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Case No: HP-2017-000045

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: Monday, 18th March 2019

Before:

MR. JUSTICE HENRY CARR

Between:

TQ DELTA LLC
(a company incorporated under the laws of
Delaware, USA)

Claimant

- and -

(1) ZYXEL COMMUNICATIONS LIMITED
(2) ZYXEL COMMUNICATIONS A/S
(a company incorporated under the laws of
Denmark)

Defendants

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

MR. IAIN PURVIS QC, MR. BRIAN NICHOLSON QC and MR. DAVID IVISON
(instructed by Pinsent Masons LLP) appeared for the Defendants.

Approved Judgment

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MR. JUSTICE HENRY CARR:

Injunctive relief

1. I did not reserve this judgment, as the parties needed to know where they stood in relation to the form of order. I have now added some more detailed reasoning to the oral judgment that I delivered on 18 March.
2. This judgment on the form of order is consequent on a judgment that I handed down on 11 March 2019. In that judgment, I found that of the patents in suit, one patent (“the ‘268 patent”) is valid, essential and infringed; whereas the second patent, (“the ‘430 patent”) is obvious in the light of ADSL2. The ‘268 patent expires on 25th June 2019. This raises two issues: first, Mr. Purvis QC, on behalf of the Defendants (“ZyXEL”), submitted that in those circumstances, the grant of an injunction was disproportionate; and, secondly, if I rejected that submission, that the injunction should be stayed or there should be a carve-out from the injunction to enable ZyXEL to supply certain orders.
3. Mr. Speck QC responded that this was a very serious case of “hold out”, where an implementer postpones for as long as possible any payment whilst infringing standards essential patents, because it wants to hang on to its money and exhaust the resources and will of the opposite party. He suggested that this was material to the exercise of my discretion in respect of the grant of an injunction. He referred to the judgment of the Court of Appeal in *Unwired Planet v Huawei* [2018] EWCA civ 2344, explaining the balance which is sought to be struck between the interests of implementers on the one hand and of patent holders on the other.
4. In *Unwired Planet*, the Court of Appeal referred to the international effect of a FRAND undertaking in respect of standards essential patents provided to the standards setting organisation (“SSO”) with which the *Unwired Planet* litigation was primarily concerned (“ETSI”). Kitchin LJ explained how this undertaking is necessary to protect implementers. He said at [53]:

“...As we have seen, ETSI is the SSO for the EU but its standards are of international effect. So too, the FRAND undertaking given by a patent owner to ETSI in return for the incorporation into the standard of the technology protected by the patent is also of international effect. It applies to all patents which belong to the same family irrespective of the territory in which they subsist. This is necessary to protect implementers whose equipment may be sold in a number of different jurisdictions and then used by members of the public who may travel with that equipment from one jurisdiction to another. These implementers must be able to use the technology embodied in and required by the standard provided they are prepared to pay a FRAND rate for doing so, for otherwise the owner of the relevant patent rights would be able to charge excessive licensing fees. So any implementer must be able to secure a licence on FRAND terms under all the SEPs it needs to produce and market its products which meet the standard.”

5. Kitchin LJ then considered the interests of SEP owners, which he explained at [54]:

"54. But there is another side to the coin which needs some elaboration at this point. Just as implementers need protection, so too do the SEP owners. They are entitled to an appropriate reward for carrying out their research and development activities and for engaging with the standardisation process, and they must be able to prevent technology users from free-riding on their innovations. It is therefore important that implementers engage constructively in any FRAND negotiation and, where necessary, agree to submit to the outcome of an appropriate FRAND determination.

6. TQ Delta's case is that whilst claiming or purporting to be a willing licensee, in fact, ZyXEL have gamed the system and have constantly changed their position on whether they are prepared to take a licence in such terms as are ultimately determined by the Court. The background is as follows and is explained in the twelfth witness statement of Ms. Brodie on behalf of TQ Delta. TQ Delta first approached ZyXEL as long ago as 2013, seeking to license its patents. It failed to reach agreement; it then issued US proceedings; and then started UK proceedings. TQ Delta has still not received any payment from ZyXEL and the position that we have now reached is that of the two UK patents litigated from a large portfolio, one has been found to be valid and infringed.
7. This, said Mr. Speck, is consistent with ZyXEL's overall strategy. Although, on its own case, there are 775 standards essential patents, it has not paid royalties to any patent holder in respect any of them.
8. In addition, Mr Speck submitted that ZyXEL have repeatedly changed their position as to whether they will accept whatever licence is ultimately determined by the Court to be RAND and have refused to agree to submit to the outcome of an appropriate RAND determination.
9. If one considers only ZyXEL's pleaded case, their position would appear to be clear and unequivocal. Paragraph [28] of ZyXEL's Defence and Counterclaim purports to enforce the RAND undertaking against TQ Delta. Paragraph [29] of the Defence and Counterclaim states that:
- "the Defendants will take a license 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 Defendants or either of them."
10. However, when TQ Delta sought confirmation that this was intended to mean that ZyXEL would take a licence on whatever terms the Court determines to be RAND (and in particular on a global basis), such confirmation was not forthcoming. This appears from (amongst other examples) the following:
- i) On 15 November 2017 Gowlings wrote to Pinsent Masons seeking confirmation that paragraph 29 of the Defence was intended to mean that ZyXEL would take a licence on whatever terms are held by the court to be RAND. The response from ZyXEL's solicitors on 21 November 2017 was to

make it clear that this was not the case. ZyXEL's position was that if the terms were not to their liking in important respects then they would not commit themselves:

“If the Court decides that a RAND license should be:

1. Worldwide.
2. To TQ Delta's entire DSL patent portfolio; and/or
3. Signed by a non-party to the litigation (e.g. by ZyXEL Communications Corporation);

then our clients and the other members of their Group will need to consider whether to enter that license (as appropriate). That decision will depend upon the terms that the Court has decided are RAND.”

- ii) On 10 August 2018 TQ Delta asked the Defendants in paragraph 1B of its Request for Further Information to confirm, in the event the Court finds one or more of the patents in suit to be valid and infringed, whether they were undertaking to enter into: (i) a UK portfolio licence on the terms it had proposed; (ii) any UK portfolio licence, the terms of which are determined to be RAND; or (iii) any licence determined to be RAND. The answer was that ZyXEL were prepared to enter into a licence on the terms that they had proposed, but otherwise would not commit themselves. The Defendants' Response dated 12 September 2018 stated as follows:

"As to (i), ZyXEL confirms that it is prepared to take a UK portfolio licence in the terms set out at Annex D to its RAND Statement of Case.

As to (ii) and (iii), ZyXEL will consider its position as and when any claim of any of the patents in suit is determined to be valid and infringed".

- iii) On 14 November 2018 the Defendants' solicitors stated that their clients' position was that ZyXEL were prepared to take a UK portfolio licence in the terms set out at Annex D to its RAND SoC and that the Court “ought not to grant an injunction excluding ZyXEL from the UK market for products that implement the Relevant Recommendations in the event ZyXEL declines to enter into a global portfolio licence with TQ Delta.”
- iv) When Gowlings sought to raise this issue again in January 2019, Pinsent Masons responded on 9 January 2019 to say they considered their clients' position had been set out in the pleadings and correspondence and that they did not understand what further confirmation was required that their clients were willing licensees. When pressed further by Gowlings, Pinsent Masons responded by expressing uncertainty as to the meaning of the term “willing licensee”:

"You assert that "the question of whether your clients are willing licensees is relevant to whether the court should grant an injunction if it concludes that at least one of the patents in suit is valid and infringed". We disagree. We refer you to paragraph 5 of the prayer for relief of your client's Amended Particulars of Claim. Said paragraph set out your client's conditional claim for injunctive relief; it makes no reference whatsoever to whether or not our clients are 'willing licensees'.

Further and in any event, the term 'willing licensee' is not an established term of art in relation to the exercise of the court's equitable jurisdiction to grant injunctive relief, has no clear or certain meaning and your client has made no attempt to explain what it means by such a term".

11. ZyXEL's current position, as explained in the twelfth statement of Ms. Bould, is that as the '268 Patent will expire in a few months, and before any RAND licence is settled by the Court, they do not seek any such licence. I accept that this is a choice that ZyXEL is entitled to make. The question is whether they should also be able to avoid an injunction, having made that election.
12. On the evidence before me, I accept that this is a case of "hold-out" by ZyXEL. They have not paid any royalties to TQ Delta (or any other patent holder) in respect of any standards essential patent. Of the two patents from TQ Delta's portfolio which have now been litigated in this jurisdiction, infringement of the '268 Patent has been established, and has been continuing for many years. ZyXEL have blown hot and cold as to whether they will accept whatever licence is considered by the Court to be RAND. They have refused to "agree to submit to the outcome of an appropriate [RAND] determination" and yet have claimed the benefit of the RAND undertaking; c.f. *Unwired Planet* at [54] (supra).
13. I bear these facts in mind when considering whether an injunction should be granted in the present case. Mr. Purvis's submission is that, relying on such cases as *Coventry v Lawrence* [2015] UKSC 50, the grant of an injunction at this stage, with no more than three months of the life of the '268 Patent remaining, would be disproportionate. It would not enable ZyXEL to know the terms of any RAND licence which it could or could not accept. I reject that submission. It would enable ZyXEL to benefit from their strategy of hold-out, including their refusal to submit to the outcome of an appropriate RAND determination, whilst still seeking to benefit from the RAND undertaking. ZyXEL would avoid an injunction, and if the terms of a RAND licence are not as they wish, could refuse to enter into a licence on the terms deemed appropriate by the Court.
14. It seems to me that to deprive the patentee of injunctive relief in these circumstances would be unjust. It would, in effect, amount to a compulsory licence by the court in circumstances where the Defendants have elected not to enforce the RAND undertaking in respect of the '268 patent. This, in my judgment, would be wrong in principle.

Application for a stay of the injunction or a carve-out from the injunction

15. The question then is whether I should grant a stay of the injunction, the patentee having established validity and infringement at trial. The *prima facie* position is that I should not do so unless there are solid reasons to grant a stay. In the present case there are two alternatives sought. The first alternative is that the injunction should be stayed for one month. This would enable ZyXEL to do whatever they wish during that period. I reject that request and see no evidential basis for it. The second alternative is to grant a carve-out from the injunction to allow certain orders to be fulfilled.
16. The evidence in support of the carve-out is contained in the twelfth statement of Ms. Bould, which is said to be confidential. I will try, therefore, to put in general terms the nature of that evidence. It appears that the defendants have three pending orders, one of which was shipped before my judgment on the technical trial was received, and the second and third of which have not yet arrived in this country and have not even been shipped. One of them is currently in the course of manufacture in China.
17. The primary thrust of the evidence is that it would inconvenience customers if these orders are not fulfilled. However, there is no evidence from any of the relevant customers, nor does Ms. Bould suggest that her clients have even spoken to the customers about prejudice to them. The contracts which are the subject of these orders have not been disclosed. My understanding is that the customers may have been asked if the contracts can be disclosed, but do not seem sufficiently concerned to consent to their disclosure.
18. Without sight of the contracts, and the full terms on which ZyXEL have agreed to supply the relevant goods, it is not possible to assess the extent of any prejudice to ZyXEL if these orders are not fulfilled. Indeed, Mr. Purvis did not really suggest any significant unquantifiable prejudice. As far as prejudice to the customers is concerned, as I have said, none of those customers has put in any evidence, and I regard the evidence that has been served as inadequate to justify a stay. Therefore, in the exercise of my discretion, I refuse to grant the stay.

Permission to appeal

19. I am going to refuse permission to appeal in this case and I shall briefly set out my reasons for doing so.
20. The first ground of appeal asserts that "frame" is a term of art. I have rejected that on the basis of expert evidence, for the reasons I gave in my judgment. Neither expert claimed that this was the case in their written reports, and had it been a term of art they would surely have done so. Furthermore, Dr Jacobsen's written evidence was not consistent with this contention. I do not consider that this ground of appeal has any realistic prospect of success.
21. The second ground of appeal takes the matter no further. The case on the '268 patent was a standard case of obviousness which required a multifactorial value judgment, based on, amongst other things, assessment of expert evidence. I do not consider that an appeal would have any realistic prospects of success, nor is there any other compelling reason for granting permission.
22. Mr. Purvis also sought permission to appeal from the grant of an injunction, although not from the refusal to grant a stay or a carve-out from the injunction. I consider that it

would be wrong to grant permission, the Court of Appeal already having indicated at [53] – [54] of *Unwired Planet v Huawei* the correct general principles. I also bear in mind that were I to refuse injunctive relief it would amount to a compulsory licence of the patentee's exclusive rights and deprive it of meaningful protection in circumstances where the Defendants have elected not to enforce the RAND undertaking. Whether to grant an injunction in these circumstances is an exercise of discretion, from which it is difficult to appeal. For those reasons I do not consider that an appeal would have any real prospect of success and I refuse permission to appeal.

Costs

23. I am now asked to determine the costs of the technical trial. The general approach, summarised by Arnold J in *Hospira v. Novartis*, which is well known, is that the Court asks itself three questions: first, who has won; secondly, has the winning party lost on an issue which is suitably circumscribed so as to deprive that party of the costs of that issue; thirdly, is it (and I slightly rephrase) an appropriate case to justify the making of a costs order on that issue against the party who has won overall? I do not consider that an exceptional case is required to justify a costs order against the winning party; it is a question of whether it is just to make such an order.
24. It is also relevant to take into account whether the claimant has won a substantial prize which it could not have achieved without coming to court, and whether the defendant has deprived the claimant of the substantial prize that it sought in the litigation. TQ Delta's position is that it is the overall winner. It has established that one of its patents in a large portfolio is valid and infringed in circumstances where, until then, that was denied. As well as financial relief, it has obtained injunctive relief sufficiently important to merit, apparently, a visit to the Court of Appeal on behalf of ZyXEL.
25. Dr. Nicholson, for ZyXEL, said that it is not possible to determine who is the overall winner until it is known what form of relief will be obtained and, in particular, whether or not there will be a determination of a RAND rate for TQ Delta's portfolio, which is the prize that the claimant sought. Mr Speck has indicated his intention to amend the RAND pleadings to seek a declaration as to the portfolio RAND terms, in the light of the events which have now occurred, and ZyXEL have indicated an intention to apply to strike out that pleading.
26. In my view, it is appropriate for me to determine the costs of the technical trial at this stage. Having heard the trial, I am in a position to say that on the one hand the claimant has achieved a significant success in establishing validity and infringement of one of its patents, but that the defendant has deprived the claimant of at least a part of what it was seeking, namely, a finding of validity and infringement of the '430 patent. The relief that TQ Delta has obtained, and will obtain at a subsequent enquiry, is, and is likely to be, significant, irrespective of whether a RAND declaration is granted. I have considered evidence from Ms. Bould that damages or an account of profits in respect of the '268 Patent would produce a small sum, disproportionate to the costs expended by both parties. That will be ZyXEL's case at the enquiry, but I was certainly not convinced, on the basis of the limited evidence before me, that this case will be accepted by the Court. Since I was not shown any Calderbank offer made on behalf of the Defendants, there is no reason to postpone dealing with the costs of the technical trial.

27. In all the circumstances of this case, I consider it appropriate to make an order for costs in favour of TQ Delta, but to order that TQ Delta should not recover its costs of validity of '430 and also should pay ZyXEL's costs in respect of that issue. The '430 patent was invalid. That is a discrete issue and, in my view, the patentee who asserted validity should pay the costs.
28. In terms of proportion of costs, I have no doubt that the '430 validity issue was considerably less complex and required less expenditure of costs than '268. There were five issues at trial, which were not of equal importance or duration: validity of '268; infringement of '268; amendment of '268; validity of '430 and infringement of '430. TQ Delta succeeded on all issues except for issue 4, validity of '430. I have looked at estimates provided by Ms. Brodie, based as usual on page counting, where the figure that she attributes to validity of '430 is 25% of the costs of the proceedings. Whilst page counting is no more than a very broad-brush approach, and somewhat favourable to the losing party as it does not take account of the general costs of the action, that accords with my sense of what proportion that issue would be likely to have taken.
29. In addition to that, TQ Delta is entitled to its costs of validity of '430 relating to prior art that was abandoned when Dr. Jacobsen came into the case. Ms. Brodie estimates those costs as being £100,000 in respect of the abandoned prior art and, overall, she suggests that the appropriate deduction is 20%. I agree.
30. To that, I need to add an appropriate deduction to reflect the defendants' costs of validity of '430. Taking a broad view and bearing in mind that the Defendants' costs are considerably lower (a point to which I will come in a moment) I believe that the appropriate proportion to add to the deduction is 12%. So, I intend to make an order that ZyXEL shall pay 68% of TQ Delta's costs of the technical trial.
31. I should add that Dr. Nicholson made the point that the defendants' costs are significantly less than the claimant's costs. That may or may not be a valid point, depending on whether some of the costs have been written off by the defendants' solicitors. In my view, this issue is relevant to the quantum of any payment on account which I shall now consider.

Payment on account

32. The difference between the claimant's and defendants' costs in this case is relevant when considering how much to order as a payment on account. On the other hand, I need also to consider that the defendants' solicitors agreed to fixed costs and, therefore, I am told that a significant amount of money (about £500,000 of fees) has been written off by Pinsent Masons. Therefore, it is not necessarily an indication that the claimant's bill is unreasonable or disproportionate. Overall, I consider that the appropriate percentage to order, which I consider to be a realistic percentage, is 60%.
