

Keywords: Inequitable Conduct, withholding material information for patentability, maintenance fees

General: Revival of lapsed patents.

In Re: Rembrandt Techs., LP Patent Litigation

Federal Circuit

No. 2017-1784

Decided: August 15, 2018

I. Facts

In September 2005, Rembrandt Techs., LP (hereinafter “the Appellant”) filed suit against Comcast in the Eastern District of Texas, asserting infringement of six patents acquired from Paradyne, a former AT&T subsidiary that developed, manufactured, and distributed network access products. The Appellant also filed suit against other cable providers “the Appellees.” in June 2006. In November 2006, the Appellant filed a second wave of litigation adding five patents acquired from Zhone, which had acquired Paradyne in September 2005. The district court issued claim construction orders on several patents after a Markman hearing in August 2008. Of these patents, U.S. Patent No. 4,937,819, hereinafter the ‘819 patent, and U.S. Patent No. 5,719,858, hereinafter the ‘858 patent, had been allowed to lapse in June and February 2002, respectively, by Paradyne because the expected value of the patents did not justify paying their maintenance fees. Paradyne later petitioned to revive the ‘819 and the ‘858 patents after third-party interest in acquiring the ‘819 and ‘858 patents, which occurred prior to Appellant’s acquisition of these patents. On January 6, 2009, the Appellant dropped the infringement claims on three patents, including the ‘819 and ‘858 patents in light of the claim construction order. Other patents were also dropped from the litigation in March and May 2009.

On July 31, 2009, the Appellant moved to dismiss its claims on eight of the asserted patents after the parties executed a mutual agreement not to sue. The Appellees also moved to dismiss their associated invalidity counterclaims. The district court granted the motion and dismissed the claims and counterclaims. Until the Appellant dismissed its claims, the Appellees engaged in considerable fact discovery.

During fact discovery, the Appellees learned about abandonment and revival of the ‘819 and ‘858 patents, destruction of documents by Zhone that were associated with the asserted patents after acquisition of Paradyne, and contingent interest of consultants (fact witnesses) used by the Appellant, which included two former Paradyne employees and Paradyne’s outside counsel, all who were involved in the abandonment and revival of the ‘819 and ‘858 patents.

On November 16, 2009, the Appellees moved for a determination that the case was exceptional under 35 U.S.C. § 285 and for award of attorney fees. The Appellees argued

that the case was exceptional because the Appellant asserted two patents that had been revived improperly, allowed Zhone to spoliage evidence, improperly gave consultants an interest contingent on the litigation outcome, and threatened other parties involved in the suit with a baseless injunction demand.

On August 20, 2015, the district court determined that the case was exceptional because “the evidence show that Rembrandt improperly compensated its fact witnesses, in violation of ethical rules of conduct,” “Rembrandt engaged in (or failed to prevent) widespread document spoliage over a number of years,” and “Rembrandt should have known that the ‘revived patents’ were unenforceable.” The district court granted the request for fees in part on August 24, 2016. On March 2, 2017, the district court issued an order awarding fees totaling more than \$51 million. The Appellant subsequently appealed.

II. Issue

Did the district court err in determining that the patents were unenforceable due to inequitable conduct and that the case was exceptional?

III. Discussion

No. A test for inequitable conduct is whether the “applicant misrepresented or omitted material information with the specific intent to deceive the PTO.” The court asked what was the evidentiary standard that governs inequitable conduct determination in the context of 35 U.S.C. § 285? In patent infringement, “[t]he accused infringer must prove both elements – intent and materiality – by clear and convincing evidence.” *Star Sci., Inc., v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1365 (Fed. Cir. 2008). However, the Supreme Court held in *Octane Fitness* (decided in 2014) that, under 35 U.S.C. § 285, patent litigants need only establish their entitlement to fees by a preponderance of the evidence. The district court did not specify which evidentiary standard it applied in determining that the Appellant’s inequitable conduct. However, the court determined that this issue did not need to be resolved because the district court did not abuse its discretion under either standard.

The court instead focused on whether statements made by Paradyne indicating that the unintentional delay in payment of the maintenance fees for the ‘819 and ‘858 patents was material to patentability. The court relied on statements by the PTO related to the meaning of “unintentional.” According to the PTO, “[w]here the applicant deliberately permits an application to become abandoned (e.g., due to a conclusion that ... *the invention lacks sufficient commercial value* to justify continued prosecution), the abandonment of such application is considered to be a deliberately chosen course of action, and the resulting delay cannot be considered as ‘unintentional.’” MPEP § 711.03(c)(3)(II)(C) (9th ed. 2015). This definition of “unintentional” in relation to abandoned applications also applies to issued patents. *In re Patent No. 5,181,974*, 2007 WL 4974450. Therefore, the court concluded that had the PTO known that the ‘819 and ‘858 patents were consciously allowed to expire by Paradyne, the PTO would not have revived the patents. Accordingly, Paradyne’s statement was material to continued enforceability.

Moreover, the court reviewed evidence presented by the Appellees in the district court, which included statements from Paradyne that “[f]ailure to pay [maintenance] fees results in loss of patents rights,” the presence of Paradyne’s outside counsel in patent review board meetings where Paradyne decided which patents to abandon, and documents indicating Paradyne’s surprise that a third party might have interest in the abandoned patents that prompted their revival. Based on this evidence, the district court could fairly conclude that the unintentional claim to revive the ‘819 and ‘858 patents was a post hoc rationalization.

Additionally, fact witnesses used by the Appellant were the same Paradyne employees who engaged in the inequitable conduct, and the district court was entitled to weigh it when assessing the trustworthiness of the key players and the likelihood that they had deceptive intent. The district court found that the same people who deceived the PTO were also involved in other misconduct (e.g., document spoliation, improper witness payments). As such, the district court’s finding of inequitable conduct is not erroneous.

The court further reviewed if the district court properly concluded that the Appellant had sufficient knowledge to learn of the fraud. Evidence provided by Appellees included a spreadsheet Paradyne sent the Appellant listing patents that the third party had expressed interest, which included the ‘858 patent with a comment indicating that it had been abandoned. Other evidence includes documents that were available to the Appellant in which Paradyne employees discussed their plans to revive the abandoned patents. Based on this evidence, the Appellant could have learned about the improper revival of both the ‘819 and ‘858 patents. The Appellant argued that the district court’s “should have known” imposes too high a burden on the Appellant and conflicts with the guidance in *Therasense*, which states that “[a] finding that the misrepresentation or omission amounts to gross negligence or negligence under a ‘should have known’ standard does not satisfy [the] intent requirement.” The Court found that the Appellant’s reliance on *Therasense* with regard to whether Paradyne’s misconduct renders the case exceptional is misplaced.

The court also determined that the district court’s findings that fact witness payments were improper and document spoliation were not erroneous. Based on the analysis of the district court’s findings, the court determined that the district court followed the proper procedures in making its exceptional-case determination and did not abuse its discretion under 35 U.S.C. § 285. With regard to the district court’s fee award, the court vacated and remanded for further proceedings.

IV. Conclusion

The standard for revival of a patent after failing to pay maintenance fees is the same as that for reviving patent applications, which is that the delay was unintentional. If a determination to allow a patent (or application) to lapse is due to a lack of sufficient commercial value is considered to be a deliberate abandonment of the patent (or application) and, therefore, cannot be revived. Withholding material information related to patentability from the PTO with the intent to deceive is considered to be inequitable conduct.