

# Federal jury orders Apple to pay \$532.9M in patent dispute

February 25 2015, by Brandon Bailey

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(AP)—Apple has been ordered to pay nearly \$533 million by a federal jury that found Apple's iTunes music store uses software that infringes on patents held by a Texas company.

An attorney for plaintiff Smartflash LLC praised the verdict. Apple immediately announced plans to appeal and said the case shows the need for Congress to reform the U.S. patent system.

The case involves three patents that Smartflash holds for software used in storing data files and managing access through an online payment system. The outcome will likely add fuel to a broader debate over the federal patent system and complaints that it's easily abused by companies that make most of their revenue through patent lawsuits.

"Smartflash makes no products, has no employees, creates no jobs, has no US presence and is exploiting our patent system to seek royalties for technology Apple invented," Apple said in a printed statement. The statement added: "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."

The suit was heard by a federal jury in the Eastern District of Texas, which has become known as a hotbed for patent lawsuits and a favorite jurisdiction for lawyers pursuing patent claims. Smartflash is headquartered in Tyler, Texas, where the court is also based.

While Apple denied infringing on Smartflash patents, an attorney for the Texas firm said jurors in the case worked hard and "saw through" Apple's arguments.

"I don't see how Apple could say Smartflash is exploiting the system. That seems to be based on some bitterness after a jury properly rejected the arguments Apple flung around the courtroom," said attorney Brad Caldwell in an emailed statement.

The jury agreed with Smartflash's argument that Apple used software based on ideas patented by inventor and Smartflash executive Peter Racz, without permission. The Texas firm alleged that in 2000, Racz met to discuss his ideas with prominent software designer Augustin Farrugia, who was then working for a European company but later joined Apple to work on security programs for its iTunes store.

Apple has lost two previous patent cases in the Eastern District of Texas and successfully appealed both of them. A federal appeals court last year overturned a \$368 million jury verdict won by VirnetX, a Nevada firm that handles patent licenses for various inventors. In 2012, an appellate court upheld a Texas judge's decision to throw out a \$625 million verdict against Apple, which a jury had awarded for alleged patent infringement in a case brought by a company called Mirror Worlds.

In the Smartflash case, the jury's award of \$532.9 million is unlikely to be a financial strain for Apple, which earned \$39.5 billion in profit last year on sales of \$182.8 billion. Apple's stock fell a little more than 1 percent Wednesday, but it has repeatedly hit all-time highs this year and did again this week.

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