

IN THE
Supreme Court of the United States

MESO SCALE DIAGNOSTICS, LLC. AND
MESO SCALE TECHNOLOGIES, LLC.,
Petitioners,

v.

ROCHE DIAGNOSTICS GMBH, ROCHE DIAGNOSTICS CORP.,
ROCHE HOLDINGS LTD., IGEN INTERNATIONAL, INC.,
IGEN LS LLC, LILLI ACQUISITION CORP., AND
BIOVERIS CORP.,
Respondents.

**On Petition for a Writ of Certiorari
to the Supreme Court of Delaware**

**BRIEF OF VERATO, INC.
AS *AMICUS CURIAE*
SUPPORTING PETITIONERS**

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INTEREST OF *AMICUS CURIAE*¹

Amicus Verato, Inc. (“Verato”) is a software company that provides software as a service (“SaaS”) solutions for securely identifying and relating personal identities across disparate data systems. As it explains below, Verato believes that the decisions of the courts below create unnecessary uncertainty regarding the additional risk to Verato and its customers who access its SaaS platforms pursuant to software license agreements. Verato’s customers include large companies in the healthcare, cyber security, insurance, and credit industries.

As a technology company, Verato seeks out all intellectual property protection available for its products and services. It also must contend with an increasingly complex technological environment in an industry that has been especially susceptible to concerns over patent thickets. Whether prosecuting or defending a patent claim, a covenant not to sue is a vital tool. Verato must have certainty in the meaning and scope of covenants not to sue for itself and its customers. Verato, then, has a particularly strong interest in ensuring that the decision below is overturned.

¹ Pursuant to Rule 37.6, counsel for *amicus* represent that they authored this brief in its entirety and that no person other than *amicus* or its counsel made a monetary contribution intended to fund its preparation or submission. Pursuant to Rule 37.2(a), all parties were provided timely notice of *amicus*’s intention to file this brief. *Amicus* received written consents from petitioners and respondents, which written consents are being submitted contemporaneously with this brief.

ARGUMENT

I. CERTIORARI IS WARRANTED TO BRING CERTAINTY TO THE QUESTION OF WHETHER A COVENANT NOT TO SUE IS EQUIVALENT TO A LICENSE FOR PURPOSES OF THE PATENT EXHAUSTION DOCTRINE.

A. The Issue Is Critically Important to Software Companies Such As Verato.

As petitioners demonstrate (at 18-24), the question presented—whether a covenant, promise, or agreement not to sue for the infringement of a federal patent is a license of that patent as a matter of federal law—has numerous and wide ranging implications for all manner of business owners, including patentees and accused infringers alike. For that reason, the question presented is important and warrants review.

Amicus Verato has always operated under the understanding that a covenant not to sue under a patent is a license of that patent. This Court's holding in *De Forest Radio Telephone & Telegraph Co. v. United States*, 273 U.S. 236 (1927), and the Federal Circuit's holding in *TransCore, LP v. Electronic Transaction Consultants Corp.*, 563 F.3d 1271 (Fed. Cir. 2009), all but cemented Verato's understanding that there is no difference between a license and a covenant not to sue under federal law. The Delaware state court decisions below, however, muddy the waters and cast doubt on the business assumptions under which Verato operates.

The question presented as it relates to the doctrine of patent exhaustion is especially relevant to Verato,

a relatively small software company whose success depends on reliable business models and predictable results. Verato's core business relies on licensing agreements that grant Verato's customers access to its SaaS platforms. Although they can be structured in different ways, the license agreements all confer the right to use some or all of the available software services through internet portals. In addition, it is common in the software industry for licensing agreements to include standard indemnity clauses that protect downstream customers in the event their use of the software exposes them to patent litigation from third parties.

While Verato actively seeks patent protection for its products and services, it may just as easily be the target of patent litigation. Of the top ten largest patent damages awards between 1995 and 2014, five involved computer software or hardware based patents.² During the same timeframe, 18% of all patent cases were brought against companies/entities active in the computer hardware and software industries.³

Being named as a defendant in a patent infringement lawsuit can be devastating to a small business, often requiring a choice between the Scylla of high settlement demands and the Charybdis of full-scale litigation. Depending on the circumstances, the quickest route to a covenant not to sue may be the best option for Verato if sued for patent infringement.

² See PricewaterhouseCoopers LLP, 2015 Patent Litigation Study: A Change in Patentee Fortunes, at 5, available at <https://www.pwc.com/us/en/forensic-services/publications/assets/2015-pwc-patent-litigation-study.pdf> (last visited November 2, 2015).

³ See *id.* at 10.

ment. Therefore, the legal effect (if any) of a covenant not to sue on Verato's downstream customers vis-à-vis the doctrine of patent exhaustion is a critical concern.

"The longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item." *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 625 (2008). "The authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article." *Id.* at 638. That is, "the buyer is impliedly authorized to repair, use, modify, and resell the purchased item, free from further claims under the patent laws by the seller." Federal Judicial Center, *Patent Law and Practice*, § 6.1.B. (7th ed. 2011). Thus, if Verato and a patentee enter into a license agreement that authorizes Verato to sell the patented article, the patentee would be precluded from suing Verato's customers who purchased the patented article from Verato. *See Quanta Computer*, 553 U.S. at 625.

It is unclear, however, whether a covenant not to sue would afford the same protection to Verato's downstream customers. While some courts have held that "[a] covenant not to sue operates in the same way as an authorized sale or license of a patented product under the patent exhaustion doctrine," *see In re: TR Labs Patent Litig.*, MDL No. 2396, C.A. No. 09-3883 (PGS) (DEA), 2014 WL 3501050, at *3 (DNJ July 14, 2014), citing *TransCore*, 563 F.3d 1271, the decisions of the Delaware state courts below introduce ambiguity and uncertainty into the equation. And at least one district court has arguably implied

that a covenant not to sue may not cover the same territory as a license vis-à-vis the patent exhaustion doctrine. See *Sharper Image Corp. v. Honeywell Int'l, Inc.*, Nos. C 02-4860 CW & C 04-0529 CW, 2005 WL 2176903 (N.D. Cal. Aug. 31, 2005).

In *Sharper Image*, the plaintiff, Sharper Image, moved to dismiss for lack of subject matter jurisdiction the declaratory judgment counterclaims for patent non-infringement and invalidity brought by one of the defendants, Kaz, in light of a settlement agreement and order dismissing Sharper Image's patent infringement claim against Kaz. See *id.* at *1-2. In opposing the motion, Kaz "argue[d] that it still ha[d] a reasonable apprehension that it will face suit because it is obligated by contract to indemnify its customer RadioShack against allegations of infringement for the sale of [the patented] products." *Id.* at *2. Kaz further noted that Sharper Image had not released RadioShack from claims relating to the patents-in-suit. See *id.* In its reply brief, Sharper Image covenanted not to sue any of Kaz's customers, thereby mooting the issue.

Thus, the court in *Sharper Image* did not reach the issue of whether a covenant not to sue has the same effect as a license for purposes of the patent exhaustion doctrine. As one commentator notes, however, "[b]y specifically finding the covenant not to sue any of Kaz's customers effective, the court in *Sharper Image* implied that such a suit would be possible absent the covenant—even in light of the settlement agreement with Kaz, in which Plaintiffs released Kaz from claims under the patents."⁴ The commentator

⁴ Marc Malooley, "Patent Licenses Versus Covenants Not to Sue: What Are the Consequences?", at 2 (available at <http://www.brookskushman.com/wp->

further posits that the court’s ruling “imply[s] that there is a difference between a license and a covenant not to sue, at least with regard to patent exhaustion.”⁵

Such ambiguity has the potential to hinder Verato’s business. In an increasingly complex business world, Verato’s customers and business partners have come to expect—indeed, demand—predictability and reliability. The decisions of the Delaware courts below, however, chip away at these goals. Indeed, in light of the uncertainty in the law fueled by the decisions below, Verato echoes the concerns raised by Kaz in *Sharper Image*.

First, as stated above, a covenant not to sue in favor of Verato may not protect Verato’s customers as would a license, in which case the customers may be at risk of being sued by the patentee following an authorized sale from Verato. If Verato’s covenant not to sue in the above scenario is *not* held to be the equivalent of a license that exhausts the patentee’s rights in the services sold by Verato, its customers may be exposed to liability in connection with their use and operation of Verato software that is allegedly covered by the asserted patent. Verato’s inability to provide assurance to its customers, based on the current state of the law, fosters uncertainty in Verato’s business relationships.

And conversely, if Verato grants a covenant not to sue, Verato needs to know whether that covenant precludes Verato from bringing an infringement suit against the customers of the grantee. Before initiat-

content/uploads/2015/06/131.pdf) (last accessed November 3, 2015).

⁵ *Id.*

ing costly patent litigation, companies like Verato need to know the limits of their ability (or lack thereof) to enforce their rights against downstream customers of such grantees. As the law currently stands, there is no clear answer.

Second, Verato itself could be at risk of future patent litigation at the hands of the very patentee who provided the covenant not to sue. For example, if one of Verato's customers who purchased an accused product from Verato is sued by a patentee who had previously granted Verato a covenant not to sue, the customer presumably would seek indemnification from Verato pursuant to the terms of the indemnity provision in its license agreement with Verato. In this scenario, assuming the indemnity provision included a duty to defend, Verato would again be dragged into a costly patent litigation with the patentee notwithstanding its covenant not to sue. If the Delaware courts are correct and a covenant is to be treated differently than a license, Verato's covenant may not be available as a defense against an indemnification claim, thus rendering it a practical nullity.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

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