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18 Technology Properties Limited, LLC

19 UNITED STATES BANKRUPTCY COURT
20 NORTHERN DISTRICT OF CALIFORNIA, DIVISION 5

21 In re
22
23 TECHNOLOGY PROPERTIES LIMITED,
24
25 LLC, Debtor.

26 Case No: 13-51589 SLJ
27 Chapter 11

28 Date: August 10, 2016
Time: 2:00 p.m.
Place: Courtroom 3099
280 South First Street
San Jose, California

[Pleading Title]

**RESPONSE BY REORGANIZED DEBTOR TO MOTION TO
CLARIFY AND IMPLEMENT PRIOR ORDERS (DKT #743 & #744)**

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1 **I. INTRODUCTION AND SUMMARY**

2 1. Reorganized debtor Technology Properties Limited, LLC (“TPL”) and MCM Portfolio,
3 LLC (“MCM”) have survived the often tumultuous marriage of their interests in the CORE
4 Flash portfolio dating back to confirmation of the Plan¹. Tensions exist, in part, because MCM
5 has, without agreement from TPL insinuated into CORE Flash license settlements licenses of
6 the ‘549 patent when settling CORE Flash claims. The absence of a set percentage for
7 compensation to MCM for ‘549 Patent licenses and settlements has also interfered with the
8 ability of TPL and MCM to work together efficiently to generate settlements where both patents
9 are required.
10
11

12 2. There are two primary questions raised in the Motion²: (1) what are the rights of the
13 parties as regards the so-called ‘549 Patent; and (2) how should the “waterfall” set forth in
14 Exhibit “C” to the Plan be applied to divide proceeds from settlements. The answers are
15 uncomplicated: (1) MCM, without question, owns and controls the ‘549 patent; TPL has no
16 right, title or interest in it absent consent from MCM, though proceeds from it at present remain
17 outside the “waterfall”; and (2) MCM is entitled to be paid its license fee for CORE Flash
18 settlement directly from the trust account of Special Counsel but, having fired Special Counsel³
19 , it has no right to instruct that counsel what to do with proceeds, and it has no ability to refuse
20 to sign off on CORE Flash settlements or licenses going forward that TPL negotiates⁴.
21
22

23 3. The following two solutions as to the ‘549 Patent issue are under discussion. First, MCM
24 and TPL need to document agreement as to the set percentage MCM requested so that TPL can
25

26 _____
27 ¹ Joint Plan of Reorganization By Official Committee Of Unsecured Creditors and Debtor (Dated January
28 8, 2015)(the “Plan”).
² Motion to Clarify and Implement Prior Orders (Dkt #743 & #744)(the “Motion”)
³ The Simon Law Firm, P.C. (“Special Counsel”).
⁴ Plan, 42:26-43:3.

1 offer the '549 Patent to any defendant settling or party interested in acquiring a license.

2 Second, TPL and MCM can then document that MCM would be paid for any license of a '549
3 Patent "off the top" of any settlement and directly from the trust account of counsel without
4 reduction for Special Counsel's legal fees or costs.
5

6 4. As regards the waterfall, it is undisputed that MCM is at present to receive the 20% of the
7 net proceeds after the payment of (a) the estimated 15% of expenses to Alliacence, (b) the
8 estimated 15% of litigation expenses to counsel; and the estimated combined 32% of
9 contingency fees owed to special and local counsel where litigation is involved (and 5.7%
10 where no litigation is involved). A major issue remaining is how to ensure that TPL receives
11 adequate notice of and support for expenses incurred so that it is not compelled to assert control
12 over proceeds to try to protect the estate and creditors from unanticipated and potentially
13 excessive expenses.
14

15 **II. RESPONSES TO FACTUAL ALLEGATIONS**

16
17 5. TPL does not dispute the factual allegations and recitations from court-filed pleadings
18 contained in MCM's supporting Memorandum of Points and Authorities (the "MPA") from
19 1:18 to 4:1 (or the matching factual claims made in paragraphs 1-8 of the Anhalt Declaration⁵)
20 as regards the '549 Patent and how the current arrangement memorialized in the '549 Order was
21 reached. TPL acknowledges, without qualification, that it no longer has any right, title or
22 interest in the '549 Patent under the terms of the '549 Order.
23

24 6. TPL disagrees with claims made in the MPA at 4:2-9 but cannot at this time say more
25 than that. The settlement negotiations that took place with respect to Epson as to CORE Flash
26 and the related '549 Patent are confidential. They cannot be addressed or fairly countered in
27

28 ⁵ Declaration of Susan Anhalt in Support of Motion to Clarify and Implement Prior Orders (the "Anhalt Declaration").

1 public in the context of the Motion. Should a claim for damages and an actual case or
2 controversy be presented to the Court as regards the Epson (or any other) settlement, then TPL
3 will seek to have all discovery and proceedings with respect thereto conducted under seal and
4 contest inaccurate assertions vigorously. The Court should be advised that the Epson settlement
5 was concluded and is no longer at issue. Neither TPL nor Special Counsel are holding any
6 funds to disburse under the waterfall The Canon litigation does not seem to implicate the '549
7 Patent as yet but this is anticipated as was the case in the Epson and HP settlement. No other
8 litigation has yet been commenced to enforce CORE Flash IP rights.
9
10

11 7. TPL also does not dispute the statements in the MPA at 4:18-5:3 as regards the waterfall
12 and its development. TPL agrees that Exhibit "C" to the Plan represents the agreement of the
13 parties and a court-approved modification of the flow of CORE Flash proceeds under the
14 assumed Commercialization Agreement. TPL acknowledges and accepts that the waterfall set
15 forth in Exhibit "C" to the Plan is controlling as regards the proceeds from licenses and
16 settlements of CoreFlash technology. Exhibit "C" provides as follows in pertinent part:
17

18 C. Core Flash litigation proceeds:

- 19 (1) Litigation expenses (est. 15%) and contingency fee (32%) and Alliacense
20 (15%) of gross proceeds to the extent that the license isprocured by Alliacense;
21 and
22 (2) 80% retained by TPL for operations and payments to creditors and 20% to
23 Leckrone.

24 D. Core Flash non-litigation proceeds:

- 25 (1) Expenses 15%;
26 (2) Contingency atty: 5.7%;
27 (3) Alliacense: 15% of gross proceeds to the extent that the license is procured by
28 Alliacense; and
(4) 80% retained by TPL for operations and payments to creditors and 20% to
Leckrone.

1 8. The '549 Patent is not part of the waterfall. TPL agrees that, assuming it and MCM are
2 in concert as to the set percentage of proceeds for any license of CORE Flash technology that
3 also includes a '549 Patent license, MCM will be paid that percentage from the gross proceeds
4 with no deduction for legal expenses or the contingency fees of counsel. This is the case
5 because MCM terminated Special Counsel and any contingency claim Special Counsel might
6 have had, and because the '549 Patent will not be asserted as at issue in any future litigation by
7 TPL.
8

9 9. The allegations and arguments in the MPA from 5:4-28 are reflective of the desire of the
10 TPL Board to impose, through the 8 points and proposed payment protocol, some order on a
11 chaotic payment process involving expenses only estimated in the waterfall. What motivated
12 TPL was (a) the regular practice of Alliacense to present potential settlements at the last minute
13 for approval stating deals would fail if not immediately approved, and (b) send final bills for
14 services rendered with a demand that they be paid in 24-48 hours under the threat that
15 information necessary for counsel to proceed in litigation would be withheld and the refusal of
16 MCM to sign off on settlements unless bills had been paid. TPL believes that it should have not
17 less than 15-days to pay any invoice and that invoices must be sufficiently detailed to allow
18 TPL's CEO and Board to fairly assess what was done and if there has been an overcharge. TPL
19 further believes that there must be prior authorization before expenses are incurred.
20
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23 10. A final relevant concern appears in the MPA at 6:5-11, where MCM asserts that TPL has
24 demanded that MCM sign documents that are factually incorrect. Without responding to the
25 specifics of the assertion, MCM is without discretion when it comes to TPL's decisions to the
26 terms of licensing of CORE Flash technology (other than the '549 Patent). The Plan is
27 unambiguous on this point and provides as follows:
28

1 The MCM Commercialization Agreement shall be modified as
2 follows: as a condition of assumption, TPL shall, at the Effective
3 Date, reconvey all right, title and interest in the CORE Flash
4 portfolio on account of its license back to MCM. TPL will
5 continue to commercialize and negotiate licenses of CORE Flash
6 patents and technology without change. It will earn precisely the
7 same revenue it does under the current arrangement. MCM shall
8 execute license agreements at the direction of TPL, and MCM will
9 have no discretion to refuse to do so.

10 Plan, 42:26-43:3.

11 11. In the Bushnell transaction MCM refused to sign off on the settlement without certain
12 expenses being paid. TPL cannot and will not seek to compel MCM to execute documents that
13 are factually untrue and could give rise to liability for it, but it cannot allow MCM to refuse to
14 execute licenses that TPL negotiates. MCM, because it writes the licenses themselves, is a
15 scrivener subject to the exception stated in this paragraph, and the Court should find that it is
16 obligated to write licenses as directed.

17 **III. ARGUMENT**

18 A. There Is No Dispute as to What the '549 Order or Waterfall Provide.

19 12. As was set forth above, TPL acknowledges the clear terms of the '549 Order. It
20 has no right, title or interest in the '549 Patent and will not seek to negotiate licenses of it
21 without MCM's consent and has not done. Such consent is the subject of the aforementioned
22 negotiations to set a percentage for MCM in any future settlement negotiation in which a '549
23 Patent license is included. TPL also does not dispute that the waterfall in Plan Exhibit "C" is
24 controlling as to the distribution of settlement proceeds.

25 B. The Relief Requested by the Motion is Unavailable to MCM.

26 13. In the conclusion of the MPA MCM asks the Court for the following relief:
27
28

1 The Court should clarify and implement that Order by instructing
2 TPL not to further communicate with anyone about the '549
3 Patent, to abstain from efforts to license the '549 Patent and not to
4 attempt to control the disbursement of funds relating to the '549
5 Patent. ...

6 The Court should clarify and implement that Order by requiring
7 TPL promptly to disburse funds that are the subject of the
8 Commercialization Agreement in the manner provided by Exhibit
9 C to the Plan.

10 MPA, 10:2-12.

11 14. The requested "instructions" amount to injunctive relief not available to a movant
12 in a contested matter. "FRBP 7001 mandates that proceedings for injunctions or for declaratory
13 judgments be brought as adversary proceedings. FRBP 7001(7) & (9)." *Lawson v. NationsBank*
14 *Mortg. Corp. (In re Lawson)*, 2000 Bankr. LEXIS 2208, *12 (Bankr. S.D. Ga. Sept. 21, 2000).
15 Even were the Court to treat the Motion as a contested matter, it fails to meet the high
16 evidentiary and legal burdens of a moving party under Federal Rule of Bankruptcy Procedure
17 7065 for the Court to issue an injunction. Judge Peter Carroll in the case below explains why
18 this is so:

19 Rule 65(a)(1) permits the court to issue a preliminary injunction on
20 notice to the adverse party. F.R.Civ.P. 65(a) (1). "A preliminary
21 injunction is an extraordinary remedy never awarded as of right."
22 *Winter v. Natural Res. Def. Council, Inc.*, ___ U.S. ___, 129 S. Ct.
23 365, 376, 172 L. Ed. 2d 249 (2008); see *Munaf v. Geren*, 553 U.S.
24 674, 128 S.Ct. 2207, 2218-2219, 171 L.Ed.2d 1 (2008) ("A
25 preliminary injunction is an extraordinary and drastic remedy.").
26 [836] A prohibitory injunction prevents parties from taking action and
27 "preserve[s] the status quo pending a determination of the action on
28 the merits." *Chalk v. U.S. Dist. Court*, 840 F.2d 701, 704 (9th Cir.
1988); see *Heckler v. Lopez*, 463 U.S. 1328, 1333, 104 S. Ct. 10, 77
L. Ed. 2d 1431 (1983) (stating that a prohibitory injunction "freezes
the positions of the parties until the court can hear the case on the
merits").

1 To obtain a preliminary injunction, the moving party must "establish
2 that he is likely to succeed on the merits, that he is likely to suffer
3 irreparable harm in the absence of preliminary relief, that the balance
4 of equities tips in his favor, and that an injunction is in the public
5 interest." Winter, 129 S.Ct. at 374; see Sierra Forest Legacy v. Rey,
6 577 F.3d 1015, 1021 (9th Cir. 2009). "In each case, courts 'must
7 balance the competing claims of injury and must consider the effect
8 on each party of the granting or withholding of the requested relief.'"
9 Winter, 129 S.Ct. at 376 (quoting Amoco Prod. Co. v. Gambell, 480
10 U.S. 531, 542, 107 S. Ct. 1396, 94 L. Ed. 2d 542 (1987)).

11 *Official Comm. of Unsecured Creditors v. Nilson (In re Woodside Group, LLC)*, 427 B.R. 817,
12 835-836, 2010 Bankr. LEXIS 236, *48-51 (Bankr. C.D. Cal. 2010)

13 C. There is No Case or Controversy Before the Court and Therefore No Jurisdiction to Hear
14 the Motion.

15 15. As is set forth above, TPL does not dispute the terms of the '549 Order or the
16 Plan. There are no funds being withheld by TPL or its counsel. MCM is asking the Court to
17 rule on a potential dispute about a future settlement in litigation that most likely has not even
18 been filed. This suggests that there is no case or controversy before the Court and an absence of
19 subject matter jurisdiction.

20 Article III of the United States Constitution limits the
21 jurisdiction of federal courts to "cases" or "controversies," as
22 distinguished from advisory opinions. *Olin Corp. v. Consol.*
23 *Aluminum Corp.*, 5 F.3d 10, 17 (2d Cir. 1993).

24 The Declaratory Judgment Act provides that, "In a case of
25 actual controversy within its jurisdiction . . . any court of the
26 United States . . . may declare the rights and other legal
27 relations of any interested party seeking such declaration,
28 whether or not further relief is or could be sought." 28
U.S.C. § 2201(a). However, the Declaratory Judgment Act
does not—and cannot—confer subject matter jurisdiction.
E.R. Squibb & Sons, 241 F.3d at 177; *Md. Cas. Co. v. Pac.*
Coal & Oil Co., 312 U.S. 270, 272, 61 S. Ct. 510, 85 L. Ed.
826 (1941). "Subject matter jurisdiction under the
Declaratory Judgment Act is limited to an actual

1 controversy, and is coextensive with the case or controversy
2 standard embodied in Article III of the Constitution." In re
3 Quigley Co., Inc., 361 B.R. 723, 736 (Bankr. S.D.N.Y.
4 2007) (internal citations and quotations omitted). Put more
5 simply, if there is no case or controversy, the Court lacks
6 subject matter jurisdiction over the action. See, e.g., S.
7 Jackson & Son, Inc. v. Coffee, Sugar & Cocoa Exch. Inc.,
8 24 F.3d 427, 431 (2d Cir. 1994). The party seeking a
9 declaratory judgment "bears the burden of proving that the
10 Court has jurisdiction." E.R. Squibb & Sons, 241 F.3d at
11 177 (citing Cardinal Chem. Co. v. Morton Int'l, Inc., 508
12 U.S. 83,95, 113 S. Ct. 1967, 124 L. Ed. 2d 1 (1993)).

9 An actual controversy "must be a real and substantial controversy
10 admitting of specific relief through a decree of conclusive
11 character, as distinguished from an opinion advising what the law
12 would be upon a hypothetical state of facts." Aetna Life Ins. of
13 Hartford v. Haworth, 300 U.S. 227, 241, 57 S. Ct. 461, 81 L. Ed.
14 617 (1937). According to the Supreme Court:

13 United States Dep't of the Treasury v. Official Comm. of Unsecured Creditors of Motors
14 Liquidation Co., 475 B.R. 347, 358, 2012 U.S. Dist. LEXIS 96039, *23, 2012 WL 2822547
15 (S.D.N.Y. 2012).

16 16. The citation to the In re Pegasus Gold Corp., 394 F.3d 1189 (9th Cir. 2005) is
17 distinguishable. In that case the Court was faced with a dispute over proofs of claims pertaining
18 to appellee debtors' environmental clean-up obligations in the debtors' bankruptcy that was
19 settled and a subsequent filed by the debtors filed in bankruptcy court alleging contract claims
20 stemming from the State's alleged breach of the agreement. There was nothing hypothetical
21 about the claimed breach.
22

23 IV. CONCLUSION

24 17. TPL understands that it is bound by the '549 Order not to license the '549 Patent
25 without MCM's consent – something that it hopes will be forthcoming and presented to the
26 Court in a stipulation before the hearing. TPL further understands that it has to comply with the
27
28

1 waterfall set forth in Plan Exhibit "C." However, TPL must retain the prerogative to actively
2 police the expenses claimed by Alliacense, experts, and counsel and to have settlements
3 presented to it in a timely manner for review and approval, as was the procedure agreed prior to
4 confirmation. The Plan requires that MCM write the licenses TPL negotiates, and nothing in
5 the Motion should be read to change that.
6

7 For all the reasons set forth above, TPL respectfully requests that the Court deny the
8 Motion

9 Dated: July 27, 2016 SILICON VALLEY LAW GROUP
10
11 By: /s/ David V. Duperrault
12 David V. Duperrault
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14 Dated: July 27, 2016 By: /s/ Bill Bretschneider
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