

No. 19-

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IN THE  
**Supreme Court of the United States**

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APPLE INC.,

*Petitioner,*

*v.*

VIRNETX INC., LEIDOS, INC.,

*Respondents.*

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ON PETITION FOR A WRIT OF CERTIORARI TO  
THE UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT

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**PETITION FOR A WRIT OF CERTIORARI**

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## QUESTIONS PRESENTED

1. A patented invention often makes but a small contribution to a complex end-product's value. Thus, for well over a century, this Court has enforced the rule that a patentee must apportion damages for infringement so that any recovery is limited only to the value of its patented invention, not the value created by the numerous other features of an end-product in which the patented invention is included. The Federal Circuit, however, now permits patentees to recover damages that extend far beyond the value of the patented invention whenever the patentee proves damages based on prior licenses, as they commonly do.

The question presented is whether the Federal Circuit's reliance on prior licenses to ascertain infringement damages, without satisfying apportionment rules, conflicts with this Court's precedent requiring apportionment "in every case." *Garretson v. Clark*, 111 U.S. 120, 121 (1884).

2. The Patent and Trademark Office (PTO) may invalidate patent claims after issuing them. This Court has held that when patent claims are invalidated, the invalidation applies in pending litigation.

The question presented is whether intervening PTO invalidations apply in all pending cases, including appeals that remain pending at the rehearing or certiorari stage.

**PARTIES TO THE PROCEEDING BELOW**

The parties to the proceedings below were petitioner Apple Inc., respondents VirnetX Inc. and Leidos, Inc., and Cisco Systems, Inc.

**CORPORATE DISCLOSURE STATEMENT**

Petitioner Apple Inc. has no parent corporation. No publicly held corporation owns 10% or more of Apple's stock.

**RELATED PROCEEDINGS**

*VirnetX Inc. v. Cisco Systems, Inc.*, No. 18-1197  
(Fed. Cir.) (judgment issued Jan. 15, 2019)

*VirnetX Inc. v. Cisco Systems, Inc.*, No. 13-1489  
(Fed. Cir.) (opinion and judgment issued Sept. 16,  
2014)

*VirnetX Inc. v. Apple Inc.*, No. 6:10-cv-417 (E.D.  
Tex.) (final judgment issued Sept. 29, 2017)

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## INTRODUCTION

Defying this Court's commands, the Federal Circuit committed two fundamental legal errors to sustain a whopping \$439 million judgment. It applied a rule that is fueling grossly excessive damages awards. And it sustained the inflated award even though the PTO has invalidated the underlying patent claims.

**I.** The first error was to flout more than a century of doctrine from this Court requiring “apportion[ment]” of patent damages “in every case.” *Garretson v. Clark*, 111 U.S. 120, 121 (1884). The rule is simple: A patentee cannot exploit the success of a multicomponent end-product—whether an improved mop, as in *Garretson*, or revolutionary Apple products like iPhones, here—to generate a huge damages sum far exceeding the limited contribution its patented invention makes to the end-product. Instead, the patentee must “give evidence tending to separate or apportion ... the patentee’s damages between the patented feature and the unpatented features.” *Id.*

In a series of cases over the past five years, the Federal Circuit has adopted a gaping loophole that allows patentees to recover inflated damages far beyond the value of the patented invention. Patentees may now skip apportionment entirely when they prove damages using one of the most common damages methodologies—pointing to prior licenses. This method entails introducing a license (or several licenses) for the same or a different patent in a different end-product and uncritically assuming that the patentee and accused infringer in this case would have



negotiated the same rate. Here, for example, the patentee introduced a handful of licenses with third parties for infringement claims asserted against conventional desktop phones, and assumed that the per-unit average rate across these agreements reflects the value of the technology in Apple's much more complex devices.

The Federal Circuit now regularly permits patentees to prove damages through this simplistic approach even though it includes zero apportionment. In this and multiple other cases, there was no reason to think the rate applied to one end-product would reflect the same value of the patented invention in another. In each, the patentee introduced no evidence to prove the equivalence. And the Federal Circuit has now made clear that it requires no such evidence whenever the patentee invokes prior licenses to prove damages.

Under the Federal Circuit's settled approach, apportionment is effectively a dead letter. Patentees are increasingly resorting to this method of proving damages, carefully selecting prior licenses that lead juries to award massive sums entirely untethered from the value the patented feature contributes to the end-product. Only this Court can end this innovation-busting deviation from settled law.

**II.** There is another foundational problem with this massive verdict that also demands this Court's attention. The Federal Circuit has sustained the judgment even though it is based on patent claims that the PTO has invalidated.

In cases stretching back as early as 1861, this Court has held that when patent claims are invalidated, their invalidation applies in “pending suits.” *Moffitt v. Garr*, 66 U.S. (1 Black) 273, 282-83 (1862). That is a straightforward application of the broader, and even more time-honored, principle that intervening legal developments apply in pending cases. See *United States v. Schooner Peggy*, 5 U.S. (1 Cranch) 103, 110 (1801) (Marshall, C.J.).

Here, however, the Federal Circuit denied effect to intervening PTO invalidations, leaving Apple on the hook for hundreds of millions of dollars based on invalid claims. In doing so, the court departed from yet another established principle: For purposes of the rule recognized in *Moffitt*, *Schooner Peggy*, and legions of similar cases, a case remains pending until this Court has denied certiorari. At the relevant time here, however, the appellate mandate had not yet issued. Nor had a petition for certiorari even been filed, much less denied by this Court. (Indeed, *this* is that very petition.)

It is important for this Court to correct the Federal Circuit’s fundamental mistake of law. This Court has repeatedly declared that it is anathema to force an innovator to “pay tribute to would-be monopolists without need or justification” when their patents are invalid. *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969). There is no need or justification to require a defendant to pay massive damages for infringing patent claims that the PTO has decided should never have issued in the first place.

Without this Court's intervention, the Federal Circuit will continue allowing patentees to recover awards having nothing to do with the value of the asserted technology, even where the underlying patent claims are no longer valid. This Court should grant certiorari to reinstate the guard rails that have curbed excessive patent damages awards for well over a century.

### **OPINIONS AND ORDERS BELOW**

The Federal Circuit's first decision in this case is reported at 767 F.3d 1308 (*VirnetX I*) and reproduced at App. 77a-125a.

The Federal Circuit's second decision, which petitioner challenges here, is reported at 748 F. App'x 332 (*VirnetX II*) and reproduced at App. 1a-2a. The order denying rehearing and rehearing en banc is unreported and reproduced at App. 128a-129a.

The district court's decision denying Apple's post-trial motion on damages is reported at 324 F. Supp. 3d 836 and reproduced at App. 3a-76a.

### **JURISDICTION**

The Federal Circuit entered judgment on January 15, 2019. On August 1, 2019, that court denied Apple's timely petition for rehearing and rehearing en banc. App. 128a-129a. On October 18, 2019, the Chief Justice extended the time in which to file a petition for a writ of certiorari to and including December 29, 2019. This Court has jurisdiction under 28 U.S.C. § 1254(1).

**STATUTORY PROVISIONS INVOLVED**

Section 284 of the Patent Act, 35 U.S.C. § 284, provides in relevant part:

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.

STATEMENT OF THE CASE<sup>1</sup>***Apple’s Feature-Rich Mobile Devices Revolutionize The Industry***

Apple revolutionized the mobile device industry when it released the first iPhone in 2007. See CA.I 1808. While it has “Phone” in its name, this touchscreen device has many thousands of features and is more accurately described as a handheld computer. CA.I 1808-10. This Court has twice commented on the iPhone’s “broad range” of features that come preloaded, *Samsung Electronics Co. v. Apple Inc.*, 137 S. Ct. 429, 433 (2016), and that can be added by installing applications (aka apps), *Apple Inc. v. Pepper*, 139 S. Ct. 1514, 1518 (2019).

Besides the iPhone, Apple produces several other feature-rich mobile devices, including iPad tablets and iPod touches, all capable of “pretty much anything you can imagine.” CA.I 1807. Apple also continues to make more traditional Macintosh desktop and laptop computers (Macs). CA.I 1805-06.

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<sup>1</sup> “CA.I” refers to the Court of Appeals appendix in *VirnetX I* (the first appellate ruling in this case). “CA.II” refers to the Court of Appeals appendix in *VirnetX II* (the second appellate ruling in this case and the one at issue in this petition). “Dkt.” refers to the Court of Appeals docket in *VirnetX II*, No. 18-1197 (Fed. Cir.).



Apple Mac Computers,  
iPods, iPhones and iPads

CA.II 10,096.

This case concerns only aspects of two of the thousands of features that come preinstalled on the Apple products described above (which we will call “Apple devices”). In particular, this case involves two internet-security measures. When people use the internet, their devices communicate data to other internet-connected computers or devices. For example, when users visit [www.amazon.com](http://www.amazon.com), they are actually sending data back and forth between their devices and the website “server”—the computer that stores and delivers Amazon’s website content. CA.II 2250. Without encryption of the transmitted data, eavesdroppers could see that data. CA.II 2263-66.

There are many ways to protect this information. The two at issue here are (1) encryption used by an Apple application called “FaceTime” and (2) an Apple security feature called “VPN On Demand.” The first, found in FaceTime, enables users to privately videoconference each other on Apple devices. FaceTime communications are transmitted over the internet. To protect these communications from eavesdropping, FaceTime encrypts what a caller sees and hears, but the identities of the callers are not hidden from view. CA.II 1533-34; *see* App. 81a-82a.

The second Apple feature at issue here, VPN On Demand, provides a method of securing data transmitted while browsing the web. A “virtual private network,” or VPN, encrypts web traffic even while browsing on a public network, e.g., while using a hotel’s Wi-Fi. Organizations often use VPNs so employees can securely access their office’s private server from a remote location. CA.I 1322-23. Apple’s VPN On Demand feature makes establishing a VPN easy and customizable for individual users, allowing them to specify a list of domain names (e.g., www.amazon.com) for which they want to automatically establish a VPN and protect their web browsing from snooping. *See* App. 82a-84a.

***VirnetX Sues Apple For Patent Infringement But The PTO Invalidates All Asserted Claims***

VirnetX owns several patents for secure communication technology. Rather than selling products, it seeks to sell licenses for its patents. Most of VirnetX’s licensing efforts have failed with respect to large companies like Google, Samsung, and Verizon. CA.I 1258-

60. Instead, VirnetX has typically licensed its technology to smaller companies in settlement agreements meant to avoid expensive litigation. *See* CA.II 1857-60.

In 2010, VirnetX sued Apple, alleging that FaceTime and VPN On Demand infringed four patents: U.S. Patent Nos. 7,418,504, 7,921,211, 6,502,135, and 7,490,151. The four are similar, each “claim[ing] technology for providing security over networks such as the Internet.” App. 80a. VirnetX accused FaceTime of infringing the ’504 and ’211 patents, which disclose a system that supports establishing secure communication links between devices on the internet. *Id.* And it accused VPN On Demand of infringing the ’135 and ’151 patents, which disclose a system for identifying secure websites and creating a corresponding VPN. App. 82a.

Apple responded by petitioning the PTO to invalidate these four patents. Through these various proceedings (and others initiated by additional interested parties), the PTO has invalidated every patent claim VirnetX has asserted against Apple, finding all either anticipated or obvious. *See, e.g.*, Decision Granting Renewed Petition to Sever Merger and Renewed Petition to Terminate Reexamination Proceeding, Reexamination Nos. 95/001,697 & 95/00,1714 (Oct. 16, 2019) (continuing prosecution of claims of ’151 patent); Decision on Appeal, *Cisco Systems, Inc. v. VirnetX Inc.*, 2018 WL 798782, Reexamination No. 95/001,679 (P.T.A.B. Feb. 6, 2018), *appeal pending*, No. 19-1671 (Fed. Cir. docketed Mar. 19, 2019) (invalidating claims of ’135 patent); *Black Swamp IP, LLC v. VirnetX Inc.*, IPR2016-00693, -00957, Paper No. 14



(P.T.A.B. June 12, 2017), *appeal pending*, Nos. 17-2593, -2594 (Fed. Cir. docketed Sept. 25, 2017) (invalidating claims of '504 and '211 patents). Indeed, across nearly 35 proceedings, 14 examiners and adjudicators at the PTO have held the patents in suit, or closely related patents in the same families, invalid.

For the two patents underlying the FaceTime allegations (the '504 and '211 patents), the Federal Circuit recently affirmed the PTO's rulings with respect to all claims (or claims indistinguishable therefrom, as explained below, *infra* at 36-37). *See VirnetX Inc. v. Cisco Sys., Inc.*, 776 F. App'x 698, 700 (Fed. Cir. 2019) (relevant claims of the '504 patent) (*VirnetX Reexamination Appeal I*); *VirnetX Inc. v. Apple Inc.*, 931 F.3d 1363, 1368-69 (Fed. Cir. 2019) (relevant claims of the '211 patent) (*VirnetX Reexamination Appeal II*).

That means the PTO will issue final certificates officially cancelling the patent claims affirmed as unpatentable by the Federal Circuit. *See* 35 U.S.C. § 316(a) (2006).

### ***Meanwhile, VirnetX Proceeds To Trial And Wins A \$439 Million Judgment***

While the PTO was reexamining the validity of the patents, VirnetX went to trial against Apple in federal district court. This was unusual: District courts are “nearly uniform” in staying infringement litigation pending final adjudication of cancellation proceedings at the PTO. *NFC Tech. LLC v. HTC Am.*,

*Inc.*, No. 2:13-cv-1058-WCB, 2015 WL 1069111, at \*6 (E.D. Tex. Mar. 11, 2015).

In November 2012, a jury found that FaceTime and VPN On Demand infringed the asserted patent claims, and that Apple had not proved by clear and convincing evidence that the asserted claims were invalid. It awarded VirnetX about \$368 million in damages. App. 84a. The Federal Circuit affirmed the validity determinations, as well as the infringement verdict with respect to VPN On Demand, but it reversed the finding that FaceTime infringed. App. 79a-80a. The court also rejected VirnetX's damages methodology. App. 107a.

On retrial in 2016, the jury reinstated the infringement finding against FaceTime. App. 8a. The jury also redetermined damages for both FaceTime and VPN On Demand, this time awarding over \$302 million. *Id.* With prejudgment interest, enhanced damages, costs and attorney's fees, the total judgment was over \$439 million. *Id.* at 66a-67a; CA.II 71.

As relevant here, the big difference between the two trials was VirnetX's approach to damages. The first time around, VirnetX had started with the pricetag of each Apple product (the "royalty base") and then attempted to gauge the portion of that value that the patented technology contributed. In other words, VirnetX made some attempt to comply with the long-established requirement that a patentee must "give evidence tending to separate or apportion the defendant's profits and the patentee's damages between the patented feature and the unpatented features." App. 108a (quoting *Garretson*, 111 U.S. at

121). The Federal Circuit, however, reversed because VirnetX's approach to this longstanding apportionment requirement was flawed. App.111a-116a.

At the second trial, VirnetX did not even try to fix the errors the Federal Circuit had identified. Rather, VirnetX avoided apportionment entirely by abandoning any attempt to calculate damages based on the patents' contribution to a royalty base. Instead, VirnetX introduced licenses that it had previously negotiated with other companies for completely different devices. Specifically, VirnetX introduced six prior licenses resulting from settlement agreements with other companies it had sued for infringement. CA.II 1857. Those companies had agreed to pay VirnetX a percentage of their total sales (or a lump sum derived from that sales-based figure). CA.II 1778-80, 1843. At trial, VirnetX then repackaged these payments into per-unit rates by dividing total payments by total product units sold:

<b>License</b>	<b>Per-Unit Rate</b>
Microsoft	\$0.19
Avaya	\$0.34
Siemens	\$1.21
Mitel	\$1.43
Aastra	\$1.80
NEC	\$2.26

See CA.II 1783, 1855, 1869. The royalties varied by more than an order of magnitude. Yet, VirnetX just averaged these per-unit rates (i.e., added them together and divided by six) to yield an “average rate” of \$1.20. It then urged the jury to conclude that Apple would agree that VirnetX’s patents were worth \$1.20 in any device found to infringe. CA.II 1811-12.

VirnetX’s expert acknowledged his back-of-the-envelope math did not weight the Microsoft agreement more than the others, even though that agreement “involved far more units and far more money” than any of the others. CA.II 1786. The \$200 million Microsoft agreement, covering over a billion units in the United States and another billion units abroad, was given the same weight as a \$22,000 agreement with Aastra for 12,000 units, a \$47,000 agreement with NEC for 21,000 units, and a \$55,000 agreement with Siemens for 46,000 units. CA.II. 1847, 1853-56. He also recognized that “the Apple devices in this case [were] far, far more complex” than the products licensed in all of the agreements except for Microsoft’s, which bore the lowest per-unit rate. CA.II 1866. Those non-Microsoft licensed products were more conventional office desktop phones of the sort popular in many professional settings:

### Comparison of Avaya and Apple Products



Avaya IP Desk  
Phone, IP Conference  
Phone, IP PBX, and  
Communication Manager



Apple Mac  
Computers, iPods,  
iPhones and iPads

CA.II 10,096; *see also* CA.II 1867. VirnetX nonetheless insisted that its expert's unweighted average represented "fair payment by Apple to VirnetX" for each infringing product sold. CA.II 1765; *see also* CA.II 1785-86.

In various motions, Apple had objected that this approach violated basic patent-law damages principles because the rates were unapportioned: There was no evidence these rates reflected only the value that VirnetX's patents contributed to Apple's products. *See* CA.II 32, 37, 80.

When pressed on these flaws, VirnetX's expert asserted that these rates must "have been apportioned to reflect the incremental contribution of VirnetX's technology to those products," because VirnetX had a policy of doing so. CA.II 1862. But he was "not certain" how VirnetX performed any apportionment. CA.II

1863. And he conceded that “the value of a license entered into in the settlement of litigation” could “represent the value to the Defendant of making a lawsuit go away,” CA.II 1858, rather than the value of the patented feature.

The jury nevertheless accepted VirnetX’s invitation to multiply the average \$1.20 rate by the number of accused Apple products (250 million) to arrive at a total royalty of over \$302 million. CA.II 1819. The damages award was imposed in one undifferentiated amount, resting in part on products found to infringe both the FaceTime and VPN patents, and in part on products for which only FaceTime infringed. *See* CA.II 9; CA.II 1818-21.

In a motion for a new trial, Apple asked the district court to set aside the damages judgment for failure to prove apportionment. App. 18a-19a. But the court simply echoed VirnetX expert’s conclusory assertion that “[t]he licenses upon which [the expert’s] analysis was based were already apportioned.” App. 25a.

***The Federal Circuit Affirms The Massive Damages Judgment And Denies Rehearing, Despite Affirming PTO Invalidations***

On appeal, Apple renewed its challenge to the \$439 million judgment on apportionment grounds. Apple emphasized that VirnetX could not sidestep apportionment by relying solely on prior licenses. Apple Br. 40, Dkt. 41. VirnetX responded that this Court’s apportionment requirement is not “relevant” here.

VirnetX Br. 49, Dkt. 49. It insisted that apportionment is “relevant only where a damages model apportionments from a royalty base” tied to “the value of the infringing end product,” as VirnetX did in the first trial, but not where the patentee tries to prove damages using prior licenses, as VirnetX did the second time around. *Id.* at 49-50 (quotation marks omitted).

Siding with VirnetX, the Federal Circuit summarily affirmed under Federal Circuit Rule 36, App. 2a, which permits “judgment of affirmance without opinion.” Fed. Cir. R. 36.

Apple sought rehearing—in two rounds. The first petition argued that the Federal Circuit has fundamentally erred in a series of recent cases, including this one, by failing to enforce apportionment rules simply because the patentee relies on prior licenses to prove damages. Apple Pet. Reh’g 7-9, Dkt. 78. After calling for a response, the Federal Circuit denied rehearing. App. 128a-129a.

It was after Apple filed the first rehearing petition—and before the mandate issued—that the Federal Circuit issued two opinions affirming the PTO’s invalidation of patent claims VirnetX asserted against FaceTime. *See* Dkt. 106 (Oct. 8, 2019) (mandate issued); *VirnetX Reexamination Appeal II*, 931 F.3d at 1368-69 (Aug. 1, 2019) (relevant claims of the ’211 patent); *VirnetX Reexamination Appeal I*, 776 F. App’x at 700 (June 28, 2019) (relevant claims of the ’504 patents); Apple Pet. Reh’g, Dkt. 78 (Feb. 21, 2019). Apple therefore filed a second rehearing petition, arguing that the court should give effect to the

intervening affirmance of PTO invalidations. Specifically, Apple argued that the affirmances required re-determining damages, because the undifferentiated \$439 million award rested significantly on products that were only accused of infringing claims asserted against FaceTime (claims now either invalidated or indistinguishable from invalidated claims, *see infra* at 36-37). Apple 2d Pet. Reh’g 14-15, Dkt. 99-2.

Apple invoked the Federal Circuit’s rule, articulated most clearly in *Fresenius USA, Inc. v. Baxter International, Inc.*, that when a claim is invalidated, “the patentee loses any cause of action based on that claim, and *any pending litigation* in which the claims are asserted becomes moot.” 721 F.3d 1330, 1340 (Fed. Cir. 2013) (emphasis added). Apple argued that the Federal Circuit’s rule of effectuating PTO invalidations in “pending litigation” should apply to any pending appeal, even if the panel decision has already issued. *See* Apple 2d Pet. Reh’g 14-15, Dkt. 99-2. Any other rule, Apple stressed, would be fundamentally unfair: If the panel decision had issued just months later, the *Fresenius* rule would have required vacating the award and remanding for recalculation of damages. The outcome was particularly unfair here given that the reexamination appeals were fully briefed long before the panel decision in this case, but were held to coordinate oral argument with this case. Massive damages judgments should not turn on the happenstance of “docket management.” Apple 2d Pet. Reh’g 15, Dkt. 99-2. The court denied Apple’s motion for leave to file the second petition. App. 126a-127a.



## REASONS FOR GRANTING THE WRIT

### **I. Certiorari Should Be Granted To Correct The Federal Circuit's Rejection Of This Court's Century-Old Rule Requiring Apportionment Of Damages.**

This Court has reiterated for over 150 years that patent damages must be limited to the value of the patented feature. Always. No exceptions. The Federal Circuit had long followed this rule. In the last five years, however, the Federal Circuit has deviated from apportionment principles. As relevant here, the Federal Circuit has created a new and unfounded exception, allowing patentees to inflate damages awards by absolving them of the requirement to prove apportionment when they rely on a common method to prove damages: using prior licenses as proof of a reasonable royalty rate. That loophole will stifle “Progress of Science and useful Arts.” U.S. Const. art. I, § 8, cl. 8. Stacking exorbitant royalty atop exorbitant royalty will make it cost-prohibitive to develop and market products that embody numerous technological advances—from iPhones to satellites to self-driving cars.

Innovators have been raising the alarm about the Federal Circuit's blatant disregard of apportionment principles with increasing urgency of late. The recent petition for certiorari in *Time Warner Cable, Inc. v. Sprint Communications Co.*, No. 19-211 (Aug. 15, 2019), *cert. denied* (Nov. 4, 2019), documented systemic flaws in the Federal Circuit's approach to apportionment, including its approach to prior licenses. Hughes Network previously indicated an intention to

file a petition in a case that, as discussed below, would have presented the same question as this petition. *See 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). But Hughes Network will no longer be filing a petition for certiorari in that case because the parties recently settled. Joint Motion for Entry of Stipulated Dismissal, *Elbit Systems Land & C4I Ltd. v. Hughes Network Sys.*, No. 15-00037 (E.D. Tex. Dec. 18, 2019), Doc. 591. Just last year, this Court called for the views of the Solicitor General on a similar apportionment question. *EVE-USA, Inc. v. Mentor Graphics Corp.*, No. 17-804 (Apr. 23, 2018). That case, however, also settled and was dismissed from the Court’s docket, before the Solicitor General could opine. *See id.* (Aug. 17, 2018).

It is thus time for a course correction, and this case is the best vehicle for it. This Court should grant certiorari and direct the Federal Circuit to respect this Court’s age-old apportionment rule.

**A. The Federal Circuit has incorrectly rejected the requirement to apportion in “prior license” cases.**

1. Apportionment follows from the text of the Patent Act and well over a century of precedent. Under 35 U.S.C. § 284, “the court shall award the claimant damages adequate to compensate for the infringement,” i.e., to compensate “for the use made *of the invention* by the infringer.” (emphasis added). The “invention” is the patent, not the broader product in which the patent plays a small role. Thus, where the

patented invention contributes a small part of the value of a multicomponent end-product, the patentee is entitled to a royalty for that limited contribution alone.

*Garretson* provided a simple illustration of this basic rule. There, the defendant was accused of infringing a patented “improvement in the construction of mop-heads.” 111 U.S. at 121. But the patentee “produced no evidence to apportion the ... damages between the improvement constituting the patented feature and the other features of the mop.” *Id.* Instead, the patentee’s only evidence concerned “the cost of the whole mop, and the price at which it was sold.” *Id.* The Court held that the “patentee ... must *in every case* give evidence tending to separate or apportion ... the patentee’s damages between the patented feature and the unpatented features, and such evidence must be reliable and tangible, and not conjectural or speculative.” *Id.* (emphasis added; quotation marks omitted). Thus, the patentee could collect only nominal damages. *Id.* at 121-22.

*Garretson* is but one link in a 150-year chain of Supreme Court precedents declaring a steadfast commitment to apportionment. “[B]etween 1853 and 1915, the Court addressed apportionment more than 35 times, sometimes two or three times in the same year.” Eric E. Bensen & Danielle M. White, *Using Apportionment to Rein in the Georgia-Pacific Factors*, 9 Colum. Sci. & Tech. L. Rev. 1, 9 n.24 (2008); see, e.g., *Seymour v. McCormick*, 57 U.S. (16 How.) 480, 491 (1854) (“very grave error” to allow a jury to award damages for a product’s entire value when the patented invention was merely an improvement to the

product); *Blake v. Robertson*, 94 U.S. 728, 734 (1877); *Westinghouse Elec. & Mfg. Co. v. Wagner Elec. & Mfg. Co.*, 225 U.S. 604, 615 (1912).

2. When this Court announced that the patentee must prove apportionment in “every case,” *Garretson*, 111 U.S. at 121, it meant *every case*. But the Federal Circuit has carved out a gaping—and impermissible—exception, for cases where the patentee proves damages based on prior licenses.

The most common method for a patentee to prove damages these days is to establish what a “reasonable royalty” would have been in a “hypothetical negotiation”: what the infringer would have paid the patentee had they negotiated a license when the infringement began. 4 Matthews, *Annotated Patent Digest* § 30:84, Westlaw (database updated Dec. 2019). That is the approach applied in over 60% of infringement cases. PricewaterhouseCoopers, *2018 Patent Litigation Study*, May 2018, at 6, fig.7, <https://tinyurl.com/y5gd8blr>. There are two basic approaches to proving a reasonable royalty: the “royalty base” approach and the “prior licenses” approach.

The royalty base approach starts with the value of a product or component (called the “royalty base”) and then isolates how much the patent contributed to that value. That was the approach VirnetX took in the first trial: it took the cost of an iPhone and purported to estimate how much of that value was attributable to the patents at issue. App. 112a-114a. In this type of case, the Federal Circuit recognizes “a patentee’s obligation to apportion damages.” App. 114a. Indeed,

the Federal Circuit reversed because VirnetX had improperly used the full value of the iPhone as the royalty base, without subtracting the value of its “significant unpatented features.” *Id.*

The “prior licenses” approach—the one VirnetX used in the second trial—avoids identifying a royalty base altogether by instead relying on prior licenses. The Federal Circuit started down this road five years ago, in *Ericsson, Inc. v. D-Link Systems, Inc.*, 773 F.3d 1201 (Fed. Cir. 2014). The patents there claimed a method for connecting a laptop to Wi-Fi internet connections. *Id.* at 1209-10. To prove what the parties would have negotiated as a reasonable royalty, the patentee did not start with the price of the laptop (or any component of the laptop) as the “royalty base” and prove the contribution made by the patented technology. Instead, it introduced evidence that other parties had paid approximately 15 cents per laptop to use the same patents. *Id.* at 1225-26.

In concluding that the basic concept was sound, the Federal Circuit emphasized that this prior-license method must still satisfy “the need to apportion the ultimate royalty award to the incremental value of the patented feature from the overall product.” 773 F.3d at 1228. Parties still must “account [for] the very types of apportionment principles contemplated in *Garretson*.” *Id.* But there, the court did not need to address “the propriety of [the patentee’s] apportionment analysis,” because the defendant did “not challenge” apportionment. *Id.* at 1228 n.4.

In recent years, however, the Federal Circuit abandoned *Ericsson*’s caveat that apportionment

principles must still be satisfied when relying on prior licenses. It did so in two analytical leaps.

The first leap came in *Commonwealth Science & Industrial Research Organisation v. Cisco Systems, Inc.*, 809 F.3d 1295, 1302 (Fed. Cir. 2015) (*CSIRO*). There the court held that a prior license negotiated between the same parties to use the same patent in the same type of end-product “already built in apportionment.” 809 F.3d at 1303. The court reasoned that, in “negotiat[ing] over the value” of the patented technology “and no more,” a licensee would pay precisely what it believed the patented technology was worth. *Id.* (quotation marks omitted). For example, under the Federal Circuit’s assumption, if Nikon sought to license a patent for a certain type of flash allegedly infringed by its cameras, it would pay the patent owner only for the value of that patent, and nothing more.

This first leap is wrong: There is no basis to assume that prior licenses necessarily apportion the value of patented technology. If anything, common sense tells us the opposite is true. In the real world, a company could easily decide it makes good business sense to enter into a license that charges more than the value of a patent. Nikon, for example, may have multiple ongoing negotiations with a patent owner and decide to pay an inflated rate to ease other negotiations. Or, as with the prior licenses which VirnetX relied upon here, *supra* at 12-13, the licenses may be negotiated as a settlement, artificially inflating the per-unit royalty because Nikon wants to avoid costly litigation and a possible injunction. Such inflated payments may be perfectly rational in the real world. But

they have nothing to do with whether the agreed-upon royalty reflects the patented invention's contribution to the value of the end-product.

*Garretson* requires *proof* of apportionment in “every case.” Assumptions are not enough. Yet, in two other cases the Federal Circuit solidified its commitment to *CSIRO*'s first leap, holding consistently that “apportionment is *implicitly* considered within the royalty rate” of any prior, real-world license, *Elbit*, 927 F.3d at 1301 (quotation marks omitted; emphasis added), and that “damages testimony regarding real-world relevant licenses takes into account the very types of apportionment principles contemplated in *Garretson*,” *Sprint Communications Co. v. Time Warner Cable, Inc.*, 760 F. App'x 977, 983-84 (Fed. Cir. 2019) (quotation marks omitted).

In *Elbit* and *Time Warner* the Federal Circuit also executed a second leap, extending the principle in ways that are even more inconsistent with *Garretson*. It is one thing to hold, as *CSIRO* mistakenly did, that parties negotiating a real-world license necessarily apportion the royalty to the patented features of the technology—that is, to assume that the rate Nikon paid, e.g., \$3 per camera, reflects only the value of the patented flash technology to the camera's overall value. But it is quite another to take the amount that Nikon negotiated with the patentee to use its flash technology in a film camera and assume it is close enough to support apportionment in a case involving different parties and an *entirely different end-product*—for instance, to conclude that the maker of a digital camera (say, Canon) would pay the same rate to use the flash technology in a digital device.

Perhaps that happens to be true, but there's no reason to think that would necessarily be the case. For instance, it is easy to imagine that Canon would pay, at most, \$1 for the same technology in a digital camera because digital cameras have other features that address low-light conditions, making the flash less important. Canon may also pay less simply because the digital camera has many more total features than the film camera, making any particular feature less important. The patentee needs evidence showing whether or not \$3 is a fair valuation when applied to a different end-product.

But in *Elbit* and *Time Warner* (and in this case, as explained below), the Federal Circuit has presumed that patentees satisfied apportionment without introducing any such evidence. In *Elbit*, the Federal Circuit held that a prior license for use of a patented invention in one end-product automatically satisfied apportionment requirements in a case about an *entirely different patent* in an *entirely different end-product*. *Elbit* involved devices for providing high-speed internet through a two-way satellite link (where a satellite both sends and receives internet transmissions). 927 F.3d at 1300. The devices were found to infringe a patent for a two-way satellite communication system. *Id.* at 1294-96. By contrast, the prior license used to calculate damages involved a different patent and end-product: a computer adapter card alleged to infringe a patent protecting a *one-way* satellite communication system (where the satellite only sends transmissions). *Id.* at 1300.

The patentee did nothing to adjust the rate of this prior license to satisfy apportionment. Its damages



expert simply invited the jury to take the same royalty figure from the prior license (\$15 per adapter card) and apply it to the different end-product at issue. *Id.* at 1300. While the expert testified that the \$15 rate should be increased to \$18 to account for the fact that two-way satellite communication is more advanced technology, *id.*, he did nothing to ensure that the \$15 figure or this \$3 increase reflected the value that the patented invention contributed to the end-product. That two-way satellite communication is more advanced in the abstract says *nothing* about the patented invention's relative contribution to the value of a completely different end-product. Remarkably, the Federal Circuit acknowledged the absence of apportionment evidence, but still affirmed the damages judgment. *Id.* at 1301. The court relayed the sum total of the expert's conclusory apportionment testimony: that "apportionment 'is essentially embedded in'" the prior agreement, and "the requisite apportionment is implicitly considered within the royalty rate." *Id.* (alterations omitted). The court required nothing else to satisfy the apportionment requirement.

In *Time Warner*, the court made the same leap without evidence. (The recently denied petition in *Time Warner*, No. 19-211 (August 15, 2019) raised a related, but broader, problem in the Federal Circuit's apportionment precedent, *infra* at 32.) The case involved a patented system for connecting internet-based calling networks to traditional landline telephone networks. 760 F. App'x at 979-80. The damages verdict was predicated on three prior licenses. *Id.* at 982-83. The licenses were negotiated by other companies and involved different end-products. These licenses showed, at most, that the patented technology

was worth approximately 5% of each company's total revenue from the relevant products. *Id.* at 983-84. The Federal Circuit upheld a damages verdict based entirely on the notion that the patented technology contributed to the same degree to defendant Time Warner's internet-calling system. *Id.*

But there was *no evidence* of this. Perhaps the patented technology happened to be worth 5% of the value of Time Warner's system. But perhaps not: It could just as easily have been the case that Time Warner's network relied less—or more—on the technology. The prior licenses did not show this one way or the other, and thus did not prove apportionment. In holding otherwise, the Federal Circuit just repeated the same ipse dixit it carelessly accepted in *Elbit*: that “damages testimony regarding real-world relevant licenses takes into account the very types of apportionment principles contemplated in *Garretson*.” *Id.* at 983-84 (quotation marks omitted).

In sum, in a uniform line of cases, the Federal Circuit has strayed far from this Court's direction to apportion in “every case.” *Garretson*, 111 U.S. at 121.

**B. This case is a compelling vehicle to consider the Federal Circuit's departure from basic apportionment principles.**

The Federal Circuit made the same legal errors here that it committed in *CSIRO*, and extended in *Time Warner* and *Elbit*. This case thus provides a compelling vehicle to address those baseless deviations from this Court's longstanding apportionment rules.

1. VirnetX's damages calculation cannot be reconciled with apportionment requirements. VirnetX merely introduced six prior licenses for the use of a portfolio of VirnetX patents (not just the four patents asserted in this case) in six non-Apple technologies. All but one of the licenses were for conventional desktop calling systems that bear no resemblance to iPhones or other Apple devices. VirnetX simply took the royalty rate for each license (ranging from \$0.19 per unit to \$2.26 per unit), averaged them together without any weighting to account for the widely disparate number of units sold under each license, and asked the jury to impose that average rate. *Supra* at 13. Because Apple sold approximately 250 million units during the relevant period, VirnetX sought \$302 million (250 million x \$1.20). The jury obliged. As simple as that.

Missing from that rudimentary equation was any evidence of apportionment. Starting with the six prior licenses on their own terms, VirnetX's damages expert testified that he thought the licenses were apportioned, but ultimately acknowledged he was "not certain" how that could be. *Supra* at 14. The district court nonetheless allowed his testimony and upheld the damages award because it believed the "licenses upon which [the expert's] analysis was based were *already apportioned*." App. 25a (emphasis added). In other words, the court relied on the same illogical principle enunciated in *CSIRO* and repeated in *Elbit* and *Time Warner* that prior licenses necessarily "build in" apportionment.

The Federal Circuit then proceeded to make the same second leap as it made in *Elbit* and *Time*

*Warner*: There was *not one bit* of evidence showing that the value of the patented invention was the same in Apple's products as it was in the products authorized by the reference licenses. To the contrary, the definitive proof was that one could not just transfer value from one product to the next. In the most comparable product (Microsoft's), the patented invention was worth only 19 cents, and in another (Avaya's) it was worth 34 cents, while in a third (NEC's) it was worth \$2.26. *See supra* at 12. VirnetX offered nothing to show that the value that the patents contributed to Apple's products happened to be the simple average of these six widely divergent royalty rates.

VirnetX acknowledged this dearth of evidence. Rather than trying to massage the facts or embellish trial testimony, it contended that apportionment is automatically satisfied where the patentee relies on prior licenses. *See* VirnetX Br. 50, Dkt. 49 (quoting *CSIRO*, 809 F.3d at 1303); VirnetX En Banc Response 6, Dkt. 82 (quoting *Time Warner*, 760 F. App'x at 983-84).

The Federal Circuit, in turn, embraced that position and affirmed the damages verdict in full.

**2.** The fact that the court did so in a Rule 36 summary affirmance makes this case no weaker a vehicle to consider the issue. This Court has not shied away from reviewing important legal questions that arise from a Rule 36 affirmance, as it did just recently in *Oil States Energy Services, LLC v. Greene's Energy Group, LLC*, 138 S. Ct. 1365 (2018). In fact, the Rule 36 posture makes this Court's review *more urgent* by

showing the Federal Circuit's departure from *Garretson* has become so entrenched that it no longer feels a need to articulate the principle in a reasoned opinion. After all, Rule 36 summary affirmance is reserved for cases "where it's not necessary to explain, even to the loser, why he lost," *Seventh Annual Judicial Conference of the United States Court of Appeals for the Federal Circuit*, 128 F.R.D. 409, 420 (1989) (statement of former Chief Judge Markey)—in other words, "when the position of one party is so clearly correct as a matter of law that no substantial question regarding the outcome of the appeal exists," *Joshua v. United States*, 17 F.3d 378, 380 (Fed. Cir. 1994).

Here, the Federal Circuit left no doubt that it affirmed based on the same legal principles it articulated in *CSIRO*, *Elbit*, and *Time Warner*. Because there was no evidence of apportionment, the only way to uphold the verdict was to agree with VirnetX's purely legal argument that apportionment is automatically satisfied where the patentee relies on prior licenses. The court confirmed as much in oral argument. It posed questions revealing that the basis for its decision was its recent "cases ... sa[ying] ... we have a principle that you can use comparable licenses" and that "doesn't involve an apportionment question." Oral Arg. Recording 21:27-22:27. It understood those cases to mean that the Federal Circuit "*leav[es] aside* all those apportionment issues" in cases involving prior licenses. *Id.* (emphasis added).

If the Federal Circuit thought its summary affirmance standard was satisfied here, it could only mean that the prior-license exception to apportionment has become so entrenched that there is no room for any

panel to question or mitigate it. When that is the case, only this Court can fix the problem.

**C. The Federal Circuit’s failure to require apportionment will stifle innovation.**

1. This issue is exceptionally important. If this Court does not correct the Federal Circuit’s departure from long-established apportionment principles, patentees will seek massive, unjustifiable sums to license their patents, and will obtain inflated infringement judgments in court. This will divert funds that would otherwise support technological innovation.

As this Court has recognized, “advances in technology” mean that many products in today’s marketplace rely on increasingly complex technology, practicing more and more patents. *Impression Prods., Inc. v. Lexmark Int’l, Inc.*, 137 S. Ct. 1523, 1532 (2017). “A generic smartphone,” for example, “could practice an estimated 250,000 patents.” *Id.* (quotation marks omitted).

That makes apportionment ever more important. Without apportionment, rates will stack one upon the next, growing to an exorbitant sum far exceeding the product’s worth. This well-documented phenomenon, called “royalty stacking,” has predictable consequences: Plaintiffs can credibly threaten grossly excessive damages and coerce massive settlements. At best, that ties up resources better spent by innovators on research and development. At worst, it deters innovators from entering a market altogether. Why take the time to invest in and produce a technological

marvel when the patent royalties you will owe will be more than you could ever expect to profit from your efforts?<sup>2</sup>

2. Review here is especially warranted in light of the Federal Circuit’s broader hostility to apportionment—not just under the prior-licenses approach, but across all damages methodologies.

Time Warner documented the broader trend in its recent petition, demonstrating that “most panels of the Federal Circuit take an anything-goes approach to apportionment,” affirming massive damages awards, *no matter the damages methodology*, so long as there was a boilerplate jury instruction about apportionment. Petition for Writ of Certiorari at 21-22, *Time Warner*, No. 19-211 (Aug. 15, 2019) (collecting cases). Or as Intel put it in a recent amicus brief, the Federal Circuit today often only “pay[s] lip service to apportionment,” “increasingly permitt[ing] new ways to sidestep” the rule. Brief Amicus Curiae Intel Corp. at 7, *Time Warner*, No. 19-211 (Sept. 18, 2019). See also Bernard Chao, *Implementing Apportionment*, 2019 Patently-O Pat. L.J. 20, 22 (2019) (agreeing the “law should not be satisfied with” the Federal Circuit’s current approach to apportionment).

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<sup>2</sup> See, e.g., Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 Tex. L. Rev. 1991, 1993 (2007); David Franklyn & Adam Kuhn, *The Problem of Mop Heads in the Era of Apps: Toward More Rigorous Standards of Value Apportionment in Contemporary Patent Law*, 98 J. Pat. & Trademark Off. Soc’y 182, 184 (2016); Amy L. Landers, *Let the Games Begin: Incentives to Innovation in the New Economy of Intellectual Property Law*, 46 Santa Clara L. Rev. 307, 307 (2006).

Just last year, this Court called for the views of the Solicitor General in *EVE-USA, Inc.*, No. 17-804 (April 23, 2018), a case that raised virtually identical concerns about the Federal Circuit’s failure to require apportionment when patentees seek to prove patent damages by showing lost profits. *See* Petition at 3-4, 25-38 (Nov. 30, 2017).

The lost-profits approach to damages requires the patentee to prove that it “would have made the infringer’s sales.” 4 Matthews, *supra*, at § 30:20. In *Mentor Graphics Corp. v. EVE-USA, Inc.*, the Federal Circuit acknowledged that “apportionment ... is necessary in ... lost profits analysis.” 851 F.3d 1275, 1287 (Fed. Cir. 2017). But it gutted apportionment for lost profits, much in the same way it does under the prior-license approach, by concluding that apportionment is automatically built into the test for proving lost profits. *See Mentor Graphics Corp. v. EVE-USA, Inc.*, 870 F.3d 1298, 1302 (Fed. Cir. 2017) (Dyk, J., dissenting). But, before this Court could weigh in, the parties settled and the case was dismissed. Order Dismissing Petition, No. 15-1470 (Fed. Cir. Aug. 17, 2018).

If *Mentor Graphics* was worthy of this Court’s special attention, the issue presented here is even more so. “[R]easonable royalty damage awards are far more common than lost profits awards.” Brian J. Love, *Patentee Overcompensation and the Entire Market Value Rule*, 60 Stan. L. Rev. 263, 272 n.39 (2007). And in every reasonable-royalty case, the patentee will now be able to draw upon the *CSIRO-Elbit-Time Warner* loophole to avoid apportionment requirements simply through reliance on prior licenses.



It is already happening. District courts around the country are following the Federal Circuit's lead in ignoring apportionment so long as patentees cite prior licenses to prove damages.<sup>3</sup> The Court should reaffirm *Garretson* and put an end to this troubling trend.

## **II. Certiorari Should Also Be Granted To Confirm That An Infringement Judgment Pending On Appeal Cannot Be Upheld Once The PTO Has Invalidated The Patents.**

The \$439 million damages judgment cannot stand for an even more fundamental reason: It is based on patent claims that have been invalidated. The PTO has invalidated every patent claim at issue, and the Federal Circuit has already affirmed more than enough of those invalidations to annul the huge damages figure. *Supra* at 10. Yet the Federal Circuit has kept the judgment intact.

That is both legally wrong and grossly unfair. Chief Justice Marshall declared more than two centuries ago that “[i]t is in the general true that the province of an appellate court is only to enquire whether a judgment when rendered was erroneous or not. But if ... a law intervenes and positively changes the rule

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<sup>3</sup> See e.g. *Vectura Ltd. v. GlaxoSmithKline LLC*, 397 F. Supp. 3d 579, 593 (D. Del. 2019); *Intellectual Ventures II LLC v. Sprint Spectrum, L.P.*, No. 2:17-CV-0661-JRG-RSP, 2019 WL 1877309, at \*5 (E.D. Tex. Apr. 26, 2019); *Realtime Data LLC v. NetApp, Inc.*, No. 6:16-CV-00961-RWS, 2017 WL 5756863, at \*5 (E.D. Tex. Nov. 28, 2017); *Intel Corp. v. Future Link Sys., LLC*, No. CV 14-377-LPS, 2017 WL 2482881, at \*2 (D. Del. June 1, 2017); *In re Maxim Integrated Prods., Inc.*, No. 12-244, 2015 WL 5311264, at \*7-9 (W.D. Pa. Sept. 11, 2015).

which governs, the law must be obeyed, or its obligation denied.” *United States v. Schooner Peggy*, 5 U.S. (1 Cranch) 103, 110 (1801). That rule applies to all intervening developments in the law that affect pending cases—including new rules announced in case law, as well as legislation and agency actions. *See Landgraf v. USI Film Prods.*, 511 U.S. 244, 273, 276-78 & nn.31-32 (1994) (collecting authorities); *Plaut v. Spendthrift Farm, Inc.*, 514 U.S. 211, 226-27 (1995).

Since 1861, this Court has applied that rule to the PTO’s actions, holding, for example, that when the PTO reissues a patent with amended claims, the patentee must surrender rights in the prior patent, including any right to enforce the patent in “pending suits.” *Moffitt v. Garr*, 66 U.S. (1 Black) 273, 283 (1862). As this Court explained:

A surrender of the patent to the Commissioner ... extinguishes the patent. It is a legal cancellation of it, and hence can no more be the foundation for the assertion of a right after the surrender, than could an act of Congress which has been repealed.

*Id.*; *see also, e.g., Allen v. Culp*, 166 U.S. 501, 505 (1897) (same); *Reedy v. Scott*, 90 U.S. 352, 364 (1875) (same). When Congress enacted the PTO’s reexamination regime (at issue here), as well as the modern version, inter partes review, it made clear that invalidation of patent claims under those regimes will “have the same effect as that specified ... for reissued patents.” 35 U.S.C. § 316(b) (2006) (reexamination); *see* 35 U.S.C. § 318(c) (inter partes review).

In keeping with this Court’s precedents and Congress’s direction, the Federal Circuit has generally followed the rule that intervening PTO patent invalidations apply in pending infringement cases—at least once those invalidations are affirmed on appeal. It has repeatedly recognized that, following appellate affirmance, PTO invalidation of the asserted claims in reexamination and inter partes review “must be given effect in ... pending infringement litigation.” *Frese-nius USA, Inc.*, 721 F.3d at 1332; *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).

As discussed (at 10), the PTO has invalidated all the claims underlying the massive damages judgment, and the Federal Circuit affirmed the invalidity of all but one of the claims directed against FaceTime. The lone exception is a single claim of the ’504 patent, on which the Federal Circuit remanded for further factual findings. *VirnetX Reexamination Appeal I*, 776 F. App’x at 702-04. That claim, however, is indisputably indistinguishable from a claim of the ’211 patent that the PTO invalidated in a decision already affirmed by the Federal Circuit. *See* Apple 2d Pet. Reh’g 7-8, Dkt. 99-2 (comparing the two claims); *VirnetX Reexamination Appeal II*, 931 F.3d at 1378 (affirming invalidation of the relevant claim of the ’211 patent). Because this claim is indistinguishable from an invalidated claim, it too is invalid. Indeed, the Federal Circuit has recognized it would be illogical to enforce a patent claim indistinguishable from one that has been invalidated. *See Nestle USA, Inc. v. Steuben Foods*,

*Inc.*, 884 F.3d 1350, 1352 (Fed. Cir. 2018); *Ohio Willow Wood Co. v. Alps S., LLC*, 735 F.3d 1333, 1342 (Fed. Cir. 2013).

Under the authorities discussed above, those invalidations should have applied to any case pending on appeal, as this one was. Had the Federal Circuit affirmed these invalidations *before* the panel issued its opinion in this case, there is no doubt it would have applied the intervening invalidations and remanded to recalculate damages. But the Federal Circuit refused Apple’s request—while the appeal was still pending—to do the same here. Evidently, the court believed that this Court’s rule about pending appeals is inapplicable once a panel issues its opinion, even though the mandate has not issued.

That was legal error. This Court has long recognized that a case remains pending until this Court denies or otherwise disposes of a petition for certiorari. *See Carafas v. LaVallee*, 391 U.S. 234, 241 (1968) (collecting authorities). That is why, for example, this Court routinely GVRs cases pending before it and directs lower courts to apply intervening legal developments. *See Stutson v. United States*, 516 U.S. 163, 180-81 (1996) (Scalia, J., dissenting).

It is also why circuits routinely grant rehearing when legal developments arise after a panel issues its decision. *E.g.*, *United States v. Davidson*, 551 F.3d 807, 808 (8th Cir. 2008); *City of Chicago v. U.S. Dep’t of Treasury, Bureau of Alcohol, Tobacco & Firearms*, 423 F.3d 777, 778 (7th Cir. 2005); *United States v. Byers*, 740 F.2d 1104, 1115 n.11 (D.C. Cir. 1984) (en banc) (Scalia, J.).

The impact of intervening invalidations on pending appeals is an important question worthy of this Court's review. The Court has repeatedly reaffirmed the importance of limiting enforceability of invalid or expired patents. In *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), the Court went so far as to hold that private contracts are unenforceable to the extent they forbid licensees from challenging a patent's validity in court. "[T]he public," the Court explained, should not "continually be required to pay tribute to would-be monopolists without need or justification." *Id.* at 670; see also *Brulotte v. Thys Co.*, 379 U.S. 29, 33 (1964) (patentee may not condition license on agreement to pay royalties beyond the patent's expiration). The same principle applies forcefully here: No one should be forced to "pay tribute" based on patent claims that the PTO has determined never should have issued in the first place.

Review of this question is especially urgent today. Since Congress ushered in the new system for inter partes review in 2011, see *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2137 (2016), the PTO processes far more cases seeking to invalidate patents. See Brian J. Love et al., *Determinants of Patent Quality: Evidence from Inter Partes Review Proceedings*, 90 U. Colo. L. Rev. 67, 96 & n.120 (2019). That means there is exponentially greater potential for intervening PTO invalidations to affect pending infringement litigation.

Review is especially warranted here because the Federal Circuit's judgment is fundamentally unfair. Judgments should turn on the law, not the happenstance of docket management. See *Cty. of Sacramento*

*v. Lewis*, 523 U.S. 833, 845 (1998). Here, the docket management was especially irrational. The reexamination appeals were fully briefed, and on track to be argued, five months before the first brief was filed in the infringement appeal. The reexamination appeals should have been argued six or seven months before the infringement appeal. But the Federal Circuit sua sponte delayed the reexamination appeals to coordinate oral argument with the infringement appeal. Then it inexplicably catapulted the infringement appeal ahead by deciding it several months before resolving the reexamination appeals. *See* Apple Stay Motion, Dkt. 32-1; *see* Apple 2d Pet. Reh'g 4-5, Dkt. 99-2.

Certiorari is warranted to redress this unfairness. At a minimum, this Court should GVR to direct the Federal Circuit to consider once again whether to give effect to the PTO's invalidations.

**CONCLUSION**

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

Respectfully submitted,

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