

**IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION**

CONTINENTAL AUTOMOTIVE GMBH and)	
CONTINENTAL AUTOMOTIVE SYSTEMS,)	
INC.,)	
Plaintiffs,)	Civil Action No. 14-cv-01799
v.)	Hon. John Z. Lee
IBIQUITY DIGITAL CORPORATION,)	
Defendant.)	

PLAINTIFF’S RESPONSE TO DEFENDANT’S MOTION TO DISMISS

Plaintiffs Continental Automotive GbmH and Continental Automotive Systems, Inc. (collectively “Continental”) hereby submit their response to defendant iBiquity Digital Corporation’s Motion to Dismiss.

I. INTRODUCTION

Continental through this action is properly seeking a declaratory judgment of non-infringement of iBiquity’s HD Radio essential patents. iBiquity and Continental were parties to a 2005 patent license agreement that iBiquity now claims is terminated. iBiquity asserted it will take necessary action to enforce its rights against Continental’s sale of HD Radios. Contrary to iBiquity’s allegations in its motion to dismiss, this is far more than a mere licensing dispute over past royalties—the sole relief sought by iBiquity in its Maryland action. Continental’s complaint seeks relief from the very real and pervasive threat of a patent infringement suit that iBiquity has threatened against Continental. Continental’s claims are firmly grounded in federal patent law through iBiquity’s threatened infringement action and thereby subject matter jurisdiction is present. Likewise, Continental has pled sufficient facts to show its patent exhaustion and patent

misuse claims to be facially plausible. Accordingly, iBiquity's Motion to Dismiss should be denied.

II. LEGAL STANDARD

In a declaratory judgment action, the well-pleaded complaint rule requires this Court to determine whether a federal question would be present on the face of a complaint by the declaratory defendant in a presumed suit against the declaratory plaintiff. *City of Beloit v. Local 643 of Am. Fed'n of State, Cnty. & Mun. Employees, AFL-CIO*, 248 F.3d 650, 652 (7th Cir. 2001). For purposes of determining subject matter jurisdiction, the court may properly look beyond the jurisdictional allegation of the complaint and view whatever evidence has been submitted on the issue to determine whether in fact subject matter jurisdiction exists. *Ezekiel v. Michel*, 66 F.3d 894, 897 (7th Cir. 1995). A motion to dismiss pursuant to Rule 12(b)(1) is analyzed as any other motion to dismiss, by assuming for purposes of the motion that the allegations in the complaint are true. *Id.* To survive a motion to dismiss, a complaint must contain sufficient factual matter, accepted as true, to "state a claim to relief that is plausible on its face" by pleading factual content that allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged. *Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009). The pleading standard Rule 8 announces does not require detailed factual allegations. *Id.* The plausibility standard is not akin to a "probability requirement," but it asks for more than a sheer possibility that a defendant has acted unlawfully. *Id.*

III. ARGUMENT

A. This Court has Subject Matter Jurisdiction due to the live patent infringement controversy

The Seventh Circuit has specifically found subject matter jurisdiction in declaratory judgment actions based on live claims the declaratory judgment defendant could bring, holding

“[the declaratory judgment act] allows suits for declaratory judgment where federal jurisdiction would exist in a coercive suit brought by the declaratory judgment defendant. *Ameritech Ben. Plan Comm. v. Commc'n Workers of Am.*, 220 F.3d 814, 818 (7th Cir. 2000). Indeed, in *Ameritech* the Seventh Circuit rejected the claim that subject matter jurisdiction was lacking because the statute at issue did not provide for suits by the employer against whom discrimination is alleged, holding that subject matter jurisdiction existed on the basis that the declaratory judgment defendants could have brought a suit to enforce Title VII and the Equal Pay Act against declaratory judgment plaintiff and those claims presented federal questions. *Id.* Here, subject matter jurisdiction is proper based on iBiquity’s threatened patent infringement claims just as the declaratory judgment defendants’ Title VII claims provided subject matter jurisdiction in *Ameritech*.

iBiquity contends that the license agreement lapsed on June 28, 2012, and as a result Continental is no longer a licensed manufacturer of HD Radio compliant devices. Comp. Ex. D at 1. Alternatively, iBiquity contends that it terminated the license agreement as of January 9, 2014 or by its term the license agreement expires as of June 28, 2014. Thus, iBiquity contends that Continental is or shortly will no longer be a licensee under iBiquity’s HD Radio standard essential patents, and can bring a patent infringement suit asserting its patent rights at any time against Continental’s sales of HD Radios. Indeed, iBiquity has threatened to enforce its patent rights against Continental unless Continental renews its license agreement. Ex. 1, Declaration of June Bradley. Thus, Continental is subject to the immediate and concrete threat of a patent infringement suit by iBiquity. Declaratory judgment jurisdiction exists when the declaratory judgment defendant has a putative claim just as iBiquity has a claim for patent infringement

against Continental absent a license. Accordingly, Continental's declaratory judgment claim properly has subject matter jurisdiction under 28 U.S.C. § 71 governing patent infringement.

iBiquity's cited authority is easily distinguishable. In *Excelstor Technology, Inc. v. Papst Licensing GmbH*, the plaintiff's claims were limited to a breach of contract action—not patent infringement. *Excelstor Technology, Inc. v. Papst Licensing GmbH*, 07-C-2467, 2007 WL 3145013, at *4 (N.D. Ill. Oct. 24, 2007). In fact, plaintiff ExcelStor was a licensee of defendant Papst's patent portfolio, and ExcelStor's breach of contract claim was based on the violation of a notice provision in that agreement. *Id.* at 1. As a current licensee of Papst's patent portfolio under a current license agreement, ExcelStor could not be sued for patent infringement by Papst, and thus no there was no live controversy arising under federal patent law. *Id.* at 4 (recognizing that the only patent infringement claim alleged by ExcelStor was “pure speculation at this juncture”), *aff'd* 541 F.3d 1373, 1376 (Fed. Cir. 2008) (noting ExcelStor's claims were directed to “*hypothetical* claims of patent infringement”) (emphasis added). In contrast, Continental does not or will not possess a license to iBiquity's asserted patents, and iBiquity has represented it will enforce those patents against Continental.

iBiquity's reliance on the Seventh Circuit's decision in *Milprint Inc. v. Curwood Inc.* 562 F.2d 418 (7th Cir. 1977) is similarly misplaced. In *Milprint*, the Seventh Circuit specifically held that:

A patent licensor whose licensee has broken the agreement is not without choice between a state and a federal forum. It can, for example, declare the license forfeited for breach of a condition subsequent and sue for infringement. If it is correct as to its right to declare such a forfeiture unilaterally (a question of state law) federal jurisdiction of the infringement suit exists. *Luckett v. Delpark, Inc.*, *supra*, 270 U.S. at 511, 46 S.Ct. 397. But where the licensor stands on the license agreement and seeks contract remedies, even an allegation of infringement will not create federal jurisdiction, for the existence of the license precludes the possibility of infringement. *Arvin Industries, supra*, 510 F.2d at 1073.

Id. at 420.

iBiquity is not standing on its license agreement in the Maryland suit but instead claims that Continental's license has expired or was terminated. Accordingly, iBiquity's potential patent infringement claims are the type of immediate and real claims appropriately addressed through a declaratory judgment.

Because subject matter jurisdiction in a declaratory judgment action is based on the claims that could be brought by the declaratory judgment defendant, rather than the declaratory judgment plaintiff, iBiquity's argument that Continental's Counts I and II recite defenses to patent infringement is irrelevant. Furthermore, other courts in the district have allowed declaratory judgments such as this one claims asserting patent misuse affirmatively. *Rosenthal Collins Grp., LLC v. Trading Technologies Int'l, Inc.*, 05 C 4088, 2005 WL 3557947 (N.D. Ill. Dec. 26, 2005) (allowing patent misuse declaratory judgment claim to enjoin defendant from asserting a patent infringement claim against plaintiff).

The fact is that the termination of the license combined with iBiquity's threats to enforce its patent rights by an infringement claim alone confers subject matter jurisdiction under 28 U.S.C. § 271. Accordingly, the Court should deny iBiquity's motion to dismiss for lack of subject matter jurisdiction.

B. Continental has pleaded sufficient facts to state a claim that is plausible on its face.

1. Count I's Patent Exhaustion Claim Is Facially Plausible.

iBiquity improperly asserts that Continental must allege an "unconditional" sale for its patent exhaustion claim to be "facially plausible" under *Iqbal* and *Twombly*. As stated by the Supreme Court, "[t]he longstanding doctrine of patent exhaustion provides that the initial *authorized* sale of a patented item terminates all patent rights to that item." *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617, 625 (2008); *see also TransCore, LP v. Elec.*

Transaction Consultants Corp., 563 F.3d 1271, 1274 (Fed. Cir. 2009) (emphasis added). Continental has pleaded that Continental's suppliers of HD Radio components embodying the HD Radio essential patents are licensees of iBiquity's HD Radio essential patents. Comp. at ¶¶ 26, 30. Continental has further alleged that iBiquity authorizes the sale of those HD Radio components to Continental. *Id.* at ¶¶ 27, 31. These allegations address the very elements recited by the Supreme Court (1) an initial sale of the patented item and (2) the sale is authorized by the patent holder. To the extent iBiquity implies that a sale must be "unconditional" to be "authorized," it impermissibly addresses the merits of Continental's claim in a motion to dismiss where all properly pleaded facts are presumed to be true.

2. Count II's Patent Misuse Claim Is Facially Plausible

Continental's Count II pleads sufficient facts to establish the claimed patent misuse as facially plausible. iBiquity is allegedly the owner of all patents essential to HD Radio technology which it dedicated to the HD Radio standard. In doing so, it agreed to license HD Radio manufacturers on reasonable and non-discriminatory terms. Comp. at ¶¶ 11-12. Having done so, it was improper for iBiquity to demand a royalty from Continental based on the price of a head-end unit including non-patented technology and components unrelated to the licensed HD Radio product. *See Apple, Inc. v. Motorola Mobility, Inc.*, 11-CV-178-BBC, 2011 WL 7324582, at *13-14 (W.D. Wis. June 7, 2011). Further, it was improper for iBiquity to demand royalties from Continental and other similarly situated manufacturers for the use of components that were already licensed by iBiquity under iBiquity's HD Radio patents and technology.

IV. CONCLUSION

For the aforementioned reasons, Continental respectfully requests the Court deny iBiquity's Motion to Dismiss, or in the alternative grant Continental leave to file an amended complaint.

Dated: June 12, 2014

Respectfully submitted,

CONTINENTAL AUTOMOTIVE GMBH and
CONTINENTAL AUTOMOTIVE SYSTEMS,
INC.,

By: /s/ Michael Stolarski

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EXHIBIT 1

**IN THE UNITED STATES DISTRICT COURT
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EASTERN DIVISION**

CONTINENTAL GMBH,)	
)	
Plaintiff,)	
)	
vs.)	Civil Action No. 14-CV-01799
)	
iBIQUITY DIGITAL CORPORATION.)	
)	
Defendant.)	Hon. John Z. Lee
)	
)	

**DECLARATION OF JUNE BRADLEY IN SUPPORT OF PLAINTIFF’S RESPONSE TO
DEFENDANT’S MOTION TO DISMISS**

I, June Bradley, declare and state as follows to the best of my knowledge, belief and understanding:

1. I am Software Category Manager at Continental Automotive Systems, Inc. a division of Continental AG (“Continental”). As part of my responsibilities, I am in charge of contracts and licenses. I am fully familiar with the facts and circumstances set forth below.

2. I submit this declaration in support of Continental’s response to Defendant iBiquity Digital Corporation’s (“iBiquity”) motion to dismiss Continental’s complaint.

3. I have been personally involved with performance of the Nonexclusive Intellectual Property License for Receiver Technology between Siemens VDO and iBiquity Digital Corporation, dated June 28, 2005, (“Agreement”) as this agreement was assigned to Continental upon its acquisition of Siemens VDO in 2008.

4. As part of my job responsibilities, in early 2013 I reviewed the Agreement for purposes of determining its applicability to Continental’s business and current product offerings.

iBiquity’s Actions in Obtaining a Standard on its HD Radio Patented Technology

5. iBiquity obtained patents generally related to “HD Radio” which allows radio stations to transmit audio and other data on a digital signal at a frequency above and below a station’s standard analog signal, allowing a listener to listen in either digital radio or as a standard broadcast. HD Radio has become a standard for radios in the United States and beyond.

6. In obtaining HD Radio as the standard, iBiquity formally bound itself to the patent policy of the National Association of Broadcasters’ (“NAB”), National Radio Systems Committee (“NRSC”) standards organization that requires iBiquity to license its patents on a reasonable and non-discriminatory basis.

Continental and iBiquity’s Licensing History

7. On June 28, 2005, Siemens VDO Automotive Corporation (“Siemens”) entered into an agreement with iBiquity for a license under its essential patents for HD Radio. (the “License”) On August 28, 2007, Continental purchased the assets of Siemens VDO and the License was acquired by Continental as a result of that purchase.

8. In exchange for the License, Continental was required to pay a royalty for every Licensed Receiver Product it sells or transfers in “an amount equal to the lesser of the following:

1. The aggregate total gross invoiced sales during each quarter for Licensed Receiver Products multiplied by 4%, or
2. The total number of units of Licensed Receiver Product sold during the corresponding quarter multiplied by six dollars (\$6),

Notwithstanding the above, the minimum royalties paid shall not be less than the total number of units of Licensed Receiver Products sold multiplied by one dollar (\$1).” (License, Sec. 7.1).

9. The licensed HD Radio components are small components that are eventually incorporated into a larger head-end unit that Continental sells to vehicle manufactures (its “customers”). Only the larger head-end units are eventually invoiced to the customers. The HD

Radio components are not invoiced separately.

10. The head-end unit contains a significant amount of functionality beyond the HD Radio including, among other things, navigation, telematics, wifi and cellular connectivity capabilities, Bluetooth and vehicle tracking functionalities. It is this entire head-end unit, with its many different functionalities, that is ultimately invoiced to the customer.

11. In October 2007, Continental submitted a royalty payment calculating the royalty amount using the radio receiver component as recited in the terms of the agreement, rather than the entire head-end unit, and iBiquity responded by threatening to terminate the agreement and “pursue any additional remedies available.” I understood iBiquity’s reference to any additional remedies available to refer to a lawsuit asserting claims of patent infringement under one or more of the essential patents held by iBiquity.

12. In response to iBiquity’s threats and to avoid the risk of prolonged patent litigation, Continental continued to pay the \$6 royalty amount as demanded by iBiquity until recently, when it conducted a comprehensive review of all of its royalty bearing licenses.

13. Upon review of the License, Continental determined that it was only required to pay a royalty on the “Licensed Radio Receiver” under Section 7.1 and not on the entire sales price of the head-end unit to its OEM customers. Based upon this review and additional analysis and advice from its attorneys, Continental determined that it should have paid royalties based only on the Licensed Receiver Product and not the entire head-end unit sold to the automobile OEM customer.

14. When Continental informed iBiquity of its analysis of the License and its determination that it had overpaid royalties under the License, iBiquity responded that “everyone pays \$6 per radio.” iBiquity further informed Continental that if it did not pay \$6 per unit, then

iBiquity would terminate the License and advise Continental's suppliers of HD Radio components, as well as Continental customers for head-end units containing HD Radios, that Continental was not licensed by iBiquity and licensed component makers could not sell components to Continental going forward and that it would take any necessary actions to address this issue against Continental.

15. iBiquity has taken the position that the License term expired on June 28th, 2012 and that Continental was no longer a licensee of iBiquity's patents and related technology.

16. iBiquity further informed Continental that should the License agreement be interpreted to terminate on June 28th, 2014, as Continental maintains, that iBiquity would be terminating the agreement at its expiration.

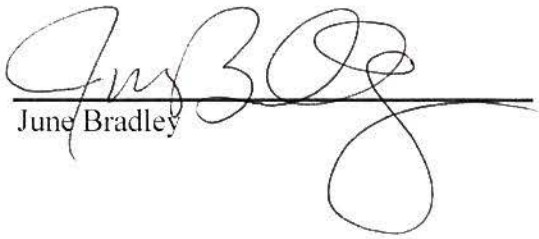
17. Continental and iBiquity continued negotiations concerning another license to iBiquity's HD Radio essential patents for several months. During these negotiations, iBiquity stated that it would take all possible steps to enforce its intellectual property rights, including the HD Radio essential patents, against Continental if the parties could not reach an agreement on licensing terms.

18. I understood iBiquity's reference to enforcing its intellectual property rights as a threat to file a patent infringement lawsuit asserting iBiquity's HD Radio essential patents against Continental.

19. Despite iBiquity's threats of litigation, Continental and iBiquity failed to reach an agreement granting Continental a license to iBiquity's HD Radio standard essential patents and related technology.

Dated: June 12, 2014

Respectfully submitted,

By: 
June Bradley