IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS

In Re Innovatio IP Ventures, LLC, Patent Litigation	Case No. 1:11-cv-09308
This Document Relates To: All Cases	Judge James F. Holderman Magistrate Judge Sidney Schenkier

INNOVATIO'S RESPONSE TO THE COURT'S REQUEST FOR ADDITIONAL INFORMATION REGARDING APPLICATION OF "SMALLEST SALABLE PATENT-PRACTICING UNIT" TO METHOD AND SYSTEM CLAIMS

Innovatio provides the following response to the Court's request for additional information regarding the application of the Federal Circuit's "smallest salable patent-practicing unit" test (the "SSPPU" test), as outlined in *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51 (Fed. Cir. 2012). [Dkt. No. 901.]

As the Court noted, the Federal Circuit has not applied the SSPPU test to method or system claims. However, at least one district court has done so. *See VirnetX Inc. v. Apple Inc.*, No. 6:10-cv-417, 2013 WL 692652 (E.D. Tex. Feb. 26, 2013), attached as Ex. A. The VirnetX asserted patents "generally describe[d] a method of transparently creating a virtual private network ("VPN") between a client computer and a target computer," in addition to a system claim covering a "secure domain name service." *Id*. at *1. VirnetX's asserted claims included a variety of method, system and apparatus claims. Claim 1 of U.S. Patent No. 6,502,135 ('135 patent) is representative of the method claims:

> 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.

U.S. Patent No. 6,502,135 col. 47, ll. 20–32 (Ex. B). Claim 10 of the '135 patent is representative of the system claims:

> A system that transparently creates a virtual private network (VPN) between a client computer and a secure target computer, comprising:
>
> > a DNS proxy server that receives a request from the client computer to look up an IP address for a domain name, wherein the DNS proxy server returns an IP address for the requested domain name if it is determined that access to a non-secure web site has been requested, and wherein the DNS proxy server generates a request to create the VPN between the client computer and the secure target computer if it is determined that access to a secure web site has been requested; and
> >
> > a gatekeeper computer that allocates resources for the VPN between the client computer and the secure web computer in response to the request by the DNS proxy server.

Id. at col.48, ll. 3–19.

VirnetX accused two features of Apple's mobile operating system (iOS) of infringement, namely Apple's VPN on Demand and FaceTime features. *VirnetX*, 2013 WL 692652, at *1. The jury found all asserted claims valid and infringed, and returned a verdict for $368 million. *Id.* In its post-trial motions, Apple argued that VirnetX's damages expert erroneously applied the entire market value rule by using all Apple devices that run the iOS (*e.g.*, the iPhone, iPod Touch and iPad) as a royalty base. *Id.* at *2. Apple also claimed that the court erroneously instructed the jury as to a royalty base with the following instruction:

> In determining a royalty base, you should not use the value of an entire apparatus or product unless **either**: (1) the patented feature creates the basis for customers' demand for the product, or the patented feature substantially creates the value of the other component parts of the product; or (2) the product in question constitutes the smallest saleable unit containing the patented feature.

VirnetX, 2013 WL 692652, at *17 (emphasis in original). According to Apple, the royalties should have been calculated using the price of Apple's software upgrade ($29) for Mac computers, rather than the price of the end device as a whole. *Id.* at *14.

In denying Apple's motion, Judge Davis noted that Apple never charged its customers for a similar upgrade for the accused products (rather than Mac computers). *Id.* The court also held that the entire market value rule did not apply because the smallest salable patent-practicing using was the end product:

> [I]f the smallest saleable unit is the product itself, then the entire market value rule should not be considered, since the rule is an exception that allows a jury to consider the entire revenues of a multicomponent product when the patented feature is only a small aspect of the product.
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> . . . .
>
> In this instance, the Court's instruction was not erroneous. While Apple is correct that the entire market value rule when applied requires a showing by plaintiff that the patented feature either drove or substantially created the value of the component parts, the Court's instruction explained another alternative when the jury could consider the entire value of a product. There are instances when the smallest saleable patent-practicing unit is the entire product. Depending on the claim language of a patent, it is foreseeable that an entire product is required to practice the invention. *See Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1550 ("All the components together must be analogous to components of a single assembly or be parts of a complete machine, or they must constitute a functional unit. Our precedent has not extended liability to include items that have essentially no functional relationship to the patented invention and that may have been sold with an infringing device only as a matter of convenience or business advantage.").

Id. at *17. Thus, the court in *VirnetX* held that the SSPPU test applied, when determining damages for the infringement of method and system claims.

Innovatio provides an example of one of its asserted system claims to further illustrate this point. Claim 41 of Innovatio's U.S. Patent 6,374,311 states as follows:

> 41. A communication network supporting wireless communication of messages, said communication network comprising:
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> a first terminal node having a wireless receiver operable in a normal state;
>
> a second terminal node having a wireless receiver operable in a power saving state, *the second terminal node transitioning out of the power saving state at a time that is calculated by the second terminal node*;
>
> an access point that attempts to immediately deliver messages destined for the first terminal node;
>
> the access point attempts to deliver messages destined for the second terminal node by transmitting at predetermined intervals beacons that identify that a message awaits delivery;
>
> the second terminal node synchronizes operation of its wireless receiver to receive the beacons from the access point; and
>
> the second terminal node determines from the received beacons that it has a message awaiting delivery and directs further operation of its wireless receiver to receive the message.

U.S. Patent No. 6,374,311 Reexamination Certificate, col. 3, line 48 through col. 4 line 2 (Ex. C; emphasis added). This claim is nearly identical to original claim 1 of the '311 patent, which Broadcom previously asserted against Qualcomm.[1]

The Administrative Law Judge in the *Broadcom* matter held that, while Broadcom had not proven that Qualcomm, the chip manufacturer, infringed the '311 patent, the network operators did infringe the patent:

> Broadcom has presented evidence sufficient to show, however, that certain handset manufacturers, notably Samsung and LG, utilize a battery saving protocol in addition to the EV-DO standard, and when employed together the resulting

[1] Claim 41 was added during reexamination of the '311 patent. Claim 1 is identical to now asserted claim 41, except for the additional italicized limitation regarding the second terminal node.

> network directly infringes the asserted claims. Therefore, the undersigned finds that certain EV-DO networks, as actually operated by particular third-party carriers, do directly infringe the asserted claims.

In the Matter of Certain Baseband Processor Chips and Chipsets, Transmitter and Receiver (Radio) Chips, Power Control Chips, and Products Containing Same, Including Cellular Telephone Handsets, 337-TA-543 (Int'l. Trade Comm'n Oct. 6, 2006) at p. 92 (Ex. D). The Federal Circuit affirmed that Qualcomm, the chip manufacturer, did not infringe. *See Broadcom Corp. v. Int'l Trade Comm'n*, 542 F.3d 894 (Fed. Cir. 2008).

In determining the appropriate damages for claim 41, this Court should apply the SSPPU test. In doing so, the Court should specifically consider the benefits to the network operators – the direct infringers of the claims. Such benefits may include, among other things: (1) revenue obtained by the network operators for offering Wi-Fi networks; (2) indirect revenue from such offerings such as, for example, increased revenue (e.g., a customer buying an extra cup of coffee at Starbucks) due to offering customers Wi-Fi access; and (3) increased business efficiencies (e.g., more efficient inventory control) through using Wi-Fi networks and equipment. The evidence will show that using Wi-Fi is critical to Defendants' business. *See, e.g,* PTX-518, COSI-0001613 (e-mail from Cosi store manage about Cosi's Wi-Fi outage is "killing me" and that "this is a deal breaker with many of our customers."); PTX-519, DELTA-INV-00017226 (e-mail from Delta's ecommerce director, noting that he "[doesn't] think we can have planes without wifi. We'll get crucified by customers."). Consistent with *VirnetX*, the apparatus claims (including the apportioned rates for the individual access points and terminal devices that perform the infringing methods or are part of the infringing systems or networks) is also relevant to the inquiry.

Innovatio also notes that its asserted method and system claims cover novel aspects of access points and terminal devices. Put another way, the claimed "components" of Innovatio's larger system **are themselves** novel and patentable (as evidenced by the number of asserted apparatus claims that have also been asserted). As such, the Court's hypothetical – which assumed use of "preexisting typical machinery" -- is likely not applicable to the current issue.

Innovatio is of course willing to address any additional questions that the Court may have regarding this issue.

Respectfully submitted,

Dated: September 8, 2013

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that on September 8, 2013 the foregoing **INNOVATIO'S RESPONSE TO THE COURT'S REQUEST FOR ADDITIONAL INFORMATION REGARDING APPLICATION OF "SMALLEST SALABLE PATENT-PRACTICING UNIT" TO METHOD AND SYSTEM CLAIMS** was served on counsel of record identified in the recipient field of the e-mail with which this document has been transmitted.

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