

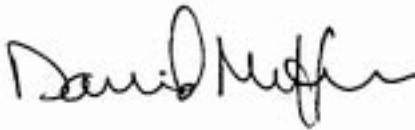
FILED
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April 25, 2005 (11:55am)
DISTRICT OF UTAH

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF UTAH CENTRAL DIVISION

<p>PHILLIP M. ADAMS and PHILLIP M. ADAMS & ASSOCIATES, L.L.C.,</p> <p style="text-align: center;">Plaintiffs,</p> <p style="text-align: center;">vs.</p> <p>GATEWAY, INC.,</p> <p style="text-align: center;">Defendant.</p>	<p style="text-align: center;">REPORT AND RECOMMENDATION REGARDING SPOILIATION MOTIONS</p> <p>Case No: 2:02-CV-106 TS</p> <p>District Judge Ted Stewart Magistrate Judge David Nuffer</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"><p>This is an unsealed version of a document filed under seal March 29, 2005, as docket no. 347.</p></div>
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The parties' motions for sanctions for spoliation¹ were referred to the undersigned under [28 U.S.C. §636\(b\)\(1\)\(B\)](#).² The undersigned was directed to consider the motions, hear oral argument, conduct evidentiary hearings as deemed appropriate and submit to the District Judge a report and recommendation for the proper resolution of dispositive matters presented.

IT IS HEREBY ORDERED that this unsealed, redacted version of a document filed under seal March 29, 2005, as docket no. 347, is FILED. Dated this 25th day of April, 2005.



David Nuffer
U.S. Magistrate Judge

¹ Plaintiff's [sic] Motion for Judgment Based upon Gateway's Spoliation of Evidence (Plaintiffs' Spoliation Motion no. 101), docket no. 101, filed under seal September 26, 2003; Defendant's Motion Requesting Inference of Patent Invalidity and Unenforceability Pursuant to the Spoliation Doctrine (Gateway's Spoliation Motion no. 186), docket no. 186, filed under seal April 1, 2004.

² Docket no. 127, filed December 10, 2003, and docket no. 330, filed March 15, 2005.

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Overview of Facts Giving Rise to Litigation

The individual plaintiff, Phillip M. Adams, discovered a defect in the floppy disk controller (FDC) of some computers in the late 1980's. The defect causes random and sometimes undetected destruction of data on computers.³ Dr. Adams has developed several patented computer technologies to detect and resolve the defect.⁴ He claims this technology is worth hundreds of millions of dollars.⁵ Adams says Hewlett-Packard and other computer companies have licensed his Detector and Solution for approximately \$30 million.⁶ He describes the industry impact of the defect and solutions:

The scope and seriousness of the [floppy disk controller] Defect were recently illustrated by the \$2.1 billion *Toshiba* class-action settlement in the Eastern District of Texas. A *Wall Street Journal* article dated November 9, 1999 describ[ed] the Toshiba settlement In addition to the *Toshiba* class-action settlement, the United States Government recently settled False Claims Act claims against *Toshiba* for \$33.5 million. A *Wall Street Journal* article dated October 16, 2000 describ[ed] Toshiba's settlement with the United States Government The State of California recently settled California State False Act [sic] Claims against Toshiba for \$33 million. Several billion dollar class-action lawsuits are presently pending against different computer companies in various Federal and State courts.⁷

³ Memorandum in Support of Plaintiff's [sic] Motion for Judgment Based Upon Gateway's Spoliation of Evidence (Adams' Spoliation Memorandum no. 102), at 2, docket no. 102, filed under seal September 26, 2003.

⁴ *Id.* at 3.

⁵ *Id.* at 2.

⁶ Plaintiffs' Memorandum in Support of Plaintiffs' Motion for Judgment and Sanctions Based upon Failure to Disclose Stolen Detector and Deceptive Use of "Consulting Expert" Designation in Privilege Logs (Adams' Memorandum no. 177) at 2, docket no. 177, filed March 16, 2004.

⁷ Adams' Spoliation Memorandum no. 102, at 3.

As early as November 8, 1999, Gateway began its inquiry into the Defect.⁸ Adams' contact with Gateway began in March 2000.⁹ In May, 2000, Adams' counsel contacted Gateway,¹⁰ and after a non-disclosure agreement was signed, the parties met in Salt Lake City on July 12, 2000, and in San Diego on February 26, 2001.¹¹ At the first meeting, Adams demonstrated his detection and solution software on Gateway computers.¹²

Shortly after that first meeting, on July 26, 2000, Gateway sent a letter to its suppliers, requesting that each "certify in writing to Gateway as soon as possible that its FDC products correctly detect and process data underrun conditions"¹³ Gateway also undertook testing and evaluation of its computers. This process involved many e-mail exchanges, and at least two detection software applications that are referred to in documents produced by Gateway.¹⁴

⁸ Document no. 230 in Gateway's Supplemental Notebook with Documents to Which Gateway Does Not Claim Privilege, docket no. 174, filed under seal March 10, 2004, pursuant to the Court's December 15, 2003, Order, docket no. 131. For some reason, Gateway has taken the position that its investigation began in May 2000. [Third] Declaration of Mark Walker ¶ 4, dated October 3, 2003, filed as Exhibit 1 to Defendant's Response to Plaintiff's Motion to Compel Documents, docket no. 106, filed under seal October 14, 2003.

⁹ Adams' Spoliation Memorandum no. 102 at 5; Adams' Memorandum in Support of Plaintiffs' Motion to Compel Documents Improperly Withheld on the Basis of Privilege (Adams' Memorandum no. 82) at 3, docket no. 82, filed under seal September 3, 2003.

¹⁰ [Third] Declaration of Mark Walker ¶ 7.

¹¹ Adams' Memorandum no. 177 at 2; Adams' Spoliation Memorandum no. 102 at 6.

¹² *Id.* at 2.

¹³ An example is attached as Exhibit A to Defendant's Response to Adams' Motion for Judgment Based Upon Gateway's Spoliation of Evidence (Gateway's Spoliation Memorandum no. 107), docket no. 107, filed October 17, 2003.

¹⁴ Exhibits F and G to Adams' Spoliation Memorandum no. 102. *See also* Exhibit D in Sealed Exhibits to Sealed Order Regarding Motion to Compel Documents Improperly Withheld on Basis of Privilege, docket no. 118, filed November 17, 2003, listed in Index to Sealed Exhibits to Sealed Order Regarding Motion to Compel Documents Improperly Withheld on Basis of Privilege, docket no. 132, filed December 15, 2003.

At the second meeting, in San Diego, Adams again demonstrated his software on Gateway computers. All or some of the six computers present were apparently problem free.¹⁵ Adams says that sometime between the Salt Lake City and San Diego meetings, Gateway violated the non-disclosure agreement¹⁶ and began infringing on his patents.¹⁷

Overview of Plaintiffs' Motion

Plaintiffs allege that Defendant spoliated evidence, pointing to Gateway's inability to produce:

- a. copies of some of the letters sent to Gateway's suppliers in July, 2000;¹⁸
- b. some of the computers present at the meeting between Gateway and Plaintiff Adams on February 26, 2001;¹⁹
- c. e-mail messages sent in June and August 2000;²⁰ and
- d. test utility programs.²¹

Adams asks that the court enter judgment against Gateway "on the issues of liability based upon Gateway's repeated acts and pattern of spoliation of evidence in this litigation."²²

¹⁵ Adams' Spoliation Memorandum no. 102 at 5; Transcript of Hearing July 3, 2003 (Transcript 7/3/03), at 55-56.

¹⁶ Second Amended Complaint, Count II at 7-8. docket no. 39, filed April 17, 2003.

¹⁷ *Id.*, Count I at 6-7.

¹⁸ Adams' Spoliation Memorandum no. 102 at 5.

¹⁹ *Id.*, at 5-6.

²⁰ *Id.* at 6-7

²¹ *Id.*

²² Plaintiffs' Spoliation Memorandum no. 102 (cover page).

Overview of Defendant's Motion

Defendant alleges that Adams destroyed many documents in the development of his invention and in the patent application process. Gateway complains that it does not have access to many categories of communications between Adams and patent counsel (1) communications substantively discussing the invention; (2) drafts of applications, drawings and inventor and attorney notes; (3) communications from the attorneys to Adams describing the progress of the patent prosecution; and (4) responsive communications from Adams to the attorneys.²³ These items are neither contained in the Patent Office files nor in files held by Adams or his patent counsel.²⁴ Gateway asks that an inference be imposed that the patents are invalid and unenforceable.²⁵

Spoliation

Spoliation claims arise when one party's actions make evidence unavailable to another party. "The term 'spoliation' [sic] encompasses a third party's intentional or negligent destruction or loss of tangible evidence, which destruction or loss impairs a person's ability to prove or defend a prospective civil action."²⁶ Spoliation may be a tort, the basis for an evidentiary inference, or a basis for a judicial sanction.

²³ Defendant's Reply in Support of Its Motion Requesting Inference of Patent Invalidity and Unenforceability (Gateway's Spoliation Reply no. 203) at 3, docket no. 203, filed April 27, 2004.

²⁴ Adams waived the attorney-client privilege as to Patent application materials. Plaintiffs' Opposition to Gateway's Motion Requesting Inference of Patent Invalidity and Unenforceability Pursuant to the Spoliation Doctrine at 3 (Adams' Spoliation Opposition no. 198), docket no. 198, filed April 16, 2004.

²⁵ Gateway's Spoliation Motion no. 186 at 4.

²⁶ [Talmadge v. State Farm Mut. Auto. Ins. Co.](#), No. 96-8044, 1997 WL 73476, at *3 (10th Cir. Feb. 21, 1997)(unpublished decision).

Duty to Preserve Evidence - The Foundation of Spoliation Law

The power to punish spoliation is founded on the parties' fundamental obligation to preserve evidence. A party has a common law duty to preserve evidence. "A litigant has a duty to preserve evidence that he knows or should know is relevant to imminent or ongoing litigation."²⁷ The duty to preserve is violated when evidence is lost or destroyed even before suit is filed. "The duty to preserve material evidence . . . extends to that period before the litigation when a party reasonably should know that the evidence may be relevant to anticipated litigation."²⁸

The doctrine finds frequent application in cases in which allegedly defective products were unavailable by reason of a plaintiff's actions. Cases have been dismissed when

- a car was destroyed before suit was filed,²⁹
- a space heater was discarded two years before filing suit,³⁰
- a truck trailer was disposed of as wreckage two months before suit was filed after saving the allegedly defective part,³¹
- parts of a gas grill were discarded two years before litigation,³² and

²⁷ [*Jordan F. Miller Corp. v. Mid-Continent Aircraft Serv., Inc.*, No. 97-5089, 1998 WL 68879, *5 \(10th Cir. Feb. 20, 1998\)\(unpublished decision\).](#)

²⁸ [*Silvestri v. General Motors Corp.*, 271 F. 3d 583, 591 \(4th Cir. 2001\).](#)

²⁹ [*Dillon v. Nissan Motor Co.*, 986 F.2d 263 \(8th Cir. 1993\).](#)

³⁰ [*Unigard Security Ins. Co. v. Lakewood Eng. & Mfg. Corp.*, 982 F.2d 363, 367 \(9th Cir. 1992\)](#)(citing two other cases imposing sanctions for pre-filing destruction of evidence).

³¹ [*Stubli v. Big D Int'l Trucks, Inc.*, 810 P.2d 785 \(Nev. 1991\).](#)

³² [*Allstate Ins. Co. v. Sunbeam Corp.*, 53 F.3d 804 \(7th Cir. 1995\).](#)

- a vehicle was sold for salvage three years before litigation.³³

At least one jurisdiction has a rule that a product liability case alleging a defect in the specific item and not in the run of production must be dismissed if the product is unavailable for a reason attributable to the plaintiff, even if the destruction is inadvertent.³⁴ When it is a defendant who has made evidence unavailable, default judgment may be entered.³⁵

The Spoliation Tort

While the spoliation tort is not an issue here, examination of its typical elements allows a contrast with the term as used in making evidentiary inferences and imposing discovery sanctions. The negligent tort of spoliation has six elements:

At a minimum, a person claiming negligent spoliation must establish the following elements: (1) existence of a potential civil action; (2) a legal or contractual duty to preserve evidence relevant to that action; (3) destruction of that evidence; (4) significant impairment in the ability to prove the lawsuit; (5) a causal relationship between the evidence destruction and the inability to prove the lawsuit; and (6) damages.³⁶

The spoliation tort is intended to substitute for a lost opportunity to litigate, compensating the wronged party and penalizing the destroyer of evidence. It provides a remedy for the destruction of evidence by monetary compensation for the loss of a valid claim. The measure of damage is the measure of the lost claim.

³³ *Silvestri, supra.*

³⁴ [Lee v. Boyle-Midway Household Prods, Inc., 792 F. Supp. 1001, 1005-06 \(W.D. Pa. 1992\)](#)(citing *Roselli v. General Elec. Co.*, 599 A.2d 685 (Pa. Super. 1991)).

³⁵ [Computer Associates Int'l, Inc. v. American Fundware, Inc., 133 F.R.D. 166, 170 \(D. Colo. 1990\).](#)

³⁶ [Talmadge, 1997 WL 73476](#), at *3.

Similarly, spoliation evidentiary inferences and judicial sanctions compensate for the loss of evidence. Their elements, purposes and implementations are different, however.

The Evidentiary Inference

The evidentiary inference which arises on spoliation is that the evidence which was lost or destroyed was unfavorable to the party which destroyed it. In effect, the act of destruction admits the quality of the evidence destroyed. “[T]he general rule is that bad faith destruction of a document relevant to proof of an issue at trial gives rise to an inference that production of the document would have been unfavorable to the party responsible for its destruction.”³⁷

The adverse inference to be drawn from destruction of records is usually predicated on bad conduct of the destroying party. “[T]he circumstances of the act must manifest bad faith. Mere negligence is not enough, for it does not sustain an inference of consciousness of a weak case.”³⁸ The mental state coupled with the destruction gives rise to the inference, as an evidentiary substitute. The inference arises to cancel the beneficial effect of the wrongful act.

Some authorities hold that bad faith need not be shown, since trial courts have broad discretion to impose inferences for loss of evidence or failure to present it.

As a general proposition, the trial court has broad discretion to permit a jury to draw adverse inferences from a party's failure to present evidence, the loss of evidence, or the destruction of evidence. While a finding of bad faith suffices to permit such an inference, it is not always necessary.³⁹

³⁷ [Aramburu v. Boeing Co.](#), 112 F.3d 1398, 1407 (10th Cir. 1997).

³⁸ [Vick v. Texas Employment Comm'n](#), 514 F.2d 734, 737 (5th Cir. 1975)(quoting McCormick, *Evidence* § 273 at 660-61 (1972)); (also citing [31A C.J.S. Evidence § 156\(2\)](#) (1964)). See also [Aramburu](#), 112 F.3d at 1407.

³⁹ [Vodusek v. Bayliner Marine Corp.](#), 71 F.3d 148, 156 (4th Cir. 1995)(citing [Glover v. BIC Corp.](#), 6 F.3d 1318, 1329 (9th Cir.1993)).

The evidentiary inference is imposed “for the purpose of leveling the evidentiary playing field and for the purpose of sanctioning the improper conduct.”⁴⁰

Judicial Sanctions for Spoliation

Judicial sanctions for spoliation may be based on discovery rules or on the court’s inherent power to manage its processes.

Sanctions Under Rule 37

The more formulaic spoliation sanctions result from a party’s breach of duties to disclose or discover. That conduct makes available the remedies of Fed. R. Civ. P. 37 which may be as extreme as “dismissing the action or proceeding or any part thereof, or rendering a judgment by default against the disobedient party.”⁴¹

⁴⁰ *Id.* (citing [Welsh v. United States](#), 844 F.2d 1239, 1246 (6th Cir. 1988)); (also citing [Nation-Wide Check Corp. v. Forest Hills Distrib., Inc.](#), 692 F.2d 214, 218 (1st Cir. 1982)).

⁴¹ Fed. R. Civ. P. 37(b)(2)(c).

The duty to disclose evidence arises shortly after suit is filed.⁴² The duty continues throughout the case.⁴³ That duty obviously includes a duty to preserve.

Each discovery method is governed by a rule imposing a duty of compliance, from which a duty to not spoliolate arises.⁴⁴ Fed. R. Civ. P. 37(a)(2) provides a procedure for relief for failures to disclose or to respond to discovery. If spoliation occurs, Rule 37 sanctions for failure to disclose or respond to discovery may be available. Under Fed. R. Civ. P. 37(a), courts may order compliance with disclosure or discovery obligations (which would be ineffective in the case of spoliolated evidence), and may impose monetary sanctions for the “reasonable expenses incurred in making the motion, including attorney’s fees.”⁴⁵

⁴²

[A] party must, without awaiting a discovery request, provide to other parties:

(A) the name and, if known, the address and telephone number of each individual likely to have discoverable information that the disclosing party may use to support its claims or defenses, unless solely for impeachment, identifying the subjects of the information;

(B) a copy of, or a description by category and location of, all documents, data compilations, and tangible things that are in the possession, custody, or control of the party and that the disclosing party may use to support its claims or defenses, unless solely for impeachment;

(C) a computation of any category of damages claimed by the disclosing party, making available for inspection and copying as under Rule 34 the documents or other evidentiary material, not privileged or protected from disclosure, on which such computation is based, including materials bearing on the nature and extent of injuries suffered; and

(D) for inspection and copying as under Rule 34 any insurance agreement under which any person carrying on an insurance business may be liable to satisfy part or all of a judgment which may be entered in the action or to indemnify or reimburse for payments made to satisfy the judgment.

Fed R. Civ. P. 26(a)(1)

⁴³

Fed R. Civ. P. 26(e)(1).

⁴⁴

Fed. R. Civ. P. 30 (depositions); 33(b) (interrogatories); 34(b) (requests for production, inspection or entry); and 36(a) (requests for admissions).

⁴⁵

Fed. R. Civ. P. 37(a)(4).

If an order compelling discovery has been issued and violated by spoliation, the court's options are very broad. Fed. R. Civ. P. 37(b)(2) enumerates an illustrative variety of sanctions, including an order that certain facts be taken as true, that the disobedient party be barred from taking certain positions, that pleadings be stricken, and that default judgment be entered. as well as invoking contempt powers. The Rule also specifies that the court "shall require the party failing to obey the order or the attorney advising that party or both to pay the reasonable expenses, including attorney's fees," and has expansive powers to make "such orders . . . as are just."⁴⁶

Guidelines for imposition of the extreme sanction of dismissal (against a violating plaintiff) or judgment (against a violating defendant) which apply generally to discovery sanctions also apply to spoliation sanctions.

Before choosing dismissal as a just sanction, a court should ordinarily consider a number of factors, including: (1) the degree of actual prejudice to the defendant; (2) the amount of interference with the judicial process; (3) the culpability of the litigant; (4) whether the court warned the party in advance that dismissal of the action would be a likely sanction for noncompliance; and (5) the efficacy of lesser sanctions.⁴⁷

Dismissal and entry of judgment are remedies of last resort because "a court should impose the least onerous sanction that will remedy the prejudice and, where applicable, punish the past wrongdoing and deter future wrongdoing."⁴⁸ Those extreme remedies divest a party of the right

⁴⁶ Fed. R. Civ. P. 37(b)(2).

⁴⁷ [*Ehrenhaus v Reynolds*, 965 F.2d 916, 921 \(10th Cir. 1992\)](#)(citations and quotation marks omitted).

⁴⁸ [*Miller*, 1998 WL 68879](#) at *6.

to participate in the judicial process, but are appropriate where a party's actions have had that same effect on an opponent.

Inherent Judicial Authority

Beyond the evidentiary inference and sanctions under the discovery rules, the court has distinct and inherent authority to impose a broad range of sanctions for spoliation. This inherent power of the court protects the essential fairness of proceedings. "Federal courts possess inherent powers necessary 'to manage their own affairs so as to achieve the orderly and expeditious disposition of cases.'"⁴⁹ "The policy underlying this inherent power of the courts is the need to preserve the integrity of the judicial process in order to retain confidence that the process works to uncover the truth."⁵⁰ If a spoliator were to proceed unchecked, with no penalty for obfuscation, confidence in the judicial process would be undermined. Spoliation sanctions prevent injustice.

Remedies for Spoliation

Remedies which may be imposed for spoliation under the inherent authority of the court are case specific.

While a district court has broad discretion in choosing an appropriate sanction for spoliation, "the applicable sanction should be molded to serve the prophylactic, punitive, and remedial rationales underlying the spoliation doctrine." . . . We have recognized that when imposing spoliation sanctions, "the trial court has discretion to pursue a wide range of responses both for the purpose of leveling

⁴⁹ Id., at *3 (quoting [Chambers v. NASCO, Inc.](#), 501 U.S. 32, 43 (1991)).

⁵⁰ [Silvestri](#), 271 F. 3d at 590.

the evidentiary playing field and for the purpose of sanctioning the improper conduct.”⁵¹

“Sanctions for destruction of evidence may include dismissal of the case, the exclusion of evidence, or a jury instruction on the ‘spoliation inference.’ . . . The primary aim of the sanction is remedial, although deterrence may play a role.”⁵²

Tenth Circuit Case Law

The most recent published Tenth Circuit case to consider spoliation sanctions evaluated the evidentiary inference. The inference was not imposed where records were lost inadvertently and similar information was available from other records.⁵³

An earlier published case from the District of Colorado entered a default judgment against a party which had destroyed computer source code after infringement litigation started.

Prior to [the time this suit was filed], [Defendant] at any one time had retained only the then current version of PC-Fund's source code. Under that procedure, as the program was revised, previous versions were destroyed. [Defendant] continued this practice until September 1987, long after commencement of this lawsuit. The record indicates that such a practice is commonly followed in the industry, for legitimate reasons, and is not inherently wrongful. However, it is not the general propriety of the practice that is at issue.⁵⁴

The court found that the duty to preserve the source code versions actually arose before filing of suit, when the defendant knew or should have known that the plaintiff claimed infringement.

⁵¹ [Silvestri](#), 271 F.3d at 590 (citations omitted)(quoting *respectively West v. Goodyear Tire & Rubber Co.*, 167 F.3d 776, 779 (2d Cir. 1999) and *Vodusek v. Bayliner Marine Corp.*, 71 F.3d 148, 156 (4th Cir. 1995)).

⁵² [Vazquez-Corales v. Sea-Land Serv., Inc.](#), 172 F.R.D. 10, 13-14 (D.P.R. 1997).

⁵³ [Aramburu](#), 112 F.3d at 1407.

⁵⁴ [Computer Associates](#), 133 F.R.D. at 168.

The case illustrates application of severe sanctions when central evidence is destroyed in the context of a dispute.

An unpublished Tenth Circuit case, [*Jordan F. Miller Corp. v. Mid-Continent Aircraft Serv., Inc.*](#),⁵⁵ determined that the sanction of dismissal would be imposed under the court's inherent authority where evidence was discarded before the case was filed. While noting that “bad faith” was necessary to support an inference that destroyed evidence was unfavorable, the court relied on cases holding that bad faith was not necessary to support exclusion of evidence or even dismissal.⁵⁶ The court held that two factors were of most importance in the imposition of sanctions for spoliation under a court's inherent power.

When deciding whether to sanction a party for the spoliation of evidence, courts have considered a variety of factors, two of which generally carry the most weight: (1) the degree of culpability of the party who lost or destroyed the evidence, and (2) the degree of actual prejudice to the other party.⁵⁷

Miller cited another opinion⁵⁸ which enumerated factors to be considered in imposing spoliation sanctions:

- whether the prejudice can be cured;
- the practical importance of the evidence;
- amount of interference with judicial process;
- good faith or bad faith;
- the potential for abuse; and
- if dismissal is considered, whether party was warned of possibility of dismissal for noncompliance with discovery, and efficacy of lesser sanction than dismissal.

⁵⁵ [No. 97-5089, 1998 WL 68879 \(10th Cir. Feb. 20, 1998\).](#)

⁵⁶ *Id.* at *4.

⁵⁷ *Id.*

⁵⁸ *Vazquez-Corales*, 172 F.R.D. at 13.

In addition to the foregoing, a court might also consider any other statutory, regulatory or self-imposed duties a party might have to retain evidence, and whether a party's retention practice is reasonable in light of potential claims and third party interests.

Plaintiffs' Allegations of Spoliation

Plaintiff makes allegations of spoliation as to many different items. Because the remedies for spoliation are so fact sensitive, the allegations must be examined separately. Gateway offers no explanation of the unavailability of these items. Their absence is puzzling because some similar items are available.

Copies of Letters to Suppliers. Gateway admits that it does not have and has not produced two of the letters it sent to suppliers on June 26, 2000.⁵⁹ But Gateway has produced three others, which Gateway says are essentially identical to the missing letters and has named all five of the recipients.⁶⁰ Further supporting its claim of lack of prejudice to Adams, Gateway alleges that the letters did not violate the non-disclosure agreement⁶¹ so that the absence is not legally significant. Adams does not respond to these arguments.⁶²

Two computers used in San Diego. Again, Gateway admits that it does not have two of the computers present at the February 26, 2000, San Diego meeting. Gateway claims Adams delayed inspection of the four computers which were made available and that Gateway has

⁵⁹ Gateway's Spoliation Memorandum no. 107 at 5.

⁶⁰ *Id.*

⁶¹ *Id.*

⁶² Plaintiffs' Reply Memorandum in Support of Plaintiffs' Motion for Judgment Based upon Gateway's Spoliation of Evidence (Adams' Spoliation Reply no. 115), docket no. 115, filed November 5, 2003.

provided identical motherboards in lieu of the two missing computers.⁶³ While Adams claims the missing computers (along with the test utilities discussed below) are “the proverbial ‘smoking guns’ in this litigation” and “will demonstrate beyond a reasonable doubt that Gateway infringed Dr. Adams’ patented Detector and Solution,”⁶⁴ the magistrate judge has found no factual support for this assertion.

E-mails. Adams’ motion also points out that Gateway is unable to come up with two e-mails generated in June and August 2000.⁶⁵ These e-mails are referred to in e-mails which Gateway has produced.⁶⁶

A June 13, 2000 e-mail⁶⁷ contains a reference to an e-mail Thomas (GT) Stepp, a Gateway engineer,⁶⁸ sent the prior week to Steven Chen and Charles Chiang at MSI,⁶⁹

These questions from the June

⁶³ Gateway’s Spoliation Memorandum no. 107 at 8

⁶⁴ Adams’ Spoliation Reply no. 115 at 1.

⁶⁵ Adams Spoliation Memorandum no. 102, at 1, 6-7.

⁶⁶ Exhibits E and F to Adams’ Spoliation Memorandum no. 102.

⁶⁷ Exhibit E to Adams’ Spoliation Memorandum no. 102.

⁶⁸ Gateway Personnel, Exhibit A-1 (Gateway Personnel Exhibit A-1 in no. 150), November 2003 Gateway Privileged Documents for *In Camera* Review, docket no. 150, filed under seal November 25, 2003.

⁶⁹ Chen’s e-mail address, shown on the e-mail, is at msi.com.tw. Exhibit E to Adams’ Spoliation Memorandum no. 102.

13 e-mail appear to repeat the missing e-mail's inquiries about the origin and nature of the Winbond FDC.

An August 4, 2000, e-mail from Chris Wetzel, a Gateway Product Manager, to various Gateway and MSI employees, asks the recipients to “[r]efer to the email from GT Stepp regarding the testing of boards with the 3.60TEST utility sent earlier today to MSI.”⁷⁰ The subject of the missing e-mail is much closer to the central issues of this case, because the missing email discussed testing of computer motherboards with a test utility. The referencing e-mail is not clear whether the item sent earlier that same day to MSI was the missing e-mail or the 3.60TEST utility itself. If Gateway was sending a detector to MSI, that fact would fly in the face of Gateway's assertions that it never possessed or used a detector.⁷¹

Another e-mail of importance, also related to a software detector, is missing. The existence of this e-mail became known after Adams' spoliation motion was filed. Gateway admits that Charlie Ma of Quanta e-mailed Plaintiffs' detector software to YC Woon, a Gateway employee, in early January 2001. But Gateway claims it does not have this e-mail.⁷² Adams claims Gateway's failure to produce this e-mail means it has been spoliated.⁷³ The context of this e-mail makes it quite significant, as it was the means by which Gateway came into

⁷⁰ Exhibit F to Adams' Spoliation Memorandum no. 102.

⁷¹ See Sealed Report and Recommendation Regarding Gateway's Possession of Adams' Detector and Designation of Consulting Experts at 7-10 (R & R Re: Detector and Consultants), entered concurrently with this report and recommendation.

⁷² Gateway's Response to Plaintiffs' Response to Gateway's Accounting at 5, docket no. 312, filed under seal January 4, 2005.

⁷³ Plaintiffs' Response to Gateway's Accounting in Compliance with Magistrate Judge David Nuffer's August 9, 2004 Order (Dkt. No. 246) [sic] at 2, docket no. 273, filed under seal September 17, 2004.

possession of Adams' detector in the very time frame that Gateway appeared to be negotiating for a license of Adams' software.

Test Utilities. Gateway produced two e-mails referring to two test utilities. Neither of the utilities have been produced. The first is the 3.60TEST utility referred to above in the August 4, 2000 e-mail. While Adams contends "the test utility will demonstrate conclusively that Gateway has violated Dr. Adams' patented Detector,"⁷⁴ that assertion is not supported by evidence.

The second test utility is referred to in minutes of a conference call dated August 1, 2000.⁷⁵ The notes reflect a cooperative effort between Gateway and its supplier to test motherboards, including FDC testing.

⁷⁶ Adams has not shown that this utility was in Gateway's possession, but it was certainly in the possession of its supplier and used at Gateway's direction.

Again, Adams claims that these "various test utilities and programs . . . infringe Dr. Adams' patented Detector."⁷⁷ But there is no evidence to support this claim.

⁷⁴ Adams' Spoliation Memorandum no. 102, at 7.

⁷⁵ Exhibit G to Adams' Spoliation Memorandum no. 102.

⁷⁶ *Id.* at 3.

⁷⁷ Adams' Spoliation Memorandum no. 102, at 8.

Should Gateway be Sanctioned for Spoliation?

The magistrate judge expressed early concern about the disappearance of the two letters to suppliers and the two computers.⁷⁸ Those expressions about Gateway's record keeping and inventory did not, however, reflect an analysis of the centrality of the evidence to the case or of the propriety of sanctions.

While it is perplexing, frustrating and even suspicious that these two letters, two computers, three e-mails, and two test utilities are missing, only two items missing from evidence would clearly be very important to this case: the e-mail from Charlie Ma to YC Woon and the 3.60TEST utility. And the absence of these items does not appear to be remediated or minimized by other evidence.

The e-mail from Ma conveyed Adams' detector, the very software that is the subject of this litigation, to Gateway at a critical time in the Gateway - Adams relationship. There are many e-mails available from the time period,⁷⁹ but none of them shed any light on the substance of the missing e-mail.

The 3.60TEST utility would show if Gateway was or was not, by use of that utility, infringing on Adams' patents. The absence of the utility leaves us entirely without proof. The absence of the utility referenced in the conference call notes has similar significance.

The loss of all nine items is prejudicial to the evidentiary record, and the missing Ma e-mail and 3.60TEST utility are central to the overall case. The missing August 2000 e-mail

⁷⁸ See summary in Adams' Spoliation Memorandum no. 102, at 5.

⁷⁹ See Exhibits to Report and Recommendation Regarding Gateway's Possession of Adams' Detector and Designation of Consulting Experts, filed concurrently with this Report and Recommendation.

pertaining to the 3.60TEST utility and the other missing test utility might also be important. The test utilities could possibly be case dispositive but we lack evidence to make that evaluation. The e-mail from Ma is less likely to contain case dispositive information, but it is the very means by which Adams' software was conveyed to Gateway, without Adams' permission, at a very critical time.

There is no evidence that the loss of these items was rooted in bad faith, because there is no explanation of their absence. Gateway only admits to their absence.

There is *potential* for abuse in the absence of these items. It is entirely possible, given their central nature, that they were destroyed in bad faith, or to impede the litigation process. On this point, it is relevant to consider Gateway's conduct in delaying to disclose its possession of Adams' detector until just one year ago – three years after Gateway obtained the detector, two years after the inception of this litigation, 20 months after representing to the court that Gateway had no such detector, and 15 months after providing sworn discovery denials of possession.⁸⁰ That conduct heightens the court's concern about the potential for abuse.

Gateway argues⁸¹ that there is no evidence that it destroyed or intentionally lost any of the nine items (two letters, two computers, three e-mails, and two test utilities) under consideration. However, it is undisputed that Gateway had these items in its control and has no explanation for their loss. It would really be remarkable if there were direct evidence of a party's destruction or intentional loss of evidence. If concealment were the goal, the means would also be concealed.

⁸⁰ See R & R Re: Detector and Consultants at 7.

⁸¹ Gateway's Spoliation Memorandum no. 107, at 10-12.

On balance, the magistrate judge concludes that sanctions should be imposed against Gateway for the unexplained absence of the nine pieces of evidence, and that the magnitude of the sanctions should be measured by the potential significance of the two most central missing items, the Charlie Ma e-mail and the 3.60TEST utility, and also consider the other important missing e-mail and missing test utility.

Is Entry of Judgment Appropriate?

While the missing items are all discoverable evidence, only two are clearly central to the case, and two others are important. There is not enough collateral evidence about any item to conclude that it would, if available, be a case dispositive piece of evidence. There is no evidence that the absence of these items is due to purposeful destruction. Because the disappearance of these items is unexplained, there is no way to know if the items became unavailable before filing of the suit or after. That timing could reflect culpability. Entry of judgment for liability, the sanction requested by Adams, is essentially case dispositive. The court has not warned Gateway about the possibility of entry of judgment. Therefore, the magistrate judge declines to recommend entry of judgment as a sanction.

Spoliation Sanctions Against Gateway

The magistrate judge will recommend that the district judge include in the eventual findings⁸² the following facts and inferences:

The following facts have been established by findings previously entered in this case:

⁸² This case is set for bench trial; not jury trial. If there were a jury trial, the indented material could be modified to be an inference instruction.

Some evidence which Gateway should have had in its possession is missing. Gateway has offered no explanation of the reason this evidence is not available. The missing items include:

E-mails. An August 4, 2000, e-mail from Chris Wetzel, a Gateway Product Manager, to various Gateway and MSI employees, asks the recipients to “[r]efer to the email from GT Stepp regarding the testing of boards with the 3.60TEST utility sent earlier today to MSI.”

An e-mail sent in January 2001 from Charlie Ma of Quanta Computers to YC Woon, a Gateway employee, which Gateway says was the means by which Gateway came into possession of Adams’ detector software.

Neither of these e-mails has been produced.

Test Utilities. Gateway produced two e-mails referring to two test utilities. Neither of the utilities have been produced. The first is the 3.60TEST utility referred to above, in the August 4, 2000, e-mail. The second test utility is referred to in minutes of a conference call dated August 1, 2000, reflecting a cooperative effort between Gateway and its supplier to test motherboards, including FDC testing.

As the court has confronted issues which these items of evidence would resolve, it has inferred that the missing evidence would have been favorable to Adams.

In addition, as a further sanction for Gateway’s actions regarding the detector, the magistrate judge recommends attorneys’ fees and expenses be awarded as discussed later in this document. Also, a warning is appropriate.

Warning

In consideration of this missing evidence and Gateway’s conduct regarding Adams’ detector software (described in the Report and Recommendation Regarding Gateway’s Possession of Adams’ Detector and Designation of Consulting Experts) which has impeded the disclosure and discovery of relevant evidence, it is appropriate to warn Gateway that if more evidence of a central nature is missing for any reason or is tardily disclosed, impairing the ability of the court to adjudicate the parties’ rights, entry of judgment may be an appropriate remedy. Further, Gateway should be warned that conduct which impedes the disclosure or discovery of

relevant evidence may also result in dismissal of its counterclaims, striking some defenses or claims, or the entry of conclusive findings on discrete issues. The court must have the cooperation of counsel and parties “to secure the just, speedy, and inexpensive determination”⁸³ of this case.

Defendant’s Allegations of Spoliation

As mentioned above, Gateway alleges Adams destroyed many documents related to his patent applications, including correspondence with his attorneys, and drafts and notes. Like Adams, Gateway claims this is spoliation and seeks a conclusive sanction. “Gateway requests an adverse inference that the Adams patents are invalid and unenforceable, thereby placing the risk of an erroneous judgment on Adams as the party responsible for creating the risk by destroying relevant evidence.”⁸⁴

Gateway is “shocked to learn that Adams has knowingly and intentionally destroyed these crucial Documents.”⁸⁵ Gateway claims:

Adams instituted and followed a policy of purging his patent files of all documents that reflect non-public material or information As a direct consequence, Adams destroyed all handwritten materials, including drawings, fax transmittals, drafts, his notes, his attorneys’ notes, and all other correspondence between Adams and his attorneys substantively discussing the inventions patented.⁸⁶

⁸³ Fed. R. Civ. P. 1.

⁸⁴ Gateway’s Spoliation Motion no. 186 at 4.

⁸⁵ *Id.* at 2-3.

⁸⁶ *Id.* at 3.

Gateway elicited testimony from Adams and his patent counsel that this destruction occurred.⁸⁷ Further, Gateway claims “Adams’ sole reason . . . was to preemptively preclude any future challenges to his Patents’ validity and enforceability;” that his destruction of documents was selective; and that he destroyed documents “at a time he knew he would license or enforce his Patents.”⁸⁸

Adams’ Response

Adams claims that the policy of cleaning up patent files is an “industry-standard document retention policy.”⁸⁹ “This document retention policy had been in effect for over ten years” at the three patent firms used by Adams to prosecute the patents that are the subject of this case.⁹⁰ Adams submitted a practice guide by a patent lawyer referring to similar retention practices.⁹¹

As Gateway points out,⁹² the practice guide says its advice is inapplicable “when your patent has been or is about to be litigated.”⁹³ Indeed, the wisest document retention or destruction policy must be suspended and re-evaluated in the event of litigation, and the policy

⁸⁷ *Id.* and n.2.

⁸⁸ *Id.* at 3.

⁸⁹ Adams’ Spoliation Opposition no 198 at 1.

⁹⁰ *Id.*; Gateway’s Spoliation Motion at 3 n.2.

⁹¹ Adams’ Spoliation Opposition 198 at 7 and Exhibit 5 in Exhibits to Plaintiffs’ Opposition to Gateway’s Motion Requesting Inference of Patent Invalidity and Unenforceability Pursuant to the Spoliation Doctrine (Plaintiff’s Opposition Exhibits no. 199), docket no. 199, filed under seal April 16, 2004.

⁹² Gateway’s Spoliation Reply no. 203 at 8.

⁹³ Exhibit 5 at 1 in Plaintiff’s Opposition Exhibits no. 199.

should assume the possibility of litigation and the legitimate needs of opposing litigants.

However, there are other advocates⁹⁴ for practices similar to those employed by Adams' three reputable law firms, and Gateway has pointed to no industry practice to the contrary.

Nonetheless, documents were destroyed. The documents were created in the patent application process. Gateway contends the information destroyed could be probative on the issues of best mode, enablement, prior art, inequitable conduct in withholding prior art from the Patent Office, and patent ownership.⁹⁵ Adams claims that the specific documents and information Gateway claims are unavailable are actually available,⁹⁶ and this appears likely. Even though Gateway asserts there are documentary gaps and that Adams "must have communicated"⁹⁷ the information to his attorneys by documents not before the court, Gateway admits it "cannot tell."⁹⁸ There is no way to determine whether we are missing documents.

Should Adams Be Sanctioned for Spoliation?

In sum, the spoliation claim by Gateway is very similar to the spoliation claim by Adams as to the non-central items. There is no indication of the actual extent, content or significance of the unavailable items. There is no contextual record, as there is with the Charlie Ma e-mail, or the 3.60TEST detector, to suggest that these items are of central significance. Therefore, it is

⁹⁴ [David W. O'Brien, Note, *Discovery of Draft Patent Applications: Considerations in Establishing a Draft Retention Policy*, 2 Tex. Intell. Prop. L.J. 237 \(1994\)](#); Jeffrey S. Boone, *A Document Retention Policy for Patent Attorneys*, 26 IDEA 49 (1985).

⁹⁵ Gateway's Spoliation Motion no. 186, at 8-10.

⁹⁶ Adams' Spoliation Opposition no. 198, at 3-6.

⁹⁷ Gateway's Spoliation Reply no. 203, at 5.

⁹⁸ *Id.*

very difficult to find prejudice to Gateway. The practical importance of the evidence is unknown, but there should be other evidence on the issues (best mode, enablement, prior art, inequitable conduct in withholding prior art from the Patent Office, and ownership) for which Gateway sought these materials. It would be odd if documents created by the inventor or exchanged between attorney and client were the sole evidence of these external realities (prior art, inequitable conduct in withholding prior art from the Patent Office, and ownership) or inherent characteristics (best mode and enablement). The level of prejudice is minimal, or at least hard to quantify.

However, responsibility for the loss is clear. The destruction is admitted and it is claimed to have been a matter of deliberate policy. Because it was a matter of policy, to some extent universally practiced, there is relatively low potential that this destruction was abusive of the judicial process or Gateway's rights. The situation is not at all comparable to that in the leading case cited by Gateway in which a non-lawyer was put in charge of a document destruction project in which employees were given little guidance so that an administrative law judge characterized the process as "virtually unsupervised."⁹⁹ In one day, the destruction amounted to approximately 20,000 pounds of documents estimated to be two million pages.¹⁰⁰ In that case the destruction was undertaken after the party had simultaneously made patent applications and drafted industry

⁹⁹ [*In Re Rambus*, docket no. 9302, 2003 WL 1017815 \(F.T.C. Feb. 26, 2003\).](#)

¹⁰⁰ [*Rambus, Inc. v. Infineon Technologies, AG*, 220 F.R.D. 264, 284 \(E.D. Va. 2004\).](#) The opinion has a colorful description of the inauguration of the "document retention program on September 3, 1998 with 'Shred Day' an event at which each employee at Rambus' corporate headquarters in Mountain View, California was provided with a burlap bag with the instructions to bag all documents slated for the shredder." The day ended at "5:00 PM [with] beer, pizza, and champagne." *Id.*

standards that would infringe on those patents.¹⁰¹ While the responsibility for the loss is clear in this case, the level of culpability is very low.

Another important factor in evaluating the sanction of an inference of invalidity and unenforceability is that the level of proof required for such defenses is clear and convincing evidence.¹⁰² Therefore, it would seem that an inference compensating for spoliation in that subject area should only be imposed in clear and aggravated circumstances. Given the relatively low culpability and prejudice, Gateway's motion for sanctions will be denied.

RECOMMENDATION

The magistrate judge recommends that Adams' motion for sanctions¹⁰³ be GRANTED in that the district judge should make the findings and apply the inference specified above, warn Gateway as specified above, and direct that Adams submit documentation of expenses, including attorney's fees incurred as a result of Adams' motion for sanctions. Gateway should be permitted a period of 15 days thereafter to respond to Adams' submission and the magistrate judge should thereafter recommend an award of expenses.

The magistrate judge recommends that Gateway's motion for sanctions¹⁰⁴ be DENIED.

¹⁰¹ [In Re Rambus, 2003 WL 1017815.](#)

¹⁰² [Molins PLC v. Textron, Inc., 48 F. 3d 1172, 1178 \(Fed. Cir. 1995\); Northern Telecom, Inc. v. Datapoint Corp., 908 F.2d 931, 935-36 \(Fed. Cir. 1990\).](#)

¹⁰³ Plaintiffs' Motion for Judgment Based upon Gateway's Spoliation of Evidence, docket no. 101, filed under seal September 26, 2003.

¹⁰⁴ Defendant's Motion Requesting Inference of Patent Invalidity and Unenforceability Pursuant to the Spoliation Doctrine, docket no. 186, filed under seal April 1, 2004.

Notice to Parties

Within 10 days after being served with a copy of this recommended disposition, a party may serve and file specific, written objections. A party may respond to another party's objections within 10 days after being served with a copy thereof. The rules provide that the district judge to whom the case is assigned shall make a *de novo* determination upon the record, or after additional evidence, of any portion of the magistrate judge's disposition to which specific written objection has been made in accordance with this rule. The district judge may accept, reject or modify the recommended decision, receive further evidence, or re-commit the matter to the magistrate judge with instructions.

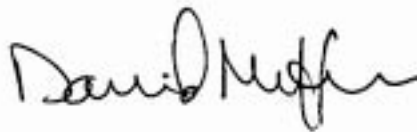
Service and Redaction

This sealed document shall be served only on lead counsel for Adams and Gateway, by conventional means and by email. Within fifteen days, the parties shall meet and confer and return to the magistrate judge via e-mail an electronic copy marking all portions the parties agree should be redacted in an unsealed order.

Dated this 28th day of March, 2005

Redacted, unsealed version of order signed and filed under seal March 28, 2005.

BY THE COURT:



David Nuffer
U.S. Magistrate Judge