

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No. SACV 14-00341 JVS (ANx) Date September 30, 2014

Title TCL Communications Technology Holdings Ltd v. Telefonaktenbologer 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 Defendant's Motion to Certify Pursuant to 28 U.S.C. Section 1292(b) and Stay Proceedings Pending Appeal (Fld 8-12-14) and Granting in Part and Denying in Part Defendant's Motion to Dismiss Plaintiff's 2nd Amended Complaint (fld 8-12-14)

Defendants Telefonaktiebolaget LM Ericsson and Ericsson, Inc. ("Ericsson") move the Court to certify its July 28, 2014 Order (Docket No. 39) for direct interlocutory appeal to the United States Court of Appeal for the Ninth Circuit pursuant to 28 U.S.C. § 1292(b) and to stay the proceedings until any appeal is resolved. (Mot. Certify, Docket No. 42.) Ericsson has also filed a motion to dismiss the Second Amended Complaint ("SAC") (Docket No. 31). (MTD, Docket No. 43.) Plaintiff TCL Communication Technology Holdings, Ltd. ("TCL") opposes both motions. (Opp'n Mot. Certify, Docket No. 45; MTD Opp'n, Docket No. 46.) Ericsson has replied. (Reply MTD, Docket No. 47; Reply Mot. Certify, Docket No. 48.) For the following reasons, Ericsson's motion to certify for interlocutory appeal is **DENIED** and its motion to dismiss the SAC is **GRANTED IN PART** and **DENIED IN PART**.

I. Background

Ericsson, a Swedish Company with its U.S. headquarters in Texas, has declared a number of patents to be essential to the global 2G, 3G, and 4G telecommunications standards established by the European Telecommunications Standards Institute

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	SACV 14-00341 JVS (ANx)	Date	September 30, 2014
Title	<u>TCL Communications Technology Holdings Ltd v. Telefonaktenbologer LM Ericsson, et al.</u>		

(“ETSI”).¹ (SAC ¶¶ 3, 6, 10, 66, 69.) According to ETSI policy, if an ETSI member owns intellectual property, including patents, that may be considered essential to a particular standard or technical specification, ETSI requests that the owner grant irrevocable licenses on fair, reasonable, and non-discriminatory (“FRAND”) terms and conditions in return for inclusion of the intellectual property into the standard. (Id. ¶¶ 7-9.) TCL, a Chinese mobile and internet communications device manufacturer and a member of ETSI, alleges that it made products complying with the Ericsson’s standards in reliance upon Ericsson’s commitment to license its patents to ETSI members on FRAND terms. (Id. ¶¶ 11, 72-76.)

In 2007, TCL signed a patent license agreement with Ericsson for standard-essential patents covering the 2G technology standard. (Id. ¶ 25.) The negotiations over the FRAND rate for a new agreement between Ericsson and TCL intensified in 2012, including over the FRAND rate for products sold in the United States. (Id. ¶¶ 79-80.) TCL alleges that it was ready to agree to a FRAND rate with Ericsson for 2G and 3G patents and, at the Ericsson’s request, it also agreed to negotiate a FRAND rate for the 4G essential patents. (Id.)

TCL alleges that Ericsson’s negotiation tactics violate the FRAND commitments it undertook. (Id. ¶¶ 4, 12, 79-90.) TCL alleges that Ericsson is attempting to force TCL to agree to royalties rates based on the final sales price of TCL’s mobile devices, rather than the 2G, 3G, or 4G chip which implements the wireless standards at issue in this case. (Id.) TCL alleges that using the royalty base of the wireless device, instead of the price of the chip, violates the Ericsson’s FRAND commitments as an ETSI member. (Id.) In addition, TCL alleges that Ericsson has violated its FRAND obligations by insisting on a high “bundled” royalty rate for its 2G, 3G, and 4G asserted patents, even though TCL has an alternative source such 3G licenses. (Id.)

In addition to pursuing claims against Ericsson based upon its FRAND obligations, TCL has asserted claims for patent infringement. More specifically, TCL alleges that it is the owner by assignment of U.S. Patent No. 7,778,340 and U.S. Patent No. 7,359,718,

¹ ETSI is a standard development organization (“SDO”) responsible for the standardization of information and communications technologies. (Id. ¶ 40.)

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	SACV 14-00341 JVS (ANx)	Date	September 30, 2014
Title	<u>TCL Communications Technology Holdings Ltd v. Telefonaktenbologer LM Ericsson, et al.</u>		

and that Ericsson has infringed these patents by designing, manufacturing, using, importing, selling, or offering to sell base stations or location servers that infringe these patents. (Id. ¶¶ 19-22.)

The Defendants have initiated legal actions against TCL in multiple foreign jurisdictions regarding the FRAND licensing issue. (Id. ¶ 84.) TCL alleges that these legal actions by Ericsson place TCL at “a high risk of exclusion from downstream markets.” (Id. ¶ 90.) In addition, following the filing of this action, Ericsson filed suit against TCL in the Eastern District of Texas (the “Texas Action”), asserting claims of patent infringement against TCL. (Id. ¶ 16; see also Bader Decl. Ex. 3 (“Texas Complaint”).)

TCL filed its initial complaint on March 5, 2014, and then the FAC on June 2, 2014. (Docket Nos. 1, 24.) On June 10, 2014, Ericsson filed a notice of lack of subject matter jurisdiction. (Not., Docket No. 26.) The Court subsequently issued a show cause order to TCL regarding this jurisdictional issue. (Min. Order, Docket No. 27.) TCL filed both a motion for leave to file its SAC and a response to the Court’s order claiming that there was jurisdiction for the case on June 20, 2014. (Docket No. 30.) On July 28, 2014, this Court determined that it had subject matter jurisdiction over the action based upon the declaratory judgment claim asserted in the original complaint, and granted TCL’s motion for leave to amend. (Docket No. 39.)

II. Legal Standard

A. Motion to Certify for Interlocutory Review

Under 28 U.S.C. § 1292(b), in deciding whether to certify an order for appeal, a district court must determine if (1) there is a controlling question of law, (2) as to which there is substantial ground for difference of opinion, and (3) an immediate appeal from the order may materially advance the ultimate termination of litigation. In re Cement Antitrust Litig., 673 F.2d 1020, 1026 (9th Cir. 1982). Only if all three factors are met may the Court certify an order for appeal. Id. “Section 1292(b) is a departure from the normal rule that only final judgments are appealable, and therefore must be construed

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	SACV 14-00341 JVS (ANx)	Date	September 30, 2014
Title	<u>TCL Communications Technology Holdings Ltd v. Telefonaktenbologer LM Ericsson, et al.</u>		

narrowly.” James v. Price Stern Sloan, 283 F.3d 1064, 1068 (9th Cir. 2002). Such a departure is “to be applied sparingly and only in exceptional cases.” United States v. Woodbury, 263 F.2d 784, 788 n.11 (9th Cir. 1959). Thus, the party seeking certification “has the burden of showing that exceptional circumstances justify a departure from the ‘basic policy of postponing appellate review until after the entry of a final judgment.’” Fukuda v. Cnty. of L.A., 630 F. Supp. 228, 229 (C.D. Cal. 1986) (quoting Coopers & Lybrand v. Livesay, 437 U.S. 463, 475 (1978)).

B. Motion to Dismiss

Under Rule 12(b)(6), a defendant may move to dismiss for failure to state a claim upon which relief can be granted. A plaintiff must state “enough facts to state a claim to relief that is plausible on its face.” Bell Atl. Corp. v. Twombly, 550 U.S. 544, 570 (2007). A claim has “facial plausibility” if the plaintiff pleads facts that “allow[] the court to draw the reasonable inference that the defendant is liable for the misconduct alleged.” Ashcroft v. Iqbal, 556 U.S. 662, 663 (2009).

In resolving a 12(b)(6) motion under Twombly, the Court must follow a two-pronged approach. First, the Court must accept all well-pleaded factual allegations as true, but “[t]hread-bare recitals of the elements of a cause of action, supported by mere conclusory statements, do not suffice.” Id. Nor must the Court “accept as true a legal conclusion couched as a factual allegation.” Id. at 1949-50 (quoting Twombly, 550 U.S. at 555). Second, assuming the veracity of well-pleaded factual allegations, the Court must “determine whether they plausibly give rise to an entitlement to relief.” Id. at 1950. This determination is context-specific, requiring the Court to draw on its experience and common sense, but there is no plausibility “where the well-pleaded facts do not permit the court to infer more than the mere possibility of misconduct.” Id.

Under Federal Rule of Civil Procedure 9(b), a plaintiff must plead each of the elements of a fraud claim with particularity, *i.e.*, a plaintiff “must set forth more than the neutral facts necessary to identify the transaction.” Cooper v. Pickett, F.3d 616, 625 (9th Cir. 1997) (emphasis in original). In other words, fraud claims must be accompanied by the “who, what, when, where, and how” of the fraudulent conduct charged. Vess v. Ciba-

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	SACV 14-00341 JVS (ANx)	Date	September 30, 2014
Title	<u>TCL Communications Technology Holdings Ltd v. Telefonaktenbologer LM Ericsson, et al.</u>		

Geigy Corp., USA, 317 F.3d 1097, 1106 (9th Cir. 2003). A pleading is sufficient under Rule 9(b) if it identifies the circumstances constituting fraud so that a defendant can prepare an adequate answer from the allegations. Moore v. Kayport Package Express, Inc., 885 F.2d 531, 540 (9th Cir. 1989). While statements of the time, place, and nature of the alleged fraudulent activities are sufficient, mere conclusory allegations of fraud are insufficient. Id.

III. Discussion

1. Motion to Certify

Ericsson seeks to certify for interlocutory appeal this Court’s ruling that TCL’s declaratory judgment claim seeking the determination that Ericsson has failed to offer a FRAND rate for its standard-essential patents arises under federal law for purposes of determining federal question jurisdiction. The Court addresses whether Ericsson has satisfied the requirements of section 1292(b) such that the Court may certify this issue for appellate review.

1. Controlling Question of Law

A controlling question of law exists where “resolution of the issue on appeal could materially affect the outcome of litigation in the district court.” In re Cement Antitrust Litig., 673 F.2d at 1026. In the context of section 1292(b), a “‘question of law’ means a ‘pure question of law,’ not a mixed question of law and fact or an application of law to a particular set of facts.” Barrer v. Chase Bank, USA, N.A., 2011 WL 1979718, *4 (D. Or. May 18, 2011). So long as a pure legal question is identified, however, an order can be certified for appeal to resolve all questions “material to the order.” Steering Comm. v. U.S., 6 F.3d 572, 576 (9th Cir. 1993) (finding it proper to certify a mixed question of law and fact material to the order when it is coupled with a pure legal question).

The Court finds that the subject matter jurisdiction issue raised by Ericsson is a pure question of law that can be certified. Furthermore, reversal of this Court’s subject matter determination would materially affect the outcome of the case because it would

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	SACV 14-00341 JVS (ANx)	Date	September 30, 2014
Title	<u>TCL Communications Technology Holdings Ltd v. Telefonaktenbologer LM Ericsson, et al.</u>		

result in dismissal. As such, the resolution of the issue raised by Ericsson is a controlling question of law.

2. Substantial Ground for Difference of Opinion

There are “substantial grounds for differences of opinion” when “reasonable judges might differ” on the correct outcome of an issue and such “uncertainty provides a credible basis for a difference of opinion.” Reese v. BP Exploration, 643 F.3d 681, 687 (9th Cir. 2011) (quoting In re Cement Antitrust Litig., 673 F.2d at 1028 (Boochever, J., dissenting on other grounds)). “Courts traditionally will find that a substantial ground for difference of opinion exists where the circuits are in dispute on the question and the court of appeals of the circuit has not spoken on the point . . . or if novel and difficult questions of first impression are presented.” Couch v. Telescope Inc., 611 F.3d 629, 633 (9th Cir. 2010) (internal quotations and citations omitted).

The Court concludes that Ericsson has not met its burden of demonstrating that there is a substantial ground for difference of opinion on this issue. TCL’s original complaint asserted a claim for declaratory judgment to resolve the FRAND licensing issue. Furthermore, the allegations in the initial pleading clearly demonstrated that TCL asserted this claim in light of its concerns that, as a result of Ericsson’s failure to comply with its FRAND obligations, it faced a risk of being excluded from multiple markets because Ericsson could bring – and in fact has brought – suit against TCL for the unauthorized use of their patented technology. The Court finds these allegations sufficient to establish federal question jurisdiction, given that, in the context of declaratory judgment claims, courts look to the whether the cause of action anticipated by the plaintiff in asserting a particular declaratory judgment claim arises under federal law. Morongo Band of Mission Indians v. Cal. State Bd. of Equalization, 858 F.2d 1376, 1384 (9th Cir. 1988). As such, the Court finds this case is similar to ABB, Inc. v. Cooper Industries, LLC, in which the Federal Circuit concluded that the state law license defense asserted by the plaintiff in its declaratory action was sufficient to confer federal subject matter jurisdiction because the defendant’s hypothetical lawsuit would have been one for patent infringement. 635 F.3d 1345, 1349-52 (Fed. Cir. 2011). Ericsson argues that the district court and Ninth Circuit decisions in Microsoft v. Motorola, Inc. support a

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No. SACV 14-00341 JVS (ANx) Date September 30, 2014
Title TCL Communications Technology Holdings Ltd v. Telefonaktenbologer LM Ericsson, et al.

different conclusion. See 696 F.3d 872 (9th Cir. 2012); 2011 U.S. Dist. LEXIS 73827 (W.D. Wash. May 31, 2011). However, federal jurisdiction in that case was based upon the diversity of the parties. Consequently, the issue before this Court was never raised. As such, Ericsson has not demonstrated that there exists a substantial ground for difference of opinion on this issue.

3. Materially Advance the Termination of the Litigation

The Court may certify an order for appeal only if the moving party shows an immediate appeal may materially advance the ultimate termination of the litigation. In re Cement Antitrust Litig., 673 F.2d at 1026.

The Court concludes that the interlocutory review of the issue raised by Ericsson would materially advance the termination of this litigation. As noted by Ericsson, the determination that TCL's FRAND declaratory judgment claim did not arise under federal law would lead to the dismissal of the action for lack of subject matter jurisdiction. However, as discussed above, there is no controlling issue of law as to which there is substantial ground for difference of opinion. Therefore, the interlocutory appeal of this Court's July 28, 2014 Order is unwarranted.

Accordingly, the Court denies Ericsson's motion to certify this Court's July 28, 2014 Order for interlocutory review.

B. Motion to Dismiss

1. Breach of Contract

A complaint for breach of contract must plead: (1) the existence of a contract, (2) a breach of the contract by the defendant, (3) performance or excuse of non-performance by the plaintiff, and (4) damages suffered by the plaintiff due to the defendant's breach. Gross v. Symantec Corp., 2012 WL 3116158, at *11 (N.D. Cal. July 31, 2012) (citing McDonald v. John P. Scripps Newspaper, 210 Cal. App. 3d 100, 104 (1989)).

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	SACV 14-00341 JVS (ANx)	Date	September 30, 2014
Title	<u>TCL Communications Technology Holdings Ltd v. Telefonaktenbologer LM Ericsson, et al.</u>		

First, Ericsson argues that TCL cannot claim that it is entitled to a FRAND license under the ETSI policy rules unless it first concedes that Ericsson does in fact own patents that are essential to the ETSI standards.² (MTD 6-7.) Without such an admission, Ericsson asserts that TCL has failed to allege a condition precedent to the existence of a FRAND obligation. (*Id.*) Ericsson further contends that TCL cannot simultaneously argue that Ericsson has failed to comply with its FRAND obligations while maintaining the option of claiming that Ericsson’s patents are not in fact standard essential. (*Id.*) In response, TCL argues that the allegations in the SAC sufficiently allege that Ericsson has a contractual obligation to license its patents on FRAND terms because it has represented to ETSI and to TCL that these patents are standard essential. (Opp’n MTD 3.)

The Court agrees with TCL. Ericsson has represented that its patents are standard essential to ETSI and as such has obligated itself to offering FRAND terms for such patents. The Court finds that these allegations are sufficient to establish Ericsson’s FRAND obligations at the motion to dismiss stage. Furthermore, the Court finds no reason why TCL cannot put forth the argument that TCL’s patents are not standard essential while reserving the right to pay the FRAND rate should the Court ultimately determine otherwise.³

Second, Ericsson argues that TCL cannot request the Court to adjudicate the FRAND royalty rate issue without first agreeing in advance to be bound by the terms of that adjudication. (MTD 7.) In the absence of such a commitment, Ericsson argues that TCL is improperly seeking an advisory opinion. (*Id.*) However, in its opposition, TCL has stated its commitment to be bound by the FRAND terms determined by this Court. (Opp’n MTD 5.) Furthermore, this commitment would constitute a judicial admission should TCL later retract its agreement to abide by the FRAND terms adjudicated by this

² The SAC makes it clear that TCL does not make any such admission. (See, e.g., SAC ¶ 13 (“TCL does not accept Ericsson’s representation that any (or all) of its patents that it has identified as ‘essential’ are, in fact, necessary for the compliant implementations of 2G, 3G, and 4G technologies . . .”).)

³ This position is very similar to the *Lear* doctrine, under which a patent licensee is not estopped, by virtue of the license, from challenging the validity of the patent. *Lear, Inc. v. Adkins*, 395 U.S. 653, 670-71 (1969). Furthermore, the Court notes that the Federal Rules of Civil Procedure explicitly allow for pleading in the alternative. See Fed. R. Civ. P. 8(d). The Court finds that the SAC sufficiently sets forth TCL’s alternative theories for relief in compliance with Rule 8(d).

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	SACV 14-00341 JVS (ANx)	Date	September 30, 2014
Title	<u>TCL Communications Technology Holdings Ltd v. Telefonaktenbologer LM Ericsson, et al.</u>		

Court, bringing into play the doctrine of judicial estoppel.⁴ As such, the Court is not convinced by Ericsson's argument that dismissal of TCL's FRAND claims is warranted because TCL is seeking an impermissible advisory opinion.

Overall, the Court concludes that TCL has sufficiently alleged a claim for breach of contract based upon the following allegations in the SAC: (1) Ericsson has represented that it possesses standard-essential patents, (2) Ericsson entered into a contract with ETSI to license these patents on FRAND terms to ETSI members and any entity that implements the mobile cellular standards, (3) TCL implements the mobile cellular standards, (4) Ericsson has refused to license its standard-essential patents to TCL on FRAND terms, and (5) TCL has suffered damages as a result. (SAC ¶¶ 71-73, 77-78, 82-88, 90-95.) Accordingly, Ericsson's motion to dismiss TCL's claim for breach of contract is denied.

2. Promissory Estoppel

To state a claim for promissory estoppel, a plaintiff must allege "(1) a promise clear and unambiguous in its terms; (2) reliance by the party to whom the promise is made; (3) [the] reliance must be both reasonable and foreseeable; and (4) the party asserting the estoppel must be injured by [this] reliance." Aceves v. U.S. Bank, N.A., 192 Cal. App. 4th 218, 225 (2011).

Ericsson argues that TCL's claim for promissory estoppel fails for the same reason as its breach of contract claims because it is based upon TCL's alleged reliance upon Ericsson's FRAND commitments. (MTD 7-8.) Therefore, Ericsson's arguments fall short for the same reasons described above in the context of TCL's breach of contract claim. More specifically, TCL has alleged that Ericsson represented that its patents are standard essential and committed to license these patents at FRAND rates with intention of inducing ETSI members like TCL to produce mobile phone products compatible with those patented standards. (SAC ¶¶ 104-09.) TCL further alleges that, in reliance upon

⁴ In light of this judicial admission, the Court is not convinced that the letter received by Ericsson's counsel from TCL's counsel on August 29, 2014 (Gibson Reply Decl. Ex. 2) warrants dismissal of TCL's FRAND claims.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	SACV 14-00341 JVS (ANx)	Date	September 30, 2014
Title	<u>TCL Communications Technology Holdings Ltd v. Telefonaktenbologer LM Ericsson, et al.</u>		

these promises, it produced mobile phones compliant with these standards and that Ericsson has harmed TCL by failing to license its patents to TCL on FRAND terms. (Id. ¶¶ 106-09.) In light of these allegations, the Court concludes that TCL has properly stated a claim for promissory estoppel.

3. Misrepresentation Claims

The elements of a claim for intentional misrepresentation under California law are: (1) a misrepresentation, (2) knowledge of falsity (“scienter”), (3) intent to defraud (i.e., to induce reliance), (4) justifiable reliance, and (5) damage. Carter v. Novartis Consumer Health, Inc., 582 F. Supp. 2d 1271, 1289 n.28 (C.D. Cal. 2008). “A promise to do something necessarily implies the intention to perform; hence, where a promise is made without such intention, there is an implied misrepresentation of fact that may be actionable fraud. An action for promissory fraud may lie where a defendant fraudulently induces the plaintiff to enter into a contract.” Engalla v. Permanente Med. Grp., Inc., 15 Cal. 4th 951, 973 (1997) (citations omitted). The negligent misrepresentation claim omits the element of the intent to induce reliance and instead requires that the defendant’s misrepresentation be made without any reasonable ground for believing it to be true. Cadlo v. Owens-Illinois, Inc., 125 Cal. App. 4th 513, 519 (2004).

Ericsson argues that TCL’s misrepresentation claim must be dismissed because the allegations of the SAC do not meet the heightened pleading requirements of Rule 9(b). (MTD 8-9.) The SAC alleges that Ericsson “knowingly, or recklessly and without regard to its truth, made a false promise to ETSI and 3GPP that it would license its technology on FRAND terms so as to induce those SDOs to adopt its technology.” (SAC ¶ 116.) Alternatively, TCL alleges that Ericsson negligently promised to license its patents on FRAND terms. (Id. ¶ 124.) As a result of these promises, ETSI and 3GPP allegedly adopted Ericsson’s technology into the mobile cellular standards and TCL has expended considerable resources in developing devices that comply with those standards. (Id. ¶¶ 118, 119, 127, 128)

Ericsson argues that these broad allegations are insufficient because they do not allege what Ericsson technology ETSI/3GPP adopted, who at ETSI/3GPP was induced to

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	SACV 14-00341 JVS (ANx)	Date	September 30, 2014
Title	<u>TCL Communications Technology Holdings Ltd v. Telefonaktenbologer LM Ericsson, et al.</u>		

adopt the technology, or when Ericsson's purported fraud occurred. (MTD 8.) Ericsson states that these vague allegations that it submitted false FRAND declarations during standards development without additional supporting facts are insufficient to put it upon notice of the basis of TCL's fraud claims. (*Id.*) In support of its position, Ericsson cites to Apple Inc. v. Samsung Electronics Co., in which the district court held that Apple's claim involving fraudulent FRAND declarations failed to satisfy Rule 9(b) because Apple has failed to identify when the false FRAND declarations were made, by whom, and for which patents. 2011 WL 4948567, at *4 (N.D. Cal. Oct. 18, 2011).

While TCL's allegations in support of its fraud claims could have been more detailed, the Court is not convinced that they should be dismissed under Rule 9(b). It is clear that TCL's fraud claims are based upon allegedly false promises contained in Ericsson's ETSI declarations that it would license technology on FRAND terms in order to induce ETSI to adopt Ericsson's technology when in fact Ericsson had no intention of licensing on FRAND terms. As such, the Court finds that the allegations in the SAC do put Ericsson on notice of the nature of TCL's intentional and negligent misrepresentation claims.⁵

Accordingly, the Court denies Ericsson's motion to dismiss TCL's misrepresentation claims.

⁵ In support of its motion to dismiss, Ericsson emphasizes that it has negotiated FRAND licenses with 90 other industry participants, which suggests that it did not fraudulently induce ETSI to incorporate its technology into its standards. (*See* MTD 9; Reply MTD 7.) While this may be relevant evidence to the ultimate determination of whether Ericsson intended to license its patents at FRAND rates when it made its declarations to ETSI, at this stage in the litigation, "[m]alice, intent, knowledge, and other conditions of a person's mind may be alleged generally." Fed. R. Civ. P. 9(b). Consequently, the Court finds the SAC's general allegation of Ericsson's intent to deceive is sufficient at this stage. At the September 22, 2014 hearing, Ericsson's counsel argued that Ericsson's business dealings with other industry participants renders TCL's fraud claims implausible under Iqbal and Twombly. The Court disagrees. The fact that Ericsson may have issued many licenses to other companies does not foreclose the possibility that Ericsson fraudulently induced ETSI to adopt its technology into the standards with the intention of exploiting this market power to the detriment of just a few industry participants, such as TCL.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	SACV 14-00341 JVS (ANx)	Date	September 30, 2014
Title	<u>TCL Communications Technology Holdings Ltd v. Telefonaktenbologer LM Ericsson, et al.</u>		

4. Declaratory Judgment

Ericsson argues that TCL’s declaratory judgment claim seeking a determination of whether Ericsson has offered rates to TCL consistent with Ericsson’s FRAND obligations fails because it is duplicative of the breach of contract claim.⁶

At this stage, the Court is not convinced that the declaratory judgment claim is entirely duplicative of the breach of contract action.⁷ As such, the Court is not inclined to exercise its discretion to dismiss the declaratory judgment claim on that basis. See Fed. R. Civ. Proc. 57 (“The existence of another adequate remedy does not preclude a judgment for declaratory relief in cases where it is appropriate.”).

5. UCL Claim

The California Unfair Competition Law (“UCL”) prohibits “unlawful, unfair or fraudulent business act[s] or practice[s]” and “unfair, deceptive, untrue or misleading advertising.” Cal. Bus. & Prof. Code § 17200. A plaintiff may pursue a UCL claim under any or all of three theories: the “unlawfulness,” “fraudulent,” or “unfairness” prongs. South Bay Chevrolet v. General Motors Acceptance Corp., 72 Cal. App. 4th 861, 878 (1999).

First, the UCL prohibits “unlawful” practices that are forbidden by any law. Saunders v. Superior Court, 27 Cal. App. 4th 832, 838 (1994). The statute “borrows” violations of other laws and treats them as actionable. Cel-Tech Commc’ns v. Los Angeles Cellular Tel. Co., 20 Cal. 4th 163, 180 (1999).

⁶ Ericsson also argues that the claim fails because TCL has not alleged its consent to be bound by any such FRAND rate adjudication. However, as discussed above, the Court is convinced that TCL has in fact demonstrated such consent.

⁷ Unlike the plaintiff in Microsoft Corp. v. Motorola, Inc., 2011 U.S. Dist. LEXIS 73827, at *20 (W.D. Wash. June 1, 2011), TCL has made no concession that the relief it is seeking in its declaratory judgment claim is the same as the relief that it is seeking on its other claims.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	SACV 14-00341 JVS (ANx)	Date	September 30, 2014
Title	<u>TCL Communications Technology Holdings Ltd v. Telefonaktenbologer LM Ericsson, et al.</u>		

The exact nature of TCL’s claim under the “unlawful” prong of the UCL is a bit unclear. In its opposition, TCL clarifies that its claim is premised upon the common law claims alleged against Ericsson. (Opp’n 10.) However, a common law violation, such as breach of contract, is insufficient to state a claim under the “unlawful” prong of Cal. Bus. & Prof. Code § 17200. Schroyer v. New Cingular Wireless Servs., Inc., 622 F.3d 1035, 1044 (9th Cir. 2010). Rather, a plaintiff must allege something more, *i.e.*, that the defendant “engaged in a business practice ‘forbidden by law, be it civil or criminal, federal, state, or municipal, statutory, regulatory, or court-made.’” *Id.* (quoting Saunders v. Sup. Ct., 27 Cal. App. 4th 832, 838-39 (1994)); *see also* Allied Grape Growers v. Bronco Wine Co., 203 Cal. App. 3d 432, 450-54 (1988) (finding § 17200 violation from breach of contract only after that breach was found to have independently violated three statutes of the California Food and Agricultural Code). As such, the Court concludes that the common law claims standing alone fail to state a claim for a violation of the unlawful prong of the UCL.

Second, a fraudulent business practice is one that is likely to deceive the public and a claim under this prong may be based on representations that are untrue. McKell v. Washington Mut., Inc., 142 Cal. App. 4th 1457, 1471 (2006). Claims under this prong of the UCL must be pleaded with particularity pursuant to Fed. R. Civ. P. 9(b). *See* Kearns v. Ford Motor Co., 567 F.3d 1120, 1122 (9th Cir. 2009) (applying Rule 9(b) standard to UCL claims). The circumstances of the alleged fraud must be specific enough “to give defendants notice of the particular misconduct . . . so that they can defend against the charge and not just deny that they have done anything wrong.” Vess, 317 F.3d at 1106 (internal quotation marks omitted).

As discussed above, TCL has alleged that Ericsson made false promises to ETSI and 3GPP that it would license technology on FRAND terms in order to induce those organizations to incorporate Ericsson’s technology into the mobile cellular standards when in reality Ericsson had no intention of licensing on FRAND terms. These allegations are sufficiently particular to state a claim for fraud. As such, the Court concludes that TCL has stated a claim based upon the “fraud” prong of the UCL.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	SACV 14-00341 JVS (ANx)	Date	September 30, 2014
Title	<u>TCL Communications Technology Holdings Ltd v. Telefonaktenbologer LM Ericsson, et al.</u>		

Next, the Court considers whether TCL’s UCL claim survives to the extent that it is premised upon the “unfair” prong. An unfair business practice is one “that threatens an incipient violation of an antitrust law, or violates the policy or spirit of one of those laws because its effects are comparable to or the same as a violation of the law, or otherwise significantly threatens or harms competition.” Cel-Tech Commc’ns, 20 Cal. 4th at 187.

Ericsson argues that TCL’s UCL claim should be dismissed to the extent that it is premised upon the “unfair” prong of the UCL. (MTD 11-17.) However, the SAC alleges that the incorporation of Ericsson’s patents into the ETSI standards has interfered with the excluded other alternative technologies from the standards. (SAC ¶¶ 70, 117, 133.) TCL further alleges that Ericsson has exploited the market power gained by the incorporation of its patents into the standards by charging “extortionist royalties” for certain patents in violation of its FRAND obligations and that such conduct is harmful to competition. (Id. ¶¶ 135, 147.) Indeed, the anticompetitive effects of such conduct were recognized in Apple Inc. v. Samsung Electronics Co., in which the district court concluded that a patent holder’s breach of a promise to license its standard-essential patents at FRAND terms is actionable anticompetitive conduct. 2012 WL 1672493, at *7 (N.D. Cal. May 14, 2012) (analyzing claims under the Sherman Act); see also Broadcom Corp. v. Qualcomm Inc., 501 F.3d 297, 314 (3d Cir. 2007) (concluding that the charging of “supracompetitive” royalties for standard-essential patents is anticompetitive because it improperly exploits the heightened monopoly power obtained by the patent owner after its patent was adopted into the standards). As such, the Court concludes that such anticompetitive conduct is actionable under the UCL and that TCL has stated a claim under the “unfair” prong of the UCL.⁸

For the foregoing reasons, the Court denies Ericsson’s motion to dismiss TCL’s UCL claim.

6. Declaratory Judgment of Patent Non-Infringement

⁸ Consequently, the Court need not address the parties arguments regarding whether Ericsson’s bundled licensing of the 2G, 3G, and 4G patents standing alone is anti-competitive or whether Ericsson’s filing of infringement lawsuits against TCL in various jurisdiction is actionable under the UCL.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	SACV 14-00341 JVS (ANx)	Date	September 30, 2014
Title	<u>TCL Communications Technology Holdings Ltd v. Telefonaktenbologer LM Ericsson, et al.</u>		

TCL seeks a declaratory judgment that it has not infringed one or more claims of Ericsson’s ‘556 and ‘506 patents. Ericsson argues that the SAC is deficient for failure of identifying which accused products TCL maintains are non-infringing. (MTD 17-18.) In response, TCL argues that these claims are sufficiently pled given that the claims seeking declaratory judgment of non-infringement explicitly refers to the complaint in the Texas Action (Opp’n MTD 14),⁹ which has alleged that TCL’s “smartphones and other mobile devices” which “include, but are not limited to, at least the Alcatel OneTouch Fierce” infringe Ericsson’s patents. (Bader Decl. Ex. 3 ¶¶ 41, 50.)

Ericsson is correct that there is no way to adjudicate a claim for declaratory judgment of non-infringement without identification of the products accused of infringement. See, e.g., ASUSTek Computer Inc. v. AFTG-TG LLC, 2011 U.S. Dist. LEXIS 149330, at *40-41 (N.D. Cal. Dec. 29, 2011); Wistron Corp. v. Phillip M. Adams & Assoc. LLC, 2011 U.S. Dist. LEXIS 46079, at *38-40 (N.D. Cal. Apr. 28, 2011). In this case, the Court concludes that the SAC’s reference to the complaint in the Texas Action sufficiently puts Ericsson on notice of what products TCL alleges do not infringe Ericsson’s patents. (Opp’n MTD 14-15.) As such, the Court denies Ericsson’s motion to dismiss these claims.

7. Declaratory Judgment of Patent Invalidity

The SAC states that “one or more claims of the [‘556 or ‘506] patent are invalid for failure to comply with the conditions of patentability specified in Title 35 of the United States Code, including without limitation Section 102, 103, and 112 thereof.” (SAC ¶¶ 154-57, 163-66.) Ericsson argues that these allegations are insufficient to satisfy the pleading standard of Twombly and Iqbal. (MTD 18-19.)

Cases are divided on the level of factual detail required for an invalidity counterclaim to survive a motion to dismiss for failure to state a claim. Various courts

⁹ The SAC alleges, “[i]n its Complaint in Texas, Ericsson alleges that TCL infringes [the ‘556 or ‘506 patent]” and that “TCL alleges that it does not infringe one or more claims of the [‘556 or ‘506] patent, either directly or contributorily, and has not induced others to infringe one or more claims of the [‘556 or ‘506] patent.” (SAC ¶¶ 150-53, 158-62.)

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	SACV 14-00341 JVS (ANx)	Date	September 30, 2014
Title	<u>TCL Communications Technology Holdings Ltd v. Telefonaktenbologer LM Ericsson, et al.</u>		

have concluded that conclusory statements that a patent is invalid under various sections of the U.S. Code without any further factual detail regarding the grounds for this invalidity are insufficient to satisfy the heightened pleading standards of Iqbal and Twombly. See, e.g., Sliding Door Co. v. KLS Doors, LLC, 2013 WL 2090298, at *4 (C.D. Cal. 2013); PageMelding, Inc. v. ESPN, Inc., 2012 WL 3877686, at *3 (N.D. Cal. 2012); Memory Control Enterprise, LLC v. Edmunds.com, Inc., 2012 WL 681765, at *2 (C.D. Cal. Feb 08, 2012); Xilinx, Inc. v. Invention Inv. Fund I LP, 2011 WL 3206686, at *6 (N.D. Cal. July 27, 2011); Qarbon.com v. eHelp Corp., 315 F. Supp. 2d 1046, 1051 (N.D. Cal. 2004). However, other cases have found the pleading of such counterclaims to be sufficient in light of the more detailed invalidity contentions required by local patent rules. See, e.g., ASUSTeK Computer Inc. v. AFTG-TG LLC, 2011 WL 6845791, *13-14 (N.D. Cal. Dec. 29, 2011); Wistron Corp. v. Phillip M. Adams & Assocs., LLC, 2011 WL 1654466, at *11-12 (N.D. Cal. Apr. 28, 2011); Vistan Corp. v. Fadei USA, Inc., 2011 U.S. Dist. LEXIS 47099, at *21-22 (N.D. Cal. Apr. 25, 2011); Microsoft Corp. v. Phoenix Solutions, Inc., 741 F. Supp. 2d 1156, 1159 (C.D. Cal. 2010).

The Court finds that TCL has sufficiently pled its invalidity counterclaims. In reaching this decision, the Court emphasizes that this is a unique area of the law with its own set of local rules. Ericsson is currently on notice that TCL plans to challenge the validity of its '506 and '556 patents. (SAC ¶¶ 154-57, 163-66.) While the factual content of TCL's invalidity claims in this case is rather bare bones, requiring more detailed invalidity contentions at this stage in the litigation would undermine the disclosure of invalidity contentions required by the Patent Local Rules of the Northern District of California, which this Court has adopted.¹⁰ See Patent L.R. 3-3. The Court finds it unnecessary to require the amendment of TCL's invalidity claims because the Patent Local Rules will force TCL to factually develop its invalidity contentions at an early stage in the litigation, which will cure any factual insufficiency of the current invalidity allegations. Therefore, the Court declines to dismiss the invalidity claims at this point in the litigation.

8. Direct Patent Infringement

¹⁰ See Docket No. 11, at 5.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	SACV 14-00341 JVS (ANx)	Date	September 30, 2014
Title	<u>TCL Communications Technology Holdings Ltd v. Telefonaktenbologer LM Ericsson, et al.</u>		

According to 35 U.S.C. § 271, “whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.” 35 U.S.C. § 271(a). A complaint sufficiently states a claim of direct infringement if the pleading complies with Form 18 in the Appendix of Forms for the Federal Rules of Civil Procedure. See K-Tech Telecomm., Inc. v. Time Warner Cable, Inc., 714 F.3d 1277, 1284 (Fed. Cir. 2013).

Here, the SAC alleges that “Ericsson has imported into the United States, manufactured, used, marketed, offered for sale, and/or sold in the United States, 4G LTE-compliant base stations for use in a mobile communications network that infringe the ‘340 patent.” (SAC ¶¶ 168.) In addition, the SAC alleges that “Ericsson has imported into the United States, manufactured, used, marketed, offered for sale, and/or sold in the United States, 4G LTE-compliant base stations and/or location servers (e.g. E-SMLCs that support location services including, but not limited to, Enhanced Cell ID (E-CID) and Adaptive Enhanced Cell-ID (AECID)) for use in a mobile communications network that infringe the ‘718 Patent.” (Id. ¶ 178.)

Ericsson argues that these allegations are insufficient to state a claim for direct infringement. (MTD 20.) First, Ericsson faults the SAC for its failure to identify a specific Ericsson device that allegedly embodies TCL’s ‘340 or ‘718 patents. (Id.) In addition, Ericsson argues that TCL’s vague reference to “base stations” and “location servers” in support of its patent infringement claims does not satisfy Form 18. (Id.) In response, TCL emphasizes that the allegations contained in ¶¶ 168 and 178 are sufficient because Form 18 merely requires an allegation of a general category of products that allegedly infringe the asserted patents. (Opp’n MTD 16.)

The Court concludes that the factual specificity with which TCL has identified the accused products conforms with Form 18, which simply refers to “electric motors” as the accused products. See Fed. R. Civ. P. Form 18; see also Unilin Beheer B.V. v. Tropical Flooring, 2014 U.S. Dist. LEXIS 85955, at *7-8 (C.D. Cal. June 13, 2014) (noting that a direct infringement claim will generally survive a motion to dismiss as long as it accuses a “general category of products”). Moreover, the disclosures required under the Northern

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	SACV 14-00341 JVS (ANx)	Date	September 30, 2014
Title	<u>TCL Communications Technology Holdings Ltd v. Telefonaktenbologer LM Ericsson, et al.</u>		

District’s rules, which this Court adopts, will cure any specificity concerns that Ericsson may have.

Accordingly, the Court denies Ericsson’s motion to dismiss TCL’s direct infringement claims.

9. Indirect Patent Infringement

Indirect infringement is prohibited by § 271(b): “Whoever actively induces infringement of a patent shall be liable as an infringer.” 35 U.S.C. § 271(b). To be actionable, a claim for indirect infringement must be supported by an actionable direct infringement claim. See Epcon Gas Sys., Inc. v. Bauer Compressors, Inc., 279 F.3d 1022, 1033 (Fed. Cir. 2002) (“It is well settled that there can be no inducement of infringement without direct infringement by some party.”). Two additional elements must be present. First, there must be allegations of conduct amounting to inducement. DSU Med. Corp. v. JMS Co., 471 F.3d 1293, 1306 (Fed. Cir. 2006) (“To establish liability under section 271(b), a patent holder must prove that once the defendants knew of the patent, they actively and knowingly aid[ed] and abett[ed] another’s direct infringement.”) (internal quotation marks and citation omitted). Second, there must be allegations of the intent to cause direct infringement, that is, a defendant must induce acts by another that are known by the defendant to constitute patent infringement. See Global-Tech Appliances, Inc. v. SEB S.A., 131 S. Ct. 2060, 2068 (2011); see also DSU Med. Corp., 471 F.3d at 1306 (“[I]f an entity offers a product with the object of promoting its use to infringe, as shown by clear expression or other affirmative steps taken to foster infringement, it is then liable for the resulting acts of infringement by third parties.”).

Here, the Court has concluded that TCL has stated a claim for direct infringement. In addition, TCL alleges that “Ericsson’s affirmative acts of selling its infringing base stations and providing instruction and support for its base stations and/or location servers induced others, including network operators use the base stations and/or location servers in their normal and customary way to infringe the [‘340 and ‘718 patents].” (SAC ¶¶ 172, 182.) The SAC also alleges that, “[t]hrough its manufacture and sales of the [base stations and/or location servers], Ericsson specifically intended its network operators to infringe

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	SACV 14-00341 JVS (ANx)	Date	September 30, 2014
Title	<u>TCL Communications Technology Holdings Ltd v. Telefonaktenbologer LM Ericsson, et al.</u>		

the [‘340 and ‘718 patents] and is aware that these actions would infringe the [‘340 and ‘718 patents].” (*Id.*) These allegations are sufficient to state a claim for indirect infringement under DSU Medical Corp. v. JMS Co., Ltd., 471 F.3d 1293, 1306 (Fed. Cir. 2006) (inducer must have affirmative intent to cause direct infringement). Here, TCL has pled sufficient facts to put Ericsson on notice of what it must defend.

In addition, Ericsson argues that TCL’s indirect infringement claims must be dismissed because TCL fails to allege pre-suit knowledge of infringement. (MTD 21.) TCL alleges that Ericsson had such knowledge of the disputed patents “at least as of the filing of this Complaint.” (SAC ¶¶ 169, 179.) As noted by TCL (Opp’n 19), there is a split in authority regarding whether a patentee must plead pre-suit knowledge for claims of indirect infringement. Compare Proxyconn Inc. v. Microsoft Corp., 2012 U.S. Dist. LEXIS 70614, at *18 (C.D. Cal. May 16, 2012) (“[A] complaint fails to state a claim for indirect patent infringement where the only allegation that purports to establish the knowledge element is the allegation that the complaint itself or previous complaints in the same lawsuit establish the defendant’s knowledge of the patent.”), with MyMedicalRecords, Inc. v. Jardogs, LLC, 2014 U.S. Dist. LEXIS 19142, at *10 (C.D. Cal. Feb. 14, 2014) (“A defendant should not be able to escape liability for postfiling infringement when the complaint manifestly places the defendant on notice that it allegedly infringes the patents-in-suit.”). At this stage, the Court concludes that TCL’s allegations regarding Ericsson’s knowledge of the patents-in-suit are sufficient for TCL’s indirect infringement claims to survive Ericsson’s motion to dismiss. However, the Court does note that TCL’s damages for any such indirect infringement will be limited to infringement occurring after Ericsson obtained knowledge of the patents.

Accordingly, the allegations of a claim for indirect infringement are sufficient to survive this motion to dismiss.

10. Contributory Patent Infringement

Contributory infringement occurs if a party sells or offers to sell a material or apparatus for use in practicing a patented process, and that “material or apparatus” constitutes a material part of the invention, has no substantial non-infringing uses, and is

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	SACV 14-00341 JVS (ANx)	Date	September 30, 2014
Title	<u>TCL Communications Technology Holdings Ltd v. Telefonaktenbologer LM Ericsson, et al.</u>		

known by the party “to be especially made or especially adapted for use in an infringement of such patent. 35 U.S.C. § 271(c); see In re Bill of Lading, 681 F.3d at 1337. Therefore, similar to inducement, Section 271(c) requires a showing that the alleged contributory infringer “knew that the combination for which its components were especially made was both patented and infringing and that defendant’s components have no substantial non-infringing uses.” Lucent Techs., Inc. v. Gateway, Inc., 580 F.3d 1301, 1320 (Fed. Cir. 2009.) Section 271(c) also “requires knowledge of the existence of the patent that is infringed.” Global-Tech, 131 S. Ct. at 2068.

In support of TCL’s claim for contributory infringement, the SAC alleges that “Ericsson’s affirmative acts of selling its [base stations and/or location servers] and causing its [base stations and/or location servers] to be manufactured and sold contribute to the network operators using the base stations in their normal and customary way to infringe the [‘340 and ‘718 patents].” (SAC ¶¶ 174, 184.) The SAC further alleges that “[t]he Ericsson [base stations and/or location servers] are material to the invention, have no substantial non-infringing uses, and are known by Ericsson to be especially made or especially adapted for use in an infringement of the [‘340 and ‘718 patents].” (Id.) These allegations are sufficient to state a claim under Twombly and Iqbal. TCL alleges knowledge of the third party’s activity and Ericsson’s role in providing the allegedly infringing base stations or location servers to these third parties.

Therefore, the Court finds that TCL has alleged a claim for contributory infringement as well as direct and indirect infringement.

11. Willful Patent Infringement

“[T]o establish willful infringement, a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.” In re Seagate Tech., LLC, 497 F.3d 1360, 1371 (Fed. Cir. 2007). This is an objective inquiry that does not implicate the state of mind of the accused infringer. Id. After establishing this threshold element, “the patentee must also demonstrate that this objectively- defined risk (determined by the record

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	SACV 14-00341 JVS (ANx)	Date	September 30, 2014
Title	<u>TCL Communications Technology Holdings Ltd v. Telefonaktenbologer LM Ericsson, et al.</u>		

developed in the infringement proceeding) was either known or so obvious that it should have been known to the accused infringer.” Id.

In support of TCL’s claims for willful infringement, the SAC alleges that Ericsson had actual notice of the ‘340 and ‘718 patents “at least as of the filing of this Complaint,” that Ericsson’s infringement of the patents “has been willful, at least as of the filing of this Complaint,” and that “Ericsson is continuing to act with objective recklessness by proceeding despite an objectively high likelihood that its actions constituted infringement of a valid patent.” (SAC ¶¶ 169, 175, 179, 185.) Ericsson argues that these claims fail because TCL has failed to allege that Ericsson knew of the ‘340 and ‘718 patents prior to suit. (Mot. 21-22.) The Court agrees. The Federal Circuit has held that when a complaint is filed, “a patentee must have a good faith basis for alleging willful infringement . . . [s]o a willfulness claim asserted in the original complaint must necessarily be grounded exclusively in the accused infringer’s pre-filing conduct.” In re Seagate Tech., LLC, 497 F.3d 1360, 1374 (Fed. Cir. 2007); see also Unilin, 2014 U.S. Dist. LEXIS 85955, at *17 (“California federal courts have required plaintiffs to plead presuit knowledge in order to adequately plead willful infringement.”). Therefore, TCL’s claim does not meet the standards of Twombly and Iqbal and any claim seeking relief based on willful infringement is therefore dismissed without prejudice.¹¹

12. Rule 13(a) and the First to File Rule

Ericsson also argues that TCL’s declaratory claims for invalidity and non-infringement of Ericsson’s ‘556 and ‘506 patents should be dismissed pursuant to Rule 13(a) and/or the first to file rule. (MTD 22.)

The first-to-file rule “is a generally recognized doctrine of federal comity which permits a district court to decline jurisdiction over an action when a complaint involving the same parties and issues has already been filed in another district.” Pacesetter Sys., Inc. v. Medtronic, Inc., 678 F.2d 93, 94-95 (9th Cir. 1982). A court may “accept or decline jurisdiction” over a case that was first filed

¹¹ Obviously, if discovery turns up evidence of willfulness, Ericsson would be hard-pressed to oppose an appropriate amendment.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	SACV 14-00341 JVS (ANx)	Date	September 30, 2014
Title	<u>TCL Communications Technology Holdings Ltd v. Telefonaktenbologer LM Ericsson, et al.</u>		

elsewhere in its discretion. Alltrade, Inc., v. Uniweld Products, Inc., 946 F.2d 622, 625, 628 (9th Cir. 1991).

In applying the first-to-file rule, courts look to three factors: (1) chronology of the actions; (2) similarity of the parties; and (3) similarity of the issues. See id. at 625. In determining the chronology, the court should consider the date on which the original, rather than the amended, complaint was filed. Guthy-Renker Fitness, LLC v. Icon Health & Fitness, Inc., 179 F.R.D. 264, 270 (C.D. Cal. 1998). The second and third requirements do not require that the parties and issues be identical; rather, they merely require that they be “substantially similar.” Inherent.com v. Martindale-Hubbell, 420 F. Supp. 2d 1093, 1097 (N.D. Cal. 2006). Since application of the first-to-file rule is discretionary, district courts can, “in the exercise of their discretion, dispense with the first-filed principle for reasons of equity.” Alltrade, 946 F.2d at 628. Thus, even when the three factors are satisfied, the district court has discretion to make exceptions to the rule when the filing of the first suit evidences bad faith, anticipatory suit, or forum shopping. Id.

First, the Court examines the chronology prong. The parties dispute whether the Court must look to the filing of the original complaint or whether the amended complaint relates back to the initial pleading. The instant case was filed first, but the original complaint mentioned no patent infringement. Ericsson filed suit against TCL for patent infringement before TCL amended it’s the original pleading to include claims for declaratory judgment of non-infringement and invalidity. Ericsson argues that TCL’s claims do not relate back, so the Texas Action should be considered the first-filed action relative to those counts of the SAC. (MTD 24.)

The Court will apply the relation back doctrine to determine which action was filed first, rather than simply focusing on the filing date of the original complaint. See Halo Elecs., Inc. v. Bel Fuse Inc., 2008 WL 1991094, at *2 (N.D. Cal. May 5, 2008) (“An action is considered to have been the first filed, even if it was not chronologically first, if the claims relate back to an original complaint that was chronologically filed first.”) (denying relation back where the first complaint alleged completely different patent and product than amendment which had already been asserted in another action, and where the plaintiff was not amending as of right under Rule 15). But see Barnes & Noble, Inc. v.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No.	SACV 14-00341 JVS (ANx)	Date	September 30, 2014
Title	<u>TCL Communications Technology Holdings Ltd v. Telefonaktenbologer LM Ericsson, et al.</u>		

LSI Corp., 823 F. Supp. 2d 980, 987-88 (N.D. Cal. 2011) (explaining that numerous courts hold that the filing of a complaint triggers the first-to-file rule); see also Mattel, Inc. v. Louis Marx & Co., 353 F.2d 421, 424 (2d Cir. 1965) (“The fact that these issues were not all spelled out in the New Jersey action until Marx had amended its complaint [to add a trademark non-infringement action to the patent non-infringement action] is immaterial. Marx amended its complaint as of right as allowed by Rule 15. . . . Thus, the New Jersey suit was the first suit which made possible the presentation of all the issues and which, by amendment of the complaint did raise all the substantial issues between the parties.”). A new claim relates back if “the amendment asserts a claim . . . that arose out of the conduct, transaction, or occurrence set out—or attempted to be set out—in the original pleading.” Fed. R. Civ. P. 15(c)(1)(B).

The Court concludes that the claims asserted in the SAC are sufficiently related to the claims asserted in the original complaint to trigger the relation back doctrine. In the original complaint, TCL asserted a variety of claims against Ericsson based upon its failure to license its patents in compliance with its FRAND obligations. The original complaint included a claim for declaratory judgment of the FRAND licensing issue, which was filed in anticipation of a possible coercive patent infringement lawsuit filed by Ericsson against TCL. The FRAND claims and the infringement claims all generally arise from the parties’ negotiations over Ericsson’s allegedly standard-essential patents and the parties’ dispute over what constitutes a FRAND rate. The Court concludes that the issues raised by the original complaint and the SAC are sufficiently related to trigger the relation back doctrine given that they arise out of the same conduct, transaction, or occurrence set out in the original pleading. As such, the Court concludes that this litigation is the first filed action.

Accordingly, Ericsson has failed to satisfy the demonstrate that the first to file factors are met in this case and the Court declines to exercise its discretion to dismiss the claims for declaration of non-infringement and declaration of invalidity contained in the SAC on that basis. In view of the foregoing, the Court rejects the contention that TCL’s declaratory relief claims should have been asserted as compulsory counterclaims in the Texas Action under Federal Rule of Civil Procedure 13(a).

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES - GENERAL

Case No. SACV 14-00341 JVS (ANx) Date September 30, 2014

Title TCL Communications Technology Holdings Ltd v. Telefonaktenbologet LM
Ericsson, et al.

IV. Conclusion

For the foregoing reasons, Ericsson's motion to certify for interlocutory appeal is **DENIED** and its motion to dismiss the SAC is **GRANTED IN PART** and **DENIED IN PART**.

IT IS SO ORDERED.

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