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May 17, 2011

Federal Circuit Defines Framework for Pre-Suit Spoliation Inquiry

In *Micron Technology v. Rambus*, 2009-1263 (Fed. Cir., May 13, 2011), and its companion decision, *Hynix v. Rambus*, Nos. 2009-1299, -1347(Fed. Cir. May 13, 2011), the Federal Circuit defined a framework for determining when a litigation has become "reasonably foreseeable," thereby giving rise to a duty to preserve documents. The Federal Circuit also discussed how to determine whether a dispositive sanction is appropriate against a spoliator.

I. Background

In 1996, Rambus offered licenses under patent properties covering Rambus's Dynamic Random Access Memory (RDRAM) to Micron, Intel and other chip manufacturers. Toward the end of 1999, manufacturing delays caused Intel to move to an SDRAM (synchronous DRAM) platform not covered by the licenses but believed by Rambus to be covered by the patent properties. In 2000, Rambus initiated infringement suits against SDRAM manufacturers, and Micron initiated the declaratory judgment action.

Micron argued to the lower court that Rambus committed spoliation by destroying documents at two "shredding parties," one in 1998 and one in mid-1999, during which Rambus destroyed more than nine tons of documents. Rambus countered that there was no duty to preserve documents until later, in part because of a series of litigation contingencies that had to be cleared. In response, Micron asserted that Rambus had long planned litigation against SDRAM manufacturers. The district court found that litigation was foreseeable by late 1998 and sanctioned Rambus by holding the patents unenforceable against Micron and dismissing the action.

II. The Federal Circuit Decision

The Federal Circuit held that spoliation is "the destruction or material alteration of evidence, or the failure to preserve property for another's use as evidence in pending or reasonably foreseeable litigation." Spoliation is governed by an objective standard that asks whether a "reasonable party in the same factual circumstances would have reasonably foreseen litigation." In addition, reasonable foreseeability "is a flexible fact-specific

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standard that allows a district court to exercise the discretion necessary to confront the myriad factual situations inherent in the spoliation inquiry."

III. The Framework for Determining That Litigation Is Reasonably Foreseeable

Micron/*Hynix* established a five-factor "framework" for determining when the duty to preserve documents begins. This framework was, of course, influenced by the facts involving Rambus, and is not necessarily exclusive.

i. First Factor: No Long-standing Document Destruction Policy

"[W]here a party has a long-standing policy of destruction of documents on a regular schedule, with that policy motivated by general business needs, which may include a general concern for the possibility of litigation, destruction that occurs in line with the policy is relatively unlikely to be seen as spoliation." Because the only reason for Rambus's document destruction, which included destroying emails despite a "growing worry" that the emails contained discoverable information, was to frustrate the fact-finding efforts of adverse parties, this factor weighed against Rambus.

ii. Second Factor: Knowledge of Infringing Activity

"[W]hile it may not be enough to have a target in sight that the patentee believes may infringe, the 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." A 1998 "Nuclear Winter" memorandum, predicting a market shift to SDRAM, included infringement charts and a time frame for implementing Rambus's litigation strategy, indicating that Rambus had sufficient notice of infringing activities.

iii. Third Factor: Steps in Furtherance of Litigation

Actually having taken steps in furtherance of litigation suggests the foreseeability of that litigation. Prior to the second shredding party, Rambus developed a "litigation readiness" plan that included being ready for litigation with thirty days' notice and implementing the second shredding party. The plan contemplated filing complaints by October 1, 1999, provided all contingencies cleared. Rambus argued that not all contingencies had cleared so it could not have taken steps in furtherance of litigation. However, an internal memo from late 1998 indicated that Rambus was "not interested in settling" and should "push for very high rates," which it knew would lead to litigation. While it would have been "more foreseeable" if the contingencies had cleared prior to the second shredding party, the Federal Circuit found no clear error in the *Micron* court's finding that the contingences were likely to be cleared.

In *Hynix*, the district court had found merit in the litigation contingencies argument, but the Federal Circuit commented that "it would be inequitable to allow a party to destroy documents it expects will be relevant in an expected future litigation, solely because contingencies exist, where the party destroying documents fully expects those contingencies to be resolved." Accordingly, the Court found that litigation was reasonably

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foreseeable in *Hynix* and remanded that case for further proceedings consistent with the *Micron* framework.

iv. Fourth Factor: Reasonable Foreseeability of Litigating the Patents

It is "more reasonable for a party in [patentee's] position as a patentee to foresee litigation that does in fact commence, than it is for a party in the manufacturers' position as the accused." Rambus's decision was "the determining factor" for whether or not litigation would ensue, so that litigation was foreseeable.

v. Fifth Factor: The Parties' Relationship

"[W]hen parties have a business relationship that is mutually beneficial and that ultimately turns sour, sparking litigation, the litigation will generally be less foreseeable than would litigation resulting from a relationship that is not mutually beneficial or is naturally adversarial." In the case of Rambus, the relationship between the parties, based on licensing intellectual property related to RDRAM, did not make litigation concerning SDRAM any less likely, because the relationship in that context was not mutually beneficial.

IV. The Dispositive Sanction

The Federal Circuit also provided useful guidance on when the sanction of dismissal may be appropriate.

i. Bad Faith

The standard for bad faith (in the case of a plaintiff) is whether the plaintiff "intended to impair the ability of a potential defendant to defend itself." (A similar standard for a defendant can be easily discerned.) Because the district court failed to clearly articulate a reason for concluding that Rambus's acts were carried out in bad faith, other than the fact that spoliation occurred from intentional document destruction, the Court found its analysis "too sparse" to determine whether the "applicable exacting standard" had been applied.

ii. Prejudice: Burden Shifts on a Finding of Bad Faith

A party is prejudiced by spoliation when it "materially affect[s] the substantial rights of the adverse party and is prejudicial to the presentation of his case." The party claiming prejudice has a burden of providing "plausible, concrete suggestions as to what [the destroyed] evidence might have been." Where bad faith is shown, the burden shifts, leaving the spoliator with a "heavy burden" of showing a "lack of prejudice" to its adversary. Proper resolution of this issue turns on the resolution of the bad-faith inquiry, and so the Federal Circuit left this to the district court on remand.

iii. A Dispositive Sanction Requires More Than Prejudice and Bad Faith

To justify a dispositive sanction, which is a "harsh sanction" imposed only in "egregious situations," and which is not warranted even in "the presence

of bad faith and prejudice, without more," courts must consider "(1) the degree of fault of the party who altered or destroyed the evidence; (2) the degree of prejudice suffered by the opposing party; and (3) whether there is a lesser sanction that will avoid substantial unfairness to the opposing party and, where the offending party is seriously at fault, will serve to deter such conduct by others in the future." The Federal Circuit instructed the district court to perform this analysis on remand and to "select the least onerous sanction corresponding to the willfulness of the destructive act and prejudice" suffered by Micron. If the district court determines that a dispositive sanction is appropriate, as compared with, for example, adverse jury instructions or the preclusion of evidence, it must justify why "only dismissal" would "vindicate the tri-fold aims of: (1) deterring future spoliation of evidence, (2) protecting the defendants' interests, and (3) remedying the prejudice defendants suffered as a result of Rambus's actions."

V. What This Means to You

The Federal Circuit has now provided concrete guidance for addressing spoliation issues in the context of patent litigation. For those not presently contemplating such litigation, it is important to put a document-destruction policy in place well in advance of any arguably foreseeable litigation. Once the specter of litigation is raised, *Micron* and *Hynix* provide a framework for determining whether, and when, the duty to preserve documents arises. The duty to preserve may arise well before litigation commences, depending on the facts of the individual case.

In the event of spoliation, sanctions may be significant, including leaving a patent owner without the ability to enforce its patent. If you are contemplating the possibility of litigation, as either a plaintiff or a defendant, consult with your attorneys to ensure that you are not knocked out of court before you even get there.

Please contact us if you have questions about implementing a document-destruction policy, questions about your active document destruction policies, or questions about how *Micron* and *Hynix* affect your litigation plans.

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