

## **FOREIGN INJUNCTION ISSUED BY GERMAN COURT NOT RECOGNIZED BY U.S. COURTS IN PATENT LITIGATION DISPUTE.**

The 9th Circuit Court of Appeals was recently asked to decide whether the district court erred in granting a foreign anti-suit injunction that prevented Motorola from enforcing a patent-related injunction it obtained in a German court. In *Microsoft Corp. v. Motorola, Inc.*, 12-35352, 2012 WL 4477215 (9th Cir. Sept. 28, 2012), the 9th Circuit upheld the trial court's order preventing Motorola from enforcing the injunction issued by a German court.

This case involves Motorola, a patents holder, and Microsoft, a would-be licensee. In October 2010, Motorola sent a letter to Microsoft offering to license one of its worldwide patents (including both U.S. and German patents) for a royalty of 2.25% per unit based on the price of the end product and not the component software. Microsoft responded by filing a lawsuit in the U.S. District Court for the Western District of Washington alleging breach of contract. Microsoft's theory was that they were a third party beneficiary to Motorola's contractual commitment with the International Telecommunications Union ("ITU") -- the United Nations specialized agency for information and communication technologies and that requires members to agree to license patents on fair, reasonable and non-discriminatory terms. Microsoft further contended that Motorola's proposed royalty terms were unreasonable, constituting a breach of the ITU contract.

While the U.S. breach of contract suit was ongoing, Motorola filed two patent infringement lawsuits; one in the Western District of Wisconsin and another one in Germany, seeking an injunction against Microsoft's continued infringement of Motorola's patent. A German court thereafter granted Motorola an injunction prohibiting Microsoft from selling products using the Motorola patent. The German court did so because Motorola's commitment to the ITU was not enforceable as German law does not recognize third party contract rights. In response to the German injunction, Microsoft asked a U.S. district court to grant a preliminary injunction to prevent Motorola from enforcing the German injunction until the pending U.S. breach of contract action was decided. The district court granted the preliminary injunction preventing Motorola from enforcing the German court's injunction.

The 9th Circuit affirmed. The court considered the foreign-anti suit injunction entered by the district court under the standard adopted in *E. & J. Gallo Winery v. Andina Licores S.A.*, 446 F. 3d 984 (9th Cir. 2006). Under *Gallo*, a foreign anti-suit injunction may not be granted unless the court determines that (1) the parties and the issues are the same in both the domestic and foreign actions and whether the first action is dispositive of the action to be enjoined; (2) the foreign litigation would be vexatious and oppressive; and (3) the "impact" of the foreign anti-suit injunction "on comity" will be tolerable. The court found that all the elements of the Gallo test were met.

The court rejected Motorola's argument that "the U.S. action cannot resolve the German action, because patent law is uniquely territorial and patents have no extraterritorial effect." *Id.* at 8. The court noted that the issue in the domestic suit was not about the patent infringement, but rather a breach of the promise under the ITU agreement to license on fair and reasonable terms. Motorola, in its declarations to the ITU, promised to grant a license to an unrestricted number of applicants, worldwide, and on fair and reasonable terms and conditions. Accordingly, it was not appropriate to enforce the German court's injunction until the breach of contract action was decided in the United States.

The decision has important implications for patent holders and would be licensees. Where promises have been made to an organization by a member, would-be licensees may avoid unreasonable license demands of by patent holders by bringing a breach of contract action. Further, this case is an example of the unwillingness of U.S. courts to enforce injunctions issued outside of the U.S. until the actual merits of the dispute are decided, particularly where foreign law does not recognize the legal concepts upon which the dispute is based.

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