THE HON. JAMES L. ROBART

IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

PHILIPS NORTH AMERICA LLC, a Delaware Company; KONINKLIJKE PHILIPS N.V., a Company of the Netherlands; and PHILIPS INDIA, LTD., an Indian Company,

Plaintiffs,

vs.

SUMMIT IMAGING INC., a Washington Corporation; LAWRENCE R NGUYEN, an individual; and DOES 1-10, inclusive,

Defendants.

Civil Action No.: 2:19-cv-01745

DEFENDANTS' RESPONSE TO COURT'S SHOW CAUSE ORDER REGARDING SCHEDULING

On November 23, 2020, the Court granted the motion filed by Defendants Summit Imaging Inc. and Lawrence R. Nguyen (together "Summit") for leave to amend their answer and affirmative defenses. As part of the order granting Summit's motion (the "Order"), the Court also directed the parties "to meet and confer and then show cause regarding whether the parties can prepare the antitrust counterclaims for trial under the current trial schedule." *See* Order (Dkt. #77), at 4. Finally, the Court lifted the stay on discovery concerning Summit's counterclaims and notified Philips that it expects Philips to respond to discovery promptly now that the stay has been lifted. Order at 4 & n.1.

Since the Court issued the Order, Summit filed its First Amended Answer, Affirmative Defenses and Counterclaims (Dkt. #84). As part of this new pleading, Summit has re-pleaded its First and Second Counterclaims for violation of the Sherman Act in response to the Court's previous order granting Summit leave to amend those claims based on an essential facility theory. Order Granting in Part and Denying in Part Plaintiffs' Motion to Dismiss Counterclaims ("Order on Counterclaims") (Dkt. #73), at 18. The amended pleading also contains the existing Third Counterclaim for copyright misuse on which the Court denied Philips' motion to dismiss. *Id*. at 21.

The newly pleaded First and Second Counterclaims (the "Sherman Act Claims") are conditional. Specifically, the Sherman Act Claims are conditional on Philips' succeeding in establishing that Summit's Adepto software is unlawful. *See* Counterclaims ¶¶27-29. Summit alleges that if Philips' claims concerning Adepto succeed, Philips' Diagnostic Software will be an essential facility needed to compete in the market for service of Philips Ultrasound Machines. Counterclaims ¶ 45. The Third Counterclaim for copyright misuse, by contrast, is not conditional. *See* Counterclaims ¶¶ 62-75.

I. The Parties Agree that Summit's Sherman Act Claims Should Be Bifurcated

The parties met and conferred on December 9, pursuant to the stipulation regarding dates (Dkt. # 79), and agreed that Summit's conditional Sherman Act claims should be bifurcated and those claims stayed until after the outcome of Philips' claims. Because the Sherman Act Claims

are conditional, the parties agree that it is most efficient to defer the trial of those claims and associated pre-trial dates until after the currently scheduled trial concludes.

Getting the Sherman Act Claims ready for trial in seven months, to be presented to a jury by July 19, 2021, would be a Herculean task, even if these claims were the only ones at issue between the parties, which they are not. As other courts have noted, "antitrust cases, by their nature, are highly complex." *See, e.g., Wal-Mart Stores, Inc. v. Visa U.S.A. Inc.*, 396 F.3d 96, 122 (2d Cir. 2005). And because the Sherman Act Claims are conditional on Philips' prevailing, all of the work getting them ready for trial would be for naught if Summit defeats Philips' claims. In the interest of judicial economy, and to mitigate large and potentially unnecessary legal expenses by both parties, bifurcation of the Sherman Act Claims makes sense.

II. Summit's Copyright Misuse Claim and Defense Should Be Tried With Philips' Claims.

During the meet and confer, the parties disagreed as to whether Summit's Third Counterclaim for copyright misuse, which is not conditional, and its companion affirmative defense (together the "Copyright Misuse Claim") should also be bifurcated. Although this issue is outside the scope of the Court's show cause order, which asked the parties about the ability to "prepare the antitrust counterclaims for trial," Philips has taken the position that the Copyright Misuse Claim should also be bifurcated with the Sherman Act Claims. Summit disagrees.

The Copyright Misuse Claim presents a different situation from the Sherman Act Claims. First, the Copyright Misuse Claim is narrower in scope than the Sherman Act Claims, and there is a substantial overlap in fact issues between Copyright Misuse and Philips' copyright-related claims, which supports trying them together. Second, because Summit asserts the Copyright Misuse Claim as a defense to Philips' claims to be tried in July, as a matter of fundamental fairness, Summit should be allowed to assert Copyright Misuse in the same trial. Finally, discovery related to the affirmative defense of Copyright Misuse was not stayed, such that the parties should be able to prepare this issue for trial by July. For these reasons, Summit proposes that the Copyright Misuse Claim move forward and be presented as part of the July trial.

A. Summit's Copyright Misuse Claim is Narrow in Scope and Has Significant Factual Overlap with Philips' Copyright-Based Claims

Copyright misuse is an equitable defense that "forbids a copyright holder from securing an exclusive right or limited monopoly not granted by the Copyright Office." *See A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1026 (9th Cir. 2001) (internal cites omitted). Copyright misuse thus prevents "copyright holders from leveraging their limited monopoly to allow them control of areas outside the monopoly." *Id.* Accordingly, copyright misuse "extends to any situation implicating 'the public policy embodied in the grant of a copyright.'" *See Disney Enters. v. Redbox Automated Retail, LLC*, No. CV 17-08655, 2018 U.S. Dist. LEXIS 69103, *17-18 (C.D. Cal. Feb. 20, 2018) (quoting *Omega S.A. v. Costco Wholesale Corp.*, 776 F.3d 692, 699 (9th Cir. 2015)).

Summit's Copyright Misuse Claim is focused on how "Philips improperly uses its claimed copyrights in the Philips Diagnostic Software to exclude competition in the market for repair and maintenance services of Philips Ultrasound Machines . . . ." Counterclaims ¶ 67. Summit alleges that Philips does this in two types of ways: (1) through the "enforcement or threatened enforcement of Philips Copyrights against Summit and other competitors," and (2) "by refusing to license the copyrights covering the Philips Diagnostic Software" to Summit and other competitors. *Id*. ¶¶ 67, 68. Accordingly, the scope of these claims is narrower than the scope of Summit's Sherman Act Claims. The more narrow focus of the Copyright Misuse Claim is further shown in the available remedies of the two claims. As this Court has noted, the remedy for a successful copyright misuse claim is limited to an order precluding enforcement of the copyright while the misuse is occurring, whereas a successful antitrust claim can result in "far greater" remedies, including treble damages. *See* Order on Counterclaims (Dkt. #73) at 20, n.6.

In addition, Philips' copyrights are already at issue in this litigation as a result of Philips' DMCA and copyright infringement claims. The Court and the jury will thus already be considering the use of these copyrights in the July trial. Although Summit's Copyright Misuse Claim is based on Philips' anticompetitive behavior, such that there will be some overlap with

factual matters in the Sherman Act Claims, the core of copyright misuse asks the Court and the jury to consider the question of whether Philips has overextended its copyrights to exclude competition in the market for service of Philips Ultrasound Machines. This question is an extension of the issues that will be argued as part of Philips' copyright-related claims in Philips' case-in-chief. A jury that is already considering Philips' copyright infringement and DMCA claims would be in the best position to resolve any factual disputes involving the misuse of those same copyrights. Because the Copyright Misuse Claim is so related to Philips' copyright and DMCA claims, bifurcating the former from the latter would not result in judicial economy as many of the same issues involving Philips' copyrights and their enforcement would be relevant in both proceedings. *See King Cnty. v. Travelers Indem. Co.*, 2015 U.S. Dist. LEXIS 107401, *5, 15 (W.D. Wash. Aug. 14, 2015) (denying bifurcation request because moving party failed to show bifurcation would promote judicial economy).

Postponing the trial of the Copyright Misuse Claim would also be fundamentally unfair to Summit. Because the claim constitutes an affirmative defense to Philips' copyright-based claims, the jury hearing Philips' case cannot render a verdict finding Summit liable on those claims without also considering whether Philips' copyright misuse bars such claims. As the Court recognized, "[a] successful copyright misuse defense precludes a copyright owner from enforcing the copyright during periods of misuse." Order on Counterclaims (Dkt. #73) at 19 (citing *Practice Mgmt. Info. Corp. v. Am. Med. Ass'n*, 121 F.3d 516, 520 (9th Cir. 1997).

B. Only Limited Additional Discovery From Philips Is Needed for the Copyright Misuse Claim

Summit only requires limited additional discovery from Philips if the Copyright Misuse Claim is tried in July. For example, Summit is awaiting discovery from Philips concerning its plans and strategies for competing with independent service organizations ("ISOs") in the market for repair of Philips ultrasound machines. Such discovery is relevant to Philips' intent to exclude ISOs from the market by, for example, refusing to license access to its Diagnostic Software to ISOs. Discovery concerning the repair market and Philips' plans and strategies for competing

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