

Network-1 Tech., Inc. v Netgear, Inc.

2023 NY Slip Op 32997(U)

August 27, 2023

Supreme Court, New York County

Docket Number: Index No. 657022/2020

Judge: Andrew Borrok

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This opinion is uncorrected and not selected for official publication.

SUPREME COURT OF THE STATE OF NEW YORK
 COUNTY OF NEW YORK: COMMERCIAL DIVISION PART 53

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NETWORK-1 TECHNOLOGIES, INC.,	INDEX NO.	<u>657022/2020</u>
Plaintiff,	MOTION DATE	<u>04/14/2023</u>
- v -	MOTION SEQ. NO.	<u>011</u>
NETGEAR, INC.,		
Defendant.	DECISION + ORDER ON MOTION	

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HON. ANDREW BORROK:

The following e-filed documents, listed by NYSCEF document number (Motion 011) 142, 143, 144, 145, 146, 147, 148, 149, 150, 151, 152, 153, 154, 155, 156, 157, 158, 159, 162, 163, 164, 165, 166, 167, 168, 169, 170, 171, 172, 173, 174, 175, 176, 178, 179, 180, 181, 182, 183, 184, 185 were read on this motion to/for JUDGMENT - SUMMARY.

Upon the foregoing documents, Netgear's (hereinafter defined) cross-motion for summary judgment is granted. Netgear did not breach the Agreement (hereinafter defined) by failing to make royalty payments from October 2017 to March 2020. Pursuant to Section 4.9 of the Agreement, the obligation to pay royalties was reinstated when the HP Verdict was overturned by the United States Court of Appeals for the Federal Circuit (the **Federal Circuit Court**) on September 24, 2020 and, as of that date, the Agreement had already terminated according to its terms. The Agreement expressly does not provide for retroactive reinstatement of the obligation to make such royalty payments (NYSCEF Doc. No. 2 §4.9; *Alvarez v Prospect Hosp.*, 68 NY2d 320, 324 [1986]).

Network's motion for summary judgment is denied because there are triable issues of fact as to whether Network breached the MFN Provision (hereinafter defined) by offering lower rates to

other parties that were not offered to Netgear (*Evans v Acosta*, 169 AD3d 438, 438 [1st Dept 2019]).

The Relevant Facts and Circumstances

This case involves (i) the failure to make certain royalty payments pursuant to the terms of a Nonexclusive Patent License Agreement (the **Agreement**; NYSCEF Doc. No. 2) dated as of April 1, 2009 by and between Network-1 Technologies, Inc. (**Network**) and Netgear, Inc. (**Netgear**) pursuant to which Network granted Netgear a non-exclusive license to use its patent in exchange for Netgear's promise to pay royalties to Network based on its sales of Power over Ethernet (**PoE**) products and (ii) whether Network breached the negotiated most favored nation provision (**MFN Provision**) set forth in Section 4.2 of the Agreement by offering lower rates to other parties that were not offered to Netgear.

As indicated above, the gravamen of the dispute between the parties stems from the application of Section 4.9 of the Agreement which provides for the cessation of the payment of royalties and the circumstances under which the obligation to pay royalties would be reinstated and the MFN Provision set forth in Section 4.2 of the Agreement:

Section 4.9 provides:

4.9 In the event a third party's PoE products (e.g., PSEs or PDs) are found not to infringe the Licensed Patent by a court of competent jurisdiction (including the International Trade Commission) ("Non-Infringement Finding"), Licensee may provide notice to Licensor that such finding could result in terminating Licensee's obligation to pay royalties under the Agreement, and Licensee may provide notice to Licensor that it intends to cease making royalty payments for Licensed Products of comparable physical structure, with respect to the claims of the Licensed Patent, to the PoE products found not to infringe the Licensed Patent. A Non-Infringement Finding arises if, for example, a

court finds that a third party's PoE product (i) fails to meet the limitations of all asserted claims not subject to an Adverse Ruling, (ii) is covered by an implied license, (iii) is subject to patent exhaustion, and/or (iv) is subject to legal estoppel. Licensor shall provide Licensee with written notice of such Non-Infringement Finding as soon as reasonably practicable. If the parties disagree with the effect the ruling has on Licensee's obligation to pay royalties under this Agreement, ***the parties may submit the issue of whether the Non-Infringement Finding would be applicable to the Licensee's Licensed Products to a mutually agreed upon mediator*** with expertise in patent law for mediation followed, if necessary, by binding arbitration before an arbitration panel pursuant to the rules of the American Arbitration Association. In the event that the arbitration panel makes an award that the Non-Infringement Finding applies to Licensee or the Licensed Products ("Arbitration Award"), then Licensee may cease making further royalty payments for sales of the Licensed Product, provided, however, ***in the event that (a) the Non-Infringement Finding is overturned by the United States Court of Appeals for the Federal Circuit or other higher court of competent jurisdiction, or (b) the Arbitration Award is overturned by a court of competent jurisdiction, the obligations to pay royalties will be reinstated from the date of the earlier of (a) or (b) above, with interest at the Prime Rate as reflected in The Wall Street Journal as of the date of the earlier of (a) or (b)***, and this Agreement will remain in full force and effect irrespective of any prior arbitration ruling to the contrary. Licensor will provide Licensee with written notice of (a) above within thirty (30) days of its issuance. All decisions and rulings of the mediator or arbitration panel shall be held in confidence by Licensor and Licensee and shall never be used as evidence in any other legal or administrative proceeding

(NYSCEF Doc. No. 2, §4.9 [emphasis added]).

Section 4.2 provides:

4.2 In further consideration of the license granted in this Agreement, Licensee agrees to pay Licensor for each Licensed Product sold by Licensee to a third party a royalty of one point seven percent (1.7%) of the Sales Price for each Licensed PSE and a royalty of two percent (2%) of the Sales Price for each Licensed PD ("Royalty Rate"). If Licensor grants a license to any other licensee with a lower applicable Royalty Rate, (where such applicable Royalty Rate is either (i) contained in a royalty bearing license, or (ii) underlying the calculation of the amount of a paid up license), Licensee shall be entitled to obtain the benefit of such lower applicable Royalty Rate upon the effective date of such other license, provided however, that Licensee, is able to and agrees to assume all of the material financial and non-financial terms and conditions of the license agreement executed between such other licensee and Licensor (other than terms relating exclusively to payment for past infringement). Licensor agrees to keep books and records, including other license agreements, adequate to accurately determine the material terms and

conditions of any other licenses of the Licensed Patent. Licensor shall retain such books and records for at least three (3) years after the delivery of any royalty reports. Licensee shall have the right, no more than twice per calendar year, to have an independent certified public accountant inspect all relevant books and records of Licensor on thirty (30) days' prior written notice and during regular business hours to inspect any relevant agreements. Such independent certified public accountant shall be selected by the auditing party and shall be reasonably acceptable to the other party. The auditor shall enter into an appropriate nondisclosure agreement with the audited party and any necessary third parties, and shall disclose no more information than is reasonably necessary to complete the audit. Should (a) a lower applicable Royalty Rate be discovered as the result of an audit, and (b) the Licensee enters an amended license agreement in which it assumes all of the material financial and non-financial terms and conditions of the license agreement executed between the other licensee and Licensor as set forth above, Licensor (i) shall credit the difference to Licensee, or (ii) Licensee shall set off the difference against future royalty payments together with interest at the compounded annual Prime Rate as reflected in The Wall Street Journal, between the royalties that were actually paid by Licensor and the royalties that would have been paid by the Licensor had the Licensor agreed to the terms of the license agreement executed between the other licensee and Licensor as of the effective date of the other license agreement Licensor shall also reimburse Licensee for the reasonable cost of the audit

(*id.*, §4.2).

On November 13, 2017, a jury found that Hewlett-Packard Company's use of a PoE product did not infringe on Network's patent (the **HP Decision**; NYSCEF Doc. No. 166).

Approximately two months later, by letter dated January 4, 2018, Netgear exercised its rights to cease making royalty payments pursuant to Section 4.9 of the Agreement

(NYSCEF Doc. No. 150).

By letter, dated February 12, 2018, Network purported to reject Netgear's January 4, 2018 letter (NYSCEF Doc. No. 151). Network did not however submit the dispute to arbitration as it was permitted to do. Ultimately, and dispositive as it relates to the instant

dispute, **Network ultimately conceded that, in fact, a Non-Infringement finding had been made:**

Network-1 hereby provides notice of a Non-Infringement Finding as reflected in the attached Final Judgment in the matter Network-1 Technologies, Inc. v. Hewlett-Packard Company, 6:13-CV-00072-RWS (“Judgment”)

...

As stated at the October 14 hearing last week, to eliminate what Network-1 considers to be a time consuming and unnecessary step in the parties' litigation, Network-1 will and hereby does stipulate as follows:

1. When the district court entered judgment of non-infringement in Network-1 Techs., Inc. v. Hewlett-Packard Company, et al., Case no. 6:13-cv-00072- RWS, Dkt. No. 153 (E.D. Tex. August 29, 2018), that judgment constituted a "Non-Infringement Finding" under section 4.9 of the parties' Non- Exclusive Patent License Agreement (which forms part of the parties' "Settlement Agreement").

(NYSCEF Doc. No. 169; NYSCEF Doc. No. 170).

On September 24, 2020, over six months after the Agreement expired,¹ the Federal Circuit Court vacated the HP Decision and remanded the matter for a new trial on the issue of whether HP infringed on Network's patent (the **HP Reversal**; *Network-1 Techs., Inc. v Hewlett-Packard Company*, 976 F3d 1301, 1312 [Fed Cir 2020]).

Following the HP Reversal, Network reasserted its right to royalty payments (NYSCEF Doc. No. 154). In response, Netgear indicated that Section 4.9 only operates to reinstate its obligation as of September 24, 2020 and, as of that time, the Agreement had expired.

¹ The Agreement terminated on March 7, 2020
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Network sued Netgear for breach of contract alleging that Netgear owed them royalty payments on the PoE products it sold from October 2017 to March 2020. Netgear filed an answer and a counterclaim sounding in breach of contract alleging that Network breached the MFN Provision by entering into several other license agreements with other licensees and that those agreements charged a lower applicable royalty rate (NYSCEF Doc. No. 81, ¶¶ 8-9 and 19). In support of its counterclaim, Netgear adduces three examples of license agreements between Network and certain third parties which they allege contain a lower applicable royalty rate than the Agreement (NYSCEF Doc. Nos. 147, 187, 189).

Although it is undisputed that Netgear failed to make royalty payments between October 2017 and March 2020, there are conflicting expert reports as to whether Network offered a lower applicable royalty rate to others. (compare NYSCEF Doc. No. 174, ¶ 32 with NYSCEF Doc. No. 158, ¶ 5).

Discussion

On a motion for summary judgment, the movant must make a prima facie showing of entitlement to judgment, tendering sufficient evidence to demonstrate the absence of any material issues of fact (*Alvarez*, 68 NY2d 320 at 324). Failure to make such a showing requires denial of the motion regardless of the sufficiency of the opposition papers (*id.*). Once such a showing has been made, the burden shifts to the party opposing the motion to produce evidentiary proof in admissible form to establish the existence of material issues of fact requiring trial (*id.*).

I. Netgear did not breach the Agreement

A claim sounding in breach of contract requires: (i) the existence of a valid and binding contract, (ii) plaintiff's performance thereunder, (iii) defendant's breach of the contract, and (iv) resulting damages (*Harris v Seward Park Hous. Corp.*, 79 AD3d 425, 426 [1st Dept 2010]). As discussed above, Network conceded that the HP Verdict constituted a Non-Infringement Finding. Given this concession, there was nothing to submit to arbitration. It is also worth noting that the Agreement does not require Netgear to submit the dispute to arbitration prior to suspending payments. The provision is permissive and it is undisputed that neither party submitted the "dispute" to arbitration as they were freely permitted to do. Section 4.9 of the Agreement provides that "in the event that (a) the Non-Infringement Finding is overturned by the United States Court of Appeals for the Federal Circuit or other higher court of competent jurisdiction, or (b) the Arbitration Award is overturned by a court of competent jurisdiction, the obligations to pay royalties will be reinstated from the date of the earlier of (a) or (b) above." Thus, Netgear's obligation to make royalty payments was reinstated only as of the September 27, 2020 which is after the Agreement expired on March 7, 2020. The Agreement is not ambiguous and the fact that the parties provided that interest accrues from the date of reinstatement (and not the date of non-payment) further underscores that the provision does not operate retroactively. Thus, Netgear's cross motion for summary judgment must be granted and Network's motion for summary judgment must be denied.

II. Netgear's breach of contract counterclaim is not ripe for summary judgment

As discussed above, the parties have presented conflicting expert reports. Conflicting expert opinions presents triable issues of fact and credibility precluding summary judgment (*Evans*, 169

AD3d at 438). Thus, Netgear is not entitled to summary judgment on its counterclaim for breach of the MFN Provision (*Alvarez*, 68 NY2d 320 at 324).

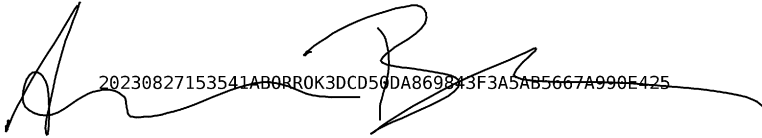
The Court has considered the parties remaining arguments and finds them unavailing.

It is hereby ORDERED that Netgear’s cross-motion for summary judgment on Network’s claim is granted; and it is further

ORDERED that Network’s motion for summary judgment is denied; and it is further

ORDERED that the parties shall attend a pre-trial conference on **October 25, 2023 at 11:30**

AM.


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ANDREW BORROK, J.S.C.

8/27/2023

DATE

CHECK ONE: CASE DISPOSED NON-FINAL DISPOSITION
 GRANTED DENIED GRANTED IN PART OTHER
 APPLICATION: SETTLE ORDER SUBMIT ORDER
 CHECK IF APPROPRIATE: INCLUDES TRANSFER/REASSIGN FIDUCIARY APPOINTMENT REFERENCE