

WIA V Solutions Inc. v HTC Corp.

2016 NY Slip Op 30915(U)

May 16, 2016

Supreme Court, New York County

Docket Number: 651634/2013

Judge: Eileen Bransten

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SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK: IAS PART 3

-----X
WIAV SOLUTIONS INC.,

Plaintiff,

-against-

HTC CORPORATION,

Defendant.

Index No. 651634/2013
Motion Date: 10/09/2015
Motion Sequence No. 003

-----X

BRANSTEN, J.

This action comes before the Court upon Defendant HTC Corporation’s (“HTC”) motion to dismiss the Complaint pursuant to CPLR 3211(a)(1) and (a)(7). For the reasons that follow, Defendant’s motion is granted, and the Complaint is dismissed, with prejudice.

I. BACKGROUND

Plaintiff WiAV Solutions Inc.¹ (“WiAV”) manages intellectual property assets, and engages in the business of evaluating, acquiring, and licensing patent rights. On June 29, 2009, WiAV and HTC executed a Patent Rights Purchase and Covenant Not to Sue Agreement (the “Agreement”), pursuant to which WiAV granted to HTC certain exclusive rights in 30 United States patents owned by nonparty Mindspeed Technologies, Inc. (“Mindspeed”). (Doc. No. 1, “Compl.” ¶ 3.) In consideration for the grant, HTC agreed to

¹ Effective December 15, 2015, Plaintiff converted from a Virginia Limited Liability Company to a Virginia Corporation, changing its name from “WiAV Solutions LLC” to “WiAV Solutions Inc.” On April 6, 2016, the Court granted the parties’ motion to substitute “WiAV Solutions Inc.” as the only Plaintiff in this action. (Doc. No. 93.)

make three mandatory installment payments, with additional payments conditioned upon the occurrence of certain "Triggering Events," as defined by the Agreement. (Compl. ¶¶ 5-7.)

A. Triggering Events

"Triggering Event" is defined as HTC's affirmative grant of "a covenant not to sue, release, and/or any rights to or under one or more Exclusive Vocoder Patent Rights in the Wireless Handset field of use to any third party." (Pressment Aff. Ex. 2, "Agreement," § 3(b)(i)(A).) Exhibit A to the Agreement identifies, by patent number, the exclusive Vocoder Patents. (*Id.* § 1(c).) Thus, if HTC transferred to third parties the Patent rights it received from WiAV, WiAV would be entitled to additional payments based on those grants.²

On June 29, 2009, WiAV and HTC executed a side letter agreement that, among other things, modifies subsection 3(b)(iii) of the Agreement to further define the circumstances constituting a Triggering Event (the "Letter Agreement"). WiAV construes the side letter agreement as providing that a Triggering Event would be deemed to have occurred if HTC, by entering into the Agreement, automatically became obligated under other agreements into which HTC had entered prior to June 29, 2009 with third parties to

² Although not at issue here, in the Agreement, HTC acknowledges that it had previously "entered into agreements with various third parties prior to the Effective Date (June 29, 2009) that may create a limited obligation in which HTC is required to grant or has already granted rights to patents and patent applications to such respective third parties" (Agreement § 3(b)(i)(B)(iii).) The Agreement provides that, in such circumstances, and notwithstanding the contractual definition of a Triggering Event, "such a grant will not be considered a Triggering Event." *Id.*

grant some of them an interest in any of the patent rights obtained by HTC from WiAV under the patent rights agreement (Compl. ¶ 25).

WiAV asserts that HTC has already admitted that a Triggering Event occurred at least once. After inquiry by WiAV, HTC acknowledged this past Triggering Event and, eventually, paid WiAV the conditional payment in accordance with the Agreement. (Compl. ¶¶ 7-10.)

In September 2010, HTC purchased from Mindspeed eight of the 30 patents at issue here, pursuant to a confidential patent purchase agreement. (Ebert Aff., Ex. A.³) As a result, HTC owned outright eight of the 30 patents for which it previously only had “rights” and a “covenant not to sue” from WiAV. Thus, on September 2010, HTC owned eight of the 30 Patents, Mindspeed continued to own the remaining 22 Patents, and HTC continued to hold WiAV’s “Exclusive Vocoder Patent Rights” in all 30.

WiAV contends that, because HTC now owns outright eight of the 30 patents for which it previously obtained WiAV’ rights, HTC’s contracts with third parties require HTC to transfer those eight patents without remitting conditional payments to WiAV, in violation of the Agreement.

B. The Third Party Agreements

WiAV asserts that HTC entered into agreements with third parties whereby HTC granted those third parties rights in the WiAV Patents, entitling WiAV to conditional payments. WiAV specifically alleges that three of HTC’s agreements constitute Triggering

³ Doc. No. 67.

Events: (1) HTC's agreement with nonparty Alcatel Lucent, effective November 23, 2009 (the "Alcatel Agreement"); (2) HTC's agreement with nonparty International Business Machines Corporation, effective March 28, 2011 (the "IBM Agreement"); and (3) HTC's agreement with nonparty Apple, Inc., effective November 11, 2011 (the "Apple Agreement"). Additionally, WiAV alleges that HTC entered into other patent licensing agreements with unidentified third parties that also constitute Triggering Events. (Compl. ¶¶ 23, 26.)

In the complaint, WiAV asserts one cause of action for breach of contract against HTC, and seeks to recover an amount to be determined at trial, together with costs and disbursements of this action, including reasonable attorneys' fees. HTC moves to dismiss the complaint for failure to state a claim, arguing that no Triggering Event has occurred because none of the three license agreements cited by WiAV affirmatively grants rights to the WiAV Patents.

II. LEGAL STANDARD

On a motion to dismiss a complaint for failure to state a cause of action, the Court must accept each and every allegation in the complaint as true, and liberally construe those allegations in the light most favorable to the plaintiff. *Leon v. Martinez*, 84 N.Y.2d 83, 87-88 (1994); CPLR 3211 (a)(7). "We . . . determine only whether the facts as alleged fit within any cognizable legal theory." *Leon*, 84 N.Y.2d at 87-88). However, "allegations consisting of bare legal conclusions, as well as factual claims either inherently incredible or flatly contradicted by documentary evidence, are not presumed to be true and (are not)

accorded every favorable inference." *Biondi v. Beekman Hill House Apt. Corp.*, 257 A.D.2d 76, 81 (1st Dep't 1999), *aff'd* 94 N.Y.2d 659 (2000) (internal quotation marks and citation omitted); *David v. Hack*, 97 A.D.3d 437, 438 (1st Dep't 2012); *see* CPLR 3211(a)(1)). "(A)llegations ... in conclusory form, based upon information and belief, do not establish a sufficient factual showing, evidentiary in nature" to support a claim. *Lewis v. Riklis*, 82 A.D.2d 789, 789 (1st Dep't 1981)).

III. DISCUSSION

None of the three patent licensing agreements between HTC and Alcatel, IBM, or Apple meet the definition of Triggering Event set forth in the Agreement. In those agreements, HTC grants certain rights in certain identified patents. None of those three agreements expressly identifies the WiAV Patents as being among the included patents, nor do the WiAV Patents come within the scope of the contractual definition of the included patents. Further, each agreement contains a "carve-out" provision that excludes the conveyance of rights to, or under, the WiAV exclusive patent rights. Accordingly, WiAV's Complaint must be dismissed.

A. The Alcatel Agreement

The Alcatel agreement does not constitute a triggering event, or a possible triggering event, because the Alcatel Agreement's carve-out provision excludes the WiAV exclusive patent rights from the scope of patents licensed to Alcatel by HTC.

In relevant part, the Alcatel agreement provides that:

"LICENSEE PATENTS means every patent. . . **issued on or before the EFFECTIVE DATE** in any country of the world . . . which LICENSEE, on the EXECUTION [November 23, 2009], has the right to grant any licenses of the type herein granted, but only to the extent of such right, and **provided that the foregoing LICENSEE PATENTS shall not include any patents of any unaffiliated 3rd party [e.g., WiAV] if compensation, value, consideration or other obligation is due** from LICENSEE, ALCATEL LUCENT or any RELATED COMPANY of either Party to such unaffiliated 3rd party."

(Alcatel Agreement,⁴ Attachment A, definitions at 20 (emphasis added).)

The Agreement between WiAV and HTC imposes an obligation on HTC to pay WiAV if it transfer the WiAV patent rights to third parties such as Alcatel, and pay Mindspeed up to \$2 million per case filed under any of WiAV's exclusive patents. *See* Agreement § 2 (d)). Thus, the carve-out provision of the Alcatel Agreement effectively excludes the WiAV patent rights and prevents the occurrence of a Triggering Event.

Contrary to WiAV's contention, HTC's purchase of eight of the 30 Mindspeed patents in September 2010, approximately 10 months after execution of the Alcatel Agreement, does not alter the effect of the Alcatel Agreement's carve-out provision. That provision expressly applies only to the rights that HTC possessed prior to, or on, the execution date of that agreement, and not to rights that HTC purchased after the execution date.

⁴ Pressment Aff., Ex. 4.

Moreover, WiAV's argument that it should be permitted discovery to inquire into the signatories' interpretation of the Alcatel Agreement's terms is without merit. The Alcatel agreement is couched in plain and unambiguous terms, as are all the relevant agreements. WiAV's proffered alternative interpretations are merely misreadings of that clear language, and do not render the agreements ambiguous. "(A) written agreement that is complete, clear and unambiguous on its face must be enforced according to the plain meaning of its terms." *Greenfield v. Philles Records*, 98 N.Y.2d 562, 569 (2002). Further, "ambiguity does not exist simply because the parties urge different interpretations" of the same language. "Nor does ambiguity exist where one party's view strain(s) the contract language beyond its reasonable and ordinary meaning." *Elletson v. Bonded Insulation Co.*, 272 A.D.2d 825, 827 (3d Dep't 2000) (internal quotation marks and citations omitted).

B. The IBM Agreement

Similarly, the IBM Agreement does not constitute a Triggering Event, or a possible triggering event, because it excludes the WiAV Patents from its scope.

The IBM Agreement provides, in relevant part, that:

"Licensed Patents' shall mean all patents throughout the world, including utility models and typeface design patents and registrations (but not including other design patents or registrations):

- (a) issued or issuing on patent applications entitled to an effective filing date . . . prior to the Futures Date; and
- (b) under which patents or the applications therefor a party hereto or any of its Subsidiaries has as of the Effective Date, or thereafter obtains, the right to grant licenses to [IBM] of or within the scope granted herein without such grant or the exercise of rights thereunder resulting in the payment of royalties or other consideration by [HTC] or its Subsidiaries to third parties."

(IBM Agreement § 1.)

Thus, the IBM agreement provides that the covered patent rights do not include rights in any patents that would require HTC to make payments to third parties such as WiAV. Inasmuch as HTC is required to make a conditional payment to WiAV if the WiAV exclusive patent rights were granted to IBM, (*see* Agreement § 3 (b)), the IBM Agreement explicitly excludes the WiAV Patents from its scope. (IBM Agreement § 1.)

Contrary to WiAV's contention, the option provision does not render the IBM Agreement a Triggering Event or a possible triggering event, because the option provision does not grant IBM an option to unilaterally obtain a license under the WiAV exclusive patent rights. Therefore, the option provision does not constitute an affirmative grant by HTC to IBM of any rights to, or under, one or more of the exclusive patent rights.

The IBM Agreement provides, in relevant part:

"It is recognized that the parties hereto (HTC or IBM) or their respective Subsidiaries may now have, or hereafter obtain, the right to grant licenses under one or more patents of any country . . . but that such grant or the exercise of rights thereunder shall result in payment of royalties or other consideration by Grantor or its Subsidiaries to third parties. Each party (as Grantor) agrees that, **upon written request, it shall grant to the other party to the extent and subject to the terms and conditions under which it then has the right to do so, a license of the broadest scope which Grantor has the right to grant at any time but of no greater scope than the scope of the licenses granted herein with respect to any such patent or patent application. Such license shall be granted under a separate agreement, upon payment of the same royalty or other consideration as that which Grantor or any of its Subsidiaries is obligated to pay to a third party because of the grant of such license or the exercise of rights thereunder.**"

(IBM Agreement⁵ § 7.1.) (emphasis added.)

⁵ Pressment Aff., Ex. 5.

Thus, that option provision merely allows for the possibility that IBM could purchase such rights from HTC upon the completion of three steps: a written request by IBM, the negotiation and execution of a separate agreement for purchase of the rights, and IBM's payment. Pursuant to long-established New York law, an unexercised option does not vest the option holder with any right or interest in the underlying subject matter. *See Life Preserver Suit Co. v. National Life Preserver Co.*, 252 F. 139, 141 (2d Cir 1918); *J.N.A. Realty Corp. v. Cross Bay Chelsea*, 42 N.Y.2d 392, 397 (1977); *Matter of Arverne Second Amended Urban Renewal Project*, 44 A.D.3d 760, 761 (2d Dep't 2007)). Therefore, the contractual "option" provision does not itself constitute a Triggering Event.

Here again, contrary to WiAV's contention, no discovery is needed to determine how HTC and IBM construed the IBM Agreement and its option provision. The agreement is clear and unambiguous and does not describe a Triggering Event.

C. The Apple Agreement

The Apple agreement also does not constitute a Triggering Event, or a possible triggering event, because it excludes the WiAV Patent rights from its scope, as follows:

"Covered Patents" means, with respect to either Party [HTC or Apple], all Patents in all jurisdictions worldwide as of the Effective Date or at any other time during the Term ... (a) that are owned by such Party, (b) that are controlled by such Party or which such Party has the right to license within the scope set forth in this Agreement without payment of consideration to a Third Party ... or (c) as to which a Party exercises the option set forth in Section 4.4 (a) (ii), as applicable."

(Apple Agreement⁶ § 1.11(a) (emphasis added).)

⁶ Pressment Aff., Ex. 6.

This clear and unequivocal language excludes the 30 WiAV Patents from its scope because HTC would be required to pay WiAV additional compensation pursuant to the terms of WiAV and HTC's Agreement.

Furthermore, the Agreement between WiAV and HTC states that a Triggering Event arises only when HTC conveys rights to or under *WiAV's exclusive rights* to certain vocoder patents, not *any* rights to the vocoder patents. (Agreement § 2(a).) Therefore, HTC's conveyance of its subsequently acquired *ownership rights* in eight of the 30 exclusive vocoder patents does not create a Triggering Event. (Agreement § 2(a).) To hold otherwise would create a logical inconsistency in the Apple Agreement. WiAV's interpretation would require HTC to pay WiAV conditional payments for transfers of patents that HTC owns outright, but not for transfers of patents that HTC does not own.

Additionally, HTC's grant to Apple of an option to license the WiAV exclusive patent rights also does not constitute a Triggering Event. The Apple agreement provides, in relevant part:

"During the Term, to the extent that a Party (HTC or Apple) has any right, title or interest in a Patent that would be a Covered Patent. . . but does not have sufficient rights to grant the license and/or other rights contemplated in this Agreement. . . (ii) to the extent such Patent is not a Covered Patent solely because consideration is required to be paid to any Third Party . . . then such Party will extend to the other Party an option to include such Patent in the definition of Covered Patents to the extent it is permitted to do so **upon payment by the other Party of the required consideration.**"

(Apple agreement § 4.4 (a) (ii) (emphasis added).)

Thus, the Apple agreement clearly and unambiguously provides that HTC will extend to Apple an option only upon payment of consideration. At most, then, the provision provides Apple with an opportunity to acquire an option in the future. As discussed above, pursuant to the patent rights agreement between WiAV and HTC, no Triggering Event exists until HTC and Apple negotiate and enter into an option agreement, and Apple pays HTC the required consideration.

WiAV's contention that the Apple Agreement's language is ambiguous is also without merit. The Apple Agreement's language is clear, unambiguous, and unequivocal; therefore, discovery regarding the contracting parties' interpretation of that language is not necessary.⁷

D. Failure to State a Claim

HTC also contends that the Complaint should be dismissed pursuant to CPLR 3211(a)(7), because WiAV has failed to allege the existence of additional specific patent licensing agreements. In opposition, WiAV contends that its "fall-back allegations" regarding the existence of other agreements that might constitute triggering events, (Compl. ¶¶ 23, 26), are sufficient to state a legally cognizable claim for breach of contract. The Court agrees with HTC.

⁷ The court also notes that although Apple apparently holds license rights to some of the WiAV Patents, Apple was granted those patent rights directly by WiAV itself in 2008, (*see* Pressment Aff. Ex. 7, "WiAV/Apple Settlement and License Agreement" § 2.1, Schedule A), as WiAV acknowledges in its Agreement with HTC. (*See* Agreement § 5 (a)(vii).)

"(C)laims consisting of bare legal conclusions with no factual specificity - are insufficient to survive a motion to dismiss." *Godfrey v. Spano*, 13 N.Y.3d 358, 373 (2009); *see also Williams v. Varig Brazilian Airlines*, 169 A.D.2d 434, 437 (1st Dep't 1991). A motion to dismiss a breach of contract claim will be granted where the plaintiff fails to identify the contract that forms the basis for the claim, and, instead, merely speculates that further discovery might reveal such a contract. *Smith v. Xaverian High Sch.*, 270 A.D.2d 246, 248 (2d Dep't 2000).

In the Complaint, WiAV bases the contract claim not just on the three agreements discussed above, but also on allegations that "upon information and belief, additional Triggering Events have occurred of which WiAV does not currently have knowledge." (Compl. ¶ 26.) Where, as here, the operative allegations are alleged only "upon information and belief," and no facts are alleged in support of such belief, the claim is fatally defective and must be dismissed. *Angel v. Bank of Tokyo-Mitsubishi, Ltd.*, 39 A.D.3d 368, 370 (1st Dep't 2007). WiAV has not produced a copy of the alleged contracts, nor does it allege any factual details substantiating the existence of the alleged contracts, such as the identity of any of the third parties or the time frame within which such agreements were executed.

Thus, WiAV's allegations are broad, general, speculative, and conclusory, and would require HTC to prove a negative by producing every patent licensing agreement that it ever executed in order to defend the action, and prove that none of those agreements constitutes a Triggering Event. "Dismissal of the claims cannot be avoided by speculation as to what discovery might reveal." *Milosevic v. O'Donnell*, 89 A.D.3d 628, 629 (1st Dep't 2011); *see also Silverstein v. Westminster House Owners, Inc.*, 50 A.D.3d 257, 258 (1st

Dep't 2008).

Finally, the Court notes that Plaintiff's unspecific allegations and discovery arguments are merely an attempt to re-negotiate the 2009 Agreement, and include something the parties did not bargain for: WiAV's right to review all the agreements HTC enters into with third parties to determine whether a Triggering Event has occurred. As WiAV acknowledged at oral argument, they "can't go back and change" this drafting oversight. (Hrg. Tr. at 25:8-11). Unfortunately for WiAV, neither can the Court. *See Beinstein v. Navani*, 131 A.D.3d 401, 405 (1st Dep't 2015) ("[C]ourts may not by construction add or excise terms, nor distort the meaning of those used and thereby make a new contract for the parties.").

IV. CONCLUSION

Accordingly, it is

ORDERED that Defendant's motion to dismiss is GRANTED, and the complaint is dismissed in its entirety, with prejudice, and with costs and disbursements to defendant HTC Corporation, as taxed by the Clerk of the Court, and the Clerk is directed to enter judgment accordingly in favor of defendant.

This constitutes the decision and order of the Court.

Dated: New York, New York

May 16, 2016

ENTER:



Hon. Eileen Bransten, J.S.C.