

MPEG LA, L.L.C. v Samsung Elecs. Co., Ltd.

2016 NY Slip Op 32347(U)

November 23, 2016

Supreme Court, New York County

Docket Number: 654454/2015

Judge: Shirley Werner Kornreich

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SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK: PART 54

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MPEG LA, L.L.C.,

Index No.: 654454/2015

Plaintiff,

DECISION & ORDER

-against-

SAMSUNG ELECTRONICS CO., LTD.,

Defendant.

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SHIRLEY WERNER KORNREICH, J.:

Defendant Samsung Electronics Co., Ltd. (Samsung) moves, pursuant to CPLR 3211, to dismiss the complaint. Plaintiff MPEG LA, L.L.C. (MPEG) opposes and cross-moves for partial summary judgment on liability. The motion and cross-motion are granted in part and denied in part for the reasons that follow.

I. Factual Background & Procedural History

The facts material to this decision are undisputed and are drawn from the complaint and the documentary evidence submitted by the parties.

MPEG and Samsung are parties to four related contracts governing the licensing of a pool of standard essential patents that pertain to digital television transmissions (the ATSC Patent Pool):¹ (1) the Patent Portfolio License, dated September 25, 2007 (the PPL) (Dkt. 9);² (2) the Agreement Among Licensors Regarding the ATSC Standard, dated July 18, 2007 (the AAL) (Dkt. 10); (3) the ATSC License from Licensor to Licensing Administer, dated July 18, 2007 (the MPEG License) (Dkt. 11); and (4) the Licensing Administrator Agreement Regarding the

¹ ATSC stands for the “Advanced Television Systems Committee”, which develops standards for digital television transmissions. See Complaint ¶ 1.

² References to “Dkt.” followed by a number refer to documents filed in this action on the New York State Courts Electronic Filing (NYSCEF) system.

ATSC Standard, dated July 18, 2007 (the LAA) (Dkt. 12).³ This action concerns whether Samsung's October 5, 2015 purported Voluntary Termination of the PPL [*see* Dkt. 13] and the AAL [*see* Dkt. 14] was contractually permissible.

To explain, MPEG is the ATSC Patent Pool's licensing administrator. According to the complaint:

By entering into a license agreement with [MPEG] for a particular patent pool, a licensee, in exchange for the payment of royalties, is granted a license to manufacture and sell products using any or all of the patents in that patent pool. While any licensee is free to enter into separate license agreements with the individual patent holders in the pool, the licensee may substantially reduce its transaction costs by entering into a single license agreement with [MPEG] under the essential patents owned by all of them.

...

The Licensors, who own the rights to ATSC Essential Patents, grant licenses to their essential patents to [MPEG], which then sublicenses the entire pool of patents to Licensees, who make or sell ATSC-compliant products. Each Licensee executes a Patent Portfolio License, or PPL, with [MPEG]. All Licensees execute the same PPL with [MPEG], and pay the same royalty rate on the same terms as every other ATSC Licensee. Each Licensor and its affiliates who themselves sell or import ATSC-compliant products are obligated to be Licensees as well, and execute the same PPL as other Licensees. Including Samsung, seven of the ten ATSC Licensors (and/or their affiliates) also have been ATSC Licensees, and each of them executed the [PPL]. [MPEG] is compensated for fulfilling its duties as ATSC Licensing Administrator with an administrative fee, which equals a percentage of the ATSC royalties it collects and distributes on behalf of the Licensors. [MPEG] collects royalty payments from Licensees and distributes payments among the Licensors. [MPEG] also engages in activity designed to encourage manufacturers to join the ATSC Patent Pool as Licensees, and engages in enforcement activity against Licensees who are non-compliant with the PPL. The ATSC program relieves the Licensors from the expense and administrative burden of executing licenses with, and collecting royalties from each of the Licensees. At the same time, it relieves Licensees of the burden of negotiating separate licenses with each of the Licensors who hold ATSC Essential Patents.

³ All four contracts are governed by New York law and provide for jurisdiction in this court. It should be noted that MPEG is not a party to the AAL, as it is not one of the signatory licensors. Nonetheless, section 3.2.1 of the LAA, to which MPEG is a party, provides MPEG with rights under the AAL. *See* Dkt. 12 at 6. The court, therefore, rejects Samsung's argument that MPEG lacks standing to assert its claim regarding Samsung's termination of the AAL.

Compliant ¶¶ 6-13 (paragraph breaks and numbering omitted). Simply put, Samsung both owns the rights to some of the patents in the ATSC Patent Pool and also licenses the rights to use other patents in the ATSC Patent Pool; Samsung is both a licensor and licensee. MPEG serves as the licensing administrator and, under the MPEG License, also is a licensee.

The PPL, the AAL, the MPEG License, and the LAA govern the parties' relationship with respect to the ATSC Patent Pool. The PPL dictates the royalties that Samsung pays to MPEG, in its capacity as licensing administrator, for the right to use the patents in the ATSC Patent Pool. The AAL is an agreement among the owners of the patents in the ATSC Patent Pool that controls their rights to the royalties collected by the licensing administrator (i.e., MPEG). Section 2.3 of the AAL requires the patent owners to grant MPEG, and any other successor licensing administrator, a license in a form substantially similar to the PPL. The MPEG License is the license issued by Samsung to MPEG in accordance with section 2.3 of the AAL. The LAA is the agreement between MPEG and the owners of the patents in the ATSC Patent Pool that governs MPEG's role as licensing administrator.

These four contracts contain different termination provisions. Section 6.1 of the PPL provides, in relevant part, that the PPL "shall expire on the earlier of (i) December 31, 2016 or (ii) the expiration of all ATSC Essential Patent(s)," and discusses how the PPL may be renewed for another term. *See* Dkt. 9 at 11. Section 6.2 governs termination for material breach. *See id.* at 12. Section 6.3 addresses partial termination in the event of litigation. *See id.* Section 6.4, the Voluntary Termination provision at issue in this case, provides that "[Samsung] may terminate this Agreement by providing thirty (30) days' written notice to [MPEG]." *See id.* at 13. Section

6.5 provides for other forms of terminations. *See id.* Section 6.6 addresses the parties' obligations under the PPL that survive termination. *See id.* at 13-14.

The MPEG License, in section 6, contains similar termination provisions to the PPL. *See* Dkt. 11 at 12. As with the PPL, MPEG is entitled to voluntarily terminate upon 30 days' notice. *See id.* at 14. Moreover, like the PPL, the MPEG License expires on December 31, 2016. *See id.* at 12. Section 6 also enumerates the circumstances when Samsung may terminate. *See id.*

The termination provisions in the AAL and the LAA are different. The AAL's termination provisions are contained in its section 7. *See* Dkt. 10 at 15. The subject Voluntary Termination provision, contained in section 7.2, provides:

Subject to the conditions set forth in this Section 7.2, each Party [i.e., including Samsung] shall have the right, upon thirty (30) days' written notice to all other Parties and [MPEG], to **terminate** with respect to itself **all but not less than all of the following**: (1) this Agreement; (2) the right of [MPEG] to grant additional sublicenses under its license [i.e., the MPEG License] or sublicense granted by such terminating Party pursuant to Section 2.3 of this Agreement; and (3) **the [LAA] entered into pursuant to Section 2.2 of this Agreement (for purposes of this Section 7.2 "Termination")**.

See Dkt. 10 at 15-16 (emphasis added).⁴

Termination of the LAA (i.e., the third prong of section 7.2 of the AAL) is governed by its section 11. *See* Dkt. 12 at 19. The LAA's Voluntary Termination provision is set forth in section 11.2.1, which provides:

At any time after January 1, 2017, each Licensor shall have the right upon thirty (30) days' written notice to all other Licensors and the Licensing Administrator, to **terminate** with respect to itself **all, but not less than all, of the following**: (i) this Agreement; (ii) the right of the Licensing Administrator to grant additional sublicenses under its license [i.e., the MPEG License] or sublicense to the

⁴ Section 7.2.1 prohibits Voluntary Termination in the first five years, but that provision is not relevant since more than five years had elapsed when Samsung sent its termination notice in October 2015. Section 7.2.1, discussed further below, also addresses the revenue implications of a Termination under section 7.2. It also should be noted that, as with the PPL, the AAL also addresses the parties' obligations under the AAL that survive termination.

Licensing Administrator granted pursuant to Section 2.3 of the [AAL]; and (iii) the [the AAL].

See id. (emphasis added). The fact that section 11.2.1 of the LAA does not permit voluntary termination of the LAA prior to 2017 is MPEG's principal argument against Samsung's October 2015 termination. According to MPEG, since section 7.2 of the AAL requires termination of the LAA – which could not be voluntarily terminated until 2017 – Samsung's 2015 termination was invalid.

By letter dated October 5, 2015, Samsung purported to voluntarily terminate the PPL under section 6.4, effective November 4, 2015. *See* Dkt. 13. By separate letter dated October 5, 2015, Samsung purported to terminate the AAL under section 7.2, also effective November 4, 2015. *See* Dkt. 14. Samsung stated that, as required by section 7.2 of the AAL, it was terminating (1) the AAL; (2) the right of MPEG to grant additional sublicenses under the MPEG License; and (3) the LAA. *See id.* at 2.

MPEG commenced the instant action on December 30, 2015. Its complaint asserts two causes of action: (1) breach of contract for improper termination and failure to pay royalties owed as of November 4, 2015;⁵ and (2) a declaratory judgment regarding the validity of Samsung's purported termination. On March 15, 2016, Samsung filed the instant motion to dismiss. On April 29, 2016, MPEG opposed and cross-moved for partial summary judgment on liability. The court reserved on the motions after oral argument. *See* Dkt. 23 (9/20/16 Tr.)

II. Legal Standard

On a motion to dismiss, the court must accept as true the facts alleged in the complaint as well as all reasonable inferences that may be gleaned from those facts. *Amaro v Gani Realty*

⁵ The failure to pay claim has been resolved only to the extent that Samsung made payment for the period of October 5, 2015 to November 4, 2015. The implications of this non-payment (e.g., whether Samsung was in breach at the time of termination) have not been resolved.

Corp., 60 AD3d 491 (1st Dept 2009); *Skillgames, LLC v Brody*, 1 AD3d 247, 250 (1st Dept 2003), citing *McGill v Parker*, 179 AD2d 98, 105 (1st Dept 1992); see also *Cron v Hargro Fabrics, Inc.*, 91 NY2d 362, 366 (1998). The court is not permitted to assess the merits of the complaint or any of its factual allegations, but may only determine if, assuming the truth of the facts alleged and the inferences that can be drawn from them, the complaint states the elements of a legally cognizable cause of action. *Skillgames, id.*, citing *Guggenheimer v Ginzburg*, 43 NY2d 268, 275 (1977). Deficiencies in the complaint may be remedied by affidavits submitted by the plaintiff. *Amaro*, 60 NY3d at 491. “However, factual allegations that do not state a viable cause of action, that consist of bare legal conclusions, or that are inherently incredible or clearly contradicted by documentary evidence are not entitled to such consideration.” *Skillgames*, 1 AD3d at 250, citing *Caniglia v Chicago Tribune-New York News Syndicate*, 204 AD2d 233 (1st Dept 1994). Further, where the defendant seeks to dismiss the complaint based upon documentary evidence, the motion will succeed if “the documentary evidence utterly refutes plaintiff’s factual allegations, conclusively establishing a defense as a matter of law.” *Goshen v Mutual Life Ins. Co. of N.Y.*, 98 NY2d 314, 326 (2002) (citation omitted); *Leon v Martinez*, 84 NY2d 83, 88 (1994).

Summary judgment may be granted only when it is clear that no triable issue of fact exists. *Alvarez v Prospect Hosp.*, 68 NY2d 320, 325 (1986). The burden is upon the moving party to make a *prima facie* showing of entitlement to summary judgment as a matter of law. *Zuckerman v City of New York*, 49 NY2d 557, 562 (1980); *Friends of Animals, Inc. v Associated Fur Mfrs., Inc.*, 46 NY2d 1065, 1067 (1979). A failure to make such a *prima facie* showing requires a denial of the motion, regardless of the sufficiency of the opposing papers. *Ayotte v Gervasio*, 81 NY2d 1062, 1063 (1993). If a *prima facie* showing has been made, the burden

shifts to the opposing party to produce evidence sufficient to establish the existence of material issues of fact. *Alvarez*, 68 NY2d at 324; *Zuckerman*, 49 NY2d at 562. The papers submitted in support of and in opposition to a summary judgment motion are examined in the light most favorable to the party opposing the motion. *Martin v Briggs*, 235 AD2d 192, 196 (1st Dept 1997). Mere conclusions, unsubstantiated allegations, or expressions of hope are insufficient to defeat a summary judgment motion. *Zuckerman*, 49 NY2d at 562. Upon the completion of the court's examination of all the documents submitted in connection with a summary judgment motion, the motion must be denied if there is any doubt as to the existence of a triable issue of fact. *Rotuba Extruders, Inc. v Ceppos*, 46 NY2d 223, 231 (1978).

III. Discussion

MPEG argues that, under section 7.2 of the AAL, voluntary termination of the AAL requires simultaneous termination of the LAA. Further, MPEG argues that Samsung had no right to terminate the AAL in 2015 since the LAA cannot be voluntarily terminated prior to 2017. Samsung disagrees, and contends that section 7.2 of the AAL does not actually require complete termination of the LAA in order to voluntarily terminate the AAL. Rather, according to Samsung, section 7.2(3) of the AAL merely requires "partial" termination of the LAA.

In support of its argument, Samsung relies on the parenthetical at the end of subsection 3, which states: "the [LAA] entered into pursuant to Section 2.2 of this Agreement (**for purposes of this Section 7.2 "Termination"**). See Dkt. 10 at 16 (emphasis added). Samsung maintains that the AAL itself addresses the revenue implications of its termination prior to 2017 and, therefore, the AAL must be capable of being voluntarily terminated prior to 2017 without the need to completely terminate the LAA. Otherwise, according to Samsung, these revenue

provisions would be rendered superfluous and incapable of being harmonized with the rest of the contract.

It is well settled under New York law that a “contractual provision that is clear on its face must be enforced according to the plain meaning of its terms.” *Bank of N.Y. Mellon v WMC Mortg., LLC*, 136 AD3d 1, 6 (1st Dept 2015) (citation omitted). “This rule applies with even greater force in commercial contracts negotiated at arm’s length by sophisticated, counseled businesspeople. In addition, courts may not by construction add or excise terms, nor distort the meaning of those used and thereby make a new contract for the parties under the guise of interpreting the writing.” *Id.*, accord *Greenfield v Philles Records, Inc.*, 98 NY2d 562, 569-70 (2002) (“if the agreement on its face is reasonably susceptible of only one meaning, a court is not free to alter the contract to reflect its personal notions of fairness and equity.”). The law is different when a contractual provision is ambiguous. However, the question of whether a contract is ambiguous – that is, the question of whether “its terms are subject to more than one reasonable interpretation” – is a question of law for the court, and the “parties cannot create ambiguity from whole cloth where none exists, because provisions ‘are not ambiguous merely because the parties interpret them differently.’” *See Universal Am. Corp. v Nat’l Union Fire Ins. Co. of Pittsburgh, Pa.*, 25 NY3d 675, 680 (2015), quoting *Mount Vernon Fire Ins. Co. v Creative Housing Ltd.*, 88 NY2d 347, 352 (1996). The court, moreover, must “avoid an interpretation that would leave contractual clauses meaningless.” *TBA Global, LLC v Fidus Partners, LLC*, 132 AD3d 195, 204 (1st Dept 2015), citing *Two Guys from Harrison-N.Y. v S.F.R. Realty Assocs.*, 63 NY2d 396, 403 (1984); *see Kolbe v Tibbetts*, 22 NY3d 344, 354 (2013) (rejecting interpretation that “both conflicts with the most natural reading of the sentence and renders meaningless the [subject contractual] provision”); *see also Beal Sav. Bank v Sommer*, 8 NY3d 318, 324-25 (2007)

(“a contract should be ‘read as a whole, and every part will be interpreted with reference to the whole; and if possible it will be so interpreted as to give effect to its general purpose.’”), quoting *Westmoreland Coal Co. v Entech, Inc.*, 100 NY2d 352, 358 (2003).

As an initial matter, the court rejects Samsung’s argument that the parenthetical at the end of section 7.2(3) permits “partial” termination of the LAA. That parenthetical, when read in context of the entire section 7.2, provides a limited definition of the word “Termination” for the purposes of the rest of section 7.2. Indeed, in the following subsections (e.g., sections 7.2.1 and 7.2.3), “Termination” as a defined term is employed. Since the court finds that the parenthetical at the end of section 7.2(3) merely defines “Termination”, the court rejects Samsung’s invitation to read further unstated implications into it, i.e., its theory that there exists a right to partially terminate the LAA and why doing so, instead of complete termination, satisfies the requirements of section 7.2 of the AAL. Had the extremely sophisticated parties here intended to provide for a right to partially terminate the LAA, they easily could have set forth such a right in the LAA. They did not.⁶

As for Samsung’s argument that without partial termination, revenue provisions in section 7.2.1 of the AAL would be meaningless, MPEG provides a straightforward, compelling response. MPEG contends that a pre-2017 voluntary termination of the AAL is indeed possible, but only if the LAA is terminated on grounds other than a voluntary termination under section 11.2.1. As MPEG correctly explains, the prohibition on terminating the LAA under section 11.2.1 prior to 2017 only applies to voluntary termination on the part of a particular

⁶ It should be noted that “partial termination” is not a foreign concept to the parties. For instance, though not germane to the parties’ dispute, section 6.3 of the MPEG License contains a partial termination provision. *See* Dkt. 11 at 13. The PPL, likewise, has a similar partial termination provision. *See* Dkt. 9 at 12. The LAA, in contrast, does not contain such a provision.

licensor, such as Samsung. The LAA, however, also may be terminated *at any time* for-cause by a two-thirds majority of the patent holders under section 11.3. *See* Dkt. 12 at 20.⁷ MPEG argues, and the court agrees, that the possibility of termination under section 11.3 of the LAA explains why section 7.2.1 of the AAL addresses the implications of voluntarily termination of the AAL under section 7.2 prior to 2017. The third prong of section 7.2 of the AAL – termination of the LAA – can occur prior to 2017,⁸ but not by a pre-2017 voluntary termination of the LAA.

Consequently, the court grants partial summary judgment to MPEG on its claim that section 7.2.1 of the AAL only permits Samsung to voluntarily terminate the AAL if Samsung also terminates the LAA. Since the LAA cannot be voluntarily terminated by Samsung prior to 2017, Samsung cannot voluntarily terminate the AAL prior to 2017 unless the LAA is terminated on another enumerated ground, such as under section 11.3. That did not occur. As a result, Samsung's purported October 5, 2015 termination of the AAL was ineffective. Also ineffective was Samsung's purported voluntary partial termination of the LAA, as the LAA provides for no such thing.⁹

⁷ Under section 11.1, the LAA also can be terminated prior to 2017 if all of the patents expire.

⁸ This further undercuts Samsung's argument that it may partially terminate the LAA. While Samsung protests that its partial termination theory makes commercial sense (an issue on which the court will not opine), the court may not rewrite a contract on the ground of commercial reasonableness when the contract, agreed to by extremely sophisticated parties, is unambiguous. *See Fundamental Long Term Care Holdings, LLC v Cammeby's Funding LLC*, 20 NY3d 438, 445 (2013) ("an inquiry into commercial reasonableness is only warranted where a contract is ambiguous").

⁹ The court will not opine on the implications of Samsung's ineffective termination since that issue is not before the court. MPEG only moved for partial summary judgment on liability, not damages. The sole issue before the court is whether MPEG and Samsung remain parties to the AAL and LAA.

This holding makes resolution of the parties' dispute over Samsung's purported termination of the PPL fairly straightforward. While Samsung has the right under section 6.4 of the PPL to voluntarily terminate the PPL at any time, section 2.13 of the AAL prohibits Samsung from terminating the PPL so long, as is the case here, that Samsung remains a licensor of patents in the ATSC Patent Pool. *See* Dkt. 10 at 9. Samsung, thus, cannot terminate the PPL without breaching the AAL. Since Samsung has not validly terminated the AAL, Samsung cannot terminate the PPL.

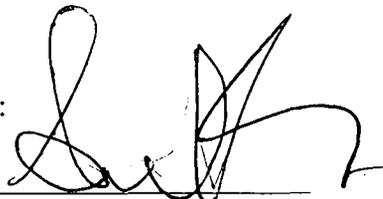
The court, therefore, grants partial summary judgment to MPEG. In addition to seeking a declaratory judgment regarding the invalidity of Samsung's purported terminations, MPEG's complaint asserts a claim for damages, an issue not reached by the court. The parties are directed to meet and confer and report to the court in a joint letter in advance of the preliminary conference ordered below as to the issues which remain. Accordingly, it is

ORDERED that the motion by defendant Samsung Electronics Co., Ltd. to dismiss the complaint is denied, except with respect to the claim for payments owed by Samsung for the period of October 5, 2015 to November 4, 2015 remitted during the pendency of this action, which is dismissed as moot; and it is further

ORDERED that the cross-motion by plaintiff MPEG LA, L.L.C., for partial summary judgment on liability is granted to the extent that the court finds that Samsung had no right on October 5, 2015 to voluntarily terminate the PPL and AAL; and it is further

ORDERED that the parties are to appear in Part 54, Supreme Court, New York County,
60 Centre Street, Room 228, New York, NY, for a preliminary conference on December 15,
2016, at 11:30 am.

Dated: November 23, 2016

ENTER: 

J.S.C.

SHIRLEY WERNER KORNREICH
J.S.C.