



IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

MICROSTRATEGY INC,)
)
 Plaintiff,)
)
 v.) Civil Action No. 5735-VCP
)
 ACACIA RESEARCH CORP. and)
 DATABASE APPLICATION)
 SOLUTIONS, LLC,)
)
 Defendants.)
)

OPINION

Submitted: September 24, 2010

Decided: December 30, 2010

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PARSONS, Vice Chancellor.

In late 2009, Plaintiff, MicroStrategy Inc. (“MSI”), entered into an agreement with Defendant Acacia Research Corp (“ARC”) which had the effect of settling a number of patent infringement claims brought by one of ARC’s subsidiaries against MSI in federal court. Approximately six months later, however, another of ARC’s subsidiaries, Defendant Database Application Solutions, LLC (“DAS” or collectively with ARC, “Defendants”), delivered a letter to MSI advising it that DAS planned to assert an infringement claim against MSI based on a patent that was not in issue in the prior litigation. Based on its construction of the terms of the settlement agreement and its alleged reliance on certain oral assurances from one of ARC’s executives at a mediation in the prior litigation that led to that agreement, MSI asserts it obtained a broader release than ARC contends and greater protection against certain future claims ARC might assert against it, including the claim discussed in DAS’s letter.

Almost two months after receiving the DAS letter, MSI brought suit in this Court alleging, among other things, that ARC and DAS breached provisions of the agreement, breached certain representations and warranties in the agreement, and fraudulently induced MSI to enter into the agreement. ARC and DAS deny these allegations and have moved to dismiss MSI’s claims. As explained in detail below, I grant their motions to dismiss in part and deny them in part. In particular, I dismiss MSI’s breach of contract claim, decline to dismiss its breach of representation and warranty claim, and allow this litigation to proceed as to only a limited portion of MSI’s fraudulent inducement claim.

I. BACKGROUND

A. The Parties

MSI is a Delaware corporation and a global leader in business intelligence technology.¹ It provides integrated reporting, analysis, and monitoring software, including the Business Intelligence software platform, that enable organizations to design, deploy, and issue business intelligence output to various users.²

ARC is a Delaware corporation in the business of forming subsidiaries that partner with inventors and patent owners to license their patents to corporate users and share the resulting revenue.”³ In particular, ARC helps individual inventors and patent holders by providing them with the expertise and resources to manage, license, and monetize their inventions, as well as to defend their patents from infringement.⁴ ARC sells no products and provides no services other than the licensing of certain patents that it has acquired from others.⁵ DAS is a Virginia limited liability corporation formed as a wholly-owned

¹ Pl.’s Ver. Compl. (the “Complaint”) ¶ 3.

² *Id.*

³ *Id.* ¶ 4.

⁴ Def. ARC’s Op. Br. (“ARC OB”) 2. Similarly, I refer to ARC’s reply brief and DAS’s opening and reply briefs as ARC RB, DAS OB, and DAS RB, respectively. I refer to MSI’s combined answering brief as PAB.

⁵ *Id.*

subsidiary of ARC to acquire and license U.S. Patent No. 5,444,842 (the “‘842 Patent” or “Patent”).⁶

B. Facts⁷

1. The settlement of the DSC Litigation

Before December 14, 2009, ARC and MSI were adversaries in litigation (the “DSC Litigation”) in which Diagnostic Systems Corporation (“DSC”), a wholly-owned subsidiary of ARC, asserted patent infringement claims against MSI regarding U.S. Patent Nos. 5,537,590, 5,701,400, and 5,293,615 (collectively, the “DSC Patents”).⁸ On December 9, 2009, the parties participated in a court-ordered mediation (the “Mediation”) before a former federal judge. During the Mediation, ARC Senior Vice President, Matt Vella, and MSI’s Vice President of Risk Management and Corporate Counsel, Richard N. Wiedis, met privately to discuss the prospects of settling the litigation. MSI alleges that it was favorably disposed to a settlement because, among other things, it wanted to avoid the enormous costs associated with defending against possible future lawsuits brought by ARC subsidiaries against MSI.⁹ MSI avers that ARC

⁶ *Id.* ¶ 6; DAS OB Ex. C.

⁷ Unless otherwise specified, this summary of the facts is drawn from the allegations in the Complaint, which I must accept as true for purposes of a motion to dismiss.

⁸ DAS OB Ex. B.

⁹ The Complaint alleges that MSI’s motives to settle included its belief that ARC, which uses the business model of a nonpracticing entity (“NPE”), had a massive portfolio of patents and sought to acquire additional patents to derive significant revenue from judgments obtained by its wholly-owned subsidiaries through the

viewed the proposed settlement as favorable because, among other things, it sought to avoid a decision by the court that DSC was an alter ego of ARC.¹⁰ Such a finding, according to MSI, would threaten ARC's business model and its ability to enforce its patents.

During their meeting, Vella assured Wiedis that ARC "wanted to avoid future litigation with [MSI], and that there was no real chance that [ARC] would come after [MSI] again," and later told Wiedis that "there was no way that [ARC] would again pursue [MSI] in litigation."¹¹ Relying, at least in part, on these assurances, MSI agreed to settle the DSC Litigation.

2. The Settlement Agreement

On December 14, 2009, MSI and ARC entered into a formal Settlement Agreement (the "Settlement Agreement" or "Agreement"). As ARC's motion to dismiss largely turns on the provisions of that Agreement, I detail certain relevant provisions below.

While the parties fervently dispute its scope, § 2.2 contains the language of the release ARC granted to MSI (the "Release"). In pertinent part, it states:

prosecution of patent infringement lawsuits. MSI considers this business model especially threatening to operating companies, such as MSI, because ARC and its subsidiaries produce no products and sell no services, making them generally invulnerable to the threat of counter-assertion of a patent infringement claim.

¹⁰ See DAS OB Ex. A, Settlement Agreement, § C.

¹¹ Compl. ¶ 7.

[ARC], [its] parent companies, Subsidiaries and Affiliates . . . hereby releases, acquits, and forever discharges [MSI] and its distributors and customers, together with any and all of their related companies, Affiliates, and Subsidiaries . . . from any claim or counterclaim they asserted or could have asserted in the Lawsuit regarding the DSC/[ARC] Alter Ego Claim, as well as from any and all known or unknown claims or any other liability for infringement, or alleged infringement of the Licensed Patents, through the making, using, selling, offering for sale or importation into the United States of any [MSI] product any where [sic] in the world prior to the Effective Date.¹²

The Agreement defines the “Effective Date” as December 14, 2009,¹³ and “Affiliate(s)” as “any entity which either party, now or hereafter, directly or indirectly, owns or controls, is owned or controlled by, or is under the common control with, as the case may be.”¹⁴ “Licensed Patents” is defined as the three DSC Patents, as well as any additional patents obtained at any time by DSC, the Acacia Entities, or any of their Affiliates . . . and all other patents obtained anywhere in the world issuing therefrom or claiming priority to any of the foregoing.”¹⁵

In addition to granting the Release noted above, ARC also made certain representations and warranties regarding the likelihood of future litigation against MSI.

Section 5.2 of the Agreement states, in relevant part:

¹² Settlement Agreement § 2.2.

¹³ *Id.* at the Introduction.

¹⁴ *Id.* § 1.2.

¹⁵ *Id.* § 1.3.

The Acacia Entities, on behalf of themselves and their Affiliates, represents and warrants that . . . (ii) the Acacia Entities and its Affiliates have no present plan or intent to enforce against [MSI], or a [MSI] Affiliate or Subsidiary, any patent owned, licensed, or controlled by the Acacia Entities, or any of its Affiliates as of the Effective Date.”¹⁶

Finally, the parties agreed to a dispute resolution mechanism for future patent infringement disputes that potentially could arise between them. For example, § 4.1 provides that before ARC may file an infringement suit against MSI it must comply with certain notice requirements to give the parties an opportunity to resolve any dispute amicably and wait ninety days.¹⁷ Notably, § 4.2 provides that during this ninety-day period MSI is prohibited from:

(b) bring[ing] a claim for declaratory judgment regarding any such patent, or (c) bring[ing] any additional suits or proceedings regarding any such patent.¹⁸

Once the ninety-day period expires, however, the parties are free to file suit against each other for infringement or related matters.¹⁹

¹⁶ *Id.* § 5.2.

¹⁷ *Id.* § 4.1. On day one, ARC must provide MSI with a written statement setting forth its allegations with “sufficient particularity for [MSI] to prepare a non-infringement defense.” *Id.* MSI must respond in writing no later than day sixty, after which the parties are to participate in good faith negotiations to resolve the dispute between days sixty and ninety. *Id.*

¹⁸ Settlement Agreement § 4.2(b)-(c).

¹⁹ *Id.*

3. The '842 Patent

The Complaint alleges, upon information and belief, that ARC was in the process of acquiring the '842 Patent for the purpose of enforcing it against MSI as of the Effective Date.²⁰ In particular, MSI avers that ARC formed DAS shortly after the execution of the Agreement for the purpose of acquiring the '842 Patent and pursuing MSI for infringement of it. The Patent formally was assigned to DAS on June 25, 2010. On June 29, DAS sent written notice to MSI (the "June 29 Letter")²¹ that it believed MS was infringing the '842 Patent. MSI then filed this action claiming that, among other things, the June 29 Letter and DAS's stated intention to sue MSI for infringement of the '842 Patent constitute a breach of the Settlement Agreement.

C. Procedural History

On August 17, 2010, MSI filed its Complaint, alleging six counts against ARC and DAS for: (I) breach of contract by Defendants with respect to § 2.2 of the Agreement; (II) declaratory judgment as to the proper construction of § 2.2; (III) breach of representation and warranty by Defendants with respect to § 5.2 of the Agreement; (IV) tortious interference with contract by DAS for allegedly causing the breach of §§ 2.2 and 5.2; (V) injunctive relief against Defendants; and (VI) fraud in the inducement against ARC. On August 31, both Defendants moved to dismiss all six counts of the Complaint, and the

²⁰ MSI further alleges that had it been aware of ARC's intentions with regard to the '842 Patent, it would not have entered into the Settlement Agreement.

²¹ DAS OB Ex. E, the June 29 Letter.

parties subsequently briefed those motions.²² Importantly, in its answering brief, MSI effectively withdrew Counts IV and V.²³ I heard argument on Defendants' motions on September 24, 2010. This Opinion constitutes my ruling on those motions to dismiss Counts I-III and VI of the Complaint.

D. Parties' Contentions

Defendants argue that MSI has failed to state a claim with regard to Counts I-III and VI. In particular, they contend that MSI failed to allege facts which plausibly suggest Defendants breached §§ 2.2 or 5.2 of the Settlement Agreement by threatening to sue MS for infringing the '842 Patent. In addition, Defendants assert that MS has not stated a claim for fraudulent inducement because the Complaint does not plead fraud with the particularity required by Rule 9(b) or allege that MSI justifiably relied upon the oral statements ARC purportedly made at the Mediation. For its part, MSI disagrees with Defendants' characterizations of the Complaint and contends that it has sufficiently stated a claim for each of the four counts challenged by Defendants' motions.

II. ANALYSIS

A. Standard for a Motion to Dismiss

When considering a motion to dismiss under Rule 12(b)(6), a court must assume the truthfulness of the well pleaded allegations in the complaint and afford the party

²² Defendants each submitted an opening brief and a reply brief. Plaintiff submitted a single, combined answering brief. On September 23, MSI filed a sur-reply letter with four exhibits. Docket Item ("D.I.") 46. Later that day, counsel for ARC submitted a letter in reply to MSI's sur-reply. D.I. 47.

²³ PAB 11 n.7.

opposing the motion “the benefit of all reasonable inferences.”²⁴ But, the court need not accept inferences or factual conclusions unsupported by specific allegations of fact.²⁵ Consequently, to survive a Rule 12(b)(6) motion, a complaint must contain allegations of facts supporting an inference of actionable conduct, not simply a conclusion to that effect.²⁶ In line with the standard articulated by the United States Supreme Court in *Bell Atlantic v. Twombly*,²⁷ the court must determine whether the complaint offers sufficient facts plausibly to suggest that the plaintiff ultimately will be entitled to the relief she seeks.²⁸ “If a complaint fails to do that and instead asserts mere conclusions, a Rule 12(b)(6) motion to dismiss must be granted.”²⁹

In considering a motion to dismiss for failure to state a claim, a court generally may not consider matters beyond the complaint.³⁰ If it does so, the motion must be treated as one for summary judgment under Rule 56 and the court must give the parties a reasonable opportunity to take discovery and present all material relevant to a summary

²⁴ *Superwire.com, Inc. v. Hampton*, 805 A.2d 904, 908 (Del. Ch. 2002) (citing *Solomon v. Pathe Commc'ns Corp.*, 672 A.2d 35, 38 (Del. 1996)).

²⁵ *Ruffalo v. Transtech Serv. P'rs Inc.*, 2010 WL 3307487, at *10 (Del. Ch. Aug. 23, 2010).

²⁶ *Desimone v. Barrows*, 924 A.2d 908, 928-29 (Del. Ch. 2007).

²⁷ *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 555-56 (2007).

²⁸ *Desimone*, 924 A.2d at 928-29.

²⁹ *Ruffalo*, 2010 WL 3307487, at *10 (citing *Desimone*, 924 A.2d at 929).

³⁰ *See Robotti & Co. v. Liddell*, 2010 WL 157474, at *5 (Del. Ch. Jan. 14, 2010).

judgment motion.³¹ In certain limited circumstances, however, the court may consider documents, including SEC filings, beyond the complaint without being required to convert a motion to dismiss into one for summary judgment.³² For example, a court may take judicial notice of the contents of an SEC filing, but only to the extent that the facts contained in them are not subject to reasonable dispute.³³ In addition, a court may consider a document beyond the complaint on a motion to dismiss if the proponent establishes that such document is either “[1] integral to, and incorporated within, the plaintiff’s complaint; or . . . [2] not being relied upon for the truth of [its] contents.”³⁴ Indeed, “a complaint may, despite allegations to the contrary, be dismissed where the

³¹ See, e.g., *Liddell*, 2010 WL 157474, at *5; *Kessler v. Copeland*, 2005 WL 396358, at *4 (Del. Ch. Feb. 10, 2005) (when a Rule 12(b)(6) motion is converted to a Rule 56 motion due to consideration of extrinsic matters, the parties must be permitted to take discovery).

³² *In re Gen. Motors (Hughes) S'holder Litig.*, 897 A.2d 162, 170 (Del. 2006) (“This Court has recognized that, in acting on a Rule 12(b)(6) motion to dismiss, trial courts may consider hearsay in SEC filings ‘to ascertain facts appropriate for judicial notice under [Delaware Rule of Evidence] 201.’”).

³³ See *Fleischman v. Huang*, 2007 WL 2410386, at *3 (Del. Ch. Aug. 22, 2007). Under Rule 201, a fact is not subject to reasonable dispute if it is either “(1) generally known within the territorial jurisdiction of the trial court or (2) capable of accurate and ready determination by resort to sources whose accuracy cannot reasonably be questioned.” D.R.E. 201.

³⁴ See, e.g., *Vanderbilt Income & Growth Assocs., L.L.C. v. Arvida/JMB Managers, Inc.*, 691 A.2d 609, 613 (Del. 1996); *Liddell*, 2010 WL 157474, at *5; *Addy v. Piedmont*, 2009 WL 707641, at *6 (Del. Ch. Mar. 18, 2009).

unambiguous language of documents upon which the claims are based contradict the complaint's allegations."³⁵

B. Judicial Notice of Documents Outside of the Complaint

The parties have submitted along with their briefs and supplemental letters a number of items arguably beyond the Complaint.³⁶ Preliminarily, I note that I properly may consider copies of the Settlement Agreement and the June 29 Letter in adjudicating Defendants' motions to dismiss because they are integral to and incorporated in the Complaint. This action centers on, among other things, alleged breaches of contract and related fraudulent conduct pertaining to actions taken in the wake of the settlement of the DSC Litigation. I also take judicial notice of (1) the title pages of the DSC Patents and the '842 Patent, (2) the DAS corporate information form from the Virginia Corporation Commission, and (3) the publicly filed assignment form for the '842 Patent. These

³⁵ *Werner v. Miller Tech. Mgmt., L.P.*, 831 A.2d 318, 327 (Del. Ch. 2003).

³⁶ In no particular order, these documents include: (1) the Settlement Agreement (DAS OB Ex. A); (2) ARC Form 10-K for fiscal year 2008 (DAS OB Ex. D); (3) the June 29 Letter (DAS OB Ex. E); (4) the title pages of the DSC Patents and the '842 Patent (DAS OB Exs. B and C); (5) a YouTube video about "patent trolls" (Compl. ¶ 1 n.1; PAB 6 n.5); (6) a streamingmedia.com article regarding ARC's business model (PAB 9 n.6); (7) a copy of a Commonwealth of Virginia Corporation Commission form containing information about DAS (ARC RB 3 and Aff. of Tye C. Bell ("Bell Aff.") Ex. A); (8) MSI Form 10-K for fiscal year 2009 (DAS RB Ex. A); (9) a Letter dated May 13, 2009 from Paul Ryan, Chairman and CEO of ARC, to the Federal Trade Commission (Letter from MSI dated Sept. 23, 2010 ("Sept. 23 Letter") Ex. A); (10) a publicly filed assignment form for the '842 Patent (Sept. 23 Letter Ex. B); (11) ARC Form 10-K for fiscal year 2009 (Sept. 23 Letter Ex. C); (12) documents related to a patent litigation between Document Generation Corporation and Allmeds in the Eastern District of Texas (Sept. 23 Letter Ex. D); and (13) a link to an ARC client agreement (Sept. 23 Letter at 2).

documents all contain facts that are not subject to reasonable dispute because they are capable of accurate and ready determination by resort to “sources whose accuracy cannot reasonably be questioned,” *i.e.*, government databases.

I have not considered, however any of the other documents submitted by the parties because they do not satisfy any exception to the rule that the Court generally should not consider documents beyond the Complaint in evaluating a motion to dismiss.³⁷ None of these documents is integral to and incorporated in the Complaint.³⁸ Moreover, I may not take judicial notice of any of these documents because the facts contained in them are subject to reasonable dispute in this case.

As is discussed *infra*, for example, the parties hotly contest whether Defendants “owned, licensed, or controlled” the ‘842 patent at or before the Effective Date. Nevertheless, MSI offers for the Court’s consideration a letter from Paul Ryan and a copy of ARC’s Form 10-K for fiscal year 2009 for the proposition that ARC did have control over the ‘842 Patent by the Effective Date.³⁹ Similarly, as discussed *infra*, the parties strenuously dispute whether § 2.2 of the Agreement is a blanket release of all claims by

³⁷ *Albert v. Alex. Brown Mgmt. Servs., Inc.*, 2005 WL 1594085, at *12 (Del. Ch. June 29, 2005) (“Our Supreme Court has cautioned trial courts to be sparing in our resort to documents outside the pleadings.”).

³⁸ In addition, each of the documents in question were offered for the truth of the matter asserted in them. Thus, they cannot be admitted for consideration on the Defendants’ motions under the rubric that they were not offered for that purpose. *See supra* note 36.

³⁹ *See* Sept. 23 Letter at 1, Exs. A and C.

ARC against MSI as of the Effective Date or a release essentially confined to the specific Licensed Patents at issue in the DSC Litigation. Yet, DAS offers ARC's Form 10-K for fiscal year 2008 and MSI's Form 10-K for fiscal year 2009 for the proposition that § 2.2 applied only to release the Licensed Patents and that this construction is reasonable because ARC has a large portfolio of patents and it would be unlikely to grant as sweeping a release as MSI argues.⁴⁰ Finally, as discussed *infra*, the parties dispute whether Defendants had a "present plan or intent" to enforce the '842 Patent against MSI at or before the Effective Date. To buttress its allegations to that effect, MSI submitted multiple documents to show that ARC's internal policies require a robust and time-consuming due diligence process before it acquires a patent to support an inference that ARC knew about the '842 Patent and was considering enforcing it against MSI by December 2009.⁴¹ Like the documents concerning Defendants' purported "control" over

⁴⁰ See DAS RB 5; DAS OB 5. Similarly, MSI apparently offered a YouTube video regarding so-called "patent trolls" to support its suggestion that that pejorative term aptly describes ARC. Compl. ¶ 1; PAB 6 n.5. Because the parties dispute the nature and scope of ARC's business model with respect to enforcing patents through litigation and its effect on accused infringers, it would not be appropriate to take judicial notice of the proffered video.

⁴¹ MSI offered, for example, a streamingmedia.com article and a copy of an ARC client agreement to demonstrate ARC's commitment to a significant period of due diligence before acquiring each patent to which it purchases rights. See PAB 9 n.6; Sept. 23 Letter at 2. In addition, MSI submitted papers from a patent infringement suit prosecuted by another ARC subsidiary in a federal district court for the proposition that ARC might wait at least six months to bring an infringement suit against an alleged infringer, even though ARC argues a patent is a wasting asset. See Sept. 23 Letter at 2 and Ex. D. MSI argues that these documents make it more likely that ARC owned, licensed, or controlled the '842

the '842 Patent and the intended scope of § 2.2 of the Agreement, these documents constitute extrinsic evidence about hotly contested matters at the heart of the parties' present dispute. As such, and because they represent matters directly in dispute in this action, I conclude it would be inappropriate to consider them on the pending motions to dismiss.⁴²

This does not mean, however, that the allegations in MSI's Complaint are not sufficient to support a reasonable inference that ARC plausibly knew in early December 2009 that it had acquired or might acquire the '842 Patent and would enforce it against MSI. I discuss this possibility in the next section.

C. Counts I and II: breach of the Settlement Agreement and declaratory relief

1. Applicable principles of contract interpretation

Under Delaware law, the interpretation of a contract is a question of law suitable for determination on a motion to dismiss.⁴³ When interpreting a contract, the court strives to determine the parties' shared intent, "looking first at the relevant document, read as a whole, in order to divine that intent."⁴⁴ As part of that review, the court interprets the words "using their common or ordinary meaning, unless the contract clearly

Patent by December 2009 and intended to enforce it against MSI. *See, e.g.*, Sept. 23 Letter at 2.

⁴² *See Addy v. Piedmonte*, 2009 WL 707641, at *12 (Del. Ch. Mar. 18, 2009).

⁴³ *See, e.g., Schuss v. Penfield P'rs, L.P.*, 2008 WL 2433842, at *6 (Del. Ch. June 13, 2008); *OSI Sys., Inc. v. Instrumentarium Corp.*, 892 A.2d 1086, 1090 (Del. Ch. 2006).

⁴⁴ *Schuss*, 2008 WL 2433842, at *6.

shows that the parties' intent was otherwise.”⁴⁵ Additionally, when interpreting a contractual provision, a court attempts to reconcile all of the agreement's provisions when read as a whole, giving effect to each and every term.⁴⁶ In doing so, courts apply the well settled principle that “contracts must be interpreted in a manner that does not render any provision ‘illusory or meaningless.’”⁴⁷

If the contractual language is “clear and unambiguous,” the ordinary meaning of the language generally will establish the parties' intent.⁴⁸ A contract is ambiguous, however, when the language “in controversy [is] reasonably or fairly susceptible of different interpretations or may have two or more different meanings.”⁴⁹ On a motion to dismiss, a trial court cannot choose between two different reasonable interpretations of an ambiguous document.⁵⁰ Where ambiguity exists, “[d]ismissal is proper only if the

⁴⁵ *Cove on Herring Creek Homeowners' Ass'n v. Riggs*, 2005 WL 1252399, at *1 (Del. Ch. May 19, 2005) (quoting *Paxson Commc'ns Corp. v. NBC Universal, Inc.*, 2005 WL 1038997, at *9 (Del. Ch. Apr. 29, 2005)).

⁴⁶ *Schuss*, 2008 WL 2433842, at *6.

⁴⁷ *Id.*

⁴⁸ *Brandywine River Prop., Inc. v. Maffet*, 2007 WL 4327780, at *3 (Del. Ch. Dec. 5, 2007).

⁴⁹ *Pharmathene, Inc. v. Siga Techs., Inc.*, 2008 WL 151855, at *11 (Del. Ch. Jan. 16, 2008). Ambiguity does not exist simply because the parties do not agree on a contract's proper construction. *United Rentals, Inc. v. Ram Hldgs., Inc.*, 2007 WL 4496338, at *15 (Del. Ch. Dec. 21, 2007).

⁵⁰ *See Appriva S'holder Litig. Co. v. EV3, Inc.*, 937 A.2d 1275, 1289 (Del. 2007).

defendants' interpretation is the only reasonable construction as a matter of law.”⁵¹ Thus, to succeed on their motions, Defendants must demonstrate that their construction of the Settlement Agreement is the only reasonable interpretation.

2. Application to Counts I and II⁵²

Defendants argue that Counts I and II should be dismissed because a patent infringement claim against MSI based on the ‘842 Patent unambiguously falls outside the scope of the release ARC granted to MSI under § 2.2 of the Agreement. Specifically, they argue that the plain language of § 2.2 demonstrates that it is not a general release. Rather, § 2.2 is a litigation-specific claim release provision in which ARC releases MSI from two classes of claims: (1) “from any claim or counterclaim [ARC] asserted or could have asserted in the Lawsuit regarding the DSC/[ARC] Alter Ego Claim” and (2) “as well as from any and all known or unknown claims or any other liability for infringement, or alleged infringement of the Licensed Patents.”⁵³ According to Defendants, the second class of released claims is limited to claims related to the Licensed Patents, *i.e.*, the family of patents associated with the three DSC Patents. That group of Licensed Patents

⁵¹ *Id.* (quoting *Vanderbilt Income & Growth Assoc. v. Arvida/JMB Managers, Inc.*, 691 A.2d 609, 613 (Del. 1996)).

⁵² MSI contends that Counts I and II raise distinct inquiries. PAB 12 n.8. I disagree and evaluate them together because whether Defendants breached § 2.2 by issuing the June 29 Letter and whether MSI is entitled to a declaration that Defendants have released MSI from the claims raised in the June 29 Letter turn on the same question of the proper construction of § 2.2.

⁵³ *See* DAS RB 9-13. ARC also subscribes to DAS’s arguments concerning Counts I and II. ARC OB 5. Where the parties have asserted arguments on an individual basis, I have endeavored to specify the Defendant involved by name.

is defined in § 1.3 and does not include the ‘842 Patent. Defendants argue further that this reading is consistent with the overall purpose of the Agreement: to settle any and all claims related to the DSC Litigation and nothing more.⁵⁴

MSI, for its part, reads § 2.2 to include three distinct releases that, taken together, release all claims against MSI that ARC or its Affiliates may have had as of the Effective Date of the Agreement. That is, MSI argues that § 2.2 is not limited to alter ego or Licensed Patent claims, but instead releases MSI from: (1) “any claim or counterclaim [ARC] asserted or could have asserted in the Lawsuit regarding the [Alter Ego Claim]”; (2) “any and all known or unknown claims or any other liability for infringement”; and (3) “alleged infringement of the Licensed Patents.”⁵⁵ It contends that this reading of § 2.2 is reasonable and correct because the second and third purported releases are set off by a comma, thereby making the Licensed Patent limitation applicable only to the third purported release and not to the much broader second purported release.⁵⁶ Thus, per MSI, the second release prevents ARC from asserting a claim against MSI regarding the ‘842 Patent, even if such a claim has no relation to the Licensed Patents.⁵⁷

⁵⁴ DAS OB 11.

⁵⁵ PAB 13.

⁵⁶ *Id.*

⁵⁷ At the Argument, MSI implied that ARC’s ‘842 Patent claim also might be barred by the alter ego release in § 2.2. Transcript of Argument dated Sept. 24, 2010 (“Tr.”) at 93. Because MSI did not present this argument in its brief and mentioned it only in passing at the Argument, I need not address it here. *See*

Turning first to the plain language of § 2.2 itself, I find MSI’s construction unreasonable in a number of respects. First, it violates the long-settled principle of contract interpretation that the Court must “read a contract as a whole and . . . give each provision and term effect, so as not to render any part of the contract mere surplusage.”⁵⁸ Even assuming that the comma separating the phrase “as well as from any and all known or unknown claims or any other liability for infringement” from “or alleged infringement of the Licensed Patents” in § 2.2 is interpreted to mean that these phrases represent two distinct releases, the monumental breadth of the second purported release easily would swallow the full scope of the third release and, perhaps, the first as well. If, as MSI contends, the second purported release exempts MSI from “any and all known or unknown claims or any other liability,” there would be no reason to include an additional release that precludes liability on MSI’s part for “alleged[ly] infring[ing] . . . the Licensed Patents.” Thus, MSI’s construction would render meaningless the third purported release.

In addition, MSI’s construction unreasonably rests on a single, potentially errant comma in an imperfectly drafted contract. MSI contends that the phrase in the release section “as well as from any and all known or unknown claims or any other liability for infringement, or alleged infringement of the Licensed Patents” contains two distinct releases, one limited to the Licensed Patents and the other not so limited, based on the

Emerald P’rs v. Berlin, 726 A.2d 1215, 1224 (Del. 1999) (“Issues not briefed are deemed waived.”).

⁵⁸ *Kuhn Const., Inc. v. Diamond State Port Corp.*, 990 A.2d 393, 396-97 (Del. 2010).

comma separating “infringement” from “or alleged infringement.” This reading, however, ignores the clear intent of the parties to include only one release in this quoted language as demonstrated by the language they used in § 2.2.⁵⁹ First, § 2.2 uses the word “from” only twice. That is, ARC releases MSI *from* the applicable alter ego claims as well as *from* “any and all known or unknown claims or any other liability for infringement, or alleged infringement of the Licensed Patents.”⁶⁰ Notably, there is no “from” preceding the phrase “or alleged infringement of the Licensed Patents” despite MSI’s argument that this clause is a separate and distinct third release. In addition, the parties used the conjunction “as well as” to separate the two clauses that begin with the word “from.” That the parties did not also insert a similar conjunction between MSI’s second and third purported releases further suggests they did not intend those phrases to be separate and distinct releases. Therefore, I am convinced that the comma at issue here is, at worst, a drafting error that should be disregarded.⁶¹

⁵⁹ See *Schuss v. Penfield P’rs, L.P.*, 2008 WL 2433842, at *6 (Del. Ch. June 13, 2008) (noting that a Court should endeavor to divine the parties’ intent from the language they used in drafting the contract).

⁶⁰ Settlement Agreement § 2.2.

⁶¹ Cf. *In re Trust U.D. Asbury*, 2003 WL 22232599, at *4 n.1 (Del. Ch. Sept. 12, 2003) (“The settlor’s niece, Elizabeth Meehan, argues that the language of Article FIRST (C)(3) is not ambiguous. She points out that the comma separating the clauses “the settlor’s nieces and nephews” and “the children of deceased nieces and nephews” is grammatically unnecessary to the construction of the sentence, and therefore should be interpreted to act as an indicator that the “per capita” language was meant to modify only the last clause, that referring to children of deceased nieces and nephews. This strikes me as unpersuasive. The drafting of the residuary clause of the trust is, to put it charitably, sloppy. While the placement of

In reaching that conclusion, I am mindful that grammar and punctuation are of secondary importance to a court in interpreting a contract where such grammar and punctuation reasonably would frustrate the parties' clear intent as evinced from the language used in the contract.⁶² Indeed, a court should “not allow the imprecise placement of adverbs and commas to alter the otherwise plain meaning of a contractual provision or to frustrate the overall plan or scheme memorialized in the parties' contract.”⁶³

Thus, properly read, § 2.2 unambiguously contains two distinct releases: one relating to the DSC Litigation's alter ego claims and one relating to claims of infringement with regard to the Licensed Patents at issue in the DSC Litigation. It is

the comma may represent the intention which Ms. Meehan has expressed, it strains credulity to believe that a punctuation mark in such an otherwise carelessly drafted clause was carefully placed to demonstrate that intent.”).

⁶² See, e.g., *Segovia v. Equities First Hldgs., LLC*, 2008 WL 2251218, at *9 (Del. Super. May 30, 2008) (“Delaware courts will not allow ‘sloppy grammatical arrangement of the clauses or mistakes in punctuation to vitiate the manifest intent of the parties as gathered from the language of the contract.’”) (internal citations omitted); *Interim Healthcare, Inc. v. Spherion Corp.*, 884 A.2d 513, 555 (Del. Super. 2005), *aff'd*, 886 A.2d 1278 (Del. 2005); see also *Viking Pump, Inc. v. Liberty Mut. Ins. Co.*, 2007 WL 1207107, at *17 (Del. Ch. Apr. 2, 2007) (citing cases from New York for the proposition that “punctuation and grammatical construction are reliable signposts in the search” for contractual intent but “punctuation is a most fallible standard by which to interpret a writing. . . . The court will take the contract by its four corners, and having ascertained . . . what its meaning is, will construe it accordingly, without regard to punctuation marks, or the want of them. . . . [T]he words control the punctuation marks, and not the punctuation marks the words.”) (internal citations and bold text omitted).

⁶³ *Interim Healthcare*, 884 A.2d at 555-56.

undisputed that the ‘842 Patent is not within the definition of the Licensed Patents in § 1.3. Nor has MSI presented any other argument, beyond the three-part-release argument that I have rejected, that DAS’s claim for infringement of the ‘842 Patent would come within the ambit of the two releases in § 2.2. Thus, MSI fails to state a claim against Defendants for having breached § 2.2 by threatening to sue MSI for infringement of the ‘842 Patent.

Turning to the plain language of the remainder of the contract, I find unpersuasive MSI’s position that the structure and purpose of the Agreement as a whole support its construction. MSI first argues that its construction is supported by other provisions of the Agreement, which it contends demonstrate that the parties intended § 2.2 to be interpreted as broadly as possible. In particular, MSI asserts that § 2.4 requires that the releases contained in §§ 2.1 and 2.2 be construed broadly because it states that “[t]he Parties to this Agreement agree that the releases contained in Sections 2.1 and 2.2 . . . include all claims of every kind and nature, past or present, known or unknown, suspected or unsuspected, which they now have or may hereafter have *to the extent described in those Sections. . . .*”⁶⁴ Section 2.4, however, pertains specifically to California Civil Code § 1542 and its prescription to construe the releases in § 2.2 broadly is explicitly limited in that it applies to claims only to the “extent described in [§ 2.2].” As discussed *supra*, § 2.2 provides two releases that cover two specific kinds of claims related to the DSC Litigation, alter ego claims and Licensed Patent claims. Thus, despite

⁶⁴ Settlement Agreement § 2.4 (emphasis added).

§ 2.4's prescription to interpret § 2.2 broadly, any such broad interpretation must occur within the confines of the limitations of those two releases.

MSI also argues that its interpretation of § 2.2 is consistent with the broader language in § 5.2, which includes a representation that, as of the Effective Date, ARC had no plan or intent to assert any patent claim against MSI, not just a claim regarding the Licensed Patents. As discussed further *infra*, the parties employed different and broader wording for the representation and warranty in § 5.2 than they used for the release in § 2.2. This further undermines MSI's construction of § 2.2. The use of different language in the two sections shows the parties knew how to cover patents beyond the Licensed Patents when that was their intent. The absence of such broad language in § 2.2, therefore, suggests the release was not meant to cover patents such as the '842 Patent.

Finally, MSI argues that the Agreement evinces a general purpose to broadly release MSI from "all claims among the parties as of the date of the Settlement Agreement for actions taken prior to" that Agreement.⁶⁵ At the Argument, counsel for MSI asserted that Background Recital C demonstrates that the parties intended the Settlement Agreement to accomplish more than just settling the Licensed Patent claims.⁶⁶ That recital states: "Without admitting infringement or liability and for settlement purposes, and in part to avoid the expense and risks associated with the Lawsuit, [MSI] and [ARC] desire to settle their respective disputes raised in the Lawsuit." Focusing on

⁶⁵ PAB 12.

⁶⁶ Tr. at 64-65.

the phrase “in part,” MSI contends that § 2.2 releases MSI from more than just claims relating to the DSC Litigation. I disagree. Except for the phrase “in part,” Recital C’s plain language indicates that the Agreement was intended to settle the parties’ disputes “raised in the [DSC Litigation],” which would not include claims regarding the ‘842 Patent. In any case, the relatively general and ambiguous language in Recital C upon which MSI relies is not sufficient to modify or override the unambiguous language of § 2.2.⁶⁷

Thus, having considered the plain language of § 2.2 and the Agreement as a whole, I find that § 2.2 unambiguously releases MSI from two distinct classes of claims that could be brought by ARC: (1) any claim or counterclaim regarding the alter ego claim and (2) any and all known or unknown claims or any other liability for infringement or alleged infringement of the Licensed Patents.⁶⁸ Because MSI has not alleged that ARC’s infringement claim with respect to the ‘842 Patent relates to the alter ego claim or the Licensed Patents in the DSC Litigation, it has failed to state a claim for breach of § 2.2.

⁶⁷ See *Beckrich Hldgs., LLC v. Bishop*, 2005 WL 1413305, at *6 (Del. Ch. June 9, 2005) (noting that where recitals are inconsistent with the operative terms of a contract, the latter control).

⁶⁸ MSI also contends that any ambiguities in the Agreement should be construed against ARC as the drafter. PAB 16. But, because I have found § 2.2’s language to be unambiguous, I need not reach that *contra preferentem* argument.

D. Count III: breach of representation and warranty

In Count III, MSI accuses Defendants of breaching § 5.2(ii) of the Agreement, which states, in pertinent part:

The Acacia Entities, on behalf of themselves and their Affiliates, represents and warrants that . . . (ii) the Acacia Entities and its Affiliates have *no present plan or intent* to enforce against [MSI], or a [MSI] Affiliate or Subsidiary, any patent *owned, licensed, or controlled* by the Acacia Entities, or any of its Affiliates as of the Effective Date.⁶⁹

In particular, the Complaint alleges that, as of the Effective Date and despite representing otherwise in § 5.2(ii), Defendants owned, licensed or controlled the ‘842 Patent and had a present plan or intent to assert it against MSI.⁷⁰

Defendants challenge the sufficiency of MSI’s claim that Defendants breached § 5.2(ii) on multiple grounds. First, they suggest that MSI’s claim rests on an unreasonably broad construction of the representation and warranty in that section. Second, they contend that MSI failed to plead sufficient facts to allow the Court plausibly to infer that Defendants breached that section. Finally, even if the Complaint states a claim for breach of § 5.2(ii) as to ARC, Defendant DAS argues that MSI has not stated such a claim against it. For the reasons discussed next, I conclude MSI has stated a claim for breach of § 5.2(ii) with respect to both ARC and DAS.

⁶⁹ *Id.* § 5.2(ii) (emphasis added).

⁷⁰ Compl. ¶¶ 30-35.

1. Section 5.2 implies that, as of the Effective Date, Defendants did not own, license, or control the ‘842 Patent or, if they did, they had no present plan or intent to assert that patent against MSI.

ARC first argues that § 5.2(ii) should not be construed so broadly as to effectively guarantee that ARC and its Affiliates would never bring any future lawsuits against MSI for acts of infringement occurring before the Effective Date. It suggests that the relatively narrow nature of § 2.2’s two releases are evidence of this and, as such, should inform my interpretation of § 5.2.⁷¹ But, § 5.2(ii) expressly uses broader language than § 2.2 in that it addresses ARC’s intentions as to *any* patent ARC or its affiliates owned, licensed, or controlled as of the Effective Date.⁷²

Therefore, I reject ARC’s contention that MSI’s interpretation of § 5.2 would render meaningless § 4.1 and other provisions that specifically acknowledge Defendants’ right to sue on other patents in the future. By this argument, ARC attempts to erect and knockdown a straw man without regard to the true nature of MSI’s position. MSI does not argue that § 5.2(ii) prevents Defendants from asserting any infringement claims against MSI in the future, but rather that it represents that Defendants did not have a plan or intent to do so with respect to any patents they owned, licensed, or controlled as of the Effective Date. Thus, § 4.1 and other similar post-Agreement dispute resolution

⁷¹ See ARC OB 6.

⁷² DAS conceded this point in its reply brief. See DAS RB 8 (“Indeed, that fact is further underscored by contrasting the limited release language in Section 2.2 against the far broader language employed in Sections 4.1 and 5.2, where the parties clearly expressed their intent to cover “any patent owned, licensed or controlled by the [Defendants].”).

mechanism provisions in the Agreement do not necessarily conflict with § 5.2(ii)'s broad scope. They apply to all disputes regarding patents Defendants did not own, license, or control as of the Effective Date or plan or intend to assert against MSI as of that date. As such, if the Complaint pleads sufficient facts to allow the Court plausibly to infer that Defendants owned, licensed, or controlled the '842 Patent and had a present plan or intent to assert it against MSI as of December 14, 2009, MSI will have stated a claim against ARC, at least, for having breached § 5.2(ii).

2. The Complaint states a claim for breach of § 5.2(ii)

ARC further argues that even if the '842 Patent comes within the reach of § 5.2(ii), MSI failed to allege sufficient facts to plausibly show that ARC “owned, licensed, or controlled” the '842 Patent and had a “present plan or intent” to enforce it against MSI as of the Effective Date.⁷³ In addition, it contends that the Complaint fails to allege that MSI relied on the representation and warranty in § 5.2. Because Count III does not allege fraud or mistake, I evaluate these arguments under Rule 8's liberal notice pleading standard, rather than the more onerous burden of Rule 9(b)'s particularity standard. As a result and as explained below, I disagree with ARC and find that MSI has stated a claim against ARC for breach of § 5.2(ii)

⁷³ ARC RB 3.

In support of its first argument, ARC asserts that because a patent is a wasting asset,⁷⁴ it would be unreasonable to infer that ARC knew of the potential infringement of the ‘842 Patent in December 2009, but waited over six months to notify MSI about it. This argument is not convincing. As I indicated at the Argument, the fact that a patent may be characterized as a wasting asset does not mean that a patent holder who suspected its patent was being infringed would never wait six months or more before confronting the suspected infringer.⁷⁵ Indeed, 35 U.S.C. § 286 permits a patent holder to recover damages for infringement committed up to six years prior to the filing of a complaint.⁷⁶ Thus, the facts alleged in MSI’s Complaint reasonably can support an inference that ARC, through DAS, may have waited six months or more to assert its infringement claim as to the ‘842 Patent.

In addition, notwithstanding ARC’s arguments to the contrary, I conclude that the Complaint alleges sufficient facts to allow the Court plausibly to infer that ARC may have owned, licensed, or controlled the ‘842 Patent as of the Effective Date, December 14, 2009. For example, the Complaint alleges “upon information and belief,” that as of that Date, ARC was “actively planning” and “was in the process of acquiring” the ‘842

⁷⁴ A wasting asset is an asset that declines in value over time. *See Lan Jen Chu v. C. I.R.*, 486 F.2d 696, 705 (1st Cir. 1973).

⁷⁵ Tr. 42-43.

⁷⁶ 35 U.S.C. § 286 (“Except as otherwise provided by law, no recovery shall be had for any infringement committed more than six years prior to the filing of the complaint or counterclaim for infringement in the action.”).

Patent.⁷⁷ The fact that the patent was not transferred to DAS until June 2010 is not dispositive. It is reasonable to infer from the facts alleged that ARC directly or indirectly controlled the ‘842 Patent as of the Effective Date and then caused it to be conveyed to DAS in or around June. It is equally plausible that ARC was in the process of negotiating to purchase, license, or otherwise control the ‘842 Patent in December 2009. Whether such negotiations had reached a point that conceivably would come within the scope of § 5.2(ii) would depend on the specific facts.⁷⁸ Thus, drawing all inferences in favor of MSI, I find that ARC plausibly could have owned, licensed, or controlled the ‘842 Patent within the meaning of § 5.2(ii) as of the Effective Date.

ARC further contends that even if it did “own, license, or control” the ‘842 Patent as of the Effective Date, the Complaint does not allege sufficiently that it had a plan or intent to enforce it as of that date. DAS concededly did not assert a claim with regard to that patent until it sent its June 29 Letter, over six months after the Effective Date. Nevertheless, I find that the Complaint sufficiently alleged facts that, if true, show ARC planned to acquire or did acquire some form of ownership or control over the ‘842 Patent for the purpose of enforcing it against MSI. DAS acquired the ‘842 Patent just six months after the Effective Date and then four days later, sent the June 29 Letter. MSI

⁷⁷ Compl. ¶¶ 10, 14.

⁷⁸ For example, MSI may have entered into a memorandum of understanding with a third party in or before early December 2009 to acquire the ‘842 Patent, separately or as part of a portfolio of patents. Whether in such circumstances ARC could be said to have “controlled” the ‘842 Patent at that time reasonably could be expected to raise issues regarding the proper interpretation of § 5.2(ii).

urges this Court to infer that Defendants would not have acquired the Patent and decided to assert it against MSI without doing substantial due diligence commensurate with ARC's status as an NPE. As discussed *supra* Part II.B, I have not considered much of the extrinsic evidence submitted by MSI on this point. Yet, even if DAS was not formed until May 19, 2010,⁷⁹ the relative proximity of that date to the Effective Date five months earlier and the fact that ARC likely would conduct extensive due diligence before acquiring the '842 Patent and asserting it against MSI permit the Court reasonably to infer that Defendants had a plan or intent to enforce the '842 Patent as of the Effective Date. Thus, I find that, under the liberal pleading standard of Rule 8, the Complaint supports a plausible inference that ARC had a present plan or intent to enforce the '842 Patent against MSI as of December 14, 2009.

Finally, ARC argues that MSI failed to plead reliance sufficiently in the Complaint. MSI, for its part, contends it properly pled that it relied on § 5.2(ii)'s representation and warranty that ARC was not presently planning or intending to enforce against MSI any patent that it owned, licensed, or controlled as of December 14, 2009.⁸⁰

⁷⁹ According to the Complaint, DAS was formed "shortly" after the execution of the Agreement. As discussed *supra*, I take judicial notice of the Commonwealth of Virginia Corporation Commission form, which lists the effective date of DAS as of May 19, 2010. Bell Aff. Ex. A.

⁸⁰ Paragraph 31 of the Complaint suggests that MSI was induced to enter the Agreement based on certain oral assurances from ARC, but also states that MSI relied on the assurance MSI received from ARC in the form of the representation and warranty found in § 5.2. Compl. ¶ 31. The next paragraph makes clear, however, that Count III is based upon "Defendants hav[ing] breached the representation and warranty in § 5.2." *Id.* ¶ 32. As a result, Count III is premised

Under Delaware law, “a plaintiff must establish reliance as a prerequisite for a breach of warranty claim.”⁸¹ MSI has satisfied this standard if the facts alleged in the Complaint are true. Indeed, Count III incorporates the factual allegations preceding it, which include an explicit allegation that MSI would not have entered into the Settlement Agreement had it been aware that ARC was preparing to acquire the ‘842 Patent to enforce it against MSI “in contravention of Acacia’s assurances and its representation and warranty [in § 5.2(ii)] that it had no such plan or intention.”⁸² Thus, MSI properly has pled reliance.

Having considered the factual allegations in the Complaint, I find that MSI alleged sufficient facts that, if true, permit the Court plausibly to infer that ARC “owned,

not on oral representations that potentially run counter to the plain language of the Agreement, but rather on the express representation and warranty in § 5.2(ii). To the extent that such oral representations are relevant to Count III, MSI avers they are not offered to vary the Agreement, but to demonstrate that the precise representation and warranty agreed to in § 5.2(ii) has been breached by Defendants. *See* PAB 19 (“Acacia also faults MSI for alleging that the language of Section 5.2 conforms to the representation that Acacia made to MSI at the mediation that induced MSI to forego its claims and enter the Settlement Agreement. Acacia informed MSI at the mediation that it did not intend to sue MSI again. Acacia’s present intent not to sue is subsumed within its representation and warranty in § 5.2.”). Therefore, neither the parol evidence rule nor the integration clause of the Agreement preclude MSI from asserting that Defendants breached § 5.2(ii).

⁸¹ *Kelly v. McKesson HBOC, Inc.*, 2002 WL 88939, at *8 (Del. Super. Jan. 17, 2002) (“in order for a defendant to be responsible for a breach of warranty, plaintiff must have known about the warranty and have relied upon it.”) (internal citations omitted).

⁸² Compl. ¶¶ 10, 30.

licensed, or controlled” the ‘842 Patent and had a “present plan or intent” to assert it against MSI as of the Effective Date. Because § 5.2(ii) of the Agreement represents and warrants to the contrary, I deny Defendant ARC’s motion to dismiss Count III for breach of that representation.

3. The Complaint pleads sufficient facts to support a reasonable inference that DAS breached § 5.2(ii)

DAS argues that even if I find that the Complaint stated a claim for breach of § 5.2(ii) by ARC, it failed to do so with respect to DAS. It asserts that the Complaint is devoid of factual allegations that DAS made or breached the representation and warranty in § 5.2(ii). DAS also argues that it could not have made such a representation and warranty because undisputed evidence demonstrates that DAS was not formed until after the Effective Date.⁸³ MSI denies this and offers two bases for why DAS breached § 5.2(ii): (1) that DAS is an alter ego of ARC and, as such, the Court should pierce ARC’s corporate veil and attribute the parent’s actions to its subsidiary DAS; and (2) that the Settlement Agreement binds DAS to its terms because DAS is an Affiliate as that term is defined in § 1.2.

With regard to MSI’s first reason, DAS contends that MSI impermissibly raised this argument for the first time in its answering brief. DAS further argues that, even if MSI properly has raised this argument, the Complaint failed to allege nonconclusory factual allegations that would provide a basis to pierce ARC’s corporate veil and attribute

⁸³ *Id.*; see also Bell Aff. Ex. A.

its actions to DAS. Assuming MSI's veil piercing argument properly is before me,⁸⁴ the Complaint fails to allege sufficient facts for the Court to disregard ARC's corporate form. Indeed, for this Court to pierce the corporate veil or hold that ARC is the alter ego of DAS, MSI must prove that some "fraud or injustice" would be perpetrated through misuse of the corporate form.⁸⁵ Specific facts a court may consider when being asked to disregard the corporate form include: "(1) whether the company was adequately capitalized for the undertaking; (2) whether the company was solvent; (3) whether corporate formalities were observed; (4) whether the dominant shareholder siphoned company funds; and (5) whether, in general, the company simply functioned as a facade for the dominant shareholder."⁸⁶ A decision to disregard the corporate entity generally results not from a single factor, but rather some combination of them, and "an overall element of injustice or unfairness must always be present, as well."⁸⁷ Most importantly, because Delaware public policy does not lightly disregard the separate legal existence of

⁸⁴ Although Count III purports to state a direct claim that DAS breached § 5.2(ii), MSI in its answering brief effectively abandoned this argument in favor of pursuing a veil piercing theory. Because I find that the Complaint fails to state a basis for piercing the corporate veil in any event, I have assumed, without deciding that the veil piercing argument is properly before the Court.

⁸⁵ *See Medi-Tec of Egypt Corp. v. Bausch & Lomb Surgical, Fr.*, 2004 WL 5366102, at *7 (Del. Ch. Mar. 4, 2004) ("To support piercing the corporate veil, however, the fraud or injustice must consist of something more than the alleged wrong in the complaint and relate to a misuse of the corporate structure.").

⁸⁶ *EBG Hldgs. LLC v. Vredezicht's Gravenhage 109 B.V.*, 2008 WL 4057745, at *12 (Del. Ch. Sept. 2, 2008).

⁸⁷ *Id.*

corporations, a plaintiff must do more than plead that one corporation is the alter ego of another in conclusory fashion in order for the Court to disregard their separate legal existence.⁸⁸

Here, the Complaint merely pleads in a conclusory fashion that DAS is the alter ego of ARC.⁸⁹ It does not allege any facts that Delaware courts traditionally rely upon for piercing the corporate veil; it merely pleads that the two corporations took actions that allegedly constitute breaches of contract and fraud without asserting any facts suggesting that such wrongs arose out of a “misuse of the corporate structure.”⁹⁰ Thus, MSI has not adequately pled a claim to pierce ARC’s corporate veil and attribute its actions to its subsidiary, DAS.

MSI’s second basis for claiming that DAS breached § 5.2(ii), however, has merit. The Complaint avers that DAS breached § 5.2(ii) when it sent the June 29 Letter to inform MSI of infringement claims with respect to the ‘842 Patent. The fact that DAS

⁸⁸ See *BASF Corp. v. POSM II Props. P’ship, L.P.*, 2009 WL 522721, at *8 n.50 (Del. Ch. Mar. 3, 2009).

⁸⁹ Compl. ¶ 11.

⁹⁰ See *Medi-Tec of Egypt Corp.*, 2004 WL 5366102, at *7. I also note that DAS contends that if I pierced ARC’s corporate veil to attribute the parent’s actions to its subsidiary, I would “create new law by doing something that no other Delaware court has ever done: hold a subsidiary liable for its parents’ actions through a reverse piercing of the corporate veil.” DAS RB 18 (bold and underline text omitted). I offer no opinion on whether Delaware law permits reverse piercing on facts such as these because assuming it does, I still would find the Complaint entirely deficient of allegations that would permit the Court to pierce ARC’s corporate veil under Delaware’s traditional theory of veil piercing.

was not formed until more than five months after MSI and ARC signed the Settlement Agreement is not a basis for DAS to escape liability entirely here. Section 5.2(ii) applies to ARC “and its Affiliates.”⁹¹ Section 1.2 of the Agreement defines the term “affiliate” to include “any entity which either party [*i.e.*, ARC], now or *hereafter*, directly or indirectly, owns or controls”⁹² The phrase “now or hereafter” in that section unambiguously contemplates that the Agreement would apply to later acquired or formed entities owned or controlled by the parties to the Agreement. Because DAS is concededly a wholly-owned subsidiary of ARC and, as such, an Affiliate of ARC under § 1.2, DAS is bound by § 5.2(ii) to the same extent as ARC, even if it was not formed until after the Effective Date. Thus, to the extent I have concluded that MSI stated a claim against ARC as discussed *supra*, MSI also has stated a claim against DAS in the sense that any equitable remedy imposed pursuant to Count III may apply to MSI, DAS, or both.

E. Count VI: fraud in the inducement

To state a claim for common law fraud, a plaintiff must allege: “(1) that a defendant made a false representation, usually one of fact; (2) with the knowledge or belief that the representation was false, or with reckless indifference to the truth; (3) with an intent to induce the plaintiff to act or refrain from acting; (4) that plaintiff’s action or

⁹¹ Settlement Agreement § 5.2(ii).

⁹² *Id.* § 1.2 (emphasis added).

inaction was taken in justifiable reliance upon the representation; and (5) damage to the plaintiff as a result of her reliance on the representation.”⁹³

Additionally, per Court of Chancery Rule 9(b), “[i]n all averments of fraud or mistake, the circumstances constituting fraud or mistake shall be stated with particularity.” That is, “[t]o satisfy Rule 9(b), a complaint must allege: (1) the time, place, and contents of the false representation; (2) the identity of the person making the representation; and (3) what the person intended to gain by making the representations.”⁹⁴ State of mind, however, may be averred generally.⁹⁵ Essentially, this particularity requirement obligates plaintiffs to allege the circumstances of the fraud “with detail sufficient to apprise the defendant of the basis for the claim.”⁹⁶

MSI bases its fraud claim on the following three alleged statements made by Vella to Wiedis at the Mediation: (1) that “[ARC] wanted to avoid future litigation with [MSI];” (2) that “there was no real chance that [ARC] would come after [MSI] again;” and (3) that “there was no way that [ARC] would again pursue [MSI] in litigation.”⁹⁷ ARC argues that MSI failed to state a claim for fraud as to these alleged statements in a

⁹³ *Grunstein v. Silva*, 2009 WL 4698541, at *12 (Del. Ch. Dec. 8, 2009).

⁹⁴ *See, e.g., Winner Acceptance Corp. v. Return on Capital Corp.*, 2008 WL 5352063, at *7 (Del. Ch. Dec. 23, 2008); *Iotex Commc’ns, Inc. v. Defries*, 1998 WL 914265, at *2 (Del. Ch. Dec. 21, 1998).

⁹⁵ *Winner Acceptance Corp.*, 2008 WL 5352063, at *7.

⁹⁶ *Grunstein*, 2009 WL 4698541, at *14.

⁹⁷ Compl. ¶ 7.

number of respects, including: (1) that MSI failed to plead adequately the element of justifiable reliance; (2) that, even if MSI did plead that element properly, the Complaint fails to plead fraud with the particularity required by Rule 9(b); and (3) in any case, MSI's fraud claim is an impermissible bootstrap of its breach claims. I address each of ARC's contentions below.

1. Justifiable reliance

Preliminarily, I note that there are two ways to interpret MSI's fraud claim. In one respect, MSI appears to argue that Vella's statements were false promises; that is, his three statements at the Mediation effectively amounted to a promise that ARC would never sue MSI again in the future (the "First Fraud Claim"). In a second respect, MSI's claim reasonably includes an assertion that Vella's statements were false statements of then-present facts; that is, that ARC had no plan or intent as of the Effective Date to assert a patent infringement claim against MSI beyond what was involved in the DSC Litigation (the "Second Fraud Claim"). With this in mind, I turn to ARC's contention that MSI could not justifiably have relied upon Vella's supposed broad oral assurances to Wiedis at the Mediation.

ARC first argues that § 8.2, the Agreement's integration clause, precludes MSI from relying on prior oral statements by ARC to vary the obligations set forth in the fully integrated Agreement. Delaware law holds that, "the parol evidence rule bars the admission of 'preliminary negotiations, conversations and verbal agreements' when the

parties' written contract represents 'the entire contract between the parties.'"⁹⁸ Here, § 8.2 states that it "constitutes and contains the entire agreement among the [parties] and supersedes any and all prior negotiations, conversations, correspondence, understandings, and letters respecting the subject matter hereof."⁹⁹ But, the presence of an integration clause is not conclusive because the intent of the parties always controls.¹⁰⁰ Moreover, this Court has held that integration clauses will not be given effect to bar allegations of fraudulent inducement based on extra-contractual statements made before the effectuation of the contract unless such clauses contain an explicit anti-reliance representation.¹⁰¹ Here, § 8.2 does not contain an explicit anti-reliance expression;

⁹⁸ See *Carlson v. Hallinan*, 925 A.2d 506, 522-23 (Del. Ch. 2006) ("If a written contract represents the entire agreement of the parties it is said to be 'integrated.'"); see also *Addy v. Piedmonte*, 2009 WL 707641, at *9 (Del. Ch. Mar. 18, 2009) ("Clauses indicating that the contract is an expression of the parties' final intentions generally create a presumption of integration.").

⁹⁹ Settlement Agreement § 8.2.

¹⁰⁰ See *Carlson*, 925 A.2d at 522-23.

¹⁰¹ See *Abry Partners V, L.P. v. F & W Acq. LLC*, 891 A.2d 1032, 1058-59 (Del. Ch. 2006) (For a court to give effect to an integration clause to find that a plaintiff could not reasonably have relied upon prior oral assurances, the clause "must contain 'language that . . . can be said to add up to a clear anti-reliance clause by which the plaintiff has contractually promised that it did not rely upon statements outside the contract's four corners in deciding to sign the contract.' . . . If parties fail to include unambiguous anti-reliance language, they will not be able to escape responsibility for their own fraudulent representations made outside of the agreement's four corners.").

therefore, it cannot preclude MSI from alleging justifiable reliance in support of its fraud claim.¹⁰²

Even if § 8.2 does not bar MSI, as a matter of law, from claiming to have justifiably relied on Vella's oral assurances, ARC contends that such reliance still cannot be justified because the assurances were contradicted by express provisions in the Agreement. MSI responds that Vella's assurances are consistent with, and do not contradict, the terms of the Agreement.¹⁰³ As I explained in *Carrow v. Arnold*, “[i]t is unreasonable to rely on oral representations when they are expressly contradicted by the parties' written agreement. ‘Fraudulent inducement is not available as a defense when one had the opportunity to read the contract and by doing so could have discovered the misrepresentation.’”¹⁰⁴

With regard to the First Fraud Claim, Vella's three oral statements at the Mediation, to the extent MSI suggests they imply that ARC promised it never would sue

¹⁰² Based on this conclusion, I need not determine whether the Agreement is fully integrated. *See id.* (“standard integration clauses without explicit anti-reliance representations, will not relieve a party of its oral and extra-contractual fraudulent representations.”)

¹⁰³ MSI further avers that it “certainly is reasonable to rely on the statements of a company's senior vice president during a mediation where he presumably has authority to settle a matter.” PAB 25.

¹⁰⁴ *Carrow v. Arnold*, 2006 WL 3289582, at *11 (Del. Ch. Oct. 31, 2006) (noting that because the plaintiff had an opportunity to read the contract and discover the defendant's supposed misrepresentations, any reliance he placed on the defendant's prior, inconsistent, oral promises was unreasonable), *aff'd*, 933 A.2d 1249 (Del. 2007).

MSI again for patent infringement, are contradicted by several express terms in the Agreement. As discussed *supra*, § 2.2 releases MSI from claims ARC may have brought in the DSC Litigation and cannot reasonably be read to have released MSI from any and all future litigation such that there would be “no way” ARC would ever come after MSI again. In addition, § 5.2(ii), probably the broadest pronouncement by ARC in the Agreement regarding the likelihood that it might become embroiled in future patent infringement litigation with MSI, was limited strictly to assuring MSI that ARC had no present plan or intent to sue MSI in the future with regard to patents ARC owned, licensed, or controlled as of the Effective Date. This statement, therefore, left open the possibility that, for example, ARC might sue MSI in the future based on patents it did not own, license, or control as of the Effective Date or on patents it had no present plan or intent to enforce against MSI as of that date. Moreover, the inclusion of the dispute resolution mechanisms in §§ 4.1 and 4.2 further support the fact that §§ 2.2 and 5.2 did not stand for the proposition that “there was no real chance” or “no way” that ARC would ever sue MSI again. Rather, these provisions demonstrate that the parties expressly contemplated future suits, which directly contradicts Vella’s supposed oral assurances otherwise. Thus, to the extent MSI purports to have understood Vella’s statements as a promise never to sue MSI again for any patent infringement, MSI’s reliance on that promise was unjustified.

As to the Second Fraud Claim, however, I find that MSI adequately has pled the element of justifiable reliance. Given the circumstances of the DSC Litigation and Mediation as pled in the Complaint, MSI plausibly could have understood from Vella’s

three statements that ARC had no present plan or intent to enforce a patent, other than the Licensed Patents, against MSI as of the Effective Date, whether or not ARC owned, licensed, or controlled that patent. That is, MSI justifiably could have interpreted Vella's statements as implying that ARC had no present reason to believe it might enforce another patent against MSI in the future. In that case, Vella's statements would not contradict § 5.2(ii) of the Agreement. As discussed earlier, § 5.2 represented to MSI that ARC had no present plan or intent to enforce against MSI any patent that it *owned, licensed, or controlled* as of the Effective Date. Vella's statements are somewhat broader than the representation in § 5.2(ii), but not inconsistent with it. One plausible inference from the facts alleged in the Complaint is that ARC insisted on cabining § 5.2(ii)'s representation and warranty with the "owned, licensed, or controlled" limitation because, unbeknownst to MSI and contrary to Vella's statements, it had a present plan or intent as of the Effective Date to acquire the '842 Patent and assert it against MSI, but had not yet obtained ownership or control of it. As such, ARC deliberately may have worded the representation in § 5.2(ii) carefully so that its language would not cover ARC's contemplated conduct with regard to the '842 Patent and, yet, not telegraph to MSI that Vella's statements dismissing such a possibility were not true. Therefore, I find that MSI properly has pled the element of justifiable reliance to the extent the Complaint supports a reasonable inference that ARC, through Vella, led MSI to believe and rely on the fact that ARC had no present plan or intent to assert another patent claim against it as of December 2009.

2. Rule 9(b) and Particularity

ARC also argues that the Complaint fails to state a claim for fraud because it does not plead with particularity that Vella knew his supposed oral assurances to Wiedis at the Mediation were false when he uttered them.

Generally, prior oral promises or statements of future intent do not constitute “false representation[s] of fact” that would satisfy the first element of fraudulent misrepresentation.¹⁰⁵ Indeed, a “viable claim of fraud concerning a contract must allege misrepresentations of present facts (rather than merely of future intent) that were collateral to the contract and which induced the allegedly defrauded party to enter into the contract.”¹⁰⁶ As such, prior oral promises or statements of future intent can be “fraudulent misrepresentations” sufficient to form the basis of a fraudulent inducement claim only where the Complaint alleges particularized facts that allow the Court to infer that, at the time the promise was made, the speaker had no intention of keeping it.¹⁰⁷

¹⁰⁵ See, e.g., *Grunstein v. Silva*, 2009 WL 4698541, at *13 (Del. Ch. Dec. 8, 2009) (“[The general rule is] that ‘statements which are merely promissory in nature and expressions as to what will happen in the future are not actionable as fraud.’ Instead, the putative misrepresentation must involve either a ‘past or contemporaneous fact or a future event that falsely implies an existing fact.’”); *Carrow*, 2006 WL 3289582, at *8; *Outdoor Techs., Inc. v. Allfirst Fin., Inc.*, 2001 WL 541472, at *4 (Del. Super. Apr. 12, 2001) (noting that generally statements which are merely promissory in nature and expressions as to what will happen in the future are not actionable as fraud) (internal quotations marks omitted).

¹⁰⁶ *Carrow*, 2006 WL 3289582, at *8.

¹⁰⁷ See, e.g., *Grunstein*, 2009 WL 4698541, at *13 (“Courts, however, will convert an unfulfilled promise of future performance into a fraud claim if particularized facts are alleged that collectively allow the inference that, at the time the promise was

“Indeed, ‘[s]tatements of intention . . . which do not, when made, represent one's true state of mind are misrepresentations known to be such and are fraudulent. This knowing misrepresentation of one's intention or state of mind is a misrepresentation of an existing fact.’”¹⁰⁸ Determining whether such statements are fraudulent or actionable misrepresentations, therefore, requires a subjective examination of the speaker's intent and state of mind.¹⁰⁹

In general, while Delaware law requires a plaintiff to plead the circumstances of alleged fraud with particularity, the defendant's state of mind and knowledge may be averred generally.¹¹⁰ Even so, when a plaintiff pleads a claim of fraud that charges that the defendants knew something, it must allege sufficient facts from which a court reasonably could infer that this “something” was knowable and that the defendants were in a position to know it.¹¹¹ Moreover, when a plaintiff pleads a claim of promissory fraud, in that the alleged false representations are promises or predictive statements of

made, the speaker had no intention of performing.”); *Carrow*, 2006 WL 3289582, at *9 (“It is ordinarily reasonable for the promisee to infer from the making of a promise that the promisor intends to perform it. If, therefore, the promise is made with the intention of not performing it, this implied assertion is false and is a misrepresentation.”); *Outdoor Techs., Inc.*, 2001 WL 541472, at *4 (“Only when such statements are made with the present intention not to perform will courts endorse a fraud claim.”).

¹⁰⁸ See *Grunstein*, 2009 WL 4698541, at *13.

¹⁰⁹ *Carrow*, 2006 WL 3289582, at *10.

¹¹⁰ See, e.g., *Grunstein*, 2009 WL 4698541, at *13; *Abry Partners V, L.P. v. F & W Acq. LLC*, 891 A.2d 1032, 1050 (Del. Ch. 2006).

¹¹¹ See *Abry Partners V, L.P.*, 891 A.2d at 1050.

future intent rather than past or present facts, the plaintiff must meet an even higher threshold.¹¹² In this situation, the plaintiff “must plead specific facts that lead to a reasonable inference that the promisor had no intention of performing at the time the promise was made.”¹¹³

Unlike Count III for breach of a representation and warranty, the elements of MSI’s fraudulent inducement claim must be pled with particularity in accordance with the heightened standard set forth in Rule 9(b).¹¹⁴ MSI argues that the Complaint meets this standard because it alleges the circumstances of the fraud with particularity and ARC’s state of mind generally. ARC disagrees and contends that paragraph 7, like the rest of the Complaint, fails to plead with particularity that Vella knew his statements were false when he made them. Because MSI’s Second Fraud Claim is more specific than its First Fraud Claim, I begin with a discussion of the former.

¹¹² See *Winner Acceptance Corp. v. Return on Capital Corp.*, 2008 WL 5352063, at *10 (Del. Ch. Dec. 23, 2008) (“This Court looks with particular disfavor at allegations of fraud when the underlying utterances take the form of unfulfilled promises of future performance.”). While Rule 9(b) permits mental states to be averred generally in cases of alleged fraud, it requires a higher standard of pleading for mental states when the plaintiff alleges promissory fraud because the speaker’s state of mind is the factual predicate for the alleged fraud. *Id.* Thus, it is not sufficient to plead the defendant’s mental state generally in cases of promissory fraud.

¹¹³ *Grunstein*, 2009 WL 4698541, at *13.

¹¹⁴ See, e.g., *Winner Acceptance Corp.*, 2008 WL 5352063, at *7; *Iotex Commc’ns, Inc. v. Defries*, 1998 WL 914265, at *2 (Del. Ch. Dec. 21, 1998).

As to the Second Fraud Claim, I find that MSI has satisfied Rule 9(b)'s particularity standard. To the extent MSI alleges that Vella gave his oral assurances despite knowing of ARC's present plan or intent to assert against MSI the '842 Patent, whether or not ARC owned, licensed, or controlled it, his alleged false representations are not promissory; rather, they constitute false statements of present fact concerning ARC's intentions as to a single, specific patent: the '842 Patent. As such, MSI may satisfy Rule 9(b) even if it pleads Vella's state of mind generally.¹¹⁵ Having considered the factual allegations in the Complaint, I hold that MSI meets this standard. Paragraph 10, for example, states that "upon information and belief, as of the Effective Date, [ARC] was in the process of acquiring the '842 Patent for the purpose of enforcing it against [MSI]."¹¹⁶

¹¹⁵ See, e.g., *Desert Equities, Inc. v. Morgan Stanley Leveraged Equity Fund, II, L.P.*, 624 A.2d 1199, 1208 (Del. 1993) ("Under Rule 9(b), state of mind may be pled generally. That is because it may be virtually impossible for a party plaintiff to sufficiently and adequately describe the defendant's state of mind at the pleadings stage."); *Grunstein v. Silva*, 2009 WL 4698541, at *13 (Del. Ch. Dec. 8, 2009) (noting that a traditional fraud claim (*i.e.*, a nonpromissory fraud claim) allows a plaintiff to plead intent generally).

¹¹⁶ Compl. ¶ 10. Similarly, ¶ 14 states that "upon information and belief, [ARC] was actively planning to acquire and enforce the '842 patent against [MSI] as of the Effective Date" *Id.* ¶ 14.

ARC contends that allegations of fraud made upon "information and belief" do not satisfy Rule 9(b). MSI disagrees and claims that such allegations do meet Rule 9(b) if they are supported by specific facts that make it reasonable to infer that the allegation occurred. If MSI solely depended on its allegations based upon information and belief for the inference that Vella knew it was false to assert that ARC had no present plan or intent to enforce any patent against MSI as of December 2009, MSI still might meet the standard under Rule 9(b) because a defendant's knowledge or state of mind is not subject to as high a pleading standard as the circumstances surrounding the alleged fraud under Rule 9(b). See

Similarly, paragraph 51 states “upon information and belief” that “[ARC] knew its assurances . . . were false, as it was in the process of acquiring the ‘842 Patent” for the purpose of asserting it against MSI in the future.¹¹⁷ In addition, the Complaint pleads a number of facts directly, as opposed to on information or belief, which suggest that ARC, in fact, did have a present plan to enforce the ‘842 Patent against MSI as of December 2009.¹¹⁸

Satellite Fin. Planning Corp. v. First Nat. Bank of Wilm., 633 F. Supp. 386, 403 (D. Del. 1986) (“Rule 9(b) allows a plaintiff to aver generally the second and third [elements of fraud, including that the defendant made an alleged misrepresentation either actually knowing it to be false or making it with reckless indifference to its truth], which involve a defendant's state of mind. Circumstances that constitute the remaining elements, if alleged on information and belief, generally will not satisfy Rule 9(b)'s particularity requirement.”). As explained in the text, however, MSI directly averred a number of other factual allegations regarding ARC’s knowledge as of the Effective Date of the possible enforcement of the ‘842 Patent against MSI. Those allegations permit the Court plausibly to infer that Vella actually or constructively knew that his oral assurances that MSI had no such plan or intent were false when he made them.

¹¹⁷ Compl. ¶ 51.

¹¹⁸ These facts reinforce MSI’s general allegations of Vella’s state of mind. For example, it alleges that ARC is an NPE, a fact which supports a reasonable inference that Vella would not have given his assurances that ARC has no present plan or intent to enforce the ‘842 Patent against MSI without checking as to not only the patents ARC owned, licensed, or controlled, but also those it was in the process of attempting to acquire. If Vella did not make such an investigation, his assurances could be considered reckless. Furthermore, I infer from MSI’s allegations that DAS was created for the purpose of enforcing the ‘842 Patent against MSI only a relatively short time after Vella made his purported oral assurances that it is plausible Vella knew about an intention to enforce the ‘842 Patent against MSI when he made his statements.

By contrast, MSI's First Fraud Claim, which is based on its suggestion that Vella's statements constituted a promise not to sue MSI in the future for infringement of any patent, amounts to a claim of promissory fraud in that it rests upon either promises of future conduct or statements of future intent, and not statements of present fact.¹¹⁹ Therefore, the more stringent specificity standard applies to the First Fraud Claim. Under this standard, I find that MSI failed to plead sufficient specific facts to allow the Court to infer that Vella either knew ARC had plans to bring future patent infringement suits against MSI or acted with reckless indifference to the existence of such plans despite assuring MSI that "there was no real chance" and "no way" it would do so. Indeed, the Complaint pleads Vella's state of mind generally, stating that upon information and belief "[ARC] knew its assurances . . . were false" as of the Effective Date,¹²⁰ but did not offer additional specific details, including what information Vella actually or constructively knew about ARC's future patent enforcement plans. Unlike the Second Fraud Claim which permits the Court to draw inferences from the facts pled regarding an alleged present intent to enforce a single, specific patent, the First Fraud Claim is supported by

¹¹⁹ See *Winner Acceptance Corp.*, 2008 WL 5352063, at *9 (a complaint which alleged facts that would support a reasonable inference that the defendants made promises they had no intention of keeping when they made them raises a claim for "promissory fraud"). MSI denies the applicability of this higher pleading standard because Count VI asserts a claim for "fraud in the inducement" and not promissory fraud. PAB 26. As discussed in the text, however, whether the heightened standard applies depends on whether MSI alleges promissory fraud or fraud based on false statements of past or present facts.

¹²⁰ Compl. ¶ 51; see also *id.* ¶¶ 10, 14.

no specific factual allegations that would permit the Court to infer ARC envisioned enforcing any other patent against MSI as of the Mediation. Without further specificity, I find that the Complaint fails to state a claim for the First Fraud Claim because it does not plead with specificity Vella's state of mind when he allegedly made his oral assurances that ARC would never enforce any patent against MSI again.

Therefore, MSI properly has pled its claim for fraud in the inducement to the extent it accuses ARC of falsely representing that it had no present plan or intent to assert the '842 Patent against MSI as of December 2009. That is, MSI has pled the circumstances of that alleged fraud with particularity¹²¹ and ARC's state of mind regarding it generally, as permitted by Rule 9(b) in cases where the plaintiff has not alleged promissory fraud.¹²² In all other respects, however, MSI has failed to plead its fraud claim with sufficient particularity to meet the requirements of Rule 9(b).

¹²¹ As summarized in MSI's answering brief, ¶ 7 satisfies Rule 9(b) because it alleges "the time (December 9, 2009), the place (a court ordered mediation before a federal judge), the contents (providing assurances that Acacia wanted to avoid future litigation with MSI and repeating assurances there was no real chance that Acacia would pursue MSI again in litigation), the identity of the person making the false representation (Acacia's senior vice president), and what he intended to obtain thereby (to induce MSI to enter into a settlement agreement and drop its alter ego claim)." *See* PAB 24-27.

¹²² *See supra* note 115.

3. Bootstrap

Finally, ARC contends that to the extent MSI's fraud claim attempts to plead with particularity that ARC had a "present plan or intent" to enforce the '842 Patent against MSI as of the Effective Date, it is barred as an impermissible bootstrap of Count III.¹²³

Delaware law holds that a plaintiff "cannot 'bootstrap' a claim of breach of contract into a claim of fraud merely by alleging that a contracting party never intended to perform its obligations."¹²⁴ In other words, a plaintiff cannot state a claim for fraud simply by adding the term "fraudulently induced" to a complaint or alleging that the defendant never intended to comply with the agreement at issue at the time the parties entered into it.¹²⁵ Indeed, couching an alleged failure to comply with the contract at issue as a failure to disclose an intention to take certain actions arguably inconsistent with that contract is "exactly the type of bootstrapping this Court will not entertain."¹²⁶

To the extent MSI's Second Fraud Claim alleges that ARC owned, licensed, or controlled the '842 Patent as of the Effective Date and had a present plan or intent as of that date to enforce the Patent against MSI in the future, such claim would amount to a

¹²³ Having concluded that MSI's First Fraud Claim based on its allegations that ARC fraudulently induced it to enter the Agreement by orally promising that it would never sue MSI again fails to state a claim because it does not adequately plead justifiable reliance or meet the requirements of Rule 9(b), I need not discuss it in connection with ARC's bootstrap defense.

¹²⁴ *Iotex Commc'ns, Inc. v. Defries*, 1998 WL 914265, at *4 (Del. Ch. Dec. 21, 1998).

¹²⁵ *Id.* at *5.

¹²⁶ *BAE Sys. N. Am. Inc. v. Lockheed Martin Corp.*, 2004 WL 1739522, at *8 (Del. Ch. Aug. 3, 2004).

charge that the representation and warranty in § 5.2(ii) of the Agreement was false when ARC made it. As such, that claim would be barred as an impermissible bootstrap of Count III. MSI's Second Fraud Claim, however, is broader than that. In particular, it asserts that ARC led MSI to believe that it had no present plan or intent to enforce the '842 Patent in December 2009 when Vella made his oral assurances to Wiedis. It covers, for example, a claim for fraud based on ARC's having known at that time that it intended to enforce the '842 Patent against MSI, even though it may not yet have acquired the requisite rights to enforce it. Such a claim arguably falls outside of ARC's representation to MSI in § 5.2(ii) and, as such, would not be an impermissible bootstrap of a breach of that section.

Therefore, I find that MSI has stated a claim for fraudulent inducement in Count VI to the extent it alleges that Vella's assurances implicitly represented that ARC had no present plan or intent to enforce the '842 Patent against MSI as of the date of the Mediation. Thus, to that limited extent, I deny Defendants' motions to dismiss Count VI. In all other respects, however, Count VI fails to state a claim.

F. Defendant's Unclean Hands Defense

Defendants contend that because MSI breached § 4.2 by filing this suit against them, the Court should dismiss the Complaint under the equitable doctrine of unclean

hands. In response, MSI asserts that its filing of this suit does not constitute a breach of § 4.2 for a number of reasons and Defendants' unclean hands defense is inapposite.¹²⁷

The doctrine of unclean hands states that “when a party, who seeks relief in this Court ‘has violated conscience or good faith or other equitable principles in his conduct, then the doors of the Court of Equity should be shut against him.’”¹²⁸ The Delaware Supreme Court generally affords this Court broad discretion in determining whether to apply the doctrine of unclean hands.¹²⁹

Having considered the parties' submissions and in the exercise of my broad equitable discretion, I decline Defendants' invitation to dismiss the Complaint on the ground that it is the product of unclean hands. First, aside from a few weak allusions in ARC's reply brief to MSI having unclean hands because it filed this suit in an attempt to

¹²⁷ MSI denies that the filing of this suit breached § 4.2 because: (1) the procedures of § 4.2 do not apply to released claims; (2) this case does not involve the rights of the holder of the '842 Patent; but rather pertains to an alleged breach of the Agreement; (3) this suit could not be one based upon patent law because federal courts have exclusive subject matter jurisdiction over patent cases and Defendants have not moved for dismissal based on this ground; (4) Defendants' construction of § 4.2 as applying to this suit would preclude MSI from ever arguing that an infringement claim asserted against it is barred by the Agreement; and (5) despite DAS's contention otherwise, MSI timely responded to DAS's June 29 Letter. PAB 28-29.

¹²⁸ *SmithKline Beecham Pharms. Co. v. Merck & Co.*, 766 A.2d 442, 449 (Del. 2000).

¹²⁹ *SmithKline*, 766 A.2d at 448; *see also Nakahara v. NS 1991 Am. Trust*, 718 A.2d 518, 522 (Del. Ch. 1998) (“In fact, the decisional authority is almost universal in its acceptance that courts of equity have extraordinarily broad discretion in application of the doctrine.”).

“end-run” the ninety-day waiting period in § 4.1,¹³⁰ neither Defendant elaborated on this defense in their briefing. Moreover, counsel for Defendants did not press this defense at the Argument, observing merely that MSI’s purported violation of § 4.2 is relevant to determining the credibility of its arguments in this case.¹³¹ Second, Defendants have not established at this preliminary stage that MSI breached § 4.2 or engaged in any other sort of underhanded conduct by bringing this suit.¹³² While MSI maintained an unreasonable construction of § 2.2, I have found that it stated a claim against Defendants for having breached the representation and warranty found in § 5.2(ii) and for fraudulently inducing MSI to enter into the Agreement. Moreover, none of MSI’s arguments require a detailed analysis of the ‘842 Patent or raise questions as to the infringement, validity, or enforceability of that Patent. As such, I cannot say that MSI’s filing of this action “has violated conscience or good faith or other equitable principles” so as to justify my dismissing the Complaint. Therefore, I reject Defendants’ unclean hands defense.

¹³⁰ See ARC RB 2; Tr. 32-35.

¹³¹ See Tr. 32-35.

¹³² Section 4.2 of the Agreement provides, in pertinent part, that MSI “shall not [during the 90 day waiting period prescribed in § 4.1] . . . (c) bring any additional suits or proceedings regarding any . . . patent [that is the subject of a future dispute between the parties].” Settlement Agreement § 4.2. Because Defendants have the burden of proving MSI has unclean hands and they have not offered a concrete factual basis on which to find that MSI breached the Agreement by bringing this action, I have not analyzed MSI’s other arguments against Defendants’ invocation of the unclean hands defense. See *Tafeen v. Homestore, Inc.*, 2004 WL 1043721, at *1 (Del. Ch. Apr. 27, 2004) (noting that the unclean hands defense is an affirmative defense so the defendant has the burden of proof).

III. CONCLUSION

For the foregoing reasons, I grant Defendants' motions to dismiss Counts I and II with prejudice and deny those motions with respect to Counts III and VI, but, as to Count VI, MSI may proceed with that claim only to the limited extent stated in this Opinion.

IT IS SO ORDERED.