LESI Global Licensing Report

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Developments Affecting IP Licensing and Business Transactions

Welcome to the Inaugural Edition of the LESI Global Licensing Report!

LES members from around the world have contributed to this new quarterly "at-a-glance" look at some of the most relevant recent court decisions, regulatory decisions, and other legal developments and how they affect the business of IP. We welcome your comments and any input on additional information to include. Please contact us if you are interested in contributing to this quarterly publication.

Japan | United States | Europe | China

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JAPAN

❶ Harris Williams Design Inc. v. K.K. Bright

A judgment in which the IP High Court followed in the footsteps of a Supreme Court judgment concerning the standards for determining parallel import in a case in 2003 ("Fred Perry Case"), and ruled, with an awareness of the difference between the present case and the case of the Supreme Court judgment, that the parallel import of the present case is legal in light of said standards for determining parallel import (IP High Court judgment dated May 19, 2021 (Case No. 2020 (Ne) 10062)).

Abstract: In Japan, the Trademark Act does not include provisions for parallel import. However, the Supreme Court judgment dated February 27, 2003 ("Supreme Court Judgment on Fred Perry Case") indicates standards for determining the applicability of parallel import and states that, if the parallel import in question satisfies the requirements set forth in the standards for determining applicability, such parallel import substantively lacks illegality and does not constitute trademark infringement. In the judgment rendered by the IP High Court in the present case ("IP High Court Judgment"), the court made reference to the standards for determining parallel import, as indicated in the Supreme Court Judgment on the Fred Perry Case, and ruled, comparing the case of the Supreme Court judgment and the present case, that the parallel import of the present case satisfies the requirements according to the standards indicated by the Supreme Court for determining the applicability and is therefore legal.

❷ K.K. Feat Japan v. K.K. Artsbrains

Concerning a non-dispute clause for a patent in a settlement agreement, the court approved that the clause has a literal meaning, and ruled that a party to the contract does not have the standing of a demandant for an invalidation trial for the patent held by the patent holder, who is the other party.

Abstract: A settlement agreement between a patent holder and the other party contained a non-dispute clause for a patent, and when said other party filed a request for an invalidation trial for the patent held by the patent holder, the JPO dismissed the request for an invalidation trial by holding that said other party does not have the standing of a demandant for invalidation. The IP High Court approved that the non-dispute clause in the settlement agreement has a literal meaning, and ruled that said other party does not have the standing of a demandant for an invalidation trial for the patent held by the patent holder (IP High Court Judgment rendered on December 19, 2019 (IP High Court 2019 (Gyo-Ke) 10053)).

❸ K.K. Granparecoatdoll v. K.K. Nakata suisan

While the court approved the licensor's claim that the licensee has an implicit obligation to practice the patent pursuant to the exclusive license agreement for a patent, the court ruled that, given the specific circumstances of the present case, there was no breach of obligation by the license

Abstract: The IP High Court held that, under certain conditions in exclusive license agreements for a patent, it is equitable to acknowledge that the licensee has implicitly agreed to bear the obligation to practice the patent. The court added that, with regard to the details of the obligation and the breach thereof, it is reasonable to determine whether a claim for compensation can be made on the grounds of said breach of agreement by comprehensively considering the licensee's attitude towards manufacturing and selling the products that use the invention, as well as the purport of the exclusive license agreement, under the specific circumstances of the case. Given the specific circumstances of the present case, the court ruled that there was no breach of obligation by the licensee (IP High Court judgment rendered on September 18, 2019 (IP High Court 2019 (Ne) 10032)).

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Abstract: A California court exercised jurisdiction over a declaratory judgment action even though the defendant offered a covenant not to sue. The court considered the parties' extensive litigation history and the text of the unilateral covenant not to sue to hold that the covenant not to sue was insufficient to divest the court of jurisdiction.

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❼ Clean Waste Systems v. WasteMedX

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❶ BGH, decision of 17.10.2019 - I ZR 34/18 – Valentins

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❷ RC Munich, decision of 25.2.2021 – 7 O 8011/20

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❸ HRC Nuremberg, decision of 15.6.2021 – 3 U 3687/20

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❺ Paris High Court, February 6, 2020 n° 19/02085 and Paris Court of Appeal, March 23, 2021, n° 20/06760

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Abstract: In response to an action for infringement of patents declared essential with respect to the ETSI's 3G and 4G standards brought by Philips against TCL before the High Court of Justice of England and Wales, TCL sued Philips before the Paris High Court to determine whether Philips had breached ETSI's IPR Policy and to enjoin Philips to make a FRAND license offer. TCL also sued ETSI requesting that ETSI is ordered to participate in the license granting process. The case management judge of Paris High Court dismissed Philip's objection of lack of jurisdiction and confirmed the jurisdiction of the Paris High Court.

CHINA

❶ Xiaomi Corporation vs. IDCC

The Chinese Courts are seeking to exercise jurisdictions over adjudication of the global rates of standard-essential patents

Abstract: Xiaomi Corporation is one of the biggest manufacturers of consumer electronics and related software, home appliances, and household items. IDCC is a US-based mobile and video technology research and development company listed on NASDAQ and included in the S&P MidCap 400 index. Xiaomi filed a lawsuit before a Wuhan court in China in 2020 following a stalemate in negotiations with IDCC over standard-essential patents, requesting the court to rule on the amount of the license fees. While the lawsuit before the Chinese court was pending, IDCC filed litigation against Xiaomi Corporation in India over the patent family. The Chinese court issued an anti-suit injunction against IDCC on its litigation filed in the Indian court.

FULL SUMMARIES

(with an analysis of their impact on IP licensing and business transactions)

Japan | United States | Europe | China

JAPAN

HARRIS WILLIAMS DESIGN INC. V. K.K. BRIGHT

A judgment in which the IP High Court followed in the footsteps of a Supreme Court judgment concerning the standards for determining parallel import in a case in 2003 ("Fred Perry Case"), and ruled, with an awareness of the difference between the present case and the case of the Supreme Court judgment, that the parallel import of the present case is legal in light of said standards for determining parallel import (IP High Court judgment dated May 19, 2021 (Case No. 2020 (Ne) 10062)).

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In Japan, the Trademark Act does not include provisions for parallel import. However, the Supreme Court judgment dated February 27, 2003 ("Supreme Court Judgment on Fred Perry Case") indicates standards for determining the applicability of parallel import and states that, if the parallel import in question satisfies the requirements set forth in the standards for determining applicability, such parallel import substantively lacks illegality and does not constitute trademark infringement. In the judgment rendered by the IP High Court in the present case ("IP High Court Judgment"), the court made reference to the standards for determining parallel import, as indicated in the Supreme Court Judgment on the Fred Perry Case, and ruled, comparing the case of the Supreme Court judgment and the present case, that the parallel import of the present case satisfies the requirements according to the standards indicated by the Supreme Court for determining the applicability and is therefore legal.

Background

Harris Williams Design Incorporated ("Plaintiff Harris"), who is one of the plaintiffs of the present case, is a Canadian corporation and holds, concerning the trademark which became an issue in the present case ("Trademark"), the trademark right in Japan ("Trademark Right") as well as in Canada and other places, and sells men's underwear bearing the Trademark ("2UNDR Goods"). There are sales agents for 2UNDR Goods in both Canada and Japan, with Lampion Enterprises Limited ("Lampion") in Canada, having the same location and representative as those of Plaintiff Harris, and Eye in The Sky Co., Ltd in Japan, who is another plaintiff in the present case.

Around January 2015, Lampion concluded a sales agent agreement ("Sales Agent Agreement") for the sale and the like of 2UNDR Goods with MST Golf Pte. Ltd. ("M Golf"), a Singapore corporation, and M Golf became Lampion's sales agent in Singapore.

M Golf placed an order to Lampion for 1,248 items of the 2UNDR Goods in February 2015, and 1,200 items of the 2UNDR Goods in June of the same year, and Lampion sold the goods to M Golf. Thereafter, however, M Golf did not place any more orders for goods, or report to Lampion on the sales and the like, so Lampion determined that M Golf was no longer active as a sales agent, and thus in the early part of May 2016, the representative of Plaintiff Harris and Lampion sent an e-mail to M Golf to the effect of terminating the Sales Agent Agreement and thereby terminating the agreement.

K. K. Bright, who is the defendant of the present case ("Defendant Bright"), imported 2UNDR Goods from M Golf after the aforementioned termination, in the latter part of May 2016, and in September and October the same year ("Import Activity"; the 2UNDR Goods imported by the Import Activity shall be referred to as "Subject Goods").

The point at issue in the present case concerned whether the Import Activity falls under legal parallel import.

The Harris Williams Design Decision

The IP High Court Judgment, as for determining whether the Import Activity constitutes legal parallel import, made a reference to the standards indicated by the Supreme Court Judgment on the Fred Perry Case as shown below.

In the Supreme Court Judgment on Fred Perry Case, the Supreme Court ruled as follows: "Concerning the parallel import of so-called authentic goods, if (1) the trademark has been legally affixed to the import goods by a holder of a trademark right in a foreign country or a person licensed by the trademark right holder ("First Requirement"), and if (2) the trademark right holder in the foreign country and the trademark right holder in Japan are the same person or have a relationship wherein they can be regarded as being legally or economically identical with each other, and hence the trademark affixed to the import goods indicates the same source as that indicated by the registered trademark in Japan ("Second Requirement"), and if, (3) since the trademark right holder in Japan is in the position to be able to control the quality of the import goods directly or indirectly, the import goods and the goods carrying the registered trademark held by the trademark right holder in Japan are judged to be not substantively different in terms of the quality guaranteed by the registered trademark ("Third Requirement"), the act of parallel import lacks the substantive illegality of trademark infringement."

In the IP High Court Judgment, the court held as follows concerning whether the Import Activity satisfies the aforementioned three requirements.

(1) First Requirement

Concerning the First Requirement which concerns whether "(1) the trademark has been legally affixed to the import goods by a holder of a trademark right in a foreign country or a person licensed by the trademark right holder," the court determined in the IP High Court Judgment that since the Trademark of the Subject Goods which were imported by the Import Activity was placed by the trademark holder of the present case, it is clear that the First Requirement is satisfied.

Regarding this point, the plaintiffs argued that the First Requirement not only requires that the trademark be merely "legally affixed," but also that the goods bearing the trademark be "legally distributed," and that, due to the termination of the Sales Agent Agreement or the restrictive territory clause, the Subject Goods were not "legally distributed" with the trademark holder's intention.

In response, in the IP High Court Judgment, the court held that even if the First Requirement is one which requires that the goods be "legally distributed," the termination of the Sales Agent Agreement or the restrictive territory clause does not deny the satisfiability of the First Requirement. Specifically, while there is room to interpret that the termination of the Sales Agent Agreement causes M Golf to bear the obligation not to sell the Subject Goods, and although the sale of the Subject Goods after termination of the Sales Agent Agreement raises the problem of default of obligation by M Golf to Lampion, it does not mean that the termination causes M Golf to lose the authority to dispose of the Subject Goods, and does not overturn the assessment that the Subject Goods were "legally distributed." Also, the restrictive territory clause merely has the effect of an obligatory right and does not deprive M Golf of its authority to dispose of the Subject Goods. As such, the fact that M Golf disposed of the goods in a way that goes against the restrictive territory clause does not immediately overturn the assessment that the Subject Goods were "legally distributed." Regarding this point, in the Supreme Court Judgment on the Fred Perry Case, the court denied applicability of the First Requirement by pointing out, as one of the reasons, that there is breach of the restrictive territory clause.

However, the case for which said judgment was rendered is one in which territorial restriction was stipulated in a trademark license agreement, and the trademark holder did not even have the authority to place a trademark on goods outside the restricted territory, whereas in the present case, M Golf's authority to dispose of the goods was not in any way restricted. As such, the court ruled that, regarding this point, the present case and the case of the judgment by the Supreme Court concern different issues.

(2) Second Requirement

The Second Requirement concerns the applicability of the following:"(2) the trademark right holder in the foreign country and the trademark right holder in Japan are the same person or have a relationship wherein they can be regarded as being legally or economically identical with each other, and hence the trademark affixed to the import goods indicates the same source as that indicated by the registered trademark in Japan." In the present case, the court ruled that, concerning the Trademark, Plaintiff Harris is the trademark holder in both Canada and Japan, so that both the trademark affixed to the Subject Goods and the Trademark indicate the same source, and thus it is clear that the Second Requirement is satisfied.

(3) Third Requirement

The Third Requirement concerns the applicability of the following:"(3) since the trademark right holder in Japan is in the position to be able to control the quality of the import goods directly or indirectly, the import goods and the goods carrying the registered trademark held by the trademark right holder in Japan are judged to be not substantively different in terms of the quality guaranteed by the registered trademark." The court held that, in the case where the trademark holder manufactures its own goods as in the present case, if, based on the nature of the goods themselves, there is no risk that the quality guarantee function of the goods would be uncertain unless special care is taken for quality control, for example by posing a risk of age-related deterioration, it is reasonable to interpret that the trademark holder has conducted direct or indirect quality control if the measures taken personally by the trademark holder for quality control (such as packaging of goods) have remained intact without change. The court held that, in the present case, since it can be presumed that the packaging and the like of the Subject Goods had remained intact without change, the Third Requirement is satisfied as well.

As described above, in the IP High Court Judgment, the court determined that the Import Activity satisfies the First to Third Requirements, and thus constitutes legal parallel import.

Strategy and Conclusion

The IP High Court Judgment is one in which the court ruled that the import activity, which took place after the termination of a sales agent agreement between the trademark holder and a sales agent outside Japan, by said sales agent importing goods to Japan, constitutes legal parallel import in light of the standards used in the Supreme Court Judgment on the Fred Perry Case. As described above, this is an interesting judgment in that it was rendered with an awareness of the difference between the Supreme Court Judgment on the Fred Perry Case and the present case in relation to the termination of a sales agent agreement and the restrictive territory clause. Furthermore, this judgment is meaningful in that parallel import may be approved even after termination of a sales agent agreement depending on the content of the sales agent agreement. As such, this judgment is worth being referred to when concluding a sales agent agreement.

Further Information

The *Harris Williams Design* IP High Court decision (only in Japanese) can be found at:
https://www.courts.go.jp/app/files/hanrei_jp/384/090384_hanrei.pdf

The *Harris Williams Design* Tokyo District Court decision which is the first instance case of the IP High Court Case above (only in Japanese) can be found at: https://www.courts.go.jp/app/files/hanrei_jp/801/089801_hanrei.pdf

The *FRED PERRY* Supreme Court decision cited in the IP High Court Case above (in English) can be found at:
https://www.courts.go.jp/app/hanrei_en/detail?id=1495

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This article is for informational purposes and does not constitute legal advice.

The views expressed do not necessarily reflect the views of LES or Abe, Ikubo & Katayama.

K.K. FEAT JAPAN V. K.K. ARTSBRAINS

Concerning a non-dispute clause for a patent in a settlement agreement, the court approved that the clause has a literal meaning, and ruled that a party to the contract does not have the standing of a demandant for an invalidation trial for the patent held by the patent holder, who is the other party.

By Masahiro Otsuki, Chitaka Iwama and Shoichiro Kajinami

Abstract:

A settlement agreement between a patent holder and the other party contained a non-dispute clause for a patent, and when said other party filed a request for an invalidation trial for the patent held by the patent holder, the JPO dismissed the request for an invalidation trial by holding that said other party does not have the standing of a demandant for invalidation. The IP High Court approved that the non-dispute clause in the settlement agreement has a literal meaning, and ruled that said other party does not have the standing of a demandant for an invalidation trial for the patent held by the patent holder (IP High Court Judgment rendered on December 19, 2019 (IP High Court 2019 (Gyo-Ke) 10053)).

Background

Artsbrains, who is the patent holder, argued that the sale of double-fold eyelid formation tapes (hereinafter referred to as the "Goods") by Feat Japan et al. constitutes infringement of a patent held by Artsbrains (hereinafter referred to as the "Patent Right"), and the parties reached a reconciliation (hereinafter referred to as the "Agreement") on August 21, 2017 through negotiation. Article 1 of the Agreement stipulated that Feat Japan, et al. confirm that the Patent Right of Artsbrains is valid, and Article 2 stipulated that Feat Japan, et al. shall not argue over the validity of the Patent Right by filing a request for an invalidation trial for the Patent or by any other method. Furthermore, Article 3 stipulated that Feat Japan, et al. shall discontinue, by August 31, 2017 at the latest, the sale of goods that are identified as the Goods, and Article 6 stipulated that Feat Japan, et al. have the obligation to pay to Artsbrains, as settlement money for dispute resolution, a sum of 45,000,000 yen that corresponds to the amount of profit made by the sale of the Goods. On February 13, 2018, Artsbrains filed a patent infringement suit against Feat Japan concerning goods which are different from the Goods, on the grounds of infringement of the Patent at issue. In response, Feat Japan insisted as a defense in the patent infringement suit that the Patent is invalid, and filed a request with the JPO for an invalidation trial for the Patent. The JPO held that Feat Japan does not have the standing of a demandant and rendered a judgment to the effect of dismissing the request for a trial of the present case. In turn, Feat Japan filed a suit for rescinding the judgment rendered by the JPO in an appeal to the IP High Court, with Feat Japan as the plaintiff and Artsbrains as the defendant.

The *Feat Japan* Decision

The IP High Court upheld the judgment by the JPO and dismissed the plaintiff's request. The IP High Court took into consideration a clause from Article 2 of the settlement agreement between the plaintiff and defendant ("Settlement Agreement") which stipulate, "Otsu (Plaintiffs) shall not, either personally or through a third party, argue over the validity of the Patent Right by making a request for an invalidation trial or by any other method; provided, however, that this does not apply to the case in which Kou (Defendant) files a lawsuit against Otsu (Plaintiffs) on the grounds of patent infringement, and in which Otsu (Plaintiffs) argues for invalidation of the

Patent as a defense in said lawsuit", and then stated as follows: "Upon reading the clause literally, it can naturally be understood that the purport of the clause is to stipulate that Plaintiff shall in no way be allowed to file a request for an invalidation trial for the Patent. In light of the background to the negotiation in which the attorneys representing the respective sides reached an agreement through sufficient discussion, including both sides proposing revised drafts, it is reasonable to interpret the situation as described above." As such, the court approved that the non-dispute clause in the Settlement Agreement has a literal meaning. To note, the plaintiff also made other arguments, including an argument that, since the settlement money under the Settlement Agreement is payable as consideration for the promise not to exercise the Patent Right against the plaintiff's sales activity in the past, the Settlement Agreement is substantively a patent license agreement for the plaintiff's sales activities in the past, and that, on the this premise, Article 2 of the Settlement Agreement, which is contrary to the guidelines provided in the Anti-Monopoly Act concerning patent license agreements, is invalid because it impedes fair competition. However, in response to such claim by the plaintiff, the IP High Court did not approve the plaintiff's claim by stating as follows: "It is clear that the settlement money according to the Settlement Agreement constitutes the damages that cover the defendant's damages caused by the plaintiffs' infringing activity in the past, and does not have the nature of payment as consideration for licensing the patent, so that it cannot be said that the Settlement Agreement substantively has the nature of a patent license agreement. As such, the plaintiff's above claim lacks its premise". Based on the reasons described above, the IP High Court dismissed the plaintiff's request and did not approve that the plaintiff has the standing of a demandant for an invalidation trial.

Strategy and Conclusion

Generally speaking, in Japan, an accused infringer against whom a patent infringement suit is filed with the court is able to insist, as a defense in the suit, that the relevant patent should be invalidated, in addition to separately filing a request with the JPO for an invalidation trial for the relevant patent. In a patent infringement suit, even if the court approves the invalidity of the relevant patent, it does not, by itself, have legal effectiveness as to third parties concerning patent invalidity, so that in order to invalidate the relevant patent objectively, there is no other choice but to file a request with the JPO for invalidation.

Concerning the clause in the Settlement Agreement stating that a contracting party is permitted to insist, as a defense in a patent infringement suit, that the patent of a patent holder who is the other party should be invalidated but is unable to file a request with the JPO for an invalidation trial, the IP High Court approved that the clause has a literal meaning, and did not approve the filing of a request for a patent invalidation trial. To note, a non-dispute clause is one in which a party to a contract agrees to bear the obligation not to argue over the validity of a patent against the other party (patent holder). In general, this kind of clause is considered valid in Japan (however, there are exceptions in which such clause is considered to be in violation of the Anti-Monopoly Act under certain conditions). As such, if a non-dispute clause is incorporated in an agreement, it would generally produce a literal effect, so care should be taken in this regard.

Concerning a settlement agreement which is executed after a patent dispute, the IP High Court also ruled that since the purpose of the settlement agreement includes covering damages suffered by the patent holder from past patent infringing activity and does not necessarily have the nature of the payment made as consideration for licensing a patent right, the agreement does not necessarily have the nature of a patent license agreement. This is another point that is worth paying attention to. Specifically, in the case of a settlement agreement, the national guidelines and the like for a patent license agreement may not be applicable as they are, so care should be taken in this regard.

Further Information

The *Feat Japan* decision (only in Japanese) can be found as below.
https://www.ip.courts.go.jp/app/files/hanrei_jp/122/089122_hanrei.pdf

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The authors are attorneys at Abe, Ikubo & Katayama.
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K.K. GRANPARECOATDOLL V. K.K. NAKATA SUISAN

While the court approved the licensor's claim that the licensee has an implicit obligation to practice the patent pursuant to the exclusive license agreement for a patent, the court ruled that, given the specific circumstances of the present case, there was no breach of obligation by the licensee.

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The IP High Court held that, under certain conditions in exclusive license agreements for a patent, it is equitable to acknowledge that the licensee has implicitly agreed to bear the obligation to practice the patent. The court added that, with regard to the details of the obligation and the breach thereof, it is reasonable to determine whether a claim for compensation can be made on the grounds of said breach of agreement by comprehensively considering the licensee's attitude towards manufacturing and selling the products that use the invention, as well as the purport of the exclusive license agreement, under the specific circumstances of the case. Given the specific circumstances of the present case, the court ruled that there was no breach of obligation by the licensee (IP High Court judgment rendered on September 18, 2019 (IP High Court 2019 (Ne) 10032)).

Background

In the present case, the plaintiff, who is the licensor of a patent right and had concluded an exclusive license agreement ("Agreement") with the defendant, who is the licensee, claimed that the licensee breached their obligation to practice the patent and their obligation to report on the practice of the patent as stipulated in the Agreement, and demanded that the licensee compensate the licensor on the grounds of default of obligation. The Agreement did not contain any provision that explicitly provides for the licensee's obligation to practice the patent. Furthermore, concerning royalties, it had been decided that the initial payment be zero (0) yen, and that running royalties shall be paid in the amount calculated by multiplying the sales of the products that use the invention, which are sold by the licensee, with a predetermined rate. Next, the Agreement stipulated that the licensee shall send a monthly report to the licensor on the practice of the patent, and that, even for the months with no sales of the products that use the invention, the licensee must send a report to that effect to the licensor. However, the licensee had not sent any report to the licensor concerning there having been no actual sales results.

In the judgment made by the court of prior instance (Osaka District Court judgment dated February 28, 2019 (Osaka District Court 2017 (Wa) 1752)), the court held as follows: "The Agreement is an exclusive license agreement, under which the licensee obtains the exclusive license for the Patent and thus acquires a position that enables the licensee to practice the Patent exclusively, whereas the licensor, who is unable to practice the Patent or license the Patent to any other party due to the conclusion of the Agreement, is placed in a position that nevertheless entails the obligation to pay the patent maintenance fee. Furthermore, the Agreement clearly indicates that the initial payment is zero (0), and the provision concerning the amount of running royalties is not one in which a fixed amount of royalties would be paid to the licensor irrespective of the practice of the Patent, but instead, is one which merely states that the amount to be paid shall be the amount calculated by multiplying the sales prices of the products based on the Patent and sold by the licensee, with a predetermined rate. As such, the licensor would be paid no royalty at all unless the licensee practices the Patent. Given the aforementioned circumstances in which the parties to the Agreement are placed, the licensee should not be permitted to perform acts such as not practice the Patent in spite of being able to do so, and neglecting to make efforts to practice the

Patent, and thus it should be interpreted that the licensee bears the obligation to practice the Patent to a certain extent in accordance with the principle of good faith." The court added the following: "Although it is true that the licensee bears the obligation to practice the Patent, it is reasonable to interpret that it would be sufficient if the licensee makes reasonable efforts to practice the patent by taking into consideration the matters and the like necessary for practicing the Patent and in light of the circumstances at the time." As for the present case, the court stated that since it cannot be said that the licensee unlawfully delayed the practice of the patent and that the licensee unlawfully failed to make efforts for manufacture and sale, and for other such reasons, it cannot be acknowledged that there was default of obligation by the licensee in that the licensee failed to sufficiently perform its obligation to practice the Patent, and the court did not approve the claim for breach of obligation in this regard. As for the breach of the obligation to submit reports, the court did not approve the licensor's claim by stating, among other things, that it cannot be acknowledged that the licensor suffered damage as a result of a breach of the obligation to submit reports.

The Granparecoatdoll Decision

The IP High Court upheld the judgment made by the court of prior instance and dismissed the appeal. The IP High Court held as follows: "Under the Agreement, the licensee obtains the exclusive license for the Patent and acquires a position that enables the licensee to practice the invention exclusively. On the other hand, the licensor is in a position that not only prevents themselves from working the Patent, but that also prevents the licensor from receiving royalties by licensing the Patent to a party other than the licensee, but that still entails the obligation to pay the patent maintenance fee. Unless the licensee practices the invention and sells products to customers, the licensor cannot receive any royalty at all. Given the legal positions the parties are in, it is equitable to acknowledge that under the Agreement, the licensee, who was granted the license for the Patent, has implicitly agreed to bear the obligation to practice the Patent, and the fact that the licensee has the obligation to practice the invention is not a point of dispute between the parties." As such, the court approved the claim that there was implicit agreement concerning the obligation to practice the patent. The court added the following: "Of course, even based on this interpretation, it does not unambiguously define the specific details of the obligation to practice the patent, or in other words, what act performed by the licensee constitutes performance of its obligation, or what kind of effect is brought about when the performance is imperfect. In that case, it is reasonable to determine whether a claim for compensation can be made on the grounds of the breach of the Agreement by comprehensively considering the licensee's attitude towards manufacturing and selling the products that use the invention, as well as the purport of the Agreement, under the specific circumstances." As for the present case, the court held, based on the reasons as those listed in the judgment made by the court of prior instance, that the manufacturing and selling of the licensee's products cannot be evaluated as constituting insufficient performance of the obligation to work the Patent, and dismissed the licensor's appeal.

Strategy and Conclusion

In Japan, the Patent Law provides two kinds of license in Japan; one is a registered exclusive license (Senyo Jisshi Ken, article 77) and the other is a regular license (Tsujo Jisshi Ken). Unlike the non-exclusive right, the exclusive right must be registered to have legal effect. Also, the holder of an exclusive right has the exclusive right to practice the patented invention as a business within the scope defined by the act of establishment, and is granted the strong right to prohibit even the patent holder, who is the licensor, from practicing the patent. In the judgment of the present case, the court acknowledged that even when an exclusive license agreement does not clearly state the licensee's obligation to practice the patent, the licensee bears the obligation to practice the Patent to a certain extent in accordance with the principle of good faith. However, since the level of the obligation to practice the patent, as acknowledged in the judgment of the present case, is not high, if a licensor wishes to ensure that the obligation to practice a patent is imposed on a licensee, it is important to clearly and specifically stipulate in the agreement the details of the obligation to practice the patent. Also, in practical licensing situations, it is desirable for a licensor to be prepared for the case when a licensee fails to perform its obligation to practice a patent, by including in the agreement (i) a provision concerning the minimum royalty, (ii) a provision concerning the licensor's right to terminate the agreement, and (iii) a provision that allows the licensor to switch the exclusive license to a non-exclusive license as it wishes.

Further Information

The *Granparecoatdoll* decision (only in Japanese) can be found as below.
https://www.courts.go.jp/app/files/hanrei_jp/919/088919_hanrei.pdf

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UNITED STATES

AT&T V. VOIP-PAL.COM

A covenant not to sue may prevent dismissal of a litigation if the covenant does not extend to customers

By John Paul, Brian Kacedon, Anthony D. Del Monaco, Cecilia Sanabria, and Benjamin T. Hemmelgarn

Edited by John Paul, Brian Kacedon, Cecilia Sanabria, and Anthony D. Del Monaco

Abstract:

A California court exercised jurisdiction over a declaratory judgment action even though the defendant offered a covenant not to sue. The court considered the parties' extensive litigation history and the text of the unilateral covenant not to sue to hold that the covenant not to sue was insufficient to divest the court of jurisdiction.

Background of the Case

Defendant VoIP-Pal owns a portfolio of Internet Protocol-based communication patents. Starting in 2016, VoIP-Pal filed multiple lawsuits in several different waves against multiple companies, including AT&T, Verizon, T-Mobile, Apple, Amazon, Facebook, Google, and Twitter. Those lawsuits include a set of cases filed in 2016 in the District of Nevada (the "2016 cases"), a set of cases filed in 2018 in the District of Nevada (the "2018 cases"), a set of cases filed in 2020 in the Western District of Texas (the "2020 cases"), and a set of cases filed in 2021 in the Western District of Texas (the "2021 cases"). AT&T was or still is a defendant in the 2016, 2020, and 2021 cases.

In 2016 and 2018, those defendants successfully transferred their suits to the Northern District of California, where the Court held all asserted patents invalid as unpatentable subject matter under 35 U.S.C. § 101; holdings the Federal Circuit subsequently affirmed.

In the instant matter, VoIP-Pal again sued AT&T and several other companies for infringing U.S. Patent No. 10,218,606 (the "'606 patent") as part of the 2020 cases. The '606 patent shares a common specification, title, parent application, inventors, and owner as the patents asserted in the 2016 and 2018 cases. AT&T subsequently filed a declaratory judgment action against VoIP-Pal in the Northern District of California requesting that the court invalidate the '606 patent. VoIP-Pal moved to dismiss the California case, arguing that the AT&T's declaratory judgment claim be heard in Texas, where VoIP-Pal filed its complaint. The California court disagreed, holding that it would be more efficient for the California court to resolve the case because it had already ruled on the patentability of other VoIP-Pal patents in the 2016 and 2018 cases. The Federal Circuit denied VoIP-Pal's mandamus petition to make the California Court dismiss the case, agreeing that the California Court was already familiar with the patents that share the same specification.

Following the Federal Circuit's decision, VoIP-Pal filed a motion to dismiss the California case that included a covenant not to sue AT&T. According to VoIP-Pal, the covenant not to sue removes any controversy between the parties, therefore the California court lacked subject matter jurisdiction over the case. After AT&T objected to the covenant not to sue for failing to extend to past products and services, extend to AT&T customers, and binding future assignees of the '606 patent, VoIP-Pal replied with a revised covenant not to sue that read as follows:

> *VoIP-Pal.com, Inc. unconditionally and irrevocably covenants not to sue AT&T, now or in the future, for infringement of any claim of U.S. Patent No. 10,218,606 based on any products and services that AT&T is currently making, using, selling, offering for sale, or importing as of the date of this covenant or any products and services that AT&T made, used, sold, offered for sale, or imported at any time before the date of this covenant.*

One month after its reply with the revised covenant not to sue, VoIP-Pal filed the 2021 cases, including a suit against AT&T. The 2021 cases involved different patents but related to the same technology as the '606 patent and involved the same accused products as the 2016, 2018, and 2020 cases.

THE *AT&T* DECISION

The Federal Circuit has held that a covenant not to sue may divest a court of jurisdiction by agreeing not to assert a patent against the alleged infringer for any of its past, present, or future acts. Courts, however, must consider all the circumstances and a covenant not to sue does not automatically strip the court of jurisdiction. Courts should consider whether the patentee had already brought infringement lawsuits against the alleged infringer or taken steps to do so. Courts should also consider what is included in the covenant not to sue.

Here, the court pointed to the multiple lawsuits VoIP-Pal filed against AT&T involving related patents and the same accused products to show that VoIP-Pal has a willingness to enforce its patent rights. The court also cited statements from VoIP-Pal's CEO in 2020 that said the company would continue to assert their intellectual property rights. Additionally, VoIP-Pal had filed the 2021 case after it offered the covenant not to sue AT&T. Taken together, the court concluded that VoIP-Pal was not actually trying to stop litigation against AT&T, but rather trying to stop litigation against AT&T in California.

The court then considered the contents of the covenant not to sue. Even though VoIP-Pal revised its covenant not to sue to include past products and services in response to AT&T's objection, the covenant did not extend to AT&T customers and did not bind future assignees of the '606 patent. Therefore, the covenant failed to divest the court of jurisdiction because the parties remained adverse at least with respect to AT&T's customers.

VoIP-Pal's significant litigation history with AT&T and the remaining justiciable controversy regarding AT&T's customers were sufficient for the court to keep jurisdiction to hear AT&T's declaratory judgment action against VoIP-Pal and thereby denied VoIP-Pal's motion to dismiss.

Strategy and Conclusion

To successfully divest a court of jurisdiction, a covenant not to sue must extend far enough to remove any controversy between the parties and ideally should be offered before the parties develop significant litigation history.

Further Information

The *AT&T* decision can be found here.

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The editors and authors are attorneys at Finnegan, Henderson, Farabow, Garrett & Dunner, LLP.

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BERALL V. TELEFLEX

Agreement that only released liability for past sales, but did not retroactively authorize such sales, did not exhaust patent rights, and did not protect downstream resellers from being sued for infringement

By John Paul, Brian Kacedon, Anthony D. Del Monaco, Cecilia Sanabria, and Umber Aggarwal

Edited by John Paul, Brian Kacedon, Anthony D. Del Monaco, and Cecilia Sanabria

Abstract:

A New York court found that a settlement agreement releasing a defendant from liability for past infringing sales did not retroactively authorize those sales and therefore did not exhaust the patent rights in the products at the time of the past sales.

Background

Dr. Berall owned a patent covering a laryngoscope. Aircraft Medical Ltd. ("Aircraft") manufactured the McGrath Laryngoscope. LMA was Aircraft's exclusive U.S. distributor of this product. Dr. Berall sued Aircraft and LMA for patent infringement. Aircraft and Dr. Berall entered into a settlement agreement that included the following release language:

Berall releases Aircraft and its Affiliates from any claim or demand, whether now known or unknown, arising out of or related to (i) infringement of the '178 patent; (ii) the claims and counterclaims asserted in, and the conduct of, the Litigation; (iii) any acts and conduct prior to the Effective Date of this Agreement that would have been released under this Agreement if performed after the Effective Date; and (iv) the conduct of settlement negotiations (except for representations or obligations expressly included in this Agreement).

No provisions of the agreement expressly released LMA from liability and LMA was not an "Affiliate," as defined in the agreement. After executing the settlement agreement, Dr. Berall and Aircraft submitted a joint stipulation to dismiss Aircraft, and the case continued against LMA. Subsequently, LMA merged into a third party Teleflex and the district court substituted Teleflex for LMA.

Teleflex moved for summary judgment asserting that the Berall-Aircraft settlement agreement retroactively authorized Aircraft's sales of the McGrath Laryngoscope to LMA, thus exhausting any patent rights to Dr. Berall's patent. Specifically, Teleflex argued that the agreement released Aircraft from all claims of patent infringement, including for sales made to LMA before the effective date of the agreement. Thus, according to Teleflex, patent exhaustion prevented Dr. Berall from seeking recovery from a downstream user, such as LMA.

The *Berall* Decision

The district court denied Teleflex's motion for summary judgment holding that patent exhaustion did not apply. Patent exhaustion is an affirmative defense to patent infringement. When the patent owner authorizes the sale of a patented item, patent exhaustion prevents the patent owner from using its patent to control the further use and resale of the product. Thus, the purchaser or acquirer of the item has the right to use or sell the item as she sees fit. Importantly, the sale at issue must have been authorized by the patent owner at the time it was made.

The district court noted that the agreement merely released Aircraft from liability from past infringing sales but did not establish that Aircraft's previous sales were authorized at the time those sales were made. It also distinguished *TransCore, LP v. Electric Transaction Consultants Corp.*, in which the Federal Circuit held that a covenant not to sue the defendant for future infringement constituted an authorization for the defendant to engage in future sales. In this case, unlike *Transcore*, the allegedly infringing sales involving LMA were made before the effective date of the agreement. Ultimately, noting that "timing of any sales authorization is crucial to the patent exhaustion analysis," the district court denied Teleflex's motion.

Strategy and Conclusion

Agreements that release liability for patent infringement for past sales may still retain liability by downstream purchasers. The *Berall* decision can be found at:

https://www.finnegan.com/a/web/9vA9cdJtySzEXg97KPw7sU/berall-v-teleflex-medical-inc.pdf

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CEATS V. TICKETNETWORK

Court sanctions a party for violating the confidentiality provision of a protective order by preventing the party from engaging in licensing activities for thirty months

By John Paul, Brian Kacedon, Cecilia Sanabria, Anthony D. Del Monaco, and Shayda Shahbazi

Edited by John Paul, Brian Kacedon, Cecilia Sanabria, and Anthony D. Del Monaco

Abstract:

A party to a litigation in Texas violated a protective order by communicating confidential information. In response, the court found that a monetary sanction would be inadequate, as it would set a price for violating a protective order. Instead, the court prevented the party from engaging in licensing activities for thirty months.

Background

TicketNetwork, an online ticket marketplace, and CEATS, a ticketing solution licensing company, entered into a protective order at the agreement of the parties in a Texas litigation that imposed confidentiality obligations on anyone who reviewed confidential documents of the opposing party. Before trial, the court held numerous discovery hearings regarding the production of a particular document with a list of TicketNetwork's website affiliates. Subsequently, the court ordered TicketNetwork to produce a website affiliate list but required that CEATS attorneys who viewed the document and who were identifying and targeting licensing prospects would not engage in any licensing on behalf of CEATS for a year.

After trial, TicketNetwork alleged violations of the protective order and asked the court to sanction CEATS after CEATS' CEO obtained a TicketNetwork affiliate list and sent it to TicketNetwork's CEO as a starting point for settlement discussion. The licensing bar was part of the judge's consequence originally, when granting the production, and then again extended for violation.

The CEATS Decision

Courts may issue sanctions for violating a protective order, particularly when there is bad faith or willful misconduct. Where counsel gains access to the opposing party's closely guarded technical specifications and trade secrets, they are prohibited from using highly confidential materials that may provide an unfair competitive advantage to their client, but may use the materials for permitted litigation purposes.

Here, CEATS's CEO requested a "non-confidential" version of the affiliate list from consulting experts for CEATS. But the consulting experts sent him the highly confidential document without the confidentiality markings on them. He then sent the document to two colleagues and to TicketNetworks' CEO for purposes of settling the existing litigation between the parties. During direct questioning by the court, CEATS's CEO testified that he never opened the document attachment, and his violation was accidental. However, the court's investigator found evidence that the document was opened and saved on CEATS's CEO computer.

TicketNetwork argued that disclosure of its affiliate list (1) may allow a competitor to use the affiliate list to take away TicketNetwork's business and (2) may allow CEATS to use the list to improperly extract settlement, which CEATS's CEO attempted to do. The court agreed that CEATS attempted to use the protected document to gain an unfair settlement advantage.

However, the court found that a monetary sanction should not be used as that would set a price to violating protective orders. So, the court instead prohibited CEATS, its CEO and the consulting experts from conducting any licensing for thirty months from the date of the order and awarded fees and costs TicketNetwork expended in prosecuting the protective order violation.

Strategy and Conclusion

Courts may impose a variety of sanctions when a protective order is violated, including business sanctions. In this case, the court prevented the party who violated a protective order from conducting licensing activities for thirty months.

Further Information

The CEATS decision can be found here: https://www.finnegan.com/a/web/3wsbPCdDJ9s4BHrKi4p3Ck/edtx-2-15-cv-01470-448.pdf

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CNG FINANCIAL V. BRICHLER

A Non-Compete Agreement—not including an arbitration clause—superseded an earlier signed Dispute Resolution Agreement—including an arbitration clause, so the court did not compel the parties to arbitrate their disputes.

By John Paul, Brian Kacedon, Cecilia Sanabria, Anthony D. Del Monaco, and Séké Godo

Edited by John Paul, Brian Kacedon, Anthony D. Del Monaco, and Cecilia Sanabria

Abstract:

An Ohio federal court found that, although a non-compete agreement provided an option to arbitrate a dispute, a later non-compete agreement with no requirement to arbitrate superseded the first agreement, so the parties were not required to arbitrate their disputes but could litigate them in court.

Background

Axcess, whose parent company is CNG Financial, employed an individual named Brichler. During Brichler's time at Axcess, he executed several non-compete agreements because his position—Chief Technology Officer (CTO)—

provided him access to sensitive information.

In 2020, Brichler executed a first set of agreements—a Non-Compete Agreement ("2020 NCA") and a Dispute Resolution Agreement ("2020 DRA"). The 2020 NCA, among other things, prohibited Brichler from obtaining employment with Axcess' competitors. In addition, the 2020 NCA referenced the 2020 DRA, which governed avenues for arbitration and mediation. More specifically, the 2020 DRA empowered either Axcess or Brichler to force arbitration or mediation for any statutory, tort, contractual, or equitable claims.

In 2021, Brichler executed another Non-Compete Agreement ("2021 NCA"), which, unlike the 2020 NCA, did not reference any dispute resolution agreement. More specifically, the parties agreed that (1) any dispute related to breach of the terms of the 2021 NCA would exclusively be litigated in a state or federal court of competent jurisdiction, (2) Axcess would be entitled to obtain a restraining order or other equitable relief from any court of competent jurisdiction to restrain any breach of the 2021 NCA, and (3) the 2021 NCA contained all agreements between the parties and replaced all previously signed agreements.

Shortly after signing the 2021 NCA, Brichler left Axcess to join Lendy—a competitor. Axcess filed a motion for a preliminary injunction alleging Brichler violated the 2021 NCA. Relying on the 2020 DRA, Brichler filed a motion to compel arbitration and dismiss the action.

The CNG Financial Decision

The central issue was whether the parties had a valid agreement in the 2021 NCA to arbitrate the dispute. In analyzing a contract dispute involving several agreements, courts look to the intent of the parties to ascertain whether an earlier agreement can be rejected in favor of a subsequent agreement. In particular, the court will look to all the agreements to determine if the last agreement was a complete or integrated agreement. An agreement may be complete or integrated when it contains a merger clause, which indicates the parties' intention that (1) the agreement be complete in the subject matters agreed upon and (2) addresses how the subject matters agreed upon would be enforced.

Here, the court found that the 2021 NCA contained an acknowledgment that Axcess could obtain an injunction from a court of competent jurisdiction to restrain any breach of the terms of the agreement by Brichler. Furthermore, the 2021 NCA stated that any dispute among the parties related to compliance with or breach of any terms of the agreement would be exclusively litigated in a state or federal court of competent jurisdiction. As such, although the 2020 DRA provided the parties with the option to pursue arbitration for a dispute, the 2021 NCA did not reference any other agreements addressing dispute resolution, nor did it contain any terms related to arbitration. Thus, the court concluded that the 2021 NCA was complete and superseded the 2020 DRA because it addressed the relevant subject matter of the dispute and contained no arbitration clause.

Brichler argued the 2021 NCA did not supersede the 2020 DRA because the 2021 NCA contained only one provision addressing how any dispute could be exclusively litigated in a state or federal court. And according to Brichler, that single provision was merely an exclusive venue clause that applied only if the avenues in the 2020 DRA had been exhausted. The court, however, rejected that argument because (1) the 2021 NCA contained more than one provision covering enforcement of its terms, and (2), more importantly, the specific provision Brichler alluded to states "any dispute," which the court found left no room for disputes having failed arbitration. The court also noted that the terms "any dispute" is "litigated" in the 2021 NCA would have overridden the 2020 DRA on their own. Nonetheless, the court restated that the 2021 NCA was a complete agreement superseding the 2020 DRA and NCA.

Brichler also argued that the 2021 NCA agreement should have stated "any dispute shall be exclusively **resolved** by litigation" if the parties intended it to supersede the 2020 agreements. However, the court rejected that argument because the 2021 NCA did not need to reach that level of specificity to supersede the 2020 DRA and NCA. In the court's view, the 2021 NCA only needed to contain (1) all the subject matters that the parties' agreed to and (2) how those subject matters would be enforced.

Brichler further argued that subjects contained in the 2021 NCA were different from the 2020 DRA, and, as such, the 2021 NCA did not supersede the 2020 DRA. According to Brichler the difference in subjects between the two agreements were ambiguities that the court should have presumed as favoring arbitration. The court also rejected those arguments. First, while the procedural remedy available in the 2020 DRA provided for an employee to arbitrate a non-competition agreement, and the 2021 NCA provided for Axcess to seek an injunction to enforce any dispute exclusively through litigation, the court found that both agreements covered the enforcement of the same subject matters—non-competition agreements. Second, since both agreements covered the same subjects, there were no ambiguities leading to factual disputes requiring the presumption in favor of arbitration. The court explained that during discovery, the parties did not have any factual dispute on the issue of an agreement to arbitrate; therefore, the presumption for arbitration did not apply.

Having found the 2021 NCA complete without a valid agreement to arbitrate, the court denied Brichler's motion to compel arbitration or to dismiss.

Strategy and Conclusion

Multiple agreements covering related or similar issues, may change the results intended by the individual agreements. So it can be helpful to consider integrating the agreements.

Further Information

The CNG Financial decision can be found here: https://www.finnegan.com/a/web/jMW1DcYMJXcB4nuK278fND/cng-financial-v-brichler.pdf

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The editors and authors are attorneys and student associate at Finnegan, Henderson, Farabow, Garrett & Dunner, LLP. This article is for informational purposes and does not constitute legal advice. The views expressed do not necessarily reflect the view of LES or Finnegan.

ROSATI V. ROSATI

A court enjoined a trademark licensee from selling frozen pizza outside the scope of the license agreement

By John Paul, Brian Kacedon, Cecilia Sanabria, Anthony D. Del Monaco, and Shayda Shahbazi

Edited by John Paul, Brian Kacedon, Cecilia Sanabria, and Anthony D. Del Monaco

Abstract:

An Illinois court granted a preliminary injunction to prevent a trademark licensee from operating pizza restaurants under the licensed trademark because the language of the trademark license agreement did not authorize the trademark to be used on frozen pizzas.

Background

Family members of the Rosati family have run a well-known pizza business known as Rosati's Franchise Systems, Inc. (RFSI) since the 1960s in the Chicago area. In 1998, the family agreed to change RFSI into an intellectual property holding company providing perpetual, non-exclusive, and royalty-free licenses to ten family members (shareholders each holding a 10% stake of RFSI) to run their franchise restaurants separately in exclusive territories and to sell additional franchises. Specifically, the licenses provided the shareholders with a perpetual, non-exclusive, and royalty-free license to use and to sublicense the use of the Rosati's trademarks and recipes to operate their franchise restaurants.

In 2020, two of the shareholders, defendants Anthony and David Rosati, began selling frozen pizza using the

Rosati's recipes and with the Rosati's mark in grocery stores without notifying any of the other shareholders of RFSI. In response, plaintiffs, Michael Rosati and William Rosati (individually and derivatively on behalf of RFSI) sued defendants Anthony and David Rosati and the contracted distributor of the frozen pizzas for trademark infringement. The plaintiffs also sought a preliminary injunction to prevent the defendants from selling frozen pizzas bearing the Rosati's mark until resolution of the suit. In opposing the requested injunction, defendants asserted that the license agreement was broad enough to permit the sale of frozen pizzas with the Rosati mark in grocery stores.

The Rosati Decision

The Illinois district court agreed with plaintiffs and granted a preliminary injunction. The court explained that in order to prove entitlement to a preliminary injunction, a party must show (1) that it has some likelihood of success on the merits; (2) that it has no adequate remedy at law; and (3) that without relief it will suffer irreparable harm. If plaintiff satisfies this three-part test, the court must then balance the harm plaintiff would endure without the preliminary injunction with the harm defendant would endure with the preliminary injunction, as well as the impact on the public.

For the likelihood of success analysis, the court found there was a valid trademark and likelihood of confusion based on defendants' sales. Therefore, the issue turned on whether defendants' use of the mark exceeded the bounds of the license agreement. In reviewing the language of the license agreement, the court explained that, under the "Grant of License" provision of the license agreement, defendants may use and sublicense the use of the trademarks and recipes in connection with operating Rosati's pizza restaurants. Under an "Exclusive Territories" provision of the license, the agreement indicated that defendants are not prohibited from delivering product offered by such restaurants to customers located in territories exclusive to other restaurants. Defendants argued that the "Grant of License" provision and the "Exclusive Territories" provision allowed them to sell frozen pizzas using the Rosati's mark.

Plaintiffs, on the other hand, contended that the language of the "Grant of License" and the "Exclusive Territories" provisions only allowed for use of the marks in pizza restaurants and such use did not extend to frozen pizzas because there is no connection between the sale of frozen pizza and the operation of Rosati's pizza restaurants. Additionally, the license agreement included a provision requiring for quality of services and products sold under the Rosati's name to be commensurate with the quality of products offered by Rosati's pizza restaurants. Plaintiffs argued that frozen pizzas are inferior to the pizzas baked at the restaurant, thereby violating the license agreement.

Using the most natural reading of the license agreement, the court found that defendants' use of the trademark was outside of the bounds of the license agreement as the license only permits the use of the Rosati name in connection with the operation of restaurants and not distribution of frozen pizzas made in a factory. Therefore, the plaintiffs were likely to succeed on the merits. After evaluating the rest of the factors relevant in an injunction analysis, the court granted the preliminary injunction.

Strategy and Conclusion

Trademark agreements may contain provisions that may appear to be insignificant but can cause the licensee to lose the right to use the trademark if they are violated.

Further Information

The Rosati decision can be found here:

https://www.finnegan.com/a/web/7EwwA4tCNTCf2Gi7bUSdz1/michael-rosati-v-anthony-rosati.pdf

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RUBICON V. KARTHA

A lawsuit seeking an injunction did not waive the right to arbitration provided by an earlier agreement

By John Paul, Brian Kacedon, Anthony D. Del Monaco, Cecilia Sanabria, and Anthony Berlenbach

Edited by John Paul, Brian Kacedon, Anthony D. Del Monaco, and Cecilia Sanabria

Abstract:

A company, bound by an arbitration agreement, filed a lawsuit against a new competitor for violating conflict of interest and confidentiality provisions of a consulting agreement. The court found that the company's lawsuit did not waive its right to arbitration because the lawsuit sought an injunction in aid of arbitration, and not money damages.

Background

Polpharma, a pharmaceutical manufacturer, supplies pharmaceutical ingredients to Rubicon. In 2013, Polpharma and Kartha entered into a consulting services agreement, in which Kartha agreed to perform consulting services to Polpharma. The consulting agreement included an arbitration provision that provided:

> Any dispute, controversy, or claim arising out of, or in relation to, this contract, including the validity, invalidity, breach, or termination thereof and [that] cannot be solved by both Parties using their best efforts, shall be resolved by arbitration in accordance with the Swiss Rules of International Arbitration of the Swiss Chambers' Arbitration Institution.

Rubicon claimed that during consultation, Kartha stole Rubicon's trade secrets and it filed suit against Kartha, alleging trade secret misappropriation. Polpharma filed its own case against Kartha for violating the consulting agreement. Polpharma subsequently instituted an arbitration in Switzerland on the same issues.

The court cases were subsequently consolidated, and the parties then filed competing motions before the court: Polpharma seeking a motion to compel Kartha's participation in arbitration, and Kartha seeking a motion to enjoin Polpharma from pursuing arbitration.

The *Rubicon* Decision

It is undisputed that the parties entered into an arbitration agreement to resolve "[a]ny dispute, controversy, or claim arising out of, or in relation to, this contract." Kartha, however, argued that Polpharma waived its right to seek arbitration because it first filed the action in the district court before initiating arbitration in Switzerland. The district court rejected this argument.

The court first noted that the Federal Arbitration Act obligated the court to honor and enforce agreements to arbitrate. While Polpharma did file the district court action almost two months before submitting its notice of arbitration, Polpharma's complaint sought only a preliminary injunction that would maintain the status quo pending resolution of the arbitration.

Moreover, the Swiss Chambers' Arbitration Institution specifically provides that "[b]y submitting their dispute to arbitration under these Rules, the parties do not waive any right that the may have under the applicable laws to submit a request for interim measures to a judicial authority." Accordingly, the district court found that Polpharma's seeking of a preliminary injunction was an interim measure, designed to preserve the status quo and prevent irreparably injury pending resolution of the dispute.

Strategy and Conclusion

Courts give arbitration agreements considerable deference and recognize that arbitration is favored in modern dispute resolution.

Further Information

The *Rubicon* decision can be found here:

https://www.finnegan.com/a/web/9duam6xcdQz8Yh6KiVUijW/rubicon-v-kartha.pdf

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The editors and authors are attorneys at Finnegan, Henderson, Farabow, Garrett & Dunner, LLP.

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The views expressed do not necessarily reflect the views of LES or Finnegan.

CLEAN WASTE SYSTEMS V. WASTEMEDX

Majority owner of company accused of contract breach and misappropriation must stay in a lawsuit because of his involvement in the relationship between the manufacturer and the distributor

By John Paul, Brian Kacedon, Anthony D. Del Monaco, Cecilia Sanabria and Richard Hildreth

Edited by John Paul, Brian Kacedon, Anthony D. Del Monaco, and Cecilia Sanabria

Abstract:

A manufacturer sued one of its distributors and the distributor's majority owner in a North Dakota court. The majority owner tried to have the court dismiss him from the lawsuit because he was an Indiana citizen and because he should not be held personally liable for acts he performed as an employee of his company. The court rejected both arguments and concluded that the majority owner should remain in the lawsuit. It found the majority owner's involvement in the relationship between the manufacturer and the distributor subjected him to the jurisdiction of the court in North Dakota and that he could be held personally liable for wrongful acts he committed as an employee.

Background

Clean Waste Systems (CWS) designs, manufactures, and services ozone-based medical waste treatment systems.

Timothy J. Miller formed a company to sell those systems, signing a Master Independent Sales Representative Agreement with CWS's exclusive distributor. The rights and obligations of the agreement eventually transferred from Miller's company to WasteMedX (in which Miller had a controlling stake) and from CWS's distributor to CWS.

WasteMedX then began negotiations with Indiana University Bloomington for the sale of CWS treatment systems. As those negotiations progressed, WasteMedX's relationship with CWS deteriorated, and ultimately, WasteMedX informed CWS of its intent to terminate the Agreement. After providing this notice, WasteMedX allegedly stopped working on the negotiations with IU-Bloomington. Instead, CWS asserted that Miller worked with an engineer to design an ozone-based medical waste treatment system using CWS's confidential information and trade secrets, and WasteMedX then sold the waste treatment system to IU-Bloomington.

These actions prompted CWS to sue both WasteMedX and Miller in North Dakota for (1) breach of contract; (2)

unlawful interference with business expectancies; (3) state and federal trade secret misappropriation (4) unfair competition; and (5) conversion. Miller moved to dismiss, challenging the court's personal jurisdiction over him and arguing he could not be held personally liable for acts undertaken in his official capacity as an employee of WasteMedX.

The Clean Waste Systems Order

The first question for the court was whether it had personal jurisdiction over Miller. Personal jurisdiction refers to the court's authority to make a legally binding decision regarding the party being sued in a case. The Constitution requires that a person have sufficient contacts with a state before he can be sued in that state. Thus, if a person does not have sufficient contacts with the state, the state's courts do not have personal jurisdiction over that person.

Because Miller was a citizen of Indiana, the question became whether the forum selection clause in the Agreement could subject him to suit in North Dakota. CWS argued the answer was yes, asserting that Miller was a party to the Agreement in his individual capacity. The court disagreed, finding that Miller was not named as a party in the agreement and had sufficiently held himself out to be a representative of his company. Nevertheless, the court found that Miller was subject to its jurisdiction because his close relationship to the dispute made it foreseeable that he would be bound by the forum selection clause, citing his role in the Agreement's formation and performance. In particular, he personally benefitted from the agreement through his ownership of a controlling stake in WasteMedX as well as the company that had originally contracted with CWS's distributor. Miller had also participated in the negotiation and signing of the Agreement and performed the obligations of the agreement for more than 6 years. These factors together meant that Miller had sufficient contacts with the state of North Dakota for the court to exercise jurisdiction over him.

The second question for the court was whether Miller could be held personally liable for acts he performed as an employee of his company. Miller argued that, even if everything in CWS's complaint were true, the answer was no. The court largely disagreed. While it found that Miller could not be sued for breach of the Agreement, as he was not a party to that contract, CWS's remaining tort claims alleged that both Miller and WasteMedX committed wrongful acts that caused CWS harm. If Miller had in fact committed these wrongful acts, his status as an employee would not protect him from liability, and so the Court declined to dismiss the suit.

Strategy and Conclusion

The Clean Waste Systems order shows that both organizations and their employees may be sued for wrongdoing. Company executives should also be aware that sufficient involvement in and benefit from their company's contracts may expose them to suit in states other than their home state.

Further Information

The Clean Waste Systems order can be found here:

https://www.finnegan.com/a/web/u6zfAWuQn44e6SmgoA4xN6/clean-waste-systems-v-wastemedx.pdf

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EUROPE

The isolated transfer of a right of termination

BGH, DECISION OF 17.10.2019 - I ZR 34/18 – VALENTINS

Report by Alexander Haertel, Bardehle Pagenberg, Dusseldorf, Germany

Abstract:

Concerning the transfer of a trademark, Germany's highest civil court decided that a termination right of the previous right holder regarding a license granted to the trademark can be transferred to the purchaser in isolation. It is to be assumed that the valuations of the decision can also be applied to the German Patent Act, the German Utility Model Act and the German Copyright Act.

Background

Under German law, the purchaser of an intellectual property right is precluded from entering into an existing license agreement if the licensee affected thereby does not consent to the transfer of the agreement. The purchaser can thus only assert the rights arising from the intellectual property right by way of assignment. In this context, it was previously disputed whether a termination right of the previous right holder can also be transferred to the purchaser in isolation. In the context of trademark law proceedings, the *Federal Court of Justice* (*BGH; Germany's highest civil court*) has now answered this question in the affirmative in its so-called "Valentins"-decision, at least for those cases in which (1) the trademark is transferred in full to the purchaser pursuant to Sec. 27(1) of the German Trademark Act (MarkenG) and (2) the licensee can in principle invoke Sec. 30(5) of the MarkenG (the so-called protection of succession) on the basis of a license granted prior to this transfer. The *BGH* bases its decision on a weighting between the interests of the purchaser and those of the licensee, who is not worthy of protection in this respect. The decision therefore deserves particular attention because it confirms that the isolated transfer of a right of termination is possible without the licensee's consent and that this is even possible by way of a supplementary interpretation of the contract.

For legal practice, this decision is of importance for several reasons: In the specific case, the *BGH* only had to decide on a dispute under trademark law, but since the other intellectual property rights have comparable rules to Sec. 30(5) MarkenG (see, for example, Sec. 15(3) German Patent Act (PatG), Sec. 22(3) German Utility Model Act (GebrMG), Sec. 33 German Copyright Act (UrhG)), it is to be assumed that the valuations in this respect can also be applied to the other intellectual property rights. In addition, the significance of the decision can be assumed to extend beyond Germany's borders due to the European character of trademark law.

Strategy and Conclusions

There are also concrete implications for licensing practice with regard to the question of how licensees can protect themselves against a possible isolated transfer of the right of termination if the licensed intellectual property right is subsequently transferred to a third party (purchaser). Here, it is advisable to work towards the agreement of an explicit prohibition of transfer (prohibition of assignment) on the part of the rights holder already when the license agreement is concluded. Clear provisions should be included in the license agreement in order to avoid a transfer by way of a supplementary interpretation of the contract.

However, the question of whether an isolated transfer should only be possible in the event of a complete transfer of the intellectual property right to the purchaser or whether, for example, the granting of an exclusive license (possibly a comprehensive one) could also be sufficient remains unresolved. (Link to the decision: BGH-Valentins - *in German*)

Conclusion of a license agreement
RC MUNICH, DECISION OF 25.2.2021 – 7 O 8011/20

Report by Dr. Jan Bösing, Bardehle Pagenberg, Munich, Germany

Abstract:

Under the principle of consensus, a license agreement is only concluded if the subject matter of the agreement, the specific contracting parties, the price and in particular the type of license are already named in the offer or can at least be determined by interpretation.

In its decision of February 25, 2021, the *Munich Regional Court* (*RC Munich*) considered in detail the question under which conditions a license agreement is concluded and according to which law this question is to be assessed if the parties involved come from different member states of the European Union. In the absence of a choice of law clause between the parties, the applicable law in this respect is based on the general principles of the so-called Rome-I Regulation (Regulation (EC) No 593/2008). According to Art. 10(1) in conjunction with Art. 4(2) Rome-I Regulation (if applicable in conjunction with Art. 19(1) Rome-I Regulation), the law of the member state in which the alleged licensor has his habitual residence or central administration is generally decisive. If, according to the applicable law, the conclusion of the contract is based on the so-called principle of consensus (as is common within the European Union), a license agreement is concluded by two corresponding declarations of intent (offer and acceptance) to be made by the alleged licensor and the alleged licensee. In this context, it is mandatory that the essential elements of the contract are already named in the offer or, at any rate, can be determined within the scope of the interpretation. In the case of license agreements, these "essentialia negotii" include, in addition to the determination of the subject matter of the agreement, the specific contracting parties and the price, in particular the question as to what type of license (e.g., an exclusive or simple license) is involved. If this information is missing and cannot be determined by interpretation of the contract, the conclusion of a valid license agreement is excluded. However, if these requirements of an offer are fulfilled, the offeror is bound by this offer – unless otherwise agreed – even if further circumstances subsequently change.

For licensing practice, the decision of the *RC Munich* does not fundamentally entail any surprising innovations, but it does once again vividly illustrate what urgent attention should be paid to in the context of licensing negotiations. In order to avoid any unwanted surprises with regard to the question of the applicable law, the parties should reach an explicit agreement regarding the specific choice of law. In this way, it can be prevented that, contrary to what may have been intended, the law of the member state in which the potential licensor has its central administration automatically applies.

In addition, it is important to clearly and unambiguously determine the essential elements of the contract, since without this information no offer of a license agreement can be made and an effective license agreement cannot be concluded. The type of license to be granted in the specific case is also of particular importance. It should therefore be made clear whether, for example, a positive or negative license, an exclusive or simple license or merely a "pactum de non petendo" is intended between the parties.

Strategy and Conclusion

Since the offeror is bound to his offer for at least a certain period of time unless otherwise agreed, he should also consider a possible time limit or the reservation of a right of withdrawal. In this way, he can ensure legal certainty and, if necessary, react appropriately to changes in the accompanying circumstances. This includes, for example, the lapse of the intellectual right for which a license is to be negotiated. Without a right of withdrawal, at least under German law, the offeror is only left with the option of reacting to these changed circumstances in accordance with the principles of disturbance of the basis of the contract (Sec. 313 German Civil Code (BGB)).

(Link to the decision: RC Munich - *in German*)

Enforcement of license claims arising from an intellectual property right by the secured party

HRC NUREMBERG, DECISION OF 15.6.2021 – 3 U 3687/20

Report by Dr. Jan Bösing, Bardehle Pagenberg, Munich, Germany

Abstract:

In case an intellectual property right is transferred as a collateral, the secured party may only exploit the intellectual property right by means of a sale or similar but may not enforce license fees resulting from license agreements concluded by the original right holder, unless agreed otherwise between the original right holder and the secured party.

If the owner of an intellectual property right transfers it to a third party (secured party) to secure a claim against him, the question arises as to the extent to which the secured party may enforce claims arising from this intellectual property right against a licensee of the original right holder. In its decision of June 15, 2021, the *Nuremberg Higher Regional Court* (*HRC Nuremberg*) clarified that the security agreement concluded between the original right holder and the secured party is decisive in this respect. According to the principle, the secured party is only entitled to a right of exploitation and not a right of use. The secured party can therefore in principle only exploit the transferred intellectual property right by means of a sale or similar. However, he cannot use it in such a way that he is able to enforce license fees resulting from license agreements between the original right holder and his licensee. In particular, he cannot enforce the license fees directly against the licensees. Rather, the original right holder shall continue to be entitled to enforce these claims. If the secured party also wants to be able to enforce the license fees against the licensees, this must be agreed with the original right holder as part of the security agreement. In the absence of an explicit agreement, the entitlement of the secured party can only result from the interpretation of the contract.

Strategy and Conclusion

The transfer of intellectual property rights for security purposes is common practice and is also undisputedly accepted. However, the decision of the *HRC Nuremberg* shows that the secured party is basically only entitled to a right of exploitation with regard to the intellectual property right as a result of this transfer. The right to enforce license fees does not arise automatically. This applies in any case to license fees arising from license agreements between the original right holder and its licensees. The secured party and the guarantor (original right holder) are therefore well advised to clearly regulate in their security agreement which powers the contracting parties are to be entitled to. At the same time, licensees of the original right holder should consider whether there are any reasons which, in their view, make it reasonable to prevent the enforcement of license fees by a potential secured party of their licensor. If this question is answered in the affirmative, appropriate restrictions for the licensor should be agreed in the license agreement. Otherwise, there is at least a risk of a claim by a secured party of the own licensor. However, there is no risk of a double payment obligation towards the original right holder and the secured party. (Link to the decision: HRC Nuremberg - in German)

Intellectual property rights as a permissible basis for a customer group restriction under antitrust law

BGH, DECISION OF 6.7.2021 – KZR 35/20 (PORSCHE-TUNING II)

Report by Alexander Haertel, Bardehle Pagenberg, Dusseldorf, Germany

Abstract:

Germany's highest civil court found that supply contract clauses aiming to ensure only the marketing of unmodified original products or products equipped with the manufacturer's own tuning components are a restriction of customer groups in violation of antitrust law. Under antitrust law such interest of the manufacturer

*can only be recognized within the framework of the exclusive rights granted by intellectual property rights***.**

Background

In its "Porsche-Tuning II" decision, the *German Federal Court of Justice* (*BGH; Germany's highest civil court*) dealt with the admissibility under antitrust law of supply contract clauses which aimed to ensure only the marketing of unmodified original products or, at most, products equipped with the manufacturer's own tuning components. The *BGH* classified these clauses as a restriction of customer groups within the meaning of Art. 4 lit. b) Regulation (EU) 330/2010, so that their use was inadmissible under antitrust law. At the same time, the *BGH* made clear in its reasons for the decision that the manufacturer's interest in seeing its products on the market only unchanged or at most with its own tuning components can only be recognized under antitrust law within the framework of the exclusive rights granted by intellectual property rights (see para. 53 of the reasons for decision).

Strategy and Conclusions

Even if the decision primarily relates to the assessment of supply contracts under antitrust law, it can nevertheless be used to derive values for the licensing practice of intellectual property rights. The cited reasons of the *BGH*'s decision show that intellectual property rights can be used to limit customer groups, which is permissible under antitrust law. In patent law, for example, it is conceivable that a licensee is only permitted to use the patented product internally or to resell it unchanged. However, it is necessary for the licensing to include clear specifications as to the scope, form and type of license to be granted in the specific case. It must also be ensured that no restrictions can be imposed which are outside the scope of application and effect of the respective intellectual property right. For example, a resale of a patented product cannot be prevented after the intellectual property right has been exhausted. (Link to the decision: BGH-Porsche-Tuning II - *in German*)

PARIS HIGH COURT, FEBRUARY 6, 2020 N° 19/02085

&

PARIS COURT OF APPEAL, MARCH 23, 2021, N° 20/06760

Report by Viviane Azard, Bardehle Pagenberg, Paris, France

Abstract:

In response to an action for infringement of patents declared essential with respect to the ETSI's 3G and 4G standards brought by Philips against TCL before the High Court of Justice of England and Wales, TCL sued Philips before the Paris High Court to determine whether Philips had breached ETSI's IPR Policy and to enjoin Philips to make a FRAND license offer. TCL also sued ETSI requesting that ETSI is ordered to participate in the license granting process. The case management judge of Paris High Court dismissed Philip's objection of lack of jurisdiction and confirmed the jurisdiction of the Paris High Court.

The case management judge of Paris High Court (Tribunal Judiciaire de Paris) issued on February 6, 2020, an important ruling in terms of both the positioning of Paris as a forum for licensing determination on SEP related to ETSI Standard and the legal qualification of the tripartite relationship between ETSI, the owner of a SEP and a potential licensee.

Philips owns a portfolio of patents declared essential with respect to the ETSI's 3G and 4G standards. It tried to negotiate a patent license with TCL for this portfolio but no agreement was reached. As a result, Philips sued TCL before the High Court of Justice of England and Wales for infringement of the UK part of two patents. In response, TCL brought a lawsuit before the Paris High Court to determine whether Philips had breached ETSI's IPR Policy, by refusing to negotiate with TCL the terms of a FRAND license. TCL requested the Paris Court to enjoin Philips to make a FRAND license offer, which would be determined by the French Court, if Philips fails to do so. Interestingly, TCL also sued ETSI, which is domiciled in the south of France, and whose IPR Policy is subject to French law, and requested that the Paris Court order it to participate in the license granting process, if needed through Philips exclusion from the standards, as envisaged by ETSI's rules.

Before any debate on the merits, Philips raised the lack of jurisdiction of the Paris Court and a lis pendens objection, stressing the link between TCL's claims against Philips and the pending English action and claiming the artificial character of the claim against ETSI as well as the lack of close connection between the claims brought by TCL against Philips and ETSI.

However, the French judge dismissed Philips's request and confirmed the jurisdiction of the Paris Court. Specifically, the French judge considered that the claim against ETSI cannot be held artificial since ETSI has legal means to ensure that its members comply with their intellectual property obligations. Furthermore, the claims raised against Philips and ETSI fell within the same factual and legal bases by application of the CJEU case law (C-145/10), and therefore had to be heard together. The judge emphasized, in particular, that both the FRAND commitment ("stipulation pour autrui") and the membership agreement were subject to French law. The case management judge also observed that the legal ground for the pending matter in the UK are tortious (infringement) and different from the French proceedings which is contractual. It follows from the above that there was no reason to decline jurisdiction in favour of the English court.

Strategy and Conclusions

The decision is of particular interest because, in order to ascertain whether there was a close link between the claims, the French judge ruled on the qualification of the tripartite relationship between ETSI, the owner of a SEP and a potential licensee. At first glance, there is only a direct contractual relationship between ETSI and Philips regarding the SEP in dispute. However, the French judge stated the undertaking to grant a FRAND license to potential licensees under the ETSI IPR policy be qualified as a "stipulation pour autrui" within the meaning of Article 1205 of the French Civil code, i.e a French civil law construct that creates a direct contractual relationship between the owner of a SEP (ETSI member) and a potential licensee. While the legal qualification of FRAND commitments has been disputed for many years (reaching different conclusions), it's the first time that the question has been referred directly to the French courts.

In an equally interesting way, this decision was also an opportunity for the French judge to clearly assert his jurisdiction in licensing determination on SEP related to ETSI' Standard. Indeed, the jurisdiction of Paris was acknowledged independently of any infringement, non-infringement or validity claims regarding any French patent or French part of a European patent. In other words, the Paris Court asserted that it has jurisdiction over all FRAND licensing disputes arising between ETSI members and relating to ETSI standards with respect to FRAND licensing determination claim.

The decision has been appealed but the case was settled before the Court of Appeal rendered its decision.

CHINA

The Chinese Courts are seeking to exercise jurisdictions over adjudication of the global rates of standard-essential patents

By Christopher Shaowei, Aimin Huo

Abstract:

Xiaomi Corporation is one of the biggest manufacturers of consumer electronics and related software, home appliances, and household items. IDCC is a US-based mobile and video technology research and development company listed on NASDAQ and included in the S&P MidCap 400 index. Xiaomi filed a lawsuit before a Wuhan court in China in 2020 following a stalemate in negotiations with IDCC over standard-essential patents, requesting the court to rule on the amount of the license fees. While the lawsuit before the Chinese court was pending, IDCC filed litigation against Xiaomi Corporation in India over the patent family. The Chinese court issued an anti-suit injunction against IDCC on its litigation filed in the Indian court.

Background of the Case

On June 9, 2020, Xiaomi filed a lawsuit against IDCC before the Wuhan Intermediate People's Court, requesting the court to determine standard-essential patent license rates. On July 29, 2020, IDCC filed a lawsuit against Xiaomi and some of its subsidiaries for patent infringement and sought injunctive relief with a court in Delhi, India.

In response to the lawsuit filed by IDCC, Xiaomi filed a motion for anti-suit injunction with the Wuhan Intermediate People's Court on August 4, 2020. The motion covered both injunctions and lawsuits initiated and/or to be initiated by IDCC. As for the injunction, Xiaomi requested that IDCC should be ordered to withdraw or suspend the motion for temporary injunction and permanent injunction filed in the Indian court, and that IDCC should be prohibited from further applying to the courts in China or other countries and regions for temporary injunction and permanent injunction or from applying for enforcement of any injunction order while the lawsuit filed by Xiaomi in China is undergoing. As for the lawsuit, Xiaomi requested that IDCC should be enjoined from filing litigations or initiating other legal proceedings in China or other countries and regions over standard-essential patent license fees related to the patents in dispute and withdraw or suspend the lawsuits which had been filed while the lawsuit filed by Xiaomi in China is undergoing.

On September 23, 2020, the Wuhan Intermediate People's Court ruled on Xiaomi's motion for anti-suit injunction and held that:

1. Based on evidence available, IDCC, the Respondent and its affiliates, do not manufacture or sell SEP products and are Non-Practicing Entities (NPE) specializing in patent license negotiation and litigation.

2. Xiaomi as, the Applicant and the Respondent have been under negotiation over the license of the standard patents (including standard-essential patents) in dispute and formed a potential contractual relationship on the standard patent license. Following a stalemate in negotiations, the Applicant did not give up negotiation efforts and intended to resolve the dispute in judicial proceedings and the acts of the Applicant were in line with the FRAND principle.

3. After being informed of the docketing of the case before this Court, instead of respecting or cooperating with this Court in the court proceedings, the Respondent urgently initiated the proceedings for temporary injunction and permanent injunction with the district court in India in order to exclude the jurisdiction of this Court and offset the proceedings at this Court. Such acts constituted interference with and obstruction of the proceedings at this Court with obvious subjective intent.

4. Regardless of the progress of negotiations over the standard patent license between the Applicant and the

Respondent, the injunction proceedings initiated by the Respondent against the Applicant with the Indian district court would lead to a ruling conflicting with that to be issued by this Court. A conflicting ruling will not only affect the conclusion of negotiations under way over the standard-essential patent license between the Applicant and the Respondent, but also make it difficult to enforce the ruling in force rendered by this Court. The Respondent is suspected of abusing the relief procedure in the standard patent license negotiations.

5. The acts of initiating temporary injunction and permanent injunction with the district court in Delhi, India by the Respondent against the Applicant are bound to have adverse impacts on the business operations by Applicant and its affiliates in the Indian market, causing tremendous and irreparable and likely expanding material to the interests of the Applicant. If not stopped in time, it may endanger the sound development of the license negotiations between the parties and cause further damages to the interests of the Applicant.

6. The Respondent is an NPE entity making profits through FRAND license negotiations and litigations and does not manufacture and produce SEP products and the injunction issued by this Court will not cause any substantive damages to the standard-essential patents held and managed by the Respondent.

7. For the possible damages that would be caused to the Respondent, the Applicant has submitted to this Court the property security for the expected damages.

Based on the reasoning above, the Wuhan Intermediate People's Court issued the ruling, supporting most of Xiaomi's requests but rejecting its request to prohibit IDCC from filing lawsuits in any form in China or other countries and regions.

The Respondent filed a motion for review of the ruling. The motion was rejected by the Wuhan Intermediate People's Court on December 4, 2020. The ruling rendered the Wuhan Intermediate People's Court is currently in force and will remain so until the verdict in the lawsuit before the Wuhan Intermediate People's Court is entered and finally enforced.

Ruling of Xiaomi Case

1. The Respondent and its affiliates shall immediately withdraw or suspend the motion for temporary injunction and permanent injunction against the Applicant with the district court in Delhi, India in respect of the 3G and 4G standard-essential patents in dispute;

2. Neither the Respondent nor any of its affiliates shall file motions for **temporary injunction and permanent injunction** against the Applicant with the courts in China or other countries and regions in respect of the 3G and 4G standard-essential patents in dispute, or **apply for enforcement of the temporary injunction and permanent injunction already obtained** or likely to be obtained during the trial of this case;

3. Neither the Respondent nor any of its affiliates shall **request a court in China or other countries and regions to rule on the dispute with the Applicant over the standard-essential patent license rates or license fees** during the trial of the lawsuit pending before Wuhan Intermediate People's Court with respect to the 3G and 4G standard-essential patents in dispute;

4. The guarantee bond at the amount of RMB10 Million posted by the Applicant for the motion for anti-suit injunction is frozen;

5. If the Respondent violates this ruling, it shall be subject to monetary fine at the amount of RMB1 Million per day from the date of violation.

TAKEAWAYS AND SUGGESTIONS

This is the second global injunction issued by the Chinese courts. Prior to this injunction, the Supreme People's Court of China ruled in the Huawei vs. Conversant case that "before the final judgment rendered by the Supreme People's Court of the People's Republic of China on the Huawei vs. Conversant case, "Conversant shall not apply for enforcement of the injunction order in the first instance verdict rendered by the district court in Dusseldorf, Germany. If Conversant violates the ruling, it shall be subject to monetary fine of RMB1 Million per day from the date of violation." It is noteworthy that the Chinese courts have become increasingly proactive in seeking jurisdictions over standard-essential patent infringement disputes with the aim to exercise jurisdictions over the global rates adjudication of standard-essential patents, an important matter involving complex expertise and skills. It is becoming increasingly more essential for IP licensing professionals worldwide to keep track of trial practices of the Chinese courts.

END