

Fed. Circ. Rules Ericsson FRAND Case Must Go To Jury

By Ryan Davis

Law360 (December 5, 2019, 8:36 PM EST) -- The Federal Circuit on Thursday threw out a district court judge's decision setting a license rate for Ericsson's standard-essential wireless patents in a dispute with TCL, ruling that by establishing the rate in a bench trial, the judge violated Ericsson's right to a trial by jury.

The judge's 2017 ruling was one of the few to date to set a so-called fair, reasonable and nondiscriminatory, or FRAND, rate for patents that are essential to industry standards like 4G wireless. However, the appeals court said Judge James V. Selna of the Central District of California wrongly took on the entire task himself.

His decision included a FRAND rate that Chinese smartphone maker TCL must pay to license Ericsson's patents going forward, as well as a "release payment" for past unlicensed sales. The Federal Circuit said that since the release payment is akin to damages for infringement, it is a legal issue that must be addressed by a jury and can't be resolved by a judge in a bench trial.

"Because we conclude that the release payment is in substance compensatory relief for TCL's past wrongs (i.e., practicing Ericsson's patented technologies without a license), we hold that the district court deprived Ericsson of its constitutional right to a jury trial on that legal relief by requiring that Ericsson adjudicate that relief in a bench trial," the court ruled.

Judge Selna held that TCL must pay \$16.5 million for a worldwide license to the patents, far less than the \$100 million Ericsson had sought.

Since it held that part of the FRAND determination should have been made by a jury, the Federal Circuit vacated all aspects of the judge's ruling, including his finding that Ericsson's initial licensing offers to TCL were not FRAND, and remanded for new proceedings.

Patents that are essential to industry standards give their owners significant power, so organizations that set the standards require patent owners to pledge to license them on FRAND terms. TCL's declaratory judgment suit alleged that license rates it was offered by Ericsson were not FRAND.

Judge Selna agreed that Ericsson's offer was not FRAND and proceeded to set what he said would be a FRAND rate, making complex calculations in a 115-page opinion that analyzed license agreements Ericsson reached with other smartphone makers.

Ericsson argued during the case that under the Seventh Amendment, it had a right to a trial by jury. According to the Federal Circuit's opinion, Judge Selna disagreed and "explained in a single sentence" that the matter was appropriate for a bench trial and "did not address Ericsson's argument" that it should go to a jury.

That was wrong and requires undoing all of the other decisions he made in the case, the appeals court ruled.

The case hinged on whether the payment for TCL's past infringement was legal relief, which must be determined by a jury, or equitable relief, which can be determined by a judge. While Judge Selna said the payment was equitable in nature because it constitutes performance of a term in a contract, the Federal Circuit said it was legal relief because it amounted to damages for patent infringement, which are within the purview of a jury.

The appeals court noted that Judge Selna described the payment as being intended to compensate Ericsson for TCL's unlicensed use of the patents, so "the court's own actions confirm that the release payment functions as a substitute for patent infringement damages."

The Federal Circuit therefore vacated the judge's calculation of the release payment, as well as what it described as the "closely related" FRAND rate he calculated for TCL to pay Ericsson going forward, "because both determinations were predicated on common issues to the improperly decided release payment."

During oral arguments in August, the Federal Circuit judges expressed confusion about how to properly determine a FRAND rate and questioned some of the calculations Judge Selna made in his decision. Judge Raymond Chen said at one point that he "wouldn't even know how to begin to articulate" the right way to establish the rate.

However, since the Federal Circuit found that the issue should have gone to the jury, it didn't address the substance of the judge's calculations.

Attorneys for the parties could not immediately be reached for comment Thursday.

Judges Raymond Chen, Pauline Newman and Todd Hughes sat on the panel for the Federal Circuit.

Ericsson is represented by Jeffrey Lamken, Emily Damrau, Rayiner Hashem, Michael Pattillo Jr. and Sara Margolis of MoloLamken LLP, Theodore Stevenson III and Nicholas Mathews of McKool Smith PC and John M. Whealan, a professor at George Washington University Law School.

TCL is represented by Stephen Korniczky, Martin Bader, Matthew Holder, Ericka Schulz and Karin Dougan Vogel of Sheppard Mullin Richter & Hampton LLP.

The case is TCL Communication Technology Holdings Ltd. et al. v. Telefonaktiebolaget LM Ericsson, case number 18-1363, in the U.S. Court of Appeals for the Federal Circuit.

--Editing by Haylee Pearl.