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

MIRROR WORLDS, LLC, Plaintiff, v. APPLE INC., Defendant.	Civil Action No. 6:08-cv-88 LED
APPLE INC., Counterclaim Plaintiff, v. MIRROR WORLDS, LLC, MIRROR WORLDS TECHNOLOGIES, INC., Counterclaim Defendants.	

NOTICE OF SUPPLEMENTAL AUTHORITY REGARDING APPLE INC.'S RENEWED MOTION FOR JUDGMENT AS A MATTER OF LAW, MOTION FOR NEW TRIAL, AND MOTION FOR REMITTITUR PURSUANT TO FEDERAL RULES OF CIVIL PROCEDURE 50 AND 59 (DOCKET NO. 432)

Defendant Apple Inc. ("Apple") submits this notice of new supplemental authority to bring to the Court's attention *Uniloc USA, Inc. v. Microsoft Corp.*, Case Nos. 2010-1035, 2010-1055 (Fed. Cir. Jan. 4, 2011) (Ex. 1), a Federal Circuit decision issued after completion of the briefing and hearing on Apple's pending "Renewed Motion for Judgment as a Matter of Law, Motion for New Trial, and Motion for Remittitur Pursuant to Federal Rules of Civil Procedure 50 and 59" ("JMOL") (Docket No. 432). *Uniloc* relates directly to issues before the Court including the entire market value rule, damages apportionment and willfulness.

In *Uniloc*, the Federal Circuit rejected application of the entire market value rule to support a jury award where the plaintiff, Uniloc, failed to show that the entire market value of Microsoft's accused products was derived from the patented feature, a software registration system designed to deter copying of software. *Uniloc*, Case Nos. 2010-1035, 2010-1055, at *47-54. Rejecting Uniloc's reading of *Lucent Techs. v. Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009), the Federal Circuit held that "[t]he Supreme Court and this court's precedents do not allow consideration of the entire market value of accused products for minor patent improvements simply by asserting a low enough royalty rate." *Id.* at *50-51. Reaffirming its prior holdings, the Court held "[t]he entire market value rule allows a patentee to assess damages based on the entire market value of the accused products only where the patented feature creates the 'basis for the customer demand' or 'substantially create[s] the value of the component parts.'" *Id.* at *48 (quoting *Lucent Techs.*, 580 F.3d at 1336). Uniloc's discussion at trial of Microsoft's $19.28 billion in sales revenues from the accused Office and Windows products was improper and "taint[ed]" the jury's damages award, because the award "was supported in part by the faulty foundation of the entire market value rule." *Id.* at *49, *53. The Court rejected Uniloc's argument that the prejudice was cured by a final instruction that the jury may not award

damages based on Microsoft's sales revenue. "The disclosure that a company has made $19 billion dollars in revenue from an infringing product cannot help but skew the damages horizon for the jury, regardless of the contribution of the patented component to this revenue." *Id.* at *51-52.

The Federal Circuit also rejected application of the so-called "25 percent rule of thumb" used to "approximate the reasonable royalty rate that the manufacturer of a patented product would be willing to offer to pay to the patentee during a hypothetical negotiation." *Id.* at *36. The Court held "as a matter of Federal Circuit law that the 25 percent rule of thumb is a fundamentally flawed tool for determining a baseline royalty in a hypothetical negotiation." *Id.* at *41. The Court's prior jurisprudence requires "a basis in fact to associate the royalty rates used in prior licenses to the particular hypothetical negotiation at issue in the case." *Id.* at *45. Because Uniloc's expert "did not base his 25 percent baseline on other licenses involving the patent at issue or comparable licenses[,]" the Court found the expert's analysis "arbitrary, unreliable, and irrelevant[,]" requiring a new trial on damages. *Id.* at *47.

With regard to willfulness, the Court found that Uniloc had not met its burden of showing why Microsoft, at the time it began infringement, could not have reasonably determined that its products did not meet all limitations of the patent claims. *Id.* at *32. The Court noted the complicated issue of determining infringement would have been "made more so because 'equivalence requires an intensely factual inquiry.'" *Id.* (quoting *DePuy Spine, Inc. v. Medtronic Sofamor Danek, Inc.*, 567 F.3d 1314, 1337 (Fed. Cir. 2009)).

Uniloc's holding as to the entire market value rule corresponds to and supports the arguments Apple raises at pages 33-34, 36 of its opening JMOL brief (Docket No. 432) and pages 19-20 of its JMOL reply (Docket No. 452). *Uniloc*'s discussion of the "25 percent rule"

supports the arguments Apple raises at pages 29-32 of its opening JMOL brief (Docket No. 432) and pages 17-18 of its JMOL reply (Docket No. 452). *Uniloc*'s discussion of willfulness supports the arguments Apple raises at pages 23-28 of its opening JMOL brief (Docket No. 432) and pages 14-15 of its JMOL reply (Docket No. 452).

Dated: January 10, 2011

Respectfully submitted,

/s/ Jeffrey G. Randall

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing document was filed electronically in compliance with Local Rule CV-5 on this 10th day of January, 2011. As of this date, all counsel of record had consented to electronic service and are being served with a copy of this document through the Court's CM/ECF system under Local Rule CV-5(a)(3)(A) and by email by way of the parties' agreed upon service address: MW_v_Apple@stroock.com.

/s/ Jeffrey G. Randall
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