United States District Court
Eastern District of Texas
Beaumont Division

Personal Audio, LLC,	)	
Plaintiff,	)	
v.	)	
	)	Case No._____
Apple Inc.,	)	
	)	**Jury Trial Demanded**
Defendant.	)	

Complaint for Patent Infringement of U.S. Patent No. 7,509,178

Plaintiff Personal Audio, LLC ("Personal Audio") for its cause of action against Defendant Apple Inc. ("Apple") states on knowledge and information and belief:

Introduction

1. In *Personal Audio, LLC v. Apple Inc.*, Case Number 9:09-CV-00111-RC ("*Personal Audio v. Apple I*"), Personal Audio sued Apple for infringement of United States Patent No. 7,509,178, entitled "Audio Program Distribution and Playback System" ("the '178 patent"). The Court construed the independent claims of the '178 patent to require the claimed player to send a request to initiate the downloading of one or more audio files and a sequencing file. At trial, Apple moved under Rule 50(a) for judgment as a matter of law on this issue. The Court reserved ruling, and the jury found that Apple's iPod classic, mini, and nano products infringed the '178 patent under the doctrine of equivalents. The jury relied on evidence that the accused devices send an "I'm here" signal when connected via a USB cable to a computer running iTunes, and that the "I'm here" signal is equivalent to a request to initiate the data

transfer. The jury also found that the tried products infringed United States Patent No. 6,199,076, entitled "Audio Program Player Including a Dynamic Program Selection Controller" ("the '076 patent"). The jury awarded a lump-sum royalty of $8 million in damages. Immediately following the verdict, the Court granted Apple's Rule 50(a) motion for judgment as a matter of law that the tried products do not infringe the '178 patent under the doctrine of equivalents. The Court held there was insufficient evidence that the "I'm here" signal is equivalent to a request sent by the player to initiate the data transfer. The Court did not vacate the jury's finding that Apple also infringed the '076 patent.

2. Over Personal Audio's objection, the Court has interpreted the jury's lump-sum royalty award on the '076 patent as a "fully paid up license for all past and future sales of Apple products that incorporate the patented technology." The Court also stayed a second lawsuit Personal Audio filed, *Personal Audio, LLC v. Apple Inc.*, Case Number 9:11-CV-00120-RC, in which Personal Audio asserts that different Apple products—including iPod nano generation 6, iPhone 4, and iPad 2—infringe the '076 patent. Even under the Court's reasoning, however, the purported license can only apply to the '076 patent. A jury cannot award damages on a patent that is not infringed, such as the '178 patent.

3. Apple therefore does not have a license, actual or implied, to use the technology claimed in the '178 patent.

4. On October 12, 2011, Apple released its new iOS 5 operating system. iOS 5 is compatible with various generations of the iPod touch, iPhone, and iPad devices that Apple sells or previously sold to its customers. On October 14, 2011, Apple began offering for sale and selling the iPhone 4S, specifically loaded with iOS 5. The iOS 5 operating system includes a new data transmission feature—Wi-Fi Sync—that provides Apple devices loaded with iOS 5 with the

capability to synchronize content with an iTunes computer over a wireless network. An Apple device will send a request to initiate the synchronization over the wireless network. The device will synchronize audio files, playlists, and other data with a server computer running iTunes. The Wi-Fi Sync feature allows an iPod touch, iPhone, or iPad running iOS 5 to download audio program files and a sequencing file from a server computer upon a request from the player. These devices no longer need to attach to a server computer running iTunes with a USB cable for day-to-day syncing.

Parties

5. Personal Audio is a Texas limited liability company.

6. Apple is a California corporation, with its principal place of business at 1 Infinite Loop, Cupertino, California, 95014, and doing business throughout this judicial district and throughout the United States.

Jurisdiction

7. This Court has subject matter jurisdiction over this action pursuant to 28 U.S.C. §§ 1331 and 1338(a), in that this action arises under the federal patent statutes, 35 U.S.C. §§ 271 and 281-285.

8. This Court has personal jurisdiction over Apple because it has committed acts giving rise to this action within Texas and within this judicial district. The Court's exercise of jurisdiction over Apple would not offend traditional notions of fair play and substantial justice because Apple has established minimum contacts with the forum. For example, Apple has committed acts of infringement in this District, by among others things, offering to sell and selling products that infringe the asserted patent, including the iPhone 4S, and inducing consumers to upgrade to iOS 5 while having knowledge that iOS 5 when installed on compatible

devices infringes the ’178 patent. Apple is authorized to do business in Texas and maintains an agent for service of process, CT Corporation System, at 350 N. St. Paul Street, Dallas, Texas, 75201.

Venue

9. Venue in the Eastern District of Texas is proper pursuant to 28 U.S.C. §§ 1391(b), (c) and 1400(b) because Apple has committed acts within this judicial district giving rise to this action, and Apple has and continues to conduct business in this judicial district, including one or more acts of selling, using, importing and/or offering for sale infringing products or providing service and support to Apple’s customers in this District.

10. Venue in the Eastern District of Texas is also proper because Personal Audio is organized and governed by the limited liability company laws of Texas and is subject to taxes in Texas. Personal Audio maintains a registered agent for service of process in Texas. Personal Audio maintains office space in Beaumont, Texas, within this District, at 550 Fannin Street, Suite 500. Personal Audio also maintains other contacts within this District, such as a bank account.

11. Venue in the Eastern District of Texas is also proper because of judicial economy. Judge Ron Clark presided over *Personal Audio v. Apple I*, a patent infringement case in which Personal Audio asserted the ’178 patent—the same patent at issue in this lawsuit. In *Personal Audio v. Apple I*, Personal Audio alleged that Apple infringed the ’178 patent by selling the iPod classic generations 1 through 6, iPod mini generations 1 and 2, iPod nano generations 1 through 5, iPhone, iPhone 3G, iPhone 3GS, and iPad. Apple raised defenses of non-infringement, invalidity (anticipation, obviousness, written description, enablement, and best mode),

unenforceability (inequitable conduct, equitable estoppel, and prosecution laches), laches, and failure to mark.

12. The Court appointed Dr. Frank Shipman as a technical advisor in *Personal Audio v. Apple I*. Dr. Shipman is a professor of computer science at Texas A&M University. Dr. Shipman analyzed the '178 patent, the parties' pertinent briefs, and relevant declarations as part of his duties as a technical advisor. Dr. Shipman assisted the Court in understanding the technology involved in the '178 patent from the point of view of one skilled in the art.

13. During *Personal Audio v. Apple I*, the Court issued multiple orders construing claim language of the '178 patent. On December 21, 2010, the Court issued an order construing the non-means-plus-function terms of the '178 patent. On January 31, 2011, the Court issued a second order construing the means-plus-function terms of the '178 patent. The Court held that claim limitations of claims 1, 6, 13, and 14 reciting "a processor for" were in means-plus-function form. The Court identified physical structure and multi-part software algorithms that corresponded to each determined means-limitation function.

14. The Court also presided over a ten-day jury trial between Personal Audio and Apple. At trial, Apple asserted that claims 1, 6, 13, and 14 of the '178 patent were invalid as anticipated and obvious. Specifically, Apple asserted that claims 1, 6, 13, and 14 were anticipated by the DAD486x Digital Audio Delivery System Operation Manual, version 6.0A ("DAD Manual"), and DAD486x system. Apple also asserted that claims 1, 6, 13, and 14 of the '178 patent were rendered obvious by numerous combinations of the DAD Manual, DAD486x system, Sound Blaster 16 User's Guide for Windows 95, "Architecting Personalized Delivery of Multimedia Information" by S. Loeb, Opcode Musicshop Manual, Sony Discman, and Windows 95 Resource Kit.

15. The jury rejected Apple's anticipation and obviousness defenses and found claims 1, 6, 13, and 14 of the '178 patent valid. The jury further found that Apple infringed claims 1, 6, 13, and 14 of the '178 patent by selling the iPod classic, mini, and nano.

16. The remainder of Apple's defenses were either withdrawn or dismissed by the Court. Apple withdrew its equitable estoppel defense in December 2010. Apple withdrew its prosecution laches and most of its inequitable conduct allegations on July 4, 2011. At trial, the Court held as a matter of law that Apple failed to establish its written description and marking defenses. The Court also found that Apple abandoned its enablement and best mode defenses. The Court held that Apple failed to establish inequitable conduct.

17. At the close of Personal Audio's case-in-chief in *Personal Audio v. Apple I*, Apple moved for judgment as a matter of law that the products accused in that suit did not infringe the '178 patent. The Court granted this motion post-trial, finding that the accused products did not meet the "downloading" limitation of the independent claims of the '178 patent, and therefore did not infringe the '178 patent. According to the Court, the accused products did not meet the "downloading" limitation because they did not have a capability equivalent to sending a request from the player initiate downloading:

> But the burden was still on Personal Audio, and basically what Dr. Almeroth said was – and the evidence basically was the UBS [sic] system or cable protocol says "here I am." And "here I am" is not a request for – to initiate the transfer. . . . So based on how that is – the claims are set out, I am going to grant that JMOL on that.

Background

Personal Audio

18. James D. Logan ("Logan") founded Personal Audio.

19. Logan, Charles G. Call, and Daniel F. Goessling are named co-inventors of the inventions claimed in the ’178 patent. The United States Patent Office duly issued the ’178 patent on March 24, 2009. A copy of the ’178 patent is attached to this complaint as Exhibit 1.

20. The ’178 patent claims, among other inventions, an audio player capable of downloading a navigable playlist.

21. Personal Audio owns the ’178 patent. Personal Audio maintains all rights to enforce the ’178 patent.

Apple

22. Apple sells the popular iPod, iPhone, and iPad devices.

23. Apple did not start work on the iPod line of products until 2001. This was over four years after the inventors on the ’178 patent filed the patent application to which the ’178 patent claims priority.

24. Apple does not have any patents on an audio player that can download a navigable playlist. Apple does not have any patents that would be considered material to the ’178 patent.

25. Steve Jobs, Apple’s former CEO, recognized the importance of downloadable navigable playlists. Mr. Jobs publicly stated that “[n]obody thinks of albums anymore, anyway. People think of playlists and mixes. We’ll still sell albums as artists put them out, but for most consumers of popular music, we think they’ll more likely buy single tracks that they like. And then they’ll organize them into customized playlists in their computers and on their iPods.”

26. Apple witness testimony at trial in *Personal Audio v. Apple I* also emphasized the importance of downloadable navigable playlists. For example:

a. Anthony Fadell, former Senior Vice President for the iPod Division at Apple and one of the creators of the iPod, testified that he has never considered removing the ability of the iPod to download playlists, because "if we removed that, it would be a problem for the product to be competitive in the marketplace." Mr. Fadell further testified that the ability to download or receive playlists was a "competitive necessity."

b. Stan Ng, Senior Director for Worldwide Marketing at Apple and responsible for the initial product launch of the iPod, testified that he has never considered removing the ability to download or receive playlists from the iPod. Mr. Ng also testified that he has never considered removing the ability to navigate within a playlist from the iPod. Personal Audio asked Mr. Ng what features he would remove from an iPod if asked. Mr. Ng identified alarms, calendars, contacts, the ability to reorganize the menu, games, and the ability to use the iPod as a hard drive. Mr. Ng did not identify the ability to download or receive navigable playlists as a feature he would remove.

c. Dave Heller, Director of Engineering for the iTunes desktop application software at Apple and Apple's corporate representative at the *Personal Audio v. Apple I* trial, also testified. Personal Audio asked Mr. Heller what features he would remove from an iPod if asked. Mr. Heller identified games, contacts, and calendars. He did not identify the ability to download or receive navigable playlists as a feature he would remove. Mr. Heller further testified that he would never suggest that the ability to receive or download navigable playlists be removed from the iPod.

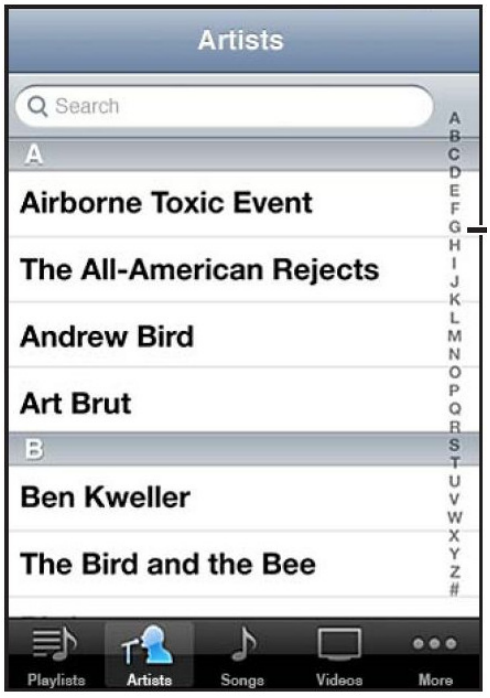
27. Apple has stressed the importance of iPod functionality, and of playlists in particular, to the iPhone. In a national television advertising campaign, Apple stated:

> If you don't have an iPhone, you don't have an iPod in your phone with your music and your playlists. And you don't have iTunes on your phone, the world's number one music store, with Genius, that recommends new music based on the songs you already have. Yep, if you don't have an iPhone, well, you don't have an iPhone.

28. On October 12, 2011, Apple released the iOS 5 operating system. iPod touch generations 3 and 4, iPhone 3GS, iPhone 4, and iPad generations 1 and 2 are all compatible with iOS 5.

29. On October 14, 2011, Apple released the iPhone 4S. Apple offers for sale and sells the iPhone 4S with the iOS 5 operating system on it.

30. Apple's products using iOS 5 continue to demonstrate the importance Apple places on downloadable navigable playlists. For example, within the "iPod" application on the iPhone loaded with iOS 5, "Playlists" is one of four items displayed on the lower toolbar. A representative menu screen from Apple's iOS 5 user manual is pictured below:



31. Additionally, in the iOS 5 user manual, Apple instructs users on how to browse music on a device by playlist: "The buttons along the bottom of the screen let you browse content on iPhone by playlists, artists, songs, and other categories."

32. The playlists that may be stored on these iPhone, iPad, and iPod touch devices and accessed via the "Playlists" tab or listing may be used to reproduce the sequence of songs listed in a particular playlist

33. iOS 5 provides the additional capability of downloading navigable playlists over a wireless network. With Wi-Fi Sync, a compatible device loaded with iOS 5 is capable of initiating a download synchronization process which will transfer songs and playlists to the device.

34. Apple has emphasized the value of its new wireless synchronization feature as a beneficial new addition to the functionality of iOS 5. The following graphic is located on Apple's website:

Wi-Fi Sync

Wirelessly sync your iOS device to your Mac or PC over a shared Wi-Fi connection. Every time you connect your iOS device to a power source (say, overnight for charging), it automatically syncs and backs up any new content to iTunes. So you always have your movies, TV shows, home videos, and photo albums everywhere you want them.

http://www.apple.com/ios/features.html

Count I
Apple's Willful Infringement of U.S. Patent No. 7,509,178

35. The iPhone (3GS, 4, and 4S), iPad (generations 1 and 2), and iPod touch (generations 3 and 4) loaded with the Apple iOS 5 operating system infringe the '178 patent. In the iPhone and iPad, the iOS 5 operating system includes an application labeled "iPod." This application makes the iPhone and iPad audio program players capable of playing a group of audio program files, such as songs. In the iPod touch, the iOS 5 operating system includes an application labeled "Music." This application makes the iPod touch an audio program player capable of playing a group of audio program files, such as songs. A selected group of audio files arranged in a sequence is commonly known as a playlist.

36. A playlist may comprise a subset or collection of all audio program files stored on an iPhone, iPad, or iPod touch.

37. A number of components facilitate the capability of the iPhone, iPad, and iPod touch to reproduce a playlist of audio files. The iPhone, iPad, and iPod touch are each sold containing flash memory. The flash memory is a digital memory unit that provides each device with the capability to store one or more digitally compressed audio files that a user may listen to by accessing the "iPod" or "Music" application.

38. The iPhone, iPad, and iPod touch have a wireless communications port. Through its wireless communications port, each device loaded with iOS 5 is capable of establishing a data communications link for downloading a plurality of audio program files and a database sequencing file that specifies the playlist sequence. In particular, each device loaded with iOS 5 has the capability to initiate the download of a playlist sequencing file via a request sent by the device.

39. Each iPhone, iPad, and iPod touch loaded with iOS 5 has an audio output unit including at least a speaker.

40. The iPhone, iPad and iPod touch loaded with iOS 5 have various commands to control playback of a playlist of audio files. These commands include playing a playlist; skipping forward to the next song in the playing playlist; going back to the beginning of the playing song; skipping back to the previous song in the playing playlist; and going to any song in a playing playlist. The iPhone, iPad, and iPod touch have the capability to accept a control command from a user with their touch screens.

41. The iPhone, iPad, and iPod touch loaded with iOS 5 have the capability to play a playlist of audio program files in the order of the playlist sequence continuously and without entry of a control command. Hardware and software components furnish the iPhone, iPad, and iPod touch with this capability. In particular, hardware components providing this capability include general purpose computer circuitry and an audio codec.

42. The iPhone, iPad, and iPod touch are general purpose computers. The iPhone, iPad, and iPod touch are made up of a processor, a power supply, and random access memory. These components are connected via a bus that transmits signals between the various components. Apple admitted that these classes of devices are general purpose computers in the *Personal Audio v. Apple I* litigation.

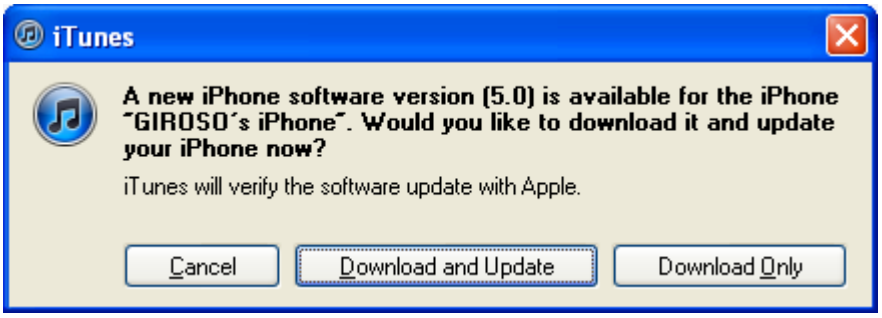
43. The iPhone, iPad, and iPod touch use an audio codec with which to reproduce stored digitally compressed audio files. In particular, the iPhone, iPad, and iPod touch are capable of decompressing and converting audio files in digitally compressed audio file formats (such as MP3 and AAC) into an analog form for listening.

44. The iPhone, iPad, and iPod touch loaded with iOS 5 have software algorithms that provide them with the capability to continuously play a playlist of audio files without input of a user command; respond to a command to discontinuing playback and start playing any audio file in the playlist sequence; respond to a command to skip forward by discontinuing playback of the playing audio file and beginning playback of the next audio file in the playlist sequence; respond to a command to go back to the beginning of the presently playing audio file; and respond to a command to skip backward by discontinuing playback of the playing audio file and beginning playback of the previous audio file in the playlist sequence.

45. Apple has infringed and continues to infringe the ’178 patent by making, using, selling, and/or offering to sell within the United States products that embody one or more of the claims of the ’178 patent. Such infringing conduct includes, but is not limited to, making, using, operating, offering to sell, or selling at least the following products loaded with iOS 5: iPhone 4S and iPod touch generation 4.

46. Apple has infringed and continues to infringe the ’178 patent under 35 U.S.C. § 271(b) by inducing customers who have purchased an iPhone 3GS, iPhone 4, iPad generation 1 or 2, or iPod touch generation 3 or 4 to infringe the ’178 patent by upgrading the operating system of these devices to iOS 5, contributing to the infringement of the ’178 patent under 35 U.S.C. § 271(c) by providing to consumers iOS 5 for upgrading compatible devices to use iOS 5, or carrying out other acts constituting infringement under 35 U.S.C. § 271(f).

47. As of October 12, 2011, when a user connects an iPod touch generation 3 or 4, iPhone 3GS, iPhone 4, or iPad generation 1 or 2 that is not currently running iOS 5 to a computer running iTunes, Apple prompts the user to upgrade the software on the device. An example of the iTunes prompt that directs a user to upgrade his device’s software is represented below:



If the user clicks "Download and Update," then Apple sends the iOS 5 software to the user for automatic installation on to the connected device.

48. Apple intends for users who have an iPod touch generation 3 or 4, iPhone 3GS, iPhone 4, or iPad generations 1 or 2 to upgrade their devices to use the iOS 5 operating system. The following graphic is located on Apple's website:

49. After the iOS 5 operating system is installed on an iPod touch generation 3 or 4, iPhone 3GS, iPhone 4, or iPad generation 1 or 2, that device is capable of wirelessly synchronizing with a computer running iTunes as described above. Users of these upgraded devices directly infringe the '178 patent.

50. Apple knew or should have known that users' installation of the iOS 5 operating system on the iPod touch generations 3 and 4, iPhone 3GS, iPhone 4, and iPad generations 1 and 2 would result in infringement of the '178 patent.

51. Apple has captured and dominated the mobile player and smart phone markets due to Apple's infringing and unauthorized use of the claimed subject matter in the '178 patent.

52. Apple does not have a license, either express or implied, or other permission to use the claimed subject matter in the '178 patent.

53. Personal Audio has been injured and has been caused significant financial damage as a direct and proximate result of Apple's infringement of the '178 patent.

54. Apple has been aware of the invention claimed in the '178 patent since at least as early as June 25, 2009. On that date, Personal Audio filed its complaint for patent infringement in the *Personal Audio v. Apple I* action, in which Personal Audio accused Apple of infringing the '178 patent by offering for sale and selling the iPod touch and iPhone classes of products. A copy of the '178 patent was attached to that complaint.

55. Apple's infringement of the '178 patent has been and is willful.

56. Apple disregarded an objectively high likelihood that making, using, offering to sell, selling, and inducing customers to make and use devices loaded with iOS 5 infringed the '178 patent.

57. Apple will continue to willfully infringe the '178 patent, and thus cause irreparable injury and damage to Personal Audio, unless enjoined by this Court.

Prayer for Relief

Wherefore, Personal Audio prays for the following relief:

1. A declaration that Apple infringed the ’178 patent, and is liable to Personal Audio for infringement.

2. A declaration that Apple’s infringement has been willful.

3. An award of damages adequate to compensate Personal Audio for Apple’s infringement of the ’178 patent.

4. An award of treble damages pursuant to 35 U.S.C. § 284 for Apple’s willful infringement.

5. A post-judgment equitable accounting of damages for the period of infringement of the ’178 patent following the period of damages established by Personal Audio at trial.

6. An order enjoining Apple from infringing, inducing others to infringe, or contributing to the infringement of the ’178 patent.

7. If a permanent injunction is not granted, a judicial determination of the conditions for future infringement such as a royalty bearing compulsory license or such other relief as the Court deems appropriate.

8. A finding that this case is exceptional pursuant to 35 U.S.C. § 285.

9. An award of prejudgment interest, costs and disbursements, and attorney fees.

10. Such other and further relief as the Court deems Personal Audio may be entitled to in law and equity.

Demand for Trial by Jury

A jury trial is demanded on all issues so triable, pursuant to Rule 38 of the Federal Rules of Civil Procedure.

Dated: October 14, 2011

Respectfully submitted,

By: /s/ Charles W. Goehringer Jr.

Robins, Kaplan, Miller & Ciresi L.L.P.
Ronald J. Schutz (MN Bar No. 130849)
(Eastern District of Texas Member)
(Lead Counsel)
Jake M. Holdreith (MN Bar No. 211011)
(Eastern District of Texas Member)
Cyrus A. Morton (MN Bar No. 287325)
(Eastern District of Texas Member)
David A. Prange (MN Bar No. 329976)
(Eastern District of Texas Member)
Patrick M. Arenz (MN Bar No. 0386537)
(Eastern District of Texas Member)
Daniel R. Burgess (MN Bar No. 0389976)
(Eastern District of Texas Member)
800 LaSalle Avenue, Suite 2800
Minneapolis, Minnesota 55402
Telephone: (612) 349-8500
Facsimile: (612) 339-4181
E-mail: RJSchutz@rkmc.com
JMHoldreith@rkmc.com
CAMorton@rkmc.com
DAPrange@rkmc.com
PMArenz@rkmc.com
DRBurgess@rkmc.com

Annie Huang (MN Bar No. 0327979)
(Eastern District of Texas Member)
601 Lexington Avenue, Suite 3400
New York, NY 10022
Telephone: (212) 980-7400
Facsimile: (212) 339-4181
E-mail: AHuang@rkmc.com

Germer Gertz, L.L.P.
Lawrence Louis Germer
(TX Bar # 07824000)
Charles W. Goehringer, Jr.
(TX Bar # 00793817)
550 Fannin, Suite 400
P.O. Box 4915
Beaumont, Texas 77701
Telephone: (409) 654-6700

Telecopier: (409) 835-2115
E-Mail: llgermer@germer.com
cwgoehringer@germer.com

Attorneys for Plaintiff Personal Audio, LLC