



Neutral Citation Number: [2018] EWHC 3651 (Pat)

Case No: HP-2017-000045

IN THE HIGH COURT OF JUSTICE
BUSINESS AND PROPERTY COURTS
INTELLECTUAL PROPERTY LIST (CHANCERY DIVISION)
PATENTS COURT

Rolls Building
Fetter Lane, London, EC4A 1NL

Date: 20 December 2018

Before :

MR JUSTICE ARNOLD

Between :

TQ Delta, LLC
(organised under the laws of the State of
Delaware)

Claimants

- and -

ZyXEL Communications UK Limited
ZyXEL ommunications A/S
(a company incorporated under the laws of
Denmark)

Defendants

Mr. Adrian Speck Q.C. and Mr. Nicholas Saunders Q.C. (instructed by Gowling WLG
(UK) LLP) for the Claimant

Dr. Brian Nicholson and Mr. David Ivison (instructed by Pinsent Masons LLP) for the
Defendants

Hearing date: 30 November 2018

Judgment

MR JUSTICE ARNOLD :

1. This is the pre-trial review in these proceedings. I have two applications before me at present which I am dealing with. The first is an application by ZyXEL to exclude various aspects of TQ Delta's evidence on the ground that the parts of the evidence objected to fall outside TQ

Delta's pleaded case. The second application is an application by TQ Delta to amend its Statement of Case on RAND to introduce a new allegedly comparable licence. Both applications relate to the RAND dispute between the parties. Given the time, I am going to take the nature of that dispute as read for the purposes of this judgment.

2. Turning to the application by ZyXEL to start with, this has a number of aspects. The first aspect relates to the scope of the RAND licence in terms of the persons whose activities should be covered. TQ Delta's Statement of Case on RAND is predicated on the footing that the licence will extend to the ZyXEL Group. One can clearly see that from all the repeated references in the Statement of Case to the ZyXEL Group.
3. As counsel for TQ Delta pointed out, however, when one turns to the licence that was proposed by TQ Delta, what one finds is that the licence proceeds on the basis that three companies are collectively defined as Licensee, those being: ZyXEL Communications Corporation, a Taiwanese company; ZyXEL Communications AS, a Danish company, which is the second defendant; and ZyXEL Communications UK, an English company, which is the first defendant. The licence granted can be seen to extend beyond Licensee to "its Existing Affiliates." When one looks at the definition of "Affiliate" in clause 1.1, that extends to any present or future Parent of the party and any present or future Subsidiary of the party. It is not necessary for present purposes to go into the definitions of Parent and Subsidiary, which are contained in clauses 1.15 and 1.17.
4. If one turns to Exhibit C to the draft licence, one finds a list of proposed Existing Affiliates, which is stated to be "subject to confirmation by Licensee". The list begins with Unizyx Holding Corporation ("Unizyx"), which is the parent company of the ZyXEL Group, and would be covered, as I understand it, by the definition of "Affiliate". The second company listed is MitraStar Technology Corporation ("MitraStar"). It is now accepted by TQ Delta that MitraStar is not covered by the definition of "Affiliate", the reason being that it is a sister company to the parent company in the ZyXEL Group, although it is also a subsidiary of Unizyx.
5. It is pointed out on behalf of ZyXEL that, in their proposed form of licence agreement, when one turns to Exhibit C, MitraStar is crossed out. That was served in July 2018. Accordingly, ZyXEL say that TQ Delta should have realised since then that there was an issue as to whether or not MitraStar should be covered by the licence.
6. Be that as it may, the next relevant development for present purposes is that on 7 December 2018 the parties exchanged expert evidence. When one turns to the evidence of Mark Bezant, who is the financial expert instructed on behalf of ZyXEL, one finds that he proceeds, for the reasons explained in section 5 of his report, on the basis that the licence should extend to all entities in the Unizyx Group, including MitraStar.
7. ZyXEL applies to have that evidence excluded upon the footing that it is not covered by TQ Delta's Statement of Case on RAND. As to that, counsel for TQ Delta relied upon the fact that MitraStar had been specifically identified as a company to be covered by the licence in the draft licence proposed by TQ Delta. Accordingly, he submitted that there could be no question of ZyXEL having been taken by surprise. In those circumstances, he submitted that the position was adequately pleaded. If it was not, it would be a simple matter to amend TQ Delta's Statement of Case and that was something that TQ Delta should be permitted to do, notwithstanding the fact that we are fairly close to trial, trial being some three working weeks away.

8. Counsel for ZyXEL resisted any amendment to TQ Delta's Statement of Case at this stage, contending that it would put a new complexion on the case because instead of a case which was all about a licence encompassing the ZyXEL Group, now TQ Delta was attempting to turn this into a case which was about licensing of the entire Unizyx Group, including MitraStar and other companies in that arm of the corporate structure.
9. He submitted that that would be prejudicial to ZyXEL at this late stage, in particular because it would expose ZyXEL to a situation where, if the licence proposed by TQ Delta was held to be RAND, then the licensee companies under the licence would be forced to accept reporting obligations on behalf of MitraStar, which was not part of the ZyXEL Group. That, he submitted, was putting both the ZyXEL companies and MitraStar in a quandary. In particular, it would lead to a question as to whether MitraStar should be a party to the litigation or not.
10. I do not accept the submission made by counsel for TQ Delta that TQ Delta's existing pleading adequately covers the position. The existing pleading proceeds on the assumption that MitraStar falls within the definition of "Affiliate". It is now accepted that it does not, and in those circumstances TQ Delta needs to amend. Given that it was always made clear by TQ Delta, however, that it was proposing a licence which covered MitraStar, I see no real prejudice to ZyXEL in TQ Delta being permitted to amend its Statement of Case to put that right.
11. I bear in mind the point that is made by counsel for ZyXEL as to the position of MitraStar. As I made clear during the course of argument, I am not pre-judging the arguments which may arise as to trial consequential upon the fact that, at present, MitraStar is not a party to the proceedings and has not submitted to the jurisdiction of this court and is not a company which is under the control of any of the Defendants. Those points seem to me to be potential difficulties in TQ Delta's way, but that should have been apparent to TQ Delta ever since it learnt that MitraStar was not an Affiliate falling within its definition. Those, as I say, are matters for argument at trial. I do not regard any of that as a sufficient reason for refusing to permit TQ Delta to make an amendment to its Statement of Case on RAND so as to contend that the licence should extend to all entities within Unizyx Group.
12. I turn next to the second objection that is raised by ZyXEL, which concerns a different part of Mr. Bezant's evidence. So far as that is concerned, it is necessary to explain in broad terms the nature of the parties' cases with respect to the RAND issue. TQ Delta's case is a very simple and straightforward one, namely, that the RAND terms should be assessed by reference to comparable licenses. TQ Delta's Statement of Case pleads that contention. It pleads no alternative case as to how the RAND terms might be determined if not by reference to comparable licenses.
13. The ZyXEL Statement of Case is a much longer and more complicated one, but in a nutshell, ZyXEL's case is that the royalty rate should be determined by what is sometimes called a top-down approach, also known as a profits available approach. It is not necessary, for the present purposes, for me to explain in detail the nature of that case, but it involves a number of steps in apportioning the relevant profits so as to arrive at an appropriate royalty rate.
14. In section 8 of Mr. Bezant's report, he discusses ZyXEL's approach to determining the appropriate royalty rate. As he explains in his introduction at paragraph 8.2, he summarises ZyXEL's description of its approach, he comments on the principles, he explains why he

considers those principles to be wrong and presents, as he puts it, "an alternative calculation of an aggregate royalty burden based on the economic benefits approach".

15. There has been some debate between counsel as to whether Mr. Bezant's alternative calculation is a top-down one or a bottom-up one. For present purposes, I do not think that matters. What does matter is that, when one goes through section 8 of his report, one finds that Mr. Bezant advances a series of criticisms of ZyXEL's approach. As to that, I think it is accepted by ZyXEL that all of that evidence is unobjectionable; and even if it is not accepted, that is my view.
16. However, Mr. Bezant does not stop at criticising ZyXEL's approach. In addition, as he states at 8.26, he presents

"an alternative calculation of the aggregate royalty burden which I suggest addresses the errors in ZyXEL's Approach."

He presents that in particular at paragraph 8.46 and following under the heading "Alternative calculation of the aggregate royalty burden". As he states at 8.48:

"Below, I present an alternative calculation of the aggregate royalty burden based on the economic benefits approach which addresses my concerns with ZyXEL's Approach. I provide further detail on my assumptions and my calculation in Appendix 9 and present my calculations in Appendix 10."

He then discusses that a little further.

17. Further on in Section 8, he comes to address certain other assumptions by ZyXEL at paragraph 8.75 and following where, having re-iterated that he considers that ZyXEL applies the wrong approach, he puts forward what he describes as "an alternative methodology should be applied in order to derive the aggregate royalty burden (I have described such a methodology above)."
18. Then, finally, he addresses in paragraphs 8.95 and following the possibility of a bottom-up approach. He notes at 8.99 that ZyXEL does not advance a bottom-up valuation and having agreed in 8.100 that it can be difficult to assess the incremental commercial benefit arising from the specific technological benefit offered by the relevant patents, he goes on in paragraph 8.101 to say that it is possible to assess the incremental commercial benefit arising from DSL technology by the approach that he set out above. In his conclusions in this section in 8.102, he says that he considers that ZyXEL applies the wrong approach and in 8.103, he says

"I have presented above an alternative calculation of the aggregate royalty burden which relies on the economic benefits approach and addresses my concerns with ZyXEL's Approach. The illustrative royalty I derive from this analysis are broadly consistent with those proposed by TQD in its April 2018 Offer"

19. Counsel for TQ Delta seeks to defend Mr. Bezant's approach by saying that all he is doing is criticising ZyXEL's pleaded case and explaining what the result would be if ZyXEL's approach were to be properly applied. I entirely accept that it is within Mr. Bezant's remit as the Statements of Case stand to criticise ZyXEL's approach. However, in my judgment, it is clear from Mr. Bezant's report that he is going beyond merely criticising ZyXEL's approach

and explaining why he considers that it is flawed. As he repeatedly makes clear, he puts forward what he describes repeatedly as an alternative calculation of the aggregate royalty burden based on the economic benefits approach. That is not merely evidence designed to undermine ZyXEL's case; it is evidence which is putting forward an alternative basis for calculating the RAND royalty. That alternative case is not a case which has been pleaded by TQ Delta. Accordingly, it seems to me that it is not open to TQ Delta to rely upon the parts of Mr. Bezant's evidence that advance that alternative calculation absent an amendment to its Statement of Case.

20. It is fair to note that ZyXEL's application seeks to strike out parts of Mr. Bezant's report which go beyond those which merely present the alternative calculation. Some of the parts that are sought to be struck out include some of his criticisms of ZyXEL's approach. In my view, that is not justified. All that I consider that should be excluded, absent an amendment to the Statement of Case, are the parts of Mr. Bezant's report where he presents his alternative calculation and the justifications for it.
21. Counsel for TQ Delta once again submitted that if, contrary to his submission, the evidence extended beyond TQ Delta's pleaded case, then he ought to have permission to make an appropriate amendment. I note that he did not come to court with any formulated amendment and thus there is no formulated amendment before me. No objection was raised by counsel for ZyXEL on that score, however.
22. Counsel for ZyXEL submitted that it would be prejudicial to ZyXEL for TQ Delta to be permitted to amend its Statement of Case so as to advance the alternative calculation by way of a fall-back case to TQ Delta's primary case based upon the comparable licences at this late stage of the proceedings. He submitted that it placed ZyXEL in considerable difficulties for two main reasons, although there were more.
23. The first main reason relied upon is that ZyXEL's financial expert, Mr. Pampinella, has no time available before 4 January 2019 and very little time thereafter, other than time which has already been committed to a large amount of work that he already has to do in this case. The second main reason is that it is not yet known if Mr. Beck, who is ZyXEL's technical expert, would be able to assist. In that regard, although on the face of it Mr. Bezant's evidence is purely financial evidence, it is submitted that it proceeds on the basis of certain assumptions as to the technology and the state of the relevant markets which ZyXEL contend are not necessarily justified. ZyXEL take the view that they may need technical evidence to address Mr. Bezant's assumptions. At present, they do not know whether Mr. Beck can provide the requisite evidence, and even if he can, he also has difficulties with availability. If he cannot, then ZyXEL is faced with trying to get a new expert only three working weeks away from trial.
24. I am sympathetic to those difficulties on the part of ZyXEL. However, I propose to defer a conclusion as to the way forward until I have dealt with the other matters that are before me.
25. The next matter relates to evidence contained in an expert report of Dr. Nedko Nedev served on behalf of TQ Delta. The key part of Dr. Nedev's report that is objected to by ZyXEL is contained in sections 4 and 5. The background to this part of the application is that it is part of ZyXEL's case that one has to engage in a form of patent counting by a process that is set out in ZyXEL's Statement of Case. In section 3 of his report, Dr. Nedev criticises that methodology. In sections 4 and 5 of his report, Dr. Nedev sets out the methodology and results of a review of the essentiality of a list of, if I have understood correctly, 775

potentially essential patents. That review, as Dr. Nedev explains, has been carried out by a team of experts headed by himself. In addition to himself, as he explains in paragraph 1.6, he has been assisted by an expert in physical layer for communications and electronics, an expert in link layer and coding, and an expert in communication networks.

26. He explains the approach adopted by the team of "subject-matter experts", as he describes them, at paragraph 4.30 and following, and the team meetings and peer reviews that the approach adopted. As he states in paragraph 4.47, team members were asked to choose patents in their technical area of expertise, for example physical layer, link layer. In paragraph 4.48, he states:

"If a team member found that a patent they selected did not actually fall into their area of expertise, they were instructed to return it for re-assignment to another team member with the relevant experience."
27. ZyXEL objects to this evidence on a number of grounds. The first ground is that nowhere in TQ Delta's Statement of Case does one find any case as to the need for, or methodology of, an essentiality review. That is simply not part of TQ Delta's case at all.
28. Counsel for TQ Delta submitted that Dr. Nedev, like Mr. Bezant, was simply criticising XyXEL's case on patent counting and showing what the result would be if it were done properly. As with Mr Bezant's evidence, I do not accept this. Dr. Nedev is putting forward an alternative case which TQ Delta has not pleaded. In the alternative, counsel for TQ Delta sought permission to amend TQ Delta's Statement of Case.
29. The second ground upon which objection is raised by ZyXEL is that Dr. Nedev has, on the face of his current report, carried out an essentiality review of the potential universe of essential patents in this field, but he has not reviewed the essentiality of TQ Delta's alleged standard essential patent families.
30. Counsel for TQ Delta told me that in fact that gap has been remedied in the sense that, subsequent to the service of his report on 7 December 2018, Dr. Nedev has done further work looking at the essentiality of seven TQ Delta patent families. Two are the patents in suit in the case and therefore it is said that there is no need for him to do that and he had in fact already looked at a further one. Accordingly, as I understand it, there is at an advanced stage of preparation a further report from Dr. Nedev looking at the essentiality of those seven patent families. Of course, as yet, ZyXEL have not seen that further report. Nevertheless, I will proceed on the basis that that will be, or at least could be, served very shortly. That potentially deals with ZyXEL's second objection.
31. The third objection that ZyXEL raise is that TQ Delta only has permission to call one technical expert, but on the face of Dr. Nedev's report, the essentiality review has been carried out by a team of at least four experts. The language does not exclude the possibility that there were in fact been than four, but certainly there were at least four. It is plain from the passages of the report to which I have referred that different team members with different technical expertise have reviewed different patents. Yet only one of the team is put forward as an expert to testify to the court in accordance with Part 35 of the CPR .
32. Accordingly, ZyXEL submit that, on the face of the report, it contains swathes of expert evidence which originate from experts who have not been subject to the requirements of CPR Part 35 , whose evidence TQ Delta does not have permission to adduce and who TQ

Delta does not propose to call at trial so that their evidence can be tested in cross-examination.

33. As to that, counsel for TQ Delta said in essence that it was impossible to do it any other way: it was necessary for an essentiality review of this nature to be carried out by a team of experts because it was not possible for one expert to do it on his or her own, and accordingly this was the only practical way to do it. I express no view as to whether it is correct that it would not be possible for one expert to carry out such a review. I will assume it is for present purposes. If that is so, then the correct way forward, as it seems to me, is for parties seeking to rely upon such evidence to apply to the court and to be open about the situation, that is to say, to make an application to the court to adduce evidence from the requisite number of experts. To pretend that it can be done by one expert when in reality the evidence emanates from a team of experts with different areas of expertise is wholly at variance with the entire approach which unpins Part 35 of the CPR and, in my judgment, is completely unacceptable. I was told it had been done in Unwired Planet litigation. If that is so, so be it; but I do not regard it as acceptable.
34. This objection is something which potentially could be fixed by calling the relevant additional experts, although steps would have to be taken in order to achieve that.
35. The next objection which is raised by ZyXEL is that, when you actually look at Dr. Nedev's report, as well as the fact that he is in truth relying upon the expertise of other experts as well as his own, the reasoning for the conclusions reached are completely impenetrable. What one does not find is a patent-by-patent description of the reasons given by the relevant member of the team for the conclusions reached by reference to the relevant sections of the standard. It is simply an assertion of the results of the review. In essence, the court is being asked to place its faith in the methodology adopted by the team without being given proper access to the reasons why the team adopted the conclusions that they did. In my view, this is an objection which also has substance. I do not think it is acceptable for the court to be presented essentially with the results of a process of expert review without the detailed reasons being made available.
36. Accordingly, it follows that, if Dr. Nedev's evidence were to be admitted, it would be necessary, first of all, for the additional experts to be called and, secondly, it would be necessary for his evidence to be supplemented by identification of the reasons for the conclusions that would be reached. Even assuming that those were steps that TQ Delta would be prepared to undertake, which it has not said that it would, I think that would be difficult to achieve within the time available between now and trial and it would be quite impossible for ZyXEL to adduce evidence in response within that time. Accordingly, in the case of Dr. Nedev's evidence, it does not seem to me that this is something that can be fixed simply by an amendment to TQ Delta's Statement of Case.
37. The next matter I need to deal with is TQ Delta's application to rely upon an additional licence as a comparable licence. Presently, only one licence is relied upon as being comparable. On 6 December 2018 TQ Delta entered into a new licence agreement with a different counter-party whose identity is confidential. TQ Delta informed ZyXEL of the existence of the new licence the following day and provided a copy of the licence as soon as the counter-party consented on 13 December 2018. On 14 December 2018 it provided a draft amended Statement of Case on RAND.

38. Counsel for ZyXEL realistically accepted, contrary to the position that ZyXEL had articulated previously, that TQ Delta had moved with speed after the conclusion of the licence agreement. Nor did he suggest, as had been insinuated beforehand, that it had in some way delayed in executing the licence agreement - after all, it would have been in its own interests to execute it as soon as it possibly could.
39. His submission was much more realistic, namely that, even accepting that there had been no delay by TQ Delta in executing the licence and that TQ Delta had moved promptly to disclose the licence and make its amendment application after it was executed, the amendment simply came too late. It was nobody's fault, but there it was. He submitted it was too late because the new licence agreement would require investigation and evidence as to its comparability. This would be likely to entail further disclosure and it would certainly entail further expert evidence.
40. The one criticism he made of TQ Delta's approach to the amendment application was that he pointed out that, as yet, TQ Delta had not served any evidence from Mr. Bezant analysing the new licence and opining as to its impact on the RAND royalty rate. Counsel for ZyXEL submitted that that is something which could and should have been done by now.
41. Be that as it may, his overriding point was to say that there was simply too little time between now and trial for this new additional licence properly to be investigated by the parties and properly dealt with in their evidence. In that regard, he again relied upon the difficulties that ZyXEL faced with its expert, Mr. Pampinella.
42. As to that, my conclusion is as follows. It seems to me that the new licence agreement is one that is plainly relevant to TQ Delta's pleaded case. As I have explained, that case is based upon comparable licences. TQ Delta asserts that this is a comparable licence. In those circumstances, prima facie, it seems to me TQ Delta should be entitled to rely upon it. Moreover, as I have explained, it seems to me that TQ Delta have moved promptly to amend its Statement of Case following the execution of the licence. While, in a perfect world, it would have been desirable for TQ Delta to have adduced evidence from Mr. Bezant by now, I think it is understandable that they have not done so yet. No doubt he has been engaged on other matters.
43. However, it seems to me that allowing the new licence into the proceedings at this late stage does put ZyXEL into a very difficult position. ZyXEL's difficulties in that regard are compounded by the other difficulties created by the evidence objected to by ZyXEL to which I already referred.
44. In conclusion, therefore, it seems to me the position is as follows. As regards the evidence of Dr. Nedev that is objected to, my present view is that the problems with that evidence are simply incapable of being fixed in any realistic timescale, and therefore it should be excluded in any event.
45. As regards the point about the scope of licence, as I have explained, it seems to me there is a simple fix consisting of an amendment to TQ Delta's Statement of Case and that is something that TQ Delta should be permitted to do. That on its own I do not consider places any great difficulty in ZyXEL's way for the reasons I have explained.
46. As regards Mr. Bezant's alternative calculation, as I have explained, it seems to me that can only come in if TQ Delta is permitted to amend its Statement of Case. The problem is that, if

TQ Delta is permitted to amend its case so as to adduce Mr. Bezant's alternative calculation, then I think ZyXEL are placed in difficulty in adequately responding in the time available.

47. Likewise, when it comes to the new licence that TQ Delta seeks to introduce, prima facie for the reasons I have expressed, I think TQ Delta should be entitled to do that. Again, however, introducing the new licence at this late stage places considerable difficulty in ZyXEL's way.
48. Counsel for TQ Delta laid considerable stress in his submissions to me upon TQ Delta's desire to maintain the existing trial date. He emphasised that, from his client's perspective, it was a patentee faced with an infringer holding out and that the infringer's objective was to delay the conclusion of RAND terms for as long as possible. I am sympathetic to that concern, although of course I am not in a position to judge whether it is right or not.
49. As I see it, however, the result of the two applications before me is as follows. I think that TQ Delta should be given a choice: either it can proceed with a slimline version of its case that ZyXEL can deal with in the time available between now and the existing trial date; or if it wants to go for the full width of its case, then there will have to be an adjournment of the RAND trial.
50. To be clear, if TQ Delta abandons its application to introduce the new licence and abandons its reliance upon Mr. Bezant's alternative calculation, then I think the trial can go ahead on the existing date. If, however, TQ Delta wants to rely upon the new licence and Mr. Bezant's alternative calculation, then I will allow it to do so, but the price will be an adjournment of the RAND trial.
51. To assist TQ Delta in making its decision, I will indicate that what I would be minded to do would be to adjourn the RAND trial, but not the technical trial, and to do so for the minimum period necessary to allow ZyXEL properly to respond to the new material that is going to be introduced by amendment.
52. I would add by way of postscript to the foregoing judgment that, after I have delivered it, counsel for ZyXEL confirmed that, as I had anticipated but had omitted to check, ZyXEL did not want an adjournment, but preferred to have an adjourned trial at which they would be able to deal properly with TQ Delta's additional case and evidence than to be required to deal that material on the existing trial date.