
UNITED STATES OF AMERICA
BEFORE THE FEDERAL TRADE COMMISSION
WASHINGTON D.C.

In the Matter of

UNION OIL COMPANY OF CALIFORNIA,
a corporation.

Docket No. 9305

RESPONSE TO COMPLAINT COUNSEL’S MOTION
IN LIMINE REQUESTING JUDICIAL ESTOPPEL

INTRODUCTION

Judicial estoppel is one of the harshest sanctions that can be imposed against a litigant. It deprives the litigant of the right to advance facts and arguments, even if those facts lead to a further understanding of the truth. For this reason, judicial estoppel is imposed only in rare circumstances—that is, where the integrity of the judicial process would be threatened if an inconsistent position were to be adopted by a second court. Moreover, the two positions upon which the estoppel is based must be so clearly inconsistent that one necessarily excludes the other.

This is not such a case. Complaint Counsel’s best attempt to argue that Your Honor should invoke judicial estoppel—to preclude evidence devastating to Complaint Counsel’s case—is based on either a misunderstanding or mischaracterization of what was argued at the ‘393 Patent trial and upon the use of facts argued in one context to imply something fundamentally different in another. Let this be clear. Unocal is not taking inconsistent positions.

First, Unocal never argued, nor could it have argued, in the ‘393 Patent litigation, that CARB and the Refiners are locked into CARB’s Phase 2 regulations by reason of the Refiners’ investments

in refinery upgrades to comply with those regulations. The concept of “lock-in” that is relevant to an analysis of the Section 5 claim in this action was not argued, relied upon or even relevant to the hypothetical negotiation analysis performed by Unocal’s damages expert in the patent case.

To establish “lock-in” in this action, Complaint Counsel must show that, but for Unocal’s alleged exclusionary conduct, CARB would have adopted a regulatory scheme that provides emissions abatement at a lower cost, and that such an option is no longer available to CARB today by virtue of the Refiners’ investments to make CARB 2 gasoline. As the leading antitrust treatise observes, “[o]ne is ‘locked-in’ by an earlier choice that narrows one’s later options.” Exh. 1 (X Philip E. Areeda, Einer Elhauge & Herbert Hovenkamp, *Antitrust Law* ¶ 1740c at 144 (1996)).

Complaint Counsel will not be able to make this requisite showing of “lock-in.” Instead, the evidence presented at the upcoming hearing will demonstrate that there were no less costly emissions abatement options that would have been chosen by CARB before Unocal’s alleged misconduct, and that CARB is not precluded from exercising any such options today because of investments made by the Refiners. For example, the evidence at the hearing will include:

- Peter Venturini, CARB’s designated representative under FTC Rule of Practice 3.33(c), testified in his deposition that had CARB been aware of Unocal’s patent application prior to enacting its Phase 2 regulation, it would not have adopted different, less costly regulations, but rather would have chosen not to regulate at all. Exh. 2 (Venturini Dep. at 503:6-505:18).
- Unocal will present unrebutted testimony of William Pederson, an EPA expert, who will testify that, had CARB chosen not to enact Phase 2 regulations as Venturini claimed, CARB could not have met its State Implementation Plan (SIP) as required by the federal Clean Air Act. Absent an SIP, the EPA would have imposed on California a costly and burdensome Federal Implementation Plan, which Mr. Pederson concludes was viewed by Californians as “completely unacceptable.” Exh. 3 (Pederson Dep. at 88:17-89:22).
- CARB’s Venturini also testified that CARB did not consider the Unocal patents in the new Phase 3 regulations adopted in 1999. According to Mr. Venturini, the

reason that CARB did not take the Unocal patents into account in its Phase 3 regulations was not due to the Refiners' investments made for Phase 2, but rather was "because it [Unocal's patent] was still in our view in a state of flux" and "we believed there were concerns with the validity of the patent." Exh. 2 (Venturini Dep. at 403:25-403:15).

- Mr. Venturini's deposition testimony that CARB did not consider the Unocal patents in its Phase 3 regulations is consistent with contemporaneous documents from the Refiners, in which Refiners sought regulatory changes in light of the Unocal patents, and were told that CARB [Redacted]

Exh. 4 (RX 976).

In contrast to the present action, none of the issues central to a "lock-in" analysis were discussed, much less decided in the patent case. Rather, the evidence from the patent case to which Complaint Counsel's *in limine* motion referred was relevant to the determination of a reasonable royalty to compensate Unocal for the Refiners' infringement of the '393 patent—an analysis that looked to the likely result of a "hypothetical negotiation" in April 1995 between a willing licensor and a willing licensee, both of whom assume that the patent is valid and about to be infringed. In performing this analysis, Unocal's damages expert, Dr. David Teece, looked at factors that the hypothetical negotiators might have considered relevant to a royalty determination in 1995—such as the fact that CARB would be reluctant to change its regulations and that the Refiners themselves had made extensive investments in their California refineries. But Dr. Teece never addressed whether CARB would have selected a different regulatory scheme in 1991 had it known of Unocal's patent application, what the costs of such a regulation would be, or whether CARB was somehow precluded from implementing such a scheme today because of the Refiners' investments—all issues key to any "lock-in" analysis in this action.

Second, there is no basis for a finding of judicial estoppel with respect to Dr. Teece's opinion regarding the pass-through of royalties. An essential element of judicial estoppel is that the alleged

prior inconsistent position must have been accepted by the prior court. But Dr. Teece's opinions on the pass-through of a running royalty related solely to a lost profits damages theory which was never advanced by Unocal at trial and thus never accepted by the court. Moreover, there is no inconsistency between the pass-through opinion that Dr. Teece expressed in the patent case and the positions Unocal will be advocating in this case. In the patent case, Dr. Teece's pass-through analysis applied only to the hypothetical situation of running royalties. But no major refiner has agreed to date to pay such a royalty. Dr. Teece's analysis in the patent case said nothing and implied nothing about whether judgments—as opposed to royalties—would be passed through to consumers.

Finally, Complaint Counsel's effort to exclude evidence regarding the reasons for CARB's adoption of the T50 specification also is based on a misunderstanding of Unocal's position in the patent case. Indeed, Unocal argued in the patent case that it was irrelevant whether Unocal had influenced CARB's regulations. The issue in the '393 litigation was not whether Unocal induced CARB to adopt a T50 specification, but whether Unocal had stolen or derived the claims of its patent, including the T50 limitations, from CARB. This argument is referred to legally as "derivation."

Unocal's arguments were thus in the context of showing that Unocal had its invention prior to the time that CARB publicly proposed any regulation that included a T50 specification. Showing that CARB later publicly justified, at least in part, its T50 regulations on Unocal's study showed why the derivation argument was baseless. But the patent case did not turn on or address why CARB had sought to justify its regulations on Unocal's study or whether CARB would have adopted a T50 regulation without Unocal's work.

For this litigation, in which the genesis of CARB's adoption of the T50 specification is in contention, Unocal conducted new discovery that was not necessary for the resolution of the patent case. Through this discovery, Unocal has unearthed evidence showing that, at every turn, CARB relied primarily on ARCO's EC-X formulation—and not Unocal's data—as the basis for its Phase 2 regulations. The evidence, which will be discussed in more detail later in this memorandum, shows that CARB staff, among other things:

- set out to propose that all gasoline have properties similar to ARCO's EC-X and viewed EC-X as the foundation for its regulations;
- deemed T50 to be “critical” to its regulation months before becoming aware of Unocal's research;
- prepared a draft regulation with an even more stringent T50 specification than it ultimately adopted before receiving Unocal's data for the first time;
- published a draft regulation with this stringent T50 specification before receiving permission to make public use of Unocal's data; and
- was reported by ARCO to have [Redacted]

Complaint Counsel have recognized that the factual evidence uncovered during discovery in this proceeding is devastating to the Complaint, and now Complaint Counsel desperately hope that the evidence will never be heard. Thus, more than six months after the filing of the Complaint and more than six years after the initial damages phase of the litigation involving Unocal's '393 patent, Complaint Counsel have seized upon judicial estoppel as a potential magic bullet to prevent the deficiencies of the Complaint from being exposed at trial. The clear purpose, however, of the very doctrine they are trying to invoke is limited to protecting the integrity and truth of the judicial process, not protecting litigants wishing to avoid inconvenient facts. Complaint Counsel's attempt to sidestep their burden of proof should be rejected.

LEGAL STANDARD

Judicial estoppel is an “extraordinary remedy to be invoked when a party’s inconsistent behavior will otherwise result in a miscarriage of justice.” *Klein v. Stahl GmbH & Co.*, 185 F.3d 98, 108 (3d Cir. 1999) (internal citations omitted). “It is not meant to be a technical defense for litigants seeking to derail potentially meritorious claims, especially when the alleged inconsistency is insignificant at best and there is no evidence of intent to manipulate or mislead the courts.” *Ryan Operations G.P. v. Santiam-Midwest Lumber Co.*, 81 F.3d 355, 365 (3d Cir. 1996). Judicial estoppel is not to be wielded as a sword by adversaries unless absolutely necessary to ensure substantial equity. *Id.*

The purpose of judicial estoppel is “to protect the integrity of the judicial process by prohibiting parties from deliberately changing positions according to the exigencies of the moment.” *New Hampshire v. Maine*, 532 U.S. 742, 749-50 (2001) (internal quotations and citations omitted). Judicial estoppel prevents “situations from arising in which one of two related decisions has to be wrong because a party took opposite positions and won both times.” *Chaveriat v. Williams Pipe Line Co.*, 11 F.3d 1420, 1427-28 (7th Cir. 1993). But because of the “harsh results” associated with precluding a party from asserting a position, “judicial estoppel must be applied with caution.” *Lowery v. Stovall*, 92 F.3d 219, 224 (4th Cir. 1996).

Application of judicial estoppel is limited to cases where “a party prevails on a claim in one court and proceeds in a calculated manner to manipulate a second court by asserting facts at odds with those advanced before the first court.” *Am. Methyl Corp. v. Env'tl. Prot. Agency*, 749 F.2d 826, 833 n.44 (D.C. Cir. 1984) (reviewing federal agency decision). The United States Supreme Court

recently enumerated several factors that should “typically inform” a court’s decision whether to invoke this harsh doctrine. *New Hampshire*, 532 U.S. at 750. Those factors include whether:

1. a party’s later position is “clearly inconsistent” with its earlier position;
2. the party succeeded in persuading a court to accept that party’s earlier position, so that judicial acceptance of an inconsistent position in a later proceeding would create “the perception that either the first or the second court was misled”; and
3. the party seeking to assert an inconsistent position “would derive an unfair advantage or impose an unfair detriment on the opposing party if not estopped.”

Id. at 750-51.

Judicial estoppel is an equitable doctrine. *Id.*, 532 U.S. at 750. Proper exercise of equitable discretion “requires the court to focus attentively on the particularly distinctive features of the case before the court since each case must be decided upon its own particular facts and circumstances.” *Klein*, 185 F.3d at 108 (internal quotations and citation omitted). The factual details of specific situations must inform whether to apply the doctrine, not only because of its harshness, but also because the fact-finding mission of the courts and administrative agencies must be preserved. *See Teledyne Indus., Inc. v. NLRB*, 911 F.2d 1214, 1218 (6th Cir. 1990) (“Judicial estoppel is applied with caution to avoid impinging on the truth-seeking function of the court because the doctrine precludes a contradictory position without examining the truth of either statement”); *see also Paschke v. Retool Indus.*, 519 N.W.2d 441, 444 n.4 (Mich. 1994) (advocating the application of judicial estoppel in a manner “narrowly tailored” to allow for alternative pleadings in same or different proceedings, thereby focusing more on danger of inconsistent rulings than on inconsistent claims).

The cautious application and narrow construction of judicial estoppel are critical in a case such as this. This case involves issues, facts, and even parties wholly distinct from those of the

earlier patent infringement litigation. It also involves a situation where those statements claimed to be inconsistent by Complaint Counsel are not inconsistent at all, where Complaint Counsel have failed to demonstrate judicial acceptance of the positions claimed to have been advanced by Unocal, and where Unocal would derive no unfair advantage from asserting positions in its own defense. Accordingly, Your Honor should conclude that neither the purpose nor the criteria of judicial estoppel are satisfied on the facts presented.

ARGUMENT

I. JUDICIAL ESTOPPEL IS NOT WARRANTED BECAUSE UNOCAL'S POSITIONS ARE CLEARLY CONSISTENT WITH THE POSITIONS IT TOOK IN THE '393 PATENT LITIGATION.

Above all, the application of judicial estoppel requires a showing of “clearly inconsistent” positions. Complaint Counsels’ argument fails here. “[J]udicial estoppel will be invoked only in situations where the litigant has taken positions so clearly inconsistent *that one necessarily excludes the other.*”¹ *Schneider v. San Diego Cty.*, 24 Fed. Appx. 744, 747 (9th Cir. 2001) (emphasis added) (applying California law). It is not to be used to “hamstring a litigant” where an inconsistency is not absolutely clear or when the facts of the two cases at issue are not identical. *Ogden Martin Systems of Indianapolis, Inc. v. Whiting Corp.*, 179 F.3d 523, 528 (7th Cir. 1999). As described by one court, the rationale for insisting on such a clear inconsistency “ensures that judicial estoppel is applied in the narrowest of circumstances.” *Lowery v. Stovall*, 92 F.3d 219, 223 n.3 (4th Cir. 1996).

¹ The term “clearly inconsistent” has been alternately described as “truly inconsistent,” *Maharaj v. Bankamerica Corp.*, 128 F.3d 94, 98 (2nd Cir. 1997) (close examination of record revealed claims as not “truly inconsistent”); “inherently inconsistent,” *Pickens v. Soo Line Railroad Co.*, 264 F.3d 773, 779 (8th Cir. 2001) (“Because Soo Line’s positions are not inherently inconsistent, judicial estoppel is inapplicable.”); and “wholly inconsistent,” *id* at 778.

“Clearly inconsistent” further implies an “intentional self-contradiction,” *Lampi Corp. v. Am. Power Prods.*, 228 F.3d 1365, 1377 (Fed. Cir. 2000); or “knowing misrepresentation or even fraud on the court,” *Wylar Summit Partnership v. Turner Broadcasting System, Inc.*, 235 F.3d 1184, 1190 (9th Cir. 2000) (declining to apply judicial estoppel where there was not “knowing antecedent misrepresentation”). In other words, no clear inconsistency is found where a party “merely utilizes different arguments” to support its earlier and present positions. *Hossaini v. Western Mo. Medical Center*, 140 F.3d 1140, 1143 (8th Cir. 1998). Finally, the inconsistency must be more than simply a tension between positions—it must be a “direct conflict.” *Nivalar v. Mercy Health Sys.*, 254 F. Supp. 2d 897, 902-07 (S.D. Ohio 2003) (refusing to apply judicial estoppel even though facts in first case were in tension with theory in second); *see also Cleveland v. Policy Mgmt. Sys. Corp.*, 526 U.S. 795, 800 (1999) (refusing to apply judicial estoppel where positions did not “involve directly conflicting statements about purely factual matters, such as ‘The light was red/green,’ or ‘I can/cannot raise my arm above my head.’”). Unocal’s positions do not meet this “clearly inconsistent” criterion.

A. Unocal’s Position on “Lock-in” in this Action is in Consonance with the Evidence Presented in the Patent Case.

Complaint Counsel are seeking to preclude Unocal from offering evidence or arguments to show that CARB and the Refiners are not locked into the current CARB regulations as a result of the Refiners’ investments to produce CARB Phase 2 gasoline. The purported bases for this request are several statements made by Unocal and Unocal’s damages expert in the patent trial, relating to options that might have been considered by hypothetical negotiators in determining a reasonable royalty. Significantly, none of the evidence or arguments presented in the damages trial addressed “lock-in” at all, as that concept is relevant to this Section 5 action. Thus, there is absolutely no basis

upon which to conclude that the evidence Unocal argued in the patent trial is at all inconsistent with its position here. *Livingston v. Assocs. Fin., Inc.*, 339 F.3d 553, 559 (7th Cir. 2003) (stating that judicial estoppel would not apply to situation where plaintiffs seeking estoppel “have not shown that the facts at issue were the same in both cases (the [earlier] lawsuit appears to involve several claims that are not at issue in the present matter)”); *Franco v. Selective Ins. Co.*, 184 F.3d 4, 9 (1st Cir. 1999) (refusing to apply judicial estoppel where it was not “*crystal clear*” that plaintiff’s recovery “*depended conceptually* on proof that [plaintiff] was [defendant’s] employee”) (emphasis added).

“Lock-in” that is relevant to antitrust analysis requires proof that “[o]ne is ‘locked-in’ by an earlier choice that narrows one’s later options.” Exh. 1 (X Areeda, Elhauge & Hovenkamp, *Antitrust Law* ¶ 1740c at 144). As Complaint Counsel’s own economic expert similarly conceded at his deposition, the concept of lock-in “has inherent in it—well often has built into it, the notion that one had choices *ex ante*, you made a choice, and now it’s kind of, you’re sort of stuck with that in some sense in the sense of stranded costs, in the sense of it’s hard to switch, in the sense of your options are reduced in comparison to what they were earlier, reduced or less attractive in some way.” Exh. 5 (Shapiro Dep. at 340:19-341:2). Thus “lock-in” means that options that were economically available before the “earlier choice” is exercised have become economically unavailable once that choice is made because of investments made in connection with the earlier choice.²

² Where abandoning those investments imposes significant switching costs that outweigh the benefits of switching to a previously-viable option, a lock-in may exist. This lock-in prevents customers from escaping the exercise of market power by exercising options that they would have chosen had the exclusionary conduct not occurred. *See Eastman Kodak Co. v. Image Technical Servs.*, 504 U.S. 451, 464 (1992); *Digital Equipment Corp. v. Uniq Digital Technologies*, 73 F.3d 756, 762 (7th Cir. 1996); *Queen City Pizza, Inc. v. Domino’s Pizza, Inc.*, 124 F.3d 430, 440 (3d Cir. 1997); *SMS Systems Maintenance Servs., Inc. v. Digital Equipment Corp.*, 188 F.3d 11 (1st Cir. 1999); *PSI Repair Servs. v. Honeywell*, 104 F.3d 811 (6th Cir. 1997); *Lee v. The Life Ins. Co.*, 23 F.3d 14 (1st Cir. 1994).

To establish lock-in at the hearing in this matter, Complaint Counsel must prove that CARB and Refiners are “locked-in” to the Phase 2 regulations because of some wrongful conduct by Unocal. Complaint Counsel will need to show that, but for Unocal’s alleged misconduct, CARB would have adopted a regulatory option with a lower cost of emissions abatement (in comparison to the cost of the actual regulations with Unocal’s royalties), and that such an option is not available to CARB today.³

There are several types of “lock-in” that are relevant to this action, each of which flow from the multiple theories of fraud pled in the Complaint. Complaint Counsel’s *in limine* motion seeks to exclude only evidence relating to the absence of one type of “lock-in”—CARB and Refiner “lock-in” to the current CARB regulations because of the Refiners’ CARB 2 investments. The “lock-in” discussed in the motion *in limine* flows from the Complaint’s allegations that, but for Unocal’s alleged fraud against CARB, CARB would have adopted different regulations (¶ 5), and that, but for Unocal’s alleged fraud against the Refiners, the Refiners would have persuaded CARB to adopt different regulations (¶ 90(a)).

In addition, Unocal will also proffer evidence at trial showing the absence of another type of lock in, that is, that *the Refiners are not locked into their current refinery configurations* as a result of Unocal’s alleged fraud. This “lock in” theory flows from the allegations in the Complaint that, but for Unocal’s fraud against the Refiners, the Refiners would have reconfigured their refineries differently. (¶ 90(c)). To establish that the Refiners are locked into their current refinery

³ In this regard, it is important to note that the conduct that is at issue in this case is not that Unocal obtained patents related to reformulated gasoline. (Indeed, the courts have already determined that Unocal properly prosecuted the patent application for its ‘393 patent before the Patent and Trademark Office; and the later patents merely followed suit.) Instead, the conduct that is alleged to be wrongful here is that the fraud alleged by the Complaint.

configurations, Complaint Counsel will need to show at trial that there is a lower cost reconfiguration option (in comparison to the option chosen plus Unocal's royalties) that Refiners would have chosen but for Unocal's alleged fraud, and that today any such option is not economically viable. Unocal will offer evidence to rebut this "lock-in" theory.

Complaint Counsel's motion does not seek the exclusion of evidence showing that Refiners are not locked into their existing refinery configuration, nor could it, since there was no evidence proffered at the patent trial relating to what the Refiners would have done in their refineries, but for Unocal's alleged fraud, much less any evidence that any such option is not economically viable now. Moreover, Unocal's position with respect to the lack of reliance by the Refiners upon any alleged fraud by Unocal is the same in this action as it was in the patent case, where Unocal argued that the Refiners did not detrimentally rely upon Unocal's conduct. In the patent case, the Refiners were sanctioned by the Court for their litigation tactics in opposing Unocal's summary judgment motion on this issue, promising to come forward with evidence, and then abandoning their claim at trial. *Union Oil Co. of Calif. v. Chevron U.S.A.*, 34 F. Supp. 2d 1222, 1224 (C.D. Cal. 1998).

The type of "lock-in" which Complaint Counsel's *in limine* motion addresses is "lock-in" by virtue of the Refiners' investments to make CARB 2 gasoline. Memo. at 8-9. In other words, Complaint Counsel want to prevent Unocal from presenting evidence that the Refiners' CARB 2 investments have not prevented CARB from exercising a lower cost emissions abatement option than it otherwise would have selected, had Unocal not committed the alleged fraud.

The overwhelming evidence at the hearing will show that CARB is not locked-in to the regulations for any economic reasons. To the contrary, CARB could change the regulations without incurring any increased costs. CARB has elected to maintain these regulations for reasons that are

wholly unrelated to any supposed “lock-in.” Indeed, as CARB’s Rule 3.33(C) witness testified, CARB did not even consider Unocal’s patents when it adopted its Phase 3 regulations. Exh. 2 (Venturini Dep. at 402:17-406:13) and thus could never have found any patent-avoiding option foreclosed because of an alleged “lock-in.” Insofar as CARB was asked by the Refiners to consider Unocal’s patents, the evidence shows that CARB was indifferent to such requests because it believed that Unocal’s license royalties were [Redacted] Exh. 4 (RX 976 at EXMOUNO-0018117). And the reason given by CARB’s 3.33(C) witness for CARB’s failure to consider the Unocal patents when it adopted its Phase 3 regulations was because CARB believed the patents to be invalid and in a state of flux—not because CARB believed that it was “locked-in” to the current regulation by virtue of the investments the Refiners made to comply with the Phase 2 regulations. Moreover, the evidence is clear that the Refiners did not consider themselves “locked-in” to the Phase 2 regulations, but rather presented to CARB a number of potential changes to the regulations that they claim would have provided them with additional flexibility to avoid Unocal’s patents. *E.g.*, Exhs. 6 & 7 (RX 751 & RX 1015).

The exclusion of this overwhelming evidence is at the heart of Complaint Counsel’s effort to presume irrebuttably the existence of a “lock-in.” But none of the patent case statements attributed to Unocal in Complaint Counsel’s motion goes to the lock-in issue on which Complaint Counsel seek to preclude Unocal from introducing proof—that is, CARB’s alleged inability to amend its regulations by virtue of the Phase 2 refinery investments. It was simply not relevant to the patent case whether CARB had lost the flexibility to adopt regulations that it otherwise would have adopted prior to the Refiners’ investment in Phase 2 compliance. Thus, nothing that was said in the patent case is inconsistent with Unocal’s position on “lock-in” in this action. *See, e.g., Leonard v.*

Southwestern Bell Corp. Disability Income Plan, 341 F.3d 696, 702 (8th Cir. 2003) (denying judicial estoppel where the same issue was not “squarely” before court in earlier litigation”); *Int’l Union, UMW v. Marrowbone Dev. Co.*, 232 F.3d 383, 390-91 (4th Cir. 2000) (refusing to apply judicial estoppel where it was “not at all clear” that party had “taken inconsistent factual positions” or intentionally misled court where party’s earlier and later statements did not “explicitly refer” to the same issue).

Instead, what was relevant in the patent case was the determination of an appropriate reasonable royalty amount to compensate Unocal for the Refiners’ infringement. *See* 35 U.S.C. § 284 (“Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer”). At the damages phase of the patent trial, Unocal presented a “hypothetical negotiation” analysis to aid the jury’s determination of a reasonable royalty. *See Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970); *see also Fromson v. Western Litho Plate & Supply Co.*, 853 F.2d 1568, 1574 (Fed. Cir. 1988); *Panduit Corp. v. Stahl Bros. Fibre Works*, 575 F.2d 1152, 1157 (6th Cir. 1978).

At the center of a hypothetical negotiation is one question: if a willing buyer and willing seller had sat down at the bargaining table at the time when infringement was about to begin—and if they assumed that the patent was valid and would be infringed—what royalty would they have agreed to for use of the patented invention? *Id.* As the court noted in *Fromson*, this methodology encompasses both “fantasy and flexibility”:

[F]antasy because it requires a court to imagine what warring parties would have agreed to as willing negotiators, flexibility because it speaks of negotiations as of the time infringement began, yet permits and often requires a court to look to events and

facts that occurred thereafter and that could not have been known to or predicted by the hypothesized negotiators.

Fromson, 853 F.2d at 1575. And, as Dr. Teece pointed out at trial, a hypothetical negotiation is “kind of a simulation of the world that didn’t take place. We know that there wasn’t a license arrangement that was entered into. So we now have to go back and create it.” Exh. 8 (Tr. Trans. 5600).

In his analysis, Dr. Teece presumed that the hypothetical negotiation would have occurred in or about the spring of 1995, when the Refiners made their first batches of infringing gasoline. Exh.8 (Tr. Trans. at 5601). He looked at a number of issues that might have been considered by the hypothetical negotiators, including the extent to which the Refiners could blend around the patent, and whether the Refiners would have believed they could successfully ask CARB to change the regulation. *Id.* (Tr. Trans. 5603-04). Dr. Teece also considered that an important background factor that would have been on the minds of the fictional negotiators was the fact that they had valuable refining assets in California which would be costly to abandon. *Id.* (Tr. Trans. 5605). It is Dr. Teece’s statements in these three areas that Complaint Counsel claim form the basis of the “lock-in” portion of their judicial estoppel motion.

1. Dr. Teece’s statements from the patent trial regarding the Refiners’ ability to blend around the ‘393 patent.

With respect to the Refiners’ ability to blend around the Unocal patent, Dr. Teece concluded that the hypothetical negotiators would have determined in 1995 that they could not blend entirely outside of the ‘393 patent. Exh. 8 (Tr. Trans. at 5636). Several factors primarily supported this testimony:

1. In his first expert report in the patent case, Dr. Teece had explicitly noted that if the Refiners were to provide him with information showing the refinery specific costs

of their attempts to blend around the patent, he would take that information into account in his analysis. Exh. 9 (Expert Report of David J. Teece at 16).

2. Despite this invitation, the Refiners presented no evidence at trial of any actual attempts to blend around the '393 patent, and in fact all had stated in discovery that [Redacted] See, e.g., Exh. 10 (RX 426 (Shell Interrogatory Responses)).
3. At trial, the Refiners' records through October 1996 (all that was available at the time of the 1997 trial) showed that they were infringing the '393 patent at a rate of 29%, including about 74% of their premium CARB Phase 2 gasoline. Exh. 8 (Tr. Trans. at 2581-82; 2587).
4. Dr. Teece concluded from the Refiners' infringement rates and from their failure to provide evidence of blend around attempts in 1996 that hypothetical negotiators would have concluded in 1995 that they were unable to consistently blend around the patent. Exh. 8 (Tr. Trans. at 5636-37). ("The most obvious one is that the defendants did not blend around, but in fact infringed the patent. In fact 29 percent of their volumes of gasoline produced infringed the patent. So if it was so easy to do, one must ask why didn't they do it?").

The conclusions Dr. Teece drew at trial were fully supported by the patent law, which looks askance upon infringers' *post hoc* arguments that the infringing technology was worth little because the infringers did not have to infringe. *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1081-82 (Fed. Cir. 1983) (infringer who chose to use infringing machine could not invalidate an otherwise reasonable royalty by arguing that it would have been better off had it purchased non-infringing machine instead); *Panduit*, 575 F.2d at 1160 ("The patent is itself evidence of such utility, and the use of the patented device by the defendant has long been recognized as an admission of this fact, and as creating an estoppel upon the defendant to deny such utility.")

In contrast to the dearth of evidence at the patent trial regarding Refiner's attempts to blend around the patent, the discovery in this action has shown conclusively that the Refiners today can and do blend around the '393 patent at a minimal cost. The Refiners first provided evidence of this considerable ability to blend around the '393 patent in post-trial motions filed June 4, 2001, nearly

four years after Dr. Teece testified in the patent trial. *See, e.g.*, Exhs. 11-13 (RX 85, 92 & 207A). In light of this new evidence, Dr. Teece has done in this case precisely what he had stated he would do in the patent case—he has taken this new evidence into account in forming his opinions in this matter.

Moreover, there is also no inconsistency for judicial estoppel purposes because the Refiners' evidence with respect to their successful attempts to blend around the '393 patent was not part of the '393 trial and in fact was not submitted by the Refiners' until nearly four years after the trial. Judicial estoppel is not appropriate when the second case involves new information. *Chaveriat v. Williams Pipe Line Co.*, 11 F.3d 1420, 1427 (7th Cir. 1993) (refusing to apply judicial estoppel where case involved new information); *Capsopoulos v. Chater*, 1996 U.S. Dist. LEXIS 18330, at *10-11 (N.D. Ill. Dec. 4, 1996) (recognizing judicial estoppel is inappropriate in context of new information); *Czajkowski v. City of Chicago*, 810 F. Supp. 1428, 1436 (N.D. Ill. 1993) (same).

And finally—and perhaps more importantly—Dr. Teece's statements regarding how the hypothetical negotiators would have viewed the “blend around” option is not inconsistent with any position taken here on the question of “lock-in” because there was no discussion of lock-in in the patent trial. *See, e.g., Int'l Union, UMW*, 232 F.3d at 390-91 (refusing to apply judicial estoppel where “Joint stipulation and [] grievance [did] not, on their face, *explicitly refer* to identical delivery work”) (emphasis added); *cf. Nilavar*, 254 F. Supp. 2d at 904 (stating that judicial estoppel is proper only “where the transcript of an earlier trial or appellate proceeding exists and it is apparent what position a party took therein, and it is also apparent that the court in charge of that proceeding accepted and relied upon the party's position”).

2. Dr. Teece's statements from the patent trial regarding the Refiners' views on CARB's willingness to change its regulations.

With respect to CARB, Dr. Teece opined that if a hypothetical negotiation had taken place in 1995, the would-be negotiators would have concluded that CARB was unlikely to change its regulations. Exh. 8 (Tr. Trans. at 5603-04; 5648-49). There were several factors supporting Dr. Teece's opinion, including:

1. CARB had taken the position, publicly, that "the regulations are good" and that they were going to result in a cleaner environment and cleaner burning gasoline for California.
2. The hypothetical negotiators would conclude from this public position that CARB would not want to change the regulation to make it possible for the potential licensees to avoid paying a royalty to Unocal.
3. Despite past requests that CARB relax the regulations to allow Refiners more flexibility, CARB had rejected such requests. Dr. Teece noted that CARB had stated that even a tenth of a point on R.V.P. was critical to CARB.

Id. (Tr. Trans. at 5648-49).

Significantly, discovery in this action has proved that Dr. Teece's opinion regarding CARB's likely unwillingness to change the regulations to allow Refiners to avoid paying royalties was prescient. It is now 2003, and CARB still has not considered the Unocal patents in making changes to its regulations. Exh. 2 (Venturini Dep. at 402:25-403:15). Indeed, in early 1998 (three years after Dr. Teece's hypothetical negotiation), CARB expressed indifference to the request of a major refiner to amend its regulations to help avoid Unocal's patents because it believed that Unocal's royalties were [Redacted] Exh. 4 (RX976 at EXMOUNO-0018117). Hence, Dr. Teece's opinions on CARB in the patent case were not inconsistent at all with the evidence in this action.

In addition, none of Dr. Teece's opinions in the patent case addressed CARB's *ability* to amend its regulations, but rather only its desire to do so. At no time did Unocal or Dr. Teece take the position that CARB could not (then or at any other time) change its regulations for any reason—much less that they were “locked-in” as a result of the Phase 2 investments made by the Refiners. Dr. Teece's testimony was simply that the evidence showed that the hypothetical negotiators would have viewed CARB as unlikely do so at the time of the hypothetical negotiation, given the fact that CARB deemed its regulation to be beneficial and had rejected other requests to relax the regulations in favor of additional flexibility for the Refiners.

3. Dr. Teece's statements from the patent trial regarding Refiners' investments in their refineries.

Although on pages 9-10 of their memorandum in support of their *in limine* motion, Complaint Counsel cite to Dr. Teece's expert report in the patent case regarding the potential of “build-around” as a means of avoiding the patent, they cite to no opinions expressed by Dr. Teece at trial on this option and in fact, Dr. Teece did not even discuss “build-around” at trial. Thus these passages from his expert report (which were never seen nor relied upon by the jury) certainly could not serve as a basis upon which to judicially estop Unocal in this action. *Nilavar v. Mercy Health Sys.*, 254 F. Supp. 2d 897, 904 (S.D. Ohio 2003) (conclusion that where evidentiary materials were created as part of an earlier litigation, but were not admitted or relied upon by the court, they do not provide a proper basis for judicial estoppel).

At trial, Dr. Teece made only two statements regarding the role that the Refiners' investments in their refineries would play in a 1995 hypothetical negotiation. First, he noted that the fact that the Refiners had irreversible fixed assets in their California refineries was an important background factor for the hypothetical negotiators: “You've got these refineries in California. You really can't

close them down, even if you want to, because you would have enormous costs associated with environmental cleanup. So you are stuck there with a very valuable asset.” Exh. 8 (Tr. Trans. at 5605). Second, on cross examination, Dr. Teece noted that the Refiners had large sunk investments in their California refineries “but they haven’t taken into account the fact that the ‘393 patent is out there. So they are stuck, and they’re going to have to take the license.” *Id.* (Tr. Trans. at 5723-24).

Neither of these statements addressed CARB’s ability to change its regulations in light of the Refiners’ investments, the issue on which Complaint Counsel is seeking to estop Unocal. Rather, the first statement went only to the uncontroverted fact that the California Refiners have large fixed assets in California and that there would be a great expense associated with environmental remediation should a refiner wish to abandon its California refineries, a statement that is in no way inconsistent with any evidence or argument that Unocal will argue in this case. The second statement—that the Refiners had not configured their refineries with the ‘393 patent in mind—addressed only the Refiners’ ability to blend around the patent given the existing CARB regulations, an issue upon which there is now new evidence that was not part of the 1997 trial.

At no time did Unocal or Dr. Teece take the position that CARB or the Refiners were locked into the CARB Phase 2 regulations by virtue of the Refiners’ investments to comply with those regulations. Complaint Counsel’s attempts to exclude from the hearing the overwhelming evidence on the absence of lock-in should be rejected.

B. Judicial Estoppel is Inappropriate Because Unocal’s Position With Respect to Whether Royalties Will be Passed on to Consumers is Not Inconsistent With Any Position Unocal Took During the ‘393 Patent Trial.

Unocal should not be precluded from disputing that less than 90% of the cost of Unocal’s royalties is likely to be passed on to consumers because Complaint Counsel cannot demonstrate that

Unocal maintained an inconsistent position the '393 patent trial. During the earlier litigation, Unocal initially prepared two damages theories, one based upon lost profits and one upon a reasonable royalty. Prior to trial, Unocal decided to present only its reasonable royalty theory. *E.g.*, Exh. 8 (Tr. Trans. at 5535-41). All the information Unocal had compiled and developed through discovery with respect to lost profits, including its experts' work, was not presented to the jury by Unocal for consideration of damages. *Id.* (Tr. Trans. at 5475-76).

Complaint Counsel claim that in this proceeding Unocal seeks to advance a position at odds with Dr. Teece's reasonable royalty analysis. Memo. at 12-13. That claim is wrong. The only testimony by Dr. Teece at trial on this issue came up in the context of cross-examination by the Refiners. In the passage cited in Complaint Counsel's brief, Refiners' counsel asked Dr. Teece about his pass-through analysis and Dr. Teece explained that he had conducted a pass-through analysis in the context of his lost profits analysis, which was never presented at trial. *Id.* (Tr. Trans. at 5669-70.) When asked by Refiners' counsel whether a reasonable royalty may be passed through, Dr. Teece answered that he believed it to be proper. *Id.* This is a far cry from Unocal asserting a theory of pass-through. As Mr. Ciresi pointed out in his closing argument, the pass-through of royalties was not relevant to Unocal's reasonable royalty claim.

Let me just briefly deal with a couple of points that Mr. Kecker made. . . . Ladies and gentlemen, you must decide what it is that would be an appropriate and reasonable royalty. Dr. Teece, in talking about pass on, was talking about lost profits. He read the question right in the context of lost profits. Unocal isn't seeking lost profits. That's another element of damages. They didn't seek that here. They are seeking a reasonable royalty, a reasonable royalty. And you won't see anything in the criteria that the Court gives you where it talks about what's passed on to the consumer. It's an irrelevant consideration. And all of you know that.

Id. (Tr. Trans. 6357-59) (emphasis added).

Even in the pre-trial stage, in which Dr. Teece conducted the pass-through analysis that he never presented to the court, neither Unocal nor Dr. Teece ever argued that there would be any pass-through—let alone a 90% pass-through—of a court-imposed judgment as opposed to a running royalty. Dr. Teece’s analysis addressed only running royalties, which none of the major refiners has ever agreed to pay. Dr. Teece’s analysis had nothing to do with whether damages judgments would be passed on to consumers. *See, e.g., McKinnon v. Blue Cross & Blue Shield*, 935 F.2d 1187, 1192-93 (11th Cir. 1991) (refusing to apply judicial estoppel where “a careful examination of the record reveals that [defendant] has never taken the position that [plaintiff], personally, is a participant or beneficiary of her father’s employee benefit plan.”)

C. Unocal’s Positions are Not “Clearly Inconsistent” With Respect to the Reasons Behind CARB’s Adoption of a T50 Specification.

Finally, Complaint Counsel fail to establish the existence of any “clear inconsistency” with respect to arguments and evidence relating to the basis for CARB’s T50 specification. In this action, Complaint Counsel have argued to this Tribunal that but for Unocal’s alleged misconduct, CARB would have remained “blissfully ignorant” of T50. Complaint Counsel’s Opposition to Unocal’s Motion to Compel Amended Interrogatory Responses at 2. But the record is replete with uncontroverted evidence that eviscerates Complaint Counsel’s contention that CARB would not have adopted its T50 specification but for Unocal’s work. From this mountain of evidence, several key points have emerged:

First, the undisputed evidence reveals that CARB became interested in regulating T50 well before Unocal first discussed its research results with CARB in late June 1991. In developing the Phase 2 regulations, CARB sought and received information on T50 from a number of sources, including oil companies and auto manufacturers. By January 1991, five months before it met with

Unocal, CARB had already represented to others that “*it is critical for the purposes of the . . . regulation to have lower T50.*” Exh. 16 (RX 113 at WSPA_FTC0034393) (emphasis added). In April 1991, CARB staff attended a meeting with Toyota, where the auto manufacturer told CARB of T50's importance in reducing emissions and lobbied CARB to adopt a T50 specification in the regulation. Exh. 2 (Venturini Dep. 169:22-170:10; 174:15-175:15); Exh. 17 (RX 19); *see also* Exh. 18 (Fletcher Dep. 132:10-135:1).

Second, throughout this discovery, Unocal has unearthed evidence showing that, at every turn, CARB relied primarily on ARCO's, low emissions formulations (EC-1 and EC-X) as the basis for its Phase 2 regulations. As early as November 1989, CARB announced its intent to pattern its upcoming regulations upon ARCO's gasolines, writing to an influential California Senator that “ARB staff will propose next year that all gasoline, beginning in about 1993, have cleaner properties similar to EC-1.” Exh. 15 (RX 109).

Weeks before any meeting with Unocal, ARCO and CARB staff met privately to discuss the specifications of ARCO's latest emissions control formulation, EC-X gasoline. Exh. 19 (RX 180). CARB was so interested in regulating T50 that CARB staff inquired about the T50 specification for EC-X, which ARCO had not included in its presentation. On his copy of ARCO's presentation, CARB's Robert Fletcher wrote in a T50 value for the ARCO EC-X formulation of 190°-200° F. Exh. 19 (RX 180); Exh. 18 (Fletcher Dep. 162:1-163:6). A few weeks later, *the two T50 values from ARCO's gasoline – 190° F and 200° F – would form the basis for two separate drafts of proposed regulations prepared by CARB staff.* Exh. 20 (RX 198 at CARB-FTC 0030878 (190°)); Exh. 21 at CARB 10003057 (RX 184 (200°)); *see also* Exh. 22 (Boyd Dep. at 217:19-218:13) (testifying that

CARB staff recognized and internally discussed ARCO's EC-X formulation as establishing a foundation for the Phase 2 regulations).

Third, at the very close of discovery in this action, CARB produced for the first time ever documents showing conclusively that CARB did not use Unocal's data in the development of its T50 specification. CARB first prepared draft regulations containing a T50 specification on July 21, 1991. Exh. 20 (RX 198 at CARB-FTC 0030878 (190°)); Exh. 21 at CARB 10003057 (RX 184 (200°)). CARB staff received the disk containing data from one of Unocal's studies some time *after* July 25, 1991.⁴ Thus both sets of draft regulations were prepared *before* CARB received this emissions research database from Unocal.

Moreover, Unocal did not make its database public until August 27, 1991. *See* Exh. 31 (RX 3). A CARB staff member has testified that absent a right to use the data publicly, CARB would not have based a regulation on that data or otherwise relied upon it. Exh. 25 (Simeroth Dep. at 145:25-148:8). Three weeks before CARB had permission to make public use of any of Unocal's research data, CARB published a draft of its proposed regulation that specified a T50 value of 200° F. Exh. 21 (RX 184).

[Redacted]

Exh. 26 (RX 268).

[Redacted]

Finally, even after CARB received permission to use Unocal's database, there is no evidence that CARB ever used it to develop its T50 specification. Rather, the evidence shows that CARB

⁴ Although it is uncertain exactly when CARB received Unocal's research data, it is clear that it was no earlier than July 25, 1991. CARB staff received a disk from Unocal bearing the July 25th date. Exh. 23 (RX 327); *see also* Exh. 24 (RX121 (Letter from W. Thomas Jennings to Bethany D. Krueger, dated 8/4/03, at 1-2)).

continued to modify its regulations in response to ARCO's direction. As ARCO reported in September 1991, CARB's staff [Redacted]

Exh. 27 (RX 73 at ARLA-019291 (emphasis added)).

In November 1991, CARB adopted final regulations that were substantially similar to the properties of ARCO's EC-X gasoline. Exh. 29 (RX 330); Exh. 22 (Boyd Dep. 241:24-243:12). Not surprisingly, the refining industry reported that CARB had embraced ARCO's EC-X formulation. Exh. 28 (RX 504). ARCO considered the regulations to be a total victory:

[Redacted]

Exh. 30 (RX 83).

Complaint Counsel's efforts to exclude evidence regarding the reasons for CARB's adoption of T50 as a parameter in its Phase 2 regulations is based on a misstatement of the parties' positions in the previous litigation. Complaint Counsel claim that, in the patent trial, Unocal argued that it caused CARB to adopt a T50 specification in order to prove commercial success. Memo. at 14. In reality, it was the Refiners, not Unocal, who argued that a showing of CARB's reliance on Unocal in adopting a T50 specification was necessary for a showing of commercial success.

As required in the context of a patent infringement case in the federal district courts, the '393 Patent was presumed in the earlier litigation to have been validly issued by the Patent and Trademark Office. The Refiners attempted to show invalidity of the patent through several arguments including, but not limited to, arguing that the invention was obvious and that Unocal inventors did not actually invent the subject matter sought to be patented (derivation).

The first defense put forward by the Refiners was obviousness. Inventions that are obvious are not patentable under 35 U.S.C. § 103. Under the patent laws, objective evidence of non-obviousness can be used to rebut a prima facie showing of obviousness. *See Tec Air, Inc. v. Denso Mfg. Mich., Inc.*, 192 F.3d 1353, 1360 (Fed. Cir. 1999); *WMS Gaming Inc. v. Int'l.*, 184 F.3d 1339, 1359 (Fed. Cir. 1999). As explained by the Supreme Court in *Graham v. John Deere Co.*, 383 U.S. 1 (1966): “Such secondary considerations as commercial success, long felt need but unsolved needs, failure of others, etc., might be utilized to give light to the circumstances surrounding the origins of the subject matter sought to be patented. As indicia of obviousness or nonobviousness, these inquires may have relevancy.” *Id.* at 17-18.

Without support, Complaint Counsel inaccurately assert that “Unocal in the patent litigation took full credit for inducing CARB to regulate T50. One purpose, it appears, was to defeat the refiners’ defense that the ‘393 patent was invalid due to obviousness.” Memo. at 14. This is a misstatement of what transpired at the patent trial. The trial record shows that it was the Refiners who argued that Unocal had to show that it was responsible for influencing the CARB regulations if it wanted to show commercial success. Unocal disputed this claim. The court summarized the Refiners’ argument as follows:

THE COURT: . . . But let me just make sure I understand the arguments on both sides. One of the secondary considerations for nonobviousness is, of course, commercial success. So let’s assume that the defendants are producing a gasoline that would be infringing the patent. Their [the Refiners’] argument is that that doesn’t mean that the patent is successful or fills a gap, a long-needed gap in the technology. It merely means the defendants have had to comply with these regulations. So, therefore, one would need to show that UNOCAL or the patent had some impact on the regulations being developed or promoted in order to demonstrate that their compliance with the regulations went to the commercial success of the patent. So that’s their argument, right?

MR. CIRESI: I know it is, your Honor.

THE COURT: You are saying that doesn’t follow because --

Exh. 8 (Tr. Trans. at 853-54).

In response, Unocal's attorney Mr. Ciresi rebutted this argument, as shown by this exchange:

THE COURT: Your point is whether or not UNOCAL contributed to the regs or contributed to the success of the regs is totally irrelevant because that's not really the issue.

MR. CIRESI: *It is.*

Exh. 8 (Tr. Trans. at 854-56) (emphasis added). Judge Wardlaw then stated that "Unocal's contribution to the regulations or the success of the regulations is not really relevant to whether the patent itself is commercially successful or fills a long-felt need." *Id.* at 857-58.⁵ Complaint Counsel's assertion that Unocal argued—to rebut a claim of obviousness, "that it caused CARB including [sic] to include T50 in the regulation" is a misstatement of the trial record.⁶

Complaint Counsel confuse what Unocal argued with respect to obviousness with what it said with respect to derivation. Section 102(f) of the patent code provides that an invention is not patentable if the applicant "did not himself invent the subject matter sought to be patented." 35

⁵ Complaint Counsel improperly imply that Unocal argued considerations of non-obviousness with the expert testimony of W.R. Epperly. Memo. at 14. Mr. Epperly, however, did not testify at trial and nothing from Mr. Epperly's report was or could have been presented as evidence. *See, e.g., Blue Cross and Blue Shield of Wisc. v. Marshfield Clinic*, 152 F.3d 588, 595 (7th Cir. 1998) (expert reports are not admissible as evidence). Furthermore, expert witnesses are not agents of parties, but rather are hired as independents to testify within the sphere of their expertise. Statements made in expert reports cannot be treated as party admissions. *Kirk v. Raymark, Indus., Inc.*, 61 F.3d 147, 164 (3d Cir. 1995). Thus, unless a position was advanced by a party, it cannot properly form the basis for judicial estoppel. *Cf. Nilavar v. Mercy Health Sys.*, 254 F. Supp. 2d 897, 904 (S.D. Ohio 2003) (finding that where evidentiary materials were created as part of an earlier litigation, but were not admitted or relied upon by the court, they do not provide a proper basis for judicial estoppel).

⁶ Complaint Counsel also takes out of context a statement made by Unocal patent attorney Greg Wirzbicki to the PTO in the context of the '126 reexamination proceeding. The statement by Mr. Wirzbicki was made to rebut an affidavit claiming that Unocal's studies were flawed. Unocal is not contesting that Mr. Fletcher of CARB has publicly relied upon Unocal's studies.

U.S.C. § 102(f); see also 35 U.S.C. § 282, 2, subp. (2) (derivation is a defense to infringement). In defense of Unocal's infringement claims, the Refiners argued that Unocal's scientists did not invent the invention, but rather that the scientists stole or derived the invention from CARB. *E.g.*, Exh. 8 (Tr. Trans. at 196-98, 210, 5330-34).

When derivation is at issue, the finder of fact must decide whether one took the claimed invention from another and then patented it as his or her own. *Price v. Symsek*, 988 F.2d 1187, 1190 (Fed. Cir. 1993). Thus in the patent case, it was necessary for the jury to decide only that Unocal had not derived its invention from CARB, a determination that involved consideration of whether CARB had a prior conception of the complete invention and if so, whether it had communicated that complete invention to Unocal. Exh. 14 (Jury Instruction No. 51 at 56).⁷ The issue of whether CARB would have adopted its T50 regulation but for Unocal's work was not necessary to the jury's determination on derivation.

As evidence that Unocal did not steal the invention from CARB, Unocal elicited testimony from Mr. Peter Venturini that CARB staff did not publish a T50 specification until after it had met with Unocal. Exh. 8 (Tr. Trans. 826-31). The jury also had before it CARB's Final Statement of Reasons, in which CARB justified its T50 specification, in part, upon Unocal's work. *Unocal does not dispute any of this evidence, nor is it inconsistent with anything that Unocal is saying in this action.*

⁷ Jury Instruction No. 51 provided in relevant part:

To find derivation, you must find that others invented the subject matter of the '393 patent. Defendants must show, by clear and convincing evidence, prior conception of the complete invention by another and communication of the complete invention, sufficient to enable one of ordinary skill in the art to make the patented invention, to the patentees. A mere suggestion by others to Drs. Jessup and Croudace of an idea for an invention is not sufficient for derivation.

In his closing argument for Unocal, Mr. Ciresi reviewed this evidence with the jury:

You have already heard from Mr. Venturini that CARB didn't conduct any test like the '393. The fact is, CARB didn't invent anything. And what the evidence showed in this case is that it was UNOCAL that gave information to CARB long after Drs. Jessup and Croudace had invented the '393 patent.

Exh. 8 (Tr. Trans. 5222-23). The statement that Complaint Counsel wished to focus on – that CARB came out with new proposed regulations “because they met with CARB.” (Memo. at 15) came less than a page later in the transcript. When considered in context, it is plain this statement was not an attempt to take the position that but for Unocal's work, there would be no T50 specification (a point that was not at issue in the patent case), but rather a summary of evidence showing that Unocal did not steal the invention from CARB, and that CARB had, in fact, partially justified its T50 specification upon Unocal's work .

Mr. Ciresi's closing simply showed the jury that Unocal could not have stolen its invention from CARB. CARB had not published (thus not “communicated”) any regulations with respect to T50 prior to meeting with Unocal in June of 1991. Contrary to the representations of Complaint Counsel, the context in which these statements were made did not require the jury to determine whether CARB would have adopted T50 specification without Unocal's study, an issue they were *not* asked to decide. Exh. 14 (Jury Instruction No. 51 at 56). *See, e.g., Vlt, Inc. v. Power-One, Inc.*, 2003 U.S. Dist. LEXIS 81, *12 (D. Mass. 2003) (refusing to apply judicial estoppel where it was obvious that argument sought to be estopped was not necessary issue in earlier case since jury instructions did not mention it). Rather, it showed that if CARB was publicly justifying its T50 specification because of Unocal information, then there was no basis for saying Unocal had stolen its knowledge of T50 from CARB.

The jury's ultimate finding that Unocal did not steal or derive its invention from CARB is wholly consistent with a finding by this Tribunal that CARB was not blissfully ignorant of T50, even in the absence of Unocal's study. The jury's finding is also completely consistent with a finding that Unocal did not induce CARB to adopt a T50 specification (especially in light of evidence that Unocal argued against such adoption.) *See, e.g., Handguards Inc. v. Ethicon, Inc.*, 743 F.2d 1282, 1291 (9th Cir.), *cert. denied*, 469 U.S. 1190 (1984) (refusing to apply judicial estoppel in antitrust action where issue of patentee's bad faith in suing for infringement was not "necessary" issue in earlier infringement action); *see also Ogden Martin Sys. of Indianapolis, Inc. v. Whiting Corp.*, 179 F.3d 523, 528 (7th Cir. 1999) (refusing to apply estoppel where issues different). Complaint Counsel have failed to establish that causation was an issue in the earlier litigation; therefore, Complaint Counsel have failed to establish a clear inconsistency. *See e.g., In re Lincoln Ctr. for the Performing Arts, Inc.*, 2003 NLRB LEXIS 410 (NLRB June 20, 2003) (refusing to apply judicial estoppel because "the issues are clearly different in both cases" and because "the issue of the lawfulness of prohibiting leafleting on the sidewalk was neither litigated nor decided and the issue of regulating conduct on the sidewalk was not necessary to support a valid and final judgment on the merits"). Given no inconsistency, there can be no preclusion.

II. JUDICIAL ESTOPPEL IS INAPPROPRIATE BECAUSE THE DISTRICT COURT DID NOT RELY ON THE POSITIONS CLAIMED TO HAVE BEEN ADVANCED BY UNOCAL.

The second element of the judicial estoppel test also fails for all of Complaint Counsel's asserted areas of estoppel. For judicial estoppel to apply, a party must have "succeeded in persuading a court to accept that party's earlier position." *New Hampshire*, 532 U.S. at 750 (emphasis added). The term "succeeded" means that "to invoke judicial estoppel, a party must show

that the opponent took a contrary position under oath in a prior proceeding and that the prior position was accepted by the court.” *U.S. v. Owens*, 54 F.3d 271, 275 (6th Cir. 1995). It is only when there has been success in the first proceeding that judicial acceptance of an inconsistent position in this administrative proceeding would create “the perception that either the first or the second court was misled.” *New Hampshire*, 532 U.S. at 750. “Absent judicial acceptance of the inconsistent position, application of the rule is unwarranted because no risk of inconsistent results exists.” *Edwards v. Aetna Life Ins. Co.*, 690 F.2d 595, 599 (6th Cir. 1982); *see also Konstatinidis*, 626 F.2d at 939 (“[S]uccess in the prior proceeding is clearly an essential element of judicial estoppel.”)

With respect to Complaint Counsel’s “lock-in” argument, as noted above, lock-in was not even argued by Unocal, much less relied upon by the court or jury in the patent case.

Unocal also cannot be shown to have succeeded in persuading the court to accept Dr. Teece’s assertion with respect to the pass-through of damages for his lost-profits analysis, since Unocal elected never to present its lost profits theory to the jury. And Mr. Ciresi, on behalf of Unocal, argued *against* the relevance of any pass-through in his closing statements. *See* Exh. 8 (Tr. Trans. at 6357-59); *see also id.* (Tr. Trans. at 6262-65) (instructing the jury only in reasonable royalty, not in lost profits). Where the first court has not accepted a position of a party, including when that position had been dropped in the earlier litigation, judicial estoppel is not appropriate. *Faigin v. Kelly*, 184 F.3d 67, 82 (1st Cir. 1999). *Hall v. GE Plastic Pacific PTE Ltd.*, 327 F.3d 391, 399 (5th Cir. 2003) (holding that party must make its argument “with the explicit intent to induce the district court’s reliance”); *see also Britton v. Co-op Banking Group*, 4 F.3d 742, 744 (9th Cir. 1993) (refusing to apply judicial estoppel where party “did not truly obtain relief by ‘asserting and offering proof to support one position’ and then contradict themselves to establish a second claim”) (*quoting*

Arizona v. Shamrock Foods Co., 729 F.2d 1208, 1215 (9th Cir.1984), *cert. denied*, 469 U.S. 1197 (1985)).

Complaint Counsel inappropriately imply that the 90% pass-through rate continued to be advanced by Unocal even after the jury trial concluded. Memo. at 7. (“In addition, the district court later also relied specifically on Unocal’s claim that 90% of the royalties would be passed through to consumers.”) As Your Honor will see in the footnote to this sentence, however, the argument was not brought forth by Unocal, but rather by Unocal’s opponent in an effort to stay the litigation. In fact, neither Unocal nor Dr. Teece ever made any analysis of whether a 90% pass-through could or should apply to a judgment as opposed to a running royalty as the Refiners implied. Complaint Counsel here again are simply distorting the trial record to create an illusion of reliance. *See, e.g., McKinnon v. Blue Cross & Blue Shield*, 935 F.2d 1187, 1192-93 (11th Cir. 1991) (refusing to apply judicial estoppel where “a careful examination of the record reveals that [defendant] has never taken the position that [plaintiff], personally, is a participant or beneficiary of her father’s employee benefit plan.”)

Complaint Counsel have also failed to demonstrate the requisite element of success with respect to the argument that Unocal caused CARB to adopt the T50 specification. Complaint Counsel cannot muster a single citation to the trial or appellate record indicating that the court relied upon any such assertion by Unocal. The most Complaint Counsel can present this Tribunal with is an argument that they know the jury “was required to specifically consider Unocal’s claim that it caused CARB including [sic] to include T50 in the regulation.” Memo. at 8. How they know this, however, is not based on any citation to the record or to an order of the court adopting this position.

Instead, Complaint Counsel merely presume this to be true based on a citation to a patent law treatise. *See id.* at 8 n. 24.

It is not surprising that Complaint Counsel could not present a citation to the record in terms of judicial reliance. That is because, as explained earlier, Unocal argued at trial that proof of secondary considerations in the context of obviousness should come from what the Refiners had done and not what CARB had adopted and as such was irrelevant to the court's decision. Exh. 8 (Tr. Trans. 6357-59) (emphasis added). What Unocal did argue was that Unocal did not steal their invention from CARB, and, as noted above, in the context of derivation, the jury was never asked to decide whether CARB would have adopted a T50 specification but for Unocal's work.

III. JUDICIAL ESTOPPEL IS INAPPROPRIATE BECAUSE THERE IS NO UNFAIR ADVANTAGE OR UNFAIR DETRIMENT.

Aside from failing to prove unfair advantage, Complaint Counsel do not even attempt to identify for Your Honor what unfair advantages Unocal stands to derive if not estopped. Additionally, Complaint Counsel fail to claim any unfair detriment. In *New Hampshire*, the third criterion for invoking judicial estoppel is that the party seeking to assert inconsistent statements must "derive an unfair advantage or impose an unfair detriment on the opposing party if not estopped." 532 U.S. at 750. Although embracing *New Hampshire* for its validation of the judicial estoppel doctrine, Complaint Counsel become suddenly dismissive of the Supreme Court's criterion that the party seeking judicial estoppel must prove either unfair detriment or unfair advantage to the opposing party.

Obviously, the danger of an "unfair detriment" to the opposing party is not present in this case. In the earlier patent infringement litigation, the opposing parties were six oil refiners. In this administrative proceeding, the opposing party is the FTC—a stranger to the patent infringement

litigation and unable to assert that it relied in any way on Unocal's conduct before that court. *See Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Georgiadis*, 903 F.2d 109, 113-14 (2d Cir. 1990) (refusing to apply judicial estoppel where the plaintiff did not rely in any way on defendant's conduct in other litigation, which involved different plaintiff); *Jackson Jordan, Inc. v. Plasser American Corp.*, 747 F.2d 1567, 1578-80 (Fed. Cir. 1984) (refusing to apply judicial estoppel where present defendant had not been involved in earlier suit and could show neither reliance on the earlier litigation nor prejudice to its present position). Indeed, conspicuously absent from Complaint Counsel's motion is any assertion that it suffered an unfair detriment.

Also absent from Complaint Counsel's motion is any clue as to what unfair advantages Unocal might derive if permitted to present evidence regarding lock-in, pass-through, or T50. These are three separate bases for judicial estoppel. The global assertion that Unocal will keep the "spoils of its high royalty award" falls severely short of proving that an unfair advantage accompanies each argument that Complaint Counsel seek to estop. *See Lewandowski v. Nat'l R. Passenger Corp.*, 882 F.2d 815, 818 (3rd Cir. 1989) (noting, where jury in first case found in favor of party sought to be estopped, that critical issue is "what the [party] contended in the underlying proceeding, rather than what the jury found")

Here, as discussed above, the facts nakedly expose the absence of any unfair advantage Unocal could gain by making its lock-in, pass-through, or T50 arguments. An unfair advantage must be present, however, for the purpose of judicial estoppel to be served. *See New Hampshire*, 532 U.S. at 751 (*citing Scarano*, 203 F.2d at 513 (judicial estoppel forbids use of "intentional self-contradiction . . . as a means of obtaining unfair advantage")) (emphasis added); *Lowry v. Stovall*, 92 F.3d 219, 224 (4th Cir. 1996), *cert denied sub nom.*, *Lowery v. Redd*, 519 U.S. 113 (1997) (unfair

advantage is “‘determinative factor’ in application of judicial estoppel to a particular case”). Having failed to prove, or even identify, potential unfair advantages to Unocal and having failed to make any assertion of an unfair detriment, Your Honor should conclude that judicial estoppel cannot be applied on the facts of this case.

IV. JUDICIAL ESTOPPEL IS INAPPROPRIATE BECAUSE IT WOULD OBSTRUCT THE TRUTH-SEEKING FUNCTION OF, AND FLEXIBILITY INHERENT IN, THE ADMINISTRATIVE PROCESS.

Your Honor should also consider that judicial estoppel does not fit the facts of this case because the evidence Complaint Counsel seeks to exclude is truth-revealing evidence.⁸ *Cf. New Hampshire v. Maine*, 532 U.S. at 751 (“Additional considerations may inform the doctrine’s application in specific factual contexts.”) In *In re Ford Motor Co*, the Commission was wary of the wisdom of applying judicial estoppel in the context of an administrative hearing. 1978 FTC LEXIS 211, *58-*60 (FTC 1978). “[A]ttempts to apply strict judicial procedures tend to take away from the flexibility inherent in the administrative process.” *Id.* at *58-59. The Commission was protective of its “inherent flexibility” because it viewed such flexibility as a necessary aid in its search for truth. *Id.* at *58 (holding that respondent’s earlier position did not, supply “the conclusions of fact and law necessary to sustain an order” and rejecting contention that “respondent

⁸ See *United States v. 49.01 Acres of Land*, 802 F.2d 387, 390 (10th Cir. 1986) (stating that judicial estoppel “would discourage the determination of cases on the basis of the true facts as they might be established ultimately”) (citation and internal quotation marks omitted); *Am. Methyl Corp. v. Env’tl. Prot. Agency*, 749 F.2d 826, 833 n. 44 (D.C. Cir. 1984) (observing that judicial estoppel is “at odds with the truth-seeking function of courts of law”); State ex rel. *Bowers v. Superior Court*, 839 P.2d 454, 458 (Ariz. Ct. App. 1992).

should not be heard, even in way of argument in the adjudicative proceeding”).⁹ This proceeding calls for the same resolution.

CONCLUSION

Wherefore, Unocal requests that Your Honor deny Complaint Counsel’s Motion and allow Unocal to present the evidence that Complaint Counsel seek to exclude.

Dated: October 29, 2003.

Respectfully submitted,

ROBINS, KAPLAN, MILLER & CIRESI L.L.P.

By: Signature on File with Commission

Martin R. Lueck
David W. Beehler
Sara A. Poulos
Diane L. Simerson
Steven E. Uhr
Bethany D. Krueger
David E. Oslund

2800 LaSalle Plaza
800 LaSalle Avenue
Minneapolis, Minnesota 55402-2015
Phone: 612-349-8500
Fax: 612-339-4181

⁹ Case law reveals that most agencies refuse to apply judicial estoppel because the criteria are not met when the underlying proceeding is a court case, which of course involves different parties and distinct issues. *See e.g., In re Lincoln Ctr. for the Performing Arts, Inc.*, 2003 NLRB LEXIS 410 (refusing to apply judicial estoppel because “the issues are clearly different in both cases” and because “the issue of the lawfulness of prohibiting leafleting on the sidewalk was neither litigated nor decided and the issue of regulating conduct on the sidewalk was not necessary to support a valid and final judgment on the merits”); *In re AST Anlagen-Und Sanierungstechnik GmbH*, 2003 ASBCA LEXIS 95 (Armed Servs. Bd. of Contract Apps. Sept. 24, 2003) (refusing to apply judicial estoppel because no evidence of prior inconsistent statement); *In re Lopez*, 2002 WL 31744908 (Labor Bens. Rev. Bd. Nov. 5, 2002) (refusing to apply judicial estoppel where there was no evidence of the prior court’s adoption of the statement); *Boston Chicken Inc. v. Boston Pizza Int’l Inc.*, 1999 TTAB LEXIS 645 (Trademark Trial & Appeal Bd. Nov. 17, 1999) (refusing to apply judicial estoppel where prior statement was made before foreign tribunal and there was no evidence of judicial acceptance or unfair advantage).

and

GIBSON, DUNN & CRUTCHER, LLP

Joseph Kattan, P.C.

Chris Wood

1050 Connecticut Avenue, N.W.

Washington, D.C. 20036-5306

Phone: 202-55-8500

Fax: 202-530-9558

ATTORNEYS FOR UNION OIL COMPANY OF
CALIFORNIA