

Fed. Circ. Vacates VLSI's \$2.2B Win Over Intel

By **Dani Kass and Andrew Karpan**

Law360 (December 4, 2023, 11:27 AM EST) -- The Federal Circuit on Monday vacated a \$2.18 billion infringement verdict against Intel Corp., saying VLSI Technology LLC erred on its damages calculation, and that the tech giant was wrongly barred from raising a defense that it had newly acquired a license to the computer chip patents.

The way VLSI's expert calculated damages included factors from non-infringing functionality, making it unreliable, the precedential opinion states. The circuit court vacated \$1.5 billion of Intel's loss, and remanded the case for a trial on damages.

Additionally, the court said U.S. District Judge Alan Albright abused his discretion when holding Intel waited too long after a July 2020 acquisition tied to VLSI before asking to add a new defense in November of the same year. The damages retrial should allow Intel to include that defense, the opinion states.

The eye-popping verdict from March 2021 was split between \$1.5 billion for literal infringement of one patent, and \$675 million for infringement under the doctrine of equivalents of a second patent. The Federal Circuit reversed the infringement finding for the smaller damages award.

Monday's decision to wipe out almost all of VLSI's legal victory last year in Judge Albright's court in Waco is just the latest strike to land on the billion-dollar infringement award, which is tied to arguments that microchips Intel sells do things described by patents that are owned by a private equity funder that is monetizing patents formerly in the hands of Intel's major European rival, NXP Semiconductors.

Both patents at issue in the Waco trial were invalidated earlier this year by the Patent Trial and Appeal Board, through a lengthy, convoluted process at the board that involved multiple challenges and various "misleading statements of law and fact."

But that ruling has yet to face the scrutiny of a panel of Federal Circuit judges, and is still tied up in the U.S. Patent and Trademark Office's own investigation into it.



The Federal Circuit said Monday that a lower court judge abused his discretion when he held that Intel waited too long to raise a defense in a patent dispute with VLSI Technology. (iStock.com/JHVEPhoto)

In the court's ruling on the verdict itself, U.S. Circuit Judge Richard Taranto wrote that Intel's lawyers had not been successful in making the case that its microchips did not do any of the things described in the VLSI patent tied to the \$1.5 billion number.

They had, however, made a convincing case that VLSI's lawyers failed to correctly use the doctrine of equivalents to land the \$675 million number, which was connected to a different patent. Jurors had already explicitly rejected the idea that Intel's chips literally did things described in that patent.

According to Monday's precedential ruling, jurors had been wrong to agree with VLSI that the patent did legally equivalent things as that patent, too.

"VLSI's proof of equivalence ... was insufficient," Judge Taranto wrote unanimously for the panel that heard the case back in October. In the decision, the appeals court judge tore into testimony jurors heard from a Georgia Institute of Technology professor named Tom Conte, hired by VLSI to convince jurors that Intel's chips did equivalent things as the other VLSI patent.

He failed, however, to convince Judge Taranto. After writing out of a page of purportedly pertinent back and forth heard by the jury between Conte and VLSI lawyer Alan Heinrich of Irell & Manella LLP, the appeals courts judge concluded "the above testimony says nothing remotely sufficient."

So goes the \$675 million number.

The \$1.5 billion number is in a somewhat different place legally. Monday's decision sided with a number of different arguments from Intel attacking the sum.

For one, the big number itself was no good as a legal judgment. Intel's lawyers had persuaded Judge Taranto and his peers that Murali Annavaram, a former senior researcher at Intel who had since decamped for a job at the University of Southern California and was then hired by VLSI to convince jurors on the soundness of the numbers backing VLSI's \$1.5 billion case, committed a singular, "readily identifiable error."

The issue of Annavaram's numbers had animated the panel during the October hearing, where a different appeals court judge, U.S. Circuit Judge Timothy Dyk made headlines when he told lawyers "it seems to be pretty clear" that this calculation included noninfringing products and features. Following some post-hearing filings on the issue, it appeared the panel agreed with where Judge Dyk appeared to stand on that.

Annavaram's numbers "departed from the essential logic of the value-of-the-patented-technology assessment," Monday's decision concluded. A new trial was needed where VLSI's lawyers would have "an opportunity to provide a corrected damages case."

"Intel looks forward to making its case to a jury that the VLSI patent sent back to the trial court is also of little value," an Intel spokesperson told Law360 in an email Monday. Representatives for VLSI did not return a request for comment.

Nick Matich — a patent lawyer at the prominent Texas patent firm McKool Smith, but who is uninvolved in the case — told Law360 that Monday's decision "appears to be a win for VLSI," since the decision largely left its overall "damages methodology" untouched.

"VLSI [just] needs to fix some of the data it used on remand," says Match. If not for the corresponding litigation at the patent board over the validity of the underlying patents, Match says it would be "the kind of outcome that should prompt parties to settle their dispute."

But perhaps most potently, Judge Taranto also sided with Intel's argument that the chipmaker should have also been allowed to pursue a somewhat new argument it raised in the months before trial, which maintained that Intel already owned a license to all of the patents that VLSI had been suing Intel over in the first place.

Intel argued that its 2012 settlement and patent license agreement with a company called Finjan Inc. should be extended to cover VLSI's patents as well. The license applies to patents owned by Finjan and its "affiliates," and Intel said that includes VLSI.

In 2020, Finjan was acquired by entities controlled by Fortress Investment Group, which also manages investment funds that own VLSI. Intel said the deal made Finjan and VLSI affiliates by putting them under the common control of Fortress, thus giving Intel a license to VLSI's patents.

In what Judge Taranto stressed was a "very narrow holding," he wrote that "additional litigation" is needed to determine if this argument from Intel makes any sense. Judge Albright had simply dismissed it too quickly, he wrote.

"The district court's conclusion that Intel unduly delayed filing its motion — between the time of the July 24 acquisition and the filing of the November 10 motion — was an abuse of discretion," he wrote. There needed to be more paperwork on the nature of the 2020 deal and the language of the 2012 settlement for any judge to say for certain.

"Case law does not definitively enough answer questions of potential significance here," he wrote. "Under the authorities presented and arguments made on whether VLSI, as a non-party, could be bound by the 2012 license agreement, we do not think that there is a sufficiently clear answer," he added.

U.S. Circuit Judges Alan D. Lourie, Timothy B. Dyk and Richard G. Taranto sat on the panel for the Federal Circuit.

The patents-in-suit are U.S. Patent Nos. 7,523,373 and 7,725,759.

VLSI is represented by Jeffrey Lamken, Rayiner Hashem and Michael G. Pattillo Jr. of MoloLamken LLP and Morgan Chu, Benjamin W. Hattenbach, Alan J. Heinrich, Amy E. Proctor, Dominik Slusarczyk, Charlotte J. Wen and Babak Redjaian of Irell & Manella LLP.

Intel is represented by William F. Lee, Alison Burton, Lauren B. Fletcher, Joseph J. Mueller, Steven Jared Horn, Amanda L. Major and Mary Virginia Sooter of WilmerHale.

The case is VLSI Technology LLC v. Intel Corp., case number 22-1906, in the U.S. Court of Appeals for the Federal Circuit.

--Editing by Alyssa Miller.