

No. 19-832

IN THE
Supreme Court of the United States

APPLE INC.,

Petitioner,

v.

VIRNETX INC., LEIDOS, INC.,

Respondents.

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

**BRIEF OF HIGH TECH INVENTORS
ALLIANCE, HP INC., AND LENOVO
(UNITED STATES) INC. AS *AMICI CURIAE*
IN SUPPORT OF THE PETITIONER**

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TABLE OF CONTENTS

	Page
INTEREST OF <i>AMICI CURIAE</i>	1
SUMMARY OF THE ARGUMENT	4
I. THIS COURT’S PRECEDENT REQUIRES THE TRIAL COURT TO ENSURE APPORTIONMENT OF DAM- AGES BETWEEN PATENTED AND UNPATENTED FEATURES	6
II. THE FEDERAL CIRCUIT’S “PRIOR LICENSES” SHORTCUT IS NOT APPORTIONMENT AND THEREFORE IS INCONSISTENT WITH THIS COURT’S PRECEDENT.....	8
III. IT IS IMPORTANT TO CORRECT THIS LEGAL ERROR NOW	11
CONCLUSION	15

TABLE OF AUTHORITIES

CASES	Page(s)
<i>Dowagiac Mfg. Co. v. Minn. Moline Plow Co.</i> , 235 U.S. 641 (1915).....	7
<i>eBay Inc. v. MercExchange, L.L.C.</i> , 547 U.S. 388 (2006).....	11
<i>Elbit Systems Land & C4I Ltd. v. Hughes Network Systems, LLC</i> , 927 F.3d 1292 (Fed. Cir. 2019).....	8, 9
<i>Ericsson, Inc. v. D-Link Systems, Inc.</i> , 773 F.3d 1201 (Fed. Cir. 2014).....	9
<i>Garretson v. Clark</i> , 111 U.S. 120 (1884).....	5, 6, 9
<i>Georgia-Pacific Corp. v. United States Plywood Corp.</i> , 318 F. Supp. 1116 (S.D.N.Y. 1970).....	7
<i>Seymour v. McCormick</i> , 57 U.S. 480 (1853).....	7
<i>Sprint Communications Company, L.P. v. Time Warner Cable, Inc.</i> , 760 F. App'x 977 (Fed. Cir. 2019).....	9
<i>Uniloc USA, Inc. v. Microsoft Corp.</i> , 632 F.3d 1292 (Fed. Cir. 2011).....	14
STATUTES	
35 U.S.C. § 284	4, 10
RULES	
Fed. Cir. R. 36.....	14

INTEREST OF *AMICI CURIAE*

Pursuant to Supreme Court Rule 37.2, *amici curiae* High Tech Inventors Alliance, HP Inc., and Lenovo (United States) Inc. respectfully submit this brief as *amici curiae* in support of the petition for certiorari with respect to the first question presented (damages).¹ The High Tech Inventors Alliance (“HTIA”) is a coalition of high technology companies that was created to advocate on patent law and policy issues.² HTIA members are some of the most innovative technology companies in the world, creating the computer, software, semiconductor, and communications products and services that support growth in every sector of the economy. HTIA members invest over \$100 billion in research and development each year and collectively hold more than 300,000 patents. HTIA is a strong supporter of the patent system and of effective patent protection. At the same time, its members—like many successful technology companies—have frequently been defendants in suits brought by increasingly sophisticated non-practicing entities seeking a return on litigation as a portfolio investment strategy.

HP Inc. is a global leader in innovative personal computing devices, printers, 3D printing, and related services and solutions. HP owns over 27,000 patents

¹ Pursuant to Supreme Court Rule 37.6, *amici* certify that no counsel for a party authored this brief in whole or in part, and that no such counsel or party (other than *amici* or their counsel) made a monetary contribution to the preparation or submission of this brief. Counsel of record for all parties received timely notice of the intent to file this brief and consented to its filing.

² HTIA is described at <https://www.hightechinventors.com/>. HTIA members are Adobe, Amazon.com, Cisco, Dell, Google, Intel, Microsoft, Oracle, Salesforce, and Samsung.

and is also targeted as a defendant in patent infringement lawsuits.

Lenovo (United States) Inc. and its affiliates manufacture one of the world's widest portfolios of connected products and data center solutions, and collectively run more than 40 research and development laboratories and employ over three thousand R&D professionals. The Lenovo group of companies own more than 13,700 patents and are also targeted as defendants in patent infringement lawsuits.

Accordingly, *amici* have a strong interest in a patent system that balances the rights of both patent owners and producers who are accused of infringement. This interest includes ensuring that patent damages awards are based on reliable methodologies and circumscribed by principles of apportionment that this Court has held to be required in patent cases.

Being simultaneously patent owners and producers, HTIA members and the other *amici* have extensive experience as both licensors and licensees of intellectual property. HTIA members and the other *amici* are thus familiar with the many complex, circumstance-specific factors and interests—economic, technical, litigation-induced, and strategic—that go into every license or cross-license negotiation. They also must grapple with the interplay between license negotiations and patent damages awards. Often, a company accused of patent infringement will agree to terms of a license that is acceptable in the short term for that company, and even allow the patent holder to insert self-serving language that does not affect the practical obligations for the current licensee, but can be used by the patent owner in later litigation against other companies. These licenses are then given excessive significance in later litigation, distorting patent damages

calculations. Courts must therefore ensure careful treatment of licenses in patent damages litigation. The topic is especially unsuitable for overbroad assumptions like the one the Federal Circuit has embraced here.

The effect of patent damages jurisprudence on both litigation and licensing is considerable. Perhaps no principle of that jurisprudence is more important than apportionment: if a patentee secures a damages award, then the award must reflect no more than the value of the patented technology in the accused products. A patentee cannot recover any portion of the product's value attributable to its unpatented features. In the realm of computer software and hardware, the existence of many features and functionalities within a single program or device makes the rigorous application of apportionment principles especially crucial. A patentee is not permitted to recover damages on any portion of the innovations attributable to the producer or to other third parties. If even one loophole to this Court's invariable rule of apportionment is allowed, then innovation and economic production can be unfairly taxed and chilled by inflated patent damages awards.

The Federal Circuit has created such a loophole by permitting patentees to rely on past licenses in a manner that completely circumvents apportionment principles. Specifically, the Federal Circuit has codified an assumption that any license has "built in" apportionment such that the value of an accused product that is attributable to unpatented features need not be addressed with case-specific economic evidence. This approach allows damages awards that go far beyond compensation for use of the patented technology itself. The Federal Circuit's rule thus conflicts with this Court's precedent and the Patent Act. In addition, this approach reflects a blanket

assumption about the behavior of parties to license agreements that simply does not comport with the realities, nuances, and variety of real-world license negotiations, especially when many of these licenses are entered into during or under threat of litigation.

This case, in which this non-apportionment methodology yielded nearly a half-billion dollar damages award, puts the “prior license” loophole to apportionment squarely at issue. This Court should grant review to close it.

SUMMARY OF THE ARGUMENT

This Court’s precedents require apportionment to support patent damages claims. Apportionment is needed to separate the value of the patented features of the accused products from their unpatented features. The purpose is to ensure that any recovery by the patentee is limited to the economic footprint of the patented invention in the market place for the accused products. Otherwise, patentees might reap an unjustified windfall from the innovations of others, including the accused producer. Such windfalls would impose a tax on innovation that is inconsistent with the compensatory aim of the Patent Act. *See* 35 U.S.C. § 284 (“Upon finding for the claimant the court shall award the claimant damages *adequate to compensate for the infringement*, but in no event less than a reasonable royalty *for the use made of the invention* by the infringer, together with interest and costs as fixed by the court.”) (emphasis added).

In theory, no one—not the parties, not the Federal Circuit—disagrees that apportionment is required in this and every other patent damages case. The problem is that the Federal Circuit has authorized a shortcut that it labels “apportionment,” but which in

reality involves no apportionment at all. Specifically, it has blessed a damages methodology that enables patentees to identify a per-unit royalty based solely on patent licenses involving different parties and products, and serve up to the jury that same per-unit royalty, taking no account of the different value that unpatented features contribute to the particular accused products. According to the Federal Circuit, this methodology subsumes apportionment because the parties to the “comparable” license agreements are assumed to have apportioned in negotiating that license.

Courts, however, have a duty under *Garretson* to ensure that apportionment occurs on the basis of the relative contributions of the *specific patented and unpatented features* of the *particular accused products* in the case. Courts cannot outsource this duty to the past actions of parties to other licenses involving different accused products.

This legal error not only skews damages awards upward, but it also gives patentees an incentive to selectively identify licensing partners to create artificially favorable license agreements. For example, a patentee may seek to first license wireless technology to a small chip manufacturer for whom the patented technology is a critical component. The chip manufacturer may be willing to pay a high royalty given the cost of litigation and the risks to the manufacturer from a loss. Then, armed with a high per-unit royalty, the patentee may seek the same number from a laptop manufacturer further down the supply chain. But the value to the laptop manufacturer of the patented wireless technology—one feature among many, implemented by one component among hundreds—is likely to be much less than it was to the chip manufacturer. Or the patentee might seek out low-volume (or even no-

volume) licensees willing to enter into agreements that are low in total dollars but high in effective royalty rate. For example, a licensee that sells only 1,000 units likely would be willing to accept a license for \$10 a unit (for a total payment of \$10,000) rather than litigate, because the total cost of the license is far less than the expected litigation costs. And, although the license royalty rate reflects only the value to the licensee of avoiding litigation, the patent owner is then able to claim it has a \$10 per unit royalty in a subsequent suit against a manufacturer that sells millions of units per year.

Absent an apportionment analysis that is individualized to the particular defendant and accused products in suit, such license agreements become evidentiary super-weapons in patent litigation. Even when the rates are purportedly “adjusted” in a “comparability” analysis, such licenses can be used to set an overly high boundary within which the jury may then operate in calculating damages. Only a rigorous application of apportionment principles—parsing the value of patented and unpatented features in the context of the specific accused products at issue and avoiding assumptions about the context of a particular license—can rein in this process. Review is warranted to avoid these consequences by restoring fidelity to the Patent Act and this Court’s precedents.

I. THIS COURT’S PRECEDENT REQUIRES THE TRIAL COURT TO ENSURE APPORTIONMENT OF DAMAGES BETWEEN PATENTED AND UNPATENTED FEATURES

In every patent infringement case, this Court requires apportionment of damages between patented and unpatented features of the accused products. *See Garretson*

v. Clark, 111 U.S. 120, 121 (1884) (“The patentee . . . must in every case give evidence tending to separate or apportion the defendant’s profits and the patentee’s damages between the patented feature and the unpatented features.”); see also *Dowagiac Mfg. Co. v. Minn. Moline Plow Co.*, 235 U.S. 641, 646 (1915) (espousing same rule); *Seymour v. McCormick*, 57 U.S. 480, 490-91 (1853) (espousing same rule). Any patent damages analysis, therefore, needs an inquiry into the relative extents to which patented and unpatented features drive demand or otherwise account for the value of the accused product. Comparable real-world licenses, where available, can be a relevant factor in that analysis. See *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970). But nothing in this Court’s precedent suggests that reliance on real-world licenses alone automatically satisfies the apportionment requirement.

Nor does practical reality support such an assumption. As HTIA members and the other *amici* can attest from experience, patent license agreements are the product of a variety of circumstance-specific factors and interests. Negotiations can be undertaken under various pressures—the pressure of a product release, the pressure of a jury trial, the pressure of avoiding litigation in order to focus on more pressing business matters—and the final product often reflects an uneasy compromise between the interests of the parties to the particular agreement. Even when examining one particular agreement, it may be difficult to answer whether and how any “apportionment” in fact occurred. It is that much less appropriate to assume automatically that it occurs all the time. And even if license parties use some form of “apportionment” in negotiating a rate, that cannot satisfy the apportionment requirement

in litigation involving different parties, patents, and accused products.

II. THE FEDERAL CIRCUIT’S “PRIOR LICENSES” SHORTCUT IS NOT APPORTIONMENT AND THEREFORE IS INCONSISTENT WITH THIS COURT’S PRECEDENT

While recognizing in theory a court’s duty to hold patentees to their burden of apportionment, the Federal Circuit has in practice created an exception to apportionment in reasonable royalty cases.

This legal error manifests itself clearly in *Elbit Systems Land & CAI Ltd. v. Hughes Network Systems, LLC*, 927 F.3d 1292 (Fed. Cir. 2019). In *Elbit*, the Federal Circuit determined that the jury properly relied on the patentee’s damages expert’s use of a per-unit royalty figure from a prior license agreement “for one-way technology, together with [accused infringer]-based evidence that two-way technology was worth at least an additional 20%, to arrive at [a] proposed per-unit figure.” *Id.* at 1300. The court of appeals went astray in holding that this analysis alone satisfied the apportionment requirement on the theory that apportionment “‘is essentially embedded in [the] comparable value’ from the [prior license] Agreement concerning a comparable component of a larger product or service.” *Id.* at 1301. The court likewise embraced the patentee’s damages expert’s testimony that the “‘requisite apportionment is implicitly considered within the royalty rate’” of the prior license agreement. *Id.* “Rather than ‘parse out a value for each of the claims,’” the expert “‘came up with a market, comparable royalty rate, and then [he] adjusted it as necessary’ for the hypothetical negotiation.” *Id.* (alteration in original).

The Federal Circuit maintained that the patentee had properly used the prior license to “fulfill the apportionment requirement.” *Id.* But the court did not point to any evidence bearing on the apportionment of value “*between the patented feature and the unpatented features*” of the accused products as this Court requires, *Garretson*, 111 U.S. at 121 (emphasis added). The Federal Circuit instead held that, in using the prior license agreement “as his starting point, [the expert’s] analysis could reasonably be found to incorporate the required apportionment.” *Elbit*, 927 F.3d at 1301; accord *Sprint Communications Company, L.P. v. Time Warner Cable, Inc.*, 760 F. App’x 977, 983-84 (Fed. Cir. 2019) (“[D]amages testimony regarding real-world relevant licenses ‘takes into account the very types of apportionment principles contemplated in *Garretson*.’” (quoting *Ericsson, Inc. v. D-Link Systems, Inc.*, 773 F.3d 1201, 1227-28 (Fed. Cir. 2014))). This automatic *assumption* of apportionment, which likewise supported the summary affirmance in this case, is not the same as the *performance* of apportionment that this Court’s precedents require. Apportionment requires an individualized assessment that takes into account the value of both patented and unpatented features to the specific accused products in the case. *See Garretson*, 111 U.S. at 121. The Federal Circuit’s approach is inconsistent with this requirement because it allows a patentee to bypass any proof of the relative technical and economic contributions of the patented and unpatented features to the actual accused products.

Moreover, this blanket assumption about “real-world” licenses does not itself reflect the real world. There may be substantial differences both in the motivations of the parties to the license and to the license structure itself even in situations with the same

licensor, the same patents, and different licensees in the same product market. Even renegotiation of a license between the same exact parties at the end of the initial license's term may result in a substantially different effective royalty rate due to circumstances having nothing to do with the relative contributions of patented and unpatented features to the licensed products. Litigation avoidance, the desire to protect downstream customers from licensing demands and potential lawsuits, the value of any other rights or assets that may be exchanged in the license agreement, changes in statutory or case law, and various economic and strategic considerations may shape the outcome. If the effective royalty rate can vary by an order of magnitude in these situations, then it is unrealistic to suppose that the Federal Circuit's comparability requirement (where the prior license often involves different parties, different products, and different patents) can substitute for the individualized apportionment that this Court's precedent and § 284 of the Patent Act require. There is too much complexity and variety in those negotiations and their outcomes to support a blanket assumption that the parties negotiated a license rate that separates the value of the patented technology from the value of the unpatented features in the licensed products.

Accordingly, there are no universal truths about whether parties "build in" apportionment, nor how and to what extent apportionment is or is not achieved when one or both parties pursue some approximation of it. When licenses are sufficiently comparable to be admissible and properly adjusted to be usable in a particular case, they may supply one piece of market information that informs what compensation is due for the use of a patented invention under 35 U.S.C. § 284. But to assume that prior licenses have already accom-

plished the work of apportionment that the patentee is required to perform in the *particular case at hand* is far too much weight for the variable enterprise of patent licensing to bear. This Court should grant review to restore licenses to their previous place as a tool—not a talisman—in the damages analysis.

III. IT IS IMPORTANT TO CORRECT THIS LEGAL ERROR NOW

Review should be granted to uphold the apportionment requirement and restore the use of prior licenses to their proper place in a patent damages analysis. Prior licenses of course can be a factor in the analysis, but they are not a super-factor that can simply substitute for true apportionment between patented and unpatented features of the accused product at issue. Multiple practical problems flow from the Federal Circuit's endorsement of this non-apportionment methodology.

First, the Federal Circuit's rule confers undue leverage on patentees. The mere threat of extracting a portion of a product's value that is not carefully tied to the (often very small) patented contribution may lead inefficiently to settlements far out of proportion with economic reality. This is particularly harmful where the value of the allegedly infringing product is due largely to the accused manufacturer's own innovation, while the value of the earlier-licensed product was more closely tied to the patented invention. This result is inconsistent with the compensatory purpose of patent damages and upsets the balance between access to ideas and incentives for innovation that the patent system is designed to achieve. It is also a familiar problem that this Court's patent jurisprudence has assuaged in other contexts. *See eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 396-97 (2006)

(“When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.”) (Kennedy, J., concurring).

Especially in technology fields in which HTIA members and the other *amici* innovate and compete, products with numerous components and seemingly countless features are now commonplace. These features are often implemented by components manufactured by third parties extending along a lengthy supply chain. So the risk of compensating patentees for the value of features in the specific accused product, unrelated to the asserted patented technology, is higher than ever. This does not mean, of course, that absolute precision must be demanded before any damages may be awarded. But the inflexible, overbroad assumption that was applied in this case errs to the opposite extreme. As this shortcut continues to grow in prominence and success for patentees, the previously-required path to apportionment—economic analysis of the value attributable to patented, as opposed to unpatented, features in the actual accused products—will become increasingly abandoned.

The larger damages verdicts that this shortcut allows, in turn, will confer greater leverage on patentees in license negotiations. Then the elevated royalty rates that may emerge from those negotiations will be used in litigation to propel an inexorable upward spiral in damages awards. This feedback loop between license rates and damages awards makes it especially appropriate for this Court to grant review of this issue now. The misuse of licensing in litigation paves the

way for the threat of litigation to be misused in licensing. Whether the excessive amounts are paid in the form of damages or license rates, the result is the same: a tax on producers' own innovations, one of the very things apportionment principles exist to avoid.

Nor is it a good answer to say that these concerns will all come out in the wash of a "comparability" analysis. *See* Section II, *supra*. Comparability (a binary determination as to whether the circumstances of a prior license are similar to the case at hand) is not the same thing as apportionment (the separation of value between patented and unpatented features with respect to a specific accused product). Yet the damages methodology endorsed by the Federal Circuit allows comparability to swallow apportionment whole without actually digesting it.

Likewise, the rule applied in this case encourages collusive or sham licenses that at least nominally reflect an inflated royalty rate. Such rates, in turn, can be improperly used to raise the bar for damages awards against other producers because they will be automatically deemed to "build in" apportionment. As the Federal Circuit's blanket assumption has taken root, patentees have even greater incentive to seek out one or more licensees who will agree to a high effective royalty despite paying few (sometimes zero) actual dollars. These artificially inflated licenses then become the anchors of damages presentations to the jury. The relative value of the patented and unpatented features of the particular accused products remains unaccounted. And these artificial license rates, unencumbered by actual apportionment for the case at hand, improperly "skew the damages horizon for the jury, regardless of the contribution of the patented component . . . ,"

Uniloc USA, Inc. v. Microsoft Corp., 632 F.3d 1292, 1320 (Fed. Cir. 2011).

Second, the disproportionate damages awards that the Federal Circuit's rule permits can cause especially severe problems of damages stacking that will deter production and innovation. Manufacturers and sellers are often subject to multiple lawsuits by separate parties asserting different patents against the same product, and may face the threat of multiple damages awards on those products. It is bad enough when one patentee receives a monetary windfall from the contributions that others have made to the value of an accused product. It is that much worse when multiple patentees make withdrawals from this account that properly belongs to someone else. This is especially problematic for producers like HTIA's members and the other *amici*, who constantly confront defensive patent litigation and licensing demands, and depend upon a rational regime of patent remedies that will not force cumulative payments that altogether exceed the value of their products.

Far from making this case unsuitable for review, the Federal Circuit's Rule 36 affirmance confirms that it has spoken definitively on this question. Given the Federal Circuit's exclusive jurisdiction over patent cases, there is also no realistic possibility of a circuit split. As a result, no further percolation of the issue can reasonably be expected in the courts of appeals. Nor is it required. The issue is ripe and squarely presented in this case.

The black boxes of jury verdicts and Rule 36 affirmances cannot absolve the Federal Circuit's legal error that excuses genuine apportionment of patent damages in a broad class of cases. That is especially so here, where the black box contains no evidence

uninfected by the legal error that could have supported the damages verdict. The petition for certiorari squarely presents a pure question of patent damages law that calls for immediate resolution of the clear conflict with this Court's precedent. There is no reason to wait for another case to come along. Review is needed now to prevent continued bypassing of this Court's apportionment requirement.

CONCLUSION

Amici respectfully ask this Court to grant the petition for certiorari to address the important question relating to apportionment of damages in patent cases.

Respectfully submitted,

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