

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
PATENTS COURT

Rolls Building
London EC4A1NL
Date: 24/01/2013

Before :

THE HON MR JUSTICE FLOYD

Between :

IPCOM GMBH & CO KG

Claimant

- and -

(1) HTC EUROPE CO. LIMITED

(2) BRIGHTPOINT GREAT BRITAIN LIMITED

(3) HTC CORPORATION

Defendants

And Between :

NOKIA OYJ (NOKIA CORPORATION)

Claimant/

Counterclaim Defendant

- and -

IPCOM GMBH & CO KG

Defendant/

Counterclaimant

- and -

HTC CORPORATION

Counterclaim Defendant

James Flynn QC, Iain Purvis QC and Kassie Smith (instructed by Bristows) for IPCom

Adrian Speck QC and Josh Holmes (instructed by SJ Berwin LLP) for HTC

James Abrahams instructed by Bird & Bird LLP for Nokia

Mark Chacksfield instructed by Taylor Wessing LLP for Ericsson a first interested party

Joe Delaney instructed by Allen & Overy LLP for Research in Motion Limited a second interested party

Hearing date: 16th January 2013

Judgment

Mr Justice Floyd :

1. The two sets of proceedings in which this application is made are concerned, amongst other things, with the determination by the court of the appropriate royalty to be paid by Nokia and HTC, and other FRAND¹ terms, for a licence under IPCom's standard essential patent EP(UK) 1 841 268 ("the FRAND issues"). That patent has been

¹ FRAND stands for "Fair, Reasonable And Non-Discriminatory"

determined to be valid and infringed in proceedings against Nokia in a first action, HC 10 C01233 (“the 233 proceedings”). HTC have also been sued by IPCom in another action, HC11 C02064 (“the 064 proceedings”) for infringement of that patent, although the questions of validity and infringement as between HTC and IPCom have yet to be decided. The application before the court is concerned with whether particular individuals on IPCom’s side should be permitted to inspect confidential licensing documents disclosed in the action by HTC and Nokia pursuant to orders of the court.

2. Shortly before the application was due to be heard, Nokia and IPCom announced that they were close to a settlement of the disputes between them, including the 233 proceedings. They invited the court to delay determining the issue of terms of inspection as between IPCom and Nokia for a period of four weeks, as that determination might turn out to be unnecessary. For the reasons I gave in an *ex tempore* judgment, I did not consider it appropriate to accede to that invitation. Accordingly the regime which I am called upon to decide is the regime applying to all parties to these actions.

Procedural background

3. On 18 and 31 May 2012, Roth J made orders in the 233 and 064 proceedings for the determination of the FRAND issues. These orders required Nokia and HTC to file statements of case, setting out in particular the method by which they contended that a FRAND royalty rate is to be calculated. At the same time as serving these statements of case those parties were required to provide IPCom with copies of any comparable licences then available to them on which they rely. On 27 July and 10 August 2012 Nokia and HTC served their statements of case. Nokia’s statement of case included the contention that the licences granted under the Bosch portfolio were the most relevant comparators. At paragraph 62 onwards Nokia pleaded that its own out-licences (i.e. licences of its own as opposed to others’ technology) were less relevant than licences under the Bosch portfolio. The statement of case nevertheless annexed a schedule of these licences and went on to maintain that the rates in its own licences needed to be revised downwards to take account of various factors.
4. Paragraph 10 of the order in the 064 proceedings (involving HTC) provided that the parties were to agree on a confidentiality club “*to include as a minimum: external counsel, experts and one other person elected by each of the parties*”. There was no corresponding provision concerning Nokia.
5. The parties were not able to agree on the individuals entitled to see the disclosure material, although an interim arrangement was arrived at under which the parties’ UK solicitors, counsel and (upon provision of signed undertakings) independent licensing and economics experts, were permitted to inspect the material. On 30 July 2012 IPCom issued this application, seeking an order that the court impose a confidentiality regime in which inspection should be by, and only by:
 - i) legal advisers and counsel;
 - ii) named experts subject to confidentiality undertakings in the agreed form;

- iii) up to two named individuals subject to confidentiality undertakings in the agreed form.
6. Prior to the hearing of its application, IPCom indicated that it intended to include Dr Roman Sedlmaier, Dr Wolfgang Kellenter and Mr Philipp Kahlenberg as members of the confidentiality club. By a letter dated 17th September 2012 IPCom's solicitors informed the other parties that it was instructing Dr Sedlmaier and Dr Kellenter as counsel to conduct the proceedings. Dr Sedlmaier is a member of the German law firm Frohwitter and Dr Kellenter is a member of the German law firm Hengeler Mueller. As matters stood before me, the application to include Dr Kellenter was no longer pressed.
7. IPCom's application came before Arnold J on 20 September 2012. Representatives of Interdigital appeared on that application. Although Interdigital were not party to the proceedings, they were concerned to make representations that if a licence agreement to which they were party was ordered to be disclosed, then its confidentiality should be protected. Arnold J considered that the interim arrangement was sufficient to enable IPCom to plead its case. As to the remainder he considered that it was premature to settle the terms of a confidentiality regime until the scope of the disclosure was known. He adjourned further consideration of those matters to the case management conference, which was to be held in November when the scope of any disclosure to be given would be known.
8. IPCom accordingly served its FRAND statement of Case on 2 October 2012. At paragraph 44 onwards IPCom place reliance on "comparator licences" generally, and go on to plead no less than 21 different factors which they contended might affect the comparability of royalty terms.
9. Subsequently, on 16th October 2012, Arnold J ordered, at Nokia's suggestion, that consideration of the outstanding issues be divided into two hearings: a disclosure hearing and an inspection hearing. That was because third parties (such as Interdigital and others) had indicated an intention to apply to be heard in relation to inspection. This proved advantageous in one respect, that, in the event, no Interdigital licence falls to be disclosed, and they have not appeared on this application.
10. The scope of the disclosure to be given was considered at a hearing before me on 22 November 2012. The order which I made on that application required Nokia and HTC each to produce a list of all licences entered into since January 2007. The order then allowed IPCom to make a selection of up to 7 HTC and 10 Nokia licences from the lists. IPCom ultimately identified 5 Nokia and 3 HTC licences from the lists.
11. In disposing of the disclosure application I said this:
- "1. What I am proposing to do is to order a proportionate measure of disclosure according to the [scheme above]. Any further application in relation to disclosure about licences would have to be supported by expert evidence as to why that measure of disclosure had proved to be insufficient.
2. It should be borne in mind that I do not, at the moment, regard the disclosure of these licences as inherently likely to be

of great assistance to the court for the two reasons that have been identified. First, they do not relate to the patent in suit; secondly, many of them may include special features which will be extremely difficult to assess the importance of and will be likely to give rise to satellite issues which are unlikely to throw light on the ultimate royalties to be fixed. But, nevertheless, I have thought it appropriate to order that measure of disclosure in order to dispel any suspicion that IPCom may have that there is helpful material there, and to allow their expert the opportunity of making good what at the moment I regard as rather speculative statements that there is assistance to be gained from an examination of licences of this kind.”

12. In his third witness statement on behalf of IPCom, Mr Boon, who is one of the team at Bristows advising IPCom, set out IPCom’s position as to the individuals entitled to see the confidential documents. This was
 - i) As a primary position, one member of its internal management team i.e. either Mr Frohwitter or Mr Schoeller. In addition it would wish the documents to go to Dr Sedlmaier as an external lawyer instructed in the case.
 - ii) As a “compromise” IPCom says it would be prepared to have Mr Kahlenberg admitted instead of one of the members of the internal management team. Mr Kahlenberg is an external commercial adviser to IPCom. Mr Boon describes this arrangement as far from ideal.
13. Mr Boon explains that IPCom is a very small company consisting of only two people, Mr Frohwitter and Mr Schoeller. In his third witness statement Mr Boon explains that both IPCom and Bristows consider that “*it is imperative that individuals identified by each of the parties should be able to review all the materials in the proceedings on the basis that the confidential materials may have a bearing on a party’s case*”. He considers that he will be placed in difficulty in complying with his duty to his client under the Solicitors’ Code of Conduct if his client cannot give him “*fully informed instructions on all the information in the case*”.
14. Nokia and HTC, who in any event dispute the relevance of the documents, are content for the regime to include only lawyers and experts.

Principles applicable

15. As Lord Dyson JSC said in *Al Rawi v Security Service* [2011] UKSC 34; [2012] 1 AC 531 at [12]:

“... trials are conducted on the basis of the principle of natural justice. There are a number of strands to this. A party has a right to know the case against him and evidence on which it is based. He is entitled to have the opportunity to respond to any such evidence and to any submissions made by the other side. The other side may not advance contentions or adduce evidence of which he is kept in ignorance.”

16. As Lord Dyson recognised at [64] there was a recognised exception to this rule:

“Similarly, where the whole object of the proceedings is to protect a commercial interest, full disclosure may not be possible if it would render the proceedings futile. This problem occurs in intellectual property proceedings. It is commonplace to deal with the issue of disclosure by establishing 'confidentiality rings' of persons who may see certain confidential material which is withheld from one or more of the parties to the litigation at least in its initial stages. Such claims by their very nature raise special problems which *require* exceptional solutions. I am not aware of a case in which a court has approved a trial of such a case proceeding in circumstances where one party was denied access to evidence which was being relied on at the trial by the other party.”

17. The practice in intellectual property cases has been to tailor the confidentiality club or ring to meet the circumstances of the case and the stage which it has reached. In *Warner-Lambert Co v Glaxo Laboratories Ltd* [1975] RPC 354, Buckley LJ described the rationale in this way:

“If, however, the case were one of so esoterically technical a character that even with the help of his expert advisers the party himself could really form no view of his own upon the matter in question but would be bound to act merely upon advice on the technical aspects, disclosure to him of the facts underlining the advice might serve little or no useful purpose. In such a case a court might well be justified in directing disclosure of allegedly secret material only to expert or professional agents of the party seeking discovery on terms they should not, without further order, pass on any information so obtained to the party himself or anyone else, but should merely advise him in the light of the information so obtained. Even so, if the action were to go to trial, it would seem that sooner or later the party would be bound to learn the facts, unintelligible though they might be to him, unless the very exceptional course were taken of excluding him from part of the hearing. Even where the information is of a kind the significance of which the party would himself be able to understand, it may nevertheless be just to exclude him, at any rate during the interlocutory stages of the action, from knowing it if he is a trade competitor of his opponent.”

18. From this passage it is clear that the degree to which the party might be able to understand the document is a factor in setting the scope of inspection, as is the stage which an action has reached.
19. In *Roussel Uclaf v Imperial Chemical Industries plc* [1990] RPC 45, Aldous J said at first instance:

"Each case has to be decided on its own facts and the broad principle must be that the court has the task of deciding how justice can be achieved taking into account the rights and needs of the parties. The object to be achieved is that the applicant should have as full a degree of disclosure as will be consistent with adequate protection of the secret. In so doing, the court will be careful not to expose a party to any unnecessary risk of its trade secrets leaking to or being used by competitors. What is necessary or unnecessary will depend upon the nature of the secret, the position of the parties and the extent of the disclosure ordered. However, it would be exceptional to prevent a party from access to information which would play a substantial part in the case as such would mean that the party would be unable to hear a substantial part of the case, would be unable to understand the reasons for the advice given to him and, in some cases, the reasons for the judgment. Thus what disclosure is necessary entails not only practical matters arising in the conduct of the case but also the general position that a party should know the case he has to meet, should hear matters given in evidence and understand the reasons for the judgment."

20. It is clear from this passage that the role which the document will play in the case is a factor which must be weighed in the balancing exercise in setting the terms of the confidentiality regime at any given point in the case.
21. The court does not normally operate on the basis that a party will wilfully misuse information disclosed to it. But it is recognised that disclosure of information to a party who is or may become involved in collateral commercial activities may place that party in a difficult position where there was a risk of use or disclosure: see the discussion in *Roussel Uclaf* supra at page 51. In that case the court took steps to ensure that the individual involved was not involved in corresponding litigation where there was no disclosure process.

The confidential material in issue

22. The confidential material which is the subject of the dispute about inspection consists of the following main categories:
 - i) Licences with third parties as set out in Nokia's statement of case on FRAND;
 - ii) Licences with third parties disclosed by each of Nokia and HTC pursuant to my disclosure order;
 - iii) Internal licensing guidance disclosed by Nokia pursuant to my order.
23. Amongst these materials are licence agreements to which Ericsson and Research in Motion are parties. Those companies appeared on this application to resist extended inspection of the licences to which they are party. I refer to them as interested parties.

24. There is no real dispute that the parties to licence agreements of this nature treat them as highly confidential. The same applies to internal licensing guidance of the kind which Nokia has been obliged to disclose. Mere confidentiality, however, would not justify restricting the access of a party to a document. The court has ample machinery to enable it to maintain confidentiality within the scope of the proceedings. What is said by Nokia and HTC and the interested parties is that the material is extremely valuable commercial information in the hands of IPCom. IPCom on the one hand, and Nokia and HTC on the other, are competitors in the field of licensing of standard essential patents. There is a limited pool of royalties available from licensee manufacturers. If one licensee has access to information of the kind contained in the confidential material, it is placed at a competitive advantage with respect to the others which could be highly damaging to it in the course of its business.
25. IPCom does not accept that it is to be likened to a competitor of Nokia and HTC. The licences which it has available to offer are unique, and not interchangeable with those which Nokia and HTC and the interested parties have to offer. The position is therefore quite different from rival manufacturers offering competing interchangeable products.
26. I accept that the position in the present case is not as stark as in a case where, for example, a secret process falls to be disclosed to a rival manufacturer. Nevertheless, the commercial value of knowing the terms on which HTC and Nokia and the interested parties have been prepared to licence technology is of undoubted commercial value to IPCom. Mr Flynn for IPCom did not really dispute this. He recognised that if the confidential materials were available to IPCom's internal management, they would not be able to "unlearn" them. Consequently, in any negotiations with parties to the licensing agreements disclosed, those individuals would have knowledge of potential value which could direct the way in which those negotiations were conducted.
27. I should deal, at this stage with an argument advanced by Mr Flynn that, in the circumstances just mentioned, the unlawful use of the confidential information would be prevented by the undertakings which the individuals were required to give not to disclose or use the information other than for the purposes of these proceedings. He submitted that merely having the information in one's head, and acting in the negotiations on the basis of it, was not a use of the information. I do not accept that submission. Knowing the information and allowing it to direct one's stance in negotiations is, in my judgment, a plain use of the information. If that is right, as I believe it to be, it is clear that individuals who gave such an undertaking and who were involved in commercial negotiations for the licensing of IPCom's portfolio of patents could find it difficult or impossible to comply with their undertakings.

The individuals objected to

28. Mr Frohwitter and Mr Schoeller run IPCom. IPCom's main commercial endeavour is the licensing of the Bosch portfolio of patents which includes the patent in suit. These two individuals are therefore engaged full time in litigating, and negotiating terms for the licensing of, these patents.
29. As I have already indicated, Dr Sedlmaier is an external lawyer who works for the Frohwitter law firm of which Mr Frohwitter is the principal. He has been

coordinating IPCom's legal strategy since 2007. A point was made that German lawyers cannot withhold information from their clients, without their clients' consent. However IPCom have indicated that, if Dr Sedlmaier is included, they will consent to his withholding information from persons not included in the confidentiality club. Although it was suggested by counsel for Nokia that this was a complex arrangement, I do not see why it is not adequate to deal with this particular concern.

30. Mr Kahlenberg is said by IPCom to be an external commercial adviser. He has been involved in developing IPCom's licensing strategy since 2003. However he appears to be closely associated with a company called Schoeller Holding GmbH. Schoeller Group is one of the owners of IPCom. Thus for example he has sent emails from the address philipp.kahlenberg@schoeller.org, and is described in a number of publications as being from Schoeller or from Schoeller Holding GmbH, Corporate Finance. He also uses the email address kahlenberg@ipcom-munich.com. The evidence shows that both Dr Sedlmaier and Mr Kahlenberg have been heavily involved in negotiations concerning the Bosch portfolio both before and since its acquisition by IPCom. It is clear that both individuals are close to IPCom in the sense that they form an important part of IPCom's licensing team.

Striking the balance

31. In striking the balance I have taken the following into consideration:
- i) The material at issue is confidential. However its potential for use to the detriment of HTC and Nokia is not at the high end of the scale represented by secret process cases. Just as the licences which I ordered to be disclosed by HTC and Nokia are likely to be different in many respects from the notional FRAND licence which the court is concerned with in the action, so also will the terms of the disclosed licences differ from any licence which IPCom is trying to negotiate in the future. Nevertheless, the court should not facilitate the granting of a competitive advantage to IPCom, and accordingly inflict a competitive disadvantage on HTC, Nokia and the interested parties, unless justice requires it to take such a course.
 - ii) It is not at the moment clear what part if any the documents which have been disclosed by Nokia and HTC will play in the proceedings. The exercise which I foresaw in the judgment I gave on the disclosure application has not yet taken place. The documents have not yet gone even to IPCom's UK lawyers let alone its external licensing and economics experts. It is entirely possible that they will reject them as not comparable, or alternatively come to the view that they are of remote or background relevance only.
 - iii) The litigation is still at the interim stage. Nevertheless points of a very broad brush nature have been made in the pleadings about the relevance or lack of it of Nokia's and HTC's licences, a matter on which IPCom have the right to respond.
32. I have come to the conclusion that it would not be right to allow inspection at this stage by Mr Frohwitter or Mr Schoeller, but that it is right for Dr Sedlmaier to be allowed inspection. My reasons are:

- i) The case is still at the interim stage. It is still not clear what part if any the documents will play in the case. There is no guarantee it will go to trial, as the negotiations between IPCom and Nokia show. To allow inspection by the key commercial people within IPCom could inflict wholly unnecessary harm on HTC, Nokia and the interested parties.
 - ii) The fact that the order may affect the interests of third parties is of importance. Both were very concerned that their confidential agreements could fall into the hands of IPCom.
 - iii) The confidential information, once given to Messrs Frohwitter and Schoeller cannot be unlearned by them. Whilst not inevitable, there is a real risk that it will prove of value in licensing IPCom's portfolio, and they will not in practical reality be able to avoid its use.
 - iv) Mr Kahlenberg is in a very similar position on the evidence to Messrs Frohwitter and Schoeller. I do not regard the compromise position as significantly different from disclosure to the internal management team.
 - v) Dr Sedlmaier, on the other hand is an external lawyer bound by a professional code of conduct. I accept that he is, as the evidence shows, extremely close to IPCom, and has been involved in commercial negotiations. Whilst that fact is relied on by HTC, Nokia and the interested parties to make a case for his exclusion, it shows also that, if he is included, the prejudice to IPCom is significantly mitigated. To the extent that he is involved in future negotiations he will have to shut out from his mind anything learned from the confidential documents.
 - vi) I do not accept that it is necessary in order to do justice, at this stage at least, for the individuals within IPCom's internal management team to conduct the free-ranging review of the disclosure documents which Mr Boon refers to in his evidence.
33. This is an unusual case, at least in the field of patent litigation in this country, in that IPCom is a very small company in terms of personnel. In a larger corporation than IPCom there would be individuals who could be given the confidential information at the interim stage on the basis that they did not play any part in commercial negotiations. That does not mean that IPCom should be treated differently in the end. But it does mean that the balance has to be struck in a different way at this stage.
34. I should mention one further point, stressed by Mr Flynn, which is that IPCom's whole business is concerned with licensing patents. It is, as he submitted, "what they do". It is therefore not a case in which the individuals within the party would not be unable to understand the documents or make contributions to the case based on them. I accept that is the case, and I have taken it into consideration. Nevertheless, it does not seem to me that it outweighs, indeed in some respects it contributes to, the risk that the documents will give IPCom an unfair advantage in the marketplace.

Miscellaneous points

35. There was a minor dispute about whether Dr Sedlmaier should give an express confidentiality undertaking. The objection was that other external lawyers were not being required to do so. However, at least when proposed as a nominated individual, as opposed to an external lawyer, he indicated that he was prepared to do so. I think the concerns expressed by HTC and Nokia about his closeness to IPCom and his involvement in negotiations outside the context of the action make it desirable that he should give an undertaking. As always, the requirement for an undertaking does not impugn in any way the integrity of the individual concerned, but may help him to guard against inadvertent disclosure or use.
36. Both Ericsson and Research in Motion submitted that I could dispose of the application in respect of the licences to which they were parties on the basis of irrelevance. I am not prepared to do so. Nevertheless I remain of the view that their relevance is likely to be marginal at best.
37. Ericsson, and belatedly Nokia raised an objection to one of IPCom's external experts. I did not think this was justified. The experts will sign undertakings and will no doubt be informed of the consequences of failing to respect them.
38. Accordingly I accede to IPCom's application only to the extent it sought confirmation that the documents could go to Dr Sedlmaier, subject to an undertaking in the agreed form. I will hear counsel on the form of order if it cannot be agreed.