PDF

Federal Circuit Decision in Rambus v. Hynix: A Lesson on Document Preservation

May 18, 2011

Last Friday, the Federal Circuit stripped Rambus of a $400 million verdict at the urging of O'Melveny's client Hynix Semiconductor, Inc. The court's decision — based on Rambus's prelitigation destruction of vast quantities of evidence — had immediate consequences for Rambus, which saw its stock price fall nearly 18 percent on the day the decision issued. The Federal Circuit's decision in *Hynix v. Rambus* is a potent reminder that companies have a responsibility to preserve evidence in the face of reasonably foreseeable litigation.

Since 2000, Hynix and Rambus have been embroiled in patent and antitrust litigation in multiple venues around the world. Hynix is one of the world's leading semiconductor suppliers. Rambus was founded in 1990 by two college professors who had an idea for a new DRAM interface technology, RDRAM. Rambus does not manufacture products but instead seeks to license its patents to DRAM manufacturers. During the 1990s, Rambus participated in JEDEC, an industry standard setting organization, as it developed standards for SDRAM and DDR products. Rambus secretly broadened its pending RDRAM patent applications to cover the competing SDRAM and DDR standards. Rambus then went into what it termed "stealth mode" for several years as DRAM companies became locked into manufacturing SDRAM and DDR. Shortly before springing its self-described "big intellectual property trap," Rambus adopted a document retention policy and then destroyed literally tons of documents and over 1200 computer backup tapes.

In August 2000, Hynix filed a complaint seeking antitrust remedies and declaratory judgment that Rambus's patents were invalid and unenforceable. Judge Ronald M. Whyte of the Northern District of California trifurcated the case. Following a bench trial in which Hynix's claim that Rambus had engaged in spoliation was rejected, Hynix lost jury trials on Rambus's patent infringement claims and Hynix's antitrust claims. In March 2009, the district court entered a judgment of nearly $400 million against Hynix and ordered Hynix to pay significant ongoing royalties. In the meantime, Judge Sue L. Robinson of the Delaware district court determined that Rambus had engaged in spoliation and threw out similar Rambus claims of patent infringement against another DRAM manufacturer, Micron.

The Federal Circuit coordinated Hynix's appeal of the California district court judgment and Rambus's appeal of the Delaware decision. The cases took an unusual path through the Federal Circuit: after oral argument in April 2010, the court *sua sponte* ordered reargument of both cases before an expanded panel of five judges in October 2010. The Federal Circuit has employed expanded panels in only a handful of cases.

In Friday's decision, the Federal Circuit vacated the California district court's spoliation decision, holding that the trial court had applied too narrow a legal standard in deciding that Rambus's duty to preserve documents did not arise until shortly before Rambus filed its first lawsuit alleging that SDRAM and DDR infringed its patents. The appeals court remanded the case for consideration under the legal framework set forth in the *Rambus v. Micron* decision, issued the same day. In *Micron,* the appeals court affirmed the Delaware district court's determination that Rambus had engaged in spoliation and remanded for further consideration on issues of bad faith, prejudice, and remedy. The appeals court nonetheless made clear that the facts may justify a sanction holding that Rambus's patents in suit are unenforceable.

The Federal Circuit's rejection of Rambus's attempts to explain away its extreme conduct offer important lessons for other companies in determining when they come under a prelitigation duty to preserve evidence:

- The duty to preserve evidence arises when litigation becomes "reasonably foreseeable." The question of when the duty arises is judged by an objective standard and takes into account the totality of the circumstances.
- Litigation need not be "imminent, or probable without significant contingencies" before it becomes reasonably foreseeable.
- Litigation can be "reasonably foreseeable" even if it is contingent on the occurrence of other events where it is reasonably foreseeable that those events will come to pass.
- A document retention policy adopted by a company in the context of its litigation strategy will not shield a company from charges of spoliation.

These cases also have important implications for patent holders, particularly non-practicing entities that base their businesses on the licensing and enforcement of their patent portfolios:

- A patent holder's knowledge of likely infringing activity by particular parties makes litigation more objectively likely to occur. Further, a patent holder who seeks to broaden its patents to cover particular products is "more than on notice" of infringement.
- Litigation may be held to be reasonably foreseeable to a patent holder, such as Rambus, that reasonably foresees that its licensing demands will be rejected.
- The fact that a patent holder largely controls whether litigation will occur is relevant in determining whether litigation was reasonably foreseeable to that party.
- Litigation may be more foreseeable to parties in a business relationship that is not mutually beneficial or that is naturally adversarial.

Please click **here** and **here** to read the opinions.