

No. 18-189

IN THE
Supreme Court of the United States

SMARTFLASH LLC,
Petitioner,

v.

SAMSUNG ELECTRONICS AMERICA, INC.,
SAMSUNG ELECTRONICS CO., LTD., APPLE INC., GOOGLE
LLC, AND ANDREI IANCU, UNDER SECRETARY OF
COMMERCE FOR INTELLECTUAL PROPERTY AND DIRECTOR
OF THE UNITED STATES PATENT AND TRADEMARK OFFICE,
Respondents.

**On Petition For A Writ Of Certiorari To The
United States Court Of Appeals For The Federal Circuit**

BRIEF IN OPPOSITION

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QUESTIONS PRESENTED

1. Whether Smartflash is collaterally estopped from re-litigating the issue of patent-eligibility under 35 U.S.C. § 101 that was previously resolved against it in *Smartflash LLC v. Apple Inc.*, 680 F. App'x 977 (Fed. Cir. 2017), *cert. denied*, 138 S. Ct. 687 (2018).

2. Whether this Court should decline to review in the first instance two constitutional questions that were neither presented to nor decided below by the Patent Trial and Appeal Board or the Federal Circuit.

RULE 29.6 STATEMENT

Respondent Apple Inc. has no parent corporation and no publicly traded corporation owns 10% or more of its stock.

Respondent Samsung Electronics Co., Ltd. has no parent corporation and no publicly traded corporation owns 10% or more of its stock. Samsung Electronics Co., Ltd. is the parent corporation of Respondent Samsung Electronics America, Inc.

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BRIEF IN OPPOSITION

Respondents Apple Inc., Samsung Electronics Co., Ltd., and Samsung Electronics America, Inc. respectfully submit that the petition for a writ of certiorari should be denied.

STATEMENT OF THE CASE

For the second time, Smartflash LLC asks this Court to second-guess the Federal Circuit's case-specific determination that its patent claims are ineligible under 35 U.S.C. § 101, as construed in *Alice Corporation v. CLS Bank*, 134 S. Ct. 2347 (2014).

The Court denied review the first time. *Smartflash LLC v. Apple Inc.*, 680 F. App'x 977, 984 (Fed. Cir. 2017), *cert. denied*, 138 S. Ct. 687 (2018) ("*Smartflash I*"). The Court should do so again here. Smartflash is collaterally estopped from re-litigating the patent-eligibility issue that was conclusively resolved against it in *Smartflash I*, and its constitutional objections to the proceedings before the Patent Trial and Appeal Board ("PTAB") were neither raised nor decided below.

1. Smartflash owns a portfolio of related patents that claim methods, systems, and devices for conditioning and controlling access to data based on payment. Smartflash does not practice these patents or make any products.

As the common specification of these patents explains, the claims generally relate to a "portable data carrier for storing and paying for data and ... computer systems for providing access to data to be stored." Pet. App. 5a–6a ('720 Patent, 1:7–8). In particular, the specification describes providing access to content on

a terminal when a payment is verified through a payment processing system. Pet. App. 5a ('720 Patent, 1:46–62). To carry out these methods, the patents require nothing more than generic computer components, such as a “data carrier,” a “standard smart card,” a “computer,” and “memory,” functioning in their routine and conventional manner. Pet. App. 14a.

In 2013, Smartflash filed suit against Apple in the Eastern District of Texas, alleging that several Apple devices, including the iPhone, iPad, and iPod Touch, infringed various claims of Smartflash’s patents. Smartflash asserted four claims of three patents at trial in February 2015: claim 13 of U.S. Patent No. 7,334,720; claim 32 of U.S. Patent No. 8,118,221; and claims 26 and 32 of U.S. Patent No. 8,336,772. *Smartflash I*, 680 F. App’x at 978. The jury found that Apple willfully infringed the asserted claims, and awarded Smartflash \$532.9 million in damages. *Smartflash LLC v. Apple Inc.*, No. 6:13-cv-00447-JRG, Dkt. 503 at 5 (E.D. Tex. Feb. 24, 2015). After trial, the district court vacated the damages verdict and ordered a new trial on damages (which was later stayed pending appeal). *See id.*, Dkt. 580 at 1–2.

Apple appealed the district court’s judgment on liability under 28 U.S.C. § 1292(c)(2). On March 1, 2017, the Federal Circuit held in a unanimous, non-precedential decision that Smartflash’s claims are not patent-eligible under Section 101 as explicated in *Alice*. *Smartflash I*, 680 F. App’x at 984.

At *Alice* step one, the Federal Circuit held that Smartflash’s claims are directed to an abstract idea—the “fundamental economic practice” of “conditioning and controlling access to data based on payment.” *Id.* at 982–83. At *Alice* step two, the Federal Circuit held

that the claims lack any inventive concept because they recite only “generic computer components,” such as “interfaces,” “program stores,” and “processors” that carry out “routine computer activities,” such as “storing, transmitting, retrieving, and writing data to implement” the abstract idea. *Id.* at 984.

2. In addition to the action against Apple, Smartflash separately initiated patent-infringement actions in the Eastern District of Texas against, among others, respondents Samsung Electronics America, Inc. and Samsung Electronics Co., Ltd. and Google Inc., based on the same and other related patent claims. *Smartflash LLC v. Samsung Elecs. Co., Ltd.*, No. 6:13-cv-448-JRG (E.D. Tex.) (filed May 29, 2013); *Smartflash LLC v. Google, Inc.*, No. 6:14-cv-435-JRG (E.D. Tex.) (filed May 7, 2014).

In response to Smartflash’s filing of these actions, Apple, Samsung, and Google sought covered business method (“CBM”) review of Smartflash’s patents under Section 18 of the America Invents Act (“AIA”), Pub. L. No. 112-29, 125 Stat. 284 (2011). The CBM review program, which will sunset on September 16, 2020, allows those who have “been sued for infringement of [a] patent” to seek institution from the PTAB of a “post-grant review proceeding for review of the validity of covered business method patents.” AIA § 18(a)(3), (a)(1), (a)(1)(B); *see, e.g.*, Pet. App. 4a. CBM patents are defined as those that claim “a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service,” other than “patents for technological inventions.” AIA § 18(d)(1).

The PTAB instituted CBM review proceedings as to the claims addressed in *Smartflash I*, as well as numerous other claims in Smartflash’s portfolio of related patents. *See, e.g.*, Pet. App. 4a. Between March 29, 2016 and May 26, 2016, the PTAB concluded in multiple Final Written Decisions that Smartflash’s claims, including the *Smartflash I* claims, are ineligible under Section 101.

The PTAB’s Section 101 analysis was similar in each Final Written Decision. At *Alice* step one, the PTAB held that the claims are directed to an abstract idea: the “fundamental economic practice of conditioning and controlling access to content based on payment.” Pet. App. 10a–11a. At *Alice* step two, the PTAB held that the claims lacked any inventive concept “sufficient to ensure that the patent[s] in practice amount[] to significantly more than a patent on the abstract idea.” Pet. App. 13a. The PTAB determined that the claims recite only generic hardware, memories, and data types that function in their conventional manner. Pet. App. 13a–16a. Finally, the PTAB rejected Smartflash’s assertion that “the challenged claims do not result in inappropriate preemption,” reasoning that where claims fail the two-step test for eligibility, “preemption concerns are fully addressed and made moot.” Pet. App. 22a–25a (quoting *Ariosa Diagnostics, Inc. v. Sequenom, Inc.*, 788 F.3d 1371, 1379 (Fed. Cir. 2015), *cert. denied*, 136 S. Ct. 2511 (2016)).

3. Smartflash appealed the PTAB’s Final Written Decisions to the Federal Circuit, contending that the PTAB erred in concluding that Smartflash’s patents fell within the statutory definition of a CBM patent in Section 18(d)(1) of the AIA, and asserting that some,

but not all, of its claims are patent-eligible under Section 101. *See, e.g.*, No. 16-2451 (Fed. Cir.), Dkt. 71-1 (“Pet. C.A. Br.”) at 28–61. Smartflash also argued that the CBM review proceedings before the PTAB violated Article III and the Seventh Amendment—arguments that this Court subsequently rejected in *Oil States Energy Services, LLC v. Greene’s Energy Group, LLC*, 138 S. Ct. 1365, 1378–79 (2018). *See, e.g.*, Pet. C.A. Br. 25–27.

Because Smartflash made no attempt to distinguish the patent claims the PTAB ruled ineligible from those that the Federal Circuit had already held ineligible in *Smartflash I*, respondents argued in the Federal Circuit that Smartflash was collaterally estopped from re-litigating patent eligibility. Respondents did not address the constitutional issues included in the petition because, as Smartflash admits, it never raised below the Appointments Clause or Due Process Clause issues that it has now asked this Court to address. Pet. 2.

After full briefing and oral argument, the Federal Circuit summarily affirmed all of the PTAB’s Final Written Decisions in a nonprecedential, one-sentence judgment issued under Federal Circuit Rule 36. *Smartflash LLC v. Samsung Elecs. Am., Inc.*, 718 F. App’x 985 (Fed. Cir. 2018). Smartflash did not seek rehearing before the Federal Circuit.

REASONS FOR DENYING THE PETITION

The PTAB concluded that all of the claims at issue in this appeal are ineligible for patenting. Smartflash seeks to attack the merits of the PTAB’s eligibility rulings before this Court (*see* Pet. 30–31), but it is collaterally estopped from re-litigating that issue, which it conclusively lost in *Smartflash I*. And this case is an

exceedingly poor vehicle for addressing Smartflash’s constitutional objections to the PTAB proceedings (*see* Pet. 9–29), which were neither raised nor addressed below.

**I. SMARTFLASH IS COLLATERALLY ESTOPPED
FROM RE-LITIGATING PATENT ELIGIBILITY**

The issue of patent eligibility was fully and fairly litigated in the *Smartflash I* litigation. Smartflash lost before the Federal Circuit, and that judgment became final and unreviewable when this Court denied certiorari in *Smartflash I*. Smartflash is bound by that judgment.

Smartflash made no effort below to show that the patent claims ruled ineligible by the PTAB are in any respect distinguishable from the four claims at issue in *Smartflash I*, and did not even dispute that the requirements of collateral estoppel were satisfied. Pet. C.A. Br. 39. Smartflash instead asked the Federal Circuit to decline to apply collateral estoppel, as a matter of “discretion,” based on Smartflash’s speculation that “by the time this appeal is decided, there may be additional developments in the law interpreting § 101 that would warrant a fresh look at the issue presented,” and because of purported differences in “the evidentiary record.” *Id.* at 40–41. But there have been no relevant Section 101 developments, and any differences in the evidentiary record from *Smartflash I* are irrelevant to the Section 101 question here.

In this Court, Smartflash concedes that collateral estoppel provided “an alternative basis for affirming the administrative decision” in the Federal Circuit. Pet. 31. The Federal Circuit’s summary affirmance of the PTAB’s Final Written Decisions thus rests on an independently sufficient ground that Smartflash has

not asked this Court to review or decide. That is reason enough to deny review as to Smartflash’s challenge to the PTAB’s eligibility rulings.

Smartflash asserts, in conclusory fashion, that if it “is correct about the significance of evidence of lack of preemption in a CBM proceeding, that would undermine any collateral estoppel ruling as well.” Pet. 31. That is nonsense. *Smartflash I* did not involve “preemption in a CBM proceeding,” as it was litigated in federal court. *Id.* at 31. And by its own terms, the question Smartflash seeks to have this Court answer pertains only to adjudication before the “technically proficient judges of the Board.” *Id.* at i. This Court’s resolution of Smartflash’s eligibility question thus would have no impact on the validity of *Smartflash I* or its preclusive effect here.

Because Smartflash is collaterally estopped from re-litigating eligibility, its preemption argument is irrelevant. Whether the PTAB’s rulings were right or wrong, Smartflash does not get to challenge them again—including in this Court. Where, as here, “an issue of fact or law is actually litigated and determined by a valid and final judgment, and the determination is essential to the judgment, the determination is conclusive in a subsequent action between the parties, whether on the same or a different claim.” *B & B Hardware, Inc. v. Hargis Indus., Inc.*, 135 S. Ct. 1293, 1303 (2015) (quoting Restatement (Second) of Judgments § 27); *see also id.* (“where a single issue is before a court and an administrative agency, preclusion also often applies”).

As this Court has recognized, “a losing litigant deserves no rematch after a defeat fairly suffered, in adversarial proceedings, on an issue identical in sub-

stance to the one he subsequently seeks to raise.” *Astoria Fed. Sav. & Loan Ass’n v. Solimino*, 501 U.S. 104, 107 (1991). Smartflash is just such a litigant.

II. SMARTFLASH’S CONSTITUTIONAL ISSUES WERE NEITHER PRESENTED TO NOR DECIDED BY EITHER THE PTAB OR THE FEDERAL CIRCUIT

Smartflash advances *for the first time* in its certiorari petition two constitutional objections to the PTAB proceedings. First, Smartflash argues that the PTAB’s Administrative Patent Judges are principal Officers who are not properly appointed pursuant to the Appointments Clause. Pet. 9–20. Second, Smartflash argues that application of the AIA’s CBM review program to a pre-AIA patent violates the Due Process Clause of the Fifth Amendment. Pet. 20–29.

Whatever the merits of these constitutional arguments, they were not presented to nor decided by the PTAB or the Federal Circuit—as Smartflash admits. Pet. 18, 29. Nor have these issues been considered and decided by the PTAB or the Federal Circuit in any other case. That is reason enough to deny certiorari. *See, e.g., Zivotofsky ex rel. Zivotofsky v. Clinton*, 132 S. Ct. 1421, 1431 (2012) (declining to decide issue “in the first instance” where the Court was “without the benefit of thorough lower court opinions to guide [its] analysis”).

Smartflash is asking this Court to take up and decide, in the first instance, two questions of constitutional law that have never been decided by any tribunal, judicial or administrative. But this is “a court of review, not of first view.” *Cutter v. Wilkinson*, 544 U.S. 709, 718 n.7 (2005); *see also, e.g., CRST Van Expedited, Inc. v. E.E.O.C.*, 136 S. Ct. 1642, 1653 (2016)

“It is not the Court’s usual practice to adjudicate either legal or predicate factual questions in the first instance.”). Indeed, “[t]he very word ‘review’ presupposes that a litigant’s arguments have been raised and considered in the tribunal of first instance.” *Freytag v. C.I.R.*, 501 U.S. 868, 895 (1991) (Scalia, J., concurring in part and concurring in the judgment). That is because this Court benefits from the considered views of lower tribunals before deciding significant questions.

Both of Smartflash’s constitutional issues are the subject of pending litigation before the Federal Circuit, in which that court has formally requested the views of the United States Department of Justice. *Polaris Innovations Ltd. v. Kingston Tech. Co. Inc.*, No. 18-1768, Dkt. 26 (Fed. Cir. July 19, 2018) (Appointments Clause issue); *TradeStation Grp., Inc. v. Trading Techs. Int’l, Inc.*, No. 17-1732, -1766, -1769, Dkt. 91, 99 (Fed. Cir. June 12, 2018) (Due Process Clause issue). Thus, even if either or both of the questions presented by Smartflash might be sufficiently important to warrant this Court’s review in some case (an issue on which respondents take no position), percolation in the Federal Circuit, or even in the PTAB and district courts, will help to develop and sharpen the issues before they arrive at this Court.

It appears that Smartflash has simply seized upon statements in two of the Court’s recent opinions—*Lucia v. S.E.C.*, 138 S. Ct. 2044 (2018), and *Oil States Energy Services, LLC v. Greene’s Energy Group, LLC*, 138 S. Ct. 1365 (2018)—in a last-ditch effort to resurrect its moribund patent portfolio. But that is not how federal litigation works. Absent extraordinary circumstances not present here, litigants are expected to present and preserve their legal arguments, including

constitutional challenges, *before* raising them in this Court. “No procedural principle is more familiar to this Court than that a constitutional right may be forfeited in criminal as well as civil cases by the failure to make timely assertion of the right before a tribunal having jurisdiction to determine it.” *Yakus v. United States*, 321 U.S. 414, 444 (1944).

To be sure, this Court has held that an Appointments Clause violation goes to “the Constitution’s structural integrity,” and as such this Court *may* choose to decide—in “rare” cases—such a challenge even if not raised in the lower courts. *Freytag*, 501 U.S. at 878–79. But that only leads to the question whether this Court *should* excuse Smartflash’s failure to raise its Appointments Clause challenge below. Smartflash provides no legitimate reason why the Court should take such an extraordinary step here.

Smartflash is a resourceful litigant who has, at all stages, been represented by excellent counsel who were surely aware of the pendency of *Lucia* before this Court and were more than capable of raising an Appointments Clause challenge before now. In fact, Smartflash relies on a law review article that was first made available on January 2018—several months *before* the Federal Circuit heard argument and decided this appeal. Pet. 13 (citing Gary Lawson, *Appointments and Illegal Adjudication: The AIA Through a Constitutional Lens*, 26 Geo. Mason U. L. Rev. (forthcoming 2018), <https://ssrn.com/abstract=3105511>). Smartflash apparently made the strategic decision to not raise this issue until after the Federal Circuit had rejected its other arguments. The Court should hold Smartflash to the consequence of that decision.

There is no basis whatsoever to excuse Smartflash’s forfeiture of its due process challenge. Smartflash *did* raise a constitutional challenge to the PTAB’s ability to invalidate issued patents—but just not the one it now makes before this Court for the first time. Rather, Smartflash made the bet that this Court would declare the entire PTAB structure unconstitutional, under either Article III or the Seventh Amendment, in *Oil States*. Smartflash lost that bet, and it does not get to pick another horse now that it knows the outcome of that particular race.

The Court should follow its usual practice, and decline to review the constitutional challenges that Smartflash has attempted to inject into this long-running litigation for the first time in this Court.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted.

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