IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

SLINGSHOT TECHNOLOGIES, LLC, Plaintiff, v. ACACIA RESEARCH CORP., ACACIA RESEARCH GROUP, LLC, KATHARINE WOLANYK, TRANSPACIFIC IP GROUP, LTD., and MONARCH NETWORKING SOLUTIONS, LLC, Defendants.	)	C.A. No. 2019-0722-JTL

ORDER ADDRESSING MOTION TO DISMISS FILED BY TRANSPACIFIC IP GROUP, LTD.

1. Plaintiff Slingshot Technologies, LLC ("Slingshot") is a Delaware limited liability company that acquires and monetizes patents. Defendant Acacia Research Corp. ("Acacia Parent") is a Delaware corporation and one of Slingshot's competitors. Defendant Acacia Research Group, LLC ("Acacia Sub") is a Texas limited liability company and wholly owned subsidiary of Acacia Parent. Acacia Sub is Acacia Parent's principal operating subsidiary. Defendant Monarch Networking Solutions LLC ("Monarch") is a California limited liability company and wholly owned subsidiary of Acacia Sub. Unless context requires, this order refers to Acacia Parent and Acacia Sub together as "Acacia."

2. Defendant Transpacific IP Group, Ltd. ("Transpacific") sold a portfolio of patents (the "Orange Portfolio") to Acacia. Slingshot had considered acquiring the Orange

Portfolio. In this litigation, Slingshot asserts claims relating to Transpacific's sale of the Orange Portfolio to Acacia.

a. Slingshot and Transpacific entered into an agreement dated September 13, 2018, which gave Slingshot the exclusive right to acquire the Orange Portfolio. *See* Dkt. 70 Ex. A (the "Option Agreement" or "OA"). The Option Agreement created a 45-day window during which Slingshot could purchase the Orange Portfolio for $3.3 million. *Id.* art. 3 (the "Exclusive Option"). The parties agreed to "keep the terms and existence of [the Option] Agreement and the identities of the parties [t]hereto confidential." *Id.* § 10.1. The confidentiality obligation "survive[d] any termination" of the Option Agreement. *Id.* § 3.1.2.

b. The Option Agreement restricted Transpacific's ability to sell the Orange Portfolio if the deal with Slingshot fell through. The relevant language states, "In the event that [Slingshot] does not purchase the [Orange Portfolio] from [Transpacific], [Transpacific] agrees not to enter into any sale transaction regarding the [Orange Portfolio] with any funding source introduced to [Transpacific] by [Slingshot] for a period of one year following the expiration of the Exclusive Option period." *Id.* § 6.5 (the "Prohibited Transaction Provision").

c. During the exclusivity period, Slingshot conducted due diligence on the Orange Portfolio and analyzed the benefits of a potential transaction. Slingshot and its advisors produced reports, assessments, and analyses of the Orange Portfolio, including analyses of potential litigation strategies to enforce the patents (the "Analyses"). Slingshot contends that the Analyses constituted trade secrets.

d. During the exclusivity period, Slingshot explored financing the purchase of the Orange Portfolio through Burford Capital LLC ("Burford"), a litigation finance company. As part of the due diligence process, Slingshot introduced Transpacific to Burford, bringing Burford within the Prohibited Transaction Provision.

e. On October 18, 2018, Slingshot entered into two non-disclosure agreements with Burford (together, the "Burford NDAs"). Defendant Katharine Wolanyk is a managing director and head of intellectual property at Burford. She was Slingshot's primary point of contact for the Orange Portfolio. She was involved in the preparation of both Burford NDAs and signed one of them.

f. The Burford NDAs specify that for the term of the agreement and for a seven-year period afterward, Burford shall not disclose "non-public, confidential, or proprietary information relating to subject matter, such as business plans, business or financial information, research, and technical data." Compl. ¶ 54 (citing the Burford NDAs).

g. After entering into the Burford NDAs, Slingshot shared the Analyses with Burford. As the point person for the Slingshot engagement, Wolanyk had access to the Analyses.

h. On November 11, 2018, a Burford employee emailed Slingshot and Slingshot's outside counsel asking about Slingshot's litigation strategies for the Orange Portfolio. The email asked "about the timing and sequence of the planned litigation events, and specifically inquired as to whether Slingshot had determined that its first lawsuit would be commenced" in the United States District Court for the Eastern District of Texas (the

"Texas Court"). *Id.* ¶ 58. The email also asked about Slingshot's litigation strategy against a specific potential defendant (the "Specified Defendant"). *Id.* Wolanyk was copied on the email. *Id.*

i. On November 13, 2018, Slingshot's outside counsel responded by email to Wolanyk and another Burford employee. The email confirmed that Slingshot planned to file its first lawsuits in the Texas Court. The email also disclosed that one of the first lawsuits would be against the Specified Defendant.

j. In December 2018, Transpacific extended the expiration date of the Exclusive Option to accommodate Slingshot's continued discussions with potential funding sources like Burford.

k. Slingshot and Transpacific entered into an Intellectual Property Services Agreement, dated December 7, 2018. *See* Dkt. 70 Ex. D (the "Services Agreement" or "SA"). Under the Services Agreement, Transpacific agreed to perform "Portfolio Management Service" and "Foreign Assignment Preparation and Recordation Service" for the Orange Portfolio. *Id.* § 1.1.

l. Like the Option Agreement, the Services Agreement set forth obligations relating to the exchange of information between Slingshot and Transpacific. The confidentiality provision in the Services Agreement states,

> [E]ach Party will at all times during the existence of this Agreement and after its termination (a) keep all information disclosed whether orally or in writing, and whether or not such information is expressly stated to be confidential or marked as such to the other Party pursuant to or in connection with this Agreement (the "***Restricted Information***") confidential and not disclose any Restricted Information to any third person; and not use any Restricted

> Information for any purpose other than the performance of its obligations under this Agreement.

Id. § 3.1 (emphasis in original). Transpacific also "acknowledge[d] and agree[d] that, as between [Transpacific] and [Slingshot], all work product delivered to [Slingshot] pursuant to this Agreement, is the sole property of [Slingshot]." *Id.* § 4.

m. In mid-December 2018, Slingshot concluded that it would not reach an agreement with Burford regarding funding for the Orange Portfolio. Slingshot continued to pursue discussions with other potential funding sources.

n. On January 1, 2019, Transpacific extended the expiration date of the Exclusive Option through January 30. Slingshot sought out potential funding sources.

o. On January 17, 2019, Acacia Parent announced that Wolanyk had joined its board of directors. In a press release announcing Wolanyk's appointment, Acacia Parent cited Wolanyk's intellectual property expertise and explained that she would help Acacia expand its intellectual property portfolio.

p. On January 30, 2019, the Exclusive Option expired, but Slingshot continued its discussions with Transpacific.

q. On February 24, 2019, Transpacific told Slingshot that it was talking with other potential buyers.

r. On February 28, 2019, Acacia entered into an agreement with Transpacific to acquire the Orange Portfolio. That same day, Wolanyk received an email about Acacia's plan to acquire the Orange Portfolio. The complaint alleges that "Acacia

had only become interested in the purchase of the [Orange Portfolio] in February 2019, immediately after Wolanyk joined Acacia's Board of Directors." Compl. ¶ 99.

s. Transpacific told Slingshot that Transpacific had entered into an agreement to sell the Orange Portfolio to another party, but did not disclose Acacia's identity. Slingshot continued to pursue the acquisition of the Orange Portfolio.

t. In March 2019, Acacia issued statements about Wolanyk's integral role in Acacia's expansion of its intellectual property portfolio.

u. Throughout March 2019, Wolanyk received email updates regarding Acacia's acquisition of the Orange Portfolio.

v. On April 3, 2019, Acacia closed on the acquisition of the Orange Portfolio. After closing, Acacia assigned four of the patents to Monarch. In January 2020, Monarch filed a patent infringement lawsuit in the Texas Court to enforce certain patents from the Orange Portfolio against the Specified Defendant and another large company.

3. Slingshot filed this action against Acacia Parent, Acacia Sub, Monarch, Transpacific, and Wolanyk. The complaint asserts three causes of action against Transpacific, contending that Transpacific breached its obligations under both the Option Agreement and the Services Agreement. Transpacific has moved to dismiss all counts against it under Rule 12(b)(6) for failing to state a claim on which relief can be granted.

4. When considering a Rule 12(b)(6) motion, this court (i) accepts as true all well-pleaded factual allegations in the complaint, (ii) credits vague allegations if they give the opposing party notice of the claim, and (iii) draws all reasonable inferences in favor of the plaintiffs. *Cent. Mortg. Co. v. Morgan Stanley Mortg. Cap. Hldgs. LLC*, 27 A.3d 531,

535 (Del. 2011). Dismissal is inappropriate "unless the plaintiff would not be entitled to recover under any reasonably conceivable set of circumstances." *Id.*

5. Count V of the complaint contends that Transpacific breached the express terms of the Prohibited Transaction Provision by selling the Orange Portfolio to Acacia.

a. The Option Agreement is a contract governed by Delaware law. OA art. 9. When interpreting such a contract, "the role of a court is to effectuate the parties' intent." *Lorillard Tobacco Co. v. Am. Legacy Found.*, 903 A.2d 728, 739 (Del. 2006). Absent ambiguity, the court "will give priority to the parties' intentions as reflected in the four corners of the agreement, construing the agreement as a whole and giving effect to all its provisions." *In re Viking Pump, Inc.*, 148 A.3d 633, 648 (Del. 2016) (internal quotation marks omitted). "Unless there is ambiguity, Delaware courts interpret contract terms according to their plain, ordinary meaning." *Alta Berkeley VI C.V. v. Omneon, Inc.*, 41 A.3d 381, 385 (Del. 2012). "Contract language is not ambiguous merely because the parties dispute what it means. To be ambiguous, a disputed contract term must be fairly or reasonably susceptible to more than one meaning." *Id.* (footnote omitted). "If a writing is plain and clear on its face, i.e., its language conveys an unmistakable meaning, the writing itself is the sole source for gaining an understanding of intent." *City Investing Co. Liquid. Tr. v. Cont'l Cas. Co.*, 624 A.2d 1191, 1198 (Del. 1993).

b. In the Prohibited Transaction Provision, Transpacific "agree[d] not to enter into any sale transaction regarding the [Orange Portfolio] with any funding source introduced to [Transpacific] by [Slingshot] for a period of one year following the expiration of the Exclusive Option period." OA § 6.5. Slingshot contends that this prohibition

"applie[d] to Burford's Managing Director Wolanyk, whether in her capacity as Burford's Managing Director, in her capacity as a Board Member of Slingshot's competitor, [Acacia], or in any capacity." Compl. ¶ 178. In other words, Slingshot argues that because Wolanyk served on the board of directors of Acacia, Acacia became a "funding source" under the Prohibited Transaction Provision.

c. The language of the Prohibited Transaction Provision is unambiguous. It prohibited Transpacific from entering into a transaction regarding the Orange Portfolio "with any funding source" introduced to Transpacific by Slingshot. OA § 6.5. Acacia was not a funding source introduced to Transpacific by Slingshot; Acacia was a third-party buyer. Burford was a funding source introduced to Transpacific by Slingshot, but Transpacific did not enter into a transaction with Burford.

d. It is not reasonably conceivable that Acacia constitutes a "funding source" under the Prohibited Transaction Provision. Count V thus fails to state a claim on which relief can be granted.

6. Count VII contends that Transpacific breached the implied covenant of good faith and fair dealing that inhered in the Option Agreement by selling the Orange Portfolio to Acacia.

a. "The implied covenant is inherent in all contracts and is used to infer contract terms to handle developments or contractual gaps that the asserting party pleads neither party anticipated." *Dieckman v. Regency GP*, 155 A.3d 358, 367 (Del. 2017). "In order to plead successfully a breach of an implied covenant of good faith and fair dealing, the plaintiff must allege a specific implied contractual obligation, a breach of that

obligation by the defendant, and resulting damage to the plaintiff." *Fitzgerald v. Cantor*, 1998 WL 842316, at *1 (Del. Ch. Nov. 10, 1998). In describing the implied contractual obligation, the plaintiff must allege facts suggesting "from what was expressly agreed upon that the parties who negotiated the express terms of the contract would have agreed to proscribe the act later complained of . . . had they thought to negotiate with respect to that matter." *Katz v. Oak Indus. Inc.*, 508 A.2d 873, 880 (Del. Ch. 1986).

b. It is reasonable to infer that the Prohibited Transaction Provision was intended to protect Slingshot from facing competition for the Orange Portfolio from funding sources that Slingshot introduced to Transpacific (an "Identified Funding Source"). The Prohibited Transaction Provision addressed direct competition by barring Transpacific from selling the Orange Portfolio in a deal involving an Identified Funding Source. The parties did not address indirect competition that could result from Transpacific selling to a third party that received information about the Orange Portfolio from an Identified Funding Source.

c. It is reasonable to infer that the parties did not anticipate the possibility that Transpacific would sell the Orange Portfolio to a buyer with access to confidential information that Slingshot had disclosed to an Identified Funding Source. It is reasonable to infer that if the parties had thought to address this issue, then they would have agreed that Transpacific could not sell to a third party that had received information about the Orange Portfolio from an Identified Funding Source. Slingshot clearly sought to prevent this possibility from occurring because it entered into the Burford NDAs. For similar reasons, it is reasonable to infer that Slingshot would have sought to restrict Transpacific

from transacting with a party that received information from an Identified Funding Source, like Burford.

d. It is also reasonable to infer that Transpacific would have agreed to restrict its ability to transact with an Identified Funding Source. Transpacific granted the Exclusive Option to Slingshot and extended the Exclusive Option on multiple occasions. Transpacific was already comfortable granting exclusivity to Slingshot; an indirect limitation would have reinforced the exclusivity that Transpacific already thought that it was granting.

e. The Prohibited Transaction Provision, however, suggests that Transpacific would not have agreed to restrict its ability to transact with a buyer if Transpacific did not know that the buyer had received information from an Identified Funding Source. The Prohibited Transaction Provision only barred Transpacific from selling the Orange Portfolio to a funding source that Slingshot had introduced to Transpacific, i.e., a funding source that Transpacific knew about. It is reasonable to infer that Transpacific likewise would have insisted on a knowledge qualifier for an indirect limitation. The resulting term would have restricted Transpacific's ability to transact with a buyer that Transpacific knew had had received information from an Identified Funding Source.

f. It is thus reasonably conceivable that Slingshot could obtain a remedy against Transpacific if Slingshot can prove that Transpacific knew that Acacia was using knowledge gained from Burford in connection with its acquisition of the Orange Portfolio.

g. The facts relating to Transpacific's knowledge are uniquely in control of Transpacific. Knowledge also can be alleged generally under Rule 8. For pleading purposes, all that is required is some reason to infer that Transpacific could have known that Acacia was using knowledge gained from Burford. The complaint alleges that Acacia publicly announced that Wolanyk had joined the Acacia board, described her relationship with Burford, and explained her role in assisting Acacia's efforts to expand its intellectual property portfolio. At this preliminary stage, it is reasonable to infer that Transpacific knew Acacia had obtained information from Burford through Wolanyk. This aspect of Count VII thus states a claim on which relief can be granted.

h. At a later stage of the case, after discovery, Slingshot will not be able to benefit from the plaintiff-friendly pleading standard and the inference to which it is currently entitled. Absent evidence that Transpacific knew that Acacia was using knowledge gained from Buford, Slingshot will not be able to establish a breach of the implied covenant.

7. Count VI of the complaint contends that Transpacific breached the Services Agreement by sharing confidential information Acacia. Compl. ¶¶ 185–86.

a. Like the Option Agreement, the Services Agreement is a contract governed by Delaware law. SA § 9. The Services Agreement restricts the parties' use of confidential information as follows:

> [E]ach Party will at all times during the existence of this Agreement and after its termination (a) keep all information disclosed whether orally or in writing, and whether or not such information is expressly stated to be confidential or marked as such to the other Party pursuant to or in connection with this Agreement (the "Restricted Information") confidential and not disclose any

> Restricted Information to any third person; and not use any Restricted Information for any purpose other than the performance of its obligations under this Agreement.

Id. § 3.1.

b. The complaint asserts that "Slingshot shared with Transpacific certain confidential information, which Transpacific, in turn, shared with Acacia." Compl. ¶ 185; *see id.* ¶ 44 ("Slingshot shared Restricted Information with Transpacific, which Transpacific was prohibited from sharing with any third party."). On a motion to dismiss, the court only credits "vague allegations in the Complaint as 'well-pleaded' if they provide the defendant notice of the claim." *Cent. Mortg.*, 27 A.3d at 536 (footnote omitted). The complaint alleges that Transpacific disclosed "certain confidential information" and "Restricted Information" to Acacia, but it does not specify *what* information Transpacific actually disclosed. These allegations are conclusory. They fail to provide Transpacific with notice of which disclosures Slingshot is challenging. This aspect of Count VI thus fails to state a claim on which relief can be granted.

8. Count VI of the complaint also contends that Transpacific breached the Services Agreement by sharing work product Acacia. Compl. ¶¶ 185–86.

a. The Services Agreement addresses "work product" by providing as follows: "[Transpacific] acknowledges and agrees that, as between [Transpacific] and [Slingshot], all work product delivered to [Slingshot] pursuant to this Agreement, is the sole property of [Slingshot]." SA § 4 (the "Work Product Provision"). The Services Agreement does not define "work product." Slingshot contends that "work product included reports and analyses of the Orange Portfolio." Dkt. 81 at 40. According to

Slingshot, "work product" included Transpacific's *own analysis* of the Orange Portfolio. Under Slingshot's interpretation of "work product," Transpacific could not share its own work product with a competing buyer, such as Acacia.

b. It is not reasonably conceivable that the Services Agreement bound Transpacific such that it could not provide its own analysis of the Orange Portfolio to a competing buyer such as Acacia. The obvious purpose of the Services Agreement was to provide services to Slingshot in the event that Slingshot acquired the Orange Portfolio. To that end, the Services Agreement encompassed two types of services: (i) Portfolio Management Services and (ii) Foreign Assignment Preparation and Recordation Services. The Portfolio Management Services required Transpacific to "[m]aintain the docket, track and monitor due date of office action, annuity and/or maintenance fee of [the Orange Portfolio]; [d]eliver a monthly docket report for the [Orange Portfolio] with due dates indicated; [and] [p]ay the annuity fee or maintenance fee for the patents . . . ." SA § 1.1(A). The Foreign Assignment Preparation and Recordation Services required Transpacific to "[c]oordinate with various prosecution counsels to prepare assignment deed for the alive foreign [patents in the Orange Portfolio] and have the executed assignment deed filed against with [sic] the respective foreign patent office" and "[m]onitor/[t]rack foreign [patent] assignment recordation progress and report to [Slingshot] periodically until the alive foreign [patents] are officially transferred to [Slingshot]." *Id.* § 1.1(B). The Services Agreement thus contemplated that Transpacific would continue to perform certain administrative tasks relating to the Orange Portfolio pending the formal transfer of title to Slingshot.

c. Slingshot contends that any analyses or marketing materials for the Orange Portfolio were "work product" within the meaning of the Work Product Provision and therefore became Slingshot's property. That is not a reasonable interpretation of the Work Product Provision. Such a reading would prevent Transpacific from providing information about the Orange Portfolio to a competing buyer even after the Option Agreement terminated. But after the Option Agreement terminated, Transpacific had the right to sell the Orange Portfolio to other buyers. It is not reasonably conceivable that the Work Product Provision was intended to bar Transpacific from engaging in efforts to sell the Orange Portfolio once Slingshot's period of exclusivity ended. This aspect of Count VI therefore fails to state a claim on which relief can be granted.

9. Count VII of the complaint contends that Transpacific breached the implied covenant of good faith and fair dealing that inhered in the Services Agreement by selling the Orange Portfolio to the Acacia. As noted, "[i]n order to plead successfully a breach of an implied covenant of good faith and fair dealing, the plaintiff must allege a specific implied contractual obligation, a breach of that obligation by the defendant, and resulting damage to the plaintiff." *Fitzgerald*, 1998 WL 842316, at *1. To state a claim for breach of an implied contractual obligation, a court must be able to infer "from what was expressly agreed upon that the parties who negotiated the express terms of the contract would have agreed to proscribe the act later complained of . . . had they thought to negotiate with respect to that matter." *Katz*, 508 A.2d at 880. With respect to the Services Agreement, it is not possible to infer what implied obligation that Transpacific might have breached. This aspect of Count VII thus fails to state a claim on which relief can be granted.

10. The motion to dismiss Counts V and VI of the complaint is GRANTED. The motion to dismiss Count VII of the complaint is DENIED to the extent that Count VII asserts a claim based on the Option Agreement.

Vice Chancellor Laster
March 29, 2021