MICHAEL J. IOANNOU (SBN 95208)
J. MARK THACKER (SBN 157182)
LITA M. VERRIER (SBN 181183)
ROPERS, MAJESKI, KOHN & BENTLEY
50 West San Fernando Street, Suite 1400
San Jose, CA 95113-2429
Telephone: (408) 287-6262
Facsimile: (408) 918-4501
Email: mioannou@rmkb.com
jthacker@rmkb.com

Attorneys for Defendants TECHNOLOGY PROPERTIES LIMITED LLC, a California limited liability company, ALLIACENSE LLC, a Delaware limited liability company; DANIEL EDWIN LECKRONE, DANIEL McNARY LECKRONE and MICHAEL DAVIS

HEINZ BINDER (SBN 87908)
BINDER & MATLER, LLP
2775 Park Avenue
Santa Clara, CA 95050
Telephone: (408)295-1700
Facsimile: (408) 295-1531
Email: Heinz@bindermalter.com

Attorneys for Defendant TECHNOLOGY PROPERTIES LIMITED LLC, a California limited liability company

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA – SAN JOSE DIVISION

CHARLES H. MOORE,

Plaintiff,

v.

TECHNOLOGY PROPERTIES LIMITED LLC, a California limited liability company; ALLIACENSE LLC, a Delaware limited liability company; DANIEL EDWIN LECKRONE, an individual; DANIEL MCNARY LECKRONE, an individual, MICHAEL DAVIS, an individual; and Does 1 through 100, inclusive,

Defendants.

CASE NO. 5:10-CV-04747-JW

DEFENDANTS' REPLY TO PLAINTIFF'S OPPOSITION TO MOTION TO COMPEL ARBITRATION

Date: **January 24, 2011**
Time: **9:00 a.m.**
Courtroom: **8 – 4th Floor**
Judge: **Hon. James Ware**

I.

INTRODUCTION

Plaintiff's reliance on the doctrines of judicial estoppel and unclean hands are entirely misplaced in the context of Defendants' motion to compel arbitration. Neither is applicable as a matter of law and based upon the factual circumstances of this case. Moreover, Plaintiff has failed to meet his burden of establishing that the arbitration provisions are procedurally and substantively unconscionable, as well as his burden to establish that the arbitration provision should not be enforced to any extent. Accordingly, Defendants' motion to compel arbitration should be granted. Plaintiff should be compelled to submit all claims asserted in this matter to arbitration, and all further proceedings in this action should be stayed pending the outcome of the arbitration.

II.

JUDICIAL ESTOPPEL IS NOT APPLICABLE

Judicial estoppel has nothing to do with Defendants' motion to compel arbitration. Plaintiff has cited no authority holding that a Defendant is necessarily precluded from seeking enforcement of an arbitration provision after having removed the action to Federal Court. Further, Plaintiff has cited no authority holding that a dispute "under" an agreement cannot include claims that "arise under" Federal patent law. Defendants were only complying with established law by initially removing this action, and then shortly thereafter filing simultaneous motions to dismiss and to compel arbitration, in advance of Plaintiff's motion to remand. To do otherwise would risk a waiver of their ability and right to raise such issues in the future. [Removal: 28 U.S.C. § 1446(b), *United Computer Systems, Inc. v. AT&T Corp.* (9th Cir. 2002) 298 Fed.3rd 756, 762; Motion to Dismiss: F.R.C.P. Rule 12(b)(6), *Philippine Airlines, Inc. v. National Mediation Board* (N.D. CA. 1977) 430 F. Supp. 426, 427; Motion to Compel Arbitration: *Spear v. California State Automobile Association* (1992) 2 Cal.4th 1035, 1043, *see also*, *Fisher v. A.G. Becker Paribas, Inc.* (9th Cir. 1986) 791 Fed.2nd 691, 694.]

Moreover, even if the doctrine of judicial estoppel applied in the context of compelling arbitration after removal to Federal Court, the doctrine cannot be applied in this case. Initially,

Plaintiff has not met his burden of proof of establishing all facts necessary for the application of the doctrine. [*See e.g., Rosenthal v. Great Western Financial Securities Corporation* (1996) 14 Cal.4th 394, 413-414.] As recognized by the United States Supreme Court in *New Hampshire v. Maine* (2001) 532 U.S. 742, 750-751, at least three factors must be considered to determine whether to apply the doctrine in a particular case:

> "First, a party's later position must be 'clearly inconsistent' with its earlier position. (Citations omitted.) Second, courts regularly inquire whether the party has 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,' (citation omitted). Absent success in a prior proceeding, a party's later inconsistent position introduces no 'risk of inconsistent court determinations,' (citations omitted), and thus poses little threat to judicial integrity. [Citations omitted.] A third consideration is 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. [Citations omitted.]"

[*See also, Countrywide Home Loans, Inc. v. Hoopai* (9th Cir. 2008) 581 Fed.3rd 1090, 1097; *United States v. Ibrahim* (9th Cir. 2008) 522 Fed.3rd 1003, 1009.]

First, and as discussed above, there is nothing "clearly inconsistent" with Defendants' removal of this action to this Court and their position that the dispute is subject to the arbitration provisions of the agreement which forms the basis for Plaintiff's claims. Defendants were required to do so or risk waiving their ability to raise such issues in the future.

Secondly, at this point in this action, Defendants have not "succeeded in persuading a court to accept [their] earlier position." [*New Hampshire v. Maine, supra*, 532 U.S. at 750-751.] Defendants have raised these issues in the alternative, and in advance of any court having previously decided any of the issues. Accordingly, there can be no "perception that either the first or the second court was misled." [*New Hampshire v. Maine, supra*, 532 U.S. at 750-751.]

Finally, there is no "advantage" to be gained under the circumstances. Plaintiff's suggestion that Defendants would somehow gain an advantage by removal to this Court is entirely without merit. In fact, Plaintiff fails to explain how this Court's review and decision with respect to Defendants' motions to dismiss and to compel arbitration would be unfairly disadvantageous to Plaintiff.

III.

THE DOCTRINE OF UNCLEAN HANDS IS NOT APPLICABLE

Similarly, the doctrine of unclean hands is not applicable. Plaintiff has failed to cite any authority in which the doctrine of unclean hands was applied to preclude the enforcement of an otherwise valid arbitration agreement. Further, Plaintiff has failed to present any credible evidence that Defendants have engaged in any conduct warranting the application of the doctrine. Accordingly, Plaintiff has not met his burden of proof. [*See e.g., Rosenthal v. Great Western Financial Securities Corporation* (1996) 14 Cal.4th 394, 413-414.]

Plaintiff's reliance on *Fujian Pacific Electric Company Limited v. Bechtel Power Corporation* (N.D. CA. 2004) 2004 U.S. Dist. LEXIS 23472, is misplaced. In that case, the court considered the Defendant's motion to dismiss under Rule 12(b)(6), or alternatively, to stay the action pending arbitration of a related dispute. The court denied the motion to dismiss, but granted the motion to stay. The court did not discuss or otherwise consider the application of the doctrine of unclean hands, nor was the issue raised by any of the parties.

Similarly, *Blain v. Doctor's Company* (1990) 222 Cal.App.3rd 1048, 1052, is not applicable. The *Blain* court considered "whether the doctrine of unclean hands precludes an action for legal malpractice predicated upon injuries caused when [the plaintiff], a physician-defendant in a medical malpractice action, followed the advice of his lawyer to lie at a deposition." The enforceability of an arbitration agreement was not an issue, or discussed by the court in any respect. Further, in *Peregrine Funding, Inc. v. Sheppard Mullin Richter & Hampton, LLP* (2005) 133 Cal.App.4th 658, 665, the court considered the application of the doctrine of unclean hands in the context of the defendant's special motion to strike the complaint under California Code of Civil Procedure section 425.16(b)(1). Specifically, the court considered whether a bankruptcy trustee's claims on behalf of the corporate plaintiff were barred by the equitable doctrine of unclean hands as a result of the corporation's prior misconduct being imputed to the trustee. [*Id.* at 679.] The decision had nothing to do with the enforceability of an arbitration agreement.

Although Plaintiff complains that Defendant TPL "caused the American Arbitration

Association to vacate its hearing date, and eventually to dismiss the arbitration," in fact, Plaintiff sought and obtained the dismissal. Plaintiff filed a motion seeking "interim relief" seeking suspension and dismissal. As the Panel stated in its order, "both party's [sic] clearly express their desire and intent that the scheduled February 8th, 2010 through February 12th, 2010 arbitration hearing be vacated, and that this matter suspended [sic], and, perhaps, be dismissed." [Decl. D. Leckrone, Exhibit "B," and ¶ 10.] Further, it was Plaintiff and not TPL that failed to pay his share of arbitration fees. In ruling on Plaintiff's motion, the Panel suspended the proceeding for six months, stating that it would be dismissed unless the parties deposited the required arbitration fees within the six-month period. Although the Panel extended the deadline once, Plaintiff refused to agree to a further extension, and informed the Panel that he would not pay his share of the fees, recognizing that TPL had already paid its share. [Decl. D. Leckrone, Exhibit "C" and "D," and ¶ 10.] Clearly, Plaintiff's statements to the contrary are an obviously misrepresentation.

Moreover, Plaintiff's conclusory allegation that TPL acted in bad faith equally lacks any credibility. In fact, it was Plaintiff who adopted the "scorched earth" tactics that resulted in TPL incurring substantial fees and expenses that were entirely unnecessary and inappropriate. Further, TPL made every effort to comply with Plaintiff's document production demands and auditors' requests. [Decl. D. Leckrone, ¶¶ 9 through 12.]

Plaintiff's claims of "unclean hands" are entirely lacking in merit. In fact, it is clear that it was Plaintiff who participated in the prior arbitration in bad faith. Accordingly, Defendants' motion should be granted.

IV.

THE ARBITRATION PROVISION IS NOT UNCONSCIONABLE, AND THEREFORE SHOULD BE ENFORCED.

As Plaintiff recognizes, **both** procedural and substantive unconsionability are required for a court to deny enforcement of an arbitration provision. [*Armendariz v. Foundation Health PsychCare Services, Inc.* (2000) 24 Cal.4th 83, 114.] Again, Plaintiff has not met his burden of establishing that the ComAg is unconscionable in any respect. [*See e.g., Rosenthal v. Great Western Financial Securities Corporation* (1996) 14 Cal.4th 394, 413-414.]

Plaintiff's arguments that the ComAg is unconscionable because it was allegedly presented on a "take-it-or-leave-it" basis is without merit. [Decl. D. Leckrone, ¶¶ 3 through 8.] As an initial matter, it must be recognized that Plaintiff has presented no **credible** evidence to support this contention. Plaintiff's own declaration entirely lacks credibility of other substantial issues, and therefore, is similarly lacking in credibility on this issue.

In any event, "oppression" does not result solely from "take-it-or-leave-it" circumstances unless the party challenging the arbitration provision had no alternative source. [*Dean Witter Reynolds, Inc. v. Superior Court* (1989) 211 Cal.App.3d 758, 771-772 (holding that "the 'oppression' factor of the procedural element of unconsionability may be defeated if the complaining party has a meaningful choice of reasonably available alternative sources of supply from which to obtain the desired goods and services free of the terms claimed to be unconscionable.")] Plaintiff has presented no evidence to establish this required element. Moreover, given the nature of the relationship between Plaintiff and TPL, Plaintiff could not possibly meet this requirement.

Furthermore, Plaintiff's own allegations in his complaint establish the implausibility of his claims in this regard. The Commercialization Agreement contains three provisions under the heading "Independent Advisor" that eliminate any semblance of plausibility of the alleged attorney-client relationship. These provisions state as follows:

> 12.1 TPL and its representatives have prepared this ComAg at the request of CHM [i.e., Moore] and neither TPL nor its representatives have for any purpose undertaken the representation of or entered into a lawyer/client relationship with CHM or any of its representatives."
>
> 12.2 CHM releases, acquits, and agrees to hold TPL and its representatives harmless with respect to all claims of whatsoever kind or nature related to the preparation, execution, and delivery of this ComAg.
>
> 12.3. CHM has sought and received the advice of independent counsel and is in no way relying on any advice or representations of TPL or its representatives. [Decl. D. Leckrone (submitted in support of Defendants' Motion to Dismiss), Exhibit "A," sections 12.1, 12.2, and 12.3 (pp. 7-8).]

Plaintiff refers only generally to section 12.3 in his complaint, without any explanation as to why

he would have signed the agreement if such provisions were not accurate or acceptable. Interestingly, Plaintiff does not allege that he raised with Mr. Leckrone either of the other sections which should have created substantial concern on his part if he truly believed an attorney-client relationship existed. In fact, Plaintiff admits that he reviewed **every** page and initialed each one, and further reviewed the agreement with his wife in his home outside the presence of "Attorney Leckrone." [Complaint, ¶¶ 27 and 28.] Clearly, if Plaintiff had actually believed that an attorney-client relationship had existed as alleged, these provisions would have created substantial concern on his part sufficient to result in more than just a generalized statement that he lacked the resources to hire independent counsel. Plaintiff's declaration does not provide any further explanation or assistance.

Plaintiff's argument concerning the substantive unconsionability of the contract is equally without merit. Plaintiff has provided only speculation about the possible application of the arbitration provision. Plaintiff's conclusory claims that TPL would have no reason to initiate arbitration proceedings ignores the substantial obligations imposed on Moore under the ComAg. For example, Plaintiff must cooperate in the commercialization efforts of TPL; provide TPL with a license and assignment; provide TPL with all leads, information and materials related to MMP applications; provide its "best efforts" regarding the SER Development Programs; has made significant representations and warranties concerning the ownership of the licensed technology; and has incurred indemnification obligations. [Decl. D. Leckrone (submitted in support of Defendants' Motion to Dismiss), Exhibit "A," sections 1.1, 1.2, 2.2, 2.3, 3.4, 4.1, 13.1, and 15.2.]

Moreover, Plaintiff has cited no legal authority to support his arguments. The arbitration provision does not limit the claims that Plaintiff may assert, nor does it exempt the claims that TPL may assert. Further, the provision does not limit the damages or relief that Plaintiff may seek. In fact, it should be noted that the cost allocation provision about which Plaintiff complains is merely a reflection of, and consistent with, other non-arbitration related provisions in the ComAg. [Decl. D. Leckrone, ¶ 9.]

Accordingly, there is no basis for a finding that the arbitration provision is unconscionable or unenforceable in any respect.

V.

PLAINTIFF'S DEFENSES MUST BE DECIDED BY THE ARBITRATOR.

When the challenges asserted to avoid arbitration amount to defenses to the contract as a whole, the arbitrator must decide the issue. [*Buckeye Check Cashing, Inc. v. Cardegna* (2006) 546 U.S. 440, 444-446.] Plaintiff's arguments are in fact defenses to the ComAg as a contract. He claims that the entire agreement was presented on a "take-it-or-leave-it" basis. He complains about a cost-sharing provision that is essentially duplicated elsewhere in the agreement, i.e. Exhibit "F," Sec. I.C. [Decl. D. Leckrone, ¶ 9.] Further, a review of Plaintiff's complain confirms that his challenges to the ComAg are to the validity of the entire contract. [Complaint, ¶¶ 21 through 28, and Causes of Action 1 though 5 (Cancellation, Rescission, and Fraud).]

Accordingly, Defendants' motion should be granted.

VI.

TO THE EXTENT ANY PART OF THE ARBITRATION PROVISION IS DETERMINED TO BE UNENFORCEABLE, THAT PORTION SHOULD BE SEVERED AND THE REMAINDER ENFORCED.

California Civil Code section 1670.5(a) provides:

> If the court as a matter of law finds the contract or any clause of the contract to have been unconscionable at the time it was made, the court may refuse to enforce the contract, or it may enforce the remainder of the contract without the unconscionable clause, or it may so limit the application of the unconscionable clause as to avoid any unconscionable result.

[*See, also, Buckeye Check Cashing, Inc. v. Cardegna* (2006) 546 U.S. 440, 445-449 (arbitration clauses in contracts are severable and separately enforceable).]

To the extent this Court determines that any provision of the arbitration clause is unconscionable or unenforceable, that portion should be stricken and the remainder of the arbitration clause enforced. [*See, e.g., Armendariz v. Foundation Health PsychCare Services, Inc.* (2000) 24 Cal.4th 83, 121-122; *Bolter v. Superior Court* (2001) 87 Cal.App.4th 900, 910-911.

VII.

CONCLUSION

Based on the foregoing, Defendants respectfully request the Court grant their motion to

compel arbitration. Plaintiff should be compelled to submit all claims asserted in this matter to arbitration, and all further proceedings in this action should be stayed pending the outcome of the arbitration.

Dated: January 3, 2011

ROPERS, MAJESKI, KOHN & BENTLEY

By: */s/ J. MARK THACKER*
MICHAEL J. IOANNOU
J. MARK THACKER
Attorneys for Defendants
TECHNOLOGY PROPERTIES LIMITED LLC, a California limited liability company, ALLIACENSE LLC, a Delaware limited liability company; DANIEL EDWIN LECKRONE, DANIEL McNARY LECKRONE and MICHAEL DAVIS