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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA

ZEST IP HOLDINGS, LLC,)	Civil No.10-0541-GPC(WVG)
et al.,)	
)	ORDER GRANTING IN PART
Plaintiffs,)	AND DENYING IN PART
v.)	PLAINTIFFS' MOTION FOR
)	SPOILIATION AND DISCOVERY
IMPLANT DIRECT MFG., LLC,)	ABUSE SANCTIONS
et al.,)	(DOC. NO. 121)
)	
Defendants.)	RECOMMENDATION REGARDING
)	ADVERSE JURY INSTRUCTION
)	

I

INTRODUCTION

Plaintiff Zest IP Holdings, LLC, ("Plaintiffs") have made a Motion For Spoliation And Discovery Abuse Sanctions Against Defendants Implant Direct MFG. LLC, Implant Direct LLC, and Implant Direct INTL ("Defendants"). Plaintiffs seek a default judgment against Defendants, and an adverse inference jury instruction against Defendants for destroying documents, failing to put in place a litigation hold and document retention policy, and discovery misconduct.

1 Plaintiffs seek sanctions in the form of attorney's fees
2 and costs associated with pursuing the allegedly destroyed
3 documents and for preparing this Motion. Defendants filed
4 an Opposition to the Motion. Plaintiffs filed a Reply to
5 Defendants' Opposition. On October 19, 2012 and May 29,
6 2013, the Court held hearings on Plaintiffs' Motion.

7 The Court, having reviewed Plaintiffs' Motion,
8 Defendants' Opposition, and Plaintiffs' Reply, and having
9 entertained the parties' arguments, hereby finds that
10 Defendants did not take adequate steps to avoid spoliation
11 of evidence after it should have reasonably anticipated
12 this lawsuit and did not issue a litigation hold nor
13 implement nor monitor an adequate document preservation
14 policy. Therefore, the Court GRANTS in part and DENIES in
15 part Plaintiffs' Motion For Spoliation And Discovery Abuse
16 Sanctions. The Court RECOMMENDS that an adverse jury
17 instruction against Defendants be given to the jury at the
18 trial of this action.

19 II

20 PROCEDURAL HISTORY

21 On March 20, 2010, Plaintiffs filed this action.
22 Plaintiffs allege that Defendants' products infringe on
23 Plaintiffs' U.S. Patent Nos. 6,030,219 and 6,299,447
24 ("Patents-in-Suit", or "Locator" products) through the
25 manufacture and sale of Defendants' "Go Direct" product.
26 Plaintiffs also allege claims for trademark infringement
27 with respect to Plaintiffs' marks "Zest" and "Locator,"
28 false designation of origin, false advertising in viola-

1 tion of § 43(a) of the Lanham Act, and state statutory law
2 and common law unfair competition. On August 27, 2010,
3 Plaintiffs amended their Complaint. In the Amended Com-
4 plaint, Plaintiffs allege that another product of Defen-
5 dants, the "GPS abutment," infringes on the Patents-in-
6 Suit.

7 On August 27, 2012, Plaintiffs filed a Motion For
8 Spoliation And Discovery Abuses Sanctions Against Defen-
9 dants ("Motion"). On October 5, 2012, Defendants filed an
10 Opposition to the Motion ("Opposition"). On October 12,
11 2012, Plaintiffs filed a Reply In Support Of Plaintiffs'
12 Motion ("Reply"). On March 5, 2013, Plaintiffs filed a
13 Supplemental Brief in support of their Motion. On May 19,
14 2013, Defendants filed a Response to Plaintiffs' Supple-
15 mental Brief. On October 19, 2012 and May 29, 2013, the
16 Court heard oral argument on the Motion.

17 III

18 FACTS

19 A. Defendant's Did Not Implement a Litigation Hold

20 Plaintiffs argue that Defendants were aware of a
21 potential lawsuit as early as Fall 2008. At that time,
22 Defendants were distributors of Plaintiffs' "Locator"
23 products. Defendants informed Plaintiffs of their plan to
24 make their own clone product to compete with Plaintiffs'
25 "Locator" products.

26 On August 8, 2008, Plaintiffs informed Defendants that
27 they considered Defendants' planned product to be a knock-
28 off, and an infringement of the "Locator product."

1 [Declaration of Manuel J. Velez in Support of Motion for
2 Spoliation and Discovery Abuse Sanctions ("Velez Dec."),
3 Exhs. 5, 6]. On October 22, 2008, Plaintiffs sent another
4 letter to Defendants stating that they would file a
5 lawsuit for patent infringement against Defendants should
6 Defendants continue their plan to commercialize their
7 product. (Velez Dec. Exh. 7). Defendants acknowledged
8 receipt of the October 22, 2008 letter. (Velez Dec. Exh.
9 3 at 150:17 to 159:8). Plaintiffs argue that a litigation
10 hold should have been put in place as of October 22, 2008.

11 Defendants argue that the duty to preserve evidence
12 arose when Plaintiffs filed this action in March 2010
13 because until this action was filed, Defendants did not
14 believe that there would be litigation with Plaintiff.
15 Further, Defendants contend that the duty to preserve
16 could not have begun prior to March 2010 because
17 Plaintiffs were aware of Defendants' intent to market the
18 alleged infringing product and did not ask Defendants to
19 save any documents or emails. Defendants did not implement
20 a litigation hold or document preservation policy on
21 October 22, 2008, or at any time before the Complaint was
22 filed, or after the Complaint was filed. Defendants did
23 not take steps to preserve electronic documents, nor did
24 they instruct their employees to preserve documents.
25 Instead, Defendants argue that failure to institute a
26 litigation hold does not warrant sanctions. Defendants
27 further assert that sanctions are not warranted because
28 they have a company policy that "no documents are to be

1 deleted" and that [Defendants] did not believe any of
2 Defendants' employees would delete company documents.
3 (Velez Dec. Exh. 3 at 47:5 to 47:17).

4 **B. Defendant's Failure to Preserve Documents**

5 **1. Ines Aravena's emails**

6 Ines Aravena ("Aravena") was Defendants' Director of
7 Design Engineering, and oversaw the design development and
8 testing of Defendant's products. Aravena was an
9 independent contractor working for Defendants before she
10 became Defendants' employee. She testified at her
11 deposition that she intentionally deleted her emails
12 because she received so many emails and that no one told
13 her not to delete them. (Velez Dec. Exh. 2 at 212:13-20).
14 She had two email accounts: one on Defendants' system, and
15 one on America On Line ("AOL") that was her personal
16 account. (Velez Dec. Exh. 2 at 212:1-4). She used the AOL
17 account for work purposes, as well as for personal
18 purposes. (Velez Dec. Exh. 2 at 211:13-25, 389:13-19).

19 Defendants are unable to confirm that all of Aravena's
20 deleted emails were recovered and produced to Plaintiffs
21 but they assert that they produced all of Aravena's
22 emails. Defendants did not have a back-up system to
23 prevent the deletion of documents, but instead took the
24 position that their emails "are automatically preserved to
25 the Intermedia server, which is under Defendants'
26 control." However, on November 15, 2012, Defendants sent
27 a letter to the Court stating that "(s)ubsequent to the
28

1 hearing of the motion^{1/}, Defendants' counsel discovered
2 that emails can be deleted from the Intermedia email
3 server." (Letter of Michael Hurey to the Court, dated
4 November 15, 2012). Therefore, Aravena's deleted emails
5 may have been irretrievably lost.

6 **2. Gerald Niznick's Communications To Third**
7 **Parties**

8 Dr. Gerald Niznick ("Niznick") is Defendants'
9 President and CEO. Plaintiffs assert that Defendants
10 failed to collect and produce all electronic
11 communications from Niznick that are relevant to this
12 litigation. Plaintiffs located in third parties' files
13 Niznick's email communications to third party dentists
14 which may be considered evidence of Niznick's inducing the
15 third party dentists to infringe on Plaintiffs' patents.
16 Niznick's emails to the third party dentists encourage
17 the dentists to combine Defendants' product with
18 Plaintiffs' "Locator" products. [Velez Dec. Exhs. 11
19 (dated November 12, 2008), 12 (dated December 3, 2008)].
20 It cannot be disputed that Exhibits 11 and 12 once existed
21 in Defendants' electronic files. However, they appear to
22 no longer exist in Defendants' files and Defendants have
23 not produced the emails to Plaintiffs in this litigation.

24 Niznick testified at his deposition that he has six
25 different email accounts. The emails in these accounts
26 were not produced nor preserved. Niznick also testified
27 that he did not search these email accounts because he
28 alleges to have previously saved all e-mail communications

^{1/}Defendants refer to the hearing held on October 19, 2012.

1 relating to Plaintiffs in a folder on his desktop. (Velez
2 Dec. Exh. 3 at 44:6-15). Niznick limited his collection
3 efforts to this file on his desktop and he claims that
4 this file did not contain communications concerning the
5 accused products. (Velez Dec. Exh. 3 at 45:21- 46:3). The
6 contents of the file have been produced to Plaintiff.
7 (Doc. No 127 at 10). Defendants argue that the emails
8 presented by Plaintiff as evidence of spoliation were
9 dated before Defendants had any obligation to preserve
10 evidence. Defendants further argue that Plaintiffs have
11 failed to present any other evidence indicating that any
12 other similar emails exist.

13 **3. Regulatory Documents**

14 Plaintiffs argue that regulatory files and submissions
15 to the Food and Drug Administration ("FDA") documents are
16 relevant because they contain design and testing
17 information related to Defendant's products. Plaintiffs
18 argue that these regulatory files and submissions to the
19 FDA made in conjunction with putting Defendants' products
20 on the market have not been produced despite Plaintiffs'
21 repeated requests for them. However, Plaintiffs have not
22 provided any evidence in support of their contention that
23 Defendants destroyed these documents.

24 Defendants argue that it produced to Plaintiffs all of
25 the regulatory documents requested by Plaintiffs. However,
26 on March 14, 2013, Plaintiffs requested additional
27 regulatory documents for the first time. Defendants
28

1 anticipated producing these documents to Plaintiff.^{2/} The
2 Court assumes that Defendants produced to Plaintiffs the
3 regulatory documents as requested on March 14, 2013. In
4 any event, Plaintiffs do not offer any evidence to suggest
5 that any regulatory documents that they requested have
6 been destroyed.

7 **4. Materials Used By Sales Force To Promote**
8 **Defendants Products**

9 Plaintiffs argue that they have located materials in a
10 third party's files, which are, or were, used by
11 Defendants' sales force to promote Defendants' products.
12 Plaintiffs assert that these materials show Defendants'
13 infringement of Plaintiffs' trademarks.

14 Plaintiffs learned from the third party's files that
15 Defendants' sales force distributed a tool to dentists
16 (called "GoDirect Implant Locator Insertion Drill").
17 Plaintiffs argue that the tool and its packaging are
18 relevant as evidence of counterfeiting that may assist them
19 in proving their trademark infringement claims.

20 Defendants have not produced the tool or its packaging
21 to Plaintiffs despite the fact that Plaintiffs' counsel has
22 requested them and Defendants' counsel took pictures of
23 them during the deposition of one of Defendants' sales
24 representatives. Defendants assert that the tool presented

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27 ^{2/}Defendants agreed to produce these documents subject to Plaintiffs'
28 agreement that they would not argue that the fact of Defendants' production shows
that the Defendant Sybron entities should be joined in this lawsuit. However this
is now a moot point, because the Defendant Sybron entities have been joined in the
lawsuit.

1 by Plaintiffs at the deposition of Abi Dickerson^{3/} is not
2 relevant to the current litigation because it was
3 manufactured and sold while Defendants were Plaintiffs'
4 distributor and during Defendants' licensing period with
5 Plaintiffs. Defendants agreed to produce any samples of the
6 tool and its packaging to the extent that Defendants still
7 retained any such material. The Court assumes that
8 Defendants produced to Plaintiffs the tool, its packaging,
9 and any written information about the tool, to the extent
10 that Defendants retained the tool, packaging and written
11 information about the tool. In any event, Plaintiffs do not
12 offer any evidence to suggest that the tool, packaging and
13 written information about the tool have been destroyed.

14 **5. Customer Complaints**

15 Plaintiffs argue that Defendants kept a spreadsheet/log
16 of customer complaints regarding Defendants' products.
17 Despite Plaintiffs' repeated requests, Defendants have
18 failed to produce the customer complaint documents.
19 Plaintiffs indicate that they have copies of incomplete
20 logs/spreadsheets of the customer complaints. Plaintiffs
21 do not indicate how or why what they received is
22 incomplete. Nor do they present any evidence that the
23 documents they seek in this regard have been destroyed.

24 Defendants argue that they have previously produced to
25 Plaintiffs the customer complaint logs. However, Defendants
26
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28 ^{3/} Velez Dec. In Support of Plaintiffs' Supp. Brief, Exh. 7 (dated October
23, 2012).

1 have obtained additional complaint logs^{4/} and anticipates
2 producing these documents to Plaintiff.^{5/} The Court assumes
3 that the additional customer complaint logs, as identified
4 in footnote 3, have been produced to Plaintiffs. In any
5 event, Plaintiffs do not offer any evidence to suggest that
6 any of the customer complaint logs have been destroyed.

7 IV

8 DISCUSSION

9 **A. The Court's Inherent Authority To Impose Sanctions.**

10 The Court's inherent power to impose sanctions is not
11 limited to Article III courts, but extends to Magistrate
12 Judges. Apple v. Samsung, 888 F.Supp 2d 976, 987 (N.D.
13 Cal. 2012)("Apple II"). This inherent power may be invoked
14 "to levy appropriate sanctions against a party who
15 prejudices its opponent through the spoliation of evidence
16 that the spoliating party had reason to know was relevant
17 to litigation." Apple II, 888 F.Supp.2d at 987 [citing
18 Apple v. Samsung, 881 F.Supp.2d 1132, 1135 (N.D. Cal.
19 2012)("Apple I"). The exercise of a court's inherent powers
20 must be applied with "restraint and discretion" and only to
21 the degree necessary to redress the abuse. Chambers v.
22 NASCO, Inc., 501 U.S. 32, 45 (1991).

23
24
25 ^{4/} The additional complaint logs are identified as (1) Excel Spreadsheet
26 "GoDirect.XLS;" (2) Excel Spreadsheet "GPS.XLS;" (3) Excel Spreadsheet
"GPSLiners.XLS;" and (4) Word document "Pareto."

27 ^{5/} Defendants agreed to produce these documents subject to Plaintiffs'
28 agreement that they would not argue that the fact of Defendants' production shows
that the Defendant Sybron entities should be joined in this lawsuit. However,
this is now a moot point, because the Sybron entities have been joined in the
lawsuit.

1 **B. Sanctions for Spoliation**

2 Spoliation of evidence is "the destruction or material
3 alteration of evidence or the failure to preserve property
4 for another's use as evidence in pending or reasonably
5 foreseeable litigation." Apple II, 888 F.Supp 2d at 989
6 [citing Silvestri v. Gen. Motors Corp., 271 F.3d 583, 590
7 (4th Cir. 2001)]. "The obligation to preserve evidence
8 arises when the party reasonably should know the evidence
9 is relevant to litigation or when a party should have known
10 that the evidence may be relevant to future litigation."
11 Apple II, 888 F.Supp.2d at 990. Evidence of spoliation may
12 be grounds for sanctions. Apple II, 888 F.Supp.2d at 989,
13 [citing Akiona v. U.S., 938 F.2d 158, 161 (9th Cir. 1991)].
14 The bare fact that evidence has been altered or destroyed
15 does not necessarily mean that the party has engaged in
16 sanction-worthy spoliation. Ashton v. Knight Transp., Inc.,
17 772 F.Supp.2d 772, 799-800 (N.D. Tex. 2011).

18 Spoliation of evidence raises the presumption that the
19 destroyed evidence goes to the merits of the case, and
20 further, that such evidence was adverse to the party that
21 destroyed it. Apple II, 888 F.Supp 2d at 998 [citing Hynix
22 Semiconductor v. Rambus, 591 F.Supp 2d 1038, 1060 (N.D.
23 Cal. 2006), vacated on other grounds in Hynix Semiconductor
24 v. Rambus, 645 F.3d 1336 (D.C. Cir. 2011)]. In the Ninth
25 Circuit, "a party's destruction of evidence need not be in
26 'bad faith' to warrant a court's imposition of sanctions."
27 In re Napster, Inc. Copyright Litigation, 462 F.Supp 2d
28 1060, 1066 (N.D. Cal. 2006) [citing Glover v. BIC Corp., 6

1 F.3d 1318, 1329 (9th Cir.1993)]. The Ninth Circuit has
2 instructed that district courts may impose sanctions even
3 against a spoliating party that merely had "simple notice
4 of 'potential relevance to the litigation.'" Glover, 6 F.3d
5 at 1329 [quoting Akiona v. United States, 938 F.2d 158, 161
6 (9th Cir.1991)].

7 While the Court has the discretion to impose sanctions,
8 "the sanction should be designed to: (1) deter parties from
9 engaging in spoliation; (2) place the risk of an erroneous
10 judgment on the party who wrongfully created the risk; and
11 (3) restore the prejudiced party to the same position he
12 would have been in absent the wrongful destruction of
13 evidence by the opposing party." West v. Goodyear Tire &
14 Rubber Co., 167 F.3d 776, 779 (2d Cir. 1999). To decide
15 which specific spoliation sanction to impose, courts
16 generally consider three factors: "(1) the degree of fault
17 of the party who altered or destroyed the evidence; (2) the
18 degree of prejudice suffered by the opposing party; and (3)
19 whether there is a lesser sanction that will avoid
20 substantial unfairness to the opposing party." Apple II,
21 888 F.Supp.2d at 992. Prejudice is determined by evaluating
22 whether the spoliating party's actions impaired the non-
23 spoliating party's ability to go to trial, threatened to
24 interfere with the rightful decision of the case, or forced
25 the non-spoliating party to rely on incomplete and spotty
26 evidence. In re Hitachi, 2011 WL 3563781 at *6 [citing Leon
27 v. IDX Systems Corp., 464 F.3d 951, 959 (9th Cir. 2006)].

28

1 **C. Defendants' Spoliation**

2 Defendants' duty to preserve documents arose on October
3 22, 2008, when Plaintiffs notified Defendants of a
4 potential lawsuit against them should they decide to
5 market their alleged infringing product. The evidence is
6 clear that Defendants destroyed at least some documents as
7 alleged by Plaintiffs. Plaintiffs have suffered prejudice
8 as a result of Defendants' spoliation of evidence because
9 the destroyed documents are highly probative of the claims
10 at issue in this litigation.

11 Plaintiffs show that one of Defendants' key senior
12 employees, Aravena, Director of Design Engineering,
13 indisputably destroyed email communications due to
14 Defendants' failure to put in place a litigation hold.
15 Although Plaintiffs failed to identify specific emails that
16 were not produced, Aravena testified that she did not
17 provide Defendants' counsel with any emails, including
18 emails relating to the design of the accused products,
19 because she deleted them. Further, Aravena testified that
20 no one told her not to delete her emails. Aravena's
21 communications are especially probative of the claims at
22 issue in this litigation because her current and past
23 employment with Defendants involved the design,
24 development, and testing of the products accused of
25 infringing on the Patents-In-Suit. As a result, the Court
26 concludes that Defendants spoliated Aravena's emails.

27 Plaintiffs also show that Niznick, Defendants'
28 President and CEO, destroyed emails that he sent to third

1 party dentists.^{6/} Niznick testified that of his six email
2 accounts, he did not produce or preserve any of the emails
3 in those accounts because he saved any communications he
4 deemed relevant to a file of his desktop.^{7/} However,
5 Plaintiffs obtained two of Niznick's emails from third
6 parties, that were not produced by Defendants, that support
7 the contention that Niznick was inducing the third parties
8 to infringe on the Patents-In-Suit. While Plaintiffs have
9 been able to obtain these communications from third
10 parties, there may have been additional communications of
11 a similar sort that were destroyed that are especially
12 probative of the claims at issue in this litigation.
13 Consequently, the Court concludes that Defendants spoliated
14 at least the two emails from Niznick that Plaintiffs
15 obtained from third parties.

16 Although Defendants argue that there was no need
17 for a litigation hold because of their document retention
18 policy, it is obvious that Defendants' document retention
19 policy did not prevent documents from being destroyed.
20 Further, Defendants did not have a back-up system to
21 prevent the destruction of documents, and although their
22 employees' emails were automatically preserved to a server

23

24 ^{6/}The Court is unsure whether Niznick's emails were destroyed intentionally.
25 The emails are dated November 12, 2008 and December 3, 2008, after October 22,
26 2008, when Defendants should have put in place a litigation hold. The Court finds
27 that Niznick's emails were destroyed as a result of Defendants' failure to put in
28 place a litigation hold.

29 ^{7/}The Court notes that Niznick is not the final arbiter of what evidence is
relevant in this action. Previously, the Court admonished Defendants' counsel that
they, and not Niznick, should search for and produce documents to Plaintiffs that
could be relevant to a claim or defense in this action. (Order Regarding
Production of Documents And Deposition of Dr. Gerald Niznick, April 19, 2012,
Docket No. 94).

1 under Defendant's control, the emails could have been
2 deleted from the server.

3 Plaintiffs contend that the packaging and
4 information pertaining to the alleged infringing tool were
5 intentionally not produced and destroyed. Plaintiffs
6 obtained the alleged infringing tool from a third party.
7 However, the production of the tool did not include any
8 labels or documents that may have been included with the
9 tool. The labels and any corresponding instructions for the
10 tool are probative of the trademark infringement claims
11 alleged in this litigation. Although Defendants have agreed
12 to produce to Plaintiffs samples of the tool, labels and/or
13 instructions, they may not have retained any samples.
14 Without more, the Court cannot conclude that Defendants
15 spoliated evidence pertaining to the tool.

16 Nevertheless, individually and collectively, the
17 aforementioned facts support imposition of some form of
18 sanction against Defendants. Defendants' inactions warrant
19 sanctions because after they received from Plaintiffs
20 notice of potential litigation, they failed to issue a
21 litigation hold, and failed to monitor their employees'
22 document preservation efforts. These inactions resulted in
23 the destruction of documents relevant to this litigation.

24 **D. Appropriate Sanctions**

25 Courts may sanction parties responsible for
26 spoliation of evidence in four ways: (1) Instruct the jury
27 that it may draw an inference adverse to the party
28 destroying the evidence; In re Napster, 462 F.Supp 2d at

1 1066, (citing Glover at 1329); (2) Exclude witness
2 testimony based on the destroyed evidence proffered by the
3 party responsible for destroying the evidence; In re
4 Napster, 462 F.Supp 2d at 1066 (citing Glover, 6 F.3d at
5 1329); (3) Dismiss the claim of the party responsible for
6 destroying the evidence; In re Napster, 462 F.Supp 2d at
7 1066, [citing Chambers v. NASCO, 501 U.S. 32, 45 (1991)];
8 (4) Assess monetary sanctions for the costs of bringing the
9 motion for sanctions for spoliation of evidence under Fed.
10 R. Civ. P. 37.

11 Courts should choose "the less onerous sanction
12 corresponding to the willfulness of the destructive act and
13 the prejudice suffered by the victim." Apple II, 888
14 F.Supp. 2d at 992, [citing Schmid v. Milwaukee Elec. Tool
15 Corp., 13 F.3d 76, 79 (3rd Cir. 1994)]. The choice of
16 appropriate sanction must be determined on a case-by-case
17 basis and should be commensurate to the spoliating party's
18 motive or degree of fault in destroying the evidence. Apple
19 II, 888 F.Supp 2d at 993.

20 Plaintiffs seek the entry of a default judgment
21 against Defendants, and an adverse inference jury
22 instruction to be read to the jury at the trial of this
23 action. Plaintiffs also seek monetary sanctions in the form
24 of their attorney's fees and costs for bringing this Motion
25 and the additional expenses incurred in connection with
26 their efforts in exposing Defendants' spoliation of
27 evidence. Each of these potential sanctions will be
28 considered below.

1 1. Default Judgment

2 When considering a default sanction in
3 response to spoliation of evidence, the
4 court must determine (1) the existence of
5 certain extraordinary circumstances, (2)
6 the presence of willfulness, bad faith,
7 or fault by the offending party, (3) the
8 efficacy of lesser sanctions, [and] (4)
9 the relationship or nexus between the
10 misconduct drawing the [default] sanction
11 and the matters in controversy in the
12 case. In addition, the court may consider
13 the prejudice to the moving party as an
14 optional consideration where appropriate.
15 This multi-factor test is not a
16 mechanical means of determining what
17 discovery sanction is just, but rather a
18 way for a district judge to think about
19 what to do.

20 Bobrick Washroom Equip., Inc. v. Am. Specialties, Inc.,

21 2012 WL 3217858 at *5, [citing In re Napster, 462

22 F.Supp 2d at 1070 (N.D. Cal.2006) (quoting Halaco Eng'g Co.

23 v. Costle, 843 F.2d 376, 380 (9th Cir. 1988); Valley

24 Engineers, Inc. v. Electric Eng'g Co., 158 F.3d 1051, 1057

25 (9th Cir. 1998)](internal citations and quotations

26 omitted).

27 The Court concludes that default judgment is
28 inappropriate in this case. Defendants' conduct with
29 respect to not preserving and destroying discovery
30 materials amounts to gross negligence, but that conduct
31 does not rise to the level of bad faith sufficient to
32 warrant default judgment under the circumstances. Leon, 464
33 F.3d at 961 (affirming default judgment where the defendant
34 admitted he had intentionally deleted information from his
35 company-issued laptop computer and had written a program to
36 remove any deleted files from the computer's hard drive,
37 noting the district court's bad-faith determination, which

1 is a prerequisite to dismissing a case pursuant to a
2 court's inherent power, was not clearly erroneous).

3 **2. Adverse Inference Jury Instruction**

4 The majority of courts, including many courts in
5 the Ninth Circuit, apply "the three-part test set forth in
6 Zubulake v. UBS Warburg, LLC, 220 F.R.D. 212, 216 (S.D. NY
7 2003), for determining whether to grant an adverse
8 inference spoliation instruction." Apple I, 881 F.Supp 2d
9 1138.

10 In Zubulake, the court stated:

11 A party seeking an adverse inference
12 instruction (or other sanctions) based on
13 the spoliation of evidence must establish
14 the following three elements: (1) that
15 the party having control over the
16 evidence had an obligation to preserve it
17 at the time it was destroyed; (2) that
18 the records were destroyed with a
19 'culpable state of mind' and (3) that the
20 evidence was 'relevant' to the party's
21 claim or defense such that a reasonable
22 trier of fact could find that it would
23 support that claim or defense.

18 Zubulake, 220 F.R.D. at 220 [citing Residential Funding
19 Corp. v. DeGeorge Fin'l Corp., 306 F.3d 99, 108 (2d Cir.
20 2002)]; see also Apple II, 888 F.Supp 2d at 989-90;
21 Surowiec v. Capital Title Agency, Inc., 790 F.Supp 2d 997,
22 1005 (D. AZ 2011); Lewis v. Ryan, 261 F.R.D. 513, 521
23 (S.D.Cal. 2009).

24 The Ninth Circuit generally has found that "[A]s
25 soon as a potential claim is identified, a litigant is
26 under a duty to preserve evidence which it knows or
27 reasonably should know is relevant to the action." Apple
28 II, 888 F.Supp. at 991, (citing In re Napster, 462 F.Supp

1 2d at 1067). "When evidence is destroyed in bad faith, that
2 fact alone is sufficient to demonstrate relevance."
3 Zubulake, 220 F.R.D. at 220. "By contrast, when the
4 destruction is negligent, relevance must be proven by the
5 party seeking the sanctions." Id.

6 To find "culpable state of mind," a court need
7 only find that a spoliator acted in "conscious disregard"
8 of its obligations to not destroy documents. Apple II, 888
9 F.Supp 2d at 989-990, [citing Hamilton v. Signature Flight
10 Support Corp., 2005 WL 3481423 at *7 (N.D. Cal. 2004), Io
11 Group v. GLBT, Ltd., 2011 WL 4974337 at *7 (N.D. Cal.
12 2011)]. However, where a non-spoliating party fails to show
13 a degree of fault and level of prejudice, negligent
14 destruction of documents does not warrant an adverse
15 inference instruction or evidence preclusion. Apple II, 888
16 F.Supp.2d at 993.

17 If spoliation is shown, the burden of proof shifts
18 to the guilty party to show that no prejudice resulted from
19 the spoliation, because that party "is in a much better
20 position to show what was destroyed and should not be able
21 to benefit from its wrongdoing." Apple II, 888 F.Supp 2d
22 at 998, [citing Hynix Semiconductor v. Rambus, 591 F.Supp
23 2d 1038, 1060 (N.D. Cal. 2006), vacated on other grounds in
24 Hynix Semiconductor v. Rambus, 645 F.3d 1336 (D.C. Cir.
25 2011); In re Hitachi, 2011 WL 3563781 at *6].

26 Defendants had control of all of their email and
27 non-email documents. They had an obligation to preserve
28 them. As soon as Defendants were notified of a potential

1 lawsuit, Defendants were under a duty to preserve evidence
2 which it knew, or reasonably should have known, were
3 relevant to the action. Once Defendants were notified of a
4 potential lawsuit, it was their responsibility to suspend
5 any existing policies related to the deletion or
6 destruction of documents and to ensure all employees knew
7 to preserve all documents related to the alleged infringing
8 products. Here, Defendants would have had reason to know
9 that the documents were relevant in this action because the
10 documents contained information that related directly to
11 the design of the alleged infringing products and were
12 communications to third parties on the use of the alleged
13 infringing products with Plaintiff's product. Accordingly,
14 Defendants had control over the documents and an obligation
15 to preserve them. They did not discharge this obligation.

16 Defendants destroyed the documents with a culpable
17 state of mind. Defendants, in conscious, or perhaps
18 willful, disregard of their obligation to preserve
19 documents, allowed the documents to be destroyed by failing
20 to implement a litigation hold and a document preservation
21 policy. Thus, Defendants were at least negligent in not
22 implementing a litigation hold on or after October 22,
23 2008, and not giving any affirmative instructions to their
24 employees to preserve potentially relevant documents.

25 Plaintiffs are prejudiced by the destruction of
26 Aravena's and Niznick's emails because the contents of
27 these documents are directly relevant to the claims at
28 issue in this litigation. As a result, Plaintiff is now

1 forced to go to trial while relying on incomplete evidence.

2 Defendants attempt to rebut the presumption of
3 prejudice by stating that they produced all of Aravena's
4 emails, that Plaintiff has not shown that any specific
5 emails are missing, and that her emails were irrelevant to
6 Plaintiff's expert's opinions. Further, Defendants contend
7 that Plaintiffs are not prejudiced by the destruction of
8 Niznick's communications with third parties, because
9 Plaintiffs have failed to show that any other similar
10 emails exist. Finally, Defendants argue that since
11 Plaintiffs already have the tool and its packaging, they
12 need nothing more and cannot be prejudiced. However, none
13 of these contentions actually rebut the presumption,
14 because spoliation of evidence carries the presumption that
15 the destroyed evidence goes to the merits of the case.
16 Further, it is not possible for Plaintiffs to point to
17 specific emails that were destroyed. Moreover, Plaintiffs
18 have submitted ample evidence for this Court to determine
19 that documents relevant to the claims in this action were
20 destroyed because of Defendants' negligent conduct.

21 As a sanction for Defendant's spoliation of
22 relevant evidence, the Court RECOMMENDS that an adverse
23 inference instruction should be read to the jury. This
24 recommendation is warranted in light of the degree of
25 Defendants' fault and the degree of prejudice Plaintiffs
26 have suffered. Based on Defendants' conscious and/or
27 willful disregard of its obligations, and in the absence of

28

1 bad faith, the Court RECOMMENDS that the jury be instructed
2 as follows:

3 Defendants failed to prevent the
4 destruction of relevant evidence for
5 Plaintiffs' use in this litigation. The
6 evidence pertains to the design,
7 development, and testing, of Defendants'
8 products and Plaintiffs' claims that
9 Defendants induced infringement of
10 Plaintiffs' patents. This failure
11 resulted from Defendants' failure to
12 perform their discovery obligations.

13 You may, if you find appropriate, presume
14 from that destruction, that the evidence
15 destroyed was relevant to Plaintiffs'
16 case and that the destroyed evidence was
17 favorable to Plaintiffs.

18 Whether this finding is important to you
19 in reaching a verdict is for you to
20 decide.

21 Food Service of America, Inc. v. Carrington 2013 WL
22 4507593 at *22 (D. AZ 2013), Chamberlain v. Les Schwab Tire
23 Center of California, 2012 WL 6020103 at *6 (E.D. Cal.
24 2012).

25 **3. Attorney's Fees and Costs**

26 Monetary sanctions may be imposed where one party
27 has wrongfully destroyed evidence. See, e.g., National
28 Ass'n of Radiation Survivors, 115 F.R.D. 543, 558-59 (C.D.
Cal. 1987). Plaintiffs claim that they are entitled to
their attorneys' fees incurred as a result of Defendants'
misconduct, with bringing this Motion, and with additional
investigation efforts involved in bringing the misconduct
to the Court's attention.

Here, the Court finds that monetary sanctions are
warranted. Defendants' negligence and their denial of

1 spoliation of evidence caused delay and unnecessary costs
2 that could have been avoided had Defendants simply put in
3 place a litigation hold and monitored a document
4 preservation policy, as they were obligated to do. Further,
5 it is particularly egregious that, to date, Defendants have
6 not presented any evidence that they have ever implemented
7 a litigation hold in this case.

8 Therefore, Plaintiffs are entitled to an award of
9 reasonable attorney fees in light of the degree of
10 Defendants' culpability. Defendants shall reimburse
11 Plaintiff the reasonable attorneys' fees and costs
12 associated with (1) the time spent by Plaintiffs in
13 bringing Defendants' misconduct to the Court's attention,
14 (2) bringing the instant Motion, and (3) obtaining
15 destroyed documents from third parties. Plaintiffs shall
16 submit a request for a specific amount of fees and costs,
17 with evidentiary support, for the Court's consideration.

18 **V**

19 **CONCLUSION**

20 The Federal Rules of Civil Procedure do not require
21 perfection or guarantee that every possible responsive
22 document will be found and/or produced. Parties are
23 required to preserve evidence relevant to litigation and to
24 prevent spoliation. Defendants failed to preserve multiple
25 documents that are relevant to Plaintiff's claims with the
26 requisite culpable state of mind to support a finding of
27 spoliation of evidence.

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1 After review of all the evidence presented, and for the
2 reasons stated above, the Court rules as follows:

3 1. The Court RECOMMENDS that Plaintiffs' Motion
4 for Sanctions, to the extent that Plaintiffs seek an
5 adverse inference jury instruction, be GRANTED.

6 2. Plaintiff's Motion for Sanctions, to the extent
7 Plaintiffs seek monetary sanctions, is GRANTED.

8 3. Plaintiff's Motion for Sanctions, to the extent
9 Plaintiffs seek a default judgment, is DENIED.

10 **IT IS FURTHER ORDERED** that on or before December 31,
11 2013, Plaintiffs shall file with the Court substantiation
12 of the reasonable attorneys' fees and costs associated with
13 (1) the time spent by Plaintiffs in bringing Defendants'
14 spoliation of evidence to the Court's attention, (2)
15 bringing the current Motion, and (3) obtaining destroyed
16 documents from third parties.

17 As noted above, the undersigned Magistrate Judge
18 RECOMMENDS that Plaintiffs' Motion for Sanctions, to the
19 extent that Plaintiffs seek an adverse inference jury
20 instruction, be GRANTED.

21 This Recommendation of the undersigned Magistrate
22 Judge is submitted to the United States District Judge
23 assigned to this case, pursuant to the provision of 28
24 U.S.C. Section 636(b)(1).

25 **IT IS ORDERED** that no later than December 31, 2013
26 any party to this action may file written objections with
27 the Court and serve a copy on all parties. The document
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1 should be captioned "Objections to Recommendation for
2 Adverse Inference Jury Instruction."

3 **IT IS FURTHER ORDERED** that any reply to the
4 objections shall be filed with the Court and served on all
5 parties no later than January 14, 2014. The parties are
6 advised that failure to file objections within the
7 specified time may waive the right to raise those
8 objections on appeal of the Court's order. Martinez v.
9 Ylst, 951 F.2d 1153 (9th Cir. 1991).

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DATED: November 25, 2013


Hon. William V. Gallo
U.S. Magistrate Judge