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Case No: HP-2017-000045
HP-2019-000009

IN THE HIGH COURT OF JUSTICE
BUSINESS AND PROPERTY COURTS
OF ENGLAND AND WALES
INTELLECTUAL PROPERTY LIST (ChD)
PATENTS COURT

The Rolls Building
7 Rolls Buildings
Fetter Lane
London EC4A 1NL

Date: Wednesday, 17th April 2019

Before:

MR. JUSTICE BIRSS

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Between:

TQ DELTA, LLC **(a company incorporated under the laws of the State of Delaware, USA**	**Claimant**
- and -	
(1) ZYXEL COMMUNICATIONS UK LIMITED **(2) ZYXEL COMMUNICATIONS A/S** **(a company incorporated under the laws of Denmark)**	**Defendant**

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MR. ADRIAN SPECK QC and **DR. NICHOLAS SAUNDERS QC** (instructed by **Gowling WLG (UK) LLP**) appeared for the **Claimant.**

DR. BRIAN NICHOLSON QC and **MR. DAVID IVISON** (instructed by **Pinsent Masons LLP**) appeared for the **Defendants.**

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Approved Judgment

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MR JUSTICE BIRSS :

1. This action concerns standard essential patents which relate to the ITU-T standard concerned with DSL. The obligation which the standard essential patent holders have relating to this standard setting environment is to give licences on a RAND basis. The obligation is RAND rather than FRAND. I will almost certainly use the expression FRAND by force of habit but it makes no difference whatsoever. I will try to remember to use the right expression and correct the transcript of this judgment accordingly.

2. The action commenced in 2017. The claimants are patent holders with a portfolio of patents, which they contend are essential to the relevant standards. The defendants are part of a group which implements technology in the DSL area and takes advantage of the standards.

3. A case management decision at a relatively early stage separated the issues to be decided into a technical trial and a non-technical trial. The technical trial would deal with the validity, essentiality and infringement of particular patents and the non-technical trial would deal with the dispute between the parties about what was or was not RAND. In the pleadings, at that stage, the defendants admitted that there was a real issue between the parties regarding the scope and effect of a RAND licence, and also stated:

> "Further or in the alternative the defendants will take a licence on RAND terms (such terms to be agreed or in default to agreement set by the court) under any of the patents in issue in these proceedings that is found to be valid and infringed by the defendant or either of them."

4. I should make clear that the state of affairs today is that the defendant says that its position has changed. Nevertheless that was the state of the pleadings for most of the action.

5. Coming forward, the parties exchanged evidence and pleadings and the like in the technical trial and also exchanged statements of case in the non-technical trial, and substantial evidence on that trial has been exchanged as well.

6. The technical trial took place relatively recently in early 2019. Henry Carr J held ([2019] EWHC 562 (Pat)) that both patents were essential to the relevant standard. One was invalid but the other patent was valid. So he found that of the two patents in issue, one was a valid and standard essential patent. That patent can be referred to as '268.

7. At that stage the non-technical trial was scheduled to take place in September of this year, 2019. A drawback relating to Carr J's decision from the claimant's point of view is that the patent that was found to be valid and essential is about to expire. It expires in June 2019. This led to a *volte face* by the defendant ZyXEL. They explained that they were no longer willing to take a RAND licence by reference to that patent. The consequence was that the court granted an immediate injunction, not stayed pending appeal.

8. An application for permission to appeal by ZyXEL relating to the injunction was dismissed in a reasoned order given by Floyd LJ. I was referred to some of the

statements made by Floyd LJ in that reasoned order. Those statements were made in their context and referring to the injunction and were not concerned with wider matters.

9. The trial judge, that is Carr J, directed that there be an inquiry as to damages for infringement of the '268 patent, which was to occur in the same time slot as had been set aside for the non-technical trial. The defendant argued before Carr J that there was no need now for the non-technical trial. The claimants did not agree and Carr J did not make an order preventing the non-technical trial from going ahead. He envisaged that a hearing of the kind that I have now before me may well take place, and that is indeed what has happened.

10. Since then, the claimant TQ Delta issued fresh proceedings on two further patents, both of which are said to be standard essential patents relating to the overall ITU-T standard. One I believe is to a different standard altogether within that group and the other is to the same standard as was before Carr J at trial, albeit I understand to different parts of it. That action can be referred to as the 2019 action.

11. The defendant says that the 2019 action is an abuse of process, and I will come back to that.

12. After that, and recently, just before this hearing, ZyXEL have gone further than they did before Carr J. They have purported to waive their RAND rights in respect of the UK generally. That is in the witness statement of Mr. Haargaard, which is confidential, although, as I understand it, this bit is not confidential. He says in paragraph 4:

> "In the light of the developments in these proceedings in the United Kingdom and in the light of co-pending litigation brought by TQ Delta against other ZyXEL group entities elsewhere in the world, ZyXEL has come to the carefully considered decision to provide the following waiver of its rights:
>
> ZyXEL Communications UK Limited and ZyXEL Communications A/S and each of them hereby and irrevocably waive any and all rights they might have to seek to enforce TQ Delta's RAND obligations to licence TQ Delta's UK-designated DSL SEPs in the United Kingdom."

13. In case it is not obvious, the two companies referred to in that waiver are the defendants in these proceedings.

14. There are three things before the court today. One is an application to amend the pleadings by TQ Delta to add in further material to the non-technical trial, both by an amendment to the existing Particulars of Claim in the 2017 action and some amendments to the RAND Statement of Case. In addition, the same material is advanced in the 2019 action. This is resisted by ZyXEL. Second, there is an application by ZyXEL to take the non-technical trial itself out of the list and to deal with the costs of the non-technical trial. Third, there is an application by ZyXEL to strike out the 2019 action as an abuse of process following the line of authorities, including the well-known case *Aldi Stores Limited v WSP Group plc* [2007] EWCA Civ 1260. That aspect is a freestanding point relative to the issues about the non-technical trial.

15. I will deal with the abuse allegation relating to the 2019 action first. In this context, I leave to one side the RAND issues raised in it and will consider it purely as an action for patent infringement. The defendant says that to bring these claims is an abuse of process, relying on *Henderson v Henderson*, (1843) 3 Hare 100; *Johnson v Gore Wood*, [2002] 2 AC 1; *Aldi Stores*; and *Stuart v Goldberg Linde* [2008] EWCA Civ 2.

16. Picking up the crucial points: *Johnson v Gore Wood* is authority for the proposition that the consideration of abuse of process is a broad, merits-based jurisdiction. *Aldi Stores* explains that when a given subject matter becomes the subject of litigation, it is incumbent on a party to bring forward the whole of their case so the case can be managed properly, taking it all into account. In the *Stuart v Goldberg* case, Sedley LJ at paragraph 77 said the following:

> "Secondly, as *Aldi* again makes clear and as the Master of the Rolls stresses, a claimant who keeps a second claim against the same defendant up his sleeve while prosecuting the first is at high risk of being held to have abused the court's process. Moreover, putting his cards on the table does not simply mean warning the defendant that another action is or may be in the pipeline. It means making it possible for the court to manage the issues so as to be fair to both sides."

17. The defendants say that the application of these doctrines to this case is that the action is incompatible with *Aldi* and with the obligation to bring forward claims so that the litigation can be managed in the way it was. The litigation was managed on the basis of two patents going to trial and the non-technical trial set after that. If other patents are now in issue the litigation could or should have been managed differently, and the defendants would have made different decisions about the litigation. The defendants point out that the product sued upon in the 2019 action are the same products which were sued upon in the 2017 action. It is submitted that taking this approach has denied ZyXEL the ability to understand the full scope of what was or is in issue between the parties and ZyXEL may have even left the jurisdiction altogether at an earlier stage. ZyXEL also says that what is now happening is contrary to statements made in the proceedings about how the proceedings would go. When I say statements I mean statements made by judges managing the proceedings.

18. Just on that latter point, I do not accept the submission. Two statements by judges were relied on. Both made it clear that the RAND trial would not go ahead if the claimant lost both technical trials, but that is now not what happened. The claimant has won in relation to one of the patents at the technical trial. Whether the RAND trial goes ahead or not is a matter I need to decide, but nothing that is happening in relation to the 2019 action is contrary to the statements made by the judges earlier in these proceedings.

19. The claimant says that there is no abuse at all. It says it was well known to both parties that the claimant had a portfolio of patents. Critically in a witness statement at a very early stage in these proceedings, Mr. Barron being the claimant's solicitor, said as follows:

> "TQ Delta has a substantial global portfolio. It has chosen not to overburden this court with a large number of patents but is

> prepared to bring further proceedings as necessary against ZyXEL."

20. It is submitted that this made clear that TQ Delta was reserving the right to bring new claims from its patent portfolio if the need arose. The argument is that the defendant cannot now sit tight and only now, much later, say that TQ Delta is not entitled to do what it explained it would do - to such an extent that it would otherwise bar what is a proper legal claim.

21. The claimant also submits that it is not an abuse to sue on other rights from a portfolio of patents even if what had been said by Mr. Barron had not been made clear at the outset. There is no such thing as a portfolio right; each patent is a separate legal property and may be infringed by the same product, but the invention the subject of the patents, save for divisionals (which these are not), will likely be based on different dates with different prior art and may relate to different standards (or parts of standards) and the common general knowledge may be different. These patent actions are ultimately independent claims.

22. Third, one of the patents in the 2019 action had not even been granted when the 2017 action began. The claimant says that to say an abuse of process argument bars a claim which was not even open to the claimant at the 2017 action would be wrong.

23. Fourth, the claimant argues that in fact this all arises from a major change in the position by the defendant, which Mr. Speck calls flipping, after the defendant lost the first action. I have referred to that already.

24. As to Mr. Barron's words, the defendants submit that they are not in accordance with what Sedley LJ said in *Stuart v Goldberg* in the last sentence of the quoted passage that I have set out. I reject that submission. In my judgment, Mr. Barron was putting the patentee's cards firmly on the table. The court and the defendants were able to see what was involved. It is important to bear in mind that patents are public rights, they can all be examined from public records. By doing this, ZyXEL was able to understand what ZyXEL had to face and what TQ Delta might do in further proceedings, as necessary.

25. In a case as this one, it makes sense to schedule a technical trial and follow it with a non-technical trial, which would not go ahead if the patentee had lost the technical trial altogether. If the patentee in this case had lost the technical trial, maybe the outcome would have been no non-technical trial. If TQ Delta had wanted to sue on further patents then perhaps it would have had to start again, schedule a technical trial and schedule a non-technical trial after that, subject to the point on waiver which I will come back to, but that is a long way from what has happened in these proceedings.

26. Furthermore, in my judgment, it is quite plain that the claimant is right to say that what has actually happened is entirely down to a very significant change in position by the defendants in this case, after the defendants lost the technical trial.

27. It is true that it has been accepted both by the claimant and court that the defendants were able to do what it has done, but that does not alter the fact that it is a shift. It is different from the defendant’s pleaded case. On the defendant’s pleaded case prior to losing the technical trial, it said that the non-technical trial should decide that what was RAND was a UK portfolio licence. If that aspect of the defendant’s case had succeeded,

there would have been no need for these further patent trials at all, because a UK portfolio licence would have covered those patents.

28. However, by the radical change of position, which was not now simply to say it will not take a global RAND licence, but to say it will not take any RAND licence at all. That is a change and it is that which drives the need from the claimant's point of view to bring further proceedings on the other patents.

29. I do not have to decide what the position would be in a case in which a patentee had not made their position clear in the manner Mr. Barron did. Mr. Barron's explanation was a sensible and appropriate way to put before the court and the parties what the potential scope of this dispute could be.

30. I will just say this. If at the defendants' behest the court at the outset had required the claimant to sue on every patent, which I must say strikes me as being disproportionate, it is by no means clear that it would have scheduled the non-technical trial after the end of all of those patent claims. That would be a purely scheduling matter.

31. Just because the outcome of the non-technical trial may not bite until the time for an injunction arises does not mean that it might well not have been sensible to schedule the determination of that non-technical trial at a much earlier stage in proceedings of that kind, for example after a first or second technical trial.

32. Overall, I reject the suggestion that the 2019 action, as a claim for patent infringement, is an abuse. It will go ahead.

33. I turn to consider the amendments to the pleadings. The amendments are to the Particulars of Claim and to the RAND Statement of Case.

34. In my judgment, the first question to consider is whether the points pleaded are arguable in themselves. I say that because in my judgment it is not formally necessary for the proposed amendments to be made to the 2017 action in order for it to be permissible for the non-technical trial to go ahead.

35. The relationship between the arguments resisting the amendments and whether the trial goes ahead are simple enough. The point is that ZyXel’s reasons why the trial should no longer go ahead are the same reasons as to why it contends the amended pleading points are bad points. However, it is not that the amendments are necessary in order to allow the case to go ahead. Even if there were no amendments, if the non-technical case is to go ahead, one would still have to deal with the originally pleaded claim. The original pleaded claim in the 2017 action included claims for declarations regarding whether offers were FRAND and the like.

36. I also bear in mind that this court has jurisdiction over these defendants. The amendment is nothing to do with that. No question of territorial jurisdiction over the parties in this case arises.

37. The amendments themselves essentially boil down to an argument that the recent behaviour by ZyXEL reinforces the claimant's case that ZyXEL is holding-out. Henry Carr J has already held -- and I must say I am not surprised from everything I have seen -- that ZyXEL is indulging in hold-out. At least as presently advised, it seems to me

that it is not necessary to go into the details of the amendments in any more depth than that.

38. The issue really is the effect of the waiver put forward by ZyXEL. ZyXEL contends that the effect of the waiver is that there is no longer any issue between the parties about RAND with respect to the United Kingdom. I should say when I say "the parties", the point being made is that relates to the two defendants, the two companies which are defendants in these proceedings. It is not talking about the wider group.

39. ZyXEL contends that the waiver is irrevocable and it is prepared to make the waiver an undertaking to the court. ZyXEL accepts that the waiver does not affect its customers, who previously bought ZyXEL goods, or for that matter might do so in future when ZyXEL returns to the UK market after the injunction, as it says it is free to do, and I will assume for this purpose that it probably will, although I do not think it matters one way or the other.

40. However, in relation to the waiver, in my judgment, a number of things are plainly arguable. TQ Delta submitted that you cannot do what ZyXEL is purporting to do. That is because a RAND licence and a RAND obligation operates worldwide, they contend. In my judgment that is at least arguable.

41. Also TQDelta contend that a FRAND licence is an "undertaking to undertaking" licence, and by the word "undertaking" I am referring to groups of companies and not to individual corporate entities. Again, in my judgment, that is properly arguable and is supported by the decision of the German court in *St Lawrence*, which is referred to by the Court of Appeal in the *Unwired Planet* decision.

42. Further TQDelta argues that holders of standard essential patents have a legitimate interest in having the scope and terms of a RAND licence determined, and for that I refer to the judgment of the Court of Appeal in the *Unwired Planet* in paragraphs 98 and 94. I agree.

43. Second, in my judgment it is arguable that what this waiver really is, is just more hold-out by ZyXEL. The negotiations between the parties or an attempt at negotiations started in 2013, and we are now into early 2019. As I think I have said already, Henry Carr J held that ZyXEL has been engaged in hold-out.

44. Third, the position of customers of the defendants seems to me to be unclear. As far as I can tell, a customer who had bought ZyXEL goods in the past would still be entitled to invoke the RAND undertaking against TQ Delta in relation to that product. This may well have an effect on the damages inquiry, which is to take place as a result of the order of Henry Carr J. Normally, in a patent case, when damages are dealt with for patent infringement, after damages are paid for goods sold by an infringer in the past, the goods are regarded as franked. I should explain that I do not say any of this is a decision as to what the effect will be. I am simply trying to think through what may be the effect of this waiver. This is new territory. Since the party who sold the goods to the customers is now today purporting to waive its ability to enforce a RAND undertaking, that may have an effect on whether it is right to say that the damages that should be paid to the patentee by the seller are or are not to be treated as effective payment under a RAND licence for the benefit of the customer. Does that mean those goods should be regarded as franked when damages are paid if the customer who bought

them would have, or wishes to, seek to enforce the RAND undertaking, which *ex hypothesi* might lead to a different result from the sum due in damages. I simply do not know the answer to that question, but it concerns me.

45. Fourth, there is a question of competition law. Just because ZyXEL is purporting not to enforce the RAND obligation which TQ Delta owes, does not alter the fact that TQ Delta is still obliged by competition law, if it is in a dominant position (and that may or may not be the case but it could be) to abide by RAND, irrespective of the position of an individual implementer. In my judgment it is not necessarily so that this issue is simply a matter of the private rights between the two parties. Of course, it could be, but that is another matter.

46. Fifth, what happens if a foreign court decided that the RAND licence between these two groups of undertakings was global and, indeed, was a licence which applied to all the companies in the group? Does that mean that these United Kingdom companies then become licensees? But according to ZyXEL, they are not willing to take a RAND licence for the United Kingdom. So does that really mean that the true scope and effect of this waiver is that the entire group is now an unwilling licensee worldwide? I should make it clear that Mr. Nicholson's case on behalf of his client is that this fifth point is not right, but it seems to me these matters need to be sorted out. There is a clear dispute between the parties about all of this, and it is one of the things which the amended pleadings seek to raise to be resolved.

47. ZyXEL contends that I should not allow this non-technical trial to continue nor should I allow the amendments for the following reasons: first because there is no lis, no legal dispute, between the parties.

48. I leave aside the state of the unamended pleadings. In fact there is still an admission by the defendants that there is a real dispute, but counsel offered to amend it. Just on that I should say that it is not obvious to me that it is always clear-cut that one can simply withdraw admissions, but I will leave that to one side and assume in the defendants' favour that it is open to them to change the defence to a denial that there is a dispute between the parties.

49. In any event however just because a party asserts that there is no dispute does not mean that no dispute exists. It is manifest that as between the group of which the individual defendants are members and TQ Delta that there is a real and lively dispute as to RAND terms. That dispute has not gone away, and it is a real commercial dispute.

50. The real point, and the only point, is whether it is right that the waiver means that there is no dispute between the individual defendant entities and the claimant. The point is that although the dispute exists generally, it is not between the claimant and the individual defendants. In my judgment, the answer is really simply this. If the defendants are right about the effect of their waiver, then they may well be correct about that absence of a dispute, but that does depend on the issues of the kind I have mentioned already. If the defendants are wrong about the effect of the waiver, then there plainly is a real commercial dispute, as much with the defendants as with the other members of the group. I also bear in mind that in this case it is the group which makes the decisions about this litigation.

51. This approach applies as much to the determination of RAND terms as it does to the question of whether it is right to characterise the defendants as willing licensees. There was a suggestion, based on what I said in the *Vringo* decision in 2013, that the RAND issue was not sufficiently defined. I do not accept that. In my judgment the thinking about FRAND and RAND has moved on very much from 2013 when I decided *Vringo*. In any event on the facts of this case, as far as I can see from the pleadings, the RAND issue is well defined. Mr. Speck says that is also true in the evidence, but I do not need to take that into account.

52. There is a suggestion by counsel for ZyXEL that if this case is to go ahead, effectively the defendants are only notional respondents by analogy with parties such as the Attorney General, who sometimes stands in proceedings to act as a counterparty. I do not accept that is a good submission. In the end it stands or falls with the issue of the effect of the waiver.

53. It was suggested that Henry Carr J's order after trial precludes a result in which the non-technical trial continues. I do not agree. For one thing, the case management orders already made in these proceedings provide that the case is to go ahead. For another and of more significance is that I believe this argument, like the rest of the defendants' submissions, depends on whether the defendants are right about the scope and effect of their waiver. If they are wrong then there is no reason why the technical trial should not go ahead.

54. I have considered whether I could or should decide what the scope and effect of their waiver is today, but it is not practical or realistic to do so. The right place to decide those issues would be at a non-technical trial, because the determination of the points is tied up with the very same questions.

55. The determinations at the non-technical trial may well also apply to the '268 damages inquiry, leaving aside the fact that in any case the question of what a RAND rate is is also likely to be key to a damages inquiry anyway, and it will apply to the 2019 action.

56. The defendants refer to what was said in *Gouriet*, but, in my judgment, the leading authority today is typified by the authorities like *Messier-Dowty* and the *Nokia v InterDigital* cases. The right approach is that in cases like this the issues should go to trial. It is not a matter of jurisdiction, it is a matter of whether, in the exercise of court's discretion, the declaration should be granted.

57. When the waiver is examined properly in the context of a proper examination of RAND, it may lead to the court granting no declaration and indeed it may lead to the court deciding not to decide what terms would be RAND in a reasoned judgment, but that all depends on a close examination of all these matters, which is not realistic or possible today.

58. I must say I am very concerned about the high cost of this non-technical trial. I am frankly astonished by how much it is said that it will cost to take this matter to trial. These issues are really not that complex. They are no doubt important and no doubt are valuable in the sense that a lot of money may turn on them, but that does not make them costly to resolve in terms of evidence and court time, but that is a matter for another day.

59. So for all those reasons, I will not stop the non-technical trial from going ahead as planned. The reason why not is the same reason that I will allow the amendments. It is because there is a real commercial dispute in the background to these proceedings and, critically, it is properly arguable that despite the waiver, a real commercial dispute exists involving these defendants and this territory.

60. The final point is this. One aspect of the declaration sought to be added by amendment seeks a finding that the defendants are not willing licensees. The proposed amendment includes a reference to the group of which the defendants are part. In my judgment that does go too far. That is the only part of the amendment which I will refuse. The part which is refused is the words which expand it to refer to the group rather than the individual defendants. That is my decision.

[Further Argument]

61. I now need to decide the incidence of costs in these proceedings. The usual rule is the unsuccessful costs are paid by the unsuccessful party, but the court may make another order, a different order, depending on other circumstances such as conduct. Very often case management decisions are made as costs in the case although there is no invariable rule to that effect. Although this is a form of case management, this hearing that I have dealt with was a hard-fought dispute.

62. It is true, as Mr. Nicholson said, that his clients have won what I regard as a small point but he regards as an important one. It is the point in the declaration about willing licensees and the group. It may well be important, but it nevertheless was small. If that was what this case was ever really about, then we have wasted an awful lot of time. It is quite manifest that the real dispute between the parties was of much wider scope than the small point on the declaration, albeit that point was important.

63. It is manifest that the claimants are the successful party. Mr. Nicholson submits that nevertheless it would be unreasonable for his clients to pay the costs in this because it may turn out in the end that his clients are the overall winners and the waiver does have the effect that they contend for. In my judgment that is not a good reason for not making a costs order at this stage in these proceedings. The defendants could have taken that line and this hearing would have been entirely unnecessary. They did not. They fought and incurred costs in doing so. In my judgment, the fair and appropriate order is that the defendants pay the claimant's costs of this hearing, and I will summarily assess them.

(For continuation of proceedings please see main transcript)