

IN THE DISTRICT COURT OF APPEAL OF THE STATE OF FLORIDA
FIFTH DISTRICT

NOT FINAL UNTIL TIME EXPIRES TO
FILE MOTION FOR REHEARING AND
DISPOSITION THEREOF IF FILED

METRA ELECTRONICS CORPORATION,

Appellant,

v.

Case No. 5D21-330
LT Case No. 2020-30534-CICI

AAMP OF FLORIDA, INC., D/B/A
AAMP OF AMERICA,

Appellee.

Opinion filed December 10, 2021

Nonfinal Appeal from the Circuit
Court for Volusia County,
Michael S. Orfinger, Judge.

John Wiley Horton and William
D. Horgan, of Pennington, P.A.,
Tallahassee, for Appellant.

Marie A. Borland and Dennis P.
Waggoner, of Hill, Ward &
Henderson, P.A., Tampa, for
Appellee.

EDWARDS, J.

Appellant, Metra Electronics Corporation (Metra), appeals the circuit court's order which granted Appellee's, AAMP of Florida, Inc. (AAMP), petition to compel arbitration concerning disputes arising from a mediated settlement agreement (Settlement Agreement) that was intended to resolve the parties' previous federal patent infringement litigation. For the reasons set forth below, including the tension between private contract rights and federal public policy embodied in patent law, we reverse and quash the order compelling arbitration.

Background Facts

Metra and AAMP are both in the business of producing and selling products that permit aftermarket car stereos to be controlled using devices located on the steering wheel. AAMP previously obtained patents for certain steering wheel-placed stereo control devices. In 2011, AAMP sued Metra in federal district court, claiming that Metra was infringing on two of AAMP's patents, specifically U.S. Patent Nos. 8,014,540 ('540 patent)¹ and 8,184,825 ('825 patent). The parties mediated their dispute and on October 4, 2012, executed the two page Settlement Agreement that licensed Metra to use AAMP's patents in return for which Metra would pay AAMP specified

¹ Patents are granted for a period of years; the '540 patent expired on November 24, 2019.

licensing fees.² In accordance with the Settlement Agreement, Metra made a down payment of \$250,000 towards the agreed upon per unit royalty fees that were slated to change over time.

The Settlement Agreement called for the execution of mutual releases; however, that did not occur. Paragraph 5 of the Settlement Agreement states that: “Disputes concerning the settlement shall be submitted to binding arbitration before a mutually agreeable arbitrator.” In accordance with paragraph 1 of the Settlement Agreement, the parties dismissed the federal lawsuit.³

From 2012 until 2017, Metra paid over \$2 million in licensing fees to AAMP. During that time frame, the United States Patent and Trademark Office (USPTO) conducted ex parte reexaminations of those two patents, at Metra’s request, to determine whether or not AAMP’s patented inventions were sufficiently novel to qualify for patents.⁴ As a general rule, royalty payments cease if the licensed patent has been conclusively declared invalid as the previously patented invention/concept is then considered to be within

² A copy of the Settlement Agreement is attached.

³ The Settlement Agreement called for the federal suit to be dismissed with prejudice; however, it appears that it was actually dismissed without prejudice.

⁴ See 35 U.S.C. § 301.

the public domain for use by and to benefit the general public. Absent special circumstances, not present here, when a licensee actively repudiates and challenges the licensed patent, it may withhold royalty payments until the validity of the patent is established. *Lear, Inc. v. Adkins*, 395 U.S. 653, 673–74 (1969).

The USPTO declared the '825 patent invalid in August 2017 and the Federal Circuit upheld that decision in October 2019. As a result, the '825 patent is deemed void ab initio. See *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 721 F.3d 1330, 1346 (Fed. Cir. 2013). Beginning in 2017, based on its claim that the '540 patent was invalid, Metra withheld royalty payments that would otherwise have been due and payable to AAMP in accordance with their Settlement Agreement.

AAMP sent a request to Metra for the past-due payments and then requested that the parties resolve their dispute by arbitration as called for in the Settlement Agreement. Metra refused to arbitrate, leading AAMP to file the underlying petition in circuit court to compel arbitration. Metra defended below and argues on appeal that the royalty payments were not due, pursuant to *Lear*, because the latest ex parte reexamination of the '540

patent had not been completed; thus, there was no payment controversy ripe for arbitration.⁵

In its petition, AAMP also complained that it had incurred attorney's fees and related expenses occasioned by Metra's repeated requests for the USPTO to reexamine the validity of the licensed patents, causing AAMP to suffer damages. AAMP took the position that Metra had no right to contest the validity of the licensed patents except through binding arbitration pursuant to the Settlement Agreement. Metra argued below and on appeal that the Settlement Agreement does not contain what is referred to as a no-contest clause which purportedly would estop Metra from challenging the validity of the licensed patents. Thus, Metra contends that it was free to contest the validity of the '540 patent despite having entered into the Settlement Agreement.

Ruling Below

Under both federal statutory provisions and Florida's arbitration code, there are three elements for courts to consider in ruling on a motion to compel arbitration of a given dispute: (1) whether a valid written agreement to arbitrate exists; (2) whether an

⁵ AAMP has advised in its brief that the challenges to the '540 patent resulted in the decision that the patent was valid, rendering Metra's payment defense moot. Metra correctly argues that the final decision regarding the '540 patent was not before the trial court and should not be considered on appeal. We express no opinion at this time regarding what effect any such decision on validity may have on future proceedings.

arbitrable issue exists; and (3) whether the right to arbitration was waived.

Seifert v. U.S. Home Corp., 750 So. 2d 633, 636 (Fla. 1999) (citing *Terminix Int'l Co. L.P. v. Ponzio*, 693 So. 2d 104, 106 (Fla. 5th DCA 1997)). The trial court explicitly relied upon *Seifert* as it explained its ruling on AAMP's petition to compel arbitration.

The trial court found that the first factor was satisfied given paragraph 5 of the Settlement Agreement required disputes concerning the settlement to be resolved through binding arbitration. The court found that the second *Seifert* factor was satisfied as well because the Settlement Agreement required Metra to make certain royalty payments which AAMP alleged had not been made. Thus, the trial court found that the dispute over whether payments were due constituted an arbitrable issue. The trial court also considered that the third factor supported compelling arbitration regarding the allegedly outstanding royalty payments as AAMP had not engaged in any conduct that waived its right to arbitrate. Although the trial court only analyzed whether AAMP's claim for unpaid royalty fees must be arbitrated, the order granted AAMP's petition to compel arbitration, which had also sought to compel arbitration of whether Metra breached the Settlement Agreement by requesting the USPTO to engage in multiple *ex parte* reexaminations of the licensed patents.

Analysis

Simply looking at the Settlement Agreement through the lens of common law of contracts would lead one to the conclusion that Metra's obligations to pay licensing fees is absolute and not subject to any excuse or defense for not paying. However, federal public policy, embodied in patent law, calls for a different conclusion.

Metra relies upon *Lear* for its position that no royalty payments were due while it was contesting and the USPTO was reconsidering the validity of the licensed patents. *Lear* specifically dealt with and overruled the doctrine of licensee estoppel, which had stood for the proposition that one who obtained a license to use a patent could not thereafter contest the validity of that patent as a means to avoid paying the otherwise agreed upon royalties. *Lear*, 395 U.S. at 656, 671. In reaching that conclusion, the Supreme Court had to balance the “the competing demands of the common law of contracts and the federal law of patents.” *Id.* at 668. As the Court noted:

On the one hand, the law of contracts forbids a purchaser to repudiate his promises simply because he later becomes dissatisfied with the bargain he has made. On the other hand, federal law requires, that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent.

Id.

The Supreme Court determined that “it does not seem to us to be unfair to require a patentee to defend the Patent Office's judgment when his licensee places the question in issue, especially since the licensor's case is buttressed by the presumption of validity which attaches to his patent.” *Id.* at 670. The Supreme Court further found that licensees, being the most likely to challenge a patent, should not be muzzled by licensee estoppel, for it would create the risk that “the public may continually be required to pay tribute to would-be monopolists without need or justification.” *Id.* The Court concluded that the licensor’s private contract rights had to give way in order to protect the public interest. *Id.* at 670–71. Thus, the licensee in *Lear* was allowed to contest that validity of the licensed patent. *Id.* at 673.

The Supreme Court then addressed a question which is squarely raised in the case before us: Whether the licensee “must . . . continue to pay royalties until its claim is finally vindicated in the courts.” *Id.* The Court then answered that question in the negative, finding that requiring the repudiating licensee to continue making royalty payments “would be inconsistent with the aims of federal patent policy.” *Id.*

AAMP argues that *Lear* is inapplicable to the case before us. Instead, AAMP urges us to rely on *Flex-Foot, Inc. v. CRP, Inc.*, 238 F.3d 1362 (Fed. Cir. 2001), in which that court enforced the licensee’s explicit promise,

contained in a litigation-ending settlement/license agreement, that it would not thereafter contest the validity of the licensed patent. The Federal Circuit rejected the argument that such no-contest agreements were void as against public policy under *Lear* for two primary reasons. First, the settlement/license agreement which the licensor sought to enforce in *Flex-Foot* had been reached following several rounds of litigation contesting the validity of the subject patent, while in *Lear* the validity of the patent had not yet been litigated. Second, the parties in *Lear* had not included a no-contest clause in their licensing agreement, whereas the parties specifically did so in *Flex-Foot*.⁶ There is a split of authority among the various U.S. Circuit Courts of Appeal regarding when and under what circumstances, if any, such no-contest clauses are enforceable. A very thorough discussion of that on-going disagreement can be found in *Rates Technology, Inc. v. Speakeasy, Inc.*, 685 F.3d 163 (2d Cir. 2012).

However, as interesting as analyzing the enforceability of a no-contest clause might be, we will not engage in it for one simple reason—the parties’ Settlement Agreement did not contain one. In the absence of clear and

⁶ The licensee in *Flex-Foot* agreed inter alia “not to challenge or cause to be challenged, directly or indirectly, the validity or unenforceability of the [patents] in any court or other tribunal, including the United States Patent and Trademark Office.” It further waived all invalidity and unenforceability defenses in all future litigation and arbitration proceedings. *Id.* at 1364.

unambiguous language agreeing not to pursue and releasing patent invalidity claims, the licensee retains the right to challenge the licensed patent. *Baseload Energy, Inc. v. Roberts*, 619 F.3d 1357, 1362–63 (Fed. Cir. 2010). Furthermore, in our case there is nothing in the Settlement Agreement expressly regarding the validity of the licensed patents; thus, their validity is not part of the Settlement Agreement and is therefore not the subject of a written agreement to arbitrate. Consequently, AAMP’s reliance on *Flex-Foot* is misplaced.

Accordingly, because the Settlement Agreement lacks a no-contest clause, Metra is correct that it was under no obligation to continue making royalty payments while it actively contested the validity of the licensed patents. *See Beckman Instruments, Inc. v. Tech. Dev. Corp.*, 433 F.2d 55, 62–63 (7th Cir. 1970) (holding that it was evident that the parties did not expressly provide for arbitration of patent validity questions; therefore, the patent validity issue did not fall within the terms of the arbitration clause; and finding there was no issue ripe for arbitration until the validity of the patent was determined). Under the circumstances and timing of Metra’s failure to make royalty payments during the period of contesting the validity of AAMP’s

patents, no payments were due; thus, there was no issue that was ripe for arbitration at the time the trial court ordered same.⁷

To the extent that the trial court's order granted AAMP's petition to compel arbitration in its entirety, that was error, as it required the parties to arbitrate whether Metra was entitled to challenge the validity of the patents in the absence of a no-contest clause. Under *Lear* and *Baseload Energy*, discussed above, that would be error.

Accordingly, based on the facts as they existed when this matter was before the trial court, we quash the order compelling arbitration and remand for entry of an amended order, nunc pro tunc, denying AAMP's petition to compel arbitration.

REVERSED and REMANDED.

WALLIS, J., concurs

NARDELLA, J., concurs in result only

⁷ If indeed the validity of the '540 patent was finally established, an argument can be made that the abatement of royalty payments condoned by *Lear* would come to an end, making royalty payments an arbitrable issue.

UNITED STATES DISTRICT COURT
MIDDLE DISTRICT OF FLORIDA
TAMPA DIVISION

AAMP OF FLORIDA, INC.,
d/b/a AAMP of America,

Plaintiff,

v.

Case No. 8:11-cv-2439-T-23TGW

METRA ELECTRONICS CORPORATION,

Defendant.

CONDITIONAL MEDIATION SETTLEMENT AGREEMENT

This Agreement is conditioned upon the approval of the Plaintiff's Board of Directors within one week hereof:

1. The above-captioned case shall be dismissed with prejudice, each party to bear its own costs and attorney fees. Each side agrees to pay equally its share of the mediation fee.

2. Within 20 days hereof, Metra Electronics Corporation shall pay to AAMP of Florida, Inc. \$250,000.00 as a down payment on the license fees set forth hereafter. AAMP shall license the patents in suit and any patents related to the patents in suit herein to Metra in exchange for license fees based on sales of products which permit steering wheel controls to control or interact with a car stereo or other device connected thereto, in the following amounts, as to which the \$250,000.00 payment shall be a credit:

- for invoiced sales (less credits and returns directly related to the covered products) in the first year commencing from the effective date of October 1, 2012, 10% or \$5.00 per unit, whichever is greater, calculated on the average selling price during the period;
- for invoiced sales (less credits and returns directly related to the covered products) in the second year and thereafter for the remainder of the life of the patents in suit or related patents, 10% or \$3.75 per unit, whichever is greater.
- Accounting shall be conducted annually on the anniversary and

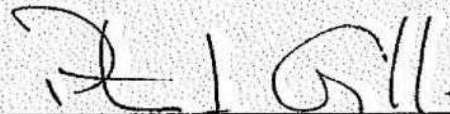
payments shall be made within thirty days thereof.
Audits of sales and revenues therefrom shall be conducted annually by a mutually agreeable CPA who shall provide the parties a satisfactory report identifying the products included and the royalty calculation.

3. Both parties will execute mutual releases in a form reasonably satisfactory to the parties. The parties agree not to issue any public statements, but may reveal the terms of settlement in the course of confidential negotiations or as necessary for tax or legal purposes.

4. Undersigned counsel and representative for AAMP agree to recommend these terms to the AAMP Board of Directors. This Agreement may be executed in fax or pdf counterparts.

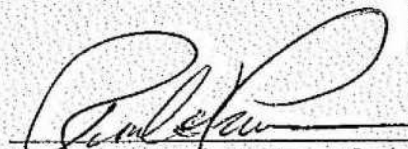
5. Disputes concerning the settlement shall be submitted to binding arbitration before a mutually agreeable arbitrator.

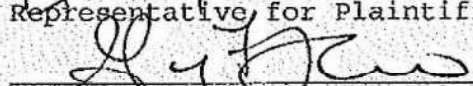
Done October 4, 2012 in Tampa, Florida.

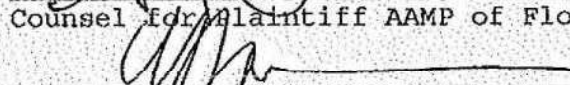


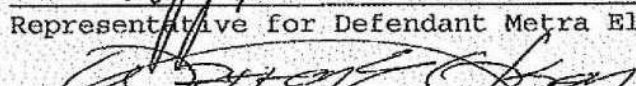
Peter J. Grilli, Esquire
Florida Bar No. 237851
Mediator
Peter J. Grilli, P.A.
3001 West Azeele Street
Tampa, Florida 33609

Fax: 813.874.1131



Representative for Plaintiff AAMP of Florida, Inc.

Counsel for Plaintiff AAMP of Florida, Inc.

Representative for Defendant Metra Electronics Corporation

Counsel for Defendant Metra Electronics Corporation