

**UNITED STATES OF AMERICA
BEFORE FEDERAL TRADE COMMISSION**

In the Matter of
UNION OIL COMPANY OF CALIFORNIA,

a corporation.

Docket No. 9305

**MEMORANDUM IN SUPPORT OF COMPLAINT COUNSEL’S *MOTION IN LIMINE*
REQUESTING THAT THIS COURT, ON JUDICIAL ESTOPPEL GROUNDS,
PROHIBIT UNOCAL FROM TAKING POSITIONS INCONSISTENT WITH THOSE
ADVANCED EARLIER IN FEDERAL COURT LITIGATION**

Complaint Counsel moves that Your Honor apply the doctrine of judicial estoppel to bar Respondent Unocal from “playing fast and loose with the courts” and taking positions in the case at hand that are clearly inconsistent with positions that Unocal advanced in earlier federal court litigation.¹

In the previous patent case, Unocal obtained a judgment for infringement of its ‘393 patent and a royalty rate of 5.75 cents per gallon, by advocating positions that *agree* with many of Complaint Counsel’s contentions in this case as to why Unocal’s current patents have a lock on the technology market for the production of CARB Phase 2-compliant gasoline. Specifically, Unocal argued (1) that CARB and the refiners were “locked in” to the CARB Phase 2 regulations and could not make changes to allow refiners to consistently blend around the Unocal patent; (2) that “90%” of royalty costs would be passed on to consumers as higher prices; and (3) that

¹ *Union Oil Co. v. Atlantic Richfield Co.*, 34 F. Supp. 2d 1208 (C.D. Cal. 1998), *aff’d*, 208 F.3d 989 (Fed. Cir. 2000), *cert. denied*, 531 U.S. 1183 (2001).

Unocal's information was the principal basis for CARB's decision to include T50 as a parameter in its Phase 2 specifications (*see* citations to record, Part II.A. - D. *infra*.)

Today, Unocal argues the opposite. Unocal now contends that neither CARB nor the refiners were "locked in" to the current Phase 2 regulations; that CARB *did not* principally rely on Unocal's information in deciding to include T50 in its specifications; and that it is *not* true that "90%" of its royalty costs would be passed on to consumers.

Complaint Counsel respectfully requests that Your Honor enter an Order precluding Unocal from taking such inconsistent positions, pursuant to the doctrine of judicial estoppel. "Where a party assumes a certain position in a legal proceeding, and succeeds in maintaining that position, he may not thereafter, simply because his interests have changed, assume a contrary position." *Davis v. Wakelee*, 156 U.S. 680 (1895)(*cited in New Hampshire v. Maine*, 532 U.S. 742, 749 (2001)). "Acting on the assumption that there is only one truth about a given set of circumstances, the courts apply judicial estoppel to prevent a party from benefitting itself by maintaining mutually inconsistent positions regarding a particular situation."²

Specifically, Complaint Counsel requests that Your Honor prohibit Respondent from offering arguments or evidence contrary to, or inconsistent with, the following positions that Unocal previously advocated in federal court:

1. That refiners' investments in Phase 2 refinery production, from 1994 onward, "locked in" CARB and the refiners to the regulations or otherwise make it unrealistic for CARB to provide patent relief to refiners by way of amendments to the CARB regulations;

² *King v. Herbert J. Thomas Mem. Hosp.*, 159 F.3d 192, 196 (4th Cir.), *cert. denied*, 526 U.S. 1098 (1998). *See, e.g., In re Cassidy*, 892 F.2d 637, 641 (7th Cir.), *cert. denied*, 498 U.S. 812 (1990) (judicial estoppel bars intentional self-contradiction).

2. That 90% of the cost of Unocal's royalties will to be passed on to consumers in the form of higher gasoline prices; and
3. That Unocal's actions caused CARB to include T50 as a parameter in its Phase 2 specifications.

Argument

The doctrine of judicial estoppel “prevents a party from asserting a claim in a legal proceeding that is inconsistent with a claim taken by that party in a previous proceeding.”³ The doctrine prevents parties from “playing fast and loose with the courts” and protects the integrity of the judicial process.⁴ The judicial estoppel doctrine helps courts maintain their credibility as fact finders,⁵ and addresses the “unseemliness” of trying to benefit from arguing for inconsistent

³ 18 *Moore's Federal Practice* § 134.30 (3d ed. 2000). See, Wright, Miller & Cooper, *Federal Practice and Procedure: Jurisdiction 2d* § 4477, pp. 549-625 at 549 (2002) (“Inconsistent positions in successive litigation are regulated by rules that increasingly are referred to as ‘judicial estoppel,’ although somewhat less confusion might be engendered by the more descriptive reference to the preclusion of inconsistent positions.”). See, e.g., *Rissetto v. Plumbers and Steamfitters Local 343*, 94 F.3d 597, 600 (9th Cir. 1996); *Data General Corp. v. Johnson*, 78 F.3d 1556, 1565 (Fed. Cir. 1996); *Ergo Science, Inc. v. Martin*, 73 F.3d 595, 598 (5th Cir. 1996); *Wylde v. Hundley*, 69 F.3d 247, 251 n.5 (8th Cir. 1995); *John S. Clark Co. v. Faggert & Frieden, P.C.*, 65 F.3d 26, 28-29 (4th Cir. 1995); *Young v. United States Department of Justice*, 882 F.2d 633, 639 (2d Cir. 1989); *United States v. Levasseur*, 846 F.2d 786, 792 (1st Cir. 1988); *Scarano v. Central Railroad Co. of New Jersey*, 203 F.2d 510, 513 (3d Cir. 1953).

⁴ See *New Hampshire v. Maine*, 532 U.S. 742, 749-750 (2001) (applying doctrine of judicial estoppel to bar New Hampshire from taking position in boundary dispute with Maine that was inconsistent with prior position taken in consent decree); *Lowery v. Stovall*, 92 F.3d 219, 223 n.3 (4th Cir. 1996) (“judicial estoppel is designed to protect the integrity of the courts rather than any interests of the litigants”); *American National Bank of Jacksonville v. FDIC*, 710 F.2d 1528, 1536 (11th Cir. 1983) (the judicial estoppel doctrine prevent parties from making a mockery of justice by inconsistent pleading); *Edwards v. Aetna Life Ins. Co.*, 690 F.2d 595, 598 (6th Cir. 1982) (the doctrine's purpose is “to protect the integrity of the judicial process”). See also Wright, Miller & Cooper, *Federal Practice and Procedure: Jurisdiction 2d* § 4477 at 551 (2002) (“Courts also focus on the sheer effrontery of advocates who, by playing ‘fast and loose’ with the courts, seem in the pursuit of wanton self-interest to trifle with the dignity of judicial truth-finding efforts.”).

⁵ *King v. Herbert J. Thomas Mem. Hosp.*, 159 F.3d 192, 196 (4th Cir. 1998).

positions. *See, e.g., In re Cassidy*, 892 F.2d 637, 641 (7th Cir. 1990)(judicial estoppel bars intentional self-contradiction).⁶

There is no strict test for establishing judicial estoppel.⁷ The doctrine is an equitable one, applied on a case-by-case basis.⁸ The Supreme Court recently enumerated three factors typically considered by courts in deciding whether to use judicial estoppel: (1) whether a party's later position is "clearly inconsistent" with its prior position; (2) whether the party succeeded in persuading a court to accept its 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) "whether 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."⁹

The case law clearly supports the right of Complaint Counsel, a non-party to the first suit, to assert the doctrine.¹⁰ Complaint Counsel requests that Your Honor apply the judicial estoppel doctrine to bar Unocal from offering evidence or arguments on the three inconsistent positions it is now advancing in the case at hand.

⁶ Wright, Miller & Cooper, *Federal Practice and Procedure: Jurisdiction 2d* § 4477 at pp. 552-53 (2002). *See also Scarano*, 203 F.2d at 513 (3d Cir. 1953) ("A plaintiff who has obtained relief from an adversary by asserting and offering proof to support one position may not be heard later in the same court to contradict himself in an effort to establish against the same adversary a second claim inconsistent with his earlier contention. Such use of inconsistent positions would most flagrantly exemplify that playing 'fast and loose with the courts' which has been emphasized as an evil the courts should not tolerate.") (citations omitted).

⁷ *New Hampshire v. Maine*, 532 U.S. at 751.

⁸ *Id.* at 749-52.

⁹ *Id.* at 750-51 (citations omitted).

¹⁰ *Saecker v. Thorie*, 234 F.3d 1010, 1014-15 (7th Cir. 2000).

II. RESPONDENT UNOCAL'S SPECIFIC CLAIMS IN THE PATENT LITIGATION

Unocal filed its application for a patent in December 1990. Unocal admits that it did not disclose to CARB the pending patent application, or the patent's issuance, until January 1995.¹¹

In April 1995 six major refiners – ARCO, Exxon, Mobil, Chevron, Texaco, and Shell – filed a declaratory judgment suit in federal district court to invalidate the '393 patent. *Atlantic Richfield Co. v. Union Oil Co.*, 34 F. Supp. 2d 1208 (C.D. Cal. 1998). Unocal counterclaimed for patent infringement.

Following a lengthy trial, the jury found in favor of Unocal and found infringement on all 41 claims of the patent. To assess damages for patent infringement, the jury had to further determine what refiners, in a hypothetical negotiation in 1995, would have been willing to pay Unocal for a patent license.¹² Unocal argued to Judge Wardlaw and the jury that Unocal, in fact, deserved a royalty of 5 to 7.5 cents.¹³ Unocal argued that refiners *could not* successfully blend around the '393 patent and still comply with the CARB Phase 2 RFG regulations:

[The refiners] could not continuously blend around the '393 patent by controlling T50 and the other 8 properties that need to be controlled in order to comply with CARB regulations and within the narrow blend space that those regulations allow.¹⁴

¹¹ Unocal Answer, at ¶ 2 and 6. The Complaint alleges that Unocal knew before the issuance of CARB Phase 2 regulations (November 1991) that the PTO was likely to approve key '393 claims, and that PTO also informed it of this in 1992. The '393 patent was issued in February 1994.

¹² “A threshold question each of the hypothetical negotiators would have to consider is whether they could consistently make CARB 2 gasoline without infringing Unocal's patent.” Defendants' Memorandum of Contentions of Fact and Law Pursuant to Local Rule 9.5, at 40 (Exhibit 2 attached hereto).

¹³ *Id.* at 38.

¹⁴ See Unocal's closing argument, Trial Transcript at 6274-75 (Exhibit 3 attached hereto).

To support why it deserved a high royalty rate, Unocal took the positions that CARB and the refiners *were* locked in to those current Phase 2 specifications (“Even if rebuilding were possible, it would likely be very expensive and would take time to implement”).¹⁵ In addition, Unocal also argued that 90% of costs would be passed on to consumers (Dr. Teece testimony),¹⁶ and that Unocal was responsible for the inclusion of T50 as a Phase 2 specification (“Then in August [CARB] came out with regulations, proposed regulations regarding T50 after they met with UNOCAL and got the information from UNOCAL, and Mr. Venturini's testimony is clear on that.”).¹⁷

Unocal achieved total victory on the basis of such assertions. The jury, rejecting refiners’ claims that royalties should be less than one cent, awarded Unocal a royalty figure squarely in its requested range – 5.75 cents per gallon. Judge Wardlaw denied the refiners’ motion to overturn the verdict, the Federal Circuit upheld this ruling, and the Supreme Court denied certiorari.¹⁸ In June 2000, Unocal received \$91 million, consisting of these damages for a five-month period, plus interest and attorney fees.¹⁹ The full accounting of damages based on the 5.75 cent per gallon royalty, still pending, extends to infringement before and after trial.²⁰

¹⁵ Defendant’s Memorandum of Contentions of Law and Fact, at 43 (Exhibit 2 attached hereto).

¹⁶ Trial Transcript at 5669-70 (Exhibit 4 attached hereto).

¹⁷ Trial Transcript at 5223-24 (Exhibit 5 attached hereto).

¹⁸ *Union Oil Co. v. Atlantic Richfield Co.*, 34 F. Supp. 2d 1208 (C.D. Cal. 1998), *affirmed*, 208 F.3d 989 (Fed. Cir. 2000); *cert. denied*, 531 U.S. 1183 (2001).

¹⁹ Minute Order on Defendants’ Motion to Stay Proceedings Pending Reexamination (May 16, 2002), at 2 (Exhibit 6 attached hereto).

²⁰ Judge Wardlaw in an Order of September 29, 1998 stated: “With respect to infringement from August 1, 1996 to the date of final judgment this Court orders that an accounting for defendants’ oil

The district court, in a later opinion, explicitly recognized that the jury relied on Unocal's arguments and evidence that the refiners were unable to consistently and completely blend around the patent claims:

The Court's examination of the trial transcript reveals that the jury's determination of a reasonable royalty rate was based on a set of facts and a royalty theory limited to California. Specifically, plaintiffs' expert Dr. David Teece testified that in order to avoid paying a royalty in order to license plaintiffs' patent, defendants would have to either pay the 15 cents/gallon CARB penalty or transship gasoline through the Panama Canal. Tr. 5602:24 - 5604:18. In addition, Dr. Teece testified that the CARB regulations were a major factor in the value he assigned to plaintiff's patent²¹

The jury, in determining the royalty rate accepted Unocal's argument that CARB and refiners were "locked in" to the CARB Phase 2 regulations by virtue of the refiners' prior investments. In addition, the district court later also specifically relied on Unocal's claim that 90% of royalties would be passed through to consumers.²² Citing this figure, the court stated that

production take place in order to determine the number of gallons of infringing motor gasoline, to be then multiplied by the royalty rate of 5.75¢ per gallon" Order Granting Plaintiffs' Rule 59(e) Motion; Granting and Staying Request for Accounting and Denying Plaintiff's Ex Parte Application for Magistrate Judge Designation (September 29, 1998) (Exhibit 7 attached hereto). The district court later ruled that it would not enter final judgment on the accounting of Unocal's damages until the U.S. Patent and Trademark Office ("PTO") completed its re-examination of the scope of the '393 patent claims. *See*, Order Denying Defendants' Motion to Vacate Accounting Order and Open the Record for Additional Evidence, and Granting Defendants' Motion to Limit Accounting Order to California Gasolines (August 27, 2002), at 4 (Exhibit 8 attached hereto).

²¹ Order Denying Defendants' Motion to Vacate Accounting Order and Open the Record for Additional Evidence, and Granting Defendants' Motion to Limit Accounting Order to California Gasolines (August 27, 2002), at 15-16 (Exhibit 8 attached hereto).

²² The court stated: "Defendants state that approximately 90% of the royalty costs paid by defendants will be passed on to consumers. Mot. at 17." Minute Order on Defendants' Motion to Stay Proceedings Pending Reexamination (May 16, 2002), at 5, n.7 (Exhibit 6 attached hereto). That Motion for Stay filed by the defendant refiners, on page 17, had specifically cited the testimony of Unocal's expert, Dr. Teece, as the authority for the 90% figure. Memorandum of Points and Authorities in Support of Defendants' Motion for a Stay Pending Reexamination of U.S. Patent No. 5,288,393 (July 16, 2001), at 17 (Exhibit 6 attached hereto).

“the entry of a final judgment before the conclusion of the PTO reexamination could unduly prejudice defendants and, more significantly, the public, by forcing defendants to pay damages for infringing patents which are passed on to consumers.”²³ Finally, we know that the jury also was required specifically to consider Unocal’s claim that it caused CARB including to include T50 in the regulation. That evidence went to the “non-obviousness” of the patent, and the law holds that objective secondary evidence of non-obviousness must be considered by fact-finders in determining obviousness.²⁴ Unocal’s complete victory in the patent infringement litigation suggests jury reliance on that argument as well.²⁵

Below, we address in detail Unocal’s precise arguments in the previous case.

A. Unocal’s Previous Position That Refiners, Upon Learning of the Patent, Were “Locked In” to Producing Infringing Gasoline due to Previous Investments in Reconfiguring Refineries to Produce Phase 2 Gasoline.

Complaint Counsel in this case contend that CARB, upon learning of the patent in January 1995, did not have the reasonable option of affording the refiners patent relief by amending the Phase 2 regulations. Complaint at ¶ 6 Refiners had spent huge sums

²³ Minute Order on Defendants’ Motion to Stay Proceedings Pending Reexamination (May 16, 2002), at 5 (Exhibit __ attached hereto).

²⁴ See Robert L. Harmon, *Patents and the Federal Circuit* § 4.6 (5th ed. 2001)(“The Federal Circuit has emphatically and repeatedly held that objective evidence of nonobviousness msut be taken into account always and not just when the decision maker is in doubt”).

²⁵ As discussed in Part III, not all courts require proof that the former court relied on the party’s inconsistent earlier position, see *Gagne v. Zodiac Maritime Agencies, Ltd.; M/v* __ F.Supp. __, 2003 WL 21756940 (S.D. Cal. 2003) (“[A] party can be estopped even if the previous tribunal did not rely upon the first position, if the party is now playing ‘fast and loose’ with the court.”) (citation omitted) and *A.I. Trade Finance, Inc. v. Centro Internationale Handelsbank*, 926 F.Supp. 378, 389(S.D.N.Y. 1996) (noting that “the Second Circuit omitted ‘reliance’ as an element of judicial estoppel, and there is little support in the caselaw for the proposition that reliance is a required element of the doctrine in the Second Circuit.”) (citation omitted).

reconfiguring their refineries to produce gasoline under the existing CARB Phase 2 regulations and were “locked in” to those regulations. Unocal argued precisely the same in the patent infringement case:

There might be other theoretical options that the hypothetical negotiators would consider as well, such as rebuilding their refineries. However, there is no evidence to suggest that any additional reconfiguration would aid any individual refiner in completely avoiding infringement of Unocal’s patent, and [the refiners] admit they have not considered such an option. Even if such rebuilding were possible, it would likely be very expensive and would take time to implement.²⁶

Unocal, at trial, then offered expert testimony of David Teece to support this contention.²⁷

Dr. Teece raised the possibility of refiners installing on-line blending equipment to better blend in narrow ranges, but concluded that he “[did] not consider this option a realistic one.”²⁸ Dr.

Teece’s expert report cited two important obstacles to building-around:

First, it requires a substantial investment. Refiners have collectively already invested billions of dollars in refinery upgrades to enable them to produce significant quantities of CARB-compliant gasoline . . . Second, the “build-around” option cannot be exercised quickly. In addition to the time required for the company’s internal capital budgeting and planning process, there is a significant time required to identify the needed alternatives and complete the redesign. The firm must also obtain permits for the necessary new construction . . . All told, the delays may involve years . . . Furthermore, whatever build-around investment is contemplated, the prospect of day-to-day variability and episodic infringement is still present . . . In summary, the capital costs likely to be involved in “build-around” are far larger than would be justified by the expected cost of the royalties.²⁹

²⁶ Defendant’s Memorandum of Contentions of Law and Fact, at 43 (Exhibit 2 attached hereto).

²⁷ Trial Transcript, at 6319 (Exhibit 10 attached hereto).

²⁸ Expert Report of David J. Teece in *Arco v. Unocal* at 21 (Exhibit 1 attached hereto).

²⁹ *Id.* at 21-22

Dr. Teece thus determined that the refiners were locked in to infringing Unocal's patent and "conclude[d] that the 'build-around' option is not a realistic one, and [did] not consider it further"³⁰ Dr. Teece then testified to the jury on the subject:

Q: Doctor, in that regard, what role does the irreversible fixed asset play?

A: Well, it's very much an important background factor because if 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 clean up. So you're stuck there with a very valuable asset. Closing them down is not viable. So you've got to keep them operating. And if the regulations change and you can't make CARB gasoline, you've either got to upgrade your refineries so you can do it in California or keep those refineries busy by exporting product that's non-CARB compliant out and then finding a way to purchase CARB gasoline offshore or in the gulf coast and bringing it back in to satisfy the California market.

* * *

Q: Now, Mr. Gould mentioned that the defendants could go to CARB and say well, Unocal has this patent, and we want you to change your regulations. You heard that in the opening statement?

A: Yes.

Q: Did you consider that strategic alternative?

A: Yes, I did.

Q: Did you consider that a viable alternative?

A: I don't believe it's viable.

Q: And what's the basis for that, sir?

A: Well, there's several bases for it. One is that CARB -- and this is thinking back from '95 -- is taking the position that these regulations are good and that it's going to result in a cleaner environment and cleaner burning gasoline is good for California. So it would be very hard for CARB, given the public positions it's taken, to then say, well, but now we think we'll roll back this regulation a little bit

³⁰ *Id.* at 23.

to make it possible for the potential licensees here to avoid paying a patent to Unocal.³¹

Unocal further argued that “asking CARB to change the regulations would not be a realistic means of avoiding infringement.”³² In his closing, Unocal’s counsel echoed this argument: “Did CARB relax the regulations? No. You didn't hear one piece of testimony in this case that the regulations were relaxed because they wouldn't. And they won't.”

Now, after having taken this position before a federal court, Unocal in its Answer flatly “denies CARB or the industry are locked into the Phase 2 regulations” in 1995 or anytime since.³³ And Unocal’s expert, Dr. Teece, also reverses field and contradicts his prior sworn testimony in the patent case:

As a general matter, we know that regulations can be (and often are) revised, amended or revoked in response to changing (or changed) circumstances. Similarly, as a logical matter, ever since CARB learned of Unocal’s ‘393 patent in 1995, CARB’s RFG regulations could have been changed so as to make it easier for refiners to avoid infringing Unocal’s patents.³⁴

³¹ Teece testimony, Trial Tr. 5648-49 (Exhibit 11 attached hereto).

³² Unocal Contentions of Law and Fact, at 41-42 (Exhibit 2 attached hereto).

³³ The Complaint (¶ 6) alleged that by the time of Unocal’s announcement (1995) “the refining industry had spent billions of dollars in capital expenditures to modify their refineries to comply with the CARB Phase 2 RFG regulations.” In answer, Unocal states: “With respect to the amount of money spent by the industry to comply with CARB regulations, Unocal lacks specific knowledge but denies CARB or the industry are locked into the Phase 2 regulations.” Unocal Answer, ¶ 6. *See also*, Unocal’s denial of the allegation that “Refiners in California invested billions of dollars in sunk capital investments without knowledge of Unocal’s patent claims to reconfigure their refineries in order to comply with the CARB Phase 2 RFG regulations. These refiners cannot produce significant volumes of non-infringing CARB-compliant gasoline without incurring substantial additional costs.” *Id.* at ¶ 93.

³⁴ Expert Report of David Teece (September 25, 2003), at 55, 61 (Exhibit 1 attached hereto).

Unocal has retained additional experts, Richard Stellman and James Griffin, who also deny any lock-in effects.³⁵

B. Unocal's Previous Position That 90% of Its Royalty Costs Are Likely to Be Passed Through to Consumers.

The Complaint alleges that Unocal's royalties, if collected, will substantially impact consumer prices, citing Dr. Teece's assertion that "90%" of royalties were likely to be passed on to consumers. Complaint at ¶ 98. In the patent litigation, pass-through also was relevant, there to the jury's assessment of Unocal "lost profits." That is, did Unocal lose profits because the other refiners -- not having paid royalties to Unocal -- were able to keep their consumer prices artificially low during this infringement period and exert unwarranted price pressure on Unocal?³⁶

Before trial, Unocal argued to Judge Wardlaw that "had [the refiners] not infringed Unocal's patent but instead paid Unocal royalties, the price of gasoline would have increased and Unocal therefore would have received higher prices for the gasoline sold in California."³⁷ At trial, Unocal's expert Dr. Teece was quite specific on this point before the jury:

Q: Now, in the hypothetical negotiation to determine the reasonable royalty, didn't you assume in your analysis that Union Oil and the defendants would have in mind that 90 percent of the cost of the royalty would be passed through to consumers?

³⁵ Expert Report of Richard Stellman (September 25, 2003), at 4, 30 ("Most of the refiners' reconfiguration proposals, however, were not funded until some time in late 1993 or the first half of 1994, with construction taking place shortly thereafter" . . . [Complaint Counsel's expert] opined that many 'practical steps that refiners could have incorporated into their modification plans ... Many of these were done by the refiners in 1992 through 1996 or they can be done now."); Expert Report of James Griffin at 52 - 58 (Exhibits 13 and 14 attached hereto).

³⁶ For discussion of this issue, see Defendants' Narrative Statement Pursuant to Rule 9.4.6 of Expert David J. Teece, at 3 (Exhibit 15 attached hereto).

³⁷ Unocal's Memorandum in Opposition to Plaintiffs' Motion In Limine to Exclude All Evidence Relating to Unocal's Price Erosion Lost Profits Claim at Trial, at 1-2 (Exhibit 16 attached hereto).

A: In the context of doing lost profits analysis, I assumed that about 90 percent would be passed on.

Q: I'm asking sir, in the context of the hypothetical negotiation itself?

A: I believe that they would consider that number to be proper there as well, yes.

Q: And in your expert opinion, you said that motorists ought to be happy to pay 4 to 5 cents of some of this royalty to Union Oil to help fund these payments; correct?

A: Yes.³⁸

Dr. Teece in his expert report in the patent infringement litigation also stated: "I thus conclude that 90% of the additional costs associated with complying with any royalty license from Unocal would be reflected in wholesale gasoline prices."³⁹ As stated previously, the district court specifically relied on Unocal's contention that consumers likely would bear 90% of any royalties paid.⁴⁰

Today, Unocal denies that the cost of its patent would be passed on to consumers. Whereas Complaint before the Federal Trade Commission (¶ 98) states that "Unocal's own economic expert has testified under oath that 90 percent of any royalty costs associated with the patents will be passed through to consumers in the form of higher retail prices," Unocal now denies this allegation and elsewhere states that its Mr. Teece's expert testimony "was based upon a hypothetical not applicable to the current proceeding." Unocal Answer, at ¶¶ 10, 98.

³⁸ Trial Transcript, at 5669-70 (Exhibit 4 attached hereto).

³⁹ Expert Report of David J. Teece (September 30, 1996), Section XII.2, at 49 (Exhibit 1 attached hereto).

⁴⁰ Minute Order on Defendants' Motion to Stay Proceedings Pending Reexamination (May 16, 2002), at 5 (Exhibit 6 attached hereto).

As before, Unocal's current position is irreconcilable with its earlier assertions to a federal judge and jury.

C. Unocal's Previous Position That Unocal Caused CARB to Include T50 in Its Phase 2 Regulations.

The Complaint alleges that one of Unocal's motives in presenting its T50 research to CARB was anticompetitive -- to induce CARB to issue regulations that would require refiners to produce patent-infringing gasoline. 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." "Commercial success" of the invention is considered one indicator of non-obviousness.⁴¹ Unocal portrayed CARB's adoption of Unocal's research as evidence of this success. As Unocal stated to Judge Wardlaw in a discovery motion:

[I]n Unocal's view, the commercial success of the '393 Patent is self-evident. The invention was such an extraordinary advancement of science that it became the framework for the CARB regulations."⁴²

The expert report of Unocal's expert, W.R. Epperly, stated the same themes in more detail:

Drs. Jessup and Croudace showed in the '393 patent that T50 is a very effective parameter for minimizing exhaust emissions, and they were given credit by CARB for pointing out the importance of T50 (Exhibit 1047, p. 16948). This led to the inclusion of a T50 specification in the CARB regulations on reformulated gasolines.

* * *

If Auto Oil had understood the importance of T50, T50 would have been articulated as an important variable, as was done in Phase II of the program.... It

⁴¹ Defendants' Contentions of Fact and Law Pursuant to Rule 9.4.10, at 7 ("In addition, the invention claimed in the '393 patent was nonobvious because, among other things: (a) the gasoline compositions claimed in the '393 patent have exhibited great commercial success.") (Exhibit __ attached hereto).

⁴² Unocal's Supplemental Memorandum In Opposition to Plaintiffs' Motion to Compel Discovery Responses at 3 (Exhibit __ attached hereto).

was Unocal that showed that T50 is important and that MTBE by itself does not affect emissions in today's cars.⁴³

Unocal's lead trial counsel, Michael Ciresi, reinforced this theme in his closing to the jury:

And we showed that in June CARB had no regulations with regard to T50 or T90, none, zero. When you look at them, it's there. Then they met with UNOCAL and UNOCAL gave them information.

In fact, Dr. Croudace was sort of mad that they weren't going to take all the information. If we are going to use the invention, why don't you use all of it and they gave him that information in June. Then in August they came out with regulations, proposed regulations regarding T50 after they met with UNOCAL and got the information from UNOCAL, and Mr. Venturini's testimony is clear on that. I asked him to look at it. "As of June 11 can you tell me where there is any reference to T50?" "There is no specific reference. None at all. None at all."

Then they came back and in August they came out with the new proposed regulations because they had met with UNOCAL and got the information from them. And UNOCAL gave them that information.⁴⁴

Today, Unocal postures itself as another face in the crowd who played no special role in persuading CARB to include T50 in its regulation. Unocal states that its "statements did not cause CARB to adopt the Phase II regulations" and that "CARB specifically recognized that Unocal opposed the inclusion of a T50 specification in the Phase 2 RFG rules."⁴⁵ Based on counsel's line of questioning in depositions, we expect that Unocal may also argue that other companies such as Toyota, ARCO, Chevron, and others caused CARB to regulate T50 instead of

⁴³ Expert Rebuttal Report of W.R. Epperly at 14, 17, 18, 14, 32 (Exhibit 17 attached hereto).

⁴⁴ Trial Transcript 5223-24 (Exhibit 5 attached hereto). Unocal, it should be noted, has also made similar claims to the PTO. Just last month, in a Unocal filing to the patent office presenting evidence of the non-obviousness of the '126 patent, Unocal wrote: "[CARB manager Mr. Bob Fletcher] indicated that CARB's proposal for lower emissions gasoline specifications was in part based upon seven 'well designed and well-run' studies, of which the Unocal study was one."

⁴⁵ Unocal Answer, at ¶ 45

Unocal.⁴⁶ Complaint Counsel respectfully submits that Unocal should not be permitted to waste time at trial, and threaten the credibility of this forum, pressing specific arguments Unocal previously disavowed in front of a federal judge and jury.

IV. LEGAL ANALYSIS

As stated previously there is no strict test for establishing judicial estoppel.⁴⁷ Courts, rather, emphasize the equitable and context-dependent nature of the doctrine.⁴⁸ In *New Hampshire v. Maine*, the Court notes the factors that “typically inform” the application of the doctrine: (1) whether a party’s position is “clearly inconsistent” with its earlier position; (2) whether the court in the earlier proceeding accepted or relied on the party’s prior position, so that acceptance of the inconsistent position by the second court would create the appearance that one court had been misled;⁴⁹ and (3) whether, without estoppel, maintaining inconsistent positions

⁴⁶ See, e.g., Robert Fletcher Deposition Transcript, at 130 - 48 (Exhibit 18 attached hereto).

⁴⁷ *New Hampshire v. Maine*, 532 U.S. at 751.

⁴⁸ *Id.* at 749-52. See also *Klein v. Stahl GMBH & Co. Maschinenfabrik*, 185 F.3d 98, 108 (3d Cir. 1999); *In re Coastal Plains, Inc.*, 179 F.3d 197, 205 (5th Cir. 1999); *King v. Herbert J. Thomas Mem. Hosp.*, 159 F.3d 192, 196 (4th Cir. 1998); *United States ex rel. Sequioa Orange Co. v. Baird-Neece Packing Co.*, 151 F.3d 1139, 1147 (9th Cir. 1998); *Medcom Holding Co. v. Baxter Travenol Laboratory*, 106 F.3d 1388, 1396 (7th Cir. 1997); *Data General Corp. v. Johnson*, 78 F.3d 1556, 1564-65 (Fed. Cir. 1996).

⁴⁹ To always require specific proof of reliance even in jury trials where verdict forms do not address the position taken – but where the “win” suggests probable reliance – of course would eviscerate the doctrine. Some courts, in any event, have held that reliance by the first court is not a prerequisite for application of judicial estoppel. Compare *Gagne v. Zodiac Maritime Agencies, Ltd.; M/v ___ F.Supp. ___,* 2003 WL 21756940 (S.D. Cal. 2003) (“[A] party can be estopped even if the previous tribunal did not rely upon the first position, if the party is now playing ‘fast and loose’ with the court.”) (citation omitted); *A.I. Trade Finance, Inc. v. Centro Internationale Handelsbank*, 926 F.Supp. 378, 389 (S.D.N.Y. 1996) (noting that “the Second Circuit omitted ‘reliance’ as an element of judicial estoppel, and there is little support in the caselaw for the proposition that reliance is a required element of the doctrine in the Second Circuit.”) (citation omitted); *Ryan Operations G.P. v. Santiam-Midwest Lumber Co.*, 81 F.3d 355, 361 (3rd Cir. 1996) (“Whether the party sought to be estopped benefitted from its earlier position or was motivated to seek such a benefit may be relevant insofar as it evidences an intent to play

would give an unfair advantage to the party holding these positions or cause an unfair detriment to the opposing party.⁵⁰

These three factors are present for each of Unocal's inconsistent arguments enumerated in this brief. First, the *inconsistency* of Unocal's three positions is manifest. As set forth above, Unocal, merely for the convenience of advocacy,⁵¹ has taken irreconcilable positions on at least three key issues – lock in, pass-through of consumer costs, and Unocal's role in the CARB proceedings.

It is evident that the federal district court and jury also *accepted or relied* on Unocal's previous positions. The district court explicitly stated that the jury relied on Unocal's arguments concerning the refiners' inability to blend around the patent in determining the royalty rate:

The Court's examination of the trial transcript reveals that the jury's determination of a reasonable royalty rate was based on a set of facts and a royalty theory limited to California. Specifically, plaintiffs' expert Dr. David Teece testified that in order to avoid paying a royalty in order to license plaintiffs'

fast and loose with the courts. It is not, however, an independent requirement for application of the doctrine of judicial estoppel.”), with *Hamilton v. State Farm Fire & Casualty Company*, 270 F.3d 778, 783 (9th Cir. 2001) (“This court has restricted the application of judicial estoppel to cases where the court relied on, or ‘accepted,’ the party's previous inconsistent position.”) and *Lara v. Trominski*, 216 F.3d 487, 495 n.9 (5th Cir. 2000) (stating that “in order for judicial estoppel to apply, the inconsistent ‘party must have convinced the court to accept [its] prior position’) (citation omitted).

⁵⁰ *New Hampshire v. Maine*, 532 U.S. at 750-51 (citations omitted). See Wright, Miller & Cooper, *Federal Practice and Procedure: Jurisdiction 2d* § 4477 at p. 556 (2002); 18 *Moore's Federal Practice* § 134.30, pp. 134-62 (3d ed. 2000).

⁵¹ Some courts also speak of an intent requirement, see, e.g., *King v. Herbert J. Thomas Mem. Hosp.*, 159 F.3d 192, 196-97 (4th Cir. 1998)(“the party to be estopped must have taken inconsistent positions intentionally for the purpose of gaining unfair advantage . . . But judicial estoppel will not be applied where the party's inconsistent positions resulted from inadvertence or mistake.”). Unocal can scarcely characterize its adoption of different positions as inadvertence or mistake.

patent, defendants would have to either pay the 15 cents/gallon CARB penalty or transship gasoline through the Panama Canal.⁵²

Accordingly, the jury necessarily relied on Unocal's assertion that CARB and the refiners were "locked in" to the current specifications (Part II.B. *supra*); otherwise the patent could be evaded and the patent would have been worth little or nothing. The court, in a later opinion, also specifically relied on Unocal's contention that 90% of royalty costs would be passed through to consumers.⁵³ Finally, Unocal counsel's argument to the jury that Unocal caused CARB to include T50 in its regulations – relevant to "non-obviousness" of the invention – had to be specifically considered by the jury. Objective secondary evidence of non-obviousness must be considered by fact-finders in determining obviousness.⁵⁴

Finally, allowing Unocal to reverse position would confer Unocal *unfair advantage*. Unocal should not be permitted to keep the spoils of its high royalty award, arguing it had a lock on the market, and then disclaim its entire theory when faced with an antitrust claim. Judicial estoppel "forbids a party who has prevailed in one lawsuit to repudiate the ground on which he prevailed in order to win a subsequent suit."⁵⁵ "Absent any good explanation, a party should not

⁵² Order Denying Defendants' Motion to Vacate Accounting Order and Open the Record for Additional Evidence, and Granting Defendants' Motion to Limit Accounting Order to California Gasolines (August 28, 2002), at 15-16. The Order cites a motion filed by the refiners, but that motion specifically cites Dr. Teece's 90% pass-through figure.

⁵³ Minute Order on Defendants' Motion to Stay Proceedings Pending Reexamination (May 16, 2002), at 5 (Exhibit 6 attached hereto).

⁵⁴ See, Robert L. Harmon, Patents and the Federal Circuit § 4.6, at 167 (5th ed. 2001) ("The Federal Circuit has emphatically and repeatedly held that objective evidence of nonobviousness must be taken into account always and not just when the decision maker is in doubt," citing, *inter alia*, *Hybritech, Inc. v. Monoclonal Antibodies, Inc.*, 802 F.2d 1367 (Fed. Cir. 1986); *Bausch & Lomb, Inc. v. Barnes-Hind, Inc.*, 796 F.2d 443 (Fed. Cir. 1986).

⁵⁵ *Saecker*, 234 F.3d at 1014.

be allowed to gain an advantage by litigation on one theory , and then seek an inconsistent advantage by pursuing an incompatible theory.”⁵⁶ Since the primary purpose of judicial estoppel is to protect the courts rather than the parties, judicial estoppel may be invoked by a party in the second proceeding who was neither a party nor relied on the assertions made in the first.⁵⁷

To illustrate, in *King v. Herbert J. Thomas Memorial Hospital*, the court applied judicial estoppel to prevent King from arguing that she was able to do the job from which respondent hospital had discharged her.⁵⁸ King had previously applied for and been awarded Social Security disability benefits, based on the determination that King suffered a physical disability dating to a week before her dismissal.⁵⁹ The Fourth Circuit affirmed the lower courts finding that King’s discrimination claim was judicially estopped because her statements to the Social Security Administration about her disability were inconsistent with the requirement under West Virginia employment discrimination law that a plaintiff establish she was “able and competent to perform the services required” at the time of discharge.⁶⁰ Similarly, in *McNemar v. Disney Store, Inc.*, an HIV-positive former employee of respondent was not permitted to bring a discrimination suit

⁵⁶ *New Hampshire v. Maine*, 532 U.S. at 749 (citing Wright, Miller & Cooper, *Federal Practice and Procedure: Jurisdiction 2d* § 4477 at 782 (1981)).

⁵⁷ See *Burne v. Pemco Aeroplex, Inc.*, 291 F.3d 1282, 1286 (11th Cir. 2002) (stating that “numerous courts have concluded, and we agree, that ‘while privity and/or detrimental reliance are often present in judicial estoppel cases, they are not required’”) (citing *Ryan Operations G.P. v. Santiam Midwest Lumber Co.*, 81 F.3d 355, 360 (3d Cir. 1996)); *Edwards v. Aetna Life Ins. Co.*, 690 F.2d 595, 598 (6th Cir. 1982); *Bank of Heflin v. Landmark Inns of America*, 604 F.2d 354, 355-56 (5th Cir. 1979); Wright, Miller & Cooper, *Federal Practice and Procedure: Jurisdiction 2d* § 4477 at p. 615-17 (2002).

⁵⁸ 159 F.3d 192, 194-95 (4th Cir. 1998).

⁵⁹ *Id.*

⁶⁰ *Id.* at 196-97.

against his former employer because he had previously filed claims for state and federal disability benefits, asserting his inability to work.⁶¹

In *Sacker v. Thorie*, as in the instant matter, the party asserting judicial estoppel was not a party in the first proceeding. In an opinion written by Judge Posner, the Seventh Circuit held that Sacker's suit was barred by judicial because he sought to "repudiate the ground on which he prevailed [in a prior suit] in order to win a subsequent suit."⁶² Unocal is pursuing the very same strategy – repudiating its past positions to improve its position in the present action. Unocal's about-face typifies the sort of questionable litigating strategy that judicial estoppel is intended to prevent. To allow Unocal to reverse its positions merely to better its chances before the Commission would mean that a party can mislead a court without repercussion.

⁶¹ 91 F.3d 610, 612-19 (3rd Cir. 1996). The *McNemar* court explicitly refused to apply an "acceptance" or "reliance" requirement. McNemar argued that "a litigant seeking to judicially estop his opponent from asserting a contrary position must show that [*inter alia*]: . . . the prior statement was accepted by a judicial tribunal." *Id.* at 617. To this argument the court simply replied "We disagree." *Id.*

⁶² *Saecker*, 234 F.3d at 1014-15.

Conclusion

Complaint Counsel respectfully requests that Your Honor, on grounds of judicial estoppel, approve the attached Order prohibiting Respondent from offering arguments or evidence contrary to the following positions it adopted in the federal patent litigation:

1. That refiners' investments in Phase 2 refinery production, from 1994 onward "locked-in" CARB and the refiners to the regulations or otherwise make it unrealistic for CARB to provide patent relief to refiners by way of amendments to CARB's regulations;
2. That 90% of the cost of Unocal's royalties is likely to be passed on to consumers in the form of higher gasoline prices; and
3. That Unocal's CARB to include T50 as a parameter in its Phase 2 specifications.

Respectfully Submitted,

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