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United States District Court  
Northern District of California

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA  
SAN JOSE DIVISION

MICROSOFT CORPORATION, et al.,  
Plaintiffs,  
v.  
HON HAI PRECISION INDUSTRY CO.,  
LTD.,  
Defendant.

Case No. 19-CV-01279-LHK

**ORDER GRANTING MOTION TO  
DISMISS COUNTERCLAIMS WITH  
PREJUDICE AND GRANTING IN  
PART AND DENYING IN PART  
MOTION TO STRIKE AFFIRMATIVE  
DEFENSES WITH PREJUDICE**

Re: Dkt. No. 212

Plaintiffs Microsoft Corporation and Microsoft Licensing GP (“Microsoft”) filed this action for breach of contract against Defendant Hon Hai Precision Industry Co., Ltd. (“Hon Hai”). ECF No. 1 (“Compl.”). After the Court denied Hon Hai’s motion to dismiss or strike Microsoft’s complaint, ECF No. 46, Hon Hai filed an answer and counterclaims, ECF No. 51. The Court granted in part and denied in part Microsoft’s motion to dismiss Hon Hai’s counterclaims; granted in part and denied in part Microsoft’s motion to strike Hon Hai’s affirmative defenses; and granted Hon Hai’s motion for leave to amend. ECF No. 190. Microsoft now moves to dismiss and strike

1 Hon Hai’s amended counterclaims and affirmative defenses. ECF No. 212.<sup>1</sup> Having considered  
2 the parties’ briefing, the relevant law, and the record in this case, the Court GRANTS Microsoft’s  
3 motion to dismiss Hon Hai’s counterclaims with prejudice and GRANTS in part and DENIES in  
4 part Microsoft’s motion to strike Hon Hai’s affirmative defenses.

## 5 **I. BACKGROUND**

### 6 **A. Factual Background**

7 Microsoft is a Washington corporation. Amended Answer ¶ 10; Compl. ¶ 10. Hon Hai is  
8 a Taiwanese corporation, and Hon Hai and its subsidiaries manufacture certain consumer  
9 electronic devices for companies to sell under their own brand names. Amended Answer ¶¶ 12,  
10 15. These consumer electronic devices include devices whose patents belong to Microsoft. *Id.*  
11 ¶¶ 15, 93, 100.

12 On or before April 1, 2013, Microsoft and Hon Hai entered into a “Confidential Patent  
13 License Agreement” (“PLA”), in which Microsoft granted Hon Hai a worldwide license to  
14 Microsoft’s portfolio of patents for certain “Covered Products” in exchange for specified royalties.  
15 *Id.* ¶¶ 5, 6, 16. Microsoft and Hon Hai entered into the PLA following three years of negotiations  
16 where “Microsoft and Hon Hai were represented by counsel in connection with the contract  
17 negotiations.” *Id.* ¶¶ 16, 85. Hon Hai alleges that it “obtained assurances from Microsoft that it  
18 would work to create a level playing field in the Android market by (1) signing Hon Hai’s  
19 competitors and/or brand name customers up to Android licenses and (2) granting Hon Hai  
20 substantially the same royalty rates that Microsoft was charging prior licensees.” *Id.* ¶ 85. Hon  
21 Hai explained that such assurances were important because “unlike Microsoft, Hon Hai and its  
22 subsidiaries lacked the leverage to get most of their brand name customers—especially in China—  
23 to bear the cost of the royalties demanded by Microsoft, particularly if Hon Hai’s competitors  
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25 <sup>1</sup> Microsoft’s motion to dismiss and strike contains a notice of motion that is separately paginated  
26 from the memorandum of points and authorities in support of the motion. See ECF No. 212 at i.  
27 Civil Local Rule 7-2(b) provides that the notice of motion and points and authorities should be  
28 contained in one document with a combined limit of 25 pages. See Civ. Loc. R. 7-2(b).

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1 were not subject to comparable royalty obligations.” Id. ¶ 100.

2 Hon Hai does not allege that any specific contractual provision in the PLA explicitly  
3 requires Microsoft to either grant Hon Hai substantially the same royalty rates that Microsoft was  
4 charging prior licensees or to sign up Hon Hai’s competitors or brand name customers to Android  
5 licenses. Id. ¶¶ 101–103. Indeed, Hon Hai concedes that Hon Hai included a most-favored-nation  
6 provision in a draft of the PLA, but Microsoft rejected it. Id. ¶¶ 56, 64, 65; ECF No. 53-3  
7 (“Traino Decl. Ex A”) at 9 § 4.2.2.<sup>2</sup> The rejected most-favored-nation provision would have read  
8 as follows:

9 MICROSOFT and its Affiliates shall treat Hon Hai as its most favored EMS  
10 Company licensee. MICROSOFT represents, warrants and covenants to Hon Hai  
11 that the net price for each category of Covered Product **shall be as low or lower**, after  
12 taking into account all credits, discounts and other offsets, **than the net price**  
13 **MICROSOFT offers or provides at any time during the Term to any EMS**  
14 **Company for licensing of substantially similar types of covered products.** If  
15 MICROSOFT offers or provides to any other EMS Company licensing net prices or  
16 terms that cause the representation, warranty or covenant in this section to be untrue,  
17 then MICROSOFT shall notify Hon Hai of, and offer to Hon Hai, the same aggregate  
18 better net pricing and terms. MICROSOFT shall, upon Hon Hai’s acceptance of the  
19 better net pricing and terms, promptly credit or reimburse Hon Hai, at Hon Hai’s  
20 option, any amounts Hon Hai paid in excess of the better net pricing and terms after  
21 they were offered or provided to any other EMS Company. An officer of  
22 MICROSOFT shall annually certify to Hon Hai in writing that MICROSOFT is in  
23 compliance with this section.

24 \_\_\_\_\_  
25 <sup>2</sup> Previously, the Court granted Microsoft’s request for judicial notice to consider a draft of the  
26 PLA dated May 14, 2012. ECF No. 148 at 3 n.2. That May 14, 2012 draft was referenced in Hon  
27 Hai’s prior Answer, ECF No. 51 ¶¶ 56–57, and is again referenced in Hon Hai’s Amended Answer  
28 at paragraphs 55–57. Previously, Hon Hai did not oppose Microsoft’s request for judicial notice  
and even relied on Microsoft’s exhibit containing the May 14, 2012 draft in opposing Microsoft’s  
motion to dismiss. Now, Hon Hai argues that the May 14, 2012 draft of the PLA cannot be  
judicially noticed because doing so would “introduce[] factual assertions outside the pleadings in  
order to manufacture [factual] disputes.” ECF No. 220 at 7. Hon Hai’s argument fails, however,  
because—as Hon Hai previously recognized—its pleadings incorporate by reference the May 14,  
2012 draft of the PLA. Accordingly, the Court will consider the May 14, 2012 draft of the PLA.  
United States v. Ritchie, 342 F.3d 903, 908 (9th Cir. 2003) (“A court may, however, consider  
certain materials—documents attached to the complaint, documents incorporated by reference in  
the complaint, or matters of judicial notice—without converting the motion to dismiss into a  
motion for summary judgment.”); Davis v. HSBC Bank Nevada, N.A., 691 F.3d 1152, 1160 (9th  
Cir. 2012) (“Under the ‘incorporation by reference’ doctrine in this Circuit, a court may look  
beyond the pleadings without converting the Rule 12(b)(6) motion into one for summary  
judgment.” (quotation marks omitted)).

1 Traino Decl. Ex A at 9 (deleted Section 4.2.2.) Such a provision would have guaranteed that Hon  
2 Hai would get the lowest net price offered or provided by Microsoft to another company during  
3 the term of the license. Id.

4 Instead of a most-favored-nation provision, Hon Hai alleges that Microsoft agreed to grant  
5 Hon Hai substantially the same royalty rates that Microsoft was charging prior licensees or to sign  
6 up Hon Hai's competitors or brand name customers to Android licenses based on two alleged oral  
7 misrepresentations made during PLA negotiations. First, on March 26, 2012, Hon Hai alleges that  
8 one of Microsoft's representatives allegedly told Hon Hai's "outside counsel" from "Haynes &  
9 Boone, LLP" that "Microsoft's Android royalty rates were well set with other ODMs, that  
10 Microsoft did not have flexibility on those rates, and that Microsoft would provide its current  
11 pricing schedule to Hon Hai in its next draft of the PLA." Amended Answer ¶ 54. Second, Hon  
12 Hai claims that on August 9, 2012, one of Microsoft's representatives "represented to Hon Hai, in  
13 response to Hon Hai's argument that Microsoft's proposed Android royalty rates were too high,  
14 that Microsoft's prior licensees had set the pricing and that Microsoft would not play favorites."  
15 Id. ¶ 58.

16 Hon Hai alleges that "it did not know Microsoft's representations were false and relied on  
17 them in deciding not to make further attempts to negotiate the royalty rates downward and to enter  
18 into the PLA containing those rates." Id. ¶¶ 119, 125. "[B]ased on conversations with Hon Hai  
19 before and after the PLA was signed, the PLA's purposes could be achieved and Hon Hai could  
20 enjoy the benefits of the [PLA] only if Microsoft continued its efforts, in good faith, to sign up  
21 new Android licensees" and to make new licensees pay the same royalty rates that Hon Hai paid.  
22 Id. ¶ 44. "Nevertheless, once the PLA was signed, Microsoft sat on its hands and reneged on its  
23 assurances." Id. ¶ 85. As a result, Hon Hai allegedly "suffered injury resulting in monetary  
24 damage," including "claims by Microsoft for payment of excessive royalties, legal fees associated  
25 with defending against Microsoft's royalty claims, and reputational harm." Id. ¶ 67.

## 26 **B. Procedural History**

United States District Court  
Northern District of California

1 The instant case possesses a long unfortunate history of Hon Hai’s failure to submit royalty  
2 reports and pay royalties to Microsoft; Hon Hai’s refusal to provide information to, or to cooperate  
3 with, the independent auditor, Deloitte, even after Hon Hai entered into a non-disclosure  
4 agreement with Deloitte for the independent audit; and Hon Hai’s extensive discovery  
5 gamesmanship in the instant litigation. For a fuller recounting of the instant case’s procedural  
6 history, the Court directs readers to its order granting in part and denying in part Microsoft’s  
7 motion for summary judgment and denying Hon Hai’s motion for partial summary judgment. See  
8 ECF No. 260 at 5–12. Here, the Court recounts the instant case’s procedural history only as  
9 necessary to decide the instant motion.

10 On March 8, 2019, Microsoft filed the instant lawsuit against Hon Hai, which asserts a  
11 single cause of action for breach of contract. ECF No. 1. Microsoft sought (1) specific  
12 performance of the provisions requiring Hon Hai to submit complete and accurate Royalty  
13 Reports; (2) specific performance of the provision requiring Hon Hai to cooperate with an audit;  
14 (3) “Court-supervised discovery of Hon Hai’s books and records”; (4) “damages in the form of  
15 royalty payments and interest”; and (5) costs, including attorneys’ fees. *Id.*

16 On May 3, 2019, Hon Hai moved to dismiss or, in the alternative, to strike several portions  
17 of the complaint. ECF No. 26. The Court denied Hon Hai’s motion on August 16, 2019. ECF  
18 No. 46. In response, on August 30, 2019, Hon Hai filed an answer to Microsoft’s complaint. ECF  
19 No. 51 (“Answer”).

20 Hon Hai’s Answer included 11 affirmative defenses and four counterclaims. Hon Hai pled  
21 the following affirmative defenses: (1) failure to state a claim; (2) “Plaintiff’s conduct;” (3) failure  
22 to mitigate; (4) breach of the implied covenant of good faith and fair dealing; (5) failure of  
23 consideration; (6) frustration of performance; (7) fraudulent inducement; (8) mistake of fact; (9)  
24 statute of limitations; (10) mootness; and (11) “setoff.” *Id.* at 5–13. Hon Hai’s also pled four  
25 counterclaims for (1) breach of the implied covenant of good faith and fair dealing; (2) fraudulent  
26 inducement; (3) negligent misrepresentation; and (4) rescission. *Id.* at 18–22.

1 Microsoft filed a motion to dismiss Hon Hai’s counterclaims and to strike Hon Hai’s  
2 affirmative defenses. ECF No. 52. Specifically, Microsoft sought to dismiss Hon Hai’s four  
3 counterclaims and to strike Hon Hai’s fourth, sixth, seventh, and eighth affirmative defenses. On  
4 October 4, 2019, Hon Hai filed its opposition, and on October 14, 2019, Microsoft filed its reply.

5 On October 31, 2019, the last day for the parties to amend the pleadings, Hon Hai filed a  
6 motion for leave to file a first amended answer and counterclaims. ECF No. 72. Hon Hai sought  
7 to add two new affirmative defenses of “unenforceability” and “patent misuse” and to add  
8 additional allegations to its third, fifth, and eighth affirmative defenses. *Id.* at 3. Microsoft  
9 opposed Hon Hai’s motion for leave to file a first amended answer and counterclaims on  
10 November 14, 2019, and on November 21, 2019, Hon Hai filed a reply.

11 On February 20, 2020, the Court granted Microsoft’s motion to dismiss Hon Hai’s  
12 counterclaims with prejudice in part and with leave to amend in part; granted in part and denied in  
13 part Microsoft’s motion to strike Hon Hai’s affirmative defenses; and granted Hon Hai’s motion  
14 for leave to amend the answer. ECF No. 148.

15 As to Hon Hai’s counterclaims, the Court dismissed Hon Hai’s counterclaim for rescission  
16 with prejudice because “rescission is not a cause of action; it is a remedy.” *Id.* at 11.

17 The Court next addressed Hon Hai’s counterclaim for breach of the implied covenant of  
18 good faith and fair dealing, and the Court dismissed that counterclaim with leave to amend. The  
19 Court explained that under California law, “the implied covenant of good faith and fair dealing  
20 ‘cannot substantively alter [the] terms [of the contract]’ or ‘impose substantive duties or limits on  
21 the contracting parties beyond those incorporated in the specific terms of their agreement.’” *Id.* at  
22 13 (quoting *Guz v. Bechtel Nat. Inc.*, 24 Cal. 4th 317, 327 (2000) (emphasis in original)). Most  
23 importantly, “[t]he covenant of good faith and fair dealing protects against one party interfering  
24 with another party’s contract rights; it does not obligate a party to help another party perform that  
25 other’s contract obligations.” *Id.* at 14 (quoting *Openshaw v. FedEx Ground Package Sys., Inc.*,  
26 576 Fed. App’x 685, 688 (9th Cir. 2014)). Hon Hai argued “that an implied covenant of good

1 faith and fair dealing required Microsoft to license Hon Hai’s competitors in order to help Hon Hai  
 2 perform on its contractually obligated royalty payments to Microsoft,” but the PLA “nowhere  
 3 required Microsoft to license any of Hon Hai’s competitors. In other words, Hon Hai’s  
 4 counterclaim for breach of the implied covenant of good faith and fair dealing would effectively  
 5 write in a requirement that Microsoft help Hon Hai perform its contract obligations.” Id. at 14.  
 6 The Court therefore declined to permit Hon Hai’s counterclaim to proceed because “[d]oing so  
 7 would contravene the California Supreme Court’s express admonition that the implied covenant of  
 8 good faith and fair dealing ‘cannot substantively alter [the] terms [of the contract]’ or ‘impose  
 9 substantive duties or limits on the contracting parties beyond those incorporated in the specific  
 10 terms of their agreement.’” Id. at 14 (quoting *Guz*, 24 Cal. 4th at 327).

11 The Court then analyzed Hon Hai’s counterclaims for fraudulent inducement and negligent  
 12 misrepresentation. The Court addressed both counterclaims together because negligent  
 13 misrepresentation and fraudulent inducement share the same elements under California law,  
 14 except that negligent misrepresentation “does not require knowledge of falsity but instead requires  
 15 a misrepresentation of fact by a person who has no reasonable grounds for believing it to be true.”  
 16 Id. at 16 (quotation marks omitted).

17 The Court dismissed both counterclaims with leave to amend because Hon Hai did not  
 18 plead justifiable reliance on the two alleged oral misrepresentations made during contractual  
 19 negotiations. Specifically, Hon Hai alleged that it justifiably relied on Microsoft’s statements that  
 20 royalty rates were non-negotiable, but the Court concluded otherwise for four overlapping reasons.

21 First, Hon Hai “acknowledge[d] that royalty rates for Smartphones dropped by a small  
 22 amount from the May 2012 draft to the final PLA.” Id. at 18 (quotation marks omitted). Hon Hai  
 23 attempted to argue that the small rate change was a “token gesture,” but the Answer “contain[ed]  
 24 no such allegations” explaining how the lower, negotiated rates were a “token gesture.” Id.  
 25 Because Hon Hai itself acknowledged that the final version of the PLA contained lower royalty  
 26 rates for some products, Hon Hai could not have justifiably relied on Microsoft’s statements that

1 royalty rates were non-negotiable. *Id.* at 18–19.

2 Second, Hon Hai’s justifiable reliance argument failed because Hon Hai conceded that it  
3 asked for a most-favored-nation provision in previous drafts of the PLA but that Microsoft  
4 rejected Hon Hai’s requests. “Such a provision would have guaranteed that Hon Hai would get  
5 the lowest net price offered or provided by Microsoft to another company during the entire term of  
6 the license.” *Id.* at 19. However, that “Microsoft expressly denied Hon Hai’s request to include a  
7 most-favored-nation provision in[] the PLA . . . [was] another factor that weigh[ed] against  
8 concluding that Hon Hai[] justifiably relied on Microsoft’s alleged misrepresentations involving  
9 non-differential royalty fees.” *Id.* at 19–20.

10 Third, the PLA contained an integration clause, which weighed against Hon Hai’s  
11 justifiable reliance argument. The Court acknowledged that under California law, “a general  
12 integration clause does not make reliance on oral statements automatically unreasonable.” *Id.* at  
13 20 (citing *Ron Greenspan Volkswagen, Inc. v. Ford Motor Land Dev. Corp.*, 32 Cal. App. 4th 985,  
14 987 (1995)). However, though “the inclusion of an integration clause in the PLA is not  
15 determinative or conclusive in any regard,” “certainly courts can take such a clause’s existence  
16 into account in determining whether an allegation of justifiable reliance is adequately pled.” *Id.*  
17 (quotation marks, citations, and internal alterations omitted). As a result, “[t]hough not  
18 determinative, the presence of [an] integration clause [in the PLA] [wa]s certainly relevant to the  
19 Court’s justifiable reliance analysis and militate[d] in favor of finding that Hon Hai did not  
20 justifiably rely on Microsoft’s alleged misrepresentations.” *Id.* at 21.

21 Finally, the Court held that “Hon Hai’s reliance on Microsoft’s alleged misrepresentations  
22 was unjustified because courts have consistently held that “[w]here a party is represented by  
23 counsel, or where the alleged misrepresentation was made by an adversary during the course of  
24 negotiations, . . . reliance is unjustifiable.” *Id.* (quoting *Borg v. Principal Life Ins. Co.*, 2008 WL  
25 11453724 (N.D. Cal. July 24, 2008)); see *id.* at 21, 22–23 (collecting cases). Because Microsoft’s  
26 alleged misrepresentations took place during contractual negotiations for the PLA involving



1 sophisticated corporate counsel, “these facts also weigh[ed] in favor of holding that Hon Hai was  
2 not justified in relying on Microsoft’s alleged misrepresentations.” Id. at 21–23.

3 The Court then turned to Hon Hai’s affirmative defenses. Microsoft moved to strike four  
4 of Hon Hai’s affirmative defenses for breach of the implied covenant of good faith and fair dealing  
5 (fourth affirmative defense), frustration of performance (sixth affirmative defense), fraudulent  
6 inducement (seventh affirmative defense), and mistake of fact (eighth affirmative defense). Id. at  
7 24.

8 The Court granted Microsoft’s motion to strike as to the fourth affirmative defense of  
9 breach of the implied covenant of good faith and fair dealing and the seventh affirmative defense  
10 of fraudulent inducement because “[t]hese two affirmative defenses [we]re duplicative of Hon  
11 Hai’s counterclaims for breach of the implied covenant of good faith and fair dealing and  
12 fraudulent inducement and [we]re insufficiently alleged for the reasons discussed.” Id. at 25. The  
13 Court granted Hon Hai leave to amend.

14 The Court, however, denied Microsoft’s motion to strike Hon Hai’s sixth affirmative  
15 defense of frustration of performance and the eighth affirmative defense of mistake of fact.  
16 Microsoft argued that these two affirmative defenses should be dismissed for the same reasons  
17 that the Court dismissed Hon Hai’s counterclaims. However, because Microsoft did not explain  
18 “whether these two affirmative defenses ha[d] the same elements or how they suffer[ed] from the  
19 same legal deficiencies as Hon Hai’s counterclaims,” the Court declined at that time to grant  
20 Microsoft’s motion to strike regarding frustration of performance and mistake of fact.

21 Finally, the Court addressed Hon Hai’s motion to amend the answer and counterclaims.  
22 Hon Hai requested leave to plead additional allegations to support its third affirmative defense of  
23 failure to mitigate, its fifth affirmative defense of failure of consideration, and its eighth  
24 affirmative defense of mistake of fact. Id. at 26. Hon Hai also requested leave to add two  
25 affirmative defenses of unenforceability by reason of ambiguity and patent misuse. Id. Microsoft  
26 argued that Hon Hai’s motion to amend was futile. The Court noted that it was “sympathetic to

1 Microsoft’s argument[s]” that Hon Hai’s affirmative defenses were legally insufficient and that  
2 “these new allegations [were] not necessarily pled in a manner sufficient to withstand a motion to  
3 dismiss or strike.” Id. at 28, 30. However, at “this interim stage of the proceedings,” the Court  
4 declined to make a merits decision and prohibit Hon Hai from amending its answer and  
5 counterclaims. Id. at 28–31.

6 Accordingly, the Court granted Microsoft’s motion to dismiss Hon Hai’s counterclaims  
7 with prejudice in part and with leave to amend in part; granted in part and denied in part  
8 Microsoft’s motion to strike Hon Hai’s affirmative defenses; and granted Hon Hai’s motion for  
9 leave to amend the answer. Id. The Court gave Hon Hai 30 days to file an amended answer and  
10 counterclaims and explained that “failure to cure deficiencies identified herein or in Microsoft’s  
11 motions to dismiss or strike will result in dismissal of the deficient counterclaims and affirmative  
12 defenses with prejudice.” Id. at 32.

13 On March 23, 2020, Hon Hai filed an amended answer and counterclaims. ECF No. 190  
14 (“Amended Answer”). Hon Hai dropped its rescission counterclaim such that the Amended  
15 Answer only realleges three counterclaims for breach of the implied covenant of good faith and  
16 fair dealing, fraudulent inducement, and negligent misrepresentation. Id. at 24–27. Hon Hai also  
17 pleads ten affirmative defenses for (1) failure to mitigate; (2) breach of the implied covenant of  
18 good faith and fair dealing; (3) failure of consideration; (4) frustration of performance;  
19 (5) fraudulent inducement; (6) mistake of fact; (7) statute of limitations; (8) “setoff”;  
20 (9) unenforceability by ambiguity; and (10) patent misuse. Id. at 6–18.

21 On April 13, 2020, Microsoft filed a motion to dismiss Hon Hai’s counterclaims and to  
22 strike Hon Hai’s affirmative defenses. ECF No. 212 (“Mot.”). Microsoft seeks to dismiss all  
23 three of Hon Hai’s counterclaims and all of Hon Hai’s affirmative defenses except its statute of  
24 limitations affirmative defense. On April 27, 2020, Hon Hai filed its opposition. ECF No. 220  
25 (“Opp.”). On May 4, 2020, Microsoft filed its reply. ECF No. 227 (“Reply”).

## 26 **II. LEGAL STANDARD**

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**A. Motion to Dismiss**

“A motion to dismiss a counterclaim brought pursuant to Federal Rule of Civil Procedure 12(b)(6) is evaluated under the same standard as a motion to dismiss a plaintiff’s complaint.” *AirWair Int’l Ltd. v. Schultz*, 84 F. Supp. 3d 943, 949 (N.D. Cal. 2015); see also *Boon Rawd Trading Inter’l v. Paleewong Trading Co.*, 688 F. Supp. 2d 940, 947 (N.D. Cal. 2010). Pursuant to Federal Rule of Civil Procedure 12(b)(6), a defendant may move to dismiss an action for failure to allege “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 when the plaintiff pleads factual content that allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged.” *Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009). “The plausibility standard is not akin to a probability requirement, but it asks for more than a sheer possibility that a defendant has acted unlawfully.” *Id.* (internal quotation marks omitted). For purposes of ruling on a Rule 12(b)(6) motion, a court “accept[s] factual allegations in the complaint as true and construe[s] the pleadings in the light most favorable to the nonmoving party.” *Manzarek v. St. Paul Fire & Marine Ins. Co.*, 519 F.3d 1025, 1031 (9th Cir. 2008).

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The Court, however, need not accept as true allegations contradicted by judicially noticeable facts, see *Shwarz v. United States*, 234 F.3d 428, 435 (9th Cir. 2000), and it “may look beyond the plaintiff’s complaint to matters of public record” without converting the Rule 12(b)(6) motion into a motion for summary judgment, *Shaw v. Hahn*, 56 F.3d 1128, 1129 n.1 (9th Cir. 1995). Nor must the Court “assume the truth of legal conclusions merely because they are cast in the form of factual allegations.” *Fayer v. Vaughn*, 649 F.3d 1061, 1064 (9th Cir. 2011) (per curiam) (internal quotation marks omitted). Mere “conclusory allegations of law and unwarranted inferences are insufficient to defeat a motion to dismiss.” *Adams v. Johnson*, 355 F.3d 1179, 1183 (9th Cir. 2004).

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**B. Rule 9(b)**

Claims sounding in fraud are subject to the heightened pleading requirements of Rule 9(b)

1 of the Federal Rules of Civil Procedure, which requires that a plaintiff alleging fraud “must state  
2 with particularity the circumstances constituting fraud.” Fed. R. Civ. P. 9(b); see *Kearns v. Ford*  
3 *Motor Co.*, 567 F.3d 1120, 1124 (9th Cir. 2009). To satisfy the heightened standard under Rule  
4 9(b), the allegations must be “specific enough to give defendants notice of the particular  
5 misconduct which is alleged to constitute the fraud charged so that they can defend against the  
6 charge and not just deny that they have done anything wrong.” *Semegen v. Weidner*, 780 F.2d  
7 727, 731 (9th Cir. 1985). Thus, claims sounding in fraud must allege “an account of the time,  
8 place, and specific content of the false representations as well as the identities of the parties to the  
9 misrepresentations.” *Swartz v. KPMG LLP*, 476 F.3d 756, 764 (9th Cir. 2007) (per curiam)  
10 (internal quotation marks omitted); see also *Vess v. Ciba-Geigy Corp. USA*, 317 F.3d 1097, 1106  
11 (9th Cir. 2003) (“Averments of fraud must be accompanied by the who, what, when, where, and  
12 how of the misconduct charged.” (internal quotation marks omitted)). The plaintiff must also set  
13 forth “what is false or misleading about a statement, and why it is false.” *Ebeid ex rel. U.S. v.*  
14 *Lungwitz*, 616 F.3d 993, 998 (9th Cir. 2010) (internal quotation marks omitted).

### 15 C. Motion to Strike

16 Federal Rule of Civil Procedure 12(f) permits a court to “strike from a pleading an  
17 insufficient defense or any redundant, immaterial, impertinent, or scandalous matter.” A Rule  
18 12(f) motion to strike serves “to avoid the expenditure of time and money that must arise from  
19 litigating spurious issues by dispensing with those issues prior to trial.” *SidneyVinstein v. A.H.*  
20 *Robins Co.*, 697 F.2d 880, 885 (9th Cir. 1983); see also *Fantasy, Inc. v. Fogerty*, 984 F.2d 1524,  
21 1527 (9th Cir. 1993), *rev’d* on other grounds, 510 U.S. 517 (1994). A defense may be stricken as  
22 insufficient if it fails to give plaintiff “fair notice” of the defense. *Wyshak v. City Nat’l Bank*, 607  
23 F.2d 824, 827 (9th Cir. 1979); see generally Fed. R. Civ. P. 8. A court may also strike from an  
24 answer matter that is immaterial, i.e., “that which has no essential or important relationship to the  
25 claim for relief or the defenses being plead,” or matter that is impertinent, i.e., that which does not  
26 pertain, and is not necessary, to the issues in question. *Fantasy*, 984 F.2d at 1527. Motions to

1 strike are generally disfavored and “should not be granted unless the matter to be stricken clearly  
 2 could have no possible bearing on the subject of the litigation” or “unless prejudice would result to  
 3 the moving party from denial of the motion.” *Platte Anchor Bolt, Inc. v. IHI, Inc.*, 352 F. Supp. 2d  
 4 1048, 1057 (N.D. Cal. 2004) (citations omitted). “If there is any doubt whether the portion to be  
 5 stricken might bear on an issue in the litigation, the court should deny the motion.” *Id.* (citations  
 6 omitted).

7 “As with motions to dismiss, when ruling on a motion to strike, the Court takes the  
 8 plaintiff’s allegations as true and must liberally construe the complaint in the light most favorable  
 9 to the plaintiff.” *Stearns v. Select Comfort Retail Corp.*, 763 F.Supp.2d 1128, 1140 (N.D. Cal.  
 10 July 21, 2010). Whether to grant a motion to strike is within the sound discretion of the district  
 11 court. See *Davidson v. Kimberly-Clark Corp.*, 889 F.3d 956, 963 (9th Cir. 2018).

#### 12 **D. Leave to Amend**

13 Under Rule 15(a) of the Federal Rules of Civil Procedure, leave to amend “should be  
 14 freely granted when justice so requires,” bearing in mind that “the underlying purpose of Rule 15 .  
 15 . . [is] to facilitate decision on the merits, rather than on the pleadings or technicalities.” *Lopez v.*  
 16 *Smith*, 203 F.3d 1122, 1127 (9th Cir. 2000) (en banc). Accordingly, leave to amend generally  
 17 shall be denied only if allowing amendment would unduly prejudice the opposing party, cause  
 18 undue delay, or be futile, or if the moving party has acted in bad faith. *Leadsinger, Inc. v. BMG*  
 19 *Music Publ’g*, 512 F.3d 522, 532 (9th Cir. 2008). At the same time, a court is justified in denying  
 20 leave to amend when a plaintiff “repeated[ly] fail[s] to cure deficiencies by amendments  
 21 previously allowed.” See *Carvalho v. Equifax Info. Servs., LLC*, 629 F.3d 876, 892 (9th Cir.  
 22 2010). Indeed, a “district court’s discretion to deny leave to amend is particularly broad where  
 23 plaintiff has previously amended the complaint.” *Cafasso, U.S. ex rel. v. Gen. Dynamics C4 Sys.,*  
 24 *Inc.*, 637 F.3d 1047, 1058 (9th Cir. 2011) (quotation marks omitted).

### 25 **III. DISCUSSION**

26 Hon Hai’s Amended Answer pleads three counterclaims and ten affirmative defenses.

1 Microsoft seeks to dismiss all three of Hon Hai's counterclaims and to strike all of Hon Hai's  
2 affirmative defenses except Hon Hai's seventh affirmative defense for statute of limitations.

3 The Court begins by assessing whether Hon Hai's counterclaims survive Microsoft's  
4 motion to dismiss. The Court then turns to whether to strike Hon Hai's affirmative defenses.

### 5 **A. Counterclaims**

6 Hon Hai pleads three counterclaims in its Amended Answer: (1) breach of the implied  
7 covenant of good faith and fair dealing; (2) fraudulent inducement; and (3) negligent  
8 misrepresentation. Amended Answer at 24–27. Microsoft contends that all three counterclaims  
9 should be dismissed. The Court agrees, as Hon Hai's amendments in its Amended Answer fail to  
10 cure the legal deficiencies previously identified in the Court's prior order.

11 The Court begins its analysis with Hon Hai's counterclaim for breach of the implied  
12 covenant of good faith and fair dealing before addressing Hon Hai's fraudulent inducement and  
13 negligent misrepresentation counterclaims.

#### 14 **1. Breach of the Implied Covenant of Good Faith and Fair Dealing**

15 Under California law, the elements of a cause of action for breach of the covenant of good  
16 faith and fair dealing are: "(1) the parties entered into a contract; (2) the plaintiff fulfilled his  
17 obligations under the contract [or was excused from nonperformance]; (3) any conditions  
18 precedent to the defendant's performance occurred; (4) the defendant unfairly interfered with the  
19 plaintiff's rights to receive the benefits of the contract; and (5) the plaintiff was harmed by the  
20 defendant's conduct." *Rosenfeld v. JPMorgan Chase Bank, N.A.*, 732 F. Supp. 2d 952, 968 (N.D.  
21 Cal. 2010) (citations omitted); see also *Berkeley v. Wells Fargo Bank*, 2015 WL 6126815, at \*4  
22 (N.D. Cal. Oct. 19, 2015) ("To state a claim for breach of the implied covenant [of good faith and  
23 fair dealing], a plaintiff must allege performance or excuse for nonperformance under the  
24 contract." (internal alterations omitted)); *Enuke v. Am. 's Wholesale Lender*, 2011 WL 11651341,  
25 at \*9 (C.D. Cal. Dec. 18, 2011) ("Thus, to state a claim for a breach of the implied covenant of  
26 good faith and fair dealing, a plaintiff must allege performance or excuse for nonperformance

1 under the contract.”).

2 As before, Hon Hai again alleges that Microsoft breached the implied covenant of good  
3 faith and fair dealing by “failing to take reasonable and expected steps to get other manufacturers  
4 and brand name sellers of Android products to enter into comparable patent license agreements  
5 with Microsoft with respect to such products.” Amended Answer ¶ 112; id. ¶ 41 (“During the  
6 PLA negotiations, to address Hon Hai’s concerns . . . , Microsoft assured Hon Hai that after the  
7 PLA was signed it would continue its efforts to get other Android manufacturers and brand name  
8 companies (including in China) to sign Android license agreements.”). Hon Hai claims that its  
9 “willingness to enter into the PLA[] was premised on obtaining these assurances” because “Hon  
10 Hai and its subsidiaries lacked the leverage to get most of their brand name customers . . . to bear  
11 the cost of the royalties demanded by Microsoft, particularly if Hon Hai’s competitors were not  
12 subject to comparable royalty obligations.” Id. ¶¶ 37, 85. However, “once the PLA [was] signed,  
13 Microsoft sat on its hands and reneged on its assurances despite Hon Hai’s pleas.” Id. ¶ 85.

14 In effect, Hon Hai alleges that an implied covenant of good faith and fair dealing required  
15 Microsoft to impose royalty fees on Hon Hai’s competitors in order to lessen Hon Hai’s own  
16 royalty payments to Microsoft. It is notable that these are the exact same allegations that the Court  
17 found deficient in its prior order. See ECF No. 148 at 12. Hon Hai has added nothing new to its  
18 Amended Answer that justifies a different conclusion. Therefore, the Court again holds for the  
19 following reasons that Hon Hai has failed to adequately plead that Microsoft unfairly interfered  
20 with Hon Hai’s rights to receive the benefits of the PLA.

21 Under California law, “[t]he covenant of good faith and fair dealing, implied by law in  
22 every contract, exists merely to prevent one contracting party from unfairly frustrating the other  
23 party’s right to receive the benefits of the agreement actually made.” *Guz v. Bechtel Nat. Inc.*, 24  
24 Cal. 4th 317, 349 (2000) (emphasis in original). The implied covenant of good faith and fair  
25 dealing requires each party to “do everything the contract presupposes [the party] will do to  
26 accomplish [the agreement’s] purpose.” *Pasadena Live v. City of Pasadena*, 114 Cal. App. 4th

1 1089, 1093 (2004) (quotation marks omitted). At the same time, the implied covenant of good  
 2 faith and fair dealing “cannot substantively alter [the] terms [of the contract]” or “impose  
 3 substantive duties or limits on the contracting parties beyond those incorporated in the specific  
 4 terms of their agreement. *Guz*, 24 Cal. 4th at 327. “The covenant thus cannot be endowed with an  
 5 existence independent of its contractual underpinnings,” *id.*, “is limited to assuring compliance  
 6 with the express terms of the contract, and cannot be extended to create obligations not  
 7 contemplated by the contract,” *Pasadena Live*, 114 Cal. App. 4th at 1094 (quotation marks  
 8 omitted).

9 *Openshaw v. FedEx Ground Package System, Inc.*, 576 Fed. App’x 685 (9th Cir. 2014), is  
 10 particularly instructive to the instant case. In *Openshaw*, the plaintiff sued FedEx for terminating  
 11 an operating agreement and alleged claims for breach of contract and breach of the implied  
 12 covenant of good faith and fair dealing. A jury found in favor of *Openshaw* only on his claim for  
 13 breach of the implied covenant of good faith and fair dealing and awarded damages. The district  
 14 court denied FedEx’s Rule 50(b) motion for judgment notwithstanding the verdict, but on appeal,  
 15 the Ninth Circuit reversed and remanded with instructions to enter judgment for FedEx. *Id.* at  
 16 686-87.

17 Among other things, *Openshaw* argued on appeal that FedEx breached the implied  
 18 covenant of good faith and fair dealing by “not offering *Openshaw* a spare truck when he needed  
 19 it, not telling *Openshaw* about a spare driver when he needed one, and not telling *Openshaw* in  
 20 advance how many packages he would have to deliver.” *Id.* at 688. The Ninth Circuit ruled  
 21 against *Openshaw* because “[t]he covenant of good faith and fair dealing protects against one party  
 22 interfering with another party’s contract rights; it does not obligate a party to help another party  
 23 perform that other’s contract obligations.” *Id.* Because “the Agreement explicitly obligated  
 24 *Openshaw* to provide trucks and drivers and to operate at a national standard,” “[a] good faith and  
 25 fair dealing obligation [could not] be read into the Agreement to impose a substantive duty on  
 26 FedEx to help *Openshaw* provide trucks and drivers or to meet delivery standards.” *Id.* “[T]hat



1 obligation was placed solely on Openshaw by the specific terms of the Agreement.” Id.

2 The logic of Openshaw applies here with equal force. At bottom, Hon Hai’s argument is  
 3 that an implied covenant of good faith and fair dealing required Microsoft to license Hon Hai’s  
 4 competitors in order to help Hon Hai perform on its contractually obligated royalty payments to  
 5 Microsoft. But the PLA specifically obligated Hon Hai to make royalty payments for products  
 6 containing Microsoft’s patents (subject to limited exceptions) and nowhere required Microsoft to  
 7 license any of Hon Hai’s competitors. In other words, Hon Hai’s counterclaim for breach of the  
 8 implied covenant of good faith and fair dealing would effectively write in a requirement that  
 9 Microsoft help Hon Hai perform its contract obligations. Pasadena Live, 114 Cal. App. 4th at  
 10 1094 (“The implied covenant of good faith and fair dealing is limited to assuring compliance with  
 11 the express terms of the contract, and cannot be extended to create obligations not contemplated  
 12 by the contract.” (quotation marks omitted)). Like the Ninth Circuit, the Court will not read into  
 13 the PLA an obligation “to impose a substantive duty on [Microsoft] to help [Hon Hai]” meet its  
 14 payment obligations when “[t]hat obligation was placed solely on [Hon Hai] by the specific terms  
 15 of the Agreement.” Openshaw, 576 Fed. App’x at 688. Doing so would contravene the California  
 16 Supreme Court’s express admonition that the implied covenant of good faith and fair dealing  
 17 “cannot substantively alter [the] terms [of the contract]” or “impose substantive duties or limits on  
 18 the contracting parties beyond those incorporated in the specific terms of their agreement. Guz, 24  
 19 Cal. 4th at 327.

20 Hon Hai’s only response to this reasoning is to contend that its Amended Answer “pled  
 21 substantial additional facts in Paragraph 113” with respect to Section 4.7.4 of the PLA. Opp. at 5.  
 22 According to Hon Hai, paragraph 113 contains new allegations and offers a new theory that  
 23 Microsoft failed to take reasonable and expected steps to license other manufacturers and brand  
 24 name sellers, thereby denying Hon Hai the benefits of the PLA. Id. at 5–6.

25 Hon Hai is incorrect. In Hon Hai’s original Answer and previous opposition, Hon Hai  
 26 explicitly relied on Section 4.7.4. of the PLA to make its argument that Microsoft “denied Hon

1 Hai the benefits of the PLA and interfered with and prevented accomplishment of the PLA’s  
 2 purposes.” Answer ¶ 100; ECF No. 59 at 6 (arguing that Microsoft “interfer[ed] with Hon Hai’s  
 3 ability to enjoy the benefits of several express contractual promises by Microsoft,” including  
 4 Section 4.7.4). The Court rejected this argument because though the PLA specifically obligated  
 5 Hon Hai to make royalty payments for products containing Microsoft’s patents (subject to limited  
 6 exceptions), Section 4.7.4 did not require Microsoft to license any of Hon Hai’s competitors.  
 7 Indeed, no express provision in the PLA required Microsoft to license any of Hon Hai’s  
 8 competitors, and this is likely why Hon Hai brings only a counterclaim for breach of the implied  
 9 covenant of good faith and fair dealing rather than a claim for an express breach of contract.

10 Accordingly, the Court GRANTS Microsoft’s motion to dismiss Hon Hai’s counterclaim  
 11 for breach of the implied covenant of good faith and fair dealing. Hon Hai failed to cure the exact  
 12 same deficiencies the Court previously identified in its prior order, and the Amended Answer  
 13 offers no new facts to justify a different conclusion. As the Court previously warned, “failure to  
 14 cure deficiencies identified herein or in Microsoft’s motions to dismiss or strike will result in  
 15 dismissal of the deficient counterclaims and affirmative defenses with prejudice.” ECF No. 148 at  
 16 32. Furthermore, courts are justified in denying leave to amend when a plaintiff “repeated[ly]  
 17 fail[s] to cure deficiencies by amendments previously allowed.” *Carvalho*, 629 F.3d at 892. This  
 18 is precisely the situation here, as the Court’s prior order put Hon Hai on notice that Hon Hai’s  
 19 counterclaim for breach of the implied covenant of good faith and fair dealing was deficient for  
 20 the same reasons as stated in this Order. Accordingly, the Court GRANTS Microsoft’s motion to  
 21 dismiss Hon Hai’s counterclaim for breach of the implied covenant of good faith and fair dealing  
 22 with prejudice.

## 23 **2. Fraudulent Inducement and Negligent Misrepresentation**

24 The Court next assesses Hon Hai’s counterclaims for fraudulent inducement and negligent  
 25 misrepresentation. Rule 9(b)’s heightened pleading standard applies to both Hon Hai’s fraudulent  
 26 inducement and negligent misrepresentation causes of actions. See *MegaFon PJSC v. Hewlett*

1 Packard Enter. Co., 2019 WL 1130481, at \*5 (N.D. Cal. Mar. 12, 2019) (applying Rule 9(b) to  
 2 fraudulent inducement and negligent misrepresentation causes of action); *Gilmore v. Wells Fargo*  
 3 *Bank N.A.*, 75 F. Supp. 3d 1255, 1269-70 (N.D. Cal. 2014) (“[N]egligent misrepresentation is a  
 4 species of fraud, and, hence, must be [pled] in accordance with Rule 9(b).” (collecting cases)).  
 5 Rule 9(b)’s heightened pleading standard also applies to allegations involving justifiable reliance.  
 6 *Tabler v. Panera LLC*, 2019 WL 5579529, at \*10 n.6 (N.D. Cal. Oct. 29, 2019) (“Rule 9(b), not  
 7 Rule 8(a), sets forth the pleading standard that a plaintiff’s allegations of reliance must satisfy in  
 8 fraud cases.” (citing *In re Volkswagen “Clean Diesel” Mktg., Sales Practices, and Prods. Liab.*  
 9 *Litig.*, 349 F. Supp. 3d 881, 917 (N.D. Cal. 2018))); see also *Herskowitz v. Apple Inc.*, 940 F.  
 10 Supp. 3d 1131, 1148 (N.D. Cal. 2013) (applying Rule 9(b)’s heightened standard to allegations of  
 11 justifiable reliance).

12 “[F]raudulent inducement . . . has the same elements as fraud under California law.”  
 13 *Romero v. San Pedro Forklift, Inc.*, 266 Fed. App’x 552, 556 n.2 (9th Cir. 2008) (citing *Lazar v.*  
 14 *Superior Court*, 12 Cal. 4th 631 (1996)). Those elements are (1) a misrepresentation;  
 15 (2) knowledge of falsity; (3) intent to induce reliance; (4) actual and justifiable reliance; and  
 16 (5) resulting damage.” *Lazar*, 12 Cal. 4th at 638; *Chapman v. Skype Inc.*, 220 Cal. App. 4th 217,  
 17 230-231 (2013). Similarly, “[t]he essential elements of a count for negligent misrepresentation are  
 18 the same except that it does not require knowledge of falsity but instead requires a  
 19 misrepresentation of fact by a person who has no reasonable grounds for believing it to be true.”  
 20 *Chapman*, 220 Cal. App. 4th at 231; *GemCap Lending I, LLC v. Quarles & Brady, LLP*, 787 Fed.  
 21 App’x 369, 372 (9th Cir. 2019) (“The elements of negligent misrepresentation are the same as  
 22 those for intentional misrepresentation, except that a lower standard than knowledge of falsity  
 23 applies.”).

24 Hon Hai alleges that Microsoft made a pair of false representations of fact that induced  
 25 Hon Hai to “accept Microsoft’s proposed royalty rates and enter into the PLA containing those  
 26 rates.” Amended Answer ¶¶ 118, 124. Specifically, Hon Hai asserts that on March 26, 2012,

1 during contractual negotiations, one of Microsoft’s representatives allegedly told Hon Hai’s  
 2 counsel that “Microsoft’s Android royalty rates were well set with other ODMs, that Microsoft did  
 3 not have flexibility on those rates, and that Microsoft would provide its current pricing schedule to  
 4 Hon Hai in its next draft of the PLA.” Id. ¶¶ 116(a), 122(a). Second, Hon Hai claims that on  
 5 August 9, 2012—again, during contractual negotiations—one of Microsoft’s representatives  
 6 “represented to Hon Hai, in response to Hon Hai’s argument that Microsoft’s proposed Android  
 7 royalty rates were too high, that Microsoft’s prior licensees had set the pricing and that Microsoft  
 8 would not play favorites.” Id. ¶¶ 116(b), 122(b). Hon Hai alleges that “it did not know  
 9 Microsoft’s representations were false and relied on them in deciding not to make further attempts  
 10 to negotiate the royalty rates downward and to enter into the PLA containing those rates.” Id.  
 11 ¶¶ 119, 125. Accordingly, Hon Hai claims that Microsoft is liable for fraudulent inducement and  
 12 negligent misrepresentation.

13 As before, Microsoft challenges Hon Hai’s allegations on two grounds. First, Microsoft  
 14 argues that Hon Hai failed to adequately allege justifiable reliance on any supposed  
 15 misrepresentation. Mot. at 11–13. Second, Microsoft contends that Hon Hai has not adequately  
 16 pled any misstatements by Microsoft because the alleged statements are non-actionable “puffery.”  
 17 Mot. at 13–15. The Court agrees that Hon Hai failed to adequately allege justifiable reliance. As  
 18 a result, the Court does not reach Hon Hai’s puffery argument.

19 To properly plead either a fraudulent inducement or negligent misrepresentation cause of  
 20 action, a plaintiff must establish “‘justifiable’ reliance, i.e., circumstances were such to make it  
 21 reasonable for the plaintiff to accept the defendant’s statements without an independent inquiry or  
 22 investigation.” *West v. JPMorgan Chase Bank, N.A.*, 214 Cal. App. 4th 780, 794 (2013)  
 23 (quotation marks and internal alterations omitted) (emphasis in original). Put another way,  
 24 justifiable reliance extends “beyond the plaintiff’s subjective reliance to an objective requirement  
 25 that a reasonable person in the plaintiff’s shoes would have been justified in relying on the  
 26 misrepresentation.” *Dix v. Nova Benefit Plans, LLC*, 2015 WL 12859221, at \*5 (C.D. Cal. Apr.

1 28, 2015) (citing *Beckwith v. Dahl*, 205 Cal. App. 4th 1039, 1066-67 (2012)). “The  
2 reasonableness of the plaintiff’s reliance is judged by reference to the plaintiff’s knowledge and  
3 experience.” *West*, 214 Cal. App. 4th at 794 (quotation marks omitted).

4 First, Hon Hai’s allegations that it justifiably relied on Microsoft’s statements that royalty  
5 rates were non-negotiable fail because—as before, in Hon Hai’s original Answer—Hon Hai  
6 concedes that Hon Hai obtained lower prices in subsequent negotiations. Hon Hai alleges that on  
7 March 26, 2012, one of Microsoft’s representatives told Hon Hai’s counsel that “Microsoft’s  
8 Android royalty rates were well set with other ODMs, that Microsoft did not have flexibility on  
9 those rates.” Amended Answer ¶¶ 116(a), 122(a). Hon Hai claims that Hon Hai “relied on”  
10 Microsoft’s representation that royalty rates were non-negotiable “in deciding not to make further  
11 attempts to negotiate the royalty rates downward and to enter into the PLA containing those rates.”  
12 *Id.* ¶ 119, 125.

13 The Court previously identified the problem with Hon Hai’s argument in its prior order.  
14 Namely, Hon Hai’s argument that it justifiably relied on Microsoft’s representation that royalty  
15 rates were non-negotiable fails because Hon Hai acknowledges that it negotiated a “small  
16 reductions in rates” from the May 2012 draft to the final PLA. *Id.* ¶¶ 55, 56. Nothing in the  
17 Amended Answer alters this conclusion. Hon Hai again argues that though it was able to  
18 negotiate these small reductions in rates, there were just “a token gesture” such that “[i]t cannot be  
19 assumed that the small reduction in rates reflects Hon Hai’s ability or Microsoft’s willingness to  
20 negotiate the rates downward.” *Id.* ¶ 56.

21 As before, this contention fails because Hon Hai explicitly grounds its fraudulent  
22 inducement and negligent misrepresentation claims on the allegation that Microsoft falsely  
23 represented that it “did not have flexibility on [the royalty] rates.” *Id.* ¶ 116(a), 122(a). Hon Hai’s  
24 Amended Answer—just like its original Answer—does not provide allegations that explain how  
25 these negotiated reductions were “a token gesture.” *Id.* ¶ 56. Under Rule 9(b), this is insufficient,  
26 as Hon Hai “must state with particularity the circumstances constituting fraud,” which in these

1 circumstances, includes how the negotiated reductions were nothing more than “a token gesture.”  
2 Id.; see also *Semegen*, 780 F.2d at 731 (holding that allegations must be “specific enough to give  
3 defendants notice of the particular misconduct which is alleged to constitute the fraud charged so  
4 that they can defend against the charge and not just deny that they have done anything wrong”).

5 Put simply, the Amended Answer provides no allegations that explain why Hon Hai could  
6 have justifiably relied on Microsoft’s statements that the royalty rates were non-negotiable when  
7 Hon Hai itself acknowledges that the final version of the PLA contained lower royalty rates for  
8 some products. The absence of such allegations militates against concluding that Hon Hai’s  
9 reliance was reasonable and justified.

10 Second, Hon Hai’s allegations of justifiable reliance fail because Hon Hai concedes that it  
11 asked for a most-favored-nation provision in previous drafts of the PLA. Traino Decl. Ex. A at 9  
12 (deleted Section 4.2.2); Opp. at 21. The rejected most-favored-nation provision would have read  
13 as follows:

14 MICROSOFT and its Affiliates shall treat Hon Hai as its most favored EMS  
15 Company licensee. MICROSOFT represents, warrants and covenants to Hon Hai  
16 that the net price for each category of Covered Product **shall be as low or lower**, after  
17 taking into account all credits, discounts and other offsets, **than the net price**  
18 **MICROSOFT offers or provides at any time during the Term to any EMS**  
19 **Company for licensing of substantially similar types of covered products.** If  
20 MICROSOFT offers or provides to any other EMS Company licensing net prices or  
21 terms that cause the representation, warranty or covenant in this section to be untrue,  
22 then MICROSOFT shall notify Hon Hai of, and offer to Hon Hai, the same aggregate  
23 better net pricing and terms. MICROSOFT shall, upon Hon Hai’s acceptance of the  
24 better net pricing and terms, promptly credit or reimburse Hon Hai, at Hon Hai’s  
25 option, any amounts Hon Hai paid in excess of the better net pricing and terms after  
26 they were offered or provided to any other EMS Company. An officer of  
27 MICROSOFT shall annually certify to Hon Hai in writing that MICROSOFT is in  
28 compliance with this section.

22 Traino Decl. Ex A at 9 (deleted Section 4.2.2. (emphasis added)). Such a provision would have  
23 guaranteed that Hon Hai would get the lowest net price offered or provided by Microsoft to  
24 another company during the entire term of the license. Id. Nonetheless, Hon Hai expressly admits  
25 that Microsoft did not agree to a most-favored-nation provision, and no such provision appears in  
26 the final draft of the PLA. Amended Answer ¶ 65. This fact is important because Hon Hai alleges

1 that the August 9, 2012 misrepresentation that induced Hon Hai to enter into the PLA involved a  
 2 statement that “Microsoft would not play favorites” in pricing royalty fees. *Id.* ¶¶ 116(b), 122(b).  
 3 That Microsoft expressly denied Hon Hai’s request to include a most-favored-nation provision  
 4 into the PLA—which would have guaranteed that “Microsoft would not play favorites” in royalty  
 5 pricing—is another factor that weighs against concluding that Hon Hai’s justifiably relied on  
 6 Microsoft’s alleged misrepresentations involving non-differential royalty fees.<sup>3</sup>

7 Third, that the PLA contains an integration clause also weighs against finding reasonable  
 8 reliance. The Court previously raised this exact issue its prior order, but Hon Hai failed to allege  
 9 new facts in its Amended Answer or to even offer any argument in its opposition that the  
 10 integration clause has no bearing on the Court’s analysis. See Amended Answer ¶¶ 53–69, 115–  
 11 26; *Opp.* at 7–12.

12 Specifically, the integration clause in the PLA states that the PLA as written “constitutes  
 13 the entire agreement between the Parties with respect to its subject matter and supersedes all prior  
 14 and contemporaneous agreements, whether written or oral.” ECF No. 19-4 § 7.3. Under  
 15 California law, a general integration clause does not make reliance on oral statements  
 16 automatically unreasonable. *Ron Greenspan Volkswagen, Inc. v. Ford Motor Land Dev. Corp.*, 32  
 17 Cal. App. 4th 985, 987 (1995) (“The primary issue is whether a contract clause which states that  
 18 the parties relied only on representations contained in the contract establishes, as a matter of law,  
 19 that a party claiming fraud did not reasonably rely on representations not contained in the contract.  
 20 We hold that such a per se rule is inconsistent with California law and reverse the summary  
 21 judgment.”).

22 Nonetheless, even if an integration clause does not make reliance on oral statements  
 23 automatically unreasonable, “certainly [courts] can take such a clause’s existence into account in  
 24 \_\_\_\_\_

25 <sup>3</sup> Hon Hai again argues that the most-favored-nation provision was only “forward-looking [in]  
 26 nature.” *Id.* ¶ 65–66. The Court previously rejected that argument because as written, the most-  
 27 favored-nation provision would have guaranteed that Hon Hai would get the lowest net price  
 28 offered or provided by Microsoft to another company during the entire term of the license.

1 determining whether an allegation of justifiable reliance” is adequately pled. *Stretch Lab*  
 2 *Franchise, LLC v. Stretch Lab, LLC*, 2019 WL 2279388, at \*4 (C.D. Cal. Mar. 4, 2019); *United*  
 3 *Guar. Mortg. Indem. Co. v. Countrywide Fin. Corp.*, 660 F.Supp.2d 1163, 1176 n.15 (C.D. Cal.  
 4 Oct. 5, 2009) (“[A]n integration clause may be relevant to reasonable reliance . . .”). The Court  
 5 notes that the inclusion of an integration clause in the PLA is not determinative or conclusive in  
 6 any regard. However, the fact of the matter is that the instant case involves sophisticated  
 7 corporate entities who were represented by counsel and negotiated the PLA over the course of  
 8 many months. These entities agreed to the PLA with an integration clause that stated that the PLA  
 9 as written “constitutes the entire agreement between the Parties with respect to its subject matter  
 10 and supersedes all prior and contemporaneous agreements, whether written or oral.” ECF No. 19-  
 11 4 § 7.3. Though not determinative, the presence of that integration clause is certainly relevant to  
 12 the Court’s justifiable reliance analysis and militates in favor of finding that Hon Hai did not  
 13 justifiably rely on Microsoft’s alleged misrepresentations.

14 Finally, Hon Hai’s reliance on Microsoft’s alleged misrepresentations was unjustified  
 15 because courts have consistently held that “[w]here a party is represented by counsel, or where the  
 16 alleged misrepresentation was made by an adversary during the course of negotiations,  
 17 . . . reliance is unjustifiable.” *Borg v. Principal Life Ins. Co.*, 2008 WL 11453724 (N.D. Cal. July  
 18 24, 2008). The Court previously raised this exact issue in its prior order granting Microsoft’s  
 19 motion to dismiss Hon Hai’s counterclaims. ECF No. 148 at 21–23. Hon Hai failed to respond to  
 20 this reasoning in its Amended Answer or its opposition. See Amended Answer ¶¶ 53–69, 115–26;  
 21 Opp. at 7–12.

22 As previously explained, courts may find reliance unjustified as a matter of law even  
 23 though the reasonableness of a party’s reliance is ordinarily a question of fact. *Hadland v. NN*  
 24 *Inv’rs Life Ins. Co.*, 24 Cal. App. 4th 1578, 1586 (1994) (“[A]lthough the issue of justifiable  
 25 reliance ordinarily presents a question of fact, there are cases in which it may be decided as a  
 26 matter of law.” (citations omitted)). This is especially true where sophisticated parties represented



1 by counsel allegedly rely on misrepresentations made by an adversary during the negotiation of a  
 2 contract. *Scognamillo v. Credit Suisse First Bos. LLC*, 2005 WL 2045807, at \*7 (N.D. Cal. Aug.  
 3 25, 2005), aff'd sub nom. *Scognamillo v. Credit Suisse First Bos.*, 254 Fed. App'x 669 (9th Cir.  
 4 2007) (granting motion to dismiss fraud and negligent misrepresentation claims because as a  
 5 matter of law, Plaintiffs did not allege facts demonstrating that reliance was justified); *N.*  
 6 *California Collection Servs. Inc. of Sacramento v. Cent. Sierra Const., Inc.*, 2008 WL 3876266, at  
 7 \*5 (E.D. Cal. Aug. 20, 2008), aff'd sub nom. *N. Cal. Collection Servs. Inc. of Sacramento v. Cent.*  
 8 *Sierra Const., Inc.*, 370 Fed. App'x 774 (9th Cir. 2010) (holding that “[a]lthough reasonableness  
 9 of a party’s reliance is usually a question of fact,” reliance on the representations in that case “was  
 10 unreasonable as a matter of law”).

11 Here, Microsoft’s alleged misrepresentations took place on March 26, 2012 and August 9,  
 12 2012, in the middle of negotiations for the PLA. According to Hon Hai, these representations  
 13 “induc[ed] Hon Hai to accept Microsoft’s proposed royalty rates and enter into the PLA  
 14 containing those rates.” Amended Answer ¶¶ 118, 124. Hon Hai entered into the PLA with  
 15 Microsoft on April 1, 2013, many months after both alleged misstatements were made. *Id.* ¶ 16.

16 Furthermore, Hon Hai acknowledges that during at least one of the two negotiation  
 17 sessions, Hon Hai was represented by “outside counsel” from “Haynes & Boone, LLP” and that  
 18 Microsoft’s representative made the alleged misrepresentation directly to Hon Hai’s outside  
 19 counsel. *Id.* ¶¶ 116(a), 122(a). In any event, throughout the PLA contract negotiations, Hon Hai  
 20 was “represented by counsel.” *Id.* ¶ 16. Additionally, Hon Hai also acknowledges that it is a  
 21 sophisticated Taiwanese corporation engaged in electronics manufacturing with direct and indirect  
 22 subsidiaries involved in the manufacture, assembly, and sale of electronic equipment and products  
 23 such as computers and communication devices. *Id.* ¶¶ 3, 15.

24 These facts—i.e., Hon Hai’s knowledge and experience as a sophisticated corporation in  
 25 the electronics industry, the fact that Hon Hai was represented by experienced outside counsel  
 26 during negotiations, and the fact that any alleged misrepresentations were made during

1 negotiations—indicate that Hon Hai’s reliance was unjustified and unreasonable. Borg, 2008 WL  
 2 11453724 (“Where a party is represented by counsel, or where the alleged misrepresentation was  
 3 made by an adversary during the course of negotiations, . . . reliance is unjustifiable.”); Wilhelm v.  
 4 Pray, Price, Williams & Russell, 186 Cal. App. 3d 1324, 1332 (1986) (“[I]t would not be  
 5 ‘reasonable’ for [plaintiff] to accept [defense counsel’s] representations as an adversary without  
 6 an independent inquiry.” (emphasis in original)); Barkett v. Sentosa Properties LLC, 2015 WL  
 7 3756348, at \*7 (E.D. Cal. June 16, 2015), aff’d, 692 Fed. App’x 411 (9th Cir. 2017) (“This Court  
 8 agrees with Defendants and those courts that have held that sophisticated parties represented by  
 9 counsel are unjustified relying on misrepresentations made during the negotiations process.”);  
 10 Signal Hill Serv., Inc. v. Macquarie Bank Ltd., 2011 WL 13220305, at \*13 (C.D. Cal. June 29,  
 11 2011) (“While the transactions at issue were complicated, certain of the purported  
 12 misrepresentations and/or omissions should not have misled [plaintiff] given the background of  
 13 the officers and the hedge transactions in which it had previously engaged.”); Facebook, Inc. v.  
 14 ConnectU, Inc., 2008 WL 8820476, at \*5 (N.D. Cal. June 25, 2008), aff’d sub nom. Facebook,  
 15 Inc. v. Pac. Nw. Software, Inc., 640 F.3d 1034 (9th Cir. 2011) (“Where a party is represented by  
 16 counsel, or where the alleged misrepresentation was made by an adversary during the course of  
 17 negotiations, courts have held that reliance is unjustifiable.”); Scognamillo, 2005 WL 2045807, at  
 18 \*7 (“Plaintiffs cannot demonstrate that, in the absence of a fiduciary relationship, reliance on  
 19 statements made by individuals on the other side of a business transaction would have been  
 20 justified in light of Plaintiffs’ knowledge and experience.”).

21 As a result, the Court holds that these facts—i.e., Hon Hai’s knowledge and experience as  
 22 a sophisticated corporation in the electronics industry, the fact that Hon Hai was represented by  
 23 experienced outside counsel during negotiations, and the fact that any alleged misrepresentations  
 24 were made during negotiations—also weigh in favor of holding that Hon Hai was not justified in  
 25 relying on Microsoft’s alleged misrepresentations made on March 26, 2012 and August 9, 2012.

26 Accordingly, the Court concludes that Hon Hai did not adequately allege that Hon Hai

1 justifiably relied on Microsoft’s alleged March 26, 2012 and August 9, 2012 misrepresentations.  
 2 The Court therefore GRANTS Microsoft’s motion to dismiss Hon Hai’s fraudulent inducement  
 3 and negligent misrepresentation claims. Hon Hai failed to cure the exact same deficiencies the  
 4 Court previously identified in its prior order, and the Amended Answer offers no new facts to  
 5 justify a different conclusion. As the Court previously warned, “failure to cure deficiencies  
 6 identified herein or in Microsoft’s motions to dismiss or strike will result in dismissal of the  
 7 deficient counterclaims and affirmative defenses with prejudice.” ECF No. 148 at 32.  
 8 Furthermore, courts are justified in denying leave to amend when a plaintiff “repeated[ly] fail[s] to  
 9 cure deficiencies by amendments previously allowed.” *Carvalho*, 629 F.3d at 892. This is  
 10 precisely the situation here, as the Court’s prior order put Hon Hai on notice that Hon Hai’s  
 11 counterclaims for fraudulent inducement and negligent misrepresentation were deficient for the  
 12 same reasons as stated in this Order. Accordingly, the Court GRANTS Microsoft’s motion to  
 13 dismiss Hon Hai’s counterclaims for fraudulent inducement and negligent misrepresentation with  
 14 prejudice.

### 15 **B. Affirmative Defenses**

16 Federal Rule of Civil Procedure 8(b)(1) requires a party to “state in short and plain terms  
 17 its defenses to each claim asserted against it.” Rule 8(c) similarly requires that a party  
 18 “affirmatively state any avoidance or affirmative defense.” The United States Supreme Court in  
 19 *Twombly*, 550 U.S. 544, and *Iqbal*, 556 U.S. 662, set a heightened “plausibility” pleading standard  
 20 for complaints. This Court, as well as the vast majority of district courts, has held that the  
 21 heightened pleading standard for complaints articulated in *Twombly* and *Iqbal* applies to  
 22 affirmative defenses. See *Perez v. Gordon & Wong Law Group, P.C.*, 2012 WL 1029425, at \*8  
 23 (N.D. Cal. March 26, 2012) (collecting cases).

24 “This standard ‘serve[s] to weed out the boilerplate listing of affirmative defenses which is  
 25 commonplace in most defendants’ pleadings where many of the defenses alleged are irrelevant to  
 26 the claims asserted.’” *Id.* (quoting *Barnes v. AT&T Pension Benefit Plan-Nonbargained*

1 Program, 718 F. Supp. 2d 1167, 1172 (N.D. Cal. 2010)). “This standard is also consistent with  
 2 Iqbal’s admonition that fair notice pleading under Rule 8 is not intended to give parties free  
 3 license to engage in unfounded fishing expeditions on matters for which they bear the burden of  
 4 proof at trial.” Id. (citing Iqbal, 556 U.S. at 678-79).

5 Therefore, “[w]hile a defense need not include extensive factual allegations in order to give  
 6 fair notice, bare statements reciting mere legal conclusions may not be sufficient.” Id. (internal  
 7 quotation marks omitted). Additionally, courts may strike affirmative defenses that are redundant  
 8 of insufficiently pled counterclaims on the basis that those affirmative defenses are insufficient as  
 9 a matter of law. *Int’l Test Sols., Inc. v. Mipox Int’l Corp.*, 2017 WL 2118314, at \*1, 8 (N.D. Cal.  
 10 May 16, 2017) (dismissing counterclaim for unenforceability and striking affirmative defense of  
 11 unenforceability as insufficient as a matter of law); Fed. R. Civ. P. 12(f) (permitting courts to  
 12 “strike from a pleading an insufficient defense or any redundant, immaterial, impertinent, or  
 13 scandalous matter.”).

14 Hon Hai’s Amended Answer pleads ten affirmative defenses for (1) failure to mitigate;  
 15 (2) breach of the implied covenant of good faith and fair dealing; (3) failure of consideration;  
 16 (4) frustration of performance; (5) fraudulent inducement; (6) mistake of fact; (7) statute of  
 17 limitations; (8) “setoff”; (9) unenforceability by ambiguity; and (10) patent misuse. Id. at 6–18.  
 18 Microsoft moves to strike nine of Hon Hai’s affirmative defenses—every affirmative defense  
 19 except Hon Hai’s seventh affirmative defense for statute of limitations.

20 Specifically, Microsoft argues that Hon Hai’s second, fifth, and eighth affirmative defenses  
 21 for breach of the implied covenant of good faith and fair dealing, fraudulent inducement, and  
 22 “setoff” are duplicative of Hon Hai’s counterclaims. Microsoft then contends that Hon Hai’s  
 23 remaining affirmative defenses—except the seventh affirmative defense for the statute of  
 24 limitations—should be stricken for independent reasons. The Court first analyzes Microsoft’s  
 25 arguments as to Hon Hai’s second, fifth, and eighth affirmative defense before addressing each  
 26 remaining affirmative defense in turn.

1                   **1. The Court Strikes Hon Hai’s Second, Fifth, and Eighth Affirmative Defenses for**  
 2                   **Breach of the Implied Covenant of Good Faith and Fair Dealing, Fraudulent**  
 3                   **Inducement, and “Setoff” With Prejudice**

4                   Microsoft and Hon Hai agree that Hon Hai’s second, fifth, and eighth affirmative defenses  
 5 for breach of the implied covenant of good faith and fair dealing, fraudulent inducement, and  
 6 “setoff” rise and fall with Hon Hai’s counterclaims. See Opp. at 12 (agreeing with Microsoft’s  
 7 argument that these affirmative defenses are “analogous to” Hon Hai’s counterclaims and that  
 8 “[t]hese defenses are sufficiently set forth for the same reasons”).

9                   Hon Hai’s second affirmative defense for breach of the implied covenant of good faith and  
 10 fair dealing and fifth affirmative defense for fraudulent inducement are duplicative of Hon Hai’s  
 11 counterclaims and are insufficiently alleged for the reasons discussed above. *Int’l Test Sols., Inc.*,  
 12 2017 WL 2118314, at \*1, 8 (dismissing counterclaim for unenforceability and striking affirmative  
 13 defense of unenforceability as insufficient as a matter of law). With respect Hon Hai’s “setoff”  
 14 affirmative defense, because the Court granted Microsoft’s motion to dismiss Hon Hai’s  
 15 counterclaims with prejudice, there can be no “setoff” for any damages awarded pursuant to the  
 16 counterclaims.

17                   Furthermore, because the Court granted Microsoft’s motion to dismiss Hon Hai’s  
 18 counterclaims with prejudice, the same conclusion follows here. Specifically, Hon Hai failed to  
 19 cure the exact same deficiencies the Court previously identified in its prior order, and the  
 20 Amended Answer offers no new facts to justify a different conclusion. As the Court previously  
 21 warned, “failure to cure deficiencies identified herein or in Microsoft’s motions to dismiss or  
 22 strike will result in dismissal of the deficient counterclaims and affirmative defenses with  
 23 prejudice.” ECF No. 148 at 32. Furthermore, courts are justified in denying leave to amend when  
 24 a plaintiff “repeated[ly] fail[s] to cure deficiencies by amendments previously allowed.”  
 25 *Carvalho*, 629 F.3d at 892. This is precisely the situation here, as the Court’s prior order put Hon  
 26 Hai on notice that Hon Hai’s counterclaims and related affirmative defenses were deficient for the  
 27 same reasons as stated in this Order.

1 Accordingly, the Court GRANTS Microsoft’s motion to strike Hon Hai’s second, fifth, and  
 2 eighth affirmative defenses for breach of the implied covenant of good faith and fair dealing,  
 3 fraudulent inducement, and “setoff” with prejudice.

4 **2. The Court Strikes Hon Hai’s First Affirmative Defense for Failure to Mitigate  
 5 With Prejudice**

6 Hon Hai’s first affirmative defense is for failure to mitigate damages. Amended Answer  
 7 ¶ 34. Hon Hai alleges that Microsoft could have avoided damages by filing patent infringement  
 8 actions against branded electronic companies, entering into patent licenses with them directly, or  
 9 collecting royalties from them. *Id.* Hon Hai claims that this is exactly what the PLA required of  
 10 Microsoft, but Microsoft failed to perform its duties. *Opp.* at 13.

11 Under California law, “[t]he doctrine of mitigation of damages holds that ‘a plaintiff who  
 12 suffers damages as a result of a breach of contract has a duty to take reasonable steps to mitigate  
 13 those damages and will not be able to recover for any losses which could have been thus  
 14 avoided.’” *Agam v. Gavra*, 236 Cal. App. 4th 91, 111 (2015) (quoting *Valle de Oro Bank v.*  
 15 *Gamboa*, 26 Cal. App. 4th 1686, 1691 (1994)) (internal alterations omitted). “Under the doctrine,  
 16 ‘a plaintiff may not recover for damages avoidable through ordinary care and reasonable  
 17 exertion.’” *Id.* (quoting *Valle de Oro*, 26 Cal. App. 4th at 1691) (internal alterations omitted).  
 18 “However, the duty to mitigate damages does not require an injured party to do what is  
 19 unreasonable or impracticable.” *Id.* (quotation marks, citations, and internal alterations omitted).

20 Typically, “[w]hether a plaintiff acted reasonably to mitigate damages . . . is a factual  
 21 matter to be determined by the trier of fact.” *Powerhouse Motorsports Grp., Inc. v. Yamaha*  
 22 *Motor Corp., U.S.A.*, 221 Cal. App. 4th 867, 884 (2013), as modified on denial of reh’g (Dec. 24,  
 23 2013). At the same time, courts may dismiss the doctrine of mitigation of damages as an  
 24 affirmative defense as a matter of law, such as when a defendant does not use the doctrine to  
 25 “provide a shield against the unwarranted piling up of damages,” but rather, attempts to use it as  
 26 “a sword against [a plaintiff’s] contractual right to recover damages resulting from [an] admitted

1 breach of contract.” Valle de Oro, 26 Cal. App. 4th at 1694.

2 Here, Hon Hai acknowledges in its opposition that this affirmative defense is mainly  
3 grounded in its contention that Microsoft was required to enter into license agreements with Hon  
4 Hai’s competitors “as was specifically contemplated by the parties when negotiating the PLA.”  
5 Opp. at 13. As the Court has already explained at length, the PLA did not require Microsoft to  
6 enter into licenses with Hon Hai’s competitors, to file patent infringement actions against them, or  
7 to collect royalties from them. Hon Hai’s first affirmative for failure to mitigate damages is  
8 “really a counterclaim in the guise of an affirmative defense,” and the Court rejects it for this  
9 reason. See Logtale, Ltd. v. Ikor, Inc., 2014 WL 1247896, at \*8 (N.D. Cal. Mar. 26, 2014).

10 In any event, the Court rejects Hon Hai’s assertion that Microsoft had the legal obligation  
11 to lessen Hon Hai’s liability for Hon Hai’s clear breach of the PLA by suing Hon Hai’s  
12 competitors, entering into license agreements with them, or collecting royalties from them.  
13 Simply put, this is not the law. As the Valle de Oro court noted, the doctrine of mitigation of  
14 damages simply “provide[s] a shield against the unwarranted piling up of damages”; it cannot  
15 “constitute[] a sword against [a plaintiff’s] contractual right to recover damages resulting from [a  
16 defendant’s] admitted breach of contract.” 26 Cal. App. 4th at 1694. “Simply put, there was no  
17 damage for [Microsoft] to mitigate,” id., and as a result, the Court concludes that Hon Hai’s first  
18 affirmative defense for failure to mitigate fails as a matter of law.

19 Accordingly, the Court GRANTS Microsoft’s motion to strike Hon Hai’s first affirmative  
20 defense for failure to mitigate. Courts are justified in denying leave to amend when a plaintiff  
21 “repeated[ly] fail[s] to cure deficiencies by amendments previously allowed,” Carvalho, 629 F.3d  
22 at 892, and a “district court’s discretion to deny leave to amend is particularly broad where  
23 plaintiff has previously amended the complaint,” Cafasso, 637 F.3d at 1058. That is precisely the  
24 situation here, as the Court has allowed Hon Hai multiple opportunities to amend its answer and  
25 affirmative defenses—both after the Court granted Microsoft’s previous motion to dismiss and/or  
26 strike and after the Court granted Hon Hai’s own motion to amend the answer. Accordingly, the

1 Court GRANTS Microsoft’s motion to strike Hon Hai’s first affirmative defense for failure to  
 2 mitigate with prejudice.

3 **3. The Court Strikes Hon Hai’s Third Affirmative Defense for Failure of**  
 4 **Consideration With Prejudice**

5 Hon Hai’s third affirmative defense is for failure of consideration. Amended Answer ¶ 51.  
 6 Hon Hai asserts there are two failures of consideration. First, there was a material failure of  
 7 consideration “for the reasons based on the facts and allegations set forth in Hon Hai’s Second  
 8 Affirmative Defense” for breach of the implied covenant of good faith and fair dealing. *Id.*  
 9 Because the Court dismissed Hon Hai’s counterclaim and affirmative defense for breach of the  
 10 implied covenant of good faith and fair dealing, it follows that Hon Hai cannot state an affirmative  
 11 defense based on Microsoft’s nonexistent breach of the implied covenant of good faith and fair  
 12 dealing.

13 Second, Hon Hai alleges that “[a] further failure of consideration arises from the fact that  
 14 Microsoft has provided no license, per the terms of the [PLA] sections 3.1 and 4.7.1.” *Id.*  
 15 Specifically, Hon Hai alleges that the PLA gives Hon Hai the option to purchase a license for a  
 16 Covered Product but does not require Hon Hai to purchase such a license. *Id.* Thus, Hon Hai  
 17 contends that there was no consideration for the PLA because Microsoft would not provide a  
 18 license for Covered Products if Hon Hai didn’t pay royalties for those products. According to Hon  
 19 Hai, Microsoft thus never provided a license to Hon Hai, and there was therefore a failure of  
 20 consideration. *Id.* Hon Hai raised this argument in its opposition to Microsoft’s motion for  
 21 summary judgment, and the Court rejected it there. See ECF No. 260 at 15, 17–18. The Court  
 22 again finds that Hon Hai’s argument is frivolous. Simply put, Microsoft’s primary obligations  
 23 under the PLA were to grant Hon Hai a license to use Microsoft’s patents in exchange for royalty  
 24 payments and to refrain from suing Hon Hai for patent infringement. The PLA obligated Hon Hai  
 25 to submit completed and accurate royalty reports on products that included the Android/Chrome  
 26 platform, subject to carefully designed exemptions. PLA §§ 1, 3.1, 4.2.1, 4.2.2. Indeed, the PLA



1 explicitly states that “[a]s consideration for the License, Covenants and other rights granted under  
2 this Agreement, for each unit of a Covered Product sold by Hon Hai or any of its Subsidiaries  
3 during the applicable Royalty Period, Hon Hai will pay MICROSOFT the applicable Device Fee  
4 for each such Covered Product unit.” PLA § 4.2.1.

5 Accordingly, the Court GRANTS Microsoft’s motion to strike Hon Hai’s third affirmative  
6 defense for failure of consideration. Courts are justified in denying leave to amend when a  
7 plaintiff “repeated[ly] fail[s] to cure deficiencies by amendments previously allowed,” Carvalho,  
8 629 F.3d at 892, and a “district court’s discretion to deny leave to amend is particularly broad  
9 where plaintiff has previously amended the complaint,” Cafasso, 637 F.3d at 1058. That is  
10 precisely the situation here, as the Court has allowed Hon Hai multiple opportunities to amend its  
11 answer and affirmative defenses—both after the Court granted Microsoft’s previous motion to  
12 dismiss and/or strike and after the Court granted Hon Hai’s own motion to amend the answer.  
13 Accordingly, the Court GRANTS Microsoft’s motion to strike Hon Hai’s third affirmative defense  
14 for failure of consideration with prejudice.

15 **4. The Court Declines to Strike Hon Hai’s Fourth Affirmative Defense for**  
16 **Frustration of Performance**

17 Hon Hai’s fourth affirmative defense is for frustration of performance. Amended Answer  
18 ¶ 52. However, Microsoft moves to strike an affirmative defense for “frustration of purpose,”  
19 which Hon Hai does not plead. Mot. at 17. Microsoft’s motion does not move to strike Hon Hai’s  
20 actually pled affirmative defense for frustration of performance. Id. Accordingly, the Court  
21 declines to strike Hon Hai’s fourth affirmative defense for frustration of performance. The Court  
22 thus DENIES Microsoft’s motion to strike Hon Hai’s fourth affirmative defense for frustration of  
23 performance.

24 **5. The Court Strikes Hon Hai’s Sixth Affirmative Defense for Mistake of Fact With**  
25 **Prejudice**

26 Hon Hai’s sixth affirmative defense is for mistake of fact. Amended Answer ¶ 70. Hon  
27 Hai alleges two mistakes: (1) “the fact of whether Microsoft had granted prior Android licensees

1 materially better royalty rates than Hon Hai”; and (2) “the fact of whether Microsoft had a  
2 licensing program that it was pursuing against all major electronics corporations offering products  
3 that operated on the Android or Chrome operating systems.” Id.

4 For Hon Hai’s first alleged mistake, the Amended Answer “incorporates herein by  
5 reference” “the facts and allegations set forth [in] Hon Hai’s Fifth Affirmative Defense” for  
6 fraudulent inducement. Id. In other words, Hon Hai’s first mistake regarding whether Microsoft  
7 granted prior Android licensees is based on the same two alleged misrepresentations previously  
8 addressed and rejected in Hon Hai’s fraudulent inducement counterclaim. Microsoft and Hon Hai  
9 acknowledge that this first alleged mistake of fact rises and falls with Hon Hai’s counterclaim and  
10 affirmative defense for fraudulent inducement. Mot. at 18 (“The mistake defense is simply  
11 another way of trying to plead the defective fraudulent inducement claim and fails for the same  
12 reasons . . . .”); Opp. at 16 (arguing that Hon Hai’s first mistake of fact should not be stricken  
13 because “Hon Hai’s counterclaim and affirmative defense of fraudulent inducement meets the  
14 pleading standards, as laid out in Sections V.A.2 and V.B.1”). Because the Court dismissed Hon  
15 Hai’s fraudulent inducement counterclaim and affirmative defense with prejudice, the Court also  
16 strikes Hon Hai’s affirmative defense for mistake of fact insofar as it relates to Hon Hai’s first  
17 alleged mistake—namely, “the fact of whether Microsoft had granted prior Android licensees  
18 materially better royalty rates than Hon Hai.” Amended Answer ¶ 70.

19 Hon Hai’s second alleged mistake of fact concerns “whether Microsoft had a licensing  
20 program that it was pursuing against all major electronics corporations offering products that  
21 operated on the Android or Chrome operating systems.” Id. Under Rule 9(b), “[i]n alleging fraud  
22 or mistake, a party must state with particularity the circumstances constituting fraud or mistake.”  
23 Fed. R. Civ. P. 9(b); *Savage v. Citibank N.A.*, 2015 WL 4880858, at \*2 (N.D. Cal. Aug. 14, 2015)  
24 (“Nevertheless, both [affirmative] defenses constitute allegations of mistake, which must be stated  
25 ‘with particularity’ under Federal Rule of Civil Procedure 9(b).” (collecting cases)).

26 Here, Hon Hai simply alleges that “[i]t was Hon Hai’s understanding that Microsoft did

1 have such a [licensing] program, Microsoft knew that Hon Hai held that understanding, yet  
 2 Microsoft did not have any such program and did not dissuade Hon Hai from believing that it  
 3 did.” Amended Answer ¶ 70. This plainly fails to meet Rule 9(b)’s heightened pleading standard,  
 4 as Hon Hai fails to allege “an account of the time, place, and specific content of the false  
 5 representations as well as the identities of the parties to the misrepresentations.” Swartz, 476 F.3d  
 6 at 764; see also Semegen, 780 F.2d at 731 (allegations must be “specific enough to give  
 7 defendants notice of the particular misconduct which is alleged to constitute the fraud charged so  
 8 that they can defend against the charge and not just deny that they have done anything wrong”).

9 Accordingly, the Court GRANTS Microsoft’s motion to strike Hon Hai’s sixth affirmative  
 10 defense for mistake of fact. Courts are justified in denying leave to amend when a plaintiff  
 11 “repeated[ly] fail[s] to cure deficiencies by amendments previously allowed,” Carvalho, 629 F.3d  
 12 at 892, and a “district court’s discretion to deny leave to amend is particularly broad where  
 13 plaintiff has previously amended the complaint,” Cafasso, 637 F.3d at 1058. That is precisely the  
 14 situation here, as the Court has allowed Hon Hai multiple opportunities to amend its answer and  
 15 affirmative defenses—both after the Court granted Microsoft’s previous motion to dismiss and/or  
 16 strike and after the Court granted Hon Hai’s own motion to amend the answer. Accordingly, the  
 17 Court GRANTS Microsoft’s motion to strike Hon Hai’s sixth affirmative defense for mistake of  
 18 fact with prejudice.

19 **6. The Court Strikes In Part Hon Hai’s Ninth Affirmative Defense for**  
 20 **Unenforceability by Ambiguity With Prejudice**

21 Hon Hai’s ninth affirmative defense is for unenforceability by ambiguity. Amended  
 22 Answer ¶¶ 73–75. Hon Hai alleges that the PLA “is ambiguous in certain, specific instances such  
 23 that cumulatively, it is not possible to conclude that the parties had, in fact, reached an  
 24 agreement.” Hon Hai first asserts that the PLA is ambiguous as to what licensed products are  
 25 covered under the Android/Chrome Platform. *Id.* ¶ 73. Hon Hai next alleges that the definition of  
 26 “Covered Patents” in the PLA is impermissibly vague because “it identifies all Microsoft patents

1 except for those excluded under two URLs owned by Microsoft.” Id. ¶ 74. “However[,] neither  
2 of those URLs identified any patents by patent number such that Hon Hai and Microsoft could  
3 agree on which patents were included and which were excluded from the license. Further,  
4 Microsoft deleted the web pages located at these URLs around the time the parties signed the  
5 PLA, further obscuring the precise scope of coverage.” Id.

6 Under California law, “[a] proposal cannot be accepted so as to form a contract unless the  
7 terms of the contract are reasonably certain. The terms of a contract are reasonably certain if they  
8 provide a basis for determining the existence of a breach and for giving an appropriate remedy.”  
9 *Bowers v. Raymond J. Lucia Co., Inc.*, 206 Cal. App. 4th 724, 734 (2012) (quotation marks  
10 omitted); *see also Ladas v. Cal. State Auto. Ass’n*, 19 Cal. App. 4th 761, 770 (1993) (“Where a  
11 contract is so uncertain and indefinite that the intention of the parties in material particulars cannot  
12 be ascertained, the contract is void and unenforceable.”). “If, by contract, a supposed ‘contract’  
13 does not provide a basis for determining what obligations the parties have agreed to, and hence  
14 does not make possible a determination of whether those agreed obligations have been breached,  
15 there is no contract.” *Bowers*, 206 Cal. App. 4th at 734 (quotation marks omitted). “Whether a  
16 contract is certain enough to be enforced is a question of law for the court.” *Patel v.*  
17 *Liebertmensch*, 45 Cal. 4th 344, 348 n.1 (2008).

18 As to Hon Hai’s first set of allegations regarding unenforceability by ambiguity, the PLA  
19 clearly defines “Android/Chrome Platform.” PLA § 1, at 1. “Android/Chrome Platform” is  
20 defined as:

21 [A]ny platform software that is capable of executing an Android/Chrome App and  
22 (a) is branded using the terms Android, Chrome, Chrome Browser, Chromium,  
23 Chrome OS or Chromium OS, (b) is a fork of the foregoing, or (c) includes the Linux  
24 Kernel and one or more of the following elements; (i) Java platform software, in each  
25 case (a), (b), and (c), including only software components available at  
26 <http://source.android.com> or <http://chromium.org> (or successor websites) or their  
27 substantial equivalents or forks thereof.

28 Id. Hon Hai does not specifically point to anything in this definition that “is so uncertain and  
indefinite that the intention of the parties in material particulars cannot be ascertained.” *Ladas*, 19

1 Cal. App. 4th at 770.

2 The Court therefore GRANTS Microsoft's motion to strike Hon Hai's ninth affirmative  
3 defense for unenforceability by ambiguity as it relates to whether the PLA is ambiguous as to what  
4 licensed products are covered under the Android/Chrome Platform.

5 When Hon Hai requested leave to amend its Answer to add affirmative defenses of  
6 unenforceability by reason of ambiguity and patent misuse, Microsoft argued that Hon Hai's  
7 motion for leave to amend was futile. When the Court granted Hon Hai leave to amend its  
8 Answer, the Court stated that it was sympathetic to Microsoft's arguments that Hon Hai's  
9 affirmative defenses were legally insufficient and that "these new allegations are not necessarily  
10 pled in a manner sufficient to withstand a motion to dismiss or strike." ECF No. 148 at 28, 30.  
11 Hon Hai had the opportunity to add additional allegations to its unenforceability by ambiguity  
12 affirmative defense in response to the Court's admonition. Indeed, Hon Hai's filed Amended  
13 Answer differs substantially from the one Hon Hai proposed and attached to its motion for leave  
14 to amend its Answer. Compare ECF No. 72-1 (proposed amended answer attached to motion for  
15 leave to file amended answer), with ECF No. 190 (Amended Answer). Nonetheless, even with the  
16 Court's admonition and the opportunity to add additional allegations, Hon Hai failed to plead  
17 sufficient factual material to support its unenforceability by ambiguity affirmative defense.

18 Courts are justified in denying leave to amend when a plaintiff "repeated[ly] fail[s] to cure  
19 deficiencies by amendments previously allowed," *Carvalho*, 629 F.3d at 892, and a "district  
20 court's discretion to deny leave to amend is particularly broad where plaintiff has previously  
21 amended the complaint," *Cafasso*, 637 F.3d at 1058. Accordingly, the Court GRANTS with  
22 prejudice Microsoft's motion to strike Hon Hai's ninth affirmative defense for unenforceability by  
23 ambiguity as it relates to whether the PLA is ambiguous as to what licensed products are covered  
24 under the Android/Chrome Platform.

25 The same is not true, however, of Hon Hai's second set of allegations regarding what  
26 patents are included under "Covered Patents." Hon Hai alleges that the definition of "Covered

1 Patents” in the PLA is impermissibly vague because “it identifies all Microsoft patents except for  
2 those excluded under two URLs owned by Microsoft.” Amended Answer ¶ 74. “However[,]  
3 neither of those URLs identified any patents by patent number such that Hon Hai and Microsoft  
4 could agree on which patents were included and which were excluded from the license. Further,  
5 Microsoft deleted the web pages located at these URLs around the time the parties signed the  
6 PLA, further obscuring the precise scope of coverage.” Id.

7 Unfortunately, Microsoft’s motion to strike does not address the specifics these allegations.  
8 Mot. at 19. Instead, Microsoft simply states that “it is feasible to interpret the License Agreement”  
9 and that terms such as “Covered Patents’ requires ordinary contract construction and provide no  
10 basis for vitiating the agreement.” Id. (citation omitted). However, taking Hon Hai’s allegations  
11 as true and drawing all reasonable inferences in Hon Hai’s favor as the Court must on a motion to  
12 dismiss, *Manzarek*, 519 F.3d at 1031, the Court concludes that Hon Hai has adequately alleged an  
13 affirmative defense for unenforceability by ambiguity. Specifically, taking Hon Hai’s allegations  
14 at face value, Hon Hai adequately pleads that it did not know which patents were included or  
15 excluded under the PLA, and therefore, what patents and products Hon Hai agreed to license from  
16 Microsoft may be indefinite and uncertain.

17 The Court again reiterates that it is sympathetic to Microsoft’s argument. California “law  
18 does not favor but leans against the destruction of contracts because of uncertainty; and it will, if  
19 feasible, so construe agreements as to carry into effect the reasonable intentions of the parties if  
20 they can be ascertained.” *Patel*, 45 Cal. 4th at 348 (quotation marks omitted). Moreover, the  
21 Court notes that it is extremely skeptical that Hon Hai and Microsoft never agreed to which  
22 patents were covered under the PLA. As the Court noted above, Hon Hai is a sophisticated  
23 corporation in the electronics industry and was represented by experienced outside counsel during  
24 its negotiations with Microsoft. Hon Hai’s contention that it obligated itself to pay royalties on  
25 unknown patents strains credulity. Indeed, extrinsic evidence not evident on the face of Hon Hai’s  
26 Amended Answer will likely demonstrate that the parties knew what patents and products were

1 within the scope of the PLA.

2 Nonetheless, at this stage of the proceedings, based on Hon Hai's allegations alone and the  
 3 arguments offered in the motion, Microsoft has failed to establish that its motion to strike Hon  
 4 Hai's ninth affirmative defense should be granted. Accordingly, the Court DENIES Microsoft's  
 5 motion to strike Hon Hai's ninth affirmative defense for unenforceability by ambiguity as it relates  
 6 to what patents were included under "Covered Patents." Therefore, the Court GRANTS in part  
 7 with prejudice and DENIES in part Microsoft's motion to strike Hon Hai's ninth affirmative  
 8 defense for unenforceability by ambiguity.

9 **7. The Court Strikes Hon Hai's Tenth Affirmative Defense for Patent Misuse With**  
 10 **Prejudice**

11 Hon Hai's tenth and final affirmative defense is for patent misuse. Amended Answer  
 12 ¶¶ 76–84. Microsoft argues that the Court should strike Hon Hai's tenth affirmative defense for  
 13 patent misuse. "Patent misuse is an affirmative defense to an accusation of patent infringement,  
 14 the successful assertion of which 'requires that the alleged infringer show that the patentee has  
 15 impermissibly broadened the physical or temporal scope of the patent grant with anticompetitive  
 16 effect.'" *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 868 (Fed. Cir. 1997) (quoting  
 17 *Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1001 (Fed. Cir. 1986)). "The courts have  
 18 identified certain specific practices as constituting per se patent misuse, including so-called 'tying'  
 19 arrangements in which a patentee conditions a license under the patent on the purchase of a  
 20 separable, staple good, and arrangements in which a patentee effectively extends the terms of its  
 21 patent by requiring post-expiration royalties." *Id.* at 869 (quotation marks and citations omitted).  
 22 Hon Hai does not contend that any of Microsoft's practices constitute per se patent misuse.

23 Additionally, "Congress . . . has established that other specific practices may not support a  
 24 finding of patent misuse," *id.* (citing 35 U.S.C. § 271(d)), and here, Microsoft does not argue that  
 25 Hon Hai's patent misuse affirmative defense is precluded by 35 U.S.C. § 271(d). In these types of  
 26 situations, "[w]hen a practice alleged to constitute patent misuse is neither per se patent misuse

1 nor specifically excluded from a misuse analysis by § 271(d), a court must determine if the  
 2 practice is reasonably within the patent grant, i.e., that it relates to subject matter within the scope  
 3 of the patent claims.” Id. (quotation marks and citation omitted).

4 For such an affirmative defense for patent misuse to survive, a “defendant must plead more  
 5 than a conclusory allegation of patent misuse in order to provide fair notice of the nature of the  
 6 defense.” *Raines v. Switch Mfg.*, No. C-96-2648 DLJ, 1997 WL 578547, at \*4 (N.D. Cal. July 28,  
 7 1997). “Defendant must state how plaintiff has attempted to overbroadly and impermissibly  
 8 construe its patent such as to cause an anticompetitive effect, and defendant must provide some  
 9 factual basis for the allegation that plaintiff knew the patent was invalid or unenforceable . . . .”  
 10 Id.

11 Here, Hon Hai plainly fails to meet this standard. Hon Hai conclusorily states that  
 12 “Microsoft misuses its patents to expand the geographic scope of its patents beyond the United  
 13 States.” Amended Answer ¶ 81. Hon Hai proffers but one country, Singapore, as an “example” of  
 14 where “Microsoft has far fewer and far less valuable patents,” and where Hon Hai “does not need”  
 15 an Android patent. Id. Hon Hai claims that Hon Hai was nonetheless forced to purchase a  
 16 worldwide license, which ostensibly includes a license in Singapore.

17 To start, it is altogether unclear why Hon Hai’s example of Singapore has any relevance to  
 18 the instant case when the gravamen of Hon Hai’s allegations relate to China. See, generally, id.  
 19 ¶ 100 (“Hon Hai explained that, unlike Microsoft, Hon Hai and its subsidiaries lacked the leverage  
 20 to get most of their brand name customers—especially in China—to bear the cost of the royalties  
 21 demanded by Microsoft . . . .”). Hon Hai includes no allegations regarding patent misuse as it  
 22 relates to China.

23 In any event, Hon Hai’s affirmative defense for patent misuse does not provide any  
 24 information regarding whether Microsoft’s “practice is reasonably within the patent grant, i.e., that  
 25 it relates to subject matter within the scope of the patent claims.” *Virginia Panel Corp.*, 133 F.3d  
 26 at 869 (quotation marks and citation omitted). Hon Hai merely provides conclusory allegations



1 that Microsoft “lacked extra-territorial patent coverage” without providing additional allegations  
2 supporting this conclusion.

3 Furthermore, a “defendant must provide some factual basis for the allegation that plaintiff  
4 knew the patent was invalid or unenforceable.” *Raines*, 1997 WL 578547, at \*4. Here, Hon Hai  
5 does the exact opposite by conceding that “Microsoft may have believed that it had patents  
6 covering the 2013 versions of the Android/Chrome Platform (at the time the parties entered the  
7 PLA).” Amended Answer ¶ 82. Hon Hai does allege that Microsoft could not have known with  
8 certainty “that any of its patents would cover future versions of the Android/Chrome Platform,”  
9 *id.*, but this is not an “allegation that plaintiff knew the patent was invalid or unenforceable.”  
10 *Raines*, 1997 WL 578547, at \*4.

11 Finally, Microsoft correctly notes that courts have consistently approved the use of  
12 worldwide patent licensing agreements even in the face of patent misuse affirmative defenses. For  
13 example, in *Eastman Kodak Co. v. Asia Optical Co., Inc.*, the court noted that in the context of  
14 patent licensing agreements, “‘if convenience of the parties rather than patent power dictates a  
15 total sales royalty provision, there are no misuse of the patents and no forbidden conditions  
16 attached to the license.’” *Eastman Kodak Co. v. Asia Optical Co.*, No. 11-CIV-6036-DLC, 2012  
17 WL 917393, at \*8 (S.D.N.Y. Mar. 16, 2012), *aff’d* 518 Fed. App’x 23 (2d Cir. 2013) (quoting  
18 *Engel Indus., Inc. v. Lockformer Co.*, 96 F.2d 1398, 1408 (Fed. Cir. 1996)) (internal alterations  
19 omitted). “[T]he voluntariness of the licensee’s agreement to the royalty provisions is a key  
20 consideration’ in determining whether a total-sales royalty provision resulted from the patentee’s  
21 economic coercion, constituting patent misuse, or whether the parties agreed to the terms based on  
22 mutual convenience.” *Id.* (quoting *Engel*, 96 F.3d at 1408).

23 In that case, because a provision in the relevant patent licensing agreement “specifically  
24 state[d] that the parties agree to royalties . . . for their ‘mutual convenience,’ citing the  
25 ‘administrative burden and cost of determining’ what constitutes ‘Licensed Product[s],’” the court  
26 concluded that “the worldwide royalties provision . . . [did] not constitute patent misuse,” “[e]ven

1 assuming [Plaintiff] [did] not have relevant . . . patents in China.” Id. at \*9.

2 That same conclusion follows here. Hon Hai attempts to distinguish the instant case from  
3 Eastman Kodak Co. by arguing that Hon Hai did not voluntarily agree to pay royalties and was  
4 instead “coerced by Microsoft to enter a worldwide license based on Microsoft’s market power.”  
5 Opp. at 19. The problem with Hon Hai’s argument is that the PLA contains a provision strikingly  
6 similar to the one in Eastman Kodak Co. Specifically, Section 4.6 of the PLA states that “[t]he  
7 Parties understand and agree that the Device Fees are reduced fees applicable to worldwide Sales  
8 that were chosen for the mutual convenience of the Parties and convenience of accounting.” PLA  
9 § 4.6. As a result, the PLA itself notes that Hon Hai agreed to a worldwide license for reasons of  
10 “mutual convenience,” which provides an additional reason that justifies striking Hon Hai’s patent  
11 misuse affirmative defense. See Eastman Kodak Co., 2012 WL 917393, at \*8–9.

12 Accordingly, the Court GRANTS Microsoft’s motion to strike Hon Hai’s tenth affirmative  
13 defense for patent misuse. When Hon Hai requested leave to amend its Answer to add affirmative  
14 defenses of unenforceability by reason of ambiguity and patent misuse, Microsoft argued that Hon  
15 Hai’s motion for leave to amend was futile. When the Court granted Hon Hai leave to amend its  
16 Answer, the Court stated that it was sympathetic to Microsoft’s arguments that Hon Hai’s  
17 affirmative defenses were legally insufficient and that “these new allegations are not necessarily  
18 pled in a manner sufficient to withstand a motion to dismiss or strike.” ECF No. 148 at 28, 30.  
19 Hon Hai had the opportunity to add additional allegations to its patent misuse affirmative defense  
20 in response to the Court’s admonition. Indeed, Hon Hai’s filed Amended Answer differs  
21 substantially from the one Hon Hai proposed and attached to its motion for leave to amend its  
22 Answer. Compare ECF No. 72-1 (proposed amended answer attached to motion for leave to file  
23 amended answer), with ECF No. 190 (Amended Answer). Nonetheless, even with the Court’s  
24 admonition and the opportunity to add additional allegations, Hon Hai failed to plead sufficient  
25 factual material to support its patent misuse affirmative defense.

26 Courts are justified in denying leave to amend when a plaintiff “repeated[ly] fail[s] to cure

1 deficiencies by amendments previously allowed,” Carvalho, 629 F.3d at 892, and a “district  
2 court’s discretion to deny leave to amend is particularly broad where plaintiff has previously  
3 amended the complaint,” Cafasso, 637 F.3d at 1058. Accordingly, the Court GRANTS  
4 Microsoft’s motion to strike Hon Hai’s tenth affirmative defense for patent misuse with prejudice.

5 **IV. CONCLUSION**

6 For the foregoing reasons, the Court issues the following rulings:

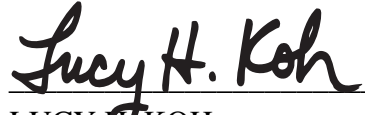
- 7 • The Court GRANTS with prejudice Microsoft’s motion to dismiss Hon Hai’s  
8 counterclaims.
- 9 • The Court GRANTS with prejudice Microsoft’s motion to strike Hon Hai’s following  
10 affirmative defenses:
  - 11 ○ Failure to mitigate (first affirmative defense);
  - 12 ○ Breach of the implied covenant of good faith and fair dealing (second affirmative  
13 defense);
  - 14 ○ Failure of consideration (third affirmative defense);
  - 15 ○ Fraudulent inducement (fifth affirmative defense);
  - 16 ○ Mistake of fact (sixth affirmative defense);
  - 17 ○ “Setoff” (eight affirmative defense); and
  - 18 ○ Patent misuse (tenth affirmative defense).
- 19 • The Court GRANTS with prejudice Microsoft’s motion to strike Hon Hai’s ninth  
20 affirmative defense for unenforceability by ambiguity as to Hon Hai’s claim that the PLA  
21 is ambiguous as to what licensed products are covered under the “Android/Chrome  
22 Platform.” The Court DENIES Microsoft’s motion to strike Hon Hai’s ninth affirmative  
23 defense for unenforceability by ambiguity as to Hon Hai’s claim that the Patent License  
24 Agreement is ambiguous as to what patents are included under “Covered Patents.”
- 25 • The Court DENIES Microsoft’s motion to strike Hon Hai’s fourth affirmative defense for  
26 frustration of performance.

United States District Court  
Northern District of California

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**IT IS SO ORDERED.**

Dated: August 31, 2020



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LUCY H. KOH  
United States District Judge