

1 wireless chipsets and handsets. *Id.*, Exhibit B, p. 3.

2 Qualcomm is in the business of developing and selling its own chipsets to wireless
3 handset makers. *Id.* ¶ 16. Qualcomm chipset sales are made pursuant to “Component Supply
4 Agreements,” which require that handset makers pay Qualcomm an agreed-upon price for the
5 chipsets sold by Qualcomm, and that buyer-handset makers may only incorporate the chipsets
6 purchased from Qualcomm into fully assembled handsets that are the subject of a Subscriber
7 Unit License Agreement (“SULA”) between Qualcomm and the handset maker. *Id.* ¶ 17. The
8 SULA limits the ultimate use of the chipsets “to incorporation into Qualcomm-licensed
9 handsets.” *Id.* Under the SULAs, “Qualcomm receives a royalty on the handset sale, and/or
10 other consideration. Qualcomm thereby receives both the sales price of a chipset and a royalty
11 on the handset into which the chipset is incorporated.” *Id.* ¶ 18.

12 In addition to making its own chipsets, Qualcomm is also in the business of licensing
13 a portfolio of patents to other chipset manufacturers pursuant to Application Specific
14 Integrated Circuits Patent License Agreements (“APLAs”). *Id.* ¶ 19. “An APLA between
15 Qualcomm and another chipset manufacturer typically provides the chipset manufacturer with
16 the right to make or have made its own chipsets incorporating Qualcomm’s intellectual
17 property;” and grants the chipset manufacturer the right to sell the chipsets made pursuant to
18 the license. *Id.* ¶ 20. The APLAs provide that the chipsets may only be sold to “Authorized
19 Purchasers,” which are handset manufacturers that themselves have a license from Qualcomm
20 through a SULA. *Id.*

21 The chipset-manufacturer licensees thus must agree, as a condition of the
22 license, to funnel chipsets sold under the license into Qualcomm’s double-
23 recovery scheme—with Qualcomm paid twice for any patents substantially
24 embodied in the APLA licensee’s chipsets. First, the chipset manufacturer pays
a royalty (or provides other consideration) under the APLA. Second, the
handset maker pays a royalty (or provides other consideration) under the SULA.

25 *Id.* ¶ 21.

26 “A basic premise of Qualcomm’s licensing model is that when Qualcomm authorizes
27 sales of chipsets—including by selling chipsets itself—no Qualcomm patents are exhausted by
28 these sales.” *Id.* ¶ 22. However, this “basic premise is false;” Qualcomm’s authorized sales
of chipsets do “exhaust all rights to all patents substantially embodied by those chipsets.” *Id.*

1 ¶ 23. Qualcomm has over-asserted its patent rights through relying on its exhausted patent
2 rights to collect royalties on chipsets, and by asserting its exhausted patent rights through
3 infringement actions against other non-Qualcomm-licensed chipset manufacturers such as
4 Broadcom. *Id.* ¶¶ 23-28.

5 Qualcomm has impermissibly broadened the scope of its patent rights, both with regard
6 to its own chipsets and with regard to other companies' chipsets incorporated into SULA-
7 licensed handsets. In so doing, Qualcomm has created anticompetitive effects in the chipset
8 and handset markets. *Id.* ¶ 29. "[A]t least certain SULA licenses contain discriminatory terms
9 that favor use of Qualcomm's chipsets over its competitors' chipsets," which "influences
10 handset manufacturers' chipset purchases, moving them away from companies such as
11 Broadcom and toward Qualcomm." *Id.* ¶ 30. Qualcomm has also "placed a cloud of potential
12 infringement claims over Broadcom's chipset business, which . . . has harmed Broadcom's
13 chipset business." *Id.* ¶ 31. "Qualcomm has presented Broadcom with an unfair and coercive
14 choice between accepting Qualcomm's chipset-manufacturer license terms – and thereby
15 participating in Qualcomm's illegal double-recovery scheme – or conducting business under
16 the shadow of potential infringement suits by Qualcomm." *Id.* ¶ 33.

17 B. Claims for Relief

18 The Complaint asserts the following claims for relief: (1) declaratory judgment of patent
19 misuse; (2) declaratory judgment of patent exhaustion; (3) declaratory judgment of patent
20 unenforceability and license unenforceability.

21 In support of the first claim for relief, the Complaint alleges that "Qualcomm has
22 engaged, and continues to engage in, misuse of the Qualcomm patents that are exhausted by
23 Qualcom-authorized sales of chipsets (including by Qualcomm itself) or handsets (by
24 Qualcomm's SULA licensees)." *Id.* ¶ 35. The first claim for relief requests a judicial
25 declaration that (1) "Qualcomm has misused its claimed patent rights to obtain market benefits
26 beyond what inheres in the statutory patent right, with significant anticompetitive effects;" (2)
27 "Qualcomm has misused, and continues to misuse, Qualcomm patents that are exhausted by
28 the sale of Qualcomm chipsets and/or exhausted by the sale of SULA-licensed handsets;" (3)

1 “the patents that are or have been substantially embodied by Qualcomm chipsets and/or
2 substantially embodied by SULA-licensed handsets” are unenforceable against Broadcom and
3 generally; and (4) the SULA license agreements are unenforceable by reason of Qualcomm’s
4 patent misuse. *Id.* ¶¶ 34-44.

5 In support of the second claim for relief, the Complaint alleges that Qualcomm makes
6 and has made exhaustion-triggering authorized sales of chipsets that substantially embody
7 Qualcomm patents, which terminate all of Qualcomm’s rights to enforce these patents against
8 those products. The second claim for relief requests a judicial declaration that (1) “those
9 Qualcomm patents substantially embodied in any chipset sold by Qualcomm are exhausted
10 upon that sale, with respect to both that chipset and any device incorporating the chipset,
11 terminating all of Qualcomm’s rights in these patents as applied to such products;” (2) “when
12 a SULA licensee sells a handset incorporating a Qualcomm-licensed chipset, such sale is
13 ‘authorized’ under the terms of the standard Qualcomm license, exhausting all Qualcomm
14 patents substantially embodied in the handset and its components (including chipsets), and
15 terminating all Qualcomm rights in these patents as applied to such products;” (3) “Qualcomm
16 cannot seek a double recovery by asserting [exhausted] patents against Broadcom for any
17 activities related to supplying chipsets to SULA-licensed handset manufacturers;” and (4) the
18 SULA license agreements are unenforceable by reason of Qualcomm’s violation of patent
19 exhaustion principles. *Id.* ¶¶ 45-52.

20 The third claim for relief requests that the Court declare that (1) “where Qualcomm has
21 over-asserted its right in exhausted patents, these same patents are generally unenforceable by
22 reason of Qualcomm’s violation of patent exhaustion principles and/or patent misuse;” and (2)
23 “the conduct alleged [in the Complain] renders Qualcomm’s SULA license agreements
24 unenforceable.” *Id.* ¶¶ 53-57.

25 C. Procedural History

26 On November 18, 2008, Qualcomm filed the Motion to Dismiss Broadcom’s Complaint
27 (“Motion to Dismiss”). On December 23, 2008, Broadcom filed a Response in Opposition to
28 the Motion to Dismiss (Doc. # 26). On February 2, 2009, Qualcomm filed a Reply (Doc. #

1 27). On February 9, 2009, the Court heard oral argument (Doc. # 28).

2 Analysis

3 Qualcomm contends that this action seeks to invoke the declaratory judgment
4 jurisdiction of this Court, and that Broadcom must therefore satisfy the Declaratory Judgment
5 Act, 21 U.S.C. section 2201, by adequately alleging a justiciable case or controversy.
6 Qualcomm contends that all of Broadcom's claims are premised on a finding that Qualcomm
7 patents related to chipsets and handsets are exhausted. Qualcomm contends that a
8 determination of patent exhaustion requires the Court to determine whether each particular
9 patent is substantially embodied in a particular product and whether the product sale was
10 authorized. Qualcomm contends that "Broadcom has made this inquiry impossible, failing to
11 specify a single device, a single patent, a single license, or a single sale." *Id.* at 16. Qualcomm
12 further contends that the Complaint does not identify a single patent that Broadcom fears might
13 be imminently asserted, a single product that Broadcom fears might be accused, or any specific
14 suit that Broadcom is threatened with. Qualcomm moves to dismiss the Complaint on grounds
15 that Broadcom fails to allege with adequate specificity a controversy of "sufficient immediacy
16 and reality to warrant the issuance of a declaratory judgment." *Mot. to Dismiss*, p. 14-15
17 (internal quotations omitted).

18 Broadcom asserts that the Complaint "easily satisfies" the standard for declaratory
19 judgment jurisdiction. *Opposition*, p. 11. Broadcom contends that it is not required to
20 specifically identify the patents which it requests the Court declare exhausted, stating that "[i]t
21 is sufficient that Broadcom has specifically identified the types of Broadcom products at issue
22 (wireless communications chipsets), and the nature of Qualcomm's potential claims (patent
23 infringement)." *Id.* at 13. Broadcom contends that "in several of [Qualcomm's] patent
24 infringement actions against Broadcom . . . , Qualcomm has asserted that Broadcom requires
25 a license to Qualcomm's patents in order to make and sell chipsets." *Id.* at 11. Broadcom
26 contends that "[a]lthough Qualcomm currently has no lawsuits pending against Broadcom,
27 Qualcomm has not suggested that it no longer believes Broadcom requires a license to its
28 patents, nor given any assurance that it will not again sue Broadcom for infringement." *Id.*

1 Broadcom contends that the “cloud of potential infringement claims against Broadcom affects
2 Broadcom’s chipset sales to handset makers” in that “[p]rospective Broadcom customers are
3 reluctant to purchase chipsets from Broadcom for fear of infringement claims against
4 Broadcom potentially affecting their supply of, and Broadcom’s technical support for,
5 Broadcom chipsets.” *Id.* at 12. Broadcom contends that “Qualcomm’s over-assertion of its
6 patent rights has increased costs to industry participants like Broadcom by reducing the supply
7 and diversity of chipsets and handsets,” and has restricted innovation in the chipset and handset
8 market. *Id.* Broadcom contends that the Complaint alleges a controversy of sufficient
9 immediacy and reality to warrant declaratory relief through allegations that Qualcomm’s
10 unlawful licensing practices result in a real risk of infringement claims against Broadcom and
11 has caused economic harm in the form of increased costs to industry participants such as
12 Broadcom and reduction in prospective Broadcom customers.

13 The Declaratory Judgment Act states that “[i]n a case of actual controversy within its
14 jurisdiction . . . any court of the United States, upon the filing of an appropriate pleading, may
15 declare the rights and other legal relations of any interested party seeking such declaration,
16 whether or not further relief is or could be sought.” 28 U.S.C. § 2201(a). The party seeking
17 relief under the Declaratory Judgment Act must demonstrate constitutional standing under
18 Article III of the United States Constitution because declaratory judgment jurisdiction extends
19 only to actual “cases or controversies.” *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118,
20 127 (2007).

21 In order to establish a case or controversy that gives rise to declaratory judgment
22 jurisdiction, “[t]he disagreement must not be nebulous or contingent, but must have taken on
23 a fixed and final shape so that a court can see what legal issues it is deciding and what effects
24 its decision will have on the adversaries.” *Veoh Networks, Inc. v. UMG Recordings, Inc.*, 522
25 F. Supp. 2d 1265, 1269 (S.D. Cal. 2007) (citing *Pub. Serv. Com. v. Wycoff Co.*, 344 U.S. 237,
26 244 (1952)). The case or controversy must be “real, substantial, and capable of specific relief
27 through a decree of conclusive character.” *Veoh Networks, Inc.*, 522 F. Supp. 2d at 1269
28 (citing *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227, 240-41 (1937)). The “question in each

1 case is whether the facts alleged, under all the circumstances, show that there is a substantial
2 controversy, between parties having adverse legal interests, of sufficient immediacy and reality
3 to warrant the issuance of a declaratory judgment.” *MedImmune*, 549 U.S. at 615 (internal
4 quotations omitted). In *Veoh Networks, Inc.*, the court held that a declaratory judgment action
5 that “generally discusses” a product, that alleges that the defendant owns unspecified
6 copyrights, and that alleges that the defendant has made unspecified threats of copyright
7 infringement litigation fails to adequately define “the nature and extent of the controversy” to
8 support declaratory judgment jurisdiction. 522 F. Supp. 2d at 1269-70. The court stated that
9 “because Plaintiff does not reference any specific copyright, even by way of example, the relief
10 requested would necessarily take the form of an advisory opinion.” *Id.*

11 The Federal Circuit has clarified that declaratory judgment jurisdiction in patent cases
12 requires a totality of the circumstances analysis, and has stated that a “patentee can cause such
13 an injury [sufficient to create a justiciable case or controversy] in a variety of ways, for
14 example, by creating a reasonable apprehension of an infringement suit, . . . demanding the
15 right to royalty payments, . . . creating a barrier to the regulatory approval of a product that is
16 necessary for marketing,” or by prior litigious conduct. *Prasco, LLC v. Medicis
17 Pharmaceutical Corp.*, 537 F.3d 1329, 1336, 1341 (Fed. Cir. 2008). Although a party need
18 not risk a suit for infringement by engaging in an activity before seeking a declaration of its
19 rights, subjective fear that a patentee will bring an infringement suit does not alone create a
20 case or controversy. “[J]urisdiction generally will not arise merely on the basis that a party
21 learns of the existence of a patent owned by another or even perceives such a patent to pose
22 a risk of infringement, without some affirmative act by the patentee.” *Prasco, LLC*, 537 F.3d
23 at 1338-39 (quoting *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372, 1380-81 (Fed.
24 Cir. 2007)).

25 The Complaint’s prayer for relief states in full:

26 Broadcom requests that the Court enter a judgment in its favor and against
27 Qualcomm as follows:

- 28
- a. Enter judgment in favor of Broadcom and against Qualcomm;
 - b. Declare exhausted the Qualcomm patents that are (or have been) substantially embodied by the chipsets that Qualcomm sells, terminating

- 1 all Qualcomm rights in these patents as applied to these products;
2 c. Declare exhausted the Qualcomm patents that are (or have been)
3 substantially embodied by SULA-licensed handsets (and their
4 components including chipsets), terminating all Qualcomm rights in these
5 patents as applied to these products (and their components, including
6 chipsets);
7 d. Declare that Qualcomm has misused, and continues to misuse, those
8 Qualcomm patents that are exhausted by the sale of Qualcomm chipsets
9 and/or exhausted by the sale of SULA-licensed handsets;
10 e. Declare unenforceable Qualcomm's patents that are exhausted by the sale
11 of Qualcomm chipsets and/or exhausted by the sale of SULA-licensed
12 handsets;
13 f. Declare that when Broadcom makes, uses, sells, offers to sell, or imports
14 (or engages in other activities involving its supply of) chipsets for
15 incorporation into SULA-licensed handsets, Qualcomm cannot assert
16 against Broadcom based on such activities any Qualcomm patents that
17 are substantially embodied by the Qualcomm-licensed handsets (and the
18 components in these handsets);
19 g. Declare that the SULA license agreements are unenforceable;
20 h. Award Broadcom its costs . . . and reasonable attorneys' fees incurred in
21 this action;
22 i. Declare this to be an exceptional case and award all proper remedies
23 . . . on this basis;
24 j. Grant such further relief as is just and proper.

25 *Complaint*, p. 13-14.

26 Each of Broadcom's grounds for declaratory relief is premised on the Court finding that
27 Qualcomm "patents that are or have been substantially embodied by the chipsets that
28 Qualcomm sells," or that are or have been "substantially embodied by SULA-licensed handsets
are exhausted." *Id.* Although Broadcom acknowledges that Qualcomm possesses thousands
of patents relating to wireless chipsets and handsets, Broadcom does not identify with any
specificity the patents which it requests that the Court declare exhausted. In order to make a
determination of exhaustion, the Court must determine that Qualcomm, the patentee,
authorized the sale of a product, in this case a chipset or handset, that "substantially embodies"
a patent. *See Quanta Computer, Inc. v. LG Elecs. Inc.*, 128 S. Ct. 2109, 2118 (2008). The
Court cannot make this determination on the facts as alleged in the Complaint because
Broadcom does not identify with any specificity a patent that was substantially embodied in
a chipset or handset, or an exhaustion triggering sale or license.


1 In addition to failing to specify which patents Broadcom requests that the Court declare
2 exhausted, the injuries alleged in the Complaint are not sufficiently concrete to create a case
3 or controversy. Although Broadcom asserts that Qualcomm's prior litigious conduct creates
4 a case or controversy, this is only one consideration in the Court's totality of the circumstances
5 analysis. Broadcom alleges that it is threatened by a cloud of potential infringement claims
6 by Qualcomm, but Broadcom fails to specify any affirmative act by Qualcomm, such as a
7 notification of Qualcomm's intent to enforce a specific patent right against Broadcom. The
8 Complaint does not allege that Broadcom purchases Qualcomm chips or sells handsets on
9 which royalties have been or will be paid, that Qualcomm has sought to require Broadcom to
10 enter into a handset license, or that Broadcom has otherwise been required to pay royalties on
11 handsets containing exhausted chips. Broadcom has failed to allege sufficient facts to claim
12 that it is required to pay royalties as a result of Qualcomm's unlawful conduct.

13 The Court finds that the Complaint fails to identify any specific patent which Broadcom
14 requests that this Court declare exhausted, and that the alleged injuries for which Broadcom
15 seeks relief are speculative. The Court has considered the totality of the circumstances and
16 concludes that the Complaint does not allege a controversy of "sufficient immediacy and
17 reality to warrant the issuance" of a far-reaching declaratory judgment premised on a finding
18 that Qualcomm's unidentified patents that are embodied in wireless chipsets and handsets are
19 exhausted. *MedImmune*, 549 U.S. at 127. The Motion to Dismiss is granted.

20 **Conclusion**

21 IT IS HEREBY ORDERED that the Motion to Dismiss (Doc. # 25) is **GRANTED**.
22 The above-captioned action is **DISMISSED without prejudice**.

23
24 DATED: March 12, 2009

25 
26 **WILLIAM Q. HAYES**
27 United States District Judge
28