



Neutral Citation Number: [2015] EWHC 1704 (Pat)

Case No: HC-2012-000076

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
PATENTS COURT

The Rolls Building
7 Rolls Buildings
London EC4A 1NL

Date: 08/06/2015

Before:

MR. JUSTICE BIRSS

Between:

VRINGO INFRASTRUCTURE, INC.

Claimant

- and -

ZTE (UK) LIMITED

Defendant

**Mr. Henry Carr QC, Ms. Marie Demetriou QC & Ms. Sarah Ford (instructed by Powell
Gilbert LLP) appeared for the Claimant.**

**Mr. Daniel Alexander QC and Ms. Isabel Jamal (instructed by Olswang LLP) appeared
for the Defendant.**

Approved Judgment

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MR. JUSTICE BIRSS:

1. This is a case management conference in this action between Vringo and ZTE. The background is set out in previous judgments of mine. The position is that the questions which the trial of this part of the action had been set up to resolve were to be issues relating to FRAND, a global portfolio licence and possibly a claim for an injunction to restrain infringement of the '919 patent which had been dealt with in previous judgments in these proceedings. Vringo were seeking to say that their global portfolio offer was FRAND.
2. The parties' positions have shifted in a significant way relatively recently. As a result the compass of this dispute is now significantly narrower than it was before. Essentially, what has happened is that Vringo, the patentee, has willingly decided to advance a proposed licence related only to the '919 patent itself in this territory, and only in this territory. On that basis ZTE has explained that it does not need to address many of the wider questions that arise. An important aspect of that is the question of the relevance, if any, of the point that Vringo contends it has advanced the proposed licence willingly rather than as a result of any obligation. ZTE contends Vringo was obliged to make such an offer while ZTE does not accept that. However it is accepted by agreement that this debate is not going to be material to any calculation of the royalty or other terms to be settled. That is a useful position the parties have adopted since it means, as I said, the range of issues which might otherwise have had to be decided on this trial has narrowed considerably.
3. The trial is due to be heard some time next year. Where we are left is that this trial will essentially have to decide nothing more than the correct royalty rate to be put into a licence for the '919 patent for the UK alone. There may also be some other terms in the licence which may need to be settled and the parties have agreed that the court can do that.
4. There is also a question of two possible lump sum payments. One relates to past acts alleged to have been committed by the defendant. I think I am right in saying that there is no doubt some activity of some kind took place in this jurisdiction but it is clear that no sales arose; nevertheless Vringo would say that some acts which amounted to infringement did take place. Until it is clear exactly what they are one cannot say a great deal more. In any event it is common ground that the correct approach is to work out a lump sum (if any) for that. Essentially it would be a damages payment.
5. Second, there is a proposal that a lump sum royalty should be paid for any acts committed in future which are not sales. That lump sum would be treated as a payment on account of royalties on sales if they did arise. If sales did not occur, then the payment would have been made in any case.
6. So there are further issues to be addressed as I have described but the main issue is setting the royalty rate.
7. The parties are, perhaps not surprisingly, far apart on what that royalty rate should be. Broadly speaking, the patentee submits that the correct royalty is 2% on the eNodeB infrastructure that would be sold by the defendant, which comes out, it is alleged, to about 1% of the overall turnover on all infrastructure equipment that would be sold.

If one assumes that an eNodeB box sells for about £120,000, it would produce a royalty of about £3,000 per eNodeB.

8. On the other hand, the defendant submits that the correct royalty rate should be 0.002% of ZTE's turnover relating to the acts carried out in the UK. That equates I am told approximately in real terms to about £2.40 for an eNodeB costing about £120,000.
9. So the difference between £3,000 and £2.40 per unit worth £120,000 characterises the difference between the parties in terms of the royalty rates.
10. The issue which I need to address on this CMC relates to disclosure. The first issue I need to address relates to disclosure on turnover and pricing information and other such information. This is something which Vringo contends ZTE should produce. ZTE's position before me is that it does not oppose in principle the concept of disclosure on that issue, but it challenges the way in which that issue has been characterised in the relevant wording proposed by Vringo. The wording proposed by Vringo, which is taken from paragraph 15 (a) and (b) of its skeleton argument, is this:
 - "(a) documents relating to the infringing products in issue such as, but not limited to, pricing information and any other information e.g. service, maintenance, rental and software costs from which an effective sales price can be calculated.
 - (b) documents relating to plans for, and ability to sell infrastructure equipment in the UK, including requests for quotations and expressions of interest from operators."
11. Vringo submit that I should require the defendant to disclose documents in that category. ZTE ask for further time to deal with the application. I am not prepared to put this off any longer. The right time to decide the point is now. I accept ZTE's point that the language, "... such as, but not limited to," makes sub-paragraph (a) much broader than it might otherwise seem and I will delete it. By deleting it what I am intending to achieve is a category which is limited to pricing and any other information, and so on, from which effective sales prices can be calculated.
12. Sub-paragraph (b) can stand as it is. It seems to me that that information is plainly relevant to the questions the court will have to decide, and I shall make an order for disclosure in relation to that at this stage. That deals with that one.
13. The next problem relates to disclosure of existing licences and possibly other issues relating to existing licences. Dealing with what Vringo seeks first, Vringo seeks disclosure of documents in the following categories:
 - "(c) documents identifying patents discussed substantively on a technical level prior to a concluded licensing agreement;
 - (d) documents identifying standards essential patents (SEPs) discussed substantively on a technical level prior to concluded licensing agreements with any third parties;

(e) licences with respect of SEPs concluded by either party or any of their respective group companies under which either party is licensed or has the right to be licensed, including details of royalty rates and other terms relevant to calculating effective royalty rates;

(f) licences in respect of SEPs concluded by any third parties, including details of royalty rates or other terms relevant to calculating effective royalty rates."

14. Then in its proposed order, Vringo seeks a general order for standard disclosure having regard to the issues that I have just described and then includes wording as follows:

"For the avoidance of doubt, the obligation of standard disclosure includes:

- a. The licence between Ericsson and ZTE Corporation referred to in paragraph 49 of the Defendant's statement of case.
- b. A licence between Microsoft Corp and ZTE Corporation announced publicly in April 2013.
- c. A licence between Dolby Laboratories, Inc and ZTE Corporation in respect of Dolby's SEP portfolio covering High-Efficiency Advanced Audio Coding (HE AAC) announced publicly on 10 June 2013.
- d. A licence between Qualcomm Incorporated and ZTE Corporation in respect of Qualcomm's CDMA SEP portfolio, announced publicly on 21 May 2001."

15. There are two problems with this. The first is the question of the correct scope of the issues against which disclosure should be given and the second is the problem that ZTE Corporation is not, or at least not currently and certainly not at the moment, a party to those proceedings.

16. The first point is that what Vringo are seeking is disclosure of licences relating to 3G and 4G standards essential patents (SEPs) as part of Vringo's case to say that there is a going rate in the licensing of SEPs in this technology area of 1% or 2%. In addition to an alleged going rate Vringo says that even though these are portfolio licences, the licensing exercises are conducted on the basis of the existence of one or two or at the absolute outside three key SEPs, that is SEPs which are argued to be particularly good ones out of a larger portfolio. Vringo's point is that it does not matter which technology the particular key SEP relates to. If in general terms Vringo is right that there is a going rate and is right that the way the licences are entered into is by the identification of one or two really important SEPs, then that is material to the royalty in this case. Vringo says that even though this case is about only a licence for one patent, nevertheless these other portfolio licences should be regarded as sufficiently comparable in order to assist in setting a similar royalty rate here.

17. Vringo contends that ZTE's position in the pleadings is to deny there is a going rate and deny that licensing works that way. I accept that there is a factual debate on this open on the pleadings. As far as disclosure is concerned, ZTE submits that disclosure of these kind of licences, none of which will be licences for the '919 patent alone nor even for portfolios including the '919 patent, is unlikely to be of real assistance. They are neither sufficiently relevant nor would disclosure be proportional. The cost of producing them and the amount of evidence that will be required to deal with them would be very substantial having regard to the compass of this dispute.
18. I do not accept ZTE's position in that respect. It seems to me that in broad terms disclosure of the sorts of licences that Vringo are seeking is likely to be highly material to the resolution of the issues in this case. It certainly would be highly material to the factual issue, which is open on the pleadings, as to whether there is a going rate. It will also provide a basis against which the royalty which the court is to assess can be considered. I recognise that if an approach is taken in the evidence, as Mr. Alexander submitted, which involves a minute analysis of the technology that these licences relate to it, then it could all get out of hand, but with a bit of careful case management I would hope and expect that that can be managed in way which will not lead to a significant disproportion cost. It does seem to me, however, that disclosure of the licences which Vringo have specifically identified, that is to say the four mentioned there, (possibly with some other language to define a wider obligation, but not the very broad language that I have read out from paragraph 15 of Vringo's skeleton), would be both reasonable, proportionate and in accordance with the overriding objective in the orderly management of this case.
19. That leaves then the problem that the defendant, ZTE (UK) Limited, has explained that it simply does not have any of these documents. Mr. Carr invites me to find that, based on the way in which this case has been conducted, the requirements of CPR Part 31.8 are satisfied. Part 31.8 provides as follows:

"(1) A party's duty to disclose documents is limited to documents which are or have been in his control.

(2) For this purpose a party has or has had a document in his control if

 - (a) it is or was in his physical possession;
 - (b) he has or has had a right to possession of it; or
 - (c) he has or has had a right to inspect or take copies of it."
20. Mr. Carr submits that in *Schlumberger Holdings Limited v Electromagnetic Geoservices AS* [2008] EWHC 56 (Pat) Floyd J (as he then was) held that in similar circumstances to this, in which a party to the litigation was part of a corporate group of companies who were not parties but in relation to which documents had been made available on certain occasions during the proceedings, satisfied the requirement of control in the rules. In particular Mr. Carr referred me to paragraphs 20 and 21 of the judgment of Floyd J. He submitted, therefore, that I should I find, based on the

evidence of Mr. Laakkonen in this case, that the documents held by ZTE Corporation are within the control, in accordance with CPR, of ZTE (UK) Limited.

21. Mr. Alexander submitted that the documents were not in the defendant's control. He submitted that the test for control was not satisfied having regard to the Court of Appeal's decision in *North Shore Ventures Ltd v Anstead Holdings Inc* [2012] EWCA Civ 11. In particular Mr Alexander referred me to paragraph 30 of the judgment of Toulson LJ (with whom Arden LJ and Pill LJ agreed) which is a quote from Shaw LJ in the Court of Appeal in *Lonrho v Shell* and also paragraph 40 of the judgment of Toulson LJ.
22. The other point Mr. Carr makes is that even if the position of ZTE Corporation cannot be equated with the position of the other companies in the *Schlumberger* case, such that the court cannot say that under rule 31.8 the documents are within the control of the defendant company, I should make an order requiring ZTE (UK) Limited to take all reasonable steps to acquire the documents. However I will not take that course because it seems to me on the evidence that if I have accepted Mr. Alexander's point on control, it would be a futile exercise. Of more significance, Mr. Carr urges me to make an order essentially *in terrorem*. He submits that in the context of a damages inquiry if documents are not produced to the court which would allow the court to assess a fair level of damages, then the party who did not produce them has nothing to complain about when the court essentially accepts the other party's position in calculating the amount of damages. So Mr Carr invites me to say as much in a judgment. Essentially what Mr. Carr is getting at, although he does not urge me to go quite this far, is to say to ZTE Corp that if they will not produce the documents then the royalty rate will be the royalty claimed by Vringo.
23. Before dealing any further with the arguments about disclosure from ZTE Corp in any more detail, I will move on and deal with the other aspect of this case, that is to the position being taken by Vringo in relation to the application for disclosure brought by ZTE. Here ZTE submit that I should require disclosure of documents in the following categories:
 - "(a) Documents relating to the technical and/or commercial value or utility of the 919 Patent, or any portfolio including the 919 Patent;
 - (b) Licences previously granted by Vringo, or its predecessor in title, Nokia Corp., under the 919 Patent or a portfolio including the 919 Patent, and documents relating to negotiations regarding any such licences; and
 - (c) Documents relating to on-going licence negotiations with third parties in respect of the 919 Patent, or any portfolio including the 919 Patent."
24. These categories actually raise three distinct points. First, fundamentally, ZTE are seeking disclosure of licences which have already been granted. We know that in fact they are all going to be in a portfolio form but the portfolio will include the '919 patent. Mr. Alexander submits that such documents are plainly relevant to the assessment of the right royalty for the '919 patent, even if the patent is part of a

portfolio. I agree. In my judgment, licences of that kind and the rates in them are going to be the kind of evidence required to fairly dispose of the issue the court has to decide. I should say also that Vringo does not disagree with that.

25. The second element in the categories that I have dealt with relates to negotiations regarding such licences. Vringo submits that I should not require disclosure of documents relating to negotiations and submits that they are unlikely to assist and would be disproportionate in the context of this case. Mr. Alexander submits that they have a bearing because they relate also to the same point made by Vringo against ZTE that they will show whether licences are negotiated on the basis that a portfolio contains one or two important SEPs within the bunch. It seems to me that, while Mr. Alexander's point is right, that can be catered for by appropriately drafting the category. Beyond that I do not accept the broad point that negotiations of whatever nature should be disclosed, and I will not make an order requiring disclosure in that broad way. If the parties cannot agree on language which focuses it down to the point that Vringo themselves make about one or two key SEPs, then I will come up with it myself.
26. The third point relates to the technical and commercial value of other patents in the portfolio. Again, Mr. Alexander submits that that is the same point as was made by Vringo, that disclosure should be given to show whether there are one or two SEPs in the bunch which makes the licence worthwhile. Mr. Carr submits that that is not actually what this is about. He submits that Vringo's case is not related to the specific technical utility of any particular SEP, but is simply at the level of looking whether there is one or two SEPs which are of real commercial value. Accordingly, there is no need to open up disclosure into a wide-ranging exercise to cover the commercial or technical significance of all the patents in a portfolio.
27. I agree with Mr. Carr. Mr. Alexander is right to the extent that by parity of reasoning, the disclosure ought to encompass the point made by Vringo, i.e. to demonstrate whether one or two key SEPs determined the royalty, but beyond that there is no reason in my judgment why a disclosure should cover the wide-ranging technical and commercial value of all the patents in the portfolio other than the '919 patent.
28. Where I have reached in relation to the disclosure sought by ZTE against Vringo is that there is disclosure to be given. The problem is that the key disclosure, the licences which include the '919 patent, were licences granted by Vringo's predecessor in title to '919 patent, Nokia Corporation. They were not granted by Vringo.
29. Mr. Carr submits that I have no jurisdiction to make an order in relation to Nokia. There is no third party disclosure application before the court. He also submits that as far as control is concerned, the evidence before the court at this stage does not allow me to reach any such conclusion. The only evidence I have about the precise nature of the relationship between Vringo and Nokia is evidence which I do not propose to place any weight on. All I have is two letters. The first one is from Vringo to Nokia and Mr. Alexander colourfully characterises it as a "hint hint letter". What he means is that in the letter Vringo states that there is an assertion that Nokia has an obligation to assist Vringo under the assignment of the '919 patent and that it is asserted by ZTE that this means Nokia must produce documents, however Vringo does not agree that Nokia has an obligation to produce documents in this way and invites Nokia's comment. Not surprisingly perhaps, Nokia's letter in response states that it also does

not agree that it has an obligation to assist Vringo which would give Vringo a right to compel Nokia to disclose the documents. Since I have not been provided with the underlying agreement, I cannot make any determination as to whether what is said in these letters is right or wrong. I should add that I am not suggesting any lack of good faith by anyone.

30. So, says Mr. Alexander, the problem is that both sides in this case in fact have a third party standing behind them or connected to them, at least to some extent. Both third parties stand to be affected by and possibly to gain by the result that will be produced. Clearly ZTE Corp will be affected by whatever royalty rate is set. Moreover there is no doubt before me that Nokia have some entitlement to receive some money, although I am not told how much, as a result of licensing the '919 patent. So Mr. Alexander says there are parties on either side which hold documents. The documents are documents which I have now found to be relevant. There would ordinarily be an order for the documents to be disclosed if those parties were before the court. The position at the moment is that each side says the order cannot be made against the third party standing behind it.
31. Mr. Alexander submits that what I should do is adjourn consideration of this aspect of the matter to allow everything to be sorted out by agreement between the parties. Mr. Carr does not agree. He submits that as far as his application is concerned, I should find that ZTE (UK) Limited satisfies CPR 31.8 and, therefore, make the order requiring disclosure of those documents, but since I cannot make an order in relation to Nokia because they are not here, I should not do so.
32. It seems to me that an important consideration in all of this, which is ultimately a matter of case management, is that there is still plenty of time between now and the trial. If this was coming close to trial, then I would take a different course. But bearing in mind I am told the trial has not yet been fixed, but in any event it will not be until 2016, and this is early June 2015, it seems to me that there is time for the parties to sort this out now having regard to the judgment I have given.
33. I also take the view that it would not be fair on ZTE to make the order sought by Mr. Carr, even if it was well-founded, while not dealing with the position of Nokia. I am not in a position to deal with Nokia at this hearing, simply because of the way the correspondence has gone. Given there is considerable symmetry in the positions of both sides in this case, I will take what I regard as the fairest course. Having made this judgment which has decided the categories of disclosure I will adjourn the question of whether ZTE Corporation and Nokia should be required to produce documents, including whether one of the parties should be ordered to produce the documents. I propose to adjourn it in such a way that it will come back before the end of term, before the end of July if it cannot be agreed. I am doing so specifically because it seems to me that the fact that each side is in a similar position should assist in the parties negotiating to persuade the other side to take the same view. In my judgment the best and most appropriate way for this case to be resolved properly and fairly is for the documents held by both of the third parties to be made available in a proper way before the court.
