

**IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
ALEXANDRIA DIVISION**

MONEC HOLDING AG,

Plaintiff/Counterclaim Defendant,

v.

APPLE INC.,

Defendant/Counterclaim Plaintiff

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Civil Action No. 1:09-CV-312
(LMB/JFA)

**MEMORANDUM IN SUPPORT OF DEFENDANT APPLE INC.'S MOTION FOR FEES
AND EXPENSES AGAINST PLAINTIFF MONEC HOLDING AG**

John P. Corrado (VSB #20247)
jcorrado@mofo.com
MORRISON & FOERSTER LLP
2000 Pennsylvania Ave., N.W., Suite 6000
Washington, DC 20006-1888
Telephone: (202) 887-1500
Facsimile: (202) 887-0763

Of Counsel
Michael A. Jacobs
mjacobs@mofo.com
Richard S.J. Hung
rhung@mofo.com
MORRISON & FOERSTER LLP
425 Market Street
San Francisco, California 94105-2482
Telephone: (415) 268-7000
Facsimile: (415) 268-7522

Attorneys for Defendant Apple Inc.

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PRELIMINARY STATEMENT

Apple seeks recovery of its fees and expenses expended in the defense of this action pursuant to Rule 11 of the Federal Rules of Civil Procedure and 35 U.S.C. § 285. Monec asserted this patent claim against Apple, and continued to prosecute it, without any reasonable basis for concluding that the allegedly infringing product, the iPhone, met the critical “display . . . at a normal size” limitation of the asserted claims.

The defect in Monec’s allegation of infringement is manifest from even the most cursory investigation, making it untenable that Monec or its attorneys conducted the objectively reasonable factual inquiry it was required to undertake. Even if Monec claims that it did factually investigate the claims and conclude that it had a colorable claim, Monec’s behavior is still sanctionable. Monec categorically rejected Apple’s attempt to engage Monec in informal discussions about the merits of its case and thereby to avoid the expenses of this litigation.

At its first opportunity, Apple sought judgment of non-infringement. The Court granted that motion. Rule 11 and Section 285 of the Patent Act are intended to prevent parties from being exposed to vexatious and warrantless litigation. Apple is entitled to an award of fees under these circumstances.

FACTUAL BACKGROUND

On March 23, 2009, Monec initiated this patent infringement suit against Apple. Prior to filing suit, Monec had not contacted Apple regarding the ’678 patent.¹

In paragraph 10 of the Complaint, Monec alleged that “[t]he Apple iPhone infringes one or more claims of the ’678 [p]atent, including independent claim 1.” Monec specifically referred

¹ See Monec’s Resp. to Apple’s Req. for Admis. No. 6 (denying request, but “admit[ting] that preceding the filing of this lawsuit MONEC did not make an imminent threat to Apple with regard to filing a patent infringement suit based on the ’678 patent.”).

to the small size of the iPhone display at paragraph 11 of the Complaint. There, it alleged that the display measured only 3.5 inches diagonally.² Monec also admitted the iPhone's display is approximately 2 x 3 inches in its Answer to Apple's Counterclaims.³

On May 7, 2009, Apple wrote Monec's counsel to ask how Monec had concluded that the iPhone satisfied the requirement of the display dimension limitation. Apple noted that the iPhone's 2 x 3 inch display lacks "dimensions such that one page of a book can be displayed at a normal size." Apple asked Monec to explain its required pre-filing investigation.⁴

Apple also highlighted the specification's characterization of the display as "relatively large" and as having a "large . . . surface."⁵ Apple further explained that the specification describes the display's housing as having "outside dimensions of between 12 x 18 cm and 24 x 32 cm" (*i.e.*, between approximately 4.7 x 7.1 inches to 9.4 x 12.6 inches) — dimensions covering an area more than three times larger than the iPhone's 2.4 x 4.5 inch housing. Apple asked Monec to respond within ten days or dismiss its Complaint.

Apple's letter met with no appropriate response. Monec did not dismiss the Complaint. It did not clarify its allegation that "[t]he Apple iPhone display has dimensions such that one page of a book can be displayed at a normal size."⁶ It did not identify the claim construction that it applied during its pre-filing investigation. It did not identify any intrinsic evidence supporting a construction under which the display dimensions can be as small as 2 x 3 inches. Instead,

²² See Complaint at ¶ 11 ("The Apple iPhone has an integrated 3.5 inch (diagonal) widescreen Multi-Touch display."). (Ex. D.)

³ Apple's Counterclaims at ¶ 41 (Ex. E.); Monec's Counterclaims Answer at ¶ 41. (Ex. F.)

⁴ Letter from John P. Corrado to Steven J. Moore, dated May 7, 2009. (Ex. G.)

⁵ *Id.*

⁶ Complaint at ¶ 23. (Ex. D.)

Monec reiterated its contention that one page of a book can be read at normal size on the iPhone.⁷

On June 17, 2009, Apple served Monec with a “Memorandum in Support of Defendant Apple Inc.’s Motion for Rule 11 Sanctions Against Plaintiff Monec Holding AG.”⁸ Monec never responded to that Memorandum.

On July 17, 2009, this Court granted Apple’s motion for summary judgment. The Court noted that “any person reading this patent with any degree of common sense and not try to skew it would say what this patent teaches is a device that includes a display that is large enough, that one page of a book can be displayed at a normal size.”⁹ The Court referred to the claim’s plain meaning, adding that “no person of ordinary understanding of the English language would ever say this would be normal size.”¹⁰

ARGUMENT

I. RULE 11 SANCTIONS ARE APPROPRIATE WHERE A PARTY PERSISTS WITH FRIVOLOUS INFRINGEMENT ALLEGATIONS.

Rule 11(b) requires an attorney to certify, by signing a complaint, that:

- (1) “it is not being presented for any improper purpose, such as to harass, cause unnecessary delay, or needlessly increase in the cost of litigation;”
- (2) “the claims . . . are warranted by existing law or by a nonfrivolous argument for extending, modifying, or reversing existing law or for establishing new law;” and
- (3) “the factual contentions have evidentiary support or, if specifically so identified, will likely have evidentiary

⁷ See Letter from Steven J. Moore to John P. Corrado, dated May 27, 2009. (Ex. H.)

⁸ See Exhibit A.

⁹ See Hearing Transcript at 16:25-17:4. (Ex. B.)

¹⁰ *Id.* at 7:17-19.

support after a reasonable opportunity for further investigation or discovery.”

A court may sanction an attorney or party that violates this requirement.¹¹

Fourth Circuit law governs the appropriateness of Rule 11 sanctions here.¹² Under Fourth Circuit law, a request for Rule 11 sanctions is assessed under the “objectively reasonable” standard.¹³ This standard requires a party to have conducted both an objectively reasonable factual investigation *and* an objectively reasonable legal investigation before filing a pleading.¹⁴ The factual investigation “must uncover some information to support the allegations in the complaint.”¹⁵ The legal investigation must confirm that an objectively reasonable basis exists for raising the claims in the complaint.¹⁶ A legal argument fails this standard if a reasonable attorney would recognize the argument as frivolous.¹⁷

A party that advances a frivolous factual or legal position and fails to withdraw it within the twenty-one day “safe harbor” period of Rule 11(c)(2) knowingly exposes itself to sanctions. Sanctioning such a party serves the purpose of “compensating the victims of the Rule 11

¹¹ Fed. R. Civ. P. 11(c).

¹² See *Antonious v. Spalding & Evenflo Cos.*, 275 F.3d 1066, 1072 (Fed. Cir. 2002) (applying Fourth Circuit’s objectively reasonable standard to Rule 11 sanctions request in patent case); cf. *View Eng’g, Inc. v. Robotic Vision Sys., Inc.*, 208 F.3d 981, 985 n.4 (Fed. Cir. 2000) (applying Ninth Circuit’s Rule 11 law in patent appeal from the Central District of California).

¹³ *Brubaker v. City of Richmond*, 943 F.2d 1363, 1373 (4th Cir. 1991) (“The language of Rule 11 requires that an attorney conduct a reasonable investigation of the factual and legal basis for his claim before filing. The prefiling investigation must appear objectively reasonable.”) (citing *Cleveland Demolition Co. v. Azcon Scrap Corp.*, 827 F.2d 984, 987 (4th Cir. 1987), and *In re Kunstler*, 914 F.2d 505, 514 (4th Cir. 1990)).

¹⁴ *Brubaker*, 943 F.2d at 1373.

¹⁵ *Id.*

¹⁶ See *id.*

¹⁷ See *Cox v. Saunders*, 136 F.3d 349, 352 (4th Cir. 1998).

violation, as well as punishing present litigation abuse, streamlining court dockets[,] and facilitating court management.”¹⁸

Sanctions may be appropriate in patent litigation just as in any other case. Before initiating a patent infringement lawsuit, a patentee and its attorneys are required, “at a bare minimum, [to] apply the claims of each and every patent that is being brought into the lawsuit to an accused device and conclude that there is a reasonable basis for a finding of infringement of at least one claim of each patent so asserted.”¹⁹ As the Federal Circuit has explained:

A patent suit can be an expensive proposition. Defending against baseless claims of infringement subjects the alleged infringer to undue costs – precisely the scenario Rule 11 contemplates. Performing a pre-filing assessment of the basis of each infringement claim is, therefore, extremely important. In bringing a claim of infringement, the patent holder, if challenged, must be prepared to demonstrate to both the court and the alleged infringer exactly why it believed before filing the claim that it had a reasonable chance of proving infringement.²⁰

Due to the importance of this pre-filing investigation, the failure to satisfy these requirements “ordinarily” should “result in the district court expressing its broad discretion in favor of Rule 11 sanctions, at least in the absence of a sound excuse or considerable mitigating circumstances.”²¹ The Federal Circuit has not shied away from affirming an award of sanctions against patentees and their attorneys who maintain objectively baseless lawsuits.²² It also has reversed a court’s denial of sanctions where neither the patentee nor its attorneys “made a

¹⁸ *Kunstler*, 914 F.2d at 522; *accord Cox*, 136 F.3d at 352-53.

¹⁹ *View Eng’g*, 208 F.3d at 986. Although the law of the regional circuit governs Rule 11 issues, district courts often rely on the Federal Circuit’s interpretations of Rule 11 in patent cases, due to that circuit’s exclusive jurisdiction over patent appeals. *See, e.g., Anoto AB v. Sekendur*, No. 03-C-4723, 2005 U.S. Dist. LEXIS 18246, at *3-4 (N.D. Ill. Aug. 22, 2005) (finding Federal Circuit’s Rule 11 decisions instructive in considering attorneys’ fee request for “vexatious” patent litigation).

²⁰ *View Eng’g*, 208 F.3d at 986.

²¹ *Id.*

²² *See, e.g., id.* at 988 (affirming imposition of \$97,000 in sanctions).

reasonable effort to ascertain whether the accused devices satisfied the two key claim limitations” before filing suit.²³

II. MONEC’S ALLEGATION THAT THE iPhone “HAS DIMENSIONS SUCH THAT ONE PAGE OF A BOOK CAN BE DISPLAYED AT A NORMAL SIZE” IS OBJECTIVELY UNREASONABLE.

Before initiating this lawsuit, Monec was required to assess whether the iPhone’s small 2 x 3 inch display “has dimensions such that one page of a book can be displayed at a normal size.” As the first step in this process, Monec was required to construe that limitation without invalidating the claim. Only after arriving at an “objectively reasonable” construction of the display dimension limitation that covered the iPhone’s display could Monec file this lawsuit.²⁴ There is no evidence that Monec undertook these steps.

A. Monec Has Not Demonstrated That It Conducted An “Objectively Reasonable” Factual Investigation Before Alleging Infringement.

At the time that Monec filed the Complaint, Monec and its attorneys were aware of the iPhone’s small display. At paragraph 11 of the Complaint, Monec specifically alleged that “[t]he Apple iPhone has an integrated 3.5 inch (diagonal) widescreen Multi-Touch display.” Nevertheless, Monec alleged at paragraph 23 that “[t]he Apple iPhone has dimensions such that one page of a book can be displayed at a normal size.”

When challenged by Apple, Monec was required to explain why it believed the iPhone infringed, including its construction and application of that construction to the iPhone.²⁵ In its response, Monec did not provide this explanation or any of the details that are necessary to show that it could meet the “objective reasonableness” standard. It did not:

²³ *Judin v. United States*, 110 F.3d 780, 784 (Fed. Cir. 1997).

²⁴ *See Antonious*, 275 F.3d at 1072.

²⁵ *View Eng’g*, 208 F.3d at 986 (“In bringing a claim of infringement, the patent holder, if challenged, must be prepared to demonstrate to both the court and the alleged infringer exactly why it believed before filing the claim that it had a reasonable chance of proving infringement.”).

- Identify any pre-filing construction of the “display . . . at a normal size” limitation;
- Identify any pre-filing claim chart showing how the iPhone met this limitation, as construed;
- Identify any quantitative limits on the dimensions of the required display;
- Explain how the specification’s repeated descriptions of the “display” as “relatively large” and as having a “large display surface”²⁶ are consistent with the iPhone’s 2 x 3 inch display; or
- Explain how the iPhone’s 2 x 3 inch display can display one page of a “conventional book”²⁷ at normal size;
- Identify any other evidence in the intrinsic record suggesting that the display of the alleged invention could be as small as 2 x 3 inches.

In short, Monec cited nothing in the claims, specification, or prosecution history to support an interpretation of the “display ha[ving] dimensions such that one page of a book can be displayed at a normal size” as encompassing a display as small as 2 x 3 inches.

B. There is no Evidence that Monec’s Pre-filing Inquiry Included a Construction Supported by the Intrinsic Record.

Monec’s obligation before filing this lawsuit was to develop a reasonable construction of the claims such that the limitation “display [with] dimensions such that one page of a book can be displayed at a normal size” could reach a display as small as the iPhone’s. Had Monec analyzed the plain language of the claims and the other intrinsic record for evidence supporting a claim construction covering the iPhone, it would have discovered that any such construction renders the limitation meaningless and lacks objective support.²⁸ There is no evidence that Monec performed any pre-filing construction of the “display” limitation, much less one that covered the iPhone’s small display.

²⁶ ’678 patent, col. 1, line 46; col. 5, line 59. (Ex. C.)

²⁷ *Id.* at col. 1, line 31.

²⁸ *Phillips v. AWH Corp.*, 415 F.3d 1303, 1312-13 (Fed. Cir. 2005) (en banc).

C. Sanctions Are Appropriate.

An attorney violates Rule 11(b)(3) when an objectively reasonable attorney, analyzing the same law and facts, could not conclude that the accused device infringes.²⁹ Here, such an attorney could not have determined that the iPhone's 2 x 3 inch display "has dimensions such that one page of a book can be displayed at a normal size," as required by the claims. The Court's grant of summary judgment of non-infringement confirms this.

Nothing in the intrinsic record supports a construction of "display . . . at a normal size" so broad that it covers a 2 x 3 inch display. Monec thus could not have had a "reasonable basis for a finding of infringement of at least one claim of each patent so asserted."³⁰

Apple attempted to raise this serious defect in Monec's infringement case by letter dated May 7, 2009. In response, Monec did not offer its construction of the display limitation and did not explain why Monec's infringement position was objectively reasonable.³¹

In sum, Monec did not address Apple's concerns at all, except to say that the iPhone was large enough to display some hypothetical book at actual size. Monec's failure to provide any justification for its position, or evidence of its pre-suit analysis, justifies sanctions.³²

III. UNDER 35 U.S.C. § 285, APPLE SHOULD BE COMPENSATED FOR ITS FEES IN RESPONDING TO THIS "EXCEPTIONAL" CASE.

Apple also should be compensated for its fees in responding to this infringement action because it is an "exceptional case" under 35 U.S.C. § 285.

²⁹ *See Antonious*, 275 F.3d at 1074.

³⁰ *View Eng'g*, 208 F.3d at 986.

³¹ *See* Letter from Steven J. Moore to John P. Corrado, dated May 27, 2009. (Ex. H.)

³² *See Verve, L.L.C. v. Hypercom Corp.*, No. CV-05-0365-PHX-FJM, 2006 U.S. Dist. LEXIS 58398, at *12 (D. Ariz. Aug. 16, 2006) (awarding sanctions where patentee's counsel could not provide evidence that he had analyzed the accused products and the "record [was] simply devoid of any evidence supporting [the patentee's] claim that an adequate pre-filing investigation was conducted").

Section 285 allows a court to award reasonable attorneys' fees to the prevailing party in a patent case "in exceptional cases." As this Court noted in *Enpat Inc. v. Microsoft Corporation*, "[a] case is 'exceptional' where the plaintiff has engaged in 'vexatious or unjustified litigation' or 'frivolous suit.'"³³ "A suit is frivolous where the patentee knew, or should have known by reasonable investigation, that the suit was groundless."³⁴ Moreover, "a court may infer bad faith where a 'patentee is manifestly unreasonable in assessing infringement, while continuing to assert infringement in court.'"³⁵

All of these considerations are present in this case. The litigation was unjustified. Monec never pointed to a claim construction of the display limitation under which the iPhone would arguably infringe. Monec did not offer any construction when first challenged by Apple in its May 7, 2009 letter to Monec's counsel; Monec did not offer one in response to the proposed brief in support of Rule 11 sanctions served on them on June 17, 2009. When Monec did finally offer a proposed "construction" in its summary judgment response, it was not a construction of the limitation but rather a rewriting of the limitation that deleted the words "dimensions," "normal" and "size." Regardless of any investigation Monec did before filing the lawsuit, Monec should have known that its position was groundless when, after filing, it was unable to point to anything in the intrinsic record that directly supported its claim construction or that the display could be as small as 2 by 3 inches, or anything suggesting that the applicant's description of his invention in the specification as "large" or "relatively large" did not mean exactly that.

³³ 26 F. Supp. 2d 811, 813 (E.D. Va. 1998) (citing *Beckman Instruments, Inc. v. LKB Produkter AB*, 892 F.2d 1547, 1551 (Fed. Cir. 1989)).

³⁴ *Id.* (citing *Haynes Int'l, Inc. v. Jessop Steel Co.*, 8 F.3d 1573, 1579 (Fed. Cir. 1994)).

³⁵ *Id.* (citing *Eltech Sys. Corp. v. PPG Indus.*, 903 F.2d 805, 811 (Fed. Cir. 1990)).

Monec's position was "manifestly unreasonable" and "vexatious" for the reasons set forth above, and because Monec persisted in the litigation despite several clear opportunities to reconsider its position in light of Apple's objections. This Court's decision in *Enpat* is instructive. There, the Court agreed with Microsoft that "even a cursory inspection of their own patent should have alerted plaintiffs to the baseless nature of their claims against these products."³⁶ The Court held that "plaintiffs' unreasonable prosecution of them for a seven-month period justifies an award of attorneys' fees."³⁷

As in *Enpat*, Monec's claims were "without merit on the basis of obvious factors which should have been apparent to [Monec] early in the litigation."³⁸ Monec's own patent "was the only document necessary for [it] to determine that these allegations were meritless."³⁹ Not only was Monec unjustified in asserting its patent against the iPhone, it was doubly unjustified in continuing to prosecute this action for several months after Apple challenged its basis for asserting infringement.

Apple tried, at several points, to engage Monec in an effort to short circuit the continuation of this litigation, including calls between counsel and directly between principals, none of which were productive. If Monec had taken a reasonable position with respect to the merits of its claim, much of the expense incurred by Apple, which now exceeds hundreds of thousands of dollars, including the considerable expense required in searching and recovering documentary discovery in response to Monec's discovery requests, could have been avoided. When those expenses are incurred as a consequence of obviously untenable theories of

³⁶ *Id.* at 814.

³⁷ *Id.*

³⁸ *Id.* at 813-14.

³⁹ *Id.* at 814.

CERTIFICATE OF SERVICE

I hereby certify that I caused a true and correct copy of the foregoing MEMORANDUM IN SUPPORT OF DEFENDANT APPLE INC.'S MOTION FOR FEES AND EXPENSES AGAINST PLAINTIFF MONEC HOLDING AG to be served by e-mail and UPS overnight mail to the following:

Joseph D. Wilson, III
jwilson@kelleydrye.com
Kelley Drye & Warren LLP
Washington Harbour, Suite 400
3050 K Street NW
Washington, DC 20007
Telephone: (202) 342-8504
Facsimile: (202) 342-8451

Steven J. Moore, Esq.
smoore@kelleydrye.com
Delphine W. Knight Brown, Esq.
dkbrown@kelleydrye.com
Kelley Drye & Warren LLP
400 Atlantic Street
Stamford, CT 06901
Telephone: (203) 324-1400
Facsimile: (203) 327-2669

Dated: August 3, 2009

By: _____ /s/

John P. Corrado (VSB #20247)
jcorrado@mofo.com
Michael E. Anderson (VSB #45145)
manderson@mofo.com
MORRISON & FOERSTER LLP
1650 Tysons Boulevard, Suite 300
McLean, Virginia 22102
Telephone: (703) 760-7700
Facsimile: (703) 760-7777
Attorneys for Defendant Apple Inc.

dc-565772