

EXHIBIT B

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

MOLON MOTOR AND COIL CORPORATION,	)	
	)	
Plaintiff,	)	No. 16 C 03545
	)	
v.	)	
	)	Judge Edmond E. Chang
NIDEC MOTOR CORPORATION,	)	
	)	
Defendant.	)	

MEMORANDUM OPINION AND ORDER

Molon Motor and Coil Corporation brought suit against Nidec Motor Corporation for patent infringement, conspiracy to misappropriate trade secrets, violation of federal and state trade secrets laws, and intentional interference with Molon’s employment agreements.¹ *See* R. 18, Second Am. Compl.² Molon claims in Count 1 of its Complaint that Nidec infringed its patent for a miniaturized motor used in ice-crushers and vending machines, U.S. Patent No. 6,465,915 (“915 patent”) in violation of 35 U.S.C. § 271, *et seq. Id.* ¶¶ 1, 31-48; R. 36, Decl. of Kevin Machalek in Support of Def. Exh. 2 at 6-7.

But back in 2006, Molon granted Merkle-Korff, Nidec’s predecessor, a covenant not to sue on that very same patent. R. 35, DSOF ¶¶ 9-10. Nidec points to

¹This Court has subject-matter jurisdiction over the federal patent infringement and misappropriation of trade secrets claims under 28 U.S.C. § 1331 and 1338(a). Supplemental jurisdiction applies over the remaining claims, 28 U.S.C. § 1367, because each state-law claim is part of the same case or controversy of at least one of Molon’s federal claims.

²Citations to the docket are indicated by “R.” followed by the docket entry. Since the filing of this motion, Plaintiff has filed a Third Amended Complaint, though Count 1 is unchanged, *see* R. 64. Citations to the parties’ Local Rule 56.1 Statements of Fact are “DSOF” (for Defendant Nidec’s Statement of Facts) [R. 35] and “PSOF” (for Plaintiff Molon’s Counter-Statement of Facts) [R. 46].

this covenant as barring the patent infringement claim, R. 33, Def's. Mot. Partial Summ. J. at 2, while Molon says that a settlement agreement from the following year extinguished the covenant, R. 49, Pl.'s Resp. Br. at 5. Nidec now moves for partial summary judgment on Count 1, and for the reasons stated below, that motion is granted.

I. Background

In deciding Nidec's motion for partial summary judgment, the Court views evidence in the light most favorable to the non-moving party. *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 587 (1986). Nidec is a Delaware corporation with its principal place of business in Illinois. DSOF ¶ 2. It is the successor to Merkle-Korff Industries, which in 2016 merged with Nidec Kinetek Corporation. *Id.* ¶ 13. Nidec Kinetek then ultimately merged with Nidec Motor Corporation. *Id.*

In 2004, Molon sued Merkle-Korff for allegedly infringing Molon's patent for a "Compact Miniature Motor," U.S. Patent No. 6,054,785 ("785 patent"). DSOF ¶ 7; Decl. of Kevin Machalek in Support of Def. Exh. 1. Merkle-Korff then filed a counterclaim demanding, among other things, a declaratory judgment that Merkle-Korff had not infringed the '915 patent.³ DSOF ¶ 8; Decl. of Kevin Machalek in Support of Def. Exh. 2 at 6-7. In order to divest this Court of jurisdiction over

³Molon had suggested at least a couple times leading up to the 2004 suit that patent '915 was also being infringed. Decl. of Kevin Machalek in Support of Def. Exh. 2 at 7 ("An actual justiciable controversy exists among Molon and Merkle-Korff concerning infringement of the '915 Patent as set forth in a letter from Molon to Merkle-Korff dated July 15, 2003, asserting Merkle-Korff's infringement of pending patent applications and in additional documents produced to Merkle-Korff in discovery describing Molon's contentions that Merkle-Korff allegedly infringes the '915 Patent.").

Merkle-Korff's counterclaims, in February 2006, Molon granted Merkle-Korff a covenant not to sue on the '915 patent, DSOF ¶ 9, stating:

Molon hereby forever covenants not to sue Merkle-Korff for patent infringement (whether direct, contributory, or by inducement thereof) under either the '915 patent or the '726 patent with respect to any and all products previously or presently made, used or sold by Merkle-Korff in the United States. This covenant extends directly to Merkle-Korff as well as any individual or entity to which Merkle-Korff previously or presently supplies products by way of the manufacture and/or sale thereof in the United States.

Id. ¶ 10; *see also* Decl. of Kevin Machalek in Support of Def. Exh. 3 (copy of covenant in its original filing context).

Litigation then continued on the '785 patent up until early 2007, when the parties entered a settlement agreement. PSOF ¶ 1. In exchange for [REDACTED], Pl.'s Resp. Br. Exh. A at 1, Molon granted Merkle-Korff, among other things, exclusive license rights on the '915 patent (and other patents) for a narrowly-defined "Exclusive Market":

Grant. Molon hereby grants each of the Merkle-Korff Affiliates an exclusive, fully paid up, royalty free, worldwide, perpetual, irrevocable, retroactive, current and future right and license of all Patent Rights to make, have made, use, sell, offer to sell, lease, import, export, or otherwise commercialize products and/or systems for resale or other transfer: (i) to any of the other Merkle-Korff Affiliates; and/or (ii) to [REDACTED] and/or its direct and indirect subsidiaries, parent companies, sibling companies, affiliates, partners, joint venture partners, successors, assigns, administrators, or any person or entity now or hereafter owning or having rights to the In Door Ice Patents⁴ in whole or in part, including, without limitation, [REDACTED] and [REDACTED] (such persons and entities in (i) and (ii) above, collectively the "Kinetek Exclusive Market").

⁴"In Door Ice Patents" are defined in the same agreement as: "all United States and foreign letters patent, patent applications, inventor's certificates, utility model applications, including all continuations, divisionals, and reissues thereof, and all related know-how and the like, relating to in door ice dispensing mechanisms and systems, including without limitation U.S. Pat. Nos. 6,148,624, 6,050,097 and 6,082,130." Pl.'s Resp. Br. Exh. A at 2.

Id. at 2; PSOF ¶ 3. Merkle-Korff was also granted the right to sue for infringement of the '915 patent if Molon elected not to or declined to act after a certain amount of time.⁵ But beyond these license rights given to Merkle-Korff, the settlement agreement denied Merkle-Korff any further rights in the '915 patent:

Under said license, the sale, offer to sell, lease, importation, exportation, commercialization and/or other transfer of products and/or systems between two Merkle-Korff Affiliates (as expressly set forth in (i) above), shall in no way permit the transferee Merkle-Korff Affiliate (i.e., the receiving Merkle-Korff Affiliate) to make, have made, use, sell, offer to sell, lease, import, export, or otherwise commercialize such products and/or systems for resale or other transfer to any person or entity outside of the Kinetek Exclusive Market. ...

Pl.'s Resp. Br. Exh. A at 2-3. The settlement agreement also contained an integration clause (also known as a merger clause), declaring it the final word on the agreement's "subject matter":

This Agreement is an integrated Agreement and constitutes the entire agreement and understanding between and among the Parties with regard to the matters set forth herein and shall be binding upon and inure to the benefit of the administrators, agents, personal representatives, successors, and assigns of each. There are no representations, promises, or agreements pertaining to the terms or subject matter of this Agreement, whether express or implied, that are not set forth in this Agreement. All 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.

Id. at 3; PSOF ¶ 4.

⁵Pl.'s Resp. Br. Exh. A at 3 ("Merkle-Korff Affiliates' Rights to Proceed. If, in response to any such actual or apparent infringement of the Patent Rights, Molon declines or fails to take action within a reasonable period of time, the Merkle-Korff Affiliates will have the right, but not the duty, to pursue an infringement claim against such infringer, and Molon will join such action if reasonably requested by the Merkle-Korff Affiliates. In any such action, the Merkle-Korff Affiliates shall solely control such action with attorneys and/or other representatives of their choice at their sole cost and expense. Any net recoveries obtained in such action shall belong to the Merkle-Korff Affiliates.").

Now fast-forward to 2016, when Molon filed this Complaint against Merkle-Korff's successor, Nidec. Molon brings, among other things,⁶ a claim for infringement of the '915 patent. Second Am. Compl. ¶¶ 1, 7, 31-48. Molon accuses Nidec of unlawfully using and selling '915-patent miniature motor technology in its "Custom LVDC⁷ Low-Profile Right Angle Gear Box Motors." *Id.* ¶¶ 33-48. Nidec is allegedly selling '915 patent technology to vending machine and water filtration manufacturers outside of the "Exclusive Market" laid out in the 2007 settlement agreement, and is thus, according to Molon, breaking federal patent law by infringing the '915 patent. *Id.* ¶¶ 1, 7, 36.⁸

Nidec moves for partial summary judgment on Count 1, the '915 patent infringement claim, arguing that the 2006 covenant not to sue bars Molon from trying to sue now. Def's. Mot. Partial Summ. J. at 2. Molon, on the other hand, sees no obstacle in the 2006 covenant, because Molon claims the contract not to sue was extinguished by the settlement agreement. Pl.'s Resp. Br. at 5.

II. Standard of Review

⁶Molon also alleges, in its Second Amended Complaint, infringement of another patent (Count 2), Second Am. Compl. ¶¶ 49-54; conspiracy in misappropriation of trade secrets (Count 3), *id.* ¶¶ 55-69; violation of federal and state trade secrets law (Counts 4 and 5), *id.* ¶¶ 70-84; and intentional interference with employment agreements (Count 6), *id.* ¶¶ 85-88.

⁷LVDC stands for "low-voltage direct current." R. 21, Def's. Mot. File Early Mot. Partial Summ. J. at 3.

⁸The Complaint does not mention the settlement agreement; it instead straightforwardly alleges that Nidec is infringing the '915 patent. That Nidec's uses described in the Complaint are outside of the "Exclusive Market" (and thus not allowed by the settlement agreement) can be inferred from the customer list referenced in the Complaint: "including but not limited to SandenVendo, Royal Vendors, and Aquion..." Second Am. Compl. ¶ 36.

Summary judgment must be granted “if the movant shows that there is no genuine dispute as to any material fact and the movant is entitled to judgment as a matter of law.” Fed. R. Civ. P. 56(a). A genuine issue of material fact exists if “the evidence is such that a reasonable jury could return a verdict for the nonmoving party.” *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986). In evaluating summary judgment motions, courts must view the facts and draw reasonable inferences in the light most favorable to the non-moving party. *Scott v. Harris*, 550 U.S. 372, 378 (2007). The Court may not weigh conflicting evidence or make credibility determinations, *Omnicare, Inc. v. UnitedHealth Grp., Inc.*, 629 F.3d 697, 704 (7th Cir. 2011), and must consider only evidence that can “be presented in a form that would be admissible in evidence.” Fed. R. Civ. P. 56(c)(2). The party seeking summary judgment has the initial burden of showing that there is no genuine dispute and that they are entitled to judgment as a matter of law. *Carmichael v. Village of Palatine*, 605 F.3d 451, 460 (7th Cir. 2010); *see also Celotex Corp. v. Catrett*, 477 U.S. 317, 323 (1986); *Wheeler v. Lawson*, 539 F.3d 629, 634 (7th Cir. 2008). If this burden is met, the adverse party must then “set forth specific facts showing that there is a genuine issue for trial.” *Anderson*, 477 U.S. at 256.

III. Analysis

In Count 1 of its Second Amended Complaint, Molon accused Nidec of infringing its '915 patent. Second Am. Compl. ¶¶ 1, 7, 36. Nidec calls for summary judgment on this Count, contending that the 2006 covenant not to sue prevents Molon's suit. Def's. Mot. Partial Summ. J. at 1. Molon says that the integration

clause in the later 2007 settlement agreement wiped out completely the 2006 covenant not to sue. Pl.’s Resp. Br. at 5. The question, then, is one of contract: did the 2007 agreement’s integration (or merger) clause actually do away with the 2006 covenant?

“Merger occurs when a contract supersedes and incorporates all or part of an earlier agreement.” *Am. Nat. Bank & Trust Co. of Chicago v. Bentley*, 512 N.E.2d 12, 13 (Ill. App. Ct. 1987).⁹ A valid integration or merger clause in an agreement makes that agreement “override any other prior or contemporaneous negotiations between the parties relating to [its] subject matter.” *Midwest Builder Distrib., Inc. v. Lord & Essex, Inc.*, 891 N.E.2d 1, 19 (Ill. App. Ct. 2007).

But integration and merger clauses have their limits. “[E]ven if a contract is integrated, the scope of integration does not extend infinitely to any and all dealings that might have occurred between the parties.” *Midwest Builder*, 891 N.E.2d at 19. “It is axiomatic that, for merger to occur, a previous agreement and a subsequent written agreement must pertain to the same subject matter.” *Ill. Concrete-I.C.I., Inc. v. Storefitters, Inc.*, 922 N.E.2d 542, 545–46 (Ill. App. Ct. 2010). The subsequent contract must “relate[] to the same subject matter and contain[] the same terms” as the previous contract. *Aon Corp. v. Utley*, 863 N.E.2d 701, 705 (Ill. App. Ct. 2006). If a subsequent contract only deals with similar but not the same subject matter, courts will find the subject matters distinct and the agreements separate. *Id.*

⁹The parties agree that Illinois law applies, as specified in the settlement agreement’s choice-of-law clause. PSOF ¶ 7; Pl.’s Resp. Br. Exh. A at 6.

For example, the Illinois Appellate Court recently held that an employment agreement did not cover the same subject matter as a later settlement agreement that happened after the employee's termination. *Hangebrauck v. Ernst & Young, LLP*, — N.E.2d —, 2017 WL 716019, at *6 (Ill. App. Ct. 2017). The narrower settlement agreement dealt with the employee's specific claims as of the date of the settlement, but it did not apply to other claims arising out of the employment relationship, such as the employer's alleged interference with the employee's attempt to find a new job. *Id.* Similarly, a pair of agreements between a contractor and subcontractor did not involve the same subject matter where the first agreement was for trucking and hauling dirt and the second agreement included demolition work as well as hauling dirt. *Ill. Concrete*, 922 N.E.2d at 545–46. In declining to apply a merger clause, that opinion of the Illinois Appellate Court observed, “The mere fact that both agreements involved using trucks is far too slender a reed” for an arbitration provision in the subsequent contract to apply to the earlier mechanic's lien. *Id.* at 546.

Turning back to Nidec and Molon: the 2006 and 2007 agreements do not merge because they do not line up closely enough. Indeed, consistent with Illinois case law, the 2007 settlement agreement includes explicit text that limits the scope of the integration clause. The clause only affects agreements concerning the *subject matter* of the settlement agreement, not all previous agreements the parties might have had regarding other matters:

All 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.

Pl.'s Resp. Br. Exh. A at 6 (emphasis added). So what was the subject matter of the 2007 agreement?

Molon argues that the settlement agreement and the covenant share the same subject matter because they both include rights to the '915 patent. Pl.'s Resp. Br. at 5-6. But that superficial similarity does not automatically translate to having the same subject matter. In one respect, the 2007 settlement agreement is broader than the 2006 covenant. The covenant covers only the '915 and '726 patents,¹⁰ whereas the 2007 agreement includes license rights for a dozen other patents. DSOF ¶ 9; Pl.'s Resp. Br. Exh. A at 2. The 2007 agreement also introduces the right of Nidec (as Merkle-Korff's successor) to sue others for infringement if Molon decides not to. Pl.'s Resp. Br. Exh. A at 3.

On the other hand, the 2007 agreement is in some ways *narrower* than the 2006 covenant in what it is letting Molon do with the '915 patent: it gives exclusive license rights, but only to a carefully circumscribed "network" of customers and affiliates. Pl.'s Resp. Br. Exh. A at 2-3. The 2006 covenant on the other hand, gave a comparatively vast right to avoid suit on two patents. DSOF ¶ 10 ("Molon hereby forever covenants not to sue Merkle-Korff for patent infringement ... under ... the '915 patent ... with respect to any and all products previously or presently made, used or sold by Merkle-Korff in the United States.").

¹⁰The covenant also protected Molon from Merkle-Korff's declaratory judgment counterclaim that the '915 patent was invalid. Decl. of Kevin Machalek in Support of Def. Exh. 3 at 2.

So the covenant is a broad grant to Nidec to use patent '915 without fear of suit, while the settlement agreement gives Molon some separate *exclusive*-market licensing authority and rights to enforce the '915 patent against alleged infringers. Because the subject matter of the covenant and agreement are distinct, the 2007 merger clause does not extinguish the freedom from suit granted in the 2006 covenant. Nidec wins summary judgment against the '915 claim.

This is enough to end the inquiry, but for the sake of completeness, the Court mentions two other points that tip in Nidec's favor here. If the Court were to adopt Molon's interpretation of the settlement agreement, then it would lead to the strange result of potentially putting Merkle-Korff (now Nidec) on both sides of the '915 patent: that is, as suer and sued. When there are two possible ways to interpret a contract, "the construction that makes the contract fair, customary and one likely to be entered into by reasonable men is preferred over the construction that renders the contract inequitable, unusual or unreasonable." *Oshana v. FCL Builders, Inc.*, 964 N.E.2d 748, 754 (Ill. App. 2012). The settlement agreement granted Merkle-Korff the right to enforce the '915 patent by suing other parties for infringement, if Molon failed to do so. If (as Molon contends) that same 2007 agreement also extinguished Molon's earlier promise not to sue, then Merkle-Korff would have curiously become, by the stroke of a pen, simultaneously *empowered* to bring '915 patent suits and vulnerable itself to a suit by Molon for infringing the '915 patent. This outcome would make the contract "unusual," to say the least, because Nidec—when enforcing the patent—would argue for broad claim construction and would

defend the validity of the '915 patent. Yet Nidec's position would be flipped completely around if it were subject to suit by Molon.

Another wrinkle, given what Molon is arguing, is that mention of the 2006 covenant is conspicuously absent from the 2007 agreement. Although not dispositive, failing to mention the covenant supports Nidec's argument that the parties did not intend the merger clause to affect that covenant. Molon emphasizes the completeness of the settlement agreement language: "[t]here are no representations, promises, or agreements ... that are not set forth in this Agreement." PSOF ¶ 4; Pl.'s Resp. Br. at 6. But because of the careful framing of the integration clause ("concerning the subject matter hereof") and because of the similarly restrictive language of "subject matter" in Illinois integration law, the parties were on notice that much could turn on what that "subject matter" ultimately would be. If Molon had intended for the merger clause to reach the 2006 covenant, then it should have explicitly referred to the covenant to ensure its vanquishing. And if the 2007 agreement really was Merkle-Korff's exchanging of some patent rights for others, as Molon argues, then that is even more of a reason for the new agreement to mention what is being traded in.¹¹ All this said, arguments about failures to mention prior agreements should not be taken too far. Parties may have numerous outstanding contracts, even in a relatively simple operation. But because the covenant was so recent and so ostensibly relevant here,

¹¹Molon contends that in the 2007 agreement, Merkle-Korff received a narrow license to many patents in exchange for the voluntary extinguishing of its broad rights on only two patents. Pl.'s Resp. Br. at 7.

an inference that the omission was not an oversight is stronger here than in other cases where contracting parties have extensive agreements with each other.

It also deserves saying that although the integration clause did not affect the 2006 covenant not to sue, it still affected everything else in the Molon/Merkle-Korff universe relating to the same “subject matter” of the 2007 agreement. If there were any previous covenants, agreements, or understandings on the exclusive patent rights within the designated “Exclusive Network” or on Nidec’s right to sue, those were all swept away in 2007.

IV. Conclusion

For the reasons stated above, Nidec’s motion for partial summary judgment on Count 1 is granted. This Opinion will be issued under seal, for now, to allow the parties a chance to propose redactions for the publicly available redacted version (bearing in mind the strict standard against secret filings). The parties shall file a joint statement on proposed redactions, if any, by April 17, 2017. The Court still has the trade secrets dismissal motion, R. 67, under advisement.

ENTERED:

s/Edmond E. Chang
Honorable Edmond E. Chang
United States District Judge

DATE: March 29, 2017