UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	SACV 14-00341 JVS (Anx) consolidated with CV 15-02370 JVS	Date	May 26, 2016
Title	TCL Communications Technology Holdings Ltd v. Telefonaktenbologet LM Ericsson, et al.		

Present: The Honorable	James V. Selna
Karla J. Tunis	Not Present
Deputy Clerk	Court Reporter
Attorneys Present for Plaintiffs:	Attorneys Present for Defendants:
Not Present	Not Present

Proceedings: **(IN CHAMBERS)**
Order Denying TCL's Motion for Partial Summary Judgment

Plaintiff and Counter-defendant TCL Communication Technology Holdings, Ltd. ("TCL") alleges that Defendant Telefonaktienbolaget LM Ericsson, and Defendant and Counter-claimant Ericsson, Inc. (collectively, "Ericsson") breached contractual commitments—to which TCL alleges it is an intended beneficiary—with the European Telecommunications Standards Institute ("ETSI"). (Second Am. Compl. ("SAC"), Docket ("Dkt.") No. 31.) Pursuant to Federal Rule of Civil Procedure 56, TCL moves for partial summary judgment on the issue of whether Ericsson breached those contractual commitments by offering to TCL only a discriminatory effective royalty rate. (Pl.'s Mot. Partial Summ. J.; Dkt. Nos. 597, 630.) Ericsson opposes. (Defs.' Opp'n Pl.'s Mot. Partial Summ. J., Dkt. Nos. 635, 636, 653.) TCL has replied. (Pl.'s Reply, Dkt. Nos. 652, 667.)[1]

As set forth below, the Court denies TCL's motion for partial summary judgment.

[1] The Court delayed issuing its final order on this motion to give certain third parties the opportunity to object to aspects of this order that they deem confidential. The Court has received no notice that any third party objects to the facts discussed in this order.

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I. Background

Much of the relevant background is recited in this Court's June 29, 2015 Order re Motions. (Dkt. No. 279-1.) The remaining factual background concerns material filed under seal, but the background is familiar to both the parties and the Court.

The subsequent discussion is based largely on Ericsson's statement of genuine disputes of material fact ("SGD") filed in opposition to TCL's motion for partial summary judgment (Dkt. Nos. 635-2, 636-1) and the Court takes into consideration, as appropriate, TCL's responses to Ericsson's SGD (Dkt. Nos. 652-1, 667-2).[2]

In short, in 2015, Ericsson and its licensee, Huawei, arbitrated three issues that were proving impossible for the parties to resolve through negotiation alone. (Arbitration Award ¶ 19, Dkt. No. 630-7.) One of those issues was the appropriate running royalty payments per telephone handset sold pursuant to principles of licensing standard essential patents on terms that are fair, reasonable, and non-discriminatory ("FRAND"). (Id. ¶¶ 18–20, 25.) The arbitration panel found that certain rates offered by Ericsson to Huawei were inconsistent with Ericsson's FRAND obligations under the non-discriminatory prong, but that other rates would not be. (SGD ¶ 8; Pl.'s Response to SGD ¶ 8.) The arbitration panel also made certain findings related to what it considered the effective royalty rate paid by some other telephone handset manufacturers. (SGD ¶ 6.) Ericsson and Huawei entered into a licensing agreement following the arbitration decision. (Id. ¶¶ 7, 10.)

By the present motion, TCL asserts this arbitration panel's findings form the basis for invoking the doctrine of collateral estoppel, specifically offensive nonmutual issue preclusion. (Memo. P. & A. Supp. Mot. Partial Summ. J pp. 2–3.) TCL seeks to preclude Ericsson from making certain arguments and to conclude, as a matter of law, that

[2] The Court also considered Ericsson's evidentiary objections (Dkt No. 636-2), and TCL's responses to Ericsson's evidentiary objections. (Dkt. Nos. 652-3, 667-1.) These objections and responses had no bearing on the disposition of TCL's motion.

Ericsson breached FRAND obligations as to TCL. (Id.)

II. Legal Standard

A. Summary Judgment

Summary judgment is appropriate if there is no genuine issue of material fact and the moving party is entitled to judgment as a matter of law. Fed. R. Civ. P. 56(a). Material facts are those necessary to the proof or defense of a claim, and are determined by the underlying substantive law. Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 248 (1986).

To determine whether summary judgment is appropriate, federal district courts must engage in a two-step process. First, the party moving for summary judgment bears the initial burden to show the absence of a genuine issue of material fact. Celotex Corp. v. Catrett, 477 U.S. 317, 323 (1986). This burden may be satisfied by either (1) presenting evidence that negates an element of the non-moving party's case or (2) showing that the non-moving party has failed to establish an element of the non-moving party's case. Id. at 322–23. If the party moving for summary judgment does not bear the burden of proof at trial, it may show the absence of a genuine issue of material fact by showing that "there is an absence of evidence to support the non-moving party's case." Id. at 325. Second, if the moving party has met its initial burden, the burden then shifts to the party opposing summary judgment to designate "specific facts showing there is a genuine issue for trial." Id.

In deciding a motion for summary judgment, "[t]he evidence of the non-movant is to be believed, and all justifiable inferences are to be drawn in his favor." Anderson, 477 U.S. at 255. However, when the non-movant's purported evidence or interpretation of events is "blatantly contradicted by the record, so that no reasonable jury could believe it, a court should not adopt that version of the facts for purposes of ruling on a motion for summary judgment." Scott v. Harris, 550 U.S. 372, 380 (2007).

"A party asserting that a fact cannot be . . . genuinely disputed must support the assertion by citing to particular parts of materials in the records, including . . . affidavits or declarations . . . ." Fed. R. Civ. P. 56(c)(1)(A). However, "an affidavit or declaration used to support . . . a motion must be made on personal knowledge, set out facts that would be admissible in evidence, and show that the affiant or declarant is competent to testify on the matters stated." Fed. R. Civ. P. 56(c)(4).

B. Collateral Estoppel - Offensive Nonmutual Issue Preclusion

The Ninth Circuit has held that a district court may apply offensive nonmutual issue preclusion only when "(1) there was a full and fair opportunity to litigate the identical issue in the prior action . . . (2) the issue was actually litigated in the prior action . . . (3) the issue was decided in a final judgment . . . (4) the party against whom issue preclusion is asserted was a party or in privity with a party to the prior action." Syverson v. IBM Corp., 472 F.3d 1072, 1078 (9th Cir. 2006) (citations omitted). Even if those prerequisite conditions are satisfied, a district court must take "potential shortcomings" or "indices of unfairness" into consideration when evaluating whether the court should utilize its discretion and apply the doctrine. Id. at 1078–79.

The United States Supreme Court has identified circumstances as potential shortcomings or indices of unfairness where, (1) a party had the incentive to adopt a wait and see attitude in the hope that the first action would result in a favorable judgment which might be used against a losing party; (2) a party had an incentive to litigate the first suit with full vigor; (3) one or more judgments entered before the one invoked as preclusive had inconsistent results, suggesting unfairness in choosing a particular judgment to deem preclusive; and (4) the losing party in the action invoked as preclusive may be afforded procedural opportunities in the later action unavailable in the first that could readily cause a different result. See id. at 1079 (citing Parklane Hosiery Co. v. Shore, 439 U.S. 322, 330–31 (1979)).

III. Discussion

In the discussion below, the Court weighs the *pros* and *cons* of a number of doctrines. On some issues, the analysis would seem to favor TCL, on others, Ericsson. But at bottom, the Court senses a fundamental unfairness which causes it to withhold the exercise of its discretion in granting TCL the relief it seeks. The Court takes up the issues which the parties have identified as controlling the outcome here.

A. Syverson Prerequisites

The Court ultimately need not conclude whether all four of the prerequisites identified in Syverson have been met in this case because the Court holds that it will not apply the doctrine of collateral estoppel for equitable reasons. Nevertheless, the Court pauses at this juncture to recognize that Ericsson has flagged two issues that, according to Ericsson, foreclose the possibility of applying collateral estoppel to the present dispute because they call into question whether the first or third factor of the Syverson test have been met in this case.

First, Ericsson argues that Houng v. Tatung Co., Ltd., 499 B.R. 751 (C.D. Cal. 2013), stands for the proposition that federal courts need not, and should not, give preclusive effect to "unconfirmed arbitration awards."[3] See id. at 761 (citing McDonald v. City of West Branch, Michigan, 466 U.S. 284 (1984); Barrentine v. Arkansas–Best Freight System, Inc., 450 U.S. 728 (1981); Alexander v. Gardner–Denver Co., 415 U.S. 36, 56–60, 94 S.Ct. 1011, 39 L.Ed.2d 147 (1974); Emps. of Butte, Anaconda & Pacific Ry. Co. v. United States, 938 F.2d 1009 (9th Cir. 1991); Caldeira v. County of Kauai, 866 F.2d 1175 (9th Cir. 1989)). The Court declines to apply a rule—derived from comments, not holdings, in Houng and Caldeira—that unconfirmed arbitration awards can never be the basis for issue preclusion under Syverson.

[3] Ericsson places emphasis on identifying the Houng court as "this Court." (See, e.g., Opp'n p. 9 (italics omitted).) However, another court in the Central District of California is not "this Court," and has no binding effect on *this Court*. See Hart v Massanari, 266 F.3d 1155, 1174 (9th Cir. 2001) ("the rule could just as easily operate so that the first district judge to decide an issue within a district . . . would bind all similarly situated district judges, but it does not.").

Second, Ericsson argues that TCL has not provided a sufficient basis for holding that the issues TCL raised in its motion are "identical" to critical and necessary issues decided in the prior adjudication. See In re Magnacom Wireless, LLC, 503 F.3d 984, 996 (9th Cir. 2007) (giving effect to a bankruptcy court's statement that it was only ruling on the issue before it, notwithstanding discussion of other issues in the briefings to the bankruptcy court). Essentially, Ericsson argues that the arbitration panel's findings of the effective royalty rates paid by other handset manufacturers were not necessary parts of the arbitration panel's award because the arbitration panel held that only one effective rate was relevant for determining the relevant boundary of a FRAND range. The Court disagrees, and finds more persuasive TCL's argument that the arbitration panel could not logically have found the highest, non-discriminatory rate without *some* findings pertaining to the effective royalty rate paid by other parties.[4]

However, for reasons discussed below, the Court concludes that it will not apply the doctrine of collateral estoppel in this case because of equitable concerns.

B. Discretionary Factors

This Court has consistently held during the course of this litigation that the final result of this lawsuit will be a "complete, integrated, and enforceable relationship between TCL and Ericsson." (E.g., Civil Minutes, November 6, 2015 Order pp. 8–9, Dkt. No. 512.) The Court has recognized before, and recognizes again, that whether a licensing contract offer fulfils Ericsson's FRAND obligations requires a holistic understanding of the offer and a weighing of the terms that include, but are not solely, the specific royalty rates that TCL seeks to resolve on this motion for partial summary judgment. (See id. pp. 8–9 (granting motion for case management order wherein TCL and

[4] To the extent that this is merely a matter of logic, however, the only "critical and necessary" portion of the findings of the lower effective royalty rates would be the mere fact that they were lower than the highest, non-discriminatory rate found by the panel. The precise rates announced by the arbitration panel does not appear to this Court to be critical and necessary. The specific rates may be incidental to the decision. Resolution Tr. Corp. v. Keating, 186 F.3d 1110, 1115 (9th Cir. 1999) (citing Wright & Miller, Federal Practice and Procedure § 4421 (1981)).

Ericsson were required to identify the material terms in dispute, and TCL was required to identify whether it conceded each identified term was fair and reasonable—or not.))[5] As explained below, applying issue preclusion as TCL suggests in the present motion frustrates this purpose. Moreover, applying issue preclusion to the royalty rate that will form part of the "complete, integrated, and enforceable relationship" at the end of this litigation ignores the important differences between the facts and circumstances relevant to the earlier arbitration and the facts and circumstances of this litigation.

Although the Supreme Court has identified some instances in which equitable factors will weigh against applying collateral estoppel, see Section II.B., *supra*, neither the Supreme Court nor the Ninth Circuit has held that these equitable factors are exhaustive. See Parklane Hosiery, 429 U.S. at 330 (trial courts should have "broad discretion" to determine when to apply offensive collateral estoppel). TCL acknowledges that the Court has broad discretion in this context and itself relies on equitable factors in arguing that the Court should give preclusive effect to the arbitration. (E.g., Reply p. 6.) Here, the Court concludes that applying the doctrine in this context would not be the proper and fair result.

1. Parklane Hosiery Factors

TCL complains that Ericsson fails to discuss three of the four factors identified in Parklane Hosiery. (Reply p. 11.) The Court notes that Ericsson's decision to focus on the most relevant factor does not alter the conclusion that the factor Ericsson does discuss is modestly persuasive to the Court. The Parklane Hosiery factor relevant to this case is whether Ericsson will be entitled, in this action, to procedural opportunities that could

[5] TCL argues that many of the other disputed terms will not amount to economic consideration justifying a royalty rate many multiples higher than rates of similarly situated parties. (See Reply pp. 23.) That point may be well taken, although the Court here forms no opinion on whether TCL is similarly situated to any particular party or parties. (See Teece Decl. ¶ 9 (Ericsson, TCL, and their experts have different positions on which device manufacturers are similarly situated).) However, there must be some economic aspect to these points, because, as far as the Court is aware, TCL also refuses to concede these issues to Ericsson. (Civil Minutes, November 6, 2015 Order pp. 8–9, Dkt. No. 512.)

readily cause a different result from its arbitration with Huawei. Ericsson identifies two procedural concerns: (1) entitlement to a jury trial; (2) scope of discovery.[6]

The first of these two procedural concerns is, according to the United States Supreme Court, "basically neutral" as an equitable concern when weighing between fact finders. Parklane Hosiery, 439 U.S. at 333 n.19. However, Ericsson's argument need not be construed in this manner. Here, the relevant procedural distinction is not between the jury and the arbitration panel,[7] but the difference in having or not having a fact finder for all of the relevant terms. The vast majority of terms in the agreement between Ericsson and Huawei were actually agreed to before the remaining issues were submitted to the arbitration panel. Here, there is no indication yet that the issues will be similarly reduced prior to submitting the case to the finder of fact. It is not giving Ericsson a "second bite at the apple" to permit a jury to weigh the evidence without giving preclusive effect to this earlier arbitration, when the jury will be engaged in a significantly different exercise. In short, TCL cannot write out of the equation the fact that Huawei and Ericsson agreed that resolution by arbitration of the three issues would produce a fair result given their agreement on all other issues. There is no like predicate here.

The second procedural concern is more difficult for the Court to weigh. TCL argues that the limited discovery process employed in the earlier arbitration cannot plausibly be a procedural concern within the meaning of Parklane Hosiery. TCL argues that in the earlier arbitration, the limited nature of discovery redounded entirely to Ericsson's benefit as Ericsson, not Huawei, was the party to confidential licensing arrangements that could have further informed the arbitration panel about the valuation of those arrangements. For its part, Ericsson identifies at least one area where it contends the

[6] Within Ericsson's Opposition there is a section on procedural opportunities where Ericsson also identifies that TCL should not receive an unwarranted head start in jury deliberations, and that the arbitration panel's decision was unconfirmed and unappealable. Neither of these issues strike the Court as a difference in "procedural opportunity" under Parklane Hosiery as so framed.

[7] This is the distinction that Parklane Hosiery seems to foreclose as irrelevant to the equity analysis.

discovery rules related to the arbitration prevented it from presenting evidence that would be competent and relevant in this case. However, without a clearer explanation of the differences between the opportunities to develop and present evidence in this case as compared to the earlier arbitration, the Court concludes that the particularities of discovery do not amount to a procedural opportunity that will "readily" cause a different result from the arbitration.

For the foregoing reasons, the Parklane Hosiery factors favor declining to apply the doctrine of collateral estoppel under these circumstances, but only slightly. The more persuasive reasons not to apply collateral estoppel are discussed below.

2. Other Equitable Factors

The Court agrees that TCL has identified some equitable factors that favor its position. Undoubtedly, applying offensive issue preclusion collateral estoppel would result in efficiencies in trying this case and narrowing significant issues ahead of trial. The Court's determination that some facts are established as a matter of law and can be relied on by the finder of fact would simplify a complex task for the jury. But even if it would simplify the jury's task, substituting the judgment of an arbitration panel for one part of the holistic determination which the jury must make is not warranted under the circumstances presented here.

In particular, the Court concludes it would not be equitable to apply the doctrine of offensive issue preclusion collateral estoppel where the tasks of the two finders of fact are so different. The issues that will be submitted to the jury in this case are far-ranging. And while one of those issues overlaps with one of the issues decided by the arbitration panel, the differences between the proceedings, and sound policy considerations, suggest the Court should not exercise its discretion in applying collateral estoppel. The task put forth to the arbitration panel was of a narrow scope. Here, the task is not as limited.

First, the arbitration panel noted its limited task and the limited precedential value of its findings and conclusions. (See Arbitration Award ¶¶ 106–108.) In particular, the

panel noted that even identical terms can take on a different character between discriminatory and nondiscriminatory depending on the nuances of circumstances. (Id. ¶ 106.) There is some authority that suggests the inquiry into whether to apply issue preclusion could end right here. Cf. Wright & Miller, Federal Practice and Procedure § 4465 ("in most circumstances, a ruling by the first court that its judgment should not establish nonmutual preclusion should be honored by later courts without further inquiry.") Although the arbitration panel did not explicitly mention possible efforts to establish nonmutual preclusion, some statements by the panel hint at the panel's belief that its award and opinion should have no value to proceedings between non-parties to the arbitration. One area where there is a continuing difference between the present case and the earlier arbitration is the issue of which other of Ericsson's licensees are "similarly situated" to TCL. (Cf. id. ¶ 177 (methodology persuasive to the arbitration panel to determine the similarity of a company is not definitive)). See also Pl.'s Response to SGD ¶ 14 (acknowledging that TCL competes with more than just the companies that the arbitration panel found similarly situated to Huawei).)

Second, while other disputes remain issues in controversy, summary judgment on the issue of discrimination in the FRAND analysis would constitute unfair "cherry-picking" of findings. Ericsson identifies issues such as geographic rate discrimination and the setting of a rate "floor" as issues in the earlier arbitration proceeding that TCL declines to accept when it moves the court to hold the earlier arbitration has preclusive effect on other findings. (See also Memo. P. & A. Supp. Mot. Partial Summ. J. pp. 24–25 (arguing that TCL should be permitted to advocate in favor of its position on these issues even if the Court grants its motion on partial summary judgment).) TCL argues that what it calls for is not cherry picking. TCL says that the issues entitling TCL to a lower royalty rate than the rate determined by the arbitration panel for Huawei are still live issues in controversy in this case, and the arbitration panel did not consider those issues. But TCL misses part of the point. That these issues were not at issue or actively litigated in the arbitration proceedings can weigh on the fairness of applying the judgment of those proceedings to the extent those judgments are entirely based on stipulated facts, and not findings that a jury would otherwise be entitled to make. The Court simply does not consider it fair for TCL to use offensive issue preclusion collateral estoppel to create a

ceiling, but not a floor, on its payment obligations.

Finally, TCL suggests that the Court should consider sound policy when deciding whether to apply offensive issue preclusion collateral estoppel. TCL argues it is the "antithesis of what the FRAND obligation is supposed to promote" for the Court to not apply preclusive effect of the prior adjudication. (Mot. pp. 16–17.) TCL believes that not treating the arbitration panel's findings as binding risks inconsistent results, leading to more discrimination, chaos, and competitive disadvantages for licensees. (Id.) The Court agrees that public policy can be an equitable factor to consider when a court decides whether or not, in its discretion, to apply collateral estoppel in circumstances like this. Cf. Allen v. McCurry, 449 U.S. 90, 94 (1980) (collateral estoppel confers the benefits of conservation of judicial resources and encouraging reliance on adjudication). But the Court is not convinced that public policy weighs in favor of TCL. Instead, the Court is concerned that applying offensive nonmutual issue preclusion to give preclusive effect to certain findings of this arbitration proceeding discourages the use of arbitration as a means to resolve FRAND disputes and finalize agreements that were mostly resolved by negotiation. Disputes that could be resolved through negotiation and limited arbitration may expand into expensive, multi-year litigation if the licensor is disincentivized to arbitrate or if the licensor fears that findings made in the arbitration will conclusively and adversely impact its position in other litigation or other licensing disputes.[8]

For all of the foregoing reasons, the Court concludes that the doctrine of collateral estoppel is simply not a good fit in this situation. It will not apply the doctrine in a vacuum to force certain findings on the fact finders, nor to conclude at this juncture that Ericsson's offers have not met Ericsson's FRAND obligations. The Court, in its discretion, declines to apply the doctrine here.

IV. Conclusion

[8] In this manner, the situation is analogous to and raises some of the same concerns as the situation discussed in Parklane Hosiery of a plaintiff adopting a "wait and see" attitude to earlier litigation in the hope that the first action would result in a favorable judgment.

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For the foregoing reasons, the Court denies TCL's motion for partial summary judgment.

IT IS SO ORDERED.

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