IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
TYLER DIVISION

VIRNETX INC.,	§	
	§	
Plaintiff,	§	
	§	
vs.	§	**CASE NO. 6:10-CV-417**
	§	
APPLE INC.,	§	
	§	
Defendant.	§	
	§	

MEMORANDUM OPINION AND ORDER

The following motions are before the Court:

- Apple's Motion for Judgment as a Matter of Law under Rule 50(b) or, in the alternative, for a New Trial or a Remittitur (Docket No. 623);
- VirnetX's Motion for Post-Verdict Damages to the Time of Judgment, Pre-Judgment Interest, and Post-Judgment Interest (Docket No. 620);
- VirnetX's Amended Motion for Post-Verdict Damages (Docket No. 657);
- VirnetX's Motion for a Permanent Injunction (Docket No. 621); and
- VirnetX's Motion for Entry of Judgment on the Jury Verdict, Request for Attorneys' Fees, and Judgment against Apple on Apple's Late-Abandoned Counterclaims and Defenses, including all of Apple's Alleged Prior Art References (Docket No. 625).

For the reasons stated below, Apple's Motion for Judgment as a Matter of Law under Rule 50(b) or, in the alternative, for a New Trial or a Remittitur is **DENIED**. VirnetX's Motion for Post-Verdict Damages to the Time of Judgment, Pre-Judgment interest, and Post-Judgment Interest is **GRANTED IN PART** and **DENIED IN PART**. VirnetX's Amended Motion for Post-Verdict Damages is **GRANTED.** VirnetX's Motion for Permanent Injunction is **DENIED**, and

SEVERS VirnetX's request for an Ongoing Royalty into a separate action. Lastly, VirnetX's Motion for Entry of Judgment on the Jury Verdict, Request for Attorneys' Fees, and Judgment against Apple on Apple's Late-Abandoned Counterclaims and Defenses, including all of Apple's Alleged Prior Art References is **GRANTED IN PART** and **DENIED IN PART**.

BACKGROUND

On August 11, 2010, VirnetX, Inc. ("VirnetX") filed this action against Apple, Inc. ("Apple") alleging that Apple infringed U.S. Patent Nos. 6,502, 135 ("the '135 Patent"), 7,418, 504 ("the '504 Patent), 7,490,151 ("the '151 Patent), and 7,921,211 ("the '211 Patent)(collectively, "the patents-in-suit"). The '135 and '151 Patents generally describe a method of transparently creating a virtual private network ("VPN") between a client computer and a target computer, while the '504 and '211 Patents disclose a secure domain name service.

VirnetX accuses Apple's VPN On Demand and FaceTime features of infringement. Both products feature establishing secure communications, with Apple's FaceTime feature providing a secure communication link for users when video-chatting. Apple's VPN On Demand feature on the other hand is a product that seamlessly creates a VPN when a user requests access to a secure website or server.

A jury trial regarding the instant suit commenced on October 31, 2012. At trial, VirnetX contended that Apple infringed claims 1, 3, 7, 8 of the '135 Patent; claims 1 and 13 of the '151 Patent; claims 1, 2, 5, 16, 21, and 27 of the '504 Patent; and claims 36, 37, 47 and 51 of the '211 Patent. In response, Apple asserted its FaceTime and VPN On Demand features did not infringe the patents-in-suit and that the asserted claims were invalid. Following a five-day trial, the jury returned a verdict that the '135, '151, '211, and '504 Patents were not invalid and Apple infringed the asserted claims. To compensate VirnetX for Apple's infringement, the jury awarded VirnetX $368,160,000 in damages.

APPLE'S MOTION FOR JUDGMENT AS A MATTER OF LAW, OR IN THE ALTERNATIVE, FOR A NEW TRIAL OR A REMITTITUR

Judgment as a Matter of Law, New Trial, and Remittitur Standards

Judgment as a matter of law is only appropriate when "a reasonable jury would not have a legally sufficient evidentiary basis to find for the party on that issue." FED. R. CIV. P. 50(A). "The grant or denial of a motion for judgment as a matter of law is a procedural issue not unique to patent law, reviewed under the law of the regional circuit in which the appeal from the district court would usually lie." *Finisar Corp. v. DirectTV Grp., Inc.*, 523 F.3d 1323, 1332 (Fed. Cir. 2008). The Fifth Circuit "uses the same standard to review the verdict that the district court used in first passing on the motion." *Hiltgen v. Sumrall*, 47 F.3d 695, 699 (5th Cir. 1995). Thus, a jury verdict must be upheld, and judgment as a matter of law may not be granted, unless "there is no legally sufficient evidentiary basis for a reasonable jury to find as the jury did." *Id.* at 700. The jury's verdict must also be supported by "substantial evidence" in support of each element of the claims. *Am. Home Assurance Co. v. United Space Alliance*, 378 F.3d 482, 487 (5th Cir. 2004).

A court reviews all evidence in the record and must draw all reasonable inferences in favor of the nonmoving party; however, a court may not make credibility determinations or weigh the evidence, as those are solely functions of the jury. *See Reeves v. Sanderson Plumbing Prods., Inc.*, 530 U.S. 133, 150–51 (2000). The moving party is entitled to judgment as a matter of law, "only if the evidence points so strongly and so overwhelmingly in favor of the nonmoving party that no reasonable juror could return a contrary verdict." *Int'l Ins. Co. v. RSR Corp.*, 426 F.3d 281, 296 (5th Cir. 2005).

Under Federal Rule of Civil Procedure 59, a new trial may be granted to any party to a jury trial on any or all issues "for any reason for which a new trial has heretofore been granted in

an action at law in federal court." "A new trial may be granted, for example, if the district court finds the verdict is against the weight of the evidence, the damages awarded are excessive, the trial was unfair, or prejudicial error was committed in its course." *Smith v. Transworld Drilling Co.*, 773 F.2d 610, 612–13 (5th Cir. 1985).

Remittitur is within the sound discretion of the trial court and is only appropriate when the damages verdict is "clearly excessive." *See Alameda Films S.A. v. Authors Rights Restoration Corp.*, 331 F.3d 472, 482 (5th Cir. 2003).

Judgment as a Matter of Law Regarding Direct Infringement

Apple first contends that VirnetX failed to present substantial evidence that Apple's VPN On Demand and FaceTime features infringe the patents-in-suit. *See* Docket No. 623 at 2–16.

Applicable Law

To prove infringement, the plaintiff must show the presence of every element or its equivalent in the accused device. *Lemelson v. United States*, 752 F.2d 1538, 1551 (Fed. Cir. 1985). Determining infringement is a two-step process: "[f]irst, the claim must be properly construed, to determine the scope and meaning. Second, the claim, as properly construed must be compared to the accused device or process." *Absolute Software, Inc. v. Stealth Signal, Inc.*, 659 F.3d 1121, 1129 (Fed. Cir. 2011) (citing *Carroll Touch, Inc. v. Electro Mech. Sys., Inc.*, 15 F.3d 1573, 1576 (Fed. Cir. 1993)). "A determination of infringement is a question of fact that is reviewed for substantial evidence when tried to a jury." *ACCO Brands, Inc. v. ABA Locks Mfr. Co.*, 501 F.3d 1307, 1311 (Fed. Cir. 2007).

VPN On Demand

The parties' primary dispute at trial was if in fact Apple's VPN On Demand feature "determines whether" a DNS request is requesting access to a secure website or server (the "determining whether" limitation/step). At trial, VirnetX alleged the VPN On Demand feature

infringed claims 1, 3, 7, 8 of the '135 Patent, and claims 1 and 13 of the '151 Patent. The '135 Patent discloses a method of transparently creating a virtual private network ("VPN") between client computer and a target computer, while the '151 Patent describes creating a secure communication link based on a domain name service ("DNS") request.

Claim 1 of the '135 Patent is a representative claim and claims the following:

> A method of transparently creating a virtual private network (VPN) between a client computer and a target computer, comprising the steps of:
>
> (1) generating from the client computer a Domain Name Service (DNS) request that requests an IP address corresponding to a domain name associated with the target computer;
> (2) determining whether the DNS request transmitted in step (1) is requesting access to a secure web site; and
> (3) in response to determining that the DNS request in step (2) is requesting access to a secure target web site, automatically initiating the VPN between the client computer and the target computer.

While the Court has not construed the word "determining," in its claim construction opinion, the Court noted this determining step could be performed by the client computer or by the target computer. *See* Docket No. 266 at 18–20. Additionally, the Court has construed the phrase "secure web site" to mean "a website that requires authorization for access and that can communicate in a VPN." Docket No. 266 at 21.[1]

Apple now contends that VirnetX failed to present substantial evidence that the VPN On Demand feature meets the "determining whether" limitation. Docket No. 623 at 3. Apple argues that the feature cannot meet this limitation, because the accused feature cannot determine whether the DNS request actually corresponds to a secure website or to a secure server, as Apple's expert, Dr. Kelly, demonstrated. *Id.*; *see* 11/02/12 a.m. TT at 148:10–21; 154:5–156:18; 167:8–176:25.

[1] The '151 Patent is directed to creating connections with a secure server. Like "secure website," the Court construed secure server to mean "a server that requires authorization for access and that can communicate in an encrypted channel." Docket No. 266 at 24.

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