

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

NOKIA CORPORATION,

Plaintiff,

v.

APPLE INC.,

Defendants.

C.A. No. 09-791-GMS

APPLE INC.,

Counterclaim-Plaintiff,

v.

NOKIA CORPORATION and NOKIA INC.,

Counterclaim-Defendants.

**NOKIA'S REPLY BRIEF IN SUPPORT OF NOKIA CORPORATION'S
MOTION FOR LEAVE TO AMEND COMPLAINT**

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INTRODUCTION

Apple's opposition fails because Apple has not shown that granting Nokia leave to amend would be futile, or that allowing Nokia to amend its Complaint at the outset of this action would result in undue delay or prejudice to Apple. Absent such a showing, and because leave to amend should be freely given, Nokia's Motion should be granted.

Nokia seeks leave to add a claim that Apple has repudiated its rights under Nokia's F/RAND commitments through, *inter alia*, Apple's refusal to undertake its obligation to pay F/RAND compensation to Nokia. As a result, Nokia seeks to add a claim for injunction. Nokia's Amended Complaint is based on the uncontroversial and well-established rule that a party may not claim the benefit of a commitment while simultaneously refusing to undertake any of the corresponding obligations. Nokia's allegations – which are presumed to be true at this stage of the dispute – are that Apple has repudiated any benefits to which it was entitled as a result of Nokia's F/RAND commitments.

Apple argues that adding a claim for injunctive relief would be futile because: (i) Apple has asserted that it already has a license to Nokia's essential patents, and thus Nokia may not pursue an injunction; and (ii) Nokia's claim is contrary to its allegations in a prior case, and thus Nokia is judicially estopped from asserting the claim in this case. Neither assertion has merit.

First, it is axiomatic that the admitted existence of a contract for the benefit of third parties, including Apple, is not the same as an admission that the rights and obligations stemming from that contract may never be rejected, and to the extent these obligations are accepted, the resulting contract created between the parties can never be terminated or suspended. Nokia is not taking the position that Apple would not be the beneficiary of Nokia's F/RAND undertakings and could never be licensed to Nokia's essential patents. Instead, Nokia contends that Apple's abject failure to acknowledge any payment obligation, accept Nokia's

FRAND offers, or make a F/RAND offer if it believed that Nokia's offers had not been F/RAND results in the repudiation or rejection of any rights it might otherwise have under Nokia's F/RAND commitments. The mere fact that Apple contends that it has a license with Nokia does nothing to preclude Nokia from asserting that Apple has lost those rights under Nokia's F/RAND undertakings through its conduct.

Nor is Nokia judicially estopped from asserting this claim. Judicial estoppel only applies where a party's position is irreconcilably inconsistent from a position taken in a prior lawsuit, where the new position was asserted in bad faith, and where the prior position was accepted by a court. Contrary to Apple's assertion, Nokia's position in this lawsuit is entirely consistent with its position in the *Nokia v. Qualcomm* matter. Indeed, Nokia expressly alleged in that case that a patent holder could seek an injunction in certain circumstances, such as where a manufacturer wholly ignores its payment obligation with respect to patents that are valid, infringed, and enforceable. Thus, there is no inconsistency between the two positions. There is, of course, no evidence or claim of bad faith (nor could such a claim be resolved at the pleading stage). Even if the first two requirements were met, judicial estoppel would still be inapplicable because, as Apple concedes, the *Qualcomm* court never reached a decision on Nokia's position. Judicial estoppel accordingly supplies no basis for finding the amendment futile.

Nokia also seeks to add claims for infringement of three of Nokia's implementation patents. Apple contends that doing so would be prejudicial and would result in undue delay. Nokia's motion was filed at the outset of discovery, however, and well in advance of the agreed-upon deadline for amendments to the pleadings. Accordingly, Apple will have ample opportunity to adduce evidence related to Nokia's new claims, and Apple has not explained how

adding new claims at this stage will possibly result in delay. Absent such a showing, Nokia's Motion should be granted.

ARGUMENT

I. NOKIA'S CLAIM FOR INJUNCTION IS NOT FUTILE

Apple argues that Nokia's proposed amended complaint is "futile" because Nokia's claim for injunctive relief cannot be sustained. Apple's argument is based both on a misreading of Nokia's complaint and a misunderstanding of the applicable law.

A. Apple Mischaracterizes Nokia's Repudiation Allegations

Apple's opposition rests on a basic misinterpretation of Nokia's Amended Complaint. Nokia's claim is based on the unremarkable proposition that a party may not claim the benefit of a commitment while simultaneously refusing to undertake any of the corresponding obligations. *See PAMI-LEMB I Inc. v. EMB-NHC, L.L.C.*, 857 A.2d 998, 1014-15 (Del. Ch. Ct. 2004); Restatement (Second) of Contracts § 306 cmt. b (1981); *see also Bahamas Paper Co. v. Imperial Packaging Corp.*, 58 F.R.D. 355, 357 (S.D.N.Y. 1973) (finding that once a party has repudiated the benefits of a license agreement, it has relinquished the fruits of that agreement and exposed itself to the risk of injunction).

Apple contends that because Nokia has acknowledged that it made irrevocable F/RAND commitments to ETSI and IEEE, Nokia is now barred from seeking injunctive relief against Apple based on the existence of an irrevocable license between Nokia and Apple. For this to be true, Nokia must also have conceded that Apple could never reject its rights under Nokia's F/RAND undertakings, and – even if Apple accepted the obligations resulting from those undertakings, which it has not done – the resulting contract could *never* be suspended or terminated, regardless of Apple's refusal to fulfill its obligations. Put another way, Apple

wrongly assumes that because Nokia has made a commitment to license, Apple is free to ignore its own obligations without putting its entitlement to a license under any risk.

Nokia's allegations are clear. Nokia alleges that as a result of its F/RAND commitments, "Apple has the corresponding right to claim licenses on F/RAND terms on the basis of Nokia's undertakings" (First Amended Complaint ("FAC") ¶ 52, D.I. 67 Ex.1). Yet "in return for the right to practice the standard under the essential IPRs, implementing manufacturers have the obligation to pay F/RAND compensation for the IPR used" (*id.* at ¶ 49). Apple has repeatedly ignored this obligation, refusing to (i) accept Nokia's FRAND offers; (ii) pay Nokia any compensation for Apple's use of the Essential Patents-in-Suit; (iii) offer to pay Nokia F/RAND compensation for Apple's use of the Essential Patents-In-Suit; (iv) pay into escrow what Apple believes in good faith to be a F/RAND royalty for Apple's use of the Essential Patents-in-Suit; (v) commit to paying F/RAND compensation for Apple's use of the Essential Patents-in-Suit (even subject to infringement, validity, and enforceability of the Essential Patents-in-Suit being reviewed by this Court); or (vi) agree to be bound by and pay any F/RAND royalty determination for Apple's use of the Essential Patents-In-Suit (even subject to infringement, validity and enforceability of the Essential Patents-In-Suit being reviewed by this Court) (*id.* ¶ 63). Because Nokia has alleged that Apple has refused to undertake the obligations associated with the F/RAND commitment, it has stated a claim for injunctive relief. The question of exactly what obligations Apple has as a result of Nokia's F/RAND commitments and whether Apple has forfeited them through its conduct are questions to be ultimately decided at trial, not at the pleading stage.

B. Nokia Has Sufficiently Pled its Repudiation Allegations

Apple next argues that Nokia's proposed amended complaint does not sufficiently allege that Apple repudiated its rights under Nokia's F/RAND commitments. Assuming, as Apple

does, that Delaware law applies to this question, Nokia’s Amended Complaint states a claim for injunctive relief based on Apple’s repudiation.¹ Under Delaware law, “repudiation is an outright refusal by a party to perform a contract or its conditions.” *CitiSteel USA, Inc. v. Connell Ltd. P’ship., Luria Bros. Div.*, 759 A.2d 928, 931 (Del. 2000). This rule is consistent with basic common law principles applied across the United States. *E.g.*, Restatement (Second) of Contracts § 306 cmt. b (1981); *see also Bahamas Paper Co. v. Imperial Packaging Corp.*, 58 F.R.D. 355, 357 (S.D.N.Y. 1973) (finding that once a party has repudiated the benefits of a license agreement, it has relinquished the fruits of that agreement and exposed itself to the risk of injunction); *Depaolo v. Deromo*, 346 Pa. 654, 659 (Pa. 1943); *County of Morris v. Fauver*, 153 N.J. 80, 97 (N.J. 1998); *Simmons v. California Inst. of Tech.*, 34 Cal. 2d 264, 275 (Cal. 1949). These cases all stand for the basic proposition that a party cannot accept the benefits of a contract (and Apple claims there is a contract here) without acknowledging the obligations.

Nokia’s Amended Complaint does nothing more than conform to this basic legal principle. Nokia specifically alleges that “[w]here, as here...a party...refuses to accept or make a F/RAND offer, refuses to participate in the negotiation process in good faith, refuses to pay royalties it deems in good faith to be F/RAND...and refuses to even concede that it has a payment obligation with respect to valid and infringed patents that are subject to F/RAND undertakings,” that party has repudiated the benefits of the commitments (FAC ¶ 10). Hence, Nokia’s proposed Amended Complaint does allege that Apple repudiated its rights under Nokia’s F/RAND commitments through outright refusal to comply with its obligations.

¹ Significantly, Apple never states what substantive law applies to this question. Apple is left in the curious position of arguing that Nokia’s complaint fails to state a claim as a matter of law, while simultaneously refusing to state *what* law governs. Nokia’s commitment to ETSI is governed by French law. Apple appears to simply assume, without explanation, that Delaware substantive law applies (Mot. at 11).

C. Nokia is Not Judicially Estopped from Seeking an Injunction

Apple next contends that adding Nokia's repudiation allegations would be futile because Nokia is judicially estopped from asserting them. The Third Circuit has found that in order to apply the doctrine of judicial estoppel, three conditions must be satisfied. First, the party to be estopped must have taken two positions that are "irreconcilably inconsistent." *Montrose Med. Group Participating Sav. Plan v. Bulger*, 243 F.3d 773, 779 (3d Cir. 2001). Second, the party must have done so in bad faith. *Id.*; see also *Krystal Cadillac-Oldsmobile GMC Truck, Inc. v. GMC*, 337 F.3d 314, 324 (3d Cir. 2003) (citations omitted) (finding that judicial estoppel "is only appropriate when the inconsistent positions are tantamount to a knowing misrepresentation to or even fraud on the court," and is therefore "to be used sparingly and only in the most egregious case."). Third, the court in the prior action must have adopted the party's position. See *New Hampshire v. Maine*, 532 U.S. 742, 749-50 (2001). This requirement exists because judicial estoppel is designed to protect the integrity of the judicial process:

[C]ourts regularly inquire whether the party has succeeded in persuading a court to accept that party's earlier position, so that judicial acceptance of an inconsistent position in a later proceeding would create the perception that either the first or the second court was misled. *Absent success in a prior proceeding, a party's later inconsistent position introduces no risk of inconsistent court determinations and thus poses little threat to judicial integrity.*

Id. at 750-51 (emphasis added); see also *United States v. Pelullo*, 399 F.3d 197, 223 (3d Cir. 2005) (finding that "an integral factor justifying the application of judicial estoppel is clearly absent" where no court had accepted the party's prior argument). None of these three criteria are present in this case, much less all three.

First, Nokia's position in this case is not inconsistent with its position in a prior case. Apple specifically contends that Nokia's decision to seek injunctive relief conflicts with its prior position regarding the availability of such relief in the *Qualcomm* case. Yet Nokia's positions in

the two matters are completely consistent, as Apple acknowledges in a footnote. In the *Nokia v. Qualcomm* matter, Nokia expressly alleged that “[a]n IPR holder who has declared patents to be essential to an ETSI standard and voluntarily submitted a FRAND undertaking for such a patent is limited” may still seek injunctive relief for infringement of a valid and enforceable patent “in extraordinary circumstances” (Mot. at 12 n.7); *Nokia Corp. v. Qualcomm Inc.*, C.A. No. 2330, Pl.’s Opening Pre-Trial Brief 2 (Del. Ch. Ct. July 8, 2008). Nokia alleged that extraordinary circumstances can exist when, for example, a manufacturer completely refuses to acknowledge any payment obligation whatsoever – e.g., “where the manufacturer refuses to pay judicially determined FRAND compensation.” *Id.* In other words, Nokia has consistently taken the position that a patent holder can seek an injunction in those rare circumstances where a manufacturer, such as Apple, wholly refuses to fulfill, or even acknowledge the existence of, its payment obligations. Thus there is nothing remotely inconsistent – much less “irreconcilably inconsistent” – about Nokia’s allegations in its Amended Complaint. Nor has Apple alleged that Nokia intentionally reversed its position on this topic in bad faith.

Even if Nokia had taken inconsistent positions (and it has not), the doctrine of judicial estoppel would still be inapplicable, because no court adopted Nokia’s arguments in the *Qualcomm* dispute. As Apple grudgingly admits, the *Qualcomm* court never had an opportunity to accept Nokia’s arguments regarding the availability of injunctive relief with respect to a F/RAND commitment, because the matter settled before a ruling was issued (Mot. at 14). Accordingly, there can be no argument that judicial integrity would be threatened by the assertion of Nokia’s claim for injunctive relief, even if it were inconsistent with Nokia’s previous position. And in light of the consistency of the two positions, as well as the Third Circuit’s unequivocal instruction that judicial estoppel is “to be used sparingly and only in the most

egregious case,” there can be no credible argument for its application in this case. *Krystal*, 337 F.3d at 324.

II. ALLOWING NOKIA TO ASSERT THREE NEW INFRINGEMENT CLAIMS WILL NOT RESULT IN PREJUDICE OR UNDUE DELAY

Apple’s last argument is that Nokia should not be allowed to add infringement claims because doing so will cause undue delay and prejudice Apple. None of Apple’s assertions in this regard has merit. In order for it to show prejudice, Apple “must show that it was so unfairly disadvantaged that it was deprived of the opportunity to present facts or evidence.” *Bechtel v. Robinson*, 886 F.2d 644, 652 (3d Cir. 1989). Yet discovery in this case has just begun. The parties have yet to exchange documents, and no depositions have been scheduled. There can be no credible argument – nor does Apple even attempt to advance one – that Apple will be unable to adduce evidence related to the three new patents given the early stage of this case. *See Novo Liquidating Trust v. Forval*, 312 B.R. 258, 261 (Bankr. Ct. Del. 2004) (allowing amendment of the complaint ten months after the filing of the initial complaint and after the start of discovery, noting that “discovery is not complete in this case, so any additional discovery should not be burdensome”).

Nor can there be a credible argument for undue delay. The parties agreed to a Scheduling Order that gives the parties until August 30, 2010 to amend their pleadings and add new claims (D.I. 42 ¶ 2). Apple never explains how an amendment filed over a month before this agreed-upon deadline could result in undue delay.² Apple resorts to vague claims that motion and trial

² Apple’s claims regarding undue delay are likewise undermined by Apple’s efforts to consolidate this action with three other lawsuits, which would expand the scope of the proceedings to deal with 44 patents, including patents owned by Nokia, Apple, and High Tech Computer Corporation, as well as six additional non-patent claims. Apple dips deep into its store of *chutzpah* to claim that such an undertaking would not create undue delay while claiming at the same time that the introduction of three implementation patents would create such complexity that they should be barred (D.I. 47).

deadlines could somehow be affected by this amendment, but given the early stage of the case, these arguments lack credibility.³

Apple finally claims that it will suffer some vague prejudice because it did not anticipate that Nokia would add implementation patent infringement claims to this lawsuit. Once again, this argument rings hollow. First, the mere fact that Apple was surprised by Nokia's new claims does not qualify as prejudice sufficient to warrant denying a motion for leave to amend. *See Le v. City of Wilmington*, No. 08-615-LPS, 2010 WL 2754253 (D. Del. July 12, 2010) ("Here, all Le offers is that the amendment unfairly surprises him. This is unpersuasive.")⁴.

Moreover, Nokia's addition of its implementation patent claims is the direct result of *Apple's* conduct in this lawsuit. Nokia's original complaint arose from a dispute caused by Apple's refusal to pay F/RAND compensation for the use of Nokia's standards-essential patents. Nokia did not bring claims based upon the infringement of implementation patents in its original complaint because it believed that the central issue was Apple's free-riding upon Nokia's standard-setting efforts. *Apple* first introduced non-essential implementation patents into the dispute through its counterclaims. Now that these issues have been introduced, Nokia should likewise have the opportunity to litigate its implementation patents. Apple's argument that it would be unfairly prejudiced by the addition of implementation patents is thus undercut by the fact that Apple itself first introduced this element into the dispute. *See Bechtel*, 886 F.2d at 652. It can hardly claim prejudice from the natural result of its own litigation strategy.

³ In addition, Apple has failed to provide a *single* substantive answer in response to Nokia's interrogatories regarding the factual basis for Apple's infringement allegations. Given this failure, it is hard to see how Nokia's amendment would delay the case.

⁴ Apple argues that during the June 3, 2010 telephonic hearing with the Court, "Nokia confirmed that the case would involve only ten Nokia patents" (Mot. at 16). In fact, Nokia stated that "the ten patents are the only patents that Nokia seeks to litigate in this case *at this point*" (*id.*) (emphasis added). Nokia did not take the position that it was irrevocably foreclosed from adding new patents.

CONCLUSION

For the foregoing reasons, Nokia's Motion should be granted.

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CERTIFICATE OF SERVICE

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