

No. \_\_\_\_\_

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IN THE  
**Supreme Court of the United States**

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R.J. REYNOLDS VAPOR COMPANY,

*Petitioner,*

v.

ALTRIA CLIENT SERVICES LLC,

*Respondent.*

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**On Petition for a Writ of Certiorari  
to the United States Court of Appeals  
for the Federal Circuit**

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**PETITION FOR WRIT OF CERTIORARI**

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## QUESTIONS PRESENTED

Most products are made up of numerous components and features, patented and unpatented both. Their commercial success may be attributable to consumer demand for their patented features, or demand for unpatented features, or even savvy marketing. Consistent with longstanding principles of tort damages, the Patent Act contains a damages provision entitling patent owners to damages only for what they actually invented: “damages adequate *to compensate for the infringement*.” 35 U.S.C. § 284 (emphasis added). These damages may take the form of “a reasonable royalty for the use made *of the invention* by the infringer.” *Id.* (emphasis added). For nearly 150 years, this Court has required patent damages to be apportioned, holding that patent owners seeking damages “*must in every case* give evidence tending to separate or apportion the defendant’s profits and the patentee’s damages between the patented feature and the unpatented features.” *Garretson v. Clark*, 111 U.S. 120, 121 (1884) (emphasis added).

The questions presented are:

1. Does the Federal Circuit’s judicially created “built-in apportionment” exception, which allows patent owners to use unrelated prior licenses to prove damages without providing “evidence tending to separate or apportion” the patent’s contribution, violate *Garretson v. Clark*’s requirement that apportionment “must in every case” be shown?
2. Alternatively, in light of the Federal Circuit’s intervening en banc decision in *EcoFactor, Inc. v. Google LLC*, 137 F.4th 1333, 1339-40, 1346 (2025)—

which reiterated that expert damages opinion evidence “that is connected to existing data only by the *ipse dixit* of the expert” is inadmissible under *Daubert* and Federal Rule of Evidence 702 and rejected damages expert testimony regarding a royalty rate purportedly used in reaching lump-sum license agreements that did not support such a rate—should the Court grant the petition, vacate the judgment, and remand for application of that precedent, as is typical practice when an intervening development reasonably shows that the lower court’s decision rests on a premise that it would reject if given the opportunity for further consideration?

**PARTIES TO THE PROCEEDING AND  
RULE 29.6 STATEMENT**

Petitioner is R.J. Reynolds Vapor Company, which is a direct, wholly owned subsidiary of RAI Innovations Company; RAI Innovations Company is a direct, wholly owned subsidiary of Reynolds American Inc.; and Reynolds American Inc. is an indirect, wholly owned subsidiary of British American Tobacco, p.l.c., a publicly traded company.

Respondent is Altria Client Services LLC, which is owned by Altria Group Inc.

## STATEMENT OF RELATED PROCEEDINGS

This case arises from the following proceedings:

- *Altria Client Services LLC v. R.J. Reynolds Vapor Co.*, No. 1:20-cv-00472-NCT-JLW (M.D.N.C. Jan. 12, 2023) (reported at 650 F. Supp. 3d 375).
- *Altria Client Services LLC v. R.J. Reynolds Vapor Co.*, No. 23-1546 (Fed. Cir. Dec. 19, 2024) (reported at 2024 WL 5165456).
- *Altria Client Services LLC v. R.J. Reynolds Vapor Co.*, No. 25-1325 (Fed. Cir.) (held in abeyance pending further proceedings on a Rule 60(b)(5) evidentiary hearing in district court).
- *Altria Client Services LLC v. R.J. Reynolds Vapor Co.*, No. 1:21-mc-00103-RC (D.D.C.) (closed following proceedings related to a motion to compel a third party's compliance with a subpoena).

There are no other proceedings in state or federal trial or appellate courts, or in this Court, directly related to this case within the meaning of this Court's Rule 14.1(b)(iii).

## TABLE OF CONTENTS

	Page
QUESTIONS PRESENTED.....	i
PARTIES TO THE PROCEEDING AND RULE 29.6 STATEMENT .....	iii
STATEMENT OF RELATED PROCEEDINGS.....	iv
INTRODUCTION.....	1
OPINIONS BELOW .....	5
JURISDICTION .....	5
PROVISIONS INVOLVED .....	6
STATEMENT .....	6
REASONS FOR GRANTING THE PETITION.....	15
I.    THE FEDERAL CIRCUIT’S DECISION CONFLICTS WITH THIS COURT’S PRECEDENTS AND WITH THE PATENT ACT’S DAMAGES PROVISION. ....	15
A.    This Court’s precedents limit damages to the value of the patented invention. ....	15
B.    “Built-in apportionment” is contrary to this Court’s precedents and to the Patent Act. ....	20
C.    The question is recurring and extremely important. ....	27

D.	The Federal Circuit has pointedly refused to reconsider its errant “built-in apportionment” doctrine. ....	31
E.	This case is an ideal vehicle. ....	32
II.	AT MINIMUM, THE COURT SHOULD GRANT, VACATE, AND REMAND IN LIGHT OF THE EN BANC FEDERAL CIRCUIT’S RECENT DECISION IN <i>ECOFACOR V. GOOGLE</i> . ....	33
	CONCLUSION .....	37
	APPENDIX A: Opinion of the United States Court of Appeals for the Federal Circuit (Dec. 19, 2024) .....	1a
	APPENDIX B: Final Judgment by the United States District Court for the Middle District of North Carolina (Oct. 4, 2022).....	18a
	APPENDIX C: Order on Post-Judgment Motions by the United States District Court for the Middle District of North Carolina (Jan. 12, 2023) .....	22a
	APPENDIX D: Jury Verdict Form for the United States District Court for the Middle District of North Carolina (Sep. 7, 2022) .....	90a

APPENDIX E: Opinion of the United States Court of Appeals for the Federal Circuit Denying Petition for Rehearing (Mar. 10, 2025).....	96a
APPENDIX F: 35 U.S.C. § 284 .....	98a
PATENT APPENDIX:	
U.S. Patent No. 10,299,517 .....	1b
U.S. Patent No. 10,485,269 .....	31b
U.S. Patent No. 10,492,541 .....	62b



## TABLE OF AUTHORITIES

	Page(s)
<b>CASES</b>	
<i>Am. Broad. Cos. v. Aereo, Inc.</i> , 573 U.S. 431 (2014) .....	28
<i>Apple Inc. v. Motorola, Inc.</i> , 757 F.3d 1286 (Fed. Cir. 2014) .....	20, 21
<i>Arizona v. Gant</i> , 540 U.S. 963 (2003) .....	34
<i>Aronson v. Quick Point Pencil Co.</i> , 440 U.S. 257 (1979) .....	6
<i>Bilski v. Kappos</i> , 561 U.S. 593 (2010) .....	30
<i>Blake v. Robertson</i> , 94 U.S. 728 (1876) .....	17
<i>Bonito Boats, Inc. v. Thunder Craft Boats, Inc.</i> , 489 U.S. 141 (1989) .....	6
<i>Brulotte v. Thys Co.</i> , 379 U.S. 29 (1964) .....	6
<i>Commonwealth Scientific &amp; Industrial Organisation v. Cisco Systems, Inc.</i> , 809 F.3d 1295 (Fed. Cir. 2015) .....	3, 22, 23, 26, 31
<i>Daubert v. Merrell Dow Pharms., Inc.</i> , 509 U.S. 579 (1993) .....	12, 34, 36

<i>Deckers Corp. v. United States</i> , 752 F.3d 949 (Fed. Cir. 2014) .....	31
<i>Dewberry Grp., Inc. v. Dewberry Eng’rs Inc.</i> , 145 S. Ct. 681 (2025) .....	16
<i>Dobson v. Hartford Carpet Co.</i> , 114 U.S. 439 (1885) .....	1
<i>Dow v. Humbert</i> , 91 U.S. 294 (1875) .....	16
<i>Dowagiac Manufacturing Co. v. Minnesota Moline Plow Co.</i> , 235 U.S. 641 (1915) .....	19, 21
<i>eBay v. MercExchange, L.L.C.</i> , 547 U.S. 388 (2006) .....	30
<i>EcoFactor, Inc. v. Google LLC</i> , 122 F.4th 892 (Fed. Cir. 2024) .....	5, 32
<i>EcoFactor, Inc. v. Google LLC</i> , 137 F.4th 1333 (Fed. Cir. 2025) .....	5, 15, 32–34, 36, 37
<i>EcoFactor, Inc. v. Google LLC</i> , No. 23-1101 (Fed. Cir.) .....	31
<i>Elbit Sys. Land &amp; C4I Ltd. v. Hughes Network Sys., LLC</i> , 927 F.3d 1292 (Fed. Cir. 2019) .....	23
<i>Ericsson, Inc. v. D-Link Sys., Inc.</i> , 773 F.3d 1201 (Fed. Cir. 2014) .....	3, 21, 22

<i>Exmark Mfg. Co. v. Briggs &amp; Stratton Power Prods. Grp., LLC, 879 F.3d 1332 (Fed. Cir. 2018)</i>	36
<i>Finjan, Inc. v. Secure Computing Corp., 626 F.3d 1197 (Fed. Cir. 2010)</i>	26
<i>Garretson v. Clark, 111 U.S. 120 (1884)</i>	1, 17–20, 22, 24, 28, 31, 33
<i>Gen. Elec. Co. v. Joiner, 522 U.S. 136 (1997)</i>	34
<i>Gen. Motors Corp. v. Devex Corp., 461 U.S. 648 (1983)</i>	1, 20
<i>Georgia-Pacific Corp. v. U.S. Plywood Corp., 318 F. Supp. 1116 (S.D.N.Y. 1970)</i>	20, 27
<i>Greene v. Fisher, 565 U.S. 34 (2011)</i>	34, 36
<i>Impression Prods., Inc. v. Lexmark Int’l, Inc., 581 U.S. 360 (2017)</i>	7, 28
<i>Jiaxing Super Lighting Elec. Appliance, Co. v. CH Lighting Tech. Co., No. 23-1715, 2025 WL 2100650 (Fed. Cir. July 28, 2025)</i>	37
<i>Kimble v. Marvel Ent., LLC, 576 U.S. 446 (2015)</i>	6

<i>KSR Int’l Co. v. Teleflex Inc.</i> , 550 U.S. 398 (2007) .....	30
<i>Lee v. United</i> , 562 U.S. 801 (2010) .....	34
<i>Life Techs. Corp. v. Promega Corp.</i> , 580 U.S. 140 (2017) .....	30
<i>Markman v. Westview Instruments, Inc.</i> , 517 U.S. 370 (1996) .....	31
<i>Nautilus, Inc. v. Biosig Instruments, Inc.</i> , 572 U.S. 898 (2014) .....	30
<i>Omega Patents, LLC v. CalAmp Corp.</i> , 13 F.4th 1361 (Fed. Cir. 2021) .....	36
<i>Pavo Sols. LLC v. Kingston Tech. Co.</i> , 35 F.4th 1367 (Fed. Cir. 2022) .....	23
<i>Quanta Computer, Inc. v. LG Electronics, Inc.</i> , 553 U.S. 617 (2008) .....	22
<i>Ryals v. United States</i> , 561 U.S. 1003 (2010) .....	34
<i>Samsung Elecs. Co. v. Apple Inc.</i> , 580 U.S. 53 (2016) .....	30
<i>Schillinger v. United States</i> , 155 U.S. 163 (1894) .....	1, 15

<i>Seymour v. McCormick</i> , 57 U.S. 480 (1853) .....	1, 16, 17, 27, 29
<i>Sheldon v. Metro-Goldwyn Pictures Corp.</i> , 309 U.S. 390 (1940) .....	16
<i>United States v. Corner</i> , 598 F.3d 411 (7th Cir. 2010) .....	34
<i>Vectura Ltd. v. GlaxoSmithKline LLC</i> , 981 F.3d 1030 (Fed. Cir. 2020) .....	23
<i>Welton v. United States</i> , 559 U.S. 1034 (2010) .....	34
<i>Westinghouse Electric &amp; Manufacturing Co. v. Wagner Electric &amp; Manufacturing Co.</i> , 225 U.S. 604 (1912) .....	19
<i>Wicker v. Hoppock</i> , 73 U.S. 94 (1867) .....	1, 16
<i>Yale Lock Mfg. Co. v. Sargent</i> , 117 U.S. 536 (1886) .....	19
<b>CONSTITUTIONAL AND STATUTORY AUTHORITIES</b>	
U.S. Const. art. I, § 8, cl. 8 .....	6
28 U.S.C. § 1254 .....	6
28 U.S.C. § 1295 .....	32
35 U.S.C. § 103 .....	30

35 U.S.C. § 112 .....	30
35 U.S.C. § 284 .....	1, 6, 7
35 U.S.C. § 287 .....	25

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Eric E. Bensen, <i>Apportionment of Lost Profits in Contemporary Patent Damages Cases</i> , 10 Va. J.L. & Tech. 1 (2005) .....	18
<i>Compensatory Damages</i> , Black’s Law Dictionary (rev. 4th ed. 1968) .....	1
D. Dobbs, <i>Remedies</i> § 3.1 (1973) .....	1
David Franklyn & Adam Kuhn, <i>The Problem of Mop Heads in the Era of Apps</i> , 98 J. Pat. & Trademark Off. Soc’y 182 (2016) .....	28
Damien Geradin & Anne Layne-Farrar, <i>Patent Value Apportionment Rules for Complex, Multi-Patent Products</i> , 27 Santa Clara Comput. & High Tech. L.J. 763 (2011) .....	29
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Mark A. Lemley & Carl Shapiro, <i>Patent Holdup and Royalty Stacking</i> , 85 Tex. L. Rev. 1991 (2007) .....	29
Mark A. Lemley, <i>The Surprising Resilience of the Patent System</i> , 95 Tex. L. Rev. 1 (2016) .....	31
PricewaterhouseCoopers, <i>2018 Patent Litigation Study</i> (May 2018) .....	20

## INTRODUCTION

It is a basic principle of tort law that damages “shall be equal to the injury,” *Wicker v. Hoppock*, 73 U.S. 94, 99 (1867), and “nothing more,” *Compensatory Damages*, Black’s Law Dictionary, 467 (rev. 4th ed. 1968). See generally D. Dobbs, *Remedies* § 3.1 (1973). The Patent Act, whose remedies for infringement claims “sound[] in tort,” *Schillinger v. United States*, 155 U.S. 163, 169 (1894), adopts the same rule: “Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer[.]” 35 U.S.C. § 284.

As a result, this Court has long held that, “in every case,” patent damages must be limited to the value of the invention patented, and cannot extend to the value of other, non-patented aspects of the accused products. *Garretson v. Clark*, 111 U.S. 120, 121 (1884); *Seymour v. McCormick*, 57 U.S. 480, 490-91 (1853) (it was “a very grave error to instruct a jury that” the same damages rule governs “whether the patent covers an entire machine or an improvement on a machine”). This is “[t]he true rule” of patent damages. *Dobson v. Hartford Carpet Co.*, 114 U.S. 439, 445 (1885).

Courts commonly permit a patent owner to use a prior license agreement to prove the amount of “reasonable royalty” damages for infringement, if that agreement is technologically and economically comparable to the license to which the parties in the case would have agreed for the patents asserted in the case, in a “hypothetical negotiation[.]” See, e.g., *Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648, 650-51 (1983).



Take the microprocessors that are the “brains” of today’s computers and smartphones. A single dime-sized microprocessor in a smartphone contains untold components and features that determine the system’s performance, including video processing, security and authentication functionality, and communication between the phone’s touchscreen and its applications. William F. Lee & Mark A. Lemley, *The Broken Balance: How “Built-In Apportionment” and the Failure To Apply Daubert Have Distorted Patent Infringement Damages*, 37 Harvard J.L. & Tech. 255, 267 (2024) (“Lee & Lemley”). In a case involving a smartphone microprocessor accused of infringing a patent on the ability to delete audio files, the patent owner might present a license that an MP3-player manufacturer had taken to a portfolio of patents on organizing audio files, including the audio-file-deletion patent, as a starting point for the rate that the parties would have agreed to in the present case.

Still, “[i]t would be inaccurate and improper to assume that the payment in [the prior license] agreement is a properly apportioned measure of damages.” *Id.* at 285. Under *Garretson*’s rule requiring apportionment, the patent owner would then need to present evidence *modifying* that rate to rigorously account for the differences between the circumstances in the prior license—say, additional patents or different parties—and the current lawsuit. The patent owner would also need to separate out the many *other* non-infringing features in the accused microprocessor, such as its video-processing and authentication functionalities.

Yet the Federal Circuit holds that this Court’s “in every case” rule does not really mean “in every case.”

For over a decade, that court has embraced a judge-made doctrine of “built-in apportionment,” which has allowed patent owners to seek and obtain enormous damages claims ostensibly based on “comparable” license agreements previously reached—“agreements in many cases covering much more than the patents-in-suit—without the careful apportionment required by Supreme Court precedent.” *Id.* at 262-63. “Built-in apportionment” began as a descriptor for a highly unusual set of circumstances in *Commonwealth Scientific & Industrial Organisation v. Cisco Systems, Inc.*, 809 F.3d 1295 (Fed. Cir. 2015) (*CSIRO*): The district court was presented with evidence of prior negotiations between the *same* parties, regarding the *same* single patent, for the *same* products. Under those specific circumstances, the Federal Circuit concluded that the “starting point for the district court’s analysis already built in apportionment”—“[p]ut differently, the parties negotiated over the value of the asserted patent, ‘and no more.’” *Id.* at 1301, 1303 (quoting *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1226) (Fed. Cir. 2014)). But in the ten years since the Federal Circuit first used that term, “built-in apportionment” has morphed from a “description of certain context-dependent facts that were found in” *CSIRO* into a legal doctrine that allows plaintiffs to use so-called “comparable licenses” to prove apportionment as a matter of law, without further analysis. Lee & Lemley, *supra*, at 290-91.

That is so even if the prior license bundles the patent-in-suit with many other patents or rights, or covers different patents and suites of rights entirely. Rather than using a prior license as evidence of the

proper rate only *after* taking the additional step of adjusting the prior rate to reflect the incremental value that the licensed patent contributes to the product, “built-in apportionment” eliminates that step, and with it, a crucial guardrail.

The Federal Circuit’s judicially created defiance of this Court’s damages precedents should be halted. This case is an ideal vehicle for doing so: Here, the Federal Circuit permitted Altria to use “built-in apportionment” to obtain a \$95 million judgment for the alleged use of Altria’s patented invention in Reynolds’s VUSE Alto e-cigarette. Altria secured this sum by pointing to two license agreements to entirely different patents of a non-party and claiming that their comparability to the hypothetical “reasonable royalty” that Altria and Reynolds would have negotiated satisfied the Federal Circuit’s “built-in apportionment” exception. Altria undisputedly did not make *any* adjustment to the claimed rates of the prior licenses to account for apportionment. As a result, Altria was allowed to obtain damages on technologies it never patented, and on profits resulting from Reynolds’s contributions, over which Altria obviously holds no patent rights.

This issue is important and recurring. “Apportionment has become even more critical in recent years,” given that “[m]odern products and methods in the life sciences, computer sciences, and other fields often consist of hundreds or thousands of features and components,” and “patentees and their experts have figured out how to game the comparable license loophole to the apportionment requirement.” *Id.* at 259, 263. The consequences are “serious and negative”: “excessive patent damages discourage innovation, increase risk

and cost of production, and, in turn, increase the cost of products to consumers.” *Id.* at 255.

The Federal Circuit’s built-in apportionment loophole is not going away on its own. The panel here called built-in apportionment “[a] common model.” Pet.App.11a. This issue can arise only in the Federal Circuit, because of that court’s exclusive jurisdiction over patent cases. And there is no reason to believe that court will correct it: Earlier this year, the Federal Circuit had accepted for en banc review a patent-damages case where one ground of the petitioner’s challenge was to the “built-in apportionment” theory. *See EcoFactor, Inc. v. Google LLC*, 137 F.4th 1333, 1337-38 & n.7 (Fed. Cir. 2025) (en banc). Yet after the petitioner filed its opening en banc brief, the Federal Circuit took the extraordinary step of issuing a precedential order ruling that issue removed from the case and directing respondent not to brief it. *Id.*; *EcoFactor, Inc. v. Google LLC*, 122 F.4th 892, 893 (Fed. Cir. 2024).

Only this Court can end this deviation from settled precedent and restore the patent system’s careful balance.

### OPINIONS BELOW

The district court’s opinion denying Reynolds’s post-judgment motions (Pet.App.22a) is reported at 650 F. Supp. 3d 375. The Federal Circuit’s opinion affirming that order (Pet.App.1a) is reported at 2024 WL 5165456.

### JURISDICTION

The Federal Circuit entered judgment on December 19, 2024, and denied Reynolds’s timely rehearing petition on March 10, 2025. Pet.App.1a; Pet.App.14a; Pet.App.96a-97a. On May 16, 2025, the Chief Justice

extended the time to file this petition to August 7, 2025. No. 24A1100 (U.S.). Jurisdiction in this Court exists under 28 U.S.C. § 1254(1).

### PROVISIONS INVOLVED

The relevant statutory provision, 35 U.S.C. § 284, is reproduced at Pet.App.98a.

### STATEMENT

1. The American patent system rests on the Constitution’s Intellectual Property Clause, which gives Congress the “Power ... To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.” U.S. Const. art. I, § 8, cl. 8. The Framers’ insight that incentives are essential to innovation underlies the patent system’s fundamental quid pro quo: the inventor teaches the public to make and use the invention, and the public gives the inventor the exclusive right to make, use, and profit from it for a limited period of time. This “quid pro quo” thus promotes public “disclosure of inventions, to stimulate further innovation” while “assur[ing] that ideas in the public domain remain there for the free use of the public.” *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979); *see also Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150-51 (1989) (describing the patent system as “a carefully crafted bargain”).

Consistent with this quid pro quo, patent law precludes patent owners from leveraging narrow inventions against the public’s right to innovate. Patent owners may not charge royalties for the use of their inventions after their patents expire. *Kimble v. Marvel Ent., LLC*, 576 U.S. 446, 449 (2015); *Brulotte v.*

*Thys Co.*, 379 U.S. 29, 32 (1964). They may not sue the reseller of a product for patent infringement. *Impression Prods., Inc. v. Lexmark Int’l, Inc.*, 581 U.S. 360, 366 (2017).

Nor may patent owners recover actual damages for anything other than the invention. The Patent Act’s damages provision limits a patent owner’s recovery to “damages adequate to *compensate for the infringement*, but in no event less than a reasonable royalty *for the use made of the invention by the infringer*.” 35 U.S.C. § 284 (emphasis added). Properly applied, this limitation encourages innovation without permitting patent owners to “captur[e] the value of technology they did not invent.” Lee & Lemley, *supra*, at 258.

2. Reynolds sells the nation’s leading e-cigarette vapor device, VUSE Alto. Altria sued Reynolds for patent infringement, contending that Reynolds’s product infringed three Altria patents directed to a pod-based e-cigarette. Altria presented a damages theory based on two portfolio license agreements involving a third party (Fontem) and a host of different patents (58 in all) that are considered foundational to the e-cigarette industry. Altria and its expert performed no apportionment of the royalty rate they drew from the prior licenses, on the theory that the apportionment was already “built in” to those licenses. That is, Altria contended that the jury could apply the same rate its expert contended had been agreed upon in the prior agreements granting license rights to *Fontem’s 58 patents* to determine the royalty rate that Reynolds would have paid for a license to *Altria’s three patents*, making no further adjustments to the rate to account for the differences between those prior licenses and the

circumstances in this case. The jury awarded precisely the \$95.2 million Altria requested.

**a.** VUSE Alto is an e-cigarette vapor device that includes different e-liquids, flavors, and nicotine concentrations, as well as a rechargeable battery, a heating element, a puff sensor, wicking technology, mechanisms for electrically and mechanically coupling the power source to the cartridge, and various product colors and design elements. C.A.App.14651; C.A.App.14654; C.A.App.22057; C.A.App.22441-22442; C.A.App.28573-28574. Alto has an e-liquid cartridge—commonly called a “pod”—that inserts into a second component containing the device’s battery. C.A.App.31749; C.A.App.31365; C.A.App.29440.

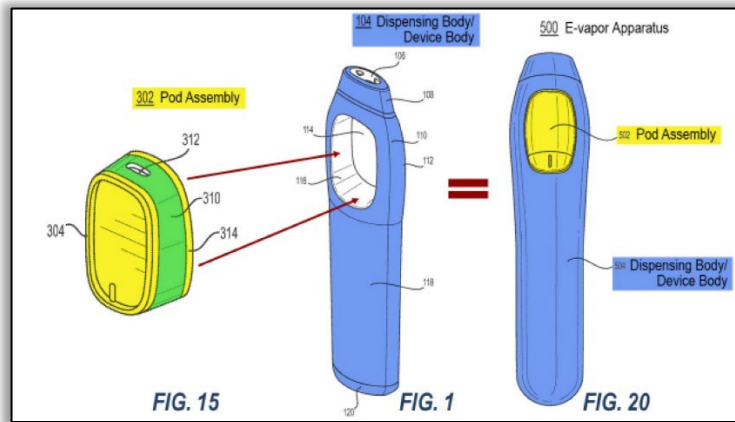


C.A.App.31749; C.A.App.31365; C.A.App.29440.

Alto was on the U.S. market since at least 2016, but did not become commercially successful until after Reynolds acquired it, branded it as VUSE Alto, and began marketing it in August 2018. C.A.App.28572-28575; C.A.App.28627-28629; C.A.App.28962.

**b.** Altria owns three related patents for a pod-style vapor device: U.S. Patent Nos. 10,299,517, Pet.App.1b-30b; 10,485,269, Pet.App.31b-61b; and 10,492,541, Pet.App.62b-127b. Altria’s patents are directed to an electronic vapor device consisting of a pod

assembly, which inserts into a device body, as illustrated below:



C.A.App.1747; Pet.App.5b; Pet.App.13b; Pet.App.16b.

Altria asserted five claims sharing common limitations across the three patents. Pet.App.4a-5a. As relevant here, the asserted claims require a pod assembly with “a plurality of external surfaces including a front face, a rear face opposite the front face”; “a vaporizer compartment” “including a heater and a wick” and “upstream” from “the [liquid] compartment”; and a “vapor channel being visible through at least the front face or the rear face.” Pet.App.3a-4a; Pet.App.59a. Ultimately, Altria contended that its patents improved on existing technology via a “benefit of less leakage,” which does not appear in the asserted claims. C.A.App.28193. Altria never commercialized a product that practiced the three asserted patents. C.A.App.28090-28093.

c. At a jury trial in the Middle District of North Carolina, Altria asked the jury for running royalties of 5.25% of positive net sales of Reynolds’s Alto product,



amounting to \$95,233,292. Pet.App.20a-21a; Pet.App.53a; Pet.App.94a.

Altria’s damages theory relied on two prior license agreements involving non-parties Fontem Ventures B.V. and Fontem Holdings 1 B.V. (collectively, “Fontem”). In these agreements, Fontem granted licenses to its entire portfolio of foundational e-cigarette patents and patent applications: one to Nu Mark, an Altria subsidiary, and one to Reynolds.

Fontem viewed its portfolio as required to sell e-cigarettes in the U.S. C.A.App.14570. It includes dozens of U.S. patents and applications covering numerous features (e.g., puff sensors, modular replaceable cartridges, and safe use of lithium-ion batteries) found in today’s e-cigarettes. C.A.App.14609-14614.

The December 23, 2016 Fontem-Nu Mark agreement provided a license to 38 “Licensed” U.S. patents and patent applications, “Other” patents, and subsequently issued Fontem “Licensed” or “Other” patents. C.A.App.14570-14575; C.A.App.29385-29439; C.A.App.14674-14683; C.A.App.28183-28185.

The September 24, 2018 Fontem-Reynolds agreement settled litigation between Fontem and Reynolds. C.A.App.14575-14576; C.A.App.29667-29841; C.A.App.28367-28368. Reynolds received a fully paid-up license to 58 “Licensed” U.S. patents and patent applications, “Other” patents, and subsequently issued Fontem “Licensed” and “Other” patents, for all its e-cigarette products (including Alto and several others) through the life of the patents—at least 2032. C.A.App.14575-14579; C.A.App.14602-14605; C.A.App.14609-14614; C.A.App.29667-29841; C.A.App.28942-28945.

At trial, Altria’s technical expert claimed that Altria’s three patents were technically comparable to Fontem’s patents, because each was “related to electronic cigarettes as a whole.” C.A.App.28189-28190. He did not attempt to compare the value of Fontem’s dozens of industry-foundational patents to its licensees and their respective licensed products with the value of Altria’s three patents to Reynolds for use in the accused Alto. Nor did he account for the aspects of Alto’s value (e.g., e-liquid formulation; product design; Reynolds’s marketing) not implicated by any novel feature of Altria’s patents, which are narrowly directed to a pod assembly. *See supra* p. 9. Altria’s expert did not perform this analysis because “it’s my opinion, technically, that [Altria’s asserted] patents are of greater value than the ... Fontem patent portfolio.” C.A.App.28193. He primarily based this opinion on “the benefit of less leakage.” C.A.App.28192-28193. But leakage prevention was not an element of any Altria patent claim, as Altria’s technical expert conceded. C.A.App.28226. He did not explain how Altria’s patents’ purported leakage reduction was more important to sales of the Alto than the host of other Fontem-patent-derived benefits were to Fontem’s prior licensed products. Nor could he—the district court found he was not qualified to opine on factors driving Alto’s commercial success. C.A.App.27617; C.A.App.345.

Altria’s damages expert testified that the Fontem-Nu Mark and Fontem-Reynolds lump-sum agreements supported a baseline 5.25% running royalty rate. Pet.App.9a. Relying on the technical expert’s conclusion that Altria’s three patents were technically

comparable to, and more valuable than, Fontem’s entire portfolio including 58 patents, C.A.App.28187-28193; C.A.App.28429-28430, Altria’s damages expert reasoned that the 5.25% royalty rate he extracted from these agreements did not need to be adjusted to apportion the differences between the licenses to Fontem’s portfolio and the hypothetical license to Altria’s three patents, C.A.App.28388-28389; C.A.App.28246. Altria’s expert thereby concluded that Altria and Reynolds would have agreed to royalties at 5.25%, or “approximately \$95 million” for past infringement. C.A.App.28387.<sup>1</sup>

Altria’s expert never performed an apportionment analysis, instead leaning on the Federal Circuit’s “built-in apportionment” doctrine. C.A.App.28361-28363; C.A.App.28388-28389. Altria thus presented the 5.25% royalty rate its expert drew from Fontem’s licenses as the exact same royalty rate that Reynolds would hypothetically agree to pay Altria for the asserted patents, without making any adjustments to account for the differences between Fontem’s licensed technology (and the surrounding circumstances) and the case between Altria and Reynolds. Altria did not provide evidence of the value of Fontem’s patent portfolio to the Fontem-licensed products as compared to the value of Altria’s patents to Alto, instead generically asserting that Altria’s patents were more valuable than Fontem’s. Altria also failed to apportion among patented and unpatented features by ignoring

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<sup>1</sup> Before trial, Reynolds moved to exclude Altria’s apportionment-related expert opinions. The district court denied Reynolds’s *Daubert* motions in relevant part without explanation. C.A.App.27617; C.A.App.345.

Alto’s many non-infringing features, including its e-liquid composition, and it failed to account for value attributable to Reynolds’s marketing.

Over Reynolds’s objections, the district court instructed the jury that: “if you find that the asserted patents are technologically comparable to the Fontem patents licensed as part of the Fontem-Nu Mark agreement and the Fontem-Reynolds agreement, then you may assume that the value attributable to the patented invention (i.e., apportionment) has already been baked into the comparable licenses.” C.A.App.146; C.A.App.29282.

**d.** The jury found that Reynolds infringed and that the asserted patents were not invalid. Pet.App.92a-93a. It awarded the full \$95.2 million in damages that Altria requested. Pet.App.94a. The district court denied Reynolds’s post-judgment motions. Pet.App.22a-89a. As relevant here, the district court concluded that “[s]ufficient evidence supports Altria’s built-in apportionment theory.” Pet.App.62a. Specifically, the district court credited Altria’s damages expert’s testimony that further apportionment was not necessary because he believed Altria’s patents’ value “was greater than that collective value of the Fontem families,” including “because the Asserted Patents afford for less likelihood of leakage,” which is “not provided by any of the Fontem patents.” Pet.App.61a. Reynolds appealed.

**3.** A divided Federal Circuit panel affirmed in a non-precedential opinion. On apportionment, the panel unanimously upheld the verdict. Pet.App.11a-15a. It concluded that Altria’s built-in apportionment theory, “[a] common model” for proving damages, was

not unreliable, and that Reynolds's arguments "amount[ed] to ... disagreements with the particular adjustments that Altria's damages expert made to the royalty rate in the Fontem-Nu Mark license." Pet.App.11a-13a. The panel majority further held that "the district court did not err in instructing the jury that, if it found that Altria demonstrated sufficient comparability between the circumstances of the Fontem-Nu Mark license and the hypothetical negotiation, the jury could accept Altria's damages expert's proposed adjustments to the royalty rate." Pet.App.14a. As to Reynolds's argument that built-in apportionment violates *Garretson*'s rule requiring apportionment "in every case," the panel majority pronounced Reynolds's "remaining arguments ... unpersuasive." Pet.App.14a.

Judge Bryson dissented, limited to a related but separate damages point. He observed that Altria's damages expert's reliance on an internal projection Nu Mark had made was facially unsound because the lump-sum payment purchased rights through 2030. Pet.App.15a-17a. As a result, the \$43 million lump sum, when spread over the full term, implied an effective rate of roughly *half* of 5.25 percent. Pet.App.17a.

Reynolds sought panel and en banc rehearing. C.A.Dkt.77. Reynolds's petition showed that the Federal Circuit's decision contravened this Court's precedents requiring apportionment, and urged the Federal Circuit to re-assess its "built-in apportionment" precedents. C.A.Dkt.77 at 10-15. Reynolds further explained that because Altria had undisputedly introduced no actual evidence of apportionment, the jury's verdict was necessarily based on built-in apportionment. C.A.Dkt.77 at 14-15.

The court denied rehearing without comment. Pet.App.96a-97a.

### **REASONS FOR GRANTING THE PETITION**

The Federal Circuit has repeatedly flouted this Court’s precedents on apportionment, violating the text of the Patent Act in the process. Apportionment of patent damages is a crucial limit that enables patent owners to be fairly compensated for their inventions, but prevents patent owners with narrow inventions from securing windfall awards reaching far beyond the value of their specific contributions. The Federal Circuit’s approach abandons that limit, such that any patent owner who can present an expert to opine that a royalty rate is “built-in” to a prior license can reap giant damages awards wildly disproportionate to their inventive contributions. This Court should grant review on the merits; at minimum, it should grant the petition and vacate and remand in light of the en banc Federal Circuit’s intervening decision in *EcoFactor, Inc. v. Google LLC*, 137 F.4th 1333 (Fed. Cir. 2025).

#### **I. THE FEDERAL CIRCUIT’S DECISION CONFLICTS WITH THIS COURT’S PRECEDENTS AND WITH THE PATENT ACT’S DAMAGES PROVISION.**

##### **A. This Court’s precedents limit damages to the value of the patented invention.**

Consistent with the common law and the patent system’s fundamental quid pro quo, this Court has long held that a patent owner may not recover damages for what the inventor did not invent.

1. Patent-infringement claims “sound[] in tort.” *Schillinger*, 155 U.S. at 169. Tort law has long prevented a plaintiff from recovering windfall damages

awards: Compensatory damages are awarded to *compensate* the plaintiff and redress the injury that the plaintiff has actually suffered. Dobbs, *supra*, § 3.1. “They should be precisely commensurate with the injury, neither more nor less.” *Dow v. Humbert*, 91 U.S. 294, 299 (1875). Only as a “punishment and example”—not actual damages, but punitive ones—may damages “exceed the limits of a mere equivalent.” *Wicker*, 73 U.S. at 99.

Intellectual-property law has long imposed these same familiar limitations. In copyright, this Court has rejected the notion that a plaintiff could recover “all” of an infringer’s profits, because “[t]he purpose” of the Copyright Act’s damages provision is “to provide just compensation for the wrong, not to impose a penalty by giving to the copyright proprietor profits which are not attributable to the infringement.” *Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390, 399 (1940). And in trademark, this Court recently clarified that disgorgement of the “defendant’s profits” under the Lanham Act is limited to those “properly attributable” to the named defendant, not to other, unnamed affiliates. *Dewberry Grp., Inc. v. Dewberry Eng’rs Inc.*, 145 S. Ct. 681, 686-87 (2025).

2. Patent damages are no different. This Court’s modern patent-damages-apportionment requirement is rooted in *Seymour v. McCormick*, 57 U.S. 480 (1854), where the Court held that a trial court committed a “very grave error” in instructing the jury that “as to the measure of damages the same rule is to govern, whether the patent covers an entire machine or an improvement on a machine,” since the patent at issue was for only “an improvement of small importance

when compared with the whole machine.” 570 U.S. at 491.

*McCormick* made clear that a patent owner cannot recover damages attributable to “whole profits arising from the skill, labor, material, and capital employed in making the whole machine”—in that case, a reaping device—where the patented invention covers just a portion of it. *Id.* at 482, 490. The Court also presaged that, “[i]f the measure of damages be the same whether a patent be for an entire machine nor for some improvement in some part of it,” then a patented “improvement in any portion of a steam engine or other complex machines may recover” damages not attributable to that improvement, while “the unfortunate mechanic may be compelled to pay treble his whole profits to each of a dozen or more several inventors of some small improvement in the engine he has built.” *Id.* at 490-91. Such a “doctrine” would make “even the smallest part” “equal to the whole” and “convert[]” patent damages “into an unlimited series of penalties on the defendant.” *Id.* at 490-91.

Then, in *Blake v. Robertson*, 94 U.S. 728 (1876), the Court held that failure to apportion required limiting the patent owner’s recovery to nominal damages, warning that “[d]amages must be proved; they are not to be presumed.” *Id.* at 733. In that case, the accused infringer’s stone-breaking machine included several features that were not covered by the asserted patents and were instead “covered by other patents.” *Id.* at 729, 733-34.

Building on these principles, this Court held in *Garretson v. Clark* that patent owners “must in every case



give evidence tending to separate or apportion the defendant's profits and the patentee's damages between the patented feature and the unpatented features." 111 U.S. at 121. As the Court instructed, a patent owner "must show in what particulars his improvement has added to the usefulness of the machine or contrivance," and "must separate its results distinctly from those of the other parts, so that the benefits derived from it may be distinctly seen and appreciated." *Id.* The only recognized exception to *Garretson's* "must in every case" rule is where the patent owner can "show ... that the profits and damages are to be calculated on the whole machine, for the reason that the entire value of the whole machine, as a marketable article, is properly and legally attributable to the patented feature." *Id.* (This exception is known as the "entire-market-value rule." Altria expressly disclaimed its applicability here. C.A.App.14568.)

*Garretson* considered a patent "for an improvement in the construction of mop-heads ... in the method of moving and securing in place the movable jam or clamp of a mop-head." 111 U.S. at 121. The patentee plaintiff "produced no evidence to apportion the profits or damages between the improvement constituting the patented feature and the other features of the mop," nor did the plaintiff show that the entire value of the defendant's mop-head was attributable to the patented feature (the movable jam or clamp). *Id.* at 121-22. Accordingly, this Court held that the patentee could recover only nominal damages. *Id.*

3. This Court has time and again re-affirmed the apportionment requirement—over 35 times before 1915. Eric E. Bensen, *Apportionment of Lost Profits in Contemporary Patent Damages Cases*, 10 Va. J.L. &

Tech. 1, 3 (2005); see, e.g., *Yale Lock Mfg. Co. v. Sargent*, 117 U.S. 536, 552-53 (1886) (affirming damages award where special master “made proper allowances for all other causes which could have affected the plaintiff’s prices” and “proper deduction” was made for the use of features in the accused product not covered by the asserted patents).

The Court reinforced *Garretson*’s “must in every case” rule in a pair of cases at the close of the Industrial Revolution, when electrical machinery consisting of many parts had become more common. First, in *Westinghouse Electric & Manufacturing Co. v. Wagner Electric & Manufacturing Co.*, 225 U.S. 604 (1912), the Court observed that “there are many cases in which the plaintiff’s patent is only a part of the machine and creates only a part of the profits.” *Id.* at 614. So, the Court held, “if plaintiff’s patent only created a part of the profits, *he is only entitled to recover that part of the net gains.*” *Id.* at 615 (emphasis added) (citing *Garretson*, 111 U.S. at 121).

Then, in *Dowagiac Manufacturing Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641 (1915), the Court again re-affirmed *Garretson*’s rule: “In so far as the profits from the infringing sales were attributable to the patented improvements[,] they belonged to the plaintiff, and in so far as they were due to other parts or features[,] they belonged to the defendants.” *Id.* at 646. “[M]athematical exactness” is not required, but a patent owner must at least present “reasonable approximation” through concrete evidence. *Id.* at 647.

Congress has not amended the Patent Act in any way that undermines *Garretson* or this Court’s other

apportionment decisions. Nor has this Court retreated from *Garretson* or the decisions reinforcing it.

**B. “Built-in apportionment” is contrary to this Court’s precedents and to the Patent Act.**

Notwithstanding this Court’s unequivocal requirement for affirmative proof of apportionment “in every case” except those involving the entire-market-value rule, 111 U.S. at 121, the Federal Circuit has blessed its own judge-made exception: so-called “built-in apportionment.”

1. The most common way for a patent owner to prove damages in modern cases is to establish what a “reasonable royalty” would have been in a “hypothetical negotiation”: what the infringer would have paid the patent owner, had they negotiated a license before the infringement started. *See, e.g., Gen. Motors*, 461 U.S. at 650-51. Courts apply the factors set out in the Southern District of New York’s influential decision in *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970), to simulate the negotiation. *Id.* at 1120. Basing a damages award on a reasonable royalty is the approach applied in over 60% of patent-infringement cases involving practicing entities. PricewaterhouseCoopers, *2018 Patent Litigation Study* at 6, fig. 7 (May 2018), <https://tinyurl.com/yz7cytfv>.

The Federal Circuit allows patent owners to use prior license agreements as evidence to “estimat[e] the value of a patent,” but only if the agreements are “sufficiently comparable” as a technological and economic matter to a license that the parties would have hypothetically negotiated for the asserted patents. *Apple*

*Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1325 (Fed. Cir. 2014). The Federal Circuit permits use of such “comparable” license agreements much as prospective homebuyers and sellers might look to the price of comparable houses. *See id.*; Lee & Lemley, *supra*, at 282. Patent owners seeking to prove damages this way do not start with the price of the infringing product and then prove the contribution made by the patented technology. Instead, they introduce evidence that in a comparable license, *someone else* paid a certain amount per unit, or rate, to use the same (or, as will be seen, different) patents. *E.g.*, *Ericsson*, 773 F.3d at 1225-26.

But comparability alone does not resolve *Garretson*’s duty to apportion. Lee & Lemley, *supra*, at 262. An allegedly comparable patent license typically involves a vastly different set of rights than the singular, non-exclusive license to a single patent that is the usual premise of the hypothetical negotiation in patent-damages cases. *See generally* Stuart Graham et al., *Final Report of the Berkeley Center for Law & Technology Patent Damages Workshop*, 25 Tex. Intell. Prop. L.J. 115, 128-29 (2017). Apportionment requires the prior license and any royalty derived therefrom to be assessed in order to “separate[] or apportion[]” “what was covered by the patent and what was not covered by it.” *Dowagiac*, 235 U.S. at 646. So a party seeking to use a comparable prior license to prove damages must take the additional step of adjusting the rate reflected in that license, including by accounting for other patents in the prior license as well as other non-infringing features in the accused product.

Consider, as this Court did in *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008), a microprocessor, “which interprets program instructions, processes data, and controls other devices in the system.” *Id.* at 621; see Lee & Lemley, *supra*, at 285-86. If a patent owner successfully asserts a patent covering just one of a microprocessor’s features, such as its ability to delete audio files, its damages should be limited to the value of that specific deletion feature. Lee & Lemley, *supra*, at 267-68. That the parties to a *previous* agreement licensing the audio-file-deletion patent agreed to a royalty of “X percent of the revenues of the specific processors at issue” for use in an MP3 player does not indicate that the patent would be “responsible for the same percentage value of *another* product,” like a smartphone. *Id.* at 286 (emphasis added). Moreover, if the previous agreement also licensed *other* patents, the value of those patents must be apportioned out of the rate. *Id.* at 285.

2. The Federal Circuit’s judge-made “built-in apportionment” exception contravenes *Garretson*. “Built-in apportionment” was first mentioned by the Federal Circuit nine years ago in *CSIRO*, a case involving narrow and unusual facts. 809 F.3d at 1303. In *CSIRO*, the district court, conducting a bench trial, had evidence of prior negotiations between the *same* parties, regarding the *same* single patent, for the *same* products. *Id.* The court described this “starting point for the district court’s analysis” as having “already built in apportionment,” because the parties had already “negotiated over the value of the asserted patent, ‘and no more.’” *Id.* (quoting *Ericsson*, 773 F.3d at 1226). The Federal Circuit thus upheld the district court’s use of the prior license negotiations between the same

parties for the same license to the same patent as setting the range for the hypothetical “reasonable royalty.” *Id.* at 1303-04.

Since then, the Federal Circuit has allowed *CSIRO*’s descriptive “built in apportionment” term to become a legal standard. And that legal standard has metastasized far beyond *CSIRO*’s unique facts. It has allowed “built-in apportionment” to be found in past license agreements when the parties are different, the technology is different, or the patents and other licensed technology are different in both kind and quantity—all an expert has to do to avoid apportionment, and get such a claim to the jury, is to allege comparability. See, e.g., *Vectura Ltd. v. GlaxoSmithKline LLC*, 981 F.3d 1030, 1041 (Fed. Cir. 2020); *Pavo Sols. LLC v. Kingston Tech. Co.*, 35 F.4th 1367, 1380 (Fed. Cir. 2022); *Elbit Sys. Land & C4I Ltd. v. Hughes Network Sys., LLC*, 927 F.3d 1292, 1301 (Fed. Cir. 2019); Lee & Lemley, *supra*, at 288-99; *id.* at 297 (describing “the series of Federal Circuit cases” since 2014 that have resulted in plaintiffs’ “end run around apportionment”).

The Federal Circuit’s “eas[ing]” of its “scrutiny of licenses in damages analyses” has “open[ed] the door for implicit abandonment of the apportionment principle.” Lee & Lemley, *supra*, at 287. “For example, even for agreements covering hundreds of patents, different products, or rights beyond patent rights, patentees asserting just a small subset of the licensed patents have been allowed to use the entirety of the royalty payments in those agreements as a basis for damages, without any apportionment whatsoever.” *Id.* at 263.

3. The Federal Circuit’s decision here proves that “built-in apportionment” has no meaningful limits. The panel here upheld a damages award where the damages expert undisputedly performed *no* apportionment, on his contention that Altria’s three asserted patents (whose value allegedly lay in their unclaimed “leakage prevention”) were actually *more* valuable than Fontem’s 58 licensed patents. That alone violated *Garretson*. But there is more: The facts of this case show that “built-in apportionment” is a doctrinally faulty approach which is not “apportionment” at all. The prior licenses on which Altria’s theory relied involved entirely different patents. Those patents, which are considered foundational to the industry, represented entirely different value to the products they cover than Altria’s patents did to Alto. And yet the jury was instructed that so long as they found the two licenses were “technologically comparable,” they could treat apportionment as “built in” and apply the rate Altria drew from the prior Fontem licenses, without any further adjustment. C.A.App.146; C.A.App.29282.

*First*, the dozens of patents from at least a dozen families licensed under the two Fontem agreements were far more numerous than Altria’s three patents from one family. The Fontem portfolio included more than 58 “Licensed” U.S. patents and patent applications, whereas the hypothetical negotiation between Altria and Reynolds involved only Altria’s one family of three patents. *See supra* pp. 9-11.

*Second*, the licensed Fontem patents are foundational to the e-cigarette industry; Altria’s patents are not. Hon Lik, a named inventor of the patents in the

Fontem portfolio, is widely considered to be the inventor of the electronic cigarette. C.A.App.27177; C.A.App.28239. Fontem's patents were licensed to at least 17 different e-cigarette companies. C.A.App.14570. Altria's damages expert acknowledged Fontem's position that its patents were required to sell any e-cigarette device. *Id.* That is because the Fontem patents address several significant features used in the operation of e-cigarettes. *See supra* p. 10. The accused Alto device itself is marked with 39 Fontem patents—*see* 35 U.S.C. § 287(a)—indicating that the Alto device practices those patents. C.A.App.14570. Altria's patents, by contrast, were not licensed for royalties to anyone, and Altria itself never alleged that anyone other than Reynolds (not even Altria) used them in any commercial product. C.A.App.6836; C.A.App.28091-28093; C.A.App.28195; C.A.App.28251.

*Third*, Altria failed to present evidence that the proportion of the value of Fontem's patents to the prior Fontem-licensed products is exactly the same as Altria's patents to Alto, as would have been required to rely on the 5.25% rate from the Fontem licenses. Altria's technical expert did not even discuss the licensed products under the Fontem-Nu Mark license (the license which Federal Circuit held sufficiently supported a 5.25% rate). C.A.App.28188-28192; Pet.App.9a. And even though Alto is *marked* with the Fontem patent numbers, C.A.App.14500-14501, Altria's technical expert made no attempt to quantify the contributions of those patents to the value of Alto.

*Fourth*, there is no dispute that Alto has numerous non-infringing features and conventional components that require apportionment, but Altria's experts did



not account for any of those non-Altria-patent related features. Its technical expert admitted pretrial that “there are a number of contributors to the success of” Alto that have nothing to do with Altria’s patents. C.A.App.14487-14492; C.A.App.14524-14525. And Altria’s experts never accounted for Reynolds’s marketing expertise, which Altria itself admitted had driven consumer demand.

Indeed, Altria did not attempt to prove an identity between the Fontem-licensed patents and its patents. Nor could it. Instead, to support the judgment, Altria relied on expert testimony that its three patents were *more* valuable than Fontem’s entire portfolio, primarily based on the asserted patents’ purported “benefit of less leakage.” C.A.App.28193. And the Federal Circuit accepted that theory as satisfying the “common model” of built-in apportionment. Pet.App.11a. The panel doubled down on built-in apportionment despite that deficiency, blithely asserting that “we do not require any specific adjustment to a royalty rate based on” “differences in the technologies and economic circumstances of the contracting parties.” Pet.App.13a (quoting *Finjan, Inc. v. Secure Computing Corp.*, 626 F.3d 1197, 1211 (Fed. Cir. 2010)).

With its decision in this case, which approved an application of built-in apportionment under circumstances far removed from the origin of that term in *CSIRO*, the Federal Circuit has blown past any reasonable limit on allowing the rate in a prior license to dictate a damages award. The panel’s approval of the “built-in apportionment” jury instruction proves the point. The district court instructed the jury that it could find the apportionment requirement satisfied on a bare showing that the patents in a prior license were

merely “technologically comparable” to the asserted patents. *See supra* p. 13. Accordingly, the jury in this case did not need *any* testimony comparing the value of Altria’s e-cigarette patents to the prior Fontem portfolio in order to return a massive verdict for Altria. *See supra* p. 13. That result shows that “built-in apportionment” has no limits. *Garretson*’s apportionment “in every case” rule should be restored.

**C. The question is recurring and extremely important.**

Absent this Court’s intervention, “built-in apportionment” will be here to stay. The question of proper apportionment is necessarily present in every patent case where the patent owner prevails on infringement and seeks damages, unless *Garretson*’s narrow entire-market-value exception applies. The ease with which “built-in apportionment” has been stretched in the decade or so since its arrival shows that the incentive of huge damages—even to the point of “enormous and ruinous verdict[s],” *McCormick*, 57 U.S. at 491—will continue, thereby threatening patent law’s fundamental quid pro quo.

1. *Garretson*’s apportionment requirement provides crucial ballast for the rights of patent-infringement defendants. Reasonable-royalty awards are by far the most prevalent form of patent damages, and they are assessed using a 15-factor test drawn from *Georgia-Pacific*. *See supra* p. 20. “[T]he patentee’s contribution” is but one of those 15. Amy L. Landers, *Patent Claim Apportionment, Patentee Injury, and Sequential Invention*, 19 Geo. Mason L. Rev. 471, 473 (2012). “These considerations are folded together in a

manner that loses this crucial causative link in a malleable, and virtually unreviewable, verdict amount.” *Id.* (footnotes omitted). This calls to mind Justice Scalia’s criticism of “th’ol’ totality-of-the-circumstances test (which is not a test at all but merely assertion of an intent to perform test-free, ad hoc, case-by-case evaluation).” *Am. Broad. Cos. v. Aereo, Inc.*, 573 U.S. 431, 461 (2014) (Scalia, J., dissenting). *Garretson*’s apportionment requirement is the remaining safeguard against patentees leveraging inventions covering picayune features into massive damages awards.

2. *Garretson*’s requirement is more critical than ever in today’s technological landscape. *Garretson* applied its “must in every case” rule to mop-heads, but today’s products and services may implicate hundreds or thousands of patents. *Impression Prods.*, 581 U.S. at 372. At the same time, damages claims only continue to grow—into the billions. Lee & Lemley, *supra*, at 303 & n.268 (noting a recent case, *Intel Corp. v. Future Link Sys., LLC*, No. 14-377 (D. Del.), in which a “hedge-fund-backed” non-practicing entity “sought nearly \$10 billion from Intel” and presented a damages theory based on built-in apportionment). That means that “[t]here is no more important set of issues in this era of high tech patent wars, where billions turn on the value of specific infringing features, than apportionment of damages.” *See, e.g.*, David Franklyn & Adam Kuhn, *The Problem of Mop Heads in the Era of Apps*, 98 J. Pat. & Trademark Off. Soc’y 182, 184 (2016).

The Federal Circuit’s erroneous embrace of “built-in apportionment” threatens innovation not just with e-

cigarettes, but across “the useful arts.” Every company seeking to innovate now faces the prospect not only of individual, massive verdicts, but of *stacked* royalty awards, each of which fails to account for the specific patented features. *See, e.g.*, Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 Tex. L. Rev. 1991, 2009-10 (2007). For example, in the life-sciences field, research and development for a new gene therapy could implicate patents on research tools, DNA sequences, and laboratory-testing techniques. Damien Geradin & Anne Layne-Farrar, *Patent Value Apportionment Rules for Complex, Multi-Patent Products*, 27 Santa Clara Comput. & High Tech. L.J. 763, 763 n.2 (2011). Or, in Professor Lemley’s example of the audio-deletion feature in a microprocessor, a patent owner could claim damages on the value of other functionalities, such as graphics or memory, because the damages have not been apportioned. *See supra* p. 22. The cost of licenses to make these products will grow to many times the value of the many inventions they may contain. *See Lee & Lemley, supra*, at 268. Such a “holdup” could lead manufacturers to rationally decide not to invest in new technology at all, thus denying the public the benefit of such advanced products and the benefit of future innovations building on the patented technologies. *Id.*

That unfortunate scenario is exactly what this Court predicted long before the development of such modern technologies, when it warned that a failure to apportion would “convert[]” patent damages “into an unlimited series of penalties on the defendant.” *McCormick*, 57 U.S. at 490-91.

3. This Court has not hesitated to rein in the Federal Circuit when its rulings risk upsetting the proper

balance between a patentee’s property rights and an artisan’s innovation. *See, e.g., Bilski v. Kappos*, 561 U.S. 593, 603-04 (2010) (correcting the Federal Circuit’s “machine-or-transformation” test that was inconsistent with this Court’s § 101 precedents); *KSR Int’l Co. v. Teleflex Inc.*, 550 U.S. 398, 415, 418 (2007) (rejecting the Federal Circuit’s “rigid approach,” to obviousness under 35 U.S.C. § 103, including a “teaching, suggestion, or motivation” test); *Nautilus, Inc. v. Biosig Instruments, Inc.*, 572 U.S. 898, 901 (2014) (rejecting the Federal Circuit’s test refusing to invalidate a patent as indefinite under 35 U.S.C. § 112(b) unless the claims were “insolubly ambiguous”).

In preserving the patent system’s balance, the Court has appreciated the proper scope of patent remedies. For instance, in the injunctive-relief context, the Court has been mindful that patentees (even non-practicing ones) could threaten automatic injunctions in order to ruin a defendant. *See, e.g., eBay v. MercExchange, L.L.C.*, 547 U.S. 388, 396-97 (2006) (Kennedy, J., concurring). In addition, this Court has recognized the risk of excessive damages awards when patent owners claim rights over multi-component products, even though only a single component is actually implicated by the patent. *Samsung Elecs. Co. v. Apple Inc.*, 580 U.S. 53, 60-61 (2016); *Life Techs. Corp. v. Promega Corp.*, 580 U.S. 140, 151-52 (2017).

So too here. Patent owners should not be permitted to extract windfall damages awards that are not apportioned to their patents’ specific and incremental contributions.

**D. The Federal Circuit has pointedly refused to reconsider its errant “built-in apportionment” doctrine.**

The Federal Circuit is not going to correct its error. As Professor Lemley has written, in the 2000s the Federal Circuit had “begun to rein in its outlandish theories of patent damages,” but “[b]y 2015, the tenor of the debate had changed.” Mark A. Lemley, *The Surprising Resilience of the Patent System*, 95 Tex. L. Rev. 1, 11 (2016). Since 2015 and *CSIRO*, the Federal Circuit has only expanded the reach of its judge-made “built-in apportionment” doctrine.

The only means the Federal Circuit would have to correct its error would be through en banc practice. See *Deckers Corp. v. United States*, 752 F.3d 949, 964-66 (Fed. Cir. 2014). But the Federal Circuit, despite its unique role as the “exclusive appellate court for patent cases,” *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 390 (1996), has decided only three patent cases en banc in the past seven years. In the most recent, *EcoFactor, Inc. v. Google LLC*, No. 23-1101 (Fed. Cir.), which involved issues of damages, the Federal Circuit affirmatively—and unanimously—refused to take up the propriety of its “built-in apportionment” jurisprudence. Google—the en banc petitioner, supported by myriad industry and scholarly amici—challenged in its opening brief the continued validity of built-in apportionment and this Court’s “must in every case” holding from *Garretson*. Google LLC’s Non-Confidential En Banc Opening Brief at 20, *EcoFactor, Inc. v. Google LLC*, No. 23-1101, Dkt. 84 (Fed. Cir. Nov. 12, 2024). The Federal Circuit promptly issued a prece-  
dential order saying it would not hear or decide that issue, and directed the respondent not to brief it. 122

F.4th at 893. The en banc opinion eventually issued with a narrow ruling on the admissibility of expert evidence but not disturbing (or even mentioning) the doctrine of “built-in apportionment.” *EcoFactor*, 137 F.4th at 1337-38 & n.7.

It is therefore clear beyond cavil that the Federal Circuit does not require apportionment “in every case,” despite this Court’s unambiguous mandate otherwise, and despite the calls of industry, academia, and practitioners to “end the built-in apportionment exception to the apportionment requirement” that has “allowed plaintiffs to sidestep real apportionment simply by invoking a prior license.” *Lee & Lemley, supra*, at 323. The “balance” is “broken,” *id.* at 255, and only this Court can repair it: The conflict between the Federal Circuit’s decisions and this Court’s precedents is deep, mature, and complete. In view of that court’s exclusive jurisdiction over patent appeals, 28 U.S.C. § 1295, no other court of appeals will be able to address this question.

#### **E. This case is an ideal vehicle.**

This case provides an excellent vehicle to take up this legal question—whether a patent owner may satisfy this Court’s requirement that damages “must in every case” be apportioned between patented and unpatented features by presenting an unapportioned rate drawn from prior licenses to different patents. Reynolds’s Alto product is technologically complex, contains many unpatented features driving consumer demand, and undisputedly benefited from Reynolds’s marketing expertise. Yet it is equally undisputed that Altria’s expert performed *no* apportionment analysis to separate those features from the patented features

or adjust his claimed royalty rate based on the prior licenses, and the jury was instructed that it could find built-in apportionment on a mere showing of technical comparability. Accordingly, the Federal Circuit was able to uphold the judgment in this case only by sanctioning “built-in apportionment,” contrary to *Garretson*.

In addition, this case is an excellent vehicle for addressing the issue because, unlike many cases involving “black-box” jury verdicts, the Court can see exactly how the jury calculated its damages award here. Altria’s demand for damages relied entirely on a royalty rate that appeared in another license, untethered from the patents-in-suit, and then applied, without apportionment, to Alto net sales. The jury gave Altria precisely the number it asked for—\$95,233,929.00—based on Altria’s requested royalty rate.

This case is further unburdened by the vehicle issues that have clouded previous petitions challenging built-in apportionment (among the other questions those petitions raised). *Time Warner Cable, Inc. v. Sprint Commc’ns Co.*, No. 19-211 (U.S.) (patent owner presented a range of royalties and multiple apportionment methodologies beyond prior licenses); *Apple Inc. v. VirnetX Inc.*, No. 19-832 (U.S.) (waiver of apportionment arguments in lower courts).

## **II. AT MINIMUM, THE COURT SHOULD GRANT, VACATE, AND REMAND IN LIGHT OF THE EN BANC FEDERAL CIRCUIT’S RECENT DECISION IN *ECOFACOR V. GOOGLE*.**

“Where intervening developments ... reveal a reasonable probability that the decision below rests upon a premise that the lower court would reject if given the



opportunity for further consideration, and where it appears that such a redetermination may determine the ultimate outcome of the litigation, [a GVR] is, we believe, potentially appropriate.” *Greene v. Fisher*, 565 U.S. 34, 41 (2011). “Intervening developments” forming the basis for a GVR include intervening lower-court decisions. *E.g.*, *Lee v. United States*, 562 U.S. 801 (2010) (mem.) (GVR in light of *United States v. Corner*, 598 F.3d 411 (7th Cir. 2010) (en banc)); *Ryals v. United States*, 561 U.S. 1003 (2010) (mem.) (same); *Welton v. United States*, 559 U.S. 1034 (2010) (mem.) (same); *see also, e.g., Arizona v. Gant*, 540 U.S. 963 (2003) (mem.) (GVR in light of a new decision from that state’s supreme court).

Here, the Federal Circuit’s en banc decision in *EcoFactor* is an “intervening development” warranting GVR on the question of the admissibility of Altria’s expert’s testimony. In *EcoFactor*, the Federal Circuit reiterated this Court’s holding that “nothing in either *Daubert* or the Federal Rules of Evidence requires a district court to admit opinion evidence that is connected to existing data only by the *ipse dixit* of the expert.” 137 F.4th at 1346 (quoting *Gen. Elec. Co. v. Joiner*, 522 U.S. 136, 146 (1997)). Applying that principle, the court rejected damages expert testimony that extracted a royalty rate from lump-sum license agreements that did not support such a rate. *Id.* at 1345-46. The court stressed the district court’s “essential” gatekeeping role in evaluating damages expert testimony. *Id.* at 1339-40.

In this case, however, decided six months before *EcoFactor*, the Federal Circuit held that the district court had properly applied Federal Rule of Evidence 702 and *Daubert*, even though no reliable testimony

supported the application of built-in apportionment. Pet.App.11a-14a. That was wrong, as Reynolds showed in its petition for rehearing en banc.

Specifically, Reynolds challenged the admissibility of Altria's damages and technical experts' testimony on an unapportioned rate for, among other things, failing to account for Alto's non-infringing features and attributing the value of conventional features to Altria's patents. C.A.App.14459-14464; C.A.Dkt.75. On the first point, Altria's technical expert admitted that "there are a number of contributors to the success" of Alto that have nothing to do with Altria's patents, but he did not consider whether and to what extent those other contributions drove Alto's commercial success. C.A.App.14492. For example, he attributed Alto's "smooth delivery" and "good vapor production" to the pod assembly design, C.A.App.14656-14657, but he acknowledged that Alto's proprietary e-liquid and heater—neither of which is covered by the patents—also contribute to Alto's vapor production. C.A.App.14487-14492; C.A.App.14524-14525.

Moreover, Altria's technical expert repeatedly attributed value to the asserted patents for features that were admittedly not novel—including transparent faces on a pod device, magnetic connections, electrical contacts, an audible click, and a pod-style e-cigarette. C.A.App.14503-14514.

Reynolds also challenged the technical expert's ultimate opinion that Altria's patents are more valuable than the Fontem patents because it was based on the advantages of those conventional features, like a general pod design, which Altria did not invent. C.A.App.14458-14459; C.A.App.14480.

Finally, Altria’s technical expert testified that each of the five Fontem families he considered was technically comparable to Altria’s patents because the Fontem patents are “directed to the electronic cigarette as a whole.” *See, e.g.*, C.A.App.28189. Even if this generic testimony were sufficient for threshold technical comparability, it does not account for the substantial differences between the licenses to Fontem’s entire e-cigarette portfolio and the license that Reynolds would need here for Altria’s single family of three patents. *See, e.g., Omega Patents, LLC v. CalAmp Corp.*, 13 F.4th 1361, 1380 (Fed. Cir. 2021).

In short, because Altria’s technical expert offered only a “superficial recitation” of the advantages of the claimed patented invention and failed to isolate the value of Altria’s patents over the prior art, his testimony was insufficient for admissibility. *Exmark Mfg. Co. v. Briggs & Stratton Power Prods. Grp., LLC*, 879 F.3d 1332, 1350 (Fed. Cir. 2018); *see also, e.g., Omega*, 13 F.4th at 1381. Under the approach adopted by the en banc Federal Circuit in *EcoFactor*, Altria’s expert did not have “good grounds” for his testimony. 137 F.4th at 1346 (quoting *Daubert v. Merrell Dow Pharms., Inc.*, 509 U.S. 579, 590 (1993)).

This intervening holding from the en banc court addressing Rule 702 and *Daubert* is a sound basis for the Federal Circuit to reconsider its decision in this case. The Federal Circuit’s *EcoFactor* decision “reveal[s] a reasonable probability that” the Federal Circuit’s decision “rests upon a premise” that it would now reject. *Greene*, 565 U.S. at 41. Indeed, the Federal Circuit recently reversed and remanded for a new damages trial in a case where the patent owner’s expert “failed

to apportion the license fees to account for licensed patents that were not asserted,” citing *EcoFactor* and explaining that the district court “should have conducted a more exacting analysis of [the expert]’s testimony.” *Jiaxing Super Lighting Elec. Appliance, Co. v. CH Lighting Tech. Co.*, No. 23-1715, 2025 WL 2100650, at \*7-9 (Fed. Cir. July 28, 2025) (precedential). Accordingly, the Court should at minimum grant the petition, vacate the judgment of the court of appeals, and remand for the Federal Circuit to reconsider its decision in light of *EcoFactor*.

### CONCLUSION

This Court should grant the petition.

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