

Mannheim Regional Court rejects FRAND defence in its first ruling on the issue following the ECJ ruling Huawei vs. ZTE

On 27 November 2015, the Mannheim Regional Court (case 2 O 106/14) granted an injunction against Deutsche Telekom based on European patent EP 1 125 284, which was found to be essential for the AMR-WB standard relevant for wideband audio coding used in HD-Voice transmission. Patentee and plaintiff was Saint Lawrence Communications GmbH, a European subsidiary of Acacia Research Group LLC. Because the accused products offered by Deutsche Telekom included mobile phones supplied HTC and several other handset manufacturers, HTC and others participated in the proceedings as interveners in support of Deutsche Telekom.

Since Deutsche Telekom had raised a FRAND defence and referred to a license offer made by HTC, which covered the accused products supplied by HTC, the court had the opportunity to apply the guidance given by the European Court of Justice in its landmark case Huawei vs. ZTE (C-170/13). Like the Dusseldorf Regional Court in Sisvel vs. Haier (case 4a 144/14 of 3 November 2015), Mannheim also dismissed the FRAND defence. It appears that the German first instance courts tend to apply the requirements a defendant has to fulfil in order to rely on a FRAND defence rather strictly. The Mannheim Regional Court addressed a number of unsolved questions in relation to the FRAND defence, but left them open and based its dismissal of the FRAND defence solely on alleged deficiencies in HTC's licensing offer. The accused products supplied by other manufacturers were apparently not relevant for the outcome of the case against Deutsche Telekom.

The facts of the case are interesting two reasons: Firstly, even though the ECJ requires SEP holders to put alleged infringers on notice prior to bringing an action (C-170/13 para. 61), Saint Lawrence first filed the action and then put Deutsche Telekom on notice. A copy of the already filed action was attached to the notice of infringement, which arrived at Deutsche Telekom before the action was formally served. HTC was put on notice indirectly via counsels for Deutsche Telekom shortly thereafter. Therefore, when Deutsche Telekom and HTC were first made aware of the infringement, they were effectively already under pressure due to the filed court action. Secondly, the FRAND offer was not made by Deutsche Telekom as defendant, but by HTC as supplier of the accused devices. As a mere distributor of the accused devices Deutsche Telekom refused to take a license itself.

The Mannheim Regional Court found the late notice by the plaintiff irrelevant. Deutsche Telekom was unwilling to take a license and HTC waited over three months to indicate its willingness to license. According to the court, three months would have been sufficient to send a notice of infringement first and then file the action. Therefore Deutsche Telekom and HTC had enough time to consider their reaction and could not make the argument that notice of infringement was given too late.

Since Saint Lawrence had presented an initial license offer, it was now to the defendant to accept it or provide a counter offer. Whether it was admissible for Deutsche Telekom to refuse taking a license itself and point to its suppliers as the usual licensees in this industry was left open by the court. In a parallel case the Karlsruhe Higher Regional Court had indicated that the suppliers' willingness to license might be sufficient to avoid an injunction also against the distributor downwards in the distribution chain.

HTC as supplier of the accused devices did not accept Saint Lawrence's offer either, but made a counter-offer, which was found to be insufficient by the court. When assessing whether the mutual offers by Saint Lawrence and HTC were FRAND, the court reversed the order of the assessment. According to the Mannheim Regional Court, the defendant has to make a counter offer, which is FRAND, even if the patentee's initial offer was not FRAND. The court was satisfied that the initial offer was sufficiently specific so that it enabled HTC to make a counter-offer. Based on this assumption, the court first reviewed HTC's counter-offer and decided that it was not FRAND and therefore the FRAND defence was bound to fail. Consequently, the initial offer by plaintiff Saint Lawrence was not reviewed for FRAND compliance by the court. With this legal review of initial offer and counter-offer in the reverse order, the burden of FRAND compliance effectively shifts to the defendant. The plaintiff can only be sanctioned for demanding unfair, unreasonable or discriminatory license terms, if the defendant's counter offer passes the FRAND test.

Regarding the terms of HTC's offer, the court criticised that HTC did not specify the royalty rate, but referred to a determination of the adequate royalty in separate proceedings before the High Court of England and Wales. According to the court, this was not a "specific" counter-offer as required by the ECJ (C-170/13 para. 66). Moreover, a counter-offer without defined royalty rates does not allow the determination of the defendant's security (C-170/13 para. 67). For this reason alone, HTC's counter-offer was disqualified in the view of the court and the remaining open issues could be left open.

However, the court and gave a tendency how some of the disputed issues could be decided in future cases. For example, Saint Lawrence requested a worldwide license to its entire portfolio whereas HTC only offered a license for Germany. Even though this was not relevant in this case, the court said that a worldwide portfolio license may seem reasonable. The court also left open whether a license can be requested not only from the defendant in the German case, but as a group license also from the defendant's affiliates on other countries. The court even accepted that the licensed patents may not be owned by the plaintiff, but a group of companies holding different counterparts of the licensed patent families in different countries. This issue arose, because the plaintiff Saint Lawrence did not hold worldwide rights, but appeared to be a subsidiary specifically for the enforcement of the European patents in the portfolio.

Overall, even though the Mannheim Regional Court was less strict on deadlines for giving notices and making license offers compared to the Dusseldorf Regional Court in *Sisvel vs. Haier*, both decisions went against the defendant. Whereas Dusseldorf disqualified the defendant's license offer due to a failure to provide adequate security in time, Mannheim required a FRAND compliant counter-offer by the defendant, even though the defendant was not put on notice before the action was brought. Both courts did not review the plaintiff's offer for FRAND compliance. Thus it seems that the burden for making a successful FRAND defence is still mainly on the defendant in the German courts. Whether higher courts will follow this strict approach in favour of the patentee when the cases go into appeal remains to be seen.

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