

Network-1 Tech., Inc. v Netgear, Inc.
2022 NY Slip Op 31081(U)
April 1, 2022
Supreme Court, New York County
Docket Number: Index No. 657022/2020
Judge: Andrew Borrok
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Network's motion seeking a stay of arbitration (Mtn. Seq. No. 006) is denied as moot for the reasons set forth above.

THE RELEVANT FACTS AND CIRCUMSTANCES

Reference is made to a Nonexclusive Patent License Agreement (the **License Agreement**, NYSCEF Doc. No. 2), effective April 1, 2009, by and between Network and Netgear, pursuant to which Network licensed their patent (the **Patent**) to Netgear to sell Power over Ethernet (**PoE**) products in exchange for Netgear's payment of royalties. The Patent expired in March 2020.

Pursuant to the License Agreement, if a court determined that a third party's PoE products did not infringe on the Patent, Netgear could give notice to Network and stop paying royalties under the License Agreement. If the parties disputed whether Netgear could properly cease paying royalties, the issues could be submitted to mediation and arbitration:

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 No-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]).¹

On August 29, 2018, in a lawsuit between Network and Hewlett Packard (**HP**) a jury found that HP's products did not infringe on Network's Patent (the **HP Verdict**). Netgear promptly notified Network that Netgear considered the HP Verdict to be a Non-Infringement Finding under Section 4.9 of the License Agreement and stopped paying Network royalties. On appeal, the HP Verdict was overturned (NYSCEF Doc. No. 23). Network took the position that Netgear wrongfully ceased making royalty payments and that Netgear owed money from the time of HP Verdict until the Patent expired.

Upon Netgear's refusal to pay, on December 15, 2020, Network filed this action seeking to recover the unpaid royalties. After an unsuccessful mediation, Netgear filed a motion to compel arbitration on March 4, 2021 (NYSCEF Doc. No. 15). By Decision and Order dated October 14, 2021 (NYSCEF Doc. No. 44), the court denied the motion to compel arbitration because the issue was not yet ripe as Netgear had not made a demand for arbitration and the record did not evidence that the parties submitted to mediation.

¹ Capitalized terms used but not otherwise defined herein shall have the meaning ascribed thereto in the License Agreement.

On October 20, 2021, Network stipulated that pursuant to Section 4.9 of the License Agreement (i) the HP Verdict constituted a “Non-Infringement Finding” and (ii) Netgear’s products are “of comparable physical structure, with respect to the claims of the Licensed Patent, to the PoE products [of HP] found not to infringe the Licensed Patent” (NYSCEF Doc. No. 50). On October 21, 2021, Netgear made a demand for arbitration (NYSCEF Doc. No. 52). On November 3, 2021, Netgear renewed its motion to compel arbitration, dismiss the complaint or alternatively to stay proceedings. On November 18, 2021, Network filed a motion to stay the arbitration.

DISCUSSION

Where a party has been aggrieved by another’s failure to arbitrate they may move for an order to compel the arbitration (CPLR 7503[a]). Arbitration is a matter of contract law such that a party cannot be forced to submit to an arbitration he did not agree to (*Matter of Monarch Consulting, Inc.*, 26 NY3d at 674). Contractual provisions providing for an alternative process of dispute resolution must be express and unequivocal to constitute a waiver of a party’s right to their day in court (*Mario & Di Bono Plastering Co.*, 140 AD2d at 166).

The issue of arbitrability as a threshold matter is itself a matter of contract (*Henry Schein, Inc.*, 139 S Ct at 529). If there is “clear and unmistakable evidence” that the parties sought to delegate the arbitrability question to the arbitrator then a court may not decide the arbitrability question (*id.*, at 530). An arbitration provision can be distinguished by whether it applies broadly to “all disputes” from a provision that only applies to specific issues (*Matter of WN Partner, LLC v Baltimore Orioles Ltd. Partnership*, 179 AD3d 14, 17 [1st Dept 2019]).

Netgear's renewed motion to compel arbitration must be denied. Simply put, the word "may" makes Section 4.9 of the License Agreement permissive, and that the parties submitted to mediation does not obligate the parties to arbitration (*Mario & Di Bono Plastering Co.*, 140 AD2d at 166). Section 4.9 merely provides Netgear a mechanism to obtain a declaration of right to cease royalty payments in the event of a Non-Infringement Finding, but it does not mandate arbitration as the sole method for dispute resolution (*Matter of Monarch Consulting, Inc.*, 26 NY3d at 674). Network's stipulation does not resolve the underlying dispute about whether the HP verdict warranted Netgear's decision to cease making royalty payments.

With respect to the issue of arbitrability, the court retains jurisdiction where, as here, there is no clear and unmistakable evidence that the parties delegated that authority to an arbitrator (*Henry Schein, Inc.*, 139 S Ct at 530). Pursuant to Section 4.9 of the Licensing Agreement, the issue of whether a third party's PoE infringes on the Patent could be submitted to an arbitrator if the parties chose to do so (*Matter of WN Partner, LLC*, 179 AD3d at 17). Netgear's reliance on *Communications Workers of Am. v AT&T Inc.*, 6 F4th 1344, 1349 (DC Cir 2021), which stands for the proposition that questions of whether the issue of arbitrability was delegated to the arbitrator should be resolved by the arbitrator, does not lead to a different result. Netgear's motion to compel arbitration must therefore be denied. The court has considered the parties remaining arguments and finds them unavailing.

Network's motion to stay the arbitration (Mtn. Seq. No. 006) is denied as moot for the reasons set forth above.

Accordingly, it is

ORDERED that Netgear, Inc.'s motion seeking to compel arbitration is denied; and it is further

ORDERED that Network-1 Technologies, Inc.'s motion to stay arbitration is denied;

ORDERED that Netgear, Inc.'s answer and counterclaim shall be served on or before April 22, 2022; and it is further

ORDERED that any third-party subpoenas shall be served no later than May 1, 2022; and it is further

ORDERED that the parties shall appear for a status conference: May 17, 2022 at 12:30 PM.



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4/1/2022
DATE

ANDREW BORROK, J.S.C.

CHECK ONE:

<input type="checkbox"/>	CASE DISPOSED	<input checked="" type="checkbox"/>	NON-FINAL DISPOSITION
<input type="checkbox"/>	GRANTED	<input checked="" type="checkbox"/>	GRANTED IN PART
<input type="checkbox"/>	SETTLE ORDER	<input type="checkbox"/>	OTHER
<input type="checkbox"/>	INCLUDES TRANSFER/REASSIGN	<input type="checkbox"/>	FIDUCIARY APPOINTMENT
		<input type="checkbox"/>	REFERENCE

APPLICATION:

CHECK IF APPROPRIATE: