DIVX, LLC v Harman Intl. Indus., Inc.
2024 NY Slip Op 32715(U)
July 8, 2024
Supreme Court, New York County
Docket Number: Index No. 656816/2021
Judge: Andrew Borrok
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SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK: COMMERCIAL DIVISION PART 53

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DIVX, LLC	**INDEX NO.** 656816/2021
Plaintiff,	**MOTION DATE** 07/11/2023
- v -	**MOTION SEQ. NO.** 013
HARMAN INTERNATIONAL INDUSTRIES, INC.,	
Defendant.	**DECISION + ORDER ON MOTION**

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HON. ANDREW BORROK:

The following e-filed documents, listed by NYSCEF document number (Motion 013) 156, 157, 158, 159, 160, 161, 162, 163, 164, 165, 166, 167, 168, 169, 170, 171, 172, 173, 174, 175, 176, 177, 178, 179, 180, 181, 182, 183, 184, 185, 186, 187, 188, 189, 190, 191, 192, 193, 194, 195, 196, 197, 198, 199, 200, 201, 202, 203, 204, 205, 206, 207, 208, 209, 210, 211, 212, 213, 214, 215, 216, 217, 218, 219, 220, 221, 222, 223, 224, 225, 226, 227, 228, 229, 230, 231, 232, 233, 234, 235, 236, 237, 238, 239, 240, 241, 242, 243, 244, 245, 246, 247, 248, 249, 250, 251, 252, 253, 254, 255, 256, 257, 258, 259, 260, 261, 262, 263, 264, 265, 266, 267, 268, 269, 270, 271, 272, 273, 274, 275, 276, 277, 278, 279, 280, 281, 282, 283, 284, 285, 286, 287, 288, 289, 290, 291, 292, 293, 294, 295, 296, 297, 298, 299, 300, 301, 302, 303, 304, 305, 306, 307, 308, 309, 310, 311, 312, 313, 314, 315, 316, 317, 318, 319, 320, 321, 322, 323, 324, 325, 326, 327, 328, 329, 330, 331, 332, 333, 334, 335, 336, 337, 338, 339, 340, 341, 342, 343, 344, 345, 346, 347, 348, 349, 350, 351, 352, 353, 354, 355, 356, 357, 358, 359, 360, 361, 362, 363, 364, 365, 366, 367, 368, 369, 370, 371
were read on this motion to/for SUMMARY JUDGMENT(AFTER JOINDER .

Upon the foregoing documents, issues of fact preclude the award of summary judgment to either Harman International Industries, Inc. (**Harman**) or DivX, LLC (**DivX**) except to the extent that the Court holds that (i) Harman's motion is granted solely to the extent that Section 5.7 of the Agreement (hereinafter defined) is an unenforceable penalty because the damages contemplated bear no reasonable relation to the range of actual damages the parties could have anticipated when entering into the Agreement (*Ridgley v Topa Thrift & Loan Ass'n*, 17 Cal 4th 970, 977 [1998]) and (ii) Divx's cross-motion is granted solely to the extent that the Samsung Agreement (hereinafter defined) does not bar its claims because the Samsung Agreement expressly carved

out contractual claims arising from technology licensing agreements such as the Agreement, and DivX's claims relate to "DivX Products" as that term is defined in the Samsung Agreement.

The critical issue before the Court is whether the scope of the license granted by DivX to Harman by the Agreement includes the incorporation of DivX's technology into certain In-Car Units (hereinafter defined) sold to car makers other than Hyundai. Upon a thorough review of the record before the Court including the relevant provisions of the Agreement and its Amendments and the substantial extrinsic evidence proffered by the parties, material issues of fact exist such that the grant of summary judgment to either party is inappropriate. For the avoidance of doubt, neither Harman nor DivX are entitled to summary judgment as to whether Harman breached Section 3.7 of the Agreement, or and as to whether Harman's In-Car Units "incorporate" DivX proprietary technology, because issues of fact exist, among other things, as to the meaning of the term "decode" as used in Section 3.7, and whether DivX's CTKs (hereinafter defined) incorporate DivX proprietary technology.

Relevant Facts and Circumstances

Reference is made to a certain Consumer Electronics License Agreement for Branded Devices (the **Original Agreement**; NYSCEF Doc. No. 159),[1] effective October 1, 2010, as amended by a certain Amendment # 1, dated June 20, 2013 (NYSCEF Doc. No. 222; the **Amendment # 1**), as further amended by a certain Amendment # 2, dated March 30, 2015 (NYSCEF Doc. No. 223; the **Amendment # 2**), as further amended by a certain Amendment # 3, dated September 29,

[1] The Agreement was originally signed on behalf of DivX by DivX, Inc., the predecessor to the plaintiff in this action, DivX, LLC. As used herein, "DivX" refers to both entities as relevant. The Agreement refers to DivX as "DXN."

2015 (NYSCEF Doc. No. 224; the **Amendment # 3**), as amended by a certain Amendment # 4, dated January 26, 2016 (NYSCEF Doc. No. 225; the **Amendment # 4**), as further amended by a certain Amendment #5, dated December 1, 2016 (NYSCEF Doc. No. 226; the **Amendment # 5**; Amendment # 5, together with Amendment # 4, Amendment # 3, Amendment # 2, Amendment # 1, and the Original Agreement, hereinafter, collectively, the **Agreement**), each by and between DivX and Harman, pursuant to which DivX granted Harman a license to incorporate "DXN Technology" into "Licensee Products" sold under a "Licensee Brand" in return for royalty payments. Pursuant to the terms of the Agreement, the parties agreed that DivX could monitor and audit Harman's reporting of royalties due DivX.

It is undisputed that before Amendment # 4 was executed Harman's license only extended to selling Licensee Product to End Users directly (*i.e.*, as opposed to distributors or manufacturers). Critical to the case in front of the Court, the parties executed Amendment # 4. Amendment # 4, among other things, served to expand the license by permitting sales of In-Car Units for commercial use, *i.e.*, to manufacturers and distributors so long as the Licensee Products "ultimately" went to End Users. Amendment #4 also addressed so-called "head units" or "infotainment" systems—screens embedded into automobiles and capable of playing video media. In fact, Amendment #4 added certain car application specific definitions including "Third Parry In-Car Brand" and "In-Car Channel." The parties also amended and replaced the previous version of Section 2.2 of the Agreement (*i.e.*, the license grant) and added a final additional sentence to Section 3.2 (*i.e.,* the section of the agreement which otherwise seems to limit the scope of the grant of the license).

More specifically, pursuant to the terms of the Agreement, as amended, the parties agreed to the following relevant terms and provisions:

1 Definitions

Commercial Use: any use other than use by End Users and/or any use that derives or is intended to derive revenue whether directly or indirectly, from use of Licensee Products.

DX Intellectual Property Rights: inventions and proprietary rights owned or controlled DXN, including without limitation all copyrights, copyright registration rights, patents, patent registration rights, business processes, mask works, data rights, trade secrets, know-how, moral rights and specifications, arising or enforceable under U.S, law, the laws of any other jurisdiction, or international treaty regime but excluding trademark rights and associated goodwill.

DXN Technology: the Deliverables and Intellectual Property Rights in the Deliverables, including any subdecimal upgrades or derivatives thereof, but not including new releases.

End User: any consumer who purchases and uses a Licensee Product for personal and non-commercial activities and not for resale or Commercial Use.

In-Car Channel: sale to, or distribution to, automobile manufacturers in the Territory solely for incorporation into such automobile manufacturer's automobiles.

Third Party In-Car Brand: a brand owned and/or controlled by an automobile `manufacturer in the Territory and manufactured and distributed to such manufacturer by Licensee. ***For purposes of this Agreement, Third Party In-Car Brand(s) shall be limited to <u>Hyundai</u>***; Licensee may add additional brands upon prior notice to DXN.

Licensee Brand: a brand wholly owned, controlled, and distributed by Harman or one of its direct or indirect wholly-owned subsidiaries, including, but not limited to the following brands: Harman Kardon, JBL, Lexicon, and Mark Levinson.

Licensee Products: products manufactured, distributed, marketed and/or sold by Licensee that incorporate some or all of DXN Technology, or any derivative thereof, and/or sold under or bearing a DXN Trademark. For the sake of clarity, Licensee Products shall be limited to the devices, profiles, and pricing as set forth in this Section 5.4.

Territory: Worldwide.

2 **Grant of Rights.** Subject to the terms of this Agreement, including without limitation the Reservation of Rights and Requirements set forth in **Section 3**, DXN hereby grants to Licensee a non-exclusive, non-assignable, non-transferable and non-sublicensable license to:

2.1 incorporate DXN Technology into Licensee Products for the purpose of having made, manufacturing, distributing, marketing and/or selling such products under a Licensee Brand solely within the Territory and Channels and solely to End Users; and

2.2 incorporate DXN Technology into Licensee Products intended for automobiles for the purpose of manufacturing, distributing. marketing and/or selling such Licensee Products ("**In-Car Units**") solely within the In-Car Channel for ultimate use by End Users, ***and solely under a Licensee Brand and/or Third Party In-Car Brand***. For the avoidance of doubt, Licensee shall be solely responsible for fulfilling all obligations under the Agreement for In-Car Units authorized under this **Section 2.2**, including without limitation, providing DXN with any reporting, royalties, and/or fees due under the Agreement submitting such In-Car Units for certification pursuant to **Section 4** of the Agreement, and ensuring that all DXN Trademarks used in connection with In-Car Units distributed by car manufacturer comply with DXN's Brand Guidelines and are submitted for approval pursuant to **Section 3.4** of the Agreement.

. . .

3 Reservation of Rights; Requirements.

. . .

3.2 Nothing in this Agreement should be construed to grant Licensee the right to (i) use any DXN Intellectual Property Rights other than those rights granted pursuant to Section 2; (ii) certify any product or technology as DivX Certified; (iii) grant any third party the right to use DXN Trademarks; (iv) manufacture, distribute, market and/or sell Licensee Products under any third party brand, including without limitation a "private label" brand; (v) distribute, market and/or sell Licensee Products other than to End Users; and/or (vi) distribute, sell, rent, or otherwise transfer Licensee Products for Commercial Use. Notwithstanding the foregoing, ***Licensee may provide In-Car Units under a Third Party In-Car Brand to automobile manufacturers solely within the In-Car Channel***, provided that Licensee notify DXN in writing prior to any shipment by Licensee to or through such channels.

. . .

3.7 To prevent damage to DIVX's trademarks and goodwill as a result of the inconsistent, incomplete or non-playback of DivX Files by devices claiming DivX playback. compatibility or support, Licensee shall not manufacture, enable, use, distribute, market or sell devices that encode or decode DivX Files unless such devices are DivX Certified in accordance with this Agreement.

...

5.7 **Audit.** No more than once during any calendar year, DXN shall have the right to audit Licensee's records relating to this Agreement. DXN shall give Licensee at least thirty (30) days prior written notice of its election to audit Licensee's records and DXN shall conduct such audit at Licensee's regular place of business and during Licensee's regular business hours. The audit shall be limited to documents within three (3) years of the notice of the audit by DXN. For the avoidance of doubt, DXN shall have the right to audit records (1) year subsequent to termination of the Agreement. Licensee shall cooperate fully with DXN's appointed auditors. If any audit conducted under this Section 5.7 indicates that any amount due DXN was underpaid, Licensee shall within five (5) business days pay to DXN the amount due, which, with respect to any Royalties due DXN, shall constitute twice the per unit royalty rate of all Licensee Products shipped but not reported to DXN by Licensee. All expenses associated with any such audit shall be paid by DXN unless the audit reveals a Material Discrepancy, in which case Licensee shall pay such expenses as well as any amount due DXN. For purposes of this Agreement, a "Material Discrepancy" is a discrepancy of more than (i) five per cent (5%) of the number of units reported shipped by Licensee in any given calendar quarter or (ii) Five Thousand Dollars ($5,000) in Royalties due DXN.

(NYSCEF Doc. No. 159, at 1-2, 6 [emphasis added]).

Harman argues that it is entitled to summary judgment dismissing DivX's breach of contract claims because (i) the head units it sold to car manufacturers other than Hyundai are outside the scope of the Agreement, (ii) such head units did not "incorporate" any of DivX's technology in any case, (iii) nor do they "decode DivX Files," and (iv) DivX's claims are independently barred by the Samsung Agreement (hereinafter defined). DivX contests every one of these enumerated points, and thus argues in its cross-motion that it is entitled to summary judgment on its breach of contract claims and entitled to the liquidated damages provision contained in Section 5.7 of the Agreement, or at the very least that issues of fact exist sufficient to warrant denial of Harman's motion.

Discussion

I. Issues of Fact Exist as to Whether The Agreement Applies to In-Car Units Sold to Car Manufacturers other than Hyundai

The Agreement is governed by California law. Under California principles of contract interpretation, when the meaning of contractual terms is disputed, the Court first provisionally reviews all extrinsic evidence relevant to prove a meaning to which the contract may be reasonably susceptible, even if the contract appears clear and unambiguous on its face (*Wolf v Walt Disney Pictures & Tel.*, 162 Cal App 4th 1107, 1126, [Cal Ct App 2008]; *see also Wolf v Superior Ct.*, 114 Cal App 4th 1343, 1350, [Cal Ct App 2004]). If, in light of that extrinsic evidence, the Court decides that the contract is reasonably susceptible to the interpretation urged, that extrinsic evidence is admitted to aid the Court in interpreting the contract (*id.*; *see also Brown v Goldstein*, 34 Cal App 5th 418, 433 [Cal Ct App 2019]). If there is no material conflict in the extrinsic evidence, the Court interprets the contract as a matter of law (*id.*). If there is a material conflict in the extrinsic evidence, the factual conflict is to be resolved by a jury (*id.*).

In support of its interpretation of the Agreement, DivX argues that Section 2.2 expressly provides that Harman's license extends to (and thus Harman must pay royalties on) In-Car Units sold "***under a Licensee Brand and/or*** Third Party In-Car Brand" focusing primarily on the "and/or" in such Section 2.2 because among other things Section 5.4 requires the payment of royalties on all "In-Car Units" and not merely "Third Party In-Car Brands." According to DivX, the "and/or" means that the scope of the license broadly covers both Third Party In-Car Brands (*i.e.*, Hyundai and any other car company Harman added) or any place where Harman stamps its name on Harman's products which contained DivX technology. Thus, because Harman sells In-Car Units to car manufacturers other than Hyundai, and such units bear Harman's brand name

(*i.e.*, are sold under a Licensee Brand), such sales are within the scope of the Agreement – *i.e.*, "'Licensee Products includes all 'In-Car Units'" (NYSCEF Doc. No. 369, at 5). According to DivX, the sentence added to Section 3.2 in Amendment #4 which provides "[n]otwithstanding the foregoing, Licensee may provide In-Car Units under a Third Party In-Car Brand to automobile manufacturers solely within the In-Car Channel, provided that Licensee notify DXN in writing prior to any shipment by Licensee to or through such channels" is not intended to limit the scope of the license, but "merely clarifies that the restriction to sales to End Users in Section 3.2 does not apply to In-Car Units sold to car manufacturers" (*id.*, at 2, footnote 1). According to DivX, the definition of "Third Party In-Car Brand," which limits that term to Hyundai but also provides Harman with the ability to add more Third Party In-Car Brands, was meant to create a mechanism for Harman to add more car brands upon prior notice to DivX.

In further support of this interpretation, DivX also argues that in Section 5.4, as revised by Amendment #4, the parties made clear that DivX was to be paid royalties based on "In-Car Units" sales – *i.e.*, all Licensee Products intended for automobiles sold, not just those sold to Hyundai, because the provision does not refer to "Third Party In-Car Brands" only (*i.e.*, Hyundai) and instead requires payment on all "In-Car Units" – hence the "and/or" language in Section 2.2.

DivX also supports its interpretation with extrinsic evidence, and proffers the affidavits of Daniel Schatz and Jamieson Potter. Mr. Potter avers that Amendment #4 was meant to create a "global" agreement for all sales of In-Car Units, and never intended to be limited solely to Hyundai, citing his communications with Harman and his colleagues at DivX (NYSCEF Doc. No. 217, at ¶¶ 19-

35). In particular, Mr. Potter contends that the deletion of another prospective automaker, Ssang Yong, from a draft of the Agreement, indicates that the parties intended the Agreement to apply to all automakers (NYSCEF Doc. No. 217, at ¶ 28). Mr. Schatz agrees that DivX intended Amendment #4 to apply to all in-car sales, and that DivX did not intend to create an arrangement in which a new amendment would be needed each time a Third Party In-Car brand was added (NYSCEF Doc. No. 215, at ¶¶ 31-36). DivX also points to Harman's internal email communications which, DivX argues, indicate Harman's internal understanding that they had to pay licensing fees for DivX intellectual property on brands other than just Hyundai (NYSCEF Doc. No. 278). The Court notes that review of DivX's agreement with Mitsubishi (the **Mitsubishi Agreement;** NYSCEF Doc. No. 347) appears to be consistent with this interpretation. In the Mitsubishi Agreement, the definition of "Third Party In-Car Brands" includes eleven automaker brands. There is no notice possibility of adding additional automakers to expand the scope of the grant of the license and the royalty provision of the Mitsubishi Agreement also does not refer to "In-Car Units" and instead provides a more detailed breakdown of royalties due on different product types (NYSCEF Doc. No. 347, at 5-6).

Harman, relying on the Agreement's definition of "Third Party In-Car Brand" as being "limited to Hyundai," argues that the scope of the Agreement is limited to Harman's sales of In-Car Units to a single car manufacturer: Hyundai. Harman argues that the licensing rights granted in Section 2.2 are limited by the reservation of rights language in Section 3.2, and that Amendment # 4's addition to Section 3.2 provides "Licensee may provide In-Car Units under a Third Party In-Car Brand," *i.e.*, Hyundai. Thus, Harman contends, the Agreement prohibits sales under a third party brand, for Commercial Use, or other than to End Users, except as to In-Car Units sold

under the Hyundai brand. Finally, Harman argues that Section 5.4 does not expand the scope of the granted license, but rather is subject to that scope as defined in Section 2.2 and limited in Section 3.2.

In addition, Harman contests that certain head units at issue were sold "under" its brand because, although the subject head units bear Harman's mark, this marking is not on that portion of the head unit that is "visible" to End Users once the head unit is installed in the car. Thus, Harman argues that it did not breach the Agreement and that the substantial photographic evidence proffered by DivX (*see* NYSCEF Doc. Nos. 343, at 6; 369, at 5; 319, at ¶¶ 379, 402, 428, 492, 514, 523, 533-36, 542-44, 558, 565, 575, 580), and the deposition testimony of Harman's employee Ryan Treadwell that Harman "stamp[s] a Harman mark on all of our head units," rendering such head units identifiably Harman's by sight (when not installed in a car), are irrelevant to the issue of the scope of the license (NYSCEF Doc. No. 339, at 240:24-241:10). According to Harman, the "and/or" language in the amended Section 2.2 was intended only to give Harman the option to place its brand name on that portion of the head unit "visible" to consumers. Under Harman's reading of the Agreement, *every* In-Car Unit is sold "under" the brand of the car manufacturer, whether that In-Car Unit actually bears the name of the car manufacturer directly on it or not. However, an In-Car Unit is only sold "under" a Licensee Brand when that In-Car Unit bears the Licensee Brand directly on that portion of the In-Car Unit that is visible to the ultimate End User, be it physically stamped on the unit itself or viewable as a display on the screen portion of the unit.

Harman argues that its interpretation resolves certain difficulties in the interpretation proffered by DivX. To wit, Harman does not make cars. Thus, they argue it is impossible that any In-Car Unit can be sold *solely* under a Licensee Brand, whereas it is perfectly possible that an In-Car Unit can be sold solely under a car maker's brand (*e.g.*, as in the case where the installed In-Car Unit bears no branding visible on the inside of the car). In no case can a Harman In-Car Unit *not* be sold under a car marker's brand. According to Harman, the use of the phrase "and/or" in the revised Section 2.2 thus accounts for the fact that an In-Car Unit can be sold under a Licensee Brand *and* a Third-Party In-Car Brand, or solely under a Third-Party In-Car Brand. Under this understanding, the revised Section 3.2 does not prohibit sales of In-Car Units "under a Licensee Brand," because all such units would also necessarily be sold under a car-maker's brand as well. Thus, the Agreement and its Amendments, read as above with Harman's understanding of what it means to be sold "under" a Licensee Brand, provide that Harman may sell In-Car Units to Hyundai alone, and in doing so may affix any Licensee Brand on to the In-Car Unit. For any such sales, provided that the In-Car Unit incorporates DivX technology, Harman owes DivX a royalty.

Harman also supports its interpretation with extrinsic evidence, in particular the affidavit of Harman employee Kent Handelsman, who contends that the parties never intended Amendment # 4 to apply to car-makers other Hyundai, and did intend that new Third Party In-Car Brands would be added by amendment (NYSCEF Doc. No. 354, at ¶¶ 1-4). For example, Mr. Handelsman contends that the parties' contemporaneous communications discussing Harman's prospective deal with Ssang Yong, and a draft Amendment # 4 that included Ssang Yong alongside Hyundai as a Third Party In-Car Brand, indicate that any new car brand would have

needed to have been memorialized by amendment (*id*., at ¶ 3; NYSCEF Doc. No. 362, at 3 ["we need to incorporate this as well into the amendment," referring to Ssang Yong]). As discussed above, Mr. Potter contends the omission of Ssang Yong shows that Mr. Handelsman understood that Amendment #4 would cover Ssang Yong in any case. Mr. Handelsman also disagrees with Mr. Schatz as to what it means to be sold "under a Licensee Brand" (*see* NYSCEF Doc. No. 354, at ¶ 5; 215, at ¶ 36).

Harman's interpretation is problematic, however, because this concept of visibility is reflected nowhere in the Agreement and it is puzzling (and seemingly at odds) with why Section 5.4 requires the payment of royalties on "In Car Units" and not merely "Third Party-In Car Brands" (*i.e.*, Hyundai only). This is at odds with Harman's proffered interpretation.

To be clear, DivX's interpretation of the Agreement and its Amendments is equally problematic. First, under DivX's interpretation, the limitation on the definition of "Third Party In-Car Brand" as "limited to Hyundai" is puzzling. If all In-Car Units are Licensee Products for which Harman owes royalties to DivX simply by virtue of those In-Car Units bearing Harman's mark anywhere on them if they contain DivX technology, the limitation of Third Party In-Car Brand to Hyundai seems superfluous. DivX's proffered explanation—that the definition of Third Party In-Car Brand provides a mechanism by which Harman could notify DivX of new car brands in the future (*see* NYSCEF Doc. No. 215, at ¶ 34)—does not appear to fully explain why the limitation to Hyundai is present in Amendment # 4 sufficient to warrant the award of summary judgment. Hyundai could have been identified as part of the definition and without the limiting language.

Second, DivX's reading does not appear to fully account for the meaning of Amendment # 4's addition to Section 3.2. DivX contends this language does not limit the rights granted in Section 2.2, but "merely clarifies that the restriction to sales to End Users in Section 3.2 does not apply to In-Car Units sold to car manufacturers" (NYSCEF Doc. No. 369, at 2, footnote 1). But that is not clear from the language of Section 3.2. Section 3.2 provides that the "Licensee may provide In-Car Units *under a Third Party In-Car Brand*." This seems to clarify that the restrictions found in the previous version of Section 3.2 on sales to End Users, for Commercial Use, and under a third party brand, do not apply to In-Car Units sold to car manufacturers *under a Third Party In-Car Brand*—Hyundai. Otherwise, it would seem, the restrictions do apply.

Thus, on the record before the Court, and based on the express language of the relevant provisions, neither party's interpretation is entirely satisfactory such that an award of summary judgment is appropriate. The extrinsic evidence offered by the parties, in particular the competing affidavits of their respective employees who were involved in the negotiation of Amendment #4, is also conflicting and does not fully resolve the issue. . Thus, and based on this substantial conflicting extrinsic evidence, resolution of the license scope depends in large part on what is meant by the words "under a Licensee Brand" and the use of the phrase "and/or" in the revised Section 2.2. On this record, this simply is not properly resolved by the Court as a matter of summary judgment. Questions of fact and credibility require that these issues be resolved by a jury (*Wolf v Walt Disney Pictures & Tel.*, 162 Cal App 4th 1107, 1127, [Cal Ct App 2008], *citing City of Hope Natl. Med. Ctr. v Genentech, Inc.*, 43 Cal 4th 375, 395, [2008]).

The Court notes that in the event the trier of fact determines that the disputed sales were outside the scope of the license granted by the Agreement, DivX would not be without a remedy. When a licensing agreement does not contain an express promise not to sell outside the scope of the granted license, the remedy for such off-license sales lays in patent or copyright infringement, rather than a suit brought on the licensing agreement itself (*Macom Tech. Sols. Holdings, Inc. v Infineon Tech. AG*, 881 F3d 1323, 1329 [Fed Cir 2018]; *Au New Haven, LLC v YKK Corp.*, 2019 WL 1437516, at *9 [SDNY Mar. 31, 2019]). Thus, to the extent that Harman made sales to car makers outside the scope of the license granted by the Agreement, which contains no express promise not to sell outside the granted scope, and provided Harman has incorporated DivX's intellectual property in such off-license sales, DivX's remedy is for patent or copyright infringement.

II. The Samsung Agreement Does Not Bar DivX's Claims

Harman contends that a July 2021 settlement agreement between Samsung (Harman's parent company) and DivX (the **Samsung Agreement**; NYSCEF Doc. Nos. 189-191), pursuant to which DivX released certain claims it had against Samsung and any of its affiliates, including Harman, presents an independent bar to DivX's claims. The claims (**Claims**) released by the Samsung Agreement were defined therein as follows:

> **"Claims"** shall mean ***any and all*** claims, counterclaims, third-party claims, contribution claims, indemnity claims, demands, actions, liabilities, damages, losses, causes of action, and all other claims of every kind and nature in law or equity, whether arising under state, federal, international or other law excluding the rights and obligations addressed in the Form of Acknowledgment, which (1) ***arise from or relate to in any way the Patents***, including without limitation, the acquisition, licensing, or enforcement of the Patents or (2) which are (currently or in the future) or were asserted in, could have been asserted in, or which arise from the same transactions or occurrences as those claims that are (currently or in the future) or were asserted in Licensor Litigation, ***whether such claims***

> ***are absolute or contingent, in tort, contract or otherwise***, direct or indirect, past, present or future, known or unknown, that exist or may have existed prior to the Effective Date.

(NYSCEF Doc. No. 190, at 1 [emphasis added]).

The parties dispute the scope of a Carve Out (hereinafter defined) to the above release of claims, contained in the Samsung Agreement's Form of Acknowledgement, for disputes relating to technology licensing agreements, such as the Agreement:

> Samsung Electronics Co., Ltd. ("Samsung") and its Affiliates hereby acknowledge, represent, and warrant that nothing in the Patent License Agreement between DivX and RPX, executed on July 1, 2021 (the "Patent License Agreement") shall have any effect whatsoever on Samsung's and/or its Affiliates' rights or obligations ***under any Technology License Agreement***, or any extension or renewal thereof. The terms and/or existence of the Patent License herein ***shall not be used by Samsung or its Affiliates as a defense*** (including defenses of implied license, express license, equitable estoppel, acquiescence, waiver, release, etc.) in any current or future dispute concerning, or otherwise interfere with, any Technology License Agreement between Samsung (or its Affiliates) and DivX. ***Any such contractual claims shall not be released by the Patent License Agreement and will remain intact and available*** to the parties after the signing of the Patent License Agreement. ***Notwithstanding the foregoing, the restrictions provided in this paragraph shall not apply to the patents embodied in any part other than the DivX Products.***

(NYSCEF Doc. No. 191, at 1 [emphasis added]; the **Carve Out**).

The Samsung Agreement defines the term "DivX Products" used in the Form of Acknowledgement:

> **"DivX Product"** shall mean ***any product developed and provided by DivX*** that includes a codec, encoder, decoder, mobile encoder, mobile decoder, digital rights management, test clips, certification requirements, and/or branding guidelines and any software, source code, libraries, tools, release notes, videos or video programs, and documentation regarding the same. Without limiting, but subject to, the foregoing, DivX Product may include the following: DivX Plus HD, DivX Ultra, DivX Media Format, DivX Home Theater, DivX HID 1080p. DivX HID 720p, DivX Mobile Theater, DivX Mobile, DivX HEVC Ultra HD, DivX Plus Streaming (DPS) Profiles, DivX Software Development

> Kits, ***and DivX Certification Test Kits (CTKs)***, and any sub decimal upgrades or derivatives thereof.

(NYSCEF Doc. No. 190, at 1-2 [emphasis added]).

DivX contends that this Carve Out applies to allow its claims in this case, which indisputably concerns contractual claims arising from a technology licensing agreement (*i.e.*, the Agreement). Harman contends that the last sentence of the Carve Out (beginning "[n]otwithstanding…") applies to bar these claims, because DivX's claims relate to patents embodied not in "DivX Products," but in Harman products, *i.e.*, Harman's head units, which are not "developed and provided by DivX" (*id.*). Rather, DivX's claims relate to Harman's allegedly prohibited used of DivX's Certification Test Kits (**CTKs**), for which DivX has patents. Thus, the general release of Claims contained in the body of the Samsung Agreement applies, and DivX's claims are barred.

Harman's argument fails. First, it is irreconcilably at odds with the express intent of the Carve Out to preserve contractual claims relating to licensing agreements and to prohibit the use of the Samsung Agreement as a defense to any such claims, and the significant extrinsic evidence offered by DivX that this provision was explicitly intended to preserve any contractual claims arising out of its then ongoing audit of Harman, which eventually led to this litigation (NYSCEF Doc. No. 214, at ¶¶ 19-22). Second, the Samsung Agreement explicitly provides that DivX's CTKs are "DivX Products" (NYSCEF Doc. No. 190, at 1-2). DivX alleges that its CTKs and the patents embodied therein are incorporated in Harman's In-Car Units. In other words, DivX alleges that Harman's products embody DivX Products, which in turn embody DivX patents.

That does not bring the claims brought in the instant litigation within the scope of the "[n]otwithstanding…" language relied on by Harman. Finally, if the Samsung Agreement was intended to terminate DivX's ability to collect on the Agreement, DivX would have simply terminated the Agreement and other similarly affected licensing agreements. Thus, Harman's argument is at odds with the language of the Samsung Agreement and the parties' conduct and intent as shown by contemporaneous evidence, and DivX is entitled to summary judgment on this point.

III. Issues of Fact Exist as to Whether the In-Car Units "Incorporate" DivX Technology

Harman also argues that, even if the Court or trier of fact were to find that the head units it sold to car markers other than Hyundai were within the scope of the Agreement, such units do not "incorporate DXN Technology," *i.e.*, the CTKs, and thus in any case cannot be "Licensee Products" for which it owes royalties. DivX does not cross-move for summary judgment on this point, but contends that issues of fact preclude an award of summary judgment to Harman. DivX is correct.

As set forth above, the Agreement as amended by Amendment #4 granted Harman a license to "incorporate DXN Technology" into its In-Car Units (NYSCEF Doc. No. 225, at 1). The Agreement provides the relevant definitions:

> **DXN Technology:** the Deliverables and all Intellectual Property Rights in the Deliverables, including any subdecimal upgrades or derivatives thereof, but not including new releases.
>
> **Deliverables:** the items marked and described in Exhibit A and as to which DXN shall grant Licensee a license pursuant to Section 2.

> **DXN Intellectual Property Rights:** all inventions and proprietary rights owned or controlled by DXN, including without limitation all copyrights, copyright registration rights, patents, patent registration rights, business processes, mask works, data rights, trade secrets, know-how, moral rights and specifications, arising or enforceable under U.S, law, the laws of any other jurisdiction, or international treaty regime but excluding all trademark rights and associated goodwill.
>
> **Licensee Products:** products manufactured, distributed, marketed and/or sold by Licensee that incorporate some or all of DXN Technology, or any derivative thereof, and/or sold under or bearing a DXN Trademark.

(NYSCEF Doc. No. 159, at 1-2).

On Exhibit A of the Agreement, the Deliverables checked are various CTK profiles, including the "DivX HD 1080p Profile," the "DivX Home Theater Profile," the "DivX Ultra Home Theater Profile," and the "DivX Plus HD Profile and DivX HD 1080p Profile" (*id.*, at 12). DivX CTKs are comprised of video clips meant to aid in acquiring DivX certification of video devices by ensuring that those devices can play the clips properly, together with certain documentation regarding certification requirements (NYSCEF Doc No. 213, at 8).

DivX has demonstrated that issues of fact exist as to whether Harman's head units incorporate DivX Intellectual Property rights found in the CTKs. In particular, the expert report of Dr. Mangione-Smith raises a question of fact as to whether DivX's Intellectual Property Rights (as that term is broadly defined in the Agreement) in "packed B-frame technology," a technology developed by DivX to encode video files (including the CTKs) in a memory-efficient way and requiring a compatible decoder to successfully play back, is present in Harman's head units which, as Dr. Mangione-Smith demonstrated, can play back the CTKs (NYSCEF Doc. Nos. 218, ¶¶ 22-30; 319, ¶¶ 142-584).

IV. Issues of Fact Also Exist as to Whether the In-Car Units "Decode" DivX Files in Violation Section 3.7

Neither Harman nor DivX are entitled to summary judgment as to whether Harman has breached Section 3.7 of the Agreement. Simply put, Section 3.7 of the Agreement is susceptible to both parties' proffered interpretations of the provision and the extrinsic evidence adduced by each party in support of its interpretation does not resolve the issue.

Section 3.7 of the Agreement provides:

> 3.7 To prevent damage to DIVX's trademarks and goodwill as a result of the inconsistent, incomplete or non-playback of DivX Files by devices claiming DivX playback. Compatibility or support, Licensee shall not manufacture, enable, use, distribute, market or sell devices ***that encode or decode DivX Files*** unless such devices are DivX Certified in accordance with this Agreement.

(NYSCEF Doc. No. 159, at 3 [emphasis added]).

"DivX Files" are also defined in the Agreement:

> **DivX Files** means files identified by the 4 character codes or 8 character codes, or containing the identifiers, set forth on Exhibit C, and provided that such files have been encoded using DXN intellectual property or with DXN proprietary features.

(*id.*, at 1).

The parties agree that DivX Files contain both video content and certain other features added by DivX which are indisputably proprietary—in particular, multiple subtitle and audio tracks (*see* NYSCEF Doc. Nos. 157, at 17; 213, at 13-14).

In support of its motion for summary judgment, Harman argues the term "decode" as used in Section 3.7 does not refer to the mere ability of a device to "decode" or play back the video portion of DivX Files, which Harman contends contains no DivX proprietary features but rather is encoded in an industry-standard MPEG-4 format which nearly all video players can play back. To wit, according to Harman, "decode" necessarily means decoding the "entire" DivX File and that because its devices do not decode the entire proprietary features and only plays back the video portion, it is not in breach of Section 3.7. In addition, Harman argues that DivX does not adequately allege Section 3.7 damages.

In its opposition papers, and in support of its cross-motion for summary judgment, DivX argues that certain of Harman's non-Hyundai head units "decode" DivX Files within the meaning of Section 3.7 because they play them back and thus, because these devices are not DivX Certified, all such devices sold were in breach of Section 3.7 such that DivX's damages amount to the royalties due. More specifically, according to DivX, Section 3.7 by its terms is designed to "prevent damage to DXN's trademarks and goodwill as a result of the inconsistent, incomplete, or non-playback of DivX Files" (NYSCEF Doc. No. 159, at 3). Thus, "decode" means *any* portion of a DivX File including mere playback of the video portion. In addition, DivX argues that DivX Files cannot be so neatly separated into proprietary and non-proprietary portions, and that even the video "portion" contains DivX's proprietary packed B-frame technology, discussed above.

The plain language of the Agreement does not resolve the issue because the Agreement does not clearly indicate whether partial or full playback is required to cause a breach of Section 3.7. As

discussed above, the extrinsic evidence proffered by the parties does not resolve the issue. Harman adduces a prior agreement made between DivX and a Harman subsidiary which uses the term "playback" as evidence that the parties chose in the Agreement to use the term "decode" to mean something different than the other agreement (NYSCEF Doc. Nos. 157, at 18; 193, at 3). DivX adduces (i) the affidavit of Mr. Schatz who indicates that the terms in the Agreement are broader than those in the other agreement and that in fact the Agreement was intended to have a broader prohibition (NYSCEF Doc. No. 215, at ¶¶ 18-19) together with (ii) a February 11, 2015 letter from DivX to Harman, in which DivX informs Harman that "DivX is taking steps to enforce its intellectual property rights with respect to companies that are supporting playback of AVI content that utilizes B-frame packing and/or includes subtitles without obtaining a license" (NYSCEF Doc. No. 246, at 2). Inasmuch as the meaning of "decode" as used in Section 3.7 is ambiguous and is not resolved by consideration of the extrinsic evidence, the issue must be resolved by a jury (*Wolf v Walt Disney Pictures & Tel.*, 162 Cal App 4th 1107, 1126, [Cal Ct App 2008]).

As discussed above, and for the same reasons discussed in the context of DivX's CTKs, issues of fact also exist as to whether the video portion of DivX Files contain any "DXN intellectual property or [] DXN proprietary features" not contained in the standard MPEG-4 format (in particular, DivX's packed B-frame technology) such that even the mere playback of the video portion of a DivX File may constitute a decoding of DivX proprietary information.

Finally, the Court notes that Harman is not correct that DivX does not adduce evidence of damages. W. Todd Schoettelkotte's expert report and accompanying affidavit explain that DivX

was damaged by Harman's alleged breaches of Section 3.7 such that DivX's licensing business may have been adversely affected in that Harman may have allowed its customers to purchase and offer devices with DivX capabilities without paying the royalty fee that would be due if these devices were DivX Certified (*see* NYSCEF Doc. Nos. 182, 219). Harman's arguments regarding the reliability of Mr. Schoettelkotte's proffered testimony appear to be better understood as cross-examination or impeachment.

V. The Liquidated Damages Provision in Section 5.7 is Unenforceable

Harman's motion for summary judgment declaring the liquidated damages clause in Section 5.7 is an unenforceable penalty is granted. Section 5.7 provides:

> 5.7 **Audit.** No more than once during any calendar year, DXN shall have the right to audit Licensee's records relating to this Agreement. DXN shall give Licensee at least thirty (30) days prior written notice of its election to audit Licensee's records and DXN shall conduct such audit at Licensee's regular place of business and during Licensee's regular business hours. The audit shall be limited to documents within three (3) years of the notice of the audit by DXN. For the avoidance of doubt, DXN shall have the right to audit records (1) year subsequent to termination of the Agreement. Licensee shall cooperate fully with DXN's appointed auditors. ***If any audit conducted under this Section 5.7 indicates that any amount due DXN was underpaid, Licensee shall within five (5) business days pay to DXN the amount due, which, with respect to any Royalties due DXN, shall constitute twice the per unit royalty rate of all Licensee Products shipped but not reported to DXN by Licensee.*** All expenses associated with any such audit shall be paid by DXN unless the audit reveals a Material Discrepancy, in which case Licensee shall pay such expenses as well as any amount due DXN. For purposes of this Agreement, a "Material Discrepancy" is a discrepancy of more than (i) five per cent (5%) of the number of units reported shipped by Licensee in any given calendar quarter or (ii) Five Thousand Dollars ($5,000) in Royalties due DXN.

(NYSCEF Doc. No. 159, at 6 [emphasis added]).

Under subdivision (b) of the California Civil Code Section 1671, a liquidated damages provision in a non-consumer contract is presumptively valid "unless the party seeking to invalidate the provision establishes that the provision was unreasonable under the circumstances existing at the time the contract was made" (Cal Civ Code § 1671[b]). Under California law, a liquidated damages clause in a non-consumer contract will be found invalid "if it bears no reasonable relationship to the range of actual damages that the parties could have anticipated would flow from a breach" (*Ridgley v Topa Thrift & Loan Ass'n*, 17 Cal 4th 970, 977 [1998]). The amount set as liquidated damages "must represent the result of a reasonable endeavor by the parties to estimate a fair average compensation for any loss that may be sustained" (*id.*). Otherwise, it is an unenforceable penalty (*id.*).

Harman has met its burden in showing that the liquidated damages provision of Section 5.7 is an unenforceable penalty. The damage to DivX caused by any underreporting of sales is clear: the royalties due on such sales and any costs associated with any audit and potentially reasonable attorneys' fees and other third party professional fees necessary in performing any audit and seeking the redress of their rights. Thus, the damages contemplated by Section 5.7 bear no reasonable relation to the range of actual damages the parties could have anticipated when entering into the Agreement, but are approximately three times that amount, and constitute an unenforceable penalty (*Applied Elastomerics, Inc. v Z-Man Fishing Products, Inc.,* 521 F Supp 2d 1031, 1045 [ND Cal 2007] ["the agreement requires that the party compute the amount of royalty underpayment, which is the damage, and then triple it."]).

Furthermore, the costs to DivX of the audit itself and the time value of money are adequately compensated in Section 5.7 itself and in the late payment provisions of Section 5.5 ("DXN may, in its sole discretion, charge Licensee interest for late payments at the lesser of one and one half percent [1½%] per month or the highest rate permitted by applicable law") (NYSCEF Doc. No. 159, at 5) (*Harris v Vector Mktg. Corp.*, 2011 WL 1627973, at *12 [ND Cal Apr. 29, 2011]).

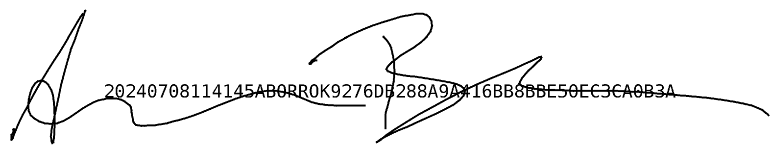
The Court has considered the parties' remaining arguments and found them unavailing.

Accordingly, it is hereby

ORDERED that Harman's motion for summary judgment is denied except to the extent set forth herein; and it is further

ORDERED that DivX's cross-motion for summary judgment is denied except to extent set forth herein; and it is further

ORDERED that the parties shall appear for a pre-trial conference on July 20, 2024, at 12:00pm.



7/8/2024
DATE

ANDREW BORROK, J.S.C.

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

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