

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No. SACV 14-00341 JVS (ANx) Date May 24, 2016
Title TCL Communications Technology Holdings Ltd v. Telefonaktenbologet LM Ericsson, et al.

Present: The Honorable James V. Selna

Karla J. Tunis

Not Present

Deputy Clerk

Court Reporter

Attorneys Present for Plaintiffs:

Attorneys Present for Defendants:

Not Present

Not Present

Proceedings: (IN CHAMBERS) Order DENYING Defendants’ Motion to Supplement FRAND Contentions, or in the Alternative, Motion to Strike Reliance on Events Occurring After Service of Ericsson’s FRAND Contentions.

Defendants Telefonaktienbolaget LM Ericsson and Ericsson, Inc. (collectively, “Ericsson”) filed a motion to supplement FRAND contentions, or, in the alternative, to strike reliance on events occurring after service of Ericsson’s FRAND contentions. Plaintiffs TCL Communication Technology Holdings Ltd., TCT Mobile Limited, and TCT Mobile (US) Inc. (collectively, “TCL”) filed an opposition. Ericsson filed a reply. Ericsson and TCL have also filed supplemental briefing regarding recent discovery concerning Option C.

For the reasons stated below, the Court **denies** Ericsson’s motion.

1. Background

TCL is a mobile telecommunications vendor that licenses patents from telecommunications companies like Ericsson. Docket No. 31 ¶ 2. Ericsson owns a portfolio of intellectual property rights, some of which are “essential” to the global 2G (second generation), 3G (third generation), and 4G (fourth generation) telecommunications standards set by the European Telecommunications Standards Institute (“ETSI”). *Id.* ¶ 3. ETSI is a standard-development organization that adopts globally-accepted technological standards to facilitate compatibility between products and services in the telecommunications industry. *Id.* ¶¶ 38-40. ETSI requires members who declare their patents “standard essential” (“standard essential

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patents”) to license them on fair, reasonable, and non-discriminatory (“FRAND”) terms. Id. ¶¶ 7-8.

TCL alleges, among other things, that Ericsson has an obligation to license patents to TCL on FRAND terms, and that Ericsson breached its FRAND obligations by failing to license its 2G, 3G, and 4G standard essential patent portfolio to TCL on non-discriminatory terms. Id. ¶¶ 11-12. As part of this claim, TCL requests that the Court determine FRAND terms for licensing Ericsson’s 2G, 3G, and 4G standard essential patent portfolio. Id. at 43 ¶ D.

To help the Court determine FRAND terms for licensing Ericsson’s 2G, 3G, and 4G standard essential patent portfolio, the Court ordered Ericsson to file Contentions Regarding Components of FRAND License (“FRAND Contentions”) no later than March 16, 2015. Docket No. 120. Pursuant to the Court’s deadline, Ericsson filed FRAND Contentions on March 16, 2015.¹ Docket No. 138. Ericsson’s FRAND Contentions contained two offers: “Option A” and “Option B.” Id. Option A proposed that TCL pay Ericsson an annual lump sum royalty payment for all phone sales up to a threshold value of annual sales volume, and then a percentage running royalty rate on the net sales price for each phone sold on all sales volume over the threshold value. Id. at 8-13. Option B proposed that TCL pay Ericsson a percentage running royalty rate on the net sales price for all phones sold regardless of annual sales volume, with a floor and cap for certain phones. Id. at 13-15. Both options are based on two FRAND offers that Ericsson previously made to TCL. Option A is based on an April 23, 2014 offer that Ericsson made to TCL before TCL served Ericsson with the original complaint in this action. Option B is based on a February 11, 2015 offer that Ericsson made to TCL during the course of this action. Option B reflects changes in Ericsson’s “reference rates” that became effective in March 2015 after Ericsson completed its annual review of its licensing rates for its 2G, 3G, and 4G standard essential patents.²

¹ On May 8, 2015, Ericsson filed Amended Contentions Regarding Components of FRAND License that added royalty rates for personal computers. Docket No. 205. These amended contentions are not relevant to the present motion.

² Reference rates are royalty rates used by Ericsson’s licensing personnel when formulating license offers for its 2G, 3G, and 4G standard essential patents.

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In March 2016, Ericsson conducted another annual internal review of its licensing rates for its 2G, 3G, and 4G standard essential patents. After the review, Ericsson decided to transition its reference rate system from a percentage running royalty rate system to a fixed-fee-per-unit rate system. Unlike a percentage running royalty rate system (in which licensees must pay some percentage of the sales price for each device sold), the fixed-fee-per-unit rate system requires licensors to pay fixed fees for each device sold. In light of this transition, Ericsson now seeks to supplement its FRAND contentions to add a fixed-fee-per-unit rate system, “Option C.”

2. Legal Standard

In the Ninth Circuit, there is no precedent establishing the standards governing a motion to supplement FRAND contentions. As previously stated, the Court declines to apply the Northern District of California's Patent Local Rule 3-6 strict standards governing amendment of infringement or invalidity contentions. Docket No. 724-5 at 5. In the absence of Ninth Circuit precedent or an appropriate local rule, the Court instead applies the standards governing the amendment of pleadings and scheduling orders under Rules 15(a)(2) and 16(b)(4) of the Federal Rules of Civil Procedure.³

A party seeking to file amended pleadings after a scheduling deadline must first satisfy the standard for modifying scheduling orders under Federal Rule of Civil Procedure 16(b)(4). Johnson v. Mammoth Recreations, Inc., 975 F.2d 604, 607-08 (9th Cir. 1992). Rule 16(b)(4) requires parties to show “good cause” to modify a scheduling order. Fed. R. Civ. P. 16(b)(4). In determining whether there is good cause, the court “primarily considers the diligence of the party seeking the amendment.” Johnson, 975 F.2d at 609. If a party establishes good cause for amendment, the party must then show that amendment is proper under Federal Rule of Civil Procedure 15(a)(2). Rule 15(a)(2) provides that a party can amend its pleading only with written consent from the opposing party or leave of court. Fed. R. Civ. P. 15(a)(2). Leave of court should be “freely give[n] . . . when justice so requires,” however. Id. Courts generally consider

³ During the Rule 26(f) scheduling conference on February 24, 2015, the Court ordered Ericsson to file FRAND Contentions by March 16, 2015. Docket No. 120. Granting Ericsson leave to file supplemental FRAND Contentions therefore requires the Court to modify its previous scheduling order.

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the following factors when determining whether to grant leave to amend: undue delay, bad faith, dilatory motive, repeated failure to cure deficiencies by prior amendments, prejudice to the opposing party, or futility of amendment. Foman v. Davis, 371 U.S. 178, 182 (1962).

3. Analysis

3.1. The Court denies Ericsson's motion for leave to supplement FRAND Contentions.

Ericsson seeks leave to file supplemental FRAND Contentions. The Court denies Ericsson leave to file supplemental FRAND Contentions because Ericsson has failed to establish "good cause" for modifying the Court's scheduling order under Rule 16(b).

"Rule 16(b)'s 'good cause' standard primarily considers the diligence of the party seeking the amendment." Johnson, 975 F.2d at 609. "The inquiry should focus on the moving party's reasons for seeking modification to the order: If these reasons do not indicate proper diligence, the inquiry should end." Lyon v. U.S. Immigration & Customs Enf't, 308 F.R.D. 203, 216 (N.D. Cal. 2015). In determining whether the party diligently moved to modify the scheduling order, courts generally consider: (1) whether the party's failure to comply with the scheduling order was caused by matters that were not reasonably foreseeable at the time the scheduling order was issued, and (2) whether the party diligently moved to modify the scheduling order after it determined that it could not comply with the scheduling order. Hood v. Hartford Life & Accident Ins. Co., 567 F. Supp. 2d 1221, 1225-26 (E.D. Cal. 2008) (citing Jackson v. Laureate, Inc., 186 F.R.D. 605, 608 (E.D. Cal. 1999)). Put differently, whether the party "has good cause to seek a late amendment turns on whether it was diligent in discovering the basis for and seeking the amendment." White Mountain Communities Hosp. Inc. v. Hartford Cas. Ins. Co., 2015 WL 1298432, at *2 (D. Ariz. Mar. 23, 2015).

Ericsson has failed to establish that it diligently discovered the basis for its supplemental FRAND Contentions. Ericsson's basis for filing supplemental FRAND Contentions is Ericsson's March 2016 review of reference rates for the 2G, 3G, and 4G standard essential patents, after which Ericsson transitioned from a percentage running royalty rate system to a fixed-fee-per-unit rate system. Docket No. 692-1 at 6-7. However, Ericsson's motion provides no evidence that Ericsson could not have reasonably foreseen using a fixed-fee-per-unit rate

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system for the 2G, 3G, and 4G standard essential patents for purposes of its FRAND Contentions in this action when the scheduling order was first entered on February 24, 2015. See id. at 11 (setting forth Ericsson's alleged diligence). Indeed, Ericsson's reply suggests the opposite: the reply expressly states that Ericsson's royalty rates for external modems and personal computers sold by TCL competitors have historically been expressed as dollar-per-unit rates, Ericsson's royalty rates for handsets are increasingly expressed as either actual or *de facto* dollar-per-unit rates, and Ericsson's royalty rates for personal computers and external modems sold by TCL have been expressed as dollar-per-unit rates since at least July 2011. See Docket No. 735-1 at 8-10 (discussing Ericsson's approach to FRAND licensing).

In its motion, Ericsson provides the following timeline to establish diligence: (1) Ericsson offered Option C to TCL on March 22, 2016 after completing its annual review of reference rates in mid-March 2016; (2) Ericsson met-and-conferred with TCL several times between March 30, 2016 and April 11, 2016 to determine whether TCL would oppose supplemental FRAND Contentions based on Option C; and (3) Ericsson filed this motion on April 25, 2016, two weeks after TCL told Ericsson that it would oppose supplemental FRAND Contentions. Docket No. 692-1 at 11. None of this evidence establishes that Ericsson diligently discovered the basis for its supplemental FRAND Contentions (*i.e.*, that, for purposes of this litigation, FRAND terms for Ericsson's 2G, 3G, and 4G standard essential patent portfolio could alternatively be expressed in fixed-fee-per-unit rate terms). Rather, this timeline establishes only that Ericsson diligently moved for leave to file supplemental FRAND Contentions based on Option C once it conducted its annual review. However, Ericsson's unilateral timing of that review has no bearing on its diligence in coming forward with the substantive position adopted in that review. Thus, this is insufficient to establish diligence. See Hood, 567 F. Supp. 2d at 1225-26 (requiring both diligent discovery and diligent attempt to amend).

Because Ericsson has failed to first establish good cause under Rule 16(b)(4), the Court declines to address whether leave to amend is appropriate under Rule 15(a)(2). See Lyon, 308 F.R.D. at 216 ("If these reasons do not indicate proper diligence, the inquiry should end."). The Court notes, however, that granting Ericsson leave to file supplemental FRAND Contentions this late in the litigation would likely result in substantial prejudice to TCL: for example, Ericsson's supplemental FRAND disclosures would likely require TCL to both conduct substantial additional discovery (including, for example, taking depositions of multiple Ericsson

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licensing personnel) and draft supplemental expert reports after the firm discovery cut-off deadline set for May 23, 2016.

3.2. The Court denies Ericsson's alternative motion to strike.

Ericsson alternatively requests that the Court exclude evidence of events occurring after service of Ericsson's FRAND Contentions on March 16, 2015 if the Court does not grant Ericsson leave to file supplemental FRAND Contentions. The Court declines to exclude such evidence at this time. Whether Ericsson has established good cause to file untimely supplemental FRAND Contentions under the Federal Rules of Civil Procedure is separate and independent from whether evidence of events occurring after service of Ericsson's FRAND Contentions is admissible under the Federal Rules of Evidence. Accordingly, challenges to the admissibility of evidence of events occurring after service of Ericsson's FRAND Contentions should instead be brought in pre-trial motions *in limine*. Moreover, the Court's determination of the admissibility of such evidence will be aided by fuller development of the record evidence purportedly establishing that Ericsson discriminated against TCL.

3. Conclusion

For the reasons stated above, the Court **denies** Ericsson's motion.

IT IS SO ORDERED.

Initials of Preparer

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