

# Kluwer Patent Blog

## High Court builds up momentum to determine FRAND Licensing terms (PART 2)

Robert Lundie Smith (EIP) · Tuesday, February 19th, 2013

On 12 February I posted the first of two notes on the forthcoming joint FRAND trial arising out of actions between IPCoM and Nokia (Claim No: HC 10 C01233) and HTC and IPCoM (Claim HC 11 C02064), both in relation to IPCoM's European Patent EP 1,841,268 (the '268). In the first posting I concentrated on the IPCoM v Nokia action and how the potential of a FRAND trial arose. In this second posting I explain how this became a joint trial with the HTC action and then set out the further progress of both matters towards a final hearing on this important issue.

The relationship between the HTC/IPCoM case and the Nokia/IPCoM case is summed up in a judgement of Mr Justice Roth of 31 May 2012. IPCoM had alleged that the '268 was infringed by HTC and consequentially brought proceedings before the High Court of England and Wales for an injunction and damages (Claim HC 11 C02064). HTC denied infringement and sought revocation of the '268. In January 2011 directions were given that the trial was to commence in February 2013, but in the intervening period (a) Mr Justice Floyd and the Court of Appeal had given their ruling on the validity of the '268 in IPCoM's action against Nokia; (b) the EPO Opposition Division had found that the '268 was invalid; and (c) IPCoM appealed that decision to the EPO's technical Board of Appeal. Placing particular emphasis on the pending decision of the TBA, HTC applied to stay the hearing of the technical trial (validity and infringement) until the TBA handed down its decision. Like Nokia, HTC had raised other "non-technical" defences to the infringement allegations, including that it was entitled to a licence of the patent on FRAND terms. The proposed stay did not relate to these defences.

The application for a stay of the technical issues came before Mr Justice Roth on 31 May 2012. HTC had also applied for the trial of the FRAND issues to be tried as part of the Nokia/IPCoM FRAND trial. A stay of the technical issues was duly granted, and by virtue of orders dated 27 July and 10 August 2012 there became "*in effect a parallel set of proceedings in relation to FRAND issues concerning the Patent between IPCoM on the one hand and HTC on the other hand which are due to be tried at the same time as the FRAND issues between Nokia and IPCoM*" (see judgment of Arnold J in joint proceedings of 20 September 2012).

On 20 September 2012 all of the parties appeared before Mr Justice Arnold. The hearing concerned (a) the confidentiality of particular passages of Nokia's FRAND statement of case and various licence agreements annexed thereto; and (b) HTC's position that its licences were not relevant to IPCoM's FRAND terms at all.

Nokia was only prepared to permit inspection of the licences by solicitors, counsel and independent experts. While HTC had not disclosed any licences (other than one granted by Nokia to HTC) it was anticipated that IPCoM would apply for disclosure of licences from HTC and that HTC would then take a similar position to Nokia regarding inspection. IPCoM wished three particular individuals to be permitted to inspect the licences, and argued that it was unable to prepare its case without those individuals having access to the confidential information in question. The judge was not persuaded that this was necessary at this stage of the proceedings. This was because all IPCoM were required to do before the pre-trial case management conference was to *“...serve the FRAND statement of case... in particular, to set out the method by which it contends a FRAND royalty rate is to be calculated and the facts and matters relied on in support of that. It does not even, as counsel for Nokia has expressly accepted, require IPCoM to condescend to the precise royalty rate which IPCoM will contend is apposite in the circumstances of this case.”*

IPCoM served its FRAND statement of case on 2 October 2012, placing reliance on “comparator licences” generally, and pleading no less than 21 different factors which it contended might affect the comparability of royalty terms. This appears to have led Arnold J (at the suggestion of Nokia) to order the outstanding case management issues to be divided into two hearings: a disclosure hearing and an inspection hearing. Floyd J explained in a later judgment that the reason behind this split was because *“...third parties (such as Interdigital and others) had indicated an intention to apply to be heard in relation to inspection. This proved advantageous in one respect, that, in the event, no Interdigital licence falls to be disclosed, and they have not appeared on this application.”*

On 22 November 2012, the scope of disclosure to be given by the parties was considered by Floyd J. He ordered Nokia and HTC to produce a list of all licences entered into since January 2007. The order then allowed IPCoM to make a selection of up to seven HTC and 10 Nokia licences from the lists for disclosure; IPCoM ultimately identified five Nokia and three HTC licences. While disclosure was ordered, it is interesting to note that Mr Justice Floyd was not convinced of the relevance of these licences:

*“What I am proposing to do is to order a proportionate measure of disclosure according to the [scheme above]. Any further application in relation to disclosure about licences would have to be supported by expert evidence as to why that measure of disclosure had proved to be insufficient.*

It should be borne in mind that I do not, at the moment, regard the disclosure of these licences as inherently likely to be of great assistance to the court for the two reasons that have been identified. First, they do not relate to the patent in suit; secondly, many of them may include special features which will be extremely difficult to assess the importance of and will be likely to give rise to satellite issues which are unlikely to throw light on the ultimate royalties to be fixed. But, nevertheless, I have thought it appropriate to order that measure of disclosure in order to dispel any suspicion that IPCoM may have that there is helpful material there, and to allow their expert the opportunity of making good what at the moment I regard as rather speculative statements that there is assistance to be gained from an examination of licences of this kind.”

On 6 December 2012, the parties were before the court again, with Mr Justice Floyd hearing applications from both Nokia and HTC for permission to adduce evidence from a technical expert at the trial of the non-technical defences. Both HTC and Nokia argued that the following approach should apply to a determination of the FRAND licence, an approach that Mr Justice Floyd termed the “ex-ante” approach:

*“...in the case of a patent which is essential to a standard, it is appropriate to enquire into what licence terms would have been agreed between a willing licensor and a willing licensee on the basis of the invention which the patent protects but without knowledge that the patent will be incorporated into the standard. The reason that that is said to be relevant is because the patent forces companies who wish to participate in the standard to make use of it. That fact alone may skew the appropriate royalty rate which has to be paid. The approach is called the “ex ante” approach to the settling of the terms because it is based on the assumption that the terms are being agreed before the standardisation has taken place.”*

This approach was reflected in the following issues being raised in Nokia and HTC’s pleadings and which issues were said to require the input of a technical expert:

- a) whether the invention of the patent has been actually used in the UK and if so to what extent,
- (b) whether other methods of controlling access existed and if so the technical consequences of their use, and
- (c) the technical behaviour of ways of designing around the patent, which at least as between Nokia and IPCoM have been held not to infringe.

IPCoM resisted the application. In the case of the Nokia action, IPCoM relied upon the fact that counsel for Nokia had previously stated that any technical issues arising out of FRAND should be extracted from the FRAND issues and tried during the technical trial. In relation to the HTC action IPCoM relied upon the fact that HTC had not applied for the use of a technical expert for use in the FRAND trial during the case management conference before Mr Justice Roth.

Mr Justice Floyd granted permission for HTC and Nokia to adduce joint expert evidence, finding that:

- It was not realistic to expect Nokia to have predicted every conceivable technical issue that might arise in relation to the settling of a FRAND royalty at the time of setting issues for the technical trial;
- while it may have been desirable for HTC to make their application at the earlier case management conference, it did not preclude their applying to adduce such evidence at this stage of the matter, particularly where the FRAND case had not been fully plead by the time of the said earlier hearing; and,
- some of IPCoM’s arguments would have required the judge to consider the validity of the ex-ante approach, and Mr Justice Floyd did not consider it appropriate to rule on that issue at this stage.

HTC had additionally argued that it may be relevant to take account of whether technical experts in the same technical field or industry were likely to be able to design viable alternative solutions or workarounds. Mr Justice Floyd considered that even if this was relevant, it was *“...so far away from the central topic of their notional discussions as not to justify the very extensive technical investigation which would be necessary. In essence, what this line of HTC’s pleading involves is a whole variety of different obviousness cases, all of which would have to be examined and assessed.”* As a result this avenue was excluded from the joint expert’s consideration.

In his judgment of 22 November 2012 Mr Justice Floyd had noted the possible satellite litigation that might arise out of the disclosure of the licence agreements. While his views related to the relevance of such agreements, the simple fact of their disclosure has led to further disputes. The scope of any confidentiality club is usually an issue of contention between parties in litigation; the

disclosing party seeking to limit the dissemination of its confidential material to as limited as group of persons as possible. Unsurprisingly, the scope of the confidentiality club in this action has proved to be a further source of applications from all parties.

The scope of the confidentiality club was first raised before Mr Justice Arnold in a hearing of 20 September 2012 whereby the wider dissemination sought by ICom was not, at that stage, considered to be necessary (see above for further details). The matter was however raised again by ICom in an application that came before Mr Justice Floyd on 24 January 2013. ICom wished to expand the confidentiality club to include a Mr Frohwitter and Mr Schoeller (who run ICom) and one external German lawyer (Dr Sedlmaier) who was said to have been co-ordinating ICom's strategy since 2007.

Mr Justice Floyd found that that it was right to allow inspection by Dr Sedlmaier, but not Mr Frohwitter and Mr Schoeller. This was as a result of a number of different and competing factors:

- The case was still at the interim stage and it was not clear to Mr Justice Floyd what part if any the documents will play in the case. He stated that *"[t]here is no guarantee it will go to trial, as the negotiations between ICom and Nokia show. To allow inspection by the key commercial people within ICom could inflict wholly unnecessary harm on HTC, Nokia and the interested parties."*
- Any order may affect the interests of third parties.
- *"The confidential information, once given to Messrs Frohwitter and Schoeller cannot be unlearned by them. Whilst not inevitable, there is a real risk that it will prove of value in licensing ICom's portfolio, and they will not in practical reality be able to avoid its use."*
- Dr Sedlmaier is an external lawyer bound by a professional code of conduct, and if he is included in the confidentiality club the prejudice to ICom is significantly mitigated.
- Wider disclosure was not, at this stage, necessary to do justice.

Having ordered that Dr Sedlmaier should be part of the confidentiality club, the parties came before Mr Justice Floyd again on 14 February 2013 to argue over the undertakings that he had to provide before seeing any of the licences. HTC and Nokia argued that Dr Sedlmaier should undertake not to be involved in the negotiation or consideration of commercial terms relating to ICom's patent for a period of three years from the action's conclusion. The judge was of the view that such a term was unnecessary and excessive. However he did rule that any 'interested parties' who wished could be made a counterparty to the undertakings so that they could be directly enforced if ever necessary.

Shortly before the 24 January 2013 application was due to be heard, Nokia and ICom announced that they were close to a settlement and they invited the court to delay determining the issue under the application (as between ICom and Nokia) for a period of four weeks. While Mr Justice Floyd did not consider it appropriate to delay his judgment, we still wait to see whether Nokia and ICom will settle. There is currently no reference to a potential settlement between HTC and ICom and so even if the action between Nokia and ICom settles the potential remains for the High Court to rule on the appropriate methodology to adopt to arrive at a licence which is fair, reasonable and non-discriminatory for a so-called standards essential patent. There will no doubt be further developments in the case even before any trial, and therefore the potential of further updates to this important action.

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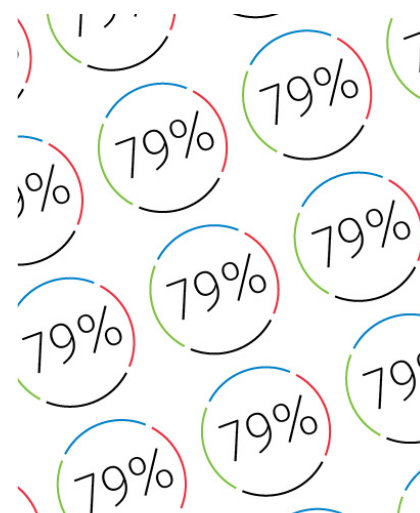
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