UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

**CIVIL MINUTES - GENERAL**

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| Case No. | SACV 14-00341 JVS (Anx)<br>consolidated with CV 15-02370 JVS | Date | September 27, 2016 |
| Title | TCL Communications Technology Holdings Ltd v. Telefonaktenbologet LM Ericsson, et al. | | |

Present: The Honorable James V. Selna

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| 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 for Order Regarding Dollar Per Unit Frand Royalties and Most Recent License Offer to TCL (Fld 8-29-16)**

Defendant Telefonaktienbolaget LM Ericsson and Defendant and Counter-claimant Ericsson, Inc. (collectively, "Ericsson") filed a motion seeking an order from this Court granting leave to present at trial evidence and argument supporting pure dollar-per-unit royalty rates in determining a FRAND rate for a license between Ericsson and Plaintiffs and Counter-Defendants TCL Communication Technology Holdings, Ltd., TCT Mobile Limited, and TCT Mobile (US) Inc. (collectively, "TCL"). (Ericsson Mot., Docket ("Dkt.") Nos. 1101–03.) TCL opposes. (TCL Opp'n, Dkt. Nos. 1113–15.) Ericsson has replied. (Ericsson Reply, Dkt. Nos. 1118–20.)

For the following reasons, the Court denies Ericsson's motion.

## I. Background

The general background of this dispute is well-known to the parties and to the Court. For further information, consult this Court's June 29, 2015 "Order re Motions." (Dkt. No. 279-1)

Briefly, TCL is a mobile telecommunications vendor that licenses patents from telecommunications companies like Ericsson. (Second Amended Complaint, Dkt. 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 patents") to license them on fair, reasonable, and nondiscriminatory ("FRAND") terms. (Id. ¶¶ 7-8.)

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. (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 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.

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 (or "dollar-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, on April 25, 2016, Ericsson filed a motion to supplement its FRAND contentions to include a March 2016 license offer made to TCL. (Dkt. Nos. 691–92, 694.)

The Court denied Ericsson's motion on May 24, 2016. (May Order, Dkt. No. 760.) The Court found that the appropriate legal standard to apply in considering whether a party should be permitted to amend its FRAND contentions was the standard for modifying scheduling orders under Federal Rule of Civil Procedure 16(b)(4). (Id. pp 3–4.) That required Ericsson to show "good cause" in order to amend the scheduling order, and the inquiry into "good cause" "primarily considers the diligence of the party seeking the amendment." Johnson v. Mammoth Recreations, Inc., 975 F.2d 604, 609 (9th Cir. 1992).

In its May Order, the Court explicitly found that Ericsson had "failed to establish that it diligently discovered the basis for its supplemental FRAND contentions." (May Order p. 4.) The Court also noted that granting Ericsson leave to supplement its FRAND contentions "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 . . . and draft supplemental expert reports after the firm discovery cut-off deadlines set for May 23, 2016." (May Order pp. 5–6.)

The May Order did not end motion practice on this issue. On June 20, 2016 TCL filed a motion to, in part, "enforce [the Court's] ruling regarding dollar-per-unit rates" (Docket Nos. 849–851.) On July 25, the Court granted TCL's motion with significant limitations. (July Order, Dkt. No. 1055.) The Court ruled that Ericsson could not advocate for the use of a dollar-per-unit rate structure for the 2G and 3G rates of any license because those components were not expressed in dollar-per-unit rates under either Option A or Option B. (July Order p. 11.) Other components of Option A and Option B, such as the royalty rates for external modems, were either already expressed in pure dollar-per-unit rates or a running royalty percentage rate with a dollar-per-unit floor and ceiling. The Court determined it would not limit advocacy of dollar-per-unit rates for these components, except that Ericsson could not advocate for a "pure" dollar-per-unit rate for the 4G royalty rate (it was acceptable to the Court that Ericsson advocate for a floor and cap in dollar-per-unit terms for the 4G royalty rate, even if that lead to a de facto dollar-per-unit royalty rate). (Id.)

On August 17, 2016, the Court granted in part and denied in part TCL's motion to strike portions of Ericsson's expert reports. (August Order, Dkt. No. 1074.) The Court further found that there would potentially be unfairness without further relief. (Id. p. 14.) The Court vacated the original October trial date to allow TCL to submit expert reports dealing with matter that Ericsson's experts presented at the rebuttal report deadline. (Id.)

Ericsson subsequently filed the present motion seeking leave to present at trial evidence and argument supporting pure dollar-per-unit royalty rates.

## II. Legal Standard

The grounds for reconsideration are set forth in Local Rule 7-18, which provides:

> A motion for reconsideration of the decision on any motion may be made only on the grounds of (a) a material difference in fact or law from that presented to the Court before such decision that in the exercise of reasonable diligence could not have been known to the party moving for reconsideration at the time of such decision, or (b) the emergence of new material facts or a change of law occurring after the time of such decision, or (c) a manifest showing of a failure to consider material facts presented to the Court before such decision. No motion for reconsideration shall in any manner repeat any oral or written argument made in support of or in opposition to the original motion.

L.R. 7-18.[1] The Court has discretion in determining whether to grant a motion for reconsideration. See Navajo Nation v. Confederated Tribes & Bands of the Yakama Indian Nation, 331 F.3d 1041, 1046 (9th Cir. 2003).

## III. Discussion

The Court finds that vacating the trial date provided Ericsson with the grounds to procedurally satisfy Local Rule 7-18 because it is an emergence of a new material fact occurring after the time of the original decisions not to permit advocacy of Option C or certain dollar-per-unit terms. However, Ericsson fails to convince the Court to change its conclusions regarding its rulings on the advocacy of pure dollar-per-unit rates.

First, the Court observes that the Court's previous conclusions about Ericsson's diligence have not changed. In its May Order, the Court found that Ericsson did not establish that it had "diligently discovered the basis for its supplemental FRAND Contentions." (May Order p. 5.) The Court further found that "Ericsson's unilateral timing of [its annual review of reference rates] has no bearing on its diligence in coming forward with the substantive position adopted in

[1] See also School Dist. No. 1J, Multnomah Cty. v. AcandS, Inc., 5 F.3d 1255, 1263 (9th Cir. 1993) (providing that reconsideration is appropriate if the movant demonstrates clear error, manifest injustice, newly discovered evidence, or an intervening change in controlling law).

that review." (Id.) April 2016 was too late in this litigation for Ericsson to change the basic theory about the structure of the deal between itself and TCL when the litigation had proceeded under the assumptions that the 2G and 3G rates would be expressed in a percentage of net selling price royalty term. The Court's assessment of Ericsson's diligence has not changed in the intervening months. If, as the Court found, Ericsson was not diligent in April, then Ericsson is still not diligent by raising the same issue in August. Because Ericsson was not diligent, inquiry into whether it can amend its FRAND contentions should end. Johnson, 975 F.2d at 609.

Second, the continuance of the trial from October 2016 to February 2017 did not arise out of thin air. Instead, Ericsson's own conduct, while not so clearly wrongful as to warrant essentially terminating sanctions, was the primary factor in the new trial date. As the Court found in the August order, the conduct of Ericsson in presenting the substantive bulk of its expert reports in rebuttal reports resulted in "unfairness" to TCL. (August Order p. 14.) The Court vacated the trial date because it was preferable, in the interest of resolving this important dispute on the merits, to striking more of Ericsson's expert reports and "eviscerat[ing]" Ericsson's case. (Id.) The Court agrees with TCL that "Ericsson should not be permitted to exploit the trial continuance to re-open the door to matters that were previously decided and finally resolved." (TCL Opp'n p. 1.) It is improper to bootstrap the continuance into an effort by Ericsson to offer Option C or advocate for pure dollar-per-unit rates on more license terms than permitted by this Court's July Order.

Third, granting Ericsson's motion would warrant further alteration of this Court's scheduling order by necessitating further fact discovery. The trial was continued for the limited purpose of permitting TCL to present further expert reports addressing the topics raised for the first time in Ericsson's rebuttal reports. The trial was not continued to reopen fact discovery. As the Court previously found, reopening fact discovery would constitute "substantial prejudice" to TCL. (May Order pp. 5–6.) Ericsson argues (and demonstrates) that a significant amount of discovery has already been taken regarding the basis of Ericsson's change to the structure of its licenses. (Ericsson Reply pp. 9–13.) But the Court will not allow Ericsson to unilaterally claim that *sufficient* discovery has already been taken. In fact, some discovery relevant to a pure dollar-per-unit royalty structure has certainly not yet been taken. That discovery includes e-mail discovery regarding the transition to a pure dollar-per-unit royalty structure and a further deposition of Gustav Brismark. (See TCL Opp'n pp. 12–14.) Reopening fact discovery would probably lead to further motion practice such as motions to compel, and would certainly lead to the prejudice of incurring substantial additional attorney's fees and distracting TCL's counsel from trial preparation.[2]

Finally, the Court finds that it is not unduly limiting highly relevant advocacy or preventing a full and fair presentation of Ericsson's case at trial. The Court implemented the mechanism of having the parties submit their FRAND contentions so that, in part, the parties would know what the other intended to argue at trial and so that both parties could structure their respective cases and defenses accordingly. Permitting Ericsson to amend its infringement contentions or to advocate for a wholly different rate structure than contemplated by the FRAND contentions, at this late point in this litigation, frustrates the purpose behind the early disclosure of FRAND contentions. Ultimately, the parties litigated this case and conducted discovery on the presumption that Ericsson would advocate in terms of a percentage of net selling price royalty rate, as evidenced by Options A and B. The Court will not permit all of that work to go to waste simply because Ericsson now desires—unilaterally and belatedly—to structure its deals differently. If Ericsson wanted to structure its deals in terms of dollars-per-unit, there was nothing stopping it from doing so in March 2015 when Ericsson's FRAND contentions were originally due.

## IV. Conclusion

For the foregoing reasons, the Court denies Ericsson's motion.

IT IS SO ORDERED.

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[2] Ericsson's offer to not oppose "additional limited discovery" (Ericsson Reply p. 13.) would, at best, alleviate the need for motions to compel. But Ericsson's use of the qualifier, "limited," indicates that there is still the potential for disputes about the scope of the additional discovery. Additionally, Ericsson's offer does not alleviate the prejudice of TCL incurring attorney's fees and spending time preparing a new case in response to Ericsson's dollar-per-unit royalty rate contentions.