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High Court demonstrates again its willingness to set FRAND rate – InterDigital v Lenovo

Nicholas Round (Bristows) · Monday, March 27th, 2023

On 16 March 2023, the High Court of England and Wales handed down its judgment following the FRAND trial in *InterDigital v Lenovo*. This is the second judgment containing a substantive FRAND determination issued by the English Courts and the UK remains one of the few jurisdictions in which courts can and have determined global FRAND terms without the consent of both parties.

The judgment was long-awaited, a point which Mr Justice Mellor apologises for at paragraph 952 of the judgment. However, given the judgment is over 950 paragraphs, and 225 pages, it is clear that Mellor J had much to contend with. Indeed, it seems likely that this judgment will be as instructive in relation to the case management of FRAND trials as it is in relation to the headline points of the FRAND rate determined, factors taken into account by the Court, and the relief available to the patentee (InterDigital). This article cannot hope to capture all of the issues which arise in the judgment, but is intended to provide a summary of the main findings.

How the FRAND rate was determined

At paragraph 6 of his judgment, Mellor J explained that the headline issue of determining the FRAND rate could be split "*into two major parts: first, the comparables case and second, the top-down cross-check*". The judge notes that "*these are familiar concepts*" but by way of re-familiarisation: in this case the comparables case involved looking at the SEP licences which the patentee (InterDigital) had previously agreed with other implementers, whilst the top-down approach is an alternative method of cross-checking the rate derived by the comparable licence approach. Mellor J makes it clear from as early as paragraph 16 in the judgment that, in this case at least, "*the comparables analysis is the primary if not exclusive indicator of the appropriate financial terms*".

The judge considered precedent decisions relating to FRAND from both domestic and foreign courts. At paragraph 244 Mellor J highlights a number of points arising from the judgement of Birss J in *Unwired Planet* and explained how these were relevant to the instant case. In particular, the judge noted that judicial statements in other cases as to the appropriate aggregate royalty figures for a particular generation of technology can be useful guidelines (paragraph 244(vi)).

As a further discrete point, the judge decided that the price of the phone (or tablet/computer) that infringes the SEPs is irrelevant to the royalties payable on that device (paragraph 247). The judge's reason for this is that features such as the screen size or "*status of the brand*" that and make it more attractive to a consumer, and therefore contribute to the price of the phone, are unrelated to its use of the 3G, 4G or 5G technology covered by SEPs.

In relation to the question of whether the FRAND determination should set a range of rates or single rate, at paragraph 317 Mellor J states although "*it was made clear in* [the Court of Appeal Decision in *Unwired Planet*] *that a range of rates may be FRAND*" the range put forward in InterDigital's evidence was so wide it would "*provide a licence for discrimination and would positively hinder the endeavour to converge on FRAND rates which the industry can use*". Mellor J concluded that "*the task of the Court is to arrive at a much more precise range or even a single rate*". Furthermore, in this case, Mellor J decided it would be correct to set a single blended rate for all sales, including all past sales (paragraph 423).

In a key aspect of Mellor J's decision and reasoning, Mellor J decided that limitation periods have no role in the relationship of "willing licensor" and "willing licensee". The effect of this, in accordance with the judgment means (1) Lenovo must pay for all past sales (paragraph 529); and (2) there is no justification for discounting past sales (paragraph 556).

The judge took a narrow view in relation to discounts, deciding that only those discounts which relate directly to the time value of money were consistent with FRAND principles (paragraph 558). In particular, Mellor J considered that the large volume discounts that may have been given in certain prior agreements resulted in discrimination against smaller licensees. As such, those licences agreed with such smaller licensees could not be considered FRAND and were not relevant for the purposes of the comparables analysis. Additionally, the judge decided that the subjective views of the licensor must be set aside for the purposes of the comparables analysis and only the objective analysis of the licences should be used (paragraph 560).

Choice of comparable licences

Of the 72 InterDigital licences available, 20 were relied upon by InterDigital and 7 by Lenovo (paragraphs 573 and 574). As the judge pointed out at paragraph 44, there was no overlap between the parties as to the relevant comparables. This factor no doubt contributed to the frustrations the judge expressed at paragraph 53: "*this sort of FRAND case is not well suited to adversarial litigation because there is (and was in this case) very little, if any, exploration of the middle ground between the positions taken by the two sides*".

In the end, Mellor J relied on only a single comparable licence (LG 2017), something which he notes he was "*conscious*" of (paragraph 811). However, Mellor J considered that this was the licence which reflected Lenovo's situation whereas the other potential comparables differed, sometimes significantly. The judge used an adjustment ratio of 0.728 to reflect the differences between LG 2017 and Lenovo, in particular this ratio was chosen to reflect the different split between Developed and Emerging Markets as between LG 2017 and the licence for Lenovo (paragraph 811).

Determination of the FRAND rate

As Mr Justice Mellor describes it in paragraph 812 of his judgment, the Court's task was "*to determine what a willing licensor and a willing licensee would agree by way of FRAND terms, in this context a lump sum, to cover the period from 2007 to the end of 2023*". The judge's conclusion on this task was that the FRAND rate was "*$0.175 per cellular unit*" which "*yields a* *lump sum payment of $138.7m*" (paragraphs 813 and 814). The judge remained "*undecided on the issue*" of whether interest should be awarded (paragraph 552) and at what rate, but of course this could be a significant additional sum of money given the time period over which interest would apply.

Having determined the FRAND rate he considered should apply, Mellor J concluded that neither InterDigital nor Lenovo's offers were FRAND or within the FRAND range (paragraph 946).

<u>Top-down cross-check</u>

The judge found that there was "*no value*" in InterDigital's top-down cross-check "*in any of its guises*" (paragraph 945). The main reason for this was that InterDigital had contended that the cross-check supported the rates in its '5G Extended Offer'. However, since the comparables analysis undertaken by the Court did not provide any support for those rates, and Mellor J found them to be "*inflated and discriminatory*", the results of the comparables analysis were a "*solid reason*" for dismissing InterDigital's top-down cross-check (paragraph 881). Mellor J also decided that the hedonic price regression analysis relied on by InterDigital, which was a key part of its top-down cross-check, suffered from a number of substantive and procedural shortcomings (paragraph 878).

<u>Relief available to Patentee</u>

In order to decide the relief available to InterDigital, Mellor J first considered whether InterDigital acted as a willing licensor and whether Lenovo acted as a willing licensee. At paragraph 928, the judge explained his conclusion that InterDigital was an unwilling licensor since it had consistently sought supra-FRAND rates. As to Lenovo, the situation was more complicated. At paragraph 932, Mellor J explains that Lenovo was "*correct not to agree to any of InterDigital's offers*" (since, further to his decision on the FRAND rate, these offers were not FRAND) and accordingly "*for the most part*" Lenovo conducted themselves as a willing licensee.

Lenovo became an unwilling licensee once liability had been established since it failed to undertake to take a FRAND licence (paragraph 934) and the judge expresses "*regret*" at having not granted a FRAND injunction following the finding of liability in the first Technical Trial (paragraph 941). However, as Mellor J explained at paragraph 943, Lenovo "*retain the ability to have a change of heart down to the point where they are put to their election, provided that they accept the full consequences of adopting the status of a willing licensee*". Indeed, shortly after this judgment was handed down in draft, Lenovo undertook to the Court to take a FRAND licence on terms determined by the Court (paragraph 957).

<u>Case management</u>

At the end of his judgment, Mellor J makes suggestions for streamlining FRAND disputes in the UK which are likely to be considered carefully by practitioners going forwards. In particular, the judge states that "*data sources should be identified at an early stage and the parties should endeavour to agree them*" failing which the Court should rule on the data to be used (paragraph 949). Mellor J also thought the hedonic price regression evidence was an experiment and should have been case managed as an experiment (paragraph 950). At paragraphs 951 and 952, the judge notes that most FRAND trials are estimated at 15 days and the parties must ensure that this is realistic given the issues to be decided. The parties should use the Pre-Trial Review (a hearing which takes place with the trial judge shortly before trial) to identify all of the issues requiring decision and not just to resolve procedural issues. Perhaps most importantly, the judge noted the problems with Lenovo having access to information on comparable licences, and endorsed an approach whereby litigants agree to early disclosure of the "*potentially comparable licences under a Court-monitored confidentiality regime*" and then agree to a stay of proceedings to enable negotiations to continue based on the shared information (paragraph 955).

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