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## III. Judge Axes German Auto Parts Co.'s HD Radio Patent Suit

By **Aebra Coe**

Law360, New York (February 26, 2015, 5:26 PM ET) -- An Illinois federal judge on Thursday killed a German automotive supplier's suit seeking a declaration it doesn't infringe patents for high-definition radio, ejecting all of the suit's federal claims and declining to exercise jurisdiction over the suit's six remaining claims, which concern contracts currently being litigated in state court.

U.S. District Judge John Z. Lee found that Continental Automotive GmbH's three federal law claims against iBiquity Digital Corp. — patent exhaustion, patent misuse and declaratory judgment of patent rights — fail either because his court lacks subject matter jurisdiction or because they fail to state a claim. Additionally, the court found that all remaining claims pertain to a contract regarding royalties and are best litigated in state court where proceedings have already been launched.

"With the patent exhaustion and misuse claims dismissed, the only claims remaining are those that do not arise under the patent laws and, thus, are more properly litigated in state court," Judge Lee said.

Continental merged with Siemens VDO Automotive Corp. in 2007, acquiring at that time Siemens VDO's license agreement with iBiquity, which is valid until June 28.

In May 2013, however, Continental decided that iBiquity was misinterpreting how royalties should be calculated under the contract, claiming that iBiquity's method of calculating a royalty based on the end price of Continental's entire head-end units, instead of the price of the radio receiver units alone, is not reasonable, and in the third quarter of 2013 Continental stopped paying the royalties.

Continental's federal suit, filed last March, sought a declaratory judgment that its HD radio semiconductor devices don't infringe two iBiquity patents and that Continental isn't violating its license to use said patents.

The complaint said iBiquity is alleging that all HD radio receivers with the National Radio System Committee standard infringe iBiquity's 24 patents, and that iBiquity is required by the NRSC to license the patents to all manufacturers of HD radio receivers on reasonable terms.

Last May, **iBiquity fought back** against the federal suit, saying that it filed a breach of contract lawsuit against Continental in Maryland court in February 2014 — over a month before Continental's federal complaint was filed — and that this is a matter of contractual, not patent, issues and thus is rightly being tried in the Maryland circuit court.

Judge Lee agreed on Thursday, dismissing all claims brought under patent law because, he said, the matter is, at its heart, a contract suit.

The order dismissed all federal claims by finding that patent exhaustion is a defense to patent infringement, not a cause of action and that patent misuse cannot be brought as a stand-alone cause of action, but must be a response to a patent infringement action. It also found that the request for a declaration of Continental's patent rights hinge on a reading of the parties' royalties contracts and as such do not depend on questions of patent law.

Representatives of the parties were not immediately available to comment Thursday.

Continental is represented by Michael Stolarski, Kyle Davis and Macy Skulman of Lathrop & Gage LLP.

iBiquity is represented by David C. Van Dyke and Emily E. Bennett of Howard & Howard Attorneys PLLC, and John A. Jurata Jr. and David B. Smith of Orrick Herrington & Sutcliffe LLP.

The case is Continental Automotive GmbH et al. v. iBiquity Digital Corp., case number 1:14-cv-01799, in the U.S. District Court for the Northern District of Illinois.

--Additional reporting by Daniel Siegal. Editing by Mark Lebetkin.

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