

1
2
3
4
5
6
7 UNITED STATES DISTRICT COURT
8 SOUTHERN DISTRICT OF CALIFORNIA
9

10 IN RE: QUALCOMM LITIGATION

Case No.: 3:17-cv-108-GPC-MDD

11 **ORDER GRANTING QUALCOMM'S**
12 **MOTION FOR PARTIAL**
13 **DISMISSAL OF APPLE'S FIRST**
14 **AMENDED COMPLAINT AND THE**
15 **CMS' COUNTERCLAIMS**

16 **[ECF No. 616]**

17
18 Before the Court is Qualcomm's Motion for Partial Dismissal of Apple's First
19 Amended Complaint and the CMs' Counterclaims. ECF No. 616. Apple and the CMs
20 have brought 56 claims for declaratory relief relating to nine patents-in-suit. According
21 to Qualcomm, in order to streamline the issues in this litigation, Qualcomm has promised
22 Apple and the CMs that it will not assert those nine patents-in-suit. In light of that
23 promise, Qualcomm moves to dismiss the declaratory judgment claims that depend on
24 the nine patents-in-suit, asserting that the Court does not have subject matter jurisdiction
25 over such claims given that Qualcomm will not enforce those patents against Apple.

26 Apple posits that Qualcomm is just trying to avoid having its patents put to the test.
27 More relevant to this motion, Apple counters that Qualcomm's promise does not moot
28 claims such as Qualcomm's contract and tort claims or Apple's own claims against

1 Qualcomm for its unlawful business practices of seeking and obtaining licensing fees for
2 patents that are unenforceable due to exhaustion. The motion has been fully briefed and
3 the Court heard oral argument on October 26, 2018. Having reviewed the parties’
4 arguments and applicable law, the Court finds that given the language of the Covenant
5 Not To Sue, Apple and the CMs have not met their burden of demonstrating that the
6 Court continues to maintain subject matter jurisdiction over the declaratory judgment
7 claims for noninfringement, invalidity, unenforceability due to exhaustion and the
8 FRAND rates as set out in the 56 counts. Accordingly, the Court will grant Qualcomm’s
9 motion as to these 56 counts.

10 **I. BACKGROUND**

11 **A. Factual Background**

12 Qualcomm has entered into licensing agreements, called Subscriber Unit License
13 Agreements or “SULAs,” with each of the Contract Manufacturers (“CMs”). Qualcomm
14 sells baseband chips to the CMs, who build the chips into the Apple products they make
15 and sell to Apple. Pursuant to the SULAs, the CMs are required to pay upfront licensing
16 fees and also royalties to Qualcomm. Apple previously had provided the CMs with the
17 funds to pay for the entirety of the cost of the chipset and the royalties for Apple
18 products. Qualcomm claims that in 2017, Apple told the CMs that it would not make any
19 more royalty payments and that Apple instructed the CMs to withhold from Qualcomm
20 the royalties. Qualcomm Second Amended Counterclaims (“SACC”), ECF No. 469.

21 **B. Procedural History**

22 Qualcomm has brought breach of contract claims against the CMs, alleging that the
23 CMs breached the licensing agreements by failing to pay royalties, failing to cooperate
24 with Qualcomm’s royalty audits, and manipulating the sales information for the products
25 they sell. Qualcomm Compl., 3:17-cv-01010, ECF No. 1. Qualcomm also brought
26 claims against Apple arising from the SULAs. In Count I of Qualcomm’s SACC,
27 Qualcomm brings a claim for tortious interference with Qualcomm’s license agreements
28 with the CMs. SACC, ECF No. 469 at 145. Qualcomm claims that Apple has interfered

1 with the SULAs by inducing the CMs not to pay the royalties due under the license
2 agreements. *Id.* at 146. Qualcomm further alleges that Apple obstructed Qualcomm’s
3 right to audit the CMs and directed the CMs to misstate the sales information of the
4 devices sold to Apple. *Id.* ¶¶ 291, 294.

5 Apple has also brought a bevy of claims against Qualcomm based upon contract
6 law, patent law, and the UCL. Count LIX of Apple’s First Amended Complaint (“FAC”)
7 seeks a declaration of unenforceability of the patents-in-suit due to exhaustion. Apple
8 FAC, ECF No. 83 at 134. Apple claims that Qualcomm’s sale of chipsets to the CMs
9 exhausts Qualcomm’s “patent rights” with respect to all patents substantially embodied in
10 Qualcomm chipsets. *Id.* Apple contends there exists a controversy

11 regarding the exhaustion of Qualcomm’s patent rights with respect to patents
12 substantially embodied in baseband processor chipsets sold by Qualcomm to
Apple’s CMs.

13

14 To the extent that any of the Patents-in-Suit are actually essential to
15 any Apple-practiced 3G/UMTS and/or 4G/LTE standard and infringed by
16 Apple, such patents are substantially embodied in the Qualcomm baseband
processor chipsets used in Apple products and, therefore, exhausted by
Qualcomm’s authorized sales.

17 . . . Apple requests a judicial declaration that the sale of Qualcomm’s
18 baseband processor chipsets to Apple’s CMs exhausts Qualcomm’s patent
19 rights for patents substantially embodied in those chipsets, and that any of
20 the Patents-in-Suit, which are actually essential to any Apple-practiced
3G/UMTS and/or 4G/LTE standard and infringed by Apple, are
unenforceable as against Apple due to patent exhaustion.

21 *Id.* ¶¶ 590-92.

22 Apple requests a declaration that Apple does not infringe and has not infringed any
23 claim of the nine patents-in-suit.¹ Apple also requests a declaration that the nine patents-
24

25
26
27
28 ¹ Apple FAC Counts V, VIII, XI, XIV, XVII, XX, XXIII, XXVI, XXIX.

1 in-suit are invalid.²³⁴ Citing California Civil Code sections 1598-99, Count LXI of
 2 Apple’s FAC seeks a declaration that the SULAs are unenforceable as against public
 3 policy to the extent the agreements seek license fees on exhausted patents. Apple FAC at
 4 141. Count LXIII advances a claim for violation of California Unfair Competition Law
 5 (“UCL”). *Id.* at 153. Apple alleges that Qualcomm violated the UCL and engaged in
 6 unlawful conduct by “seeking and obtaining license fees . . . for patents that are
 7 unenforceable due to exhaustion.” *Id.* at 154.

8 On September 14, 2018, Qualcomm executed a covenant-not-to-sue (“Covenant”)
 9 with regard to the nine patents-in-suit. ECF No. 616-3. This Covenant states:

10 Qualcomm, for and on behalf of itself, its subsidiaries, divisions, and
 11 affiliates, as well as any of their predecessors, successors, assigns, directors,
 12 officers, employees, agents, distributors, attorneys, and representatives,
 13 hereby unconditionally and irrevocably covenants to refrain from making
 14 any claim(s) or demand(s) against Apple or the CMs or any of their parents,
 15 subsidiaries, divisions, and affiliates, as well as any of their predecessors,
 16 successors, assigns, directors, officers, employees, agents, distributors,
 17 attorneys, and representatives (collectively, “the Plaintiffs”), and all
 18 customers of each of the foregoing (whether direct or indirect), based on any
 19 possible cause of action arising under the patent laws of the United States,
 relating to any claim of the Patents-in-Suit, with respect to any product
 made, used, sold, offered for sale, or imported by the Plaintiffs, regardless of
 whether the products are made, used, sold, offered for sale, or imported
 before, on, or after the Effective Date of this Covenant.

20 *Id.*

23 ² Apple FAC Counts VI, IX, XII, XV, XVIII, XXI, XXIV, XXVII, XXX.

24 ³ The CMs also brought the same claims for declaratory relief for exhaustion, invalidity, and
 25 noninfringement. 3:17cv1010, ECF No. 88. For conciseness purposes, the Court will only refer to
 Apple’s claims, as Apple and the CMs claims are the same in substance.

26 ⁴ Apple and the CMs also requested a declaration of FRAND royalties for the nine patents-in-suit.
 27 Qualcomm moved to dismiss these declaratory judgment claims, and Apple and the CMs do not oppose
 28 dismissal of such claims. The Court will dismiss Counts VII, X, XIII, XVI, XIX, XXII, XXV, XXVIII,
 and XXXI of Apple’s FAC, and Counts XV, XVIII, XXI, XXIV, XXVII, XXX, XXXIII, XXVI,
 XXXIX of the CMs counterclaims, 3:17cv1010, ECF No. 88.

1 Qualcomm now moves pursuant to Federal Rule of Civil Procedure 12(b)(1) to
2 dismiss all of Apple’s declaratory judgment claims for non-infringement, invalidity, and
3 exhaustion. Qualcomm asserts that the Covenant eliminates the possibility that
4 Qualcomm will enforce the patents against Apple of the CMs, therefore divesting the
5 Court of subject matter jurisdiction over these declaratory relief claims.

6 **II. DISCUSSION**

7 **A. Legal Standard**

8 **1. Motions to Dismiss for Lack of Subject Matter Jurisdiction**

9 “It is a fundamental principle that federal courts are courts of limited jurisdiction.”
10 *Stock W., Inc. v. Confederated Tribes of the Colville Reservation*, 873 F.2d 1221, 1225
11 (9th Cir. 1989) (quoting *Owen Equip. & Erection Co. v. Kroger*, 437 U.S. 365, 374
12 (1978)). Under Federal Rule of Civil Procedure 12(b)(1), a party can move a court to
13 dismiss an action for lack of subject matter jurisdiction. In such a motion, the party
14 asserting jurisdiction bears the burden to establish jurisdiction. *See Kokkonen v.*
15 *Guardian Life Ins. Co. of America*, 511 U.S. 375 (1994) (“It is to be presumed that a
16 cause lies outside [federal court] jurisdiction . . . and the burden of establishing the
17 contrary rests upon the party asserting jurisdiction.”) (internal citations omitted). On a
18 motion to dismiss for lack of subject matter jurisdiction pursuant to 12(b)(1), “the district
19 court is not restricted to the face of the pleadings, but may review any evidence, such as
20 affidavits and testimony, to resolve factual disputes concerning the existence of
21 jurisdiction” without converting the motion into one for summary judgment. *McCarthy*
22 *v. United States*, 850 F.2d 558, 560 (9th Cir. 1988).

23 **2. Declaratory Judgment Jurisdiction**

24 The Declaratory Judgment Act provides that “[i]n a case of actual controversy
25 within its jurisdiction . . . any court of the United States, upon the filing of an appropriate
26 pleading, may declare the rights and other legal relations of any interested party seeking
27 such declaration, whether or not further relief is or could be sought.” 28 U.S.C. §
28 2201(a). The plaintiff seeking the declaratory judgment bears the burden of showing the

1 existence of an “actual controversy” sufficient to confer Article III jurisdiction. *Organic*
2 *Seed Growers & Trade Ass’n v. Monsanto Co.*, 718 F.3d 1350, 1354 (Fed. Cir. 2013).
3 An actual controversy must be present at all times in the litigation. *Preiser v. Newkirk*,
4 422 U.S. 395, 401 (1975).

5 To determine whether there is declaratory judgment jurisdiction, the Court assesses
6 whether “the facts alleged, under all the circumstances, show that there is a substantial
7 controversy, between parties having adverse legal interests, of sufficient immediacy and
8 reality to warrant the issuance of a declaratory judgment.” *MedImmune, Inc. v.*
9 *Genentech, Inc.*, 549 U.S. 118, 127 (2007). A litigant may not use a declaratory
10 judgment action to “obtain piecemeal adjudication of defenses that would not finally and
11 conclusively resolve the underlying controversy.” *Id.* at 128 n.7 (citing *Calderon v.*
12 *Ashmus*, 523 U.S. 740, 749 (1998)). Further, for a declaratory judgment action to satisfy
13 the case or controversy requirement, the dispute must “admi[t] of specific relief through a
14 degree of a conclusive character.” *Id.* at 127 (citing *Aetna Life Ins. Co. v. Haworth*, 300
15 U.S. 227 (1937)).

16 **B. Analysis**

17 Qualcomm contends that its Covenant moots: 1) Apple’s claim for declaratory
18 relief regarding exhaustion; 2) Apple’s claim for a declaratory judgment that the nine
19 patents-in-suit are invalid; and 3) Apple’s claim for a declaratory judgment that it does
20 not infringe on the nine patents-in-suit. “A patentee defending against an action for a
21 declaratory judgment of invalidity and unenforceability can divest the trial court of
22 jurisdiction over the case by filing a covenant not to assert the patent at issue against the
23 putative infringer with respect to any of its past, present or future acts.” *Spicy Beer Mix,*
24 *Inc. v. New Castle Beverage*, No. CV 14-00720 SJO JEMX, 2014 WL 7672167, at *5
25 (C.D. Cal. Aug. 1, 2014) (citing *Super Sack Mfg. Corp. v. Chase Packaging Corp.*, 57
26 F.3d 1054, 1058 (Fed. Cir. 1995), *overruled on other grounds, MedImmune*, 549 U.S.
27 118. “However, a covenant not to sue does not always divest the trial court of
28 jurisdiction over the case.” *Enplas Display Device Corp. v. Seoul Semiconductor Co.*,

1 *Ltd.*, No. 13-CV-05038 NC, 2015 WL 7874323, at *3 (N.D. Cal. Dec. 3, 2015).

2 “Whether a covenant not to sue will divest the trial court of jurisdiction depends on what
3 is covered by the covenant.” *Revolution Eyewear, Inc. v. Aspex Eyewear, Inc.*, 556 F.3d
4 1294, 1297 (Fed. Cir. 2009).

5 Apple responds that the Covenant is “narrow” and “carefully worded.” Apple
6 correctly notes that the Covenant prevents Qualcomm from suing for relief “under the
7 patent laws.” The Covenant therefore does not necessarily moot claims brought under
8 other areas of law. According to Apple, the Covenant does not prevent Qualcomm from
9 making claims about these patents to support Qualcomm’s demand for royalties under the
10 license agreements and from using the patents to demonstrate the value of Qualcomm’s
11 patent portfolio. Apple thus maintains that the issues of exhaustion, invalidity, and
12 noninfringement are still live controversies in this case.

13 **1. Apple’s Declaratory Judgment Claim for Exhaustion**

14 As a threshold issue to Apple’s exhaustion claim, there seems to be a dispute
15 amongst the parties as to what patents are encompassed by this claim. Apple’s position is
16 that its exhaustion claim seeks a declaration regarding the nine patents-in-suit *and* 93
17 standard essential patents (“SEPs”) that Qualcomm has disclosed in this litigation.
18 Qualcomm served opening technical expert reports opining that 93 specifically identified
19 patents are essential to 3G, 4G, and 5G standards. Apple’s Chart of Qualcomm’s
20 Opening Expert Reports, ECF No. 553-10.

21 On the other hand, Qualcomm contends that the exhaustion claim is limited to the
22 nine patents-in-suit. Qualcomm further alleges that to the extent the declaratory relief
23 claim “addressed that broad, unspecified set of patents, the claims would plainly be
24 nonjusticiable.” Reply, ECF No. 673 at 9. The Court does not find Qualcomm’s
25 argument persuasive. Apple’s position is that it seeks declaratory relief for a specific set
26 of patents: the nine patent-in-suit and the 93 SEPs that Qualcomm has specifically
27 identified.

28

1 For that reason, *Broadcom Corp. v. Qualcomm, Inc.*, No. 08cv1829 WQH(LSP)
2 2009 WL 684835 (S.D. Cal. Mar. 12, 2009), is distinguishable. In that case, Broadcom’s
3 complaint sought a judicial declaration that “the patents that are or have been
4 substantially embodied by Qualcomm chipsets and/or substantially embodied by SULA-
5 licensed handsets” are unenforceable. *Id.* at *2. The Court noted that the grounds for
6 declaratory relief was premised on the court finding that Qualcomm patents “have been
7 substantially embodied by the chipsets that Qualcomm sells,” however, Broadcom did
8 not “identify with any specificity the patents which it requests that the Court declare
9 exhausted.” *Id.* at *6. Here, however, Apple has identified 93 specific patents, and seeks
10 a declaration that Qualcomm’s sale exhausts “Qualcomm’s patents rights for” those 93
11 patents. The Court will therefore consider Apple’s claim for declaratory relief of
12 exhaustion as to seeking a declaration for the nine patents-in-suit and the 93 SEPs.

13 **a. Patent Exhaustion**

14 “The longstanding doctrine of patent exhaustion provides that the initial authorized
15 sale of a patented item terminates all patent rights to that item.” *Quanta Computer, Inc.*
16 *v. LG Elecs., Inc.*, 553 U.S. 617, 625 (2008). “Patent exhaustion is an affirmative defense
17 to a claim of patent infringement.” *Keurig, Inc. v. Sturm Foods, Inc.*, 732 F.3d 1370,
18 1373 (Fed. Cir. 2013). But it is “not a cause of action.” *ExcelStor Tech., Inc. v. Papst*
19 *Licensing GMBH & Co. KG*, 541 F.3d 1373, 1376 (Fed. Cir. 2008). Qualcomm therefore
20 contends that because it has covenanted not to sue Apple for patent infringement of the
21 nine patents-in-suit, Apple’s exhaustion declaratory judgment claim is moot. Apple
22 disagrees. Apple responds that the Covenant does not change the fact that numerous
23 disputes – the value of Qualcomm’s portfolio, whether the SULAs are enforceable, and
24 whether Qualcomm violates UCL – still depend on a finding of exhaustion.⁵

25
26
27
28 ⁵ Qualcomm’s counsel stated at the hearing on the motion that “[e]xhaustion will absolutely,
undoubtedly, be part of this trial.” Hr’g Tr., ECF No. 718 at 33.

1 **b. Enforceability of the SULAs**

2 Apple posits that Qualcomm has brought claims against Apple and the CMs that
3 depend on the threshold issue of whether the SULAs, which include the patents-in-suit,
4 are enforceable. And Apple further contends that the SULAs are unenforceable because
5 the patents are exhausted; therefore, a controversy remains as to whether these patents are
6 exhausted.

7 The claims Apple refers to are Qualcomm’s breach of contract claims against the
8 CMs for failing to pay royalties and the tortious interference claim against Apple for
9 inducing the CMs to stop paying royalties. As a defense to these claims, Apple counters
10 that the SULAs are unenforceable because the patents are exhausted. Apple Answer,
11 ECF No. 84 at 17th defense. Apple contends that Qualcomm’s sales of chipsets to the
12 CMs exhausts Qualcomm’s patent rights with respect to all patents that are substantially
13 embodied in Qualcomm’s chipsets. Apple Opp., ECF No 644 at 13. Apple takes the
14 position that it and the CMs should not owe any license fee on exhausted patents because,
15 under the doctrine of exhaustion, Qualcomm is entitled to receive only one reward for the
16 patents – either the sale of chipsets or the licensing royalty. *Id.* at 14.

17 Because Qualcomm’s SULAs demand both, so the argument goes, the SULAs are
18 unenforceable against the CMs, and Qualcomm’s breach of contract claims against the
19 CMs fail. Furthermore, Apple contends that it cannot be liable to tortious interference of
20 contract because the contract is unenforceable. Apple has taken this argument even one
21 step further and seeks restitution for the money it paid pursuant to the CMs’ license
22 agreements for patents that were purportedly exhausted. Apple FAC, ECF No. 83 at 141-
23 42.

24 In support of its position, Apple points to *Impression Products, Inc. v. Lexmark*
25 *International, Inc.*, 137 S. Ct. 1523 (2017). But a careful examination of what *Lexmark*
26 held (and did not hold) reveals that *Lexmark* is of no help to Apple here. In that case,
27 Lexmark designed, manufactured, and sold ink toner cartridges, and owned patents that
28 covered these cartridges. *Id.* at 1529. Lexmark created a “Return Program” through

1 which customers could purchase a cartridge at a lower price. *Id.* at 1530. In exchange
2 for the discount, the customer was required to sign a contract, or “single-use/no-resale
3 restriction,” agreeing to use the cartridge only once and to refrain from transferring the
4 empty cartridge to anyone but Lexmark. *Id.* Lexmark installed a microchip on each
5 Return Program cartridge that prevented reuse once the toner ran out. *Id.* However,
6 remanufacturers acquired Return Program cartridges and developed ways to get around
7 the planted microchips. *Id.*

8 Lexmark then sued one such remanufacturer, Impression Products, “for patent
9 infringement.” *Id.* Lexmark claimed that Impression Products “infringed the Lexmark
10 patents when they refurbished and resold them.” *Id.* Impression Products countered that
11 Lexmark’s sales exhausted its patent rights in the cartridges. *Id.* The Supreme Court
12 agreed, concluding that “Lexmark exhausted its patent rights in these cartridges the
13 moment it sold them.” *Id.* at 1531. The Court made sure to clarify, on the other hand,
14 that “[t]he single-use/no-resale restrictions in Lexmark’s contracts with customers may
15 have been clear and *enforceable under contract law.*” *Id.* (emphasis added). Lexmark
16 could not bring its “patent infringement suit against Impression Products to enforce the
17 single-use/no-resale provision accompanying its Return Program cartridges,” but rather,
18 “whatever rights Lexmark retained” in the sold Return Program “are a matter of the
19 contracts with its purchasers, not the patent law.” *Id.* at 1533.

20 *Lexmark* thus makes clear that sales exhausts *patent rights*, which is distinct and
21 not dispositive of *contract rights*. Lexmark brought a patent infringement claim against
22 Impression Products, with whom Lexmark had not contracted. This case is much
23 different. As Apple’s pleadings make abundantly clear, Qualcomm’s SULAs with the
24 CMs “require [the CMs] to pay upfront licensing fees and quarterly royalty payments.”
25 Apple Opp., ECF No. 644 at 3. These are contract terms. Qualcomm’s breach of
26 contract claim against the CMs, which Qualcomm contracted with, for nonpayment of the
27 royalties is just that: a claim based on contract terms and contract law and not based on
28 patent infringement. *See Kenall Mfg. Co. v. Cooper Lighting, LLC*, No. 17 C 4575, 2018

1 WL 3046935, at *5 (N.D. Ill. June 20, 2018) (“Kenall alleges that Cooper has failed to
2 make . . . royalty payments required by the License Agreement. . . . Cooper’s obligation
3 to pay certain sums as royalties at particular times is a creature of contract. . . so Kenall’s
4 remedy for nonpayment is in a breach of contract action, not a patent infringement suit.”).
5 Those contract terms also provide the foundation for Qualcomm’s tortious interference
6 claim against Apple. Under *Lexmark*, Qualcomm’s patent rights are not determinative of
7 Qualcomm’s contract rights. Apple has not demonstrated that a declaration that
8 Qualcomm’s “patent rights” were exhausted would finally and conclusively resolve
9 Qualcomm’s contract claims.

10 Notwithstanding the clarification in *Lexmark*, Apple invokes exhaustion to
11 advance other legal theories. In Count LXI of its FAC, Apple contends that under
12 California Civil Code sections 1598-99, the licensing agreements are unenforceable as
13 against public policy to the extent they seek license fees on exhausted patents. FAC at
14 141. Count LXIII of the FAC claims Qualcomm violates California UCL. FAC at 153.
15 Apple claims that Qualcomm engaged in unlawful conduct by seeking license fees for
16 patents that are unenforceable due to exhaustion. *Id.* at 154.

17 The Court is mindful that Apple, as “the party seeking to invoke the jurisdiction of
18 the federal court” for its declaratory relief claim, “has the burden of establishing that
19 jurisdiction exists.” *Data Disc, Inc. v. Sys. Tech. Assocs., Inc.*, 557 F.2d 1280, 1285 (9th
20 Cir. 1977). Apple has not shown that declaratory relief as to exhaustion would finally
21 and conclusively resolve the underlying controversy as to whether Qualcomm can
22 enforce its licensing agreements.

23 In *AbbVie Inc. v. MedImmune Ltd.*, the parties were engaged in a licensing
24 agreement governed by British law. 881 F.3d 1334, 1335 (Fed. Cir. 2018). This
25 agreement was entered into in 1995, and licensed AbbVie to practice patents, including a
26 ‘516 patent. *Id.* The agreement required AbbVie to pay royalties until the last patent
27 expired, or until fifteen years after the first commercial sale, whichever is later. *Id.*
28 AbbVie wanted to end its royalty obligations, so it sought a declaratory judgment that the

1 '516 patent was invalid. AbbVie argued that a declaration of the patent's invalidity
2 would constitute its expiration for the purposes of the agreement, thus making the royalty
3 obligations expire sooner. *Id.* MedImmune argued that the district court lacked
4 jurisdiction, and the trial court agreed. *Id.* The Federal Circuit affirmed:

5 The 1995 agreement, which is governed by British law, pegs the end of
6 AbbVie's payments to the expiration of the '516 patent. It is an open
7 question whether British courts would consider the invalidation of a patent
8 to be tantamount to its expiration for purposes of this agreement. Without a
9 resolution to this question, the parties' contractual dispute would persist.

9 *Id.* at 1338.

10 The same logic applies here. It is an open question whether California courts
11 would consider a contract unenforceable as against public policy or against UCL because
12 the contract calls for payment of royalties for exhausted patents. Without a resolution to
13 that issue, Qualcomm's breach of contract claims (and Apple's enforceability defenses to
14 such claims) would persist, even if it was declared that the patents were exhausted.
15 Assume for illustrative purposes that the Court were to enter a declaratory judgment that
16 the patents have been exhausted. That would only be one step in the process of getting to
17 the final conclusion that the SULAs are unenforceable under California law. Apple
18 would still have to show more under the facts and law to resolve the underlying
19 controversy whether the CMs are obligated to pay royalties to Qualcomm. That, by
20 definition, is piecemeal adjudication of defenses.

21 Apple has provided nothing to the Court in its opposition to demonstrate otherwise.
22 Apple repeatedly maintains in its opposition that the exhaustion issue is "relevant" to
23 other claims. But the test for declaratory judgment jurisdiction is not whether the
24 requested declaratory relief is relevant to another legal issue, but whether the declaration
25 would be of "conclusive character." In fact, Apple seems to concede that the declaratory
26 relief for exhaustion would only result in piecemeal adjudication of its public policy and
27
28

1 UCL claims.⁶ Apple asserts that if the Court “holds that Qualcomm’s patent rights are
2 exhausted, then an important predicate will be established for” Counts LXI and LXIII of
3 Apple’s FAC. Apple Reply to MSJ, ECF No. 670 at 9. In other words, only part of these
4 claims will be established, but there will not be a final and conclusive resolution. Apple
5 has not shown that a declaratory relief on the exhaustion of the patents would finally and
6 conclusive resolve whether Qualcomm can enforce the SULAs.

7 **c. FRAND**

8 Apple asserts that Qualcomm’s requests for declarations that Qualcomm complied
9 with its FRAND obligations implicate exhaustion. Count II of Qualcomm’s SACC seeks
10 a declaration that the SULAs do not violate FRAND, and Count IV seeks a declaration
11 that Qualcomm’s offer to Apple was FRAND. Apple contends that Qualcomm relies on
12 the value of its portfolio to support Qualcomm’s argument that the SULAs and offers to
13 Apple were FRAND. According to Apple, declaratory relief as to exhaustion is still
14 relevant to the dispute over whether Qualcomm has satisfied its FRAND commitments
15 because if these patents are exhausted, then Qualcomm cannot use them to show the
16 purported value of its patent portfolio.⁷

17 As Apple makes clear in its opposition, both the SULAs and Qualcomm’s offer to
18 Apple are “portfolio-driven.” Apple Opp., ECF No. 644 at 5; *see also id.* at 4 (“SULAs
19 require payment for entire portfolios”); *id.* at 5 (“Qualcomm insisted on negotiating a
20 license for all of its cellular SEPs together.”). And this portfolio consists of tens of
21 thousands of patents. Apple has not alleged, let alone shown, that declaring the nine
22

23
24
25 ⁶ With respect to Apple’s UCL claim, Apple’s counsel stated at the hearing on the motion: “If we were
26 able to prove [exhaustion], I think the rest of the proof under the UCL claim is pretty straightforward,
27 *but we would still have to go through whatever elements exist.*” Hr’g, Tr., ECF No. 718 at 21 (emphasis
28 added).

⁷ To the extent Apple attempts to bootstrap subject matter jurisdiction for its declaratory judgment
claims to Qualcomm’s FRAND declaratory judgment claims, the Court will note that Apple has taken
the position that the Court lacks subject matter jurisdiction over Qualcomm’s FRAND claim with
respect to the offer to Apple. Apple Mot. For Partial Judgment on the Pleadings, ECF No. 593-1 at 2.

1 patents-in-suit and 93 SEPs as exhausted would have any material effect on the value of
2 that large portfolio. In other words, Apple has not shown that a declaration that a
3 miniscule fraction of Qualcomm’s portfolio is exhausted would finally and conclusively
4 resolve the underlying controversy “given the limited number of patents at issue in
5 comparison with the larger portfolio of thousands of patents that are licensed under the
6 agreement.” Order, ECF No. 167 at 44. Apple has not demonstrated the Court has
7 subject matter jurisdiction over its claim for a declaratory judgment of exhaustion. This
8 claim will be dismissed.

9 **2. Apple’s Declaratory Judgment Claim for Invalidity of the Nine Patents**
10 **in Suit**

11 Apple argues that the claims for a declaratory judgment that the nine patents-in-
12 suit are invalid still remain a live controversy. Apple alleges that Qualcomm’s SULAs
13 with the CMs seek royalties for invalid patents, and that no such royalty is owed for these
14 invalid patents. Looking to the language of the SULAs, this Court has already found that
15 “the amount of royalties that the CMs owe to Qualcomm are not dependent on whether
16 the Additional Patents-in-Suit are valid or infringed.” Order, ECF No. 167 at 41. The
17 Court thus concluded that “[b]ecause the royalty rates in the SULA are not contingent on
18 patent invalidity or noninfringement, there is no case or controversy because any
19 declaration of the Nine Additional Patents-in-Suit would not conclusively resolve the
20 dispute regarding royalties owed to Qualcomm.” *Id.* at 44.

21 The Court sees no reason to depart from its previous ruling. The royalties the CMs
22 owe to Qualcomm based on the SULAs are not dependent on whether the patents-in-suit
23 are valid or not. For that reason, Apple’s reliance on *Esoterix* is misplaced, because the
24 obligation to pay royalties under the license agreement in that case “depend[ed] on
25 whether the underlying patents are valid or invalid.” *Esoterix Genetic Labs. LLC v.*
26 *Qiagen Inc.*, No. 14-cv-13228-ADB, 2016 WL 4555613, at *5 (D. Mass. Aug. 31, 2016).
27 Such is not the situation here. Apple’s argument that the CMs would not owe a royalty
28 for invalid patents is unpersuasive.

1 Apple also argues that the validity of the patents-in-suit remains a live controversy
2 because it is relevant to Qualcomm's intention to rely of the alleged value of its portfolio
3 to support Qualcomm's position that the SULAs and its offers to Apple were FRAND.
4 But similar to as discussed above, a finding of invalidity of the nine patents-in-suit would
5 not affect the legal relationship between the parties, "given the limited number of patents
6 at issue in comparison with the larger portfolio of thousands of patents that are licensed
7 under the agreement." Order, ECF No. 167 at 44. Apple does not allege, nor has shown,
8 that a finding of invalidity of the nine patents-in-suit would have any material bearing on
9 whether Qualcomm satisfied its FRAND commitments with respect to its licensing
10 agreements and offer to Apple. Apple has not met its burden of demonstrating subject
11 matter jurisdiction for the claims for a declaratory judgment that the nine patents-in-suit
12 are invalid. These claims will be dismissed without prejudice for lack of subject matter
13 jurisdiction.

14 **3. Apple's Declaratory Judgment Claim for Noninfringement**

15 Finally, Apple contends that Qualcomm's Covenant does not moot Apple's claim
16 for a declaratory judgment that it does not infringe the nine patents-in-suit. Apple argues
17 that infringement is relevant to whether Qualcomm's SULAs and offer to Apple was
18 FRAND. Apple explains that Qualcomm alleges that Apple and the CMs require a
19 license to the patents, and Qualcomm uses that allegation to support its position on the
20 value of its portfolio, which then supports its argument that the SULAs and offer to
21 Apple was FRAND. As discussed above, similar to how Apple has failed to meet its
22 burden regarding exhaustion and invalidity, Apple has not demonstrated that a
23 declaration that Apple does not infringe on the nine patent-in-suit would conclusively
24 resolve whether Qualcomm's offer of its entire portfolio is FRAND. Apple therefore has
25 not demonstrated that the Court has subject matter jurisdiction of these claims, and these
26 claims will be dismissed.

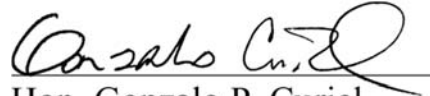
27 **III. CONCLUSION**

28 For the foregoing reasons, the Court orders that:

- 1 1. Qualcomm’s Motion for Partial Dismissal of Apple’s First Amended
2 Complaint and the CMs’ Counterclaims is **GRANTED**;
- 3 2. Counts V-XXXI and LIX of Apple’s First Amended Complaint are
4 **DISMISSED WITHOUT PREJUDICE** for lack of subject matter
5 jurisdiction; and
- 6 3. Counts XIII-XXXIX and LXVII of the Contract Manufacturers’
7 Counterclaims, ECF No. 3:17-cv-01010, are **DISMISSED WITHOUT**
8 **PREJUDICE** for lack of subject matter jurisdiction.

9 **IT IS SO ORDERED.**

10 Dated: November 20, 2018


11 Hon. Gonzalo P. Curiel
12 United States District Judge