

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

VIRNETX INC. and SCIENCE APPLICATIONS INTERNATIONAL CORPORATION, Plaintiffs, vs. APPLE, INC., Defendant.	§ § § § § § § § § §	CASE NO. 6:12-CV-855
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ORDER

Before the Court is VirnetX, Inc. and Science Applications International Corp.’s (collectively, “VirnetX”) Motion for Partial Summary Judgment on Apple, Inc.’s (“Apple”) Invalidity Counterclaims Asserted in the Prior Litigation (Docket No. 149). The Court heard arguments regarding this Motion on May 20, 2014. Based on the parties’ briefings and arguments, the Motion is **GRANTED IN PART** and **DENIED IN PART**.

BACKGROUND

This is the second case between VirnetX and Apple. The first case, “*Apple I*,” was filed on August 11, 2010. *VirnetX, Inc. v. Cisco Systems, Inc., et al.*, No. 6:10-cv-417 (E.D. Tex. Aug. 11, 2010).¹ In *Apple I*, VirnetX accused two Apple product features of infringement: FaceTime and VPN On Demand. VirnetX originally asserted ninety claims from four patents.² Apple

¹ Cisco Systems, Inc. was Apple’s co-defendant in *Apple I*. The Court separated the defendants for trial. *Apple I*, Docket No. 542.

² VirnetX asserted 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”). 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.

originally asserted several theories of invalidity, including anticipation, obviousness, failure to comply with the written description requirement, derivation, and non-joinder.

The *Apple I* case proceeded to trial on October 31, 2012. As it does in many complex patent cases, the Court in *Apple I* encouraged and required the parties to narrow their cases for trial. Accordingly, VirnetX only presented sixteen patent claims at trial.³ Similarly, the only invalidity theory Apple presented was anticipation based on a 1996 publication by Takahiro Kiuchi (the “Kiuchi reference”). However, the narrowing of Apple’s case was only partially voluntary. Prior to trial, the Court disposed of Apple’s derivation and non-joinder invalidity theories when it granted a motion for summary judgment filed by VirnetX. *Apple I*, Docket No. 555.

Following a five-day trial, the jury in *Apple I* found that the four asserted patents were not invalid and that Apple infringed the sixteen asserted claims. It awarded VirnetX \$368,160,000 to compensate for Apple’s infringement. The Court entered judgment on the jury’s verdict. *Apple I*, Docket No. 732.

On the same day the jury reached a verdict in *Apple I*, VirnetX filed this action. In this case, VirnetX accuses the re-designed versions of the FaceTime and VPN on Demand features accused in *Apple I*, plus two features that were not at issue in the prior litigation: Per App VPN and iMessage. VirnetX originally asserted the same four patents as in *Apple I*, and later amended its complaint to assert two additional patents.⁴ Docket Nos. 1, 58, 75. Apple contends that the asserted patents in this case are invalid, including the four patents asserted in *Apple I*. It no longer asserts anticipation based on the Kiuchi reference, which it presented at trial in *Apple I*,

³ At the *Apple I* trial, VirnetX presented 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.

⁴ VirnetX added U.S. Patent Nos. 8,015,181 (“the ’181 Patent”) and 8,504,697 (“the ’697 Patent”). The ’181 Patent discloses a method of establishing a secure communication link, while the ’697 Patent discloses a method of communicating between network devices.

but reasserts other invalidity theories that it did not present at trial, including the derivation and non-joinder invalidity theories that the Court dismissed on summary judgment. VirnetX filed the current motion, requesting the Court to rule that issue and claim preclusion bar Apple's invalidity defenses in this case.

APPLICABLE LAW

Summary judgment shall be rendered when the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law. FED. R. CIV. P. 56(c); *Celotex Corp. v. Catrett*, 477 U.S. 317, 323–25 (1986); *Ragas v. Tenn. Gas Pipeline Co.*, 136 F.3d 455, 458 (5th Cir. 1998). An issue of material fact is genuine if the evidence could lead a reasonable jury to find for the non-moving party. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986). In determining whether a genuine issue for trial exists, the court views all inferences drawn from the factual record in the light most favorable to the nonmoving party. *Id.*; *Matsushita Elec. Indus. Co. v. Zenith Radio*, 475 U.S. 574, 587 (1986).

If the moving party has made an initial showing that there is no evidence to support the nonmoving party's case, the party opposing the motion must assert competent summary judgment evidence of the existence of a genuine fact issue. *Matsushita*, 475 U.S. at 586. Mere conclusory allegations, unsubstantiated assertions, improbable inferences, and unsupported speculation are not competent summary judgment evidence. *See Eason v. Thaler*, 73 F.3d 1322, 1325 (5th Cir. 1996); *Forsyth v. Barr*, 19 F.3d 1527, 1533 (5th Cir. 1994). The party opposing summary judgment is required to identify evidence in the record and articulate the manner in which that evidence supports his claim. *Ragas*, 136 F.3d at 458. "Only disputes over facts that

might affect the outcome of the suit under the governing laws will properly preclude the entry of summary judgment.” *Anderson*, 477 U.S. at 248. Summary judgment must be granted if the nonmoving party fails to make a showing sufficient to establish the existence of an element essential to its case and on which it will bear the burden of proof at trial. *Celotex*, 477 U.S. at 322–23.

ANALYSIS

I. Claim Preclusion (*Res Judicata*)

VirnetX contends that claim preclusion bars Apple’s invalidity defenses to any of the claims previously asserted in the *Apple I* case, including the seventy-four claims not presented at trial. The Fifth Circuit applies claim preclusion where: “(1) the parties are identical in the two actions; (2) the prior judgment was rendered by a court of competent jurisdiction; (3) there was a final judgment on the merits; and (4) the same claim or cause of action is involved in both cases.” *Oreck Direct, LLC v. Dyson, Inc.*, 560 F.3d 398, 401 (5th Cir. 2009) (citation omitted).

The parties dispute mainly concerns the fourth element of claim preclusion, whether the same claim or cause of action is involved in both cases.⁵ VirnetX argues that Apple is precluded from asserting invalidity in this case because Apple asserted invalidity in *Apple I*. Apple does not dispute that it raised an invalidity defense in *Apple I*. However, it contends that its invalidity defense is not precluded because VirnetX’s infringement claims are different in this case. The parties’ dispute centers on what qualifies as a “claim” to be precluded. VirnetX contends an invalidity defense qualifies as a separate “claim” for the purposes of claim preclusion; Apple argues the “claim” is based on infringement allegations.

⁵ The parties also dispute the second element of claim preclusion, whether the prior judgment was rendered by a court of competent jurisdiction. However, for the reasons discussed herein, the Court does not need to reach the parties’ dispute with respect to the second element.

Although regional circuit law governs claim preclusion generally, the question of whether an invalidity defense qualifies as a separate “claim” for the purposes of claim preclusion is “particular to patent law” and is to be decided based on the law of the U.S. Court of Appeals for the Federal Circuit. *Hallco Mfg. Co., Inc. v. Foster*, 256 F.3d 1290, 1294 (Fed. Cir. 2001). The Federal Circuit has held that “[a]n assertion of invalidity of a patent by an alleged infringer is not a ‘claim’ but a defense to the patent owner’s ‘claim.’” *Foster v. Hallco Mfg. Co., Inc.*, 947 F.2d 469, 479 (Fed. Cir. 1991). “[T]he right to pursue the invalidity defense in later litigation between the parties . . . depends on whether the underlying cause of action is different from the one brought earlier, which in turn depends on whether the [] devices [in the two cases] are essentially the same, or if any differences between them are merely colorable.” *Hallco v. Foster*, 256 F.3d at 1297.

The accused devices in this case are Per App VPN, iMessage, FaceTime, and VPN on Demand. Per App VPN and iMessage were not at issue in *Apple I*. FaceTime and VPN on Demand have been re-designed since the prior case. Thus, the accused features in this and the prior case are not “essentially the same.” Therefore, this case does not present the same “claim” as in *Apple I*.

Accordingly, claim preclusion does **NOT PRECLUDE** Apple from raising invalidity, under any theory, as a defense against any of the patent claims asserted in *Apple I*.

II. Issue Preclusion (*Collateral Estoppel*)

Additionally, VirnetX asserts that issue preclusion bars Apple’s invalidity defenses to the sixteen claims presented during the *Apple I* trial. A party is estopped from relitigating an issue when “(1) the issue under consideration is identical to that litigated in the prior action; (2) the issue was fully and vigorously litigated in the prior action; (3) the issue was necessary to support

the judgment in the prior case; and (4) there is no special circumstance that would make it unfair to apply the doctrine.” *Copeland v. Merrill Lynch & Co., Inc.*, 47 F.3d 1415, 1422 (5th Cir. 1995). The judgment must be final to preclude relitigation of an issue. *Harvey Specialty & Supply, Inc. v. Anson Flowline Equip. Inc.*, 434 F.3d 320, 323 (5th Cir. 2005).

a. Invalidity Defenses Against Previously Tried Claims

The parties dispute the first element of issue preclusion, whether an identical issue exists. VirnetX argues that Apple is precluded from asserting invalidity in this case because that issue was decided in *Apple I*. As noted in the previous section, Apple does not dispute that it raised an anticipation defense at trial in *Apple I*. Docket No. 155 at 3. However, it claims that the invalidity theories it asserts in this case are not precluded because they are different from the invalidity theory it tried before the *Apple I* jury. The parties’ dispute centers on the “issue” to be given preclusive effect. VirnetX contends patent invalidity is a single “issue” for preclusion purposes; Apple claims each invalidity theory is a separate “issue.”

Although regional circuit law governs issue preclusion generally, the question of whether invalidity is a single “issue” for preclusion purposes is “particular to patent law” and is to be decided based on the law of the U.S. Court of Appeals for the Federal Circuit. *Applied Med. Res. Corp. v. U.S. Surgical Corp.*, 435 F.3d 1356, 1359–60 (Fed. Cir. 2006); *Evonik Degussa GmbH v. Materia Inc.*, No. 9-cv-636, 2014 WL 2967653, at *11 (D. Del. June 30, 2014); see *Hallco v. Foster*, 256 F.3d at 1294. However, the Federal Circuit has not yet explicitly addressed this matter. *Evonik*, 2014 WL 2967653, at *11. To support its proposition, Apple cites a recent case from the District of Delaware stating that “each theory of invalidity is a separate issue.” *TASER Int’l, Inc. v. Karbon Arms, LLC*, No. 11-cv-426, 2013 WL 6705149, at *7 (D. Del. Dec. 19, 2013). However, “the overwhelming weight of authority suggests that the

‘issue’ that is to be given issue-preclusive effect to a judgment in the patent context is the ultimate determination on patent validity itself, not the sub-issues or the individual pieces of evidence and arguments that may have been necessary to support the validity determination.” *Crossroads Sys. (Texas), Inc. v. Dot Hill Sys. Corp.*, No. A-03-CA-754-SS, 2006 WL 1544621, at *5 (W.D. Tex. May 31, 2006); *accord Evonik*, 2014 WL 2967653, at *12 (holding that “validity is a single issue” for preclusion purposes). In this case, Apple is again contesting the validity of the ’135, ’504, ’151, and ’211 Patents. Since this validity dispute is identical to the issue raised in *Apple I*, the first issue preclusion element is satisfied.

The second element of issue preclusion is not in dispute. Apple concedes that its anticipation defense based on Kiuchi was fully litigated in *Apple I*. Docket No. 155 at 3. The third element of issue preclusion is also satisfied. A finding that the claims presented during the *Apple I* trial were not invalid was necessary to the Court’s judgment entered against those claims. *See Apple I*, Docket No. 732.

The parties dispute the final element of issue preclusion, whether a special circumstance would make it unfair to apply the doctrine. Apple argues that precluding its untried invalidity defenses would be unfair because it had to narrow its case for trial in *Apple I*. Docket No. 155 at 14.⁶ However, Apple was not the only party encouraged to narrow its case. Both VirnetX and Apple were encouraged to narrow their cases for the *Apple I* trial and both parties voluntarily did so. Narrowing a case for trial involves strategic risk that the parties will choose unwisely from among their multiple claims and defenses. VirnetX originally asserted ninety claims but reduced that number to sixteen for trial. Claim preclusion now bars VirnetX from asserting, against the

⁶ Apple also notes that VirnetX has proposed claim constructions that would broaden some of the claims asserted in *Apple I* and this case. Thus, it argues, if the Court adopted these broader constructions, then issue preclusion would not apply to the broadened claims. Docket No. 155 at 15. However, Apple’s concern is moot because the Court’s claim construction order does not adopt VirnetX’s broader proposed constructions for the claims previously construed in *Apple I*.

same allegedly infringing conduct, the seventy-four claims that it dropped before trial. *See Brain Life, LLC v. Elekta Inc.*, 746 F.3d 1045, 1053 (Fed. Cir. 2014) (holding that the unopposed dismissal of patent claims without prejudice and entry of final judgment precluded subsequent assertion of those patent claims against the same allegedly infringing conduct). Likewise, Apple originally asserted several theories of invalidity but only presented an anticipation defense to the jury. However, Apple now asserts that it would be unfair to preclude its foregone *Apple I* defenses against the same patent claims in this subsequent litigation. On the contrary, it would be unfair if these defenses were not precluded. According to Apple's theory, plaintiffs would bear all of the risk inherent in narrowing a complex patent case in order to make trial practicable. The Court will not make an exception and require only one party to bear this burden. Accordingly, there is no special circumstance which would make it unfair to apply issue preclusion to Apple's asserted invalidity theories.

Alternatively, Apple argues that a stipulation between the parties during *Apple I* preserves its invalidity contentions. The stipulation recounts that during the pendency of that case, Apple released a new feature called iMessage. *Apple I*, Docket No. 551 at 1. Given the timing in the *Apple I* case, VirnetX and Apple agreed that iMessage would not be an accused feature in that case, but that VirnetX could assert claims against iMessage in a future litigation.

Id. The stipulation goes on to state:

Nothing in this agreement affects any other rights that Apple has to assert its affirmative defenses and counterclaims with respect to iMessage or any VirnetX patent that may be asserted against Apple.

Id.

This section of the stipulation does not grant Apple rights it would not otherwise have—namely, a second attempt at asserting invalidity. If the parties had wished to do so, they could

have stipulated that the agreement preserved Apple's affirmative defenses and counterclaims to be reasserted in a later case. Instead, the stipulation states that "[n]othing in th[e] agreement affects" those affirmative defenses and counterclaims. *Id.* Because the stipulated agreement does not affect Apple's invalidity contentions, it does not preserve them.

Accordingly, Apple is **PRECLUDED** from asserting invalidity in this litigation against the patent claims that were tried before a jury in *Apple I*.

b. Derivation and Non-Joinder Invalidity Defenses Against Untried Claims

VirnetX argues that issue preclusion also bars VirnetX's derivation and non-joinder invalidity defenses to the seventy-four claims not presented at the *Apple I* trial. However, the Court refused to enter judgment on the claims and defenses not presented to the jury in that case. *Apple I*, Docket No. 732. Thus, the validity of the seventy-four untried claims was not necessary to the *Apple I* judgment. *See* 35 U.S.C. § 282(a) ("Each claim of a patent . . . shall be presumed valid independently of the validity of other claims"). Accordingly, Apple is **NOT PRECLUDED** from raising derivation and non-joinder defenses against the patent claims that were not tried before a jury in *Apple I*.

CONCLUSION

VirnetX's Motion for Partial Summary Judgment on Apple's Invalidity Counterclaims Asserted in the Prior Litigation (Docket No. 149) is **GRANTED IN PART** and **DENIED IN PART**. Although not barred under claim preclusion, the doctrine of issue preclusion **PRECLUDES** Apple from asserting invalidity as a defense against infringement of the claims that were tried before a jury in *Apple I*.⁷ Apple is **NOT PRECLUDED** from asserting

⁷ At the *Apple I* trial, VirnetX presented 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.

invalidity, under any theory, as a defense against infringement of the claims that were not tried before a jury in *Apple I*.

So ORDERED and SIGNED this 8th day of August, 2014.

A handwritten signature in black ink, appearing to read 'Leonard Davis', written over a horizontal line.

**LEONARD DAVIS
UNITED STATES DISTRICT JUDGE**

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

**VIRNETX INC. AND SCIENCE
APPLICATIONS INTERNATIONAL
CORPORATION,**

Plaintiffs,

VS.

APPLE INC.,

Defendant.

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**CASE NO. 6:12-CV-855**

## ORDER

Before the Court are the following motions:

- Plaintiff VirnetX, Inc.’s (“VirnetX”) Motion to Compel Responses to VirnetX’s Interrogatory No. 7 (Docket No. 184);
- VirnetX’s Motion to Compel Document Production (Docket No. 194);
- Defendant Apple Inc.’s (“Apple”) Motion for Partial Summary Judgment of Noninfringement by FaceTime (Docket No. 315);
- VirnetX’s Motion to Strike Portions of the Opinion and Testimony of Mr. Christopher Bakewell (Docket No. 316);
- Apple’s Motion to Exclude the Expert Opinion of Dr. Mark Jones (Docket No. 317);
- VirnetX’s Motion to Exclude Portions of Dr. Matthew Blaze’s Invalidity Report (Docket No. 318);
- VirnetX’s Motion to Strike Portions of the Expert Report of Mr. James T. Carmichael (Docket No. 319);
- VirnetX’s Motion for Partial Summary Judgment of No Invalidity on Dependent Claims of Previously Tried Claims (Docket No. 320);
- VirnetX’s Motion for Partial Summary Judgment of No Invalidity Based on Derivation and Non-Joinder Theories (Docket No. 321);
- VirnetX’s Motion for Summary Judgment of No Inequitable Conduct (Docket No. 322);

- Apple's Motion to Exclude the Expert Damages Opinions of Mr. Roy Weinstein (Docket No. 323); and
- Apple's Motion to Strike VirnetX's Summary Judgment Briefing (Docket No. 326).

On January 7, 2016, the Court heard oral arguments regarding a variety of these motions. Based on the parties' briefing and argument, the Court rules as follows.

The Court **DENIES** VirnetX's Motion to Compel Responses to VirnetX's Interrogatory No. 7 (Docket No. 184). Apple is **ORDERED** to make the 30(b)(6) witness, which was offered during the hearing, available for deposition at VirnetX's convenience. To the extent that this deposition does not allow VirnetX to adequately test the details of a non-infringing alternative, and a witness for Apple discusses that non-infringing alternative at trial, VirnetX may request the Court's permission to ask an Apple witness about previous misrepresentation concerning the non-infringing alternatives in Case No. 6:10-cv-417.

The Court **DENIES** VirnetX's Motion to Compel Document Production (Docket No. 194). However, the Court will carefully consider any objections from VirnetX where Apple criticizes a VirnetX witness for not considering specific usage sought by VirnetX in this motion.

The Court **DENIES** Apple's Motion for Partial Summary Judgment of Noninfringement by FaceTime (Docket No. 315), with opinion to follow. Apple has not shown the absence of a genuine issue of material fact as to whether FaceTime infringes the asserted patents.

The Court **GRANTS** VirnetX's Motion to Strike Portions of the Opinion and Testimony of Mr. Christopher Bakewell (Docket No. 316), with opinion to follow. Mr. Bakewell's new method of calculating damages does not sufficiently relate to the consolidation of Case Nos. 6:10-cv-417 and 6:12-cv-855.

The Court **DENIES** Apple's Motion to Exclude the Expert Opinion of Dr. Mark Jones (Docket No. 317). Although Apple presents valid criticisms of Dr. Jones's opinions, they go to the weight of the evidence rather than admissibility.

The Court **DENIES** VirnetX's Motion to Exclude Portions of Dr. Matthew Blaze's Invalidity Report (Docket No. 318). With respect to Dr. Blaze's invalidity defenses for the asserted claims of Case No. 6:10-cv-417, Apple states it will not present an invalidity defense for these previously tried claims. In addition, Dr. Blaze's opinion on conception of the invention is admissible.

At the hearing, VirnetX withdrew its Motion to Strike Portions of the Expert Report of Mr. James T. Carmichael (Docket No. 319). Therefore, this motion is **DENIED AS MOOT**.

The Court **GRANTS-IN-PART** and **DENIES-IN-PART** VirnetX's Motion for Partial Summary Judgment of No Invalidity on Dependent Claims of Previously Tried Claims (Docket No. 320), with opinion to follow. This Motion is **GRANTED** with respect to Apple's anticipation and obviousness defenses and **DENIED** as to the derivation and non-joinder defenses.

The Court **DENIES** VirnetX's Motion for Partial Summary Judgment of No Invalidity Based on Derivation and Non-Joinder Theories (Docket No. 321). When viewing the facts in the light most favorable to Apple, the Schulzrinne Presentation creates a question of fact as to whether the named inventors of the asserted patents derived their invention from Dr. Henning Schulzrinne.

The Court **GRANTS** VirnetX's Motion for Summary Judgment of No Inequitable Conduct (Docket No. 322), with opinion to follow. Based on the evidence presented, the single

most reasonable inference is not that Mr. Toby Kusmer had a specific intent to deceive the U.S. Patent and Trademark Office.

The Court **DENIES** Apple's Motion to Exclude the Expert Damages Opinions of Mr. Roy Weinstein (Docket No. 323). Although Apple presents valid criticisms of Mr. Weinstein's opinions, they go to the weight of the evidence rather than its admissibility. The Court will be in a better position to evaluate Apple's criticisms, including how VirnetX uses the disputed survey, during Mr. Weinstein's testimony.

The Court **DENIES** Apple's Motion to Strike VirnetX's Summary Judgment Briefing (Docket No. 326). However, the Court is concerned with VirnetX's 29-page motion for summary judgment of no inequitable conduct. In this instance, VirnetX did not file a motion requesting additional pages to brief its motion as it did for its motion *in limine* responses (Docket No. 314). VirnetX states that it did not need to request leave to file additional pages because its motion for summary judgment of no inequitable conduct should be considered case dispositive pursuant to Local Rule CV-7. This argument should have been made prior to, or at least concurrent with, VirnetX filing its motion for summary judgment of no inequitable conduct. By filing the 29-page motion as is, VirnetX prevented the Court from ordering it to simply re-file the motion within the required page limits. Similarly, Apple was essentially forced to concede to VirnetX's interpretation of the Local Rules because of the short briefing schedule (*see* Docket No. 340). Although striking VirnetX's summary judgment briefing is too severe in this situation, the Court **ORDERS** the parties to meet and confer to determine an appropriate remedy. The parties shall file a joint proposal detailing their positions on a remedy by **January 15, 2016 by 5:00 p.m.**

**SIGNED this 11th day of January, 2016.**



ROBERT W. SCHROEDER III  
UNITED STATES DISTRICT JUDGE

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

**VIRNETX INC. AND SCIENCE  
APPLICATIONS INTERNATIONAL  
CORPORATION,**

**Plaintiffs,**

**VS.**

**APPLE INC.,**

**Defendant.**

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**CASE NO. 6:12-CV-855**

## MEMORANDUM OPINION

On January 7, 2016, the Court heard oral argument on various motions. This document provides the written opinion of the Court’s prior rulings on January 11, 2016. *See* Docket No. 362. This opinion addresses: (1) Defendant Apple Inc.’s (“Apple”) denied Motion for Partial Summary Judgment of Noninfringement by FaceTime (Docket No. 315); (2) Plaintiff VirnetX Inc.’s (“VirnetX”) granted-in-part and denied-in-part Motion for Partial Summary Judgment of No Invalidity on Dependent Claims of Previously Tried Claims (Docket No. 320); (3) VirnetX’s granted Motion for Summary Judgment of No Inequitable Conduct (Docket No. 322); and (4) VirnetX’s granted Motion to Strike Portions of the Opinion and Testimony of Mr. Christopher Bakewell (Docket No. 316).

**1. Apple’s Motion for Partial Summary Judgment of Noninfringement by FaceTime (Docket No. 315)**

Summary judgment shall be rendered when there is no genuine issue of material fact and the moving party is entitled to judgment as a matter of law. FED. R. CIV. P. 56(c); *Celotex Corp. v. Catrett*, 477 U.S. 317, 322–25 (1986); *Ragas v. Tenn. Gas Pipeline Co.*, 136 F.3d 455, 458 (5th Cir. 1998). An issue of material fact is genuine if the evidence could lead a reasonable jury

to find for the non-moving party. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986). In determining whether a genuine issue of fact exists, a court views all inferences drawn from the factual record in the light most favorable to the nonmoving party. *Matsushita Elec. Indus. Co., Ltd. v. Zenith Radio Corp.*, 475 U.S. 574, 587 (1986).

In a summary judgment motion, Apple argued that the FaceTime feature does not infringe because it is not anonymous as required by the claim term “secure communication link.” Docket No. 352 at 1; *see VirnetX, Inc. v. Cisco Sys., Inc.*, 767 F.3d 1308, 1319 (Fed. Cir. 2014) (construing “secure communication link” as “a direct communication link that provides data security and anonymity”). Apple first explained that, in the specifications of the patents asserted against the FaceTime feature, the preferred embodiment requires “anonymity” by describing a first layer of obfuscation for content and a second layer of obfuscation for source and destination Internet Protocol (“IP”) addresses. Docket No. 352 at 1. Apple concluded that FaceTime is not anonymous because it does not conceal IP addresses as described in the patent specifications. Docket No. 315 at 1. Apple stated that VirnetX incorrectly interpreted “anonymity” as the inability to “correlate” a person or machine to an IP address, instead of as “concealment of source and designation IP addresses.” Docket No. 352 at 5.

Apple effectively asked the Court to further construe a “secure communication link” as implementing a particular process of providing anonymity. *See* Docket No. 315 at 4–7. The particular examples of providing anonymity to a communication link disclosed in the patent specifications should not limit the claims. *See VirnetX*, 767 F.3d at 1319. Based on how the FaceTime feature operates, a jury determined what degree of anonymity is sufficient to infringe the claims. Therefore, a genuine issue of material fact existed as to whether the FaceTime feature satisfied the “anonymity” requirement of the asserted claims.

Apple further stated that Network Address Translations (“NATs”), which were relied on by VirnetX in one of its two “anonymity” theories, are not part of the FaceTime feature.<sup>1</sup> Docket No. 352 at 1–3. The only specific argument that Apple identified as support for NATs being distinct from the FaceTime feature is third party control. *Id.* at 1–2. Apple described a NAT as a “new device.” *Id.* at 2. However, the asserted claims are not directed to a single device. *E.g.*, U.S. Patent No. 7,921,211 (“the ’211 Patent”) at claim 1 (claiming a system). In addition, Apple did not provide support of its position that the introduction of another component, which is not under Apple’s control, negates infringement of the FaceTime feature. *See* Docket No. 352 at 2.

Apple next argued that NATs do not provide the necessary “anonymity” because private and public IP addresses are the same; however, Apple did not explain in what respects the IP addresses are the same. *Id.* at 3. Further, Apple did not claim that the IP addresses are identical, and a description of an IP address as public or private appears to provide some meaning as to how it operates. *See* Docket No. 336 at 4.

Apple also stated that NATs do not provide anonymity because a communication link contains a participant’s private IP address before it interacts with a NAT. Docket No. 352 at 3–4. During this window before a communication reaches a NAT, the participant’s private IP address is allegedly accessible by eavesdroppers. *Id.* VirnetX retorted that, when eavesdroppers intercept packets of an ongoing FaceTime call between participating devices located behind NATs (*i.e.*, after the packets reach the NATs), eavesdroppers cannot correlate a device to a participant. *See* Docket No. 336 at 4, n.1. A reasonable jury could have found that the IP address conversion performed by a NAT early in the communication’s path is sufficient to establish anonymity.

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<sup>1</sup> In addition, Apple disagreed with VirnetX’s characterization of anonymous because it would encompass NAT technology that was invented before the asserted patents. Docket No. 352 at 4. This is an invalidity position, which is unrelated to noninfringement.

Apple also shed doubt on VirnetX's second basis for "anonymity" within the FaceTime feature—the call setup process establishing "anonymity" of a communication. Apple stated that any anonymity established during the call setup process is irrelevant because it is the secure communication link that must be anonymous. Docket No. 352 at 4–5. VirnetX responded that the call setup process creates a secure communication link for the remainder of the communication. *Id.* Drawing all inferences in the light most favorable to VirnetX, a reasonable jury could have found that the call setup process establishes anonymity.

Apple finally argued that the construction of "domain name service system" incorporates the Court's construction of "domain name service." Docket No. 365 at 54:24–59:13; *see also* Docket No. 369 (VirnetX filing an Emergency Motion to Clarify Under *O2 Micro*). Apple relied on previous Court proceedings in attempting to infer that the construction of a "domain name service system" was meant to include the construction of a "domain name service." However, the Court previously interpreted "domain name service" and "domain service system" as separate terms with different constructions. Case No. 6:10-cv-417 (*Apple I*), Docket No. 266 at 15, 20. These two separate terms generally appear in different contexts: the claim preamble versus the body of the claim. Docket No. 369 at 8–10; *e.g.*, '211 Patent at claims 1, 36. Accordingly, the original constructions of "domain name service system" and "domain name service" continue to apply.

Apple did not demonstrate the absence of a genuine issue of material fact as to whether the FaceTime feature infringed the asserted patents. Accordingly, the Court denied Apple's Motion for Partial Summary Judgment of Noninfringement by FaceTime (Docket No. 315). Docket No. 362.

**2. VirnetX's Motion for Partial Summary Judgment of No Invalidity on Dependent Claims of Previously Tried Claims (Docket No. 320)**

VirnetX filed a motion for partial summary judgment based upon the *Apple I* jury finding of no invalidity of the asserted claims. Docket No. 320. VirnetX argued that, because the independent claims in U.S. Patent No. 7,418,504 (“the ’504 Patent”) and the ’211 Patent were found not invalid in *Apple I*, the five newly asserted claims that depend from the previously tried claims must also be not invalid. *Id.* at 4–6. VirnetX submitted that, if a claim is not invalid, a claim that depends from it also cannot be invalid because it is narrower in scope. *Id.* at 5–6. More specifically, VirnetX alleged that the five newly asserted dependent claims are not invalid under (1) anticipation; (2) obviousness; (3) derivation; or (4) nonjoinder. Docket No. 359 at 1.

The newly asserted dependent claims are not captured by issue preclusion, because “[e]ach claim of a patent . . . shall be presumed valid independently of the validity of other claims.” *See* 35 U.S.C. § 282(a). Although issue preclusion does not dictate that the newly asserted dependent claims are not invalid as anticipated and obvious, the relationship between the scope of independent claims and that of dependent claims does.

A dependent claim further defines an independent claim. *See* 35 U.S.C. § 112(d); 37 C.F.R. § 1.75(c). In other words, the scope of subject matter captured by an independent claim is broader than a claim that depends from it. *See* 35 U.S.C. § 112(d); 37 C.F.R. § 1.75(c). In the context of anticipation, if a reference does not read on the limitations of an independent claim, it cannot read on the limitations of a dependent claim that includes additional requirements. *See Aspex Eyewear, Inc. v. Zenni Optical, Inc.*, 713 F.3d 1377, 1381 (Fed. Cir. 2013). This is also true of obviousness. *See id.* If an independent claim is nonobvious, then a claim that depends from it is also nonobvious. *See id.*

In contrast to anticipation and obviousness, invalidity based upon derivation from another and nonjoinder of all inventors is not similarly limited by the relationship between independent and dependent claims. If the inventive entity of an independent claim is accurate, a claim that depends from it may not have the same inventive entity. *See* 25 U.S.C. § 116(a). For instance, an inventor may contribute to a patent by conceiving a limitation that is only present in a dependent claim. *See id.* A particular limitation in a dependent claim could be derived from another or cause an inventor to be excluded from a patent, while the inventive entity may accurately reflect the inventors of an independent claim. *See id.*

Accordingly, this motion (Docket No. 320) was granted with respect to Apple's anticipation and obviousness defenses and denied as to its derivation and nonjoinder defenses. Docket No. 362.

**3. Granting VirnetX's Motion for Summary Judgment of No Inequitable Conduct (Docket No. 322)**

"Inequitable conduct resides in failure to disclose material information, or submission of false material information, with an intent to deceive, and those two elements, materiality and intent, must be proven by clear and convincing evidence." *Kingsdown Med. Consultants, Ltd. v. Hollister Inc.*, 863 F.2d 867, 872 (Fed. Cir. 1988). "Intent and materiality are separate requirements." *See Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276, 1290 (Fed. Cir. 2011) (en banc). But-for materiality is required to establish inequitable conduct. *Id.* at 1291.

"When an applicant fails to disclose prior art to the [U.S. Patent and Trademark Office ("Patent Office")], that prior art is but-for material if the [Patent Office] would not have allowed a claim had it been aware of the undisclosed prior art." *Id.* "Hence, in assessing the materiality of a withheld reference, a court must determine whether the [Patent Office] would have allowed the claim if it had been aware of the undisclosed reference." *Id.*

When examining the intent to deceive requirement, the alleged conduct must be “viewed in light of all the evidence, including evidence indicative of good faith.” *Kingsdown*, 863 F.2d at 876. To demonstrate the intent requirement of inequitable conduct, “the single most reasonable inference able to be drawn from the evidence” must be a specific intent to deceive the Patent Office. *Therasense*, 649 F.3d at 1290. This standard applies at the summary judgment stage. *ROY-G-BIV Corp. v. ABB, Ltd.*, 63 F. Supp. 3d 690, 695 (E.D. Tex. 2014). Intent may be shown from indirect and circumstantial evidence. *Therasense*, 649 F.3d at 1290.

In its motion, VirnetX addressed a number of issues, including an explanation of why the single most reasonable inference is not that VirnetX’s prosecuting attorney, Mr. Toby Kusmer, had an intent to deceive the Patent Office. Docket No. 322 at 7–8. VirnetX explained that there was no intent to deceive the Patent Office when Mr. Kusmer allegedly: (1) disclosed too much information to the Patent Office; (2) failed to disclose evidence from related patents in Case No. 6:07-cv-80 (“the *Microsoft* litigation”) and reexamination proceedings initiated by Apple; and (3) made misleading statements during prosecution regarding the publication date of a prior art reference by Aventail (“the Aventail reference”). *Id.* at 7–21.

Apple responded by stating, among other things, that the intent requirement for inequitable conduct was well-supported by the evidence. Docket No. 339 at 20. Apple identified evidence that it believed supported inferring an intent to deceive the Patent Office. *Id.* at 20–21. Apple’s alleged evidence was the following: (1) Mr. Kusmer incorrectly told the Patent Office that the publication date of the Aventail reference was not discussed during the *Microsoft* litigation; (2) Mr. Kusmer withheld testimony from the *Microsoft* litigation during prosecution of U.S. Patent Nos. 8,051,181 and 8,504,697 (“the ’181 Patent” and “the ’697 Patent,” respectively); (3) Mr. Kusmer misled the Patent Office by inundating it with

approximately 132,500 pages of documents, which were listed on information disclosure statements; (4) Mr. Kusmer admitted he did not review all of the documents listed on the information disclosure statements before submitting them to the Patent Office; (5) Mr. Kusmer lulled the Patent Office into a false sense of complacency by promising to notify it of any evidence of the Aventail reference publication date, but then failed to do so; (6) Mr. Kusmer withheld the three reexamination declarations during prosecution of the '181 Patent; and (7) Mr. Kusmer described the three reexamination declarations related to the publication date of the Aventail reference as "insufficient" during prosecution of the '697 Patent. *Id.* at 20–21.

During the *Microsoft* litigation, the publication date of the Aventail reference was discussed in the context of a confidential deposition transcript. *See* Docket No. 322 at 10–11. Mr. Kusmer had no obligation to disclose documents under the protection of a protective order to the Patent Office. *See id.* With respect to the documents listed on the information disclosure statements, Apple did not indicate how Mr. Kusmer intended to deceive the Patent Office other than by filing information disclosure statements that totaled many pages and were not reviewed by him personally before being filed.<sup>2</sup> *See* Docket No. 339 at 20. Further, the examiner rejected the pending claims using the Aventail reference during prosecution of the '697 Patent, which indicates that the Aventail reference was not hidden from the Patent Office. *See id.* at 11.

Mr. Kusmer promised to update the Patent Office with information relevant to the publication date of the Aventail reference, and did so. *See id.* at 11–12. Apple's main complaint appears to be the speed with which he updated the Patent Office. *See id.* Mr. Kusmer received the three declarations from Apple's reexamination filings a few days before a notice of allowance was mailed for the '181 Patent. *See* Docket No. 322 at 13. However, Mr. Kusmer

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<sup>2</sup> The Aventail reference was listed on a supplemental information disclosure statement with twenty-seven other references. *See* Docket No. 322 at 3 n.1.

brought the three declarations addressing the publication date of the Aventail reference to the examiner's attention during prosecution of the '697 Patent, which issued after the '181 Patent. See Docket No. 339 at 11–12. Additionally, the parties continue to dispute the Aventail reference publication date. See Docket No. 322 at 17.

In view of the foregoing, the single most reasonable inference was not that Mr. Kusmer had an intent to deceive the Patent Office by not disclosing the declarations. Therefore, the Court granted VirnetX's Motion for Summary Judgment of No Inequitable Conduct (Docket No. 322). Docket No. 362.

**4. Granting VirnetX's Motion to Strike Portions of the Opinion and Testimony of Mr. Christopher Bakewell (Docket No. 316)**

In the consolidation order, the Court warned that “while there is substantial overlap between the two cases, incorporating the issues remanded in *Apple I* may require limited and focused fact discovery, as well as supplemental expert reports.” Docket No. 220 at 1–2. As a result, Apple served several interrogatories and requests for admission on VirnetX. Docket No. 333 at 4. Apple then supplemented the report of its damages expert, Mr. Christopher Bakewell. *Id.*

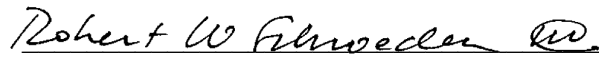
In its motion to strike, VirnetX stated that Mr. Bakewell improperly supplemented his report under the ruse that it was related to the Court's consolidation of *Apple I* and Case No. 6:12-cv-855 (“*Apple II*”). Docket No. 316 at 5. As VirnetX described it, Mr. Bakewell's supplemental expert report introduced a new damages model based on a per-feature-per-product amount, or “a reasonable royalty rate that applies to each of the three accused features [was] \$0.017 per unit (*i.e.*, each worth one-third of \$0.05 per unit).” *Id.* at 3. Apple responded by explaining that the supplemental report accounts for the multiple versions of Virtual Private Network (“VPN”) On Demand and FaceTime that would be at issue in the newly consolidated

case. Docket No. 333 at 5–6. According to Apple, because the cases were consolidated, a distinction needed to be made between the value of various versions of VPN On Demand and FaceTime and this somehow also affected the reasonable royalty if less than three infringing features were on a product. *Id.*

If Mr. Bakewell intended to present information about the relative value of the accused features (*i.e.*, VPN On Demand, FaceTime, or iMessage), that information should have already been included in an earlier expert report. Before the cases were consolidated, Mr. Bakewell’s expert report addressed all three accused features. *See* Docket No. 316 at 2. Further, the post-consolidation discovery collected by Apple does not justify a shift to determining a royalty rate based on the number of infringing features on a product. *See* Docket No. 333 at 4.

Mr. Bakewell’s new method of calculating damages did not sufficiently relate to the consolidation of *Apple I* and *Apple II*. Accordingly, the Court granted VirnetX’s motion (Docket No. 316). Docket No. 362.

**SIGNED this 22nd day of March, 2016.**

  
ROBERT W. SCHROEDER III  
UNITED STATES DISTRICT JUDGE

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

|                             |   |                                    |
|-----------------------------|---|------------------------------------|
| VIRNETX INC., LEIDOS, INC., | § |                                    |
|                             | § |                                    |
| Plaintiffs,                 | § | CIVIL ACTION NO. 6:12-CV-00855-RWS |
|                             | § |                                    |
| v.                          | § | LEAD CASE                          |
|                             | § |                                    |
| APPLE INC.,                 | § |                                    |
|                             | § |                                    |
| Defendant.                  | § |                                    |

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|---------------|---|------------------------------------|
| VIRNETX INC., | § |                                    |
|               | § |                                    |
| Plaintiff,    | § | CIVIL ACTION NO. 6:11-CV-00563-RWS |
|               | § |                                    |
| v.            | § | MEMBER CASE                        |
|               | § |                                    |
| APPLE INC.,   | § |                                    |
|               | § |                                    |
| Defendant.    | § |                                    |

**FINAL JUDGMENT**

On this date, the Court entered its Memorandum Opinion and Order denying Defendant Apple Inc.'s Omnibus Motion for Judgment as a Matter of Law under Rule 50(b) and for a New Trial (Docket No. 775) and denying-in-part and granting-in-part VirnetX's Motion for Entry of Judgment and for Equitable and Statutory Relief (Docket No. 774)

A decision having been duly rendered as to all claims and consistent with the Court's Memorandum Opinion and Order, the Court hereby enters **FINAL JUDGMENT**.

The Clerk of the Court is directed to close both the lead and member case.

**So ORDERED and SIGNED this 30th day of August, 2018.**

  
ROBERT W. SCHROEDER III  
UNITED STATES DISTRICT JUDGE