Trade Secrets, Non-Competes & Employee Mobility

Legal Alert

Key Contacts

Linda M. Jackson
Partner, DC
202.775.5785
linda.jackson@arentfox.com

Dana J. Finberg
Partner, SF
415.757.5897
dana.finberg@arentfox.com

Nadia Patel
Associate, DC
202.775.5716
nadia.patel@arentfox.com

Litigating Spoliation Claims in Trade Secret Cases: A "How-To" Guide for Obtaining Remedies for Intentional, Bad Faith Conduct

In today's Digital Era, where employee mobility is commonplace, businesses are more exposed than ever to trade secret theft by employees. As businesses move toward the complete digitization of information, lawyers involved in trade secret misappropriation matters cannot afford to be unfamiliar with the concepts of e-discovery and spoliation. Increasingly, the two collide, with spoliation issues arising in the context of trade secret litigation.

Indeed, trade secret misappropriation cases are fertile ground for the litigation of spoliation issues, simply because the type of defendant[1] who is willing to intentionally steal proprietary information is often the type of individual who will take steps to attempt to conceal the misconduct. With "forensic solutions" easily accessible to anyone with a web browser and a credit card, many defendants believe that they can destroy electronic evidence without a trace. Of course, this is a misconception. Forensic experts are able to detect evidence of the deletion of emails and files, wiping or reformatting computers, and use of flash drives to copy files. A good forensic expert, coupled with a strategic presentation of facts, can establish bad-faith, intentional spoliation and accelerate a win for the trade secret owner.

There is no shortage of guidance on the duty to preserve electronic evidence and on how to avoid spoliation. But what should a trade secret plaintiff do when its adversary has engaged in spoliation? How can a company identify spoliation and use that misconduct offensively against a defendant to obtain a successful outcome in litigation? That is what we address here.

1 "Defendant" is used here to refer to the wrongdoer, or the party that misappropriated the trade secrets.

Trade Secrets, Non-Competes & Employee Mobility

Legal Alert

Key Contacts

Linda M. Jackson
Partner, DC
202.775.5785
linda.jackson@arentfox.com

Dana J. Finberg
Partner, SF
415.757.5897
dana.finberg@arentfox.com

Nadia Patel
Associate, DC
202.775.5716
nadia.patel@arentfox.com

This article provides litigators and businesses with tips on how to detect and identify spoliation, how to establish spoliation before a judge or arbitrator, and how to use the various available remedies to achieve a positive result for your client in a trade secret lawsuit.

A. Background on the Law

1. Trade Secret Laws

Trade secret claims may be brought under federal and state law. Every state except New York has adopted a version of the Uniform Trade Secret Act (UTSA). To provide uniformity and promote interstate enforcement, President Obama signed into law the Defend Trade Secret Act (DTSA) on May 11, 2016. The DTSA altered the landscape of trade secret law, providing a uniform federal standard and permitting plaintiffs the very important option of filing suit in federal court.

Both the DTSA and UTSA expressly define what conduct constitutes misappropriation and what information constitutes trade secrets.[2] Under the DTSA, misappropriation includes: (1) acquisition; (2) use; or (3) disclosure of a trade secret without express or implied consent or by improper means.[3] The statutory definition of trade secrets is quite broad, and includes "all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically."[4] In order to satisfy the definition of trade secrets, the owner of the information must take "reasonable measures to keep such information secret" and the information must "derive[] independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information."[5]

2. The Spoliation Standard

Spoliation occurs when a party to pending or anticipated litigation fails to comply with its obligations to preserve potentially relevant evidence. Destroying, damaging, or altering evidence can all result in spoliation. To prove spoliation, a party must demonstrate the following:

2 Because the applicable definitions are very similar, we will refer here to the applicable definitions in the DTSA.

3 18 U.S.C. § 1839(5).

4 18 U.S.C. § 1839(3).

5 18 U.S.C. § 1839(3)(A)-(B).

Trade Secrets, Non-Competes & Employee Mobility

Legal Alert

Key Contacts

Linda M. Jackson
Partner, DC
202.775.5785
linda.jackson@arentfox.com

Dana J. Finberg
Partner, SF
415.757.5897
dana.finberg@arentfox.com

Nadia Patel
Associate, DC
202.775.5716
nadia.patel@arentfox.com

– the party having control over the evidence had an obligation to preserve it when it was destroyed or altered;

– the destruction or loss was accompanied by a "culpable state of mind;" and

– the evidence that was destroyed or altered was "relevant" to the claims or defenses of the party that sought the discovery of the spoliated evidence, to the extent that a reasonable factfinder could conclude that the lost evidence would have supported the claims or defenses of the party that sought it.[6]

"The common law imposes the obligation to preserve evidence from the moment that litigation is reasonably anticipated."[7] Thus, the duty may arise from a demand letter, cease and desist letter, or other correspondence from a party raising the prospect of potential litigation. At the very latest, a duty to preserve arises when a party is served with a complaint. A duty to preserve can also arise from a subpoena or other discovery request, as well as from a temporary restraining order, a preliminary injunction, or any other court order relating to preservation.

The common-law duty to preserve encompasses any relevant documents or things in a party's possession, custody, or control. Relevant information may include the following:

[A]ny documents or tangible things (as defined by [Fed.R.Civ.P.] 34(a)) made by individuals "likely to have discoverable information that the disclosing party may use to support its claims or defenses." The duty also includes documents prepared for those individuals, to the extent those documents can be readily identified (e.g., from the "to" field in emails). The duty also extends to information that is relevant to the claims or defenses of any party, or which is "relevant to the subject matter involved in the action." Thus, the duty to preserve extends to those employees likely to have relevant information-the "key players" in the case.[8]

The "culpable state of mind" element is quite broad, and sanctionable spoliation can be established by showing that the spoliation was undertaken with ordinary negligence, with gross negligence, or knowingly and in bad faith. As one would expect, the range of sanctions correlates with the degree of culpability and bad faith spoliation carries the harshest sanctions. "[B]ad faith destruction occurs when a party engages in destruction 'for the purpose of depriving the adversary of evidence.'"[9]

---

6 *Victor Stanley, Inc. v. Creative Pipe, Inc.*, 269 F.R.D. 497, 520–21 (D. Md. 2010).

7 *Id.* at 521.

8 *Zubulake v. UBS Warburg LLC*, 220 F.R.D. 212, 217–18 (S.D.N.Y. 2003).

9 *E.I. du Pont de Nemours & Co. v. Kolon Indus., Inc.*, 803 F. Supp. 2d 469, 497 (E.D. Va. 2011) (quoting *Powell v. Town of Sharpsburg*, 591 F. Supp. 2d 814, 820

Trade Secrets, Non-Competes & Employee Mobility

Legal Alert

Key Contacts

Linda M. Jackson
Partner, DC
202.775.5785
linda.jackson@arentfox.com

Dana J. Finberg
Partner, SF
415.757.5897
dana.finberg@arentfox.com

Nadia Patel
Associate, DC
202.775.5716
nadia.patel@arentfox.com

"Related to the culpability requirement is the requirement that the documents or materials the alleged spoliator failed to preserve, destroyed, or altered be relevant to the litigation or pending litigation."[10] "[I]f the record shows that a party destroyed or materially altered documents or materials in bad faith, that establishes, without more, that the destroyed documents or materials were relevant."[11]

B. Tools for Recognizing, Confirming, and Investigating Spoliation

Prior to initiating litigation, it is prudent to conduct an internal investigation of the misappropriation, including a forensic examination of company laptops or other devices used by the wrongdoer. Facts discovered in an internal investigation are particularly helpful in establishing a basis for filing suit and seeking early injunctive relief.

Once litigation has been initiated, as one might expect, formal discovery is the best tool for identifying and investigating potential spoliation. There are several discovery mechanisms that can assist in identifying and investigating potential spoliation, including: (1) forensic examinations; (2) party discovery; and (3) third-party discovery. In a trade secret case, a party should seek some party discovery and a forensic examination of a defendant's electronic devices (including computers, external storage devices, cell phones and cloud storage accounts) as early in the litigation as possible. Many courts permit motions for expedited discovery and will grant expedited discovery in trade secret matters, particularly when paired with a motion for preliminary injunctive relief where the movant can demonstrate a substantial threat that relevant information may be destroyed or altered.

On occasion, defendants may agree to expedited discovery and/or a forensic examination. However, where a defendant outright refuses to submit to a forensic examination, or otherwise engages in tactics that telegraph a fear of what a thorough forensic examination will reveal, this should raise a red flag of potential spoliation.

Step 1: Engage a Capable Computer Forensic Expert

A forensic examination is not only critical to identifying and establishing misappropriation of trade secrets, but also to identifying spoliation. A trusted and thorough forensic expert can make or break a spoliation claim. A good forensic expert can examine metadata and other artifacts on a laptop, cell phone, or other devices, and uncover evidence of: (1) the use of deletion software; (2) deletion/alteration of files; (3) connection to external

(E.D.N.C. 2008)).

10 *Id.* at 498.

11 *Id.* at 499; *Zubulake*, 220 F.R.D. at 220.

Trade Secrets, Non-Competes & Employee Mobility

Legal Alert

Key Contacts

Linda M. Jackson
Partner, DC
202.775.5785
linda.jackson@arentfox.com

Dana J. Finberg
Partner, SF
415.757.5897
dana.finberg@arentfox.com

Nadia Patel
Associate, DC
202.775.5716
nadia.patel@arentfox.com

devices, such as hard drives or USB devices; or (4) remote access to the device. Internet browser analysis can reveal website access, search history, and download history. A forensic expert may also be able to examine email and cloud storage accounts to identify deletion activity. Such evidence is the foundation for establishing a claim of spoliation.

Step 2: Issue Party Discovery

In addition to a forensic examination, interrogatories, document requests, and focused depositions can be extremely useful in identifying spoliation, if used correctly. Requests should focus on:

- Steps taken to preserve evidence: What advice was the party given to preserve information on his or her devices, when, and who gave the advice? What steps did the party take in response? Did the party instruct anyone to take steps to preserve potentially relevant information, and if so, who, when, and what was the advice? If the defendant is a company, what steps did the company take to institute a litigation hold? If the defendant is an individual, what steps did he or she take with respect to automated deletion software/system maintenance tools?

- Steps taken to destroy or alter evidence: What advice was the party given with respect to deleting or altering information on his or her devices, when, and who gave the advice? What steps did the party take to delete or alter information, and when? Did the party instruct anyone to delete or alter information, and if so who, when, and what instructions?

- Identifying what evidence was destroyed: What files and emails were altered or deleted, and when?

If a plaintiff is already aware of potential acts of spoliation, party discovery is an opportunity to ask the defendant for specific facts relating to each known or suspected act of spoliation, including how the spoliation occurred, when, and why, and the extent of the spoliation. The "how," "why," and "when" are very important in establishing intent. Deliberate disregard of advice of counsel with respect to preservation duties, patterns of misconduct, and timing of misconduct can be extremely powerful in demonstrating intentional, bad faith spoliation.

Unsurprisingly, many of the inquiries relating to spoliation can cross into privileged areas or, at a minimum, run into claims of privilege which must be resolved before discovery is obtained. Nevertheless, non-privileged spoliation discovery can be used to seek privileged information pursuant to the crime-fraud exception, as discussed further below.

Trade Secrets, Non-Competes & Employee Mobility

Legal Alert

Key Contacts

Linda M. Jackson
Partner, DC
202.775.5785
linda.jackson@arentfox.com

Dana J. Finberg
Partner, SF
415.757.5897
dana.finberg@arentfox.com

Nadia Patel
Associate, DC
202.775.5716
nadia.patel@arentfox.com

Step 3: Issue Third-Party Discovery

A plaintiff may also be able to obtain evidence of spoliation, or copies of the spoliated information itself, from third-party sources. Several tools can facilitate third-party discovery, including: (1) subpoenas; (2) the crime-fraud exception; and (3) arbitral summonses.

- Rule 45 Subpoenas: Federal Rule of Civil Procedure 45 permits the use of subpoenas to command the appearance of third parties at a deposition and to mandate third-party document production. Consider issuing subpoenas to the defendant's internet, email, and telephone service providers, as well as to third-party cloud storage providers with whom the defendant maintains accounts.[12]

- Crime-fraud exception: The crime-fraud exception may allow a party to seek otherwise privileged materials from third parties.[13] Satisfying the exception means obtaining privileged communications with in-house and/or current and former defense counsel, including advice on preserving potentially relevant information. What counsel told the defendant about the duty to preserve and when may be critical to establishing intentional, bad faith spoliation. While a detailed discussion of the crime-fraud exception is beyond the scope of this article, to establish the crime-fraud exception, a plaintiff generally must show: "(1) that [the client] was spoliating, or was planning to spoliate, evidence and sought or used the advice of counsel or the input of work product to further that endeavor; and (2) that the documents containing the communications or work product bear a close relationship to [the client's] scheme to engage in spoliation."[14] In considering a motion for discovery pursuant to the crime-fraud exception, a court may require in camera review of privileged materials to determine whether the information should be produced.

- Arbitral summonses/subpoenas: Even if a matter is in arbitration, a plaintiff can seek third-party discovery. Under the AAA and JAMs arbitration rules, arbitrators typically have broad discretion to manage discovery. Additionally, section 7 of the FAA authorizes arbitrators to

12 *See Rimkus Consulting Grp. v. Cammarata*, 688 F. Supp. 2d 598 (S.D. Tex. 2010) (plaintiff obtained emails that defendant deleted from internet service provider); *Calderon v. Corporacion Puertorriquena de Salud*, 992 F. Supp. 2d 48, 51 (D.P.R. 2014) (defendant subpoenaed T-Mobile records and identified numerous text messages that were not produced in discovery).

13 *Rambus, Inc. v. Infineon Techs*. AG, 222 F.R.D. 280, 290 (E.D. Va. 2004) ("[T]he crime/fraud exception extends to materials or communications created in planning, or in furtherance of, spoliation of evidence."). Note that the crime-fraud exception is also a useful tool for seeking party discovery that may be privileged, such as communications with in-house counsel.

14 *Id.* (citing *Chaudhry v. Gallerizzo*, 174 F. 3d 394, 403 (4th Cir. 1999)).

Trade Secrets, Non-Competes & Employee Mobility

Legal Alert

Key Contacts

Linda M. Jackson
Partner, DC
202.775.5785
linda.jackson@arentfox.com

Dana J. Finberg
Partner, SF
415.757.5897
dana.finberg@arentfox.com

Nadia Patel
Associate, DC
202.775.5716
nadia.patel@arentfox.com

"summon in writing any person to attend before them or any of them as a witness and in a proper case to bring with him or them any book, record, document, or paper which may be deemed material as evidence in the case."[15] In the context of an international arbitration, 28 U.S.C. § 1782 facilitates obtaining testimony and documents from third parties to aid in international proceedings. The statute states that the "district court of the district in which a person resides or is found may order him to give his testimony or statement or to produce a document or other thing for use in a proceeding in a foreign or international tribunal."[16] The statute does not distinguish between document and deposition discovery, and it has no territorial limits.

C. Establishing Spoliation

Once spoliation discovery is complete, a plaintiff may file a motion demonstrating that intentional, bad-faith spoliation has occurred and seeking appropriate sanctions. It is rare that a defendant will admit to destroying evidence intentionally and in bad faith. Therefore, it is critical to marshal the facts uncovered during discovery in a manner that tells the strongest story of intentional spoliation. Two categories of evidence are commonly used to establish bad faith spoliation: (1) direct evidence obtained from forensic examination of the defendant's devices; and (2) circumstantial evidence of suspicious behavior, delay tactics, and other red flags.

1. Evidence from the Forensic Examination

Evidence of spoliation obtained from a forensic examination is often the most difficult to dispute, but it also can be the most difficult to effectively convey to a judge or arbitrator.

– Work with your expert to prepare an affidavit or report setting out:

(a) what devices/information your expert analyzed;

15 9 U.S.C. § 7; *see, e.g., COMSAT Corp. v. Nat'l Sci. Found.*, 190 F.3d 269, 275 (4th Cir. 1999) ("By its own terms, the FAA's subpoena authority is defined as the power of the arbitration panel to compel non-parties to appear 'before them.'"); *Hay Grp., Inc. v. E.B.S. Acquisition Corp.*, 360 F.3d 404, 407 (3d Cir. 2004) (Section 7 of the FAA "unambiguously restricts an arbitrator's subpoena power to situations in which the non-party has been called to appear in the physical presence of the arbitrator …."); *see also Life Receivables Tr. v. Syndicate 102 at Lloyd's of London*, 549 F.3d 210, 216 (2d Cir. 2008) ("Documents are only discoverable [from a non-party] in arbitration when brought before arbitrators by a testifying witness.").

16 28 U.S.C. § 1782.

Trade Secrets, Non-Competes & Employee Mobility

Legal Alert

Key Contacts

Linda M. Jackson
Partner, DC
202.775.5785
linda.jackson@arentfox.com

Dana J. Finberg
Partner, SF
415.757.5897
dana.finberg@arentfox.com

Nadia Patel
Associate, DC
202.775.5716
nadia.patel@arentfox.com

(b) what devices/information the expert was unable to analyze and why;[17]

(c) the findings related to each device or category of information, e.g., whether metadata shows use of deletion software, whether files and/or emails were deleted, whether metadata shows alteration of information, etc.; and

(d) the significance of the findings in the context of spoliation, including, for example, whether the information is recoverable or not, and whether the expert is able to identify what information was spoliated and the extent of spoliation.

- The report should educate the judge or arbitrator on the technical aspects of the forensic analysis and establish a foundation that can later be built upon with live expert testimony. For example, rather than stating simply that "unallocated space" was wiped, include an explanation of what unallocated space is and the significance of it being overwritten (i.e., that the files are unrecoverable).[18]

- Consider setting forth the expert's conclusions and/or the most persuasive spoliation findings at the outset of the document.

- Submit multiple affidavits or reports if necessary, as your expert undertakes new and additional forensic analysis.

- If permitted, request an evidentiary hearing. Although a forensic expert's testimony can be highly technical and therefore dull, oftentimes having the expert appear in person before the judge or arbitrator is the best way to communicate the extent and significance of spoliation.

2. Circumstantial Evidence

When taken as a whole, circumstantial evidence can be extremely persuasive for establishing bad-faith, intentional spoliation.[19] If possible,

17 *Kolon*, 803 F. Supp. 2d at 477 (expert report noted what analysis could not be performed, signaling to the judge that the other party had not complied to discovery obligations).

18 *Nucor Corp. v. Bell*, 251 F.R.D. 191, 198 (D.S.C. 2008), *clarified on denial of recon.*, No. 2:06-CV-02972-DCN, 2008 WL 11464820 (D.S.C. Apr. 24, 2008) (expert testified that installing and uninstalling anti-virus software was spoliative because it had the effect of overwriting data in unallocated space and permanently deleted 73.3 megabytes of data).

19 *Kolon*, 803 F. Supp. 2d at 505 ("the circumstances of the deletions… point strongly to a guilty state of mind, particularly in perspective of what is known about the deleted emails and documents").

Trade Secrets, Non-Competes & Employee Mobility

Legal Alert

Key Contacts

Linda M. Jackson
Partner, DC
202.775.5785
linda.jackson@arentfox.com

Dana J. Finberg
Partner, SF
415.757.5897
dana.finberg@arentfox.com

Nadia Patel
Associate, DC
202.775.5716
nadia.patel@arentfox.com

develop a timeline of behavior and events that supports an inference of bad faith, intentional conduct.[20] Highlighting suspicious activity, patterns of behavior, delay tactics, and other red flags is key, particularly where they occur near in time to discovery deadlines or preservation obligations.

For example, a defendant may engage in tactics to delay a forensic examination as long as possible, such as:

- Refusing to consent to an immediate forensic protocol and examination;
- Refusing to engage in limited expedited discovery;
- Dragging out routine litigation tasks (e.g. protective order, forensic protocol); or
- Filing frivolous counterclaims/motions.

A defendant may also engage in strategies that appear harmless, but that are in fact intended to compromise a forensic examination, such as:

- Taking unilateral actions impacting data or relevant evidence; or
- Failing to comply with a forensic protocol.

A defendant may also take steps to conceal information, such as:

- Intentionally failing to comply with discovery;[21]
- Failing to disclose relevant information;[22] or
- Providing inconsistent testimony.[23]

---

20 *See id.* at 504 ("based on the timing of the deletions, the content of the recoverable information, and the file names of the unrecoverable files, [the employee] . . . deleted this information because it contained potentially damaging information that he did not want DuPont to have"); *Philips Elecs. N. Am. Corp. v. BC Tech.*, 773 F. Supp. 2d 1149, 1207 (D. Utah 2011) ("almost all of the deletions took place a day or two before the BCT laptop computers in question were sent to be imaged by Lighthouse").

21 *Rimkus*, 688 F. Supp. 2d at 647 (finding of bad faith spoliation where defendant failed to produce documents in compliance with court orders).

22 *Id.* at 644 (defendant's "failure to disclose information about personal email accounts that were later revealed as having been used to obtain and disseminate information" supported finding of bad faith spoliation).

23 *Id.* (defendant's "inconsistencies in the explanations for deleting the emails" supported finding of bad faith spoliation).

Trade Secrets, Non-Competes & Employee Mobility

Legal Alert

Key Contacts

Linda M. Jackson
Partner, DC
202.775.5785
linda.jackson@arentfox.com

Dana J. Finberg
Partner, SF
415.757.5897
dana.finberg@arentfox.com

Nadia Patel
Associate, DC
202.775.5716
nadia.patel@arentfox.com

Opposing counsel's behavior can also signal misconduct, for example:

- Counsel withdraws from the case;
- Defendant engages a series of counsel; or
- Counsel purportedly lacks basic information about the case or the relevant information in their client's possession.

Identifying the above conduct for a judge or arbitrator, particularly in combination with a thorough forensic examination and expert report, can aid in a finding of bad faith and intentional spoliation.

D. Remedies for Spoliation

Once spoliation has been established, the final question is, what remedies should you seek? Courts are authorized to impose a broad spectrum of sanctions for spoliation pursuant to Rule 37 of the Federal Rules of Civil Procedure and the "court's own inherent powers."[24] Trial judges have the sound discretion to determine the appropriate sanction. An appropriate sanction is one that is "molded to serve the prophylactic, punitive, and remedial rationales underlying the spoliation doctrine."[25] Appropriate sanctions for spoliation can include: (1) default judgment/dismissal; (2) adverse inferences; (3) exclusion of evidence; (4) attorneys' fees; and (5) contempt.

1. Default Judgement/Dismissal

Default judgment is the most severe sanction, and courts are often reluctant to impose it. However, default judgment may be an appropriate remedy where it is the only method of leveling the playing field. In the Fourth Circuit, a court will grant dismissal or default judgment if "the spoliator's conduct was so egregious as to amount to a forfeiture of his claim," or "the effect of the spoliator's conduct was so prejudicial that it substantially denied the defendant the ability to defend the claim."[26]

In *Taylor v. Mitre Corp.*, No. 1:11-cv-1247, 2012 WL 5473573 (E.D. Va. Nov. 8, 2012), the court concluded that the plaintiff's spoliation "was so egregious that he has forfeited his claims against Mitre."[27] Before filing suit, the plaintiff, a computer expert by trade, wiped his own laptop before smashing

24 *Zubulake*, 220 F.R.D. at 216.
25 *West v. Goodyear Tire & Rubber Co.*, 167 F.3d 776, 779 (2d Cir. 1999).
26 *Silvestri v. Gen. Motors Corp.*, 271 F.3d 583, 593 (4th Cir. 2001).
27 *Id.* at *3.

Trade Secrets, Non-Competes & Employee Mobility

Legal Alert

Key Contacts

Linda M. Jackson
Partner, DC
202.775.5785
linda.jackson@arentfox.com

Dana J. Finberg
Partner, SF
415.757.5897
dana.finberg@arentfox.com

Nadia Patel
Associate, DC
202.775.5716
nadia.patel@arentfox.com

his computer with a sledgehammer and throwing it in a local landfill.[28] The plaintiff claimed that he tried to backup relevant files from the laptop before destroying it, but the backup was only partially successful.[29] The court held that this conduct in and of itself was sufficiently egregious to justify dismissal. Thus, where the spoliation is particularly egregious, a party should consider seeking default judgment.

2. Adverse Inferences

Adverse inferences can be an extremely powerful sanction, particularly where it is impossible to know what evidence has been destroyed. "In practice, an adverse inference instruction often ends litigation-it is too difficult a hurdle for the spoliator to overcome."[30] Rule 37 expressly permits that "designated facts be taken as established for purposes of the action" where a party has ignored discovery orders or engaged in spoliation. See Fed. R. Civ. P. 37(b)(2)(A)(i). In the Seventh, Eighth, Tenth, Eleventh, and D.C. Circuits, a showing of bad faith is required for adverse inferences.[31] In the remaining circuits, intentional or willful destruction of evidence may support adverse inferences if the defendant knew the evidence was relevant to the matter or if the prejudice is sufficiently severe.[32]

The spoliation of evidence relevant "to proof of an issue at trial can support an inference that the evidence would have been unfavorable to the party responsible for its destruction." *Kronisch v. United States*, 150 F.3d 112, 126 (2d Cir. 1998), overruled on other grounds, *Rotella v. Wood*, 528 U.S. 549 (2000). Adverse inferences may take many forms. Courts may: (1) instruct a jury that "certain facts are deemed admitted and must be accepted as true;" (2) "impose a mandatory, yet rebuttable, presumption;" (3) or "permit (but not require) a jury to presume that the lost evidence is both relevant and favorable to the innocent party."[33] "[T]he more egregious the conduct, the more harsh the instruction."[34]

3. Exclusion of Evidence

A lesser sanction than dismissal or adverse inference — though no less effective — is the sanction of excluding evidence. This sanction is intended to place the parties on an even playing field, and also deter future discovery

28 *Id.* at *1.
29 *Id.*
30 *Zubulake*, 220 F.R.D. at 219.
31 *See Rimkus*, 688 F. Supp. 2d at 614 (collecting cases).
32 *Id.*
33 *Victor Stanley, Inc.*, 269 F.R.D. at 535 (internal alterations and citation omitted).
34 *Pension Comm. of Univ. of Montreal Pension Plan v. Banc of Am. Sec.*, 685 F. Supp. 2d 456, 470 (S.D.N.Y. 2010), *abrogated on other grounds by Chin v. Port Auth. of N.Y. & N.J.*, 685 F.3d 135 (2d Cir. 2012).

Trade Secrets, Non-Competes & Employee Mobility

Legal Alert

Key Contacts

Linda M. Jackson
Partner, DC
202.775.5785
linda.jackson@arentfox.com

Dana J. Finberg
Partner, SF
415.757.5897
dana.finberg@arentfox.com

Nadia Patel
Associate, DC
202.775.5716
nadia.patel@arentfox.com

violations. When relying on this sanction, courts will typically exclude evidence that derives from or relates to the spoliated evidence.[35]

4. Attorneys' Fees

Another important sanction, particularly for the client, is recovery of attorneys' fees. Federal Rule of Civil Procedure 37(b)(2)(C) states that "the court must order the disobedient party, the attorney advising that party, or both to pay the reasonable expenses, including attorney's fees, caused by the failure" to obey a discovery order. (Emphasis added)."Like an adverse inference instruction, an award of costs and fees deters spoliation and compensates the opposing party for the additional costs incurred."[36] Reimbursable costs include costs for: (1) investigation and litigation of spoliation; (2) investigation of alternative sources of information; and (3) additional discovery necessitated by spoliation.[37]

5. Contempt

A sanction for spoliation that is often overlooked is contempt — both civil and criminal. Federal Rule of Civil Procedure 37(b)(2)(A)(vii) states that the court may "treat[ ] as contempt of court the failure to obey" a court order to provide or permit discovery of ESI evidence. *Id.*[38] Likewise, a court has the inherent authority to impose fines for disregard of a court order. Pursuant to this authority, a court may also refer a case to the United States Attorney for criminal contempt proceedings for spoliation or violation of ESI orders in a civil case. [39]

---

35 *See Quaglietta v. Nissan Motor Co.*, No. Civ. A. 97-5965, 2000 WL 1306791, at *3 (D.N.J. Aug. 16, 2000), aff'd, 281 F.3d 223 (3d Cir. 2002) (Table) (where plaintiff discarded truck, proper sanction was to exclude evidence regarding the condition of the truck, including "photographs and any evidence based on them"); *Unigard Sec. Ins. Co. v. Lakewood Eng'g & Mfg. Corp.*, 982 F.2d 363, 369 (9th Cir. 1992) (in action relating to a boat fire, affirming exclusion of expert testimony as a sanction for destroying heater and remains of the boat before filing suit).

36 *Rimkus*, 688 F. Supp. 2d at 647.

37 *Id.; see also Taylor*, 2012 WL 5473573, at *3 (awarding fees and costs associated with motion for sanctions); Victor Stanley, Inc., 269 F.R.D. at 539 (awarding attorney's fees and costs "related to uncovering Defendants' discovery abuses; preparing, filing, and arguing all of Plaintiff's ESI motions; and retaining [forensic expert]"); *Zubulake*, 220 F.R.D. at 222 (awarding attorneys' fees for "re-deposing certain witnesses [about] ... issues raised by the destruction of evidence and any newly discovered e-mails"); *Rimkus*, 688 F. Supp. 2d at 647 (attorneys' fees appropriate where defendant engaged in bad faith spoliation).

38 *Am. Health Inc. v. Chevere*, 37 F. Supp. 3d 561, 567 (D.P.R. 2014) (holding defendant in civil contempt for spoliation); *Multifeeder Tech., Inc. v. British Confectionery Co.*, Civ. No. 09-1090 (JRT/TNL), 2012 WL 4135848, at *10 (D. Minn. Sept. 18, 2012) (holding defendant in civil contempt for intentional spoliation).

39 *See SonoMedica, Inc. v. Mohler*, No. 1:08-CV-230 (GBL), 2009 WL 2371507, at *6 (E.D. Va. July 28, 2009) (referring case to United States Attorney for spoliation).

Trade Secrets, Non-Competes & Employee Mobility

Legal Alert

Key Contacts

Linda M. Jackson
Partner, DC
202.775.5785
linda.jackson@arentfox.com

Dana J. Finberg
Partner, SF
415.757.5897
dana.finberg@arentfox.com

Nadia Patel
Associate, DC
202.775.5716
nadia.patel@arentfox.com

E. Takeaways

As explained above, identifying, assessing, and creating a persuasive record of spoliation can make the difference between not only winning or losing a trade secret case, but also recovering fees and costs. Trade secret owners and their litigation counsel should remember to:

- Keep an eye out for signs of spoliation — early discovery is key;
- Be diligent in investigating spoliation — there are a plethora of discovery-related tools which can be used to identify spoliation;
- Retain a good forensic expert who can uncover technical, and often the most persuasive, evidence of spoliation;
- Use facts and circumstantial evidence to establish a pattern and highlight the timing of misconduct in order to tell a story of intentional, bad faith spoliation; and
- Consider the remedies available — the more severe the misconduct, the more willing a judge or arbitrator may be to impose a severe sanction such as default judgment or adverse inferences.

Arent Fox's Trade Secrets, Non-Competes & Employee Mobility group will continue to monitor this issue. If you have any questions, please contact Linda M. Jackson, Dana J. Finberg, Nadia Patel or the Arent Fox professional who usually handles your matters.