

Exhibit 117

UNITED STATES DISTRICT COURT

FOR THE WESTERN DISTRICT OF WISCONSIN

* * * * *

APPLE INC.,

Plaintiff,

Case No. 11-CV-178-BBC

vs.

MOTOROLA MOBILITY, INC.,

Madison, Wisconsin

April 26, 2011

Defendant.

9:00 a.m.

* * * * *

STENOGRAPHIC TRANSCRIPT OF MOTION HEARING
HELD BEFORE THE HONORABLE BARBARA B. CRABB

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I-N-D-E-X

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1 THE CLERK: Case No. 11-CR-178-BBC, *Apple v.*
2 *Motorola Mobility*. Court is called for a motion
3 hearing. May we have the appearances, please?

4 MR. POWERS: Good morning, Your Honor.

5 THE COURT: Would you stay seated, please?

6 MR. POWERS: I would.

7 THE COURT: Thank you.

8 MR. POWERS: Matt Powers of Weil, Gotshal &
9 Manges for Apple. Also at counsel table is Penny Reid
10 and Steve Cherensky also from Weil Gotshal.

11 THE COURT: I'm sorry. You're going to have
12 to really speak into the microphone because I have
13 this terrible cold and I'm really having trouble
14 hearing as well as talking.

15 MR. POWERS: Just let know whenever you can't
16 hear.

17 THE COURT: Much better.

18 MR. POWERS: Matt Powers from Weil Gotshal
19 for Apple. Also at counsel table are Penny Reid and
20 Steve Cherensky also from Weil Gotshal. Chris
21 Schmoller will be responsible for the graphics. And
22 here from Apple is David Melaugh.

23 THE COURT: Thank you.

24 MS. SULLIVAN: Good morning, Your Honor.
25 Kathleen Sullivan from the Quinn Emanuel law firm

1 representing Motorola. And here at counsel table with
2 me is Lynn Stathas and David Nelson and Meghan
3 Bordonaro from the Quinn Emanuel firm. Thank you for
4 the privilege of allowing us to appear before your
5 court.

6 THE COURT: Thank you. How do you want to
7 start out this morning? Do you want to give a little
8 opening statement or do you want to just go straight
9 into your presentations?

10 MR. POWERS: Your Honor, we would prefer just
11 to go straight into the presentations. We built in a
12 very small opening into the presentation and then I
13 think we could just go straight to the heart of the
14 matter.

15 MS. SULLIVAN: That's fine, Your Honor,
16 that's fine with Motorola as well. We just would like
17 some guidance from the Court in advance with respect
18 to the motion concerning nondisclosure of confidential
19 information. If I could just say, Your Honor,
20 Motorola doesn't --

21 THE COURT: If at anytime you think -- did
22 you want to contest the motion?

23 MS. SULLIVAN: No, no. It's a joint
24 motion --

25 THE COURT: Right.

1 MS. SULLIVAN: -- and I think both parties
2 are very cognizant of our obligations not to disclose
3 confidential business information in open court that's
4 subject to the protective order in the ITC and
5 sealing.

6 It's just that I think that I can represent to
7 you that Motorola doesn't intend or feel the need to
8 discuss any confidential business information. And we
9 just would hope that if at anytime Apple believes it
10 necessary to discuss details of confidential
11 information, we have an enough advance warning that we
12 can stop the disclosure before it happens.

13 THE COURT: If there is any point where you
14 think that's a problem, either one of you, just say so
15 and we will empty the courtroom or take whatever steps
16 we need to.

17 MR. POWERS: We certainly will be presenting
18 confidential Motorola information as part of our
19 presentation. And the parties have agreed that
20 counsel representative -- party representatives can be
21 in the courtroom during the entire presentation. So
22 perhaps the easiest thing to do would be to have third
23 parties who are aren't affiliated with the parties to
24 leave the courtroom now so we don't have to interrupt
25 the proceedings as we go forward, because we certainly

1 will be using confidential Motorola information.

2 THE COURT: Well, I'm hesitant to do that and
3 this is a public proceeding. I think it's better if
4 you just let me know when you are getting to a point
5 when you want people out of the courtroom.

6 MR. POWERS: We will do so.

7 THE COURT: Okay. Then you may proceed.

8 MR. POWERS: Thank you, Your Honor. Your
9 Honor, may I approach to hand up a copy of the
10 presentation we are going to be making?

11 THE COURT: You may. Thank you.

12 MR. POWERS: May I proceed?

13 THE COURT: You may.

14 MR. POWERS: Your Honor, I would like to
15 begin, if I may, with a few background comments that
16 will help set the stage for where we are and why we
17 are here and then go straight to the heart of the
18 issues presented by our motion for preliminary
19 injunction.

20 By this motion, Apple seeks a preliminary
21 injunction which would prevent Motorola from
22 proceeding in two of the cases that it has initiated
23 with respect to patents that it has declared essential
24 to certain standards. Those patents, there are a
25 total of seven of them, appear in two proceedings.

1 One is the ITC where there are two of the patents
2 there and one is one of the proceedings that's pending
3 in this court as well before you.

4 There is a third request within the motion for
5 preliminary injunction that relates to Motorola's
6 attempt to terminate a license which Apple had from
7 Qualcomm selectively only as to Apple. And that one
8 raises some other issues, some separate issues, which
9 we will address when we get to that.

10 At the very beginning I just want to set the
11 stage at a high level for the basis of the motion.
12 The basis of the motion, put simply, is that by virtue
13 of Motorola's participation and membership in the
14 relevant standard-setting bodies, it had an obligation
15 and explicitly undertook an obligation to offer to
16 every party who is producing products that relate to
17 that standard an offer for a license under any patents
18 it contended were necessary to practice the standard
19 on what are called *FRAND* terms. *FRAND* of course
20 stands for "fair, reasonable and non-discriminatory
21 terms."

22 That concept of *FRAND* terms is well known to
23 Motorola and to Apple and to all participants in the
24 standard-settings bodies. And it is our position that
25 Motorola did not make such a *FRAND* offer, as it

1 committed to do and was obligated to do. By virtue of
2 its failure to do so, it is thus precluded from doing
3 what it is attempting to do, which is to sue Apple
4 under those patents which it committed to license
5 under FRAND terms and to seek an injunction, as it is
6 doing, on Apple's selling of products which Motorola
7 contends comply with the very standards that those
8 obligations related to. That is the basis for the
9 motion, put simply.

10 Now, one issue which Motorola has raised, which I
11 want to address at the very beginning, is an assertion
12 that this motion is somehow improper because Your
13 Honor does not have the power to enjoin an ITC
14 proceeding. And the federal circuit has addressed
15 that very question in the *Tessera* case and held that
16 while a district court does not have the power to
17 enjoin the ITC from proceeding, it does have the power
18 to enjoin a party from proceeding in the ITC. That is
19 exactly what this motion seeks.

20 So by way of background, I just want to address
21 the conceptual framework that this motion lies in.
22 Standards are of course essential in today's --

23 THE COURT: You can go through that quite
24 quickly.

25 MR. POWERS: You are familiar with it.

1 THE COURT: Right.

2 MR. POWERS: There is one issue I would like
3 to talk about quite briefly though, which is the
4 patent hold-up problem, *the patent hold-up problem*,
5 because it's central to everything we are going to be
6 talking about today. The patent hold-up problem, put
7 simply, is this, that at anytime a group of
8 competitors are getting together to put together a
9 standard, all of them have patents, and sometimes in
10 the hundreds or thousands, which they think relate to
11 that standard.

12 And there is a *quid pro quo*. If a party seeks to
13 put in technology into a standard, thereby requiring
14 everybody to follow it, they get the benefit that a
15 large number of people will follow that technology.
16 The *quo* for that *quid* is that they can't charge for
17 that patent what they my otherwise charge in a normal
18 patent infringement case, and that's really the
19 situation here, and also they can't seek to enjoin it
20 because the whole purpose of course of a standard is
21 to allow everybody to practice that standard. That is
22 the essence of why we are here.

23 And the standard-setting bodies of course are
24 cognizant of that issue and have established various
25 procedures that are designed to prevent that patent

1 hold-up problem and it is that problem which is why we
2 are here.

3 And a slight footnote to the patent hold-up
4 problem, it's important to note that an individual
5 patent may become important if its technology becomes
6 part of the standard, but its importance lies only in
7 the fact that it's part of the standard. That
8 technology may be meaninglessly different from ten
9 other alternatives that could have been adopted by
10 that standard-setting body at the time.

11 And so the intrinsic value of the technology
12 represented by that patent may be quite small and
13 that's the essence of the patent hold-up problem. By
14 virtue only of its inclusion in the standard, it then
15 acquires an importance that goes well beyond its
16 intrinsic value. And that is part of the reason, and
17 a big part of the reason, why standard-setting bodies
18 require and participants agree, as Motorola did here,
19 not to charge normal royalties for patents that it
20 contends are required to comply with the standard.

21 The relevant Apple products, we certainly don't
22 need to go through this in detail. This is really
23 just for Your Honor's reference. We've listed what
24 the accused products are and the standards to which
25 they relate. Those are all covered in the briefs and

1 it was just there as a handy reference point for Your
2 Honor.

3 The timeline, we can go through quite quickly,
4 but there are a couple points that are salient. The
5 first is that this whole proceeding was begun in
6 October when Motorola filed a number of lawsuits
7 against Apple in a number of different fora asserting
8 a large number of patents in those different fora.
9 Some of those patents were -- some of those cases were
10 dismissed, some moved to here. Apple of course filed
11 its own complaints in various cases as well and
12 counterclaims as well.

13 The reason we are here is that Motorola -- there
14 are two sets of cases, if you will, that are here.
15 One is the Apple case that was filed here in response
16 to Motorola's initial wave of complaints. The second
17 of course is Motorola's cases that it transferred from
18 Illinois, which are part of its originally-filed
19 cases. This specific case was filed as a removal from
20 a counterclaim filed in the ITC by Apple pursuant to a
21 specific statutory provision that provides for that
22 removal.

23 The only other two points on the timeline that I
24 think are important to this motion is first, January
25 11, 2011. On that date two things happened -- Apple

1 announced the Verizon iPhone which used a different
2 technology and a different standard than the AT&T
3 iPhone had done. And on that very same day Motorola
4 sent a letter to Qualcomm, copying Apple, referencing
5 the announcement of that iPhone and saying, "We are
6 terminating" -- we, Motorola -- "are terminating your
7 license" -- Qualcomm's -- "only as to Apple because of
8 that iPhone," and the effective date of that
9 cancellation was exactly the effective date of the
10 launch in the stores of Apple's Verizon iPhone 4.

11 The last item on the timeline that I think is
12 relevant is the timeline of Motorola's ITC action
13 because that relates to part of the relief that we are
14 seeking. The hearing or the trial of Motorola's ITC
15 case against Apple begins on July 25. The order that
16 will come out of that hearing is due on or before
17 November 8. And the final review, the final
18 determination, will be on March 8th of 2012. That's
19 the timeline for that particular proceeding.

20 The only other part of the background that I want
21 to cover is the actual claims and the counterclaim
22 that is the basis for this particular action that we
23 are here on. There are 13 counts and six of those are
24 relevant to this preliminary injunction motion. Those
25 six are highlighted. They are primarily breach of

1 contract and tortious interference.

2 I would like to move directly to the preliminary
3 injunction requirements and demonstrate how Apple has
4 satisfied those. There are two separate claims that I
5 want to focus on. First is the tortious interference
6 claim.

7 THE COURT: I have a preliminary question and
8 that is the question of ripeness. I think it's really
9 an interesting and unusual sort of situation here
10 because you've got this weird situation in which
11 Motorola says, "Our technology is essential to the
12 standards." Apple I think still is at least
13 maintaining that it disagrees with that and would
14 require Motorola to prove that the technology is in
15 fact essential. If that has to be decided before any
16 other aspect of the case, we are really jumping to the
17 end of the case at the beginning. And it seems to me
18 that that's, in and of itself, a good reason not to
19 even think about granting the preliminary injunction
20 because whichever way I rule, one party is going to be
21 way ahead of the game and that seems like such an odd
22 sort of thing. I don't recall another situation like
23 that.

24 MR. POWERS: We have two thoughts on that
25 question, Your Honor. The first is that under the

1 standard-setting bodies' principles and requirements
2 and obligations, it's not a question of whether in
3 fact the accused products infringe because you are
4 correct, you are absolutely correct, that Apple
5 disputes that. That is an issue that ultimately at
6 the end of the case would be tried. It would be tried
7 not as a question of whether Apple's products are
8 essential to the standard, although that may be part
9 of the proof that Motorola seeks to put on, but their
10 proof must be that as construed by Your Honor, Apple's
11 products infringe the claims under a traditional
12 infringement analysis.

13 And so that is the analysis that Your Honor would
14 be doing, which is infringement analysis, not
15 essentiality. Now, Motorola may or may not seek to
16 argue, and presumably would, essentiality as part of
17 that proof.

18 THE COURT: If they are not essential, what
19 difference does it make?

20 MR. POWERS: Because Motorola agreed and
21 committed to license those patents on essential terms.

22 THE COURT: So your position is that by
23 just -- by saying, "We agree that we are going to
24 license these different aspects of our technology, the
25 different patents, we are saying that they are

1 essential"?

2 MR. POWERS: Exactly.

3 THE COURT: You don't have to prove it?

4 MR. POWERS: Exactly. For purposes of this
5 motion, that is exactly the basis for the motion and
6 the question of infringement is potentially related,
7 but a separate question. That is an issue that will
8 follow claim construction by Your Honor and then a
9 normal straightforward infringement analysis, but the
10 issue of asserted essentiality has already been
11 decided. They have asserted that they are essential
12 and that makes sense when you look at the whole
13 purpose of standard-setting bodies and standards
14 organizations.

15 The whole purpose of that process of declarations
16 of essentiality and the commitments to license on
17 FRAND terms is to avoid exactly where we are right
18 now, not to avoid necessarily the end result of the
19 trial and the finding. It's to avoid participants in
20 those standards having to go through the proceedings
21 that Motorola has initiated. The point of standards
22 is that people can practice those standards free of
23 such claims.

24 THE COURT: Which makes a lot of sense, but
25 I'm not sure Motorola agrees with you.

1 MR. POWERS: Well, Motorola probably does not
2 agree with us, but it is our view, respectfully, that
3 Motorola's view in this case is one which is
4 self-serving of its interest in this case but not
5 serving of the organizations to which it's a member.
6 And our view, respectfully, is that the Court's role
7 is to look to the purpose of those organizations and
8 enforce that, notwithstanding Motorola's attempts now
9 to avoid the obligations that it committed to. It did
10 commit specifically to give a FRAND offer and it knew
11 when it did so that the purpose of that was to avoid
12 exactly this proceeding.

13 THE COURT: But as I understand, there is
14 also a dispute about this negotiation for the license.
15 I mean, I expect Motorola will be arguing that it's
16 made a good-faith effort to try to work out a
17 license --

18 MR. POWERS: I think there is --

19 THE COURT: -- at least a start on one.

20 MR. POWERS: I think there are two parts to
21 that question. The first part to that question I have
22 no doubt that Motorola will argue and it has argued
23 that it started a negotiation and, in its view, that
24 negotiation isn't done. That is really a separate
25 question from the question of whether it has made a

1 FRAND offer. Its obligation that it committed to as
2 part of the standard bodies was not to start a
3 negotiation at an absurdly high rate and then wait for
4 us to make a counter and then sue us when we don't.

5 Its obligation that it committed to do for a
6 specific purpose that it knew of and that it benefited
7 from was to make a FRAND offer. And so the issue,
8 respectfully, is not whether they have started in good
9 faith in negotiation. That dispute is not, in our
10 view, material to this motion because that's not their
11 obligation. Their obligation is to make a FRAND
12 offer.

13 THE COURT: But that's a question of disputed
14 fact.

15 MR. POWERS: It absolutely is and that's why
16 we are here. That's for you to decide. The mere fact
17 that they dispute whether it's FRAND doesn't make that
18 dispute one that would prevent the entry of a
19 preliminary injunction motion. Obviously preliminary
20 injunction motions are entered all the time where
21 facts are disputed but the Court finds that one set of
22 facts is more persuasive than the other.

23 THE COURT: The other thing is you have got a
24 trial date July 25th.

25 MR. POWERS: We do.

1 THE COURT: And that should be -- I don't
2 know how long proceedings in the ITC last. If you
3 have a trial, how much time does it take?

4 MR. POWERS: This one I think will be about a
5 week or week and a half.

6 THE COURT: And a decision fairly soon
7 thereafter?

8 MR. POWERS: No. The decision is typically
9 right on the date of what's called the *initial*
10 *determination date*, November 8. That's the date on
11 which, by statute, the judge is required to enter a
12 decision and that decision typically comes either on
13 that date or maybe a couple of days beforehand. So
14 that's the reason we put -- let me just walk through
15 briefly the procedure in the ITC because it is
16 important to Your Honor's question.

17 Trial begins on July 25, the decision from that
18 trial likely by November of 2011 or around that time.
19 There is then a proceeding by which -- and that's a
20 decision by an administrative law judge. That
21 administrative law judge's decision is then typically
22 appealed to the full commission, an actual trade
23 commission. That commission is to rule by March 8th
24 of 2012. From there it can go to the federal circuit.
25 But as far as the ITC proceedings go, it's not final

1 until March 8th, 2012, and even then there is a
2 proceeding for precedential review and other matters
3 before any exclusion order would go into effect. So
4 we are actually about a year away from the effect of
5 the ITC, if you will, in response to Your Honor's
6 question.

7 THE COURT: And what harm would Apple suffer
8 in the meantime?

9 MR. POWERS: Well, the harm that Apple is
10 suffering in the meantime of course is the threat of
11 that exclusion order hanging over it, which they are
12 seeking an inclusion order which would prevent
13 importation into the United States of all iPhones, all
14 iPads, Mac operating systems, so it's a very
15 significant threat that they are seeking to hang over
16 us and that's -- and the cases have said that that
17 type of harm is irreparable.

18 May I move to the tortious interference claim or
19 do you wish to --

20 THE COURT: But in the meantime, things would
21 be moving along in this court. It wouldn't have
22 gotten to trial yet.

23 MR. POWERS: That's true, it would not have
24 gotten to trial yet. And that's the reason for this
25 relief is that in order to prevent that harm, this

1 proceeding is really the only way that we can do so.

2 THE COURT: Okay. If you want to go on to
3 the tortious interference, that's fine.

4 MR. POWERS: Thank you. The tortious
5 interference claim arises out of the attempt by
6 Motorola to terminate the Qualcomm license to Apple
7 that relates to the Verizon iPhone 4.

8 And just by way of very brief background, as I
9 said earlier, the AT&T phone operates under a
10 different standard than the Verizon iPhone just
11 because of the technology within them. And that's
12 why, when we announced the Verizon iPhone in January
13 of this year, that triggered Motorola to attempt to
14 terminate the license from Qualcomm, which is the
15 technology, the chip, that's inside the Verizon phone
16 that provides that CDMA2000 functionality that it was
17 a member of and committed to license on FRAND terms.

18 Now, it is our view of course that on its face,
19 Motorola's termination of its license to Qualcomm only
20 as to Apple, but not as to all of the other customers
21 of Qualcomm, many of whom of course are Apple
22 competitors, is, on its face, discriminatory and I
23 just want to pause there for a moment.

24 FRAND has a number of concepts, but two of those
25 core concepts is that the license being demanded must

1 be both reasonable and nondiscriminatory. And it
2 seems, as I say, facially obvious that Motorola is
3 acting in a discriminatory fashion when it terminates
4 a license to Verizon only as to Apple. That seems
5 obviously discriminatory.

6 This is the letter that they sent on January
7 11th. That letter is notable because it specifically
8 references the iPhone 4 as being a CDMA product, which
9 is the standard that it declared the patents essential
10 to. So Motorola knew on January 11th that it was
11 concerned that the iPhone 4 would be licensed under
12 the CDMA standard by virtue of Verizon's -- or rather
13 Qualcomm's license under that standard and it wished
14 to assert a claim against Apple based on that
15 standard. That is the essence of what that letter is
16 saying.

17 Now, in response to this tortious interference
18 claim, Motorola has done a bit of an about-face, a
19 tactical move, which says, "All right. Even though we
20 expressly terminated the license as to that product
21 because it was a CDMA product, even though we did so,
22 we are not presently, in order to try to avoid this,
23 the problem posed by this motion," as they put it, "we
24 are not presently asserting claims against the Verizon
25 iPhone 4 based on that standard and based on the

1 functionality and the Qualcomm chip."

2 And our concern with that is that it's somewhat
3 equivocal and it seems to me there are really only two
4 reasonable paths. One is that Motorola make an
5 absolutely unequivocal statement that it will not do
6 so in a way that is legally binding; or if not, then
7 this court should enter an order that effectively
8 converts Motorola's equivocal statement to one that is
9 legally binding, because by Motorola's attempt to
10 withdraw those allegations implicitly admits the force
11 of the discriminatory aspect of that determination and
12 seeks to avoid in this proceeding the effect of that
13 discriminatory action, but Motorola should not be
14 allowed to have it both ways.

15 It should not be allowed to try to remove that
16 question from Your Honor while at the same time
17 keeping the option open later of doing exactly what
18 this motion sought to preclude. So either it becomes
19 unequivocal or Your Honor should convert it to being
20 unequivocal, in our view.

21 I would like now to turn to the
22 breach-of-contract claim, if I may. And there are I
23 think two core issues -- three core issues under the
24 breach-of-contract claim that have been raised by
25 Motorola. One is whether there is in fact a contract

1 between Motorola and Apple which Apple can enforce.
2 That contract, in our view, is created by the fact of
3 both parties' membership in the two relevant
4 standard-settings bodies. I will address the IEEE and
5 ETSI in this presentation. TIA will be relevant to
6 the Qualcomm chip and the same arguments would apply.
7 But given their attempt to remove that from this
8 proceeding, I don't think we need to cover that. As
9 an additional, I think it would be surplusage, but the
10 IEEE and ETSI are the two standard-setting bodies that
11 are relevant to all the remaining issues.

12 There is no dispute that Motorola was, at all
13 relevant times, a member of both and that Apple has
14 been a member of ETSI since 2001, so that is at least
15 one beginning foundational point for the formation of
16 the contractual relationship.

17 We then move to the bylaws of those
18 standard-setting bodies which create the rights and
19 obligations of members, and it's our view that a
20 contract is created by the rights and obligations
21 bylaws of those standard-setting bodies.

22 The first that's relevant, for example, is the
23 IEEE, is a statement about what the letters of
24 assurance shall do. These are the letters of
25 assurance which Motorola did give as to the relevant

1 patents for the IEEE. And the IEEE bylaws which
2 govern the relationships among members in the IEEE
3 provide that a statement for a license will be made
4 available without compensation or under reasonable
5 rates and demonstrably free of any unfair
6 discrimination and the assurance is irrevocable.
7 Those are the relevant parts at least of that aspect
8 of the bylaws relating to the assurance.

9 There is no dispute presented on these papers
10 that Motorola provided letters of assurance under both
11 standard-setting bodies for all seven patents at
12 issue. Those are Apple's Proposed Findings of Fact 27
13 and 56, which Motorola did not dispute, and we've
14 quoted it for you in the briefs and on the slides as
15 well.

16 We have, from the Cannon Declaration, Exhibit 8,
17 just an example of the IEEE declaration which Motorola
18 made. And they said, "Motorola owns patents and has
19 filed patent applications in the area of wireless data
20 communications. Motorola agrees to license those
21 patents on a non-discriminatory basis offering fair
22 and commercially reasonable terms." That was a
23 commitment they made. That commitment binds them
24 here.

25 THE COURT: Are you aware of any published

1 decisions that would support that view?

2 MR. POWERS: Yes, these two: The first is
3 the *Ericsson-Samsung* case which addressed the same
4 issue in regard to ETSI -- and there, as I understand
5 it, it was not a disputed issue, but the court
6 specifically noted that the FRAND obligation is
7 contractual and binds all the members -- and the
8 *Broadcom-Qualcomm* case which says that the, and again
9 in the context of ETSI, that its a breach of the
10 contract that is made if you in fact do what Motorola
11 is doing here.

12 But there is one other aspect of the bylaws that
13 I wanted to point out, because I think it's important
14 to this contractual issue, and that's Section 1.4.
15 And in the brief at page 20, footnote 10, we gave Your
16 Honor a link to this particular document. We have a
17 hard copy if you would like it. I will provide that
18 at the end of the --

19 THE COURT: I don't need that.

20 MR. POWERS: Okay. And the title of 1.4 is
21 "Rights and Obligations deriving from the IPR Policy."
22 *IPR* of course "is intellectual property rights." This
23 is the portion of the bylaws in which the *rights of*
24 *members*, as they call it, are specified. And one of
25 the rights of members is "to be granted licenses on

1 fair and reasonable and non-discriminatory terms and
2 conditions in respect to a standard." That is the
3 right of a member. That is a contractual right which
4 is created by virtue of membership and Apple of course
5 is a member.

6 I do want to address two other aspects of law
7 with regard to this question of whether a contract is
8 created and the first is the issue of privity which
9 was raised in Motorola's opposition.

10 And I want to use Motorola's own case to make our
11 point because we think it does so. What that case
12 said was that you have to have a connection, a
13 mutuality of will, an interaction of parties, to
14 create some sort of contract. That is a perfect
15 description of what a standard-setting body is.

16 A standard-setting body is one in which a group
17 of competitors get together under a set of rules that
18 are well understood, and one of those rules is you
19 have to license on FRAND terms, and it's done for the
20 benefit of the entire group. That is the purpose of
21 the standard, that the entire group that is a member
22 benefits from that process, so that is a mutuality of
23 will in the classic sense.

24 And so under Motorola's own authority in this
25 case, consistent with the *Ericsson* case and the

1 *Qualcomm* case, its' quite clear, in our view, legally,
2 that there is a contract forum between the members of
3 standard-setting bodies.

4 THE COURT: And do you think that Wisconsin
5 law would govern that?

6 MR. POWERS: I do. I also don't think the
7 answer changes if it's not Wisconsin law because as we
8 pointed out in the brief, if you look at the other
9 aspects of law that were raised by Motorola as
10 potentially applying, there is no difference in the
11 application of those laws to Wisconsin law.

12 I do want to note two additional points on the
13 law here, the law question that Your Honor raised.
14 And it's notable that when Motorola was on the other
15 side, i.e., it was accused of infringing a patent
16 relating to a standard -- this is in the *Wi-LAN* case
17 in Texas -- Motorola, as a party, took a very firm and
18 clear position on exactly the legal issue which Your
19 Honor is raising here, which is whether participation
20 in a standard-setting body and membership creates a
21 contractual obligation that may be enforced by other
22 members.

23 And in the *Wi-LAN* case, they specifically took
24 the position that, this is Motorola, "The IEEE rules
25 and policies, whether formal or informal, including

1 all stipulations, requirements and representations in
2 any form, constitute a contract between Wi-LAN and the
3 IEEE members" -- so that's exactly the legal issue
4 that Your Honor just raised -- "or alternatively
5 between a Wi-LAN and the IEEE to which IEEE members
6 and others are third-party beneficiaries." So
7 Motorola took a square position on the legal issue and
8 took it at exactly Apple's favor in this case and it
9 did so repeatedly.

10 I will note at paragraph 76 of that answer
11 further, Motorola took the motion "Furthermore,
12 Wi-LAN's representations and other conduct, including
13 the letters of assurance offering licenses on fair,
14 reasonable, and non-discriminatory terms, created
15 express and/or implied contracts with the IEEE and its
16 members, or alternatively between Wi-LAN and IEEE, to
17 which IEEE and other members are third-party
18 beneficiaries." So that, I think, helps address the
19 legal question Your Honor raised as well.

20 One final point -- and this I think is less
21 significant, but still worth noting -- it's in a
22 different case, Motorola's current counsel,
23 representing Nokia against Qualcomm, took also the
24 opposite legal position in square terms. Now,
25 obviously counsel are entitled to do that. That's not

1 improper and counsel can take different positions for
2 different clients in different cases and I'm not
3 suggesting there is anything improper about it, but
4 they have to do so with a view that that position is
5 well founded, of course.

6 And I would just commend the brief of counsel,
7 and we have a copy we will hand up, because it's well
8 written, forceful and persuasive in the *Nokia* case.

9 And I think if you compare them side by side with
10 counsel's brief for Nokia versus counsel's brief for
11 Motorola where it's taking the opposite position, I
12 was struck by the difference in tone, forcefulness,
13 clarity and positions.

14 And Your Honor will come to your own views, of
15 course, but as I say, there is obviously nothing
16 improper with taking different positions for different
17 parties, but the position that counsel took for Nokia
18 in that case was unambiguous: "These FRAND
19 undertakings are binding and enforceable commitments
20 that entitle manufacturers to implement the ETSI
21 standards subject only to the obligation to pay FRAND
22 compensation for any valid patents that are actually
23 infringed by implementing standards, and free from the
24 possibility of injunctions" -- *free from the*
25 *possibility of injunctions*, exactly the issue we are

1 rising.

2 "It is rather an irrevocable, binding and
3 enforceable commitment made to ETSI for the benefit of
4 third parties to grant licenses to those patents on
5 FRAND terms" -- exactly of course the position that
6 Apple takes here. So we think that addresses, Your
7 Honor, whether there is in fact a contract between
8 Apple and Motorola which Apple may enforce by virtue
9 of being a member of ETSI.

10 There is of course a second basis for enforcing a
11 contractual promise and that's third-party
12 beneficiary. And in our view, this applies to both
13 standard-setting bodies either in the first instance
14 in which, if Your Honor decides that there is not a
15 contractual agreement between the members, but instead
16 that contract is between Motorola and ETSI, the
17 organization, which as I understand it is Motorola's
18 position here, in that case Apple and all other
19 members of that body are, in our view, clearly
20 third-party beneficiaries of that contract.

21 And as counsel took the position in the *Nokia*
22 case and as Motorola took the position in the *Wi-LAN*
23 case, even if Apple is not a member of the
24 organization, by virtue of its producing products
25 which they claim are compliant with the standard, in

1 that case we become a third-party beneficiary because
2 that is the purpose of the standard is to have parties
3 produce products pursuant to those standards.

4 So I would like to address the third-party
5 beneficiary basis as a separate and independent ground
6 and for that of course we have to go back to the
7 bylaws. Section 1.4 has a section on the rights and
8 obligations both of members and nonmembers and they
9 have explicit provisions in the bylaws about third
10 parties:

11 "Third parties have certain RIGHTS" -- this is a
12 quote -- "under the ETSI IPR Policy either as owners
13 of Essential IPRs or as users of ETSI standards and
14 documentation." And one of those rights is "To be
15 granted licenses on fair, reasonable and
16 non-discriminatory terms." I don't think there could
17 be a clearer indication in the bylaws that Apple would
18 be a third-party beneficiary of any contract between
19 Motorola and the relevant standard-setting bodies.

20 Now, if you look at again Motorola's opposition,
21 their case law, in our view, explicitly again supports
22 Apple's position. They cite the *Becker* case and the
23 *Becker* case actually found that third-party
24 beneficiary status had been confirmed and used three
25 particular tests under a "totality of the

1 circumstances" test, and this is of course under
2 Wisconsin law.

3 The first is, is there a benefit specifically
4 conferred directly on Apple from these
5 standard-setting bodies? And the answer to that is
6 plainly yes because the bylaws say the benefit is to
7 be granted a FRAND license and that is indeed the
8 whole purpose of the standard-setting bodies.

9 Second, is the benefit limited to a well-defined
10 group of third parties? Yes, certainly those who are
11 producing products relating to that standard.

12 And third, is Motorola required to assume
13 liability to third parties? That's exactly what the
14 bylaws said. So as the court found in *Becker*, those
15 three criteria clearly apply here.

16 Now, one point that Motorola made in its
17 opposition brief that I want to pause on very briefly
18 is they make an argument that Apple has to be
19 specifically mentioned by name in the underlying
20 contract and they cite a case for that that does not
21 support that proposition.

22 The actual law, as *Becker* points out, is you look
23 to the contract to see, using a "totality of the
24 circumstances" test, to determine whether in fact
25 there is a benefit intended to be conferred to Apple.

1 Apple does not have to be mentioned by name and I
2 don't want to just address that issue specifically
3 because the law does not support that contention.

4 Now, again on the expressed question of
5 third-party beneficiary status in relation to
6 standard-setting bodies, Motorola's position here is
7 irreconcilably inconsistent with the position it took
8 in the *Wi-LAN* case where it expressly took the
9 position that it was a third-party beneficiary of
10 Wi-LAN's assurances of FRAND obligations in the IEEE
11 standard-setting body, so I think that is the question
12 on the law with respect to third-party beneficiaries.

13 The second important issue of course is whether
14 Motorola has breached that obligation. And here I
15 want to focus on three specific issues. First is
16 whether the offer that Motorola has made to Apple
17 meets two of the particular requirements of FRAND.
18 One is that it must be reasonable and the second that
19 it must not be nondiscriminatory. And secondly and
20 independently, or thirdly independently, is whether
21 Motorola is seeking injunctive relief, is that it by
22 itself a breach of its obligations since it undermines
23 the entire purpose of course of the standard-setting
24 bodies.

25 Now, one of the arguments that Motorola made a

1 couple of times in opposition to breach is that the
2 language in the standard-setting bodies is so fuzzy
3 that it can't possibly support a breach-of-contract
4 claim. And as to that, I will obviously respond
5 directly and have already shown you some of the
6 language, but I did want to show a portion of the
7 expert declaration that Motorola submitted in
8 opposition to this motion because it is again directly
9 inconsistent with Motorola's position on this issue.

10 Mr. Holleman, who is a standard-setting body
11 expert that was submitted by Motorola, when he is
12 talking in background about how the standard-setting
13 bodies operate he says, "Well, their rules and
14 procedure govern the standards development process and
15 provide guidance for the fair and reasonable behavior
16 of its participants. The participants rely on those
17 rules and procedures to govern their actions." That
18 goes exactly to our question of whether there is a
19 contract. "SSOs develop substantial effort and care
20 to formulating their written rules because of the
21 importance of providing clear, well-understood
22 guidance to SSO participants."

23 So at least as to this almost footnote-level
24 argument that Motorola made in its opposition that you
25 can't have a breach claim where the rules are unclear,

1 their own expert goes to some length to say, "Well,
2 here it's clear and well understood and everybody
3 follows it," at least as far as he is concerned with
4 regard to SSOs.

5 But now I want to turn to the core question of
6 whether their offer or their demand is in fact a FRAND
7 offer because if it's not, then they have clearly
8 breached their obligation to provide a FRAND offer
9 before initiating any litigation.

10 Their demand to Apple has been 2.25% and 2.25% of
11 the entire value of the product whether it's an
12 iPhone, an iPad or other devices, and that's just
13 going forward. Their demand is 3.25% for past sales.
14 And our view is that that is not a FRAND rate, for two
15 separate and independent reasons. One is it's not
16 reasonable, which is the R in FRAND, and it's also not
17 nondiscriminatory, or put affirmatively, it is
18 discriminatory, which violates the ND part of FRAND.

19 Now, let's start with *reasonable*. And here I
20 believe we are going to get into confidential -- well,
21 not quite yet. I think we have a little bit more.

22 THE COURT: You're verging on it.

23 MR. POWERS: We're getting close. There are
24 four reasons, in our view, each independently valid,
25 as to why the 2.25% demand made by Motorola does not

1 meet the reasonable requirement of a FRAND offer. The
2 first is that it's not just Motorola asking for
3 license revenues of course and royalties; it's every
4 patent holder that participates in the standard. And
5 there are of course dozens of participants and
6 hundreds or thousands of patents, so every participant
7 can't -- if there's 50 participants, everyone can't
8 ask for 2.25% or you've quickly taxed the entire value
9 of the product and made the standard pointless. So
10 you do have to look at what the total royalty burden
11 is and then divvy that up among the participants based
12 on their contribution of the number of patents.

13 And here I don't think it's disputed that
14 Motorola's contribution is on the order of 5%. In
15 other words, as to the 3GPP patents, there the number
16 of patents that they've declared to be essential is
17 about 5% of the total number of patents declared by
18 all participants to be essential. So Motorola can't
19 say, "Well, we contributed 5% of the patents, so we're
20 going to take 40% of the royalties," because the math
21 doesn't work out that way. However, the math from
22 their 2.25% demand does work out that way.

23 If you take 2.25% and you multiply it times -- if
24 everybody who had a 5% share demanded it, the total
25 royalty burden would be 43%. And we've provided

1 evidence that the general understanding is that the
2 total royalty burden from all participants, all
3 patents, should be 10% or less in the high single
4 digits, which of course makes sense because if you are
5 promoting a standard and you want that standard to be
6 effective and cost effective and multiply it
7 throughout the world, you can't have everybody paying
8 a 50% royalty burden on top of their cost of
9 production.

10 We've presented evidence of all of that and
11 notably Motorola submitted a declaration from
12 Mr. Holleman, who was an SSO expert, and he did not
13 deny any of those facts, and yet the logic of not
14 having a 43% royalty burden is I think self-evident.

15 The second point as to why, an independent point
16 as to why, in our view, their 2.25% demand is
17 unreasonable on its face is that it does not limit it
18 to the functionality that Motorola claims to have
19 contributed, but is instead applied to the entire
20 retail price of an iPhone or an iPad or other devices.

21 Those devices of course are highly complicated
22 devices with all sorts of functionality having nothing
23 to do with the functionality that Motorola claims to
24 have contributed, yet Motorola is seeking 2.25% off of
25 the entire value of the device notwithstanding the

1 fact that it has all that additional unrelated
2 functionality.

3 The *Lucent v. Gateway* and other decisions make
4 clear that even as a matter of patent damages, that
5 wouldn't be appropriate. And of course a FRAND
6 license must be well below what normal patent damages
7 were, otherwise the standard would never work. And
8 we've laid out in detail in our declarations all the
9 additional unrelated functionality and again, they've
10 submitted a report from a standard setting expert and
11 didn't contradict any of that analysis.

12 That analysis is brought home acutely when you
13 think about the Verizon phone in particular because in
14 Verizon, you have a specific example of a chip which
15 includes all of the functionality that Motorola claims
16 it contributed to the standard. That chip, again
17 according to publicly-released numbers, not using any
18 confidential numbers, the cost of that chip is
19 approximately \$16. If you apply Motorola's 2.25% to
20 the entire price of the iPhone, you get a cost per
21 phone of almost \$20.

22 So you have the anomalous, and I would argue
23 absurd result, that under their theory of what a
24 reasonable royalty is, you can charge Apple more than
25 the cost of the functionality itself by virtue of the

1 fact that you are charging off of this larger product
2 that has unrelated things, yet -- and this is
3 important -- Motorola is licensing Qualcomm on that
4 chip separately.

5 So there it's getting whatever percentage it gets
6 of approximately \$16, not \$700, and yet it's the same
7 license, the same bundle of rights, and yet of course
8 the cost is off by factors of 10 or more. And that's
9 an excellent example both of why the entire market
10 value basis for Motorola's pricing is not reasonable
11 and why it's discriminatory.

12 THE COURT: This is an issue you could raise
13 as a defense in the ITC, is it not?

14 MR. POWERS: It is in part a defense that can
15 and will be raised in the ITC, but certainly the
16 claims that we are making here are not claims that can
17 be made in the ITC. Those counterclaims must be
18 removed, cannot be heard.

19 THE COURT: But I'm talking about the
20 legitimacy of the FRAND negotiations.

21 MR. POWERS: Those arguments certainly can
22 and will be made in the ITC as a defense, but the law
23 of course is that the fact that we can make a defense
24 in the ITC doesn't remove our rights to a claim that's
25 separate, independent and broader.

1 THE COURT: I'm not suggesting that it does.
2 I'm only thinking in terms of the preliminary
3 injunction and the need for it.

4 MR. POWERS: Understood. And our point is
5 that the fact that we have a right partially to have
6 part of this heard as a defense in the ITC shouldn't,
7 in our view, affect the preliminary injunction on a
8 broader claim here. That is our argument.

9 I do want to pause on a third point and this
10 comes out of the declaration that was submitted by
11 Motorola of Mr. Dailey in Exhibit 5. And in that
12 declaration Mr. Dailey cited what he called
13 "published" royalty rates. And this was -- this is I
14 believe a non-confidential document that Motorola was
15 using to argue that its 2.25% rate was "published" and
16 therefore standard.

17 But one interesting aspect of that document on
18 which Motorola relied is that many other players with
19 far larger portfolios, far larger contributions to the
20 standard -- Ericsson, Nokia, others -- had -- and
21 Huawei -- had substantially lower royalty demands.
22 Now, even those royalty demands may or may not be
23 FRAND and certainly many cases aren't. But the fact
24 that Motorola's demand is materially higher even than
25 those of other parties licensing in the same standard

1 where those other parties have more patents to
2 contribute is highly probative evidence that
3 Motorola's 2.25% demand is not reasonable.

4 MS. SULLIVAN: Your Honor, this is the point
5 at which we would like to request closing the
6 courtroom.

7 THE COURT: All right. Anyone who is not
8 associated directly with a party either as counsel or
9 as an employee is asked to leave the courtroom at this
10 time. I think everybody is out.

11 MR. POWERS: I think we are ready. Could you
12 bring that back up, Chris?

13 MS. SULLIVAN: Your Honor, could we have one
14 moment, please?

15 THE COURT: Certainly.

16 (Discussion held off the record.)

17 MS. SULLIVAN: Thank you, Your Honor.

18 MR. POWERS: Now, Motorola's primary response
19 to the question of whether its 2.25% demand is
20 reasonable is that it is the "standard" rate, implying
21 that if everybody is paying it, it must be reasonable.
22 The problem of course is that everybody isn't paying
23 it. In fact the facts are that nobody is paying it.

24 And I want to focus and walk fairly deliberately
25 through the proof that Motorola has put forward and

1 then dissect it because this is an important issue and
2 it goes directly to the heart of whether in fact their
3 2.25% demand is reasonable. And Motorola's evidence,
4 in our view, in fact proves the opposite, that its
5 demand is not reasonable.

6 The key paragraphs of the Dailey Declaration are
7 paragraphs 6 and 8 and this is where Motorola lists
8 various licensees. In paragraph 6 Motorola lists
9 licensees whose names we have all heard of and
10 recognize as major self-owned suppliers -- RIM, Nokia,
11 Samsung, LG, Sharp, HTC and Ericsson. And there is an
12 implication at least that those well-known parties,
13 who make a large number of cell phones, are licensed
14 and paying the standard rate. They don't say that
15 directly, in fairness, but there is an implication
16 from the argument that that's true. It is in fact not
17 true.

18 Paragraph 8 is where Motorola takes the position
19 that in fact there are parties who are paying the
20 2.25% *standard* rate, as they call it, and they list
21 three -- something called T&A Mobile Phones Limited,
22 something called *Compal*, and Hitachi. Now, before we
23 go into the details, I do want to note that the
24 contrast between the paragraph 6 names -- RIM, Nokia,
25 Samsung, Ericsson -- and T&A Mobile Phones and Compal

1 and Hitachi, is stark. I defy you to go to Best Buy
2 and buy a T&A, Compal or Hitachi phone. They don't
3 exist here and all the others do.

4 And so as an initial matter, I want to note that
5 even if taken on face value, which I will demonstrate
6 it should not be, but even if taken on face value,
7 merely citing three parties who produce no known
8 phones in the United States that we've ever seen --
9 T&A, Compal and Hitachi -- and they may, I don't know
10 whether they do or not, but I've certainly never seen
11 them, they are certainly not household names for cell
12 phones.

13 Saying they've taken a license at 2.25%, even if
14 they did, does not create a standard rate. If they
15 comprise .1% of all cell phones made, that isn't
16 standard by anybody's standard, and yet that is the
17 proof that has been adduced, even if taken on its
18 face, but it shouldn't be taken on its face.

19 If you look, for example, at the market share
20 data of the names in paragraph 6 -- Nokia, Samsung,
21 RIM, HTC, et cetera -- they are all very very large
22 and they comprise a very high percentage of the cell
23 phones that are made. The ones in paragraph 8 don't
24 even make the list. Maybe they're buried in others
25 somewhere, but they don't make the list.

1 And as to those names in paragraph 6, I want to
2 note what Motorola did and didn't provide the Court.
3 They did, as to one party, RIM only, provide terms
4 that were, that they contend, negotiated between
5 Motorola and RIM. All of the others -- Nokia,
6 Samsung, Ericsson, LG, Sharp and HTC -- all the ones
7 cited and touted as household names in paragraph 6,
8 they provided no terms about what the actual terms of
9 those licenses were.

10 So we must assume that if it had been a 2.25%
11 license right, they would have told us, and they
12 didn't, so we must assume that it is nowhere near
13 2.25%. And in fact for the few that we've been able
14 to find, the evidence is that it's nowhere near 2.25%.

15 Let's start with RIM. RIM is not at 2.25% even
16 on the information provided by Motorola. It's 1.7%,
17 materially lower, but also with a cap. And the cap is
18 material because if they hit that cap, as RIM, as a
19 major supplier, does, it turns out it's about 1.25%,
20 given the volume that RIM sells. So that's a full
21 percentage point less, almost half of the rate that
22 Motorola is demanding from Apple, yet it's put forward
23 as an example of standard rate.

24 Let's look at Samsung, another major supplier.
25 Samsung is also not at the 2.25% rate. Samsung paid

1 \$175 million flat for a five-year term. That's \$32
2 million a year. Now, if you look at the number of
3 phones Samsung makes, that's 280 million mobile
4 phones. Even if you assume that the average price for
5 those phones is only \$50, which we all know it isn't,
6 many of those phones cost several hundred dollars.
7 But even if you assume only \$50, because I want to
8 remove any argument about it, the rate charged by
9 Motorola to Samsung would be .22%, which is ten times
10 less, *ten times less*, than what Motorola is demanding
11 from Apple.

12 The Nokia agreement, again not provided as part
13 of the motion papers, well, they get \$35 million for
14 the remaining life of the patents. The effective
15 royalty rate when you use Nokia's very large sales, of
16 course, is well below, .1%, again well below, 20
17 times, what in fact Motorola is demanding of Apple.

18 Ericsson, the Ericsson math is easier. It's
19 royalty free, they pay nothing, so it's at some level
20 infinitely less than what Motorola is demanding of
21 Apple.

22 So when you look at the "standard" rate that is
23 asserted and then you look at the actual rates that
24 are being charged by Motorola to the major cell phone
25 manufacturers, there is, in our view, no credible

1 argument -- even though the fact is disputed, as Your
2 Honor noted -- there is no credible argument that the
3 rate being demanded by Motorola of Apple is
4 reasonable. It is 10 or 20 times or infinitely
5 greater than that being charged all of Apple's major
6 competitors. And as a footnote, it's obviously
7 discriminatory, too.

8 THE COURT: Do we know what kind of
9 cross-licensing, if any, there is between Motorola and
10 those companies?

11 MR. POWERS: There is, as I understand it,
12 cross-licenses of essential patents. The license
13 agreements all vary, in some respects. And as I
14 understand it, all of them or most of them have a
15 cross-license of essential patents and in some cases
16 there are particular terms.

17 I think the RIM patent has one where RIM licenses
18 or gives a couple or four non-essential patents also
19 to Motorola as well, so there are different terms as
20 part of that, of course.

21 THE COURT: Because it would be pretty hard
22 to value the license fee unless you knew that.

23 MR. POWERS: Well, when the license fee is 20
24 times less and you are just talking about a
25 cross-license of essential patents, which is what they

1 are demanding of us, too, let's be clear, the demand
2 by Motorola to Apple is not just 2.25%, it's also a
3 cross-license of all essential patents.

4 THE COURT: But that was just the starting
5 point, correct?

6 MR. POWERS: It is certainly Motorola's
7 position that that is, as I would characterize it, the
8 sticker price from which one can negotiate downward.

9 THE COURT: Well, when you say that, what
10 exactly happened? Motorola said, "Okay. We've got
11 these essential patents. We will be willing to
12 license them to you for 2.25%."

13 MR. POWERS: Yes.

14 THE COURT: What did Apple do?

15 MR. POWERS: Apple, this is laid out in the
16 Lutton Declaration, Apple tried to negotiate from that
17 and was unsuccessful. In our view --

18 THE COURT: What did they do?

19 MR. POWERS: Apple did not make an offer, I
20 believe, of a particular amount, but Apple was arguing
21 that the amount should be much less than that and
22 Apple presented its own patents and argued as to why
23 it should be less. And as I understand it, there were
24 a very small number of meetings and there just really
25 wasn't much progress made.

1 But the issue, in our view, isn't what Apple did,
2 it's whether a FRAND offer was made, because the
3 obligation that Motorola undertook is not to be
4 reasonable at the end of a negotiation; it's to make a
5 FRAND offer. And the essence of an SSO is they have
6 to make a FRAND offer that we can accept and move on,
7 it's not a protracted two-year negotiation where they
8 can extract whatever value they extract, and they
9 didn't do so.

10 Now, Your Honor is right, in the normal course,
11 if we were outside the context of an SSO, you would
12 have a back-and-forth discussion of the type that
13 normally happens. But that is not, in our view, the
14 issue here.

15 THE COURT: But still, a FRAND offer is not
16 something that you can look up in the dictionary.

17 MR. POWERS: True.

18 THE COURT: There is always going to be some
19 difference of opinion about what a fair license
20 agreement is.

21 MR. POWERS: True.

22 THE COURT: So you can't expect that Motorola
23 will just waltz in and say, "What do you want?" --

24 MR. POWERS: We don't.

25 THE COURT: -- "What are you willing to pay?"

1 That's fine." There's got to be some negotiation.

2 MR. POWERS: And typically there would be.
3 Our view though is that is objectively knowable, in
4 light of these facts, whether what they offered. It's
5 also not our requirement under the SSOs to walk in and
6 say, "Here is the amount we think we should pay. Do
7 you agree?"

8 THE COURT: I agree with that.

9 MR. POWERS: And the obligation is for them
10 to make a FRAND offer, not to see how much they can
11 get from us. That's what a negotiation is, how much
12 they can get from us. A FRAND offer is
13 nondiscriminatory, fair and reasonable; it's not a
14 normal negotiation.

15 And I don't think -- I just don't think there is
16 a credible argument that when they are charging our
17 competitors 20 times less than what they are charging
18 us, 10 times less, infinitely less by giving it free,
19 that what they are demanding consistently from us is
20 fair, reasonable and nondiscriminatory.

21 THE COURT: I understand that.

22 MR. POWERS: And the point that I want to
23 make, hopefully blatantly clear, is I don't think it's
24 fair to shift the burden to Apple to negotiate them
25 down to something that would be FRAND. That is not

1 the construct of the SSO.

2 THE COURT: Right.

3 MR. POWERS: Now, I would like to turn to the
4 paragraph 8 parties. These are the parties -- we've
5 covered paragraph 6, which were the household names
6 where there is a slight implication that they were
7 paying the standard rate and obviously they are not.
8 Paragraph 8 was an explicit statement that these three
9 unheard-of, never-will-be wannabes are paying the
10 standard rate.

11 THE COURT: You can't say "never will be."
12 Life changes very quickly.

13 MR. POWERS: I can say it, but I might be
14 wrong. And when you learn some details about these, I
15 think you might even agree with me. When you look at
16 actually the deals that they have with these three
17 certainly never-have-beens, the terms are not 2.25%
18 across the board.

19 Now, T&A Mobile Phones, it turns out, is based in
20 Hong Kong. And we obviously don't have information
21 yet from Motorola about what they sell to whom or
22 where, but we know the rate isn't 2.25%. For 2011
23 it's 1.7%. And there is a complicated formula where
24 something could be added to it and we don't even know
25 whether they sell anything, for example, in the United

1 States at all. And given their location, they may
2 not. That's T&A Mobile Phones.

3 Compal is based in Taiwan. Now, they are what is
4 called an *ODM* manufacturer, which means another
5 company may want to a cell a phone of model X and they
6 will have Compal make it for it and they will sell it
7 under X's brand and so we don't know --

8 THE COURT: I always thought that was called
9 an *OEM*.

10 MR. POWERS: *OEM* is the "original equipment
11 manufacturer," which is the one that actually makes
12 it. This is "original design manufacturer."

13 THE COURT: Design manufacturer.

14 MR. POWERS: So they'll make it to someone
15 else's design --

16 THE COURT: I get it.

17 MR. POWERS: -- and it will be sold
18 ultimately under someone else's brand. And here the
19 rates are all over the map depending on where they are
20 selling. It can be as low as less than 1%. If they
21 are selling where they appear to be doing their
22 selling, which is Taiwan, it can be as high as 2.25%,
23 but there is no evidence that anything is actually at
24 2.25%. But at a minimum, we know that this Taiwanese
25 company has rates probably below 1% for most of its

1 sales, but again clearly not 2.25% across the board.

2 And one point to note is that as an ODM, the base
3 price of what it's selling is going to be materially
4 lower than the ultimate retail price of the phone
5 because Compal is selling its phone to the person who
6 is going to sell it to you at retail. That's going to
7 be a lot lower than the ultimate retail price, so the
8 percentage is applied to a lower base than the base
9 that Motorola is asking us to pay.

10 Hitachi is a known name but not in the cell phone
11 business. Again, if you go to Best Buy, you are not
12 going to see any Hitachi phones. And their rates
13 again are all over the map, just over a half percent,
14 so almost four times less than ours, ranging up to
15 2.25% depending on which standard, which region, no
16 evidence that any of those is actually at the 2.25%.
17 And clearly, since it's based in Japan, where there's
18 the lowest rates, presumably that's where Hitachi is
19 selling phones and it's at a much much lower rate.

20 So even the three examples given by Motorola as
21 supposedly embodying the "standard" rate of 2.25% are
22 clearly not at 2.25% and are materially lower and
23 sometimes many times lower. And we asked Mr. Dailey
24 in his deposition, "Can you name anybody who is paying
25 2.25% across the board, which is what you repeatedly

1 demanded from Apple?" And the answer was "No."

2 That covers one ground of why 2.25% is not FRAND.
3 There is a separate, independent ground on
4 discriminatory and this really will go quickly because
5 it flows from the evidence we just gave about what
6 rates were actually being charged by Motorola to
7 Apple's competitors.

8 The demand for Motorola to Apple translates for
9 past sales to over \$2.2 billion per year starting in
10 2011. It would be \$1.17 billion according to their
11 math. Now, that is dramatically and demonstrably
12 discriminatory in the face of what Motorola is
13 charging our primary competitors.

14 RIM, which makes the BlackBerry, they only pay
15 \$150 million a year maximum, ten times less than what
16 they are demanding from us; Nokia, one-time lump
17 payment of 35 million; Samsung, 32 million a year;
18 Ericsson, nothing. So the discriminatory aspect of
19 their demand to us is palpable and can't be made up by
20 any calculations of purported value that they are
21 trying to get out of the other licenses.

22 So one breach that Motorola has made of their
23 FRAND obligation is not offering a FRAND demand and
24 there are two independent grounds for that. There is
25 a second breach, in our view, and that is merely

1 seeking injunctive relief and that is a breach and a
2 violation clearly of the purpose of the
3 standard-setting bodies. The whole purpose of the
4 standard body is to promote the standard, not to
5 enjoin people from practicing the standard or selling
6 phones compliant with the standard or under the
7 standard. And in our view, that's squarely
8 inconsistent.

9 And again, there is nothing wrong in Motorola's
10 counsel taking an inconsistent position from another
11 party, but I will note that on this exact issue in the
12 *Nokia-Qualcomm* case in Delaware, Motorola's counsel
13 expressly took the position that "For all these
14 reasons, IPR holders of essential patents subject to
15 FRAND undertakings, and specifically Qualcomm here,
16 should be estopped from seeking any injunctions
17 against practice of patents declared as essential to
18 ETSI standards." That argument, we believe, is right;
19 that argument, we believe, is well supported by the
20 law; and that argument, we believe, should be applied
21 in this case.

22 Motorola's position here is also inconsistent
23 with the position that it took in the *Wi-LAN* case when
24 it was on the other side of the issue. And
25 specifically in paragraph 77 of its answer, Motorola

1 asserted that "Wi-LAN breached its contractual
2 obligations, including by failing to offer licenses...
3 on fair, reasonable and non-discriminatory terms, by
4 seeking to enjoin Motorola from making and selling
5 802.11 compliant products" and from other means. So
6 merely seeking the injunction, as both Motorola's
7 counsel and Motorola have previously noted in other
8 cases, is squarely inconsistent with the obligations
9 of Motorola in the SSOs and the entire purpose of the
10 SSO.

11 Motorola's response on likelihood of success on
12 the merits, there are four positions:

13 One was that Apple has no contract with Motorola.
14 We've already covered that I think with the bylaws,
15 the cited authorities on privity, et cetera.

16 The second position is that Apple has no
17 third-party beneficiary claim. I think we've covered
18 that again with the bylaws that explicitly call out
19 the benefits that we're talking about here.

20 And their third argument is that Motorola made a
21 FRAND offer. Well, how can it be FRAND if in fact the
22 demand is 10, 20 or an infinite number of times
23 greater than what it's getting from Apple's
24 competitors?

25 And the next issue of course is irreparable harm,

1 and this is an issue that I think Your Honor touched
2 on with a question earlier on, and the case law on
3 this I think is relevant in at least two respects.
4 One is a question of timing. There is of course an
5 immediate threat to Apple's business by the threat of
6 an exclusion order in the ITC that would prevent
7 importation of all of our products.

8 THE COURT: Well, let me go back to that
9 because I've been thinking about that. As long as
10 this proceeding goes ahead in the ITC, that will
11 always be a possibility, right?

12 MR. POWERS: That's why we are seeking
13 Motorola -- to enjoin Motorola from participating in
14 that, that's exactly why. So there is square Seventh
15 Circuit law of course on the irreparable harm nature
16 on that, but there is also specific irreparable harm
17 law on the question of parallel district court and ITC
18 proceedings and there are a few cases on that exact
19 issue.

20 The *Tessera v. AMD* case from the Northern
21 District of California specifically enjoined the
22 plaintiff there from proceeding in the ITC, which is
23 the relief we are seeking here, and it found that "ITC
24 proceedings could result in an exclusion order" --
25 *could result* -- "barring the importation of the ASP

1 Defendants' products. There is a high likelihood that
2 even a temporary ban on imports would disrupt the ASP
3 Defendants' business and damage relations with their
4 customers. These harms cannot be readily quantified
5 and are irreparable." The *General Protect Group* case
6 in the District of New Mexico is similar, "finding
7 irreparable harm if party is permitted to proceed in
8 ITC"; and the *Ciena-Nortel* case is the same.

9 Now, each of those three had one of the issues in
10 fact of the bases for the injunction was the presence
11 of a forum selection clause in agreements that were
12 applicable at that time. And I think that one
13 argument that Motorola has made is, well, those cases
14 are inapposite because there is no forum selection
15 clause here and I think that that misses in part the
16 point.

17 Those three cases held that where a patent holder
18 has given up some of its rights as to where, when and
19 how it may sue people practicing a standard or it may
20 sue people under a patent, then it has given up the
21 right to proceed in the ITC and we may enjoin that.

22 There they gave up that right in the form of a
23 forum selection clause. Here they gave up that right
24 in the form of an assurance that says, "We won't sue
25 before we make a FRAND offer." That FRAND offer, that

1 FRAND obligation, that participation in the SSO, was
2 just the same as these cases -- giving up the patent
3 holder's rights to sue on its own terms whenever and
4 wherever it wanted to.

5 It is subject to that FRAND obligation just as
6 Motorola argued in *Wi-LAN* and just as counsel argued
7 in the *Nokia* case. And that, under the same reasoning
8 of these cases, says there is irreparable harm in
9 proceeding in the ITC. In our view, the cases are
10 really directly relevant because they are just two
11 different ways that a patent holder gives up its
12 unfettered right to sue when, where and how it chooses
13 to.

14 THE COURT: And you don't have even any
15 published district court opinions, let alone any
16 circuit court opinions, on this issue?

17 MR. POWERS: On the FRAND issue specifically?

18 THE COURT: No, on enjoining a party from
19 proceeding in the ITC.

20 MR. POWERS: Well, these three cases did so.

21 THE COURT: But they are not published and
22 they are only district court opinions.

23 MR. POWERS: They are only district court
24 opinions. The only case that I'm aware of that
25 relates to that issue is the *Tessera* case from the

1 federal circuit, which said -- which affirmed the
2 right of a district court to enjoin a party's
3 participation in the ITC as opposed to enjoining the
4 ITC from going forward itself, so that did address
5 that issue.

6 THE COURT: It just is hard for me to think
7 of -- yes, there is an outcome that will be harmful if
8 Apple loses, but it's an outcome that it has a full
9 opportunity to contest, can put in all its evidence,
10 all of this business about FRAND, all of the
11 information that you've given me today.

12 MR. POWERS: Certainly that information can
13 and in many cases would be made available to the ITC.
14 Our point is that under the scheme of law, we are
15 entitled to have an Article III court here and decide
16 that question, particularly as to claims that aren't
17 within the ITC's jurisdiction, which these
18 counterclaims are not.

19 And so there is nothing -- and I certainly
20 appreciate the relatively novel aspect of the motion
21 that we're making, but the fact that it's novel
22 doesn't mean that it shouldn't be granted.

23 The issue is, are we suffering irreparably by
24 virtue of them being able to do something which they
25 committed not to do and the answer is clearly yes.

1 No party in the world would tell you that being
2 subject to an ITC proceeding, even if you can put in
3 your defenses, is not irreparable harm. That threat
4 is irreparable, as the cases have demonstrated. There
5 are several -- case after case after case says that's
6 irreparable harm.

7 THE COURT: Simply to be part of the
8 proceeding?

9 MR. POWERS: Simply to be part of the
10 proceeding when you have a right not to be. That's
11 the *Tessera* case, the *General Protect* and the *Ciena*
12 case. They found it to be irreparable harm.

13 I want to touch briefly on the four procedural
14 issues that Motorola raised.

15 THE COURT: Quickly, and then we will take a
16 break at 10:30 and go ahead with the --

17 MR. POWERS: Very well. Thank you, Your
18 Honor. The four procedural issues, ripeness I think
19 we've already covered in response to Your Honor's
20 earlier questions, but I do want to at least note a
21 couple of things here.

22 Again, Motorola's counsel in the *Nokia* case
23 specifically addressed that issue as well where they
24 took the position in their pretrial brief, "Contrary
25 to Qualcomm's allegations, an IPR holder's ETSI

1 obligations apply to all patents it has claimed is
2 essential and committed to make available on FRAND
3 terms and conditions, not simply those that later
4 prove to be 'actually essential.'

5 I think that goes directly to the question Your
6 Honor asked almost at the beginning of the argument
7 about shouldn't we just wait to see if it's actually
8 essential or actually infringed. And that goes, in
9 our view, to the heart of what the purpose of the
10 SSO is.

11 The purpose of the SSO and the obligations is to
12 avoid all this, not to let you get to the end and say,
13 "Well, you were acquitted, so it doesn't matter." The
14 point is, you don't have to go through it.

15 The mandatory stay provision I think is covered
16 adequately in the briefs. 1659(a), which Motorola
17 relies upon, is not for the benefit of Motorola; it's
18 for the benefit of ITC respondents, which is Apple in
19 this case. Apple is the ITC respondent in the
20 relevant case.

21 What 1659 does is say that if Motorola sues Apple
22 in the ITC on patents 1 and 2 and then sues Apple in
23 the district court on patents 1 and 2, Apple has the
24 automatic right to stay the district court case as to
25 patents 1 and 2. It does not provide for any rights

1 at all for Motorola.

2 The discretionary stay argument is similarly
3 wrong as a matter of statutory construction. What the
4 counterclaim provision in 1337 is saying is that you
5 don't slow down the ITC proceeding based on the fact
6 that the counterclaim has been filed. It does not in
7 any way address possible relief that that counterclaim
8 may seek. It's merely saying the ITC isn't going to
9 do anything to slow down its proceeding because the
10 counterclaim is filed and then removed, so it really
11 is completely inapposite and the *Ansell* case is square
12 as to that issue.

13 We've talked about the *Tessera* decision. I don't
14 think we need to do that.

15 The doctrine of primary jurisdiction on which
16 Motorola has relied also just simply doesn't apply.
17 There is no suggestion that the ITC has primary
18 jurisdiction over FRAND issues, it does not, or any
19 special competence as to FRAND issues, it does not.

20 Judicial estoppel, which is another pulled out of
21 the bag by Motorola, doesn't really apply either
22 because judicial estoppel applies when a party takes a
23 position on a contested motion, persuades the court as
24 to its position on a contested motion and then wishes
25 to switch. The stay that we are talking about here is

1 the automatic stay that the statute provides for and
2 it was a joint motion and there is no judicial
3 estoppel there.

4 The motion to sever and consolidate is I think
5 covered adequately in the briefs, so I don't think we
6 need to cover that as well.

7 THE COURT: Okay. Thank you. We will take
8 ten minutes and resume with the defendant's argument.

9 MR. POWERS: Thank you.

10 (Recess at 10:25 a.m. until 10:35 a.m.)

11 THE COURT: Ms. Sullivan.

12 MS. SULLIVAN: Good morning, Your Honor.
13 Kathleen Sullivan for Motorola. Your Honor, let me
14 begin where Mr. Powers concluded, with the fact that
15 this is a novel and I daresay extraordinary procedural
16 maneuver. He took you, for many minutes, through the
17 substance, but he touched only briefly on the
18 procedural issues, but Your Honor correctly observed
19 at the beginning of the hearing that this is a
20 profoundly unusual request.

21 What Apple is trying to do here is to stop a
22 pending ITC proceeding set, as Your Honor observed,
23 for trial on July 25th. And let's not forget the
24 other extraordinary aspect of what Apple is asking you
25 to do.

1 In a sense, they are asking you to enjoin
2 yourself from conducting the 662 proceeding which is
3 set to proceed in due course in this court, so this is
4 an extraordinary procedural maneuver. And, Your
5 Honor, Apple has provided not a single published or
6 unpublished decision supporting this maneuver.

7 And let me just go back to the forum-selection
8 cases that Mr. Powers spoke to you about. He said,
9 "Oh, people enjoin ITC proceedings all the time."
10 Well, as Your Honor observed, he came up with a
11 handful of unpublished cases. But the key point is
12 that those cases, all of them, including the *Tessera*
13 case in the Northern District of California, Judge
14 Wilken's case, and including the *Tessera* case in the
15 federal circuit, all of those were cases in which the
16 ITC proceeding was filed in contravention of a forum
17 selection clause in the parties' licensing agreement.

18 And all the court was saying is, if you sign a
19 contractual agreement to litigate only in California,
20 it's a violation of that agreement to go litigate in
21 the ITC and we will enjoin the proceeding where the
22 forum selection clause precludes that proceeding.

23 Your Honor, that is not a precedent here, as
24 Mr. Powers was forced to concede. There is absolutely
25 no resemblance between the standard-setting

1 organizations and the declarations or assurances made
2 to those organizations and a forum selection clause.
3 The cases are not on point.

4 So what Apple is asking you to do is to throw a
5 giant wrench into a pending ITC proceeding for the
6 first time in any district court action in the United
7 States in the absence of a forum selection clause and
8 they gave you no basis for that in law. But, Your
9 Honor, they've also given you no basis for that
10 extraordinary procedural outcome in terms of policy.

11 As Your Honor recognized in the *SanDisk* decision,
12 which we think is highly helpful in determining what
13 should happen here in terms of consolidation and stay,
14 in *SanDisk*, as this court recognized, the ITC
15 proceeding, as a matter of national policy,
16 congressional policy, is designed to allow parties
17 speedy resolution of controversies over the
18 importation of goods that violate American
19 intellectual property rights. And to interfere with
20 ITC proceedings in the absence of any published
21 decision in a similar circumstance would be
22 extraordinary. And we would submit, Your Honor, that
23 it's actually precluded by statute.

24 Mr. Powers went by these slides very fast, so if
25 I could call Your Honor's attention back to the most

1 important statutes we see as at issue in the case.

2 This is a little bit difficult to read. Can you
3 expand the print for those of us who are not as young
4 as some members of our team in terms of eyesight?

5 Your Honor, the key language in 19 U.S.C. 1337
6 highlighted here is that "Action on such
7 counterclaim," counterclaims like the ones filed here.
8 Your Honor, of course we are not contesting Apple's
9 right to file its counterclaims and remove them. What
10 we are arguing about is whether those counterclaims
11 can be the basis for shutting down an ongoing ITC
12 proceeding.

13 And we think the language in Section 1337 is
14 mandatory and preclusive: "Action on such
15 counterclaim shall not delay or affect" -- "Action on
16 such counterclaim shall not delay or affect the
17 proceeding under this section" -- that is, the ITC
18 proceeding -- "the proceeding under this section,
19 including the legal and equitable defenses that may be
20 raised under this subsection."

21 Now, as Your Honor correctly observed, Apple has
22 asserted FRAND defenses in the ITC proceeding. The
23 ITC is fully capable of hearing and adjudicating those
24 defenses. It doesn't, under our constitutional
25 system, have the power that an Article III court has

1 to award damages, but it does have the power to decide
2 whether FRAND, or the supposed failure to make a FRAND
3 offer to license essential patents on FRAND terms, the
4 ITC has full power to adjudicate that issue and will
5 do so in due course.

6 In fact, Your Honor, in prior cases before the
7 ITC, including one case before the very administrative
8 law judge, Judge Luckern, before whom the ITC
9 proceeding is now, in one such case he said, "I will
10 look at the FRAND issues that were raised." It was a
11 case involving other devices in other companies,
12 particularly Samsung. Judge Luckern said, "I'll get
13 to FRAND. I will adjudicate it in due course." That
14 case was settled, so there was no ultimate
15 adjudication. But it is simply incorrect for
16 Mr. Powers to assert that Apple's FRAND arguments are
17 incapable of resolution in the ITC.

18 There may be follow-on damages claims if, let's
19 say, there was a violation of FRAND and we are down
20 the road at a later point, they can come back to this
21 court if there is a stay operation under the 662 or
22 661 proceeding and seek damages, but it would be
23 highly unusual to dispossess the ITC of the power to
24 decide the FRAND issue that is already pleaded before
25 it by Apple and fully capable of resolution there.

1 And, Your Honor, just to add one more statute, if
2 we could look at Section 1659, this is 28 U.S.C. 1659,
3 the mandatory stay provision, I just want to correct
4 one thing that Mr. Powers said regarding that
5 provision. We would also suggest as to the two
6 patents that are the ITC patents at issue in this
7 removed counterclaim case, as to those two patents we
8 believe that actually a stay is mandatory under
9 1659(a). And Mr. Powers said, "Oh, Motorola can't
10 invoke 1659(a)" because we're not the defendant, but
11 we are the defendant on the counterclaim.

12 So 1659 says, "Upon request by a defendant in a
13 parallel action before a district court and the ITC,
14 the district court must stay its proceedings" -- as
15 you did in *SanDisk* with respect to the ITC pending
16 claims -- "with respect to any claim that involves the
17 same issues involved in the proceeding before the
18 Commission until the Commission's determination
19 becomes final."

20 So, Your Honor, not only is there no prior case
21 shutting down an ITC proceeding on the basis that
22 someone wants to go litigate a FRAND issue that they
23 could litigate in the ITC proceeding in a parallel
24 proceeding in district court, that argument also flies
25 in the face of these clear statutory commands,

1 mandatory commands, that favor the policy, the
2 congressional policy, of speedy resolution of
3 importation claims in the ITC.

4 So as to the two claims that are pending in the
5 ITC, and I know we've got a lot of patents floating
6 around here, but the two that are at issue here today
7 that are pending in the ITC, that's the '697 patent
8 and the '223 patent, we think that the answer to the
9 preliminary injunction motion here is that it's dead
10 on arrival, that it cannot proceed in this court
11 because the mandatory language of 1659 as to the stay
12 and 1337 as to not allowing district courts to affect
13 the proceeding in the ITC, we think that that means
14 that these two patents should not proceed here, cannot
15 be the basis for a preliminary injunction.

16 And what we've suggested to the Court is that the
17 simplest way to resolve this is to sever those two
18 patents and to consolidate them with the 661 action
19 that's already pending where those patents have
20 already been asserted.

21 Now, one more point about the mandatory stay
22 provision: Even if you disagreed with us, Your Honor,
23 that mandatory stay is required when we asked for it,
24 when Motorola asks for it, I would just like to remind
25 Your Honor that there is already a stay in place in

1 the 661 action. And the reason why there is a stay in
2 place in the 661 action is that Apple asked for that
3 stay after it filed its counterclaims there. We
4 joined in that motion, but Apple should not be heard
5 now to say that mandatory stays are inapplicable
6 because they are the only people who invoke them.
7 They invoked, Apple invoked, the mandatory stay
8 provision and got it in the 661 action.

9 So as to the '697 and the '223 patents, what we
10 respectfully request Your Honor to do is to sever
11 those, consolidate them with the 661 action and apply
12 to them the existing mandatory stay that's in place
13 there at Apple's own request.

14 It would be most extraordinary to unwind
15 everything that was done -- to allow us to go to the
16 ITC, then to file their counterclaims in the 661
17 action, obtain a stay -- to unravel that and now start
18 a new splintered-off proceeding here. They are trying
19 to splinter off two patents that were already -- that
20 are already under adjudication.

21 And the FRAND issues can be addressed in due
22 course there, first in the ITC subject to the stay.
23 And then if there are any issues remaining as to
24 Article-III-type issues, like damages, those can be
25 addressed later in due course in the district court

1 action after the stay is lifted, so we think that's a
2 straightforward answer to the procedural point on the
3 two ITC patents.

4 Your Honor, there is also -- it's most
5 extraordinary, Mr. Powers didn't spend much time on
6 this, but it's most extraordinary that Apple is in
7 effect asking you to enjoin yourself. I know that
8 technically what they are saying is that Motorola
9 should be enjoined in proceeding with respect to the
10 non-ITC patents that are already pending in the 662
11 action.

12 And just to remind the Court, I know these
13 numbers are terribly confusing, but the five that are
14 at issue in the 662 proceeding are the '898 patent,
15 the '230 patent, the '559 patent, the '712 patent and
16 the '193 patent. As to those patents, those are
17 already subject to an ongoing adjudication in this
18 court in which the issue of FRAND again can be
19 addressed as an affirmative defense to Motorola's
20 counterclaims in due course.

21 And not only can it be addressed in due course in
22 terms of following on from any benefit we get from the
23 ITC action or guidance as to the meaning of FRAND, it
24 will follow in due course in relation to infringement
25 determinations in that case.

1 And, Your Honor, as you hinted at earlier, you
2 correctly, in our view, suggested that infringement is
3 relevant to FRAND, that what Apple is really trying to
4 do here is in effect put the cart before the horse and
5 talk about FRAND before we've even determined whether
6 essential patents have been infringed.

7 So an additional reason why it makes sense to
8 sever the 59 ITC patents and consolidate those with
9 the existing ongoing 662 action and determine any
10 FRAND issues in that action is that this court will be
11 able to review any infringement contentions there and
12 determine whether FRAND obligations follow from
13 infringement of essential patents.

14 THE COURT: What do you say to Mr. Powers'
15 point that you shouldn't have to go into the
16 essentiality and the infringement -- potential
17 infringement of patents in terms of a FRAND offer
18 because as soon as one side says, "I think these are
19 essential patents," that party has an obligation to
20 license the patents that it considers essential
21 whether or not that party is correct?

22 MS. SULLIVAN: Well, Your Honor, Motorola
23 does strenuously disagree with that proposition, as
24 Your Honor correctly thought we would. But I think
25 that helps us turn to why the motion here is so

1 substantively extraordinary, such an extraordinary
2 proposition of substantive law.

3 So not only has Apple asked you to make novel
4 procedural law in shutting down an ongoing ITC
5 proceeding in an ongoing infringement case and
6 ignoring all the principles and policies at stake,
7 it's asking you to make -- to be the first court in
8 the United States to determine that FRAND declarations
9 or RAND assurances, depending on which SSO we're
10 talking about, deprive a party holding patents of its
11 right to enforce those patents.

12 In effect, that's what Apple is arguing to you,
13 that once you've made a FRAND declaration or a RAND
14 assurance that you will license -- that a patent is
15 essential to the practice of the standard and that you
16 will license it on RAND or FRAND terms, you can never
17 bring a patent infringement action anywhere, in the
18 ITC or in district court. That is not the law. No
19 case has ever held that. And to say that we are
20 incapable of trying to assert our intellectual
21 property rights in the ITC --

22 THE COURT: Would you say something more
23 about that because I thought that was the idea, that
24 if I have some patents and I tell my colleagues in the
25 standard-setting organization that my patents are

1 essential to some aspect of some technology, then
2 you're saying I have not given up my right to sue a
3 company that infringes on those patents? Assuming
4 that I can't get a FRAND -- I would make a FRAND offer
5 and say here's -- and the other side accepts it, I
6 can't sue them for infringement, can I?

7 MS. SULLIVAN: Well, Your Honor, no court has
8 decided that, so let's back up a step. We do argue
9 that a FRAND or RAND declaration is not a waiver of
10 the right to enforce intellectual property. Nothing
11 in ETSI or IEEE or any of the other standard-setting
12 bodies' policies says, and Mr. Powers was incorrect
13 when he suggested this, none of them says that you
14 give up your right to sue if the parties seek but fail
15 to arrive at a FRAND licensing agreement.

16 And of course Motorola admits here that we've
17 declared patents essential or made assurances to IEEE,
18 we don't deny that; and of course Motorola says that
19 we are obligated to try to reach FRAND and RAND
20 licensing terms, of course we agreed to that; but
21 nothing in that makes a district court the arbiter of
22 what FRAND means. As Your Honor said, FRAND is not
23 something you can look up in the dictionary.

24 Mr. Powers went for close on 45 minutes on deep
25 into the weeds of the argument about whose

1 intellectual property is worth what amount. And as
2 Your Honor correctly observed, whether 2.25% is a
3 FRAND offer as to some counterparties and lesser
4 amounts are FRAND as to other counterparties is a
5 deeply factual question, not something that is subject
6 to a judicial determination that X amount or Y amount
7 is the magic FRAND number.

8 What the SSO requires is the very process that
9 the parties have engaged in -- a private process of
10 bilateral negotiation. It's undisputed. The Holleman
11 Declaration, Motorola's expert who is an expert in
12 standard-setting organizations, says that the way that
13 FRAND and RAND is arrived at is through bilateral
14 negotiation in the market.

15 And Your Honor hit the nail on the head when you
16 said that those other licenses -- Nokia, LG, other
17 large companies -- those other large companies that
18 helped for 20 years to build the road that we are now
19 traveling in cell phone technology, they provided so
20 much value, as Your Honor correctly observed, that in
21 negotiations of royalty rates with those large
22 companies, sometimes, and we don't dispute this, an
23 effective rate of 2.25% is not the operative royalty
24 rate because there is a grant-back of valuable,
25 essential property rights in the counterparties, the

1 licensees' essential patents.

2 So there is no dispute here that FRAND and RAND
3 are what the parties are obligated to try to achieve
4 in private, bilateral negotiations. What Apple is
5 arguing here, which is unprecedented, is that those
6 negotiations entitle it to deprive us of our
7 intellectual property rights when those negotiations
8 don't succeed.

9 In other words, their argument is that they can
10 go into a negotiation, make unreasonable offers or
11 fail to make reasonable offers, say, "Well, we don't
12 think you made a FRAND offer and now you can't sue us
13 for infringement." That's a game of "gotcha" that the
14 SSOs simply do not provide. There is nothing in a
15 standard-setting organization's procedures that
16 foreclose litigation where negotiations have failed to
17 arrive at consensual FRAND or RAND terms.

18 THE COURT: Just out of curiosity, how long
19 has this procedure been in effect with the
20 standard-setting organizations?

21 MS. SULLIVAN: Well, the standard-setting
22 organizations vary as to organization. But since the
23 1990s, they have implemented these efforts to create
24 interoperability by having patentees declare essential
25 those patents which are necessary for different

1 products to interoperate on a single network.

2 But nothing in any of the standard-setting
3 organizations has ever said, "Oh, declared essential
4 patents are off limits to patent infringement
5 actions," which is essentially what Apple is arguing.
6 That is the most extraordinary proposition.

7 Now, I want to just dispose of some of the
8 authorities that Apple tried to put before you and say
9 why they don't in any way refute the argument I have
10 just made that Motorola retains its IP rights even
11 after it declares a patent essential and may enforce
12 them when FRAND negotiations break down.

13 Let me start, if I could, with his citation to
14 Ericsson and Broadcom. Your Honor said, "Are there
15 any published decisions out there in which any court
16 has declared that FRAND creates a contractual
17 obligation to grant a license and entails foregoing
18 your right to claim infringement?" And the answer is,
19 neither of those cases did so.

20 Even the quote that Mr. Powers highlighted from
21 the *Ericsson* case, the district court case, said that
22 the parties there agreed by stipulation that there was
23 a contractual obligation.

24 And if Your Honor goes to the Third Circuit
25 decision in *Broadcom v. Qualcomm*, you will see that

1 there, too, there was no holding that contracts with
2 SSOs displace the right to assert your patent; to the
3 contrary, it was an antitrust case that went up to the
4 circuit on a motion to dismiss. So there was no
5 adjudication in *Broadcom* that FRAND contracts --
6 either that FRAND creates a contract with an SSO or
7 that FRAND creates a contract among SSO signators,
8 much less any decision that any such contract, if it
9 did exist, could kill off IP rights and rights to
10 assert infringement actions.

11 Now, Mr. Powers also with Your Honor had some fun
12 trying to say that Motorola has made concessions and
13 he went even farther and claimed that Motorola's
14 counsel had made contrary arguments in the *Nokia v.*
15 *Qualcomm* case. And, yeah, he had a little fun with
16 counsel and that's okay. It's true that counsel -- I
17 was a member of the team that made these arguments --
18 made these arguments at the Delaware chancery court on
19 behalf of Nokia.

20 But the crucial point about the *Nokia* case and
21 the crucial point about the *Wi-LAN* case in which
22 Motorola, represented by other counsel, supposedly
23 conceded that FRAND creates contractual obligations,
24 the crucial point that must not be missed is that both
25 of those cases were settled before any adjudication of

1 the issue and the issue was intensely contested.

2 And by the way, it was contested in the *Nokia*
3 case not under Wisconsin law or any other domestic
4 law, but under French law, and there was deep
5 disagreement over whether French law permits
6 enforcement of a mere agreement to agree. As Your
7 Honor pointed out, there are deep factual questions
8 about whether there are enforceable FRAND obligations
9 here.

10 I would just add, Your Honor, that there are deep
11 legal questions, legal questions that may have to be
12 resolved according to choice of law -- under French
13 law, New York law -- depending on what SSO we are
14 talking about, and not under Wisconsin law at all. So
15 the FRAND issue was not settled in *Ericsson*, it was
16 not settled in *Broadcom*, it was not settled *Nokia v.*
17 *Qualcomm*, because none of these cases adjudicated the
18 issue, and it certainly was not settled in *Wi-LAN*.

19 Your Honor, to the extent the distraction of the
20 *Wi-LAN* case and Motorola's prior litigating position,
21 if I could dispel that with two more points. Not only
22 was *Wi-LAN* settled, so there was no adjudication of
23 the FRAND issue, but in that case Motorola didn't make
24 an inconsistent argument with what it's arguing here.

25 In *Wi-LAN*, Motorola did not seek an injunction or

1 preliminary injunction to stop any other ongoing
2 proceeding and in *Wi-LAN* there was no -- Motorola made
3 no argument that you should put the cart before the
4 horse and decide FRAND before infringement; it was a
5 case in which infringement and FRAND were in play.

6 So, Your Honor, to sum up, there is simply no
7 adjudicated precedent providing any justification for
8 what would be a novel rule of law announced if you
9 issued this preliminary injunction that a FRAND or
10 RAND declaration or assurance extinguishes a party's
11 right to bring an infringement action either in
12 district court, as in the 662 action counterclaims
13 here, or in the ITC. That would be most extraordinary
14 and it would be most unprecedented.

15 Now, Your Honor, I just want to say why the fact
16 that it's unprecedented is not surprising and that is
17 because, as Your Honor made so clear in the discussion
18 in the colloquy with Mr. Powers moments ago, there is
19 a very complicated set of factual issues that would
20 determine whether .5% or .18% or 1.7% or 2.25% is ever
21 a FRAND offer because it involves, as Your Honor
22 pointed out, determining not what rate in the air is
23 FRAND; it involves determining what rate in relation
24 between two parties is fair, reasonable and
25 non-discriminatory given the value that the licensee

1 gives back to the licensor.

2 And as was clear from the litany of companies
3 that Mr. Powers put up before you, and we have
4 licenses with companies like Nokia and Samsung and LG
5 that have been in the business for 20 years who helped
6 build the information highway on which the cell phone
7 technologies now send information, and that set of
8 companies we don't dispute that the sticker price is
9 lowered in bilateral negotiations because of the
10 give-back of value from the counterparties' patents.

11 Apple is a new arrival. The rate that's
12 appropriate for a new arrival may not be a fair,
13 reasonable and non-discriminatory rate for a new
14 arrival, may be quite different numerically from the
15 rate that's fair, reasonable and non-discriminatory
16 for companies that have licensed tremendous value or
17 given tremendous value to Motorola over a course of 20
18 years.

19 So, Your Honor, the point here is that the policy
20 of the standard-setting organizations, and Apple and
21 Motorola certainly agree about the policy of the
22 standard-setting organizations and the vital interests
23 they have in making sure we can all interoperate with
24 different products, that is not a justiciable question
25 that a court -- a czar of fair, reasonable and

1 non-discriminatory value -- can resolve. No court has
2 ever jumped into that hot seat to say, "I'm now going
3 to be the czar of FRAND," for a very good reason --
4 that's something that the market should determine
5 through bilateral negotiation. The evidence before
6 you is undisputed on that point. Mr. Holleman, the
7 Motorola expert who was a member of an SSO for a long
8 time, said that's the way it is done and Apple has put
9 in nothing to the contrary.

10 Now, Your Honor --

11 THE COURT: But at some point the court could
12 say you haven't negotiated fairly. I mean, it
13 wouldn't be proper for the Court to say you haven't
14 negotiated fairly, you should really be paying 1.36 or
15 something like that. But you could, after a
16 determination of the facts, decide that one party or
17 the other had not been participating reasonably in any
18 attempt to negotiate a license.

19 MS. SULLIVAN: Your Honor, we think not.
20 That would be a pure advisory opinion, that is, even
21 if we could figure out which contract law applied and
22 which third-party beneficiary law applied, French law
23 about *agrement en principe* or Wisconsin law or New
24 York law. Even if we could figure out what law
25 applied, it's difficult to imagine how a court could

1 enjoin parties to go back to the bargaining table and
2 to try to negotiate a better rate and it raises
3 questions about specific performance of contractual
4 obligations.

5 What Apple has said, which I would like to take
6 up with Your Honor, is they said, "Well, maybe there
7 is one thing a court could do which is justiciable and
8 nonadvisory." A court could say, well, no
9 injunctions. At least FRAND or RAND declarations
10 require monetary solutions and preclude the issuance
11 of an injunction.

12 And he cited to you the argument made in *Nokia*.
13 It was never accepted in *Nokia* and I can assure Your
14 Honor that Vice Chancellor Strine was very skeptical
15 of the argument when it was made in *Nokia* prior to
16 settlement of that case.

17 But I have to call Your Honor's attention to the
18 only adjudicated case of which Motorola is aware that
19 went exactly the other way and said that injunctions
20 can issue even after a FRAND or RAND declaration, and
21 that case is the *Commonwealth Scientific v. Buffalo*
22 *Technology* case. It's a research organization
23 sometimes called *CSIRO*, C-S-I-R-O, *Commonwealth*
24 *Scientific v. Buffalo Technology*, 492 F.Supp.2d 600, a
25 case out of the Eastern District of Texas, 2007. In

1 that case there was an issue of infringement and
2 whether it warranted injunctive relief in a case in
3 which there had been RAND declarations or RAND
4 assurances to a standard-setting organization. And
5 the district court said -- this is post *eBay* case --
6 that an injunction could issue, even a permanent
7 injunction could issue, despite RAND declarations.

8 So not only has no court ever said in any
9 adjudicated case that a court may determine what is
10 FRAND, what's not FRAND, so as to send the parties
11 back to the bargaining table; no court has ever
12 determined that injunctions are impermissible in FRAND
13 or RAND cases. Parties have argued it, no court has
14 ever agreed with it. And the only adjudicated case of
15 which we are aware -- a case that went up to the
16 federal circuit, but then fizzled, so there is no
17 federal circuit determination -- said that an
18 injunction was permissible.

19 So, Your Honor, I think today's hearing really
20 illustrates the tremendous problems, difficulties,
21 lack of judicial manageability that would set in if
22 this court were to become the first, on a preliminary
23 injunction motion no less, to say we are not going to
24 adjudicate FRAND and the meaning of FRAND in court
25 and we're going to splinter off existing proceedings

1 where those issues can be addressed in due course and
2 stop, throw a wrench into, an ongoing ITC proceeding
3 in violation of clear statutory mandatory commands
4 that those proceedings not be delayed and that stays
5 shall issue where invoked by a defendant in a parallel
6 action. I think you begin to see today what a
7 tremendous morass that could create in court.

8 But even if you think the game is worth the
9 candle, it certainly isn't on a preliminary injunction
10 motion where there is deep legal dispute about the
11 principle and deep factual dispute about whether
12 Motorola has or has not made a FRAND or RAND offer.

13 And on that point, Your Honor, I just want to
14 call Your Honor's attention, if I could, to the
15 important point that the negotiations in the
16 marketplace, the private, bilateral negotiations
17 between Motorola and Apple which are the proper place
18 under the SSO policy for resolution of FRAND, not only
19 Mr. Powers suggested, "Well, we had some back in 2007,
20 but they didn't work, so we gave them up," that's
21 simply not the case.

22 The negotiations continued up until a point last
23 year and resumed this year. And in fact, if I could,
24 I'm constrained by a non-disclosure agreement not to
25 discuss those negotiations in any detail or to give

1 you any sense of what offers or counteroffers have
2 been exchanged there, Your Honor, but it is in the
3 record in paragraph 22 of the Dailey Declaration
4 signed in April of this month, paragraph 22 of the
5 Kirk Dailey Declaration. He is Motorola's officer.
6 And in paragraph 22 he asserts -- and Apple has not,
7 because it cannot, contest this as a fact -- that
8 these negotiations have been ongoing even recently.
9 Paragraph 22 is near the very end of the Dailey
10 Declaration, Your Honor.

11 THE COURT: Right. My sense is that if the
12 Court could do anything, it would only be in the
13 situation in which the parties had absolutely refused
14 and the party with the essential patents just said
15 we're not going to -- we aren't going to engage in any
16 kind of negotiation; we don't want a license; we don't
17 have to license; we're not going to do anything.

18 MS. SULLIVAN: Your Honor, that might be so.
19 It's never been decided, but it's certainly --

20 THE COURT: As you say, and I think
21 Mr. Powers has conceded, there have been negotiations
22 in this case, so that would be a different case.

23 MS. SULLIVAN: Absolutely, Your Honor. That
24 is most definitely not this case and that's why there
25 is no irreparable harm here. The negotiations, as

1 you've said, Your Honor, yourself, life changes. They
2 may well succeed before any of these cases come to
3 their termination.

4 But the key point here is that any FRAND issue
5 that Apple wants to bring to the table to try to put
6 pressure on Motorola, it is absolutely free to make
7 those arguments in due course in the ITC proceeding
8 and then in any follow-on proceedings that exist in
9 the 661 proceeding in this court after the mandatory
10 stay is lifted. And it is absolutely free to make
11 those arguments in due course in the 662 proceeding
12 where there can be a logical and orderly determination
13 of whether any essential patents have been infringed
14 before we get to the issue of remedy, which is can an
15 injunction issue or is the FRAND royalty rate that's
16 been offered inconsistent with contract or competition
17 law.

18 So, Your Honor, we're mystified at what the
19 irreparable harm here could possibly be. The notion
20 that someone is subject to irreparable harm because
21 they undergo patent litigation in the ITC would be a
22 very novel proposition.

23 And Mr. Powers said, "Oh, well, case after case
24 has said that," but their briefs cite only one and
25 that's the Northern District of California, Judge

1 Wilken's *Tessera* case. And I would just remind Your
2 Honor, that was a case about a forum selection clause.
3 So what she was saying is, I can't ignore a contract
4 that says you have to litigate in California because
5 you might be harmed in the ITC in violation of your
6 rights, and once the cat is out of the bag it might be
7 incapable of being put back in, and that's a different
8 case from here. There is no forum selection clause,
9 there is no equivalent of one.

10 You can look at the SSO policies and scour them
11 up and down and you will not see any suggestion there
12 that there is any exclusive forum to litigate FRAND.
13 And that's why FRAND has been litigated in district
14 court, it has been litigated in state court and it has
15 been litigated in the ITC. There is no forum
16 selection clause here that precludes ITC review.

17 So the irreparable-harm case, the one that
18 Mr. Powers was able to cite, is completely
19 inapplicable. It's a forum selection clause case
20 that's meaningful. But, Your Honor, as we've said
21 repeatedly, FRAND can be adjudicated in due course in
22 the ITC action. It can be adjudicated, to the extent
23 it's adjudicable, in this court in the 662 or in the
24 661 after the ITC finishes, so there is no irreparable
25 harm here. There has been no exclusion order, there

1 has been no danger that's been made eminent, and the
2 ITC proceedings proceed on a fast track.

3 And that leads me to just one last issue that I
4 want to clear up with Your Honor, which is Mr. Powers
5 made a great deal out of the so-called "Qualcomm
6 suspension letter." And in thinking about whether
7 there is irreparable harm here, the first thing that
8 occurs to you is, where is the irreparable harm. This
9 is about a supposed failure to give a FRAND offer in
10 2007, four years ago, and it's many months after we
11 filed our ITC action. Why is this stand-alone attempt
12 to splinter existing litigation and create a new kind
13 of shell case in this case, why did this suddenly
14 arise?

15 And the only thing that Apple has to say there
16 is, well, there is this Qualcomm letter, this Qualcomm
17 letter that is really a form of either discrimination
18 against Apple or tortious interference with Apple's
19 and Qualcomm's own contractual relations. Well, Your
20 Honor, that is a red hearing and I would like to be
21 clear it should be taken off the table.

22 If you look in our brief at page 22, you will see
23 that Motorola has represented to this court that it is
24 not going to assert the '697 patent against Verizon 4G
25 phones depending on Qualcomm technology, is not going

1 to assert that.

2 And Mr. Powers said, "Oh, well, they didn't give
3 us a binding commitment that they will never assert
4 it." Well, of course not, because we don't concede
5 the point and we don't in any way concede that we've
6 discriminated, so he's quite incorrect to say we've
7 implicitly conceded it by making this representation.

8 What we've done, Your Honor, is we've tried to
9 support the policy of the ITC, which is streamlined,
10 rapid proceedings. It's absolutely standard practice
11 in the ITC to take some issues off the table so that
12 you can keep the proceedings following along on their
13 schedule toward their target date.

14 And, Your Honor, we believe that our
15 representation that we won't assert the 4G patent of
16 Verizon, the patent relevant to the Verizon 4G
17 technology, in the ITC makes that's a baseless ground
18 for issuing any kind of injunctive relief here.

19 So, Your Honor, we think the case is easily
20 resolved by doing very much what Your Honor did in
21 *SanDisk*, which is to take these seven patents, sever
22 two of them, the ITC patents, '697 and '223,
23 consolidate them with the existing 661 action in which
24 there is a mandatory stay imposed at Apple's own
25 request, so there can't be any dispute over whether

1 that's a proper standard under 1659; and take the
2 other five patents, sever them, and under Rule 42
3 consolidate them with the action that's ongoing in
4 this court, the so-called "662 action"; and we believe
5 that judicial economy will be served by the
6 sequencing.

7 And I want to call Your Honor's attention to the
8 fact that there is a cross-use agreement between the
9 parties as to discovery obtained in the ITC action, so
10 judicial economy will be served in that the parties
11 can finish the litigation that's coming to trial --
12 this is the eve of trial -- in the ITC. And any
13 discovery that's obtained there on FRAND issues will
14 be able to be used subsequently in any follow-on 661
15 proceeding or any 662 proceeding, so judicial economy
16 will be served by keeping everything in the ordinary
17 course here.

18 And, Your Honor, of course a preliminary
19 injunction and the Court's authority to issue it is
20 all about preserving the status quo, but this is a
21 case that turns that proposition on its head. This is
22 Apple's attempt to come in here and upset the
23 status quo and splinter off and interfere with and
24 hold up existing proceedings by creating a new shell
25 litigation in which it can suddenly claim it's

1 asserting things that it can't assert in the other
2 proceedings, but that's not correct. It's can assert
3 any FRAND or RAND defenses in the ITC and later in the
4 infringement action here and it can receive
5 adjudication of them. The ITC has looked at FRAND and
6 RAND issues before and it can do so again.

7 So, Your Honor, with that, we would submit that
8 the proper response to the preliminary injunction
9 motion here is to deny it. We think the most
10 efficient way to handle the issue is to sever the two
11 counts, two ITC counts, send them to the 661 action
12 and enforce the stay; sever the other five counts and
13 send them to the 662 action, consolidate them; and
14 allow any FRAND issues to be adjudicated in due
15 course.

16 But if Your Honor has any inclination to grant a
17 preliminary injunction -- so we think it should be
18 denied, severed, consolidated, that disposes of this
19 motion -- should Your Honor have any inclination to
20 grant this extraordinary preliminary injunction
21 motion; one that has no precedent, no support and
22 policy and based on a legal theory that has never been
23 agreed with by any adjudicated decision; then we would
24 submit Your Honor does have to reach the Article III
25 issues that you began the hearing with.

1 You said right at the outset, "Why is this ripe
2 for adjudication? Why do we have a case or
3 controversy that's justiciable here? Why don't we
4 have to wait and see whether Apple is in fact
5 infringing any essential patents of Motorola's before
6 we decide whether FRAND is even applicable?"

7 And as, Your Honor, we fully briefed in our
8 concurrently-submitted motion to dismiss, we believe
9 that the issue of FRAND is not ripe until the issues
10 of infringement of essential patents have been
11 determined. And this shell action, this pure removal
12 counterclaim action based on FRAND issues, because
13 it's not attached to an underlying infringement
14 action, cannot resolve those issues.

15 So we think that what Apple has asked you to do
16 is to assert jurisdiction over a phantom, over a case
17 that really has no ripeness, no current case or
18 controversy, no Article III justiciability.

19 So you can deny the preliminary injunction motion
20 and handle this expeditiously in the way we've
21 suggested in our opposition and in our motions to
22 consolidate and to sever. But should Your Honor
23 consider issuing the PI, I think Your Honor would have
24 to face a very serious question of whether there is
25 Article III jurisdiction in the first place.

1 I won't repeat all those arguments, Your Honor.
2 They are fully briefed both in our opposition to the
3 preliminary injunction and in our motion to dismiss.
4 They are the first section of our motion to dismiss.

5 Does Your Honor want me to address any of the
6 aspects of the preliminary injunction standard?

7 THE COURT: I don't think so. Thank you.

8 MS. SULLIVAN: Thank you, Your Honor.

9 MR. POWERS: Your Honor, may I have a very
10 brief reply?

11 THE COURT: Very brief. And I would like you
12 to talk in particular, with anything else you want to
13 raise, about Motorola's suggestion to sever the two
14 patents from the '662 patent and add them to the 661
15 case -- I'm sorry -- from the 662 case, add them to
16 the 661 case and then stay that case with the new
17 patents in it.

18 MR. POWERS: I will start with that then,
19 Your Honor. Our view then is that's just an attempt
20 to frustrate the whole purpose of the standard-setting
21 organization and it goes to the jurisdiction and power
22 questions that I really want to address, that
23 Motorola's argument here is that you have no power to
24 decide whether the offer they've made is FRAND or not
25 and really that it's up to Motorola unilaterally to

1 decide that. And that, as a stand-alone proposition,
2 I think is the place where all of this diverges
3 because that cannot be true just as a matter of logic
4 and policy of the standard-setting organization.

5 Under Motorola's theory, it could walk into Apple
6 and say, we want \$50 billion, that's our FRAND demand,
7 we're going to negotiate and we're going to keep
8 negotiating and we've made an offer, and therefore the
9 court is powerless to decide that that's not true.
10 That's -- no one in the planet would say that that's a
11 FRAND demand, yet under Motorola's theory, you and any
12 other court are powerless to say otherwise because
13 they're negotiating from an absurd position that no
14 one would say is FRAND, that they've declared that's
15 their position.

16 The whole point of FRAND is that there has to be
17 an objective standard. It is or isn't FRAND. It's
18 not just what Motorola wants or the most that Motorola
19 can get from Apple in an eventual negotiation. The
20 whole point is it has to offer something which is in
21 fact fair, reasonable and nondiscriminatory and the
22 only court that can decide that question is yours.

23 And that goes to the ITC question that was
24 raised. In the ITC --

25 THE COURT: That may be true, although I

1 understand Motorola certainly disputes it, but the
2 other question is when that should be done. It can be
3 done in the ITC, as Apple has indicated it's raising
4 that as a defense there, and it could be done here
5 after other decisions have been made, such as whether
6 these are really essential patents.

7 MR. POWERS: I think that's partly right, but
8 here is where I disagree and I think the disagreement
9 is important: In the ITC, what Apple can raise is
10 FRAND as an estoppel defense. Estoppel of course has
11 its own requirements independent and different from a
12 breach-of-contract claim which is before this court,
13 which is not before the ITC and can't be.

14 So to say in the abstract that FRAND will be an
15 issue in the ITC is true, but it's there in the
16 context of an estoppel defense, not in the context of
17 a breach-of-contract claim. They are different
18 claims. Some of the facts overlap, to be sure, but
19 the requirements of a contract claim are not the same
20 as the requirements of an estoppel claim.

21 So it is not accurate, I think in an important
22 way, to say that Apple has the right to raise FRAND in
23 the ITC in the sense that it's raising it here. We
24 have a breach-of-contract claim, there is a dispute
25 about it, but we have that claim and we're entitled to

1 have that breach-of-contract claim decided. And that
2 goes to sever and consolidation as well because that
3 breach-of-contract claim is a separate, stand-alone
4 claim that, under ITC procedure, is designed to be
5 promoted. We get to have that heard by you. Yet
6 under Motorola's --

7 THE COURT: But I think as Motorola has said,
8 that's a very uncharted path. Nobody has ever said
9 that it's a contract dispute.

10 MR. POWERS: That's not true. Let me be
11 clear what has been said and what has not. What
12 Motorola has argued is that no court has found that to
13 be a contract where it was disputed --

14 THE COURT: That's what I meant to say.

15 MR. POWERS: -- and no court has found the
16 opposite either. The issue has been raised. What
17 Motorola has said was it's just been settled in all of
18 these cases.

19 THE COURT: But you're asking me to take that
20 issue and grant you a preliminary injunction.

21 MR. POWERS: That's exactly right. And the
22 argument that no court has yet done it is not an
23 argument not to do it. It will -- that issue will be
24 decided by a court.

25 THE COURT: It does tend in that direction.

1 MR. POWERS: With respect, I disagree. If we
2 were here on a preliminary injunction motion about the
3 first landlord-tenant dispute, there have now been
4 10,000 preliminary injunctions entered in particular
5 landlord-tenant disputes. The first one, nothing had
6 been done. That's true in hundreds of categories of
7 preliminary injunctions.

8 The fact is, this is a recent issue created by
9 the recent adoption by SSOs of these policies and the
10 recent assertion by parties like Motorola of these
11 patents, so it's not a surprise that this issue has
12 not yet been decided. The important thing is it's not
13 been decided against Apple's position either. It is a
14 ripe question for decision.

15 And in fact, I found Motorola's argument
16 interesting. They distinguish the Texas case on the
17 ground that, well, there both parties agreed that it
18 was binding. In a way, that's more powerful than the
19 decision of a particular court on the issue, the fact
20 that both sides --

21 THE COURT: Well, I don't know if a court
22 would agree with you.

23 MR. POWERS: A court might not, but the idea
24 that both sides where one party had an incentive to
25 disagree, where they were forced to stipulate because

1 it's so obviously true, even when it's against their
2 interest in that case.

3 THE COURT: We never know exactly why people
4 stipulate.

5 MR. POWERS: Fair enough. But so my point,
6 Your Honor, is that, and this was really the thrust of
7 Motorola's argument, "Well, this has never been done
8 before," well, that's true the first time any issue
9 comes before any court and then the tenth time it
10 becomes standard and everybody accepts it. Some court
11 has to face the issue substantively the first time and
12 not --

13 THE COURT: But not usually on a preliminary
14 injunction.

15 MR. POWERS: There are preliminary
16 injunctions of hundreds of types that have been done
17 for the first time and then a hundred of times. And
18 my point is, that takes us to the merits, which is
19 where Motorola really didn't spend much time.

20 The point is that when there is not a case that
21 says you can't do it, shouldn't do it, must do it,
22 should do it, when there is no law on the specific
23 factual question, you look at the underlying
24 preliminary injunction requirements and the law and
25 you apply the law to these facts. That's what I did

1 for an hour and 20 minutes. And counsel's response
2 really on that was only, "Well, it's factually
3 complicated."

4 Their obligation then is to raise evidence,
5 produce evidence and raise factual disputes and raise
6 them to Your Honor. You've heard absolutely nothing
7 about why a license that is 20 times cheaper than ours
8 is fair. You've heard a general argument, "Well,
9 maybe we're getting more contribution from other
10 patents." Well, there was no evidence of that. There
11 is no evidence of it at all.

12 In fact, with regard to the Samsung license,
13 which is one of those that was tens of times cheaper
14 than what we are demanding from Apple, Samsung,
15 according to the distribution on slide 44, has no
16 patents even on that made the list.

17 So their primary argument that says, "Well, maybe
18 there is all sorts of contributions we're getting from
19 these other companies and that that justified it,"
20 first, there is no evidence of that; but second, as to
21 Samsung, when you look at the very chart that all of
22 this is based on, it doesn't have all of those patents
23 and so that argument falls flat on its face
24 independently of the absence of proof from Motorola.

25 So merely waving a flag and saying it's

1 complicated isn't really a basis to deny the motion
2 for preliminary injunction. We have to look at the
3 law, apply that law to the facts. And Motorola has
4 not disputed the core facts upon which this motion is
5 based, which is their defense that this is a 2.25%
6 standard rate isn't true. There is no company that
7 pays that, large or small.

8 And the idea that somebody can be offered a rate
9 that's 20 times less than ours and it's not
10 discriminatory, there is no defense of that from their
11 expert, from any evidence that they've provided. So
12 merely waving their hands and saying it's complicated
13 isn't really a basis for denying a motion for
14 preliminary injunction. You have to put in evidence
15 that creates a real dispute about that and that just
16 simply hasn't been done.

17 I do want to address the idea of the ITC being
18 shut down, which is a point that was made several
19 times. There are four additional patents that aren't
20 standards related that go forward, so the ITC is not
21 being shut down. There is no dispute that Your Honor
22 has the power to enjoin Motorola from proceeding in
23 the ITC. That's what the *Tessera* court did.

24 So now the only question is whether you should
25 exercise that power and that goes to the standard

1 requirements of a preliminary injunction, which I
2 walked through in a disciplined and systematic fashion
3 showing the evidence, and there was really no response
4 on that. And our view is, merely saying "This is the
5 first time a court would have ruled on it" isn't a
6 basis not to do it if the requirements are met. We
7 demonstrated thoroughly how the requirements are met.

8 I also want to make one more argument with regard
9 to the ITC because I think there is a slight
10 confusion. Motorola can get all the relief it's
11 seeking in the ITC and more here. It can't get
12 damages in the ITC. It can seek whatever it's seeking
13 in the ITC here. Now, the point being that they want
14 that ITC threat to be hanging over Apple for a full
15 year, *a full year*. There is case law saying that
16 threat is irreparable. That's irreparable harm.

17 And counsel tries to distinguish those cases
18 saying, "Well, those were forum selection clause
19 cases." Well, that's the point I raised in the
20 opening presentation. All of that is true. There is
21 three of those cases that did that. But a forum
22 selection clause merely says there is a contract,
23 which limits your ability to sue. In that case it was
24 a forum selection clause.

25 Here there's a contract which limits Motorola's

1 ability to sue. Here is the FRAND contract. They're
2 not allowed to sue, they're not allowed to do
3 anything, until they've made a FRAND offer and we've
4 rejected it.

5 And Your Honor's point I thought was dead-on
6 earlier. If they make a FRAND offer to us and we
7 accept it, we're then licensed. They can't ask to
8 enjoin us because we're licensed. They can't ask for
9 more money because we're licensed. That ends the
10 question. And there is nobody, other than you, that
11 can decide, as a question of our contract claim,
12 whether that FRAND offer has been made.

13 And I submit that the core dispute now is
14 whether, merely because Motorola says, "We're at 2.25%
15 and we're still going to talk to them as a matter of
16 settlement, but we can't tell you what that is,"
17 whether that inhibits your ability, constrains you to
18 do what clearly a court has to do, which is decide
19 whether they're right.

20 If they're right that that's FRAND, then they've
21 satisfied their contractual obligation. If they're
22 wrong -- and only you can decide that; they don't get
23 to decide that on their own -- then they've breached
24 the contract and the only remedy for that breach is
25 that they cannot then sue us and seek to enjoin.

1 I think that covers all the other additional
2 points unless Your Honor has any further questions.

3 THE COURT: I don't think I do. Thank you.

4 MR. POWERS: Thank you.

5 MS. SULLIVAN: Your Honor, would there be any
6 point in my addressing anything said in Mr. Powers'
7 rebuttal? I have three sentences I might say.

8 THE COURT: Oh, I wouldn't want to miss your
9 three sentences.

10 MS. SULLIVAN: Your Honor, first, we did
11 address the merits and I certainly did a great deal
12 more than wave me hands and say it was complicated and
13 I would recall Your Honor to our extended discussion
14 of what would be a justiciable FRAND case on the
15 merits. There is no precedent for it. But as Your
16 Honor and I discussed, it might be a claim that was
17 justiciable if there had been no entry into FRAND
18 negotiations, offers and counteroffers, but that is
19 not this case.

20 And you heard Mr. Powers testify to a lot of
21 things today, but you didn't hear him testify that
22 there had been offers and counteroffers of far less
23 than 2.25% in the confidential negotiations that Apple
24 should not be permitted to hide behind now in denying
25 that those offers and counteroffers took place.

1 Second, Mr. Powers pointed out to you that the
2 ITC decision is ongoing -- sorry -- the ITC proceeding
3 would be ongoing as to four other patents even if you
4 splintered off the two Apple wants you to splinter off
5 here. That just proves our point that judicial
6 economy will be served by allowing the ITC proceeding
7 to go on with all the patents that are there now
8 instead of just four of them. Judicial economy will
9 still be -- judicial resources and party resources
10 will still be expended. He is not trying to kill off
11 the ITC proceeding. That just proves our point about
12 judicial economy favoring a stay.

13 And finally, Your Honor, there has been no
14 showing here that there is irreparable harm, no
15 showing that there has been irreparable harm, and that
16 requirement for the preliminary injunction motion and
17 the requirement that there be something to preserve
18 the status quo rather than alter it should lead you to
19 deny the preliminary injunction motion.

20 Thank you, very much, for your patience and
21 attention, Your Honor.

22 THE COURT: Thank you. I do appreciate your
23 briefs and your argument. I'm going to deny the
24 motion for preliminary injunction. I cannot see any
25 likelihood of success on that motion, that is, that it

1 would be appropriate and legal for a district court to
2 intervene in an ITC proceeding in the circumstances
3 present in this case. It makes no sense to me that
4 this would be what Congress had in mind when it
5 enacted the whole ITC proceeding and system of
6 operating.

7 And I don't think that Apple has shown any
8 irreparable harm. As a general matter, having to go
9 to court to defend or litigate a case is not seen as
10 irreparable harm, particularly where there are
11 circumstances in which you can be reimbursed for those
12 costs.

13 It certainly will not preserve the status quo,
14 which is we've got an ITC proceeding that's set to go
15 to trial in three months. I don't think that there is
16 any concern about the public's interest in the outcome
17 of this matter. I think that public interest is
18 served by applying the ITC proceedings in the way that
19 Congress intended that they be carried out.

20 So as I said, I'm denying the motion for
21 preliminary injunction, but I will see you in due
22 course for the claims construction in this case. I
23 would like to know -- and, Mr. Powers, if you wanted
24 some time to think about it -- what you would like to
25 do about severing the patents, the two from the 662

1 case, adding them to the 661 as part of the stayed
2 action and going ahead with the remaining patents in
3 the 662 case.

4 MR. POWERS: Thank you, Your Honor. May I
5 make a procedural suggestion?

6 THE COURT: Of course.

7 MR. POWERS: As recall it, we have a case
8 management conference set before the magistrate judge
9 on June 2. Would it be possible to set that perhaps a
10 little earlier before Your Honor to discuss that and
11 other proposals the parties may have about what to do
12 about this case, because I think that proceeding might
13 go a little beyond the normal case management
14 conference and I think it might be helpful for the
15 parties to give you explicit positions on how they
16 think this case should be treated both with regard to
17 Motorola's request for sever and consolidation and
18 Apple's request as well.

19 THE COURT: Any comment, Ms. Sullivan?

20 MS. SULLIVAN: Your Honor, may I confer for
21 one moment?

22 (Discussion held off the record.)

23 MS. SULLIVAN: Your Honor, Motorola would
24 also like to find helpful procedures here. But with
25 respect, we would like to submit something in writing

1 regarding that proposal, followed up by letter, and
2 that way we can think about it and see what makes best
3 sense. And we're happy to confer with Apple as well.
4 Thank you.

5 THE COURT: Okay. So I expect to hear
6 something from you on that point only, within ten
7 days.

8 MS. SULLIVAN: Yes, Your Honor.

9 MR. POWERS: Thank you, Your Honor.

10 MS. SULLIVAN: Thank you, Your Honor.

11 THE COURT: Court will recess until one
12 o'clock.

13 (Adjourned at 11:39 a.m.)

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1 I, CHERYL A. SEEMAN, Certified Realtime and
2 Merit Reporter, in and for the State of Wisconsin,
3 certify that the foregoing is a true and accurate
4 record of the proceedings held on the 26th day of
5 April, 2011, before the Honorable Barbara B. Crabb,
6 of the Western District of Wisconsin, in my presence
7 and reduced to writing in accordance with my
8 stenographic notes made at said time and place.
9 Dated this 29th day of April, 2011.

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/s/ _____

Cheryl A. Seeman, RMR, CRR
Federal Court Reporter

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