

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

**SMARTFLASH LLC, *et al.*,**

**Plaintiffs,**

**v.**

**APPLE INC., *et al.*,**

**Defendants.**

**Case No. 6:13-cv-00447-JRG-KNM**

**JURY TRIAL DEMANDED**

**PLAINTIFFS SMARTFLASH LLC'S AND SMARTFLASH  
TECHNOLOGIES LIMITED'S MOTION FOR ENTRY OF  
JUDGMENT AND EQUITABLE AND STATUTORY RELIEF**

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## **I. INTRODUCTION**

After a full and fair trial, Smartflash has prevailed on all issues. Pursuant to 35 U.S.C. §§ 283 and 284; 28 U.S.C. §§ 1961 and 1920; and this Court's inherent equitable power, Smartflash requests the following relief:

- Treble damages based on Apple's willful conduct;
- Attorney fees based on a finding that this is an exceptional case;
- An order designating Smartflash the prevailing party and awarding Smartflash its costs taxable under 28 U.S.C. § 1920;
- Supplemental damages for acts of infringement not contemplated by the jury's verdict;
- Injunctive relief including a permanent injunction and a temporary compulsory royalty; and
- Pre- and post-judgment interest.

## **II. THE COURT SHOULD ENHANCE DAMAGES BASED ON APPLE'S WILLFUL CONDUCT.**

### **A. A Substantial Enhancement Is Necessary To Make Apple Respect the Patent Rights of Small Patent Owners Everywhere.**

“When willful infringement or bad faith has been found, the remedy of enhancement of damages not only serves its primary punitive/deterrent role, but in so doing it has the secondary benefit of quantifying the equities as between patentee and infringer.” *SRI Int'l, Inc. v. Advanced Tech. Labs., Inc.*, 127 F.3d 1462, 1468 (Fed. Cir. 1997).

Immediately after this Court read the jury's verdict, Apple peddled the following statement to numerous news outlets across the world:

Smartflash makes no products, has no employees, creates no jobs, has no U.S. presence, and is exploiting our patent system to seek royalties for technology Apple invented. We refused to pay off this company for the ideas our employees spent years innovating and unfortunately we have been left with no choice but to take this fight up through the court system. We rely on the patent system to protect real innovation and this case is one more example of why we feel so strongly Congress should enact meaningful patent reform.

Ex. A (unless otherwise noted, all citations to “Ex. \_\_\_” are exhibits attached to the Public or Sealed Declarations of John F. Summers filed herewith). This notion—that the entire U.S. Patent System needs to be changed because Apple could lose a trial like this one—is symptomatic of Apple’s inability to take responsibility for its infringement.<sup>1</sup> The U.S. Patent System is not to blame for Apple’s infringement. Apple *willfully* infringed Smartflash’s patents, and it alone is to blame.

And while Apple may brag that it “refused to pay off” Smartflash, Apple certainly cannot claim that it was taking a principled stand in this case. Apple mounted no credible defenses. It was decisively beaten. Apple gambled on trial rather than making any attempt to deal with Smartflash directly, and significant enhancement is warranted. *See In re Hayes Microcomputer Products, Inc. Patent Litig.*, 766 F. Supp. 818, 826 (N.D. Cal. 1991) *aff’d*, 982 F.2d 1527 (Fed. Cir. 1992) (doubling damages because the defendant “adopted, early on, a strategy of long-term, expensive litigation—while continuing to sell products which they were on notice might very well be infringing—rather than making any attempt to deal with [the patent owner] directly.”).

The discretion afforded courts for awarding enhanced damages in cases of willful infringement is designed precisely for circumstances such as these. Apple has made it abundantly clear that it needs an enhanced economic incentive to respect the intellectual property rights of others. *See NTP Inc. v. Research in Motion, Ltd.*, 270 F. Supp. 2d 751, 754 (E.D. Va. 2003) (“Enhanced damages not only operate as a punitive measure against individual infringing

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<sup>1</sup> Worse, Apple’s press release statement is misleading and reinforces common misconceptions of the U.S. Patent System. Namely, Apple claims to have invented Smartflash’s technology despite the fact that it never even attempted to assert any of its own systems or patents as prior art to Smartflash’s patents. And clearly, Apple is not the arbiter of what innovation is “real” and what is not. The U.S. Patent Office determined that Mr. Racz and Mr. Hulst made real innovations when it granted the patents-in-suit, and Apple did not come close to convincing the jury otherwise.

defendants, but they also serve an overarching purpose as a deterrence of patent infringement.”). This Court is uniquely situated to provide such an incentive to a wealthy behemoth like Apple that, by its own admission, believes that it can choose to flout the rights of companies it deems inferior.

**B. The *Read* Factors Favor Treble Damages.**

“The paramount determination in deciding enhancement and the amount thereof is the egregiousness of the defendant’s conduct based on all the facts and circumstances.” *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826 (Fed. Cir. 1992). In determining the extent to which damages should be enhanced in light of a willfulness finding, the Court considers the following factors: (1) whether Apple deliberately copied Smartflash’s ideas or design; (2) whether Apple, knowing of Smartflash’s patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed; (3) Apple’s behavior as a party to the litigation; (4) Apple’s size and financial condition; (5) the closeness of the case; (6) the duration of Apple’s misconduct; (7) any remedial action (or lack thereof) by Apple; (8) Apple’s motivation for harm; and (9) whether Apple attempted to conceal its misconduct. Beyond the overarching need to deter Apple’s infringement in the future, the *Read* factors also support a substantial willfulness enhancement.

**1. Apple Failed to Investigate Smartflash’s Patents or Form Any Good Faith Belief in Invalidity or Non-Infringement (Factors 2, 6, 7).**

Apple knew of Smartflash’s patents at least through its Director of DRM Technologies Augustin Farrugia, but it nonetheless failed to perform any investigation of those patents or take any remedial action. At trial, inventor Patrick Racz provided a detailed explanation of the partnership he formed in 2001 between his company Internet PLC and a company called Gemplus. *See generally* Trial Tr. 2/16/15 p.m. (P. Racz) at 87:22-103:20. The purpose of the

partnership was to develop and commercialize his patent-pending invention. *Id.* at 87:4-87:21. Through that partnership, a number of Gemplus employees and officers learned of his technology and commercialization strategies. *Id.* at 87:22-89:7. Ultimately, a group within Gemplus attempted to copy Mr. Racz's invention and squeeze him out of the partnership. *Id.* at 102:1-103:20. At one point, Former Gemplus CEO and founder Mark Lassus explained to Mr. Racz that people within Gemplus "are very jealous, they want your technology, but they want you out of the way." *Id.* at 102:15-102:25. Shortly thereafter, Gemplus terminated its relationship with Mr. Racz and Internet PLC. *Id.* at 103:7-103:13.

Augustin Farrugia was a director at Gemplus during its partnership with Internet PLC. *See* Trial Tr. 2/18/15 p.m. (A. Farrugia) at 60:1-60:9. At trial, he specifically admitted to working with and having connections with several of the same individuals who had access to Mr. Racz and his technology. *See id.* at 106:22-107:6. After Mr. Farrugia left Gemplus, Apple hired him as its Director of DRM Technologies for Fairplay—the Apple DRM software at issue in the accused products. *Id.* at 98:1-98:22. Thus, at least as early as 2005, Mr. Farrugia and Apple had access to everything they needed to identify Mr. Racz's patent applications and patents, and compare them to Apple products. *See Petition of Kristie Leigh Enterprises, Inc.*, 72 F.3d 479, 481 (5th Cir. 1996) (noting that knowledge imputed to the corporation when knowledge is possessed by "managing agents who have authority over the activities in question"); *DataTreasury Corp. v. Wells Fargo & Co.*, No. 2:06-CV-72, 2010 WL 5140741, at \*4 (E.D. Tex. Sept. 27, 2010) ("Plaintiff's circumstantial evidence of access is nonetheless probative of willfulness."); *Tomita Techs. USA, LLC v. Nintendo Co., Ltd.*, 2012 WL 2524770, at \*10 (S.D.N.Y. June 26, 2012) ("To require actual knowledge of the patent at issue in circumstances such as these—where evidence suggests that the alleged infringer knew of the value of an

invention, of the investor's intention to obtain a patent, and of the similarity between the allegedly infringing product and the invention—would allow even copiers to shelter themselves from liability for willfulness merely by avoiding confirmation of what they, in essence, already knew.”).

Tellingly, Mr. Farrugia did not affirmatively disavow learning of Mr. Racz's patent applications and technology during his time at Gemplus. Rather, he attempted to deflect the issue by downplaying his Gemplus connections. For example, when asked about his most recent previous employer prior to Apple, he first identified companies other than Gemplus. Trial Tr. 2/18/15 p.m. (A. Farrugia) at 62:14-62:16. But when confronted with prior testimony, he admitted that he “quit the Gemplus job to find an opportunity at Apple.” *Id.* at 64:12-64:14. When asked if he had experience with digital content security prior to joining Apple, he initially responded “not very much.” *Id.* at 49:11-49:17. But when confronted with more prior testimony, he admitted that Apple hired him precisely because of his digital content protection expertise. *See Id.* at 66:23-68:9. Finally, when asked if that expertise came from his time at Gemplus, he initially denied that it did. *Id.* at 66:23-67:16. But when reminded of yet another prior inconsistent statement, he changed his story yet again. *Id.* at 67:25-68:9. These pervasive inconsistencies provide further evidence that Apple knew of Mr. Racz's patents.

Despite having everything it needed to investigate Smartflash's patent claims, Apple offered no evidence of any actual investigation. In fact, the key engineers in charge of the infringing functionality confirmed that they never investigated the risk of patent infringement:

Q. And, in fact, if Mr. Racz had walked into your office in February of 2008, around the time his first patent issued, and handed you his patent, you would not have even read it, correct?

A. Yes, sir.

Q. That's correct?

A. Yes, sir.

Q. Is that typical of Apple engineers?

A. Yes, sir, on my team.

(Trial Tr. 2/18/15 p.m. (A. Farrugia) at 58:23-59:12.)

\* \* \*

Q. When you looked at Smartflash's patents, how much time did you spend looking at them?

A. I think 15 to 20 minutes.

Q. And did you understand the technology that was being described in Smartflash's patents?

A. I wasn't trying to understand the patents.

(Trial Tr. 2/18/15 a.m. (A. Ward) 66:5-66:10.)

\* \* \*

Q. When was it you decided you'd go ahead and read a whole one of the patents?

A. When we were preparing for this trial, I wanted to understand specifics.

(Trial Tr. 2/18/15 p.m. (P. Mirrashidi) 149:24-150:7.)

Apple will no doubt argue that engineers who develop infringing functionality have no obligation to investigate the risk of patent infringement if they rely on a corporate legal department to investigate patent infringement. However, Apple offered no evidence of any investigation performed by its legal department. Nor could it in light of the testimony provided by Apple's Senior Director of Engineering and lead trial witness Mr. Payam Mirrashidi:

Q. And I believe you say you work with the legal team regarding patents of others?

A. Yes.

Q. I think in your direct, you were asked and answered a question saying that you collaborate with legal on issues like this, correct?

A. That's right.

Q. Nevertheless, when we asked you that in your deposition, didn't you say you had never been involved in a discussion to determine whether Apple needed to consider other company's patent rights with respect to a feature you were developing?

A. That's right.

(Trial Tr. 2/18/15 p.m. (P. Mirrashidi) at 151:3-151:14.)

Apple even stipulated that it had not identified any opinion of counsel based on an investigation into patent infringement or invalidity. Trial Tr. 2/17/15 a.m. at 5:14-5:18. Because Apple failed to diligently investigate the risk of infringing Smartflash's patents, Apple could not have formed a good faith belief that the patents were invalid or not infringed. Apple did not call a single member of its legal department to describe any sort of investigation or good faith belief. Out of the three different high-level Apple employees who did testify at trial, all three *refused* to testify as to any good faith belief in non-infringement. Trial Tr. 2/18/15 p.m. (P. Mirrashidi) at 155:8-155:14 (explaining that he would not provide any testimony about non-infringement); Trial Tr. 2/18/15 p.m. (A. Farrugia) at 102:21-103:2 (same); Trial Tr. 2/18/15 a.m. (M. Muller) 122:23-123:4 (same). Under these circumstances, *Read* factors two and six alone support a significant damages enhancement.

**2. As Indicated by Apple's Conduct Before, During, and After Trial, This Case Was Not Close (Factors 3, 5).**

All aspects of Apple's defense—infringement, validity, and damages—were substantively weak. Apple decisively lost on all issues.

**a) Non-Infringement**

Regarding non-infringement, Apple originally pursued three different theories at trial. Apple's primary non-infringement argument was that a DSID (numerically representing an Apple ID) cannot meet the Court's construction of the term "payment data:" "data that can be used to make payment for content." For this argument, Apple relied solely on the opinion testimony of its expert Anthony Wechselberger. Yet this opinion was based on nothing more than Mr. Wechselberger's own obstinacy:



Q. And when buying an asset through the iTunes Store or the App Store, the user's computer sends a DSID, GUID, and MID to Apple's system, correct?

A. Yes.

Q. Those are used in order to purchase the content, correct?

A. I would disagree with that.

(Trial Tr. 2/19/15 p.m. (A. Wechselberger) 120:3-120:9.)

Not even Apple's own engineers stood behind this argument:

Q. Do you agree that an Apple ID corresponds to a piece of data known as a DSID or an account ID?

A. Yes, sir.

Q. And you use that Apple ID to make purchases, correct?

A. Yes, sir.

(Trial Tr. 2/18/15 p.m. (A. Farrugia) at 50:13-50:17.)

\* \* \*

Q. Do you agree that you use an Apple ID to purchase content from the iTunes Store?

A. Yes.

Q. And the DSID is a numerical representation of an Apple ID, correct?

A. Yes.

(Trial Tr. 2/18/15 p.m. (P. Mirrashidi) at 134:25-135:5.)

Apple's other non-infringement arguments fared no better. Apple's second non-infringement expert, Dr. Ligler, opined that Apple did not infringe because numbers in a computer cannot be "use rules" or "access rules." Yet Apple's own documents and Apple's actual source code—critical portions of which Dr. Ligler had not reviewed—explicitly indicated otherwise. Trial Tr. 2/19/15 a.m. (G. Ligler) at 35:10-23; Trial Tr. 2/19/15 a.m. (sealed) (G. Ligler) at 15:8-16:16. Once Dr. Ligler was confronted with these documents and portions of code, Apple abandoned the argument.

Dr. Ligler also opined that Apple's products failed to meet the "data supplier" limitation

in claim 13 of the '720 Patent and claim 32 of the '221 Patent because Apple supplied the rules limitations while Akamai supplied the content. But, like with payment data, Apple's engineers confirmed that the content also actually came from Apple:

Q. You agree that an Apple device knows it needs to load a URL from a host called store@iTunes.Apple.com, correct?

A. That's right.

Q. Who owns the domain name Apple.com?

A. Apple does.

Q. Has Apple configured that domain name so that content can be delivered by someone like Akamai?

A. Yes.

Q. That content comes from Apple, correct?

A. Yes.

Trial Tr. 2/18/15 p.m. (P. Mirrashidi) at 142:21-143:5; *see also* Trial Tr. 2/18/15 p.m. (A. Farrugia) at 56:17-19; 56:25-57:15. Like with Dr. Ligler's other non-infringement position, Apple abandoned the argument by closing.

The explanation for why Apple would pursue such weak defenses became obvious throughout the trial. In a moment of surprising candor, which Apple's counsel likely regretted, Mr. Mirrashidi, a high ranking Apple engineers, testified that "the truth is the code." Trial Tr. 2/18/15 p.m. (P. Mirrashidi) at 137:24-138:11 (explaining that even Apple engineers need to consult source code to understand how their own products work). Yet, although Apple's non-infringement positions depended on how that code operates, Apple's non-infringement experts never even looked at all the pertinent code—or even all of the specific source code that Smartflash actually presented as evidence of infringement. Trial Tr. 2/19/15 a.m. (G. Ligler) at 47:21-48:14. Mr. Wechselberger, Apple's primary technical expert, never looked at *any* of Apple's source code. Trial Tr. 2/19/15 p.m. (A. Wechselberger) at 120:13-120:15.

**b) Invalidity**

Apple's invalidity defenses at trial were similar—consisting largely of just color-coding various elements from the patents and the prior art with no explanation as to why a person of ordinary skill would be motivated to combine the references. *See, e.g., Fractus S.A. v. Samsung Elecs. Co.*, 876 F. Supp. 2d 802, 829 (E.D. Tex. 2012) (“Samsung attempted to shorthand its presentation with figures from the patents and buzzwords, such as, presenting the Cohen patent as ‘fractal,’ and merely claiming that it invalidated the MLV Patents because they are allegedly ‘fractal’. Such examples demonstrate the relative weakness of Samsung’s invalidity defense.”). Indeed, Mr. Wechselberger could not even recall basic information, like the appropriate standard of proof to apply to his opinions or which references actually supported which invalidity theories. Trial Tr. 2/19/15 p.m. (A. Wechselberger) at 116:20-116:24 (“Q. Sir, in order to invalidate Smartflash’s claims, am I correct that you have to prove invalidity by a higher burden than the burden of proof on Smartflash when proving infringement? A. I don’t know.”); 88:11-88:15 (Q. Mr. Wechselberger, what obviousness combinations did you have for the ‘720 patent? Do you know them off the top of your head? A. No. I’d be happy to see the slides, or they can—or they can recall the slides.”). But this failure was perhaps unsurprising; Apple’s attorneys wrote 50-70 percent of Mr. Wechselberger’s expert report. *Id.* at 94:23-94:2; 121:1-121:6. Mr. Wechselberger’s grasp of the subject matter of his own opinions was so lacking that he could not understand many of the questions posed to him on cross examination—a fact he tried to conceal by giving long, nonresponsive answers. The Court eventually put a stop to Mr. Wechselberger’s evasive answers by admonishing him to stop his nonsensical rambling. *Id.* at 110:15-110:19.

Even setting aside Mr. Wechselberger’s failure to actually learn the facts or legal framework on which his opinions were based, the substance of his opinions was also badly flawed. Throughout this entire litigation, including trial, Apple put forth theories that simply

assumed (incorrectly) that combination patents were necessarily invalid. Indeed, because of this apparent belief, Mr. Wechselberger deemed both secondary considerations of non-obviousness and analysis regarding any motivation to combine so trivial that his opinions regarding both were entirely conclusory. *See* Trial Tr. 2/19/15 p.m. (A. Wechselberger) at 19:20-20:20; 82:3-21. Yet these are not issues to be brushed aside and summarily dismissed; they are integral to any legitimate obviousness analysis. *See, e.g., Leo Pharm. Prods., Ltd. v. Rea*, 726 F.3d 1346, 1357 (Fed. Cir. 2013) (“Whether before the Board or a court, this court has emphasized that consideration of the objective indicia is *part of* the whole obviousness analysis, not just an afterthought.”) (emphasis in original). Mr. Wechselberger’s written description defense was just as bad, amounting to nothing more than an opinion that he looked very hard in the patent for a written description, asking the jury to trust him that he could not find it. Trial Tr. 2/19/15 p.m. (A. Wechselberger) at 83:14-84:23.

Before trial, knowing its weak position, Apple secretly tried to retain prior art “fact” witnesses shortly after the close of fact discovery, presumably so it could argue production of those retention agreements need not be produced. Although Apple retained as many as five such witnesses, Apple ultimately elected to call only one prior art witness at trial—Steven Ansell. So desperate was Apple to “humanize” its weak case, Apple resorted to representing him and paying him more than twice his standard rate, while attempting to pass him off to the jury as an “independent witness.” *See* PX-753 (Ansell engagement letter); Trial Tr. 2/18/15 p.m. (S. Ansell) at 166:2-166:8. In all pertinent jurisdictions, such excessive payments to fact witnesses are improper. *See* Texas Disciplinary Rules Of Prof’l Conduct § 3.04 (explaining that lawyers may only compensate fact witnesses for: (1) reasonable expenses incurred by a witness in attending trial or testifying; or (2) reasonable compensation for the loss of a witness’ time in

attending trial or testifying.); New York Ethics Opinion No. 668 (1994) (“We must attempt to draw the line between compensation that enhances the truth seeking process by easing the burden of testifying witnesses, and compensation that serves to hinder the truth seeking process because it tends to ‘influence’ witnesses to ‘remember’ things in a way favorable to the side paying them.”) (“The amount of compensation that is to be considered ‘reasonable’ will be determined by the market value of the testifying witness. For example, if in the ordinary course of individual’s profession or business, he or she could expect to be paid the equivalent of \$150/hour, he or she may be reimbursed at such rate.”); California Ethics Opinion No. 1997-149 (same). That Apple’s attorneys felt the need to resort to unethical behavior underscores the weakness in Apple’s invalidity defense.<sup>2</sup>

**c) Damages**

Finally, as the jury’s verdict confirms, Apple’s damages presentation was also exceedingly weak. Although Apple’s retained expert, Dr. Becker, testified that he had the expertise to measure the value of infringement to Apple, Apple refused to allow him to do so. Trial Tr. 2/23/15 p.m. (S. Becker) at 7:14-17 (“Q: And you would agree that you yourself have enough expertise to estimate the value of the accused features in this case to Apple; isn’t that

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<sup>2</sup> Apple’s legal invalidity defenses regarding indefiniteness and § 101 also fail to make this a close case. Apple’s first indefiniteness defense was inconsistent with substantial authority in both this District and the Federal Circuit. Dkt. No. 229 at 32-35 (citing cases); Dkt. No. 351 at 4-9 (citing cases). Apple’s second indefiniteness defense relied almost entirely on extrinsic evidence, knowing that such evidence was entitled to “little weight.” Dkt. No. 391 at 8. Finally, Apple’s § 101 defense resorted to only “over-generalized characterizations” of the nature of the claims, arguing essentially that, after *Alice*, no software was patent eligible subject matter, notwithstanding Apple’s vast portfolio of software patents of its own. Dkt. No. 423 at 18. And although Apple will surely argue that the PTAB’s decision to institute Samsung’s petitions on § 101 show that their invalidity defense was viable if not ultimately unsuccessful, those petitions are irrelevant to the closeness of *this* case. Apple failed to even *raise* § 101 in their original April petitions.

right sir? A: I think I have, yes.”). Instead, Apple’s sole theory depended on its own (incorrect) guess as to what Mr. Racz meant by the phrase “return on investment.” Trial Tr. 2/23/15 a.m. (S. Becker) at 96:8-97:14; 106:25-112:13. According to this tenuous theory, if Mr. Racz had not invested any money in building the Internet PLC business, Mr. Racz’s patents would be worthless. Trial Tr. 2/23/15 p.m. (S. Becker) at 34:19-24. Because of the inherent weaknesses in this theory, Dr. Becker, like Mr. Wechselberger, was evasive on cross-examination. *Id.* at 35:11-36:8. Yet in the end Dr. Becker even agreed, or at least failed to dispute, that his reasonable royalty opinion simply theorized that the large and powerful Apple would have simply taken advantage of Mr. Racz, the near-bankrupt individual inventor. *Id.* at 43:25-44:2. While the Court did not reject the reliability of Apple’s theory, Dkt. No. 276, the jury emphatically did.

Apple’s rebuttal to Smartflash’s damages evidence was also substantively weak. This rebuttal focused predominantly on alleged issues regarding Dr. Wecker’s survey results. Yet to do so, Apple felt the need to resort to criticism based on a scientifically indefensible statistical fallacy. The Court itself described Apple’s cross-examination strategy as “an intentional attempt to confuse the jury.” Trial Tr. 2/17/15 p.m. (W. Wecker) at 113:9-113:12;114:18-114:7. Similarly, Apple criticized Mr. Mills for making the legally required assumption of infringement and validity. Trial Tr. 2/18/15 a.m. (R. Mills) at 10:3-10.

Apple also took inconsistent positions regarding non-infringing alternatives. While Apple stipulated that it had identified no non-infringing alternatives, Dkt. 347, it later proposed an alternative for the first time at trial. Under the pretense of rebutting Dr. Jones’s identified non-infringing alternative scenarios, Apple argued to the jury that Smartflash’s technology had negligible value because it could simply “switch steps 3 and 4” of the current payment and

download protocol (i.e., it could initiate a download before entering password information). *See, e.g.*, Trial Tr. 2/24/15 (closing argument) at 89:22-90:9. Yet although Apple claimed this alternative was easy, Apple could not even disclose this alleged alternative prior to trial. Either Apple intentionally misled the jury by theorizing an unacceptable, unavailable alternative, or Apple's failure to disclose this alternative during the discovery period is inexcusable. *See Carnegie Mellon Univ. v. Marvell Tech. Grp. Ltd.*, No. 09-0290, 2014 WL 1320154, at \*20 (W.D. Pa. Mar. 31, 2014) (noting similar inconsistency weighing in favor of enhancement). Nevertheless, notwithstanding this behavior, the jury resoundingly rejected Apple's damages theory, awarding more than 100 times the sum that Apple proposed.<sup>3</sup>

**d) Litigation of Irrelevant Issues**

Apple tried desperately to try this case on anything but the merits. This was evident even before trial began. First, Apple waited until the eve of trial to indicate that it intended to challenge the Court's subject matter jurisdiction—and only then in response to a Smartflash Motion *in Limine*. Yet instead of simply litigating the issue before the Court, Apple asked to try the Court's jurisdiction to the jury, claiming (incorrectly) that the issue was “intertwined” with its damages cases. *See* Dkt. No. 455. Apple desperately sought to try jurisdiction to the jury only because it wanted to pollute the trial and distract from its weak merits defenses.

The trial was no different. From the start, Apple fought tooth-and-nail to refer to its various prior art references by the assignee name rather than the common practice of the first inventor's name. The only possible purpose of this unwieldy terminology was a fruitless attempt

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<sup>3</sup> Additionally, any alleged weakness in Mr. Mills' damages testimony or Dr. Wecker's statistical theories were considered by the jury and reflected in a damages award that was less than the sum the evidence supported. Accordingly, it would be inappropriate to minimize any enhancement based on any perceived weaknesses since the damages award has already been decreased by the jury's reasoned analysis.

to distract from what was (or was not) actually in the references, and prejudice the jury against Mr. Racz, the inventor without a high school degree, in favor of the various large business assignees of the prior art.

This was not the only distraction Apple pursued. For example, Apple cross-examined Mr. Racz on a myriad of things that he never claimed to invent, including:

- “the Internet” (123:20)
- “downloading content over the Internet” (124:6)
- “online sale of content” (125:9)
- “smartphones” (118:9)
- “memory in electronics devices” (120:23)
- “WiFi” (124:14)

Apple knew that Mr. Racz did not need to invent the internet for Apple to infringe Smartflash’s valid patents; Apple pursued these questions simply to distract from the real issues.

Finally, although the Court made clear in its rulings on exhibits and Motions *in Limine* that the case would be tried on the merits rather than on facts offered only to raise irrelevant prejudice, Apple still designated hours of clearly irrelevant deposition testimony at the close of its evidence. In doing so, Apple forced Smartflash and the Court to wade through such facially unreasonable designations line-by-line at the tail end of a long trial, a process which resulted in the eventual exclusion of almost all designated testimony. Tellingly, Apple decided not to play the little, actually relevant testimony that remained.

That Apple would so desperately seek to try a case on anything but the merits proves that even Apple knew that, on those actual merits, this case was not close. Accordingly, this factor also weighs heavily in favor of enhancement.

**e) Apple’s Attempts to Delay and Raise the Cost of Litigation**

Beyond the specific actions discussed above, Apple stopped at nothing to try to delay or



avoid trial on the merits. From the very start, Apple sought to delay the case by moving to transfer. Dkt. No. 46. Discontent with the speed at which the Court works through its busy docket, Apple then moved to stay the case indefinitely. Dkt. No. 98. Even before the Court ruled on its first motion to stay, Apple moved to stay the case indefinitely again, this time asking the Court to halt the case based on the mere filing of petitions for CBM review at the Patent Office, while representing to the Court that surely the PTAB would invalidate most if not all of Smartflash's claims. Dkt. No. 121 at 7-9; 14-15. The Court denied the motion without prejudice to re-filing after the PTAB ruled on Apple's petitions. Dkt. No. 175. Yet when the PTAB's ruling issued, Apple was silent; the PTAB denied institution regarding the vast majority of Apple's petitions, including denial on every ground pursued on the claims tried to verdict.

Then faced with an impending trial date and few options to inject delay, Apple pursued another tactic: filing motions on "almost every potential trial issue." Dkt. No. 260. Yet although Apple filed multiple non-infringement motions, multiple invalidity motions (including two separate indefiniteness motions), and a motion to strike each of Smartflash's experts, the Court denied all motions but one.<sup>4</sup> *See, e.g.*, Dkt. Nos. 229, 479, 480, 482, 483, 484, 486, 487.

The jury's verdict has not affected Apple's conduct. As already discussed, Apple announced in the immediate aftermath of the jury's verdict its utter disdain for Smartflash and its patent rights. And since that public disparagement, Apple has resorted to underhanded tactics for the sole purpose of injecting further delay into the ultimate resolution of this dispute. Apple

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<sup>4</sup> The one exception was Apple's Motion to Strike Mr. Mills' expert report. The Court granted the motion in part, but allowed Smartflash to run a new survey correcting the issue that Apple had identified as problematic. Dkt. No. 374. Yet, even after Smartflash ran a survey asking precisely the question that Apple argued was necessary, Apple filed *another* Motion to Strike, which the Court correctly denied. Dkt. No. 486; *see also* 1/26/2015 Pretrial Hearing. Tr. at 260:8-12.

agreed to, and then tried to back out of, a timely schedule for resolution of post-trial issues. *See* Dkt. Nos. 535, 545.

More recently, Apple has asked the Court to stay the case for a remarkable third time, this latest request coming almost two full months *after* trial proceedings concluded. Although most of Apple's requests throughout have been weak, Apple's latest request borders on frivolous. To ask the Court to stay post-trial proceedings and ultimate appeal simply so that the patent office can decide an identical issue differently than this Court—an issue only an entry of judgment away from being ripe for appeal in this case—shows that Apple likely does not believe strongly in its potential appellate points either. Such desperation again highlights the weakness of Apple's case on the merits. Accordingly, for all these reasons, as evidenced by Apple's conduct as a party to the litigation, this case was not close. These factors weigh in favor of enhancement.

**3. Apple Has Infringed For Years, on a Huge Scale, and Has Taken No Remedial Measures to Stop Infringement (Factors 6 and 7).**

In evaluating remedial measures, Courts look to any remedial action by the infringer. “The filing of a lawsuit does not stop the clock insofar as culpability may arise from continuing disregard of the legal rights of the patentee.” *Pall Corp. v. Micron Separations, Inc.*, 66 F.3d 1211, 1221–22 (Fed. Cir. 1995). Courts have identified a number of circumstances that tip this factor in favor of the infringer: discontinuation of infringing product lines; implementing non-infringing alternatives; and/or negotiating with the patentee in good faith to avoid infringement. *See e.g., Trading Techs. Int'l, Inc. v. eSpeed, Inc.*, 595 F.3d 1340, 1358 (Fed. Cir. 2010) (“Prompt redesign efforts and complete removal of infringing products in a span of a few months suggest that eSpeed was not objectively reckless.”); *Amstar Corp. v. Envirotech Corp.*, 823 F.2d 1538, 1546–47 (Fed. Cir. 1987) (infringer obtained an opinion of counsel and attempted to design around the product and also negotiated with patentee in good faith during this process).

Courts have also identified circumstances that tip this factor in favor of the patentee: failing to obtain an opinion of counsel; ramping up production of new products despite the allegations; and continuing to infringe after a finding of willfulness. *See e.g., SynQor, Inc. v. Artesyn Techs., Inc.*, 709 F.3d 1365, 1385 (Fed. Cir. 2013) (post-verdict infringing sales supported enhancement); *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 725 F. Supp. 2d 474, 480 (D. Del. 2010), *rev'd on other grounds*, 711 F.3d 1348 (Fed. Cir. 2013).

This *Read* factor could not weigh more heavily in favor of enhancement. Apple stipulated that it has identified no opinions of counsel or non-infringing alternatives. Trial Tr. 2/17/15 a.m. at 5:14-5:18; Dkt. No. 437. It has not ceased sales of any infringing product lines, nor made any changes to its products to stop infringing. Trial Tr. 2/17/15 a.m. (M. Jones) at 54:21-54:25 (explaining that Apple has not changed its products in response to the litigation). And Apple has not attempted to negotiate with Smartflash to avoid infringement. Even after the verdict, Apple has provided no indication that it intends to take any remedial action—again, denouncing the verdict as “exploitation.” Ex. A.

**4. Because of Apple’s Wealth, Substantial Enhancement Is Necessary to Stop Willful Infringement in the Future (Factor 4).**

Apple’s size and wealth also favors enhancement. The punitive nature of the enhancement for willful infringement exists to punish and to deter future infringement. Apple is the richest publicly traded company in the world; the only United States company to ever achieve a market capitalization of an astounding \$700 billion—nearly double the next richest company. *See, e.g.* <http://finance.yahoo.com/q?s=AAPL>; Ex. C. As discussed at trial, Apple obtains huge profit margins on its infringing devices and receives tens of billions in annual revenue from the sales of such devices. Trial Tr. 2/17/15 p.m. (R. Mills) (sealed) at 13:18-14:4. “Unquestionably, [Apple] is large enough and profitable enough to pay enhanced damages.”

*SSL Servs., LLC v. Citrix Sys., Inc.*, No. 2:08-cv-158, 2012 WL 4092449, at \*6 (E.D. Tex. Sept. 17, 2012) *vacated on other grounds*, 769 F.3d 1073 (Fed. Cir. 2014). Not only *can* Apple pay enhanced damages, its size also makes a substantial enhancement necessary to ensure that Apple puts sufficient structural changes in place such that similar large-scale willful infringement does not happen in the future. Accordingly, this factor strongly favors enhancement.

Because the *Read* factors weigh heavily in favor of enhancement, Smartflash respectfully requests that damages be fully trebled. The jury awarded Smartflash \$532,900,000.00 to compensate Smartflash for Apple's infringement. Dkt. No. 503 at 5. Based on the number of infringing units, this award is effectively \$1.46 per infringing device. Ex. B at ¶ 6. Trebling the jury's award would result in damages of \$1,598,700,000. *Id.* at ¶ 7. Trebling the jury's effective per-device award results in damages of \$4.38<sup>5</sup> per infringing device. A consideration of the *Read* factors, as discussed above, supports this award.

### **III. THE COURT SHOULD FIND THAT THIS IS AN "EXCEPTIONAL CASE" AND AWARD ATTORNEYS' FEES UNDER 35 U.S.C. § 285.**

For the reasons related to the closeness of case and litigation conduct *Read* factors, discussed in detail *supra* at II(B)(ii), this case is also an exceptional one under 35 U.S.C. § 285.

An exceptional case is "simply one that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated." *Octane Fitness v. ICON Health & Fitness*, 134 S. Ct. 1749, 1756 (2014). Cases of willful infringement, like this one, are presumptively exceptional. In such cases, a Court must provide a reasoned basis *not* to award fees. *Modine Mfg. Co. v. Allen Group, Inc.*, 917 F.2d 538, 540 (Fed. Cir. 1990) (noting

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<sup>5</sup> \$1.46 x 3 = \$4.38

that in cases of willful infringement, district court must explain basis for *not* awarding fees). There is no reason to deny Smartflash's attorney's fees in this case.

Apart from the finding of willfulness, Apple's litigation conduct itself independently supports a fee award. As discussed, Apple pursued a weak "kitchen-sink" style defense in two separate fora. At the PTAB, Apple initially filed twelve separate Petitions for CBM review. That number has now swelled to over 20. Meanwhile, Apple filed motions on "every potential trial issue" in this Court, losing on all but one. Dkt. 260. Yet although Apple tried everything, the jury itself, by returning a verdict on willfulness, determined that Apple had "no reasonable basis . . . to have believed that it did not infringe." Trial Tr. 2/24/15 (The Court's Charge) at 47:7-9.

As discussed in the *Read* analysis above, the entirety of Apple's defense was weak. And in a fruitless attempt to cover up this weakness, Apple intentionally pursued every possible defense, regardless of merit. Apple's constant pursuit of its weak defenses has drastically increased Smartflash's cost of litigation. Accordingly, not only does willfulness alone support an exceptional case finding, the Court should also award fees to deter Apple's multi-forum kitchen-sink litigation tactics in the future. *See Octane Fitness*, 134 S. Ct. at 1756 n.6 (2014) (noting that courts should consider "the need in particular circumstances to advance the needs of compensation and deterrence."); *Romag Fasteners, Inc. v. Fossil Inc.*, 10-cv-1827, 2014 WL 4073204 (D. Conn. Aug. 24, 2014) (holding that pursuit of weak motions and defenses supported exceptional case finding).

In short, Apple's weak substantive positions, combined with its attempts to shore up those weak positions up with irrelevant facts and unethical behavior, establish that this case "stand[s] out from others." *Octane Fitness* 134 S. Ct. at 1756. Accordingly, Smartflash

respectfully requests that the Court award Smartflash its reasonable attorney's fees.<sup>6</sup>

#### **IV. SMARTFLASH REQUESTS COSTS AS THE PREVAILING PARTY.**

In a patent case, Federal Circuit law governs the determination of which party has prevailed. *Manildra Milling Corp. v. Ogilvie Mills, Inc.*, 76 F.3d 1178, 1182 (Fed. Cir. 1996). To be the "prevailing party," the Federal Circuit requires: (1) that the party "received at least some relief on the merits," and (2) "[t]hat relief must materially alter the legal relationship between the parties by modifying one party's behavior in a way that 'directly benefits' the opposing party." *Shum v. Intel Corp.*, 629 F.3d 1360, 1366-67 (Fed. Cir. 2010) (citations omitted). A party does not need to prevail on all claims to qualify as the prevailing party. *SSL Servs., LLC v. Citrix Sys., Inc.*, 769 F.3d 1073, 1086 (Fed. Cir. 2014).

Because Smartflash prevailed on all of its infringement claims, its claim of willful infringement, and Apple's claims of invalidity, Smartflash request that the Court find it to be the prevailing party pursuant to Federal Rule of Civil Procedure 54(d) and 28 U.S.C. §1920, and that it is entitled to costs consistent therewith.<sup>7</sup>

#### **V. THE COURT SHOULD AWARD SUPPLEMENTAL DAMAGES.**

Courts routinely award supplemental damages for infringement occurring after a jury verdict is returned, but before final judgment is entered. *See, e.g., i4i Ltd. P'ship v. Microsoft Corp.*, 670 F. Supp. 2d 568, 600 (E.D. Tex. 2009) (finding that damages for post-verdict, prejudgment infringement should be granted to prevent the infringer from obtaining a windfall); *See Nat'l Instruments Corp. v. The Mathworks, Inc.*, No. 2:01-CV-11-TJW, 2003 WL 24049230,

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<sup>6</sup> The precise amount of the fee award will be made on motion pursuant to Federal Rule of Civil Procedure 54(b)(2) fourteen days after entry of judgment.

<sup>7</sup> Pursuant to the Court's standing order regarding bills of cost and Local Rule CV-54, Smartflash will work with Apple to resolve any disputes surrounding the bill of costs.

at \*4 (E.D. Tex. June 23, 2003) *aff'd*, 113 F. App'x 895 (Fed. Cir. 2004) (“A failure to award such [supplemental] damages would grant an infringer a windfall by enabling it to infringe without compensating a patentee for the period of time between the jury’s verdict and the judgment.”) (citing *Stryker Corp. v. Davol, Inc.*, 75 F. Supp. 2d 746, 747-48 (W.D. Mich. 1999), *aff'd*, 234 F.3d 1252 (Fed. Cir. 2000)); *Itron, Inc. v. Benghiat*, No. 99-501, 2003 WL 22037710, at \*15 (D. Minn. Aug. 29, 2003) (“Courts ‘routinely grant motions for further accounting’ where the jury did not consider certain periods of infringing activity.”).

Supplemental damages are calculated consistent with the damages awarded in the jury verdict. *See Nat’l Instruments*, 2003 WL 24049230, at \*4; *Mikohn Gaming Corp. v. Acres Gaming, Inc.*, No. CV-S-97-1383-EJW, 2001 WL 34778689, at \*22-23 (D. Nev. Aug. 2, 2001).

In this case, the jury’s award of \$532,900,000.00, when divided by the number of units contained in the royalty base at trial, amounts to a per unit rate of \$1.46. Ex. B at ¶ 6. The appropriate award for supplemental damages, when enhanced for willfulness, is calculated on sales from February 25, 2015 through May 1, 2015 in Ex. B at ¶ 7.<sup>8</sup> This calculation accounts for Apple’s willful, infringing sales of the adjudged infringing products<sup>9</sup> sold following the jury’s verdict, but prior to entry of judgment. Smartflash requests that the Court award these

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<sup>8</sup> Ex. B at ¶ 7. Should the Court elect not to enhance damages, supplemental damages are calculated in Ex. B. at ¶ 6.

<sup>9</sup> The products adjudicated as infringing by the jury include the following Apple products: iPhone, iPhone 3G, iPhone 3GS, iPhone 4, iPhone 4S, iPhone 5, iPhone 5C, iPhone 5S, iPad, iPad 2, iPad 3, iPad 4, iPad Mini, iPad Mini 2d Gen., iPad Air, iPod Touch, iPod Touch 2d Gen., iPod Touch 3d Gen., iPod Touch 4th Gen., and iPod Touch 5th Gen. *See generally* Ex. B. at Ex. 1. Subsequent to these products, Apple has released other iPhone, iPad, and iPod Touch devices that the parties stipulated were not part of this case. Trial Tr. 2/18/15 a.m. at 3:5-25. These products (iPhone 6, iPhone 6 Plus, iPad Air 2, and iPad Mini 3) infringe because they are not colorably different from the infringing products. Damages for Apple’s infringement via these products in the form of an ongoing royalty is discussed *infra*.

supplemental damages.

**VI. APPLE SHOULD BE ENJOINED FROM FURTHER INFRINGEMENT AND PAY A TEMPORARY COMPULSORY ROYALTY UNTIL THE INJUNCTION TAKES EFFECT.**

This Court is empowered to “grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.” 35 U.S.C. § 283. In considering a request for injunctive relief, a court must consider whether:

- (1) the plaintiff has suffered an irreparable injury;
- (2) remedies available at law are inadequate to compensate for that injury;
- (3) considering the balance of hardships between the plaintiff and the defendant, a remedy in equity is warranted; and
- (4) the public interest would be disserved by a permanent injunction.

*eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006). “This analysis proceeds with an eye to the ‘long tradition of equity practice’ granting ‘injunctive relief upon a finding of infringement in the vast majority of patent cases.’” *Presidio Components, Inc. v. Am. Technical Ceramics Corp.*, 702 F.3d 1351, 1362-63 (Fed. Cir. 2012) (quoting *eBay*, 547 U.S. at 395 (Roberts, C.J., concurring)). Accordingly, “[a]bsent adverse equitable considerations, the winner of a judgment of validity and infringement may normally expect to regain the exclusivity that was lost with the infringement.” *Edwards Lifesciences AG v. CoreValve, Inc.*, 699 F.3d 1305, 1314 (Fed. Cir. 2012).

Injunctive relief may take the form of an order prohibiting or requiring conduct and/or payment of an ongoing compulsory royalty. *See, e.g., Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293, 1314 (Fed. Cir. 2007) (explaining that 35 U.S.C. § 283 allows for traditional injunctive relief and for compulsory royalties). A district court’s decision to grant an injunction,



the scope of the injunction, and the district court's conclusion as to each *eBay* factor are reviewed for abuse of discretion. *See Joy Techs., Inc. v. Flakt, Inc.*, 6 F.3d 770, 772 (Fed. Cir. 1993). Factual findings made in support of the injunction are reviewed for clear error. *See Acumed LLC v. Stryker Corp.*, 551 F.3d 1323, 1327-31 (Fed. Cir. 2008).

In this case, Smartflash requests the following injunctive relief: (1) an order requiring Apple to implement the non-infringing alternatives identified at trial running from 30 days after entry of judgment until expiration of the patents; (2) a sunset ongoing royalty of \$4.38 per unit for each adjudicated infringing product<sup>10</sup> running from entry of judgment until Apple implements the required non-infringing alternatives; and (3) a sunset ongoing royalty of \$4.38 per unit for each infringing product not colorably different from the adjudicated infringing products<sup>11</sup> running from the date of the release of the not colorably different products until Apple implements the required non-infringing alternatives. Alternatively, if the Court determines not to enjoin Apple's infringing behavior, Smartflash at least requests that the ongoing royalty of \$4.38 per unit be extended (from the same, respective starting points) for the life of the patents-in-suit for both the adjudicated infringing products and the products not colorably different from the same.

**A. The *eBay* Factors Weigh Heavily in Favor of Injunctive Relief.**

**1. Smartflash Continues to Suffer Irreparable Injury.**

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<sup>10</sup> The products adjudicated as infringing by the jury include the following Apple products: iPhone, iPhone 3G, iPhone 3GS, iPhone 4, iPhone 4S, iPhone 5, iPhone 5C, iPhone 5S, iPad, iPad 2, iPad 3, iPad 4, iPad Mini, iPad Mini 2d Gen., iPad Air, iPod Touch, iPod Touch 2d Gen., iPod Touch 3d Gen., iPod Touch 4<sup>th</sup> Gen., and iPod Touch 5<sup>th</sup> Gen. *See generally* Ex. B at Ex. 1.

<sup>11</sup> Subsequent to the release of the adjudicated infringing products, Apple released other infringing products that are not colorably different than the adjudicated infringing products. These Apple products, which the parties stipulated were not part of this case, include: iPhone 6, iPhone 6 Plus, iPad Air 2, and iPad Mini 3. Trial Tr. 2/18/15 a.m. at 3:5-25.

Failure to respect a patentee's right of exclusion can constitute irreparable harm. *See Acumed LLC*, 551 F.3d at 1328. Because the "fundamental nature" of a patent is the right to exclude, a court may not ignore the importance of this statutory right. *Robert Bosch LLC v. Pylon Mfg. Corp.*, 659 F.3d 1142, 1149 (Fed. Cir. 2011); *see also Inventio AG v. Otis Elevator Co.*, No. 06-civ-5377, 2011 WL 3480946, at \*2 (S.D.N.Y. Aug. 4, 2011) (explaining that the value of the exclusive right "simply cannot be quantified"); *Hybritech Inc. v. Abbott Labs.*, 849 F.2d 1446, 1456-57 (Fed. Cir. 1988) ("It is well-settled that, because the principal value of a patent is its statutory right to exclude, the nature of the patent grant weighs against holding that monetary damages will always suffice to make the patentee whole."). This is particularly true in cases where the infringement has been willful. *See, e.g., TruePosition Inc. v. Andrew Corp.*, 568 F. Supp. 2d 500, 532 (D. Del. 2008); *Muniauction, Inc. v. Thomson Corp.*, 502 F. Supp. 2d 477, 483 (W.D. Pa. 2007) *rev'd on other grounds*, 532 F.3d 1318 (Fed. Cir. 2008).

Competition between a patentee and an infringer provides further evidence of irreparable harm. *Robert Bosch*, 659 F.3d at 1149. However, the converse is not automatically true. *See generally id.* at 1149 (explaining that the absence of a fact supporting an injunction does not compel denial of an injunction). That is, the mere fact that a patentee and an infringer are not competitors does not weigh against an injunction. The Supreme Court has explained that it is legal error to deny injunctive relief based only on a "plaintiff's willingness to license its patents" or "its lack of commercial activity in practicing the patents." *eBay*, 547 U.S. at 393. Moreover, it explained:

[S]ome patent holders, such as university researchers or self-made inventors, might reasonably prefer to license their patents, rather than undertake efforts to secure the financing necessary to bring their works to market themselves. Such patent holders may be able to satisfy the traditional four-factor test, and we see no basis for categorically denying them the opportunity to do so.

*Id.* For example, “[a] patentee that does not practice, and may never have practiced, his invention may establish irreparable harm, e.g., by showing that an existing infringement precludes his ability to license his patent or to enter the market.” *Roper Corp. v. Litton Sys., Inc.*, 757 F.2d 1266, 1273 (Fed. Cir. 1985); *Hybritech Inc.* 849 F.2d at 1456-57 (finding irreparable harm, in part, because “in the absence of the injunction, other potential infringers will be encouraged to infringe”).

Other district courts have found irreparable harm where there is no competition between the patentee and the infringer. In *CSIRO v. Buffalo Technology Inc.* the court found irreparable harm because the infringer had saturated the market with infringing products and damaged the patentee’s reputation. 492 F. Supp. 2d 600, 604 (E.D. Tex. 2007). Moreover, the Court found that a compulsory license may not adequately reflect the value of the technology to Buffalo and would not include other non-monetary license terms. *Id.* at 606. Similarly, in *Joyal Products, Inc. v. Johnson Electric North America, Inc.*, the court found irreparable harm because the patentee intended to sell its patent rights and continued infringement would artificially deflate the value of those rights. No. 3:04-cv-5172, 2009 WL 512156, at \*11 (D.N.J. Feb. 27, 2009). Finally, in *Harris Corp. v. Federal Express Corp.*, the court acknowledged that the plaintiff had expended significant sums of money developing and commercializing the patented technology. No. 6:07-cv-1819, slip op. at 22 (M.D. Fla. Feb. 28, 2011). Although its current business model focused on patent licensing, the court distinguished cases where no irreparable harm was found because the patentee “routinely grants boilerplate licenses to any interested parties.” Instead, it found that the patentee had suffered irreparable harm due to “lost licensing opportunities.” *Id.* at

23.<sup>12</sup>

In this case, there can be no doubt that Apple's rampant, ongoing infringement precludes Smartflash's ability to license its patents or enter the market. *See, e.g.*, Trial Tr. 2/16/15 p.m. (P. Racz) at 113:19-113:24. Apple has flooded the market with millions of infringing products. Trial Tr. 2/17/15 p.m. (R. Mills) at 150:24-151:5. At the same time, Apple has not even offered the pretense of respect for Smartflash's exclusive patent rights. As explained above, Apple has made no effort to cease its infringement or develop non-infringing alternatives, and it continues to disparage Smartflash and its patent rights in major publications. *See* Ex. A. Apple's utter disregard for Smartflash's rights has irreparably harmed Smartflash's reputation as an innovator and responsible patent owner. Such behavior can only discourage others from licensing Smartflash's technology on fair and reasonable terms. Because Smartflash's only recourse for this behavior is to file serial lawsuits, and those lawsuits cannot fully compensate Smartflash for the injury that Apple is causing, this factor weighs heavily in favor of injunctive relief.

## **2. Smartflash Has No Adequate Remedy at Law.**

The facts discussed above with respect to irreparable harm are equally relevant to determining the adequacy of a remedy at law. *See, e.g., Lewis v. Baune*, 534 F.2d 1115, 1124 (5th Cir. 1976). As noted above, Apple has saturated the market with its infringing products and it continues to denigrate Smartflash's patent rights. *See* Ex. A. Despite the pioneering nature of

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<sup>12</sup> The *Harris* Court also noted that the infringer competed with some of the patentee's licensees. However, the actual trial testimony relied upon by the Court to support its finding of irreparable harm explained that the harm to Harris was based on the fact that continued infringement discouraged other companies from paying license fees. *See Id.* at pg. 22 (citing Dkt. No. 273, Trial Tr. at pgs. 47, 52, 88) ("Q. Do you have a working theory on why folks such as Rockwell Collins aren't taking licenses? A. Well, we know that Avionica has been out in the industry promoting their equipment and saying, and telling people they don't need to take a license to Harris patents.").

Smartflash's technology, other market participants besides Apple are following Apple's lead of selling infringing products without making any effort to license Smartflash's technology—including, at least, Samsung, HTC, Google, and Amazon. As a result, Smartflash is deprived of its right to determine who has access to its technology.

While Smartflash was able to calculate damages owed by Apple at trial, this calculation was for a royalty “for the use made of the invention by [Apple].” *See* 35 U.S.C. § 284 ¶ 1. No compulsory royalty can account for or quantify the irreparable harm described above. This harm prevents Smartflash from making strategic decisions as to how and when it will grant licenses. For example, Smartflash's business interests may best be served—and its reputation as an innovator best upheld—by widely licensing its technology for video player tablets and e-readers such as the iPad, while designating an exclusive licensee for a smartphone app store. Alternatively, Smartflash may decide to grant time-limited licenses if it projects that the value of its technology will increase over time, or if it develops new applications for the technology in the future. Moreover, a compulsory royalty would deprive Smartflash of the ability to bargain for and obtain valuable terms, such as (i) a formal, public acknowledgement of the importance of Smartflash's patents; (ii) non-monetary cross license terms; and (iii) venue and choice of law provisions. No monetary remedy can account for this injury. *See CSIRO*, 492 F. Supp. 2d at 606 (a compulsory license may not “include other non-monetary license terms that are as important as monetary terms”); *Transocean Offshore Deepwater Drilling, Inc. v. GlobalSantaFe Corp.*, No. H-03-2910, 2006 WL 3813778, at \*5 (S.D. Tex. Dec. 27, 2006) (“[T]he court is persuaded that if it does not enter a permanent injunction, it will force a compulsory license on Transocean that will not contain any of the commercial business terms typically used by a patent holder to control its technology or limit encroachment on its market share.”).

Finally, damages in a future suit or a court-ordered compulsory, ongoing royalty are inadequate to compensate Smartflash because they would be based on an artificially deflated value for Smartflash's patents. With an injunction in place, Smartflash will be able to negotiate a royalty rate with Apple or other potential licensees based on the value that the technology provides to the licensed products. For example, if Smartflash demands a rate that Apple views as disproportionate to the benefits provided by the technology, it can simply remove the technology from its products via a software update. On the other hand, without an injunction in place, Smartflash would have to negotiate a royalty rate based on the amount of damages that Smartflash could expect to earn in an infringement lawsuit. These two calculations are not equivalent. As the Federal Circuit has recognized, real world license negotiations are often based on unit volumes or the average selling price of a product. *See Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1228 (Fed. Cir. 2014) (explaining that, outside the context of litigation "licenses are generally negotiated without consideration of the EMVR"); *see, e.g., Mondis Tech., Ltd. v. LG Elec., Inc.*, 2011 WL 2417367, at \*3 (E.D. Tex. June 14, 2011) (all 13 comparable real-world licenses used the entire value of the licensed products). In contrast, within the context of litigation, reasonable royalty damages must be apportioned in accordance with the entire market value rule. This requirement can result in a reasonable royalty calculation below the market rate for a patented technology. *See, e.g., Virnetx, Inc. v. Cisco Sys., Inc.*, 767 F.3d 1308, 1330 (Fed. Cir. 2014) (reversing a damages verdict based on an alleged lack of apportionment despite evidence that the patents had previously been licensed based on a royalty base comprised of entire products); *see also Ericsson*, 773 F.3d at 1228 (explaining that real world licenses must be apportioned for a jury).

Accordingly, this factor also weighs heavily in favor of injunctive relief.

**3. Considering the Balance of Hardships Between Smartflash and Apple, a Remedy in Equity Is Warranted.**

In analyzing the appropriateness of injunctive relief, “a court need not balance the hardship when a defendant’s conduct has been willful.” *United States v. Marine Shale Processors*, 81 F.3d 1329, 1358 (5th Cir. 1996). Because the jury found Apple to be a willful infringer, and because its continued infringement after the jury verdict is undeniably willful, Apple is not entitled to any equitable consideration under this factor. *See, e.g., Shockley v. Arcan, Inc.*, 248 F.3d 1349, 1361 (Fed. Cir. 2001) (affirming a district court’s “denial of equitable intervening rights” because “[t]he record, with its finding of willful infringement, amply support[ed] the district court’s discretion to deny [the defendant] access to equity”); *see also DataTreasury Corp. v. Wells Fargo & Co.*, Case No. 2:06-cv-72-DF, 2011 WL 8810604, \*8 (E.D. Tex. Aug. 2, 2011) (“[F]ollowing a jury verdict and entry of judgment of infringement and no invalidity, a defendant’s continued infringement will be willful absent very unusual circumstances.”).

At any rate, “[o]ne who elects to build a business on a product found to infringe cannot be heard to complain if an injunction against continuing infringement destroys the business so elected.” *Windsurfing Int’l, Inc. v. Fred Osterman GMBH*, 782 F.2d 995, 1003 n.12 (Fed. Cir. 1986). Stated differently, the hardship incurred in the process of ceasing infringing operations does not weigh against injunctive relief. *See CSIRO*, 492 F. Supp. 2d at 606. Because Smartflash requests entry of a narrow injunction that would only force Apple to cease its ongoing infringement, Apple cannot claim hardship. There is no evidence to the contrary. *See also Ex. D.*

Because Apple would not suffer hardship from an injunction and Smartflash would suffer irreparable harm from the lack of an injunction, this factor strongly weighs in favor of injunctive

relief.

#### **4. An Injunction Promotes the Public Interest.**

The public interest is served by issuing a narrow injunction that protects Smartflash's patent rights. *CSIRO*, 492 F. Supp. 2d at 607 ("The public has an interest in a strong patent system. In general, public policy favors the enforcement of patent rights. . . . Permanent injunctions serve that interest.") (citations omitted); *see also Atlanta Attachment Co. v. Leggett & Platt, Inc.*, No. 1:05-cv-1071, 2007 WL 5011980, at \*23 (N.D. Ga. Feb. 23, 2007) ("There is a general public interest in strong patent protection.") (citing *Abbott Labs. v. Andrx Pharms., Inc.*, 452 F.3d 1331, 1348 (Fed. Cir. 2006)). Apple's infringing products are not essential for the public health or welfare, and this factor therefore weighs in favor of an injunction. *See, e.g., Mass Engineered Design, Inc. v. Ergotron, Inc.*, 633 F. Supp. 2d 361, 394 (E.D. Tex. 2009) ("Where products do not relate to a significant compelling public interest, such as health or safety, this factor weighs in favor of an injunction."). Accordingly, the public interest is served by the issuance of an injunction.

Because all of the *eBay* factors weigh heavily in Smartflash's favor, the Court should grant injunctive relief.

#### **B. The Court Should Exercise Its Discretion by Granting a Permanent Injunction and a "Sunset" Compulsory Royalty.**

If the Court determines that injunctive relief is appropriate, it may craft that relief "on such terms as the court deems reasonable." 35 U.S.C. § 283. District Courts have "broad discretion" in determining the scope of injunctive relief. *See Carborundum Co. v. Molten Metal Equip. Innovations, Inc.*, 72 F.3d 872, 881 (Fed. Cir. 1995). "[I]njunctive relief should be no more burdensome to the defendant than necessary to provide complete relief to the plaintiffs." *Califano v. Yamasaki*, 442 U.S. 682, 702 (1979). In this case, the injunction necessary to



provide complete relief to Smartflash includes a narrow permanent injunction requiring Apple to implement the non-infringing alternatives identified at trial, and to pay a sunset ongoing royalty until that injunction becomes effective.

### **1. Permanent Injunction**

A permanent injunction is necessary, above and beyond an initial compulsory royalty, to correct the harm caused by Apple to Smartflash's reputation and licensing business. As noted above, the harm to Smartflash stems from the fact that Apple has flooded the market with infringing products and has not even attempted to respect Smartflash's patent rights. *See Ex. A.* This behavior harms Smartflash's reputation and discourages other market participants from licensing Smartflash's patents on reasonable terms. This is not a case where the patentee is seeking an overly broad injunction covering the complete sale or importation of infringing products that contain many non-infringing features. *Cf. Apple Inc. v. Samsung Elecs. Co., Ltd.*, 735 F.3d 1352, 1355 (Fed. Cir. 2013). Smartflash seeks only a narrow injunction covering specific infringing conduct.

As explained above, Apple stipulated that it has identified no non-infringing alternatives. Thus, according to Apple, the only way that it can stop infringing is to stop selling the accused products altogether. Also as explained above, Apple has not identified any harm that it would suffer if the Court entered a permanent injunction banning the sale of those products. Under these circumstances, and given the undeniable fact that Apple's infringement constitutes irreparable harm to Smartflash's patent rights, the Court could reasonably and properly conclude that the only appropriate injunction is to preclude Apple from selling and importing the adjudicated infringing products in the United States. Nonetheless, Smartflash only seeks a much narrower injunction specifically tailored to correct the irreparable harm that Apple has caused and continues to cause.

Specifically, Smartflash requests that the Court order Apple to remove the accused features or, alternatively, implement the non-infringing alternatives that Smartflash identified at trial. *See* Trial Tr. 2/17/15 a.m. (M. Jones) at 55:14-58:19. Apple was expressly permitted to identify various criticisms of these alternatives at trial. *See* Dkt. No. 379 at 6-7. Nonetheless, Apple presented no such criticism. It should not now be permitted to contend that these alternatives are inappropriate, unavailable, or disproportionate to the harm that it has caused. Accordingly, Smartflash requests that the Court order Apple to issue a mandatory software update to the accused products requiring that:

1. In order to purchase apps, users must download and install apps, and then complete each purchase by separately visiting a website and entering payment information to unlock the app;
2. Purchased books must be read online, or alternatively, purchased from a website and then loaded into an app for reading the books;
3. Purchased music must be streamed, or, alternatively, imported from a computer;
4. Purchased video content must be streamed; and
5. Parental controls may only be used to restrict the purchasing or downloading of age-inappropriate content.

*See* Trial Tr. 2/17/15 a.m. (M. Jones) at 55:14-58:19. This relief is narrowly tailored to Apple's infringement and necessary to end it.

## **2. Sunset Compulsory Royalty for Adjudicated Infringing Products**

For the period of time after final judgment is entered, but before Apple implements the required non-infringing alternatives, Smartflash requests a "sunset" ongoing royalty in order to be compensated for Apple's ongoing, willful infringement. The Federal Circuit has specifically endorsed the use of such a royalty for the interim period in between final judgment and the start of the injunction period. *See, e.g., Broadcom Corp. v. Emulex Corp.*, 732 F.3d 1325, 1339 (Fed.

Cir. 2013). “[T]he law must ensure that an adjudged infringer who voluntarily chooses to continue his infringing behavior must adequately compensate the patent holder for using the patent holder’s property.” *Paice LLC v. Toyota Motor Corp.*, 609 F. Supp. 2d 620, 630 (E.D. Tex. 2009) (“*Paice III*”).

“[F]ollowing a jury verdict and entry of judgment of infringement and no invalidity, a defendant’s continued infringement will be willful absent very unusual circumstances. . . . General deterrence of infringing activity is also a factor to be considered.” *DataTreasury*, 2011 WL 8810604, at \*8. Therefore, “an on-going post-verdict royalty is appropriately higher than the jury’s pre-verdict reasonable royalty.” *Soverain Software LLC v. Newegg, Inc.*, 836 F. Supp. 2d 462, 483 (E.D. Tex. 2010), *rev’d on other grounds*, 705 F.3d 1333 (Fed. Cir. 2013) (citing *Amado v. Microsoft Corp.*, 517 F.3d 1353, 1362 n.2 (Fed. Cir. 2008)).

When determining an ongoing compulsory royalty, “the jury’s implied royalty rate provides a starting point for determining the ongoing post-judgment royalty rate.” *Soverain Software LLC v. J.C. Penney Corp.*, 899 F. Supp. 2d 574, 589 (E.D. Tex. 2012), *rev’d on other grounds* at *Soverain Software LLC v. Victoria’s Secret Direct Brand Mgmt., LLC*, 778 F.3d 1311 (Fed. Cir. 2015). As discussed above, the jury’s implied royalty rate was \$1.46 per infringing unit. Ex. B at ¶ 6. To determine how much to enhance the jury’s award in light of the defendant’s ongoing willful infringement, the Court must account for two primary factors: (1) any changed economic circumstances that were not considered by the jury, and (2) the fact that Defendants’ future infringement is willful. *See Mondis v. Chimei*, 822 F. Supp. 2d at 645-46; *Soverain v. J.C. Penney Corp.*, 899 F. Supp. 2d at 588; *Paice II*, 609 F. Supp. 2d at 624. Further, this Court has analyzed the *Read* factors to perform this analysis. *See, e.g., Fractus*, 2013 WL 1136964 at \*2. As discussed above, an analysis of the *Read* factors indicates that the Court

should treble the jury's award to \$4.38 per unit. While Apple's post-verdict conduct, discussed above, has shown an egregious disrespect for the jury's verdict and this Court's prior orders, because Apple's infringement was willful from day one and presently remains willful, the economic circumstances relevant to the hypothetical negotiation have not changed.<sup>13</sup> Similarly, because Apple's past and future infringement is all willful, the Court should enhance the ongoing royalty for the same reasons discussed in the analysis of the *Read* factors above. Accordingly, Smartflash requests an ongoing compulsory royalty consistent with the damages amount entered by the Court for Apple's past infringement, i.e., a royalty of \$4.38/unit.<sup>14</sup>

To ensure that Apple has time to modify its products, Smartflash requests that the Court allow Apple thirty days to comply with the permanent injunction. This amount of time is appropriate because Apple has already had ample time after the verdict to implement a design-around, and because it need only distribute software updates to its customers as opposed to recalling physical products. *See Arthrocare Corp. v. Smith & Nephew, Inc.*, 315 F. Supp. 2d 615, 622 (D. Del. 2004), *rev'd on other grounds*, 406 F.3d 1365 (Fed. Cir. 2005) (noting that the defendant "could have utilized the time between the jury verdict and present to implement the transition it now requests."). Accordingly, because Apple will continue to infringe between the entry of judgment and the time at which it complies with the permanent injunction, Smartflash requests that the ongoing royalty apply until Apple complies with the permanent injunction.

### **3. Sunset Compulsory Royalty for Products That Are Not Colorably Different From the Adjudicated Infringing Products**

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<sup>13</sup> To be clear, Mr. Mills did not factor willfulness into his damages calculation at trial.

<sup>14</sup> If the Court determines that the jury's damages verdict should not be enhanced based on Apple's willful infringement, Smartflash requests that the Court at least order a higher ongoing royalty for the same reasons that it requests enhancement of past damages.

Subsequent to the release of the adjudicated infringing products, Apple released other infringing products that are not colorably different from the adjudicated infringing products. These Apple products include: iPhone 6, iPhone 6 Plus, iPad Air 2, and iPad Mini 3. Because of the release dates for these products, the parties agreed that Apple would not produce and Smartflash would not analyze financial information for these products prior to trial. Trial Tr. 2/18/15 a.m. at 3:5-25. Nonetheless, these new products are not colorably different from the adjudicated infringing products. Trial Tr. 2/23/15 p.m. (M. Jones) at 60:20-60:21 (explaining that iOS 2.0 introduced the app store); Trial Tr. 2/17/15 a.m. (M. Jones) at 28:2-28:7 (explaining that no version changes affect the infringement evidence). Accordingly, the sunset royalty should be applied to all of these products and any other products that are not “colorably different” from the adjudicated products. *Fractus, S.A. v. Samsung Elecs. Co., Ltd.*, No. 6:09-cv-203, 2013 WL 1136964, at \*2 (E.D. Tex. Mar. 15, 2013). That an ongoing royalty may apply to products not colorably different from adjudicated products is a form of equitable relief flowing from the Court’s “broad discretion to determine how best to enforce its injunctive decrees.” *See Creative Internet Adver. Corp. v. Yahoo! Inc.*, 674 F. Supp. 2d 847, 854 (E.D. Tex. 2009) (internal quotations omitted). Furthermore, it is undisputed that the “not colorably different” set of products are, for the purposes of infringement, identical to the products adjudicated as infringing. Thus, it is proper for Apple to pay an enhanced ongoing royalty on these products for their willfully infringing sales of these products.

In order to fully compensate Smartflash for Apple’s infringement until the permanent injunction is entered, Smartflash requests that the ongoing royalty for the products adjudicated infringing at trial run from the day after entry of judgment until Apple complies with the permanent injunction. Smartflash requests that the ongoing royalty for the not colorably

different products run from the date those products were released until Apple complies with the permanent injunction.

However, if the Court determines not to enter a permanent injunction in this case, Smartflash requests that the enhanced ongoing royalty of \$4.38/unit apply until the earlier of (1) Apple ceasing infringement by redesigning its products, or (2) the expiration of all of the patents-in-suit.<sup>15</sup>

## VII. THE COURT SHOULD AWARD PRE-JUDGMENT INTEREST.

Congress codified the award of pre-judgment interest in patent cases in 35 U.S.C. § 284: “[u]pon 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, *together with interest and costs as fixed by the court.*” 35 U.S.C. § 284 (emphases added).

Pre-judgment interest should typically “be awarded where necessary to afford the plaintiff full compensation for the infringement.” *Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648, 655 (1983). “[A]n award of prejudgment interest is necessary to ensure that the patent owner is placed in as good a position as he would have been in had the infringer entered into a

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<sup>15</sup> Smartflash also requests that the Court require Apple to provide quarterly reporting of its ongoing infringing sales with payment due sixty days after the close of each quarter, which is this Court’s standard practice. *Mondis Tech. Ltd. v. Chimei Innolux Corp.*, Case No. 2:11-cv-378-JRG, 2012 WL 1554645, \*3 (E.D. Tex. Apr. 30, 2012) (“*Mondis II*”). Smartflash also requests that the Court require Apple to provide Smartflash notice of any material change to its business of importing or selling products containing the accused functionalities within fourteen days of such change becoming known to Apple. *Id.* at \*3. Smartflash also requests that the Court order that Apple’s duty to pay Smartflash ongoing royalties extends to Apple’s successors and assigns. *Id.* at \*7. Smartflash also requests audit rights and that Apple mark its products with Smartflash’s patents in accordance with U.S.C. § 287. *See Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.*, Case No. 2:03-cv-00597-PHX-MHM, 2010 U.S. Dist. Lexis 144259, \*37-39 (D. Ariz. Sept. 9, 2010).

reasonable royalty agreement.” *Id.* (citation omitted); *see also Beatrice Foods Co. v. New England Printing & Lithographing Co.*, 923 F.2d 1576, 1580 (Fed. Cir. 1991); *Bio-Rad Labs. v. Nicolet Instrument Corp.*, 807 F.2d 964, 967 (Fed. Cir. 1986). Except in unusual circumstances not present here, a prevailing patent owner is entitled to pre-judgment interest on the damages awarded because complete compensation includes the “forgone use of the money between the time of infringement and the date of judgment.” *Gen. Motors*, 461 U.S. at 655-56.

Courts in this district typically award pre-judgment interest at the prime rate compounded annually. *See SimpleAir, Inc. v. Google Inc.*, No. 2:11-cv-416, No. 2:13-cv-587, slip op. at 2 (E.D. Tex. Apr. 21, 2014). In this case, pre-judgment interest assessed on the jury’s verdict amounts to \$109,460,599. Ex. B at ¶ 5. Furthermore, prejudgment interest will continue to accrue at \$57,196 per day from May 2, 2015 through the date that judgment is entered. *Id.*

#### **VIII. THE COURT SHOULD AWARD POST-JUDGMENT INTEREST.**

Smartflash is entitled to post-judgment interest under 28 U.S.C. § 1961, as of the date judgment is entered in this action and requests such an award by the Court. Pursuant to 28 U.S.C. § 1961, interest is computed daily, at a rate equal to the weekly average 1-year constant maturity Treasury yield, as published by the Board of Governors of the Federal Reserve System, for the calendar week preceding the date of judgment, and shall be compounded annually. *See Lighting Ballast Control, LLC v. Philips Elecs. N. Am. Corp.*, 814 F. Supp. 2d 665, 695-96 (N.D. Tex. 2011) (“Post-judgment interest shall be calculated at the rate set by 28 U.S.C. § 1961 as of the date judgment is entered in this action, compounded annually.”).

#### **IX. CONCLUSION**

For the reasons stated above, Smartflash requests entry of final judgment as outlined in its proposed form of judgment attached to this motion.

Dated: May 1, 2015

Respectfully submitted,

**CALDWELL CASSADY & CURRY**



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**CERTIFICATE OF SERVICE**

The undersigned certifies that a true and correct copy of the foregoing document was served on counsel of record via CM/ECF on May 1, 2015.

*/s/ Bradley W. Caldwell* \_\_\_\_\_

Bradley W. Caldwell