

**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE**

In re:

HOBBICO, INC., *et al.*,<sup>1</sup>

Debtors.

Chapter 11

Case No. 18-10055 (KG)

Jointly Administered

Hearing Date: July 11, 2018 at 2:00 p.m. (ET)

Obj. Deadline: June 14, 2018 at 4:00 p.m. (ET)

**MOTION TO APPROVE SETTLEMENT BY  
AND BETWEEN THE DEBTORS AND CREDITOR TRAXXAS L.P.**

Hobbico, Inc. ("Hobbico") and its affiliated debtors and debtors in possession (collectively, the "Debtors") in the above-captioned chapter 11 cases (the "Cases") hereby move the Court, through its undersigned counsel, pursuant to Rule 9019 of Federal Rules of Civil Procedure, to approve the settlement as documented in this motion (the "Motion") between the Debtors and Creditor Traxxas L.P. ("Traxxas" together with the Debtors, the "Parties") in regards as to all issues between the Parties as set forth herein.

**PRELIMINARY STATEMENT**

The Debtors and Traxxas, prior to the Debtors' bankruptcy filings, were engaged in litigation against each other in regards to various patents. The settlement between the Parties, which is documented in this Motion and will be finalized upon the Court's entry of an Order containing the terms of the settlement, will resolve all issues between the Parties in regards to a pending proceeding before the United States Patent and Trademark Office Patent and Appeal Board (the "USPTO Board") (Case IPR2018-00010) (the "IPR Proceeding") and the pending

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The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, are as follows: Hobbico, Inc. (9545); Arrma Durango Ltd; Axial R/C Inc. (0233); Estes-Cox Corp. (2196); Great Planes Model Manufacturing, Inc. (5259); Revell Inc. (8545); Tower Hobbies, Inc. (5185); and United Model, Inc. (5302). The Debtors' headquarters are located at 2904 Research Road, Champaign, Illinois 61822.

lawsuit in the United States District Court for the Eastern District of Texas (the “Texas District Court”), Case No. 2:16-cv-768 (the “Patent Infringement Action”) filed by Traxxas against various Debtors. This settlement is the result of the Parties' good-faith negotiations and desire for a cost-effective resolution to all pending disputes between the Parties.

### **JURISDICTION, VENUE, PREDICATES FOR RELIEF**

1. The United States Bankruptcy Court for the District of Delaware (the “Bankruptcy Court”) has jurisdiction to consider this matter pursuant to 28 U.S.C. § 1334(b).
2. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2).
3. Venue is proper pursuant to 28 U.S.C. §§ 1408 and 1409.
4. The predicate for the relief requested herein is Bankruptcy Rule 9019.

### **BACKGROUND**

5. On July 12, 2016, Traxxas filed the Patent Infringement Action. In its Complaint, Traxxas alleged infringement by Hobbico, Inc., (“Hobbico”) and its UK-based subsidiary Arma Durango, Ltd., of various patents (together the “Hobbico Defendants”). Traxxas sought damages for the Debtors’ historical and ongoing infringement, willful infringement, and a permanent injunction barring Debtors’ continuing infringing conduct. On August 2, 2016, Traxxas filed an Amended Complaint, which asserted two additional patents that the Debtors were allegedly violating. This Proceeding is currently pending and is stayed by the filing of the bankruptcies.

6. On October 3, 2017, Debtor Hobbico initiated the IPR Proceeding, which is a review proceeding regarding U.S. Patent No. 8,982,541 before the USPTO Board, which proceeding necessarily involves Traxxas as the owner of the patent at issue.

7. On February 22, 2018, Traxxas filed its Motion for Relief from Automatic Stay [ECF No. 186] seeking relief from the automatic stay to continue to litigate the Patent Infringement Action.

8. On February 26, 2018 the Debtors filed their Motion For (I) An Order (A) Establishing Bidding Procedures For The Sale Of All, Or Substantially All, Of The Debtors Assets; (B) Approving Potential Bid Protections; (C) Establishing Procedures Relating To The Assumption And Assignment Of Executory Contracts And Unexpired Leases; (D) Approving Form And Manner Of The Sale, Cure And Other Notices; And (E) Scheduling An Auction And A Hearing To Consider The Approval Of The Sale; (II) An Order (A) Approving The Sale Of The Debtors Assets Free And Clear Of Claims, Liens And Encumbrances; And (B) Approving The Assumption And Assignment Of Executory Contracts And Unexpired Leases; And (III) Certain Related Relief [ECF No. 194] (the "Sales Procedure Motion").

9. On March 7, 2018 Traxxas filed its Limited Objection to Debtors' Sale Procedures Motion and Reservation of Rights [ECF No. 214].

10. The Parties agreed to a form of order granting the Sales Procedure Motion, which Order was entered by the Court on March 14, 2018 [ECF No. 243] (the "Sales Procedures Order").

11. Traxxas also ultimately agreed to the entry of the Order (A) Approving the Sale of Certain Assets of the Debtors Free and Clear of All Liens, Claims, Interests, and Encumbrances; (B) Approving the Assumption and Assignment of Certain Executory Contracts and Unexpired Leases (C) Authorizing the Debtors to Consummate Transaction Related to the Above; and (D) Granting Certain Other Relief [ECF No. 317] (the "Sale Order"). The Debtors, in the Sale Order, agreed not to sell any inventory or other material which Traxxas alleges breach its patents.

12. Pending the resolution of the Stay Relief Motion, Traxxas has not filed a proof of claim for its alleged damages in the Patent Infringement Action.

### **PROPOSED SETTLEMENT TERMS**

13. The Debtors and Traxxas have negotiated a settlement to resolve all pending disputes between the Parties in regards to the Stay Relief Motion, Traxxas' filing of a proof of claim in these bankruptcy cases, the Patent Infringement Action, and the IPR Proceeding. The Parties, in order to save costs, rather than enter into a formal settlement agreement, are agreeing to put all terms of their settlement in this Motion, which terms will also be, if this Court grants this Motion, in the Order granting this Motion. The terms of the settlement between the Parties are as follows:

- A. The Debtors agree to the entry of a Stipulated Final Judgment Order in the Patent Infringement Action in favor of Traxxas totaling Thirteen Million, Three Hundred Thousand dollars (US\$13,300,000.00) and against the Hobbico Defendants, jointly and severally, for their infringement of the Traxxas' Patents before January 10, 2018.
- B. The Debtors agree to the entry of a Stipulated Final Judgment Order in the Patent Infringement Action in favor of Traxxas totaling Three Thousand Four Hundred Seventy-Six dollars (US\$3,476.00) against the Hobbico Defendants, jointly and severally, for their infringement of the Traxxas Patents after January 10, 2018.
- C. The Debtors agree to the entry of a Stipulated Final Judgment Order in the Patent Infringement Action in the form attached as **Exhibit "A"** to this Order.
- D. The Debtors and Traxxas agree that Traxxas will handle all proceedings, at Traxxas' sole cost and expense, to seek entry of the Stipulated Final Judgment Order in the Texas District Court and will file an Unopposed Motion for Entry of Stipulated Final Judgment following entry of this Order. A copy of the Unopposed Motion for Entry of Stipulated Final Judgment is attached as **Exhibit "B"** to this Order. The Debtors and Traxxas agree that, at Traxxas' sole cost and expense, Traxxas will be solely responsible for preparing, filing, prosecuting and serving both the Motion, and this Order, on all parties required to get service thereof, pursuant to the Federal Rules of Bankruptcy Procedure, and this Court's local rules of procedure.
- E. Traxxas agrees to reduce its claim against the estates from the amount awarded in the Stipulated Final Judgment to \$10,500,000.00. The Debtors agree not to object to Traxxas filing an unsecured Proof of Claim in these bankruptcy cases totaling **\$10,500,000.00** in

full satisfaction of any infringement by the Hobbico Defendants of Traxxas' patents before January 10, 2018. Such claim, when filed, shall be deemed an allowed general unsecured claim.

- F. The Debtors agree that Traxxas is entitled to an administrative claim totaling \$3,476.00 in these Bankruptcy cases (the "Traxxas Administrative Claim"); provided, however, that effective upon entry of this Order, pursuant to the next decretal paragraph, Traxxas affirmatively and irrevocably waives such Administrative Claim in its entirety.
- G. Traxxas hereby affirmatively and irrevocably waives the Traxxas Administrative Claim in its entirety and any right or claim that Traxxas may have to the payment of all or any portion of the Traxxas Administrative Claim, including by the Debtors or any subsequent Trustee or fiduciary. The parties acknowledge that such waiver of the Traxxas Administrative Claim is in consideration of the Debtors' costs of reviewing and negotiating the Motion and this Order.
- H. The Debtors and Traxxas agree that Traxxas will file, at its sole cost and expense, a Joint Motion to Terminate Pursuant to 35 U.S.C. §317 and 37 C.F.R. §42.74 in the IPR Proceeding following entry of this Order. A copy of the Joint Motion to Terminate Pursuant to 35 U.S.C. §317 and 37 C.F.R. §42.74 is attached as **Exhibit "C"** to this Order.
- I. Traxxas may, at its election, cause any "Inventory on Hand" which was not sold pursuant to the Sale Order and which constitutes the inventory which Traxxas alleges violates its patents to be delivered to Traxxas in a commercially reasonable manner at Traxxas' sole cost and expense, or otherwise destroyed in a commercially reasonable manner, at Traxxas' sole cost and expense. None of the Hobbico Defendants or other Debtors will have any obligation or liability whatsoever relating to the delivery or the destruction of any such inventory pursuant to the foregoing terms.
- J. Traxxas agrees that the following products do not infringe the Traxxas patents: SKU AR102642; SKU AR102662; SKU DIDE04NN, but only to the extent the products were produced on or after November 5, 2017.
- K. Traxxas agrees to withdraw its Stay Relief Motion promptly upon entry of this Order, and such Stay Relief Motion will be deemed withdrawn upon entry of this Order.
- L. Except as otherwise set forth in this Order with respect to costs, the Debtors and Traxxas both agree to bear their own attorneys costs and fees as it relates to this settlement and all other matters referenced in the Motion and this Order.
- M. Effective upon entry of this Order, Traxxas affirmatively and irrevocably waives any rights to any judgment lien or any other lien or security interest that Traxxas may now or hereafter own, hold, have, or claim to have against any or all of the Hobbico Defendants or any of their respective assets.

- N. Other than the claims asserted in (i) the IPR Proceeding or (ii) the Patent Infringement Action, all claims of the Debtors against Traxxas are expressly preserved.

**REQUESTED RELIEF**

14. By this Motion, the Debtors seek the entry of an order, substantially in the form of the Order Approving Settlement By and Between the Debtors and Creditor Traxxas L.P. attached as **Exhibit "D"** to this Motion.

15. Bankruptcy Rule 9019 governs the approval of compromises and settlements, and provides as follows:

On motion by the trustee and after notice and a hearing, the court may approve a compromise or settlement. Notice shall be given to creditors, the United States trustee, the debtor, and indenture trustees as provided in Rule 2002 and to any other entity as the court may direct.

Fed. R. Bankr. P. 9019.

16. The settlement of time-consuming and burdensome litigation, especially in the bankruptcy context, is encouraged and “generally favored.” *In re World Health Alternatives, Inc.*, 344 B.R. 291, 296 (Bankr. D. Del. 2006); *see also Matter of Penn Central Transp. Co.*, 596 F.2d 1102, 1113 (3d Cir. 1979) (“In administering reorganization proceedings in an economical and practical matter it will often be wise to arrange the settlement of claims . . .”) (internal citation marks and quotation marks omitted).

17. In determining the fairness and equity of a compromise in bankruptcy, the United States Court of Appeals for the Third Circuit has stated that it is important that the bankruptcy court “apprise[] [it]self of all facts necessary [to form] an intelligent and objective opinion of the probabilities of ultimate success should the claim be litigated, [and] estimate . . . the complexity, expense and likely duration of such litigation . . . all other factors relevant to a full and fair assessment of the wisdom of the proposed compromise.” *Matter of Penn Central Transp. Co.*,

596 F.2d at 1114; *see also In re Marvel Entm't Group, Inc.*, 222 B.R. 243, 249 (D. Del. 1998) (describing the “ultimate inquiry to be whether the compromise is fair, reasonable, and in interest of the estate”) (internal citations and quotation marks omitted).

18. The United States Court of Appeals for the Third Circuit has enumerated four factors that should be considered in determining whether a compromise should be approved: “(1) the probability of success in litigation; (2) the likely difficulties in collection; (3) the complexity of the litigation involved, and the expense, inconvenience and delay necessarily attending it; and (4) the paramount interest of the creditors.” *Myers v. Martin (In re Martin)*, 91 F.3d 389, 393 (3d Cir. 1996) (citing *Protective Comm. for Indep. Stockholders of TMT Trailer Ferry, Inc. v. Anderson*, 390 U.S. 414, 424-25 (1968)); *accord In re Nutraquest, Inc.*, 434 F.3d 639, 644 (3d Cir. 2006).

19. Furthermore, the decision to approve a compromise is “within the [sound] discretion of the bankruptcy court.” *In re World Health Alternatives, Inc.*, 344 B.R. at 296. In making its decisions, the bankruptcy court should not substitute its judgment for that of the debtor. The court is not to decide the numerous questions of law or fact raised by the litigation, but rather should canvas the issues to determine “whether the settlement fall[s] below the lowest point in the range of reasonableness.” *Cosoff v. Rodman (In re W.T. Grant Co.)*, 699 F.2d 599, 608 (2d Cir. 1983), *cert. denied*, 464 U.S. 22 (1983) (internal citations and quotations omitted); *see also In re World Health Alternatives, Inc.*, 344 B.R. at 296 (stating that “the court does not have to be convinced that the settlement is the best possible compromise. Rather, the court must conclude that the settlement is within the range of litigation possibilities”) (internal quotation marks and citations omitted).

20. The Debtors believe that the settlement rises well above the “lowest point in the range of reasonableness.” Additionally, as discussed more fully below, each of the applicable *Martin* factors set forth above weighs in favor of approving the settlement. The Court should therefore approve the Settlement Agreement pursuant to Bankruptcy Rule 9019 and applicable law.

21. Absent the Settlement Agreement, the claims would need to be litigated with no assurances of a favorable outcome for the Debtors. The claims raised by Traxxas in the Patent Infringement Action involve intellectual property issues which will likely require a trial on the merits at the expense of the estate. Similarly the IPR Proceeding involves similar issues which will be expensive to litigate. Further, the resolution of Traxxas' claims will be time consuming either for this Court or the Texas District Court and of uncertain outcome or benefit to the Debtors.

22. Finally, entry into the Settlement also serves the paramount interest of the creditors. Resolution of the claims through this settlement represents a successful outcome for the Debtors' creditors by obviating the need for potentially protracted litigation and the expenses necessarily attendant to such litigation.

23. Based on the foregoing, the Settlement represents a compromise between the Parties that is fair and equitable and in the best interests of the Debtors' estates and their creditors.

### **NOTICE**

24. The Debtors will provide notice of this motion to: (i) the Office of the United States Trustee; (ii) the Internal Revenue Service; (iii) the Securities and Exchange Commission; (iv) the Delaware Secretary of State; (v) the Delaware Secretary of the Treasury; (vi) counsel to the Committee; (vii) counsel to Wells Fargo Bank, N.A., as administrative agent to the



prepetition and postpetition lenders; (viii) counsel to Cyprium Investors IV AIV I LP; (ix) counsel to GreatBanc Trust Company, trustee of the Hobbico, Inc. Employee Stock Ownership Plan; (x) counsel to Horizon; and (xi) all parties requesting notice pursuant to Bankruptcy Rule 2002.

### **CONCLUSION**

WHEREFORE, the Debtors respectfully requests that the Court enter an order in the form attached hereto as **Exhibit “D”** granting the relief requested herein and such other and further relief as the Court deems proper.

Dated: May 31, 2018  
Wilmington, Delaware

MORRIS, NICHOLS, ARSHT & TUNNELL  
LLP

/s/ Matthew O. Talmo

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**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE**

In re:

HOBBICO, INC., *et al.*,<sup>1</sup>

Debtors.

Chapter 11

Case No. 18-10055 (KG)

Jointly Administered

Hearing Date: July 11, 2018 at 2:00 p.m. (ET)

Obj. Deadline: June 14, 2018 at 4:00 p.m. (ET)

**NOTICE OF MOTION TO APPROVE SETTLEMENT BY  
AND BETWEEN THE DEBTORS AND CREDITOR TRAXXAS L.P.**

PLEASE TAKE NOTICE that on May 31, 2018, Hobbico, Inc. and its affiliated debtors and debtors in possession (collectively, the “Debtors”) in the above-captioned chapter 11 cases filed the **Motion to Approve Settlement by and Between the Debtors and Creditor Traxxas L.P.** (the “Motion”).

PLEASE TAKE FURTHER NOTICE that any party wishing to oppose the entry of an order approving the Motion must file a response or objection (“Objection”) if any, to the Application with the Clerk of the United States Bankruptcy Court for the District of Delaware, 824 North Market Street, 3rd Floor, Wilmington, Delaware 19801 on or before **June 14, 2018 at 4:00 p.m. (ET)**. At the same time, you must serve such Objection upon the undersigned counsel for the Debtors so as to be received on or before the Objection Deadline.

PLEASE TAKE FURTHER NOTICE THAT A HEARING ON THE MOTION WILL BE HELD ON **JULY 11, 2018 AT 2:00 P.M. (ET)** BEFORE THE HONORABLE KEVIN GROSS AT THE UNITED STATES BANKRUPTCY COURT FOR THE DISTRICT OF DELAWARE, 824 NORTH MARKET STREET, 6TH FLOOR, COURTROOM #3, WILMINGTON, DELAWARE 19801. ONLY PARTIES WHO HAVE FILED A TIMELY OBJECTION WILL BE HEARD AT THE HEARING.

IF YOU FAIL TO RESPOND IN ACCORDANCE WITH THIS NOTICE, THE COURT MAY GRANT THE RELIEF REQUESTED IN THE MOTION WITHOUT FURTHER NOTICE OR HEARING.

<sup>1</sup>

The Debtors in these chapter 11 cases, along with the last four digits of each Debtor’s federal tax identification number, are as follows: Hobbico, Inc. (9545); Arrma Durango Ltd; Axial R/C Inc. (0233); Estes-Cox Corp. (2196); Great Planes Model Manufacturing, Inc. (5259); Revell Inc. (8545); Tower Hobbies, Inc. (5185); and United Model, Inc. (5302). The Debtors’ headquarters are located at 2904 Research Road, Champaign, Illinois 61822.

Dated: May 31, 2018  
Wilmington, Delaware

MORRIS, NICHOLS, ARSHT & TUNNELL LLP

/s/ Matthew O. Talmo

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*Co-Counsel to the Debtors and Debtors in Possession*

**Exhibit A**

**UNITED STATES DISTRICT COURT  
EASTERN DISTRICT OF TEXAS  
MARSHALL DIVISION**

**TRAXXAS, L.P.,**

**Plaintiff,**

**v.**

**HOBBICO, INC., *et al.*,**

**Defendant.**

**CASE NO. 2:16-cv-00768-JRG-RSP**

**JURY TRIAL DEMANDED**

**STIPULATED FINAL JUDGMENT**

This matter having come before the Court on the unopposed motion of plaintiff Traxxas, L.P. (“Traxxas”).

**Whereas**, this Stipulated Final Judgment and Permanent Injunction Order concerns the patent infringement claims between Traxxas and defendants Hobbico, Inc. and Arrma Durango, Ltd. (collectively “Hobbico Defendants”) in this Civil Action No. 2:16-cv-00768 (referred herein as the “Litigation”); and

**Whereas**, in this Litigation, Traxxas brought infringement claims against the Hobbico Defendants under United States Patent Nos. 8,315,040 B2; 8,982,541 B1; 8,976,511 B1; 9,061,763 B1; 9,221,539 B2; 7,883,099 B2; 7,793,951 B2; and D567,886 (collectively, the “Traxxas Patents”); and

**Whereas**, Traxxas owns the Traxxas Patents; and

**Whereas**, the Hobbico Defendants do not contest that in the past the products identified on the attached Attachment A contained components that infringed upon one or more claims of the Traxxas Patents; and

**Whereas**, the Hobbico Defendants recognize that 35 U.S.C. § 282 presumes the Traxxas Patents are valid and further agree that the Traxxas Patents are valid; and

**Whereas**, the Hobbico Defendants agree that the Traxxas Patents are enforceable; and

**Whereas**, the Hobbico Defendants do not contest that Traxxas' damages for the Hobbico Defendants' infringement of the Traxxas Patents before January 10, 2018 are Thirteen Million Three Hundred Thousand dollars (US\$13,300,000.00); and

**Whereas**, the Hobbico Defendants do not contest that Traxxas' damages for the Hobbico Defendants' infringement of the Traxxas Patents after January 10, 2018 are Three Thousand Four Hundred Seventy-Six dollars (US\$3,476.00).

**IT IS HEREBY ORDERED, ADJUDGED AND DECREED** that Traxxas' Unopposed Motion is **GRANTED**, and **IT IS FURTHER ORDERED** that:

1. For purposes of this Litigation only, this Court has proper jurisdiction over Traxxas and the Hobbico Defendants and over the subject matter of this action.
2. The Hobbico Defendants do not contest that the claims of the Traxxas Patents are enforceable and not invalid.
3. The Hobbico Defendants do not contest that the products listed on the attached Attachment A in the past contained components that infringed upon one or more claims of the Traxxas Patents.
4. Traxxas is awarded judgment in its favor in the amount of:
  - a) Thirteen Million Three Hundred Thousand dollars (US\$13,300,000.00) against the Hobbico Defendants, jointly and severally, for their infringement of the Traxxas Patents before January 10, 2018; and

- b) Three Thousand Four Hundred Seventy-Six dollars (US\$3,476.00) against the Hobbico Defendants, jointly and severally, for their infringement of the Traxxas Patents after January 10, 2018 through the date of this Order.
- 5. Traxxas and the Hobbico Defendants have agreed that the amounts awarded in Paragraph 4 herein shall be for liquidation purposes only, and allowance and priority of such amounts shall be determined by Order of the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"). In full satisfaction of the judgment awarded against the Hobbico Defendants in paragraph 4(a), above, Traxxas (a) may file a general unsecured claim in the Bankruptcy Court, and subject to the terms of any order entered by the Bankruptcy Court approving this Agreed Judgment, but (b) may not file or assert a judgment lien or take any other action against the Hobbico Defendants to enforce or collect upon such judgment other than to prosecute its general unsecured claim in the Bankruptcy Court. Traxxas affirmatively and irrevocably waives any right to any judgment lien or any other lien rights or security interests against any or all of the Hobbico Defendants or any of their respective assets that Traxxas may now or hereafter directly or indirectly own, hold, have, or claim to have.
- 6. All infringement claims made by Traxxas against the Hobbico Defendants in this Litigation are hereby dismissed with prejudice.
- 7. Traxxas has not released, and nothing in this Order shall be construed as a release or discharge of, any claim Traxxas has or may have in the future against any other infringer (other than the Hobbico Defendants) of the Traxxas Patents. All such

rights have been and are expressly reserved. The Hobbico Defendants have not released, and nothing in this Order shall be construed as a release or discharge of, any claim that is not the subject of this Litigation. All such rights have been and are expressly reserved.

8. Final Judgment is hereby entered in favor of Traxxas against the Hobbico Defendants on Traxxas' causes of action for infringement of the Traxxas Patents.
9. The Hobbico Defendants affirmatively waive any and all rights to appeal or otherwise challenge or contest the validity of this Order.
10. This Court and the Bankruptcy Court shall retain jurisdiction of this matter for purposes of construction and modification of this Order.
11. This Order is not enforceable against any non-party, including (but not limited to) any director, officer, employee, agent, attorney, affiliate, or subsidiary of the Hobbico Defendants or any purchaser of assets of the Hobbico Defendants.
12. Each party shall bear its own costs and attorneys' fees.
13. This is a final judgment.



**ATTACHMENT A****PRODUCTS WITH INFRINGING COMPONENTS**

<b>PART NO.</b>	<b>HOBBICO SKU</b>	<b>PRODUCTS</b>
AR102601, 655	ARAD36NL	VORTEKS MEGA BRSHD NIMH
AR102602	ARAD35BB	RAIDER MEGA BRSHD NIMH
AR102603, 604, 657	ARAD37RR, ARAD37RL	GRANITE MEGA BRSHD NIMH
AR102605, 606, 551	ARAD38BB, ARAD38BL	FURY MEGA WITH NIMH
AR102611, 612	ARAD41BB	VORTEKS BLS WITH NIMH
AR102613, 614	ARAD40RR	RAIDER BLS WITH NIMH
AR102615, 616	ARAD42BB	GRANITE BLS WITH NIMH
AR102617, 618	ARAD43RR	FURY BLS WITH NIMH
AR102626	ARAD52RR	GRANITE BLX W/NIMH
AR102627	ARAD53BB	FURY BLX 2WD W/NIMH
AR102642*	ARAD85RW	1/8 RAIDER XL MEGA 2WD
AR102646	ARAD86GG	RAIDER XL BLX W/4600
AR102654	ARAD83GL	SENTON 6S 4WD SC BLX
AR102656	ARAD35RB	RAIDER MEGA BRSHD NIMH
AR102660	ARAD56GL	AR102660 GRANITE BLX W/O BATT
AR102661	ARAD57RL	2016 FURY BLX W/O BATT RTR
AR102662*	ARAD87GL	RAIDER XL BLX W/O BATT 2WD RTR
AR106002	ARAD80SS	TYPHON 6S BLX 1/8 4WD RTR
AR106003	ARAD82RR	TALION 6S BLX 1/8 RTR
AR106005	ARAD81GG	KRATON 6S BLX 1/8 4WD RTR
AR106006	ARAD81BB	KRATON 6S BLX 1/8 4WD RTR
AR106007	ARAD83RR	SENTON 6S 4WD SC BLX
AR106009	ARAD70GG	NERO 6S BLX
AR106011	ARAD71BB	NERO 6S BLX
AR106013	ARAD80RL	TYPHON 6S BLX 1/8 4WD RTR
AR106014	ARAD82RB	TALION 6S BLX 1/8 RTR
AR106015	ARAD81GL	KRATON 6S BLX 1/8 4WD RTR
AR106017	ARAD73LL	NERO BIG ROCK 6S BLX
AR106018	ARAD81RL	KRATON 6S BLX 1/8 4WD RTR
AR106020	ARAD75RL	FAZON 6S BLX
AR106021	ARAD84SS	AR106021 OUTCAST TRK SLVR
AR106027	ARAD84NN	OUTCAST 6S STUNT TRK 1/8 4WD
AR320011	ARAC8801	RADIO/RECEIVER BOX SETS
AR320169	ARAC8600	RADIO/RECEIVER BOX SETS
AR320248	ARAC8603	RADIO/RECEIVER BOX SETS
AR340092	ARAC9375	STEERING PARTS SETS
DIDE02BB, DIDE02RR, DIDE02YY	DIDE02BB, DIDE02RR, DIDE02YY	DROMIDA OMINUS
DIDE03BB, DIDE03GG, DIDE03RR, DIDE03WW	DIDE03BB, DIDE03GG, DIDE03RR, DIDE03WW	DROMIDA VISTA UAV
DIDE04NN*, DIDE04YY, DIDE04BB, DIDE04GG	DIDE04NN, DIDE04YY, DIDE04BB, DIDE04GG	DROMIDA VISTA FPV
DIDE05BB, DIDE05GG, DIDE05RR, DIDE05NN	DIDE05BB, DIDE05GG, DIDE05RR, DIDE05NN	DROMIDA XL UAV
DIDE06BB, DIDE06GG, DIDE06RR, DIDE06NN	DIDE06BB, DIDE06GG, DIDE06RR, DIDE06NN	DROMIDA XL FPV
DIDE1183, DIDE1184, DIDE1185, DIDE1186	DIDE1183, DIDE1184, DIDE1185, DIDE1186	LED ARM COVERS

PART NO.	HOBBICO SKU	PRODUCTS
DIDM1110, DIDM1111, DIDM1112, DIDM1113, DIDM1214, DIDM1215	DIDM1110, DIDM1111, DIDM1112, DIDM1113, DIDM1214, DIDM1215	E-BOARDS

TOWER STOCK NO.	HOBBICO STOCK NO.	INFRINGING PRODUCTS
		ALL HPI MODEL VEHICLES MANUFACTURED, OFFERED FOR SALE AND/OR SOLD BY HOBBICO THAT INCLUDE A BLITZ/E-FIRESTORM/SPRINT 2 WATERPROOF RECEIVER BOX (PART #106211 OR SUBSTANTIALLY SIMILAR) AS A STANDARD OR OPTIONAL FEATURE.
		ALL HPI MODEL VEHICLES MANUFACTURED, OFFERED FOR SALE AND/OR SOLD BY HOBBICO THAT INCLUDE A DESERT TROPHY WATERPROOF RECEIVER BOX (PART #106960 OR SUBSTANTIALLY SIMILAR) AS A STANDARD OR OPTIONAL FEATURE.
		ALL HPI MODEL VEHICLES MANUFACTURED, OFFERED FOR SALE AND/OR SOLD BY HOBBICO THAT INCLUDE A TROPHY NITRO WATERPROOF RX BOX PLASTIC PARTS (PART #101826 OR SUBSTANTIALLY SIMILAR) AND TROPHY NITRO WATERPROOF RX BOX RUBBER SEALS (PART #101773 OR SUBSTANTIALLY SIMILAR).
		ALL HPI MODEL VEHICLES MANUFACTURED, OFFERED FOR SALE AND/OR SOLD BY HOBBICO THAT INCLUDE A WATERPROOF RECEIVER BOX (PART #108261 OR SUBSTANTIALLY SIMILAR).
		ALL HPI MODEL VEHICLES MANUFACTURED, OFFERED FOR SALE AND/OR SOLD BY HOBBICO THAT INCLUDE A WHEELY KING WATERPROOF RECEIVER BOX (PART #107323 OR SUBSTANTIALLY SIMILAR).
		ALL HPI MODEL VEHICLES MANUFACTURED, OFFERED FOR SALE AND/OR SOLD BY HOBBICO THAT INCLUDE THE BULLET NITRO BATTERY AND RX BOX PLASTIC PARTS (PART #101861 OR SUBSTANTIALLY SIMILAR) AND BULLET NITRO BATTERY/RX BOX RUBBER PARTS (PART #101862 OR SUBSTANTIALLY SIMILAR).
		102117 RTR CRAWLER KING WITH JEEP WRANGLER RUBICON
		102118 RTR CRAWLER KING W/ LAND ROVER DEFENDER 90
		104559 BLITZ ESE
LXEDRW	HPID5832	105832 RTR BLITZ W/ 2.4GHZ
		105845 RTR E-FIRESTORM 10T 2.4GHZ
LXDUTV	HPID7701	105879 RTR E-FIRESTORM 10T FLUX
LXBLWF	HPID6430	106130 SPRINT 2 SPORT RTR W/ NISSAN GT-R
LXBLWG	HPID6433	106133 SPRINT 2 SPORT RTR W/ 1969 CHEVROLET CAMARO
		106144 RTR SPRINT 2 SPORT
LXBKFH	HPID0949	106149 SPRINT 2 DRIFT RTR W/ 2010 CHEVROLET CAMARO
LXBKFJ	HPID0954	106154 SPRINT 2 DRIFT RTR W/ NISSAN 350Z
		106165 RTR SPRINT 2 FLUX W/ PORSCHE 911 GT3 RS
LXDUTJ	HPID6458	106168 RTR SPRINT 2 FLUX W/ BMW M3
LXBUSA	HPID0973	106173 RTR WHEELY KING 4X4
		106211 WATERPROOF RECEIVER BOX
		106960 DESERT TROPHY WATERPROOF RECEIVER BOX
LXBRAJ	HPID7004	107004 RTR BULLET ST 3.0 W/ 2.4GHZ
LXBRAK	HPID7006	107006 RTR BULLET MT 3.0 W/ 2.4GHZ

<b>TOWER STOCK NO.</b>	<b>HOBBICO STOCK NO.</b>	<b>INFRINGING PRODUCTS</b>
LXBPVW	HPID7012	107012 RTR TROPHY 3.5 BUGGY W/ 2.4GHZ
LXBPVX	HPID7014	107014 RTR TROPHY TRUGGY 4.6 W/ 2.4GHZ
	HPID0312	107112 RTR WR8 FLUX FORD FIESTA ABU DHABI CASTROL WRC RALLY CAR
	HPIC7323	107323 WHEELY KING WATERPROOF RECEIVER BOX
LXCWGB	HPID8220	108220 RTR SPRINT 2 SPORT W/ 2012 FALKEN TIRE PORSCHE 911 GT3 RSR
LXCXTA	HPIC8261	108261 WATERPROOF RECEIVER BOX
	HPID6463	108765 RTR SPRINT 2 FLUX W/ 2010 CHEVROLET CAMARO
LXCZRF	HPID0299	109299 RTR SPRINT 2 SPORT W/ 1969 FORD MUSTANG RTR-X
	HPID0313	109313 KEN BLOCK WR8 FLUX W/ FORD FIESTA H.F.H.V.
LXDUTL	HPID0326	109326 RTR BLITZ FLUX
LXDUTH	HPID6460	112710 RTR SPRINT 2 FLUX W/ FORD MUSTANG GT-R
	HPID0314	112715 KEN BLOCK 2013 GRC WR8 FLUX
LXEWJR	HPID2862	112862 SPRINT 2 FLUX W/ BMW M3 GTS
LXFCTA	HPID2878	112878 RTR E-FIRESTORM 10T FLUX
LXEVEG	HPID3225	113225 CRAWLER KING 1973 FORD BRONCO
		114183 WR8 FLUX KEN BLOCK W/ 2014 FORD FIESTA ST RX43
LXFNAX	HPID1218	115118 CRAWLER KING FORD F-150 SVT RAPTOR
	HPID0315	115383 KEN BLOCK WR8 FLUX W/ 2015 FORD FIESTA ST RX43
	HBSC6870	68700 HB TCX

\*Referenced Part Nos. produced on or after November 5, 2017 are not "infringing products" per the terms of this Judgment.

**Exhibit B**

**IN THE UNITED STATES DISTRICT COURT  
FOR THE EASTERN DISTRICT OF TEXAS  
MARSHALL DIVISION**

**TRAXXAS, L.P.,**

*Plaintiff,*

**v.**

**HOBBICO, INC., *et al.*,**

*Defendants.*

§  
§  
§  
§  
§  
§  
§  
§  
§

**Civil Action No. 2:16-cv-768-JRG-RSP**

**LEAD CASE**

**JURY TRIAL DEMANDED**

**UNOPPOSED MOTION FOR ENTRY OF STIPULATED  
FINAL JUDGMENT**

Plaintiff Traxxas, L.P. (“Traxxas”) and Defendants Hobbico, Inc. and Arrma Durango, Ltd. (collectively “Hobbico Defendants”) have agreed to finally resolve the patent infringement claims between them in the above-captioned litigation.

Accordingly, Traxxas requests that the Court enter a Stipulated Final Judgment on the terms provided in the attached Exhibit A. The Hobbico Defendants do not oppose entry of the Stipulated Final Judgment in the form provided.

Dated: May 30, 2018

Respectfully Submitted,

By: /s/ William E. Davis, III  
William E. Davis, III  
Texas State Bar No. 24047416  
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**THE DAVIS FIRM, PC**  
213 N. Fredonia Street, Suite 230  
Longview, Texas 75601  
Telephone: (903) 230-9090  
Facsimile: (903) 230-9661

***Counsel for Plaintiff  
Traxxas, L.P.***

**CERTIFICATE OF SERVICE**

The undersigned certifies that the foregoing document is being filed electronically in compliance with Local Rule CV-5(a). As such, this document is being served on all counsel who are deemed to have consented to electronic service. Local Rule CV-5(a)(3)(V). Pursuant to Federal Rule of Civil Procedure 5(d) and Local Rule CV-5(d) and (e), any counsel of record not deemed to have consented to electronic service will be served with a true and correct copy of the foregoing by email on this 26th day of April 2018.

/s/ William E. Davis, III  
William E. Davis, III

**Exhibit C**

UNITED STATES PATENT AND TRADEMARK OFFICE

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BEFORE THE PATENT TRIAL AND APPEAL BOARD

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HOBBICO, INC.,  
Petitioner,

v.

TRAXXAS, L.P.,  
Patent Owner.

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Case IPR2018-00010  
Patent 8,982,541

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**JOINT MOTION TO TERMINATE  
PURSUANT TO 35 U.S.C. § 317 AND 37 C.F.R. § 42.74**



IPR2018-00010

U.S. Patent No. 8,982,541

Pursuant to 35 U.S.C. § 317 and 37 C.F.R. §§ 42.72 and 42.74(c), the Board's e-mail authorization of \_\_\_\_\_, 2018, and the Board's Order of \_\_\_\_\_, 2018, Petitioner Hobbico, Inc. and Patent Owner Traxxas, L.P. jointly move to terminate the present *inter partes* review proceeding in light of the parties' settlement of their dispute insofar as it relates to U.S. Patent No. 8,982,541 ("the '541 Patent"). As required by 35 U.S.C. § 317(b), a true and complete copy of the written agreement resolving this proceeding is being concurrently filed as Exhibit 2002. This agreement completely settles the parties' controversy and their disputes relating to the '541 Patent as between the Patent Owner and Petitioner, which were parties in the U.S. district court litigation captioned *Traxxas, L.P. v. Hobbico, Inc., et al*, Case No. 2:16- cv-00768 (E.D. Tex. filed July 12, 2016). [[That civil action was dismissed by the District Court pursuant to the settlement on \_\_\_\_\_, 2018 (D.I. \_\_\_\_). ]]

Pursuant to 35 U.S.C. § 317(b), the parties further jointly certify that there are no other agreements or understandings, oral or written, between Patent Owner and Petitioner, including any collateral agreements made in connection with or in contemplation of the termination of the present proceeding.

Termination with Respect to Inter Partes Review Proceeding

A joint motion to terminate generally "must (1) include a brief explanation as to why termination is appropriate; (2) identify all parties in any related litigation

IPR2018-00010

U.S. Patent No. 8,982,541

involving the patents at issue; (3) identify any related proceedings currently before the Office, and (4) discuss specifically the current status of each such related litigation or proceeding with respect to each party to the litigation or proceeding.” *Heartland Tanning, Inc. v. Sunless, Inc.*, IPR2014-00018, Paper No. 26, at \*2 (P.T.A.B. July 28, 2014). Each element is addressed below:

As for requirement (1), termination is appropriate in this proceeding because the parties have settled their dispute with respect to the ’541 Patent, and have agreed to terminate this *inter partes* review. The applicable statute, 35 U.S.C. § 317(a), provides that an *inter partes* review proceeding “shall be terminated with respect to any petitioner upon the joint request of the petitioner and the patent owner, unless the Office has decided the merits of the proceeding before the request for termination is filed.” In this case, Board has not fully decided the merits of the proceeding. Moreover, as recognized by the rules of practice before the Board:

There are strong public policy reasons to favor settlement between the parties to a proceeding. The Board will be available to facilitate settlement discussions, and where appropriate, may require a settlement discussion as part of the proceeding. The Board expects that a proceeding will terminate after the filing of a settlement agreement, unless the Board has already decided the merits of the proceeding.

IPR2018-00010

U.S. Patent No. 8,982,541

Patent Office Trial Practice Guide, Fed. Register, Vol. 77, No. 157 at 48768 (Aug. 14, 2012). Moreover, no public interest or other factors militate against termination of this proceeding.

As for requirements (2) and (4), the table below identifies parties in district court litigations that involve or involved the '541 Patent, and discusses the current status of these related litigations with respect to each party to the litigation. *See Heartland Tanning, Inc.*, Paper No. 26, at \*2.

Case Caption	Patents Asserted	Current Status
<i>Traxxas LP v. Hobby Products International, Inc. d/b/a HPI Racing, et al.</i> , Case No. 2:15-cv-01267 (E.D. Tex.)	8,976,511 8,982,541	Dismissed on April 13, 2018 (D.I. 23)
<i>Traxxas, L.P. v. The Firelands Group, LLC</i> , Case No. 2:16-cv-00736 (E.D. Tex.)	8,315,040 8,982,541 9,061,763 9,221,539	Markman Hearing held on July 27, 2017
<i>Traxxas, L.P. v. Hobbico, Inc., et al.</i> , Case No. 2:16-cv-00768	7,793,951 7,883,099 8,982,541 D567,886 9,061,763 9,221,539	Case referred to Settlement Conference with Magistrate Judge on April 13, 2018 (D.I. 143)

As for requirements (3) and (4), there are currently no related *inter partes* review proceedings for the '541 Patent.

IPR2018-00010

U.S. Patent No. 8,982,541

Finally, as discussed above, Ex. 2002 fully resolves all litigation and proceedings between the parties to this proceeding relating to the '541 Patent. The status of each *inter partes* review between the parties is provided below:

<b>Proceeding</b>	<b>Patent</b>	<b>Current Status</b>
IPR2018-00010	8,982,541	Trial instituted – Motion to Terminate Being Filed

Dated: \_\_\_\_\_, 2018

/s/ \_\_\_\_\_  
 Wayne M. Helge (Reg. No. 56,905)  
 James T. Wilson (Reg. No. 41,439)  
 Aldo Noto (Reg. No. 35,628)  
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Counsel for Patent Owner

IPR2018-00010

U.S. Patent No. 8,982,541

**CERTIFICATE OF SERVICE**

The undersigned hereby certifies that foregoing JOINT MOTION TO TERMINATE PURSUANT TO 35 U.S.C. § 317 AND 37 C.F.R. § 42.74 is being served via electronic mail to Petitioner by serving the correspondence addresses of record as follows:

Carrie A. Beyer  
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Brian.Rupp@dbr.com

Dated: \_\_\_\_\_, 2018

/s/ \_\_\_\_\_  
Wayne M. Helge (Reg. No. 56,905)  
Attorney for Patent Owner

**Exhibit D**

**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE**

In re:	)	
	)	Chapter 11
	)	
HOBBICO, Inc., <i>et al.</i> ,	)	Case No. 18-10055 (KG)
	)	
Debtors.	)	Jointly Administered
	)	

**ORDER APPROVING SETTLEMENT BY  
AND BETWEEN THE DEBTORS AND CREDITOR TRAXXAS L.P.**

UPON CONSIDERATION OF the Motion to Approve Settlement By and Between the Debtors and Creditor Traxxas L.P. (the “Motion”) filed in these cases; due and sufficient notice of the Motion having been given; and the Court having determined that good cause exists to grant the Motion; IT IS HEREBY ORDERED as follows:

1. The settlement by and between the Debtors and Traxxas L.P. ("Traxxas," together with the Debtors, the "Parties") which terms are contained in this Order are APPROVED as set forth in this Order.

2. This settlement between the Debtors and Traxxas resolves all pending issues between the Parties in the pending proceeding before the United States Patent and Trademark Office Patent and Appeal Board (the "USPTO Board") (Case IPR2018-00010) (the "IPR Proceeding") and in the pending lawsuit in the United States District Court for the Eastern District of Texas (the “Texas District Court”), Case No. 2:16-cv-768 (the “Patent Infringement Action”) filed by Traxxas against Debtor Hobbico, Inc., and Debtor Arrma Durango, Ltd. (collectively, "Hobbico Defendants").

3. The following are the terms of the settlement (the "Settlement Terms") between the Parties:

- A. The Debtors agree to the entry of a Stipulated Final Judgment Order in the Patent Infringement Action in favor of Traxxas totaling Thirteen Million, Three Hundred Thousand dollars (US\$13,300,000.00) and against the Hobbico Defendants, jointly and severally, for their infringement of the Traxxas' Patents before January 10, 2018.
- B. The Debtors agree to the entry of a Stipulated Final Judgment Order in the Patent Infringement Action in favor of Traxxas totaling Three Thousand Four Hundred Seventy-Six dollars (US\$3,476.00) against the Hobbico Defendants, jointly and severally, for their infringement of the Traxxas Patents after January 10, 2018.
- C. The Debtors agree to the entry of a Stipulated Final Judgment Order in the Patent Infringement Action in the form attached as **Exhibit "A"** to this Order.
- D. The Debtors and Traxxas agree that Traxxas will handle all proceedings, at Traxxas' sole cost and expense, to seek entry of the Stipulated Final Judgment Order in the Texas District Court and will file an Unopposed Motion for Entry of Stipulated Final Judgment following entry of this Order. A copy of the Unopposed Motion for Entry of Stipulated Final Judgment is attached as **Exhibit "B"** to this Order. The Debtors and Traxxas agree that, at Traxxas' sole cost and expense, Traxxas will be solely responsible for preparing, filing, prosecuting and serving both the Motion, and this Order, on all parties required to get service thereof, pursuant to the Federal Rules of Bankruptcy Procedure, and this Court's local rules of procedure.
- E. Traxxas agrees to reduce its claim against the estates from the amount awarded in the Stipulated Final Judgment to \$10,500,000.00. The Debtors agree not to object to Traxxas filing an unsecured Proof of Claim in these bankruptcy cases totaling **\$10,500,000.00** in full satisfaction of any infringement by the Hobbico Defendants of Traxxas' patents before January 10, 2018. Such claim, when filed, shall be deemed an allowed general unsecured claim.
- F. The Debtors agree that Traxxas is entitled to an administrative claim totaling \$3,476.00 in these Bankruptcy cases (the "Traxxas Administrative Claim"); provided, however, that effective upon entry of this Order, pursuant to the next decretal paragraph, Traxxas affirmatively and irrevocably waives such Administrative Claim in its entirety.
- G. Traxxas hereby affirmatively and irrevocably waives the Traxxas Administrative Claim in its entirety and any right or claim that Traxxas may have to the payment of all or any portion of the Traxxas Administrative Claim, including by the Debtors or any subsequent Trustee or fiduciary. The parties acknowledge that such waiver of the Traxxas Administrative Claim is in consideration of the Debtors' costs of reviewing and negotiating the Motion and this Order.
- H. The Debtors and Traxxas agree that Traxxas will file, at its sole cost and expense, a Joint Motion to Terminate Pursuant to 35 U.S.C. §317 and 37 C.F.R. §42.74 in the IPR Proceeding following entry of this Order. A copy of the Joint Motion to Terminate



Pursuant to 35 U.S.C. §317 and 37 C.F.R. §42.74 is attached as **Exhibit "C"** to this Order.

- I. Traxxas may, at its election, cause any "Inventory on Hand" which was not sold pursuant to the Sale Order and which constitutes the inventory which Traxxas alleges violates its patents to be delivered to Traxxas in a commercially reasonable manner at Traxxas' sole cost and expense, or otherwise destroyed in a commercially reasonable manner, at Traxxas' sole cost and expense. None of the Hobbico Defendants or other Debtors will have any obligation or liability whatsoever relating to the delivery or the destruction of any such inventory pursuant to the foregoing terms.
- J. Traxxas agrees that the following products do not infringe the Traxxas patents: SKU AR102642; SKU AR102662; SKU DIDE04NN, but only to the extent the products were produced on or after November 5, 2017.
- K. Traxxas agrees to withdraw its Stay Relief Motion promptly upon entry of this Order, and such Stay Relief Motion will be deemed withdrawn upon entry of this Order.
- L. Except as otherwise set forth in this Order with respect to costs, the Debtors and Traxxas both agree to bear their own attorneys costs and fees as it relates to this settlement and all other matters referenced in the Motion and this Order.
- M. Effective upon entry of this Order, Traxxas affirmatively and irrevocably waives any rights to any judgment lien or any other lien or security interest that Traxxas may now or hereafter own, hold, have, or claim to have against any or all of the Hobbico Defendants or any of their respective assets.
- N. Other than the claims asserted in (i) the IPR Proceeding or (ii) the Patent Infringement Action, all claims of the Debtors against Traxxas are expressly preserved.

4. This Order is binding upon the Debtors, all creditors of the Debtors, and any trustees that may be appointed in these chapter 11 cases or any trustees appointed in any subsequent proceedings under chapter 7 of the Bankruptcy Code relating to the Debtors, and all other parties-in-interest.

5. The Debtors' admissions of patent infringement and related liability is solely with respect to the Debtors and nothing in this Order or the Stipulated Final Judgment is or will be deemed an admission of liability by any other "Person", including, without limitation, any "Agent", any "Lender" or any other "Secured Party" (as such terms are defined in the final cash

collateral and debtor-in-possession financing order entered at docket number 162 in these chapter 11 cases, as amended or otherwise modified from time to time, including at docket number 263), arising from or related to any alleged infringement by any Debtor or other defendant in the Patent Infringement Action.

6. This Court shall retain jurisdiction to the full extent permitted by law to determine any disputes concerning or relating to the Settlement Terms and this Order.

Dated: \_\_\_\_\_, 2018  
Wilmington, DE

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THE HONORABLE KEVIN GROSS  
UNITED STATES BANKRUPTCY JUDGE