

## Federal Circuit Rules on Divergent Spoliation Findings

In two related cases involving accusations of spoliation of evidence leveled against patent-owner and declaratory judgment defendant, Rambus Inc.,<sup>1</sup> an expanded five-judge panel of the US Court of Appeals for the Federal Circuit held that the duty to preserve evidence begins when litigation is “reasonably foreseeable.” The court rejected a “restrictive gloss” that the litigation be “imminent, or probable without significant contingencies.”

These two appeals arose from decisions in two district courts (*Hynix* in California, *Micron* in Delaware) reaching opposite conclusions based on the same set of underlying facts. Finding that Rambus had committed spoliation, the *Micron* court imposed dispositive sanctions and ruled Rambus’s patents unenforceable against Micron as a result. The *Hynix* court, on the other hand, found that litigation was not reasonably foreseeable at the time Rambus destroyed documents, therefore there had been no spoliation; the *Hynix* court proceeded to a trial resulting in a judgment that valid claims of the patents-in-suit had been infringed and awarded damages.

The Federal Circuit affirmed the *Micron* court’s finding of spoliation and vacated the judgment of the *Hynix* court, remanding the latter for further proceedings consistent with the standard applied in *Micron*. Notably, however, the court vacated the *Micron* court’s judgment of unenforceability, stating that the district court applied the wrong standard in its bad faith determination, which

affected the rest of the analysis of the propriety of dismissal.

### The Spoliation Determinations— Reasonably Foreseeable

It was undisputed that Rambus had destroyed large volumes of information, and the dates of the destruction of this information were similarly undisputed. The question of Rambus’s spoliation therefore turned on the date when litigation became “reasonably foreseeable.” According to the Federal Circuit, “[w]hen litigation is ‘reasonably foreseeable’ is a flexible fact-specific standard that allows a district court to exercise the discretion necessary to confront the myriad factual situations inherent in the spoliation inquiry.” The court also noted that this is an objective standard, focusing on “whether a reasonable party in the same factual circumstances would have reasonably foreseen litigation.”

The court rejected Rambus’s proposal to further limit the standard and found no clear error in the district court’s spoliation finding. Instead, the Federal Circuit recited, at length, reasons supporting the *Micron* district court’s decision.

First, it was not clear error for the *Micron* court to find that Rambus created its document retention policy “to further [its] litigation strategy by frustrating the fact-finding efforts of parties adverse to Rambus.” Preparation of the policy was one of “Rambus’s ‘IP Litigation Activity’ goals in the second and third quarters of 1998.” Rambus even implemented the policy with

an eye toward litigation, such as destroying email backup tapes because of a concern that they were discoverable information, while instructing personnel to look for and preserve “helpful documents to keep” among documents that would otherwise be destroyed under the policy.

Second, Rambus was “on notice of potentially infringing activities” at least as soon as its first patent issued. “[T]he knowledge of likely infringing activity by particular parties makes litigation more objectively likely to occur because the patentee is then more likely to bring suit.” Here, Rambus had used its position in the relevant standard-setting body to obtain information about the developing standard in order to write patent claims to cover the products complying with the emerging standard.

Third, Rambus had begun taking material steps to prepare for litigation before holding what was termed its second “shredding party.” In fact, organizing the “shredding party” was one of the “IP 3Q ’99 Goals,” which also included “preparing a litigation strategy” for pursuing one of Rambus’s targets and “being ‘ready for litigation with 30 days notice.’”

Fourth, as the patentee, Rambus had the potential to control the date of litigation against alleged infringers.

Finally, Rambus had taken the position internally that its licensees were eventual targets for infringement litigation once those licensees either rejected Rambus’s technology or were too invested in it to back out. For this reason, the ongoing business relationships between Rambus and its licensees did nothing to make litigation less foreseeable.

The panel majority noted that “most document retention policies are adopted with benign business purposes,” and that “destruction that occurs in line with” an established “policy motivated by general business needs, which may include a general concerns for the possibility of litigation ... is relatively unlikely to be seen as spoliation.” The court also noted that the

relationship between Rambus and its licensees could be distinguished from other licensor/licensee business relationships, and that “document destruction occurring during the course of a long-standing and untroubled licensing relationship relating to the patents and the accused products that ultimately become the subject of litigation is relatively unlikely to constitute spoliation.”

## The Sanctions Determination

In reviewing the *Micron* court’s award of dispositive sanctions, the Federal Circuit stated that although “[t]he district court’s opinion alludes to several key items” that could support a determination of bad faith, “the district court did not make clear the basis on which it reached that conclusion.” The Federal Circuit also noted that the district court did not apply the correct standard, disavowing a “knew or should have known” standard and identifying the proper inquiry as “whether Rambus [the spoliating party] ‘intended to impair the ability of the potential defendant to defend itself.’” The Federal Circuit remanded for a determination under the correct standard and, because the burden of proving prejudice shifts to the destroying party when there has been a showing of bad faith, remanded on the issue of prejudice as well.

The Federal Circuit also instructed the district court, on remand, to “explain the reasons for the propriety of the sanction chosen (if any) based on the degree of bad faith and prejudice and the efficacy of other lesser sanctions.” Importantly, the Federal Circuit also held that dispositive sanctions should be available only when “there is clear and convincing evidence of both bad-faith spoliation and prejudice to the opposing party.”

The Federal Circuit went on to note that prejudice “requires a showing that the spoliation ‘materially affect[s] the substantial rights of the adverse party and is prejudicial to the presentation of his case.’” Where bad faith is shown, the spoliator bears the burden to show lack of prejudice. Otherwise, the opposing party

has the burden on the issue of prejudice. The court also noted that “bad faith and prejudice, without more, do not justify the imposition of dispositive sanctions.” In imposing sanctions, a district court should consider factors including (i) the degree of fault of the spoliating party, (ii) the degree of prejudice to the opposing party and (iii) whether a lesser sanction is appropriate that will avoid unfairness to the opposing party and deter spoliating conduct by others in the future.

### The *Hynix* Decision

In the *Hynix* decision, the district court found that the litigation was not reasonably foreseeable when the documents at issue were destroyed because of a number of intervening contingencies on which litigation depended. The Federal Circuit held that this analysis narrowed the reasonably foreseeable standard and observed that it was reasonably foreseeable that each of these contingencies would occur. The court therefore vacated the district court’s judgment and remanded for proceedings consistent with the framework set forth in the *Micron* decision.

### Judge Gajarsa’s Opinions

Concurring-in-part and dissenting-in-part in both the *Micron* and *Hynix* decisions, Circuit Judge Gajarsa criticized the majority for substituting its views for the district courts’ in both cases. He also noted that the neither the

Supreme Court, the Ninth Circuit nor the Third Circuit had yet defined a standard for reasonably foreseeable litigation.

### Conclusion

While the ultimate impact of the *Rambus* decisions remains to be seen, the opinions help to clarify the standards of what is reasonably foreseeable litigation and the standards for the imposition of sanctions in the event that spoliation is found. The Federal Circuit opinion cites to case law from various circuit and district courts in this developing area of the law, and may have an influential effect on both Federal Circuit and regional circuit case law.

### Endnotes

<sup>1</sup> *Micron Technology, Inc. v. Rambus Inc.*, No. 2009-1263 and *Hynix Semiconductor Inc. v. Rambus Inc.*, Nos. 2009-1299, -1347.

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