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Sent:	Friday, April 26, 2013 4:30 PM
To:	Cohen, David R. (DRCohen@ReedSmith.com)
Cc:	Batchelder, James R.; Fukuda, Ching-Lee; Schoenhard, Paul M.; DiBoise, James A.; Lane, Tracy T.
Subject:	SightSound v. Apple: Supplemental Briefing On Apple's January 3 Motion for Spoliation Sanction
Attachments:	SightSound Submission 4.26.13.pdf

Dear Special Master Cohen:

In light of the preliminary guidance provided at the April 22, 2013 telephone conference, SightSound provides this further submission in opposition to Apple's Motion for a Spoliation Instruction, dated January 3, 2013. (For your convenience, a pdf of this submission is attached.)

First, as set forth in greater detail in SightSound's prior submissions, in the Third Circuit a finding of "bad faith" is pivotal to a spoliation determination. Here, there is no evidence that SightSound acted in bad faith—that is, there is no evidence of any intent to defraud or suppress the truth. Rather, SightSound decommissioned its commercial systems in the ordinary course of business. In that process, and facing economic constraints, certain electronic source code and financial information that would have been extraordinarily difficult and expensive to preserve was not maintained.

Second, Apple never explains why the *specific* evidence that it claims has not been preserved, detailed source code and sales information, is relevant to any claim or defense in this case. Apple offers various theories of how generally SightSound's systems may be relevant. But Apple ignores the fact that **SightSound is not asserting as a secondary consideration of nonobviousness that the SightSound systems were commercially successful.** In fact, as Apple acknowledges, "*SightSound does not contend that SightSound practices or has practiced any of the Asserted Claims, including for the purposes of any damages analysis.*" *See* SightSound 1/18/13 Submission, Ex. F, Apple Non-Infringement Contentions, July 11, 2012 at 3 (attached chart excluded) (emphasis added). Apple's theories of relevance erroneously assume that SightSound is asserting a claim of commercial success or relying on such success for purposes of its damages claims.

Third, while SightSound does not believe there has been any spoliation, SightSound respects the Special Master's suggestion that a stipulation tailored to prevent any potential prejudice to Apple may be appropriate. Accordingly, SightSound would be willing to enter into a stipulation reiterating that SightSound will not assert the commercial success of its systems as a secondary condition of nonobviousness in this case. However, broader relief, including the adverse inference instruction that Apple seeks or a broader stipulation, would be inappropriate, as such relief is not tailored to any potential prejudice.

Fourth, and finally, Apple's submission of April 26 does not change the foregoing analysis.

I. SightSound Did Not Suppress or Withhold Evidence with the State of Mind Required to Find Spoliation.

As set forth in greater detail in SightSound's January 18, 2013 responsive submission, Apple has not met the requirements for establishing a claim of spoliation because it cannot show that SightSound acted in bad faith. The law is clear that an inference of spoliation arises "only when the spoliation or destruction [of

evidence] was intentional, and indicates fraud and a desire to suppress the truth, and it does not arise when the destruction was a matter of routine with no fraudulent intent." *Bull v. United Parcel Serv., Inc.*, 665 F.3d 68, 79 (3d Cir. 2012) (quotations and citations omitted). Put simply, "**a finding of bad faith is pivotal to a spoliation determination**." *Id.* (emphasis added).

Apple first ignored the bad faith requirement in its submission. Then, after SightSound pointed out the controlling Third Circuit authority on the necessity of a finding of bad faith, Apple ignored the plain language of the rule set forth in *Bull* and then erroneously attempted to distinguish the facts of the case on the grounds that "[w]hen taken in context, *Bull*'s bad faith discussion focuses on withholding, not destruction." (1/22/13 Apple Submission). Apple misreads *Bull*. *Bull* is not limited to withholding, as opposed to destruction. Rather, *Bull* makes clear that "accidentally destroyed" documents—not just those that were withheld—are also subject to the bad faith standard. *Id.* at 79 ("For the [spoliation] rule to apply . . . it must appear that there has been an actual suppression or withholding of the evidence. No unfavorable inference arises when the circumstances indicate that the document or article in question has been lost or accidentally destroyed, or where the failure to produce it is otherwise properly accounted for.") (quotations, citations, and emphasis omitted).

Here, there is no evidence of bad faith on the part of SightSound. There is no real dispute that the information that Apple now seeks was lost as a result of SightSound's business decision to cease its commercial activities and decommission certain electronic systems, at a time when SightSound no longer had sufficient working capital to support its continued operations. As outlined in the Declaration of Arthur Hair, this is not information that "could have been saved to disk in seconds for pennies" (Apple 1/22/13 Submission), but would have involved an expensive and costly undertaking, requiring time and resources that were not available to SightSound at the time. Apple's reliance on its expert's 20-20 hindsight opinion on what could or could not have been saved from the various parts of the SightSound system is misplaced. The question that confronted SightSound in 2002 was not whether the SightSound system could be copied with substantial time and resources, but rather whether SightSound had those resources at the time and a reason to preserve the system. SightSound did not have those resources and, further, could not have reasonably foreseen back in 2002, especially given the evolution in electronic discovery issues, that this obscure electronic information related to its commercial systems might be requested in future litigation alleging infringement of its patents. In particular, it was not foreseeable that the operations of SightSound's decommissioned systems would be relevant to any future litigation where SightSound was not alleging commercial success or lost profit damages.

Apple suggests that the bad faith requirement is somehow satisfied because SightSound was decommissioning its systems at the same time it was changing its focus to enforcement of patent rights. But the fact that SightSound may have been pursuing a strategy of litigating its patents in no way suggests that SightSound destroyed information with the intent of keeping it from future defendants. *Fairview Ritz Corp. v. Borough of Fairview*, No. 09-0875, 2013 WL 163286 (D. N.J. Jan. 15, 2013), cited by Apple on reply (1/22/13 Apple Submission), is not only not controlling, but is also distinguishable in that there the district court found that even if a nefarious motive was not required by *Bull* to establish bad faith, the plaintiff and its counsel in that case "acted intentionally or knowingly in keeping the document from [d]efendants." *Id.* at *5. Unlike the present case, in *Fairview* the "duty to preserve the document was clear," as the file was "already under subpoena" when plaintiff's counsel removed it from an accountant's files (purportedly on a claim of privilege) and subsequently misplaced it. *Id.* at *1-6. The court noted that several factors supported the conclusion plaintiff and its counsel had acted intentionally and knowingly in keeping the document from defendants, including "multiple and conflicting representations to the [c]ourt over the nature of the document and whether it was privileged," "failure to maintain a copy of the document while invoking privilege," "failure to produce a complete privilege log," and "mailing of the document . . . without preserving a copy of it." *Id.* at *5. This is a far cry from SightSound's actions in this case: over 10 years ago, while it was unwinding its commercial operations, and under significant economic constraints, SightSound did not anticipate the need to undertake expensive and time-consuming preservation measures to retain detailed source code and electronic financial

information that it did not reasonably anticipate would be requested in future litigation. In short, there is no evidence of bad faith.

II. The Requested Information Is Not Relevant to any Claim or Defense.

Apple cannot show that the *specific information* that it claims it was deprived access to is relevant to any claim or defense in this case. SightSound has already produced substantial information related to its own systems and sales. The only question therefore is whether the detailed source code and sales information that Apple now seeks is *specifically* relevant to any claim or defense. It is not.

As set forth in SightSound's January 18, 2013 submission, SightSound does not allege that Apple copied its source code. *See* 1/18/13 SightSound Submission, Ex. D, 5/15/12 Deposition of Alex LePore (LePore 5/15/12 Tr.) 196:22-197:1. Moreover, in its infringement contentions, SightSound made clear that it does not allege that its decommissioned systems practice the claimed invention. *Id.*, Ex. E, SightSound Infringement Contentions, May 15, 2012 (Initial), August 10, 2012 (First Amended), October 5, 2012 (Supplement to First Amended); *see also* L.P.R. 3-2 (requiring party claiming that its apparatus practices the claimed invention to "identify, separately for each asserted claim, each such apparatus, product, device, process, method, act, or other instrumentality that incorporates or reflects that particular claim"). Nor does SightSound assert commercial success of a SightSound product that embodies the patent. In fact, even Apple has noted that "SightSound has not 'preserve[d] the right to rely, for any purpose, on the assertion that its own apparatus, product, device, process, method, act, or other instrumentality practices the claimed invention' (L.P.R. 3.2). Accordingly, *Apple understands that SightSound does not contend that SightSound practices or has practiced any of the Asserted Claims, including for the purposes of any damages analysis.*" *See id.* Ex. F, Apple Non-infringement Contentions, July 11, 2012 at 3 (emphasis added).

Moreover, there is no question that Apple already has extensive evidence related to SightSound's systems, including a 120-page manual of SightSound's system architecture complete with over 70 diagrams of the system design and infrastructure, numerous screen shots, detailed descriptions of its programming scripts and processes, and a list of operational expenses. *See* 1/18/13 SightSound Submission, Exhibit H, SightSound Technologies System Architecture. Thus, Apple's assertion that it "has no alternative way to examine the technical architecture of SightSound's systems without the destroyed code" (Apple 1/22/13 Reply Submission) is wrong. Similarly, SightSound has produced substantial sales information, including monthly statistics on SightSound's total number of sales and rentals (by both number of units, and total sale costs) for the period from April 1999 to December 2000, as well as sales by title for the year 2000, and sales by country for the years 1999 and 2000. *See, e.g., id.* Ex. B, Sander 1/19/12 Tr., 90:1-93:14; Ex. I, Deposition Exhibit No. 185 (Sightsound.com sales). SightSound also produced numerous income statements from 1999-2001, tax returns from 1997 through 2010, and internal valuations from 2000 and 2010.

Nevertheless, Apple contends that the specific information it seeks—detailed source code, along with granular sales information about, for example, how many copies of a particular title SightSound sold in a particular year—is "unquestionably relevant." (Apple 1/22/13 Submission) Apple, however, never advances a theory of relevance that is tied to the *specific* information that it requests. Instead, Apple asserts several evolving theories of how generally information about SightSound's systems may be relevant, all of which fail.

(1) The Requested Information Is Not Relevant to Infringement.

Contrary to Apple's assertion, the source code is not relevant to Apple's defense of allegations of willful infringement. SightSound does not allege that Apple "mimicked" or "copied" SightSound's source code, or for that matter even accessed the source code. To the extent there is any ambiguity on this point, SightSound would be willing to enter into a stipulation clarifying this point.

Nor do SightSound's allegations of willful infringement of the *patented invention* have anything to do with the detailed information about SightSound's *systems* that Apple now requests. A comparison of Apple's infringing iTunes product to SightSound's decommissioned system is not relevant to the infringement analysis. Rather, in general, "it is error for a court to compare in its infringement analysis the accused product or process with the patentee's commercial embodiment or other version of the product or process; the only proper comparison is with the claims of the patent." *Zenith Labs., Inc. v. Bristol-Myers Squibb Co.*, 19 F.3d 1418, 1423 (Fed. Cir. 1994). *See also Amgen Inc. v. Hoechst Marion Roussel, Inc.*, 314 F.3d 1313, 1347 (Fed. Cir. 2003) ("And apart from the limitations of the asserted claims, the differences in the two processes are wholly irrelevant to the infringement analysis. . . . [T]he trial court once again compared the accused process by reference to an example rather than the *claimed* process . . . . Again, this was legal error insofar as the infringement analysis is not tied to the asserted claims."); *Atlantic Thermoplastics Co., Inc. v. Faytex Corp.*, 970 F.2d 834, 846 (Fed. Cir. 1992) ("This court has repeatedly emphasized that infringement analysis compares the accused product with the patent claims, not an embodiment of the claims."). Moreover, as outlined above, SightSound's infringement contentions are unambiguous that SightSound does not contend it practices or has practiced any of the asserted claims. Accordingly, in this case, there is certainly no basis for comparing Apple's iTunes system to SightSound's decommissioned system—rather, the proper comparison is to the *claims* in the patent.

(2) The Requested Information Is Not Relevant to Validity.

Apple alleges that the requested information is somehow relevant to its § 112 specification defenses and obviousness defenses. On reply, however, Apple appears to abandon the suggestion this information is relevant to any specification defense, and never addresses SightSound's arguments that commercial embodiments are irrelevant to the issue of whether the specification (i.e., the written document prior to the claims that constitutes the bulk of each of the patent-in-suit) provides support for the claims of a patent.

Apple's argument regarding the relevance of the source code and financial information to obviousness similarly fails. As SightSound has repeatedly made clear, and would be willing to further stipulate, **SightSound is not asserting commercial success of a SightSound product that embodies the patent as a secondary consideration of nonobviousness**. But all of Apple's reasons for claiming it needs source code and detailed financials assume that SightSound is asserting such a claim of commercial success. *See* Apple 1/22/13 Submission ("The absence of the source code and destroyed financial data severely prejudices Apple's necessary investigation into what drove *SightSound's success or lack thereof*. Were the *successes/failures* of SightSound's system the result of its alleged 'invention,' non-patented features of its system, content quality, content price, increases in bandwidth, increases in consumer online access, decreases in storage cost, or other factors? . . . .") (emphasis added). Because SightSound is not asserting commercial success, Apple cannot possibly suffer any prejudice by not having access to this information.

Apple misconstrues SightSound's argument when it contends on reply that "SightSound's primary relevance argument is that the destroyed systems did not embody the patents-in-suit, but that is demonstrable false." (1/22/13 Apple Submission) That is not SightSound's position. SightSound does not dispute that its commercial systems may have embodied the patents and/or been covered by one or more of the claims, and truthfully responded to discovery requests and deposition questions on this point. But that does not mean that SightSound is asserting the *commercial success* of its products, *i.e.*, that they were financially profitable or yielded significant sales and revenues, for purposes of rebutting an obviousness defense. Nor, as outlined above, does SightSound contend in its infringement contentions that for purposes of this action it contends that it practices or has practiced the patent. SightSound, however, reserves the right to offer information about SightSound's efforts to build its business and its corporate history. This may include, for example, the fact that SightSound had a system, the fact that SightSound sold songs and movies and was the first company to do so, that SightSound received praise for these firsts and its invention, and other information unrelated to commercial/financial success. SightSound's detailed source code and financial information is not relevant to

these issues; the source code could never prove or disprove whether there was praise for the invention. Accordingly, there is no basis to find that the source code is relevant to any potential invalidity defense.

(3) The Requested Information Is Not Relevant to Damages.

Apple contends that SightSound's commercial systems may be relevant to damages. Again, Apple ignores the fact that SightSound's damages theory in this case is in no way tied to SightSound's decommissioned commercial systems. SightSound is not arguing, for example, that it lost profits on its own systems because of Apple's infringement. A comparison of Apple's iTunes system to SightSound's decommissioned system is not relevant to the reasonable royalty rate damages analysis in this case, and Apple has never explained otherwise. Rather, Apple can fully explore the damages issues, including potential non-patented contributions to Apple's systems, without comparing its system to SightSound's system. The relevant comparison is to the *patent* and not to SightSound's decommissioned commercial systems. Nor is granular sales information—*e.g.*, "costs broken down by line item, to reconstruct a chronology of [SightSound's] failed business ventures and accompanying changes in strategy" (Apple 1/3/13 Submission)—in any way relevant to the damages analysis in this case.

* * *

In short, Apple fails to adequately explain why the *specific* information requested here—detailed source code and sales information from systems decommissioned over 10 years ago—is relevant to any issue in this case, or how Apple is prejudiced in asserting any claim or defense without access to this information. Rather, Apple's argument boils down to a general assertion that it is entitled to all evidence regarding SightSound's commercial systems in order to evaluate their success (or lack thereof), despite the fact that SightSound has explicitly stated it is not claiming commercial success and is not using its own sales information as a basis for any damages claim. Accordingly, Apple cannot possibly be prejudiced by not having access to this information.

III. SightSound is Amenable to Entering into a Stipulation to Address any Potential Prejudice to Apple.

While SightSound does not believe there has been any spoliation in this case, SightSound respects the Special Master's suggestion during the teleconference that a stipulation clarifying what SightSound is asserting in this litigation may be appropriate to resolve this issue. Accordingly, SightSound is willing to stipulate that it will not assert as a secondary consideration of nonobviousness that its systems were commercially successful, *i.e.*, that they were financially profitable or yielded significant sales and revenues. SightSound, however, reserves the right to offer information about SightSound's efforts to build its business and its corporate history, which it believes are undisputed and which may peripherally relate to the SightSound system. This may include, for example, the fact that SightSound had a system, the fact that SightSound sold songs and movies and was the first company to do so, that SightSound received praise for these firsts and its invention, and other information unrelated to commercial/financial success. Moreover, to the extent that the Special Master believes it is appropriate, SightSound would also be willing to enter into a stipulation further confirming that it is not alleging that its source code was ever copied, mimicked, or accessed by Apple. Any broader remedy—including Apple's proposed adverse inference instruction or a broader stipulation—is inappropriate because it would not be narrowly tailored to any potential prejudice that Apple may face in this case.

IV. Apple's Submission Of April 26 Does Not Address The Relevant Legal Standard And Does Not Articulate A Need For An Adverse Instruction Sanction.

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