SUPREME COURT OF THE STATE OF NEW YORK
NEW YORK COUNTY

PRESENT: MELVIN L. SCHWEITZER PART 45
Justice

MPEG LA, LLC

INDEX NO. 653689/2012

-v-

MOTION DATE

GXI INTERNATIONAL, LLC et al

MOTION SEQ. NO. 001

The following papers, numbered 1 to ___, were read on this motion to/for ___

Notice of Motion/Order to Show Cause — Affidavits — Exhibits ___ | No(s). ___

Answering Affidavits — Exhibits ___ | No(s). ___

Replying Affidavits ___ | No(s). ___

Upon the foregoing papers, it is ordered that this motion ~~is~~ by plaintiff to dismiss all counterclaims is GRANTED per the attached Decision and Order.

Plaintiff's accompanying motion for a protective order staying discovery relating to the counterclaims is rendered moot.

MOTION/CASE IS RESPECTFULLY REFERRED TO JUSTICE ___
FOR THE FOLLOWING REASON(S): ___

Dated: June 10, 2013

MELVIN L. SCHWEITZER, J.S.C.

1. CHECK ONE: ☐ CASE DISPOSED ☑ NON-FINAL DISPOSITION
2. CHECK AS APPROPRIATE: MOTION IS: ☐ GRANTED ☐ DENIED ☐ GRANTED IN PART ☐ OTHER
3. CHECK IF APPROPRIATE: ☐ SETTLE ORDER ☐ SUBMIT ORDER
☐ DO NOT POST ☐ FIDUCIARY APPOINTMENT ☐ REFERENCE

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK: IAS PART 45

MPEG LA, L.L.C., Plaintiff, -against- GXI INTERNATIONAL, LLC; GXI OUTDOOR POWER, LLC; GXI PARTS & SERVICE, LLC; ACCESS HD, LLC; and GORDON JACKSON, Defendants.	Index No. 653689/12 DECISION AND ORDER Motion Sequence No. 001

MELVIN L. SCHWEITZER, J.:

Plaintiff MPEG LA, L.L.C. (MPEG) commenced this action for breach of contract, account stated and unjust enrichment based on defendants' failure to pay royalties due for the manufacture and sale of products that incorporate certain patented technology, in breach of the parties' licensing agreement. MPEG contends, in the complaint, that defendants paid only \$1,125,000 of a total due of \$4,943,140, leaving a balance of \$3,818,140 plus interest. Defendants interposed counterclaims based on violations of the Donnelly Act, the Florida Antitrust Act of 1980, the Michigan Antitrust Reform Act, Indiana Code § 24-1-2-1 *et seq.*, the North Carolina General Statute § 75-1 *et seq.*, the West Virginia Antitrust Act, the Texas Free Enterprise and Antitrust Act of 1983, the Valentine Act, Ohio RC Ann § 1331.01 *et seq.*, the Oregon Antitrust Law, ORS § 646.705 *et seq.*, and the Cartwright Act, Cal Bus and Prof Code § 16700 *et seq*. In this motion, plaintiff seeks to dismiss all the counterclaims raised, and seeks a protective order staying discovery relating to the counterclaims.

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Facts

This action revolves around royalties for patents for technology that is necessary to manufacture converter boxes required to enable analog televisions to receive service after full time television stations switched from analog to digital signals, in accordance with congressional mandate.

MPEG is a Delaware limited liability company in the business of administering patent pools. With respect to this action, MPEG administers a patent pool (Patent Pool) which includes patents for technology necessary to manufacture and sell products that comply with the Advanced Television Systems Committee (ATSC) Standard. The patents are owned by several companies, including Koninklijke Philips Electronics, NV, Mitsubishi Electric Corporation, Samsung Electronics Co., Scientific-Atlanta, Inc., and Zenith Electronics Corporation. The Patent Pool enables licensees to conveniently obtain licenses for all of the necessary patents, but the contract expressly permits licensees to obtain individual licenses from each of the patent owners, and to voluntarily terminate the licensing agreement.

Defendant GXI International, LLC (GXI) manufactures and sells a device used to convert digital television signals for use with analog televisions (GXI Converter Box), which utilizes technology covered by the patents in the Patent Pool. The remaining defendants are companies that are related to GXI, the precise relationship being irrelevant to this motion.

MPEG and GXI entered into a contract on July 25, 2008 (Licensing Agreement), which licenses the patents contained in the Patent Pool to GXI, and provides for royalty payments to MPEG. The Licensing Agreement gives GXI a royalty-bearing, worldwide, nonexclusive and non-transferrable sublicense, enabling it to manufacture, sell, lease, license, or otherwise

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distribute ATSC receiver products, such as the GXI Converter Box. The amount of the royalty agreed to is $5.00 per unit that uses the licensed patents. According to the information GXI provided to MPEG, GXI sold or distributed a total of 998,628 ATSC receiver products between September 1, 2008 and January 31, 2010. MPEG contends that GXI, therefore, was obligated to pay royalties of $4,943,140,[1] of which GXI has paid only $1,125,000, which, according to MPEG, leaves a balance of $3,818,140.[2]

The demand for GXI Converter Boxes, and similar products, became significant after the United States Congress enacted laws requiring all full-powered television stations in the United States to transmit digital signals, rather than analog signals, by February 17, 2009, later extended to June 12, 2009. These products enabled owners of analog television sets to continue to use their televisions, rather than having to invest in very expensive digital televisions. As a result of various federal programs, the maximum price for a converter box was set at $40.00. Since 2008, the prices of digital televisions and converter boxes have fallen.

In their counterclaims, defendants allege that MPEG violated antitrust laws of New York and nine other states by establishing and unreasonably maintaining monopoly power in the digital-to-analog converter box market, unreasonably extending the power of the pool participants in the digital-to-analog converter box market, unreasonably charging royalties for the digital-to-analog converter boxes equivalent to royalties charged for digital televisions, which are much higher priced items, unreasonably charging royalties on consumer transactions in digital-

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[1] 998,628 x 5 = $4,993,140, not $4,943,140. The court does not know whether there was an arithmetic mistake, or whether the number of units sold was stated incorrectly.

[2] 4,993,140 - 1,125,000 = 3,868,140. 4,943,140 - 1,125,000 = 3,818,140. In its memorandum of law (at 3), MPEG states that the balance is $3,888,140, but that is, no doubt, a typographical error.

to-analog converter boxes prior to the transactions occurring, and/or that did not occur, and by not adjusting the license royalty for digital-to-analog converter boxes as retail prices plummeted.

Discussion

Donnelly Act

Initially, the court notes that the Donnelly Act is interpreted with reference to the federal Sherman Antitrust Act (15 USC § 1), upon which it is based. *X.L.O. Concrete Corp. v Rivergate Corp.*, 83 NY2d 513, 518 (1994); *State of New York v Mobil Oil Corp.*, 38 NY2d 460, 463 (1976).

MPEG contends that defendants have failed to state a cause of action cognizable under the Donnelly Act, and, therefore, the counterclaims should be dismissed. Specifically, MPEG maintains that defendants have not sufficiently alleged that they could not obtain the licenses for the patents through some other means, failed to identify the relevant product market, failed to allege how the economic impact of the alleged conspiracy resulted in restraining trade in the market, or to allege facts demonstrating that there was a conspiracy or reciprocal relationship between two or more entities.

In order to state a claim for a violation of the Donnelly Act (General Business Law § 340 *et seq.*), a claimant must identify the relevant product market, allege a conspiracy or reciprocal relationship between two or more entities, and allege the manner in which the conspiracy resulted in the restraint of trade in the relevant market. *Thome v Alexander & Louisa Calder Found.*, 70 AD3d 88, 111 (1st Dept 2009).

Relevant Product Market

In identifying the relevant product market, defendants state: "The relevant market consists of digital-to-analog converter boxes distributed from and after 2008 certified by NTIA as eligible for purchase with the coupon [provided through a federal program] . . . " Answer with counterclaims, ¶ 67. MPEG maintains that this identification is inadequate because it does not consider the cross-elasticity of demand between products, or the ability of customers to substitute one product for another, nor does it address the geographic market. *Eastman Kodak Co. v Image Tech. Servs., Inc.*, 504 US 451, 469-470 (1992); *Brown Shoe Co. v United States*, 370 US 294, 325 (1962).

While the relevant market description does not contain all of the data that MPEG considers necessary, it is not so general as to be ambiguous, nor is there any reason to suspect that the described market is not the relevant one. Indeed, it seems to accurately describe the products at issue, and it would make sense that it would be the relevant market. As for geographic market, since the License Agreement was worldwide, there is no reason to assume that the relevant market would be restricted. In any event, any narrowing of the relevant geographic area can be accomplished during discovery, and through seeking a bill of particulars. Thus, this aspect, on its own, does not warrant dismissal of the counterclaims.

Restraint of Trade

MPEG maintains that defendants have not alleged any actions by MPEG that caused antitrust injury. It points out that any alleged injury must be to competition as a whole, not to the individual complainant. *Brown Shoe Co. v United States*, 370 US at 320. Here, as a result of federal programs, the price of the GXI Converter Box, along with all other converter boxes, was

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set at a maximum of $40. Thus, the amount of the royalty did not affect the price of the product. Further, defendants acknowledge that, since 2009, the price of the GXI Converter Box has gone down, due to market conditions. While defendants allege that the allegedly excessive royalty created an unreasonable barrier for companies to enter the NTIA certified digital-to-analog market for independent competitors, their statements are conclusory, and fail to offer any examples of any companies that sought to enter the market but were deterred. Defendants further allege that Patent Pool members had an unfair advantage because they received a portion of the royalty. However, this, again, does not demonstrate that there was any injury to competition. It merely alleges injury to some of the competitors, or, more accurately, an advantage to some of the competitors. Without any factual allegation to support a conclusion that there was injury to competition, an antitrust claim cannot stand. *Id.*

Defendants' claim that the amount of the royalty is per se unreasonable, inasmuch as it comprised 25% of the cost of the converter box, is insufficient to warrant finding a cause of action. Contrary to defendants' premise, there is no requirement that royalties be "reasonable," so long as they do not adversely affect competition. *Standard Oil Co. (Ind.) v United States,* 283 US 163, 171 (1931); *Brulotte v Thys Co.,* 379 US 29, 33 (1964). Here, defendants have not alleged any facts to support a contention that the amount of the royalties affects the competition in the converter box market. Hence, the amount of the royalty cannot, by itself, serve as a basis to find an antitrust violation.

Related to the claim that the royalties were too high, defendants assert that MPEG should have lowered the royalty amount as prices for the converter boxes fell. However, there was nothing in the Licensing Agreement that provided for such an adjustment. Nor have defendants cited any law to support such a requirement. The cases cited by defendants do not require pooled patents to be licensed at reasonable rates. Rather, the reasonable rates discussed in those cases are with respect to a remedy that the court fashioned after finding that there was a Sherman Act violation. A high rate was not the sole predicate for that finding. *See United States v Glaxo Group Ltd.*, 410 US 52, 59 (1973); *Besser Mfg. Co. v United States*, 343 US 444, 447-449 (1952). Thus, this assertion, too, fails to support any cause of action.

MPEG contends that defendants did not make necessary allegations that they could not reasonably have obtained individual licenses for the relevant patents. Defendants contend that its allegation, that the low retail cost imposed for digital-to-analog converter boxes makes it economically unreasonable and impractical to obtain such patents, suffices. They further rely on *Standard Oil* for the proposition that excessive royalties on a patent pool and market domination are tantamount to price fixing, and give rise to antitrust liability. However, *Standard Oil* does not stand for the proposition that excessive royalties, on their own, are violative of antitrust laws. Here, defendants have not alleged facts to support a finding that there is market domination by MPEG. Without any factual assertion of market domination, any excessive royalties are without legal significance. *Standard Oil*, 283 US at 172.

Regarding GXI's alleged inability to obtain licenses from some other source, in order to make a valid allegation that obtaining a license was not feasible, defendants must make factual assertions to support their position. The conclusory assertion that it was not economically feasible is not adequate, since it is defendants' burden to prove the nonavailability of alternatives. *Columbia Broadcasting Sys., Inc. v American Socy. of Composers, Authors & Publs.*, 620 F2d 930, 937 (2d Cir 1980), *cert denied* 450 US 970 (1981). Further, defendants do not even assert that they ever made any inquiry or attempt to negotiate individual licenses, which undercuts their position that it was impossible. *Matsushita Elec. Indus. Co. v Cinram Intl., Inc.*, 299 F Supp 2d 370, 377-379 (D Del 2004). While the question of whether licenses were available may generally be a question to be resolved at trial, as defendants maintain, defendants must first allege in their pleading facts that would support such an inquiry. Here, defendants have failed to do so.

Conspiracy or reciprocal relationship

Defendants also failed to allege a conspiracy or reciprocal relation between two or more entities. Defendants' memorandum of law does not address this failure. Thus, Defendants have failed to state a claim for an antitrust violation.

In light of the foregoing conclusions, the question of whether a patent pool is subject to antitrust scrutiny need not be addressed.

Nine Sister State Claims

The other state claims raised by defendants mirror the New York claims. All the statutes are similar, and just as defendants have failed to state a claim under the Donnelly Act, so too have they failed to state a claim under the other state statutes. As acknowledged by defendants, with the exception of California, the other states, like New York, look to federal law for guidance with respect to their antitrust laws, which were modeled on the federal law.

While California's law is not modeled on the federal law, it has similarities to the federal law. Under California's Cartwright Act, the complainant must establish the following elements: formation and operation of a conspiracy, illegal acts done pursuant to the conspiracy, and damage proximately cause by those acts. *Asahi Kasei Pharma Corp. v CoTherix, Inc.*, 204 Cal App 4th

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1, 8, 138 Cal Rptr 3d 620, 626 (2012). Here, defendants have failed to plead that there was any conspiracy, or facts to support a conclusion that the acts alleged were illegal. Therefore, they have not demonstrated that, under California law, they would have a cause of action.

Statute of Limitations

The statute of limitations for the Donnelly Act, as well as the other state antitrust statutes, is four years or less. MPEG maintains that the counterclaims accrued on July 25, 2008, when defendants entered into the Licensing Agreement. The counterclaims were first asserted on January 15, 2013. Thus, MPEG maintains that the counterclaims are time-barred.

Defendants argue that no cause of action accrued until their damages were no longer speculative, and that, further, MPEG has continually violated the antitrust law by continually charging a $5.00 royalty rate on each unit. Since defendants' obligation for outstanding royalties under the Licensing Agreement occurred as of April 19, 2010, when MPEG billed them for the royalties on the GXI Converter Boxes, defendants maintain that the statute of limitations did not run.

Where there is a continuing antitrust violation, the statute of limitations can be restarted. This occurs when there are overt acts, which are part of the violation, and each overt act starts the running of the statute of limitations anew. *Klehr v A.O. Smith Corp.*, 521 US 179, 189-91 (1997). The overt act must be a new and independent act, inflicting new injury on the complainant, rather than a reaffirmation of an agreement. *Rite Aid Corp. v American Express Travel Related Servs. Co.*, 708 F Supp 2d 257, 268 (ED NY 2010); *see also DXS, Inc. v Siemens Med. Sys., Inc.*, 100 F3d 462, 467 (6th Cir 1996). Thus, continued implementation of a contract does not constitute an overt act that restarts the statute of limitations period. *See Pace Indus., Inc. v Three Phoenix Co.*, 813 F2d 234, 238 (9th Cir 1987).

Here, defendants do not allege any overt act that extended the statute of limitations. The only act that they cite is MPEG's collection of the fee as stated in the contract. That does not constitute an independent, overt act. *Rite Aid Corp.*, 708 F Supp 2d at 270.

With respect to defendants' contention that any damages were speculative, defendants have the burden to demonstrate such an exception to the statute of limitations. While not required to controvert a defense to their claims in their pleading, when the issue is raised, they are required to raise factual allegations in support of their assertion that the damages were speculative and, therefore, tolled the running of the statute of limitations. While defendants assert that they could not ascertain their damages at the time the contract was made, they fail to aver when they were able to make that determination, or what information was necessary in order to ascertain their damages. Further, defendants do not distinguish between being able to calculate with precision what their damages were, and determining that they had damages. Uncertainty about the amount of damages does not prevent recovery, unlike uncertainty as to whether there are damages. *Rite Aid Corp.*, 708 F Supp 2d at 266-267. Defendants' arguments seem to revolve around the amount of damages rather than the fact of damages. Thus, they have not adequately asserted an exception to the statute of limitations. Consequently, even had defendants adequately alleged facts to support their antitrust claims, the counterclaims would be dismissed as time-barred.

Protective Order

MPEG seeks a protective order staying discovery with respect to the counterclaims pending determination of this motion. That request is moot.

Conclusion

Accordingly, it is

ORDERED that plaintiff MPEG LA, LLC's motion to dismiss the counterclaims is granted, and the counterclaims are dismissed; and it is further

ORDERED that counsel are directed to appear for a Preliminary Conference on July 8, 2013 at 2 p.m. at 26 Broadway, 10th Floor.

Dated: June 10, 2013

ENTER:

J.S.C.

MELVIN L. SCHWEITZER