



DOCUMENT RETENTION: THINK BEFORE YOU SHRED

The decision whether to shred documents (or to delete electronic files, as the case may be) is not one to be made casually, particularly when litigation is foreseeable. A recent pair of decisions handed down by the Court of Appeals for the Federal Circuit (“CAFC”) vacated rulings in two lower court cases, including reversing a patent infringement award of almost \$400 million. Clients are advised to develop a regular document retention strategy well in advance of bringing a litigation, and to destroy documents only during regular intervals and according to clearly defined and well adhered to policies.

The cases involved Rambus, Inc., a company well-known for licensing intellectual property based on patents directed to computer memory. The CAFC decisions employed a standard for determining whether document destruction amounts to “spoliation,” which includes destruction of evidence that is potentially damaging to a party to a litigation.

The facts on which both cases were based included Rambus’ litigation strategy and document retention strategy, which were developed

prior to the document destruction. Weeks after destroying the documents (termed a “shred day”), Rambus began actively planning licensing and/or litigation for various manufacturers. Months later and following the issuance of its first patent (U.S. Patent No. 5,915,105) and additional litigation strategizing, Rambus destroyed more documents. Thereafter, Rambus sued Hitachi and Infineon separately for patent infringement. When Rambus approached Hynix and Micron to negotiate licenses, the potential licensees separately brought declaratory judgment actions against Rambus.

Interestingly, the two district courts in the respective declaratory judgment actions arrived at different conclusions as to whether Rambus had engaged in spoliation. In the case involving Hynix, spoliation was deemed not to have occurred on the grounds that Rambus did not “actively contemplate litigation” when it destroyed the documents. In the other case involving Micron, however, the court held that Rambus did engage in spoliation, at least during the second shredding event, on the grounds that litigation was reasonably foreseeable. That court held Rambus’ patents unenforceable.

Both of the Rambus decisions turn on a legal issue regarding when civil litigation may be “reasonably foreseeable.” If litigation is reasonably foreseeable, then a duty to preserve evidence is imposed on the parties. Since Rambus destroyed over a ton of documents prior to litigation, the issue whether litigation was reasonably foreseeable was critical to the parties. This issue is similarly important for any potential or future

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litigants.

Determining whether a future litigation is reasonably foreseeable, unfortunately, is difficult, and will ultimately turn on the facts of each respective case. The various facts to be considered in determining whether there is spoliation include whether a party destroys documents as part of a regular schedule consistent with a long-standing policy, or whether the party is “frustrating the fact-finding efforts of [an] ... adverse” party. Other factual determinations include whether a party is on notice of third party infringement, and whether a party seeks patent claims to cover allegedly infringing activity, which may lead to a conclusion that litigation was reasonably foreseeable. The CAFC also considered whether contingencies exist, such as

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Inducing Patent Infringement: U.S. Supreme Court Sets New Standard

On May 31, 2011, the U.S. Supreme Court ruled by 8 votes to 1 that a party may be held liable for inducing patent infringement if it can be shown that the party was “willfully blind” to whether its acts constituted infringement. (See *Global-Tech Appliances, Inc., et al. v. SEB S. A.*, “*Global-Tech*”). The U.S. Patent Act states that “[w]hoever actively induces infringement of a patent shall be liable as an infringer” (35 U.S.C. §271(b)). The Court held in *Global-Tech* that §271(b) of the Patent Act requires that a defendant have knowledge that “the induced acts constitute patent infringement.”

In *Global-Tech*, a maker of home appliances, SEB, invented a “cool-touch” deep fryer and obtained a patent covering the fryer. One of the defendants, Pentalpha (a subsidiary of Global-Tech Appliances, Inc.), deliberately copied SEB’s fryer, except for mere cosmetic features, and supplied the infringing fryers to resellers. The defendant was charged with “actively inducing ... purchasers of [the] fryers to sell or offer to sell them in violation of SEB’s patent rights.”

Prior to supplying the infringing fryers, the defendant hired a patent attorney to conduct a “right-to-use” study to determine whether the defendant could lawfully supply the fryers. The defendant did not inform the attorney, however, that it had

blatantly copied the SEB fryer, and the attorney did not uncover SEB’s patent in the study. After being found liable for inducing patent infringement, the defendant appealed on the grounds that it did not actually know of SEB’s patent when it began distributing the fryers.

On appeal, the Federal Circuit affirmed the district court’s ruling that knowledge of infringement can be ascertained by a deliberate indifference to a “known risk” that a patent exists. By copying the SEB fryer, and withholding that fact after commissioning a right-to-use study, the Federal Circuit concluded that the standard had been met.

The Supreme Court rejected the standard applied by the Federal Circuit, but affirmed its judgment under a new and different standard. The Court held that knowledge that induced acts constitute patent infringement can be inferred by a finding of “willful blindness.” The Court concluded that willful blindness can be found when a “defendant ... subjectively [believes] that there is a high probability that a fact exists.” Secondly, the defendant “must take deliberate actions to avoid learning of that fact.”

In the decision, the Supreme Court concluded that willful blindness is an “appropriately limited scope that surpasses recklessness and negligence.” Thus, it is a higher standard than that applied by the Federal Circuit and the district court. Despite the lower “known risk” and “deliberate indifference” standard that was previously applied, the Supreme Court held that the evidence in the case supported a finding that the defendant “subjectively believed there was a high probability that SEB’s fryer was patented, that [the defendant] took deliberate steps to avoid knowing that fact, and that it therefore willfully blinded itself to the infringing nature of [the] sales.”

The Supreme Court concluded that the defendant’s only motive was to “manufacture a claim of plausible deniability in the event that [it] was later accused of patent infringement.” Thus, the knowl-

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Protecting Your Intellectual Property

This is the fifth part in a continuing series of articles to address steps for protecting valuable intellectual property. This Summer 2011 Ostrolenk

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Federal Circuit Hands Down Decision Re: Inequitable Conduct

In a long awaited decision, the Federal Circuit, sitting en banc, has raised the bar for showing inequitable conduct. As reported by Ostrolenk Faber in November of 2010, in *Therasense, Inc. v. Becton, Dickinson and Company* (Fed. Cir. 2011) (en banc) ("*Therasense*"), representations were made to the European Patent Office that were in contradiction to representations made to the United States Patent and Trademark Office ("PTO"), in a related patent application. The contradictory statements were not disclosed to the PTO, and the contradictions and lack of disclosure led to a finding of inequitable conduct, which invalidated the patent. *Therasense* appealed.

During patent prosecution, applicants and their attorneys are under a duty to disclose to the Examiner any prior art which (1) either alone or in combination with other information, establishes a prima facie case of unpatentability, or (2) is inconsistent with any of the applicant's arguments in favor of patentability.

In *Therasense*, the Federal Circuit held that in order to prevail on a claim of inequitable conduct, a defendant must separately prove that any alleged bad act of a patentee was material to patentability, and that it was done with intent to deceive the PTO. The Federal Circuit's ruling substantially raises the bar for defendants by requiring them to prove both of these elements.

With respect to the intent to deceive element, the Federal Circuit required evidence of a "deliberate decision" to deceive. Specifically, the court noted that the intent element requires "clear and convincing evidence that the applicant knew of the reference, knew that it was material, and made a deliberate decision to withhold it. ... Proving that the applicant knew of a reference, should have known of its materiality, and decided not to submit it to the PTO does not prove specific

intent to deceive" (emphasis added). In addition, in the event that a defendant attempts to prove intent via circumstantial evidence, the Federal Circuit held that any conclusion that the patentee intended to deceive the PTO must be the "most reasonable inference" to be drawn from the patentee's conduct. The Federal Circuit explicitly rejected the previous "sliding scale" approach in which a defendant could prevail on inequitable conduct, even when there was weak evidence of intent but strong evidence of materiality, and vice-versa.

With respect to the relative materiality of a reference, *Therasense* established a "but for" test. The Federal Circuit held that the defendant must establish that, but for the patentee's deception, the PTO would not have allowed the claim. The court also recognized exceptions to the "but for" standard, such as cases involving affirmative egregious misconduct, including the filing of false affidavits.

As a sign of what appears to be the judiciary's general distaste for inequitable conduct claims, the Federal Circuit in *Therasense* also held that even if a defendant meets these burdens, the district court must also "weigh the equities" to determine whether the inequitable conduct warrants "rendering the entire patent unenforceable." The court further elaborated that a patent should only be rendered unenforceable due to inequitable conduct "where the patentee's misconduct resulted in the unfair benefit of receiving an unwarranted claim."

The Federal Circuit's decision appears to provide a bit more guidance to district courts on issues of inequitable conduct and clearly raises additional hurdles for defendants attempting to counter an infringement lawsuit with an inequitable conduct defense.

Keith Barkaus, Associate



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good-faith licensing efforts, that could preclude a finding that litigation is reasonably foreseeable. Based on a review of the record, the CAFC held that Rambus' licensing offers were intentionally unrealistic that Rambus expected to be rejected, which was not a *bona fide* contingency.

The CAFC also considered that Rambus acted in a plaintiff capacity, which made it reasonable for Rambus to foresee litigation. Moreover, the court considered the nature of the relationship between Rambus and the defendants, and concluded that since Rambus did not have a long-standing or previously beneficial relationship with them, there was no contingency which would be an impediment to foreseeing a litigation.

Thus, according to the Rambus decisions, spoliation may be inferred in cases where litigation is reasonably foreseeable, and document destruction happens to occur without subscribing to well-established policies during regular intervals. Various factual determinations, including the respective relationships between parties, need to be made to determine whether litigation is foreseeable. If so, clients are cautioned to consider whether document destruction would amount to spoliation, which could jeopardize potential awards in litigation, prior to destroying (or deleting) any documents.

Joel J. Felber, Senior Associate

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edge requirement of 35 U.S.C. §271(b) was imparted to the defendant.

It is advisable for clients who may be faced with a charge of inducing patent infringement to obtain an opinion of patent counsel, and disclose to your lawyer all relevant facts that are necessary for a complete and competent right to use search. Doing so will be useful to combat any future charges of inducing patent infringement, including those based on willful blindness.

Douglas A. Miro, Partner

Protecting Intellectual Property (Continued from page 2)

Newsletter series starts with issues surrounding an "Intent To Use Trademark Application."

The Intent to Use (ITU) trademark application

confers a valuable benefit to anyone planning to develop a new product or service. With an ITU application, you can lock in rights to the mark on the date the application is filed in the U.S. Patent and Trademark Office – before you have an actual product or service.

Prior to 1989, the Trademark Office would not accept an application to register a trademark or service mark unless that mark was in actual commercial use in connection with the product or service. This meant that a great deal of time and money could be invested in developing a new trademark and launching a product or service only to find out that the mark, for any number of reasons, could not be registered.

An ITU application provides the applicant with sufficient time to develop its product or service without worrying if someone else will beat him to the market with the subsequent use of the same or a similar mark. Also, if the mark is rejected by the Trademark Office during the examination process, or it is successfully opposed, the applicant has not unnecessarily expended substantial resources for labeling, packaging, promoting or advertising.

The ITU timetable is extremely generous. Four or more years may elapse before actual use of the mark on the designated product or service is required. The ITU application, however, comes with a major hook – at the time it is filed, the applicant must have a "bona fide" intent to use the mark. Without it, the applicant may be forced to abandon its application, or if the mark is registered, cancel the registration.

Stephen J. Quigley, Of Counsel

Ostrolenk Faber LLP: Firm News

Ostrolenk Faber LLP is proud to announce that partner Douglas A. Miro was again named among the top intellectual property attorneys in the New York Metropolitan area by the New York Super Lawyers 2011. Only the top 5% of attorneys in each state are named to the list. This is Mr. Miro's fourth selection to the New York Super Lawyers list, and the third year in a row.

Partners Robert Faber and Douglas Miro will be faculty members at the Practising Law Institute, Fundamentals of Patent Prosecution 2011: A Boot Camp for Claim Drafting & Amendment Writing. The program is scheduled for June 15-17, 2011 in New York. Sign up at www.pli.edu!