

SUPREME COURT - STATE OF NEW YORK  
COMMERCIAL DIVISION, PART 46, SUFFOLK COUNTY

*Present:* HON. EMILY PINES  
J. S. C.

**ORDER**

[ ] FINAL  
[ x ] NON FINAL

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**MPEG LA, LLC,**

**Plaintiff,**

**-against-**

**AUDIOVOX ELECTRONICS CORPORATION and  
AUDIOVOX CORPORATION,**

**Defendants.**

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**AUDIOVOX ELECTRONICS CORPORATION,**

**Third Party Plaintiff,**

**-against-**

**ACTION ELECTRONICS CO., LTD., ACTION  
TECHNOLOGY (SHENZHEN) CO., LTD., ACTION  
INDUSTRIES (MALAYSIA) SDN BHD, SHANGHAI  
FAR YEAR TECHNOLOGY CO., LTD., ACTION ASIA  
LIMITED AND FAR YEAR (HOLDING) LTD.,**

**Third Party Defendants.**

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**INTRODUCTION**

In accordance with scheduling stipulations, signed by counsel for Plaintiff and Defendants, the Court has been presented with motions in limine on behalf of both parties

as well as opposition to each other's motions.

### **Plaintiff's Motions**

Plaintiff, MPEG LA, LLC, ("MPEG") has made five motions in limine regarding evidence it asserts should not be proffered by Defendants Audiovox Electronics Corporation and Audiovox Corporation ("AUDIOVOX") at the trial of this matter. The Court notes at the outset that many of the issues the parties seek to preclude are improperly proffered for certain purposes but can be introduced for others. Further, the court's rulings are based upon the alleged facts set forth in support of each party's arguments. In addition, the Court's denial of a particular motion in limine does not mean that the evidence is automatically admissible since some documents may require testimony of a particular witness to be relevant to the issues to be proved by either party in this case.

MPEG's first motion seeks to preclude reliance by AUDIOVOX on documents or facts unknown to it "prior to the relevant period" in support of Audiovox' defense of equitable estoppel. In support of this application, MPEG makes reference to two documents from 1997/1998 and 1995, about which, it avers, Audiovox was unaware until 2010 during discovery in this litigation. As set forth in **Gerald v Companion Life Insurance Company**, 31 AD 3d 378, 819 NYS 2d 276 (2d Dep't 2006) and **Smith v New York State Electric and Gas Corporation**, 155 AD 2d 850, 548 NYS 2d 117 (3d Dep't 1989), a party cannot demonstrate reliance upon a document or other fact (a necessary element of equitable estoppel) where the facts demonstrate that the party asserting such defense was unaware of such during the period for which it asserts the defense. Clearly, Audiovox cannot utilize documents of which it was unaware prior to the end date of MPEG's damages alleged in the equitable estoppel or waiver aspects of this case that are proceeding to trial. However, this does not prevent an Audiovox witness from discussing a document of which he or she avers she or he was aware, at any point during the relevant time period, nor does it preclude MPEG from cross-examining the witness on such issue if there is a dispute on that particular issue. Thus, the motion is granted to the extent set forth and otherwise denied.

Next, MPEG seeks to preclude Audiovox from introducing evidence concerning provisions of the July 2009 form of MPEG-2 Agreement, which altered the language of the 2003 licensing Agreement, which is the subject of this litigation. This Court has already rejected Audiovox' argument, asserted in support of its motion for Summary Judgment, that the change in the agreement demonstrated that the 2003 Agreement was either ambiguous or should have been interpreted as Audiovox argued. As set forth in **R/S Associates v New York Job Development Authority**, 98 NY 2d 771, 744 NYS 2d 358, 771 NE 2d 240 (2002), once a court determines that the terms of a contract are clear, extrinsic evidence outside the four corners of the document are inadmissible to vary the terms of the writing. Accordingly, as the Court's July 27, 2011 decision found the subject licensing Agreement is clear, evidence of the July 2009 agreement is inadmissible. This motion is granted.

MPEG also seeks to preclude evidence concerning settlement discussions and offers to compromise as a result of meetings among MPEG, Audiovox, and Audiovox' main supplier, Action, which allegedly occurred in 2008 and 2009 during the pendency of this litigation. As set forth in **Cigna Corporation v Lincoln National Corporation**, 6 AD 3d 298, 775 NYS 2d 303 (1<sup>st</sup> Dep't 2004), documents prepared and exchanged for purposes of settlement are inadmissible to prove either liability or the value of claims. **See also, CPLR § 4547.** However, a party is permitted to prove settlement in mitigation of its liability. *see, Solow Development Corporation v Fentron Architectural Metals Corp*, 194 AD 2d 420, 599 NYS 2d 237 (1<sup>st</sup> Dep't 1993). Accordingly, Audiovox will be permitted to introduce amounts actually paid by Action to MPEG to the extent that such is in support of its failure to mitigate affirmative defense.

Next, MPEG seeks to preclude evidence concerning practices or procedures utilized under patent license agreements other than the MPEG-2 License Agreement at issue in this litigation. MPEG's argument is that Audiovox refused to provide this information during discovery and, therefore, should be precluded from using it at trial. The Court agrees with

MPEG that the failure of a party to provide information in its possession acts to preclude that party from offering proof regarding that information at trial. *see, Vaz v New York City Transit Authority*, 85 AD 3d 902, 925 NYS 2d 587 (2d Dep't 2011). Based on the documents submitted, however, it appears that MPEG is seeking to preclude more than it sought in discovery, including the document demands annexed to Plaintiff's motion. Such seek documents and/or correspondence concerning Patent Licenses "(w)ith respect to any MPEG-2 Product purchased or sold by Audiovox", as well as documents and/or correspondence concerning the payment or nonpayment of Patent License royalties by Audiovox or any Audiovox Supplier, or any obligation or undertaking to pay such royalties whether in money or other consideration, "(w)ith respect to any MPEG-2 Product". The request as set forth in MPEG's Memorandum of Law does not seek other licensing agreements that do not involve MPEG-2 products. Accordingly, while the Court agrees that documents and writings sought and not provided are not to be produced at trial, those not sought before trial are not subject to any such restriction. Accordingly the motion is granted to the limited extent set forth and otherwise denied.

MPEG's fifth motion in limine seeks to preclude Audiovox from presenting evidence concerning its counsel's investigation and advice concerning MPEG's website, on the ground that when asked during several depositions of its witnesses to explain what investigations and statements they received from counsel on this subject, the information was not produced on grounds of privilege. As set forth above, a party's failure to provide information in its possession precludes it from later offering proof regarding such information at trial. *Bivona v Trump Mar Casino Resort Hotel*, 11 AD 3d 574, 782 NYS 2d 667 (2d Dep't 2004). In addition, as set forth by MPEG, a party cannot selectively claim privilege with regard to certain documents or information and then utilize other documents or information from counsel in order to aid in its assertion of an affirmative defense. *Village Board of Village of Pleasantville v Rattner*, 130 AD 2d 654, 515 NYS 2d 585 (2d Dep't 1987). However, this rule applies where such party is relying on the advice of counsel as part of its affirmative defense. *Id.* Accordingly, to the extent that such information was requested and withheld during discovery it shall not be utilized a trial. Again, however, to the extent that such information

was, in fact disclosed, and is not being relied upon for purposes of establishing Audiovox' affirmative defenses, it is not subject to preclusion on this ground. Accordingly, this motion is granted to the extent set forth and otherwise denied.

### Defendants' Motions

Audiovox, likewise, has made five motions in limine, seeking to preclude Plaintiff from offering certain evidence at trial.

Audiovox' first motion in limine seeks to preclude MPEG from offering any evidence regarding potential indemnification as a result of certain agreements between Audiovox and its suppliers. The rationale for such application is that evidence of this kind is both precluded under the **Federal Rules of Evidence** § 411 and is more prejudicial than probative as per **Federal Rules of Evidence** § 403. The Court agrees with Audiovox that the State Courts, although not bound by such rules, follow them in part. The Court of Appeals in **Salm v Moses**, 13 NY 3d 816, 890 NYS 2d 385, 918 NE 2d 897, ruled that evidence that a Defendant carries liability insurance, is generally inadmissible and not relevant to the Defendant's liability. The same reasoning applies to Plaintiff's claim of breach of contract by the Defendant herein. However, as stated by that Court, such evidence may, in fact, be admissible for other purposes. In the case at bar, the Court agrees with Defendants that evidence of such agreements is not admissible on the issue of whether or not Audiovox breached its agreement with Plaintiff. However, it may indeed be relevant to certain of Audiovox' affirmative defenses, including the credibility of Audiovox witnesses concerning justifiable reliance on conduct of the Plaintiff. Accordingly, Defendants' motion is granted to the extent set forth and otherwise denied.

Audiovox also moves to preclude MPEG from offering any evidence at trial regarding this Court's Decision rejecting the defense of patent exhaustion as applied to this case, on the ground that such is not relevant either to the claims nor to the affirmative defenses allowed by the Court. The Court agrees that either referring to the specific

contents of such Decision, which determined purely legal issues, is more prejudicial than probative. **See, People v Davis**, 43 NY 2d 17, 400 NYS 2d 735, 371 NE 2d 456 (1977). However, this general rule does not preclude the Court, in both its introductory statement as well as its ultimate instructions to the jury, to set forth what the narrow issues in the case are and to refer to the provisions of the contract that require payment by Audiovox as part of an Agreement in which MPEG grants the Defendant a license to sell MPEG-2 Decoding devices, as well as the Defendant's affirmative defenses which, if merited, would act to excuse such requirements. This ruling does not, however, permit either side to present evidence seeking to contradict the Court's clear rulings. Accordingly, to the extent set forth, the motion is granted.

Audiovox moves in its third motion in limine for preclusion of all evidence regarding MPEG's allegedly late claim that Audiovox colluded with its suppliers to underpay and under report royalties owed MPEG. Audiovox asserts that a May 11, 2011 Memorandum by MPEG in opposition to Audiovox' motion for Summary Judgment, was not set forth in MPEG's pleadings, and that MPEG has argued that such conduct cannot affect MPEG's contractual rights. However, Audiovox ignores both that the issue of collusion is in response to Audiovox' claim of equitable defenses and requires no separate pleadings and that while such may not affect the issue of contract, it may well relate to Audiovox' claims of waiver and equitable estoppel. The Court so ruled in its July 2011 determination. As set forth in **Gibson v Oswego Builders**, 87 AD 3d 1396, 930 NYS 2d 120 (4<sup>th</sup> Dep't 2011), an equitable claim may be utilized to counter recovery based upon improper conduct of the other party. Accordingly, this motion is denied. To the extent that Audiovox asserts that the e-mails referred to in its papers do not state what MPEG implies in its papers in opposition to Audiovox' motion for Summary Judgment, such can clearly be presented to the jury and the Court at trial.

Audiovox moves in its fourth motion in limine to preclude MPEG from introducing evidence of damages in excess of \$9,203,349, as sought in MPEG's Summary Judgment motion, as such are speculative and a result of MPEG's improper bookkeeping practices. This motion goes to the weight of MPEG's proof presented at trial and not to the issue of

preclusion. This is not an opportunity to argue issues which are properly for Summary Judgment and either not made or already raised and rejected as merely issues of fact by this Court. In addition, this Court permitted Audiovox to conduct the deposition of MPEG's auditor. Accordingly, the motion is denied.

Audiovox moves, in its fifth motion in limine, to preclude any evidence of Audiovox' "royalty accruals" or "royalty reserves". The so-called "royalty reserves" are described in this motion as litigation reserves to provide Audiovox with funds if it is forced to pay damages in this case and the "royalty accruals" are set forth as accounting entries which grouped all DVD sales together and were never kept on Audiovox' books as Defendant believed no liability existed on such sales. With regard to the first issue, such material, if prepared for litigation purposes only, is not admissible in evidence. **See, Erie County Industrial Development Agency v Muzynski**, 165 Misc 2d 362, 629 NYS 2d 646 ( Sup Ct Erie Co 1995). The second issue is one that may be in dispute, and may be relevant to Audiovox' affirmative defenses and, therefore, Audiovox' arguments go to its weight rather than admissibility. Again, this ruling does not prevent Audiovox from setting forth, as in its argument, that the accruals were solely for accounting purposes and were never meant as nor purported to be admissions or recognition of potential liability on its part for sales of the decoding devices. Accordingly, this motion is granted as set forth and otherwise denied.

Audiovox makes a sixth motion, not included in its original papers submitted along with its opposition to MPEG's motions in limine, seeking to preclude documents requested by Audiovox on September 15, 2011 and refused by MPEG on October 19, 2011. Accordingly, such documents were not presented until November, 2011 and relate to the payment of royalties for MPEG-2 products sold under any Polaroid brand name or manufactured by Polaroid but sold under any non-Polaroid brand name. As set forth in all prior Orders on the issue of documents not produced, such may not be produced at trial. **see, Vaz v New York City Transit Authority, supra; Bivona v Trump Mar**

**Casino Hotel, supra.** However, this Court has permitted both parties to take depositions on the eve of trial; has not precluded either party from introducing experts and/or witnesses named late in the process; and will not preclude the evidence submitted herein, to the extent it is otherwise competent and relevant to the issues presented.

This constitutes the **DECISION** and **ORDER** of the Court.

Dated: November 23, 2011  
Riverhead, New York

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**EMILY PINES**  
J. S. C.

FINAL DISP  
 NON - FINAL DISP