UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	SACV 14-00341 JVS (ANx)	Date	July 28, 2014
Title	TCL Communications Technology Holdings Ltd v. Telefonaktenbologet LM Ericsson, et al.		

Present: The Honorable	James V. Selna

Karla J. Tunis	Sharon Seffens
Deputy Clerk	Court Reporter
Attorneys Present for Plaintiffs:	Attorneys Present for Defendants:
Not Present	Not Present

Proceedings: (IN CHAMBERS) Order Granting Plaintiff's Motion to Amend Amended Complaint (Fld 6-20-14)

Plaintiff TCL Communication Technology Holdings, Ltd. ("TCL") moves for leave to file its second amended complaint ("SAC") against Defendants Telefonaktienbolaget LM Ericsson ("Telefonaktienbolaget") and Ericsson, Inc. (collectively, "Defendants"). (Mot., Docket No. 30.) The Defendants oppose TCL's motion and argue that subject matter jurisdiction is lacking. (Opp'n, Docket No. 32.) TCL has replied. (Reply, Docket No. 33.) For the following reasons, the Court GRANTS the motion for leave to file the SAC.

I. Background

TCL is a mobile and internet communications device manufacturer with its principal place of business in China. (Compl. ¶ 16–17, Docket No. 1.)[1] Telefonaktienbolaget is a telecommunications corporation with its principal place of business in Sweden. (Id. ¶ 23.) Ericsson, Inc. is a United States subsidiary of Telefonaktienbolaget, organized and existing under the laws of Delaware and with its

[1] TCL filed its first amended complaint ("FAC") on June 2, 2014. (Docket No. 24.) For the FAC to be valid, the Court must have had jurisdiction over the original complaint. For the issues presented in this current motion, the applicable provisions of the original complaint and FAC are identical. Accordingly, all citations are to the original complaint.

principal place of business in Texas. (Id.)

In 2007, a Chinese subsidiary of TCL signed a patent license agreement with the Defendants for standard essential patents ("SEPs") covering 2G technology standard. (Id. ¶ 18.) The Defendants have declared a number of patents to be essential to the global 2G, 3G, and 4G telecommunications standards established by the European Telecommunications Standards Institute ("ETSI"). (See id. ¶ 3, 44–55.)

According to ETSI policy, if an ETSI member owns intellectual property, including patents, that may be considered essential to a particular standard or technical specification, ETSI requests that the owner grant irrevocable licenses on fair, reasonable, and non-discriminatory ("RAND") terms and conditions in return for inclusion of the intellectual property into the standard. (Id. ¶ 7–8.) TCL alleges that it made products complying with the Defendants' standards in reliance upon Defendants' commitment to RAND pricing. (Id. ¶ 3.)

In relevant part, the negotiations over the RAND rate for a new agreement between the Defendants and TCL intensified in 2012, including over the RAND rate for products sold in the United States. (Id. ¶ 73.) TCL alleges that it was ready to agree to a RAND rate with the Defendants for 2G and 3G patents and, at the Defendants' request, it also agreed to negotiate a RAND rate for the 4G essential patents (Id.)

TCL alleges that the Defendants' negotiation tactics violate the RAND commitments they undertook. (Id. ¶ 75.) TCL alleges that the Defendants are attempting to force TCL to agree to royalties rates based on the final sales price of TCL's mobile devices, rather than the 2G, 3G or 4G chip which implements the wireless standards at issue in this case. (Id.) TCL alleges that using the royalty base of the wireless device, instead of the price of the chip, violates the Defendants' RAND commitments as ETSI members. (Id.)

The Defendants have initiated legal actions against TCL in multiple foreign jurisdictions regarding the RAND licensing issue. (Id. ¶ 77.) Additionally, the Defendants have sought injunctions against TCL for using their patents. (Id. ¶ 83.) TCL alleges that these legal actions by the Defendants place TCL at "a high risk of exclusion from downstream markets." (Id.) A lawsuit brought after this action in another judicial district by the Defendants against TCL alleges that TCL has infringed the Defendants' patents. (Mot., Ex. 1.)

TCL filed its initial complaint on March 5, 2014, and then the FAC on June 2, 2014. (Docket Nos. 1, 24.) In the original complaint , TCL alleged claims for breach of contract, promissory estoppel, a declaratory judgment regarding the RAND rates, fraudulent misrepresentation, negligent misrepresentation, and violation of state unfair competition laws and the Cartwright Act. (Docket No. 1.) The FAC removed the Cartwright Act claim. (Docket No. 24.)

On June 10, 2014, the Defendants filed a notice of lack of subject matter jurisdiction. (Not., Docket No. 26.) The Court subsequently issued a show cause order to TCL regarding whether jurisdiction existed. (Min. Order, Docket No. 27.) TCL filed both a motion for leave to file its SAC and a response to the Court's order claiming that there was jurisdiction for the case on June 20, 2014. (Docket No. 30.) On June 27, 2014, the Defendants filed their opposition to TCL's motion as well as their response to the Court's order, claiming that there was no jurisdiction over this case. (Docket No. 32.) TCL replied on July 7, 2014. (Docket No. 33.)

II. Legal Standards

A. Rule 12(b)(1)

Dismissal is proper when a plaintiff fails to properly plead subject matter jurisdiction in the complaint. Fed. R. Civ. P. 12(b)(1). A "jurisdictional attack may be facial or factual." Safe Air for Everyone v. Meyer, 373 F.3d 1035, 1039 (9th Cir. 2004). If the challenge is based solely upon the allegations in the complaint (a "facial attack"), the court generally presumes the allegations in the complaint are true. Warren v. Fox Family Worldwide, Inc., 328 F.3d 1136, 1139 (9th Cir. 2003). If instead the challenge disputes the truth of the allegations that would otherwise invoke federal jurisdiction, the challenger has raised a "factual attack," and the court may review evidence beyond the confines of the complaint without assuming the truth of the plaintiff's allegations. Safe Air, 373 F.3d at 1039. The plaintiff bears the burden of establishing subject matter jurisdiction. Kokkonen v. Guardian Life Ins. Co. of Am., 511 U.S. 375, 377 (1994). Subject matter jurisdiction is assessed at the time an action is commenced. Grupo Dataflux v. Atlas Global Grp., L.P., 541 U.S. 567, 570–71 (2004).

B. Leave to Amend

"A party may amend its pleading once as a matter of course within: (A) 21 days after serving it, or (B) if the pleading is one to which a responsive pleading is required, 21 days after service of a responsive pleading or 21 days after service of a motion under Rule 12(b), (e), or (f), whichever is earlier." Fed. R. Civ. P. 15(a)(1). In all other cases, a party may amend its pleading only with written consent from the opposing party or the court's leave, which should be "freely give[n] . . . when justice so requires." Fed. R. Civ. P. 15(a)(2); see Morongo Band of Mission Indians v. Rose, 893 F.2d 1074, 1079 (9th Cir. 1990) (requiring that policy favoring amendment be applied with "extreme liberality").

In the absence of an "apparent reason," such as undue delay, bad faith, dilatory motive, repeated failure to cure deficiencies by prior amendments, prejudice to the opposing party, or futility of amendment, it is an abuse of discretion for a district court to refuse to grant leave to amend a complaint. Foman v. Davis, 371 U.S. 178, 182 (1962); Moore v. Kayport Package Express, Inc., 885 F.2d 531, 538 (9th Cir. 1989). The consideration of prejudice to the opposing party "carries the greatest weight." Eminence Capital, LLC v. Aspeon, Inc., 316 F.3d 1048, 1052 (9th Cir. 2003). "Although there is a general rule that parties are allowed to amend their pleadings, it does not extend to cases in which any amendment would be an exercise in futility, or where the amended complaint would also be subject to dismissal." Steckman v. Hart Brewing, 143 F.3d 1293, 1298 (9th Cir. 1998).

III. Discussion

As an initial matter, the Court must determine whether it has subject matter jurisdiction over TCL's lawsuit. Contingent upon that inquiry, the Court must then determine whether it should grant TCL leave to file its SAC. The Court addresses each of these questions below.

A. Subject Matter Jurisdiction

1. Diversity Jurisdiction

A federal court has diversity jurisdiction when the action is between "citizens of a State and citizens or subjects of a foreign state." 28 U.S.C. § 1332(a)(2). The Supreme Court has stated that this enabling statute "contains no language which would include a suit by one alien against another, even where there might also be citizen defendants." Romero v. Int'l Terminal Operating Co., 358 U.S. 354, 391 n.1 (1959). The Ninth Circuit's interpretation of diversity jurisdiction is in line with the Supreme Court's. See, e.g., Nike, Inc. v. Comercial Iberica de Exclusivas Deportivas, S.A., 20 F.3d 987, 991 (9th Cir. 1994) ("[D]iversity jurisdiction does not encompass a foreign plaintiff suing foreign defendants.")

TCL asserted in the FAC that this Court's jurisdiction is based on § 1332. (Compl. ¶ 27.) However, TCL concedes that diversity jurisdiction is lacking. (See Reply 1.) According to the FAC, TCL maintains its principal place of business in the People's Republic of China. (Compl. ¶ 16–17.) The Defendants are a parent corporation with its principal place of business in Sweden and a subsidiary incorporated in Delaware and having a principal place of business in Texas. (Id. ¶ 23.) The presence of the parent corporation makes this a case where an alien plaintiff is suing an alien defendant. (Id. ¶ 16–17, 23.) As such, there is no diversity jurisdiction.

A court may, on just terms, dismiss a party whose presence in the litigation destroys jurisdiction if the party is dispensable and there would be no prejudice to the parties. Fed. R. Civ. P. 21; Continental Airlines, Inc. v. Goodyear Tire & Rubber Co., Inc., 819 F.2d 1519, 1524 (9th Cir. 1987); Blue Cross & Blue Shield of Massachusetts v. Mylan Labs., Inc. (In re Lorazepam & Clorazepate Antitrust Litig.), 631 F.3d 537, 542 (D.C. Cir. 2011) (citing Newman-Green, Inc. v. Alfonzo-Larrain, 490 U.S.

826, 830–32 (1989)). A party may be indispensable if "complete relief among existing parties" cannot be granted in its absence. Fed. R. Civ. P. 19(a)(1)(A). A "court asks whether the absence of the party would preclude the district court from fashioning meaningful relief." Disabled Rights Action Comm. v. Las Vegas Events, Inc., 375 F.3d 861, 879 (9th Cir. 2004). A party also may be indispensable if it "claims an interest relating to the subject of the action" and its "absence may (i) . . . impair or impede the person's ability to protect the interest; or (ii) leave an existing party subject to a substantial risk of incurring double, multiple, or otherwise inconsistent obligations because of the interest." Fed. R. Civ. P. 19(a)(1)(B). "Inconsistent obligations occur when a party is unable to comply with one court's order without breaching another court's order concerning the same incident." Cachil Dehe Band of Wintun Indians of the Colusa Comm. v. California, 547 F.3d 962, 976 (9th Cir. 2008).

The Court finds that Telefonaktienbolaget is an indispensable party. Dismissing Telefonaktienbolaget from this action would impede its ability to protect its interests of determining RAND rates on its patents. Additionally, Ericsson, Inc. would be at risk of inconsistent obligations were this court to determine the RAND rate without Telefonaktienbolaget present: the action in Texas, in which both Defendants are parties, could potentially determine a different RAND rate.

Given the aforementioned findings, there is no diversity jurisdiction in this action. Furthermore, the Court cannot salvage diversity jurisdiction through the exercise of Rule 21. Accordingly, the Court does not have subject matter jurisdiction premised on 28 U.S.C. § 1332. This ends the inquiry; nevertheless, the Court examines whether the FAC has established a basis for jurisdiction.

2. Federal Question Jurisdiction

"The district courts shall have original jurisdiction of all civil actions arising under the Constitution, laws, or treaties of the United States." 28 U.S.C. § 1331. "The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks." Id. § 1338(a). The federal question must appear on the face of the "well-pleaded complaint."

E.g., Louisville & N.R. Co. v. Mottley, 211 U.S. 149, 153–54 (1908).

"In an action for declaratory relief, the plaintiff seeks an adjudication of the claims that the defendants threaten to assert against the plaintiff. . . . [T]he cause of action litigation is not that of the plaintiff but that of the defendants. Federal jurisdiction . . . is proper if the cause(s) of action anticipated by the plaintiff's suit would arise under federal law." Morongo Band of Mission Indians v. Cal. State Bd. of Equalization, 858 F.2d 1376, 1384 (9th Cir. 1988); see also ABB Inc. v. Cooper Indus., LLC, 635 F.3d 1345, 1349–50 (Fed. Cir. 2011) (examining the "declaratory defendant's hypothetical well-pleaded complaint" to determine whether it alleges claims arising under federal law). "The prototypical action in which this principle is invoked is a patent case in which a supposed infringer seeks a declaratory judgment that he has not interfered with the rights of the patentee." Bell & Beckwith v. U.S., I.R.S., 766 F.2d 910, 912–13 (6th Cir. 1985).

Of the claims asserted in TCL's FAC, the only one that might qualify as arising under the laws of the United States is the third claim for a declaratory judgment. (Compl. ¶ 103–06.) The declaratory judgment TCL seeks is that Defendants have not offered their patent licenses on terms that conform to applicable legal requirements, including that they are not at RAND rates. (Id. ¶ 106)

TCL did not expressly articulate its third claim in the FAC as one for patent non-infringement. Despite that, the Court finds that the third claim anticipates a coercive action brought by the Defendants for patent infringement. The alleged facts show that TCL faces a risk of being excluded from multiple markets because the Defendants could bring suit against TCL for unauthorized use of their patented technology. (Compl. ¶ 83.) TCL clearly seeks determination of the RAND licensing issue as a defense to a hypothetical well-pleaded complaint filed by the Defendants against TCL for patent infringement.

At the hearing on July 25, 2014, the Defendants argued that TCL's declaratory judgment claim raises only the question of what the proper RAND rate is for their patents. As such, the Defendants contend that the claim anticipated is closer to a dispute over contract royalty terms and not patent infringement. The Ninth Circuit and its lower courts have found that a claim pertaining to RAND licensing rates is a contract claim. See, e.g., Microsoft Corp. v. Motorola, Inc., 696 F.3d 872 (9th Cir. 2012); Realtek Semiconductor Corp. v. LSI Corp., 946 F. Supp. 2d 998 (N.D. Cal. 2013); cf. Luckett v. Delpark, Inc., 270 U.S. 496, 502 (1926) ("It is a general rule that a suit . . . for any remedy in respect of a contract permitting use of the patent, is not a suit under the patent laws of the United States."); Schwarzkopf Dev. Corp. v. Ti-Coating, Inc., 800 F.2d 240 (Fed. Cir. 1986) (finding that complaint for failure to pay royalties under licensing agreement is "one arising out of state contract law, not 'arising under' the patent law").

However, this Ninth Circuit precedent is not dispositive of the present question before this Court, and the Defendants' argument fails to note that TCL's claims go beyond a royalty dispute. Under Morongo, this Court must look to the cause of action that TCL anticipated the Defendants would bring. The alleged facts do not suggest that the Defendants would seek to collect on royalties owed under a contract between licensee and patentee. Rather, the facts suggest a coercive action for TCL's alleged infringement of the Defendants' patents. Indeed, such a patent infringement lawsuit was brought in another judicial district by the Defendants against TCL after TCL had filed this lawsuit. (Mot., Ex. 1.)

The Defendants also argued at the July 25, 2014 hearing that the present dispute is distinguishable from ABB Inc. because TCL did not explicitly allege anything involving patent infringement in the FAC. In fact, the Court in ABB Inc. found jurisdiction even though the plaintiff only asserted a state law license defense in its declaratory action because the defendant's hypothetical lawsuit would have been one for patent infringement. ABB Inc., 635 F.3d at 1349–52. Here, the Court must also look to the anticipated cause of action the Defendants would bring. In doing so, the Court finds that the present case is similar to ABB Inc. and that jurisdiction exists.

Given the aforementioned findings, there is federal question jurisdiction in this action premised on 28 U.S.C. § 1331 and § 1338. Accordingly, the Court has subject matter jurisdiction to hear this case.

B. Leave to File the Second Amended Complaint

Having determined that this Court has jurisdiction to hear this case, the Court next determines whether to grant TCL leave to file its SAC. First, the Court does not find that any of the Foman factors – undue delay, bad faith, dilatory motive, repeated failure to cure deficiencies by prior amendments, prejudice to the opposing party, or futility of amendment – are present in this current motion. Second, granting leave to amend would not prejudice the Defendants because they received notice of the issues that TCL's lawsuit involves when it was first filed. Finally, the Defendants' argument against granting leave to amend because jurisdiction is lacking is no longer relevant because the Court previously found that it has jurisdiction over this dispute. (Opp'n 4–6.)

As such, the Court grants TCL leave to file its SAC.

IV. Conclusion

For the aforementioned reasons, the Court grants TCL's motion for leave to file the SAC.

IT IS SO ORDERED.

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