District Court Denies FRAND Breach of Contract and Sherman Act Summary Judgment Motions by ASUS and InterDigital

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In a decision published in redacted form, Judge Beth Labson Freeman of the Northern District of California denied ASUSTek Computer Inc.'s and ASUS Computer International's (collectively, ASUS's) motion for summary judgment that InterDigital, Inc.'s (InterDigital's) standard essential patent (SEP) licensing practices breached its FRAND obligations. The court also granted-in-part and denied-in-part InterDigital's motion for summary judgment, rejecting a request to dismiss ASUS's Sherman Antitrust Act claim but granting summary judgment as to issues relating to judicial and promissory estoppel and as to a California competition law claim. *ASUS Computer Int'l v. InterDigital, Inc.*, Case No. 5:15-cv-01716-BLF, ECF No. 367 (N.D. Cal. Jan. 29, 2018).

In 2008, ASUS and InterDigital entered into a patent license agreement (PLA). Under the PLA, InterDigital licensed certain SEPs to ASUS, including SEPs directed to the 2G and 3G cellular standards. Subsequently, around 2012, the parties began negotiations to extend the PLA to cover SEPs directed to the 4G cellular standard. These negotiations continued for several years, but no agreement was reached.

ASUS filed the present suit in April 2015, alleging violations of the Sherman Act, breach of contract related to InterDigital's SEP licensing practices, and various violations of state competition law. However, the case was stayed in August 2015, while some of ASUS's claims were sent to arbitration. The arbitration tribunal issued its decision in June 2016, finding many of the claims not arbitrable and returning the case to the district court for resolution.

In the district court case, InterDigital sought summary judgment on six issues, and was granted with respect to four:

- ASUS was judicially estopped from arguing that the PLA was not FRAND-compliant when first executed;
- ASUS could not invalidate the parties' PLA on a theory that the agreement, even if FRAND when signed, became non-FRAND based on subsequent, more favorable licenses granted by InterDigital;
- ASUS's claim for promissory estoppel did not apply to the French law-governed ETSI FRAND commitments; and
- ASUS's claim under California's unfair competition law was barred based on extraterritoriality.

Judge Freeman denied InterDigital's motion on the two remaining issues—namely, as to ASUS's Sherman Act claim and as to InterDigital's argument that ASUS was issue precluded from raising a claim under the Delaware Consumer Fraud Act.

ASUS moved for summary judgment on only a single issue: that InterDigital breached its commitment to license its SEPs on FRAND terms. In rejecting this motion, the court found disputed issues of material fact, and commented that the Central District of California's March 2018 *TCL v. Ericsson* decision (which ASUS relied on heavily in its motion) was not settled law and would not compel ASUS's conclusion that InterDigital breached its FRAND commitment.

The court's summary judgment ruling comes as the case is progressing toward a jury trial, presently scheduled for May 2019. Several of the issues addressed by the court's ruling are fact-specific to the case, but the rulings relating to breach of contract, most favorable licensees, and the Sherman Act are of particular interest for SEP licensing and illustrate how the legal landscape continues to evolve.

ASUS' "Most Favorable Licensee" Theory Rejected

The court held that ASUS was barred from arguing that the 2008 PLA was non-FRAND based on arguments ASUS had made during arbitration. This portion of the decision was substantially redacted, so the precise reasoning and facts are unclear. But the ruling highlights how arguments made during arbitration can have a substantial impact on related district court litigation.

Notably, ASUS had also argued that even if the PLA was FRAND when executed in 2008, it became non-FRAND when InterDigital subsequently licensed its SEPs to others at more favorable rates. ASUS contended that in doing so, InterDigital had discriminated among licensees. This argument seems to center on a theory that the FRAND obligation contains an inherent "most favorable licensee" (MFN) obligation, requiring reevaluation throughout the term of an agreement. InterDigital argued in response that the ETSI FRAND commitment does not contain an ongoing obligation to reevaluate and renegotiate a contract if it becomes non-FRAND. ASUS responded that InterDigital's negotiations with ASUS demonstrated an acknowledgement of such an obligation.

Judge Freeman rejected ASUS's arguments, concluding that the ETSI policy applicable to the PLA's SEPs, as well as the text of the PLA itself, lacked an MFN obligation. The court observed, in particular, that earlier versions of the ETSI policy expressly included an MFN provision, but that such an obligation was absent from the operative 1994 version. Judge Freeman further noted that the parties' experts, as well as the court in *TCL v. Ericsson*, reached the same conclusion. And as for InterDigital's negotiations with ASUS, the court explained that these communications were simply a recognition that FRAND obligations apply to the 4G renegotiation of the PLA, rather than acquiescence to an ongoing obligation to reevaluate the original PLA.

InterDigital's Motion for Summary Judgment on Sherman Act Claim Denied

The court held that genuine issues of material fact precluded summary judgment of ASUS's claim that InterDigital engaged in unlawful monopolization in violation of Section 2 of the Sherman Act. InterDigital put forward three arguments in moving for summary judgment: (1) that ASUS failed to identify a relevant market, because ASUS only made general reference to lists of patents InterDigital disclosed to ETSI, without actually identifying specific patents to which monopoly power could be attributed; (2) even assuming that InterDigital possessed monopoly power in a relevant market, that ASUS put forward no evidence that InterDigital engaged in any conduct that harmed the competitive process or was anticompetitive in nature; and (3) InterDigital disputed ASUS's claims of an "antitrust injury" (*i.e.*, an "injury to competition in the market as a whole"), rather than injury to a competitor standing alone. The court rejected each of these arguments in turn.

On market definition, Judge Freeman explained that it was not necessary to define a relevant market by listing individual patents. Citing a Northern District of California opinion, Judge Freeman noted that, in the context of a standard setting organization (SSO), courts have allowed a relevant market to be defined in reference to the technologies that previously competed to perform functions covered by the purported essential patents, and that "technology markets" associated with the technology standard for which a defendant's patents are declared "essential" may serve as "relevant markets." Therefore, it was sufficient for ASUS to refer to the effect of InterDigital's actions on "Cellular Technology Markets," which ASUS's expert defined to include "technologies covered by patents incorporated into the 2G, 3G, and 4G cellular standards by SSOs, together with all other technologies that SSOs could have used in alternative cellular standards to perform the same or reasonably interchangeable functionalities."

In evaluating the anticompetitive conduct at issue, Judge Freeman agreed with ASUS's argument that InterDigital's purported misrepresentation of its intent to abide by FRAND commitments presented a triable issue of fact as to whether InterDigital engaged in anticompetitive conduct. Citing the Third Circuit's 2007 decision in *Broadcom v. Qualcomm*, the court explained that, in the context of a standard setting environment, "a patent holder's intentionally false promise to license essential proprietary technology on FRAND terms," coupled with a "[SSO's] reliance on that promise" and "subsequent breach of that promise" by the patent holder, is "actionable" under the Sherman Act. While acknowledging it was a "close call," Judge Freeman found that the evidence ASUS presented regarding InterDigital's declarations to ETSI could lead a trier of fact to conclude that InterDigital never intended to abide by its FRAND obligations.

Finally, the court held that a reasonable trier of fact could find that InterDigital's conduct caused injury-in-fact to ASUS and created antitrust injury. Because a factual dispute existed as to whether InterDigital's offer was FRAND, the court explained that InterDigital's conduct could have caused harm to ASUS by forcing it to choose between licensing InterDigital's 4G SEPs on non-FRAND terms or effectively being cut off from the technology. The court noted that "similar logic" applied with respect to antitrust injury, since the market as a whole could have been precluded from practicing alternative technologies due to the anticompetitive conduct being alleged (*i.e.*, misrepresentation by InterDigital of its intent to abide by FRAND obligations).

ASUS's Motion for Summary Judgment on FRAND Breach of Contract Claim Denied

As mentioned, ASUS had moved for summary judgment on the issue of whether InterDigital breached its FRAND obligation. One of ASUS's central contentions in its motion was that InterDigital's ongoing negotiations to expand the PLA to cover its 4G SEPs violated its ETSI FRAND obligations by engaging in discrimination among licensees. This portion of the decision contains many redactions, apparently regarding licensing terms and allegedly similarly situated licensees, but ASUS generally appears to argue that it is not being offered licensing terms similar to those offered to similarly situated companies. InterDigital emphasized in response that the ETSI FRAND inquiry is highly factual and subject to disputes as to similarly situated licensees and license comparison methodology, among other issues.

Judge Freeman denied ASUS's motion based on the existence of several genuine issues of material fact, and explained her view that ASUS read too broadly the non-binding and unsettled reasoning of *TCL v. Ericsson*. As one example of disputed facts, she identified that many factors contribute to the similarly situated licensee inquiry, and that the parties have presented conflicting evidence as to the particular companies that are similarly situated to ASUS. She further cited testimony by InterDigital President and CEO, as well as assertions by ASUS, as factually disputed by the parties, the precise details of which were redacted.

As for *TCL*, Judge Freeman explained that ASUS's reading of the decision overlooks its guidance that "[s]ales volume *alone* does not justify giving lower rates to otherwise similar firms." *TCL*, 2017 WL 6611635, at *33 (emphasis added by Judge Freeman). She stressed that *TCL* does not hold that volume discounts are *necessarily* discriminatory—only that this *alone* is not a legitimate basis for such discounts. She declined to hold that partial reliance on sales volume for discounts were discriminatory, and she commented that *TCL*'s reasoning is, in any event, yet "non-binding" and "unsettled," based on its pending appeal to the Federal Circuit.

Tags: ASUS, Breach of Contract, ETSI, FRAND, Guest Contributor, innovation, intellectual property, InterDigital, Licensing, Northern District of California, patent, SEPs, sherman act, standard essential patents, TCL v. Ericsson, technology

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