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

VIRNETX INC., ET AL.,	§	
	§	
Plaintiffs,	§	CIVIL ACTION NO. 6:12-CV-00855-RWS
	§	
v.	§	**SEALED**
	§	
APPLE INC.,	§	
	§	
Defendant.	§	
	§	

ORDER

Before the Court is VirnetX's Motion for Entry of Judgment. Docket No. 824. The Court

heard argument on April 15, 2020. For the following reasons, VirnetX's motion is **DENIED**.

VirnetX's requests for pre-judgment interest, post-judgment interest and a sunset royalty are

DENIED-AS-MOOT.

I. Background

For almost a decade, VirnetX and Apple have locked horns in a bitter patent dispute. In

the most recent bout, a jury found that Apple's redesigned VPN on Demand and FaceTime features

infringed VirnetX's patents[1] and awarded VirnetX $502,567,709 in reasonable royalty damages—

approximately $1.20 per accused device. Docket No. 722 at 2. After trial, the Court denied

Apple's post-trial motions, granted VirnetX's requests for certain equitable relief and entered final

judgment. Docket No. 798 (order on post-trial motions); Docket No. 801 (Final Judgment).

Apple appealed. Docket No. 812. The Federal Circuit reversed this Court's claim

construction, held that FaceTime did not infringe and remanded to this Court for a determination

on the necessity of a new damages trial. *VirnetX Inc. v. Apple Inc.*, 792 F. App'x 796 (Fed. Cir.

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[1] U.S. Pat. Nos. 6,502,135 and 7,490,151 (asserted against VPN on Demand); U.S. Pat. Nos. 7,418,504 and 7,921,211 (asserted against FaceTime).

2019) ("*VirnetX III*"). As a first step in fulfilling that mandate, the Court sets forth the relevant background: (a) the damages experts' testimony, (b) the jury verdict form, (c) Apple's representations in post-trial briefing, (d) the Court's order regarding ongoing royalties, (e) Apple's representation on appeal and (f) Apple's representations during a related appeal.

a. Expert Testimony

Each party presented a damages expert at trial: Roy Weinstein for VirnetX and W. Christopher Bakewell for Apple. On VirnetX's behalf, Mr. Weinstein opined "that reasonable royalties to be paid by Apple to VirnetX for use of the VirnetX patents in this case range from $1.20 per accused unit sold, to $1.67 per accused unit sold with respect to FaceTime and VPN On Demand." Docket No. 753 at 26:13–16. He offered three specific royalty rates—$1.20, $1.41 or $1.67 per accused unit—that averaged the per-unit royalty rate from six, five and four comparable licenses, respectively. *Id.* at 48:23–55:4. Mr. Weinstein opined that these rates applied to each infringing device regardless of whether the device contained FaceTime, VPN on Demand or both. *Id.* 91:18–24, 127:5–8. In an example calculation, Mr. Weinstein multiplied the $1.20-per-device rate by the number of accused units to arrive at $502,569,709 in damages. *Id.* at 90:7–91:19. He performed the same calculation for the other rates. Rather than choosing a single rate, Mr. Weinstein suggested all three rates would be appropriate, leaving the ultimate decision to the jury. *Id.* at 55:5–7. But he did opine that $502,569,709 was his "conservative figure . . . for damages." *Id.* at 94:2–7.

On Apple's behalf, Mr. Bakewell opined that "a reasonable royalty in this case [would be] no more than $0.06 per unit." Docket No. 758 at 223:16–17. To reach that figure, he divided the royalty payment from a Microsoft-VirnetX license agreement—$223 million—"by the four billion units that were licensed under that agreement." *Id.* at 224:2–5. Unlike Mr. Weinstein, Mr. Bakewell testified that different royalty rates should apply to devices containing different accused

features: $0.06 for devices with both FaceTime and VPN on Demand, $0.01 for devices with

FaceTime alone and something less than $0.06 for devices with VPN on Demand alone. *Id.* at

262:23–64:1. To arrive at the $0.01 rate for devices with FaceTime alone, Mr. Bakewell relied on

an income approach based on Apple's sales, rather than a market approach based on prior licenses.

Id. at 260:1–9. Before Apple included FaceTime as a default feature on its devices, users were

able to purchase a FaceTime application for $0.99. *Id.* at 260:10–12. Relying on opinions from

Apple's other witnesses, Mr. Bakewell claimed the patented technology accounted for 1% of that

$0.99 sale price—approximately $0.01. *Id.* at 260:23–61:19.

b. Verdict Form

In trial briefing, the parties proposed alternative damages questions, but neither requested

a per-patent or per-feature question:

VIRNETX'S PROPOSAL	APPLE'S PROPOSAL
What royalty do you find, by a preponderance of the evidence, would fairly and reasonably compensate VirnetX for any infringement that you have found? Express your answer as a dollar amount per infringing device.	What reasonable royalty did VirnetX prove by a preponderance of the evidence would be adequate to compensate it for Apple's infringement?

Docket Nos. 704-2 (VirnetX's Proposal), 704-3 (Apple's proposal). Apple did, however, argue

that VirnetX's proposal was biased because it assumed a single royalty rate for every accused

device regardless of that device's features. Docket No. 704 at 2. VirnetX argued Mr. Bakewell

chose not to present a feature-dependent damages theory, so Apple's concerns had been waived.

Docket No. 709 at 2.

The Court adopted a compromise position, using VirnetX's basic wording but declining to

request damages on a per-unit basis:

> What royalty do you find, by a preponderance of the evidence, would fairly and reasonably compensate VirnetX for any infringement that you have found?

Docket No. 722 at 2 (Final Verdict Form). The jury was never asked to calculate a reasonable royalty specific to FaceTime's infringement or VPN on Demand's infringement.

c. Apple's Post-Trial Representations

During post-trial briefing, Apple sought judgment as a matter of law on damages "[b]ecause the jury's damages award [had been] predicated on legally insufficient grounds." Docket No. 775 at 26. It argued Mr. Weinstein had failed to apportion damages, failed to account for various licenses' circumstances, advocated a royalty beyond the footprint of the invention and violated the entire-market-value rule (EMVR). *Id.* at 26–33. Apple also argued the jury's award was duplicative and excessive. *Id.* at 33–35. In its reply brief, Apple asserted that "the jury [had] adopted Mr. Weinstein's theory," so its arguments against Mr. Weinstein's opinions applied with equal force to the jury's verdict. Docket No. 783 at 8. Apple made similar arguments in a related case. *See, e.g.*, Apple's Omnibus Motion at 16–18, 20, 22, *VirnetX v. Apple*, Case No. 6:10-cv-417 (E.D. Tex. 2016) (Docket No. 1062) ("-417 case").

In the alternative, Apple moved for a new trial on damages for five reasons, four of which related to damages. First, Apple argued a new damages trial would be necessary if the Court granted JMOL of noninfringement for FaceTime or VPN on Demand. Docket No. 775 at 46. Second, Apple argued Mr. Weinstein's unreliable testimony should have been excluded. *Id.* Third, Apple claimed the Court should have instructed the jury on the EMVR and had incorrectly instructed the jury regarding the hypothetical negotiation. *Id.* Finally, Apple argued the jury's verdict was excessive. *Id.*

d. VirnetX's Sunset Royalty

To remedy ongoing harm, VirnetX requested a permanent injunction or a sunset royalty. *See* Docket No. 774. In response to VirnetX's sunset-royalty request, Apple argued that any ongoing royalty should be capped at $0.08 per device. Docket No. 778 at 50–52. In doing so, it repeatedly stated that the "jury's $1.20 per-unit rate" should not be adopted or enhanced for any sunset royalty. *Id.*

The Court denied VirnetX's request for a permanent injunction but granted its request for an on-going royalty. Docket No. 798 at 51. The Court found that "[t]he jury's implied royalty rate [wa]s $1.20," which neither party disputed, and rejected VirnetX's request to enhance that rate. Docket No. 798 at 51.

e. Apple's Representations on Appeal

On appeal, Apple continued to assert that the jury had adopted Mr. Weinstein's damages model. It claimed that—assuming Mr. Weinstein's opinions were admissible—he had failed to explain his apportionment to the jury. To Apple, because "the verdict . . . [had] awarded [Mr. Weinstein's] full damages demand," the jury could not have apportioned, and its verdict could not stand. Corrected Non-Confidential Brief for Defendant-Appellant Apple Inc. at 78–79, *VirnetX v. Apple*, Case No. 19-1050 (Fed. Cir. 2019) (Docket No. 27).

In the same breath, Apple argued that "if the Court affirm[ed] the PTO's unpatentability determinations and/or reverse[d] the infringement findings for the '135 and '151 patents (asserted against redesigned VPN On Demand) or the '504 and '211 patents (asserted against redesigned FaceTime), the district court's judgment should be vacated and remanded to determine the applicable damages, prejudgment interest, and ongoing royalties for the patents and infringement findings that remain." *Id.* at 74. It argued that the jury's verdict had been predicated on four patents' infringement and had not apportioned damages on a patent-by-patent basis. *Id.* Apple

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