IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF WISCONSIN

APPLE INC., and NEXT SOFTWARE, INC. (f/k/a NeXT COMPUTER, INC.), Plaintiffs and Counterclaim-Defendants, v. MOTOROLA, INC. and MOTOROLA MOBILITY, INC. Defendants and Counterclaim-Plaintiffs	Case No. 10-CV-662 (BBC)

MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT OF MOTION OF PLAINTIFFS AND COUNTERCLAIM-DEFENDANTS APPLE INC. AND NEXT SOFTWARE, INC. FOR A STAY PURSUANT TO FED. R. CIV. P. 19

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I. INTRODUCTION

Plaintiffs and Counterclaim-Defendants Apple Inc. and NeXT Software, Inc. ("Apple") move for a stay of the present litigation — both of Apple's claims and also of Motorola Mobility, Inc.'s ("Motorola") counterclaims. This request is based on a fundamental loss of Motorola's patent rights arising out of one of the most significant transactions in the technology industry: the pending acquisition of Motorola by Google, Inc. ("Google"), announced on August 15, 2011.

According to the Agreement and Plan of Merger ("the Merger Agreement"),[1] Google has agreed to pay $12.5 billion, representing a 60% premium on Motorola's market valuation. Ernst Decl., Ex. 3 at 3. A driving force behind Google's extraordinary bid is its drive to acquire Motorola's patents. Ernst Decl., Ex. 2. Google stated that it was acquiring the Motorola patents to "protect" the Android ecosystem. Ernst Decl., Ex. 3.

To further its pending acquisition by Google, Motorola has surrendered critical rights in the patents-in-suit, such that Motorola no longer has prudential standing to pursue this action. According to the publicly-filed Merger Agreement, Motorola has ceded control of the most basic rights regarding the patents-in-suit. Absent Google's consent, Motorola cannot: (1) sue for infringement of its patents in any new action; (2) settle pending litigation (including this case) that would require a license to any of its patents; (3) license or sublicense its patents except in limited circumstances relating to the sale of Motorola's products; (4) assign its rights in its patents; and/or (5) grant a covenant not to sue for infringement of its patents. Ernst Decl., Ex. 1 at 34-38. Each of these rights is a significant interest affecting Motorola's right to exclude others from practicing its patents. Under well-established Federal Circuit case law, a party that lacks

[1] The Merger Agreement was made public by disclosure to the United States Securities and Exchange Commission on August 18, 2011; this disclosure is attached to the Declaration of Samuel F. Ernst ("Ernst Decl.") as Exhibit 1.

the unilateral power to exercise these rights lacks prudential standing to maintain a suit on its patents without joining the holder of the residual rights. Google must therefore be joined as a party.

This defect in Motorola's prudential standing, however, cannot be cured by the joinder of Google as a party. Google itself lacks standing under Article III of the Constitution to enforce the patents-in-suit. Google has no ownership interest in the patents. Google has no right to license, assign, or encumber the patents, and no right even to practice the patents, much less an exclusive right. Accordingly, Google is not injured if another party infringes the patents. Google only has the right to veto actions taken by Motorola with respect to the patents. On these facts, Google lacks constitutional standing to enforce the patents-in-suit and cannot be joined as a party to this action due to a lack of subject matter jurisdiction.

Google and Motorola have created an extraordinary situation. Motorola lacks prudential standing to sue by itself, and Google lacks constitutional standing to be joined as a party to the lawsuit in order to cure Motorola's defect in prudential standing. Under Rule 19, where a required party such as Google cannot be joined, the Court may either dismiss the matter or fashion appropriate relief taking into account the circumstances.

While the law is straightforward, here it must be applied to an unusual set of facts. The Court is faced with an extremely aggressive division of rights — a division of rights that was intentionally crafted by Motorola and Google to advance an enormous transaction. The wholesale surrender of Motorola's patent rights was plainly designed to protect the patent portfolio purchase that was so central to Google's $12.5 billion acquisition of Motorola.

Such a momentous business decision necessarily has consequences, particularly where it prejudices other parties. Here the prejudice to Apple is clear-cut. Apple should not have to face the threat of an injunction based on the claims of a party that now has no standing to bring those claims. Apple should not be required to litigate this case only to reach a result that may well be overturned on appeal due to the absence of prudential standing.

It may be that these defects will be cured after the Google/Motorola merger has been consummated. But it may be that no cure is effected — and in particular that there is no cure in time to matter: before a judgment is entered in this action. At present there is no way of knowing how the patent rights will be distributed. It is for this reason that Apple respectfully requests that this litigation be stayed until the acquisition has closed and the ownership of the various rights attending the patents in suit has been resolved.

A stay, which is recognized as an appropriate remedy under Rule 19(b), will avoid the prejudice to Apple of proceeding in the face of uncertainty as to the ownership of the patents-in-suit until that issue is settled between Google and Motorola after the consummation of the Merger Agreement. A stay will not indefinitely delay this action because presumably Google's and Motorola's respective rights in the patents will be clarified after the consummation of the merger. If not, questions of joinder and/or dismissal can be considered at that time. A stay, however, will make sure that a judgment is not entered in this action before the proper parties are before this Court.

A stay would not prejudice Motorola, which has already requested several extensions of deadlines in this matter. Accordingly, this Court should stay the present action until the consummation of the Google/Motorola merger and clarification of who ultimately will own the rights to the patents-in-suit.

II. FACTUAL BACKGROUND

On October 6, 2010, Motorola filed a Complaint in the International Trade Commission accusing Apple of infringement of six of its patents. Apple subsequently sued Motorola for infringement of 15 of its patents in the instant litigation, and Motorola asserted counterclaims for infringement six of its patents.[2] The parties have also asserted claims of patent infringement against each other in Case No. 10-cv-23580, in the Southern District of Florida. Apple is seeking a stay of that lawsuit concurrent with its motion to stay this lawsuit.

On August 15, 2011, Google announced its intention to acquire Motorola for $12.5 billion, a 60% premium over Motorola's market valuation. Ernst Decl., Ex. 3 at 3. According to Google's CEO, Larry Page, Motorola's patent portfolio, including the patents at issue in this litigation, was a central feature of the acquisition. He noted that the portfolio "will enable [Google] to better protect Android from anti-competitive threats from Microsoft, Apple and other companies." Ernst Decl., Ex. 2 . On the call announcing the acquisition, Motorola CEO Sanjay Jha underlined this point, pointing to Motorola's "tremendous strength … in wireless standard" patents—including, of course, the patents at issue in this matter—which will "support the Android ecosystem" through the Google/Motorola combination. Ernst Decl., Ex. 3.

Tying up Motorola's patent rights during the pendency of the acquisition was therefore a critical objective of the Merger Agreement that governs the parties' conduct between the time of their agreement to merge and the consummation of the merger. The agreement restricts Motorola's right unilaterally to exercise its patent rights during this period. Pursuant to the Merger Agreement Motorola may not take the following actions without Google's consent (which cannot be reasonably withheld) (Ernst Decl., Ex. 1 at 34):

- Section 5.01(j) prevents Motorola from <u>licensing</u>, <u>assigning</u>, <u>granting a covenant not to sue</u>, or <u>newly asserting</u> any of its patents without Google's permission. *Id.* at 36.

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[2] Motorola's patents-in-suit are U.S. Pat. Nos. 5,311,516; 5,319,712; 5,490,230; 5,572,193; 6,175,559; 6,359,898.

- Section 5.01(v) prevents Motorola from settling any existing litigation that would involve the licensing of intellectual property without Google's permission. *Id.* at 38.
- Section 3.14(c) also restricts Motorola's ability to assign rights in its patents, requiring that Motorola have the same rights in its patents "immediately following the Merger," as it had "prior to the Merger." *Id.* at 24.

There are certain immaterial limitations on Google's rights that are inapplicable here. Under Section 3.14, Google's rights do not apply to transfer of intellectual property rights that would not be viewed as material to the transaction—something that is plainly not true of any disposition of Motorola's patent assets. *Id.* at 24. Google's consent to actions under Section 5.01 may not be "unreasonably withheld"—but it is not clear what "unreasonable" means. *Id.* at 35. Similarly, Motorola can continue to provide patent rights to third parties for the purpose of those parties selling, using, or manufacturing Motorola products, an issue that bears no relation to its dispute with Apple. *Id.* at 36. But in every way that matters to this case, Motorola ceded control of its patent rights to Google.[3] Each of these Covenants is effective until the merger is consummated. *Id.* at 34.

Although the Merger Agreement provides that each party will retain the same rights in its intellectual property "immediately following the Merger" as they had prior to the merger (*id.* at § 3.14(c) at 24), it is unclear who will own the patents after the merger. Google has told the press it is entering into the merger to protect its products. Ernst Decl., Ex. 3. Motorola has not

[3] Certain of Google's rights are limited by a non-public Disclosure Letter. Ernst Decl., Ex. 1 at 34. On August 22, 2011, Apple demanded that Motorola immediately produce a copy of that letter. *Id.*, Ex. 4. On September 1, 2011, Apple met and conferred with Motorola and again demanded a copy of the Disclosure Letter. *Id.* ¶ 7. On September 2, 2011, Apple again demanded the letter. *Id.*, Ex. 5. On September 8, 2011, Apple met and conferred telephonically regarding this motion and again asked for the Disclosure Letter. *Id.* ¶¶ 10-12. Motorola has thus far refused to produce the document in response to these requests. *Id.* ¶ 15.

come forward with any collateral agreements between Google and Motorola regarding the disposition of the patents after the merger is consummated.

III. ARGUMENT

A. Constitutional and Prudential Standing Are Required to Maintain a Lawsuit for Patent Infringement

To maintain a suit for patent infringement, the plaintiff bears the burden of showing its standing. *Sicom Systems, Ltd. v. Agilent Techs., Inc.*, 427 F.3d 971 (Fed. Cir. 2005). The patent-infringement plaintiff must show two forms of standing: constitutional standing, which is required by Article III of the Constitution, and prudential standing, which is judicially imposed (also called "statutory standing"). *See, e.g.*, *Intellectual Prop. Dev., Inc. v. TCI Cablevision of Cal., Inc.*, 248 F.3d 1333, 1348 (Fed. Cir. 2001).

Constitutional standing requires three elements: (1) injury in fact; (2) a causal connection between the injury and the action of the defendant; and (3) redressability. *Id*. at 1346. In particular, the Federal Circuit has held that constitutional standing requires that a party hold one or more exclusionary rights in the patent. *Id.* at 1345. This means that, as a threshold matter, a party must be injured in some way by an act of infringement. In order to have cognizable injury, a party must have what is called an "exclusionary right." *WiAV Solutions LLC v. Motorola, Inc.*, 631 F.3d 1257, 1264-65 (Fed. Cir. 2010) ("Because the legally protected interests in a patent are the exclusionary rights created by the Patent Act, a party holding one or more of those exclusionary rights--such as an exclusive licensee--suffers a legally cognizable injury when an unauthorized party encroaches upon those rights and therefore has standing to sue."). A patent owner, for example, has constitutional standing because it is injured by uncompensated infringement. *See, e.g.*, *Grantham v. McGrew-Edison Co.*, 444 F.2d 210, 215-16 (7th Cir. 1971). Similarly, an exclusive licensee (who has paid for the right to be the only party to practice a patent) is injured if a third party then trespasses those rights and practices the patent without authorization. *Morrow v. Microsoft Corp.*, 499 F.3d 1332, 1340 (Fed. Cir. 2007) ("Parties that hold the exclusionary rights [under a patent] are often identified as exclusive licensees, because the grant of an exclusive license to make, use, or sell the patented invention carries with it the right to prevent others from practicing the invention.").

Prudential standing, on the other hand, requires that the parties holding all substantial rights in a patent be joined in a single action, such that where a plaintiff possesses fewer than all substantial rights in a patent, the holder of the remainder of the rights must be joined in the suit under Rule 19. *Id*. at 1347; *Int'l Gamco, Inc. v. Multimedia Games, Inc.*, 504 F.3d 1273, 1279 (Fed. Cir. 2007). Where, as here, a party lacks the right unilaterally to sue for infringement, to license its patents, to settle infringement suits, and the right to assign the patents-in-suit, it lacks prudential standing to sue by itself. *Sicom*, 427 F.3d at 979.

Motorola bears the burden of showing that it alone possesses both forms of standing. *Sicom*, 427 F.3d 971.

B. Motorola Lacks Prudential Standing Because it Has Given Up Critical Rights in the Patents-in-Suit

Motorola cannot demonstrate that it possesses prudential standing. To determine whether a party has prudential standing to sue by itself, courts analyze whether the plaintiff has retained all substantial rights in the patent. "To determine whether [a party holds] all substantial rights under a patent [in turn,]… a court must assess the substance of the rights transferred and the intention of the parties involved." *TCI*, 248 F.3d at 1342. Where, as here, a patent-infringement plaintiff lacks the right unilaterally to sue for infringement, to license the patent-in-suit, and the right to settle litigation on the patents-in-suit, it does not have prudential standing to sue without joining the residual holder of those rights. That is Motorola's situation.

In *Sicom*, 427 F.3d 971, the Federal Circuit held that the party alleging infringement, Sicom, lacked prudential standing to sue without joining the owner of the patent, the nation of Canada, because it lacked the right unilaterally to exercise three of the same rights that Motorola has given up here: (1) the right to license the patents; (2) the right unilaterally to sue for infringement; and (3) the right to assign the patents. The court held "[i]n light of Canada's right to permit infringement in certain cases, the requirement that Sicom [sic Canada] consent to certain actions and be consulted in others, and the limits on Sicom's right to assign its interest in the patent, we hold that the Agreement transfers fewer than all substantial rights in the patent." *Id.* at 980.

These are three of the same rights Motorola has given up here. Under Section 5.01(j) of the Merger Agreement, Motorola may not, without Google's consent, license the patents (and thereby permit infringement), initiate litigation on the patents, or assign the patents. Ernst Decl., Exhibit 1 at 36 (Motorola may not, *inter alia*, without Google's consent, "assert any Intellectual Property Right in any new Action or in any counterclaim, or amend, renew, terminate, sublicense, assign, or otherwise modify any license or other agreement by the [Motorola]").[4]

Indeed, Motorola has ceded *more* control over its ability to enforce its patents than did the plaintiff in *Sicom*. In *Sicom*, Canada had only the right to "consent to certain actions and be consulted in others." *Id.* at 980. Here, Motorola has ceded the right to "assert *any* Intellectual

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[4] The only exception, where Motorola may license its patents without Google's consent, does not apply here, but rather with respect to "(i) non-transferable, non-sublicensable, non-exclusive standard licenses entered into in the ordinary course of business, consistent with past practices, to any person for sale or distribution of, or use, solely for a [Motorola] Product (including to customers, contract manufacturers, developers and resellers) and (ii) declarations of patents to standard setting bodies under pre-existing commitments to declare such patents." Ernst Decl., Ex. 1 at 36.

Property Right in *any* new Action or in *any* counter claim," without Google's consent. Ernst Decl., Ex. 1 at 36 (emphases added).

Motorola's surrender of the right unilaterally to sue for infringement of its patents is the most critical factor resulting in its loss of statutory standing. Courts, including the Federal Circuit, have repeatedly stated that retaining the unilateral right to sue is vital to maintaining prudential standing. *See, e.g.*, *Sicom*, 427 F.3d at 978 ("However, in *Vaupel*, this court found 'particularly dispositive' the agreement provision that transferred the right to sue for infringement of the patent at issue subject only to the obligation to inform Marowsky.") (citing *Vaupel Textilmaschinen KG v. Meccanica Euro Italia SPA*, 944 F.2d 870, 875 (Fed. Cir. 1991)); *see also TCI*, 248 F.3d at 1344-45 (finding the plaintiff lacked standing based on the "particularly dispositive" factor that it lacked the unilateral right to sue in some circumstances).

For example, in *TCI*, the Federal Circuit held that the plaintiff failed to demonstrate prudential standing where another entity had the right to control certain litigation decisions. 248 F.3d at 1345. Specifically, in that case, the court found that, "[i]n light of [the non-party's] right to permit infringement in certain cases, the requirement that [the non-party] consent to certain actions and be consulted in others, and the limits on [plaintiff]'s right to assign its interests in the [patent], we find that the [plaintiff holds] fewer than all substantial rights." *TCI*, 248 F.3d 1345. These are among the same rights that Motorola cannot exercise unilaterally by virtue of its Merger Agreement with Google.

Also critical to Motorola's lack of prudential standing is its current inability to settle litigation that would involve the licensing or assignment of intellectual property without Google's consent. Ernst Decl., Ex. 1 at 38. The *Sicom* court found the inability unilaterally to settle litigation (and the attendant rights to license or assign patents) particularly important in concluding that Sicom lacked prudential standing:

> Additionally, we find that Sicom, in other respects as well, has failed to show that it has all substantial rights under the patent. For instance, Sicom does not have the right to settle litigation without the prior written consent from Canada, nor does Sicom have the right to sublicense without Canada's prior approval or to assign its rights.

427 F.3d at 979.

Here, too, Motorola's inability to settle pending litigations that would involve a license to its patents is fatal to Motorola's prudential standing. This is also a restriction that severely prejudices Apple, as it must incur the expense of litigating this case against a party that is unable to resolve the litigation without the consent of a third party who is absent from the lawsuit. Apple may spend millions of dollars in litigating this dispute only to discover, after the consummation of the Merger Agreement, that Motorola would have preferred to settle the litigation but had its hands tied.

The Federal Circuit's decisions in *Vaupel Textilmaschinen*, 944 F.2d at 873, and *Speedplay, Inc. v. Bebop, Inc.*, 211 F.3d 1245 (Fed. Cir. 2000), are not to the contrary. In both cases the plaintiffs were found to possess prudential standing, but based on the fact that they had retained significant rights that Motorola has given up.

In *Vaupel*, the non-party retained only the right to veto sublicenses, to be informed of litigation, a reversionary right in the event of a bankruptcy, the right to receive infringement damages, and the right to obtain patents on the invention in other countries. 944 F.2d at 876. The court found that the sublicensing veto, standing alone, "did not substantially interfere with the full use by Vaupel of the exclusive rights under the patent." *Vaupel*, 944 F.3d at 875.

The basis of *Vaupel* court's decision, however, was that the plaintiff held critical exclusive rights that Motorola lacks here, including the right to sue on the patents, the right to settle litigation, and the right to assign the patents. The court found "particularly dispositive" the fact that the plaintiff held the entire right to sue for infringement "because the ultimate question confronting us is whether Vaupel can bring suit on its own or whether Marowsky must be joined as a party." *Id.* at 875.[5] Unlike the plaintiff in *Vaupel*, Motorola must obtain consent in order to sue for infringement of its patents. It thus does not hold the entire right to sue for infringement of its patents.

Speedplay also is distinguishable. In that case, the non-party could veto the plaintiff's assignment of interests in plaintiff's license, so long as the veto was not unreasonable. Standing alone, the *Speedplay* court found this right insufficient to deprive the licensee of prudential standing, based in part on the fact that consent could not be unreasonably withheld. 211 F.3d at 1251-52. The court nonetheless found that Speedplay had prudential standing based principally on the fact that Speedplay had the unilateral right to sue for infringement of the patents. "[T]he CLA does not grant Bryne and Zoumaras the right to participate in an infringement action brought by Speedplay, nor does it limit Speedplay's management of any such action. . . . Speedplay thus controls enforcement of the '778 patent for all practical purposes." *Id.* By contrast, Motorola lacks the ability to sue without Google's permission, lacks the ability to settle existing litigation without Google's permission, cannot unilaterally enforce its patents, and therefore lacks prudential standing.

[5] *See also Sicom*, 427 F.3d at 978 ("However, in *Vaupel*, this court found 'particularly dispositive' the agreement provision that transferred the right to sue for infringement of the patent at issue subject only to the obligation to inform Marowsky.").

Nor does it make a difference that Google may not "unreasonably withhold" its consent to litigation and settlement of litigation. In *Propat Int'l Corp. v. Rpost*, 473 F.3d 1187 (Fed. Cir. 2007), the plaintiff was required "to consult with and obtain prior approval from Authentix for the selection of any potential targets for licensing or suit, although the agreement provides that Authentix may not *unreasonably withhold* or delay such approval." *Id*. at 1190 (emphasis added). The Federal Circuit held that the patent owner's "right to veto licensing and litigation decisions also constitutes a significant restriction on Propat's interest in the patent," despite the fact that, as here, the veto could not be exercised unreasonably. *Id*. at 1191. Similarly, here, pursuant to Section 5.01(j) of the Merger Agreement, Motorola lacks the ability to initiate lawsuits on its patents or license its patents absent permission from Google, which permission may not be unreasonably withheld.

C. Motorola lacks prudential standing to sue despite the fact that it remains the patent owner

Nor does it make a difference that Motorola is the titular owner of the patents. The Federal Circuit has recognized that owners may forfeit sufficient exclusive rights to deprive them of standing. "When there is an exclusive license agreement, as opposed to a nonexclusive license agreement, but the exclusive license does not transfer enough rights to make the licensee the patent owner, either the licensee or the licensor may sue, *but both of them generally must be joined as parties to the litigation*." *Alfred E. Mann Foundation for Scientific Research v. Cochlear Corp.*, 604 F.3d 1354, 1360 (Fed. Cir. 2010) (emphasis added).

Courts have held that a patent owner can, as here, cede substantial rights in a patent just as though they had never possessed them. For example, in *Zenith Elecs. Corp. v. Exzec Inc.,* 876 F. Supp. 175 (N.D. Ill. 1995), the court held that the owner of the patent, Zenith, lacked prudential standing to sue in the absence of its exclusive licensee, Elo Touch. *Id*. at 177. The court held that Elo Touch had to be joined because it held critical rights in the patent, including—as here—control over "[the patent owner's] ability to settle the case" and the right to sue on the patents. *Id*. at 177. The court held that the Elo Touch obtained sufficient rights in the patent to make it tantamount to a "joint owner," and, accordingly, a required party to the litigation pursuant to Fed. R. Civ. P. 19. *Id*. at 177-78.

Indeed, even where the patent holder still holds title, courts have emphasized the critical importance of the right to sue in determining whether a patent holder has forfeited enough rights in the patent to sacrifice its standing to sue. One example of such a situation was presented in *Enhanced Security Research, LLC v. Cisco Systems, Inc.*, No. C.A. 09-390-JJF, 2010 WL 2573953 (D. Del. June 25, 2010), In that case, plaintiff Enhanced Security Research ("ESR") held title to the patents in suit and the right to use, exploit and enforce the patents. While retaining title to the patents, however, ESR had surrendered to Security Research Holdings ("SRH") the rights to initiate, maintain, manage, resolve, conclude and settle all arrangements and activities in connection with any and all licensing or litigation. SRH was not joined as a plaintiff.

The court concluded that, based on the transfer of rights to SRH, "[a]lthough [ESR] appears to have retained legal title to the patents-in-suit, as well as the ability to exploit the patents-in-suit … the Purchase Agreement nevertheless transferred 'all substantial rights'" to SRH, *id*. at *5, such that ESR lacked standing. Importantly, the court stressed that, "[o]ne of the most important rights in the standing analysis is the exclusive right to sue for patent infringement," and ESR had given up that right. *Id*. at *4. *See also Enhanced Security Research v. Juniper Networks, Inc.*, No. Civ.A. 09-871-JJF, 2010 WL 2898298 (D. Del. July 20, 2010) (same plaintiff and conclusion).

Google has, itself, referred to the decisions in the *ESR* matters as "a straightforward application of Federal Circuit precedent." Ernst Decl., Ex. 6 at 13 (Defs' Mot. to Dismiss for Lack of Standing, *Software Rights Archive, LLC v. Google Inc.*, No. CV 08-3172 (N.D. Cal. Oct. 29, 2010)). Google emphasized in the *Software Rights Archive* matter, that "[i]t is no answer for Plaintiff to say that it holds the 'title' to the patents or that it has not formally assigned the patents. … [T]he conveyance of *rights*—not mere *title*—is what matters." *Id*., Ex. 6 at 10 (emphasis in original).

Alfred E. Mann, does not stand for a contrary principle and is distinguishable. In that case, the Federal Circuit considered the question of whether a patent owner may cede sufficient rights in its patent that it may not sue without joining the transferee of those rights. The court held that the patent owner had retained sufficient rights in its patent to sue alone where it retained: (1) the secondary right to sue for infringement where the licensee declined; (2) the obligation to pay maintenance fees on the patent; (3) the right to grant licenses to settle litigation; (4) the right to prevent the licensee from sublicensing the patent; and (5) the right to terminate the license and any sublicense if the licensee failed to make royalty payments. *Id.* at 1358.[6] Here, however, Motorola has ceded many of these rights, including the right to initiate suits for infringement and the right to grant licenses to settle litigation. Accordingly, *Mann* does not control here.

[6] The rights the patent holder ceded to the licensee in *Mann* were the right to practice the patents, the first right of refusal to sue on the patents, and the right to settle any litigation it initiated. *Id.* at 1356.

D. Google Must Be Joined Under Rule 19(a) to Cure Motorola's Lack of Standing, but Cannot Be Joined Because It Lacks Constitutional Standing

Where, as here, a patent plaintiff lacks prudential standing and cannot sue in its own name alone, Rule 19(a) identifies "required parties" who should be joined to litigation, provided that the requirements of that rule are met. *See, e.g., Abbott Labs. v. Diamedix Corp.*, 47 F.3d 1128, 1133 (Fed. Cir. 1995) (Rule 19 requires joinder where feasible under these circumstances.). As the court held in *TCI*, 248 F.3d 1348, where the plaintiff has constitutional, but not prudential standing, the situation can be cured and standing requirements met where the holder of the additional rights is joined: "the presence of the [holder of the additional rights] as a party is indispensible to give jurisdiction under the patent laws." *See also Zenith*, 876 F. Supp. at 177-78 (licensee must be joined under Rule 19 in order to cure standing defect); 8 Chisum § 21.03. ("[w]hen an exclusive licensee or assignee files suit against an infringer without joining the patent owner/licensor/assignor, the patent owner should be viewed as a required party within the meaning of Rule 19(a) if he/she retains any interest in the patent."). In order to cure Motorola's lack of prudential standing, Google must be joined under Rule 19(a).

Google, however, lacks sufficient interest in the patents to have constitutional standing and cannot be joined. Constitutional standing requires as "a threshold jurisdictional issue," *Abraxis Bioscience, Inc. v. Navinta LLC*, 625 F.3d 1359, 1364 (Fed. Cir. 2010), that a patent-infringement plaintiff establish the factors set forth in *Lujan v. Defenders of Wildlife*, 504 U.S. 555 (1992). As explained above, the Federal Circuit has interpreted the first element of this test, the requirement that the patent-infringement plaintiff demonstrate some injury, to mean that a party must hold one or more "exclusionary rights in the patent." *See TCI*, 248 F.3d at 1345. "[T]he touchstone of constitutional standing in a patent infringement suit is whether a party can establish that it has an exclusionary right in a patent that, if violated by another, would cause the party holding the exclusionary right to suffer legal injury." *WiAV*, 631 F.3d at 1265.

Here, Google holds *no* exclusionary rights in the patent. There is no evidence that Google may practice the patents, much less to the exclusion of anyone else. Nor is there evidence that Google may grant licenses to the patents, such that it would suffer economic injury by uncompensated infringement.

The Federal Circuit has held that greater patent interests than Google holds here are insufficient to constitute constitutional standing. For example, in *Propat*, 473 F.3d at 1194, the Federal Circuit considered the situation of a licensee who had the contractual right to license and sue on the patents. Propat lacked the right to make, use, and sell the patented invention and the patent owner retained the right to seek new patents on the underlying inventions. *Id.* at 1190. Moreover, Propat lacked the right further to license the patent, assign its interests in the patent, or initiate litigation without the patent owner's consent. Under these circumstances, the Federal Circuit held that Propat lacked constitutional standing. Here, Google has even less than Propat. There is no evidence that Google has the contractual right to sue on the patents or license the patents. And like Propat, Google has no right to make, use, or sell the patented inventions, much less an exclusive right to do so. Accordingly, Google is not injured if another party infringes the patents and lacks constitutional standing to sue.

Similarly, in *Morrow*, 499 F.3d 1332, patent ownership was divided among bankruptcy trusts, one of which was the plaintiff. The plaintiff, GUCLT, had the contractual right to sue for infringement, but another bankruptcy trust, AHLT, retained the right to license the patent to third parties. The Federal Circuit stated that "[t]he problem for GUCLT and AHLT is that the exclusionary rights have been separated from the right to sue for infringement." *Id.* at 1342.

Although GUCLT had the contractual right to sue, it did not suffer injury in fact from infringement because it did not possess an exclusive right to make, use, and sell the invention and did not possess the right to license third parties. *Id.* at 1341. Accordingly, GUCLT was not injured by infringement—either by losing an exclusive right to practice the patent or by losing a right to licensing revenue. Because GUCLT "d[id] not have the right to license or sublicense or otherwise forgive activities that would normally be prohibited under the patent statutes," it lacked constitutional standing to sue for infringement. *Id*. at 1342.

Here, Google, like GUCLT, lacks both the right to exclusively practice the patents and the right to license the patents. Accordingly, Google lacks constitutional standing and cannot be joined to this lawsuit.

E. The Court Should Stay This Matter Until Such Time as Either Google or Motorola, or Both, Have Standing Sufficient to Maintain This Action

1. Under Rule 19(b) This Case Should Not Proceed At This Time

a) Apple is severely prejudiced by Google's control over Motorola's patent rights

Google's lack of constitutional standing prevents it from being joined under Rule 19. Therefore, Rule 19(b), which addresses the Court's options where joinder is not feasible, governs. Fed. R. Civ. P. 19(b) ("If a person who is required to be joined if feasible cannot be joined, the court must determine whether, in equity and good conscience, the action should proceed among the existing parties or should be dismissed."). In such circumstances, "the action typically will be dismissed." 7 Wright & Miller, Federal Practice and Procedure 1359.

Under Rule 19(b), where a required party cannot be joined, the court undertakes a flexible, four-factor analysis to determine whether the action should proceed. Those factors are:

(1) the extent to which a judgment rendered in [the non-party's] absence might prejudice that person or the existing parties;

(2) the extent to which any prejudice could be lessened or avoided by: (A) protective provisions in the judgment; (B) shaping of relief; or (C) other measures;

(3) whether judgment rendered in the person's absence would be adequate; and

(4) whether the plaintiff would have an adequate remedy if the action were dismissed for non-joinder. Fed. R. Civ. P. 19(b).

Here it is clear that the inability to join Google prejudices Apple in at least two ways.

First, Apple is now litigating against a cross-plaintiff who is threatening it with an injunction even though it does not have standing to bring its claims. Nor is there any assurance that this situation will be clarified prior to the April 30, 2012 trial of this case, the entry of a judgment, or the issuance of an injunction. Throughout this entire period Apple will be expending enormous resources litigating claims against a party that does not have standing.

Second, were Apple to prevail in this case, it risks an attack on its victory on appeal by a third party, whether Google or another Android smartphone manufacturer, contending that the judgment should be overturned due to a lack of prudential standing. Motorola and Google should not be able to hide behind their extraordinary division of patent rights as a mechanism for forcing the re-litigation of this case.

b) There is no assurance that the standing defect will be cured before a judgment is entered in this case

Nor is it clear whether or how these concerns will be resolved after the consummation of the Merger Agreement. The publicly available Merger Agreement states that each party to the agreement will have the same rights to intellectual property "*immediately* following the Merger" as they had prior to the merger. Ernst Decl., Ex. 1 at ¶ 3.14(c) at 24 (emphasis added). However, Google has told the press that it entered into the merger agreement in order to acquire

Motorola's patents to protect its "Android ecosystem", thus contemplating some redistribution of patent rights. Ernst Decl., Ex. 3.

Thus, it may be that Google will own the patents after the merger, in which case Motorola will lack constitutional standing and only Google can proceed as a plaintiff. It may be that the rights will be divided such that the case can proceed, but only if both parties are joined. Alternatively, Google may provide rights to various members of its "Android ecosystem." For present purposes, what matters is that whether or how the standing defect that presently afflicts this case will be cured is a matter of sheer speculation.

Moreover, it bear emphasis that, as this Court has held, any cure of prudential standing must take place before a judgment is entered. *See Silicon Graphics, Inc. v. ATI Techs., Inc.,* No. 06-C-611-C, 2007 WL 5595952, *9 (W.D. Wis. June 14, 2007) (citing *Schreiber Foods, Inc. v. Beatrice Cheese, Inc.*, 402 F.3d 1198, 1203 n.4 (Fed. Cir. 2005)). Given the uncertainty of the merger time line, it cannot be stated with assurance that the patent rights will be resolved before a judgment is entered in this case.

2. A Stay of the Case During the Pendency of the Google/Motorola Acquisition Represents The Most Appropriate Result.

Notwithstanding the option of dismissing the case pursuant to Rule 19(b), Apple submits that the more appropriate course is for the Court to stay the case until after the close of the Google/Motorola acquisition. This approach will permit the Court to determine whether, given the post-acquisition facts, the jurisdictional cloud that presently hangs over this case has cleared.

It is well established that the Court has the authority to impose a stay rather than order a dismissal when faced with the inability to join a required party under Rule 19(b). *Henri's Food Products Co., Inc. v. Home Ins. Co.,* 474 F. Supp. 889, 893-94 (E.D. Wis. 1979). *See also Christian v. Monaco Coach Corp.,* No. SA CV 08-00141-CJC, 2009 WL 1574553 (C.D. Cal.

May 14, 2009) (because non-party was indispensible under Rule 19(a), but could not presently be joined due to a lack of personal jurisdiction, a stay was appropriate); *Nations Bank of Maryland v. Harris Bank Glencoe-Northbrook, N.A.*, No. 93 C 615, 1993 WL 179522 (N.D. Ill. May 25, 1993) (citing Rule 19(b) discretion to fashion measures alternative to dismissal, the court held that, because a bankruptcy court had yet to determine whether the assets were indeed a part of the estate, the better course of action was to stay the case pending resolution of that issue in bankruptcy court).

Apple respectfully submits that the Court should follow that course here given that the jurisdictional defect in this case, while quite serious, may be time bound. It may be cured following the close of the acquisition, at which point the litigation can resume. If not, the question of dismissal can be appropriately considered at that time.

This Court's decision in *Silicon Graphics* supports the conclusion that a stay is appropriate here. In that case there was a division of ownership between the assignee-plaintiff and certain inventors whose assignment of their interests to the assignee had not yet been perfected. That defect, however, had been cured by the time that the motion challenging prudential standing was decided, as by that time the parties had remedied the division of rights and all ownership rights were held by the plaintiff (assignee). As discussed above, this Court correctly noted that prudential standing problems can be cured before judgment. *Silicon Graphics* at *24. But that is precisely the problem here: at present it is completely uncertain as to whether the prudential standing problems in this case will in fact be cured before a judgment is entered. A stay will resolve this concern, by making sure that a cure of the prudential standing defect (if one exists) will be instituted before judgment is entered.

Even putting aside the Rule 19(b) analysis, however, the court can and should stay the proceedings until the merger is consummated. Because the district courts have the inherent power to manage their dockets and stay proceedings, *Procter & Gamble Co. v. Kraft Foods Global, Inc.*, 549 F.3d 842, 848-49 (Fed. Cir. 2008), this Court has the authority to stay these proceedings until the jurisdictional standing issues are resolved. "The Supreme Court has long recognized that district courts have broad discretion to manage their dockets, including the power to grant a stay of proceedings." *Id*. (citing *Landis v. N. Am. Co.*, 299 U.S. 248, 254-55 (1936)). A stay will not be vacated "unless [it is] immoderate or of an indefinite duration." *Gould v. Control Laser Corp.*, 705 F.2d 1340, 1341 (Fed. Cir. 1983) (internal quotation marks omitted). The stay is moreover of limited duration. After the Google/Motorola merger is completed, the Court may revisit the standing issue and determine how (or if) Motorola's claims may proceed. Accordingly, the Court should exercise its discretion to stay this lawsuit until such a time as the Google/Motorola merger is consummated.

IV. CONCLUSION

For the foregoing reasons, this matter should be stayed until the consummation of the Google/Motorola merger or until further order of the Court.

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Respectfully submitted,

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