No. 19-832

IN THE

Supreme Court of the United States

APPLE INC.,

Petitioner,

v.

VIRNETX, INC., LEIDOS INC.,

Respondents.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF ACT | THE APP ASSOCIATION AS *AMICUS CURIAE* IN SUPPORT OF PETITIONER

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February 4, 2020

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INTEREST OF THE *AMICUS CURIAE*[1]

ACT | The App Association (App Association) is an international not-for-profit grassroots advocacy and education organization representing more than 5,000 small business software application developers and technology firms. Today, the ecosystem the App Association represents – which we call the "app economy" – is valued at approximately $1.7 trillion and is responsible for 5.9 million American jobs. Our members lead in developing innovative applications and products across consumer and enterprise use cases, driving the adoption of the internet of things (IoT).

The App Association has a keen interest in the proper functioning of the U.S. patent system. Our members include companies who own patents as well as those who license patents, all of which are directly impacted by the courts' approaches to patent valuation and damage calculations. The potential that courts may presume apportionment of prior licenses when determining damages in patent cases represents a departure from the patent laws and this

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[1] Pursuant to Supreme Court Rule 37.2(a), all parties either provided blanket consent for amicus filings or received appropriate notice of and consented to the filing of this brief. Pursuant to Rule 37.6, *amicus* affirms that no counsel for a party authored this brief in whole or in part and that no person other than *amicus* and its counsel made a monetary contribution to its preparation or submission. No person or entity, other than *amicus*, its members, or its counsel, made a monetary contribution to the preparation or submission of this brief.

Court's precedent. The App Association is deeply invested in ensuring that its members and the app economy can rely on the American patent system to grow and innovate.

SUMMARY OF THE ARGUMENT

The App Association represents over 5,000 small business software application development companies and technology firms located across the mobile economy, developing innovative applications and products meet the demands for rapid adoption of mobile technology, improve workplace productivity, accelerate academic achievement, monitor health, and support the global digital economy. Our members play a critical role in developing new products across consumer and enterprise use cases, enabling the rise of the IoT. Today, the App Association represents an ecosystem valued at approximately $1.7 trillion that is responsible for 5.9 million American jobs.

The small business software and hardware technology industry is a driving force behind the growth in the IoT revolution. Underlying the growth and ingenuity of this sector are intellectual property rights, including patents, and the need for a coherent and well-reasoned framework for patent infringement disputes. *Garretson v. Clark* and over 100 years of precedent have established that every patent infringement case's damage analysis must consider apportionment in order to determine the proper damages. The Federal Circuit Court of Appeals has clearly departed from this requirement.

The App Association agrees with Petitioner that certiorari should be granted so that this Court can address the Federal Circuit's approach to patent damage apportionment in light of statute and this Court's precedent. Otherwise, the Federal Circuit's departure will enjoy the endorsement of this Court, putting the small business community that relies on a consistent and fair patent system in jeopardy.

The App Association also agrees with the Petitioner that the invalidation of the patents at issue through the United States Patent and Trademark Office's (USPTO's) *inter partes* review (IPR) process, and the Federal Circuit's decision to subsequently uphold a judgement on which those same patents are the subject, offers a unique scenario requiring this Court's attention. The USPTO's IPR process is one that provides our members with a much needed alternative to expensive federal litigation, representing a key efficiency. The decisions of the USPTO, as a specialized agency with expert knowledge, are intended to carry weight within the judicial system and ensure that patent holders can appropriately enforce their intellectual property rights. This Court's guidance is needed to address the Federal Circuit's apparent choice to disregard a IPR invalidation.

We urge this Court to grant the Petitioner's request for a writ of certiorari.

ARGUMENT

I. SMALL BUSINESSES DEPEND ON A FAIR AND PREDICTABLE PATENT SYSTEM TO ENABLE CONTINUED GROWTH AND INNOVATION WITHIN THE APP ECONOMY

The App Association represents over 5,000 small business software application development companies and technology firms located across the mobile economy. Our members develop innovative applications and products to meet the demands for rapid adoption of mobile technology, improve workplace productivity, accelerate academic achievement, monitor health, and support the global digital economy. Our members play a critical role in developing new products across consumer and enterprise use cases, enabling the rise of the internet of things (IoT). Today, the App Association represents an ecosystem valued at approximately $1.7 trillion that is responsible for 5.9 million American jobs. *Online Platforms and Market Power, Part 2: Innovation and Entrepreneurship: Hearing Before the H. Subcomm. on Antritrust, Commercial, and Administrative Law, 116th Cong. 2 (2019)* (statement of Morgan Reed, President, ACT | The App Association) *available at* https://actonline.org/wp-content/uploads/Online-Platforms-and-Market-Power-Part-2-Innovation-and-Entrepreneurship-1.pdf.

The IoT is an encompassing concept capturing how everyday consumer and enterprise products begin to

use the internet to communicate data collected through sensors, and act on that data in a timely and effective way. IoT is expected to enable improved efficiencies in processes, products, and services across every sector. In key segments of the U.S. economy, from agriculture to retail to healthcare and beyond, the rise of IoT is demonstrating efficiencies unheard of even a few years ago. "What is the IoT? Everything you need to know about the Internet of Things right now," ZDNet, February 3, 2020, *available at* https://www.zdnet.com/article/what-is-the-internet-of-things-everything-you-need-to-know-about-the-iot-right-now/.

Ultimately, the largest value add of the IoT is in how new data points become part of what is now commonly referred to as the "big data" ecosystem (which we define to mean structured or unstructured data sets so large or complex that traditional data processing applications are not sufficient for analysis). As sensors become smaller, cheaper, and more accurate, big data analytics enable more efficiencies across consumer and enterprise use cases. IoT deployment will be highly use case-dependent. The technology industry, to date, has done well through open application programming interfaces (APIs) and other widely-adopted standards (*e.g.*, TCP/IP) to enable interoperability. For example, in healthcare, a miniaturized and embedded connected medical device must be able to automatically communicate bi-directionally in real-time. This capability enables a healthcare practitioner to monitor a patient's biometric data as well as for the patient to be able to communicate

with a caregiver in the event of a medical emergency. Other uses, such as sensors deployed to alert security of an unauthorized presence, may only require the ability to send data to security professionals with minimal (or even no) capability to receive communications. It is predicted that by 2025, there will be 25.2 billion connected devices in a variety of sectors including gaming, financial, and health across the global digital ecosystem. App Annie, *State of the App Economy 2020* (Jan. 2020), https://www.appannie.com/en/go/state-of-mobile-2019/.

The app economy's success – and the growth of the IoT – relies on continuous innovation and investment in connected devices, requiring legal frameworks that are consistent and strong. Morgan Reed, Comments of ACT | The App Association to the National Telecommunications and Information Administration regarding the Benefits, Challenges and Potential Roles for the Government in Fostering the Advancement of the Internet of Things (June 2, 2016), http://actonline.org/wp-content/uploads/NTIA-Comments-on-IoT-Regulations.pdf. Patents allow small business developers to protect their investments, help attract venture capital, establish and maintain competitive position in the marketplace, and level the playing field dealing with established companies and competitors. Small businesses produce 16 times more patents per employee than large patenting firms. *Innovation in Small Businesses' Drivers of Change and Value Use*, Small Business Administration, *available at* https://www.sba.gov/sites/default/files/rs342tot_0.pdf.

In the growing IoT space, small businesses need to be reassured that U.S. patent law is applied in a clear, reliable, and predictable manner, particularly when courts are evaluating damages in patent infringement suits. Any departure in the courts from established precedent with respect to patent damages calculations creates uncertainty in the outcome of court cases, and further upends norms in negotiations where court methodologies are relied upon, or influence, negotiations.

Further, a healthy patent system must avoid "royalty stacking," when the cumulative demands on licensees for patent licenses cascade to make accepting them unreasonable and economically unviable. Traditionally, devices have been developed to provide a single solution (*e.g.*, a dedicated device to measure blood glucose levels). More recently, however, a multi-functional technology product can easily have hundreds, and sometimes thousands, of pieces of patented technologies contained in it (such as a smartphone), requiring many licenses to be negotiated before production, sale and use. Cutting-edge healthcare devices that utilize internet connectivity and sensors (the capabilities of a smartphone) to enable real-time analytics for improved treatment decisions, for example, will include numerous patented technologies to enable the medical functionality (*e.g.*, blood glucose reading technology), along with a high number of patented technologies that enable internet connectivity (antennae, processing, etc.). Developers of these new multi-function devices face the very real possibility of the demands for licenses to so many patented

technologies "stacking" up to exceed the cost of developing and getting a product to market. In this way, royalty stacking can tax innovation and prevent technology progress.

Royalty stacking and its negative effects are well-documented and widely acknowledged. Royalty stacking effectively consumes a commercial product developer's profit margins, significantly diminishing the incentives to research and develop. *E.g.*, Mark Lemley & Carl Shapiro, *Patent Hold Up and Royalty Stacking*, 85 Tex. L. Rev. 1991, 1993 (2007) (Lemley & Shapiro). Royalty stacking can also constrain technology transfers from universities and research institutes to industry. Christine Godt, Scientific Competition: The Role of Patents in Scientific Competition: A Closer Look at the Phenomenon of Royalty Stacking 151-172 (Max Albert et al. eds., 2008). Further, royalty stacking exacerbates patent hold-up, when the bargaining position of a patent-holder increases considerably after a patent is included in a technical standard, enabling the patent holder to act unreasonably in leveraging its position. Commissioner Terrell McSweeny, *Holding the Line on Patent Holdup: Why Antitrust Enforcement Matters*, Mar.21, 2018.

App Association members are both licensors and licensees in these scenarios. Generally, market forces play a key role in ensuring that a fair royalty is reached and that royalty stacking is mitigated. However, separately, courts are uniquely positioned to prevent royalty stacking. The courts' appropriate application of apportionment in patent damage

calculations prevents detrimental royalty stacking, particularly when more patents read into a single product as IoT innovations converge connectivity and multiple functionalities. Kenie Ho, *Internet of Things: Another Industry Patent War*, A.B.A LANDSLIDE, Vol. 8 No. 2, (Nov./Dec. 2015).

Both the law and public policy interests demand that courts avoid royalty stacking in patent valuations and infringement damages calculations. In recent years, the Supreme Court has demonstrated its commitment to creating a more reliable patent litigation system. For example, in *TC Heartland v. Kraft Foods Brand*, 137 S. Ct. 1514, 1520 (2017), this Court ruled that good-faith innovators can avoid distant patent suits in jurisdictions where they have only minimal contacts. Furthermore, this Court in *Oil States Energy Servs. v. Greene's Energy Grp,* 138 S. Ct. 1365, 1373 (2018), affirmed the United States Patent and Trademark Office's authority to determine patentability of existing patents using the *inter partes* review process was valid under the Constitution. These decisions, among others, demonstrate this Court's commitment to ensuring the U.S. patent system's fairness and reliability. As discussed below, the App Association agrees that this Court's guidance is again needed to ensure that the patent laws are implemented in the public interest, and that Petitioner's request for certiorari should be granted.

II. THE PETITION FOR WRIT OF CERTIORARI SHOULD BE GRANTED TO ADDRESS THE FEDERAL CIRCUIT'S APPROACH TO APPORTIONMENT DAMAGES

A. This Court Must Address the Federal Circuit's Departure from the Apportionment Principle with Respect to Prior Licenses

Both the law and this Court's precedent, along with public policy interest, support the universal application of apportionment to patent damage cases. According to the Patent Act, 35 U.S.C. § 284, "the court shall award the claimant damages adequate to compensate for infringement." Furthermore, the Act states that, in the event of infringement, compensation shall be determined based on "the use made of the invention by the infringer." *Id*. Through many decisions over a century and a half, this Court has reinforced the *Garretson/Apportionment* rule that patent damages must be shown through evidence and apportioned based upon the patentee's invention and the other features of a product in every case. *Garretson v. Clark*, 111 U.S. 120, 121 (1884); *Seymour v. McCormick*, 57 U.S. (16 How.) 480, 491 (1854); *Blake v. Robertson*, 94 U.S. 728, 734 (1877); *Westinghouse Elec. & Mfg Co. v. Wagner Elec. & Mfg. Co.*, 225 U.S. 604, 615 (1912). When appropriately applied, apportionment limits the damages for the patent holder by only accounting for the losses associated

with the patented invention, by eliminating peripheral factors such as marketing of the product, other inventions, or the value of the product as a whole. Christopher B. Seaman, *Reconsidering the Georgia Pacific Standard For Reasonable Royalty Patent Damages*, B.Y.U. L. Rev. 1661, 1697-98 (2010).

In recent years, however, the Federal Circuit has shifted away from this established approach with respect to prior licenses, allowing patentees to use prior licenses and assuming apportionment requirements have been satisfied for such licenses. First, in *Ericsson, Inc. v. D-Link Systems Inc.*, 773 F.3d 1201 (Fed. Cir. 2014) the Federal Circuit allowed the patentee to introduce evidence of other licensing agreements for its patent as a suggestion for where the "reasonable royalty rate" should be set. While the Federal Circuit in this case still acknowledged that when using the "prior licenses" method there is still a "need to apportion the ultimate royalty award to the incremental value of the patented feature from the overall product", the court never actually required the apportionment analysis to be performed. 773 F.3d 1228. In the following year, the Federal Circuit heard *Commonwealth Science & Industrial Research Organisation v. Cisco Systems, Inc.*, 809 F.3d 1295, 1302 (Fed. Cir. 2015) (CSIRO) and held that "a prior license negotiated between the same parties to use the same patent in the same type of end-product already had built in apportionment." 809 F.3d at 1303. In *Elbit* and *Sprint Communications Co. v. Time Warner Cable Inc.*, 760 F. App'x 977 (Fed. Cir.

2019) (*Time Warner*), the Federal Circuit again deviated from the *Garretson* rule. In *Elbit*, the Federal Circuit ruled that evidence of a prior license for the same patent, but different end-products was not required to perform an apportionment analysis to be a valid royalty rate. *Elbit Sys. Land & C4I Ltd. v. Hughes Network Sys., LLC*, 927 F.3d 1292 (Fed. Cir. 2019); Application for Extension of Time to File a Petition for Writ of Certiorari, No. 19A564 (U.S. Nov. 14, 2019); Joint Motion for Entry of Stipulated Dismissal, *Elbit Systems Land & C41 Ltd. v. Hughes Network Sys*., No. 15-00037 (E.D. Tex. Dec. 18, 2019), Doc. 591. The Federal Circuit again not requiring the value of the patent in terms of its contribution to the product, and instead assuming based on prior licenses between varying parties was enough information to ensure proper patent damages. In *Time Warner* the Federal Circuit made a similar ruling to *Elbit*, but decided that no evidence was needed to affirm previously negotiated licenses, nor was there any recognition of the lack of apportionment analysis.

In this case, this Court has a ripe opportunity to address the Federal Circuit's apparent departure from the apportionment principle. The Federal Circuit's decisions with respect to apportionment noted above clearly contradict *Garretson*, lending to systemic abuse and royalty stacking, and presenting uncertainty for the App Association's members working across consumer and enterprise use cases. Whether this Court upholds *Garretson* or intends to create a new norm with respect to prior licenses and apportionment in patent damage calculations, the

Federal Circuit's disregard of the apportionment principle must be addressed.

B. An Apportionment Analysis is Critical to Accurately Calculate the Proper Royalty Rate for Damages, Particularly with Respect to the "Prior Licenses" Approach to Calculating Damages

Apportionment is critical to fairness in damage calculations, particularly with respect to the "prior licenses" approach to calculating damages. Bernard Chao, *Implementing Apportionment*, 2019, Patently-O Pat. L. J. 20 (2019). Negotiated licenses depend on a diverse range of factors and circumstances and are very often fundamentally different, making use of prior licenses in damage calculations something that should not be taken lightly. Negotiated licenses' terms vary widely from negotiation to negotiation, with rates that fluctuate based on broader circumstances such as wider business dealings with the same party and the need to avoid expensive litigation, among others. While prior licenses may indeed provide useful information for value and damage calculations, it is crucial that prior licenses are used appropriately and in ways that respect differing circumstances. There are numerous factors to consider before using a prior license as a baseline for a valuation or damage calculation, and assumptions (with no evidence) cannot satisfy the apportionment requirement when utilizing prior licenses. Without safeguards (namely, evidence of apportionment), a court could easily utilize a prior

license with an improper value, accidentally calculating damages that do not reflect the value of the patent itself. Such a result is not in the public interest.

No group needs certainty on this aspect of patent law more than small businesses, including those that the App Association represents. Further, we note that in private patent license negotiations that occur frequently, courts' approaches to valuation and damages are often relied upon. With continued uncertainty due to the Federal Circuit's unchecked approach to apportionment, small businesses would be forced to deal with methodologies that foster royalty stacking (validated by the Federal Circuit's approach), resulting in the potential of having to accept unfavorable licensing terms that would not align with apportionment principles (and then having those same terms used as a baseline for a court's damage calculation).

Additionally, should the Federal Circuit's approach continue without this Court's review, patent owners may recognize the financial opportunities that arise due to a lack of apportioned damages in a patent infringement case. Such a situation would further embolden suits by abusive patent holders who seek to weaponize the threat of unapportioned and inflated patent judgements as a negotiating tool. Such a negative effect would particularly impact small businesses like the App Associations' members due to the inability to compete in the marketplace as a result of the inflated royalty rates.

The case at hand represents the Federal Circuit effective abandonment of the apportionment requirement in patent infringement damage calculations. Without the safeguards that apportionment provides, App Association members face a patent system where prior licenses, even those that may be clearly dissimilar to the patent infringement at hand, can be weaponized to inappropriately valuate infringed patents. The App Association believes that such an approach contradicts American patent law and disregards well-established precedent, requiring correction. At minimum, this Court should address the Federal Circuit's apparent new approach to apportionment to provide a normalized approach to the entire court system.

III. THE COURT SHOULD ALSO ADDRESS QUESTIONS RAISED THE BY THE U.S. PATENT AND TRADEMARK OFFICE'S INVALIDATION OF THE PATENT AT ISSUE

In patent disputes, litigation is not the only option. Parties can look to alternative and more efficient venues such as the USPTO IPR process, an alternative and more expeditious route for the patent owner to resolve their claim. The USPTO's IPR process provides a much-needed resource for small businesses the App Association represents, which do not have the ability to withstand years of expensive federal court litigation. By enacting the America Invents Act (AIA), Congress recognized "a growing sense that questionable patents [were] too

easily obtained [but] too difficult to challenge." 35 U.S.C. § 321(2012) . Congress sought to "provid[e] a more efficient system for challenging patents that should not have issued" and to "establish a more efficient and streamlined patent system that [would] improve patent quality and limit unnecessary and counterproductive litigation costs." *See id.* Small businesses, the main drivers of the U.S. economy, were at the core of Congress's decision to enact the AIA. As a result, the IPR process provides a more affordable and efficient recourse for small businesses to exercise their rights – whether defending the validity of their granted patent or challenging a granted patent. IPR has proven cost and time saving measures to resolve patent disputes. In its 2015 study, AIPLA found that IPR saves litigants an average of $250,000 when disputing patent claims. *See* American Intellectual Property Law Association, 2015 Report on the Economic Survey, *available at* https://www.aipla.org/detail/journal-issue/2019-report-of-the-economic-survey.

The case at hand offers this Court the opportunity to address the effect of a USPTO judgement on invalidated patents that has been confirmed by the Federal Circuit on an infringement case on the same patents being heard by the same court. According to *Moffitt v. Garr*, 66 U.S. (1 Black) 273, 283 (1862), USPTO actions such as reissuing a patent with an amended claim require that the patentee surrender the prior patent, including any right to enforce "pending suits." Furthermore, the Federal Circuit has always followed this Court's rule that in an intervening PTO patent invalidation applies in

pending infringement cases, at least once those invalidations are affirmed or appealed. *Fresenius USA, Inc.*, 721 F.3d 1330, 1332 (Fed. Cir. 2019); *see also, e.g.*, *XY, LLC v. Trans Ova Genetics*, 890 F.3d 1282, 1294 (Fed. Cir. 2018); *Papst Licensing GMBH & Co. KG v. Samsung Elecs. Am., Inc.*, 924 F.3d 1243, 1249 (Fed. Cir. 2019). Finally, this Court has long recognized that a case is still pending when its status is filing a petition for certiorari. *Carafas v. LaVallee*, 391 U.S. 234, 241 (1968). Therefore, the current law and precedent seem to make clear that an invalidation of a patent by the PTO will apply to infringement cases where the invalidated patent is at issue. However, the Federal Circuit's approach in this case would disregard the PTO's invalidation.

As a community that relies on the USPTO's specialized expertise and its IPR process, we believe that this Court should address the Federal Circuit's departure from well-established precedent with respect to the impact of PTO invalidations on judgments addressing the invalidated patents. Whether the Federal Circuit's approach is correct or not will either affirm a key aspect of the American patent system, or provide a new baseline. While the App Association welcomes the opportunity to share its views in more detail on this question, the Petitioner's request for certiorari should be granted to resolve it.

CONCLUSION

For the foregoing reasons, this Court should grant the petition for a writ of certiorari.

Respectfully submitted,

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