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Drafting Tips

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The Federal Circuit recently denied a rehearing and *en banc* petition in *Molon Motor and Coil Corp. v. Nidec Motor Corp.*, 946 F.3d 1354 (Fed. Cir. 2020). In *Molon Motor*, the parties disputed the effect of a merger clause in a patent license agreement, where a previous agreement existed licensing the same patent but on different terms and conditions.

Background of the Case

In 2004, Molon Motor and Coil Corp. (Molon) sued Merkle-Korff Industries, Inc. (Merkle-Korff) for patent infringement. Merkle-Korff counterclaimed for invalidity of US Patent 6,465,915 (the '915 Patent), a patent which Molon had not asserted in its original suit against Merkle-Korff.

In 2006, Molon responded to Merkle-Korff's counterclaim by granting to Merkle-Korff a unilateral covenant not to sue over the '916 Patent (the 2006 CNS) and moving to dismiss the counterclaim for lack of subject matter jurisdiction.

Molon and Merkle-Korff subsequently settled both Molon's patent infringement claims and Merkle-Korff's invalidity claims and executed a settlement agreement in 2007 (the 2007 Settlement). Among other things, the 2007 Settlement granted to Merkle-Korff an exclusive license

to the '915 Patent in a narrowly defined field.

2016 Patent Infringement Dispute

In 2016, Molon sued Nidec Motor Corp. (Nidec), successor in interest to Merkle-Korff, alleging infringement of the '915 Patent based on Nidec's activities outside the defined field of the 2007 Settlement. Nidec moved for partial summary judgment, arguing that the 2006 CNS barred Molon's suit. Molon responded that the 2006 CNS was extinguished on the parties' execution of the 2007 Settlement. Molon pointed to the merger clause of the 2007 Settlement, which stated: "[a]ll prior and contemporaneous conversations, negotiations, possible and alleged agreements, representations and covenants concerning the subject matter hereof, are merged herein and shall be of no further force or effect." (emphasis added)

Molon argued that the 2007 Settlement should revoke the 2006 CNS because the agreements concerned the same subject matter—the '915 Patent. Molon also argued that such a revocation was the clear intent of the parties.

The district court sided with Nidec, holding that the 2007 Settlement was not merged with—that is, did not supersede—the 2006 CNS. Molon appealed.

Federal Circuit Ruling

In its opinion, issued January 10, 2020, the Federal Circuit has affirmed the district court's ruling—holding that the 2007 Settlement did *not* revoke the 2006 CNS because the two agreements concern different subject matter.

The 2007 Settlement specified it should be interpreted under Illinois law. In rendering its opinion, the *Molon* panel majority surveyed Illinois case law, finding that previous guidance cautioned courts evaluating merger clauses "against defining 'subject matter' too broadly or too narrowly."

In the panel majority's view, the 2006 CNS was only a non-exclusive or "bare" license, and merely provided Merkle-Korff (or its successor) freedom from suit. In contrast, the exclusive license granted under the 2007 Settlement provided "an interest in the ['915 Patent] sufficient to establish an injury when a third party infringes, akin to an ownership interest."

The Federal Circuit, in so holding, stated: "Under this framework, it cannot be said that an exclusive license and a nonexclusive license necessarily concern the same subject matter, even though both licenses include the same patent."

The panel majority further rejected Molon's contention that the 2007 Settlement merger clause clearly indicated the parties' intent to revoke the 2006 CNS.

Judge Reyna filed a dissenting opinion, arguing that the two agreements should have merged because they relate to the same

subject matter—the right to practice the ‘915 Patent. In the dissent’s view, Illinois law only required analysis of the “heart of the subject matter,” which the dissent believed to be aligned between the two agreements at issue.

Key Takeaways

Molon Motor serves as a useful reminder of best practices in contract drafting. Careful attention should be paid to any prior-in-time agreements between the same parties. Appropriate diligence should be conducted to ascertain whether any such agreements exist and, if so, the extent to which those agreements should be superseded. Drafters should not rely on a “boilerplate” merger clause but should clearly articulate in a second-in-time agreement how any prior agreements should be interpreted—which may include the express revocation of a prior agreement. This additional

clarification could avoid future, expensive *Molon Motor*-type litigation.

Molon Motor also underscores the court’s historical practice of evaluating the substance of a patent license over its form. Courts are expected to thoughtfully analyze, on a case-by-case, fact-specific basis, the “bundle of rights” a patentee provides to its licensee. In this particular case, the court re-emphasizes that exclusive licenses confer significantly different benefits from non-exclusive licenses and cannot be treated as essentially the same—either for patent enforcement or contract interpretation.

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