

**IN THE HIGH COURT OF NEW ZEALAND
AUCKLAND REGISTRY**

CIV 2010-404-000974

BETWEEN PUREDEPTH LIMITED
 Plaintiff

AND NCP TRADING
 Defendant

Hearing: 18, 19 March and 14 April 2010

Counsel: C Elliott and J Nolen for Plaintiff
 K Glover and M Windsor for Defendant
 J Hodder SC and M Sumpter for LG Display Co Limited

Judgment: 16 April 2010

JUDGMENT OF FOGARTY J

Introduction

[1] PureDepth seeks an interim injunction restraining NCP from selling Konka televisions. PureDepth has commenced proceedings contending that NCP is importing and selling Konka television sets with backlighting systems which infringe PureDepth's New Zealand patent No. 541023.

[2] In preparation for these proceedings PureDepth purchased as a sample a Konka 42 inch television and had it disassembled. They expected to find backlighting componentry made by a Chinese (Taiwan) company, CMO, with whom they had endeavoured to negotiate a licensing arrangement. They found rather backlighting componentry branded as LG. LG is a South Korean company.

[3] PureDepth then purchased a Konka 32 inch television which upon examination had backlighting componentry apparently branded as coming from Samsung, another Korean company.

[4] LG has applied to be joined as a party. Samsung may yet apply.

[5] This judgment resolves the application for an interim injunction by PureDepth and the application by LG to be joined. Both applications are opposed.

Joinder issue

[6] The question of joining LG and possibly Samsung was first raised by me when I heard oral argument in support of the interim injunction on 18 and 19 March. I was concerned that any determination, if only to the extent that there was a serious question to be heard, which addressed LG componentry, should only be made after LG had an opportunity to be heard. I was minded to join LG upon my own initiative but after an exchange of memoranda between myself and counsel the question of joinder proceeded in the orthodox way by an application by LG, albeit with the timing of the papers being truncated in order to fit with the exigencies of this hearing.

[7] PureDepth opposed the joinder on a number of grounds, of which the only one I consider to be significant and worthy of examination in this judgment is that:

The plaintiff has no cause of action against the applicant if it is joined as a defendant and would therefore be unable to file an amended statement of claim raising any cause of action against the applicant as a defendant.

[8] Whether or not that is so, Mr Hodder SC argues that the substantial proceedings will determine the validity of, and any infringement of, the New Zealand patent. The Court in that regard can provide a remedy by way of declaration to the advantage or disadvantage of LG. In that respect at the least LG can be a party.

[9] I also raised the prospect of a cause of action drawn to address the criteria in s 68A of the Patents Act 1953 which would argue that LG was one of the producers of a patented product imported and sold in New Zealand infringing that patent.

[10] Mr Hodder also advised, from the bar and by way of affidavits, of an intention on the part of LG, if joined as a defendant, to file a counterclaim for revocation of the patent as enabled by s 70 of the Patents Act.

[11] It needs also to be kept in mind that PureDepth has the benefit of a US patent No. 7,095,180 which it says is identical to the New Zealand patent.

[12] If this contention is true, and if PureDepth is successful in obtaining a finding of infringement of the New Zealand patent by reason of the Konka television sets having LG backlighting display units, then such a judgment may well have considerable commercial ramifications in the US market place, being one of vastly greater size than that of New Zealand.

[13] In elaboration of his argument Mr Elliott submitted that any claim by PureDepth could only succeed if LG admitted that it was party to an agreement with Konka to bring LG display units to the New Zealand market. He argued that the burden on the plaintiff would be to show that LG was akin to being a joint tortfeasor. He relied on *Terrell On The Law Of Patents* 15th ed para 839 and in particular the decisions of the *Koursk* [1924] P.140 and *Molnlycke v Proctor and Gamble (No. 4)* [1992] RPC 21 at 29. I prefer the dictum of Musill LJ in *Unilever v Gillette* [1989] RPC 582 where Musill LJ said at 608 that there need not be:

... any finding that the second party has explicitly met without a plan with the primary offender. Their tacit agreement will be sufficient. Nor, as it seems to me, is there any need for a common design to infringe. It is enough if the parties combine to secure the doing of acts which in the event prove to be infringements.

[14] It is readily apparent from the material before this Court that the Konka television sets are assembled from componentry made by a variety of companies. It is now common place in this globalised world for “*manufacturers*” to build products by assembling outsourced componentry. It seems to me that there may well be a strong argument in this case available to the plaintiff that at least from April 2010

LG is aware that its backlighting componentry is being installed in Konka television sets which are exported to New Zealand.

[15] In my view there are therefore two bases upon which LG's presence before the Court is necessary within the standard of r 4.6(1)(b)(ii). They are that the judgment will, at the very least informally if not formally, contain a declaration as to the infringement or not of LG backlighting of the New Zealand patent, and the validity of the latter. Second, there is a cause of action which can be pleaded, and which would survive strikeout, against LG.

[16] For these reasons LG Display Co Limited is joined as a second defendant. I will address the question of timetable at the end of this judgment.

Interim relief

[17] It is traditional in New Zealand to examine the question of interim relief following the two-stage approach enunciated in *American Cyanamid Co v Ethicon Ltd* [1975] AC 396 of examining whether there is a serious question to be tried and then the balance of convenience. However, as the Court of Appeal pointed out in the decision of *Klissers Farmhouse Bakeries Ltd v Harvest Bakeries* [1985] 2 NZLR 129 at 142, that that approach had been qualified by the House of Lords itself in *NWL Ltd v Woods* [1979] 3 All ER 614, and it was important not to seek the answer to an interlocutory injunction application in the rigid application of a formula. Cooke J for the Court went on:

Whether there is a serious question to be tried and the balance of convenience are two broad questions providing an accepted framework for approaching these applications. As the NWL speeches bring out, the balance of convenience can have a very wide ambit. In any event the two heads are not exhaustive. Marshalling considerations under them is an aid to determining, as regards the grant or refusal of an interim injunction, where overall justice lies. In every case the Judge has finally to stand back and ask himself that question.

(At 142)

Whether there are serious questions to be tried

[18] When this case was first argued on 18 and 19 March I heard oral arguments which were ambitious. Counsel for PureDepth were seeking a finding that they had a very strong case. Counsel for the defendant were seeking a finding that the backlighting displays were in accordance with prior art, as discussed in the New Zealand patent and as disclosed in a Japanese patent No. 6-301034.

[19] Prior to the hearing on 14 April, a large number of affidavits by experts were filed on the part of LG and in reply on the part of PureDepth. LG mounted a number of arguments that their backlighting was in accordance with prior art both as discussed in the New Zealand patent and independently and variously argued that the New Zealand patent was invalid by reason of not being novel or that in any event that the LG backlighting display fell outside the scope of the claims in the New Zealand patent. I am not a specialist Judge. For that reason, and because of the mass of material that has been filed by the parties, it is simply not possible for me to form any reliable judgment as to the strengths of the competing arguments.

[20] I am, however, quite satisfied as to the bona fides of PureDepth in bringing the claim and of NCP and LG in defending the same. Nor am I prepared to draw any adverse inference against Samsung for not yet having applied to be joined. I am left with the clear impression that the Court is presented with a significant patent dispute, the outcome of which is quite uncertain at this stage.

[21] Other facts are more certain:

1. The plaintiff is the New Zealand subsidiary of a parent company registered in the United States. The parent company, however, has New Zealand roots and significant investors from New Zealand. It has developed a suite of intellectual property and holds 84 patents. It has a number of significant licensing agreements overseas. This litigation is a significant diversion of its resources.

2. NCP is a company of much smaller scale than the plaintiff. It is also a start-up company. Its current viability depends on the fact that it is being extended credit by its supplier, Konka. Konka is allowing it time to pay for its purchases. It appears on paper to be enjoying only a small margin, were it paying for the television sets it imports but in reality has more disposal cashflow because of the credit being extended by Konka, no doubt to enable it to get the brand established in New Zealand.
3. Konka is a significant sized Chinese manufacturer.
4. LGC is a very large and internationally ubiquitous manufacturer of electronic goods.
5. If the plaintiff seeks in a cause of action against LG there will be no doubt that LG will meet any damages award.
6. If the plaintiff does not succeed against LG but does succeed against NCP, there is a real risk that a judgment would be nugatory.
7. The technology is changing rapidly and there is a prospect that technological advance will render the commercial life of this patent to be short in any event.

[22] This litigation has ramifications to the parties far greater than the recovery of royalties from the relatively few numbers of Konka television sets being sold in New Zealand while the brand gets established. To grant the relief sought by the plaintiff would be to effectively stop in its tracks, if not end, the new start-up business of NCP. To not grant any relief threatens to deprive the plaintiff of relief in New Zealand should judgment be granted in favour of the plaintiff but only against NCP. That would be unjust.

[23] Overall I am of the view that the appropriate step to be taken in this case is to require NCP to do one of two things: either set aside into an escrow account a

reasonable sum to cover the royalties part of any successful recovery by the plaintiff; or, to provide a letter of credit for the same (likely underwritten by Konka). Second, although I think it is barely more than a formality, NCP would provide to an independent third party, records of sales of Konka televisions, of sufficient provision to enable verification at a later date as to the backlighting componentry in fact installed in the units that were sold.

[24] The provision for royalties and the record would be in respect of Konka television sets which fall into the following category, as provided to me by Mr Glover for NCP:

Konka television which contain a backlighting system where there is a direct connection between the backend circuit board and the circuit board which holds the componentry.

(I may not have recorded this note accurately and there is leave to apply to correct this formulation.)

[25] There was a contest between two experts as to the royalty which PureDepth would hope to obtain from NCP on the assumption that it was selling television sets with backlighting componentry the subject of the statutory monopoly of the New Zealand patent. By a process of affidavits in reply the dispute had significantly narrowed by the time it came on for hearing on 14 April. The difference between the two experts was as to the proportion to total cost of the backlighting componentry per unit. The conflict was by independent experts. Mr Hargreaves argued that the backlighting componentry was of the order of 10% of the total cost of the unit. Mr MacFarlane argued that it was in the order of 26-30%. Mr Hargreaves did not have an opportunity to reply as that position of Mr MacFarlane was itself a compromise from Mr MacFarlane's opening position after having studied Mr Hargreaves' brief. Mr Glover from the bar adopted some concerns that I have as to the ambiguity of some of the data produced by Mr Hargreaves in his affidavit in reply. He argued that there was an available interpretation, originally suggested by the Court, that Mr Hargreaves was using the total cost of the flat screen rather than the total cost of the complete television unit including other electronic componentry and the cabinet. Upon a recalculation on that basis Mr Glover argued the appropriate multiplier was 17% rather than 26-30% range.

[26] Any interim provision for royalties must of necessity be done on a broadbrush basis. It is not intended to be, nor can it be, a simple equivalent of what could be achieved by commercial negotiation. Its function is simply to provide for a measure of protection in the event that the plaintiff is successful in its proceedings against NCP, but NCP has no significant assets. To that end I am going to select a compromise figure of 20% which when adjusting the calculations of Mr MacFarlane, who in turn was adjusting the calculations of Mr Hargreaves, results in the following royalty equivalents per unit per class of Konka television. What I have done is amended the table in paragraph 9 of the seventh affidavit of Mr MacFarlane, which is a table of values assuming the backlight value at 30%. I have reduced those sums by one-third to assume a backlight value of 20%. Accordingly, the table reads:

- (a) \$2.84 for Model KL32IS65C
- (b) \$2.95 for Model KL32CS62Q
- (c) \$4.90 for Model KL42CS62Q

[27] Leave is reserved to apply for adjustment of those figures if the assumption that the figures equate to assuming a backlight value of 20% is not carried through into the final numbers.

[28] I leave it to the parties to agree the detail of a periodic reporting system and/or the setting up on an escrow account or the alternative letter of credit. Leave is reserve to the parties to apply to resolve these issues.

[29] I do hope, and expect, however, the parties will be able to resolve these mechanical details. All parties have been partially successful in these proceedings. Costs will lie where they fall.

Future conduct of these proceedings

[30] I have invited the parties to consider co-operating by agreeing to this case being placed on a fast track as provided by the Practice Note of the Chief High Court

Judge in 2009. To that end there will be a telephone conference with me at 9.30 am on Tuesday, 18 May 2010. In the event that the parties do agree I would place this case on fast track and anticipate that its future conduct would be actively managed by one of the High Court Judges based in Auckland.

Solicitors:

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