No. 2014-1802

IN THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

APPLE, INC., a California Corporation,

Plaintiff and Appellee,

v.

SAMSUNG ELECTRONICS CO., LTD., a Korean corporation, SAMSUNG ELECTRONICS AMERICA, INC., a New York corporation, and SAMSUNG TELECOMMUNICATIONS AMERICA, LLC, a Delaware limited liability company,

Defendants and Appellants.

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on appeal from the United States District Court
for the Northern District of California
Case No. 11-CV-01846, Judge Lucy H. Koh

BRIEF OF CHARLES M. DAVIDSON AND MICHAEL J. SANTORELLI AS *AMICI CURIAE* IN FAVOR OF REHEARING *EN BANC*

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CERTIFICATE OF INTEREST

Pursuant to Federal Circuit Rule 47.4, counsel for *amici curiae* certifies the following:

1. The full name of every *amici curiae* represented in this case by the undersigned counsel is:

   Charles M. Davidson & Michael J. Santorelli, Directors, Advanced Communications Law & Policy Institute, New York Law School.

2. The name of the real party in interest (if the party named in the caption is not the real party in interest) represented by the undersigned counsel is:

   N/A.

3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the *amici curiae* represented by the undersigned counsel are:

   None.

4. The names of all law firms and the partners or associates that appeared for the *amici curiae* now represented by the undersigned counsel in the trial court or are expected to appear in this Court are:

   Kimberly N. Brown of Brown Legal Consulting, LLC.

Dated: November 2, 2015 */s/ Kimberly N. Brown*

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INTEREST OF *AMICI CURIAE*

Amici Charles M. Davidson and Michael J. Santorelli are Directors of the Advanced Communications Law & Policy Institute at New York Law School, a not-for-profit educational institution.[1] They study the impact of law and regulatory policy on competition, innovation, and consumer welfare throughout the U.S. advanced communications space. *Amici* are concerned that, without *en banc* review, the ruling at issue may result in unintended consequences for innovators and consumers in the U.S. wireless sector, in particular by inviting a deluge of lawsuits seeking injunctive relief, which would be contrary to the letter and spirit of the U.S. patent laws, as well as previous Supreme Court and Federal Circuit precedent, and would harm the public interest.

INTRODUCTION AND SUMMARY OF THE ARGUMENT

Amici urges the Court to undertake *en banc* review for two reasons. *First, en banc* review would ensure a clear, uniform standard for granting permanent injunctive relief in patent infringement cases as set forth by the Supreme Court in *eBay Inc. v. MercExchange, L.C.C.*, 547 U.S. 388 (2006). Because the panel was

[1] *Amici* do not file on behalf of New York Law School but in their individual capacities; the views set forth herein are their own. Pursuant to Fed. R. App. P. 29(c)(5), *amici* certify that no party's counsel wrote this brief in whole or in part, that no counsel or party contributed money intended to fund this brief, and that no one other than *amici*, their members, and their counsel made such a contribution.

deeply fractured on the question of whether the district court improvidently denied injunctive relief, as well as the proper standard of review on appeal, and because the Federal Circuit leads the nation in establishing precedent for patent disputes, the panel's confusion around the threshold for obtaining injunctive relief against patent infringers is problematic. Indeed, the ruling at issue here could be interpreted as weakening the relatively stringent *eBay* standard for deciding whether injunctive relief is an appropriate remedy for patent infringement. Absent a clear and rigorous standard, overuse of injunctive relief in patent infringement cases could chill technological innovation in the advanced communications space, undermine competition, and harm consumers.

Second, the issues addressed in the panel ruling have implications that extend far beyond the smartphone industry. At bottom, the question before the Court is how to apply the *eBay* standard in a way that successfully walks the line between promoting investment-based risk by holding patent infringers accountable and ensuring that injunctive relief is not misused in a way that dampens competition and innovation. *En banc* review is warranted to afford this Court a full opportunity to consider the effects of an altered injunctive relief standard across the nation's mobile ecosystem.

ARGUMENT

I. En Banc Review Is Necessary To Assure Fidelity To Federal Circuit And Supreme Court Precedent Regarding The Standards For Injunctive Relief

The three opinions filed by judges in this case were sharply divided. That each member of the panel issued a separate ruling is not unusual, but their disparate interpretations of *eBay* signal the beginning of a schism on the Court, a development that, if left unaddressed, could result in the inconsistent application of Federal Circuit and Supreme Court precedent regarding the standards for granting injunctive relief. Given the Federal Circuit's prominent role in patent litigation, the Court should reconsider the case *en banc* to assure consistent application before further divergence emerges.

There is much dissonance in the three opinions vis-à-vis how best to interpret and apply *eBay*. The majority applied the first prong of the *eBay* standard—a showing of irreparable injury—to require that the patentee demonstrate "'some connection' between the patented features and the demand for the infringing products" rather than a showing that the features "drive consumer demand," as the district court required (at 10) (internal quotation marks omitted). In *eBay*, the Supreme Court chided the Court of Appeals for "err[ing] in its categorical grant of [injunctive] relief," emphasizing that "the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts." *eBay*,

547 U.S. at 394. In light of the panel majority's overruling of the district court's factual findings regarding the causal nexus in this case (at 13-17), the decision could be construed as undermining the clarity of the *eBay* standard in patent cases.

For its part, the concurrence posited that "infringement on the right to exclude," which has heretofore been "ignor[ed]" by the Federal Circuit, should be considered an "'injury'" that is "sometimes irreparable" (at 4-5). However, in *eBay*, the Supreme Court rejected the argument that a right to exclude alone justifies a general rule of permanent injunctive relief. *See* 547 U.S. at 392. The concurring judge also placed significant weight on potential "reputational harms" in the calculus around actual harm (at 2, 10-18), a factor that could unintentionally tilt the innovative playing field in favor of entrenched firms at the expense of smaller upstarts that lack the means to engage in expensive patent litigation.

The standards that prevailed prior to this case neatly encapsulate the many forces and considerations shaping the case law that is emerging from the new generation of IP infringement cases in the modern advanced communications market. *See, e.g., Apple, Inc. v. Samsung Elecs. Co.*, 695 F.3d 1370, 1374 (Fed. Cir. 2012) ("*Apple II*") (discussing standard for granting preliminary injunctions). The Federal Circuit's test for assessing whether there is a direct relationship between "the alleged harm" and "the alleged infringement," *id.*, protects against the use of injunctions as tools to "punish" rather than as vehicles for "deter[ring] future harm,"

Hynix Semiconductor Inc. v. Rambus Inc., 609 F. Supp. 2d 951, 969 (N.D. Cal. 2009). The burden of proving irreparable harm and establishing a causal nexus between that harm and the alleged infringement is traditionally a heavy one by necessity, largely outweighing most of the other factors articulated in *eBay* for granting a permanent injunction. Yet the majority appears to have misread Federal Circuit precedent on this point, and in its zeal to avoid a "categorical" ruling (at 12), dismisses the level of proof that has long been required to show irreparable harm.

The dissent is the standard-bearer of *stare decisis*, arguing that "the majority deviates from [Federal Circuit] precedent" by straying from its established approach to evaluating claims of irreparable harm (at 5). It exhaustively chronicles areas where the majority "reaches a result that comports with neither existing law nor the record in this case" (at 2). At bottom, the dissent appears concerned with preserving a high bar for granting injunctive relief in order to "prevent undue leverage wielded by patents on minor features" included in devices with "potentially hundreds of thousands of patented features" (at 2-3). When viewed in this light, the dissent suggests, the case is "not a close [one]" (at 1).

These divergent views must be reconciled and brought in line with precedent in order to assure consistency in the application of *eBay* going forward. Prior to the panel decision, the ongoing dispute between Apple and Samsung provided a compelling case study of recent patent enforcement dynamics, where the application

of tenets from the evolving jurisprudence of innovation law yielded a result that, in the words of this Court, promotes the "general premise that competition serves the public interest" because, "[a]mong other things, it ensures competitive pricing and fosters innovation." *Douglas Dynamics, L.L.C. v. Buyers Products Co.*, 717 F.3d 1336, 1346 (Fed. Cir. 2013). *En banc* review would allow the court to determine whether the ruling at issue comports with this approach and with overarching principles of innovation law espoused by the Supreme Court.

II. En Banc Review Is Necessary To Address An Issue Of Exceptional Importance To Continued Innovation In The Advanced Communications Sector

Amici are concerned that, regardless of the merits of this particular case, the panel's approach to the *eBay* standard could have unanticipated and untoward ripple effects extending well-beyond the corners of this dispute.

The smartphone industry is but a piece of the mobile ecosystem, which is comprised of network providers (firms that build and operate wireless network services that we use every day), device manufacturers (firms that design and build products like smartphones that harness communications services and deliver content to end-users), and content developers (firms that create software that is accessed on devices via high-speed Internet networks). Firms across the ecosystem work together and compete, creating interesting and novel legal and regulatory questions.

Given how entangled these firms are, what happens in one segment tends to spill over into and impact other segments.

In their work, *amici* have long focused on network-level issues and examined how policymakers can facilitate continued growth of wireless broadband connectivity. However, technological convergence and the growing market power exerted by other companies in the ecosystem, especially device and content companies, have broadened their focus to the role of IP laws as both an enabler of and possible impediment to innovation. As such, *amici* have grown increasingly interested in the smartphone patent wars. They seek to voice general support in this litigation for preserving the forces that have led to vibrant innovation and competition throughout this dynamic space.

In *eBay*, Justice Kennedy justified the need for a strong and consistently applied standard for injunctive relief on the theory that lax or uneven application encourages so-called "patent trolls" to subvert the law for self-enrichment. *See eBay*, 547 U.S. at 396-97 (Kennedy, J., concurring). Equipped with injunctions as a "bargaining tool," patent trolls would have greater power to effectively blackmail firms into submission or otherwise subvert the innovative process. *See id.* To the extent the panel decision could be construed as weakening the *eBay* standard enough to facilitate this kind of behavior, it is of exceptional importance. The Supreme Court has directed federal courts to be on guard against patent trolls, noting that the

judiciary has "the authority and responsibility to ensure frivolous cases are dissuaded." *Commil USA, LLC v. Cisco Systems, Inc.*, 135 S. Ct. 1920, 1930 (2015). While it is important to construe the patent laws in such a way that innovators are incentivized to take investment-based risks, it is also important for courts to ensure that injunctive relief does not become a tool for tamping down innovation and competition. As a consequence, the *eBay* standard is difficult to meet by design. Without such a high bar, injunctions would become, as Justice Kennedy warned, a powerful sword for harming competitors rather than the shield for protecting rights holders from extraordinary harms that they were designed to be.

The tensions around how best to spur innovation and protect patentees are especially relevant in cases involving smartphone patent disputes. The average smartphone contains as many as 250,000 patented elements. *See, e.g.*, Steve Lohr, *Apple-Samsung Case Shows Smartphone as Legal Magnet,* N.Y. Times (Aug. 25, 2012). Among these are thousands of patents covering hardware aspects of phones; even more cover underlying software. Since it would be all but impossible—and economically futile—for a single firm to generate and secure the rights for each of these inventions, innovators throughout the smartphone space, including Apple and Samsung, regularly collaborate. *See, e.g.*, Concurrence at 9 (noting that "Samsung supplies about 25 percent of the components of the iPhone"). Cross-licensing of

hardware and software patents is common, allowing firms to specialize in and profit from the production of specific elements.

Although generally beneficial to the innovative process and consumers, these relationships also create powerful economic incentives for firms to use their patented inventions as legal tools for gaining and protecting valuable market share or for engaging in suspect behavior such as patent trolling. Indeed, the many financial opportunities that smartphones enable have stoked the aggressive assertion of patents by rights holders of all sizes.[2] Coupled with the exponential growth of software patents awarded over the last few decades, *cf. Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 134 S. Ct. 2347 (2014) (providing guidance regarding the patentability of certain kinds of software), this outcome seems to contradict the core intent of U.S. intellectual property law, which is to encourage progress and invention. U.S. CONST. art. I, § 8 cl. 8. But as the Federal Circuit has noted in the past, enforcing the valid rights of a single firm, while still of paramount importance, should not impede innovative progress, especially when those rights are but a small piece of a much larger puzzle of patents. *See, e.g., Apple, Inc. v. Samsung Elecs. Co.*, 735 F.3d 1352, 1362 (Fed. Cir. 2013) ("[T]he causal nexus requirement applies regardless of the

[2] These financial opportunities encompass more than just the revenues generated by smartphone sales. They include revenues derived from cross-licensing patents, fees paid by applications developers to manufacturers, fees paid by developers to patent assertion entities, and revenues stemming from using data collected on the device to target advertisements at end-users.

complexity of the products. It just may be more easily satisfied (indeed, perhaps even conceded) for relatively 'simple' products.") ("*Apple III*"). Thus, continued innovation in the advanced communications space not only requires vigilance and some measure of flexibility in the application of patent laws, but also consistency and maintenance of stringent standards for awarding injunctions. Otherwise, the Federal Circuit and the courts it oversees may unintentionally open the door to predatory firms, an outcome that would harm innovation in dynamic markets and, ultimately, consumers.

CONCLUSION

For the foregoing reasons, *amici* respectfully submit that the petition for *en banc* review should be granted.

Dated: November 2, 2015

Respectfully submitted,

/s/ Kimberly N. Brown

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CERTIFICATE OF SERVICE

I hereby certify that on November 2, 2015, I electronically filed the foregoing with the Clerk of the Court for the U.S. Court of Appeals for the Federal Circuit using the CM/ECF system. Pursuant to ECF-10(B) of this Court's May 17, 2012 Administrative Order Regarding Electronic Case Filing, I certify that I will submit to the Court six paper copies of the Brief within six days of this Court's acceptance of the brief in ECF.

I also certify that all participants in the case are registered CM/ECF users and that service will be accomplished by the CM/ECF system.

/s/ Kimberly N. Brown

Kimberly N. Brown