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Case No: HP-2017-000045

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION

Royal Courts of Justice
The Rolls Building
7 Rolls Buildings
Fetter Lane
London, EC4A 1NL

Date: Wednesday, 13th June 2018

Before:

MR. JUSTICE HENRY CARR

Between:

TQ DELTA LLC

- and -

(1) ZYXEL COMMUNICATIONS UK LIMITED

(2) ZYXEL COMMUNICATIONS A/S

Claimant

Defendants

MR. NICHOLAS SAUNDERS QC (instructed by **Gowling WLG (UK) LLP**) for **TQ Delta LLC**

MR. IAIN PURVIS QC (instructed by **Pinsent Masons LLP**) for the **Zyxel Communications UK Limited**

Approved Judgment

Transcript of the Shorthand/Stenographic Notes of Marten Walsh Cherer Ltd
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MR JUSTICE HENRY CARR:

Introduction

1. This is a patent claim in respect of two patents which, according to the Claimant (“TQ Delta”) are “*essential*” in that the relevant Recommendations cannot be practiced without infringement of the patents. The claim involves, as is normally the case, technical issues of validity and infringement and whether the patents are in fact essential, as well as non-technical issues which in these proceedings have been referred to as “*reasonable and non-discriminatory licences and remedies*” (“RAND”).
2. The patents in suit are just two of TQ Delta's patents from within a substantial portfolio of patents which are DSL related, which it acquired from a company known as Aware Inc. in 2012. DSL technologies are those commonly used to provide fixed line broadband internet to residential and commercial premises. DSL technology is prescribed by internationally recognised technical standards which allow for interoperability between DSL products. The standards relevant to this dispute are known as ITU recommendations.
3. The Defendants (“Zyxel”) are part of the world wide Zyxel group of companies which is responsible for manufacturing and selling various types of DSL compliant equipment. Because the patents have been declared essential to the implementation of certain ITU Recommendations, in accordance with ITU policy, TQ Delta is required to license the patent on a RAND basis.
4. It is common practice in patent cases for the parties to reach a Confidentiality Club Agreement, whereby access to confidential documents is restricted to named individuals on provision of appropriate confidentiality undertakings. This judgment concerns a dispute which has arisen between the parties over the terms of the Confidentiality Club Agreement. The Agreement proposed by TQ Delta differentiates between “*Confidential Information*” and “*Highly Confidential Information*”. If the disclosing party designates any information or document produced on disclosure as being Highly Confidential its disclosure is limited to “*external eyes only*” i.e. to external solicitors, counsel and independent experts. Zyxel objects to inclusion of an external eyes only tier in the Agreement and claims that it is necessary for two named individuals from the Zyxel group to have access to such documents.
5. This is the second dispute that I have heard in the last few days concerning external eyes only categorisation of documents. This indicates that external eyes only categorisation, either in confidentiality agreements or in disclosure lists, is not confined to this case. For this reason, having given an unreserved judgment, I indicated that I would supplement the reasons for my conclusion in this approved judgment.

The practice of external eyes only designation

6. TQ Delta submitted that external eyes only designation is a relatively common feature of patent litigation in this jurisdiction. It referred to the judgments of Floyd J in *IPCom GmbH & Co KG v HTC Europe Co. Limited and others* [2013] EWHC 52 and Birss J in *Unwired Planet* [2017] EWHC 3083. It suggested that that its approach mirrors that adopted in the *Unwired Planet* litigation, which allowed that case to

proceed in a practical manner. It suggested that the same approach has been used in FRAND arbitrations. Furthermore, it pointed out that in related litigation between the parties in the United States, certain documents have been provided on an attorney's eyes only basis.

7. Proceedings in the High Court are public, in accordance with the principle of open justice. Confidentiality arrangements in arbitration proceedings may well be different, as such proceedings may be heard in private. No evidence was provided about the legal basis or reasons for attorney's eyes only restrictions in the United States. Furthermore, it was Zyxel's evidence that the US scheme allows attorneys eyes only designation is to be challenged and Zyxel's US attorneys have confirmed that they will make an application to lift the restriction if it is not lifted voluntarily.
8. I did not find the references to arbitration proceedings or to United States proceedings to be of assistance. However the *IPCom* and *Unwired Planet* decisions require more detailed consideration.

The IPCom decision

9. In *IPCom* Floyd J set out the applicable principles at [15] – [21] of. He referred to the judgment of Lord Dyson JSC in *Al Rawi v Security Service* [2011] UKSC 34; [2012] 1 AC 531, who said at [12]:

“... trials are conducted on the basis of the principle of natural justice. There are a number of strands to this. A party has a right to know the case against him and evidence on which it is based. He is entitled to have the opportunity to respond to any such evidence and to any submissions made by the other side. The other side may not advance contentions or adduce evidence of which he is kept in ignorance.”

10. There is a recognised exception to this rule, to which Lord Dyson referred at [64]:

“Similarly, where the whole object of the proceedings is to protect a commercial interest, full disclosure may not be possible if it would render the proceedings futile. This problem occurs in intellectual property proceedings. It is commonplace to deal with the issue of disclosure by establishing ‘confidentiality rings’ of persons who may see certain confidential material which is withheld from one or more of the parties to the litigation at least in its initial stages. Such claims by their very nature raise special problems which require exceptional solutions.”

11. However, in the same paragraph, Lord Dyson emphasised that it would be unprecedented to conduct a trial where one party was denied access to material relied upon by the opposite party.

“I am not aware of a case in which a court has approved a trial of such a case proceeding in circumstances where one party was denied access to evidence which was being relied on at the trial by the other party.”

12. In *IPCom*, Floyd J also referred to the judgment of Buckley LJ in *Warner-Lambert Co v Glaxo Laboratories Ltd* [1975] RPC 354 where it was contemplated that a party

might not be given access to highly technical confidential information on which he could not form his own view, and would have to rely on experts, at an interim stage. Buckley LJ observed:

“Even so, if the action were to go to trial, it would seem that sooner or later the party would be bound to learn the facts, unintelligible though they might be to him, unless the very exceptional course were taken of excluding him from part of the hearing. Even where the information is of a kind the significance of which the party would himself be able to understand, it may nevertheless be just to exclude him, at any rate during the interlocutory stages of the action, from knowing it if he is a trade competitor of his opponent.”

13. The *Warner-Lambert* case concerned trade secrets at the higher end of the scale of sensitivity. Nonetheless, the Court of Appeal rejected the Defendant’s argument that information should be disclosed on an external eyes only basis even at the interim stages of the claim. They ordered that disclosure be provided to the Claimant’s Chairman, so that proper instruction could be given by the Claimant to its lawyers on the basis of informed advice [360 line 47 – 361 line 13].

14. Floyd J also cited *Roussel Uclaf v Imperial Chemical Industries plc* [1990] RPC 45, where Aldous J said at first instance:

“Each case has to be decided on its own facts and the broad principle must be that the court has the task of deciding how justice can be achieved taking into account the rights and needs of the parties. The object to be achieved is that the applicant should have as full a degree of disclosure as will be consistent with adequate protection of the secret. In so doing, the court will be careful not to expose a party to any unnecessary risk of its trade secrets leaking to or being used by competitors. What is necessary or unnecessary will depend upon the nature of the secret, the position of the parties and the extent of the disclosure ordered. However, it would be exceptional to prevent a party from access to information which would play a substantial part in the case as such would mean that the party would be unable to hear a substantial part of the case, would be unable to understand the reasons for the advice given to him and, in some cases, the reasons for the judgment. Thus what disclosure is necessary entails not only practical matters arising in the conduct of the case but also the general position that a party should know the case he has to meet, should hear matters given in evidence and understand the reasons for the judgment.”

15. As Floyd J observed at [20], it is clear that the role which the document will play in the case is a factor which must be weighed in the balancing exercise in setting the terms of the confidentiality regime at any given point in the case. In relation to documents which are key to the case, external eyes only restrictions which, in order to achieve their purpose, would continue at trial, would mean that the party who is subject to such restriction would be unable (a) to discuss the documents with its legal representative (b) to attend parts of the trial and (c) to see all of the reasons for the judgment.

16. In *IPCom* the court was concerned with certain licence agreement which were unlikely to be of relevance to the case. When ordering their disclosure, Floyd J had emphasised that they were unlikely to be of great assistance, but stated that:

“...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.”

17. The licence agreements had been entered into by Nokia and HTC as licensors. IPCom was a licensing company which was competing with the claimant in obtaining licence fees from third parties for different patent portfolios. Therefore, knowledge of confidential terms in those agreements might give IPCom an unfair advantage in its own licensing negotiations.
18. It was regarded as relevant that the case was still at the interim stage and might not go to trial. Floyd J said at [32i]):

“i) The case is still at the interim stage. It is still not clear what part if any the documents will play in the case. There is no guarantee it will go to trial, as the negotiations between IPCom and Nokia show. To allow inspection by the key commercial people within IPCom could inflict wholly unnecessary harm on HTC, Nokia and the interested parties.”
19. In the unusual circumstances of that case, where the documents were of limited, if any, relevance and their disclosure could be unnecessarily damaging, Floyd J decided not to allow disclosure to individuals within IPCom at the interim stage.

The Unwired Planet decision

20. In the *Unwired Planet* case, the parties had agreed a confidentiality regime which included an external eyes only tier. Therefore, Birss J did not need to consider whether it was right in principle to approve such a tier where the parties did not agree. His decision does not concern that issue, as it was not in dispute. However, his judgment can scarcely be regarded as a ringing endorsement of this practice, since he stated at [1] that: “*The legal representatives were privy to details which they were not able to share with their clients. This is obviously not a desirable state of affairs but it had allowed the case to proceed in a practical manner.*”

Summary

21. In my judgment, the authorities discussed above establish that it is exceptional to limit access to documents in the case to external eyes only, so that no representative from the party which is subject to the restriction can see and understand those documents. An external eyes tier does not require justification for the restriction by reference to individual documents. It enables one party to decide to exclude all representatives of the opposite party from access to *any* document that it chooses, and places the onus on the party seeking access to apply to court to obtain it. That approach, in my judgment, is wrong in principle.
22. The problems with an external eyes only tier, which TQ Delta contended should extend to previous licences for the portfolio granted by TQ Delta and its predecessor in title, were summarised by Mr. Purvis QC in the following terms, with which I agree:

- i) Zyxel would potentially be precluded from hearing and understanding the arguments and evidence on RAND licence terms being advanced by TQ Delta.
- ii) The Zyxel lawyers would have to construct arguments and put together evidence without any input from their clients.
- iii) Zyxel would not be able to see, let alone approve, the arguments being advanced by their lawyers or the evidence being drafted by their experts.
- iv) The proceedings would be bedevilled on Zyxel's side by the constant need for their lawyers to monitor what Zyxel could be told about the case and which documents being prepared for the case they could be shown.
- v) It would be impossible to take informed instructions as to whether to accept any Part 36 or other offers made by TQ Delta in the course of proceedings.
- vi) It would be practically impossible for Zyxel to have an informed discussion with their lawyers about the appropriate terms of any Part 36 offer to be made by them.
- vii) Zyxel would be substantially excluded from the trial, having to sit outside while the debate took place in the courtroom.

23. However, it is important to emphasise that:

- i) parties may choose to agree an external eyes only tier, as in *Unwired Planet* (supra);
- ii) confidentiality club agreements are often essential in intellectual property cases, which cases require disclosure of confidential information. In such cases, a regime for disclosure which limits access to sensitive documents to specific individuals within one of the parties, in order to protect confidentiality, is now commonplace;
- iii) redactions to documents can be made to exclude material which is confidential and irrelevant to the dispute;
- iv) external eyes only access to individual documents of peripheral relevance, whose disclosure would be damaging, may be justified in specific cases; as in *IPCom* supra;
- v) I do not exclude the possibility that in certain exceptional cases, external eyes only access to specific documents of greater relevance might be justified, at least at an interim stage.
- vi) however, in the absence of exceptional circumstances, each party must be able to see and discuss with its lawyers the relevant parts of the key documents in the case.

24. An external eyes only tier enables a blanket exclusion of access by one of the parties to the relevant parts of key documents. This is incompatible with the right to a fair hearing under Article 6 of European Convention on Human Rights, and with the

principles of natural justice. It is incompatible with the obligations of lawyers to their clients. The principles on which solicitors are obliged to act on behalf of clients instructing them require the sharing of all relevant information of which they are aware.

Documents in issue in this case

25. Although I decline to approve an external eyes only tier, TQ Delta nonetheless has the right to request the court to restrict access to specified documents to external eyes only. TQ Delta seeks to restrict access to licence agreements, disclosure of which has been ordered prior to service of Statement of Cases in the RAND proceedings, to external eyes only. Ms. Alexandra Brodie, a partner in Gowlings WLG with conduct of the case on behalf of TQ Delta, explained TQ Delta's concerns at [3.3] of her third statement. There are currently two counterparties to licences granted by TQ Delta, referred to by Ms Brodie as Counterparty A and Counterparty B. TQ Delta also has copies of licences granted by Aware Inc. in its possession. The position of each of those third parties as to confidentiality restrictions is different.
26. Ms Brodie explained that the licence with Counterparty A is a lump sum licence containing third party sales data of Counterparty A; which it is concerned to protect. This information is in the form of an exhibit setting out sales of DSL equipment over a number of years by Counterparty A, and another exhibit setting out lump sums due in respect of those sales. Counterparty A's position is the licence agreement and any underlying documents should remain confidential on an external eyes only basis because they contain party names, pricing terms, and other commercial information that (it is alleged) could give third parties, such as Zyxel, an unfair competitive advantage in the market if they are permitted to inspect unredacted copies.
27. Counterparty B's position is that it does not object to disclosure of its licence agreement to Zyxel provided it may only be used for the purpose of the proceedings in which it is disclosed and that the licence is disclosed on a confidential basis. Accordingly, TQ Delta intends to provide Zyxel with an unredacted copy of its licence agreement with Counterparty B (subject to receipt of the undertakings in the Confidentiality Club Agreement). However, Counterparty B's position is that any other confidential information provided to TQ Delta by or on behalf of Counterparty B in the course of negotiations for the licence can only be provided on an external eyes only basis.
28. Aware Inc.'s position is that the copies of its licence agreements that are in TQ Delta's possession can only be provided to Zyxel on an external eyes only basis.
29. In respect of Counterparty A, Mr. Saunders QC, in his very helpful submissions, submitted that the underlying, commercially-sensitive information such as pricing, is not central to the dispute. He said that the experts will be able to calculate the amount charged per unit in the licence and that is all that the parties within Zyxel need to know. Internal parties do not need to see confidential information such as pricing information which is (allegedly) confidential information of a third party to this dispute. He also suggested that the preferable course would be for the document to be disclosed on an external eyes only basis to see if this really caused a problem to Zyxel.

30. Initially, I was attracted to this suggestion as a pragmatic solution. However, as the argument developed, I reached the conclusion that this would merely postpone the resolution of the dispute. The reason why disclosure of licence agreements has been ordered prior to service of the statements of case is because they are likely to be highly relevant documents. The terms of the licence which the court may be asked to decide must be reasonable and non-discriminatory. Therefore, other licence agreements entered into by TQ Delta are, or are likely to be, key documents.
31. I am not convinced, on the basis of the somewhat vague evidence so far provided, that the interest of Counterparty A in preserving the confidentiality of commercially sensitive information would not be satisfied by the restrictions imposed by the Confidentiality Club Agreement, which will limit access to this information to two named individuals from Zyxel's ultimate parent, on receipt of their confidentiality undertakings.
32. In relation to Counterparty B, it is proposed that the licence will be disclosed, but that the negotiations will be external eyes only. The negotiations are not required to be disclosed prior to service of the Statements of Case. Whether they contain confidential information, and the extent of their relevance, is not possible to determine on the evidence before me and I was not asked to make an order concerning the negotiations on this application.
33. Aware Inc's position is that copies of all of its licence agreements which are in TQ Delta's possession can only be provided to Zyxel on an external eyes only basis. It is not explained in the evidence what confidential information is said to justify this approach. Since Aware Inc was TQ Delta's predecessor in title to the relevant patent portfolio, these licence agreements may well be highly relevant documents as comparators, if the court is required to consider licence terms which are reasonable and non-discriminatory.
34. I have concluded that disclosure of the licence agreements should not be limited to external eyes only, but that the third parties should be given the opportunity to vary or set aside that order before disclosure is made. In my view, the onus must be on those who wish to limit access to key documents to external eyes only to justify that limitation, rather than on the party who is, *prima facie*, entitled to see the documents, to justify its entitlement to access.

Conclusion

35. For the reasons set out above, I do not approve the establishment of an external eyes only confidentiality regime. I shall order disclosure of the licence agreements to which I have referred to the Confidentiality Club. However, that order shall be stayed for 14 days to enable third parties who claim confidentiality in those agreements to apply to set aside or vary the order.

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