

# IP NEWSLETTER

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## THE 2015 CHANGES TO THE FEDERAL RULES MATTER FOR YOUR PATENT CASE AND TECH BUSINESS: GETTING IN THE COURTHOUSE DOOR JUST GOT TOUGHER

By [Matthew D'Amore](#)



It used to be that a complaint for patent infringement would survive a motion to dismiss if it included: “1) an allegation of jurisdiction; 2) a statement that the plaintiff owns the patent; 3) a statement that defendant has been infringing the patent ‘by making, selling, and using [the device] embodying the patent’; 4) a statement that the plaintiff has given the defendant notice of its infringement; and 5) a demand for an injunction and damages.” *McZeal v. Sprint Nextel Corp.*, 501 F.3d 1354, 1356-57 (Fed. Cir. 2007). So long as you followed these elements set forth in Form 18 found in the Federal Rules of Civil Procedure, your complaint was likely to pass muster. *See Id.*; *K-Tech Telecomms, Inc. v. Time Warner Cable*, 714 F.3d 1277, 1283 (Fed. Cir. 2013), cert. denied, 134 S. Ct. 1026 (2014).

But the December 2015 amendments to the Federal Rules of Civil Procedure “abrogated” the forms in their entirety. What does that mean for you? Read on.

Below, we’ll give a bit of history on how we got here, and then offer some practical tips depending on which side of the “v” you’re on.

### A. Patent Cases Are (Now) Just Like Every Other Case

Rule 84 of the Federal Rules of Civil Procedure introduced a series of forms that became part of the rulebook. It provided that “[t]he forms in the Appendix *suffice[d]* under these rules and illustrate[d] the simplicity and brevity that these rules contemplate.” Fed. R. Civ. P. 84 (2007) (emphasis added). Form 18 (previously Form 16) identified the short set of five simple allegations for pleading patent infringement set out above. *See McZeal*, 501 F.3d at 1356-57.

Of course, in 2007 and 2009, the Supreme Court set out new standards for what a federal court complaint must contain. *See Ashcroft v. Iqbal*, 556 U.S. 662, 129 S. Ct. 1937 (2009); *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 127 S. Ct. 1955 (2007). Under *Iqbal*:

continued on page 2

To survive a motion to dismiss, a complaint must contain sufficient factual matter, accepted as true, to “state a claim to relief that is plausible on its face.” A claim has facial plausibility when the plaintiff pleads factual content that allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged.

*Iqbal*, 556 U.S. at 678 (citing and quoting *Twombly*). The Court also made clear that “[t]hreadbare recitals of the elements of a cause of action, supported by mere conclusory statements, do not suffice.” *Id.*

It would not be a stretch to call the allegations of Form 18 “threadbare,” as they fill all of four paragraphs. In a trio of decisions between 2007 and 2013, however, the Federal Circuit confirmed that it would continue to look to the form for what sufficed to state a claim. *See K-Tech*, 714 F.3d at 1283 (“[A] proper use of a form contained in the Appendix of Forms effectively immunizes a claimant from attack regarding the sufficiency of the pleading... [T]o the extent any conflict exists between *Twombly* (and its progeny) and the Forms regarding pleadings requirements, the Forms control.”); *R+L Carriers, Inc. v. DriverTech LLC (In re Bill of Lading Transmission and Processing Sys. Patent Litig.)*, 681 F.3d 1323 (Fed. Cir. 2012) (“R+L Carriers”); *McZeal*, 501 F.3d at 1356-57.

Eliminating the form removes the foundation from these decisions. The question then is whether they stand on their own. Here’s what the Advisory Committee Notes say about the deletion of Rule 84, which included the forms:

Rule 84 was adopted when the Civil Rules were established in 1938 “to indicate, subject to the provisions of these rules, the simplicity and brevity of statement which the rules contemplate.” The purpose of providing illustrations for the rules, although useful when the rules were adopted, has been fulfilled. Accordingly, recognizing that there are many excellent alternative sources for forms, including the website of the Administrative Office of the United States Courts, the websites of many district courts, and local law libraries that contain many commercially published forms, Rule 84 and the Appendix of Forms are no longer necessary and have been abrogated. The abrogation of Rule 84 does not alter existing pleading standards or otherwise change the requirements of Civil Rule 8.

Fed. R. Civ. P. 84 (Committee Notes on Rules – 2015 Amendment). Interestingly, the committee notes ignore the part of the rule stating that the forms “suffice under these rules,” on which the Federal Circuit had relied. As a result, the notes give zero guidance to patent litigants suddenly bereft of the safe harbor cited by the appellate court.

So, now what?

## B. Tips for Getting in the Door and Staying There

### 1. Signs that Point the Way

Judge Dyk’s partial dissent in *McZeal* provides one interpretation of what *Twombly* and *Iqbal* might require in patent cases. Seemingly prepared to tear up the form based on *Twombly*, Judge Dyk argued that “[t]he form fails to state which claims are asserted and which features of the accused device are alleged to infringe the limitations of those claims.” 501 F.3d at 1360 (Dyk, J., dissenting in part). And for a claim under the doctrine of equivalents, Judge Dyk also argued that a complaint would need to “specify which limitations are literally infringed and which are infringed by equivalent [and], as to the limitations alleged to be infringed by the doctrine of equivalents, how the accused product is insubstantially different from the patented devices.” *Id.*

*R+L Carriers* also provided guidance on what is needed for a claim of contributory and induced infringement, and this sheds light on direct infringement as well. According to the Federal Circuit, “[t]o state a claim for contributory infringement, therefore, a plaintiff must, among other things, plead facts that allow an inference that the components sold or offered for sale have no substantial non-infringing uses.” 681 F.3d at 1337. The *R+L* plaintiff, unfortunately, filed complaints that “actually make clear on their face that [the accused] products *do* have substantial non-infringing uses” and so pleaded itself out of court on that count. *Id.* at 1339.

Similarly, for induced infringement, the Federal Circuit held that “complaints must contain facts plausibly showing that [the defendants] specifically intended their customers to infringe the [] patent and knew that the customer’s acts constituted infringement.” *Id.* As the court observed:

This determination is, of course, case specific. In some circumstances, failure to allege facts that plausibly suggest a specific element or elements of a claim have been practiced may be fatal in the context of a motion to dismiss. Or, as with *R + L*’s contributory infringement claims, facts may be pled affirmatively which defeat a claim on its face. But, there is no requirement that the facts alleged mimic the precise language used in a claim; what is necessary is that facts, when considered in their entirety and in context, lead to the common sense conclusion that a patented method is being practiced.

*Id.* at 1342-43. These points equally apply to pleading a claim of direct infringement without the benefit of the form and suggest a flexible, fact-dependent approach.

Furthermore, even before the change in the rules, some courts required additional specificity for claims of direct infringement. For example, a complaint for patent infringement was dismissed in *Macronix Int'l Co. v. Spansion Inc.*, where (a) “the claims for literal infringement d[id] not allege how the offending products [infringe] the claims recited in the [complaint]”; (b) the complaint “simply allege[d] that each element of a cited claim is infringed and then parroted the claim language for each element”; (c) the complaint “fail[ed] adequately to allege infringement under the doctrine of equivalents because [it] merely asserts liability under that doctrine in a bare bones, conclusory form;” and (d) “it [was] not even clear from the FAC what is alleged to be literally infringed and what was alleged to be infringed by equivalents.” 4 F. Supp. 3d 797, 804 (E.D. Va. 2014). The court noted that “the showing need not be made in detail[,]... but must be made.” *Id.* at 804 n.4.

## 2. The Form is Dead; Long Live the Form?

Despite *Macronix*, there’s an argument to be made that notice pleading according to Form 18 still suffices. The argument goes like this: Former Rule 84 stated that the form “suffice[d]” under the rules, and the Advisory Committee itself stated that removing the form did not change what was and was not an acceptable pleading. Fed. R. Civ. P. 84 (2015 Advisory Committee Note) (“The abrogation of Rule 84 does not alter existing pleading standards or otherwise change the requirements of Civil Rule 8.”). Prior to the abrogation of the form, a panel of the Federal Circuit observed, without deciding, that it is at least possible that “[a] complaint containing just enough information to satisfy a governing form may well be sufficient under *Twombly* and *Iqbal*.” *K-Tech*, 714 F.3d at 1284. Even the Supreme Court in *Twombly* noted that a change to a “heightened” pleading standard beyond Rule 8 would require amendment to the Federal Rules. See *Twombly*, 550 U.S. at 569 n.14. In short, while the form is gone, one could argue that it was merely exemplary of what constitutes “a short, plain statement of the claim showing that the pleader is entitled to relief” (Fed. R. Civ. P. 8(a)(2)) and thus that the Federal Circuit jurisprudence that accepted such statements remains good law.

At least one district court has adopted this approach, finding a complaint sufficient where it contained the basic allegations set out in *K-Tech* and *McZeal*:

Though Form 18 and Rule 84 were abrogated from the Federal Rules of Civil Procedure as of December 1, 2015, the Advisory Committee note associated with this change directly states, “The abrogation of Rule 84 does not alter existing pleading standards or otherwise change the requirements of Civil Rule 8.” Fed. R. Civ. P. 84 (2015 Advisory Committee Note). Thus, the

Court refers to previously existing standards in ruling upon the instant Motion.

*Hologram USA, Inc. v. Pulse Evolution Corp.*, No. 2:14-0772-GMN-NJK, 2016 WL 199417, at \*2 n.1 (D. Nev. Jan. 15, 2016); compare with *Zoetis LLC v. Roadrunner Pharmacy, Inc.*, No. CV 15-3193, 2016 WL 755622, at \*5 (D.N.J. Feb. 25, 2016) (finding claims of direct and indirect patent infringement failed to include information required by Form 18 and *R+L Carriers*). However appealing, this approach risks running afoul of Judge Dyk’s partial dissent in *McZeal* and the suggestion in *R+L Carriers* that *Twombly* and *Iqbal* must be considered when the form is not available.

## 3. Pleading Plausibility

We don’t know yet exactly what degree of specificity the Federal Circuit will require. We’ll be learning what not to do as the case law evolves, but the cases provide at least some suggestions for a complaint to have the best chance of surviving a motion to dismiss:

- Do your pre-filing investigation. Not only is it a good idea, it’s the law.
- Identify asserted claims. (It remains to be seen whether phrasing like “at least claims 1, 5 and 7” or “including but not limited to claims 1, 5 and 7” will keep other claims in play.)
- Identify accused products with as much specificity as possible. If accusing a class of products, provide some reason to infer that the class works in the same way.
- Provide a claim chart comparing the accused device to the claim language, using facts rather than conclusory assertions.
- Specify limitations met by the doctrine of equivalents, including facts supporting the claim of insubstantial difference.
- Plead specific facts supporting an inference of induced, contributory or willful infringement.

This is obviously a tall order. Is it all necessary? What we can say is that, just like the enormous growth in motions to dismiss brought under Section 101 after *Bilski v. Kappos*, 561 U.S. 593 (2010) and *Alice Corp. Pty. Ltd. v. CLS Bank Int’l*, 134 S. Ct. 2347 (2014), the death of the form is sure to spark a growth in Rule 12(b)(6) motions to challenge pleadings seemingly lacking in one way or another. A detailed and well-pleaded complaint is the surest way to overcome such a motion or avoid it in the first place.

## C. Tips for Slamming the Door Shut (or Just Leaving a Narrow Gap...)

If you're on the other side of the "v," considering a motion to dismiss or a motion for a more definite statement (Fed. R. Civ. P. 12(b)(6), Rule 12(e)) should be one of the first things on your list to consider. And even if you can't knock out the entire case, you may be able to take out part of it. Here are some possible targets:

- Look for conclusory assertions that component x meets claim element y. Even if claim charts are provided, conclusory recitations that just repeat claim language should be viewed skeptically.
- Watch for allegations against one product that are generalized for other similar products. Are the facts alleged sufficient to make that generalization plausible?
- Look for gross mismatches between the number of claims identified or charted and the number of claims in the patents. An allegation that "at least claim 1 is infringed" may provide little notice for a patent with sixty claims.
- Get specific regarding indirect infringement. Particularly for complaints that only allege indirect infringement (for example, because the direct infringer is a customer, mobile user, patient, or physician), the additional elements needed for pleading indirect infringement (*e.g.*, knowledge, lack of substantial non-infringing uses) may be weak points.
- Consider whether to target boilerplate claims of willful infringement.

The cost-effectiveness of a motion to dismiss in the path to a successful result of the case also should be considered. It may not matter that claims of contributory infringement are eliminated at the pleading stage if induced infringement will remain; it may be more cost-effective to take both out at summary judgment later in the case. Alternatively, a motion to dismiss or for a more definite statement may be useful to narrow the case to a certain set of claims or products if discovery can be limited to what remains.

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While the district courts may take varying approaches based on the facts before them (compare *Macronix* with *Hologram USA*) and Congress may add further complexity (by passing legislation that imposes new patent pleading standards), in the meantime the betting is that pleading a patent case is more difficult than it used to be and far more likely to be challenged.

## WILL THE SUPREME COURT PUT THE BRAKES ON THE IPR TREND? *CUOZZO SPEED TECH., LLC V. LEE*

By [Matthew Kreeger](#), [Brian Matsui](#), and [Seth Lloyd](#)



Not so fast: the United States Supreme Court is set to review the America Invents Act's ("AIA") fast-track inter partes review ("IPR") process. On January 15, 2016, the Supreme Court granted certiorari in *Cuozzo Speed Technologies, LLC v. Lee*, No. 15-446, to address two questions: (1) whether the United States Patent and Trademark Office ("PTO") acted within its rulemaking authority by adopting the rule that patent claims be given their "broadest reasonable interpretation" during IPR proceedings; and (2) whether a party may challenge, on appeal to the Federal Circuit, any part of the PTO's decision to institute an IPR.

Whatever the Supreme Court decides, patent owners and potential challengers alike should watch *Cuozzo* carefully. Challenging a patent's validity in IPRs has become a mainstay whenever a party is sued for patent infringement in district court. Defendants view IPRs as a cost-effective, efficient alternative to often lengthy district court litigation, even though the AIA's estoppel provisions require accused infringers to make certain invalidity challenges in only one forum or the other. How the Supreme Court answers these two questions could make IPRs less favorable to patent challengers or more like district court litigation, either of which may lead parties to rethink when it makes sense to bring an IPR. The Court will hear argument on April 25, 2016, and should issue its decision before the Supreme Court's summer recess in late June/early July this year.

### THE BROADEST REASONABLE INTERPRETATION STANDARD

The first issue involves the PTO's long-established practice of construing claims in a patent or application according to their "broadest reasonable interpretation" when determining the claim's patentability. The broadest reasonable interpretation arguably produces broader constructions than the standard federal courts apply when construing claims in litigation. This difference has been justified in part because, during PTO proceedings, a patent owner or applicant generally has the opportunity to amend its claims to avoid a potentially

broad invalidating construction. Thus, the Federal Circuit has upheld the PTO's application of the broadest reasonable interpretation standard as reasonable. Proponents of the standard argue that it benefits the public by reducing the possibility that a patent claim is allowed under a narrow interpretation and given a broader interpretation in subsequent patent infringement litigation.

Patent owners have hotly contested the PTO's application of that standard in IPRs. While IPRs share characteristics with other pre-AIA PTO proceedings, there are important limitations as well. For example, Congress has limited the ability of patent owners to amend their claims during an IPR. Under 35 U.S.C. § 316(d), patent owners have no absolute right to amend their claims; they must file a motion with the PTO requesting an amendment. Moreover, the patent owner is generally limited to making only one such motion.

In seeking review, petitioner and various amici suggested that the limits on amendments and other aspects of the statutory scheme show Congress intended for IPRs to operate according to district court standards for claim construction. They argued that, in practice, the PTO has rarely granted motions to amend. In addition, unlike prosecution of patent applications and other proceedings at the agency, they noted that IPRs do not involve the back and forth exchange between examiners and patentees that would normally serve to clarify claim scope.

The Supreme Court's ruling in this case could affect the trend of who wins in IPRs. To date, IPRs are generally viewed as unfavorable to patent owners. Recent data shows that the PTO institutes review for nearly 80% of filed IPR petitions.<sup>1</sup> Once review has been initiated, the PTO finds at least one claim unpatentable 87% of the time.<sup>2</sup> There are at least two ways in which the Supreme Court's ruling here could change that trend.

First, if the Supreme Court rejects the use of the broadest reasonable interpretation standard outright and requires the PTO to construe claims as a district court would, the claims might be construed more narrowly and avoid prior art that would render them unpatentable. In addition, IPRs might be mired in claim construction disputes that resemble the fact-intensive, sometimes case-dispositive *Markman* hearings in district courts.

Second, the Supreme Court could affirm the use of the broadest reasonable interpretation standard for IPRs, but signal that patent owners should be granted more opportunities to amend their claims. Such an outcome might lead to more patents surviving IPR proceedings, albeit with more narrow claims. Any amended claims would be subject to intervening rights under 35 U.S.C. § 252.

Finally, the Supreme Court's decision could have broader implications with respect to the PTO's authority to issue rules interpreting the provisions of the AIA. The Federal Circuit

has held that Congress gave the PTO authority to adopt rules governing its own procedure, but granted no authority to adopt rules interpreting substantive patent laws. If the Supreme Court holds that adoption of the broadest reasonable interpretation standard is beyond the PTO's rulemaking authority, the decision could affect other PTO rules.

## LIMITATIONS ON JUDICIAL REVIEW

In addition to addressing the PTO's use of the broadest reasonable interpretation standard, the Supreme Court also will review the scope of judicial review of the PTO's decision to institute an IPR. In the AIA, Congress mandated that the PTO's decision "whether to institute an inter partes review under this section shall be final and nonappealable." 35 U.S.C. § 314(d). In *Cuozzo*, the Federal Circuit held that the statute precluded not just an immediate appeal from a decision to institute an IPR, but also the review of the institution decision itself—even after the PTO issues its final decision.<sup>3</sup> The Federal Circuit thus refused to consider the petitioner's argument that the PTO improperly instituted an IPR because the petition for review failed to satisfy certain statutory requirements.

The Supreme Court's resolution of this issue may have important implications for parties in IPRs. The Supreme Court could side with the petitioner and hold that Section 314(d) bars only immediate (or interlocutory) appeals of PTO institution decisions, but does not preclude review of those decisions after the agency issues a final determination of patentability. That holding would likely provide additional grounds for patent holders to challenge unfavorable IPR decisions, which might affect the IPR reversal rate in the Federal Circuit.

In addition, broader issues lurk beneath the surface in this case. The respective roles of the PTO and federal courts in adjudicating patent rights has changed with Congress's adoption of the AIA, with much of that change giving a greater role to the PTO. A decision by the Supreme Court to allow for more searching review of the PTO's actions could undo or at least alter this change.

## CONCLUSION

Petitioner's and Respondent's merits briefs have been filed, as well as over forty amicus briefs. Argument is set for April 25, 2016. Those interested in these issues should stay tuned for a decision this summer.

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1 Docket Navigator, IPR Institution Decisions (May 2015), <http://home.docketnavigator.com/wp-content/uploads/2015/05/stays-and-institution-rates.pdf>.

2 USPTO, Patent Trial and Appeal Board Statistics 9 (Sept. 30, 2015), <http://www.uspto.gov/sites/default/files/documents/2015-09-30%20PTAB.pdf>.

3 See *In re Cuozzo Speed Techs, LLC*, 793 F.3d 1268 (Fed. Cir. 2015); see also *Versata Develop. Grp. v. SAP Am., Inc.*, 793 F.3d 1306 (Fed. Cir. 2015) (affirming and distinguishing *Cuozzo*).

# JFTC WIELDS ANTITRUST LAW TO ENFORCE FRAND OBLIGATIONS OF STANDARD ESSENTIAL PATENTS

By [Louise C. Stoupe](#) and [Chihiro Tomioka](#)



On January 21, 2016, the Japan Fair Trade Commission (JFTC) published revisions to its guidelines for the Antimonopoly Act (AMA). The new guidelines make it a fair trade practice violation for holders of a standard essential patent (SEP) with fair, reasonable, and non-discriminatory

(FRAND) obligations to refuse to license or bring an injunctive action against a willing licensee of their SEP.

Typically, FRAND obligations arise when a patent owner participates in a standard setting organization (SSO) that sets the technical requirements for a particular procedure or technology. The SSO then requires holders of patents that are essential to the standard to license their patents on fair and reasonable terms. This prevents the patent holders from wielding control over essential technology and potentially restricting competition, development, and research related to the standard. The holders of SEPs also stand to benefit from the royalties they gain from cooperating with the SSO, as the organization will exclude technologies from the standard when a patent holder does not agree to FRAND terms. Many countries, including Japan, have turned to antitrust provisions to enforce these FRAND terms.

## QUALCOMM AND THE JFTC

The original 2007 guidelines for the AMA did not directly address whether violations of FRAND obligations also violated antitrust law. The ambiguity resulted in many legal battles. For example, on September 28, 2009, the JFTC issued a cease and desist order against Qualcomm for violation of its FRAND obligations. Qualcomm holds several SEPs with FRAND obligations related to CDMA technology. It nevertheless required licensees to license their patents at no royalty to Qualcomm in order to use Qualcomm's SEPs. Qualcomm has since appealed the JFTC order holding that Qualcomm's practices violated unfair trade practices under Article 19 of the AMA. The appeal is still pending. JFTC, *Cease and Desist Order Against Qualcomm Incorporated*, at 1 (Sept. 30, 2009).

## THE GUIDELINES

Although the JFTC has not yet issued a decision on Qualcomm's appeal, the amended guidelines to the AMA

now state that holders of an SEP with FRAND obligations risk violating fair trade practices if they refuse to license their patents to a willing licensee or bring an injunction against an alleged infringer. This will make it more difficult for holders of an SEP with FRAND obligations to enforce their patent rights and could also lead to disputes over what constitutes a willing licensee.

The new guidelines present a broad definition of a willing licensee. Even a party that intends to dispute the validity, essentiality, or infringement of the SEP can be considered a willing licensee if the party "undertakes licensing negotiations in good faith in light of the normal business practices." *JFTC, Guidelines for the Use of Intellectual Property under the Antimonopoly Act*, at 11 (Jan. 21, 2016). It remains to be seen how these guidelines will affect decisions surrounding the licensing of SEPs.

## CONCLUSION

The JFTC's recent amendment to the guidelines for the AMA illustrates the global trend of using antitrust principles to enforce FRAND obligations. There have been many cases in Europe illustrating this trend, including the Court of Justice of the European Union's (CJEU) decision in 2015 that the holder of an SEP must take several steps (such as alerting the alleged infringer and offering a license on FRAND terms), before it can bring an injunction against the alleged infringer to avoid violating EU competition law. *Case C-170/13, Huawei Technologies Co. Ltd. v. ZTE Corp.*

# LANDMARK DECISION OF GERMAN FEDERAL COURT OF JUSTICE ON BLOCKING OF COPYRIGHT-INFRINGEMENT WEBSITES

By [Christoph Wagner](#) and [Johannes Hieronymi](#)



On November 26, 2015, the German Federal Court of Justice ruled that Internet access providers (IAP) can be liable for

copyright infringements on third parties' websites and can thus be ordered to block access to such websites. This shall only be the case, however, if the copyright holders have exhausted all reasonable steps to enforce their rights against the website operator and the host provider.

## BACKGROUND

Whether an IAP should be obliged to prevent its users from accessing websites that contain illegal content or unauthorized download links to copyright-protected works is a highly controversial matter in Germany and Europe. Although the EU Directive 2001/29/EC since 2001 provides in its Article 8 (3) that “Member States shall ensure that right holders are in a position to apply for an injunction against intermediaries whose services are used by a third party to infringe a copyright or related right”, the German legislator did not see any need for implementing Article 8 (3), as in its view, the German Copyright Act already provided for sufficient measures. Two main arguments were brought against such obligation of IAPs: (1) The blocking of a website would also lead to the blocking of any legal content on such website (so called “overblocking”), which could be considered censorship that is in principle prohibited by the German constitution, and which could also result in claims for damages from the right holders of the legal content; and (2) the blocking of a website could in any case not prevent Internet users from accessing such websites, since there are several technical ways to work around the blocking. The topic of website blocking was also subject to a highly controversial political discussion regarding a legislative initiative for the blocking of child porn websites that failed in the end.

European case law addressed the topic of website blocking: The Court of Justice of the European Union (CJEU) ruled in its decisions *Scarlet Extended / SABAM* (2011) and *SABAM / Netlog* (2012) that EU law precludes website blocking based on a statutory provision that was found to be too unspecific and unbalanced. In its decision *UPC Telekabel Wien / Constantin Film, Wega Filmproduktionsgesellschaft* (2014), the CJEU found that an IAP may be ordered to block its customers’ access to a copyright-infringing website (in that case “kino.to”), provided that the injunction ensures a fair balance between the fundamental rights concerned.

## DECISION OF THE GERMAN FEDERAL COURT OF JUSTICE ON 26 NOVEMBER 2015

In a landmark decision, the German Federal Court of Justice (Bundesgerichtshof – BGH) has now addressed the liability of IAPs with regard to copyright infringements on third parties’ websites. According to the court, IAPs can be liable for copyright infringements on third parties’ websites and can thus be ordered to block access to such websites. As the court pointed out, however, that is only the case if the copyright holders have made (all) reasonable but unsuccessful efforts

to enforce their claims against intermediaries more directly involved in the copyright infringement, such as the website operator and the host provider – or if such claims lack any chances of success. Even though the German Copyright Act does not explicitly state such blocking obligation, and also the German Telemedia Act does in principle not provide for any obligation of an IAP to monitor transmitted or stored information or to search such information for illegal activity, according to the court, German copyright law must be interpreted in the light of Article 8 (3) 2001/29/EC, and must therefore provide for a possibility to impose blocking orders against IAPs.

## CO-LIABILITY OF INTERNET ACCESS PROVIDERS

In the court’s view, the act of procuring access to websites containing copyright-infringing content represents an adequately causal contribution of the IAP to the infringement of rights of the website operators. Considerations of the affected fundamental rights must include (i) the affected EU and national fundamental rights of property protection of the copyright holders, (ii) the operational freedom of the IAP, and (iii) the freedom of information and informational autonomy of the Internet users. In weighing these rights, the BGH also addressed both of the above-mentioned arguments, but rejected them: (1) according to the court, the use of blocking measures is reasonable not only when only infringing content is provided on the website, but even when according to the overall ratio, the lawful content compared to the unlawful content is negligible; and (2) the theoretical possibilities of bypassing blocking measures that exist due to the technical structure of the Internet are not an obstacle to blocking measures being reasonable if the blocking prevents, or at least impedes, the access to infringing content. The fundamental right of secrecy of telecommunications shall, however, not be affected by blocking measures, since, according to the court, the making available of content on a website and the accessing of such content by Internet users are not considered acts of individual telecommunication.

## BLOCKING OF WEBSITES AS *ULTIMA RATIO*

The obligation of an IAP to block the access to such websites may, however, only be applicable under the aspect of proportionality if the respective copyright holders initially made reasonable but unsuccessful efforts to take action against those persons who – like the website operator – committed the right’s infringement themselves, or (like the host provider) contributed to the infringement by rendering services. Only if the enforcement of claims against these persons fails or lacks any prospects of success, thus creating a gap in the legal protection, is the enforcement of claims

against the IAP as a co-liable person reasonable. Website operators and host providers are considerably more closely related to the infringement than those persons who only generally procure access to the Internet. When determining those persons against whom claims must primarily be enforced, the right holders must to a reasonable extent carry out investigations, for example by commissioning a detective agency or a company that carries out investigations in connection with unlawful Internet offers or by engaging governmental investigating authorities. The two cases decided by the BGH failed to meet this prerequisite. In the first case, the addresses of the website operator and the host provider stated in the domain-registration proved to be wrong, so an interim injunction could not be served. In the second case, the website operator's identity could not be determined from its web presence. The court pointed out that the right holders should have undertaken further reasonable measures and should have carried out additional investigations.

## CONSEQUENCES FOR COPYRIGHT HOLDERS

The BGH decision strengthens the legal situation of copyright holders in Germany in principle. To effectively enforce their copyrights in Germany, the right holders may bring claims not only against the operator and the host provider of the website that contains the infringing content, but also against the IAP who provides Internet access to its customers.

The blocking of a website by the IAP can only be *ultima ratio*, however, as the right holder still has to primarily enforce its rights against the website operator and the host provider. Only if all reasonable efforts to take action against those persons have been exhausted, can a claim be brought against IAPs. The requirements in this respect are significant. Depending on the case, right holders must even commission a private detective agency. Unlike, for example, the U.S. legal system, German civil procedure does not know the principle of discovery, meaning that, before a German court, each party is responsible for proving the facts stated in its favor. Therefore, proper documentation of the efforts taken by the right holder to enforce its copyright claims against the website operator and the host provider is indispensable in order to bring a successful case against an IAP.

Considering these strict requirements, it remains to be seen to what extent copyright holders will have the chance to successfully bring claims against IAPs in practice.

# FIRST GERMAN DECISIONS APPLYING THE ECJ'S *HUAWEI V. ZTE* FRAMEWORK ON INJUNCTIONS FOR STANDARD ESSENTIAL PATENTS

By [Rufus Pichler](#) and [Holger Kastler](#)



Two recent German court decisions address requirements for obtaining injunctions based on standard essential patents (SEPs),

applying the rules established by the European Court of Justice in its *Huawei v. ZTE* decision.<sup>1</sup> The ECJ's decision sets out a specific process for an SEP owner to avoid claims of abuse of a dominant position when seeking injunctive relief in the EU under FRAND-committed SEPs.<sup>2</sup>

The ECJ's decision established a general framework, and it is up to the EU member states' national courts to apply and implement the ECJ's guidelines and to resolve the questions that the ECJ's decision left open. Some of these questions have now been addressed by the Regional Court of Düsseldorf in two decisions in *Sisvel v. Haier*<sup>3</sup> and the Regional Court of Mannheim in its decision in *Saint Lawrence Communications v. Deutsche Telekom*<sup>4</sup> – the first German cases applying the *Huawei v. ZTE* framework. All three decisions are currently under appeal,<sup>5</sup> and the Higher Regional Court of Düsseldorf has already issued a ruling suspending the enforcement of the Regional Court's injunction in *Sisvel v. Haier* based on evident flaws in its application of the *Huawei v. ZTE* requirements.<sup>6</sup>

Both patentees seeking to enforce SEPs in Europe and potential defendants that may face actions for injunctive relief under SEPs in Europe should pay close attention to the current decisions and the further proceedings in these cases, which will provide further guidance on how national courts will apply the *Huawei v. ZTE* principles.

## BACKGROUND – PROCESS UNDER *HUAWEI V. ZTE*

In its *Huawei v. ZTE* decision, the ECJ held that the owner of an SEP that is subject to a FRAND commitment must follow a specific process when seeking injunctive relief under the SEP. Pursuing an injunction without following this process will constitute an abuse of

dominant position (pursuant to Art. 102 TFEU), thereby warranting denial of the injunction. In an attempt to balance the interests of the patent owner and the allegedly infringing standard implementer, the ECJ's decision requires each of them to take the following specific steps:

1. Before bringing an action for injunctive relief, the **SEP owner** must notify the alleged infringer of the alleged infringement by designating the SEP(s) at issue and specifying the way in which it has been infringed;
2. The **alleged infringer** then must express its willingness to take a license on FRAND terms or else the SEP owner may pursue an injunction;
3. If the alleged infringer has expressed its willingness to take a license on FRAND terms, the **SEP owner** must make a specific, written offer for a license on FRAND terms specifying, in particular, the royalty and the way in which it is to be calculated;
4. The **alleged infringer** (if it continues to use the patent in question) then must diligently respond to that offer in accordance with recognized commercial practices in the field and in good faith, and without delaying tactics;
5. If the **alleged infringer** rejects the SEP owner's offer, it must make a specific, written counteroffer on FRAND terms; and
6. If the **alleged infringer's** counteroffer is rejected, the alleged infringer must, as of that time, provide appropriate security (including for past use) and be able to render an account of its acts of use.

Thus, the SEP owner may seek an injunction without abusing its dominant position if (a) the SEP owner has provided specific notice to the alleged infringer and the alleged infringer has not expressed its willingness (or has expressed its unwillingness) to take a license on FRAND terms, or (b) the SEP owner has provided specific notice, the alleged infringer has expressed its willingness to take a license on FRAND terms, the SEP owner then has provided a specific FRAND offer, and the alleged infringer has failed to do any of the following: (i) diligently respond without undue delay, (ii) make a specific FRAND counteroffer, or (iii) provide appropriate security and accounting as of the time the counteroffer was rejected (including for acts of past use). If both parties took all required actions, no injunction may issue, even if they do not reach an agreement on FRAND terms. During this process, the alleged infringer may challenge the validity or essentiality of the asserted SEPs

or its actual use of those SEPs or reserve its rights to do so in the future.

## REGIONAL COURT AND HIGHER REGIONAL COURT DECISIONS IN *SISVEL V. HAIER*

In two related cases, the Regional Court of Düsseldorf granted Sisvel's motion for an injunction against German and European distribution companies of the Haier group, enjoining them from selling the accused UMTS- and GPRS-compliant smartphones and tablets in Germany.

Sisvel asserted a German patent based on a European patent application. The patent was subject to Sisvel's FRAND declaration to the European Telecommunication Standard Institute (ETSI). The defendants offer smartphones and tablets in Germany that implement the UMTS and GPRS standards adopted by ETSI.

Sisvel runs various patent licensing programs, including a wireless licensing program that includes more than 350 patents originally acquired from Nokia that Sisvel claims have been declared essential to second, third, and fourth generation wireless standards (including GSM, GPRS, UMTS, and LTE).<sup>7</sup> Sisvel informed Haier, the defendants' parent company, of its patent licensing program several times in 2012 and 2013. Negotiations in 2014 ended without an agreement, with defendants rejecting several written license offers by Sisvel without making a counter-proposal. Sisvel continued to offer licenses in 2015 during the pending court proceedings, but the defendants continued to reject all of them without making any counteroffers. At the oral hearing on September 29, 2015, the defendants provided a bank bond (EUR 5,000) and documentation of the revenue from sales of the allegedly infringing products.

The Regional Court of Düsseldorf granted the injunction, finding that the accused products practiced the asserted patent and rejecting the defendants' FRAND defense. Without deciding whether the SEP at issue resulted in a dominant position pursuant to Art. 102 TFEU, the court held that Sisvel's seeking of injunctive relief did not constitute abuse of a dominant position under the ECJ's *Huawei v. ZTE* decision.

## NOTIFICATION IN TRANSITIONAL CASES

The court acknowledged that, applying the principles that the ECJ set out in *Huawei v. ZTE*, the plaintiff is required to provide a detailed notice of the patent and the way in which it has been infringed *before* bringing an action for injunctive relief. Although Sisvel had not provided such a notice before filing its complaint, the court held that in a transitional case such as this, in which Sisvel filed its complaint before the ECJ's

judgment in *Huawei v. ZTE*, Sisvel was not required to notify the alleged infringer before filing the complaint. Rather, filing the complaint itself was deemed to constitute sufficient notice under the circumstances.

## **FRAND LICENSE OFFER BY THE SEP OWNER AND COUNTER-OFFER BY DEFENDANTS**

The court found that Sisvel's license offer to the defendants' parent company, and not the defendants directly, was sufficient. This was because the parent company could be expected to communicate the offer to its subsidiaries.

Defendants disputed that Sisvel's license offer met FRAND requirements. Specifically, defendants argued that Sisvel's license fees, which ranged from EUR 0.15 to EUR 0.50 depending on volume, were unreasonable and in excess of a royalty of 0.012% that defendants claimed to be FRAND.<sup>8</sup> Defendants also challenged the offer based on the fact that it was only for a worldwide license, with no option to license only the asserted German patent.

The court did not see a need to decide whether Sisvel's license offer met FRAND requirements because defendants' counteroffer failed to meet the *Huawei v. ZTE* requirements. The court suggested that a defendant may not have to make a counteroffer if the SEP owner's offer was not FRAND compliant and could, instead, require a modified, FRAND compliant offer. If the defendant decides to make a counteroffer, however, the court explained that the counteroffer must comply with the *Huawei v. ZTE* requirements even if the SEP owner's initial offer did not. The court found that the defendants failed to meet those requirements because they did not provide adequate security and accounting promptly upon Sisvel's rejection of their first counteroffer. It deemed the defendants' provision of security and accounting over a month after rejection of the counteroffer to be too late and not compliant with the requirements established in *Huawei v. ZTE*.

## **HIGHER REGIONAL COURT FOUND "EVIDENT LEGAL ERROR"**

The Higher Regional Court of Düsseldorf (appeals court) granted the defendants' motion to suspend the enforcement of this injunction.<sup>9</sup> Suspension of enforcement is granted only in exceptional cases, such as where the decision in the first instance is likely to be reversed upon appeal based on obvious or evident legal errors. The appeals court found such error in the lower court's "obviously wrong application" of the *Huawei v. ZTE* standards.

According to the appeals court, the ECJ established a process to balance the interests of the SEP owner and

the alleged infringer in which every step of the process must sequentially follow the preceding step. The alleged infringer must satisfy its requirements only if the SEP owner has first met its own respective burden. The appeals courts emphasized that no injunction may issue if the SEP owner fails to make a FRAND compliant license offer after the alleged infringer has expressed its willingness to take a license on FRAND terms. Per the appeals court, the alleged infringer has no obligation to react to an offer that is not on FRAND terms. Absent such an offer by the SEP owner, the alleged infringer is under no obligation to take any of the further steps set out in *Huawei v. ZTE* (such as a counteroffer on FRAND terms or the provision of adequate security and accounting).

As a result, the appeals court held that it was evident legal error for the Regional Court to leave open whether Sisvel's license offer was, in fact, on FRAND terms and instead focus on whether the defendant's response met the requirements under *Huawei v. ZTE*. It would have been necessary to first determine that the SEP owner made a licensing offer consistent with its FRAND obligation. Absent such determination, the Regional Court should have dismissed the motion for injunctive relief without considering the defendant's response (or lack thereof). The appeals court indicated that, in order to determine whether *Sisvel's* offer was on FRAND terms, the court below would have needed to determine the reasonableness of the royalty rate and other license terms and whether an SEP owner may require a worldwide license to its (SEP) portfolio.

## **REGIONAL COURT DECISION IN SAINT LAWRENCE COMMUNICATIONS V. DEUTSCHE TELEKOM**

A few weeks after the decisions of the Regional Court of Düsseldorf, the Regional Court of Mannheim issued an injunction in favor of the owner of the asserted SEP, Saint Lawrence Communications (SLC), rejecting Deutsche Telekom's FRAND and abuse-of-dominant-position defense. The patent in suit relates to the recovery of high frequency content of a previously down-sampled wideband signal used in mobile voice transmissions. It has been determined by the International Patent Evaluation Consortium (IPEC) to be essential for the Adaptive Multi Rate Wideband Standard (AMR WB). The prior owner of the asserted patent made a FRAND licensing commitment to ETSI. The defendant, Deutsche Telekom, sold mobile phones in Germany that allegedly implement AMR-WB functionality. HTC, a supplier of the defendant, intervened in support of the defendant.

After filing its infringement action, SLC sent a letter to Deutsche Telekom offering a license on FRAND terms. Attached to that letter was a copy of a complaint that SLC had filed, but not yet served. Deutsche Telekom received SLC's letter two days before the complaint was served. Deutsche Telekom subsequently refused to take a license and informed the supplier of the accused products, HTC. After correspondence between the parties, HTC offered to take a license on FRAND terms, limited to Germany, with royalties to be determined by the High Court of England and Wales. SLC rejected this offer. HTC then provided a bank guarantee for an amount that, according to HTC, was calculated to cover potential license fees for mobile devices using the asserted patents and sold to German customers. HTC also submitted detailed sales figures to the court.

Deutsche Telekom and HTC alleged, among other things, that SLC's action for injunctive relief constituted an abuse of a dominant position and that SLC had failed to comply with the requirements established in *Huawei v. ZTE*. They specifically contested whether SLC had made a FRAND compliant offer, arguing that SLC's royalty demand was excessive and based on worldwide sales (as opposed to a license limited to Germany, as HTC had proposed). The court held that SLC's action did not constitute an abuse and that neither Deutsche Telekom nor HTC met the burden imposed on the alleged infringer under *Huawei v. ZTE*.

## DEUTSCHE TELEKOM

With respect to Deutsche Telekom, the court denied a *Huawei* defense because Deutsche Telekom had never expressed its willingness to take a license on FRAND terms. The court questioned whether SLC's infringement notice satisfied the *Huawei v. ZTE* requirement that the SEP owner notify the alleged infringer before bringing an action for injunctive relief. SLC did not notify Deutsche Telekom until after it had filed its complaint, but before the complaint was served on Deutsche Telekom. The court held that it did not need to decide whether SLC gave sufficient notice, however, because Deutsche Telekom had never expressed a willingness to take a license even after the complaint was filed and served. Under these circumstances, the court characterized the prior notice requirement as a formality that could not support a finding of abuse under Art. 102 TFEU.

This application of the *Huawei v. ZTE* requirements appears to be inconsistent with the Higher Regional Court of Düsseldorf's opinion in *Sisvel v. Haier*, which held that every step of the *Huawei v. ZTE* process must sequentially follow the preceding step. It remains to be seen whether the Mannheim court's more lax interpretation of the ECJ's decision with respect to the timing of the initial infringement notice will be upheld on appeal.

## HTC

The Mannheim court also questioned whether Deutsche Telekom could raise a *Huawei* defense based on its supplier's (HTC's) willingness to take a FRAND license,<sup>10</sup> and the patent owner's failure to make a FRAND-compliant offer to HTC.<sup>11</sup> The court ultimately did not decide that question, finding that HTC's counteroffer was insufficient to support a *Huawei* defense.

## DETERMINATION OF FRAND-COMPLIANCE OF SEP OWNER'S OFFER NOT REQUIRED

HTC argued that SLC's license offer did not meet FRAND requirements, as SLC's proposed license fees were excessive and SLC offered only a worldwide license. While suggesting that insisting on a worldwide license may not be unfair in cases where the alleged infringer sells devices on a worldwide basis, the court ultimately did not decide whether SLC's offer was or was not FRAND-compliant.

Instead, the Mannheim court held that the alleged infringer's obligation to make a specific counteroffer on FRAND terms is triggered by any license offer made by the SEP owner that *formally* meets the ECJ's requirements in the *Huawei v. ZTE* decision (*i.e.*, specifying the royalty amount and manner of calculation). Per the Mannheim court, it does not matter whether the SEP owner's offer is *substantively* FRAND; the burden still shifts to the alleged infringer to react with a specific counteroffer.

Again, the Mannheim court's approach appears to be inconsistent with the Higher Regional Court of Düsseldorf's opinion in *Sisvel v. Haier*, which suggested that the alleged infringer's obligation to react with a counteroffer is only triggered if the SEP owner's initial license offer was substantively made on FRAND terms. It remains an open question whether the Mannheim court's approach will be upheld upon appeal. The Higher Regional Court of Düsseldorf's decision is not binding on any other court, and it is not uncommon for the appeals courts in Düsseldorf and Mannheim to decide issues differently.

## COUNTEROFFER NOT SUFFICIENT

HTC offered to take a license on FRAND terms, limited to Germany, with royalties to be determined by the High Court of England and Wales. The Mannheim court found that this counteroffer failed to meet the *Huawei v. ZTE* requirements. The ECJ required that the alleged infringer submit a "specific counter-offer that corresponds to FRAND terms." According to the Mannheim court, a "specific" counteroffer must include at least a specific royalty amount. The Mannheim court explained that the alleged infringer cannot meet this burden by unilaterally

deferring the determination of the royalty to a third party, as HTC did here. The court acknowledged that, in the *Huawei v. ZTE* decision, the ECJ noted the possibility that an independent third party could determine the royalties.<sup>12</sup> According to the Mannheim court, however, this is an option only if the parties jointly agree after the alleged infringer makes a specific counteroffer.

The court did not decide whether the counteroffer would otherwise be relevant only if it substantively complied with FRAND requirements. The ECJ requires a counteroffer “that corresponds to FRAND terms,” but the ECJ also requires an offer “on FRAND terms” from the SEP owner. The Mannheim court interpreted the ECJ’s requirements as *not* requiring a determination of the substantive FRAND compliance (*e.g.*, with respect to the reasonableness of the royalty rate). In the end, the Mannheim court left open whether a counteroffer that was limited to Germany (as opposed to a worldwide license) would be sufficient. But the court did state that it is incumbent upon the alleged infringer to respond with a specific counteroffer (limited to certain countries) if it rejects the SEP owner’s worldwide license offer.

## IMPLICATIONS AND OPEN QUESTIONS

These early German decisions that apply the ECJ’s *Huawei v. ZTE* framework highlight important and unsettled questions. Notably, the appeals court in Düsseldorf appears to have a much stricter and more literal view on the sequence and substance of the specific steps that an SEP owner and alleged infringer must take to comply with the ECJ’s decision. The *Sisvel* and *SLC* proceedings have raised important questions, that remain unanswered, as national courts implement the ECJ’s requirements in *Huawei v. ZTE*. The pending appeals in the German proceedings could provide more definitive answers to some of these questions.

Among the most important open issues that SEP owners and potential defendants will need to consider in developing their *Huawei* strategies are the following:

- Are the steps laid out in *Huawei v. ZTE* strictly sequential, or does the alleged infringer have to submit a FRAND-compliant counteroffer even in cases where the SEP owner has not provided specific notice and a FRAND-compliant license offer before initiating proceedings?
- Is the alleged infringer’s obligation to submit a counteroffer triggered only by an initial license offer that substantively complies with FRAND obligations (including with respect to the royalty amount), or does any offer that indicates a specific royalty amount and the way in which it is to be calculated shift the burden to the alleged infringer to submit a (FRAND-compliant) counteroffer?

- Will a counteroffer preclude an injunction even if it does not substantively comply with FRAND requirements?
- Can the SEP owner require a worldwide license – and can the counteroffer be limited to just the country where the action is threatened or pending?
- Can either party comply with its FRAND-offer obligation by unilaterally deferring the determination of a specific royalty to a third party?
- Can a defendant who has not expressed its willingness to take a license rely on a *Huawei* defense, based on the SEP owner’s failure to make a FRAND offer to the defendant’s supplier or the fact that the supplier rejected the SEP owner’s license offer and followed the other steps required by *Huawei v. ZTE* (*i.e.*, counteroffer and security and accounting)?
- How soon after rejection of a counteroffer must a defendant provide security, and how is the amount of the security to be calculated?
- How long does an alleged infringer have to express its initial willingness to take a license on FRAND terms after the SEP notifies it of its alleged infringement?

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- 1 European Court of Justice, judgment of 16 July 2015, case no. C-170/13 – *Huawei v. ZTE*.
  - 2 See Client Alert “[The European Court of Justice on Enforcement of FRAND Patents: Huawei v. ZTE](#)” (27 July 2015).
  - 3 Regional Court of Düsseldorf, judgments of 3 November 2015, case nos. 4a O 93/14 and 4a O 144/14 – *Sisvel v. Haier*.
  - 4 Regional Court of Mannheim, case no. 2 O 106/14 – *Saint Lawrence Communications v. Deutsche Telekom*.
  - 5 Higher Regional Court of Düsseldorf, case nos. I-15 U 65/16 and I-15 U 66/16; Higher Regional Court of Karlsruhe, case no. 6 U 220/15.
  - 6 Higher Regional Court of Düsseldorf, orders of 13 January 2016, docket nos. I-15 U 65/15 and I-15 U 66/15.
  - 7 See <http://sisvel.com/wireless>.
  - 8 Just for illustration purposes, the defendants’ proposed FRAND rate would result in a per-unit royalty of EUR 0.036 (or 3.6 cents) based on a EUR 300 product. We note, however, that it is unclear from the decision whether the defendants would have applied this rate to the sales price of the complete smartphone or tablet or the value of a smaller component, such as the communications processor.
  - 9 Higher Regional Court of Düsseldorf, orders of 13 January 2016, docket nos. I-15 U 65/15 and I-15 U 66/15.
  - 10 The court noted that an SEP owner could initiate injunction proceedings where the alleged infringer had waited a long time (*e.g.*, more than three months) to express a general willingness to take a license on FRAND terms.
  - 11 In a decision regarding the enforcement of a parallel decision (Regional Court of Mannheim, judgment of 10 March 2015, docket no. 2 O 103/14), the appeals court held that the plaintiff must first offer a license on FRAND terms to the manufacturer/supplier of accused devices before seeking injunctive relief against a downstream distributor. See also Higher Regional Court of Mannheim, order of 23 April 2015, docket no. 6 U 44/15. This decision was rendered before the ECJ’s judgment in *Huawei v. ZTE* judgment, however, and the ECJ’s opinion does not contain or suggest such a requirement.
  - 12 Cf. ECJ, judgment of 16 July 2015, case no. C-170/13 – *Huawei v. ZTE*, at para. 68.

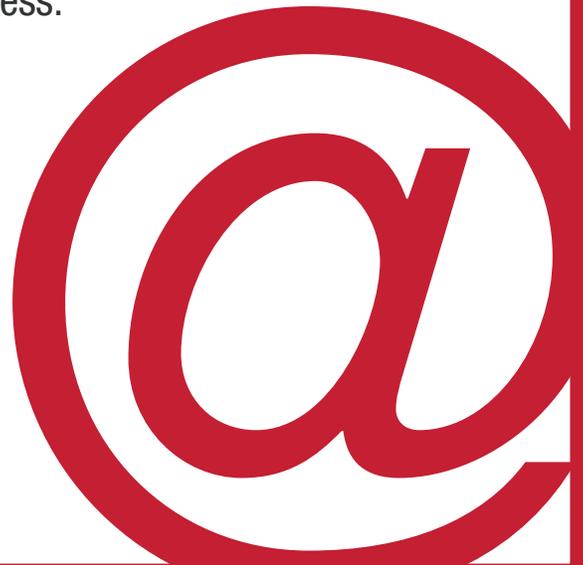


## Tracking Patent Litigation at the ITC

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