, the alleged disclosures are limited to specific evidence submitted in the Arbitration, such as PLA negotiation correspondence, and are protected by the confidentiality obligations of the proceedings. There are no facts supporting an attempt or intent by InterDigital to facilitate disclosure to the public.

LG also argues that the Tribunal "cannot issue a declaratory judgment that InterDigital is in breach, which . . . could also be relevant to a possible petition to vacate any future arbitration award." (LG Br. at 30). This argument makes clear LG's goal of interfering with the Tribunal even before it has had rendered its decision. More importantly, a declaratory judgment that InterDigital cannot use certain evidence is functionally equivalent to the relief that the Court of Chancery found could be granted by the Tribunal. (Op at 10-20). Thus, the Court of Chancery exercised its discretion in making clear that it should not interfere in the pending Arbitration. (Op. at 7-9); *XL Specialty Ins. Co.*, 93 A.3d at 1216 (explaining that a declaratory judgment action requires both an "actual controversy" and exercise of discretion to resolve controversy).

3. The Arbitration involves the same issues.

LG admits that the "evidentiary question may ultimately be addressed in the arbitration," but then contends that this remedy is insufficient because "the interpretation of the NDA and InterDigital's breach of that agreement cannot be addressed in the arbitration . . . ." (LG Br. at 35). LG seeks to create a distinction that is purely illusory. "*McWane* does 'not require[] that the parties and issues in both actions be identical. Substantial or functional identity is sufficient.'" (Op. at 20 (quoting *AT&T Corp. v. Prime Security Distribs., Inc.*, 1996 WL 633300, at *2 (Del. Ch. Oct. 24, 1996))).

In resolving the evidentiary question (whether the NDA precludes InterDigital's submission of certain evidence), the Tribunal did, in fact, [redacted]. (B257). Specifically, following its review of the NDA, the Tribunal concluded [redacted]. (B262). Still, the Tribunal could have [redacted]. (*See* Op. at 19 ("LG's other requested injunctive relief—a mandatory injunction requiring InterDigital to withdraw its arbitration brief—is relief that the Tribunal is capable of granting by simply striking the brief.")). Thus, the issues are functionally the same despite LG's efforts to create distinctions.[6] Certainly, the Court of Chancery did not abuse its discretion in concluding that the issues are the same or functionally the same.

[6] To the extent that LG seeks to argue that the Tribunal lacks the authority to do what is needed to resolve the evidentiary dispute, [redacted], this argument is addressed below at Section II.

II. THE COURT OF CHANCERY CORRECTLY RULED THAT LG'S CLAIMS ARE PROPERLY ADDRESSED IN THE ARBITRATION

A. Question Presented

Should substantive arbitrability be a threshold question in applying *McWane* such that parties to arbitrations are entitled to seek interlocutory evidentiary rulings from Delaware courts?

This issue was preserved before the Court of Chancery at (B22-28) and (B84-90).

B. Scope of Review

LG incorrectly states that the standard of review is *de novo* ignoring that this is a motion to dismiss based on the *McWane* doctrine. "In *McWane*, this Court held that Delaware courts should exercise discretion in favor of a stay where a prior action, involving the same parties and issues, is pending elsewhere in a court capable of doing prompt and complete justice." *Ingres Corp.*, 8 A.3d at 1145 (citing *McWane*, 263 A.2d at 283). As such, the standard of review is abuse of discretion. *See GM Sub Corp.*, 415 A.2d at 477; *Chadwick*, 856 A.2d at1066; *Coaxial Commc'ns*, 367 A.2d at 997.

C. Merits of the Argument

LG's argument that there is a "threshold" issue of substantive arbitrability that somehow trumps *McWane* is unsupported and a distraction from the real issue, which is whether the Court of Chancery properly exercised its discretion to dismiss

the case based on *McWane*. Having lost before the Tribunal on the issue of whether the NDA precludes consideration of the information LG seeks excluded, LG's appeal amounts to nothing more than an attempt to take another bite at the apple by reframing the issue as one of substantive arbitrability. But the facts, law, and good policy belie LG's position.

1. The NDA dispute is an evidentiary issue in the Arbitration, and Delaware courts have rejected requests for judicial interference in pending arbitrations.

At its core, LG's claim is an evidentiary dispute in the Arbitration. The only action LG alleges to constitute a breach of the NDA is the submission of evidence to the Tribunal: "InterDigital [allegedly] breached the NDA by disclosing, using, referencing, and relying on confidential patent licensing communications between the parties in its brief, witness statements, and documentary exhibits." (A23 at ¶ 36; *see also* A24 at ¶ 41). Whether such communications are discoverable, useable, and/or admissible, are all evidentiary issues. Indeed, the Tribunal has twice characterized the issue as an evidentiary one, and the Court of Chancery agreed. (A98; B259; Op. at 8). There is no other alleged breach.

LG contends that the dispute is not an evidentiary one because it stems from a "substantive right" under the NDA. (LG Br. at 14-18). This distinction does not withstand scrutiny. First, LG contends that permitting the Tribunal to resolve the dispute violates its "right" under the NDA "to keep Settlement Communications

from being disclosed or considered by any fact finder or adjudicator in any dispute between the parties." (LG Br. at 17). No such right exists. The NDA states that the parties can enforce its terms in "any court, agency, or tribunal having personal jurisdiction." (A30 at ¶ 9). There is nothing that entitles LG to some forum separate from the Tribunal. Second, LG argues that a purported distinction between procedural and substantive rights means that the Tribunal can exclude evidence, but not enter a declaratory judgment or enjoin future breaches. (LG Br. at 17-18). The Court of Chancery properly concluded that LG's claims based on hypothetical future breaches are not yet ripe and, thus, exercised its discretion in dismissing the claims. A declaratory judgment would provide functionally the same relief that could be granted by the Tribunal as discussed above.

To the extent that LG argues that the Court of Chancery can provide equitable relief where the Tribunal cannot, no equitable relief is required. This is an evidentiary issue that has now been resolved by the Tribunal. In addition, the Court of Chancery properly concluded that the Tribunal can, in fact, grant equitable relief: "LG's other requested injunctive relief—a mandatory injunction requiring InterDigital to withdraw its arbitration brief—is relief that the Tribunal is capable of granting by simply striking the brief." (Op. at 19). Thus, there is no tangible distinction between treating the dispute regarding the NDA as an evidentiary dispute rather than a "substantive right."

Other litigants have asked Delaware courts to inject themselves into procedural or evidentiary disputes in arbitration, as LG does here, and Delaware courts have refused to intervene. For example, in *SOC-SMG, Inc. v. Day & Zimmermann, Inc.*, the court granted summary judgment *sua sponte* against the plaintiff who was asking the Delaware Court of Chancery to, *inter alia*, grant an order prohibiting further use of allegedly privileged information in an arbitration. 2010 WL 3634204, at *1 (Del. Ch. Sept. 15, 2010) (Strine, J.). The court noted that arbitrators routinely resolve not just the underlying disputes, but "the discovery issues necessarily related to them," that arbitrators routinely ruled on these issues, and "that courts have refused to intervene on an interlocutory basis to either first- or second-guess those rulings." *Id.* at *2. "Just as a trial judge should deal in the first instance with alleged discovery abuses or attorney misconduct in cases before her, so should an arbitration panel." *Id*. at *3. The court reasoned that "[t]he arbitrators handling the arbitration are well-positioned to consider any contractual or ethical breach that allegedly deprived [the plaintiff] of its legitimate confidentiality interests and to shape discovery and merits consequences for any breach by [defendant's] counsel of its ethical duties." *Id*. Because the plaintiff did not "provide any persuasive reason for this court to address issues that are properly the province of arbitrators," the court refused to interfere. *Id*.

LG attempts to distinguish *SOC-SMG* based on the fact that in that case "the Contribution Agreement itself contained the arbitration clause." (LG Br. at 18-19 (quoting *SOC-SMG*, 2010 WL 3634204, at *2)). When the Court of Chancery declined to intervene in the arbitration proceeding in that case, however, it cited to the arbitration clause and the JAMS Procedures to conclude that "if there is any dispute about whether the arbitrators should decide whether Kircher's use of the ESI on behalf of Day Zimmermann was improper, the question of arbitrability is one that SMG agreed would be decided in the first instance by the arbitrators, not a court." *SOC-SMG*, 2010 WL 3634204, at *3. Furthermore, the court held that "[i]f SMG believes that the arbitrators have improperly addressed its claims…, SMG can seek judicial review in an application made after the Arbitrators have entered their final award." *Id.*

In other jurisdictions, courts similarly and routinely decline invitations to review the interlocutory decisions of, or intervene in, ongoing arbitration proceedings. *See, e.g., Tenet Healthcare Corp. v. Maharaj*, 859 So. 2d 1209, 1210-11 (Fla. Dist. Ct. App. Dist. 2003) (dismissing an appeal from an arbitrator's order to produce certain documents that were allegedly privileged on the ground that judicial interference is improper once the parties have selected arbitration); *UBS PaineWebber Inc. v. Stone*, 2002 WL 377664, at *3 (E.D. La. Mar. 8, 2002) (dismissing a complaint to disqualify counsel in a pending arbitration because the

claimant's "motion asks the district court to inject itself directly into the arbitration proceeding by prospectively restricting the evidence to be proffered at that proceeding"); *Titan/Value Equities Group, Inc. v. Superior Court*, 29 Cal. App. 4th 482, 489 (Cal. 1994) ("The trial court may not step into a case submitted to arbitration and tell the arbitrator what to do and when to do it: it may not resolve procedural questions, order discovery, determine the status of claims before the arbitrator. . . . It is for the arbitrator, and not the court, to resolve such questions").

Like the plaintiff in *SOC-SMG*, here LG expressly agreed to arbitrate disputes arising under the PLA, including related discovery, evidentiary, and admissibility issues, as discussed further below. *See supra* at Section II.C.2. Like JAMS, the IDCR has a similar rule regarding arbitral jurisdiction: "The arbitral tribunal shall have the power to rule on its own jurisdiction, including any objections with respect to the existence, scope, or validity of the arbitration agreement(s), or with respect to whether all of the claims, counterclaims, and setoffs made in the arbitration may be determined in a single arbitration." (B140 at Article 15). It was not an abuse of discretion for the Court of Chancery to conclude that if LG believes that the Tribunal has improperly addressed its claims, LG can seek judicial review, if needed, *after* the Tribunal has entered a final award. (Op. at 9). The PLA and AAA rules (which the PLA incorporates) require that the Tribunal decide such issues. (A64 at §5.2(e); B143-145 at Articles 19-20).

LG should not be allowed to delay the Arbitration or to circumvent the Tribunal's consideration of evidentiary issues.

Further, LG's suggestion that it would somehow be improper for the Tribunal to consider what (if any) effect the NDA has on the parties' ability to use evidence in the Arbitration is incorrect. For example, in deciding discovery disputes, it is entirely appropriate for courts to consider whether a separate contract (like the NDA here) would prohibit the disclosure and use of certain evidence in litigation. *See Williams Natural Gas Co. v. Amoco Production Co.*, 1991 WL 236919, at *1-2 (Del. Super. Ct. Nov. 8, 1991) (refusing to exclude evidence of negotiations allegedly subject to confidentiality agreement); *Trustmark Ins. Co. v. John Hancock Life Ins. Co.*, 631 F.3d 869, 874 (7th Cir. 2011) (Easterbrook, J.) (holding that arbitrators had authority to consider or construe confidentiality agreement resulting from earlier arbitration to determine the weight to be given to the earlier arbitration in resolving a later dispute).

LG's attempt to distinguish *Trustmark* rests on too narrow a reading of *Trustmark*. LG rests its argument on *Trustmark's* statement that the confidentiality agreement at issue was "presumptively within the scope of the reinsurance contracts' comprehensive arbitration clauses, which cover all disputes arising out of the original dispute." (LG Br. at 19 (quoting *Trustmark*, 631 F.3d at 874) (emphasis omitted)). Yet in making this determination, the court noted that the

confidentiality agreement "lacks its own arbitration clause." *Trustmark*, 631 F.3d at 874. Nonetheless, the court explained that arbitrators are "entitled to resolve ancillary questions that affect their task." *Id.* Here too, LG does not contest the arbitrability of the underlying dispute arising from the PLA, and the applicability of the NDA is an "ancillary question." *See* Section II.C.2. In addition, the *Trustmark* court went on to assume the absence of a "separate arbitration clause" and explained that even in that scenario "a party dissatisfied by a procedural ruling could not run to a federal district court and get review in mid-arbitration" under American Arbitration Association rules, which are the same rules governing the Arbitration here. *Trustmark*, 631 F.3d at 874. Indeed, "[a]rbitrators are entitled to decide for themselves those procedural questions that arise on the way to a final disposition." *Id*.

LG also relies heavily on *Medicis* as requiring the Court of Chancery to intervene in the pending Arbitration and, more specifically, as holding that substantive arbitrability is a threshold question. (*See e.g.*, LG Br. at 20-22). As discussed above, *Medicis* had nothing to do with application of the *McWane* doctrine. Moreover, *Medicis* did not hold that arbitrability is a "threshold" question that must be addressed first as LG asserts. At best, *Medicis* teaches that parties can specifically agree by contract to have certain issues decided by an arbitrator and can also carve-out other issues for judicial determination. *Medicis*,

at *6, 10-12. But that is not the case here. *See supra* at Section II.C.2 (discussing LG's agreement to arbitrate). The parties never agreed that they could bring a *simultaneous* judicial action for any purpose, let alone on discovery and evidentiary issues. LG's proposed rule of law would require a substantive arbitrability decision in every case where an arbitral tribunal must construe an agreement as part of an evidentiary or discovery dispute.

2. LG expressly agreed to arbitrate disputes arising under the PLA, including discovery and evidentiary disputes.

Article V of the PLA contains an express agreement to arbitrate disputes "arising under this Agreement," *i.e.*, the PLA. (A63-64 at §5.2). As part of that agreement, LG also agreed that the Tribunal would have authority to determine discovery disputes, to receive and hear evidence and testimony at the hearing, and to rule on admissibility of evidence. (A64 at §5.2(e) ("The Arbitration Panel *shall decide any dispute* regarding such requests for discovery or the adequacy of discovery response by any party") (emphasis added); *see also* A64 at §5.2(c) (incorporating AAA ICDR Arbitration Rules); B143-144 at IDCR Arbitration Articles 19-20 (providing that the tribunal may order parties to produce documents, exhibits or other evidence it deems necessary or appropriate, may receive testimony (either live or written) at the hearing, and "*shall determine the admissibility, relevance, materiality and weight of evidence* offered by any party") (emphasis added)). Given that LG's ripe claims are, in fact, discovery and

admissibility disputes in the Arbitration, LG expressly agreed that these issues would be decided by the Tribunal. Accordingly, LG's focus on the NDA is irrelevant because of LG's agreement to arbitration in the PLA.

LG contends that "InterDigital also conceded that there is no arbitration provision in the NDA." (LG Br. at 11 (citing A239:2-9)). LG seeks to divert attention away from its agreement to arbitrate in the PLA by focusing on the NDA. InterDigital has not argued that the NDA contains a mandatory arbitration provision, but argues that the NDA specifically contemplates disputes being resolved by arbitration. (B97 (citing A30 at ¶ 9)). The reference to a "tribunal" in the NDA's dispute resolution clause includes an arbitration. *Id*. LG never disputes that the NDA does not foreclose the possibility of arbitration. More importantly, InterDigital's argument is that LG agreed in the PLA, not NDA, to allow the Tribunal to make discovery and evidentiary rulings necessary to the resolution of the substantive claims under the PLA.

There is nothing in the NDA that somehow obviates the arbitration provision in the PLA. (*See* A30 at ¶ 8 (identifying certain agreements superseded, but not the PLA)). Indeed, the NDA clearly states that the parties *may* choose to enforce the NDA before a "tribunal," *e.g.*, arbitration. (A30 at ¶ 9). Thus, the Arbitration is a proper forum, even if the NDA also authorizes enforcement in other forums. Nothing in the NDA prohibits the Tribunal from considering the NDA dispute.

3. Any question of substantive arbitrability is delegated to the Tribunal.

LG's argument that the Court of Chancery should have first focused on substantive arbitrability ignores the fact that the very question of substantive arbitrability is one for the Tribunal to decide. The parties expressly agreed that the AAA International Rules would govern the arbitration proceedings. (A63-64 at §5.2, 5.2(c)). The AAA International Rules (ICDR Arbitration Rules) state that the tribunal is empowered "to rule on its own jurisdiction, including any objections with respect to the existence, scope or validity or the arbitration agreement," and may do so at any time. (B140 at Article 15). Indeed, a case LG relies upon holds that Delaware adopts the "majority federal view that reference to the AAA rules evidences a clear and unmistakable intent to submit arbitrability issues to an arbitrator." *James & Jackson, LLC v. Willie Gary, LLC*, 906 A.2d 76, 80 (Del. 2006). Thus, even if there were a question of substantive arbitrability, which there is not, according to LG's own arguments, it would have to be decided by the Tribunal per the terms of the PLA.

4. LG consented to the Tribunal's consideration of the NDA dispute by affirmatively raising it in the Arbitration.

Finally, although the Court of Chancery did not expressly base its decision on LG's consent to arbitrate the dispute over the application of the NDA, it was ***LG*** who first raised the evidentiary dispute based on the NDA. LG argued in its

opening arbitration brief that [redacted]. (A212-215; *see also* A210). Thus, LG intended for the Tribunal to determine the NDA's applicability. When a party has voluntarily submitted a dispute to arbitrators, that party may be deemed "to have confirmed their jurisdiction, if otherwise defective." *Amicizia Societa Navegazione v. Chilean Nitrate & Iodine Sales Corp*., 274 F.2d 805, 809 (2d Cir. 1960) (citation omitted); *United Indus. Workers*, 987 F.2d at 168. LG cannot rescind its decision to arbitrate after having received unfavorable rulings from the Tribunal. Indeed, LG previously submitted to the Federal Circuit some of the very materials it now claims should be excluded. (A37-38).

LG should not be permitted to petition a second decision-maker when it already asked the first decision-maker (the Tribunal) to consider the issue.

III. THE COURT OF CHANCERY CORRECTLY DISMISSED LG'S CLAIMS AFTER FINDING THAT INTERDIGITAL ESTABLISHED ALL THE *MCWANE* DOCTRINE FACTORS

A. Question Presented

Can a court dismiss a plaintiff's claim under *McWane* in favor of a first-filed arbitration initiated by the plaintiff where the claim arises from an evidentiary dispute in the arbitration and where the parties agreed that the arbitral tribunal can resolve evidentiary disputes that arise during the arbitration?

This issue was preserved before the Court of Chancery at (B26-28) and (B83-85).

B. Scope of Review

LG incorrectly states that the standard of review is de novo ignoring that this is a motion to dismiss based on the *McWane* doctrine. "In *McWane*, this Court held that Delaware courts should exercise discretion in favor of a stay where a prior action, involving the same parties and issues, is pending elsewhere in a court capable of doing prompt and complete justice." *Ingres Corp.*, 8 A.3d at 1145 (citing *McWane*, 263 A.2d at 283). As such, the standard of review is abuse of discretion. *See GM Sub Corp.*, 415 A.2d at 477; *Chadwick*, 856 A.2d at 1066; *Coaxial Commc'ns*, 367 A.2d at 997.

C. Merits of the Argument

LG argues that the Court of Chancery's decision "effectively holds that *McWane* provides exception to this Court's substantive arbitrability rules by allowing arbitration of claims despite a lack of clear expression of intent to arbitrate…." (LG Br. at 23-24). LG is incorrect. The issue is not substantive arbitrability. As discussed above in Section II.C.2, LG undeniably agreed to arbitrate disputes arising from the PLA, including attendant evidentiary and discovery disputes, such as whether the NDA prevents InterDigital from relying upon certain evidence. Thus, while LG attempts to focus on substantive arbitrability of the NDA, that is not the proper focus as discussed above.

LG argues that "[t]he Court of Chancery's decision to apply *McWane* was based, in part, on a misstatement of the record below." The purported misstatement is that "[t]he parties agree that the Tribunal at least has the power to determine if the underlying dispute is arbitrable…." (LG Br. at 24 (quoting Op. at 5)). This is not a misstatement. Rather, LG misapprehends the Court of Chancery's decision.

In context, it is clear that the Court of Chancery is simply noting that the "underlying dispute" is the scope of the PLA, *e.g.*, whether LG still has a license relating to 3G technology under the PLA. (Op. at 5). LG cannot claim that the dispute arising under the PLA is not arbitrable because LG itself initiated the

Arbitration to resolve the dispute arising from the PLA. (LG Br. at 5). The Court of Chancery's meaning is made clear when it noted immediately after the alleged misstatement that the NDA "does not contain an arbitration provision." (Op. at 5). The parties agree on this much. (*See* LG Br. at 24). The Court of Chancery then concludes that this is a "rare instance when both the arbitral tribunal and the court have jurisdiction." (Op. at 5). Thus, the Court of Chancery simply observed what LG does not dispute: that the PLA dispute is arbitrable and that the NDA lacks a provision mandating arbitration.

LG argues that the "policy underpinnings of *McWane*" do not permit "applying McWane as an exception to the substantive arbitrability rules." (LG Br. at 25). Those "policy underpinnings" generally consist of "the policy that favors strong deference to a plaintiff's initial choice of forum." (*Id.* (quoting *Lisa, S.A.*, 993 A.2d at 1047)). As an initial matter, the Court of Chancery did not apply *McWane* "as an exception to substantive arbitrability rules." Substantive arbitrability is not the proper inquiry for the reasons provided in Section II. LG also ignores the other policy underpinnings of *McWane*, including the "wasteful duplication of time, effort, and the expense" and "the possibility of inconsistent and conflicting rulings and judgments" resulting from duplicative proceedings. (Op. at 5 (quoting *McWane*, 263 A.2d at 281)). These factors, which are the primary policy rationales of *McWane*, certainly support the Court of Chancery's

dismissal of LG's claim. Even in the case cited by LG, the reason that plaintiff's choice of forum is given weight is to prevent forum shopping by the defendant. *E.I. du Pont de Nemours & Co. v. Bayer CropScience, L.P.*, 2008 WL 2673376, at *4 (Del. Ch. July 2, 2008). Here, it is LG, not InterDigital, that is forum shopping by first seeking relief from the Tribunal and then turning to the Court of Chancery.

Finally, LG argues that "considerations of comity" do not apply because "the Tribunal expressly declined to take up the NDA when asked to by InterDigital." (LG Br. at 26 (citation omitted)). The Tribunal did not "decline to take up the issue," but only deferred its ruling unless and until necessary. (A98). And the Tribunal has now addressed and resolved the issue. (B257). LG is now asking the Delaware courts to step in and second-guess the Tribunal during the pendency of the Arbitration.

IV. CONCLUSION

For the foregoing reasons, InterDigital respectfully requests that this Court affirm the Court of Chancery's decision dismissing LG's claims.

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