

Federal Circuit Reverses VLSI \$2.2B Judgment With Rulings on Damages and DOE

DECEMBER 6, 2023

WHAT YOU NEED TO KNOW

1. Evidence of infringement under the doctrine of equivalents function-way-result framework must prove with specificity why the “way” that a substitute element operates is substantially the same as what is claimed in the patent and why the differences are insubstantial.
2. In assessing damages by measuring the value of a patented technology, it is an error in methodology to use model inputs from data that does not use the infringing functionality; e.g., using inputs of power savings from both an infringing power state and a non-infringing power state.
3. The district court abused its discretion in denying a motion for leave to amend to add a license defense where there was no reasonable basis for a determination of undue delay and where there was no showing that the license defense was futile. There was no undue delay where the party moved for leave to amend four months after a business acquisition gave rise to a potential license defense.

PARTIES AND PROCEDURAL POSTURE

VLSI Technology, LLC (VLSI) sued Intel Corporation (Intel) in the Western District of Texas for infringement of two patents, U.S. Patent Nos. 7,523,373 ('373) and 7,725,759 ('759). A jury trial in February and March 2021 found infringement of both patents and awarded separate lump-sum damages for each patent—\$1.5 billion for the '373 patent and \$675 million for the '759 patent. The district court denied Intel's post-trial motions on infringement and damages, and denied Intel's pre-trial motion for leave to amend to add a license defense. Intel appealed.

FACTS

- VLSI owns the '373 patent and the '759 patent. The '373 patent, titled “Minimum Memory Operating Voltage Technique,” relates to an embodiment where an integrated circuit has a memory and a processor; the memory has a minimum operating voltage; and when the processor is in a power state below the memory's minimum operating voltage, the memory is provided power at a higher voltage than the processor. The '759 patent, titled “System and Method of Managing Clock Speed in an Electronic Device,” relates to a system where at least two devices are coupled to a bus that can operate at a variety of frequencies; one of the devices, due to its workload, needs faster

operations and asks a clock controller to change a clock frequency; and the clock controller responds by outputting a clock frequency to control the frequencies of the bus and a second device coupled to the bus.

- The jury found that Intel infringed the '759 patent only under the doctrine of equivalents. The jury found that Intel did not literally meet the '759 patent's limitation that a request by a certain device be a request to change frequency based on changes identified in the device's own performance. In the Intel system, only software running on the power control unit calls for a frequency change based on observations of system conditions.
- In 2012, Intel obtained a perpetual and irrevocable license to patents owned by affiliates of the company Finjan, Inc. ("Finjan"). In July 2020, the company Fortress Investment Group LLC ("Fortress") acquired control of Finjan, through funds it manages. Fortress controls VLSI, so the July 2020 acquisition caused Finjan and VLSI to be under the common control of Fortress, and therefore potential affiliates under the provisions of Intel's license with Finjan. Intel filed a motion for leave to amend to add a license defense against VLSI's infringement lawsuit in September 2020.

HOLDING

The Federal Circuit affirmed infringement of the '373 patent but reversed infringement of the '759 patent. On damages, the Federal Circuit vacated the award of damages for the '373 patent and remanded for a new trial on damages. Lastly, the Federal Circuit held the district court abused its discretion in denying the motion for leave to amend to add the license defense, and reversed.

ANALYSIS

1. Intel appealed the jury's finding of infringement of the '759 patent on the grounds that VLSI's evidence of equivalence was legally insufficient. VLSI used the function-way-result framework to present evidence for equivalence between a claim limitation of the '759 patent and a substitute element. However, the circuit court held that VLSI's expert provided no meaningful explanation of why the "way" the substitute element operates is substantially the same as the "way" claimed in the patent, and why the differences are insubstantial. The court stated that the "way" part of the function-way-result framework has particular importance, and "the patentee must provide 'particularized testimony and linking argument as to the insubstantiality of the differences between the claimed invention and the accused device'" to satisfy the "way" part of this framework. It is not enough to say the differences were a design choice. Rather, "[t]he question that must be addressed is whether the difference ... is an insubstantial one." Here, the expert's testimony was insufficient and conclusory.

2. The damages award was vacated because it failed to measure the value of the patented technology. VLSI's expert used a model to calculate power savings benefits of the patented technology. However, the expert chose inputs for the model by trying to match data from two different processor states (Core C7 and Package C7), only one of which (Package C7) used the infringing technology. By including power savings results from both states, the expert "[tried] to match ... data not from use of infringing functionality." The court held that this step undermined the reliability of the expert's model. The court found this to be an error in methodology, not merely reasonable estimation/imprecision.

In addition, the court cautioned against using noncomparable licenses to calculate damages, such as sports-teams prices and other facts about the size of a proposed award alone. Furthermore, the court suggested the record should be better developed on issues such as whether regression analysis for determining price effects of speed improvements is improper, and whether a profit split reasonably establishes the choice parties would have made in a hypothetical negotiation.

3. The court held that the district court abused its discretion in denying Intel leave to amend to add a license defense based on Fortress's acquisition of Finjan, which Intel had a broad license from including Affiliates and after-acquired patents. There was only four months between the acquisition and Intel's motion for leave to amend, and during that four months Intel was diligently following certain requirements under the license agreement. The court found no reasonable basis for a determination of undue delay or prejudice to VLSI. The court also found the record insufficiently developed to conclude whether or not the license defense was futile.

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