QUINN EMANUEL URQUHART & SULLIVAN, LLP
Frederick A. Lorig (Bar No. 057645)
fredlorig@quinnemanuel.com
Christopher A. Mathews (Bar No. 144021)
chrismathews@quinnemanuel.com
Diane C. Hutnyan (Bar No. 190081)
dianehutnyan@quinnemanuel.com
Bruce R. Zisser (Bar No. 180607)
brucezisser@quinnemanuel.com
Sidford L. Brown (Bar No. 107196)
sidfordbrown@quinnemanuel.com
865 South Figueroa Street, 10th Floor
Los Angeles, California 90017-2543
Tel.: (213) 443-3000
Fax: (213) 443-3100

Attorneys for Plaintiff
MULTIMEDIA PATENT TRUST

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF CALIFORNIA

MULTIMEDIA PATENT TRUST, a Delaware statutory trust,

Plaintiff,

v.

APPLE INC., a California corporation, CANON, INC., a Japanese corporation, CANON U.S.A., INC., a New York corporation, LG ELECTRONICS, INC., a Korean corporation, LG ELECTRONICS U.S.A., INC., a Delaware corporation, LG ELECTRONICS MOBILECOMM U.S.A., INC., a California corporation,

Defendants.

CASE NO. 10-cv-2618-H-KSC

PLAINTIFF MULTIMEDIA PATENT TRUST'S BRIEF REGARDING ISSUES TO BE TRIED TO THE JURY

Judge:	Hon. Marilyn L. Huff
Courtroom:	13, 5th Floor
Hearing Date:	November 20, 2012
Time:	9:00 a.m.

I. INTRODUCTION

Aside from infringement, validity and damages, Defendants have identified nine additional issues for trial in this case: substantial performance, standards estoppel, laches, equitable estoppel, issue preclusion, unclean hands, failure to mark, patent misuse, and right to injunctive relief.[1] First, Defendants should be held to this list of issues and should not be permitted to raise issues now or at trial that were not timely disclosed to MPT and the Court as within Defendants' view of the scope of the trial. *See* Civil L.R. 16.1(f)(2)(a). Second, of the issues listed in Defendants' Memorandum, only infringement, validity and certain portions of damages should be tried to the jury. The nine additional issues, plus the damages issues of RAND and willfulness, have either already been disposed of in connection with the Court's summary judgment order or should be tried to the Court outside the presence of the jury.

II. CERTAIN CLAIMS ARE ALREADY BEING TRIED TO THE COURT[2]

On November 9, 2012, the Court ruled that Defendants' equitable defenses of patent misuse, unclean hands and standards estoppel will be tried to the Court outside the presence of the jury. (*Id.* at 37, 39.) At the hearing the same day, the Court repeatedly indicated that it would hear equitable issues outside the presence of the jury: "that may sort of be, the Court's view, not – in order to simplify issues, any of these issues on conflicts [sic] patent law that are equitable would be submitted to me and not to an advisory jury, if that helps."[3] The Court also specifically stated that patent misuse and unclean hands, as equitable defenses, would be tried to the Court and not the jury. "I'm not going to do an advisory jury. So the patent misuse would be to the Court...And then the unclean hands is also the Court."[4]

As set forth in MPT's motion *in limine* No. 8, which MPT incorporates here by reference, equitable issues are appropriately heard by the Court and risk confusion and prejudice if presented

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[1] Defendants Apple's and LG's Memorandum of Contentions of Fact and Law, dated October 31, 2012.

[2] On November 9, 2012, the Court granted MPT's motion for summary judgment on Defendants' defenses of laches and equitable estoppel. (D.I. 608 at 31-34.) The Court also granted Defendants' motion for summary judgment on the issue of willful infringement. (*Id.* at 30.) Accordingly, these issues are no longer in the case and need not be tried to the jury.

[3] November 9, 2012 Hearing Tr. at 186:9-13.

[4] *Id*. at 184:8-12.

to a jury. Moreover, the particular issues the Court has ruled will be tried outside the presence of the jury – patent misuse, unclean hands and standards estoppel – are all indisputably equitable in nature. *See A. C. Aukerman Co. v. R.L. Chaides Constr. Co.*, 960 F.2d 1020, 1028 (Fed. Cir. 1992) ("As equitable defenses, laches and estoppel are matters committed to the sound discretion of the trial judge...."); *Mylan Pharms., Inc. v. Thompson*, 268 F.3d 1323, 1331 (Fed. Cir. 2001) ("The equitable defenses [to patent infringement] include unclean hands"); *U.S. Phillips Corp. v. Int'l Trade Comm.*; 424 F.3d 1179, 1184 (Fed. Cir. 2005) ("Patent misuse is an equitable defense to patent infringement."). Indeed, Defendants' counsel agreed on the record at the November 9 hearing that patent misuse is an equitable issue for the Court to decide.[5] There is no reason for the Court to reverse its prior ruling regarding the issues of patent misuse, unclean hands and standards estoppel.

III. ANY "RAND" ISSUES OTHER THAN THE AMOUNT OF A RAND ROYALTY SHOULD BE TRIED OUTSIDE THE PRESENCE OF THE JURY

With respect to MPT's obligation to license the '226 and '878 patents on reasonable and non-discriminatory ("RAND") terms, there is one narrow issue legal issue that should be tried to the jury – whether $1.50 per unit is a reasonable royalty.[6] Any facts beyond this narrow question that Defendants may choose to categorize as "RAND" are equitable and should be tried to the Court, not to the jury. In fact, Defendants concede that RAND forms one of two bases for their patent misuse and unclean hands equitable defenses.[7] So, for example, MPT anticipates that Defendants may argue that MPT has unfairly refused to abide by its RAND obligations in order to extort above-market royalties from manufacturers of standards compliant devices. Such argument turns on issues of fairness, and is equitable in nature. *See Things Remembered, Inc. v. Petrarca*, 516 U.S. 124, 133 (1995) ("In legal systems that never separated pleadings and procedure along law/equity lines, and not infrequently in our own long-merged system, 'equitable' signals that which is reasonable, fair, or appropriate"). Accordingly, any RAND issues aside from the narrow

[5] *Id.* at 184:2-5 ("MR. LORIG: Patent misuse is an equitable issue for Your Honor to decide. THE COURT: Do you agree? MR. BARNES: I believe that's right….").

[6] *See* Report of Professor David J. Teece Regarding Apple, attached as Exhibit 1 to the Declaration of Diane C. Hutnyan.

[7] *Id.* at 181:25-182:6 (RAND issue is "one of two bases for the patent misuse and unclean hands in addition to the formation arguments").

question of whether $1.50 per unit is reasonable should be tried to the Court and not the jury.

Additionally, the legal and equitable aspects of Defendants' RAND case are easily separable. There is no dispute that MPT agreed to license on RAND terms,[8] and so the question of whether, here and now, $1.50 per unit is a reasonable or RAND royalty is separate from any other RAND-related questions Defendants may wish to raise with regards to Lucent's formation of the Trust. In fact, Defendants have already advanced arguments about the reasonableness of MPT's proposed royalty that are entirely unconnected to the equitable RAND allegations they have made in connection with their patent misuse and unclean hands defenses. For example, in addressing damages outside the RAND context, Defendants argue that the "most relevant royalty rates and license agreements" are "the royalty rates available for a license to various pools of patents deemed 'essential' for practicing [the] video standards…."[9] There is thus no need to present the jury with a confusing and prejudicial mini-trial concerning Lucent's alleged prior conduct and motivations in setting up the Trust.

IV. ADDITIONAL ISSUES SHOULD BE TRIED OUTSIDE THE PRESENCE OF THE JURY, OR NOT AT ALL

A. Issue Preclusion

Defendants argue that MPT's infringement claims against the Apple and LG accused products are precluded by the non-infringement verdicts in two prior *Microsoft* trials, which involved entirely different products, different parties and a different standard (MPEG-2 instead of H.264 as here). Specifically, Defendants argue that their products use the same "integer transform" that was allegedly found to be non-infringing in those trials. As described in MPT's

[8] MPT's agreement, however, was limited to situations where a patent is technically essential, as opposed to commercially essential, to H.264. According to the ETSI Directives (Annex 6 of the ETSI Rules of Procedure, Article 15.6): "'ESSENTIAL' as applied to IPR means that it is not possible on technical (but not commercial) grounds, taking into account normal technical practice and the state of the art generally available at the time of standardization, to make, sell, lease, otherwise dispose of, repair, use or operate EQUIPMENT or METHODS which comply with a STANDARD without infringing that IPR. For the avoidance of doubt in exceptional cases where a STANDARD can only be implemented by technical solutions, all of which are infringements of IPRs, all such IPRs shall be considered ESSENTIAL." (*See* http://portal.etsi.org/directives/29_directives_jan_2012.pdf at p. 40.) Accordingly, for MPT's RAND obligation to be enforceable, Defendants must prove the patents at issue are technically essential to H.264.

[9] Apple and LG's Memorandum of Contentions of Fact and Law, at 45.

motion *in limine* No. 1 and associated reply, this evidence should be excluded from the jury trial as irrelevant, confusing and unduly prejudicial under Rule 403. There is no reason to permit Defendants to trial within a trial by introducing evidence of what happened in the Microsoft trials. To do so would compel MPT to introduce the juror letter discussed with the court on November 9.

First, the verdicts in the *Microsoft* trials are not relevant to the issue of infringement in this case. Even if the juries in those trials made specific infringement findings with respect to the "integer transform" at issue there, which they did not,[10] Defendants have provided no support for the claim that their "integer transform" is the "same structure" as the one at issue in the *Microsoft* trials. Indeed, Defendants' expert, Dr. Bovik, never saw the structure at issue in the *Microsoft* trials and that structure is not part of the record in this case. Furthermore, the codec at issue in the *Microsoft* trials was VC-1, not H.264. Additionally, the verdicts in those trials found that even MPEG-2 compliant products weren't infringed by the '226 and '878 patents – patents that are now deemed "essential patents" for MPEG-2 by MPEG LA.

Even if the *Microsoft* verdicts had some minimal relevance to this case, which they do not, the evidence presents a substantial risk of confusion and unfair prejudice, as detailed in MPT's Motion *in Limine* No.1, and should be heard by the Court to avoid these risks.

B. Substantial Performance

Apple's substantial performance argument involves Apple's MPEG LA license, an issue which the Court has addressed on summary judgment. Apple argues that its "products that encode and/or decode video in accordance with MPEG-2 Standard are licensed to practice the '226 and '878 patents" because it has substantially performed its contractual duty to pay for the licenses. However, the issue of whether the accused Apple products are licensed to practice the '226 and '878 patents has already been resolved in Apple's favor by the Court's October 24, 2012 Order (1) Granting Apple's Motion for Partial Summary Judgment, and (2) Denying MPT's Motion for Partial Summary Judgment. (D.I. 479.) In particular, the Court held:

[10] The verdicts on which Defendants rely only indicated that MPT had not proven by a preponderance of evidence that Microsoft infringed the '226 and the '878 patents, without any indication of the basis for this finding. *See* Supplemental Declaration of Diane Hutnyan in Support of MPT's Motions *in Limine* (D.I. 621), Ex. 1-2.

> Apple's iMac, MacMini, MacBook, MacBook Air, MacBook Pro and Mac Pro, all versions of FinalCut, iDVD, iMovie, DVD Studio, Compressor, Quicktime, QuickTime Player, iTunes and Apple TV (1st Gen) are licensed under the 2002 License and the March 4, 2011 renewal sublicense to practice the '226 Patent and the '878 Patent. Therefore, Apple's sales of the above products does not constitute infringement of those two patents.

(D.I. 479 at 13.) Accordingly, Apple's performance under the MPEG LA licenses is no longer at issue in this case. As such, the issue of substantial performance need not be tried at all.

C. Failure to Mark and Right to Injunctive Relief

Neither failure to mark nor right to injunctive relief are actually at issue in this trial. MPT does not contend that it marks and all parties agree that any damages would run from the date notice was given to Defendants. Similarly, since the patents-in-suit are expired, MPT is not seeking an injunction in this case.[11] Accordingly, neither of these issues needs to be tried in this case.

Conclusion

For the foregoing reasons, MPT requests that the following issues be tried to the Court outside the presence of the jury: patent misuse, unclean hands, standards estoppel, issue preclusion, and any RAND-related issues other than whether $1.50 per unit is RAND. MPT submits that no trial is needed on the issues of substantial performance, failure to mark and right to injunctive relief. Finally, MPT requests that the issues of infringement, validity and damages be tried to the jury.

[11] Because MPT is not seeking an injunction in this case, Defendants' unclean hands defense should not be part of the case either. As the Court recognized in its summary judgment order, "[t]he doctrine of unclean hands is based on the maxim that one who comes into equity must come with clean hands…." (D.I. 608 at 37) (internal quotations and citations omitted.) Unclean hands thus applies only to bar a request for equitable relief and does not bar legal relief such as damages. "Unclean hands is an equitable defense to equitable claims." *Aetna Cas. And Sur. Co. v. Aniero Concrete Co., Inc.*, 404 F.3d 566, 607 (2d. Cir. 2005) (unclean hands unavailable as a defense where plaintiff sought damages in an action at law); *see also Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014, 1022 (7th Cir. 2002) (doctrine of unclean hands did not apply in an action to enforce a patent licensing agreement because plaintiff did not seek equitable relief); *Barnes v. American Tobacco Co.*, 161 F.3d 127, 146 (3rd Cir. 1998) ("equitable principles such as the doctrine of unclean hands may not be used to deprive a defendant of legal rights-remedies or defenses").

DATED: November 14, 2012

QUINN EMANUEL URQUHART & SULLIVAN, LLP

By */s/ Diane C. Hutnyan*
Diane C. Hutnyan
Attorneys for Plaintiff
MULTIMEDIA PATENT TRUST

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the above and foregoing document has been served on November 14, 2012 to all counsel of record who are deemed to have consented to electronic service via the Court's CM/ECF system per Civil Local Rule 5.4. Any other counsel of record will be served by electronic mail, facsimile and/or overnight delivery.

Dated: November 14, 2012

/s/ Diane C. Hutnyan

Diane C. Hutnyan
dianehutnyan@quinnemanuel.com
Attorney for Plaintiff Multimedia Patent Trust