United States District Court,
E.D. Pennsylvania.
APPLIED TELEMATICS, INC.
v.
SPRINT COMMUNICATIONS COMPANY, L.P.
No. Civ.A. 94-4603.

Sept. 17, 1996.

MEMORANDUM OF DECISION

RUETER, Magistrate J.

Presently before this court is plaintiff's motion for an inference and sanctions based on spoliation of evidence [FN1] and supporting brief, defendant's brief in opposition thereto, plaintiff's sur rebuttal, defendant's letter to this court dated August 21, 1996, and plaintiff's letter to this court dated September 4, 1996. After careful review of these materials, this court makes the following findings of fact and conclusions of law:

> FN1. This matter was referred to this court by the Honorable James McGirr Kelly by Order dated May 31, 1996. The factual background of this matter is set forth in detail in Judge Kelly's Memorandum and Order dated July 22, 1996 and will not be repeated in full herein. *See Applied Telematics, Inc. v. Sprint Communications Company, L.P.,* No. 94-CV-4603, slip op. at 2-10 (E.D.Pa. July 22, 1996). In summary, plaintiff is the owner, by assignment, of United States Patent No. 4,757,267 (the "267 Patent"). The 267 Patent recites a telephone system for connecting a customer to a supplier of goods. The function of the system is to route potential customers that call a central "800-type" number to the dealer of the desired product or service that is located the shortest geographic distance to the caller. Plaintiff instituted this patent infringement action alleging that defendant offers two services to its customers, Sprint Telemedia and Enhanced 800, that infringe on the 267 Patent. *Id.* at 2.

I. *PLAINTIFF'S CONTENTIONS AND DEFENDANT'S RESPONSE*

In its motion, plaintiff asks this court to enter a default judgment with respect to a certain number of Sprint 800 telephone numbers which allegedly infringe upon a patent owned by plaintiff. [FN2] Plaintiff's motion is directed solely at defendant's Enhanced 800 service. [FN3] Plaintiff claims that it requested defendant to produce 337 Enhanced 800 routing plans (down from 2,800 originally selected Enhanced 800 routing plans). Plaintiff contends that its expert was able to analyze only 146 of the requested routing plans. Plaintiff claims that defendant destroyed the remaining 191 Enhanced 800 routing plans despite being put on notice if not by the complaint, then by plaintiff's first request for production of documents dated August 2, 1994. *See* Plaintiff's Motion at 2-3, Exhibit 1, ¶ ¶ 3, 16. Plaintiff further claims that this information is irreplaceable and is the only source of proof of infringement available to it, [FN4] therefore, it is severely prejudiced by defendant's alleged actions.

> FN2. More specifically, plaintiff requests the following relief. Plaintiff claims that its liability expert found that 53.4% of the Enhanced 800 routing plans that he analyzed were infringing. Plaintiff argues that should the jury find that 53.4% of the numbers its expert analyzed are infringing, and that as a result plaintiff suffered damages, then the same should hold true proportionately for 53.4% of the numbers not analyzed because of spoliation. Plaintiff suggests that the court could instruct the jury that it may make an adverse inference with respect to the spoliated telephone numbers and proportionate calculations. Or the court could declare by default that 53.4% of the spoliated numbers are deemed to have infringed. In either case, plaintiff states, the jury would first have to determine that 53.4% of the analyzed numbers are infringing. *See* Plaintiff's Sur Rebuttal at 11.

> FN3. By letter dated August 21, 1996, counsel for defendant notified this court that the instant motion was rendered moot by Judge Kelly's July 22, 1996 decision construing the 267 Patent to recite "only the Real-Time Computation Method as a location determining means." *Applied Telematics, Inc.,* No. 94-CV-4603, slip op. at 27. Judge Kelly also found that the defendant's systems at issue in this case utilize the "NPA-NXX Table Look-Up Method" to route customer calls. *Id.* Defendant argues, therefore, that the Enhanced 800 service, the only service at issue in the motion, is no longer in issue rendering this motion moot. By letter dated

September 4, 1996, plaintiff contends that the motion is not moot. The following language from Judge Kelly's Memorandum supports plaintiff's position:

> The Court, ..., is satisfied that the NPA-NXX Table Look-Up Method could be manipulated to perform the same function that the Real-Time Computation Method performs on the 267 Patent. [footnote 16] Whether a straight table look-up approach based on a caller's NPA-NXX, with preassigned dealers, could be used to determine the dealer located the "shortest geographic distance" to the caller depends on how the tables are created. It is possible that any number of variables may be used to create the tables, including the V-H coordinates of the dealers and potential callers.
>
> Clearly, the district court imagined the situation where the Enhanced 800 service, although utilizing the NPA-NXX Table Look-Up Method, not the Real-Time Computation Method recited in the 267 Patent, could still infringe upon that patent depending upon how the Enhanced 800 tables to route the calls were created. The Enhanced 800 system remains at issue in this case and, therefore, the instant motion is not moot.

FN4. Plaintiff claims that in order to confirm the alleged infringement, its expert must "microanalyze the Enhanced 800 routing plans by calculating distances between each potential caller and the list of dealers in the routing plan to determine which potential callers are routed to the nearest dealer." Plaintiff's Motion at 3 n. 2.

Defendant argues that it first became aware of plaintiff's request for computerized routing plans in spring of 1995, and that it informed plaintiff that the computer system in which the routing plans are maintained is primarily used to route telephone calls, and not for historical recordkeeping. In accordance with defendant's normal operating procedures, every week the computer system is backed up and saved, thereby deleting the backup from the prior week. After one week, therefore, historical information is unavailable from the computer system.

It is unclear whether plaintiff's claim of spoliation relates to electronically stored information "destroyed" by defendant both before and after spring of 1995. Plaintiff does not dispute that, in and around the spring of 1995, defendant made a significant production of routing plans on numerous computer diskettes, as well as information to facilitate plaintiff's use of the diskettes. *See* Defendant's Brief at Exhibits B, C, D, E, and F. Defendant asserts that it produced 843 routing plans to plaintiff. *See* Defendant's Brief at 4 n. 1. Further, plaintiff sent to defendant a letter in December, 1995 complaining about defendant's failure to produce routing plans for dates prior to spring of 1995. *See* Defendant's Brief at 2, Exhibit G. It appears, therefore, that plaintiff's motion focuses on information not retained by defendant from August of 1994 through the spring of 1995.

II. *APPLICABLE LEGAL PRINCIPLES*

No duty to preserve evidence arises unless the party possessing the evidence has notice of its relevance. *Turner v. Hudson Transit Lines, Inc.,* 142 F.R.D. 68, 72-73 (S.D.N.Y.1991). The complaint may alert the party that certain information is relevant and likely to be sought in discovery. A party is certainly on notice once it has received a discovery request. *Id.* at 73. In *Schmid v. Milwaukee Electric Tool Corp.,* 13 F.3d 76, 79 (3d Cir.1994), our court of appeals set forth three "key considerations" in determining whether severe spoliation sanctions are appropriate: "(1) the degree of fault of the party who altered or destroyed the evidence; (2) the degree of prejudice suffered by the opposing party; and (3) whether there is a lesser sanction that will avoid substantial unfairness to the opposing party and, where the offending party is seriously at fault, will serve to deter such conduct by others in the future." For an unfavorable inference to arise, "it must appear that there has been an actual suppression or withholding of evidence." *Brewer v. Quaker State Oil Refining Corp.,* 72 F.3d 326, 335 (3d Cir.1995).

This court's discretion should be exercised with a view to choosing "the least onerous sanction corresponding to the willfulness of the destructive act and the prejudice suffered by the victim." *Schmid,* 13 F.3d at 79. A sanction that has a drastic result, such as the entry of a judgment, should be regarded as a last result. *Baliotis v. McNeil,* 870 F.Supp. 1285, 1289 (M.D.Pa.1994). As stated more recently by our court of appeals, for an adverse interest to arise from the destruction of evidence, "it must appear that there has been an actual suppression or withholding of evidence." *Brewer,* 72 F.3d at 335. *See also id.* ("Such a presumption or inference arises, however, only when the spoliation or destruction [of evidence] was intentional, and indicates fraud and a desire to suppress the truth, and it does not arise where the

destruction was a matter of routine with no fraudulent intent.") (quoting 31A C.J.S. Evidence § 177).

III. *FINDINGS OF FACT AND CONCLUSIONS OF LAW*

A. *Duty of Defendant to Preserve Data*

Defendant claims that it could not have known prior to spring of 1995 that the electronically stored Enhanced 800 routing plans were relevant and might be subject to discovery. The language of plaintiff's first request for production of documents dated August 2, 1994, and served on the defendant by first class mail that same date, causes this court to find that defendant knew or should have known that this information was relevant prior to spring of 1995. *See* Plaintiff's Brief, Exhibit 1. Specifically, document request number 3 asked for "[a]ll documents relating to, discussing and/or referring to the design, development, manufacture, installation, decision to sell, business plan and/or sale of Sprint's direct-connect service." Request number 16 asked for "[a]ll documents that concern or relate to the source code and related flow charts, flow diagrams, databases or the like which concern or relate to the operation of Sprint's direct-connect service or enhanced D/C service." The term "direct-connect service" was defined in the first request as "any service that Sprint offers ... including ... Sprint's Enhanced 800 Area Code/ Exchange Routing service ...". *Id.* at Exhibit 1, p. 5. The term "document" was defined in the first request as including "... computer databases (including the software necessary to create, search, access or manipulate the databases and back-up tapes or tapes including deleted information from the databases) and other ... electronically stored or recorded ... material." *Id.* at 1-2. The electronically stored Enhanced 800 routing plans fall within this document request.

This court notes, however, that the complaint, first request for production of documents and a first set of interrogatories were all served upon the defendant just a couple of days apart. *See* Docket No. 94-CV-4603 (Complaint filed July 28, 1994). It is reasonable to conclude that defendant needed a period of time to familiarize itself with the pleadings and determine what information was relevant and responsive. As of late 1994 at the earliest, therefore, defendant had an affirmative duty to preserve this information.

B. *The Degree of Fault of Defendant*

Plaintiff acknowledges that defendant did not purposely destroy the routing plans maliciously, willfully or in bad faith to prevent their discovery. *See* Plaintiff's Sur Rebuttal at 6. This court also finds that defendant did not act willfully to destroy the routing plans with the intent to prevent their discovery. The fact that defendant produced over 800 routing plans and that the backup files were deleted automatically as part of defendant's normal operating procedures supports this conclusion. This court also notes that the discovery in this case has been substantial. Plaintiff has filed numerous discovery requests and, as this court found in its Order dated April 16, 1996, defendant has devoted substantial resources to its responses. *See* Order dated April 16, 1996 at ¶ 5. With respect to the particular discovery requests at issue in the April 16, 1996 Order, this court found that "defendant has acted diligently to provide the requested material" and "kept plaintiff informed of its progress in providing the information". *Id.* at ¶ 20.

Nonetheless, defendant was or should have been aware in late 1994 that the Enhanced 800 routing plans were the subject of discovery and defendant is at fault for not taking steps to prevent the routine deletion of the backup files. To the extent that files after the spring of 1995 are at issue, this court rejects defendant's assertion that in the spring of 1995 it informed plaintiff that the backup files were routinely deleted and that plaintiff did not ask defendant to save the files. Plaintiff's failure to ask defendant to save the files did not relieve defendant of its affirmative duty to do so.

C. *The Degree of Prejudice Suffered by Plaintiff*

The parties agree that plaintiff must show a nexus between the proposed inference and the destroyed evidence. Plaintiff claims to need the destroyed information to prove infringement and for the calculation of damages. Plaintiff argues that since its liability expert, Arthur I. Larky, found that 53.4% of the routing plans he analyzed were allegedly infringing, a similar percentage of the destroyed routing plans would also have been found to be infringing. Defendant argues that Mr. Larky's analysis is unreliable and that it filed a motion to exclude his testimony. By Order dated June 26, 1996, however, Judge Kelly concluded that he will hold a hearing on the qualifications of Mr. Larky prior to his testimony at the trial to determine the extent of his testimony that will be permitted. *See* Order dated June 26, 1996 (Docket No. 115). Considering Judge Kelly's conclusion that defendant's Enhanced 800 service could be determined to be infringing on the 267 Patent and the fact that plaintiff bears the burden of proving its damages, this court finds that plaintiff

has shown that it is prejudiced by the inability to have its expert analyze the destroyed routing plans.

This court further finds, however, that the prejudice suffered by plaintiff is not substantial because it appears that plaintiff, having learned as early as spring of 1995 that this information was unavailable, failed to pursue other means to obtain the information. Defendant asserts in its brief that plaintiff could have obtained this information using the identities of the defendant's customers for the lost information provided by defendant to initiate third party discovery. *See* Defendant's Brief at 9 n. 4. Defendant further asserts that plaintiff used this discovery tool on over fifty other accounts. *Id.* While plaintiff, in its motion, claims that this information is unavailable from other sources, in its sur rebuttal it does not dispute defendant's assertions that it could have been obtained through third party discovery.

D. *Sanction to be Imposed*

The third and final *Schmid* factor requires consideration of "whether there is a lesser sanction that will avoid substantial unfairness to the opposing party and, where the offending party is seriously at fault, will serve to deter such conduct by others in the future." As stated above, it is within this court's discretion to choose the appropriate sanction upon a finding of improper loss or destruction of evidence.

The entry of a default judgment or the imposition of a spoliation inference is inappropriate in the instant matter. Although defendant is at fault, it did not willfully or fraudulently destroy evidence with the intent to prevent plaintiff from obtaining it. Although plaintiff has established that it suffered prejudice, it appears that plaintiff failed to pursue other sources to obtain the information. The amount of prejudice caused by defendant's actions, therefore, is not substantial.

Where no adverse inference is appropriate, some courts have awarded monetary sanctions for the destruction of evidence. *Turner,* 142 F.R.D. at 77-8. An award of costs serves both punitive and remedial purposes: it deters spoliation and compensates the aggrieved party for additional costs incurred because of the spoliation. *Id.* Such compensable costs may arise either from the discovery necessary to identify alternative sources of the information, or from the investigation and litigation of the spoliation itself. *Id.* Such an award is warranted here. Accordingly, this court will enter an order granting plaintiff's motion for an inference and sanctions based on spoliation of evidence, to the extent set forth herein, and will award reasonable fees and costs after the plaintiff submits proper documentation.

An appropriate Order follows.

ORDER

AND NOW, this 17th day of September, 1996, upon consideration of plaintiff's motion for an inference and sanctions based on spoliation of evidence, it is hereby

ORDERED

1. Plaintiff's motion for an inference and sanctions based on spoliation of evidence is GRANTED to the extent set forth in the accompanying Memorandum of Decision; and

2. Plaintiff shall submit to this court within twenty (20) days from the date hereof, and simultaneously serve upon defendant, detailed attorney time sheets and cost records setting forth the costs it incurred in the investigation and litigation of the destruction of the Enhanced 800 routing plans. To the extent that plaintiff incurred fees and costs in attempting to locate this information from alternative sources, it shall submit detailed time and cost records for these activities as well. Defendant may file an objection, if any, and simultaneously serve such objection upon the plaintiff, within ten (10) days of receiving plaintiff's submission.

MEMORANDUM OF DECISION

Presently before this court is defendant's motion for costs in connection with plaintiff's withdrawn motion. On February 26, 1996, plaintiff filed a motion to compel compliance with court order and for sanctions (the "Withdrawn Motion"). Defendant filed a brief in opposition to the Withdrawn Motion and this United States Magistrate Judge conducted a hearing on the motion on April 3, 1996. At the hearing, the parties agreed that certain documents would be submitted to this court for *in camera* review. The next day, plaintiff withdrew its motion without explanation. Defendant moves this court for an award of its costs in connection with the Withdrawn Motion.

Defendant did not consent to the withdrawal of the motion and claims that it incurred considerable expense in defending it. In attendance at the April 3, 1996 hearing on behalf of the defendant, *inter alia,* were defendant's in-house counsel and a representative, both from Kansas City, Missouri. Defendant argues that the Withdrawn Motion was filed in bad faith because the issues it raised previously had been ruled upon by a September 21, 1995 decision by United States Magistrate Judge

Edwin E. Naythons, *see Applied Telematics, Inc. v. Sprint Communications Co. L.P.,* No. 94-CV-4603, Memorandum and Order (E.D.Pa. September 21, 1995), and because it was premised upon an unfounded "hidden document" theory.

Plaintiff argues that it filed the Withdrawn Motion in order to obtain two memoranda prepared by Harley Ball, Esquire, an in-house counsel for defendant, as well as other opinions of counsel, in compliance with Judge Naythons' Order. The Ball memoranda were dated August 30, 1994 and September 26, 1994 (the "Ball Memoranda"). It is undisputed that Mr. Ball, and his law clerk, expressed a prelitigation oral opinion on the issue of infringement. At his September 26, 1995 deposition, Mr. Ball identified the Ball Memoranda as written formalization of these oral prelitigation opinions. *See* Plaintiff's Response, Exhibit B at 53-54.

At the time of Judge Naythons' September 21, 1995 Memorandum and Order, in which Judge Naythons concluded that defendant had waived the attorney client privilege with respect to the issue of infringement, [FN1] the court apparently believed that Mr. Ball's only opinion was oral. The court stated that "[s]ince Mr. Ball's opinion was oral, deposing him and his assistant will be the most efficient method of obtaining information." Memorandum and Order at 7. Obviously, the court was unaware of the Ball Memoranda. The discoverability of the Ball Memoranda was not "effectively dealt with" in Judge Naythons' Memorandum and Order as argued by defendant and, therefore, the Withdrawn Motion was not filed in bad faith on this ground.

> FN1. Judge Naythons also ordered defendant to produce any information regarding infringement that was materially different from the original advice of Mr. Ball through the date of the trial. *See* Memorandum and Order at 10-11.

Defendant also argues that the Withdrawn Motion was filed in bad faith in that it was premised on an unfounded "hidden document" theory. Defendant claims that it had listed the Ball Memoranda in its privilege log supplied to plaintiff months before plaintiff filed the Withdrawn Motion. *See* Plaintiff's Response, Exhibit D. This court finds that it is not readily apparent from the descriptions in plaintiff's privilege log that the Ball Memoranda were the written formalization of Mr. Ball's prelitigation opinions regarding infringement. Consequently, this court finds that the Withdrawn Motion was not filed in bad faith on this alternative ground. This court declines defendant's invitation to award costs on the grounds stated in its motion.

To date, however, plaintiff has not revealed the reason(s) for the sudden withdrawal of its motion immediately after the April 3, 1996 hearing. In its response, plaintiff states that its reasons for withdrawing the motion "should be of no concern to [defendant]". *See* Plaintiff's Response at 6. The reasons, however, are of concern to this court. Defendant incurred expense in responding to the Withdrawn Motion, including securing the attendance at the hearing of two individuals from Kansas City, Missouri. Further, this court expended considerable resources in preparing for and presiding over the hearing.

It has long been recognized that " '[c]ertain implied powers must necessarily result to our Courts of justice from the nature of their institution', powers 'which cannot be dispensed with in a Court, because they are necessary to the exercise of all others." ' *Chambers v. Nasco, Inc.,* 501 U.S. 32, 43 (1991) (quoting *United States v. Hudson,* 3 L.Ed. 259 (1812)). "These powers are 'governed not by rule or statute but by the control necessarily vested in courts to manage their own affairs so as to achieve the orderly and expeditious disposition of cases." ' *Id.* (quoting *Link v. Wabash R. Co.,* 370 U.S. 626, 630-31 (1962)). The Court in *Chambers* outlined three circumstances in which a court may assess attorney fees. The most relevant here, the court may assess attorney fees where a party has "acted in bad faith, vexatiously, wantonly, or for oppressive reasons." *Id.* at 45-6 (citations omitted). In this regard, the court may assess attorney fees when a party shows bad faith by delaying or disrupting the litigation. *Id* . at 46 (citations omitted). The imposition of sanctions in this instance serves the dual purpose of "vindicat [ing] judicial authority without resort to the more drastic sanctions available for contempt of court and mak[ing] the prevailing party whole for expenses caused by his opponent's obstinacy." *Id.* (quoting *Universal Oil Products Co. v. Root Refining Co.,* 328 U.S. 575, 580 (1946)). *See also Woolfolk v. Duncan,* 872 F.Supp. 1381, 1394 (E.D.Pa.1995) ("Federal courts possess inherent power to impose attorneys fees as a sanction for bad faith.") (citing *Chambers*).

The court's inherent powers must be "exercised with restraint and discretion". *Chambers,* 501 U.S. at 44. *See also Woolfolk,* 872 F.Supp. at 1394-95. A federal court is not forbidden to use its inherent powers to sanction bad faith conduct simply because that conduct could also be sanctioned under the Federal Rules of Civil Procedure or 28 U.S.C. § 1927.

However, the court should ordinarily rely upon the Federal Rules of Civil Procedure or the statute in the first instance, and, if neither are sufficient, "the court may safely rely on its inherent powers." *Chambers,* 501 U.S. at 50. *See also Woolfolk,* 872 F.Supp. at 1394-95. In *Woolfolk,* the court refused to assess attorney fees because its inherent powers to impose attorney fees should be exercised with caution and because the movant had not clearly shown why Fed.R.Civ.P. 11 or 28 U.S.C. § 1927 were inadequate. *Id.* at 1395.

In the matter before this court, considerable time passed between the filing of the Withdrawn Motion (February 26, 1996) and its ultimate withdrawal (April 4, 1996). Absent an explanation from plaintiff for its actions, the inference arises that plaintiff merely changed its mind and no longer wanted the information it sought to compel in the Withdrawn Motion. This is a decision that plaintiff should have made prior to the hearing.

In consideration of the mandate that federal courts exercise their inherent powers with caution, this court will give plaintiff the benefit of the doubt and not speculate as to why it did not withdraw its motion sooner. Plaintiff also incurred costs in prosecuting the Withdrawn Motion which, this court will assume, it also would have preferred to avoid. Further, this court notes that the course of discovery in this case has been a long and difficult road, fraught with numerous motions to compel and motions for sanctions filed by both parties. Any blame for slowing down the course of this litigation must be shared by both parties. Consequently, this court finds that it would not further the interests of justice to assess attorney fees against the plaintiff with respect to the Withdrawn Motion.

ORDER

AND NOW, this 17th day of September, 1996, upon consideration of defendant's motion for costs in connection with plaintiff's withdrawn motion to compel compliance with court order and for sanctions dated February 26, 1996, and plaintiff's response thereto, it is hereby

ORDERED

that the motion is DENIED for the reasons set forth in the accompanying memorandum.