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UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

MERCK & CO., INC. and MERCK SHARP & DOHME CORP., Plaintiffs, v. MERCK KGAA, Defendant.	Civil Action No. 16-0266 (ES) (MAH)

PLAINTIFFS MERCK & CO., INC. AND MERCK SHARP & DOHME CORP.'S MEMORANDUM OF LAW IN SUPPORT OF PLAINTIFFS' MOTION TO DETERMINE GOVERNING LAW

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Plaintiffs Merck & Co., Inc. and Merck Sharp & Dohme Corp. (collectively, "**Merck**" or "**Plaintiffs**") ask this Court to determine whether New Jersey law or German law applies to Plaintiffs' claim for breach of contract against Defendant Merck KGaA ("**KGaA**" or "**Defendant**").

Under New Jersey's choice-of-law rules, New Jersey law applies to Merck's breach of contract claim, because no conflict exists as to the basic substance of such claim under German or New Jersey law. Further, in the event this Court finds that a conflict does exist, New Jersey law would still apply because the State of New Jersey has the most significant relationship to the agreement in dispute, particularly given this Court's interest and longstanding involvement in the agreement.

Although a French and U.K. court have made a determination regarding the law that governs the agreement between the parties, the legal standards applied by those courts differ from the choice-of-law rules applied by this Court. As such, Merck is not precluded under the doctrines of collateral or judicial estoppel from urging application of New Jersey law in this case.

I. FACTUAL BACKGROUND

A. Procedural History of U.S. and Non-U.S. Litigation.

Merck filed this action against KGaA on January 15, 2016 alleging, *inter alia*, breach of contract, federal and state trademark infringement and related causes of action arising out of Defendant's unauthorized use of the term "MERCK" in the United States. There is no dispute that U.S. and New Jersey law covers all claims alleged other than the breach of contract claim. The breach of contract claim in this case relates to KGaA's use of the term "MERCK" in the United States in violation of a co-existence agreement between the parties, setting forth how and where each party and/or their predecessors can and cannot use the term "MERCK" ("**1970 Agreement**"), see Exhibit A.

Disagreements have previously arisen relating to the 1970 Agreement and earlier related agreements. Until recently, the parties have had a continuing dialogue which raised and, in some instances, resolved such disagreements. However, certain matters were not resolved between the parties, and, in 2013, Defendant and related companies ("**KGaA Companies**") brought actions against Plaintiffs and related companies ("**Merck Companies**") in, *inter alia*, the United Kingdom and France.

In the proceedings in the United Kingdom before the U.K. High Court of Justice ("**U.K. Court**"), Chancery Division ("**U.K. Proceedings**"), KGaA alleged trademark infringement and related causes of action, in addition to breach of the 1970 Agreement. Because the 1970 Agreement was silent on governing law, Merck Companies asked that the U.K. Court issue a preliminary decision on the applicable law and urged that the U.K. Court find that New Jersey law govern the 1970 Agreement. In 2014, applying English choice-of-law rules, the U.K. Court ruled that German law governs the 1970 Agreement (the "**U.K. Judgment**" or "**U.K. J.**"). U.K. J. ¶¶ 8, 97, see Exhibit B.

In the proceedings in France ("**French Proceedings**") before the Paris Court of First Instance ("**French Court**"), KGaA Companies alleged trademark infringement and unfair competition against Merck Companies. Merck Companies raised the 1970 Agreement as a defense in response to, *inter alia*, the allegations of infringement, and the French Court considered the question of governing law. As in the U.K. Proceedings, Merck Companies initially argued that New Jersey Law governed the 1970 Agreement, whereas KGaA Companies argued that French *or* German law may apply. However, Merck Companies later chose to agree with KGaA Companies' position that German law apply to the 1970 Agreement as both French and English choice-of-law rules are similar and the U.K. Court had already issued the U.K.

Judgment finding German law applied. On December 17, 2015, the French Court found, applying French choice-of-law rules, that German law governs the 1970 Agreement (the "**French Judgment**" or "**French J.**"). French J. 12-13, see Exhibit C.

In the instant action, the Court has entered a Scheduling Order but the parties have not yet had their initial scheduling conference in view of various scheduling difficulties. The scheduling conference is now set for November 7, 2016. The parties have served initial discovery and have responded to the same at the time of the filing of this Motion.

B. This Court's Interest and Longstanding Involvement in the Agreements.

Although Merck and KGaA share a common heritage as set forth in the Complaint, they are and have been unrelated companies for nearly a century. Over the years, the parties and their predecessors, respectively, have entered into a number of agreements dating back to the 1930s to resolve issues related to the parties' respective uses of the term "MERCK" and to set forth what each company can and cannot do in various jurisdictions around the world regarding use of the term "MERCK", including in the United States (collectively, "**the Agreements**" and each, an "**Agreement**"). For decades, this Court has been involved in the review and approval of the Agreements, largely due to antitrust concerns under U.S. law.

The earliest Agreement between the parties was entered into in 1932 ("**1932 Agreement**"). The 1932 Agreement recognized the right of Merck's predecessors ("**Merck Predecessors**") to the term "MERCK" in the United States, its territories and dependencies and Canada, and the right of KGaA's predecessors ("**KGaA Predecessors**") to the term "MERCK" in the rest of the world, with certain designated shared territories. See Exhibit D.

In 1943, the U.S. Department of Justice filed a civil complaint in the District Court for the District of New Jersey under the Sherman Anti-Trust Act alleging that the 1932 Agreement

was an unlawful contract in restraint of trade. In 1945, Judge Forman, Judge of the District Court in Trenton, New Jersey at the time, issued a Final Judgment (the "**1945 Decree**") cancelling the 1932 Agreement and requiring that Merck Predecessors notify the Department of Justice of any intention to enter into arrangements or agreements with KGaA Predecessors. Section VII of the 1945 Decree, see Exhibit E. Judge Forman also expressly retained this Court's jurisdiction over the enforcement of the 1945 Decree:

> "Jurisdiction of this cause is retained for the purpose of enabling any of the parties to this decree to apply to the Court at any time for such further orders and directions as may be necessary or appropriate for the construction or carrying out of this decree, for the amendment, modification, or termination of any of the provisions thereof, for the enforcement of compliance therewith and for the punishment of violations thereof."

Section IX of the 1945 Decree, see Exhibit E.

Between 1948 and 1955, a number of disagreements arose between the parties' predecessors relating to their respective uses of the term "MERCK" around the world and the parties' predecessors visited each other in their respective territories to discuss such disagreements. In 1955, with trademark litigations taking place between them in various countries, KGaA Predecessors traveled to New York to discuss the then-current situation on which occasion, Merck Predecessors brought up the possibility of settlement and later, with approval from the Department of Justice, sent KGaA Predecessors a letter proposing settling any existing disagreements regarding use of the term "MERCK." An agreement setting forth how and where each party and/or their predecessors could use "MERCK" was later signed in Germany (the "**1955 Agreement**"). See Exhibit F. The 1955 Agreement required approval by the U.S. authorities, namely, the Department of Justice and this Court, before it became effective.

Section 12 of the 1955 Agreement, see Exhibit F. As such, this Court entered an order approving the Agreement in 1955 applying New Jersey or Federal law (the "**1955 Order**"). See Exhibit G.

The 1955 Agreement provided the basis for the 1970 Agreement. In early 1970, KGaA Predecessors sent a letter to Merck Predecessors requesting that the 1955 Agreement be amended and a new agreement be executed due to company restructuring and included a draft version of the new agreement in the letter. See Exhibit H. In August of the same year, a representative for Merck Predecessors discussed the matter with counsel for KGaA Predecessors at the American Bar Association meeting in St. Louis. See Exhibit I. In September, after discussions with the Department of Justice, Merck Predecessors sent a letter to KGaA Predecessors advising that the Department of Justice had found the changes to the agreement to be purely formalistic and that approval by this Court was thus not necessary, but that Section 12 of the proposed new agreement would need to be amended accordingly to reflect these circumstances. Id. In October 1970, KGaA Predecessors proposed meeting Merck Predecessors in Merck Predecessors' New Jersey offices, and the parties met accordingly on November 19, 1970. See Exhibits J and K. On this occasion, KGaA Predecessors delivered the 1970 Agreement to Merck Predecessors. See Exhibit K.

In 1975, the parties' predecessors entered into a letter agreement which clarified certain matters set forth in the 1970 Agreement, such as the parties' predecessors' respective uses of the term "MERCK" on letterhead, visiting cards, and journal advertising. See Exhibit L. Finally, in 2011, pursuant to a motion by Merck, the District Court for the District of New Jersey ordered the 1945 Decree terminated, which thus allowed the parties to enter into *future* agreements and arrangements without approval of the Department of Justice or a Court order. See Exhibit M.

Although the 1932 Agreement has been cancelled and the 1945 Decree terminated, the parties do not dispute that the 1970 Agreement is valid.

II. ARGUMENT

A. Legal Standard to Determine Governing Law.

A federal district court adjudicating a state law issue must apply the law of the forum state, including that state's choice-of-law rules. See Curtiss-Wright Corp. v. Rodney Hunt Co., 1 F. Supp. 3d 277, 283 (D.N.J. 2014); Kalow & Springut, LLP v. Commence Corp., 272 F.R.D. 397, 409 (D.N.J. 2011), on reconsideration in part, No. CIV.A. 07-3442 FLW, 2011 WL 3625853 (D.N.J. Aug. 15, 2011). Here, the issue of whether German law or New Jersey law applies to Merck's claim for breach of the 1970 Agreement is disputed between the parties. Since the breach of contract claim is based on state law, this Court's selection of applicable rules for breach of contract must be governed by the choice-of-law principles of the forum state – namely, New Jersey. See Kalow, 272 F.R.D. at 409.

When an agreement does not include a governing law provision, as is the case here, New Jersey courts apply the two-pronged "most significant relationship" test to determine governing law. See Gallo v. PHH Mortg. Corp., 916 F. Supp. 2d 537, 554 (D.N.J. 2012).

The first prong of the analysis considers whether a material distinction exists between the substance of the potentially applicable laws. In Re Mercedes-Benz Tele Aid Contract Litig., 257 F.R.D. 46, 57 (D.N.J. 2009); Curtiss-Wright, 1 F. Supp. 3d at 284. Where no conflict exists, e.g., when the foreign state's laws pursue ends which are so similar to those of the forum state's that the application of the foreign state's laws cannot impair the interests of the forum state, the court should avoid the choice-of-law question and apply the law of the forum state. See Curtiss-Wright, 1 F. Supp. 3d at 284; Williamson v. Lazeration, No. CIV. 88-1456 (CSF), 1988 WL

142409, at *1 (D.N.J. Dec. 20, 1988). However, should a conflict exist, then the court must determine, under the second prong of the test, which jurisdiction has the "most significant relationship" to the claim. Grossbaum v. Genesis Genetics Inst., LLC, 489 F. App'x 613, 616 (3d Cir. 2012). Among other things, this requires consideration of the governmental policies underlying the law of each state with respect to the claim-at-issue and how those policies are affected by each state's contacts to the litigation and the parties. See In Re Mercedes-Benz, 257 F.R.D. at 56-57; Grossman v. Club Med Sales, Inc., 640 A.2d 1194, 1198 (N.J. 1994) (quoting Veazey v. Doremus, 510 A.2d 1187, 1189 (N.J. 1986).

This Court recognizes the factors enunciated under §§ 6 and 188 of the Restatement (Second) of Conflicts of Laws as guiding to this inquiry. Nat'l Util. Svc Inc. v. Chesapeake Corp., 45 F. Supp. 2d 438, 446-47 (referring to Restatement (Second) of Conflict of Laws §§ 6, 188 (1969)).

B. New Jersey Law Should Apply to the Breach of Contract Claim Because There is No Conflict Between the Substance of Such Claim Under New Jersey or German Law.

Under the first prong of the analysis, this Court should find that no material distinction exists between the substance of the contract laws pertaining to a breach of contract in either New Jersey or Germany because the core elements of a breach of contract claim in each jurisdiction are fundamentally the same. Accordingly, New Jersey law should apply to the breach of contract claim because there is no conflict.

In Red Roof Franchising, LLC v. AA Hospitality Northshore, 877 F. Supp. 2d 140, 148-49 (D.N.J. 2012), this Court held that there was no conflict between New Jersey and Minnesota law on breach of contract because both states' laws required a plaintiff to prove the existence of the same elements: a valid contract, performance, breach, and damages. In In Re Mercedes-Benz

Tele Aid Contract Litigation, 257 F.R.D. at 58, this Court held that no actual conflict exists where the differences in law are not material even though there may be variations of the elements of a cause of action under the laws of the concerned states. In that case, this Court looked to the core of each competing state's law in order to determine whether application of the *forum* state's law would frustrate or infringe upon the *foreign* state's interests. Id. at 58 (emphasis added).

Here, there is no conflict between New Jersey and German contract law. See Red Roof, 877 F. Supp. 2d at 148-49; In Re Mercedes, 257 F.R.D. at 58. In New Jersey, if a party to a valid contract fails to perform its duties under that contract, the non-breaching party may seek damages for the harm resulting from such party's failure to perform its obligations, provided such party is not excused from liability. See Ramada Worldwide Inc. v. Clinton Commercial Dev., LLC, No. CV 11-4920 (SRC), 2016 WL 5402204, at *2 (D.N.J. Sept. 26, 2016) (holding defendants were not excused from materially breaching the agreement by the affirmative defense of discharge of obligation of performance by the counterparty's material breach); Accurate Abstracts, LLC v. Havas Edge, LLC, No. 14-CV-1994 (KM)(MAH), 2015 WL 5996931, at *4 (D.N.J. Oct. 14, 2015).

Similarly, in Germany, if an obligor fails to comply with a duty arising under a contractual obligation, the creditor may request injunctive relief or compensation for the loss resulting from this breach provided that obligor is unable to provide proof of exoneration. See § 280 (I) BGB, BÜRGERLICHES GESETZBUCH [BGB][CIVIL CODE] (Ger.) (75th ed. Aug. 2016), Exhibit N. Pursuant to § 241 (I) BGB, refraining from a certain action, such as refraining from using a certain mark, can also constitute a contractual obligation. Id. at § 241 (I) BGB.

Thus, there is no material distinction between the core elements for a breach of contract claim under the law of either New Jersey or Germany; both jurisdictions require the existence of

an obligation, the failure to comply with the existent obligation which can also be refraining from a certain action, and damages arising from that breach. In both cases, a breach of contract can also justify a claim for damages or injunctive relief. Further, this Court should find that compensating Merck for Defendant's breach of contract under New Jersey law would not frustrate or infringe upon the interests of Germany because the breach at issue here concerns Defendant's use of the term "MERCK" *in the United States* in contravention of an agreement entered into with a *United States* company which has suffered damage *in the United States* as a result of Defendant's breach.

C. Even if an Actual Conflict Exists Between the Substance of a Breach of Contract Claim Under New Jersey and German law, New Jersey Law Should Still Apply Because the 1970 Agreement Has Greater Contacts with New Jersey and New Jersey Has Greater Policy Interests than Germany.

1. The 1970 Agreement has Greater Contacts with New Jersey

Even if an actual conflict between German and New Jersey law were found to exist as to the substance of a breach of contract claim, New Jersey law should apply regardless because New Jersey has more significant contacts with the parties and Agreements. Although Merck asserts breach of the 1970 Agreement in this action, this Court should also consider the 1955 Agreement in determining governing law because the substance of the 1970 Agreement is merely a restatement of the 1955 Agreement with formalistic changes.

As discussed above, when determining which forum has more significant contacts, New Jersey courts first look to the following non-exclusive contacts listed in § 188 of the Restatement (Second) of Conflict of Laws:

(a) the place of contracting,

(b) the place of negotiation of the contract,

(c) the place of performance,

(d) the location of the subject matter of the contract, and

(e) the domicile, residence, nationality, place of incorporation and place of business of the parties.

Nat'l Util. Svc., 45 F. Supp. 2d at 446-47 (applying Restatement (Second) of Conflict of Laws § 188(2) (1969); see also Kievit v. Loyal Protective Life Ins. Co., 170 A.2d 22, 32 (N.J. S. Ct. 1961) (referring to Auten v. Auten, 308 N.Y. 155, 160 (Ct. App. 1954) ("Under this theory, the courts, instead of regarding as conclusive the parties' intention or the place of making or performance, lay emphasis rather upon the law of the place 'which has the most significant contacts with the matter in dispute.'") (quoting Rubin v. Irving Trust Co., 305 N.Y. 288, 305 (1953)); Packard Englewood Motors, Inc. v. Packard Motor Car Co., 116 F. Supp. 629 (D.N.J. 1953), rev'd on other grounds as stated in Packard Englewood Motors, Inc. v. Packard Motor Car Co., 215 F.2d 503 (3d Cir. 1954) (holding that for purposes of a choice-of-law analysis, "a contract comes into existence when and where the last act is done to make it a binding obligation upon the parties thereto") (referring to Northampton Mut. Live Stock Ins. Co. v. Tuttle, 40 N.J.L. 476 (1878)).

Here, the Court should find that the first contact (place of contracting) strongly weighs in favor of New Jersey law, the second contact (place of negotiation of the contract) is neutral or weighs slightly in favor of New Jersey law when considering the circumstances surrounding the negotiation of the 1970 Agreement, and the remainder of the contacts are neutral. Thus, the Court should find that on balance the contacts weigh in favor of applying New Jersey law.

Under the first Restatement contact, the place of contracting is the place where the last act necessary under the forum's rules of offer and acceptance occurred, to give the contract binding effect, assuming, hypothetically, that the local law of the state where the act occurred rendered the contract binding. Restatement (Second) of Conflict of Laws § 188 cmt. e (Am. Law

Inst. 1971). Here, there is no question that the 1955 Agreement was not effective until the 1955 Order of this Court applying New Jersey or Federal law, and although the 1970 Agreement did not require entry of an order from this Court because the changes to the 1955 Agreement were merely formalistic, the validity of the 1970 Agreement is still dependent on this Court's 1955 Order.

Specifically, the 1955 Agreement, which constituted the basis for the 1970 Agreement, did not become effective until its execution and performance was authorized by the U.S. Department of Justice and this Court applying New Jersey or Federal law. See 1955 Agreement, § 12; Order on Mot. for Order Authorizing Execution of an Agreement By Merck and & Co., Inc. dated October 24, 1955, Exhibits F and G. Indeed, Judge Forman of the District Court of New Jersey expressly retained this Court's jurisdiction over the enforcement of the 1945 Decree, which required that Merck Predecessors file a notice of intention with the Department of Justice to enter into any agreement with KGaA Predecessors. Section 12 of the 1955 Agreement required as follows:

> It is understood that Merck & Co. will submit this agreement to the United States Department of Justice for review and with the concurrence of the Department will seek an appropriate Court order that Merck & Co. is authorized to execute and carry out this agreement. This agreement shall not become effective until such a Court order has been entered. Exhibit F.

Thus, the 1955 Agreement required approval by both the Department of Justice and a U.S. court order and this Court retained jurisdiction to order that the 1955 Agreement be executed and performed, and ultimately did order such execution and performance by applying New Jersey law or Federal law. The 1970 Agreement was also subject to the 1945 Decree and this Court's jurisdiction pursuant to the 1945 Decree. Accordingly, Merck Predecessors submitted the draft 1970 Agreement to the Department of Justice for review, which determined

that a court order was not necessary given that the changes to the 1955 Agreement were deemed to be formal changes only and, thus, the substance of the 1970 Agreement had already been approved by this Court.

Thus, given that this very Court entered the 1955 Order rendering the 1955 Agreement effective and New Jersey is where the last act necessary to give the 1955 Agreement binding effect occurred, and the 1970 Agreement relies upon the binding effect given by the 1955 Order of this Court, there is no doubt that the first contact strongly weighs in favor of application of New Jersey law.

The second contact—the place of negotiation of the 1955 Agreement—favors neither jurisdiction's law because the parties visited each other's respective territories to discuss use of the term "MERCK" from 1948-1955 leading up to the signing of an agreement embodying those negotiations in Germany in 1955. Alternatively, the Court should find that the circumstances surrounding the execution of the 1970 Agreement slightly favor New Jersey law because the 1970 Agreement was mostly discussed in the United States and KGaA Predecessors personally delivered the 1970 Agreement to Merck Predecessors in New Jersey.

Given the nature of the contract in dispute, this Court should find that the third contact—the place of performance—weighs in favor of neither jurisdiction's law. The Restatement guides that the "state where performance is to occur under a contract has an obvious interest in the nature of the performance and *in the party who is to perform*." Restatement (Second) of Conflict of Laws § 188 cmt. on subsection (2) (Am. Law Inst. 1971) (emphasis added). Here, both parties need to "perform" in various jurisdictions and the essential nature of the parties' "performance" is refraining from using "MERCK" in a certain manner in certain jurisdictions. See id.;

Restatement (Second) of Contracts § 71(3)(b) (Am. Law Inst. 1981) (Performance may consist of a forbearance). Thus, the third factor does not weigh in favor of either law.

The remaining fourth and fifth contacts—the location of the subject matter of the contract and the domicile of the parties—can be dealt with more quickly. The Court should find that these contacts also favor application of neither law. In Specialty Surfaces International, Inc. v. Continental Casualty Co., 609 F.3d 223, 233 (3d Cir. 2010), the Third Circuit held when considering the fourth contact, that the "location of the subject matter" of an insurance contract favored neither California nor Pennsylvania where the policy provided nationwide coverage. Applying this analogy to the present case, the Court should find that the subject matter at issue consists of "worldwide" rights in the trademark "MERCK." Accordingly, the subject matter of both Agreements is located in neither the United States nor in Germany. See id. Finally, the fifth contact is also neutral given that Merck is located in New Jersey and Defendant is located in Germany. See Hammersmith v. TIG Ins. Co., 480 F.3d 220, 234-35 (3d Cir. 2007).

Weighing the foregoing contacts under § 188 demonstrates that even if the Court were to find that a conflict exists between the breach of contract laws of Germany and New Jersey, this Court should find that the 1970 Agreement, on balance, has greater contacts with New Jersey in the present dispute and that New Jersey law should govern the 1970 Agreement.

2. New Jersey has Greater Policy Interests in the Breach of Contract Claim than Germany

In addition to the factors discussed above, New Jersey Courts normally consider the factors listed in § 6 of the Restatement. § 6; Nat'l Util. Svc., 45 F. Supp. 2d at 446-47. Courts have long taken into account policy considerations when applying choice-of-law analysis. See Vanston Bondholders Protective Comm. v. Green, 329 U.S. 156, 161-62 (1946) (finding that "[i]n determining which contact is the most significant in a particular transaction, courts can

seldom find a complete solution in the mechanical formulae of the conflicts of law. Determination requires the exercise of an informed judgment in the balancing of all the interests of the states with the most significant contacts in order best to accommodate the equities among the parties to the policies of those states"); Vierra de Pinto v. Pinto, Civil No. 168-1965, 1967 WL 178087, at * 1 (D.V.I. 1967) (considering both Restatement (Conflict of Laws), 1934 ed. and Restatement (Second) (Conflict of Laws), Proposed Official Draft as applicable to conflict of laws analysis in 1967); Fricke v. Isbrandtsen Co., 151 F. Supp. 465, 468 (S.D.N.Y. 1957) (holding federal conflicts law should take cognizance of foreign sovereign's strong policy of affording protection to parties by not attaching great significance to "objective expectations" where such policy is coincident with so many of the significant contacts under conflict of law analysis). Thus, the following policy factors are relevant in determining the governing law of the 1970 Agreement:

(f) the needs of the interstate and international systems,

(g) the relevant policies of the forum,

(h) the relevant policies of other interested states and the relative interests of those states in the determination of the particular issue,

(i) the protection of justified expectations,

(j) the basic policies underlying the particular field of law,

(k) certainty, predictability and uniformity of result, and

(l) ease in the determination and application of the law to be applied.

Nat'l Util. Svc., 45 F. Supp. 2d at 446-47 (applying Restatement (Second) of Conflict of Laws § 6 (Am. Law Inst. 1969)).

The foregoing seven factors listed in § 6 of the Restatement are not listed in any order of priority and, depending on the field under review, may be applied to a greater or lesser degree

and vary somewhat in importance. Restatement (Second) of Conflict of Laws § 222 cmt. b (Am. Law Inst. 1971). Although New Jersey courts consider all of the above factors, courts have noted that it is the "qualitative" not "quantitative" nature of those relevant factors which is dispositive. See Bell v. Merchants & Businessmen's Mut. Ins. Co., 575 A.2d 878, 881 (N.J. App. Div.), cert. denied, 122 N.J. 395 (1990) (internal quotations and citation omitted). Indeed, New Jersey courts have stated that the fourth and sixth factors, the "protection of justified expectations" and "predictability of result," are of "extreme importance" in the field of contracts. Fu v. Fu, 733 A.2d 1133, 1140-41 (N.J. 1990). Qualitatively applying these policy considerations to the choice-of-law analysis in this dispute, the Court should find that these factors also weigh in favor of applying New Jersey law to the breach of contract claim.

Turning first to the fourth and sixth factors—the protection of justified expectations and the certainty, predictability and uniformity of result, which are of extreme importance to the contract disputes in the present case—this Court should find both factors weigh strongly in favor of applying New Jersey law. CSR Ltd. v. Cigna Corp., No. Civ. A. 95-2947(HAA), 2005 WL 3132188, at *14 (D.N.J. Nov. 21, 2005) (explaining that the Third Circuit groups the protection of justified expectations and their needs for predictability of result into the same category of interest under § 6 of the Restatement); Fu, 733 A.2d at 1141. Absent a choice-of-law provision which would normally guide under these factors, this Court should find the fact that the parties intentionally entered into a formal agreement after seeking approval from the Department of Justice and the District Court of New Jersey favors applying New Jersey law. See Asher v. Unarco Material Handling, Inc., 737 F. Supp. 2d 662, 671 (E.D. Ky. 2010) (finding that where a party intentionally entered into an agreement in order to comply with Illinois law, Illinois had an interest in the agreement.)

Further, the parties should not be surprised by the application of New Jersey law to the present dispute because this Court has long been involved in adjudicating disputes arising out of the parties' Agreements, i.e., the 1945 Decree, the 1955 Agreement, and the 2010 Order, and applying New Jersey law would thus be consistent with the parties' prior dealings. See Toll v. Tannenbaum, 982 F. Supp. 2d 541, 556 (E.D. Pa. 2013) (holding where the parties chose New York law when they formalized other contracts contemporaneously with the agreement at issue, the parties should reasonably and justifiably expect New York law to apply to the agreement lacking a choice-of-law provision).

The Court should find the remaining factors also weigh in favor of New Jersey law. The first factor—the needs of the interstate and international systems—considers "whether application of a competing state's law would frustrate the policies of other interested states." Fu, 733 A.2d at 1141 (quoting Restatement (Second) of Conflict of Laws § 145(1) cmt. b (Am. Law Inst. 1971)). Application of New Jersey law would not frustrate or impair the interests of Germany because Germany's policies are unaffected by the compensation of a *U.S.* corporation for breaches relating to forbearance from using "MERCK" *in the United States* not in Germany.

This Court has recognized that the second and third factors—the relevant policies of the forum and the relevant policies of other interested states and the relative interests of those states in the determination of the particular issue—may also overlap to some extent. In Re Mercedes-Benz, 257 F.R.D. at 68–69; CSR Ltd., 2005 WL 3132188 at *14. In this case, the Court should find that both of these factors strongly favor the application of New Jersey law because this Court has held that New Jersey has a profound interest in protecting the contractual rights of its citizens. See R.J. Longo Constr. v. Transit America, Inc., 921 F. Supp. 1295, 1305 (D.N.J. 1996). Indeed, this Court has stated that New Jersey's interest in compensating its domiciliaries

is "paramount" and may prevail even where the foreign jurisdiction has a quantitatively higher number of contacts in its favor. See CSR, 2005 WL 3132188, at *16.

Similarly, the fifth factor—the basic policies underlying the particular field of law—favors application of New Jersey law as the cause of action for breach of contract seeks to compensate the non-breaching party for the breaches of another party and the breaches asserted in the present dispute are limited to KGaA's unauthorized use of "MERCK" *within the United States*. This underlying policy would be promoted by the adjudication of the breach of contract claim under New Jersey law because this Court has held that New Jersey has a profound interest in protecting the contractual rights of its citizens. See R.J. Longo Constr., 921 F. Supp. at 1305. Further, given that the underlying dispute concerns trademark rights in the term "MERCK", the fifth factor weighs in favor of New Jersey law as New Jersey has a fundamental policy interest in protecting its consumers from confusion and concomitantly protecting Merck's rights to a non-confused public. See A.J. Canfield Co. v. Honickman, 808 F.2d 291, 304 (3d Cir. 1986).

Finally, the seventh factor—the ease in the determination and application of the law to be applied—support a finding that Merck's breach of contract claim should be adjudicated under New Jersey law. Under this factor, "the interests of judicial administration require a court to consider whether the fair, just and timely disposition of controversies within the available resources of courts will be fostered by the competing law chosen." Pfizer, Inc. v. Emp'rs Ins. of Wassau, 712 A.2d 634, 640 (N.J. 1998). Because District Courts readily recognize the complications inherent in ascertaining foreign law, especially in civil law jurisdictions, such as Germany, this factor weighs in favor of applying New Jersey law. See Gordon & Breach Sci. Publishers S.A. v. Am. Inst. of Physics, 905 F. Supp. 169, 178–79 (S.D.N.Y. 1995). In addition,

it would be very confusing for a jury to continuously revert between German breach of contract law and the interpretation of its trademark use provisions and U.S. trademark law; the jury's consideration would be considerably streamlined by applying New Jersey law. See Piper Aircraft Co. v. Reyno., 454 U.S. 235, 268 (1981) (holding that the District Court's finding that a trial involving two sets of laws, Pennsylvanian and Scottish laws, would be confusing to the jury was an important public interest factor to consider). For this reason too, the seventh factor weighs in favor of applying New Jersey law to the breach of contract claim in this action.

Therefore, considering the factors set forth in § 6 of the Restatement (Second) of Conflict of Laws, even if the Court were to find a conflict exists between the breach of contract laws of Germany and New Jersey, New Jersey law would still govern the 1970 Agreement because New Jersey has greater policy interests than Germany.

D. Neither Collateral Nor Judicial Estoppel Prevent Application of New Jersey Law to the Breach of Contract Claim.

Further, neither the doctrines of collateral estoppel nor judicial estoppel preclude application of New Jersey law to the breach of contract claim at issue in this action.

1. The French and U.K. Judgment Do Not Create Collateral Estoppel.

Under the doctrine of collateral estoppel, "once an issue is actually and necessarily determined by a court of competent jurisdiction, that determination is conclusive in subsequent suits based on a different cause of action involving a party to the prior litigation." Pony Express Records, Inc. v Springsteen, 163 F. Supp. 2d 465, 467 (D.N.J. 2001) (citing Montana v. United States, 440 U.S. 147 (1979)). To determine whether collateral estoppel applies, first, the U.K. Judgment and the French Judgment must generally be entitled to recognition in this Court, and second, the remaining elements required for the application of collateral estoppel must apply.

U.S. District Courts normally look to the Supreme Court's seminal decision in Hilton v. Guyot, 159 U.S. 113 (1895), for guidance to determine whether a foreign country's judgment is entitled to recognition. See Pony Express Records, 163 F. Supp. 2d at 467. New Jersey's rules on recognition of foreign judgments are not materially different from Hilton and New Jersey courts in fact rely on Hilton, among other sources, in making international comity decisions. See, e.g., Mercandino v. Devoe & Raynolds, Inc., 436 A.2d 942, 943 (App. Div. 1981).

However, even if a foreign judgment may generally be entitled to recognition in this Court, for collateral estoppel to apply, additional conditions must be met. Most importantly, the issue to be precluded must be identical to the issue decided in the prior proceeding. Pony Express Records, 163 F. Supp. 2d at 467; Thurman v. Lindenwold Center LLC, Docket No. L-5440-12, 2015 WL 998716, at *4-5 (N.J. App. Div. Mar. 9, 2015) (referring to First Union Nat'l Bank v. Penn Salem Marina, Inc., 190 N.J. 342, 352 (2007) (citation and internal quotation marks omitted)). Collateral estoppel or " [t]he doctrine of issue preclusion is an equitable doctrine and will only be applied when it is fair to do so." State of N.J., Dep't of Law & Pub. Safety, Div. of Gaming Enforcement v. Gonzalez, 641 A.2d 1060, 1063 (N.J. App. Div. 1994), aff'd, 667 A.2d 684 (N.J. 1995).

Because the issue presented in this action, i.e., the question of which law shall govern the 1970 Agreement under New Jersey law choice-of-law rules, is different from the issues decided by the U.K. Judgment and French Judgment as in the U.K. and French Proceedings, *English and French* choice-of-law rules were applied to determine the governing law, collateral estoppel does not apply.

One way in which two issues may be distinct is where the previously determined issue is one of law, and "either (1) 'the two actions involve claims that are substantially unrelated' or (2)

'a new determination is warranted in order to take account of an intervening change in the applicable legal context or otherwise to avoid inequitable administration of the laws.' " Todaro v. Twp. of Union, 27 F. Supp. 2d 517, 529–30 (D.N.J. 1998) (quoting Restatement (Second) of Judgments § 28(2)). In such a case, collateral estoppel does not apply. "Cases are 'substantially related' where " 'the same general legal rules govern both cases and . . . the facts of both cases are indistinguishable as measured by those rules.' " Id. (quoting Charles A. Wright, Arthur R. Miller & Edward H. Cooper, Federal Practice and Procedure § 4425 (1981)). "[D]ifferences in legal standards may be particularly easy to identify when foreign law was applied in the previous case." Pony Express Records, 163 F. Supp. 2d at 473. Importantly, the burden of showing that the issues are identical and necessarily were decided in the prior action rests with the party seeking to apply issue preclusion. Latino Officers Ass'n v. City of N.Y., 253 F. Supp. 2d 771, 783 (S.D.N.Y. 2003).

Here, with respect to estoppel, the burden of proof rests with KGaA, and it is clear that the cases as decided in the U.K. and French Judgments applied different legal standards in determining the governing law of the 1955 and 1970 Agreements than this Court would apply.

In the U.K. Proceeding, the court determined that German law was applicable to the 1955 and 1970 Agreements pursuant to English law. U.K. J. ¶ 9, Exhibit B. The legal standard as applied by the U.K. Court differs significantly from the legal standard applicable under New Jersey law, including, importantly, because the U.K. Court focused on the parties' obligations under the agreement and gave little weight to other considerations. Further, the Judge did not search for the presumed intent of the parties but instead put himself in the place of a "reasonable man" to determine the proper law for the parties. U.K. J. ¶ 10, Exhibit B.

In contrast, New Jersey courts "try to ascertain the intention of the parties as revealed by the language used, the situation of the parties, the attendant circumstances, and the objects the parties were striving to attain." Celanese Ltd. v. Essex County Imp. Authority, 962 A.2d 591, 601 (N. J. App. Div. 2009) (citing Onderdonk v. Presbyterian Homes of N.J., 425 A.2d 1057 (N.J. 1981)). Most importantly, the legal standard under New Jersey law includes the analysis of several policy aspects to determine governing law. In the U.K. Proceeding, these factors were not considered. As described above, New Jersey courts weigh several policy considerations such as the needs of the international systems including the question of whether the application of a competing state's law would frustrate the policies of other interested states. See P.V. ex rel. T.V. v. Camp Jaycee, 962 A.2d 453, 466 (N.J. 2008). In addition, District courts readily recognize the complications inherent in ascertaining foreign law, Gordon, 905 F. Supp. at 178–79, and that it would be confusing for a jury to continuously revert between domestic and foreign laws. Piper Aircraft Co., 454 U.S. at 268 (holding that the District Court's finding that a trial involving two sets of laws, Pennsylvanian and Scottish laws, would be confusing to the jury was an important public interest factor to consider).

In the French Proceeding, the question of whether German law was applicable to the 1955 and 1970 Agreements was determined under French choice-of-law rules. French J., see Exhibit C. Under French law, the judge must determine the law of the country which has the closest links with the contract based on multiple factors, such as the place of negotiation, the place of performance, the nationalities of the parties, and the place of signature. However, unlike this Court, the French Court typically does not consider policy considerations such as the needs of the international systems, the ease in the determination and application of the law to be applied, or the relevant policies of other interested jurisdictions. Paul Lagarde, Le principe de

proximité dans le droit international privé contemporain; Cours general de droit international privé in Collected Courses of the Hague Academy of International Law Vol. 196 (Brill, 1986), ¶¶ 5, 16, pp. 30, 39, see Exhibit O; see Jean-Michel Jacquet, Répertoire de droit international, Contrats (Dalloz, 2013), Sections 121 and 122, see Exhibit P.

Since the legal standards to determine the governing law as applied in the French and U.K. Proceedings are significantly different from New Jersey law in that they did not require any consideration of a variety of policy aspects and how those policies are affected by each jurisdiction's contacts to the litigation and the parties, the issues as previously decided by the U.K. and French Courts are not identical to the issue presented in this action. Thus, this Court should find that collateral estoppel does not apply. Compare Pony Express Records, 163 F. Supp. 2d at 467 ("Therefore, U.S. courts would apply a different legal standard to the question of whether the copyrighted material had been transferred. The existence of a different legal standard suggests that the issue decided in the U.K. litigation may not be the same as the issue before this court.").

The Supreme Court has observed that there is no formula for proper estoppel decisions, and the ultimate decision is a matter of "the trial courts' sense of justice and equity." See Blonder-Tongue Laboratories, Inc. v. Univ. of Ill. Found., 402 U.S. 313, 334 (1971). Accordingly, Merck is not collaterally estopped from requesting in this action that the governing law of the 1970 Agreement shall be New Jersey law.

2. The Positions Taken in the French and U.K. Proceeding Do Not Create Judicial Estoppel.

Merck is also not judicially estopped from requesting application of New Jersey law in this action. "Judicial estoppel, sometimes called the 'doctrine against the assertion of inconsistent positions,' is a judge-made doctrine that seeks to prevent a litigant from asserting a position

inconsistent with one that she has previously asserted in the same or in a previous proceeding. It is not intended to eliminate all inconsistencies, however slight or inadvertent; rather, it is designed to prevent litigants from "playing 'fast and loose with the courts.' " Ryan Operations G.P. v. Santiam-Midwest Lumber Co., 81 F.3d 355, 358 (3d Cir. 1996) (quoting Scarano v. Central R. Co. of New Jersey, 203 F.2d 510, 513 (3d Cir. 1953) (citation omitted).

New Jersey uses a two-part test to determine whether judicial estoppel is an appropriate remedy. First, a court determines whether the position of the party against whom estoppel is sought is *irreconcilably* inconsistent with a position it previously asserted in the proceedings, and, second, whether either or both of the inconsistent positions were asserted in bad faith. Nat'l Util. Svc., Inc., 45 F. Supp.2d at 445; Montrose Med. Grp. Participating Sav. Plan v. Bulger, 243 F.3d 773, 779-80 (3d Cir. 2001).

Under the first part of the test, Plaintiffs' request that New Jersey law apply to the 1970 Agreement is not *irreconcilably* inconsistent with Plaintiffs' position in either the U.K. Proceeding or the French Proceeding.

In the U.K. Proceeding, Merck Companies requested that New Jersey law govern the 1970 Agreement; however, in applying English law, the U.K. Court rejected Merck Companies' position and found German law applicable. Thus, Merck's position in this action is consistent with the position taken in the U.K. Proceeding.

Similarly, in the French Proceeding, the Merck Companies originally advocated for the application of New Jersey law to the 1970 Agreement, which is also consistent with Plaintiffs' request in this action. The fact that Merck Companies later chose to agree with KGaA Companies that German law may apply to the 1970 Agreement after the U.K. Judgment issued does not render Merck's position taken in this action *irreconcilably* inconsistent. First, the

French Court applied French choice-of-law rules to the question of governing law, which, as discussed above, significantly differ from New Jersey choice-of-law rules. Second, because French and English choice-of-law rules were similar, the French Court might have come to the same conclusion as the U.K. Court despite Merck Companies' original argument that New Jersey law shall apply. Paul Lagarde, Le principe de proximité dans le droit international privé contemporain; Cours general de droit international privé in Collected Courses of the Hague Academy of International Law Vol. 196 (Brill, 1986), ¶¶ 5, 16, pp. 30, 39, see Exhibit O.

As a result, Plaintiffs' position in this action based on New Jersey choice-of-law rules is not irreconcilably inconsistent with Merck's and its related companies' positions in the U.K. and French Proceedings. In addition, the necessary element of bad faith under the second prong of the judicial estoppel test is absent as none of Merck's and its related companies' positions were asserted to obtain an unfair advantage or to defraud or mislead the courts.

Thus, Merck is not judicially estopped from requesting in this action that New Jersey law shall govern the 1970 Agreement. Denying the applicability of judicial estoppel would not result in the miscarriage of justice.

III. CONCLUSION AND REQUESTED RELIEF

For the foregoing reasons, Merck respectfully submits that this Court find that New Jersey law governs the 1970 Agreement which is the subject of the breach of contract claim.

Merck also requests all other relief to which it is justly and equitably entitled.

Respectfully submitted,

Dated: October 12, 2016

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