No. 07-___

IN THE

Supreme Court of the United States

SAMSUNG ELECTRONICS CO., LTD.,
Petitioner,
v.
RAMBUS INC.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Whether a party may unilaterally strip the district court of jurisdiction to sanction misconduct by offering to pay the attorney's fees sought by the opposing party.

2. Whether a federal court possesses inherent power to impose sanctions after the underlying claims have been resolved.

PARTIES TO THE PROCEEDING AND RULE 29.6 DISCLOSURE

Samsung Electronics Co., Ltd. ("petitioner") is publicly traded and is the parent corporation of Samsung Electronics America, Inc., Samsung Semiconductor, Inc., and Samsung Austin Semiconductor, L.P. Petitioner has no parent company. No publicly held company owns 10 percent or more of petitioner's stock.

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OPINION BELOW

The opinion of the United States Court of Appeals for the Federal Circuit (Pet. App. 1a-14a) is reported at 523 F.3d 1374. The decisions of the United States District Court for the Eastern District of Virginia are reported at 398 F. Supp. 2d 470 (Pet. App. 15a-51a), 439 F. Supp. 2d 524 (Pet. App. 112a-217a), 440 F. Supp. 2d 495 (Pet. App. 75a-111a), and 440 F. Supp. 2d 512 (Pet. App. 54a-74a).

JURISDICTION

The decision of the Federal Circuit vacating the orders of the district court and ordering that the matter be dismissed was entered April 29, 2008.

(Pet. App. 3a.) This Court's jurisdiction rests on 28 U.S.C. § 1254(1). The Federal Circuit had jurisdiction pursuant to 28 U.S.C. § 1295(a)(1).

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

Article III, Section 2, Clause 1 of the Constitution of the United States provides:

> The judicial Power shall extend to all Cases, in Law and Equity, arising under this Constitution, the Laws of the United States, and Treaties made, or which shall be made, under their Authority;—to all Cases affecting Ambassadors, other public Ministers and Consuls;—to all Cases of admiralty and maritime Jurisdiction;—to Controversies to which the United States shall be a Party;—to Controversies between two or more States;—between a State and Citizens of another State;—between Citizens of different States;—between Citizens of the same State claiming Lands under Grants of different States, and between a State, or the Citizens thereof, and foreign States, Citizens or Subjects.

Section 285 of the Patent Act, Title 35, United States Code, provides:

> The court in exceptional cases may award reasonable attorney fees to the prevailing party.

STATEMENT OF THE CASE

This case is a patent dispute of great importance to the semiconductor industry, involving hundreds of millions of dollars or more of licensing fees sought from the leading semiconductor manufacturers by

Rambus Inc. ("respondent").[1] At issue is some of the most remarkable litigation misconduct to have become the subject of litigation in recent memory. The district court found that respondent, in planning an extensive litigation campaign against leading semiconductor manufacturers, including petitioner, developed a "document retention program [as] an integral part of its litigation strategy" that would "target for destruction documents that are discoverable in litigation." (Pet. App. 197a.) Respondent sought to get, in its words, "battle ready" for litigation against the semiconductor industry by shredding millions of pages of documents (*id.* at 148a-95a), holding "shredding part[ies]" (*id.* at 170a), and destroying contract and patent prosecution files directly relevant to the patent litigation respondent pursued (*id.* at 168a, 173a-74a, 181a-86a).

The district court carefully reviewed reams of documentary evidence and testimony and entered nearly 50 pages of findings detailing respondent's document destruction and misconduct. (*Id.* at 148a-95a.) The court concluded that "[t]he record proves that [respondent] engaged in pervasive document destruction . . . while it anticipated litigation, or reasonably should have anticipated litigation, and . . . while it was actually engaged in litigation." (*Id.* at 185a.) In sanctioning respondent's misconduct, the

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[1] The pending cases affected by the court of appeals' ruling in this case include: *Rambus Inc. v. Samsung Elecs. Co., Ltd., et al.*, Civ. No. 05-02298 (N.D. Cal.); *Rambus Inc. v. Hynix Semiconductor Inc., et al.*, Civ. No. 05-334 (N.D. Cal.); *Hynix Semiconductor Inc. v. Rambus, Inc.*, Civ. No. 00-20905 (N.D. Cal.); *Micron Tech., Inc. v. Rambus Inc.*, Civ. No. 00-792 (D. Del.); and *Rambus Inc. v. Micron Tech., Inc., et al.*, No. 04-431105 (Cal. Super. Ct., S.F. County).

district court understood that the "imposition of sanctions . . . is critically important to the ability of district courts to punish misconduct by the parties or counsel" (*id.* at 72a), and that its "finding of spoliation on this record [would] deter others from such conduct under like circumstances" (*id.* at 197a).

Respondent has not challenged the merits of the district court's factual findings on appeal, arguing instead that a party can unilaterally moot a federal court's ability to investigate and sanction misconduct, and oust a court's jurisdiction over sanctions proceedings. The district court's unchallenged findings of misconduct are summarized below.

A. Background

Beginning in 1997, respondent sought to force semiconductor manufacturers to license respondent's patents or face lawsuits. (Pet. App. 151a-52a.) The following year, respondent put a plan in place for pursuing royalties or litigation against major industry players—Micron, Fujitsu, Hyundai, and petitioner. (*Id.* at 153a.) Respondent considered several forums in which to bring its lawsuits, including the Eastern District of Virginia. (*Id.* at 154a.)

The district court found that respondent adopted a "document retention policy" as part of its "litigation strategy" in order to get "battle-ready" for litigation. (*Id.* at 152a-53a, 197a.) Respondent's document retention policy was significantly different from the policies generally known by that name and adopted by other companies. Instead of directing employees to retain specific information relevant to litigation, respondent ordered employees to destroy massive amounts of information in order to prepare for and prosecute litigation against the semiconductor industry. The district court recounted testimony of respondent's executives indicating that there was "concern about documents being discoverable in litigation." (*Id.* at 159a.) One executive "recalled that a particular focus of that concern was email communications." (*Id.*) Another "testified that one of the reasons given . . . for purging files was that they were discoverable in litigation." (*Id.*) As one surviving e-mail from a respondent executive dated March 16, 1998, put it, "there is a growing worry about the e-mail backups as being discoverable information." (*Id.*)

The district court carefully documented respondent's effort to destroy evidence. While respondent initially "made sure to save backup tapes that contained information on technical projects," presumably so as to ensure that it would retain documentary support for the conception date of its purported inventions, the district court calculated that respondent destroyed 1,268 computer backup tapes. (*Id.* at 162a n.21.) The district court also found that respondent held "Shred Day 1998." (*Id.* at 161a-62a.) On that day and the next, the district court found, employees armed with burlap bags destroyed 291 boxes (or 757,531 pages) of documents with the assistance of an outside contractor. (*Id.*) In April 1999, respondent further directed its patent counsel to "clean out all [respondent's] files that had issued," and a secretary was assigned full-time to file clearance. (*Id.* at 168a.)

Deciding that it needed to be "ready for litigation with 30 days notice," respondent scheduled another "shredding party" in 1999. (*Id.* at 170a.) At the 1999 "shredding party," respondent destroyed, by the district court's calculation, "188 boxes (or 487,688 pages) of documents." (*Id.*) As the district court detailed at length, in the coming months, respondent continued its systematic document destruction by destroying more patent prosecution files (*id.* at 173a-74a), instructing "Rambus executives to destroy draft contracts and materials used during negotiations that are not part of the final contract" (*id.* at 174a), and having company employees destroy "575 boxes (or 1,495,575 pages)" in conjunction with a move from one office location to another (*id.* at 175a). The district court explained that companies with "legitimately adopted and implemented [document retention] polic[ies]" had "little to fear," because its decision was grounded in specific and extensive findings of misconduct necessitating that respondent be "h[eld] . . . accountable for spoliation of evidence." (*Id.* at 198a.)

B. The *Infineon* Proceedings

In the midst of these last events documented by the district court, respondent launched litigation against the industry. On August 8, 2000, respondent filed its first suit against Infineon Technologies, AG in the Eastern District of Virginia. (Pet. App. 174a.)[2] After lengthy litigation, the district court ruled from the bench that Infineon had proven by clear and convincing evidence that respondent's patent claims were barred by unclean hands because of respondent's spoliation of evidence, and that dismissal would be the appropriate sanction. (*Id.* at 114a.)

[2] *Rambus, Inc. v. Infineon Tech. AG*, Civ. No. 00-524 (E.D. Va.).

In response, respondent used a tactic to disarm the district court from penalizing it for its destruction of evidence and abusive litigation: respondent settled with Infineon as soon as possible and had the case dismissed before the court could issue a final judgment dismissing the matter due to respondent's spoliation. Respondent later attempted to use the same tactic in this case to avoid having its misconduct memorialized in a judgment. Petitioner, however, was not willing to settle with respondent, and the district court was not willing to end the proceedings. The court instead sought to ensure that respondent's conduct "was not left unremedied" (*id.* at 216a) and to "deter others from such [mis]conduct under like circumstances" (*id.* at 197a).

C. Proceedings in the Eastern District of Virginia In This Case

This case began in 2005. Petitioner had a license with respondent that was due to expire. (Pet. App. 114a-15a.) At a meeting between a Samsung business representative and a Rambus representative to discuss extension of the license, respondent, with no advance warning, presented the Samsung representative with a proposal that would have required petitioner to make significant financial and litigation concessions. (*Id.* at 114a-15a.) When the Samsung business representative indicated that he could not agree to such a proposal on the spot, respondent that same day amended its complaint in an existing patent infringement case in the Northern District of California to add petitioner as a defendant. (*See id.* at 78a.) Aware that the Eastern District of Virginia had already invested significant resources in adjudicating respondent's infringement contentions and the spoliation issue, petitioner filed this declaratory judgment action the next day in that court. (*See id.* at 79a.)

After the district court denied respondent's motion to transfer this case, respondent immediately implemented its prior strategy in the *Infineon* case to avoid further litigation that would implicate the district court's findings that it destroyed evidence. Respondent issued covenants not to sue on the four patents on which petitioner had sought declaratory judgments. (*Id.* at 116a-18a.) Petitioner asked the court to sanction respondent by awarding attorney's fees pursuant to the Patent Act's "exceptional-case" provision, 35 U.S.C. § 285, or alternatively pursuant to the court's inherent powers. (Pet. App. 22a, 119a-20a.)

Respondent offered to pay petitioner's attorney's fees and argued that its offer nullified the district court's authority to hold sanctions proceedings. (*Id.* at 15a, 62a-63a.) The district court rejected respondent's position. (*Id.* at 50a-51a, 62a-74a.) In doing so, the court relied on this Court's decisions in *Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384 (1990) (Pet. App. 65a-68a), which held that district courts retain authority to impose Rule 11 sanctions after the underlying dispute has been dismissed, and *Willy v. Coastal Corp.*, 503 U.S. 131 (1992) (Pet. App. 68a-69a), which held that a district court has authority to impose Rule 11 sanctions against a party even if it is later determined that the court lacked subject matter jurisdiction. The district court observed that this Court's decisions "underscored that it is important for district courts to retain the capacity to impose sanctions to deal with misconduct." (*Id.* at 67a.) The district court also relied on the Eighth Circuit's decision in *Perkins v. General Motors Corp.*, 965 F.2d

597 (8th Cir.), *cert. denied*, 506 U.S. 1020 (1992), which itself had relied on *Cooter & Gell* and *Willy* in holding that a district court retained jurisdiction to impose sanctions on the plaintiff and her lawyer after the defendant agreed not to collect monetary sanctions because "'[t]he interest of having rules of procedure obeyed does not disappear merely because an adversary chooses not to collect the sanctions.'" (Pet. App. 71a) (quoting *Perkins*, 965 F.2d at 599).

The district court explained that "an imposition of sanctions, whether under § 285 or the court's inherent powers, is critically important to the ability of district courts to punish misconduct by the parties or counsel." (*Id.* at 72a.) Observing that sanctions "serve not only to provide some redress to the offended party, but also . . . serve as a deterrent to protect the courts from abuse by litigants" (*id.*), the court concluded that *Cooter & Gell, Willy*, and *Perkins* "instruct that . . . the issue of sanctions is beyond the power of the parties to bargain away" (*id.*). The court therefore ruled that respondent's "unilateral, unaccepted offer to pay sanctions cannot deprive a court of jurisdiction to assess whether sanctions are called for and, if so, to impose them." (*Id*. at 72a-73a.)

On the merits, the district court examined the Patent Act's attorney's fees provision, 35 U.S.C. § 285, which provides that "[t]he court in *exceptional cases* may award reasonable attorney fees to the prevailing party." *Id.* (emphasis added). The court concluded that the provision "serves two purposes"—namely, to compensate the prevailing party and "to deter parties from bringing or prosecuting bad faith litigation." (Pet. App. 121a) (citing *Mathis v. Spears*, 857 F.2d 749, 754 (Fed. Cir. 1988)). The court further observed that "'[a] case may be deemed exceptional when there has been some *material inappropriate conduct related to the matter in litigation,* such as willful infringement, fraud or inequitable conduct in procuring the patent, misconduct during litigation, vexatious or unjustified litigation, conduct that violates [Rule] 11, or like infractions.'" (*Id*. at 121a-22a) (quoting *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005)) (emphasis added by the district court).

The district court ruled that respondent's misconduct rendered the case exceptional under the Federal Circuit's standard. (*Id.* at 122a-31a, 136a-207a.) In particular, the court found that respondent "did in fact spoliate evidence relevant to the patent infringement claims in its counterclaims and at a time when [it] anticipated litigation with [semiconductor] manufacturers generally and [petitioner] specifically." (*Id*. at 123a.) The district court nevertheless declined to award petitioner attorney's fees because, applying the Federal Circuit's case law interpreting § 285, it did not view the fees involved as having a sufficient nexus with respondent's misconduct. (*Id*. at 213a-14a.)

As for a sanction under its inherent powers, the district court observed that this Court in *Chambers v. NASCO, Inc*. 501 U.S. 32 (1991), had instructed that courts should only resort to inherent-power sanctions when misconduct cannot be "'adequately sanctioned'" under statutes and rules. (Pet. App. 215a) (quoting *Chambers*, 501 U.S. at 50). The district court explained that because it had "found this case to be exceptional, it cannot be said that § 285 was inadequate to reach [respondent's] spoliation." (*Id.* at

216a.) The district court concluded that it was therefore "unnecessary" under *Chambers* to consider imposing a sanction under its inherent powers. (*Id.*)

D. The Federal Circuit's Decision

Respondent appealed, challenging the district court's order finding the case exceptional under Section 285 on the ground that its offer to pay petitioner's attorney's fees rendered the sanctions proceedings moot. The Federal Circuit agreed, vacated the district court's Section 285 sanctions determination, and remanded the case with instructions to dismiss petitioner's complaint. (Pet. App. 14a.)

The Federal Circuit began by distinguishing *Cooter & Gell, Willy,* and *Perkins* on the ground that those decisions stand for the proposition that a court retains jurisdiction over "collateral issues" such as sanctions proceedings under Rule 11 after the "completion of the principal action," whereas the Section 285 proceeding in this case "does not involve collateral issues." (*Id.* at 9a-10a.) Instead, the court reasoned, "the [attorney's] fees are the main issue" because "[t]he only sanction for which section 285 provides is attorneys fees." (*Id.* at 10a.) The court concluded that because "[respondent] offered the entire amount of attorney fees in dispute, the case became moot." (*Id.* at 11a.) In so holding, the court cited a Seventh Circuit case for the proposition that an offer to pay attorney's fees in full "moots a claim for attorney fees" (*id.* at 8a) (citing *Greisz v. Household Bank*, 176 F.3d 1012, 1015 (7th Cir. 1999)), and another case holding that once "'the defendant has . . . thrown in the towel,'" a district court cannot exercise jurisdiction to determine "whether the defendant has actually violated the law" (*id*. at 11a) (quoting *Chathas v. Local 134 IBEW*, 233 F.3d 508, 512 (7th Cir. 2000), *cert. denied*, 533 U.S. 949 (2001)).

Having held that respondent mooted the proceedings by offering to pay petitioner the full amount of the "only sanction" (*id.* at 10a) permitted by Section 285, the Federal Circuit further ruled that such an offer stripped the district court of its inherent power to impose sanctions (*id*. at 14a). After stating that the district court "expressly declined to invoke [its inherent power] to sanction [respondent]" (*id*. at 13a), the court concluded that the district court would have lacked the power to do so "[i]n any event" because "the district court's power to use its inherent power . . . cannot exceed its jurisdiction over the case itself" (*id* at 14a). For that reason, the court concluded, "[o]nce the underlying attorney fees were offered, the case was moot and the trial court lacked jurisdiction." (*Id*.)

REASONS FOR GRANTING THE WRIT

1. The Federal Circuit's holding that a party in a patent dispute may moot sanctions proceedings by offering to pay the attorney's fees sought by the opposing party warrants this Court's review for three reasons: (1) it cannot be reconciled with this Court's decisions holding that a sanction for misconduct is punitive in nature and is designed to vindicate the district court's authority to deter and punish misconduct, not merely to compensate the adversary; (2) it conflicts with the Eighth Circuit's decision in *Perkins v. General Motors Corp.*, 965 F.2d 597 (8th Cir.), *cert. denied*, 506 U.S. 1020 (1992), and the Fifth Circuit's recent decision in *Fleming & Associates v.*

Newby & Tittle Defendants, 529 F.3d 631 (5th Cir. 2008); and (3) it is of great importance to the administration of justice in patent cases because, if the Federal Circuit's decision remains the law, a party that engaged in litigation misconduct can escape all court-imposed sanctions simply by offering to pay the adversary's attorney's fees.

This Court should grant review to bring the Federal Circuit into line with this Court's sanctions jurisprudence, resolve the circuit conflict, and make clear that a party cannot strip a district court of authority to impose sanctions to deter and punish misconduct merely by offering to pay the attorney's fees sought by the opposing party.

2. The Federal Circuit's further holding that district courts lack inherent power to sanction misconduct after the underlying merits of the dispute are resolved also warrants this Court's review. That holding is contrary to this Court's decisions in *Cooter & Gell v. Hartmarx Corp.,* 496 U.S. 384 (1990), and *Willy v. Coastal Corp.*, 503 U.S. 131 (1992), both of which held that a district court may impose Rules-based sanctions even when it lacks jurisdiction over the underlying dispute. The Federal Circuit's refusal to apply *Cooter & Gell* and *Willy* to inherent-powers sanctions conflicts with a decision of the Second Circuit, which has extended *Cooter & Gell* and *Willy* to the inherent-powers context. *See Schlaifer Nance & Co v. Estate of Warhol*, 194 F.3d 323, 333 (2d Cir. 1999); *see also Red Carpet Studios Div. of Source Advantage, Ltd. v. Sater*, 465 F.3d 642, 645 (6th Cir. 2006) (recognizing that, under *Cooter & Gell* and *Willy*, district courts retain jurisdiction to impose inherent-powers sanctions after the lawsuit has been dismissed). This Court should grant review to

resolve the circuit conflict and make clear that district courts retain the authority to impose inherent-powers sanctions after the dispute between the parties has been resolved.

I. A PARTY CANNOT STRIP THE DISTRICT COURT OF AUTHORITY TO IMPOSE SANCTIONS MERELY BY OFFERING TO PAY THE ATTORNEY'S FEES SOUGHT BY THE OPPOSING PARTY.

A dispute over sanctions is not the same as a dispute over the underlying merits of the case. In holding that respondent's offer to pay petitioner the attorney's fees it sought foreclosed the district court's consideration of whether to sanction respondent, the Federal Circuit nevertheless analogized respondent's offer to an offer to pay attorney's fees where the fees are not a sanction. (Pet. App. 8a-9a) (citing *Greisz v. Household Bank*, 176 F.3d 1012, 1015 (7th Cir. 1999)). Because the Federal Circuit viewed respondent's offer to pay petitioner's requested sanction as no different from an offer by a party to terminate a lawsuit by "throw[ing] in the towel" (*id.* at 11a) (quoting *Chathas v. Local 134 IBEW*, 233 F.3d 508, 512 (7th Cir. 2000), *cert. denied*, 533 U.S. 949 (2001)), it concluded that respondent's offer mooted the case. The court's analogy is flawed. By failing to recognize that sanctions disputes transcend the relationship between the parties and implicate the district court's authority to protect the integrity of judicial proceedings, the Federal Circuit committed an error that merits this Court's review.

A. The Federal Circuit's Approach Is Contrary To This Court's Precedent.

This Court has repeatedly recognized that sanctions are imposed not merely to compensate the aggrieved party or the court for the costs incurred by the sanctioned party's misconduct, but also to punish and deter misconduct and, in doing so, vindicate the district court's authority. For example, in *Chambers v. NASCO, Inc.*, 501 U.S. 32 (1991), in the course of upholding a district court's inherent authority to impose attorney's fees as a sanction, the Court explained that "[t]he imposition of sanctions [for bad-faith litigation conduct] transcends a court's equitable power concerning relations between the parties and reaches a court's inherent power to police itself, thus serving the *dual purpose* of vindicating judicial authority . . . and making the prevailing party whole." *Id.* at 46 (internal quotation marks and brackets omitted) (emphasis added); *see id.* at 53 ("'[T]he award of attorney's fees for bad faith serve[s] the same purpose as a remedial fine imposed for civil contempt,' because '[i]t vindicate[s] the District Court's authority over a recalcitrant litigant.'") (quoting *Hutto v. Finney*, 437 U.S. 678, 691 (1978)).

The Federal Circuit's holding that "[o]nce the underlying attorney fees were offered, the case was moot and the trial court lacked jurisdiction" to award sanctions (Pet. App. 14a) overlooks the dual-purpose nature of sanctions. The Federal Circuit acknowledged that the award of attorney's fees under the exceptional-case provision of the Patent Act is a "sanction" (*id.* at 10a), but reasoned that because attorney's fees are the "only" sanction for which Section 285 provides (*id.*), an offer to pay the fees without any acknowledgment of wrongdoing precludes a court from determining whether the party engaged in misconduct and, if so, whether that misconduct warrants a sanction (*id*. at 10a-14a). That view disregards the role that judicial findings of misconduct memorialized on the record play in vindicating the district court's authority to deter and punish misconduct. As the Federal Circuit itself has recognized, Section 285 is a "tool[] to punish egregious misconduct." *Jurgens v. CBK, Ltd.*, 80 F.3d 1566, 1571 n.3 (Fed. Cir. 1996).[3] An offer to pay attorney's fees without acknowledging wrongdoing does not address the punitive component of Section 285 sanctions. Only the district court can do so by issuing an order finding that a party engaged in misconduct sufficiently serious to justify the sanction authorized by Section 285.[4]

This Court has emphasized the punitive nature of sanctions in other cases in which a party, like respondent here, has challenged the district court's

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[3] *See also, e.g.*, *Serio-U.S. Indus., Inc. v. Plastic Recovery Tech. Corp.*, 459 F.3d 1311, 1321-22 (Fed. Cir. 2006) (exceptional cases feature "material, inappropriate conduct related to the matter in litigation" or "litigation . . . brought in subjective bad faith"); *Automated Bus. Cos. v. NEC Am., Inc.*, 202 F.3d 1353, 1355 (Fed. Cir. 2000) ("§ 285 serves as a deterrent to 'improper bringing of clearly unwarranted suits' for patent infringement") (quoting *Mathis v. Spears*, 857 F.2d 749, 754 (Fed. Cir. 1988)); *State Indus., Inc. v. Mor-Flo Indus., Inc.*, 948 F.2d 1573, 1578 n.1 (Fed. Cir. 1991) (Section 285 addresses "bad faith" litigation).

[4] Moreover, the district court was considering imposing sanctions under its inherent powers as well (*see* Pet. App. 72a, 215a-16a), and in doing so was not limited to awarding attorney's fees but could have imposed a wide range of sanctions, including a reprimand, if it could not adequately sanction respondent under Section 285. *See Chambers*, 501 U.S. at 40 n.5.

jurisdiction to impose a sanction. In *Cooter & Gell*, this Court rejected the petitioner's argument that it could avoid Rule 11 sanctions by voluntarily dismissing its complaint. 496 U.S. at 393-98. The Court explained that "a voluntary dismissal does not eliminate the Rule 11 violation." *Id*. at 398. Observing that "Rule 11 [is] aimed at curbing abuses of the judicial system," *id*. at 397, the Court reasoned that the rule's deterrent effect would be frustrated "[i]f a litigant could purge his violation of Rule 11 merely by taking a dismissal," because "he would lose all incentive to stop, think and investigate more carefully before serving and filing papers," *id*. at 398 (internal quotation marks omitted).

Two years later in *Willy*, this Court relied on *Cooter & Gell* in holding that a district court may impose Rule 11 sanctions even where it is later determined that the court lacked subject matter jurisdiction. 503 U.S. at 137-39. This Court explained that "Rule 11 is designed to punish a party who has already violated the court's rules," and that "[t]he interest in having rules of procedure obeyed . . . does not disappear upon a subsequent determination that the court was without subject-matter jurisdiction." *Id*. at 139.[5]

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[5] Rule 11 provided at the time that a party and attorney who violated the Rule were subject to "an appropriate sanction, which may include an order to pay to the other party or parties the amount of the reasonable expenses incurred because of the filing of the pleading, motion, or other paper, including a reasonable attorney's fee." *Willy*, 503 U.S. at 135 n.1 (quoting Fed. R. Civ. P. 11 (1992)).

B. The Federal Circuit's Decision Conflicts With Decisions Of The Eighth And Fifth Circuits.

Correctly applying this Court's sanctions jurisprudence, the Eighth Circuit in *Perkins v. General Motors Corp.*, 965 F.2d 597 (8th Cir.), *cert. denied*, 506 U.S. 1020 (1992), held that an agreement between the parties to lift a district court's preliminary order finding that the plaintiff and her attorney had engaged in misconduct justifying an award of monetary sanctions did not strip the court of its jurisdiction to issue a final order upholding the sanctions. *Id*. at 599-600.[6] The Eighth Circuit explained that the defendant's agreement "not to collect monetary sanctions" for which it had filed a motion, *id*. at 600, while obviating any need for the district court to determine the appropriate amount of attorney's fees to award, did not render the sanctions proceedings "moot" because "[t]he purpose of sanctions goes beyond reimbursing parties for expenses incurred in responding to unjustified or vexatious

[6] The district court in *Perkins* sanctioned the plaintiff under Rule 26(g) of the Federal Rules of Civil Procedure and sanctioned the plaintiff's attorney under Rules 11 and 26(g) of the Federal Rules of Civil Procedure, and 28 U.S.C. § 1927. Rule 26(g) addresses sanctions for discovery misconduct and Section 1927 authorizes a court to order an attorney to pay "the excess costs, expenses, and attorneys' fees reasonably incurred because of" the attorney's unreasonable and vexatious conduct. In its initial sanctions order, the district court detailed the numerous ways in which the plaintiff and her attorney abused the judicial process, but postponed determining the amount of monetary sanctions it would award the defendant. *See Perkins*, 965 F.2d at 600-02. The district court ultimately "issue[d] the sanction order without monetary penalty" in light of the parties' settlement. *Id*. at 599-600.

claims," *id*. at 599. Citing this Court's characterization of sanctions in *Willy* as punitive in nature, *id*., the Eighth Circuit concluded that the plaintiff and her attorney "are entitled to bargain with adversaries to drop a *motion* for sanctions, but they cannot unilaterally bargain away the court's discretion in *imposing* sanctions and the public's interest in ensuring compliance with the rules of procedure," *id*. at 600 (emphasis added).

In a recent decision, the Fifth Circuit similarly upheld the authority of a district court to impose sanctions despite the parties' settlement of the case and the defendants' agreement to withdraw the sanctions order. *Fleming & Assocs. v. Newby & Tittle Defendants*, 529 F.3d 631, 637-41 (5th Cir. 2008).[7] The Fifth Circuit explained that "it is important to recognize that the district court's action included two components: (1) a finding that the [plaintiffs'] attorney engaged in sanctionable behavior; and (2) a compensatory award payable to the [defendants]." *Id*. at 639. Following *Perkins*, the Fifth Circuit held that, whereas the parties had the right "to bargain away sanctions designed to compensate," district courts "retain the ability to police their own rules through various punitive sanctions mechanisms, including issuing written opinions that describe attorney misconduct." 529 F.3d at 641. The Fifth

[7] The district court in *Fleming* sanctioned the plaintiffs' counsel for revising an expert's report and ordered the award of attorney's fees to the defendants. 529 F.3d at 636. Before the court calculated the amount of the award, the parties entered a settlement pursuant to which the defendants agreed to bear their own costs and attorney's fees and to withdraw the sanctions order. *Id*. The court refused to withdraw the order, calculated the defendants' attorney's fees, and directed the plaintiffs' counsel to pay them notwithstanding the settlement. *Id*.

Circuit explained that written opinions memorializing misconduct are important because "[s]uch admonitions play an important role in discouraging bad behavior." *Id*.

Given the *Fleming* and *Perkins* decisions, a party that has engaged in misconduct before a district court in the Fifth and Eighth Circuits cannot avoid sanctions proceedings in a non-patent case by offering to pay its adversary the attorney's fees the adversary has sought. There is no reason that a district court's ability to vindicate its authority should differ in patent cases. Although Section 285 is a Patent Act provision and thus applies only to patent cases, there are other generally applicable sanctions statutes that operate in a similar manner. For example, 28 U.S.C. § 1927, one of the statutes under which the district court in *Perkins* imposed sanctions, authorizes the district court to sanction an attorney for unreasonable and vexatious conduct by awarding an aggrieved party the excess costs and attorney's fees incurred as a result of the misconduct. Moreover, the Federal Circuit held that respondent's offer precluded imposition of a sanction not only under Section 285, but also under the district court's inherent powers. (Pet. App. 8a-11a, 14a.) The *Perkins* and *Fleming* courts made clear that, whatever the legal authority for a sanction—be it a statute, federal rule, or the district court's inherent powers—the sanctions issue cannot be taken out of the district court's hands by an agreement between the parties, much less by a unilateral offer by one party to compensate the other.

Other circuits addressing the effect of a settlement on sanctions proceedings have taken a different position, holding that some sanctions are purely compensatory. In *Clark Equipment Co. v. Lift Parts*

Manufacturing Co. Inc., 972 F.2d 817 (7th Cir. 1992), the Seventh Circuit held that a settlement that includes the payment of attorney's fees that had been awarded as a sanction for misconduct will moot the compensatory sanction—the award of attorney's fees—but not "a punitive fine made payable to the court or . . . non-monetary sanctions." *Id*. at 819. The court explained that, just as tort plaintiffs are permitted to "bargain away" society's "interest in enforcing negligence rules," so too may "the beneficiary of a compensatory sanction . . . bargain away the court's interest in seeing its rules enforced." *Id*. The Eleventh Circuit reached the same conclusion in *Kleiner v. First National Bank of Atlanta*, 751 F.2d 1193 (11th Cir. 1985). There, the parties' settlement included allocation of attorney's fees and costs. The Eleventh Circuit held that the settlement mooted the district court's order awarding attorney's fees and costs as a sanction but did not moot a fine imposed by the court pursuant to its inherent powers, because that was a sanction that "is not subject to revocation by the parties." *Id*. at 1199-1200; *see also Agee v. Paramount Comm'n, Inc.*, 114 F.3d 395, 399 (2d Cir. 1997) (disagreeing with *Perkins* that "the court's interest in having its rules of conduct obeyed, by itself, supports jurisdiction when the parties have entered into a voluntary agreement not to collect a monetary sanctions award"); *Riverhead Sav. Bank v. Nat'l Mortgage Equity Corp.*, 893 F.2d 1109, 1112 (9th Cir. 1990) (settlement that resolves monetary sanctions moots sanctions order entirely because sanctions were awarded to the plaintiffs only and not to the court).

Although the Federal Circuit did not explicitly divide the universe of sanctions into two categories, its holding that respondent's offer to pay petitioner's attorney's fees mooted the exceptional-case proceedings under Section 285 reflects the view that Section 285 is a purely compensatory sanctions provision that implicates only the relationship between the parties. As explained above, that view is contrary to this Court's holding that a sanction, including the award of attorney's fees for misconduct, is inherently punitive and is a tool that courts may use to vindicate their authority and deter misconduct. It is also contrary to the position of the Eighth and Fifth Circuits, both of which have correctly recognized that a sanctions order awarding attorney's fees has both a punitive and compensatory component.

Moreover, the district court was considering imposing a sanction under its inherent powers. (Pet. App. 72a, 215a-16a.) It is well-established that courts have a wide range of sanctions available under their inherent power to deter and punish misconduct, including a reprimand and fine. *See Chambers*, 501 U.S. at 40 n.5 (noting district court's reprimand of the petitioner's sister); *Bank of Nova Scotia v. United States*, 487 U.S. 250, 263 (1988) (noting the remedy of chastising misconduct in a published opinion); *Clark*, 972 F.2d at 819 (observing that a district court "may sanction abusive behavior directly by imposing a punitive fine made payable to the court or by imposing non-monetary sanctions"); *Kleiner*, 751 F.2d at 1209-1210 (upholding fine imposed pursuant to inherent powers). The Federal Circuit held that respondent's offer to pay petitioner's attorney's fees mooted the sanctions proceedings entirely. The Federal Circuit thus precluded the district court from issuing *any* sanction at all. The decision goes further than *Clark* and *Kleiner* in permitting the parties to dictate the exercise of the district court's authority to impose sanctions because both the Seventh and

Eleventh Circuits recognized that non-monetary sanctions and punitive fines "cannot be settled by the parties." *Clark*, 972 F.2d at 819; *see Kleiner*, 751 F.2d at 1200 (holding that an inherent-powers fine "is not subject to revocation by the parties").

The Federal Circuit stands alone among the courts of appeals in permitting a party to escape sanctions proceedings altogether simply by offering to pay the sanction sought by the opposing party. The circuit conflict and the broader divide among the federal courts of appeals regarding the district court's authority to impose sanctions merit further review.

C. The Federal Circuit's Rule Threatens The Administration Of Justice In Patent Cases.

The district court in this case correctly recognized that it is "[not] acceptable" under *Perkins* and this Court's decisions in *Cooter & Gell* and *Willy* for a party to attempt to "divest a court of jurisdiction to impose sanctions for misconduct by making an offer to pay monetary sanctions." (Pet. App. 72a.) The district court explained that those decisions make clear that "sanctions serve not only to provide some redress to the offended party, but also . . . as a deterrent to protect the courts from abuse by litigants and lawyers alike." (*Id.*) The district court elaborated that because some parties "can easily afford to pay [their] opponent's attorney's fees[,] . . . there would be little to deter [them] from taking the risk of engaging in the misconduct in the first place" if they could preempt the court's imposition of a sanction. (*Id.*)

As the district court's subsequent ruling that respondent engaged in misconduct sufficient to give rise to an exceptional-case finding illustrates, the district court sought to vindicate its authority to protect the integrity of judicial proceedings by imposing a non-monetary sanction on respondent. The district court correctly recognized that respondent's offer to pay petitioner's attorney's fees without acknowledging any wrongdoing should not be permitted to displace judicial findings of misconduct because a payment to the opposing party does not address the impact of misconduct on the court. Because the Federal Circuit's contrary holding undermines the authority of district courts to protect the integrity of their proceedings in patent cases, this Court's review is warranted.

II. A FEDERAL COURT POSSESSES INHERENT POWER TO IMPOSE SANCTIONS AFTER THE UNDERLYING CLAIMS ARE RESOLVED.

The Federal Circuit's further holding that a district court lacks inherent power to sanction litigants once the merits of the underlying action have been resolved (Pet. App. 8a-11a, 14a) also warrants this Court's review. That holding is contrary to this Court's precedents, creates a circuit conflict, and will allow litigants to abuse the judicial process with impunity.

This Court has made clear that sanctions proceedings are collateral to the underlying merits of a case and thus may be held "after an action is no longer pending." *Cooter & Gell*, 496 U.S. at 395. The Court has thus held that federal courts may impose *Rules*-based sanctions after all other issues have been resolved and indeed, after the case has been dismissed. *Id*. at 396-98; *see also Willy*, 503 U.S. at 137-

39 (upholding Rule 11 sanctions order imposed by district court that lacked subject matter jurisdiction because such an order "is collateral to the merits" and vindicates the court's "interest in having rules of procedure obeyed").[8] Because inherent power is another one of the tools to which courts may resort to vindicate their authority to control judicial proceedings, there is no basis for a different jurisdictional rule for inherent-power sanctions.[9]

Recognizing that the principle of *Cooter & Gell* and *Willy* is not limited to Rule 11 sanctions, other circuits have concluded that district courts retain inherent authority to sanction parties after the merits of a dispute are resolved. In *Schlaifer Nance & Co. v. Estate of Warhol*, 194 F.3d 323 (2d Cir. 1999), the Second Circuit squarely held that a district court retains authority to impose inherent-power sanctions after the underlying dispute has been resolved. In that case, the defendants moved for sanctions against the plaintiff and its attorneys after the court of appeals had issued its mandate affirming the district court's judgment as a matter of law. *Id.* at 331. The district court imposed sanctions against

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[8] In *Willy*, this Court reserved the question whether a district court has inherent power to sanction a party in a case over which the court never had subject matter jurisdiction. 503 U.S. at 139 n.5. This case presents a good vehicle to address the related question whether a district court has inherent power to sanction a party after the merits of the underlying dispute have been resolved.

[9] That a district court's inherent power to sanction survives resolution of the underlying claims is implicit in *Chambers* itself. The district court there imposed inherent-power sanctions in response to a motion that was not filed until *after* the judgment on the merits had been affirmed on appeal. 501 U.S. at 40.

the plaintiff under its inherent power and against the plaintiff's attorneys under both its inherent power and 28 U.S.C. § 1927. *Id.*

Citing *Cooter & Gell* and *Willy*, the Second Circuit rejected the plaintiff's argument that, once the mandate had issued, the defendants "could no longer seek sanctions from the District Court because no case or controversy existed through which the District Court could exercise jurisdiction." *Id.* at 333. The Second Circuit explained that the district court "clearly had jurisdiction to impose sanctions irrespective of the status of the underlying case because the imposition of sanctions is an issue collateral to and independent from the underlying case." *Id*.

The Sixth Circuit has similarly recognized that the principle of *Cooter & Gell* and *Willy* extends beyond Rule 11 sanctions to inherent-powers and statutory sanctions. *See Red Carpet Studios Div. of Source Advantage, Ltd. v. Sater*, 465 F.3d 642, 645 (6th Cir. 2006). In *Red Carpet Studios*, the Sixth Circuit rejected the argument that dismissal of a lawsuit stripped the district court of jurisdiction to calculate the award of sanctions it had imposed under 28 U.S.C. § 1927 before the dismissal. *Id.* at 645. The court explained that while it had "yet to extend [*Cooter & Gell*] or *Willy* to sanctions imposed under 28 U.S.C. § 1927 or pursuant to a court's inherent power," it could "find no material difference between the collateral character of sanctions under Rule 11 and sanctions awarded under 28 U.S.C. § 1927 or pursuant to a court's inherent authority." *Id*. The court elaborated that "[l]ike Rule 11 sanctions, neither [Section 1927 nor an inherent-power sanction] bears on the merits of a case, and both empower the court to command obedience to the judiciary and to deter and punish those who abuse the judicial process." *Id*.

In holding that a district court may not exercise inherent powers to sanction bad-faith misconduct once the underlying claims are resolved (Pet. App. 14a), the Federal Circuit here too stands alone. The district court, by contrast, correctly recognized that it had inherent power to sanction respondent and declined to exercise that power only because it concluded that its finding that respondent's misconduct was exceptional under Section 285 was sufficient punishment. (*Id.* at 72a, 215a-16a.) In exercising such restraint, the district court followed this Court's instruction in *Chambers* that courts should refrain from using inherent powers to sanction litigants unless the misconduct cannot be "adequately sanctioned" under the statutes and rules at the court's disposal. 501 U.S. at 50. As the district court explained, because it "found this case to be exceptional, it cannot be said [under *Chambers*] that § 285 was inadequate to reach [respondent's] spoliation." (Pet. App. 216a.)

Thus, even assuming that Section 285 does not permit the imposition of a non-monetary sanction as the district court believed, had the Federal Circuit correctly recognized that the district court had inherent power to sanction respondent, it should have remanded the case to the district court so that that court could consider whether, in the absence of a statutory alternative, an inherent-power sanction was necessary to address respondent's misconduct.

In fact, that is the approach this Court adopted in analogous circumstances in *Roadway Express, Inc. v. Piper*, 447 U.S. 752, 764-68 (1980). There, after the complaint had been dismissed with prejudice, the district court held a sanctions hearing and awarded the defendant attorney's fees under the version of 28 U.S.C. § 1927 then in effect. *Id.* at 755. This Court ultimately ruled that Section 1927 did not permit attorney's fees as a sanction for attorney misconduct. *Id*. at 757-63. The Court nevertheless remanded the case to the district court to determine whether to award the fees under its inherent powers. *Id*. at 764-68; *see Chambers*, 501 U.S. at 49 (discussing the remand in *Piper*); *see also, e.g.*, *Christian v. Mattel, Inc.*, 286 F.3d 1118, 1129-31 (9th Cir. 2002); *Jones v. Pitt. Nat'l Corp*, 899 F.2d 1350, 1358 (3d Cir. 1990); *Mingo v. Sugar Cane Growers Co-op. of Fla.* 864 F.2d 101, 103 (11th Cir. 1989) (per curiam).

The Federal Circuit's holding that a district court cannot impose inherent-powers sanctions after the underlying claims have been resolved is a serious blow to the authority of district courts in patent cases to deter and punish abuse of the judicial process. Because that holding is contrary to this Court's precedents and creates a circuit conflict on the application of *Cooter & Gell* and *Willy* in the inherent-powers context, this Court's review is warranted.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

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July 28, 2008

APPENDIX A

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

2006-1579

SAMSUNG ELECTRONICS CO., LTD.,
Plaintiff-Appellee,

v.

RAMBUS, INC.,
Defendant-Appellant.

David J. Healey, Weil, Gotshal & Manges LLP, of Houston, Texas, argued for plaintiff-appellee. With him on the brief were Carmen E. Bremer, of Dallas, Texas; Amber H. Rovner and Melanie P. Sarwal, of Austin, Texas; and Edward R. Reines and Sonal N. Mehta, of Redwood Shores, California. Of counsel on the brief was Richard L. Rainey, Covington & Burling LLP, of Washington, DC. Of counsel were Gregory S. Coleman, Weil, Gotshal & Manges LLP, of Austin, Texas, and Brian C. Riopelle, McGuireWoods LLP, of Richmond, Virginia.

Richard G. Taranto, Farr & Taranto, of Washington, DC, argued for defendant-appellant. On the brief was Michael J. Schaengold, Patton Boggs LLP, of Washington, DC. Of counsel were Daniel L. Geyser, Gregory P. Stone, and Paul J. Watford, Munger Tolles & Olson LLP, of Los Angeles, California, and Paul R.Q. Wolfson, Wilmer Cutler Pickering Hale & Dorr LLP, of Washington, DC.

Appealed from: United States District Court for the Eastern District of Virginia

Senior Judge Robert E. Payne

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

2006-1579

SAMSUNG ELECTRONICS CO., LTD.,
Plaintiff-Appellee,

v.

RAMBUS, INC.,
Defendant-Appellant.

DECIDED: April 29, 2008

Appeal from the United States District Court for the Eastern District of Virginia in case no. 3:05-CV-406, Judge Robert E. Payne.

Before RADER, SCHALL, Circuit Judges, and FARNAN,* District Judge.

RADER, Circuit Judge.

The United States District Court for the Eastern District of Virginia denied Samsung Electronics Co., Ltd.'s (Samsung) motion for attorney fees and issued a lengthy opinion addressing issues relating to the alleged spoliation of evidence by Rambus, Inc. (Rambus), but not relevant to the basis for judgment in favor of Samsung. When Rambus

* Honorable Joseph J. Farnan, Jr., District Judge, United States District Court for the District of Delaware, sitting by designation.

offered to pay Samsung's requested attorney fees in full, the case before the district court became moot. Samsung Elecs. Co. Ltd. v. Rambus, Inc., 439 F. Supp. 2d 524 (E.D. Va. 2006). This court therefore vacates the order of the district court and remands the case to the district court with the instruction that it dismiss Samsung's complaint.

I

Rambus filed a complaint against Samsung alleging infringement of four of its patents in the United States District Court for the Northern District of California on June 6, 2005. The next day, Samsung filed a declaratory judgment action in the Eastern District of Virginia seeking a declaration that the patents at issue were invalid, unenforceable, and not infringed. The Eastern District of Virginia accepted jurisdiction to hear the case as related to a previously concluded litigation involving the same patents. Rambus Inc. v. Infineon Techs. AG, 164 F. Supp. 2d 743 (E.D. Va. 2001). (Infineon litigation). The patents at issue in that litigation were: U.S. Patent Nos. 5,953,263; 5,954,804; 6,032,214; and 6,034,918, all directed to various dynamic random access memory devices (DRAMs). In that previous litigation, this court, on appeal, had disagreed with the trial court's claim construction and fraud determination. Rambus Inc. v. Infineon Techs. AG, 318 F.3d 1081 (Fed. Cir. 2003). Accordingly, this court remanded. Id. On remand, the district court immediately entertained arguments regarding the spoliation of evidence. From the bench, the district court in Virginia ruled that Rambus had unclean hands due to spoliation of evidence. To avoid issuance of an adverse finding, Rambus quickly settled with Infineon. Accordingly, the trial court properly dismissed that original case against Infineon before entry of any findings or judgment against Rambus.

Five months after settlement of the Infineon litigation, and one day after Rambus filed suit in the Northern District of California, Samsung filed a declaratory judgment action against Rambus in the Eastern District of Virginia. On July 12, 2005, Rambus unsuccessfully moved to transfer the case to the Northern District of California-the venue of Rambus' pending infringement action against Samsung, and the location of other ongoing lawsuits regarding the same patents. Rambus Inc. v. Hynix Semiconductor Inc., No. C05-00334 RMW (N.D. Cal.); Hynix Semiconductor Inc. v. Rambus Inc., No. C00-20905 RMW (N.D. Cal.). Samsung, however, aware of the previous adverse findings against Rambus in the Infineon litigation, sought to keep this case in the Eastern District of Virginia due to the possibility of invoking collateral estoppel on the basis of the earlier unpublished spoliation findings.

In the ongoing related litigation against Hynix in the Northern District of California, the district court, after an extensive inquiry into the same spoliation allegations, refused Hynix's analogous effort to invoke collateral estoppel based on the pre-settlement oral findings in Infineon. Hynix v. Rambus, Order Denying Hynix's Motion to Dismiss Patent Claims for Unclean Hands on the Basis of Collateral Estoppel, C00-20905 RMW, (N.D. Cal. 2005). In September of 2005, Rambus filed covenants not to sue Samsung on the four patents at issue and voluntarily dismissed its infringement counterclaims. Accordingly, the district court in Virginia dismissed the case as moot on November 8, 2005. The Virginia district court, however, retained jurisdiction to adjudicate Samsung's claim for attorney fees under 35 U.S.C. § 285.

On October 3, 2005, Rambus made a written offer to compensate Samsung for the full amount of its requested attorney fees. On November 30, 2005, as suggested by the court, Rambus followed up with a formal offer of judgment under Fed. R. Civ. P. 68. Samsung did not accept the offer for full relief and persisted with its motion for attorney fees. On July 18, 2006 the district court issued an order denying attorney fees because Rambus terminated its claims at a sufficiently early stage in the litigation and because the record was insufficient to establish a causal nexus between the spoliation of evidence and the attorney fees sought by Samsung. Samsung Elecs. Co. Ltd. v. Rambus Inc., 439 F. Supp. 2d at 571-72. This opinion also held that the case was exceptional under 35 U.S.C. § 285, and issued the unpublished spoliation findings from the previously concluded Infineon litigation. Although it denied Samsung the only relief sought, the Virginia district court nonetheless issued a separate opinion on the same day holding that Samsung was the prevailing party. Samsung Elecs. Co. Ltd. v. Rambus Inc., 440 F. Supp. 2d 495 (E.D. Va. 2006).

II

Rambus timely appealed the district court's order denying Samsung's attorney fees application but entering findings adverse to Rambus with respect to the spoliation of evidence.

Having appealed the order of the district court, Rambus nevertheless asks this court to dismiss its appeal for lack of jurisdiction. According to Rambus, because it was the prevailing party on the issue of attorney fees, it lacks standing to challenge the findings that are adverse to it in the district court's order. Under these circumstances, Rambus argues, this court does not have before it an Article III case or controversy. Hence, it is without jurisdiction. Rambus argues in the alternative that, if this court does decide to exercise jurisdiction, it should hold that the district court lacked jurisdiction to rule on Samsung's application for attorney fees because the issue had become moot in view of Rambus' offer to pay the full amount of attorney fees claimed by Samsung. Rambus urges this court to vacate the order of the district court and to remand the case to the court with the instruction that it dismiss Samsung's complaint.

Article III, § 2 of the Constitution confines federal courts to the decision of "cases" or "controversies." Standing to sue or defend is an aspect of the case-or-controversy requirement. Ne. Fla. Chapter, Associated Gen. Contractors of Am. v. Jacksonville, 508 U.S. 656, 663-64 (1993). In the absence of Article III standing, a court lacks jurisdiction. See Whitmore v. Arkansas, 495 U.S. 149, 154-55 (1990) ("Article III, of course, gives the federal courts jurisdiction only over 'cases and controversies,' and the doctrine of standing serves to identify those disputes which are appropriately resolved through the judicial process."). Finally, the Article III standing requirement "must be met by persons seeking appellate review, just as it must be met by persons appearing in courts of first instance." Arizonans for Official English v. Arizona, 520 U.S. 43, 64 (1997) (citing Diamond v. Charles, 476 U.S. 54, 62 (1986)).

Rambus's argument that this court should dismiss its appeal because it lacks standing to challenge the district court's order raises a legitimate question as to our jurisdiction. It is not necessary for us to decide the standing issue, however. The reason is that this court may adopt the approach of assuming, arguendo, that Rambus has standing to bring this appeal. See Arizonans for Official English, 520 U.S. at 66-67. ("We may resolve the question whether there remains a live case or controversy with respect to Yniguez's claim without first determining whether AOE or Park has standing to appeal because the former question, like the latter, goes to the Article III jurisdiction of this Court and the courts below, not to the merits of the case.") (citations omitted). Accordingly, this court turns now to the issue of whether Rambus' offer to pay the full amount of Samsung's attorney fees rendered the case moot so that the district court was without jurisdiction to enter the order that Rambus challenges.

Under Article III of the United States Constitution, federal courts may adjudicate only actual, ongoing cases and controversies. Lewis v. Cont'l Bank Corp., 494 U.S. 472, 477 (1990) (citing Preiser v. Newkirk, 422 U.S. 395, 401 (1975)). This court examines cases for an actual Article III controversy as a question of law without deference. Super Sack Mfg. Corp. v. Chase Packaging Corp., 57 F.3d 1054, 1058 (Fed. Cir. 1995) (citing BP Chems. Ltd. v. Union Carbide Corp., 4 F.3d 975, 978 (Fed. Cir. 1993)).

An offer for full relief moots a claim for attorney fees. See, e.g., Greisz v. Household Bank, 176 F.3d 1012, 1015 (7th Cir. 1999) (holding that an offer of the full amount of attorney fees eliminates a dispute upon which federal jurisdiction can be based and stating "[y]ou can't persist in suing when you have actually won."). See also Rand v. Monsanto Co., 926 F.2d 596, 598 (7th Cir. 1991) ("Once the defendant offers to satisfy the plaintiff's entire demand, there is no dispute over which to litigate.").

The district court discounted these authorities because they did not involve the "imposition of sanctions." Samsung Elecs. Co. Ltd., v. Rambus Inc., 440 F. Supp. 2d 512, 522 (E.D. Va. 2006). Instead, the district court relied on three cases for the proposition that a trial court retains subject matter jurisdiction to impose sanctions even after the case becomes moot. See Cooter & Gell v. Hartmarx Corp., 496 U.S. 384, 395-96 (1990) ("It is well established that that a federal court may consider collateral issues after an action is no longer pending. . . . [An] imposition of a Rule 11 sanction is not a judgment on the merits of an action. Rather it requires the determination of a collateral issue: whether the attorney has abused the judicial process, and if so, what sanction would be appropriate. Such a determination may be made after the principle suit has been terminated."); Willy v. Coastal Corp., 503 U.S. 131, 138 (1992) (quoting the same language from Cooter and holding that even when a court no longer has subject matter jurisdiction it retains jurisdiction to sanction under Rule 11); Perkins v. Gen. Motors Corp., 965 F.2d 597, 602 (8th Cir. 1992) (upholding the district court's decision to impose sanctions under Rule 11 after it lost subject matter jurisdiction due to party settlement).

As these authorities show, a federal trial court enjoys discretion to postpone collateral issues until completion of the principal action. Those collateral issues include costs, fees, and contempt proceedings. Cooter, 496 U.S. at 395-96. Fed. R. Civ. P. 11 sanctions fit into this category of collateral issues. The issue before this court, however, does not involve collateral issues springing from a principal suit. In this instance, the fees are the main issue. In fact the only issue pending before the court was Samsung's motion for attorney fees under 35 U.S.C. § 285. Moreover, 35 U.S.C. § 285 is not a separate "sanctions statute." The only sanction for which section 285 provides is attorneys fees. Because the issue at bar is not a collateral issue and the statute is not a separate sanctions statute in and of itself, the district court lacks jurisdiction beyond full settlement of the fees dispute. The authorities cited by the trial court to retain jurisdiction do not apply in this instance.

In its entirety, 35 U.S.C. § 285 provides: "The court in exceptional cases may award reasonable attorney fees to the prevailing party." This section of Title 35 provides attorney fees in exceptional cases. The statute requires the trial court to find a case "exceptional" before proceeding to consideration of attorney fees. Thus, exceptionality is an element or precondition for the imposition of attorney fees. The statute does not make a finding of exceptionality a separate sanction. Thus, a trial court does not retain jurisdiction to make an "exceptional case" finding.

The district court harbored the misimpression that 35 U.S.C. § 285 authorizes the imposition of two separate sanctions: the finding of exceptionality and the award of attorneys fees. To the contrary, 35 U.S.C. § 285 authorizes the award of attorney fees in exceptional cases. Exceptionality is only an element for the award, not a separate sanction. In other words, the trial court did not have independent jurisdiction to assess exceptionality after full completion of the attorney fees litigation.

After Rambus offered the entire amount of attorney fees in dispute, the case became moot. The district court had no case or controversy to continue to consider. Thus, the trial court lacked subject matter jurisdiction to perpetuate an attorney fees dispute that was complete. As the Seventh Circuit explained:

> [I]f the defendant has thus thrown in the towel there is nothing left for the district court to do except enter judgment. The absence of a controversy (in the constitutional sense) precludes the court from issuing an opinion on whether the defendant has actually violated the law. Such an opinion would be merely an advisory opinion, having no tangible, demonstrable consequence, and is prohibited.

Chathas v. Local 134 IBEW, 233 F3d 508, 512 (7th Cir. 2000).

Accordingly, the district court in this case lacked jurisdiction to issue any further opinions in conjunction with an attorney fees dispute that has ceased to exist. Because the district court's writing is an impermissible advisory opinion, this court vacates that advisory opinion as issued without jurisdiction.

III

Courts possess inherent powers to sanction litigation misconduct. A court may use its inherent power to assess attorney fees when a party has "acted in bad faith, vexatiously, wantonly, or for oppressive reasons." Chambers v. NASCO, Inc., 501 U.S. 32, 45 (1991) (quoting F.D. Rich Co. v. United States ex rel. Indus. Lumber Co., 417 U.S. 116 (1974)).

In Chambers the Supreme Court explained:

> If a court finds that fraud has been practiced upon it or that the very temple of justice has been defiled, it may assess attorney's fees against the responsible party, as it may when a party shows bad faith by delaying or disrupting the litigation or by hampering enforcement of a court order. The imposition of sanctions in this instance transcends a court's equitable power concerning relations between the parties and reaches a court's inherent power to police itself, thus serving the dual purpose of vindicating judicial authority without resort to the more drastic sanctions available for contempt of court and making the prevailing party whole for expenses caused by his opponent's obstinacy.

Id. at 46 (internal citations omitted).

Chambers went on to say that federal courts are not

> forbidden to sanction bad-faith conduct by means of the inherent power simply because that conduct could also be sanctioned under the statute or the Rules. A court must, of course, exercise

> caution in invoking its inherent power, and it must comply with the mandates of due process, both in determining that the requisite bad faith exists and in assessing fees. Furthermore, when there is bad-faith conduct in the course of litigation that could be adequately sanctioned under the Rules, the court ordinarily should rely on the Rules rather than the inherent power. But if in the informed discretion of the court, neither the statute nor the Rules are up to the task, the court may safely rely on its inherent power.

Id. at 48-49. (internal citations omitted)

> This court has followed this Supreme Court rule for inherent powers. When there is bad faith conduct in the course of litigation that could be adequately sanctioned under the [statutes or] rules, the court ordinarily should rely on the [statutes or] rules rather than the inherent power. The court should resort to its inherent power only where the rules or statutes do not reach the "acts which degrade the judicial system."

Amsted Indus. Inc. v. Buckeye Steel Castings Co., 23 F.3d 374, 379 (Fed. Cir. 1994) (quoting Chambers, 501 U.S. at 41-42).

In this case, the district court recognized the availability of its inherent power to sanction, but expressly declined to invoke it to sanction Rambus. Samsung Elecs. Co. Ltd. v. Rambus Inc., 439 F. Supp.

2d at 573-74. In any event, the district court's power to use its inherent power, which it declined to do, cannot exceed its jurisdiction over the case itself. Once the underlying attorney fees were offered, the case was moot and the trial court lacked jurisdiction.

IV

In sum, the offer of the full amount in dispute brought an end to the case and controversy between Rambus and Samsung. At that point the district court also lacked subject matter jurisdiction to rule on the attorney fees motion. The case became moot. Accordingly, this court vacates the order of the district court denying Samsung's application for attorney fees and entering findings with respect to the spoliation of evidence as issued without jurisdiction. The case is remanded to the district court with the instruction that the court dismiss Samsung's complaint.

VACATED AND REMANDED

NO COSTS

APPENDIX B

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF VIRGINIA
Richmond Division

[Filed NOV. 8, 2005]

Civil Action No. 3:05cv406

SAMSUNG ELECTRONICS CO., LTD.
Plaintiff,

v.

RAMBUS, INC.,
Defendant.

MEMORANDUM OPINION

Rambus, Inc. ("Rambus") moves to dismiss the declaratory judgment action filed against it by Samsung Electronics Co., Ltd. ("Samsung") on June 7, 2005. Rambus contends that this action has been rendered moot by the covenants not to sue Samsung, which Rambus filed after the action was filed, and by the consequent dismissal of Rambus' counterclaims. According to Rambus, the Court no longer has subject matter jurisdiction, and thus Samsung's declaratory judgment action should be dismissed under Fed. R. Civ. P. 12(b)(1). Rambus further argues that the Court does not have subject matter jurisdiction over Samsung's request for attorney's fees. For the reasons that follow, the motion is granted in part and denied in part.

FACTUAL AND PROCEDURAL BACKGROUND

Samsung filed this action seeking a declaratory judgment, inter alia, that four patents held by Rambus are unenforceable by virtue of the doctrines, of unclean hands, equitable estoppel, patent misuse, waiver, laches, and laches in the United States Patent and Trademark Office ("PTO"). The patents-in-suit are the four patents-in-suit in Rambus, Inc. v. Infineon Technologies AG, No. CIV. A. 3:00cv524 (E.D. Va.) ("Rambus v. Infineon"): (1) U.S. Pat. No. 5,953,263 ("the '263 Patent"); (2) U.S. Pat. No. 5,954,804 ("the '804 Patent"); (3) U.S. Pat. No. 6,032,214 ("the '214 Patent"); and (4) U.S. Pat. No. 6,034,918 ("the '918 Patent"). Rambus asserted counterclaims against Samsung in its Answer, alleging infringement of the same patents.

A. Rambus/Infineon Litigation

Rambus develops and licenses technology to companies that manufacture semi-conductor memory devices. Its patents are directed to various dynamic random access memory devices ("DRAMs"), Rambus DRAMs ("RDRAMs"), Synchronous Dynamic Random Access Memory ("SDRAM"), and Double Data Rate Synchronous Dynamic Random Access Memory ("DDR-SDRAM"). See Rambus, Inc. v. Infineon Tech. AG, 222 F.R.D. 280, 282 (E.D. Va. 2004) Beginning in early 1998 and continuing through 1999 and 2000, Rambus developed, refined, and implemented a patent licensing and litigation strategy, which was aimed at several specifically identified DRAM manufacturers. Among the targeted DRAM manufacturers were Infineon, Samsung, and Hynix Semiconductor, Inc. ("Hynix").

Pursuant to that strategy, in June 2000, in this Court, Rambus asserted patent infringement claims against Infineon with respect to the same four patents-in-suit that are at issue in Samsung's action for declaratory judgment. After extensive discovery and issuance of a claim construction opinion, there was a two week trial on Rambus' infringement claims, as well as Infineon's counterclaims. Ultimately, the judgment was appealed to the United States Court of Appeals for the Federal Circuit, which affirmed in part, reversed in part, and remanded for further proceedings. Additional discovery was conducted at that time and, during those proceedings, it was determined that spoliation of documents by Rambus warranted the piercing of Rambus' attorney-client and work-product privileges. Rambus, Inc. v. Infineon Tech. AG, 222 F.R.D. at 296-99. Subsequent discovery was permitted on the issue of spoliation and other issues.

In February 2005, a bench trial was held on Infineon's defense of unclean hands. Simultaneously, a corollary evidentiary proceeding was held with respect to spoliation of evidence, for which a sanction of dismissal was requested. At the conclusion of the trial of those issues, the Court ruled from the bench that Infineon had proven, by clear and convincing evidence, that Rambus was liable for unclean hands, thus barring Rambus from enforcing the four patents-in-suit. Additionally, the Court ruled that Infineon had proven, by clear and convincing evidence, that Rambus had spoliated evidence, for which dismissal was the appropriate sanction. Following this ruling, and before the Court issued findings of fact and conclusions of law, Rambus and Infineon settled.

B. Background And Procedural History Of This Action.

Also pursuant to its licensing and litigation strategy, and while Rambus was prosecuting its actions against Infineon, Rambus entered license negotiations with Samsung. In October 2000, the parties entered into a license agreement that covered, inter alia, the patents-in-suit. Samsung Electronics Co.; Ltd. v. Rambus Inc., 386 F. Supp. 2d 708, 712 (E.D. Va. 2005). Samsung and Rambus amended that license agreement in 2001 because of developments in the litigation between Rambus and Infineon. Id.

Samsung and Rambus began to renegotiate the terms of the license agreement in July 2004. A part of those negotiations was a so-called "Standstill Agreement" by which any litigation over the license agreement would be delayed for a year while negotiation continued. However, the negotiations did not go to the liking of Rambus. When Samsung refused to accede to Rambus' demand for a contract provision that would allow Rambus to litigate any patent dispute in California, Rambus terminated the discussions respecting an extension of the license agreement and the license agreement itself. Simultaneously, Rambus filed a patent infringement action against Samsung in the United States District Court for the Northern District of California. Samsung, 386 F. Supp. 2d at.713-15. In that action, Rambus claimed that Samsung was infringing, inter alia, all four of the patents-in-suit that were at issue in the Rambus/Infineon action.

On June 7, 2005, one day after Rambus brought patent infringement claims against Samsung in the Northern District of California, Samsung filed this action for declaratory judgment, and, shortly thereafter, filed its First Amended Complaint. See Samsung, 386 F. Supp. 2d at 712. Samsung's complaint and the amended complaint proceeded on the clearly articulated theory that the decision on the spoliation and unclean hands issues in the Rambus/Infineon litigation barred any claim for infringement of the patents-in-suit. Nonetheless, on July 12, 2005, Rambus counterclaimed for infringement of all four patents-in-suit, and then moved to transfer the action to the Northern District of California so that Rambus could press its infringement claims there. Contemporaneous with its response to Rambus' motion to transfer, Samsung moved for partial summary judgment on the issues of spoliation and unclean hands. Samsung argued that the Court's bench ruling in Rambus v. Infineon with respect to Rambus' spoliation and unclean hands should be given collateral estoppel effect and consequently that the four patents-in-suit were unenforceable. A briefing schedule was set for Samsung's motion for partial summary judgment.

C. Covenants Not to Sue

Thereafter, on September 6, 2005, Rambus filed an "unconditional" and "irrevocable" covenant not to assert patent infringement claims against Samsung with respect to the '804 and '214 patents ("First Covenant"). The First Covenant expressly extends to actions in the International Trade Commission as well. The scope of the covenant not to sue extends to "any and all methods, processes, and products made, used, offered for sale, sold, or imported by Samsung currently or at any time prior to the date of this covenant." However, the First Covenant does not extend to any other patents held by Rambus, related or unrelated, and Rambus expressly declined to concede the merits of Samsung's allegation that the '804 and '214 patents were unenforceable and invalid.

Subsequently, on September 13, 2005, Rambus and Samsung stipulated that the First Covenant "eliminates any need for declaratory relief that Samsung may have had with respect to the '804 Patent and the '214 Patent." Stipulation (Docket No. 42). Samsung, however, reserved its right to request that the Court declare the case exceptional and order Rambus to pay Samsung's attorney's fees under 35 U.S.C. § 285. Rambus expressly reserved the right to oppose such relief, and to argue that the First Covenant moots such relief. The stipulation also provided that Samsung's declaratory judgment action with respect to the '804 and '214 patents was to be dismissed without prejudice.

On September 12, 2005, Rambus filed its opposition to Samsung's motion for partial summary judgment on the defense of unclean hands based on spoliation. On September 14, 2005, Rambus' motion to transfer this action to the Northern District of California was denied. On the same date, counsel were ordered to confer about procedures to expedite the trial of this action and to report the results thereof to the Court on September 21, 2005. On September 21, 2005, the Court gave notice of its intent to take judicial notice of the record of the spoliation and unclean hands bench trial in the Rambus/Infineon litigation.

On September 21, 2005, Mr. John Danforth, Rambus' General Counsel, signed a second covenant not to sue Samsung ("Second Covenant"), this time with respect to the '263 and '918 patents. The Second

Covenant was filed with the Court on September 22, 2005. The language in the Second Covenant with respect to the covenant not to sue is identical to the language in the First Covenant.

Rambus also used the Second Covenant as a vehicle to withdraw its counterclaims in this action as well as its claims against Samsung in the Northern District of California, Rambus Inc. v. Samsung Electronics Co., Ltd., et al., Case No. C-05-02298-RMW (N.D. Cal.), which asserted infringement of the '263 and '918 patents. Rambus' counterclaims in this action were dismissed with prejudice by the Court on September 28, 2005.[1]

Contemporaneous with the filing of the Second Covenant, Rambus filed its motion to dismiss Samsung's declaratory judgment action for lack of subject matter jurisdiction under Rule 12(b)(1). Rambus contends that the First and Second Covenants ("Rambus Covenants") moot any case or controversy, thereby depriving the Court of subject matter jurisdiction, including jurisdiction to rule on Samsung's request for attorney's fees. Notwithstanding its argument on the latter point, on October 3, 2005, Rambus made a written offer to Samsung to pay reasonable attorney's fees incurred by Samsung in this action. In Rambus' view, that offer along with the Rambus Covenants "affords Samsung all of the relief to which it may otherwise be entitled in this action and therefore moots any further proceedings on the merits of any of Samsung's claims, including its allegations that this action qualifies as an exceptional case entitling Samsung to recover its

[1] The record does not reflect whether Rambus' claims in the California action have been dismissed yet.

reasonable attorney's fees." However, in making its settlement offer, Rambus expressly declined to concede the merits of Samsung's allegations.

Samsung argues that the Court retains jurisdiction not only to decide whether this is an exceptional case, thereby entitling Samsung to payment of attorney's fees under 35 U.S.C. § 285, but also to issue declaratory relief by ruling on Samsung's motion for partial summary judgment or, if not, then by subsequent proceedings on the merits. Samsung contends that, to determine whether this is an exceptional case, the Court must decide the motion for partial summary judgment on the issue of unclean hands which, in turn, is based on spoliation. Additionally, Samsung contends that the voluntary cessation and collateral consequences exceptions to the mootness doctrine preserve the Court's jurisdiction over the action for declaratory judgment. Where Samsung once argued that the declaratory relief it sought was targeted to the four patents-in-suit from Rambus v. Infineon, now it suggests that the action for declaratory judgment is rescued from the brink of mootness by the benefit that a judgment and its potential collateral estoppel effect might have for Samsung and other DRAM manufacturers in defending against Rambus' assertion of "tainted" patents.

DISCUSSION

Whether the Rambus Covenants deprive the Court of subject matter jurisdiction to decide Samsung's motion for partial summary judgment or otherwise to afford declaratory relief is a different proposition than whether there is jurisdiction to determine the issues presented under 35 U.S.C. § 285. Hence, those issues will be considered in turn.

I. SUBJECT MATTER JURISDICTION OVER DECLARATORY JUDGMENT ACTION

When a party files an action for declaratory judgment under 28 U.S.C. § 2201(a), as Samsung has, the district court has subject matter jurisdiction so long as an actual controversy exists. Amana Refrigeration, Inc. v. Quadlux, Inc., 172 F.3d 852, 855 (Fed. Cir. 1999). The declaratory judgment statute explicitly incorporates the Article III case or controversy limitation. 15 Moore's Federal Practice, § 101.07 (Matthew Bender 3ed. 2005). "The controversy must be definite and concrete, touching the legal relations of parties having adverse legal interests." Aetna Life Ins. Co. of Hartford, Conn. v. Haworth, 300 U.S. 227, 240-241 (1931). "It must be a real and substantial controversy admitting of specific relief through a decree of a conclusive character, as distinguished from an opinion advising what the law would be upon a hypothetical state of facts." Id. at 241. Accordingly, "a federal court has neither the power to render advisory opinions nor 'to decide questions that cannot affect the rights of litigants in the case before them.'" Preiser v. Newkirk, 422 U.S. 395, 402 (1975) (quoting North Carolina v. Rice, 404 U.S. 244, 246 (1971)).

An actual controversy becomes moot when there is a "material change in circumstances" that entirely terminates the controversy between the parties. See Cardinal Chemical Co. v. Morton Int'l, Inc., 508 U.S. 83, 98 (1993). "If intervening factual or legal events effectively dispel the case or controversy during pendency of the suit, the federal courts are powerless to decide the questions presented." Ross v. Reed, 719 F.2d 689, 693-694 (4th Cir. 1983). "The mootness doctrine requires that the plaintiff's controversy remain live throughout the litigation; once the controversy ceases to exist, the court must dismiss the cause for want of jurisdiction." Tucker v. Phyfer, 819 F.2d 1030, 1033 (11th Cir. 1987). See also City of Erie v. Pap's A.M., 529 U.S. 277, 287 (2000); Lewis v. Continental Bank Corp., 494 U.S. 472,. 477-478 (1990).

A. Effect Of The Rambus Covenants

In the context of a plaintiff seeking declaratory relief from patent infringement claims, the Federal Circuit has defined an actual controversy to require: "(1) an explicit threat or other action by the patentee, which creates a reasonable apprehension on the part of the declaratory plaintiff that it will face an infringement suit, and (2) present activity which could constitute infringement or concrete, steps taken with the intent to conduct such activity." Amana, 172 F.3d at 855 (quoting BP Chems. Ltd. v. Union Carbide Corp., 4 F.3d 975, 978 (Fed. Cir. 1993)). Furthermore, "[a]n actual controversy must be extant at all stages of review, not merely at the time the complaint is filed." Id. Even where an actual controversy existed at the time the declaratory judgment action was filed, if the situation changes so that there is no longer a reasonable apprehension that the declaratory plaintiff will have to defend against a patent infringement suit, then no actual controversy exists.

Consequently, "a patentee defending against an action for a declaratory judgment of invalidity can divest the trial court of jurisdiction over the case by filing a covenant not to assert the of its past, present, or future acts . . . ." Super Sack Mfg. Corp. v. Chase Packaging Corp., 57 F.3d 1054, 1058 (Fed. Cir. 1995).

When a patent holder covenants not to sue an alleged infringer in this manner, the patent holder is "forever estopped" from asserting the liability of the alleged infringer. Id. at 1059. Even where a covenant not to assert infringement of certain patents does not include future products, "an actual controversy cannot be based on a fear of litigation over future products." Amana, 172 F.3d at 855. In such cases, the Federal Circuit has held that, "[t]he residual possibility of a future infringement suit based on [the alleged infringer's] future acts is simply too speculative a basis for jurisdiction over [the alleged infringer's] counterclaim for declaratory judgments of invalidity." Super Sack, 57 F.3d at 1060. See also Intellectual Prop. Dev., Inc. v. TCI Cablevision of California, Inc., 248 F.3d 1333 (Fed. Cir. 2001).

Given the language in the First and Second Covenants, the stipulation which followed the First Covenant, the dismissal with prejudice of Rambus' counterclaims, and the decision in Super Sack, Samsung cannot credibly argue that there remains any need for declaratory relief that Samsung may have had with respect to the four patents-in-suit. Law and logic jointly compel the conclusion that Samsung's claims for declarations of unenforceability and invalidity for all four patents-in-suit should be dismissed, without prejudice, as moot.

B. Exceptions To The Mootness Doctrine

Samsung urges that its request for attorney's fees as well as the collateral consequences and voluntary cessation exceptions to the mootness doctrine preserve the Court's subject matter over Samsung's claims for declaratory relief.

1. Collateral Legal Consequences

Even where an intervening event "may moot a claim in terms of the court's inability to undo or grant effective relief as to past acts or conditions, if those past acts have present, future, or collateral consequences then judicial review may nevertheless remain available." 15 Moore's Federal Practice, § 101.99[3]. "The collateral consequences doctrine applies most often in criminal cases, where, for example, some of the consequences of a felony conviction (loss of voting privileges, probation, etc.) remain, despite the fact that the defendant has been released from jail." Horizon Bank & Trust Co. v. Massachusetts, 391 F.3d 48, 54 (1st Cir. 2004) (citing Sibron v. New York, 392 U.S. 40, 55 (1968)). Such consequences are "subsidiary to the primary harm of criminal convictions, prison time," and thus preserve jurisdiction over criminal appeals and petitions for writ of habeas corpus. Id. See also Spencer v. Kemna, 523 U.S. 1 (1998). "[A] criminal case is moot only if it is shown that there is no possibility that any collateral legal consequences will be imposed on the basis of the challenged conviction." Sibron, 392 U.S. at 57.

Outside of criminal appeals and habeas petitions, application of the collateral consequences exception to mootness is relatively rare. Indeed, the scope of the exception outside the criminal context is difficult to discern. Using the criminal cases as a model, however, it is apparent that the collateral consequences exception to mootness applies when a court's inability to provide relief on the merits of a claim may have adverse legal implications for a party simply by maintaining the status quo. The relevant status quo is that which has been imposed by a judicial or administrative determination, which is then under review. See Felster Publ'g v. Burrell (In re Burrell), 415 F.3d 994, 999 (9th Cir. 2005); Public Utilities Comm'n of the State of. Cal. v. F.E.R.C., 100 F.3d 1451, 1460 (9th Cir. 1996); Apotex, Inc. v., Thompson, 347 F.3d 1335, 1345 (Fed. Cir. 2003); Dailey v. Vought, Aircraft Co., 141 F.3d 224, 227 (5th Cir. 1998); Phillips v. McLaughlin, 854 F.2d 673, 677 (4th Cir. 1988). A status quo imposed by the parties themselves and the collateral legal consequences therefrom do not invoke this narrow exception to mootness.

There is a line of decisions following from Super Tire Engineering Co. v. McCorkle, 416 U.S. 115, 122 (1974), upon which Samsung relies, in which plaintiffs have challenged specific actions of governmental agencies, as well as the policies underlying the agencies' actions. See, e.g., City of Houston v. Dept. of Housing and Urban Development, 24 F.3d. 1421, 1428 (D.C. Cir. 1994). Without explicitly referencing the collateral consequences exception, the D.C. Circuit held that, in such cases, "the challenge to the policy is not necessarily mooted merely because the challenge to the particular agency action is moot." Id. "[I]f a plaintiff's specific claim has been mooted, it may nevertheless seek declaratory relief forbidding an agency from imposing a disputed policy in the future, so long as the plaintiff has standing to bring such a forward-looking challenge and the request for declaratory relief is ripe." City of Houston, 24 F.3d at 1429.

Whether Super Tire and its progeny are properly categorized as collateral consequences cases, it is plainly apparent that this line of decisions does not bolster Samsung's argument for application of that exception to the mootness doctrine here. Rambus is not a governmental agency, and Samsung cannot challenge Rambus' general litigation strategy as if it were analogous to the official policy of an administrative body.

Whatever the scope of the collateral consequences exception outside the criminal context, there is no authority for applying it here. Indeed, to apply the collateral consequences action here would convert a narrow exception to the mootness doctrine into a full scale breach of the Article III case or controversy requirement.

2. Voluntary Cessation

"It is well settled that 'a defendant's voluntary cessation of a challenged practice does not deprive a federal court of its power to determine the legality of the practice."' Friends of the Earth, Inc. v. Laidlaw Environmental Services, 528. U.S. 167, 189 (2000) (quoting City of Mesquite v. Aladdin's Castle, Inc., 455 U.S. 283, 289 (1982)). See also United States v. W.T. Grant Co., 345 U.S. 629, 632 (1953) (holding that, in general, "voluntary cessation of allegedly illegal conduct does not deprive the tribunal of power to hear and determine the case, i.e., does not make the case moot."). However, a case may become moot where "subsequent events [make] it absolutely clear that the allegedly wrongful behavior could not reasonably be expected to recur." Friends of the Earth, 528 U.S. at 189 (quoting United States v. Concentrated Phosphate Export Assn., 393 U.S. 199, 203 (1968)). Defendants bear a "formidable burden" in making such a showing. Id. at 190. Additionally, "interim relief or events [must] have completely and irrevocably eradicated the effects of the alleged violation." Los Angeles County v. Davis, 440 U.S. 625, 631 (1979).

Samsung has filed an action for a declaratory judgment of the unenforceability and invalidity of the four patents-in-suit. The challenged practice at the heart of Samsung's request for declaratory relief is Rambus' assertion of its four patents-in-suit against Samsung. In tendering the Rambus Covenants, Rambus agreed to cease the challenged conduct, and Samsung and Rambus agreed that Rambus' counterclaims would be dismissed with prejudice. In Super Sack, the Federal Circuit held that, when a patent holder executes a covenant not to sue of the type executed by Rambus in this case, the patent holder is "forever estopped" from asserting the liability of the alleged infringer. Super Sack, 57 F.3d at 1059. In the mode prescribed by Super Sack, the Rambus Covenants, together with the dismissal with prejudice of the infringement counterclaims, make it clear that Rambus' assertions of the four patents-in-suit against Samsung, including allegations of infringement, cannot reasonably be expected to recur as to products formerly or currently made by Samsung.

In Cardinal Chemical, the Supreme Court rejected the Federal Circuit's previous view that, when a district court's finding of noninfringement was affirmed on appeal, the appeal of a declaratory judgment of patent invalidity was rendered moot. Cardinal Chemical, 508 U.S. at 98-99. The Supreme Court noted that "[a] company once charged with infringement must remain concerned about the risk of similar charges if it develops and markets similar products in the future." Id. at 99-100. At first blush, it might be tempting to conclude that the Supreme Court was recognizing the separate viability of claims of patent invalidity. If this were the case, a covenant not to sue would not account for a claim of patent invalidity, and consequently the voluntary cessation exception to mootness might well apply. Indeed, it would be far from absolutely clear that the patent holder would not assert the patent against future products produced by the alleged infringer.

In Super Sack, however, the Federal Circuit held that the holding in Cardinal Chemical was limited and that "a claim for a declaratory judgment of invalidity is independent of the patentee's charge of infringement in the following--and only the following—way: an affirmed finding of nonin fringement does not, without more, justify a reviewing court's refusal to reach the trial court's conclusion on invalidity." Super Sack, 57 F.3d at 1060. Cardinal Chemical did "not revolutionize the justiciability of declaratory judgment actions attacking a patent's validity," and "a party seeking a declaratory judgment still has the burden of establishing the existence of an actual case or controversy." Id. (omitting internal quotations marks). Cf. Fort James Corp. v. Solo Cup Co., 412 F.3d 1340, 1348 (Fed. Cir. 2005) (distinguishing "unique procedural posture," where jury verdict preceded covenant not to sue, from Super Sack, where covenant not to sue was filed prior to consideration or resolution of infringement claim).

Considering the effect of the Rambus Covenants, and the decisions of the Federal Circuit, jurisdiction cannot be predicated on the argument that Rambus will continue to assert "tainted" patents against Samsung and other DRAM manufacturers, and that this possibility prevents the action for declaratory judgment from being mooted. However, given Rambus' rather healthy appetite for litigation, it cannot realistically be said that Rambus' conduct—suing on the patents-in-suit—cannot reasonably be expected to recur as to future products made by Samsung. But, as indicated previously, the Federal Circuit has held the prospect of a future suit as to future conduct to be an insufficient ground to avoid the mootness that results from a covenant not to sue. Super Sack, 57 F.3d at 1060. To use that prospect as the definition of "recurrence" in applying the voluntary cessation exception to the mootness doctrine would run counter to the Federal Circuit's decision in Super Sack.

Rambus' motion to transfer venue was denied, in part, because the interests of justice were served by taking advantage of this Court's unique experience with related litigation on the very same patents and issues relative to their enforceability. That ruling was not a charter to decide the merits of Samsung's claims absent any connection to an extant case or controversy about the enforceability or validity of the four patents-in-suit. It is true that, as Samsung argues, through capitulation and consequent court-ordered dismissal of its counterclaims, Rambus has succeeded in avoiding, in this action, the risk of a declaratory judgment that the patents-in-suit are neither enforceable nor valid against Samsung. Nonetheless; the Court cannot make a ruling on the merits of those issues where it has been divested of subject matter jurisdiction.

3. The Claim For Attorney's Fees Does Not Necessitate A Declaratory Judgment On The Issues of Enforceability Or Validity

Samsung contends that, even in the face of the clear implications of Super Sack, its claim for attorney's fees under 35 U.S.C. § 285 operates to support the exercise of subject matter jurisdiction over the claims for declaratory relief. That argument reaches too far.

An "interest in attorney's fees is, of course, insufficient to create an Article III case or controversy where none exists on the merits of the underlying claim." Lewis, 494 U.S. at 480 (omitting internal citation). But, here, there clearly was jurisdiction to decide the underlying claim, and 35 U.S.C. § 285 certainly was not the predicate for that jurisdiction. However, "[w]here on the face of the record it appears that the only concrete interest in the controversy has terminated, reasonable caution is needed to be sure that mooted litigation is not pressed forward, and unnecessary judicial pronouncements on even constitutional issues obtained, solely in order to obtain reimbursement of sunk costs." Id. See also Tunik v. Merit Systems Protection Bd., 407 F.3d 1326, 1331 (Fed. Cir. 2005) (same). In S-1 v. Spangler, 832 F.2d 294, 298 (4th Cir. 1981), our Court of Appeals made clear that a pending claim for attorney's fees did not avert the consequence of mootness of a compromised underlying claim, notwithstanding that the court retained jurisdiction to decide "whether and in what amounts attorneys fees should be recoverable . . . ." (citing United States v. Munsingwear, 340 U.S. 36 (1950)).

See also, United States v. Ford, 650 F.2d 1141, 1143 (9th Cir. 1981) (to the same effect).

Other district courts have been confronted with contentions that Section 285 provides a basis for issuing a declaratory judgment on the otherwise mooted issue of unenforceability of a patent as part of deciding a claim for attorney's fees under 35 U.S.C. § 285. For example, in Sony Electronics, Inc. v. Soundview Technologies, Inc., 359 F. Supp. 2d 173 (D. Conn. 2005), the patent holder moved to dismiss a declaratory judgment counterclaim as moot following affirmance of a judgment of non-infringement and the subsequent expiration of the patent-in-suit. One of the alleged infringers argued that it should be permitted to pursue its counterclaim for a declaratory judgment of unenforceability. Following a discussion of Cardinal Chemical, the court noted that section 285 "is not an independent basis for jurisdiction" to decide an otherwise moot claim. Id. at 176. The court held that the alleged infringer was "entitled to seek attorneys fees on the underlying litigation on which [it had] prevailed, but [could not] create more litigation that is otherwise moot merely to create an alternative basis for attorneys fees." Id. See also Technimark, Inc. v. Crellin, Inc., 14 F. Supp. 2d 762 (M.D.N.C. 1998) (granting motion to dismiss as moot counterclaim for declaratory judgment of patent invalidity, and rejecting alleged infringer's argument that court retained jurisdiction to decide the substance of the counterclaim of patent invalidity merely because it retained jurisdiction to determine entitlement to attorney's fees and the quantum thereof).

In sum, it is settled that a claim for attorney's fees does not avert mootness of the underlying claim even though there is jurisdiction to determine whether a party is entitled to attorney's fees and, if so, how much.

II. SUBJECT MATTER JURISDICTION OVER REQUEST FOR ATTORNEY'S FEES

Rambus argues that those decisions on mootness also operate as a bar to the exercise of jurisdiction to decide whether Samsung is entitled to attorneys fees and, if so, the amount. It should be obvious from those decisions, and an examination of the purpose and nature of 35 U.S.C. § 285, that this argument is devoid, of merit.

The statute provides that "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." 35 U.S.C. § 285. The question posed by this aspect of Rambus' motion to dismiss is not whether this is an "exceptional case" or whether Samsung is a "prevailing party" under the terms of the statute, but rather whether the Court retains subject matter jurisdiction to decide those matters.

A. The Intervening Mootness Of The Declaratory Judgment Claims

As a result of the Rambus Covenants, the Court no longer has jurisdiction over Samsung's request for declaratory relief, and Rambus' counterclaims have been dismissed with prejudice. From that point of departure, Rambus argues that the Court does not have jurisdiction to decide Samsung's section 285 claim because the Court does not have subject matter jurisdiction over the underlying substantive claims. Rambus' argument fails to recognize the critical distinction between cases where the court never had subject matter jurisdiction over the underlying claims, and cases in which the court has been divested of its subject matter jurisdiction over the underlying claims by intervening mootness. That distinction is dispositive.

Rambus relies heavily on the decision in W.G. v. Senatore, 18 F.3d 60, 64 (2nd Cir. 1994), wherein the Second Circuit held "[f]ee shifting provisions cannot themselves confer subject matter jurisdiction." Instead, "such provisions must be read in conjunction with substantive statutes to establish proper jurisdiction over fee applications." Id. "Where there is no subject matter jurisdiction to proceed with the substantive claim, as a matter of law 'that lack of jurisdiction bars an award of attorneys fees'" under section 285. Id. (quoting Keene Corp. v. Cases, 908 F.2d 293, 298 (8th Cir. 1990). See also Hudson v. Principi, 260 F.3d. 1357, 1363 (Fed. Cir. 2001).

Although Senatore is an accurate statement of the law insofar as it goes, it does not account for cases of intervening mootness. In particular, Senatore stands for nothing more than the settled precept that lack of subject matter jurisdiction over a substantive claim serves "to bar an award [of attorney's fees] where an action was moot at the time of filing." New York State Chapter of the American College of Emergency Physicians, Inc. v. Wing, 987 F. Supp. 127, 130 (N.D.N.Y. 1997). See also Randolph Union High School Dist. No. 2 v. Byard, 897 F. Supp. 174, 176 (D. Vt. 1995); Robinson Rubber Products Co., Inc. v. Hennepin County, Minn., 2004 WL 771257 (S.D. Ind. 2004). That, of course, was not this case, for the action was not moot when it was filed. Moreover, it also is settled that, "[i]n cases involving intervening mootness [], a district court may still award attorney's fees under" section 285. Wing, 987 F. Supp. at 130. See also Dahlem by Dahlem v. Bd. Educ. Of Denver Public Schools, 901 F.2d 1508, 1511 (10th Cir. 1990) ("While a claim of entitlement to attorney's fees does not preserve a moot cause of action, the expiration of the underlying cause of action does not moot a controversy over attorney's fees already incurred.") (internal citations omitted). "Thus a determination of mootness neither precludes nor is precluded by an award of attorney's fees." Doe v. Marshall, 622 F.2d 118, 119 (5th Cir. 1980).

Where a court is divested of its subject matter jurisdiction over the substantive claim by virtue of intervening mootness, it nonetheless retains jurisdiction to "consider collateral issues after an action is no longer pending." Cooter & Gell v. Hartmarx Corp., 496 U.S. 384, 395 (1990). "[M]otions for costs or attorney's fees are independent proceedings supplemental to the original proceeding," and thus the imposition of costs and attorney's fees is not a judgment on the merits of an action for which there is no jurisdiction. Id. (omitting internal quotations marks). "No Article III case or controversy is needed with regard to attorney's fees as such, because they are but an ancillary matter over which the district court retains equitable jurisdiction even when the underlying case is moot. Its jurisdiction outlasts the 'case or controversy.'" Zucker v. Occidental Petroleum Corp., 192 F.3d 1323, 1329 (9th Cir. 1999). "[A] determination of mootness of the action on the merits [does not] preclude an award of attorney's fees . . . ." Spangler, 832 F.2d at 297 n.l. See also Reiser v. Del Monte Properties Co., 605 F.2d 1135, 1140 (9th Cir. 1979) (holding that "attorney's fees question ancillary to the case survives independently under the court's equitable jurisdiction.").

Several district courts have confronted claims for attorney's fees under 35 U.S.C. § 285, notwithstanding intervening mootness or dismissal of the underlying substantive claims. For example, in Knauf Fiber Glass v. CertainTeed Corp., 2004 WL 771257 (S.D. Ind. 2004), Knauf Fiber Glass ("Knauf") brought a patent infringement claim against CertainTeed Corp. ("CertainTeed"), to which CertainTeed counterclaimed for a declaratory judgment of non-infringement based on the unenforceability and invalidity of the patent. Subsequently, Knauf sought voluntarily to dismiss its infringement claim pursuant to Fed. R. Civ. P. 41 (a)(2). Knauf also signed a covenant not to sue CertainTeed for infringement of the patent-in-suit.

Knauf argued that, under Super Sack, the covenant not to sue divested the district court of jurisdiction over CertainTeed's counterclaim for declaratory relief. Like Samsung, CertainTeed wished "to pursue its efforts to have [the patent-in-suit] declared unenforceable for inequitable conduct, to have the case declared 'exceptional' under 35 U.S.C. § 285, and to recover its attorney fees and costs incurred in th[e] case." Id. at *1. As the court noted, the critical distinction between Super Sack and Knauf was the fact that Knauf sought coercive relief in addition to a declaratory judgment. The Super Sack court did not address whether a covenant not to sue divests a district court of subject matter jurisdiction over a request for coercive relief, such as a demand for attorney's fees under section 285.

In Knauf, the court determined that it retained jurisdiction over the counterclaim for attorney's fees and costs under 35 U.S.C. § 285, notwithstanding the covenant not to sue. As authority, the court cited several cases in which the Federal Circuit did not raise the issue of subject matter jurisdiction where the district court exercised jurisdiction to decide claims for attorney's fees under section 285 even after the underlying infringement claims had been dismissed. See Cambridge Products, Ltd. v. Penn Nutrients, Inc., 962 F.2d 1048, 1050 (Fed. Cir. 1992); H.R. Technologies, Inc. v. Astechnologies, Inc., 275 F.3d 1378, 1386 (Fed. Cir. 2002); Paragon Podiatry Lab. v. KLM Labs., 984 F.2d 1182, 1188 n.6 (Fed. Cir. 1993). In the view of the Knauf court, when a party seeks coercive relief under section 285, the dismissal of all other claims "simply [does] not render moot the [party's] claims for coercive relief in the form of attorney fees." Knauf, 2004 WL 771257 at *2.[2]

In Knauf, the court concluded that the claim for coercive relief under section 285 "continue[d] to present a live case or controversy arising under federal law," and was "ancillary to a case that ha[d] been within the court's subject matter jurisdiction." Id. Thus, the court retained jurisdiction over the claim for relief under section 285 and had "jurisdiction to make the relevant factual and legal determinations needed to decide the merits of the counterclaim."[3] Id. See also Highway Equipment Co.

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[2] The likely exception, which the Knauf court does not directly address, would seem to be a case where the district court never had subject matter jurisdiction over the underlying case in the first place. That, however, is not an issue that was before the Knauf, court or this Court.

[3] Following its holding that it retained jurisdiction, the Knauf court dismissed without prejudice CertainTeed's counterclaim seeking a declaratory judgment of non-infringement and invalidity. Id. at *3. It then denied CertainTeed's motion for summary judgment on the issue of invalidity as moot. Id.

Inc. v. FECO, Ltd., 2005 WL 936469, *3-4 (N.D. Iowa 2005), appeal docketed, No. 1:03cv00076 (8th Cir. 2005) (holding that court retained subject matter jurisdiction to decide claim for attorney's fees under 35 U.S.C. § 285, notwithstanding covenant not to sue which mooted underlying claims); Matsushita Battery Industrial Co. v. Energy Conversion Devices, Inc.; 1997 WL 811563 (D. Del. 1997) (same).

In Chris-Craft Industries, Inc. v. Monsanto Co., 59 F.R.D. 282 (C.D. Cal. 1973), a patent holder dedicated its patent to the public after the plaintiff sought a declaratory judgment of noninfringement and invalidity. Similar to Knauf, the court held that "[i]nasmuch as the dedication of the patent moots any dispute concerning its validity or infringement, it would seem appropriate for this court to dismiss the present case for want of a justiciable controversy. Such a dismissal does not deprive the court of jurisdiction to award attorney's fees under § 285." Id. at 284. See also Technimark, 14 F. Supp. 2d. at 765-766 (retaining jurisdiction over claim for attorney's fees, despite granting motion to dismiss counterclaim for declaratory judgment of invalidity after patent dedicated to public). In Bioxy, Inc. v. Birko Corp., 935 F. Supp. 737, 744 (E.D.N.C. 1996) and Vardon Golf, Co., Inc., v. Allied Golf Corp., 1995 WL 654137, *2 (N.D. Ill. 1995), patent holders moved to dismiss infringement claims with prejudice pursuant to Rule 41(a) (2). Notwithstanding the courts' dismissal of the defendants' declaratory judgment counterclaims,

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The matter left to be decided was the motion for summary judgment as to whether Knauf had engaged in inequitable conduct in obtaining the patent-in-suit, which was the basis for the claim for attorney's fees under section 285. Id. The court denied the motion on its merits.

the courts held that they retained jurisdiction to decide claims for attorney's fees under 35 U.S.C. § 285. Thus, the weight of authority demonstrates that Samsung's attorney's fee claim survives the Rambus Covenants.

In sum, the intervening mootness caused by the Rambus Covenants did not divest the Court of jurisdiction over Samsung's attorney's fees claims. The section 285 claim is collateral to the action for declaratory judgment, and thus no Article III case or controversy need remain in order to preserve the Court's jurisdiction. Thus, whether analyzed under the rubric of "collateral issues" jurisdiction or that of "coercive relief," it appears quite clear that the Rambus Covenants, and the consequent order dismissing Rambus' counterclaims with prejudice, do not deprive the Court of jurisdiction to decide Samsung's claim for attorney's fees.

B. Rambus' Offer To Pay Samsung's Reasonable Attorney's Fees

The remaining issue is whether the Court is divested of jurisdiction to decide Samsung's attorney's fees claim by Rambus' offer to pay such of Samsung's reasonable' attorney's fees as Samsung can prove that it incurred in this action.[4] Rambus argues that, in making the offer to settle the attorneys fees claim, it has offered full relief to Samsung, thereby mooting the exceptional case and

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[4] Samsung's Response To Rambus's Memorandum On Remaining Issues (Docket No. 77), p. 2 (citing Ex. A to Samsung's Memorandum Outlining The Remaining Proceedings and Issues Requiring Disposition (Docket No. 75) (emphasis added)).

prevailing party issues, as well as the issue as to the quantum of any attorney's fees awarded, notwithstanding the fact that Samsung refused Rambus' offer to settle the attorney's fee claim.

In support of this contention, Rambus cites a string of decisions for the proposition that, when a defendant offers to provide all the relief which the plaintiff demands, or to which the plaintiff is entitled by statute, no Article III case or controversy exists. Without citing any authority that extends this principle to a claim for attorney's fees under section 285, Rambus then proposes a leap of logic to the proposition that an offer to pay attorney's fees "moots" the Court's jurisdiction over Samsung's claim, for attorney's fees pursuant to section 285.

The majority of the decisions cited by Rambus involve offers of judgment under Fed. R. Civ. P. 68 which provides that "a party defending against a claim may serve upon the adverse party an offer to allow judgment to be taken against the defending party for the money or property or to the effect specified in the offer, with costs then accrued." Fed. R. Civ. P. 68. If the offer is not accepted and "the judgment finally obtained by the offeree is not more favorable than the offer," then "the offeree must pay the costs incurred after making the offer." Id. "The plain purpose of Rule 68 is to encourage settlement and avoid litigation. The Rule prompts both parties to a suit to evaluate the risks and costs of litigation, and to balance them against the likelihood of success upon trial on the merits." Marek v. Chesny, 473 U.S. 1, 5, 105 S. Ct. 3012, 3014 (1985) (omitting internal citations). The cost shifting provisions of Rule 68 are intended to induce settlements, but not to strong arm plaintiffs into settling against their better judgment.

Where, however, the defendant has made an offer of judgment for the full amount of relief requested by the plaintiff, or for the maximum statutory amount which the plaintiff could recover, no case or controversy remains with respect to the underlying claim. For example, in Abrams v. Interco, Inc., 719 F.2d 23, 32-33 (2nd Cir. 1983), the court dismissed the plaintiff's antitrust action pursuant to 15 U.S.C. § 1 as moot where the defendant, acting under Rule 68, offered to pay full damages, costs, and attorney's fees. See also Zimmerman v. Bell, 800 F.2d 386, 390 (4th Cir. 1986) (affirming dismissal of underlying securities fraud claim for lack of jurisdiction where defendant offered full amount which plaintiff claimed to be entitled); Rand v. Monsanto Co., 926 F.2d 596, 598 (7th Cir. 1991) (same).[5]

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[5] It is worth noting that the courts dealing with offers of judgment for full relief have failed to reach a uniform outcome as to whether judgment for the plaintiff should be compelled or whether, instead, judgment should be entered in favor of the defendant following a dismissal for lack of subject mater jurisdiction under Rule 12(b)(1). See Abrams, 719 F.2d 23 at 26 (affirming dismissal under Rule 12(b)(1), where district court subsequently ordered parties to settle a judgment and preserved jurisdiction to decide amount of attorney's fees); Zimmerman, 800 F.2d at 390 (affirming district court's dismissal of claims under Rule 12(b)(1), but no indication that judgment for plaintiff compelled); Rand, 926 F.2d at 598. ("Once the defendant offers to satisfy the plaintiff's entire demand, there is no dispute over which to litigate, and a plaintiff who refuses to acknowledge this loses outright, under Fed. R. Civ. P. 12(b)(1), because he has no remaining stake."); Ambalu v. Rosenblatt, 194 F.R.D. 451 (E.D.N.Y. 2000) (holding that plaintiff's "complaint [wa]s dismissed for lack of subject matter jurisdiction and [that] judgment shall be entered against defendant [] in

Whether and how Abrams should apply to Rambus' unaccepted offer to pay reasonable attorney's fees is not immediately apparent. Abrams can be distinguished from this action in three ways: (1) Abrams involved a Rule 68 offer of judgment, whereas Rambus simply made a settlement offer with respect to attorney's fees; (2) the statute providing for attorney's fees in Abrams defined attorney's fees as "costs," whereas the patent statutes separate costs and attorney's fees; and (3) the fee shifting statute in Abrams made attorney's fees mandatory for the prevailing party, whereas 35 U.S.C. § 285 has an "exceptional case" requirement and commits attorney's fees to the discretion of the district court. The next task then is to determine whether any of these distinctions make a difference.

1. Offers of Judgment

The first questions is whether the offer of judgment in Abrams was key to mooting the underlying case or controversy, or rather whether a bare offer to settle would have had the same effect. Rambus, relying on Murphy v. Equifax Check Services, 35 F. Supp. 2d 200 (D. Conn. 1999), argues that its bare offer to settle has the same effect as an offer of judgment. In Murphy, the plaintiff brought an action under the Fair Debt Collection Practices

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accordance with its Rule 68 offer of judgment"); Wilner v. OSI Collection Services Inc., 198 F.R.D. 393, 395 (S.D.N.Y. 2001) ("[T]his court is not aware of any decision by Wilner to accept or reject the offer. However, Wilner must do one or the other, and whether he chooses Door # 1 or Door # 2, the prize is the same. If he accepts OIS' offer, the case is moot. If he declines, the case would be indistinguishable from Ambalu, and I would compel him to accept the offer.").

Act, the court appeared implicitly to assume that, and with respect to mooting the underlying controversy, there is no difference between an offer of judgment for full relief and a settlement offer for full relief.

The defendant in Murphy never acknowledged a violation of the FDCPA, but decided not to litigate in light of the costs and attorney's fees that it would incur. The defendant offered the plaintiff $1,000 (the maximum statutory damages) plus reasonable fees and costs. The court described this as a settlement offer, and there is no indication that there was a formal offer of judgment under Rule 68. The court, citing decisions involving offers of judgment, held that "having been offered the maximum amount of damages which she was entitled to recover under the FDCPA, plus reasonable attorney's fees and costs, plaintiff no longer ha[d] a personal stake in the outcome of th[e] litigation for purposes of meeting the case-or-controversy requirement of Article III, and her complaint against defendant [] should be dismissed."[6] Id. at 203-204.

However, the importance of a formal offer of judgment in the cases on which Murphy relies simply cannot be ignored. "Settlements often do not involve the entry of a judgment against the defendant, as compared to a judgment of dismissal, so that from the plaintiff's perspective the willingness of the

[6] In Murphy, the plaintiff and her counsel had agreed that the counsel would have full authority respecting settlement. The court, in Murphy, stated that this unique arrangement had no effect on its decision. However, it is difficult to ascertain, from the decision, how the plaintiff otherwise could have lost a "personal stake" in the claim for attorney's fees.

defendant to allow judgment to be entered has substantial importance since judgments are enforceable under the power of the court." Wright, Miller & Cooper, 12 Fed. Prac. & Proc. Civ. 2d § 3002. "Indeed, should a settlement not embodied in a judgment come unraveled, the court may be without jurisdiction to proceed in the case, which often becomes a breach of contract action for failure to comply with the settlement agreement." Id. See also Kokkonen v. Guardian Life Ins. Co., 511 U.S. 375 (1994). The enforceability of an offer of settlement is no less important where a plaintiff has been compelled to accept the offer than where the plaintiff faces the prospect of cost-shifting under Rule 68 for rejecting the offer. Except for Murphy, there appears to be no authority for the proposition that a plaintiff can be compelled to accept an offer of settlement absent a formal offer of judgment. And, Murphy simply does not explain how that can be done.

Secondly, the formality of the offer of judgment is important defendants as well. Unlike a typical offer of settlement, which, in most instances, may be withdrawn before acceptance, formal offers of judgment are irrevocable for a ten day period, after which they are deemed withdrawn if not accepted. Wright, Miller & Cooper, 12 Fed. Prac. & Proc. § 3004. See also Richardson v. National Railroad Passenger Corp., 49 F.3d 760, 765 (D.C. Cir. 1995). Under the theory of Murphy, if an offer of settlement for full relief is made, the plaintiff's acceptance is irrelevant, and acceptance of the offer is compulsory. That, of course, would mean that the offer of settlement could not be withdrawn. The notions that a defendant cannot withdraw an unaccepted settlement offer and that-a plaintiff can be compelled to accept a settlement offer is untenable, as contrary to the law of contracts. And, acceptance of those propositions would amount to a judicial amendment of Rule 68. More importantly, it would run afoul of the settled precept that "mere settlement negotiations may not be given the effect of a formal offer of judgment."[7] Clark v. Sims, 28 F.3d 420, 424 (4th Cir. 1994).

Rambus' offer to pay reasonable attorney's fees was not an offer of judgment. It was a mere offer of settlement, which Samsung was free to accept or reject without further consequence. The Court declines Rambus' urging to apply Murphy. Instead, Rambus' offer to settle will be accorded the effect of any other rejected offer to settle by giving it no effect. It certainly will not be construed to deprive the Court of jurisdiction to decide any aspects of Samsung's claim for attorney's fees under 35. U.S.C. § 285.

2. Attorney's Fees As Costs

The next inquiry, in examining the differences between Abrams and this action, is whether the offer of judgment in Abrams resolved the issue of whether, and how, attorney's fees would be awarded. Abrams and its progeny dealt with the mootness of the underlying action, not the claim for attorney's fees. Neither Abrams, nor its progeny, articulated the basis for the awards of attorney's fees that they entered. Hence, it is appropriate to determine whether the offer of judgment mandated an award of

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[7] Indeed, there are other cases dealing with dismissals of actions under the FDCPA for lack of jurisdiction, following offers of full relief, but they involved formal offers of judgment. Wilner, 198 F.R.D. at 395; Ambalu, 194 F.R.D. at 452.

attorney's fees or whether, instead, the offer to pay attorney's fees simply rendered the question moot.

"Rule 68 was intended to refer to all costs properly awardable under the relevant substantive statute or other authority. In other words, all costs properly awardable in an action are to be considered within the scope of Rule 68 'costs.'" Marek, 105 S. Ct. 3016. "[A]bsent congressional expressions to the contrary, where the underlying statute defines 'costs' to include attorney's fees, [] such fees are to be included as costs for purposes of Rule 68." Id. In antitrust actions, 15 U.S.C. § 15 provides that persons injured "by reason of anything forbidden in the antitrust laws . . . shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee." Hence, the offer of judgment in Abrams (an antitrust case) automatically 'incorporated-attorney's fees into costs, without regard to the defendant's offer to pay them.[8]

In Wilner and Ambalu, however, the offer of judgment was made under the FDCPA. Among the damages that can be awarded under the FDCPA are "the costs of the action, together with a reasonable attorney's fee as determined by the court." 15 U.S.C. 1692k (a) (3). The text, "costs of the action, together with a reasonable attorney's fee" (FDCPA) is not significantly different than the text, "cost of suit, including a reasonable attorney's fee" (antitrust, statute). For that reason, and considering that the FDCPA treats costs and attorney's fees in the same

[8] It should also be noted that, under the terms of the antitrust statute, an award of attorney's fees to the prevailing party was mandatory.

statutory provision, it reasonable to conclude that, in the FDCPA, attorney's fees are part of costs.

However, there are decisions that construe attorney's fees not to be a facet of costs under the FDCPA. See Marek, 105 S. Ct. at 3034-3038 (Brennan, J., dissenting); Chambers v. Manning, 169 F.R.D. 5 (D. Conn. 1996) (citing Marek); Shapiro v. Credit Protection Ass'n I, Inc., 53 F. Supp. 2d 626 (S.D.N.Y. 1999) (citing Chambers). That aspect of Marek is found in the heading of a table appended to a dissent. And, neither Chambers nor Shapiro explain the reasoning in support of their terse comments on the matter. Moreover, those courts determined that the offer of judgment had decided the entitlement to an award of attorney's fees, leaving only a determination to be made as to amount. That, of course, suggests that attorney's fees were a component of costs.

There is, however, a more tangible reason to differentiate between an offer of settlement and an offer of judgment. Specifically, an offer of judgment, as previously noted, results in a judgment. That, in turn, can result in a determination of prevailing party status. And, where a statute does not treat attorney's fees as a component of costs, attorney's fees are awardable only if a litigant is a prevailing party. To be a prevailing party, there must be some sort of judicially sanctioned change in the relationship between the parties. Buckhannon Bd. & Care Home Inc. v. West Virginia Dep't of Health & Human Resources, 532 U.S. 598, 605 (2001)).

Offers of judgment, both accepted and compelled, bear significant similarities to consent decrees. "A consent decree, because it is entered as an order of the court, receives court approval and is subject to the oversight attendant to the court's authority to enforce its orders, characteristics not typical of [private] settlement agreements." Smyth v. Rivero, 282 F.3d 268, 281 (4th Cir. 2002). With respect to prevailing party status, a consent decree, "although it is a privately negotiated form of relief and does not always include an admission of liability by the defendant, [] nevertheless involves judicial approval and oversight that may suffice to demonstrate the requisite court-ordered change in the legal relationship between the plaintiff and the defendant." Id. (quoting Buckhannon, 532 U.S. at 604) (omitting internal quotation marks). The compelled acceptance of an offer of judgment is similarly subject to court oversight and enforcement, indicative of the type of court-ordered change that gives rise to prevailing party status.

Thus, when a plaintiff has been compelled to accept an offer of judgment, the prevailing party requirement is satisfied and an award of attorney's fees is permitted where otherwise authorized. The award of attorney's fees by the Wilner and Ambalu courts was appropriate for this reason. In Murphy, the court followed suit even though the compulsion was not occasioned by an offer of judgment. But, in Murphy, the court was not called on to decide whether the plaintiff was a prevailing party. It merely assumed that to be the case.[9]

In sum, there are legally significant differences between judgments entered under Rule 68 and the

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[9] Of course, in this action Rambus has made quite clear that it does not consider Samsung to be a prevailing party and has stated its intention to oppose a fee award on that basis as well.

offer of settlement approach sanctioned by Murphy and urged here by Rambus. Murphy is an outrider that has attracted no following and, for the reasons set forth above, it will not be followed here.

3. Exceptional Case Requirement

It is significant that, in patent cases, attorneys fees are not awarded to all prevailing parties. Indeed, they are permitted only in exceptional cases. A principal purpose of the exceptional case provision is to provide "an award of fees 'where it would be grossly unjust that the winner be left to bear the burden of his own counsel which prevailing litigants normally bear.'" Rambus, Inc. v. Infineon Tech. AG, 155 F. Supp. 2d 668, 673 (E.D. Va. 2001) (emphasis in original) (internal citations omitted). The other principal purpose of the exceptional case provision is to deter bad faith litigation, thereby protecting "litigants, the courts and the judicial process from abuse." To authorize fees under the exceptional case provision, a court must find "'unfairness, bad faith or inequitable conduct on the part of the unsuccessful patentee.'" Id.

These requirements differentiate claims for attorney's fees under section 285 from claims made pursuant to fee-shifting statutes where a prevailing party is entitled to fees simply because the legislature has decided that is an appropriate deviation from the "American rule." For that reason, and because there is a public interest and systemic integrity component to exceptionality, a unilateral, and unaccepted, offer to pay fees in a patent case simply cannot deprive a court of jurisdiction to decide a fee claim under section 285.

Here, Samsung claims that Rambus made its counterclaims in bad faith. Rambus denies that assertion. And, an award of attorney's fees cannot be made until the predicate for finding an exceptional case is resolved. The Court retains jurisdiction to do precisely that, notwithstanding Rambus' unaccepted settlement offer. As the exceptional case issue is presented in this action, it will be necessary to decide some of the issues that also were presented by the claims for declaratory judgment. However, that will be as a function of adjudicating the attorney's fee claims, not of entering a declaratory judgment.

CONCLUSION

For the foregoing reasons, Rambus' Motion to Dismiss is granted in part and denied in part. Samsung's action for declaratory judgment is dismissed without prejudice as moot. The Court will retain jurisdiction to decide Samsung's claim for attorney's fees pursuant to 35 U.S.C. § 285.

The Clerk is directed to send a copy of this Memorandum opinion to all counsel of record.

It is so ORDERED.

/s/ Robert E. Payne
United States District Judge

Richmond, Virginia
Date: November 8, 2005

APPENDIX C

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF VIRGINIA
Richmond Division

[Filed NOV. 8, 2005]

Civil Action No. 3:05cv406

SAMSUNG ELECTRONICS CO., LTD.,
Plaintiff,

v.

RAMBUS INC.,
Defendant.

MEMORANDUM OPINION

Having considered the Motion to Dismiss by Rambus Inc. (Docket No. 60) and the Memorandum In Support of Motion to Dismiss by Rambus Inc. (Docket No. 61), Samsung's Response in Opposition to Rambus Inc.'s Motion to Dismiss (Docket No. 68), and the Reply in Support of Motion by Defendant Rambus Inc. to Dismiss Action (Docket No. 73), as well as discussions of the jurisdictional issues set forth in the parties' submissions on further proceedings (Docket Nos. 75, 76 and 77), and for the reasons set forth in the accompanying Memorandum Opinion, it is hereby ORDERED that the Motion to Dismiss by Rambus Inc. (Docket No. 60) is granted in part and denied in part. Samsung's action for declaratory judgment is dismissed without prejudice as moot. Samsung's claim for attorney's fees pursuant to 35 U.S.C. § 285 is not dismissed.

The Clerk is directed to send a copy of this Order to all counsel of record by facsimile and by regular mail.

It is so ORDERED.

/s/ Robert E. Payne
UNITED STATES DISTRICT JUDGE

Richmond, VA
Date: November 8, 2005

APPENDIX D

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF VIRGINIA Richmond Division

Civil Action No. 3:05cv406

SAMSUNG ELECTRONICS CO., LTD.,
Plaintiff,

v.

RAMBUS INC.,
Defendant.

MEMORANDUM OPINION

Samsung Electronics Co., Ltd. ("Samsung") initiated this action seeking a declaratory judgment against Rambus Inc. ("Rambus"). The matter is now before the Court on SAMSUNG'S MOTION FOR FINDING THAT SAMSUNG IS A PREVAILING PARTY AND THE AWARD OF REASONABLE ATTORNEY'S FEES (Docket No. 87) and Samsung's MOTION FOR FINDING THAT THIS IS AN EXCEPTIONAL CASE AND FOR ATTORNEY'S FEES UNDER 35 U.S.C. § 285 (Docket No. 89).

Samsung asks the Court to impose the sanction of attorney's fees under 35 U.S.C. § 285. Samsung also seeks the imposition of sanctions under the Court's inherent powers. This opinion addresses the contention of Rambus that the Court lacks subject matter jurisdiction to decide Samsung's motion because Rambus has made an offer of judgment to pay Samsung's attorney's fees. For the reasons set forth below, the Court finds that it has subject matter jurisdiction to rule on SAMSUNG'S MOTION FOR FINDING THAT SAMSUNG IS A PREVAILING PARTY AND THE AWARD OF REASONABLE ATTORNEY'S FEES (Docket No. 87) and SAMSUNG'S MOTION TO FIND THIS AN EXCEPTIONAL CASE AND FOR ATTORNEY'S FEES UNDER 35 U.S.C. § 285 (Docket No. 89).

FACTUAL AND PROCEDURAL BACKGROUND

Samsung filed this action seeking a declaratory judgment, inter alia, that four patents held by Rambus are unenforceable by virtue of the doctrines of unclean hands, equitable estoppel, patent misuse, waiver, laches, and laches in the United States Patent and Trademark Office ("PTO"). The patents-in-suit were the same as the four patents-in-suit in Rambus, Inc. v. Infineon Technologies AG, No. CIV. A. 3:00cv524 (E.D. Va.) ("Rambus v. Infineon"): (1) U.S. Pat. No. 5,953,263 ("the '263 Patent"); (2) U.S. Pat. No. 5,954,804 ("the '804 Patent"); (3) U.S. Pat. No. 6,032,214 ("the '214 Patent"); and (4) U.S. Pat. No. 6,034,918 ("the '918 Patent"). Thereafter, Rambus asserted counterclaims against Samsung, alleging infringement of the '263 and the '918 patents.

A. Rambus v. Infineon Litigation

Rambus develops and licenses technology to companies that manufacture semi-conductor memory devices. Its patents are directed to various dynamic random access memory devices ("DRAMs"), Rambus DRAMs ("RDRAMs"), Synchronous Dynamic Random Access Memory ("SDRAM"), and Double Data Rate Synchronous Dynamic Random Access Memory ("DDR-SDRAM"). See Rambus, Inc. v. Infineon Tech.

AG, 164 F. Supp. 2d 743, 747-748 (E.D. Va. 2001). Beginning in early 1998 and continuing through 1999 and 2000, Rambus developed, refined, and implemented a patent licensing and litigation strategy, which was aimed at several specifically identified DRAM manufacturers. Among the targeted DRAM manufacturers were Infineon, Samsung, and Hynix Semiconductor, Inc. ("Hynix").

Pursuant to that strategy, in June 2000, Rambus asserted, in this Court, patent infringement claims against Infineon with respect to the same four patents-in-suit that were at issue in Samsung's action for declaratory judgment. After extensive discovery and issuance of a claim construction opinion, there was a two week trial on Rambus' infringement claims, as well as Infineon's counterclaims. Ultimately, the judgment was appealed to the United States Court of Appeals for the Federal Circuit, which affirmed in part, reversed in part, and remanded for further proceedings. Additional discovery was conducted at that time and, during those proceedings, it was determined that spoliation of documents by Rambus warranted the piercing of Rambus' attorney-client privilege and work product protection. See Rambus, Inc. v. Infineon Tech. AG, 222 F.R.D. at 296-99. Subsequent discovery was permitted on the issue of spoliation and other issues.

In February 2005, a bench trial was held on Infineon's defense of unclean hands, which was based on Rambus' alleged spoliation of evidence and other litigation misconduct. Simultaneously, a corollary evidentiary proceeding was held with respect to spoliation of evidence, for which a sanction of dismissal was requested. At the conclusion of the trial of those issues, the Court ruled from the bench that Infineon had proven, by clear and convincing evidence, that Rambus was liable for unclean hands, thus barring Rambus from enforcing the four patents-in-suit. Additionally, the Court ruled that Infineon had proven, by clear and convincing evidence, that Rambus had spoliated evidence, for which dismissal was the appropriate sanction. Following that ruling, and before the Court issued findings of fact and conclusions of law, Rambus and Infineon settled the case.

B. Background And Procedural History Of This Action

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Samsung and Rambus began to renegotiate the terms of the license agreement in July 2004. As part of those negotiations, the parties discussed a so-called "Standstill Agreement" by which any litigation over the license agreement would be delayed for a year while negotiation continued. However, the negotiations did not go to the liking of Rambus. On June 6, 2005, when Samsung refused to accede to Rambus' demand for a contract provision that would allow Rambus to file litigation first, in the venue of its choice, Rambus terminated the discussions respecting an extension of the license agreement and the license agreement itself. Simultaneously, Rambus filed a patent infringement action against Samsung in the United States District Court for the Northern District of California. See id., at 713-15. In that action, Rambus claimed that Samsung was infringing, inter alia, the '263 and '918 patents, two of the patents-in-suit that were at issue in Rambus v. Infineon and this action.

On June 7, 2005, one day after Rambus brought patent infringement claims against Samsung in the Northern District of California, Samsung filed this action for declaratory judgment, and filed its First Amended Complaint shortly thereafter. See id. at 712. Samsung's complaint and the amended complaint proceeded on the clearly articulated theory that the decision on the spoliation and unclean hands issues in Rambus v. Infineon barred any claim for infringement of the patents-in-suit. On July 12, 2005, Rambus counterclaimed alleging infringement of the '263 and '918 patents, and then moved to transfer this action to the Northern District of California so that Rambus could press those infringement claims there.

On August 5, 2006, Samsung moved for partial summary judgment on the issues of spoliation and unclean hands. Samsung argued that the Court's bench ruling in Rambus v. Infineon with respect to Rambus' spoliation and unclean hands should be given collateral estoppel effect and consequently that the four patents-in-suit were unenforceable. A briefing schedule was set for Samsung's motion for partial summary judgment, and argument was set for September 21, 2005.

C. Covenants Not To Sue

On September 6, 2005, six days before responding to Samsung's motion for partial summary judgment, Rambus filed an "unconditional" and "irrevocable" covenant not to assert patent infringement claims against Samsung with respect to the '804 and '214 patents ("First Covenant"). The First Covenant expressly extended to actions in the International Trade Commission as well. The scope of the First Covenant extended to "any and all methods, processes, and products made, used, offered for sale, sold, or imported by Samsung currently or at any time prior to the date of this covenant." However, the First Covenant did not extend to any other patents held by Rambus, related or unrelated, and Rambus expressly declined to concede the merits of Samsung's allegation that the '804 and '214 patents were unenforceable and invalid.

On September 12, 2005, Rambus filed its opposition to Samsung's motion for partial summary judgment on the theory of unclean hands based on spoliation. On September 13, 2005, Rambus and Samsung stipulated that the First Covenant "eliminates any need for declaratory relief that Samsung may have had with respect to the '804 Patent and the '214 Patent." Stipulation (Docket No. 42). Samsung, however, reserved its right to request that the Court declare the case exceptional and order Rambus to pay Samsung's attorney's fees under 35 U.S.C. § 285. Rambus expressly reserved the right to oppose such relief, and to argue that the First Covenant moots such relief. The stipulation also provided that Samsung's declaratory judgment action with respect to the '804 and '214 patents was to be dismissed without prejudice. On September 14, 2005, Rambus' motion to transfer this action to the Northern District of California was denied. On the same date, counsel were ordered to confer about procedures to expedite the trial of this action and to report the results thereof to the Court on September 21, 2005. On September 20, 2005, Samsung filed its reply brief on its motion for partial summary judgment.

On September 21, 2005, the Court gave notice of its intent to take judicial notice of the record of the spoliation and unclean hands bench trial in Rambus v. Infineon. The hearing on Samsung's motion for partial summary judgment was rescheduled to September 28, 2005.

Also, on September 21, 2005, Mr. John Danforth, Rambus' General Counsel, signed a second covenant not to sue Samsung ("Second Covenant"), this time with respect to the '263 and '918 patents. The Second Covenant was filed with the Court on September 22, 2005. The language in the Second Covenant with respect to the covenant not to sue is identical to the language in the First Covenant. Rambus used the Second Covenant as a vehicle to withdraw its counterclaims in this action as well as its claims against Samsung in the Northern District of California, Rambus Inc. v. Samsung Electronics Co., Ltd., et al., Case No. C-05-02298-RMW (N.D. Cal.), which asserted infringement of the '263 and '918 patents. Rambus' counterclaims in this action were dismissed with prejudice by Order entered on September 28, 2005.

On September 28, 2005, the parties argued Samsung's motion for partial summary judgment. The motion was then submitted for decision.

Contemporaneous with the filing of the Second Covenant, on September 21, 2005, Rambus filed its motion to dismiss Samsung's declaratory judgment action for lack of subject matter jurisdiction under Fed. R. Civ. P. 12(b)(1). Rambus contended that the First and Second Covenants ("Rambus Covenants") moot any case or controversy, thereby depriving the Court of subject matter jurisdiction, including jurisdiction to rule on Samsung's request for attorney's fees.

Notwithstanding its argument on the latter point, on October 3, 2005, Rambus made a written offer to Samsung to pay reasonable attorney's fees incurred by Samsung in this action. In Rambus' view, that offer along with the Rambus Covenants "afford[ed] Samsung all of the relief to which it may otherwise be entitled in this action and therefore moots any further proceedings on the merits of any of Samsung's claims, including its allegations that this action qualifies as an exceptional case entitling Samsung to recover its reasonable attorney's fees."[1] However, in making its settlement offer, Rambus expressly declined to concede the merits of Samsung's allegations. Samsung argued that the Court retained jurisdiction not only to decide whether Samsung was entitled to attorney's fees under 35 U.S.C. § 285 and the Court's inherent power, but also to issue declaratory relief by ruling on Samsung's motion for partial summary judgment.

On November 8, 2005, the declaratory judgment action was dismissed without prejudice as

[1] Reply in Support of Motion by Defendant Rambus, Inc. To Dismiss Action (Docket No. 73), Ex. A (October 3, 2005 letter from Gregory Stone to David Healey).

moot. The motion to dismiss Samsung's claim for attorney's fees was denied. See Samsung Elec. Co. v. Rambus Inc., 398 F. Supp. 2d 470 (E.D. Va. 2005). With respect to Samsung's claim for attorney's fees, the Court then set a schedule for submission of the Rambus v. Infineon record, for briefing the issue of attorney's fees, and for submission of proposed findings of fact and conclusions of law on the issue of exceptionality. A hearing was set for December 15, 2005.

D. Offer of Judgment

On November 29, 2005, Rambus made an offer of judgment to Samsung under Fed. R. Civ. P. 68[2] for the amount of Samsung's attorney's fees of $476,542.30, plus the full amount of any reasonable additional attorney's fees and costs incurred by Samsung in connection with this action after Samsung's November 22, 2005 filing, in which Samsung had specified the amount of attorney's fees it had incurred as of that date. Rambus contends that the offer of judgment moots the issue of attorney's fees, and thus that the Court is divested of

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[2] While Rambus purported to make an offer of judgment with respect to attorney's fees under Fed. R. Civ. P. 68, Rule 68 is inapplicable in this context. The theory of Samsung's claim for attorney's fees is that Rambus acted in bad faith by virtue of spoliation and its assertion of counterclaims for infringement of the '263 and '918 patents after the Court had ruled in Rambus v. Infineon that these patents were unenforceable based on Rambus' unclean hands. Thus, with respect to the claim for attorney's fees, Rambus is the counterclaim plaintiff. The cost-shifting provided for in Rule 68 is limited to offers of judgment made by defendants.

subject matter jurisdiction to rule on the prevailing party and exceptional case issues.

In Samsung's view, Rambus' offer of judgment did not render the attorney's fees claims moot. Samsung argues that the Court should decide the prevailing party and exceptional case issues under 35 U.S.C. § 285. Samsung also argues that the Court has jurisdiction to sanction Rambus under its inherent powers and urges that such sanctions should be imposed.

DISCUSSION

The jurisdictional issues overlap to some extent because, whether under § 285 or under the Court's inherent powers, the basic question is whether the Court retains power to sanction the misconduct of litigants in cases as to which at the outset there undoubtedly was subject matter jurisdiction.

I. ATTORNEY'S FEES AS SANCTIONS

It is first appropriate to assess whether Samsung's request for attorney's fees under 35 U.S.C. § 285, or alternatively under the Court's inherent power, qualifies as a request for sanctions.

Under 35 U.S.C. § 285, "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." The purpose of an award of attorney's fees under § 285 is two-fold. First, an award of fees is designed to "to compensate the prevailing party for its monetary outlays in the prosecution or defense of the suit," Central Soya Co. v. Geo. A. Hormel & Co., 723 F.2d 1573, 1578 (Fed. Cir. 1983), "where it would be *grossly unjust* that the winner be left to bear the burden of his own counsel which prevailing litigants normally bear." Badalamenti v. Dunham's Inc., 896 F.2d 1359, 1364 (Fed. Cir. 1990) (quoting J.P. Stevens Co. v. Lex Tex Ltd., 822 F.2d 1047, 1052 (Fed. Cir. 1987)) (emphasis in original). Additionally, § 285 is designed to deter parties from bringing or prosecuting bad faith litigation, see Mathis v. Spears, 857 F.2d 749, 754 (Fed. Cir. 1988). That, of course, protects litigants, the courts, and the judicial process from abuse.

The exceptional case requirement bears all the hallmarks of a sanction for litigation misconduct. A case is "exceptional," for purposes of § 285, only if the court finds "material inappropriate conduct related to the matter in litigation, such as willful infringement, fraud or inequitable conduct in procuring the patent, misconduct during litigation, vexatious or unjustified litigation, conduct that violates Fed. R. Civ. P. 11, or like infractions." Brooks Furniture Manf'g, Inc. v. Dutailier Int'l, Inc., 393 F.3d 1378, 1381 (Fed. Cir. 2005). Absent this type of misconduct," sanctions may be imposed against the patentee only if both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless." Id. And, indeed, the case law is replete with examples of the Federal Circuit referring to an award of attorney's fees under 35 U.S.C. § 285 as a sanction. See, e.g., Waymark Corp. v. Porta Systems Corp., 334 F.3d 1358, 1362 (Fed. Cir. 2003); State Industries, Inc. v. Mor-Flo Industries, Inc., 948 F.2d 1573, 1577 n.1 (Fed. Cir. 1991).

Likewise, attorney's fees granted under a court's inherent power qualify as sanctions. "It has long been understood that 'certain 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, 7 Cranch 32, 34, 3 L.Ed. 259 (1812)). See also Roadway Express, Inc. v. Piper, 447 U.S.752, 764 (1980). "[A] court may assess attorney's fees when a party has 'acted in bad faith, vexatiously, wantonly, or for oppressive reasons.'" Chambers, 501 U.S. at 45-46 (quoting Alyeska Pipeline Service Co. v. Wilderness Society, 421 U.S. 240, 258-259 (1975)). "[I]f a court finds 'that fraud has been practiced upon it, or that the very temple of justice has been defiled,' it may assess attorney's fees against the responsible party, as it may when a party 'shows bad faith by delaying or disrupting the litigation or by hampering enforcement of a court order.'" Id. at 46 (citing Hutto v. Finney, 437 U.S. 678, 689 n.14 (1978)).

II. JURISDICTION TO IMPOSE SANCTIONS

Neither party cited any authority in which the issue presented here was decided in a sanction proceeding under § 285 or in a patent case involving the inherent judicial power to impose sanctions for misconduct. Independent research has disclosed no case involving a jurisdictional challenge in such a context. Nonetheless, there is authority which supplies guidance in resolving the jurisdictional point raised by Rambus.

For example, the Supreme Court of the United States provided valuable instruction in Cooter & Gell v. Hartmarx Corp., 496 U.S. 384 (1990). There, Hartmarx Corp. filed a breach of contract action against Danik, Inc. and Danik responded by filing an antitrust counterclaim. While that action was under way, Danik filed two additional antitrust complaints against Hartmarx, one of which alleged a nationwide price fixing conspiracy. Hartmarx moved to dismiss the price-fixing case and separately moved for sanctions under Rule 11. Shortly thereafter, Danik filed a notice of dismissal under Rule 41(a)(1)(I).[3] Notwithstanding the voluntary dismissal, the district court entertained the motion for sanctions (attorney's fees) under Rule 11 and, after a hearing, imposed sanctions on Danik and its counsel, Cooter & Gell.

Cooter & Gell argued that the voluntary dismissal of the antitrust claim under Rule 41 deprived the district court of jurisdiction to entertain the request for sanctions or to impose them. The Court of Appeals rejected that argument and so did the Supreme Court, holding that:

> The district court's jurisdiction, invoked by the filing of the underlying complaint, supports consideration of both the merits of the action and the motion for Rule 11 sanctions arising from that filing. As the 'violation of Rule 11 is complete when the paper is filed,' [citation omitted] a voluntary dismissal does not expunge the Rule 11 violation.

Cooter & Gell, 496 U.S. at 395. The Court explained the rationale for that position by describing a request for sanctions (there attorney's fees) under Rule 11 as a collateral issue which a federal court has jurisdiction to resolve, even when the action is no

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[3] The action originally filed by Hartmarx against Danik, in which Danik filed an antitrust counterclaim, was separately resolved in favor of Hartmarx.

longer pending. Id. Indeed, the Court analogized the situation as akin to a proceeding for criminal contempt wherein "a court may make an adjudication of contempt and impose a contempt sanction even after the action in which the contempt arose has been terminated." Id. at 396 (citing United States v. Mineworkers, 330 U.S. 258, 294 (1947) and Gompers v. Buck's Stove and Range Co., 221 U.S. 418, 451 (1911)). And, then the Court held that:

> Like the imposition of costs, attorney's fees, and contempt sanctions, the imposition of a Rule 11 sanction is not a judgment on the merits of an action. Rather, it requires the determination of a collateral issue: whether the attorney has abused the judicial process, and, if so, what sanction would be appropriate. Such a determination may be made after the principal suit has been terminated.

Id.

In reaching this conclusion, the Court underscored that it is important for district courts to retain the capacity to impose sanctions to deal with misconduct (in that case, the filing of a baseless complaint). The Court held:

> Baseless filing puts the machinery of justice in motion, burdening courts and individuals alike with needless expense and delay. Even if the careless litigant quickly dismisses the action, the harm triggering Rule 11's concerns has already occurred. Therefore, a litigant who violates Rule 11 merits sanctions

> even after dismissal. Moreover, the imposition of such sanctions on abusive litigants is useful to deter such misconduct. If a litigant could purge his violation of Rule 11 merely by taking a dismissal, he would lose all incentive to 'stop, think and investigate more carefully before serving and filing papers.'

Cooter & Gell, 496 U.S. at 398 (citations omitted) (emphasis added).

Two years later, the Supreme Court decided Willy v. Coastal Corp., 503 U.S. 131 (1992) wherein the Court was called upon "to decide whether a federal district court may impose sanctions pursuant to Rule 11 of the Federal Rules of Civil Procedure in a case in which the district court is later determined to be without subject matter jurisdiction." Id. at 137. The Court affirmed the decision of the Fifth Circuit that, even in the absence of subject matter jurisdiction in the underlying action, the district court possessed authority to impose Rule 11 sanctions under the inherent powers of the federal courts. In so doing, the Supreme Court held that:

> a final determination of lack of subject matter jurisdiction of a case in a federal court, of course, precludes further adjudication of it. But such a determination does not automatically wipe out all proceedings had in the district court at a time when the district court operated under the misapprehension that it had jurisdiction.

Id. Once again, the Court determined that the imposition of sanctions was a collateral issue, and then held that the resolution of such issues "implicated no constitutional concern because it 'does not signify a district court's assessment of the legal merits of the complaint.' It, therefore, does not raise the issue of a district court adjudicating the merits of a 'case or controversy' over which it lacks jurisdiction." Willy, 503 U.S. 140 (internal citations omitted).

Once again, recognizing the importance of preserving the ability of district courts to impose sanctions on misconduct, the Court explained that "the interest in having the rules of procedure obeyed . . . does not disappear upon a subsequent determination that the court was without subject matter jurisdiction." Id. Accordingly, the Court held that there was "no constitutional infirmity under Article III in requiring those practicing before the courts to conduct themselves in compliance with the applicable procedural rules in the interim, and to allow the courts to impose Rule 11 sanctions in the event of their failure to do so." Id.

Both Willy and Cooter & Gell emphasize that sanction proceedings, whether by way of Rule 11, contempt, the inherent powers of the court, or statute (such as § 285) present collateral issues as to which a district court retains jurisdiction, notwithstanding a dismissal of the underlying case which gave it jurisdiction or even if it did not have subject matter jurisdiction at the outset. And, in both cases, the Supreme Court grounded that conclusion in the need to assure (1) that litigants conduct themselves properly in litigation before the district courts and (2) that the district courts have the power to enforce appropriate conduct by way of sanctions when the litigants deviate from acceptable standards.

The same concerns animated the United States Court of Appeals for the Eighth Circuit in Perkins v. General Motors Corp., 965 F.2d 597 (1992) when it rejected the contention that settlement of the sanctions issue as part of a settlement of the merits rendered the issue of sanctions moot. In Perkins, the court, citing Cooter & Gell and Willy, affirmed an order imposing sanctions, notwithstanding that the parties had settled the underlying case and, as part of the settlement the defendant had joined the plaintiff and her lawyer in moving the court to lift the sanction order. In Perkins, the plaintiff sued General Motors for sexual harassment under federal and state law. After the district court granted summary judgment on the state law claim, there was a lengthy bench trial on the federal claim which was resolved in favor of General Motors. Thereafter, General Motors moved for imposition of sanctions against both the plaintiff and her lawyer. The district court granted the motion for sanctions. The plaintiff was sanctioned under Rule 26(g) and the lawyer was sanctioned under Rule 11, Rule 26(g) and 28 U.S.C. § 1927. As part of the settlement, General Motors agreed not to collect the sanctions and joined the plaintiff in a motion asking the court to vacate the sanctions order, asserting that it was moot for lack of jurisdiction.[4] Having surveyed the decisions of the Supreme Court in Cooter & Gell and Willy, the Eighth Circuit held that it was even more appropriate in Perkins to maintain jurisdiction over the sanction order than it was in either Cooter & Gell

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[4] Such a motion would no longer be possible under the decision of the Supreme Court in U.S. Bancorp Mortgage Co. v. Bonner Mall Partnership, 513 U.S. 18 (1994).

or Willy. In that regard, the Eighth Circuit held that:

> The purpose of sanctions goes beyond reimbursing parties for expenses incurred responding to unjustified or vexatious claims. Rather, sanctions are 'designed to punish a party who has already violated the court's rules.' Willy, 112 U.S. Ct. at 1081. The interest of having rules of procedure obeyed does not disappear merely because an adversary chooses not to collect the sanctions.

Perkins, 965 F.2d at 599. The court also emphasized that the parties could not "bargain away the court's discretion in imposing sanctions and the public's interest in ensuring compliance with the rules of procedure." Id.[5]

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[5] Other courts have taken views contrary to that adopted by the Eighth Circuit, holding that an appeal of an order of sanctions is mooted by a subsequent settlement. Those courts drew a distinction between sanctions made payable to an adversary and those made payable to the clerk of court. See Riverhead Savings Bank v. National Mortgage Equity Corp., 893 F.2d 1109, 1112 (9th Cir. 1990); Kleiner v. First Nat'l Bank of Atlanta, 751 F.2d 1193,1199-1200 (11th Cir. 1985); Clark Equip. Co. v. Lift Parts Mnf'g Co., Inc., 972 F.2d 817, 819 (7th Cir. 1992). Those cases appear to have adopted the taxonomy developed by the Supreme Court indistinguishing between civil and criminal contempt. See, e.g., Gompers v. Buck's Stove & Range Co., 221 U.S. 418 (1911); International Union, United Mine Workers of America v. Bagwell, 512 U.S. 821, 829 (1994). However, these categories were developed in order to determine when a party was entitled to criminal due process, including an

Sanctions issued under § 285 in the form of attorney's fees or sanctions entered under the inherent judicial power, whether attorney's fees or otherwise, are addressed to the informed discretion of the district courts, as guided by the applicable procedural and decisional law. Moreover, an imposition of sanctions, whether under § 285 or the court's inherent powers, is critically important to the ability of district courts to punish misconduct by the parties or counsel. That is particularly so where the misconduct can impose significant costs on the adversary of the offending party and can significantly burden the resources of the judicial system.

As the Supreme Court made clear in Cooter & Gell and Willy, sanctions serve not only to provide some redress to the offended party, but also to serve as a deterrent to protect the courts from abuse by litigants and lawyers alike. If a party that can easily afford to pay its opponent's attorney's fees could divest a court of jurisdiction to impose sanctions for misconduct by making an offer to pay monetary sanctions, there would be little to deter it from taking the risk of engaging in the misconduct in the first place. That result is neither acceptable nor constitutionally necessary under Cooter & Gell, Willy and Perkins. Indeed, those decisions instruct that courts retain the jurisdiction to impose sanctions, even if the underlying litigation or the issue of sanctions is settled because the issue of sanctions is beyond the power of the parties to bargain away. Clearly, under those authorities, a unilateral, unaccepted offer to pay sanctions cannot deprive a

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independent prosecutor and a jury. These categories were not intended to determine when an issue of sanctions has become moot.

court of jurisdiction to assess whether sanctions are called for and, if so, to impose them.[6]

Considering the decisions in Cooter & Gell, Willy and Perkins, the Court concludes that, notwithstanding Rambus' offer to pay Samsung's attorney's fees, it has jurisdiction to determine

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[6] The primary authority on which Rambus relies for its mootness argument is a line of cases that have held that when a defendant makes an offer of judgment for the full amount of relief requested by the plaintiff, or for the maximum statutory amount which the plaintiff could recover, no case or controversy remains with respect to the underlying claim. For example, in Abrams v. Interco, Inc., 719 F.2d 23, 32-33 (2nd Cir. 1983), the Second Circuit affirmed the dismissal of the plaintiff's antitrust action pursuant to 15 U.S.C. § 1 as moot where the defendant, acting under Fed. R. Civ. P. 68, offered to pay full damages, costs, and attorney's fees. See also Zimmerman v. Bell, 800 F.2d 386, 390 (4th Cir. 1986) (affirming dismissal of underlying securities fraud claim for lack of jurisdiction where defendant offered full amount which plaintiff claimed to be entitled); Rand v. Monsanto Co., 926 F.2d 596, 598 (7th Cir. 1991) (same). Those courts have ruled that where a defendant offers judgment for full relief, the plaintiff no longer has a personal stake in the underlying claim, thereby rendering the claim moot. In such a scenario, the party whose claim has been mooted cannot proceed to litigate the merits or seek an advisory opinion from the district court. See Holstein v. City of Chicago, 29 F.3d 1145, 1147 (7th Cir. 1994). Essentially, the defendant is allowing the plaintiff to take the equivalent of a default judgment. See Greisz v. Household Bank (Illinois), N.A., 176 F.3d 1012, 1015 (7th Cir. 1999).

However, none of these cases involved an imposition of sanctions. Even in the cases where the offer of judgment included attorney's fees, the attorney's fees could not be characterized as sanctions. Thus, these cases are not applicable here.

whether sanctions should be imposed under § 285 or under the inherent powers of the Court to regulate the conduct of litigation before it.

CONCLUSION

For the foregoing reasons, Rambus' suggestion that the motion for an exceptional case for attorney's fees be dismissed is rejected. Whether this is an exceptional case and whether Samsung is a prevailing party will be addressed in separate Memorandum Opinions.

The Clerk is directed to send a copy of this Memorandum Opinion to all counsel of record.

It is so ORDERED.

/s/ Robert E. Payne
United States District Judge

Richmond, Virginia
Date: July 18, 2006

APPENDIX E

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF VIRGINIA
Richmond Division

Civil Action No. 3:05cv406

SAMSUNG ELECTRONICS CO., LTD.,
Plaintiff,

v.

RAMBUS INC.,
Defendant.

MEMORANDUM OPINION

Samsung Electronics Co., Ltd. ("Samsung") has moved for an award of attorney's fees against Rambus Inc. ("Rambus"), under 35 U.S.C. § 285 and the Court's inherent power. In deciding whether an award of attorney's fees is appropriate under § 285, it is necessary to determine whether Samsung is a "prevailing party." For the reasons set forth below, the Court finds that Samsung is a prevailing party. Whether Samsung is entitled to attorney's fee is the subject of a separate opinion which resolves SAMSUNG'S MOTION FOR FINDING THAT THIS IS AN EXCEPTIONAL CASE AND FOR ATTORNEY'S FEES UNDER 35 U.S.C. § 285 (Docket No. 89).

FACTUAL AND PROCEDURAL BACKGROUND

Samsung filed this action seeking a declaratory judgment, inter alia, that four patents held by Rambus are unenforceable by virtue of the doctrines of unclean hands, equitable estoppel, patent misuse, waiver, laches, and laches in the United States Patent and Trademark Office ("PTO"). The patents-in-suit were the same as the four patents-in-suit in Rambus, Inc. v. Infineon Technologies AG, No. CIV. A. 3:00cv524 (E.D. Va.) ("Rambus v. Infineon"): (1) U.S. Pat. No. 5,953,263 ("the '263 Patent"); (2)U.S. Pat. No. 5,954,804 ("the '804 Patent"); (3) U.S. Pat. No. 6,032,214 ("the '214 Patent"); and (4) U.S. Pat. No. 6,034,918 ("the '918 Patent"). Rambus asserted counterclaims against Samsung, alleging infringement of the '263 and the '918 patents.

A. Rambus v. Infineon Litigation

Rambus develops and licenses technology to companies that manufacture semi-conductor memory devices. Its patents are directed to various dynamic random access memory devices ("DRAMs"), Rambus DRAMs ("RDRAMs"), Synchronous Dynamic Random Access Memory ("SDRAM"), and Double Data Rate Synchronous Dynamic Random Access Memory ("DDR-SDRAM"). See Rambus, Inc. v. Infineon Tech. AG, 164 F. Supp. 2d 743, 747-748 (E.D. Va. 2001). Beginning in early 1998 and continuing through 1999 and 2000, Rambus developed, refined, and implemented a patent licensing and litigation strategy, which was aimed at several specifically identified DRAM manufacturers. Among the targeted DRAM manufacturers were Infineon, Samsung, and Hynix Semiconductor, Inc. ("Hynix").

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B. Background And Procedural History Of This Action

Also pursuant to its licensing and litigation strategy, and while Rambus was prosecuting its actions against Infineon, Rambus entered license negotiations with Samsung. In October 2000, the parties entered into a license agreement that covered, inter alia, the patents-in-suit in Samsung's action for declaratory judgment. See Samsung Electronics Co., Ltd. v. Rambus Inc., 386 F. Supp. 2d 708, 712 (E.D. Va. 2005). Samsung and Rambus amended that license agreement in 2001 because of developments in the litigation between Rambus and Infineon. See id.

Samsung and Rambus began to renegotiate the terms of the license agreement in July 2004. As part of those negotiations, the parties discussed a so-called "Standstill Agreement" by which any litigation over the license agreement would be delayed for a year while negotiation continued. However, the negotiations did not go to the liking of Rambus. On June 6, 2005, when Samsung refused to accede to Rambus' demand for a contract provision that would allow Rambus to file litigation first, in the venue of its choice, Rambus terminated the discussions respecting an extension of the license agreement and the license agreement itself. Simultaneously, Rambus filed a patent infringement action against Samsung in the United States District Court for the Northern District of California. See id., at 713-15. In that action, Rambus claimed that Samsung was infringing, inter alia, the '263 and the '918 patents that were at issue in Rambus v. Infineon and in this action.

On June 7, 2005, one day after Rambus brought patent infringement claims against Samsung in the Northern District of California, Samsung filed this action for declaratory judgment, and filed its First Amended Complaint shortly thereafter. See id. at 712. Samsung's complaint and the amended complaint proceeded on the clearly articulated theory that the decision on the spoliation and unclean hands issues in Rambus v. Infineon barred any claim for infringement of the patents-in-suit. On July 12, 2005, Rambus counterclaimed alleging infringement of the '263 and '918 patents.

Pursuant to 28 U.S.C. § 1404(a), Rambus also moved to transfer this action to the Northern District of California so that Rambus could press the infringement claims in its chosen venue. At an evidentiary hearing on that motion, it was established that the General Counsel of Rambus had been directed by the company's management to avoid litigation in this district and to assure that Rambus controlled the selection of forum for any litiga tion between Samsung and Rambus. Samsung Electronics Co., Ltd. v. Rambus Inc., 836 F. Supp. 2d 703, 713 (E.D. Va. 2005). Indeed, it was for that reason that Rambus terminated the license renegotiation with Samsung and precipitously sued Samsung in the Northern District of California. Samsung Electronics, 386 F. Supp. 2d at 713, 723.

On August 5, 2006, Samsung moved for partial summary judgment on the issues of spoliation and unclean hands. Samsung argued that the Court's bench ruling in Rambus v. Infineon with respect to Rambus' spoliation and unclean hands should be given collateral estoppel effect and consequently that the four patents-in-suit were unenforceable. A briefing schedule was set for Samsung's motion for partial summary judgment, and argument was set for September 21, 2005.

C. Covenants Not To Sue

On September 6, 2005, six days before responding to Samsung's motion for partial summary judgment, Rambus filed an "unconditional" and "irrevocable" covenant not to assert patent infringement claims against Samsung with respect to the '804 and '214 patents ("First Covenant"). The First Covenant expressly extended to actions in the International Trade Commission as well. The scope of the First Covenant extended to "any and all methods, processes, and products made, used, offered for sale, sold, or imported by Samsung currently or at any time prior to the date of this covenant." However, the First Covenant did not extend to any other patents held by Rambus, related or unrelated, and Rambus expressly declined to concede the merits of Samsung's allegation that the '804 and '214 patents were unenforceable and invalid.

On September 12, 2005, Rambus filed its opposition to Samsung's motion for partial summary judgment on the theory of unclean hands based on spoliation. On September 13, 2005, Rambus and Samsung stipulated that the First Covenant "eliminates any need for declaratory relief that Samsung may have had with respect to the '804 Patent and the '214 Patent." Stipulation (Docket No. 42). Samsung, however, reserved its right to request that the Court declare the case exceptional and order Rambus to pay Samsung's attorney's fees under 35 U.S.C. § 285. Rambus expressly reserved the right to oppose such relief, and to argue that the First

Covenant moots such relief. The stipulation also provided that Samsung's declaratory judgment action with respect to the '804 and '214 patents was to be dismissed without prejudice.

On September 14, 2005, Rambus' motion to transfer this action to the Northern District of California was denied. On the same date, counsel were ordered to confer about procedures to expedite the trial of this action and to report the results thereof to the Court on September 21, 2005. On September 20, 2005, Samsung filed its reply brief on its motion for partial summary judgment.

On September 21, 2005, the Court gave notice of its intent to take judicial notice of the record of the spoliation and unclean hands bench trial in Rambus v. Infineon. The hearing on Samsung's motion for partial summary judgment was rescheduled to September 28, 2005.

Also, on September 21, 2005, Mr. John Danforth, Rambus' General Counsel, signed a second covenant not to sue Samsung ("Second Covenant"), this time with respect to the '263 and '918 patents. The Second Covenant was filed with the Court on September 22, 2005. The language in the Second Covenant with respect to the covenant not to sue is identical to the language in the First Covenant. Rambus used the Second Covenant as a vehicle to withdraw its counterclaims in this action as well as its claims against Samsung in the Northern District of California, Rambus Inc. v. Samsung Electronics Co., Ltd., et al., Case No. C-05-02298-RMW (N.D. Cal.), which asserted infringement of the '263 and '918 patents. Rambus' counterclaims in this action were dismissed with prejudice by Order entered on September 28, 2005.

On September 28, 2005, the parties argued Samsung's motion for partial summary judgment. The motion was then submitted for decision.

Contemporaneous with the filing of the Second Covenant, on September 21, 2005, Rambus filed its motion to dismiss Samsung's declaratory judgment action for lack of subject matter jurisdiction under Fed. R. Civ. P. 12(b)(1). Rambus contended that the First and Second Covenants ("Rambus Covenants") moot any case or controversy, thereby depriving the Court of subject matter jurisdiction, including jurisdiction to rule on Samsung's request for attorney's fees.

Notwithstanding its argument on the latter point, on October 3, 2005, Rambus made a written offer to Samsung to pay reasonable attorney's fees incurred by Samsung in this action. In Rambus' view, that offer along with the Rambus Covenants "afford[ed] Samsung all of the relief to which it may otherwise be entitled in this action and therefore moots any further proceedings on the merits of any of Samsung's claims, including its allegations that this action qualifies as an exceptional case entitling Samsung to recover its reasonable attorney's fees."[1] However, in making its settlement offer, Rambus expressly declined to concede the merits of Samsung's allegations. Samsung argued that the Court retained jurisdiction not only to decide whether Samsung was entitled to attorney's fees under 35 U.S.C. § 285 and the Court's inherent power, but also to issue

[1] Reply in Support of Motion by Defendants Rambus Inc. To Dismiss Action (Docket No. 73), Ex. A (October 3, 2005 letter from Gregory Stone to David Healey).

declaratory relief by ruling on Samsung's motion for partial summary judgment.

On November 8, 2005, the declaratory judgment action was dismissed without prejudice as moot. The motion to dismiss Samsung's claim for attorney's fees was denied. See Samsung Elec. Co. v. Rambus Inc., 398 F. Supp. 2d 470 (E.D. Va. 2005). With respect to Samsung's claim for attorney's fees, the Court then set a schedule for submission of the Rambus v. Infineon record, for briefing the issue of attorney's fees, and for submission of proposed findings of fact and conclusions of law on the issue of exceptionality. A hearing was set for December 15, 2005.

D. Offer of Judgment

On November 29, 2005, Rambus made an offer of judgment to Samsung under Fed. R. Civ. P. 68 for the amount of Samsung's attorney's fees of $476,542.30, plus the full amount of any reasonable additional attorney's fees and costs incurred by Samsung in connection with this action after Samsung's November 22, 2005 filing, in which Samsung had specified the amount of attorney's fees it had incurred as of that date. Rambus argues that its offer of judgment with respect to attorney's fees moots the Court's jurisdiction to decide to impose sanctions under 35 U.S.C. § 285 and the Court's inherent power.

For the reasons set forth in the accompanying Memorandum Opinion (Docket No. 133), the Court finds that Rambus' offer of judgment has not divested the Court of jurisdiction to determine whether sanctions are appropriate in this case. Thus, the

Court must decide whether Samsung is a prevailing party on the facts of this case.

DISCUSSION

Absent statutory authority to the contrary, "[i]n the United States, the prevailing litigant is ordinarily not entitled to collect a reasonable attorneys' fee from the loser." Alyeska Pipeline Service Co. v. Wilderness Society, 421 U.S. 240, 247 (1975). Among the statutory exceptions to what is commonly known as the "American Rule" is 35 U.S.C. § 285, which provides that, in patent cases, "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party."

Samsung contends that "[t]he Court's dismissal of Rambus's counterclaims with prejudice, together with Rambus's covenants-not-to-sue on the patents at issue in this case, made Samsung a prevailing party in relation to the counterclaims."[2] Rambus contends that the dismissal with prejudice and the covenants not to sue do not make Samsung a prevailing party.

I. PREVAILING PARTY REQUIREMENT

The Supreme Court's decision in Buckhannon Bd. and Care Home, Inc. v. W. Va. Dept. of Health and Human Res., 532 U.S. 598 (2001) supplies the principles that control interpretations of statutes using the term "prevailing party." In Buckhannon, the Supreme Court addressed whether the term "prevailing party," a legal term of art employed in

[2] Samsung's Memorandum in Support of Motion for Finding That Samsung is a Prevailing Party and the Award of Reasonable Attorney's Fees (Docket No. 88), page 1.

numerous federal statutes, includes "a party that has failed to secure a judgment on the merits or a court-ordered consent decree, but has nonetheless achieved the desired result because the lawsuit brought about a voluntary change in the defendant's conduct." Id. at 600. The petitioners in Buckhannon contended that they were entitled to attorney's fees under the so-called "catalyst theory," which states that a plaintiff is a "prevailing party," even absent any relief on the merits, if the plaintiff achieves the desired result because the lawsuit precipitated a voluntary change in the defendant's conduct.

Buckhannon Board and Care Home, Inc. ("Buckhannon"), which operated assisted living facilities for the elderly in West Virginia, had failed an inspection by West Virginia's fire marshal because some of its residents were deemed incapable of "self-preservation." Under West Virginia law, all residents in assisted living facilities had to be capable of self-preservation. In other words, the residents had to be capable of removing themselves from situations involving imminent danger, such as a fire. After Buckhannon received a cease and desist letter which required closure of its facilities within 30 days, Buckhannon filed suit on behalf of itself and other assisted living facilities against the State of West Virginia, seeking declaratory and injunctive relief under the Fair Housing Amendments Act (FHAA) and the Americans with Disabilities Act (ADA). Shortly thereafter, in 1998, West Virginia passed legislation eliminating the self-preservation requirement. The State then filed a motion to dismiss the action as moot, which the district court granted. The district court denied the petitioners' motion for attorney's fees under the catalyst theory, in accordance with Fourth Circuit law.[3]

As the Supreme Court noted, Black's Law Dictionary defines a prevailing party as "[a] party in whose favor a judgment is rendered, regardless of the amount of damages awarded." Black's Law Dictionary (8th ed. 2004) (emphasis added). See Buckhannon, 532 U.S. at 603. "[R]espect for ordinary language requires that a plaintiff receive at least some relief on the merits of his claim before he can be said to prevail." Id. (quoting Hewitt v. Helms, 482 U.S. 755, 760 (1987)) (emphasis added). The Court also held that "settlement agreements enforced through a consent decree may serve as the basis for an award of attorney's fees," because they are "a court-ordered change in the legal relationship between the plaintiff and the defendant." Id. at 604 (quoting Texas State Teachers Assn. v. Garland Independent School Dist., 489 U.S. 782,792 (1989)). By contrast, "[p]rivate settlements do not entail the judicial approval and oversight involved in consent decrees." Id. n.7. With those conclusions as background, the Supreme Court explained that its previous decisions had established that "enforceable judgments on the merits and court-ordered consent decrees create the 'material alteration of the legal relationship of the parties' necessary to permit an award of attorney's fees." Id.

However, where a defendant voluntarily changes his conduct, "there is no judicially sanctioned

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[3] While the "catalyst theory" had been accepted in most circuits, the Fourth Circuit had rejected it in S-1 and S-2 v. State Bd. of Education of North Carolina, 21 F.3d 49 (4th Cir. 1994) (en banc).

change in the legal relationship of the parties." Id. at 605. "A defendant's voluntary change in conduct, although perhaps accomplishing what the plaintiff sought to achieve by the lawsuit, lacks the necessary judicial imprimatur on the change." Id. The Buckhannon Court rejected an interpretation of the term "prevailing party" that would authorize "federal courts to award attorney's fees to a plaintiff who, by simply filing a no frivolous but nonetheless potentially meritless lawsuit (it will never be determined), has reached the 'sought-after destination' without obtaining any judicial relief." Id. at 606.

The Supreme Court also has held that "fee-shifting statutes' similar language is 'a strong indication' that they are to be interpreted alike." Independent Federation of Flight Attendants v. Zipes, 491 U.S. 754, 758 n.2 (1989). Thus, it is generally accepted that the Supreme Court's rejection of the catalyst theory and its interpretation of "prevailing party" as a legal term of art should be consistently applied when interpreting all statutes awarding fees to prevailing parties. See, e.g., Goldstein v. Moatz, 445 F.3d 747, 751 (4th Cir. 2006); Smith v. Fitchburg Public Schools, 401 F.3d 16, 22 n.8 (1st Cir. 2005); Alegria v. District of Columbia, 391 F.3d 262, 264 (D.C. Cir. 2004). The Supreme Court tacitly concluded as much in Buckhannon. See Buckhannon, 532 U.S. at 603 n.4. The Federal Circuit has applied the Buckhannon analysis to the prevailing party requirement in 35 U.S.C. § 285.[4]

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[4] Federal Circuit law applies "with respect to issues of substantive patent law and certain procedural issues pertaining to patent law," whereas the law of the regional circuits applies with respect to non-patent issues. Invitrogen Corp. v. Biocrest Mfg., LP, 424 F.3d 1374, 1378-1379 (Fed. Cir. 2005).

See Inland Steel Co. v. LTV Steel Co., 364 F.3d 1318, 1320 (Fed. Cir. 2004). See also Brickwood Contractors, Inc. v. United States, 288 F.3d 1371, 1379 (Fed. Cir. 2002) (extending Buckhannon to the Equal Access to Justice Act).

Following Buckhannon, the Federal Circuit has held that a party seeking attorney's fees as a prevailing party in a government contract case must first demonstrate that "it obtained an enforceable judgment on the merits or a court-ordered consent decree that materially altered the legal relationship between the parties, or the equivalent of either of those." Rice Services, Ltd. v. United States, 405 F.3d 1017, 1025 (Fed. Cir. 2005) (collecting cases for proposition that prevailing party not strictly limited to judgments on the merits and consent decrees). In so holding, the Federal Circuit joined a majority of the circuits in concluding that "judicial action other than a judgment on the merits or a consent decree can support an award of attorney's fees, so long as such action carries with it sufficient judicial imprimatur.[5] Roberson v. Giuliani, 346 F.3d 75, 81

Consequently, Federal Circuit law "governs the substantive interpretation of 35 U.S.C. § 285, which is unique to patent law." Pharmacia & Upjohn Co. v. Mylan Pharmaceuticals, Inc., 182 F.3d 1356, 1359 (Fed. Cir. 1999) (rejecting district court's application of Fourth Circuit standard in interpreting exceptional case requirement under 35 U.S.C. § 285, and applying Federal Circuit law instead).

[5] The Eighth Circuit's decision in Christina A. v. Bloomberg, 5315 F.3d 990, 993 (8th Cir. 2003) has been identified as the sole outlier. In fact, however, the Eighth Circuit has declared that the detractors of Christina A. have "misread that decision as limiting prevailing party status under Buckhannon to those who obtain consent decrees and judgments

(2nd Cir. 2003) (collecting cases). This general construction of Buckhannon is appropriate, considering that Buckhannon identified judgments on the merits and consent decrees as "examples" of the type of court-ordered relief that confers prevailing party status. Buckhannon did not pronounce that only judgments and consent decrees can bestow prevailing party status. See Buckhannon, 532 U.S. at 605 ("We think, however, the 'catalyst theory' falls on the other side of the line from these examples."). The threshold requirement for prevailing party status is "a court order carrying sufficient 'judicial imprimatur' to materially change the legal relationship of the parties." Rice Services, 405 F.3d at 1026.

The foregoing principles in form the assessment of Samsung's contention that the dismissal of Rambus' counterclaims with prejudice following, and in perspective of, the issuance by Rambus of the covenants not to sue is sufficient to confer prevailing party status on Samsung.

1. The Dismissal Of The Counterclaims

The Second Covenant, signed on September 21, 2005, addressed the '263 and the '918 patents, which were the subject of Rambus' counterclaims. The final paragraph of the covenant not to sue stated that, in light of the covenant, Rambus would withdraw its counterclaims in this case as well as its other claims with respect to the '263 and '918 patents, which were then pending in the Northern District of California. Rambus stated that it would file stipulated dis-

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on the merits." See Northern Cheyenne Tribe v. Jackson, 433 F.3d 1083, 1085 n.2 (8th Cir. 2006).

missals of those counterclaims and claims, or, if Samsung would not so stipulate, it would move to dismiss them.

On September 28, 2005, before hearing oral argument on the motion for partial summary judgment, the Court inquired as to whether the parties agreed that the claims and counterclaims should be dismissed. With respect to the counterclaims, the exchange proceeded as follows:

> THE COURT: All right. Have you all talked about dismissing them and do you agree that there is no jurisdiction? I have set briefing on that because I got it. I also think there is a separate order setting briefing on the judicial notice issue. Then I got the covenant not to sue, and I set briefing on that. But if you-all are all in agreement that there is no case or controversy, I see no need to proceed. If there's disagreement over whether there's a case or controversy, and, therefore, the Court has jurisdiction, then, of course, I have jurisdiction to determine jurisdiction and will do so in accord with the schedule I have set.
>
> It seems to me, Mr. Healey, the first question is whether you agree that the counterclaims ought to be dismissed. Do you agree with that? Do you stipulate to that or--

MR. HEALEY: Your Honor, we would agree that Rambus's counterclaims against Samsung should be dismissed.

THE COURT: All right.

MR. HEALEY: We disagree --

THE COURT: How do you believe they ought to be dismissed?

MR. HEALEY: We believe that Rambus's counterclaims against Samsung should be dismissed with prejudice, Your Honor.

THE COURT: Do you agree to dismissal with prejudice, Mr. Stone?

MR. STONE: The effect, Your Honor, in our view, of the covenant not to sue that we filed is that our counterclaim should be dismissed with prejudice.

THE COURT: Well, is there any need for me to wait to dismiss the counterclaims until I have briefing on the jurisdictional issue[6] or can go on and do it now? It's not conditional, it didn't look to me like.

MR. STONE: There's not reason for Your Honor to delay.

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[6] Briefing on the jurisdictional issue was to be directed to subject matter jurisdiction over Samsung's declaratory judgment action.

> MR. HEALEY: You can do it now, Your Honor.
>
> THE COURT: All right.
>
> MR. HEALEY: There's no reason to delay.
>
> THE COURT: So everybody is in agreement that the counterclaims of Rambus filed in this action should be dismissed with prejudice?
>
> MR. HEALEY: Yes, sir.
>
> THE COURT: All right.
>
> MR. STONE: Yes, Your Honor.
>
> THE COURT: An order will be entered and they are dismissed with prejudice. That still leaves us with the declaratory judgment action.

Summary Judgment Tr., 4-6, September 28, 2005.

Therefore, the record shows that although Rambus had stated its position that the counterclaims were moot, that was not the basis for the order dismissing the counterclaims. Indeed, at that point, the Court had not delved into the jurisdictional quagmire created by the covenants not to sue. Moreover, the covenants not to sue mooted Samsung's action for declaratory judgment, not Rambus' counterclaims. The covenants not to sue extinguished the case or controversy with respect to a declaratory judgment of non-infringement and unenforceability, but not with respect to Rambus' infringement claim. If Rambus breached the covenant not to sue by asserting an infringement claim against Samsung on the '263 or '918 patents, its suit would not fail for lack of jurisdiction. Whether the covenant not to sue could be pleaded as an affirmative defense, in addition to forming the basis for a breach of contract action, would have to be litigated, see Adams v. Cavanaugh Communities Corp., 669 F. Supp. 870, 875-876 (N.D. Ill. 1987), but there is no authority for the proposition that a covenant not to sue stands as a jurisdictional bar to bringing a subsequent infringement claim.[7]

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[7] Rambus has attempted to read a contrary holding into the Federal Circuit's decision in Intellectual Property Development, Inc. v. TCI Cablevision of California, Inc., 248 F.3d 1333, 1342 (Fed. Cir. 2001). The Federal Circuit's opinion hardly addresses the infringement claim, but rather focuses on the justiciability of the declaratory judgment counterclaim just as it did in Super Sack Mfg. Corp. v. Chase Packaging Corp., 57 F.3d 1054, 1057 (Fed. Cir. 1995). While the court stated that the "case" turned on the effect of the covenant not to sue rather than the Rule 41(a) dismissal, that statement cannot be extended to the infringement claim. Indeed, the notion that the Federal Circuit held that a covenant not to sue moots an infringement claim is belied by the fact that the court affirmed the dismissal of that claim with prejudice, just as Rambus' counterclaims were dismissed with prejudice. A dismissal for lack of jurisdiction is not a determination on the merits and thus is typically without prejudice. Much of Rambus' argument that Samsung is not a prevailing party relies on its assertion that the counterclaims were dismissed for lack of jurisdiction. Rambus correctly states that a court order dismissing an action for lack of jurisdiction is not an adjudication of the merits, nor is it analogous to a consent decree. See Rice Services, 405 F.3d at 1026. Indeed, if an action is moot, the court has no power to rule on the merits and the dismissal order recognizing mootness

The next question then is whether the dismissal with prejudice constituted a stipulated dismissal pursuant to Fed. R. Civ. P. 41(a)(1)(ii).[8] At the foot of the covenant not to sue on the '263 and the '918 patents, Rambus indicated that this would be its preferred course of action in effectuating the dismissal of the counterclaims, and Rambus argues that the effect of its in-court statements on September 28, 2005 was a stipulated dismissal. However, while Rambus and Samsung agreed at the September 28, 2005 shearing that Rambus' counterclaims should be dismissed with prejudice, the parties did not stipulate to dismissal as required by Rule 41(a)(1)(ii).

Rule 41(a)(1)(ii) states that an action may be dismissed by the plaintiff without order of court "by filing a stipulation of dismissal signed by all the parties who have appeared in the action.[9] Here, the parties clearly agreed that Rambus' counterclaims should be dismissed with prejudice, and did so on the

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cannot materially alter the parties' legal relationship, thereby conferring prevailing party status. See id. at 1027 n.6. However, Rambus' counterclaims were not dismissed for lack of jurisdiction, nor did the covenants not to sue moot Rambus' counterclaims. Consequently, Rice Services is not controlling authority.

[8] Voluntary dismissal under Rule 41(a)(1)(i) was foreclosed on August 2, 2005, when Samsung filed its answer to Rambus' counterclaims.

[9] "The provisions of this rule apply to the dismissal of any counterclaim, cross-claim, or third party claim." Fed. R. Civ. P. 41(c). Thus, the fact that Rambus sought to voluntarily dismiss counterclaims is of no significance to the required analysis.

record, but they did not file a signed stipulation as envisioned by Rule 41(a)(1)(ii).

Several courts have held that "a voluntary, clear, explicit, and unqualified stipulation of dismissal entered into by the parties in court and on the record is enforceable even if the agreement is never reduced to writing, signed, or filed, as contemplated by Fed. R. Civ. P. 41(a)." Role v. Eureka Lodge No.434, I.A. of M & A.W. AFL-CIO, 402 F.3d 314, 318 (2nd Cir. 2005). See also Oswalt v. Scripto, Inc., 616 F.2d 191, 195 (5th Cir. 1980) (noting and reaffirming its prior approval of "a district court's finding that an oral dismissal of claims against defendants in the course of a trial was sufficient to constitute a dismissal under Rule 41(a)(1) even though there was no formal dismissal or stipulation filed with the clerk."); Carter v. Beverly Hills Save.& Loan Ass'n, 884 F.2d 1186, 1191 (9th Cir. 1989) ("The requirements of this subsection may be met either by filing a written stipulation or by making an oral stipulation in open court."); Pipelines Local Union No. 798, Tulsa, Okla. v. Eller, 503 F.2d 1193, 1199-1200 (10th Cir. 1974); Maxus Energy Corp. and Subsidiaries v. United States, 31 F.3d 1135, 1146 n.3 (Fed. Cir. 1994); Boran v. United Migrant Opportunity Services, Inc., 99 Fed. Appx. 64, 66-67 (7th Cir. 2004). The Fourth Circuit took note of this line of cases in Camacho v. Mancuso, 53 F.3d 48, 51 (4th Cir. 1995), but it has never held that an oral stipulation in open court can form the basis for a stipulated dismissal pursuant to Rule 41(a)(1)(ii), in lieu of the stated formalities.[10]

In Camacho, the Fourth Circuit noted that, if it were to take a "purely mechanistic approach" to interpreting Rule 41, its inquiry would end with the fact that the plaintiff in that case had not signed and filed a stipulation of dismissal, as the language of Rule 41(a)(1)(ii) plainly requires. Id. The court noted that "[n]otwithstanding the appeal of a bright-line test, a number of courts have rejected such a rigid approach to interpreting the rules," and "have liberally interpreted Rule 41(a)(1)(ii) to hold that, in the absence of a written stipulation signed by the parties and filed with the court, an oral stipulation before the court is sufficient to meet the requirements of Rule 41(a)(1)(ii)." Id. "The idea behind these decisions, of course, is that when a stipulation is made to the court, the presiding judge has the opportunity to ensure that both parties agreed to the dismissal as per the intent of Rule 41(a)(1)(ii)." Id.

The defendants in Camacho urged the Fourth Circuit to interpret Rule 41(a)(1)(ii) even more liberally than the courts sanctioning oral stipulations. In Camacho, the parties had agreed to dismiss the case in a telephone conversation, but only the plaintiffs' counsel signed the notice of dismissal. Consequently, the district court held that the stipulated dismissal was ineffective and agreed to reopen the case upon the plaintiffs' motion. The Fourth Circuit found that, while giving effect to the

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[10] Regional circuit law governs the effect of an oral stipulation in open court, and whether it satisfies the requirements of Rule 41(a)(1)(ii).

notice of dismissal in that case would not have frustrated the parties' original intent, it nonetheless would have compromised in future cases "the interests that Rule 41's procedural hurdles safeguard: the defendant's interest in the cause of action and the court's interest in judicial efficiency." Id. Specifically, the Fourth Circuit noted that Rule 41(a)(1)(ii) might become a vehicle for unilateral dismissals, in direct conflict with the express intent of Rule 41(a)(1)(i). Additionally, the entry of dismissal on the docket aids in the application of the doctrine of res judicata and allows district courts to track the size and status of their dockets. See id. at 52. Consequently, the Fourth Circuit held that "Rule 41(a)(1)(ii) requires tangible confirmation of the parties' agreement to dismiss." Id.

The question then is whether the required tangible confirmation is a signed and filed stipulation, as the face of the rule requires, or whether an oral stipulation in open court will suffice. The Fourth Circuit declined to offer dictum in Camacho, and the language in Camacho is alternately skeptical of and receptive to such an approach.

As the Fourth Circuit has held, "the Federal Rules of Civil Procedure indicate a policy to disregard technicalities and form and to determine the rights of litigants on the merits. To that end these rules are to be liberally construed." Holley Coal Co. v. Globe Indemnity Co., 186 F.2d 291, 295 (1950). See also Fed. R. Civ. P. 1 (stating that the Rules "shall be construed and administered to secure the just, speedy, and inexpensive determination of every action."). However, the Federal Rules of Civil Procedure have the force and effect of law, and the

Supreme Court has made clear that district courts are bound by the canons of statutory construction in interpreting them. See Business Guides, Inc. v. Chromatic Communications Enterprises, Inc., 498 U.S. 533, 540 (1991). Consequently, the Rules must be given their plain meaning, and the "inquiry is complete if [the Court] find[s] the text of the Rule to be clear and unambiguous." See id. at 540-541. See also Pavelic & LeFlore v. Marvel Entertainment Group, 493 U.S. 120, 123 (1989); Thorn v. Jefferson-Pilot Life Ins. Co., 445 F.3d 311, 331 (4th Cir. 2006). Thus, courts must achieve a delicate balance between a liberal construction of the Rules and fidelity to the plain meaning of the Rules. A guiding principle rather uniformly applied by the Supreme Court is that "[t]he Federal Rules of Civil Procedure should be liberally construed, but they should not be expanded by disregarding plainly expressed limitations." Schlagenhauf v. Holder, 379 U.S. 104, 121 (1964).

It is indisputable that Rule 41(a)(1)(ii) clearly and unambiguously requires that a stipulated dismissal must be signed and filed with the court. This is the plain meaning of the unambiguous text of Rule 41(a)(1)(ii), and thus the inquiry ends there. Rather than being "purely mechanistic," this application of settled precepts of construction simply gives the plain meaning of Rule 41(a)(1)(ii) its stated effect. The plain meaning of Rule 41(a)(1)(ii) forecloses the liberal construction adopted by a number of courts, in allowing dismissals based on oral stipulations in open court. See Negron v. City of Miami Beach, Florida, 113 F.3d 1563, 1571 (11th Cir. 1997) (rejecting argument that oral stipulation in open court would be sufficient for dismissal under Rule 41(a)(1)(ii), and affirming dismissal pursuant to Rule 41(a)(2)). But see In re Furlong, 885 F.2d 815, 818 (11th Cir. 1989) (Eleventh Circuit held that, if parties had represented to the court that the case had been settled, the "spirit" of Rule 41(a)(1)(ii) would have been satisfied).

Moreover, allowing dismissals based on oral stipulations in open court would present concerns similar to those that occupied the Fourth Circuit's attention in Camacho: the defendant's interest in the cause of action and the court's interest in judicial efficiency. While the courts allowing oral stipulations in open court recite that these stipulations must be clear, explicit, and unqualified, history certainly teaches that two parties can attach widely divergent significance to in-court statements. While the statements would be on the record, in situations like this one, courts would be placed in the position of having to interpret a party's intent after the fact and could even be embroiled as a witness in the ascertainment of their intent. The likelihood of disputes over the effect of in-court statements is amplified by the fact that Rule 41(a)(1)(ii) dismissals do not require a court order. As a result, there is no official confirmation for the parties as to whether their in-court statements resulted in the dismissal of the action. Likewise, while courts would be on notice that the parties may have stipulated to dismissal, the status of cases on their docket would necessarily remain uncertain. The concerns at issue with respect to oral stipulations are identical to the concerns animating statutes of frauds. Indeed, the formalities exist for a reason. As the Fourth Circuit noted, "the requirement that a stipulation be filed in court 'is not merely a technicality.'" Camacho, 53 F.3d at 51 (quoting McCall-Bey v. Franzen, 777 F.2d 1178, 1185 (7th Cir. 1985)).

Consequently, the Court must give Rule 41(a)(1)(ii) its plain meaning, and the plain meaning of Rule 41(a)(1)(ii) clearly requires that a stipulation of dismissal under the rule must be signed by all the parties and filed with the court. An oral stipulation in open court is neither an adequate replacement for assigned and filed stipulation, nor is it permitted by a faithful reading of the rule. The parties easily could have signed and filed a stipulated dismissal, which is hardly an arduous task, but chose not to do so. Thus, the statements by Rambus and Samsung on September 28, 2005, in agreeing that the counterclaims should be dismissed with prejudice, did not constitute a stipulated dismissal under Rule 41(a)(1)(ii).

Rambus indicated in its covenant not to sue that, if Samsung would not stipulate to dismissal, it would move for dismissal. The alternative to a voluntary dismissal without court order under Rule 41(a)(1) is a voluntary dismissal by virtue of court order under Rule 41(a)(2):

> Except as provided in paragraph (1) of this subdivision of this rule, an action shall not be dismissed at the plaintiff's instance <u>save upon order of the court and upon such terms and conditions as the court deems proper</u> . . . Unless otherwise specified in the order, a dismissal under this paragraph is without prejudice.

While Rule 41(a)(2) clearly requires a court order, the face of the rule mandates no further formalities. Rambus provided notice of its intent to seek dismissal of its counterclaims in the covenant not to sue, and then requested it orally in open court. As a matter of practice, a request for a voluntary dismissal under Rule 41(a)(2) is to be the subject of a formal motion. And, oral motions on the record are appropriate when presented during hearing or at trial. See 8 Moore's Federal Practice § 41.40(a) (Matthew Bender 3ed. 2006); Kenrose Mfg. v. Fred Whitaker Co., 53 F.R.D. 491, 493-495 (W.D. Va. 1971), aff'd, 512 F.2d 890 (4th Cir. 1992). Rambus made its request for dismissal orally in open court, and the Court granted the request after confirming Samsung's agreement to the dismissal, upon the condition that it was with prejudice. The Court effectuated the voluntary dismissal by court order, as required by Rule 41(a)(2). Thus, Rambus' counterclaims were voluntarily dismissed under Rule 41(a)(2), and will be treated as such for purposes of the prevailing party analysis.

2. Rule 41(a)(2) Dismissals

The dispositive question then is whether the voluntary dismissal under Rule 41(a)(2) had sufficient judicial imprimatur for a material change in the legal relationship between the parties to confer prevailing party status on Samsung.

"The purpose of Rule 41(a)(2) is freely to allow voluntary dismissals unless the parties will be unfairly prejudiced. To fulfill this purpose, Rule 41(a)(2) requires a court order as a prerequisite to dismissal and permits the district court to impose conditions on voluntary dismissal to obviate any prejudice to the defendants which may otherwise result from dismissal without prejudice." Davis v. USX Corp., 819 F.2d 1270, 1273 (4th Cir. 1987) (omitting internal citations). The decision whether to grant a dismissal under Rule 41(a)(2) is committed to the discretion of the district court, as are the necessary terms and conditions. Further, "[i]n considering a motion for voluntary dismissal, the district court must focus primarily on protecting the interests of the defendant." Id. A voluntary dismissal with prejudice operates as an adjudication on the merits of the case. Fed. R. Civ. P. 41(a). In Semtek Intern. Inc. v. Lockheed Martin Corp., 531 U.S. 497, 506 (2001), the Supreme Court held that a dismissal with prejudice under Rule 41(a) bars the refiling in the same court of the action that is dismissed with prejudice. The Court also held that a dismissal with prejudice under Rule 41 is not a judgment on the merits of the sort that is entitled to claim preclusive effect (a point that is not at issue here). Thus, under Semtek, a dismissal with prejudice under Rule 41, while not a judgment on the merits for purposes of claim preclusion, effectuates a material alteration in the legal relationship between the party which benefits from the prejudicial dismissal and the party which has its claim dismissed with prejudice. In this case, the order dismissing Rambus' counterclaims with prejudice bars Rambus from asserting those claims ever again against Samsung in the Eastern District of Virginia. And, to that extent, the dismissal is a judgment on the merits against Rambus and in favor of Samsung. In any event, the dismissal certainly alters the legal relationship between Samsung and Rambus, notwithstanding that, under Semtek, the order is not entitled to preclusive effect elsewhere.

Moreover, the order dismissing Rambus' counterclaims with prejudice is analogous to a consent decree, a court order which undoubtedly carries sufficient judicial oversight in materially altering the parties' legal relationship. For that additional reason, the order here confers prevailing party status on Samsung.

In Smyth v. Rivero, the Fourth Circuit examined the basis for the distinction in Buckhannon between consent decrees and purely private settlements. The Court of Appeals began by noting the hybrid nature of consent decrees, which incorporate elements of both judgment and contract:

> a consent decree embodies an agreement of the parties and thus in some respects is contractual in nature. But it is an agreement that the parties desire and expect will be reflected in, and be enforceable as, a judicial decree that is subject to the rules generally applicable to other judgments and decrees

Smyth, 282 F.3d at 280 (quoting Rufo v. Inmates of the Suffolk County Jail, 502 U.S. 367, 378 (1992)). Additionally,"[t]he parties to a consent decree expect and achieve a continuing basis of jurisdiction to enforce the terms of the resolution of their case in the court entering the order." Id. More importantly, however, "a court entering a consent decree must examine its terms to ensure they are fair and not unlawful." Id. (citing United States v. Miami, 664 F.2d 435, 439-40 (5th Cir. 1981) (en banc) (concurring opinion of Rubin, J., joined by Brown, Anderson, Randall, and Thomas A. Clark, JJ.)).

Private settlements, in contrast, do not receive judicial approval. "Nor is a private settlement agreement enforceable by a district court as an order of the court unless the obligation to comply with its terms is 'made part of the order of dismissal -- either by separate provision (such as a provision 'retaining jurisdiction' over the settlement agreement) or by incorporating the terms of the settlement agreement in the order." Id. at 280-281 (quoting Kokkonen v. Guardian Life Ins. Co. of Am., 511 U.S. 375, 381 (1994)). "A consent decree, because it is entered as an order of the court, receives court approval and is subject to the oversight attendant to the court's authority to enforce its orders, characteristics not typical of settlement agreements." Id. at 281.

A voluntary dismissal under Rule 41(a)(2) bears considerable similarity to a consent decree. Unlike a stipulated dismissal, to which the parties have an absolute right, a Rule 41(a)(2) dismissal is committed to the discretion of the district court. In exercising that discretion, district courts can impose terms and conditions on the plaintiff in order to obviate any prejudice to the defendant. Those terms and conditions materially alter the legal relationship between the parties in an effort to protect the defendant from prejudice as a result of the dismissal. For example, the court can: (a) condition dismissal on the plaintiff's payment of costs; (b) impose a condition restricting the forum in which the plaintiff may refile the claim; (c) require the plaintiff to (or not to) use existing discovery in any refiled action; and (d) require the plaintiff to produce additional discovery. See 8 Moore's Federal Practice § 41.40(10). Of course, the ultimate condition that the court can impose on the voluntary dismissal is that the dismissal be with prejudice.[11] See id.; Andes v.

[11] Some courts have held that district courts lack discretion to deny a Rule 41(a)(2) dismissal when the plaintiff seeks dismissal with prejudice. See Smoot v. Fox, 340 F.2d 301,

Versant Corp., 788 F.2d 1033, 1037 (4th Cir. 1986) (noting that when court conditions dismissal on it being with prejudice, court must give plaintiff an opportunity to reject condition and proceed to judgment on merits).

A number of courts, both before and after the Supreme Court's decision in Buckhannon, have recognized that a voluntary dismissal under Rule 41(a)(2) can confer prevailing party status.[12] In

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303 (6th Cir. 1964); Shepard v. Egan, 767 F. Supp. 1158, 1165 (D. Mass. 1990). However, the better approach is that adopted by the Tenth Circuit, which has rejected such a blanket rule given that a dismissal with prejudice might still have an adverse effect on the defendant or other parties to the litigation. See County of Sante Fe v. Public Services Co. of N.M., 311 F.3d 1031, 1049 (10th Cir. 2002). Moreover, the Supreme Court stated in Semtek Int'l, Inc. v. Lockheed Martin Corp., 531 U.S. 497, 505 (2002), that a dismissal with prejudice under Rule 41 generally has "the consequence of not barring the claim from other courts," but rather refiling in the district court that issued the dismissal with prejudice. If a dismissal with prejudice under Rule 41 is not sufficient for claim preclusion, then there are myriad circumstances under which even a dismissal with prejudice would prejudice the defendant. Consequently, the district court has discretion in determining whether to grant a Rule 41(a)(2) dismissal.

[12] Some of the decisions holding that a voluntary dismissal with prejudice confers prevailing party status have noted the resjudicata defense among the reasons for reaching that conclusion. After the Supreme Court's holding in Semtek, there would seem to be considerable doubt as to whether a voluntary dismissal with prejudice can be imbued with claim preclusive effect outside the court that issues the dismissal order, though only a few courts appear to have noted the significance of the Supreme Court's dictumin Semtek. However, Buckhannon focuses on whether or not the judicial order

Bryant v. MV Transportation, Inc., 231 F.R.D. 480, 482 (E.D. Va. 2005), the court explained that:

> While a voluntary dismissal under Rule 41(a)(1)(ii) is effective with little to no court involvement, the court plays a significant role in resolving a case that is dismissed under Rule 41(a)(2). A voluntary dismissal under Rule 41(a)(2) is not valid unless the parties obtain a court order. The plaintiff must move the court, in writing, to dismiss the action. The court has the discretion to approve or disapprove of the motion, and hence constitutes the determining factor as to whether the case is dismissed. The court also has the authority to impose conditions on the moving party, thereby shaping the terms of the dismissal . . . Thus, a Rule 41(a)(2) dismissal has the 'judicial imprimatur' and 'judicially sanctioned' relief lacking in a Rule 41(a)(1)(ii) dismissal.

See also Claiborne v. Wisdom, 414 F.3d 715, 719 (7th Cir. 2005) (holding that voluntary dismissal with prejudice effects a material alteration of the parties' legal relationship); Inland Steel, 364 at 1321 (holding that voluntary dismissal with prejudice after cancellation of patent-in-suit by Patent and

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materially alters the legal relationship between the parties. There can be no doubt that a dismissal with prejudice, in precluding a plaintiff from reasserting its claim in the court issuing the dismissal, materially alters the legal relationship between the parties.

Trademark Office bestowed prevailing party status); 10 Moore's Federal Practice § 54.171(3)(c)(iv).[13]

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[13] Nevertheless, some courts have found that a voluntary dismissal with prejudice is insufficient to confer prevailing party status. See, e.g., Marquart v. Lodge 837, Int'l Ass'n of Machinists & Aerospace Workers, 26 F.3d 842, 852 (8th cir. 1994). In Bridgeport Music, Inc. v. London Music, U.K., 345 F. Supp. 2d 836,838-839 (M.D. Tenn. 2004), the court rejected the reasoning employed by the court in United States v. Estate of Rogers, 2003 WL21212749, *5 (E.D. Tenn. 2003), which held that a Rule 41(a)(2) dismissal was a judicially sanctioned material alteration in the legal relationship of the parties. The Bridgeport court stated that a Rule 41(a)(2) dismissal provides nothing more than the finality and res judicata bar to further litigation obtained as a result of a private settlement and stipulated dismissal, and thus that a voluntary dismissal was not sufficient to render a defendant a prevailing party. However, the Bridgeport court failed to account for the discretion and oversight exercised by the court in determining whether to grant the dismissal and under what terms and conditions.

In Dean v. Riser, 240 F.3d 505, 511 (5th Cir. 2001) (addressing prevailing party in context of 42 U.S.C. § 1988), the Fifth Circuit held that a defendant is not a prevailing party following voluntary dismissal unless the defendant can demonstrate that the plaintiff withdrew to avoid an unfavorable judgment on the merits. The Federal Circuit took note of this authority in Inland Steel, though it did not expressly adopt it. Regardless, the record in this case is more than sufficient to conclude that Rambus sought a voluntary dismissal in order to avoid an unfavorable judgment on the merits. Since the litigation between Rambus and Samsung began, Rambus has attempted every possible means to extract itself from the Eastern District of Virginia in order to avoid further adverse consequences from the unclean hands and spoliation ruling in Rambus v. Infineon. Indeed, the record reflects that the official policy of Rambus, as of June 2005, was to avoid litigation with

And, indeed, in Callaway Golf Co. v. Slazenger, 384 F. Supp. 2d 735, 745-746 (D. Del. 2005), the district court addressed a prevailing party claim under 35 U.S.C. § 285 with a similar procedural history to that reflected in this case. In Callaway, the plaintiff voluntarily dismissed its patent infringement claim and signed a covenant not to sue. In return, the defendant agreed to dismiss its counterclaim for declaratory judgment without prejudice. The court held that the plaintiff's voluntary dismissal of the patent infringement claim conferred prevailing party status on the defendant.[14] See id. (citing Bioxy,

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Samsung in the Eastern District of Virginia. See Samsung Electronics Co., Ltd. v. Rambus Inc., 386 F. Supp. 2d 708, 713 (E.D. Va. 2005).

[14] Samsung has pointed to a number of post-Buckhannon cases which hold that the dismissal of a claim with prejudice is a judgment on the merits and thereby confers prevailing party status on the defendant for purposes of awarding costs under Fed. R. Civ. P. 54(d). See, e.g., Mother and Father v. Cassidy, 338 F.3d 704, 708 (7th Cir. 2003); Beer v. John Hancock Life Ins. Co., 211 F.R.D. 67, 70 (N.D.N.Y. 2002). The standard for prevailing party under Rule 54(d) and under the fee-shifting statutes is generally the same when the question is considered by a court. See Tunison v. Continental Airlines Corp., Inc., 162 F.3d 1187, 1189-1190 (D.C. Cir. 1998); Broccoli v. Echostar Communications Corp., 229 F.R.D. 506, 515 (D. Md. 2005). See also 10 Moore's Federal Practice § 54.101(3) (noting that clerk of court will generally employ a simple judgment-winner test in assessing costs). In fact, the Federal Circuit follows its own law in determining prevailing party status under Rule 54(d), in the interest of "establishing a single definition of prevailing party in the context of patent litigation." Manildra Milling Corp. v. Ogilvie Mills, Inc., 76 F.3d 1178, 1182 (Fed. Cir. 1996). However, it does not appear that the post-Buckhannon decisions (cited by Samsung and otherwise) assessing prevailing party status under Rule 54(d) have

Inc. v. Birko Corp., 935 F. Supp. 737, 744 (E.D.N.C. 1996)). The procedural history and posture of this case are not materially different than in Callaway, and the decision in Callaway lends further support to the authorities which hold that a dismissal with prejudice under Rule 41(a)(2) places sufficient judicial imprimatur on a change in legal relationships to confer prevailing party status.

Samsung's agreement that Rambus' counterclaims should be dismissed with prejudice confirmed for the Court that the imposition of such a condition on the Rule 41(a)(2) dismissal was sufficient to protect Samsung's interests. When courts exercise their discretion in granting Rule 41(a)(2) dismissals, and impose the term and condition of prejudice on that dismissal, this is the equivalent of a consent decree for prevailing defendants.[15] Otherwise, it would seem that a defendant could only become a prevailing party by proceeding to a judgment on the merits. A Rule 41(a)(2) dismissal is a court order that materially alters the legal relationship between the parties. It is only granted after the court

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uniformly relied on the Supreme Court's guidance in Buckhannon. Consequently, the Court has not relied on these cases.

[15] A number of courts have concluded that a dismissal without prejudice is insufficient to make a defendant a prevailing party because the plaintiff can refile the complaint. See, e.g., Szabo Food Service, Inc. v. Canteen Corp., 823 F.2d 1073, 1076-1077 (7th Cir. 1987). However, these courts did not focus upon the nature of the terms and conditions that district courts can impose upon the dismissal of a complaint. In many cases, conditions short of a dismissal with prejudice may be sufficient to confer prevailing party status. The Court need not decide that question, however, as it is not presented in this case.

exercises its discretion, and thus bears the necessary judicial imprimatur. The necessary conclusion then is that the voluntary dismissal with prejudice in this case made Samsung the prevailing party under 35 U.S.C. § 285.[16]

II. INHERENT POWER SANCTIONS

Because Samsung is a prevailing party, the Court must now determine whether this is an exceptional case in order to determine whether attorney's fees under 35 U.S.C. § 285 are appropriate. However, it should be noted that Samsung has also moved the Court to impose sanctions on Rambus under its inherent power. Courts may impose sanctions under their inherent power when a litigant has acted in bad faith, vexatiously, wantonly, or for oppressive reasons. See Chambers v. NASCO, Inc., 501 U.S. 32 (1991). Even if the Court had found that Samsung was not a prevailing party, it would nevertheless be necessary to consider whether the spoliation of evidence alleged by Samsung qualified as bad faith litigation, thereby permitting inherent power sanctions.

The Supreme Court held in Chambers that, like Rule 11 sanctions, "the imposition of sanctions under the bad-faith exception depends not on which party wins the lawsuit, but on how the parties conduct themselves during the litigation." Id. at 53. See also Square Construction Co. v. Washington Metropolitan Area Transit Authority, 800 F.2d 1267

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[16] That is especially so where, as here, the dismissal with prejudice reinforces a covenant not to sue which itself has effectuated a change, albeit without court order, in the legal relationship between the parties.

(4th Cir. 1986) (imposing sanction of attorney's fees on prevailing party for "obdurate, obstinate, and vexatious conduct."); Lisping v. National Student Marketing Corp., 663 F.2d 178, 182 (D.C. Cir. 1980) ("[E]ven a winner may have to pay obstinacy fees."); 10 Moore's Federal Practice §54.171(2)(c)(iv) ("[W]hen a prevailing party has been guilty of bad faith in some discrete portion of the litigation, fees may be assessed against that prevailing party under the bad faith exception."). Thus, the Court must consider whether the record in this case establishes that Rambus spoliated evidence and otherwise litigated in bad faith by asserting its counterclaims.

CONCLUSION

For the foregoing reasons, the Court finds that Samsung is a prevailing party under 35 U.S.C. § 285, and that, in any event, there quest for sanctions under the inherent powers necessitates a decision as to whether Rambus spoliated evidence and conducted litigation in bad faith by pressing its counterclaims. Those issues are addressed in separate opinion.

The Clerk is directed to send a copy of this Memorandum Opinion to all counsel of record.

It is so ORDERED.

/s/

Robert E. Payne
United States District Judge

Richmond, Virginia
Date: July 18, 2006

APPENDIX F

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF VIRGINIA Richmond Division

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Civil Action No. 3:05cv406

SAMSUNG ELECTRONICS CO., LTD.,
Plaintiff,

v.

RAMBUS INC.,
Defendant.

MEMORANDUM OPINION

Samsung Electronics Co., Ltd. ("Samsung") has moved for an award of attorney's fees against Rambus Inc. ("Rambus"), under 35 U.S.C. § 285 and the Court's inherent power. In deciding whether an award of attorney's fees is appropriate under § 285, it is necessary to determine whether this is an exceptional case. For the reasons set forth below, the Court finds that this is an exceptional case, but that an award of attorney's fees to Samsung is not appropriate under either § 285 or the Court's inherent power.

FACTUAL AND PROCEDURAL BACKGROUND

Samsung filed this action seeking a declaratory judgment, inter alia, that four patents held by Rambus are unenforceable by virtue of the doctrines of unclean hands, equitable estoppel, patent misuse, waiver, laches, and laches in the United States Patent and Trademark Office ("PTO"). The patents-in-suit were the same as the four patents-in-suit in

Rambus, Inc. v. Infineon Technologies AG, No. CIV. A. 3:00cv524 (E.D. Va.) ("Rambus v. Infineon"): (1) U.S. Pat. No. 5,953,263 ("the '263 Patent"); (2) U.S. Pat. No. 5,954,804 ("the '804 Patent"); (3) U.S. Pat. No. 6,032,214 ("the '214 Patent"); and (4) U.S. Pat. No. 6,034,918 ("the '918 Patent"). Rambus asserted counterclaims against Samsung, alleging infringement of the '263 and the '918 patents.

A. Rambus v. Infineon Litigation

Rambus develops and licenses technology to companies that manufacture semi-conductor memory devices. Its patents are directed to various dynamic random access memory devices ("DRAMs"), Rambus DRAMs ("RDRAMs"), Synchronous Dynamic Random Access Memory ("SDRAM"), and Double Data Rate Synchronous Dynamic Random Access Memory ("DDR-SDRAM"). See Rambus, Inc. v. Infineon Tech. AG, 164 F. Supp. 2d 743, 747-48 (E.D. Va. 2001). Beginning in early 1998 and continuing through 1999 and 2000, Rambus developed, refined, and implemented a patent licensing and litigation strategy, which was aimed at several specifically identified DRAM manufacturers. Among the targeted DRAM manufacturers were Infineon, Samsung, and Hynix Semiconductor, Inc. ("Hynix").

Pursuant to that strategy, in June 2000, Rambus asserted, in this Court, patent infringement claims against Infineon with respect to the same four patents-in-suit that were at issue in Samsung's action for declaratory judgment. After extensive discovery and issuance of a claim construction opinion, there was a two week trial on Rambus' infringement claims, as well as Infineon's counterclaims. Ultimately, the judgment was appealed to the United States Court of Appeals for the Federal Circuit, which affirmed in part, reversed in part, and remanded for further proceedings. Additional discovery was conducted at that time and, during those proceedings, it was determined that spoliation of documents by Rambus warranted the piercing of Rambus' attorney-client privilege and work product protection. See Rambus, Inc. v. Infineon Tech. AG, 222 F.R.D. at 296-99. Subsequent discovery was permitted on the issue of spoliation and other issues.

In February 2005, a bench trial was held on Infineon's defense of unclean hands, which was based on Rambus' alleged spoliation of evidence and other litigation misconduct. Simultaneously, a corollary evidentiary proceeding was held with respect to spoliation of evidence, for which a sanction of dismissal was requested. At the conclusion of the trial of those issues, the Court ruled from the bench that Infineon had proven, by clear and convincing evidence, that Rambus was liable for unclean hands, thus barring Rambus from enforcing the four patents-in-suit. Additionally, the Court ruled that Infineon had proven, by clear and convincing evidence, that Rambus had spoliated evidence, for which dismissal was the appropriate sanction. Following that ruling, and before the Court issued findings of fact and conclusions of law, Rambus and Infineon settled the case.

B. Background And Procedural History Of This Action

Also pursuant to its licensing and litigation strategy, and while Rambus was prosecuting its actions against Infineon, Rambus entered license negotiations with Samsung. In October 2000, the parties entered into a license agreement that covered, inter alia, the patents-in-suit in Samsung's action for declaratory judgment. See Samsung Electronics Co., Ltd. v. Rambus Inc., 386 F. Supp. 2d 708, 712 (E.D. Va. 2005). Samsung and Rambus amended that license agreement in 2001 because of developments in the litigation between Rambus and Infineon. See id.

Samsung and Rambus began to renegotiate the terms of the license agreement in July 2004. As part of those negotiations, the parties discussed a so-called "Standstill Agreement" by which any litigation over the license agreement would be delayed for a year while negotiation continued. However, the negotiations did not go to the liking of Rambus. On June 6, 2005, when Samsung refused to accede to Rambus' demand for a contract provision that would allow Rambus to file litigation first in the venue of its choice, Rambus terminated the discussions respecting an extension of the license agreement and the license agreement itself. Simultaneously, Rambus filed a patent infringement action against Samsung in the United States District Court for the Northern District of California. See id., at 713-15. In that action, Rambus claimed that Samsung was infringing, inter alia, the '263 and '918 patents that were at issue in Rambus v. Infineon and in this action.

On June 7, 2005, one day after Rambus brought patent infringement claims against Samsung in the Northern District of California, Samsung filed this action for declaratory judgment, and filed its First Amended Complaint shortly thereafter. See id. at 712. Samsung's complaint and the amended complaint proceeded on the clearly articulated theory that the decision on the spoliation and unclean hands issues in Rambus v. Infineon barred any claim for infringement of the patents-in-suit. On July 12, 2005, Rambus counterclaimed alleging infringement of the ’263 and ’918 patents.

Pursuant to 28 U.S.C. § 1404(a), Rambus also moved to transfer this action to the Northern District of California so that Rambus could press the infringement claims in its chosen venue. At an evidentiary hearing on that motion, it was established that the General Counsel of Rambus had been directed by the company’s management to avoid litigation in this district and to assure that Rambus controlled the selection of forum for any litigation between Samsung and Rambus. Samsung Electronics Co., Ltd. v. Rambus Inc., 836 F. Supp. 2d 703, 713 (E.D. Va. 2005). Indeed, it was for that reason that Rambus terminated the license renegotiation with Samsung and precipitously sued Samsung in the Northern District of California. Samsung Electronics, 386 F. Supp. 2d at 713, 723.

On August 5, 2006, Samsung moved for partial summary judgment on the issues of spoliation and unclean hands. Samsung argued that the Court’s bench ruling in Rambus v. Infineon with respect to Rambus’ spoliation and unclean hands should be given collateral estoppel effect and consequently that the four patents-in-suit were unenforceable. A briefing schedule was set for Samsung’s motion for partial summary judgment, and argument was set for September 21, 2005.

C. Covenants Not To Sue

On September 6, 2005, six days before responding to Samsung’s motion for partial summary judgment, Rambus filed an “unconditional” and "irrevocable" covenant not to assert patent infringement claims against Samsung with respect to the '804 and '214 patents ("First Covenant"). The First Covenant expressly extended to actions in the International Trade Commission as well. The scope of the First Covenant extended to "any and all methods, processes, and products made, used, offered for sale, sold, or imported by Samsung currently or at any time prior to the date of this covenant." However, the First Covenant did not extend to any other patents held by Rambus, related or unrelated, and Rambus expressly declined to concede the merits of Samsung's allegation that the '804 and '214 patents were unenforceable and invalid.

On September 12, 2005, Rambus filed its opposition to Samsung's motion for partial summary judgment on the theory of unclean hands based on spoliation. On September 13, 2005, Rambus and Samsung stipulated that the First Covenant "eliminates any need for declaratory relief that Samsung may have had with respect to the '804 Patent and the '214 Patent." Stipulation (Docket No. 42). Samsung, however, reserved its right to request that the Court declare the case exceptional and order Rambus to pay Samsung's attorney's fees under 35 U.S.C. § 285. Rambus expressly reserved the right to oppose such relief, and to argue that the First Covenant moots such relief. The stipulation also provided that Samsung's declaratory judgment action with respect to the '804 and '214 patents was to be dismissed without prejudice.

On September 14, 2005, Rambus' motion to transfer this action to the Northern District of California was denied. On the same date, counsel were ordered to confer about procedures to expedite the trial of this action and to report the results thereof to the Court on September 21, 2005. On September 20, 2005, Samsung filed its reply brief on its motion for partial summary judgment.

On September 21, 2005, the Court gave notice of its intent to take judicial notice of the record of the spoliation and unclean hands bench trial in Rambus v. Infineon. The hearing on Samsung's motion for partial summary judgment was rescheduled to September 28, 2005.

Also, on September 21, 2005, Mr. John Danforth, Rambus' General Counsel, signed a second covenant not to sue Samsung ("Second Covenant"), this time with respect to the '263 and '918 patents. The Second Covenant was filed with the Court on September 22, 2005. The language in the Second Covenant with respect to the covenant not to sue is identical to the language in the First Covenant. Rambus used the Second Covenant as a vehicle to withdraw its counterclaims in this action as well as its claims against Samsung in the Northern District of California, Rambus Inc. v. Samsung Electronics Co., Ltd., et al., Case No. C-05-02298-RMW (N.D. Cal.), which asserted infringement of the '263 and '918 patents. Rambus' counterclaims in this action were dismissed with prejudice by Order entered on September 28, 2005.

On September 28, 2005, the parties argued Samsung's motion for partial summary judgment. The motion was then submitted for decision.

Contemporaneous with the filing of the Second Covenant, on September 21, 2005, Rambus filed its motion to dismiss Samsung's declaratory judgment action for lack of subject matter jurisdiction under

Fed. R. Civ. P. 12(b)(1). Rambus contended that the First and Second Covenants ("Rambus Covenants") moot any case or controversy, thereby depriving the Court of subject matter jurisdiction, including jurisdiction to rule on Samsung's request for attorney's fees.

Notwithstanding its argument on the latter point, on October 3, 2005, Rambus made a written offer to Samsung to pay reasonable attorney's fees incurred by Samsung in this action. In Rambus' view, that offer along with the Rambus Covenants "afford[ed] Samsung all of the relief to which it may otherwise be entitled in this action and therefore moots any further proceedings on the merits of any of Samsung's claims, including its allegations that this action qualifies as an exceptional case entitling Samsung to recover its reasonable attorney's fees."[1] However, in making its settlement offer, Rambus expressly declined to concede the merits of Samsung's allegations. Samsung argued that the Court retained jurisdiction not only to decide whether Samsung was entitled to payment of attorney's fees under 35 U.S.C. § 285 and the Court's inherent powers, but also to issue declaratory relief by ruling on Samsung's motion for partial summary judgment.

On November 8, 2005, the declaratory judgment action was dismissed without prejudice as moot. The motion to dismiss Samsung's claim for attorney's fees was denied. See Samsung Elec. Co. v. Rambus Inc., 398 F. Supp. 2d 470 (E.D. Va. 2005).

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[1] Reply In Support of Motion by Defendant Rambus Inc. To Dismiss Action (Docket No. 73), Ex. A (October 3, 2005 letter from Gregory Stone to David Healey).

With respect to Samsung's claim for attorney's fees, the Court then set a schedule for submission of the Rambus v. Infineon record, for briefing the issue of attorney's fees, and for submission of proposed findings of fact and conclusions of law on the issue of exceptionality. A hearing was set for December 15, 2005.

D. Offer of Judgment

On November 29, 2005, Rambus made an offer of judgment to Samsung under Fed. R. Civ. P. 68 for the amount of Samsung's attorney's fees of $476,542.30, plus the full amount of any reasonable additional attorney's fees and costs incurred by Samsung in connection with this action after Samsung's November 22, 2005 filing, in which Samsung had specified the amount of attorney's fees it had incurred as of that date. Rambus argues that its offer of judgment with respect to attorney's fees moots the Court's jurisdiction to decide to impose sanctions under 35 U.S.C. § 285 and the Court's inherent power. For the reasons set forth in the accompanying Memorandum Opinion (Docket No. 133), the Court finds that Rambus' offer of judgment has not divested the Court of jurisdiction to determine whether sanctions are appropriate in this case.

Additionally, for the reasons set forth in the accompanying Memorandum Opinion (Docket No. 134), the Court finds that Samsung is a prevailing party under § 285. Thus, there remains for decision whether this is an exceptional case, and whether an award of attorney's fees under § 285 or the Court's inherent power is appropriate.

DISCUSSION

I. EXCEPTIONAL CASE

A. Standard

"The determination of whether a case is exceptional and, thus, eligible for an award of attorney fees under § 285 is a two-step process." Cybor Corp. v. FAS Technologies, Inc., 138 F.3d 1448, 1460 (Fed. Cir. 1998). It is first necessary to determine whether exceptionality has been proved by clear and convincing evidence. If the case is determined to be exceptional, then it is necessary to assess whether it is appropriate to impose the sanction of attorney's fees. See id.

An award of attorney's fees under § 285 serves two purposes. First, it "compensate[s] the prevailing party for its monetary outlays in the prosecution or defense of the suit," Central Soya Co. v. Geo. A. Hormel & Co., 723 F.2d 1573, 1578 (Fed. Cir. 1983), "where it would be grossly unjust that the winner be left to bear the burden of his own counsel which prevailing litigants normally bear." Badalamenti v. Dunham's Inc., 896 F.2d 1359, 1364 (Fed. Cir. 1990) (quoting J.P. Stevens Co. v. Lex Tex Ltd., 822 F.2d 1047, 1052 (Fed. Cir. 1987)) (emphasis in original). Second, and of equal, if not greater, importance, the sanction serves to deter parties from bringing or prosecuting bad faith litigation, see Mathis v. Spears, 857 F.2d 749, 754 (Fed. Cir. 1988). The sanction thus protects litigants, the courts, and the judicial process from abuse.

"A case may be deemed exceptional when there has been some material inappropriate conduct related to the matter in litigation, such as willful infringement, fraud or inequitable conduct in procuring the patent, misconduct during litigation, vexatious or unjustified litigation, conduct that violates Fed. R. Civ. P. 11, or like infractions." Brooks Furniture Manf'g, Inc. v. Dutailier Int'l, Inc., 393 F.3d 1378, 1381 (Fed. Cir. 2005) (emphasis added). However, "[a]bsent misconduct in conduct of the litigation or in securing the patent, sanctions may be imposed against the patentee only if both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless." Id. (citing Professional Real Estate Investors v. Columbia Pictures Industries, 508 U.S. 49, 60-61 (1993) (defining "sham" litigation)). The Federal Circuit has declined to expand the scope of exceptional cases to include "a patentee's bad-faith business conduct toward an accused infringer prior to litigation." Forest Laboratories, Inc. v. Abbott Laboratories, 339 F.3d 1324, 1329 (Fed. Cir. 2003).

Samsung contends that this is an exceptional case for two reasons. First, Samsung argues that Rambus engaged in the spoliation of evidence as part of its plans for litigation against the DRAM industry, including Samsung. Indeed, Rambus was found to have done precisely that in Rambus v. Infineon. Based in part on that spoliation, Rambus was found in that case to have had unclean hands that barred enforcement against Infineon of the two patents-in-suit in Rambus' counterclaims.[2] For the reasons

[2] In Rambus v. Infineon, the grounds for the unclean hands defense also included the use of false testimony given by Rambus executives, abuse of the discovery process, and other discovery violations. That misconduct was not part of Samsung's unclean hands theory in this case. Rather, Samsung's theory was based only on Rambus' spoliation of evidence.

outlined in full in Part II, the Court finds that Rambus did in fact spoliate evidence relevant to the patent infringement claims in its counterclaims and at a time when Rambus anticipated litigation with DRAM manufacturers generally and Samsung specifically.

Second, Samsung contends that Rambus engaged in misconduct by gaming the system when it filed counterclaims alleging infringement of the patents-in-suit, enforcement of which had been barred by the findings of spoliation and unclean hands in Rambus v. Infineon. According to Samsung's second theory of exceptionality, Rambus had no intention of ever litigating its counterclaims in this forum. Samsung charges that Rambus has attempted to game the court system by asserting the counterclaims merely to bolster its argument for transferring this action (including Samsung's action for declaratory judgment) to the Northern District of California, where Rambus had already asserted infringement claims with respect to the same two patents.[3] After the motion to transfer was denied and the motion for partial summary judgment had been fully briefed, Rambus provided covenants not to sue with respect to the '263 and '918 patents and voluntarily dismissed its counterclaims with prejudice. Samsung contends that this was an attempt to manipulate the court system, thus providing an

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[3] Rambus filed an action in the Northern District of California one day before Samsung filed this action. See Samsung Electronics Co., Ltd. v. Rambus Inc., 386 F. Supp. 2d 708 (E.D. Va. 2005). That conduct was part of a forum manipulation scheme in which Rambus engaged to avoid litigation against Samsung in this district. Id. at 713, 722-23.

independent basis for treating this case as exceptional.

B. Pre-Filing Spoliation As A Basis For Exceptionality

The first question that must be addressed is whether the spoliation alleged by Samsung, which occurred several years before Rambus filed its counterclaims, constitutes misconduct in the conduct of the litigation within the meaning of Brooks Furniture. According to Rambus, intentional spoliation of evidence that occurs before the commencement of litigation, which is marked by the filing of the relevant claim (here Rambus' counterclaim), does not constitute misconduct *during* the litigation, or, "misconduct in conduct of litigation," as the Federal Circuit put it in Forest Laboratories. Consequently, Rambus asserts that Samsung must satisfy the exceptional case standard for vexatious or unjustified litigation set forth by the Federal Circuit in Brooks Furniture. Thus, Rambus argues that Samsung must prove that Rambus filed its counterclaims in subjective bad faith and that the counterclaims were objectively baseless in order to demonstrate exceptionality under § 285. See Brooks Furniture, 393 F.3d at 1381. Given that the parties have framed the applicable legal standard so differently, the Court must first decide whether the intentional destruction of discoverable evidence at a time when the party anticipated litigation, or reasonably should have anticipated litigation, constitutes misconduct during litigation, notwithstanding the fact that no claim has been filed at the time of spoliation.

Rambus' argument, that pre-filing spoliation can only support an exceptional case finding if its counterclaims amounted to sham litigation, requires a tortured reading of Forest Laboratories, the decision on which Rambus principally relies. In Forest Laboratories, ONY, Inc. and Forest Laboratories, Inc. sought a declaratory judgment of noninfringement and invalidity of two patents, to which Abbott held an exclusive license. Abbott and the patent holder counterclaimed for infringement of the two patents. After trial, the district court awarded the plaintiffs a judgment of noninfringement as a matter of law and held that the defendants were equitably estopped from asserting infringement of the patents against the plaintiffs. The district court found that Abbott had, in bad faith, misled ONY and Forest to believe that it would not assert infringement of the two patents, by encouraging the continued development of the allegedly infringing product and by neglecting to inform the plaintiffs of possible infringement. Based on the conduct underlying the equitable estoppel finding and its determination that Abbott had pursued its counterclaims with reckless disregard for the facts, the district court found the case to be exceptional and awarded attorney's fees to the plaintiffs under § 285.

The Federal Circuit reversed the finding of exceptionality, holding that bad faith business conduct toward an accused infringer prior to litigation was not the sort of misconduct on which a court could ground an exceptional case finding. While the Federal Circuit acknowledged that such conduct might support a finding of equitable estoppel, it declined to extend "the consequences to include attorney fees under the rubric of exceptional case." Forest Laboratories, 339 F.3d at 1329. From that holding, Rambus attempts to extrapolate the general proposition that no misconduct that occurs prior to the filing of a claim, other than inequitable conduct in the procurement of a patent, can form the basis of an exceptional case finding. Rambus' broad reading of the holding in Forest Laboratories strains the Federal Circuit's language far beyond its logical import.

In fact, the Federal Circuit has yet to rule on the question whether pre-filing spoliation of evidence in anticipation of litigation constitutes litigation misconduct that can form the basis for a finding of exceptionality. However, in Molins PLC v. Textron, Inc., 48 F.3d 1172 (Fed. Cir. 1995), the Federal Circuit confronted such a scenario, and did not overturn the district court's finding that pre-filing document destruction constituted litigation misconduct. In Molins, the district court held that the plaintiff's patents were unenforceable as a result of inequitable conduct before the Patent and Trademark Office. The court awarded attorney's fees under § 285, finding the case to be exceptional as a result of the plaintiff's inequitable conduct before the PTO and as a result of the plaintiff's litigation misconduct. With respect to litigation misconduct, the district court found that employees of the plaintiff had destroyed records pertaining to the prosecution of one of the patents after the plaintiff had begun contemplating litigation, thereby "precluding any potential defendant from conducting full and fair discovery." See id. at 1186. According to the plaintiff, the destroyed records were abandoned foreign patent files.

The Federal Circuit noted that "[c]ompanies are entitled to maintain file destruction programs without being found to have improperly destroyed evidence," but deferred to the district court's judgment as to whether the "destruction was part of an established and legitimate records disposal program." Id. District courts are "in the best position to monitor parties' litigation conduct," and are "the most injured by misconduct at the pretrial and trial stages." Id. (quoting Rolls Royce Ltd. v. GTE Valeron Corp., 800 F.2d 1101, 1111 (Fed. Cir. 1986)). The Molins court found no clear error in the district court's findings of litigation misconduct, but because it had reversed some of the district court's findings with respect to inequitable conduct before the PTO, the Federal Circuit remanded the case to the district court to reassess the award of attorney's fees. The Federal Circuit directed the district court to reconsider its exceptional case finding and award of attorney's fees in light of these holdings.[4]

Given the Federal Circuit's remand and the subsequent settlement, Molins is certainly not controlling precedent. However, Rambus unduly minimizes the effect of Molins. Rambus contends that, at best, Molins supports the proposition that a district court may consider pre-filing spoliation in determining whether the patentee's infringement claims were brought in subjective bad faith and were objectively baseless. However, the Federal Circuit's decision cannot be read to foreclose a district court's reliance on pre-filing spoliation in considering misconduct during the litigation. Moreover, the court certainly did not hold that spoliation could be the basis for a finding of exceptionality only on a finding that the litigation was vexatious or unjustified. Indeed, the Federal Circuit's mandate to the district court expressed no concerns or hesitation with

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[4] On remand, the parties apparently were able to reach a settlement and stipulated to dismissal with prejudice.

respect to grounding an exceptional case finding on a plaintiff's pre-filing destruction of evidence at a time when the plaintiff contemplated litigation. And, one might reasonably conclude from the Federal Circuit's discussion that pre-filing spoliation would constitute litigation misconduct that could support a finding of exceptionality.

In fact, Judge Nies dissented in part on the view that remand was unnecessary because the plaintiff's "destruction of documents, which outright precluded full and fair discovery," was itself the kind of action that warrants "an award of attorneys fees in the interests of justice and the fair allocation of the burdens of litigation." Id. at 1192 (Nies, J., dissenting in part). The majority simply considered remand to be the more prudent course in light of the fact that it had reversed one of the other grounds on which the district court had rested the exceptional case finding.

It is important to place the Federal Circuit's decision in Brooks Furniture in its proper context by recalling that the Brooks Furniture test was based on the Supreme Court's definition of sham litigation in Professional Real Estate Investors. It follows that the Federal Circuit's aim was to formulate a test to guide exceptional case determinations when the sole ground asserted for exceptionality is vexatious or unjustified litigation.[5] It defies common sense, how-

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[5] The Federal Circuit has emphasized repeatedly that "[a]lthough the trial judge may exercise his discretion to award attorney fees and costs because of inequitable conduct during prosecution of the patent or misconduct during litigation, attorney fees are not to be routinely assessed against a losing party in litigation[,] in order to avoid penalizing a party for

ever, to extend the Federal Circuit's pronouncement with respect to vexatious or unjustified litigation in Brooks Furniture to pre-filing litigation misconduct. There is no logic to Rambus' proposed rule that sanctions may be imposed under § 285 for pre-filing litigation misconduct only if that misconduct meets the standard for sham litigation.

In reality, parties often contemplate and plan litigation long before the filing of a claim. As the district court found in Molins, pre-filing destruction of evidence can preclude any potential defendant from a full and fair opportunity to conduct discovery crucial to the defense of a patent infringement claim. To allow a party, which was anticipating litigation, to avoid sanctions under § 285 because it had the foresight to commit the spoliation of evidence before filing its infringement claim would be utterly irrational and would defeat the very purpose for which the judicial system condemns spoliation of evidence.

The judicial abhorrence of spoliation is based on the need to protect the integrity of the judicial system. As the Fourth Circuit has clearly explained, "[t]he policy underlying [the spoliation doctrine] is the need to preserve the integrity of the judicial process in order to retain [society's] confidence that the process works to uncover truth." Silvestri v.

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merely defending or prosecuting a lawsuit." McNeil-PPC, Inc. v. L. Perrigo Co., 337 F.3d 1362, 1372 (Fed. Cir. 2003) (quoting Revlon, Inc. v. Carson Products Co., 803 F.2d 676 (Fed. Cir. 1986)). As the Federal Circuit has recognized, Congress had no intention of discouraging patent holders and licensees from vigorously enforcing their patent rights.

General Motors Corp., 217 F.3d 583, 590 (4th Cir. 2001). This is not mere hyperbole. The "[d]estruction of evidence undermines two important goals of the judicial system--truth and fairness." Lawrence B. Solam & Stephen J. Marzen, Truth & Uncertainty: Legal Control of Destruction of Evidence, 36 Emory L.J. 1085, 1138 (1987). As the authors so accurately observe:

> Evidence destruction impedes the search for truth because it creates inaccuracy if the fact of destruction is unknown and uncertainty if the fact of destruction is revealed. Destruction of evidence is unfair because it potentially creates inequality of access to information.

Id. at 1138.

It is difficult to imagine conduct that is more worthy of being considered litigation misconduct or more worthy of sanction than spoliation of evidence in anticipation of litigation because that conduct frustrates, sometimes completely, the search for truth. And, it creates extra expense in the judicial process in the effort to uncover that which has been destroyed. The rule urged by Rambus--that the sanction of an attorney's fees award cannot be imposed if the spoliation precedes anticipated litigation--would rightly hold the judicial system up to scorn and ridicule.

Thus, the Court finds that where a patentee has destroyed evidence before the filing of an infringement claim, but at a time when the patentee anticipated, or reasonably should have anticipated, litigation, that spoliation constitutes misconduct during the litigation within the meaning of Brooks Furniture, which after all permits a finding of exceptionality "when there has been some material inappropriate conduct related to the matter in litigation." Brooks Furniture, 393 F.3d at 1381. It is nonsensical to assert that the fees incurred by Rambus' litigation targets in dealing with those issues cannot be awarded (if they are otherwise awardable) merely because Rambus destroyed the evidence before it engaged in litigation. Nothing in Brooks Furniture or Forest Laboratories suggests that the Federal Circuit has countenanced such a result. Thus, it is not appropriate to employ the standard for a finding of sham litigation where the ground asserted for the exceptional case finding is pre-filing spoliation in anticipation of litigation.

Consequently, it is necessary for the Court to examine whether the record supports a finding of spoliation against Rambus in regard to its anticipation of litigation with Samsung, and if so whether that spoliation makes this an exceptional case.

II. LITIGATION MISCONDUCT

A. The Record Respecting The Spoliation Issue

The issue respecting the alleged spoliation of evidence by Rambus has been fully developed in discovery in two cases: Rambus v. Infineon and Hynix Semiconductor, Inc. v. Rambus Inc., No. CC-00-20905, United States District Court for the Northern District of California ("Hynix v. Rambus"). In each case, there has been a complete trial involving scores of witnesses and hundreds of exhibits. Samsung eschewed further discovery on the issue whether Rambus engaged in the spoliation of evidence, choosing instead to rely on the record from the trial of the spoliation and unclean hands issues in Rambus v. Infineon. Rambus opposed consideration of that record evidence, and proposed some additional discovery. The proposal for additional discovery was rejected because the proposed discovery did not relate to whether Rambus had engaged in spoliation of evidence.

For example, much of the proposed discovery was directed to whether Samsung has committed intentional spoliation of evidence. Citing to the finding of spoliation entered against Samsung in Mosaid Techs. Inc. v. Samsung Elecs. Co., 348 F. Supp. 2d 332, 338-339 (D.N.J. 2004), Rambus argues that Samsung destroyed technical emails on a rolling basis for three years with respect to the DRAMs and DRAM technology at issue in Rambus' infringement counterclaims. According to Rambus, if it had had the opportunity to take discovery on Samsung's email destruction, it could have proven Samsung's unclean hands. Rambus grounds this contention on the proposition that "unclean hands can be asserted in opposition to an equitable defense as well as being assertible as a defense to a claim for equitable relief." Scheiber v. Dolby Labs., Inc., 293 F.3d 1014, 1022 (7th Cir. 2002).

The glaring omission from Rambus' statement of the law is that "[i]f the plaintiff has unclean hands and seeks equitable relief, the defendant's own improper behavior serves as no bar to its equitable defenses."[6] United Cities Gas Co. v. Brock

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[6] As counterclaim plaintiff, Rambus sought equitable relief in the form of a permanent injunction against Samsung

Exploration Co., 995 F. Supp. 1284, 1296 n.11 (D. Kan. 1998). See also Precision Instrument Mfg. Co. v. Automotive Maintenance Mach. Co., 324 U.S. 806, 814 (1945) (holding that doctrine of unclean hands "is a self-imposed ordinance that closes the doors of a court of equity to one tainted with inequitableness or bad faith relative to the matter in which he seeks relief, however improper may have been the behavior of the defendant."); Mas v. Coca Cola Co., 163 F.2d 505, 510 (4th Cir. 1947) (citing Precision Instrument in rejecting plaintiff's contention that he was entitled to relief notwithstanding his fraudulent conduct because defendant was also guilty of fraud and unlawful conduct). Whether Samsung is guilty of spoliation or has unclean hands is entirely immaterial because it would not preclude Samsung from asserting its equitable defenses.

Rambus' other proposed discovery was equally irrelevant to the issue raised by Samsung: whether Rambus had engaged in spoliation of evidence. And, in any event, to the extent that knowledge of that topic does not reside within Rambus, there has been ample discovery on it.

To assure the just, speedy and inexpensive determination of the exceptional case aspect of this action, the Court incorporated the entire record of the unclean hands trial in Rambus v. Infineon (the testimony and exhibits offered by both sides) into this record.[7] Also, because Rambus made arguments in

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under 35 U.S.C. § 283, enjoining Samsung from infringing Rambus' patents.

[7] Also included in this record were the objections to the admissibility of evidence made in Rambus v. Infineon and the

this case respecting the issue of spoliation based on the record of the unclean hands hearing in Hynix v. Rambus, that record (transcript and exhibits), in its entirety, was incorporated into this record. The record in Hynix v. Rambus has been reviewed and considered in reaching the decisions reflected herein respecting the issue of spoliation.[8] Rambus objected

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rulings made thereon. Rambus reasserted here the objections that it previously had made in Rambus v. Infineon. The rulings on all exhibits used in this Memorandum Opinion are reflected in the Final Pretrial Order in Rambus v. Infineon (Docket No. 1067), the transcript of the final pretrial conference, and the trial record, all of which were incorporated as a part of this record.

The Court ordered briefing at one point as to whether judicial notice under Fed. R. Evid. 201 was the proper mechanism by which to incorporate the Rambus v. Infineon record. The Court determined that the better course was to have the proceedings from Rambus v. Infineon introduced into evidence, and directed Samsung to effectuate the introduction of the Rambus v. Infineon proceedings into this record. Nevertheless, the Fourth Circuit has held that it is appropriate for courts to take judicial notice of their own records, upon considerations of efficiency and justice, where the prior case is brought into the pleadings or where the two cases represent related litigation. See United States Fidelity and Guaranty Co. v. Lawrenson, 334 F.2d 464, 467 (4th Cir. 1964). This case is obviously related to Rambus v. Infineon, and is brought into the pleadings, and thus the Court takes judicial notice of that record in addition to its physical incorporation into the record in this case.

[8] In significant measure, the records in Rambus v. Infineon and Hynix v. Rambus contain the same information.

to consideration of the record of the unclean hands trial in Hynix v. Rambus, just as it objected to consideration of the record in Rambus v. Infineon, but Samsung agreed that the record in that action should be incorporated and considered here.

Rambus' objection is overruled because there was no conceivable or articulated basis for the objection by Rambus, which was a litigant in both cases. Samsung chose to rely solely on the Rambus v. Infineon record, but Rambus was given an opportunity to present additional evidence at the December 15, 2005 hearing on the exceptional case question. Rambus chose not to do so. This choice is perplexing in light of Rambus' repeated assertions that additional evidence uncovered since Rambus v. Infineon and subsequently introduced at the Hynix v. Rambus spoliation trial in October 2005 made that record the full and complete record on Rambus' alleged spoliation. In lieu of adducing additional evidence in support of its arguments, Rambus offered the Declaration of Steven M. Perry, which appears substantially to be a recap of the evidence presented in Hynix v. Rambus. At the Court's direction, Samsung supplemented the record in this case by incorporating the record from Hynix v. Rambus,[9] as Samsung has objected to the Declaration of Mr. Perry as inadmissible hearsay.

[9] While Rambus' requests for additional discovery were entirely meritless, given that it has twice had full discovery and a full trial on the issue of spoliation and unclean hands, Rambus' discovery requests are mooted by the incorporation of the Hynix v. Rambus record.

The findings of fact set forth below are based on Rambus' business documents, the testimony from Rambus v. Infineon, and to a more limited extent on the record created in Hynix v. Rambus. Where findings are based on the Hynix v. Rambus record, it has been so noted.

B. Whether Rambus Engaged In Spoliation Of Evidence

1. General Background Facts

Rambus, which was founded in 1990, is a so-called "technology company." DTX 142. That is to say, Rambus develops and licenses technology to other companies. Rambus' income and profits come from royalties, paid by others, for the right to use Rambus' intellectual property.

In 1990, Rambus filed United States Patent Application Serial No. 07/510,898 ("`898 Application") with claims directed to a computer memory technology known as DRAM. The United States Patent and Trademark Office ("PTO") determined that the `898 Application purported to cover several independent inventions and therefore issued an eleven-way restriction requiring Rambus to elect one invention to pursue in its application. In response, Rambus filed numerous divisional and continuation applications, at least 31 of which have resulted in issued patents. The patents-in-suit are directed to the previously identified DRAM technology.

2. The Background Of The Spoliation

In August 2000, Rambus instituted a patent infringement action against Infineon. The four patents-in-suit included the '263 and '918 patents, which were the subject of Rambus' counterclaims in this action. As explained previously, there were two trials in Rambus v. Infineon. The issue of spoliation arose shortly before the beginning of the first trial and was first addressed in a post-trial opinion, wherein Rambus was "found to have committed various acts of litigation misconduct, including the intentional destruction of documents relevant to [Rambus v. Infineon]." Rambus, Inc. v. Infineon Techs. AG, 222 F.R.D. 280, 286 (E.D. Va. 2004) (citing Rambus, Inc. v. Infineon Techs. AG, 155 F. Supp. 2d 668, 680-83 (E.D. Va. 2001)). Further, it was held there that, while anticipating patent litigation, "Rambus implemented a 'document retention policy,' in part, for the purpose of getting rid of documents that might be harmful in litigation." Rambus Inc. v. Infineon Techs. AG, 155 F. Supp. 2d at 682. Rambus did not appeal the findings that it intentionally had destroyed relevant documents in anticipation of the Rambus v. Infineon litigation. Therefore, the decision of the Federal Circuit in Rambus, Inc. v. Infineon Techs. AG, 318 F.3d 1081 (Fed. Cir. 2003) left those findings undisturbed and it was the law of the case in Rambus v. Infineon.

Following remand from the Federal Circuit, a status conference was convened for the purpose of planning for the second trial. In that conference, Infineon represented that, in litigation between Rambus and Micron Technologies, Inc. ("Micron"), Hynix Semiconductor, Inc. ("Hynix"), and the Federal Trade Commission ("FTC"),[10] Rambus had produced

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[10] Those parallel litigations involve some of the patents-in-suit and many of the same issues that were presented in Rambus v. Infineon.

a substantial quantity of documents that should have been produced before the first trial in Rambus v. Infineon, but were not. Rambus acknowledged that some of the documents produced in those proceedings should have been produced in Rambus v. Infineon, but asserted that others should not have been.

After further briefing and several hearings, an order was entered under the crime/fraud exception that pierced Rambus' claims of attorney-client privilege and work product protection based on the preliminary record respecting spoliation. See Rambus Inc. v. Infineon Tech. AG, 222 F.R.D. 280 (E.D. Va. 2004). That order was reviewed by the Federal Circuit on Rambus' petition for a writ of mandamus which was denied. Further discovery on the spoliation issue ensued.

The issue of spoliation was tried on remand in Rambus v. Infineon. Evidence of document destruction, as well as other evidence on the issue of unclean hands, was heard by the Court sitting without a jury for three and one-half days. The parties offered testimony (live and on videotape) of 25 witnesses and offered approximately 175 exhibits. In Hynix, the trial on spoliation and unclean hands consisted of eight days of evidentiary hearings and two days of argument. That record consists of the testimony of 20 witnesses and 127 exhibits.

3. Controlling Legal Principles: Spoliation

"Spoliation refers to the destruction or material alteration of evidence or to the failure to preserve property for another's use as evidence in pending or reasonably foreseeable litigation." Silvestri v.

General Motors Corp., 271 F.3d 583, 590 (4th Cir. 2001). In ascertaining whether a party has spoliated evidence, the Court is governed by the law of the regional circuit, rather than the decisional law of the Federal Circuit, because spoliation is not a matter peculiar to patent law, and the redress of spoliation is a procedural matter. See Wang Labs, Inc. v. Applied Computer Sci., Inc., 958 F.2d 355, 357 (Fed. Cir. 1992); Silicon Image, Inc. v. Genesis Microchip, Inc., 271 F. Supp. 2d 840, 849 (E.D. Va. 2003). Additionally, spoliation issues are resolved under principles of federal law, rather than the law of any state. See Silvestri, 271 F.3d at 590. As the Fourth Circuit has noted, "spoliation is not a substantive claim or defense but a 'rule of evidence,' and thus is 'administered at the discretion of the trial court.'" Hodge v. Wal-Mart Stores, Inc., 360 F.3d 446, 450 (4th Cir. 2004) (quoting Vodusek v. Bayliner Marine Corp., 71 F.3d 148, 155 (4th Cir. 1995)).

"The right to impose sanctions for spoliation arises from a court's inherent power to control the judicial process and litigation, but the power is limited to that necessary to redress conduct 'which abuses the judicial process.'" Silvestri, 271 F.3d at 590. The sanctions available to courts include adverse inferences, exclusion of evidence or expert testimony, and dismissal. As the Fourth Circuit explained in Silvestri,

> The policy underlying this inherent power of the courts [to impose sanctions for spoliation] is the need to preserve the integrity of the judicial process in order to retain confidence that the process works to uncover the truth. '[B]ecause no one has an exclusive

> insight into the truth, the process depends on the adversarial presentation of evidence, precedent and custom, and argument to reasoned conclusions--all directed with unwavering effort to what, in good faith, it believes to be true on matters material to the disposition.' The courts must protect the integrity of the judicial process because '[a]s soon as the process falters--the people are then justified in abandoning support for the system.'

Id. (citing United States v. Shaffer Equip. Co., 11 F.3d 450, 457 (4th Cir. 1993)) (emphasis added). District courts have "broad discretion in choosing an appropriate sanction for spoliation," but "the applicable sanction should be molded to serve the prophylactic, punitive, and remedial rationales underlying the spoliation doctrine." Id. (quoting West v. Goodyear Tire & Rubber Co., 167 F.3d 776, 779 (2nd Cir. 1999)).

(a) Factors In Determining Appropriate Sanction

Spoliation can occur when the destruction of evidence in anticipation of litigation is willful. However, it can also occur when the destruction is the result of inadvertent, albeit negligent, conduct. See Silvestri, 271 F.3d at 593-94. See also United States ex rel. Koch v. Koch Industries, Inc., 197 F.R.D. 488, 490 (N.D. Okla. 1999) ("Spoliation includes the intentional or negligent destruction or loss of tangible and relevant evidence which impairs a party's ability to prove or defend a claim."); Townsend v. American Insulated Panel Co., Inc., 174

F.R.D. 1, 4 (D. Mass. 1997) ("[S]poliation is the intentional, negligent, or malicious destruction of relevant evidence.").

In Trigon Ins. Co. v. United States, 204 F.R.D. 277, 284 (E.D. Va. 2001), this Court defined spoliation as a willful act, drawing on the Fourth Circuit's language in Vodusek. However, the Trigon decision was issued five days before the Fourth Circuit's decision in Silvestri. Silvestri teaches that both negligent and willful destruction can constitute spoliation and that the appropriate place to assess the effect of the spoliator's state of mind is in ascertaining an appropriate sanction, not in assessing whether spoliation has occurred. See Silvestri, 271 F.3d at 593-95. And while "a court must find some degree of fault to impose sanctions," id. at 590, the degree of fault need not rise to the level of willful spoliation. See also Residential Funding Corp. v. DeGeorge Financial Corp., 306 F.3d 99, 108 (2nd Cir. 2002) ("[T]he 'culpable state of mind' factor is satisfied by a showing that the evidence was destroyed knowingly, even if without intent to breach a duty to preserve it, or negligently."). For example, the Fourth Circuit has noted that, while the ultimate sanction of dismissal is generally reserved for instances of spoliation involving bad faith by the plaintiff, some instances of negligent spoliation will require dismissal because of the resulting prejudice to the defendant. See id. at 593.[11]

[11] Ultimately, however, the distinction between intentional and negligent spoliation is of little moment on the facts of this case. As set forth below, the Court finds that Rambus spoliated evidence but that it did so willfully and intentionally.

This segues to another important point. Unlike the equitable defense of unclean hands, prejudice to the adverse party is not an element that must be proven in order for a court to find that a party's destruction of evidence amounts to spoliation. Rather, Silvestri instructs that prejudice, like willfulness, is a factor to be considered in deciding on an appropriate sanction.[12] Id. ("At bottom, to justify the harsh sanction of dismissal, the district court must consider both the spoliator's conduct and the prejudice caused and be able to conclude either (1) that the spoliator's conduct was so egregious as to amount to a forfeiture of his claim, or (2) that the effect of the spoliator's conduct was so prejudicial that it substantially denied the defendant the ability to defend the claim."). In Townsend, the court noted that it was appropriate to consider a number of factors in reaching an appropriate sanction: "(1) whether the defendant was prejudiced as a result of the destruction of the evidence; (2) whether the prejudice can be cured; (3) the practical importance of the evidence; (4) whether the plaintiff was in good faith or bad faith; and (5) the potential for abuse if the evidence is not excluded." Townsend, 174 F.R.D. at 4.

(b) Anticipation Of Litigation

Whether or not Rambus anticipated litigation with Samsung at the time of the alleged document destruction is a threshold issue in deciding the

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[12] Indeed, if a party had to prove prejudice as an element of spoliation, an adverse inference instruction could hardly be deemed a sanction.

spoliation issue. "The duty to preserve material evidence arises not only during litigation but also extends to that period before the litigation when a party reasonably should know that the evidence may be relevant to anticipated litigation." Silvestri, 271 F.3d at 591. See also Kronisch v. United States, 150 F.3d 112, 126 (2nd Cir. 1998) ("This obligation to preserve evidence arises when the party has notice that the evidence is relevant to litigation -- most commonly when suit has already been filed, providing the party responsible for the destruction with express notice, but also on occasion in other circumstances, as for example when a party should have known that the evidence may be relevant to future litigation.")). "Notice does not have to be of actual litigation, but can concern 'potential' litigation. Otherwise, any person could shred documents to their heart's content before suit is brought without fear of sanction." Bayoil, S.A. v. Polembros Shipping Ltd., 196 F.R.D. 479, 483 (S.D. Tex. 2000) (citing ABC Home Health Serv., Inc. v. IBM Corp., 158 F.R.D. 180, 182 (S.D. Ga. 1994)).

In Kronisch, the district court rejected the defendants' claims that documents were destroyed to preserve the confidential identities of outside participants in a study sanctioned by the Central Intelligence Agency, to prevent incomplete documents from being misunderstood, and to prevent paper overflow. Instead, the district court found that defendants destroyed the documents out of fear of litigation at some point in the future. The district court held that the defendants had a duty to preserve the documents, even absent imminent litigation, and the Second Circuit affirmed. See also Byrnie v. Town of Cromwell, Bd. of Ed., 243 F.3d 93, 108 (2nd Cir. 2001) (citing Kronisch for proposition that "documents destroyed years before suit brought could reasonably be found to have been destroyed in anticipation of litigation where fear of potential future litigation plausibly motivated the spoliation.").

The determination of when a party anticipated litigation is necessarily a fact intensive inquiry, and a precise definition of when a party anticipates litigation is elusive. One helpful analytical tool is the more widely developed standard for anticipation of litigation under the work product doctrine. The work product doctrine provides that documents and tangible things prepared in anticipation of litigation or for trial, which are otherwise discoverable, are only discoverable upon a showing that the party seeking them has substantial need of them in preparation of its case and that the materials cannot be obtained by other means without undue hardship. See Fed. R. Civ. P. 26(b)(3); Hickman v. Taylor, 329 U.S. 495 (1947). The Fourth Circuit has acknowledged that "litigation is an ever-present possibility in American life." National Union Fire Ins. Co. v. Murray Sheet Metal Co., Inc., 967 F.2d 980, 984 (4th Cir. 1992). Thus, in order for a document to receive protection as attorney work product, it "must be prepared because of the prospect of litigation when the preparer faces an actual claim or a potential claim following an actual event or series of events that reasonably could result in litigation." Id.

The Second Circuit has since clarified that

> [a]lthough the non-occurrence of the events giving rise to the anticipated litigation is a factor that can argue against application of the work product doctrine, especially when the expected

> litigation is merely a vague abstract possibility without precise form, there is no rule that bars application of work product protection to documents created prior to the event giving rise to litigation.

United States v. Adlman, 68 F.3d 1495, 1501 (2nd Cir. 1995). The court noted that "[i]n many instances, the expected litigation is quite concrete, notwithstanding that the events giving rise to it have not yet occurred." Id. For example, where "a party expects to be sued by a particular adverse claimant in the event it undertakes to trade under a disputed mark or publishes a book the copyright of which is contested," there is "no reason why work-product protection should not apply to preparatory litigation studies undertaken by that party (or its representatives) before it begins to trade under the contested mark or publishes the book." Id. The Fourth Circuit's real message in National Union Fire was "to stress the necessary causal relationship between the anticipated litigation and the creation of the document, rather than a requirement that the litigation-causing events have already occurred."[13] Id.

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[13] An alternative characterization of this test is as follows: a party anticipates litigation when (1) it subjectively believed that litigation was a real possibility and that belief was objectively reasonable and (2) the document was prepared or obtained because of the prospect of litigation. See United States ex rel. Fago v. M & T Mortgage Corp., 235 F.R.D. 11, 16 (D.D.C. 2006).

While the work product definition of when a party anticipates litigation is not helpful with respect to negligent spoliation, by virtue of its causal element, it nevertheless provides a helpful guide when assessing intentional spoliation: at the very least, a party has anticipated litigation when it destroys relevant evidence because of the prospect of litigation on an actual or potential claim.

(c) Scope Of Duty To Preserve Evidence

Corporations are not obligated, "upon recognizing the threat of litigation," to "preserve every shred of paper, every e-mail or electronic document, and every backup tape." Zubulake v. UBS Warburg LLC, 220 F.R.D. 212, 217 (S.D.N.Y. 2003). Indeed, "[s]uch a rule would cripple large corporations." Id. Nevertheless, "[w]hile a litigant is under no duty to keep or retain every document in its possession . . ., it is under a duty to preserve what it knows, or reasonably should know, is relevant in the action, is reasonably calculated to lead to the discovery of admissible evidence, is reasonably likely to be requested during discovery, and/or is the subject of a pending discovery request." Wm. T. Thompson Co. v. General Nutrition Corp., Inc., 593 F. Supp. 1443, 1455 (C.D. Cal. 1984). "[A]nyone who anticipates being a party or is a party to a lawsuit must not destroy unique, relevant evidence that might be useful to an adversary." Zubulake, 220 F.R.D. at 217.

(d) Document Retention Policies

As the Supreme Court has noted, "'[d]ocument retention policies,' which are created in part to keep certain information from getting into the hands of others, including the Government, are common in business." Arthur Andersen LLP v. United States, 544 U.S. 696, 704 (2005). "It is, of course, not wrongful for a manager to instruct his employees to comply with a valid document retention policy under ordinary circumstances." Id. "In contrast, however, a document retention policy adopted or utilized to justify the destruction of relevant evidence is not a valid document retention policy," and "[i]t follows that implementing such a policy in advance of reasonably foreseeable litigation would not be proper and could constitute spoliation." Hynix Semiconductor, Inc. v. Rambus, Inc., 2006 WL 565893, *20 (N.D. Cal. 2006) (unpublished).

"Once a party reasonably anticipates litigation, it must suspend its routine document retention/ destruction policy and put in place a 'litigation hold' to ensure the preservation of relevant documents." Zubulake, 220 F.R.D. at 218. See also Broccoli v. Echostar Communications Corp., 229 F.R.D. 506, 510 (D. Md. 2005). "The obligation to retain discoverable materials is an affirmative one; it requires that the agency or corporate officers having notice of discovery obligations communicate those obligations to employees in possession of discoverable materials." National Ass'n of Radiation Survivors v. Turnage, 115 F.R.D. 543, 557-558 (N.D. Cal. 1987). It is no defense that particular employees were not on notice of the duty to preserve evidence or what kinds of evidence were material to the potential litigation. See Turnage, 115 F.R.D. at 557. "To hold otherwise would permit an agency, corporate officer, or legal department to shield itself from discovery obligations by keeping its employees ignorant." Id.

4. Spoliation: Findings Of Fact And Conclusions Of Law

Rambus does not contest that, beginning in early 1998, it developed a document retention policy. Nor does Rambus dispute the volume of documents that it destroyed in 1998, 1999, and 2000. The disputed spoliation issues are whether Rambus destroyed documents when it anticipated, or reasonably should have anticipated, litigation, and whether the destroyed documents were relevant to anticipated, or reasonably foreseeable, litigation. The findings of fact pertinent to each of those issues are set forth below.

(a) The Destruction Was Accomplished When Rambus Anticipated, Or Reasonably Should Have Anticipated, Litigation

(i) From 1990 To 1998

Some events that occurred before the period at issue are helpful in understanding the anticipation of litigation issue. A brief look is thus in order.

In 1990, the year of its founding, Rambus patented its RDRAM technology and began licensing it. DTX 142. By 1992, Rambus was of the view that its technology was "covered by 18 [United States] patents, with over 300 claims." In its business plan for the five year period 1992-1997, Rambus expressed the opinion that:

> Because Rambus Technology represents such an innovative and unique way to provide high bandwidth logic-to-memory

> interconnect, the patents are extensive and fundamental. It is Rambus' opinion that the patents will be issued largely as filed and that companies will not be able to develop Rambus-compatible technology or Rambus-like technology without infringing on multiple fundamental claims of the patents.

DTX 142, § 2.1.2 (emphasis added).

It was also disclosed in the company's 1992 business plan, that Rambus had come to learn that a Joint Electron Device Engineering Council ("JEDEC") Committee, an industry standard-setting committee, had been working on specifications for a standard for SDRAMs. At the time, Rambus believed that JEDEC would establish a standard at the end of 1992, at the earliest. Rambus also was of the view that SDRAMs infringed some of Rambus' patents and that it could file for additional patents that covered features of the SDRAMs made according to the forthcoming JEDEC standard. DTX 142. It was also Rambus' view that, when that was accomplished, the company would be "in position to request patent licensing (fees and royalties) from any manufacturer of [SDRAMs]." Id. The company's articulated "action plan [was] to determine exact claims and file the additional claims by the end of Q3/92. Then to advise [SDRAM] manufacturers in Q4/92." Id.

In late December 1991, Rambus began attending JEDEC meetings, and officially joined JEDEC as a member in February 1992. Rambus Inc. v. Infineon Techs. AG, 318 F.3d 1081, 1085 (Fed. Cir. 2003). Beginning in 1992, Richard Crisp and Billy Garrett attended the JEDEC meetings on behalf of

Rambus. Crisp reported regularly to the Rambus executive staff about the technology being considered for the JEDEC standard and the progress of the standard-setting process. As envisioned by the 1992 business plan, Crisp also discussed with Rambus' patent lawyers how to amend or develop claims that would bring within the reach of Rambus' patents products that were made in accord with the forthcoming JEDEC standard. In other words, as the Federal Circuit put it, "Rambus thought it could cover the SDRAM standard and tried to do so while a member of an open-standard setting committee." Rambus, Inc. v. Infineon Techs. AG, 318 F.3d at 1104.

As early as the spring of 1992, the company's patent counsel, Lester Vincent, a partner in the Blakely Sokoloff Taylor & Zafman firm, advised Richard Crisp and Allen Roberts, who was then in charge of obtaining Rambus' patents, that the company could encounter a defense of equitable estoppel if Rambus, by attending JEDEC meetings, created the impression that Rambus would not enforce its patents. DTX 1535; DTX 1523. These warnings were repeated by Vincent and Anthony Diepenbrock, then Rambus' in-house patent counsel, in 1993 and 1995. By January 1996, Rambus had become sufficiently concerned that its participation in JEDEC could adversely affect its patent enforcement strategy that it determined to attend no more JEDEC meetings. DTX 4169. This decision was made by Rambus' CEO, Geoff Tate, and other executive staff. Rambus withdrew from JEDEC in June 1996. Rambus Inc. v. Infineon Techs. AG, 318 F.3d at 1085.

However, throughout the time that Crisp and Garrett attended JEDEC meetings, they, but mostly

Crisp, communicated with the numerous Rambus executives, largely by way of email, about the technological developments at JEDEC and the progress of the JEDEC SDRAM standard. Crisp and Garrett also accumulated a substantial number of documents from JEDEC, such as agendas, meeting notes, and informational presentations made by other DRAM manufacturers which were JEDEC members.

Also, by the late 1990s, Rambus had come to the view that DRAM manufacturers were using its technology and patented inventions to make infringing products. And, by then, Rambus had come to the view that steps must be taken to have the DRAM industry take seriously Rambus' intellectual property rights. To that end, in October 1997, Rambus hired Joel Karp, formerly employed by Intel and a consultant to Samsung, to implement its plan to secure royalties from DRAM manufacturers whose products Rambus considered to infringe its patents and trench on its technology.

(ii) 1998

Not long after Karp's arrival, he became head of the intellectual property department at Rambus, and he began to take steps to formulate a patent licensing and litigation strategy. In DTX 4071, apparently prepared in the fall of 1999, Rambus recounted the company's "Top Level Key Results for 1998." Section 18 of the document identified, under the heading, "Develop and enforce IP," as a 1998 key result:

> C. Get all infringers to license our IP with royalties > than RDRAM (if it is a broad license) OR sue.

Id. Karp testified that, as head of the intellectual property department, he provided the input for that section of the 1998 key results document.

To help accomplish these corporate objectives, Karp, in January 1998, telephoned Diane Savage, a partner at the law firm Cooley Godward. Karp told Savage that "he was working at Rambus, and that he was looking for some litigation--somebody to provide him with litigation assistance." DTX 9008. In response to that request, Savage asked Dan Johnson, a litigation partner at Cooley Godward, to meet with Karp. Id.

On February 12, 1998, Karp met with three lawyers from Cooley Godward. Karp recorded the topics that were discussed and the action items agreed on at that meeting, and he memorialized them in a document entitled:

COOLEY GODWARD MEETING 2/12/98
Licensing/Litigation Strategy

DTX 3681.

According to that document, Karp and the lawyers "[r]eviewed a license program document" as to which there were "minor changes." As part of that notation, Karp reported that "[r]oyalty rates will probably push us into litigation quickly." As a consequence, Karp noted that Rambus needed to make itself "battle ready" by gathering critical documents to put into a searchable, coded electronic database and that the company needed a "document retention policy."[14] Karp's notes then reflect that it

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[14] The precise entry says:

would be necessary to clean out all attorney notes from patent prosecution files so that they would conform with the official files. Further along, Karp reported that Rambus:

> [N]eed[ed] to litigate against someone to establish [a] royalty rate and [to] have [a] court declare patent valid.

Karp also reported that Johnson identified a suit for breach of contract as an alternative to a patent infringement action because it was easier to prove breach of contract than to prove patent infringement. Consequently, according to Karp, "[t]hey [Cooley Godward] will review Micron, Fujitsu, and Samsung and Hyundai contracts and <u>formulate litigation strategy driven by results</u> of the analysis--<u>breach</u>--scope of license, NDA <u>or patent infringement</u>" (emphasis added). The notes also reflect that experts needed to be selected "in advance."

The companies mentioned during the discussion on February 12, 1998 (Micron, Fujitsu, Samsung and Hyundai (now Hynix)) were major DRAM manufacturers. And, some of them had RDRAM licenses or other agreements with Rambus that were to be assessed as predicates for the breach of contract litigation alternative.

> Make ourselves battle ready. Start gathering critical documents in company so we can start putting together an electronic database. Gather all documents into searchable, coded database. Need company policy on document retention policy.

After the February 12 meeting, Karp and Johnson prepared a document dated February 23, 1998 and entitled "PROPOSED STRATEGY FOR RAMBUS." DTX 3678. One aspect of the strategy was a "tiered litigation strategy." The strategy included three scenarios, the second of which involved Rambus filing a patent infringement suit. Interlineated in hand at the end of the document, in Karp's writing, are the notations "Document retention policy--patent attorney files."

One week later, on March 2, 1998, Karp made a presentation entitled "Licensing and Litigation Strategy" to Rambus' board of directors. DTX 3680. The board was told:

> If licensing discussions do not result in resolution, tiered litigation strategy kicks in.

Another slide outlined options:

> "Option 1: Breach of Contract Remedy"
>
> "Option 2: Patent Infringement Suit."

The document continues:

> If the infringing party is unlicensed, patent suit can be brought in venue of our choice
>
> - ITC
> - Southern California
> - Eastern District of Virginia (the rocket docket)

The Licensing and Litigation Strategy presentation to the board also explained that Rambus could sue an alleged infringing DRAM manufacturer for breach of contract if the manufacturer had an existing license for compatible products (RDRAMs), but that a patent infringement suit was the only option if the infringing party did not have such a license. Of course, the alleged "infringing" parties included manufacturers of SDRAMs and DDR-SDRAMs.

The Licensing and Litigation Strategy then identified, for the Rambus board, a hierarchy of "companies chosen." First, were "licensees which currently have released non-compatible product;" second, "present licensees which are currently well along with alternate development;" and, third, "non-licensees with released product covered by Rambus IP."

The Licensing and Litigation Strategy then outlined to the board a timetable which began with obtaining samples of alleged infringing products, followed by reverse engineering and claim charts, then sending a letter and holding a meeting, and then scheduling a second meeting. The final step was designated as "commence legal action," which was forecast to occur four to six months after obtaining samples of the infringing product.

The Licensing and Litigation Strategy presentation concluded by identifying for the board several "NEAR TERM ACTIONS." Those actions, in order, were:

- Need to create document retention policy

- Need to prepare discovery database

- Need to organize prosecuting attorney's files for issued patents]

The record thus establishes that, by February and March of 1998, Rambus had determined that a number of DRAM manufacturers, some of which held Rambus licenses for compatible products (or RDRAMs), and others of which did not, were making incompatible products using Rambus technology. Rambus intended to do what was necessary to secure royalties for the use of its inventions. It retained counsel to provide advice on how to achieve that end, and, from the beginning, the means to that end included both licensing and litigation.[15]

Although, at the time, the final decision to litigate had not been made, and although achieving a license with a DRAM manufacturer would eliminate the need to litigate with that manufacturer, the prospect of litigation certainly was not, as Rambus would have it, a vague or far-off possibility. To the contrary, even in the early spring of 1998, Rambus considered litigation to be a realistic alternative.

The litigation alternative was sufficiently concrete, even by then, that the company had identified potential litigation targets by industry type (DRAM manufacturers) and by name, and it had identified potential venues in which to prosecute the litigation

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[15] Sometime in late February or early March 1998, Johnson left Cooley Godward and became a partner at Fenwick & West. However, Johnson continued to advise Rambus and, to some extent, so did Cooley Godward.

and the theories of liability (breach of contract or patent infringement) to assert in it. In fact, Rambus had identified, as components of aggressive readiness, the need to prepare a discovery database and the need to select experts. And, as the Rambus board was told, the litigation strategy involved the near term actions of establishing a document retention policy and cleansing the patent prosecution files.

On March 19, 1998, two weeks after Karp made that presentation to the board, Savage, in response to a telephone request, sent to Karp a document entitled "Document Retention Policy Guidance." DTX 3676.[16] The document was a general outline of document retention practices.

The company's business plans for its intellectual property activity in 1998 were outlined in a document entitled "IP TOP LEVEL GOALS Q298 FINAL CONFIDENTIAL.[17] This business planning document contains four topic headings:

1. Patent Activity;

2. Infringement Activity;

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[16] A slightly different version of the document was sent to Karp on March 20, 1998. DTX 3700. Another iteration of that document is shown as dispatched to Karp on April 27, 1998. DTX 3683. It appears that, by this date, Johnson had left Cooley Godward.

[17] The document is undated, but its text shows that it was prepared before April 1, the first day of the second quarter of 1998.

3. IP Protection Activity; and

4. Litigation Activity.[18]

> The fourth IP Top Level Goal was outlined under the heading "Litigation Activity." The following entry appears as item B in that category:
>
> > "Propose policy for document retention -- Done"

See Rambus Inc. v. Infineon, 222 F.R.D. 280 (E.D. Va. 2004).

Using the guidance document sent by Savage, Karp prepared the Rambus document retention policy. And, on May 14, 1998, Karp in a memorandum bearing the subject line "Back Up Strategy/Document Retention Policy," announced that Rambus was "on the eve of 'starting the task of implementing a company-wide retention policy.'"

The company's planning documents for the third quarter (July-September) of 1998 include a series of documents entitled "IPQ3'98 Goals." Each of these documents has four major category headings: (1) Patent Activity; (2) Infringement Activity; (3) IP

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[18] Most, if not all, of the twelve items under Patent Activity, Infringement Activity, and IP Protection Activity are of the sort which reasonably could be expected to generate documents, some of which likely would be relevant to patent litigation involving the patents-in-suit. And, some of those activities (e.g., procuring suspect devices, reverse engineering them, and preparing claim charts) surely would generate documents that would be relevant in patent litigation.

Litigation Activity; and (4) Negotiation Activity. One of those "IPQ3'98 Goals" documents reflects, under the heading, "IP Litigation Activity," as Goal A, the implementation "of the document retention plan" and, as Goal B, "[s]taff training event for document retention program with outside counsel."

Before the document retention policy was implemented Karp reviewed it with Rambus' senior management, including the company's CEO, Geoff Tate, Allen Roberts, the Vice President of Engineering, and other appropriate vice presidents. DTX 9009. There is evidence that the document retention policy was adopted for some of the legitimate reasons that warrant adoption of such policies. It is also quite clear that the Rambus policy was adopted to rid the company of documents that would be discoverable in litigation. That is evident from the testimony of several Rambus executives. For example, Anthony Diepenbrock, formerly the in-house patent lawyer at Rambus, testified that one reason for implementing a document retention policy was concern about documents being discoverable in litigation. Diepenbrock recalled that a particular focus of that concern was email communications. DTX 9012. Allen Roberts testified that one of the reasons given by Karp for purging files was that they were discoverable in litigation. DTX 9016. Roberts himself sent an email on March 16, 1998, in which he noted "there is a growing worry about the e-mail backups as being discoverable information" and proposing a systematic regular deletion of email backup tapes. DTX 5185.

This record linking concern over litigation discovery with the document destruction plan is consistent with the presentation that Karp and Johnson gave to Rambus' managerial staff on July

22, 1998. One of the slides used in that presentation, DTX 3686, identifies a list of discoverable documents including email messages, files stored on individual computers, corporate databases, backup tapes, system records and logs, and computers. That presentation specified that special care should be taken with email and electronic documents because, inter alia, email communications "are generally less formal and thoughtful than written correspondence" and, therefore, "candid comments" are made that "can have a significant impact on the outcome of a case." Johnson explained that emails should be treated like written documents for discovery or destruction purposes. The presentation begins and ends with two interesting notations: "Before Litigation" a "Document Retention/Destruction Policy" and the "Eve of Litigation" "The Need for an Effective Document Retention Policy."

The targeting of discoverable documents is evident also in presentations given by Karp to the staff at divisional meetings within the company. DTX 4024. For example, Karp's presentation begins with the admonition "Email is Discoverable In Litigation Or Pursuant To A Subpoena."

In the middle of 1998, Karp arranged to retain, as outside counsel for Rambus, Neil Steinberg, a lawyer with whom Karp had a previous relationship in connection with litigation between Samsung and Texas Instruments.[19] At the time he began to represent Rambus in mid-1998, Steinberg says that his responsibility was "licensing and preparation for

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[19] Steinberg was in-house counsel for Samsung and Karp was an expert witness for Samsung in that litigation.

litigation, and, of course, prosecution . . . related to Rambus technology and Rambus patents." DTX 9007. According to Steinberg, the "licensing and preparation for litigation" to which he referred was related to Rambus' patents that were thought to relate to third parties who used RDRAMs and third parties who used SDRAMs and DDR-SDRAMs. Id.[20] Also, in the summer of 1998, Rambus was putting the finishing touches on the document retention program and beginning to implement it, with Shred Day occurring on September 3, 1998. DTX 4026. On that day, burlap bags were handed out to every Rambus employee and documents were placed in the bags and delivered to an outside contractor for shredding which incidentally occurred on site. On Shred Day

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[20] After the attorney-client and work product privileges were pierced, and documents were produced disclosing the nature and extent of Rambus' document destruction, Steinberg changed his testimony and insisted that there was no anticipated litigation until almost immediately before Rambus sued Hitachi in January 2000 and that there was no anticipation of litigation after the Hitachi litigation settled on June 23, 2000 until almost immediately before Rambus initiated the action against Infineon on August 8, 2000. The Court believes the testimony given by Steinberg in DTX 9007 in January 2001 before the attorney-client privileges were pierced and the documents respecting spoliation were uncovered. The Court does not believe, and thus rejects, the testimony of Steinberg given in DTX 9020 and October 2004 in the Infineon action (DTX 9021) wherein Steinberg asserts that litigation was not anticipated until just before Rambus sued Hitachi and Infineon, respectively. As to the latter testimonies, the Court finds that Steinberg was not telling the truth.

and the next day, Rambus destroyed the equivalent of 291 boxes (or 757,531 pages) of documents.[21]

Approximately one month later, on October 1, 1998, Steinberg gave a presentation to Rambus executives which, on Rambus' privilege log, is identified as "Patent Litigation Strategy Update." This presentation helps to explain why Rambus did not actually implement its Licensing/Litigation Strategy until late 1999. To understand the situation in the fall of 1998, it is well to recall that, although Rambus had filed the `898 application in 1990, its progress in securing patents was slowed because the PTO required Rambus to reconfigure its applications and that led to the necessity to file continuation and divisional applications. Also, in late 1991, Rambus joined JEDEC and, as reflected in the company's 1992 business plan, learned that JEDEC was formulating a standard applicable to SDRAMs. The

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[21] Even before Shred Day 1998, Rambus had sent 1,268 computer tapes to be degaussed on or before July 1, 1998. HTX 107; HTX 157; HTX 29. This magnetic sanitizing made the information on the tapes irrecoverable. Robert Kramer testified in Hynix v. Rambus that it was his understanding the tapes, were erased pursuant to Rambus' document retention policy. Rambus made sure to save backup tapes that contained information on technical projects, but everything else was sent for erasure. 6 Trial Tr. 1105:17-1106:25, 1113:11-14

The testimony in Hynix v. Rambus also establishes that at some point before these computer tapes were destroyed, Karp accessed one of the tapes in order to retrieve a document that would help prove the date of conception for Rambus' patents. Karp saved that one tape, and the rest (1,268) were destroyed. 2 Trial Tr. 224:4-8, 225:3-226:25.

process of developing the standard was a slow one. As Rambus attended the meetings, its representatives, Crisp and Garrett, obtained information that was used to improve existing applications or to file new ones in a deliberate effort to cover the evolving SDRAM standard.

Further, Steinberg ascertained that some of the pending applications might not be effective in covering SDRAM products to be made in compliance with JEDEC standard. Therefore, he took over the patent prosecution of a number of patents in 1998 with a view to strengthening the Rambus portfolio as to SDRAM and DDR-DRAM products.

Steinberg's strategy update for October 1998 is in several pages. On the page entitled "Strategy Update 1098-1," Steinberg advised the Rambus executives:

> DO NOT ROCK THE DIRECT BOAT
>
> - We should not assert patents against Direct partners until ramp reaches a point of no return (TBD)
> - Probably not until Q1/00

DTX 3687. Testimony established that the term "Direct" means the RDRAM and thus, in effect, Steinberg advised the Rambus executives not to assert Rambus' patents against DRAM manufacturers who had licenses for the RDRAM technology until those manufacturers had "reached a point of no return." In other words, he advised that Rambus should forestall an assertion of its patent rights against DRAM manufacturers with whom it had licenses until those manufacturers had become committed to use of RDRAM technology. At the same time, Steinberg posed a significant question:

> **However, Big Question Is--WHAT'S THE RUSH?**
>
> - What is compelling business reason? I can't think of any
>
> * * *
>
> - Let's not snatch defeat from the jaws of victory

The next slide, Strategy Update, 10/98-2, specifies that Rambus should give top priority to strengthening its portfolio by filing continuation cases based on the `898 filing in 1990, the objective of which was to "cover SDRAM, DDR, SLDRAM, any and all forms of synchronous memory (static and dynamic)." To that end, a new series of filings were recommended. Meanwhile, Rambus was proceeding with reverse engineering efforts and Steinberg advised that the company should "**Continue In Stealth Mode During `99**."

The following slide, Strategy Update, 10/98-3, suggested to the Rambus board a way to implement the point made on slide 2. Specifically, all prosecutions based on the `898 filing were then to be given to Steinberg who would add eight to twelve new continuation cases and continue with the five then being prosecuted by the Blakely Sokoloff law firm. It was Steinberg's expectation that all of the cases would issue within 12 to 18 months from filing. Thus, he suggested that the strategic portfolio of

Rambus patents would be ready to present to the industry during calendar year 2000. He advised also that all reverse engineering should be completed in advance of that time.

The purpose of strengthening the strategic portfolios was also outlined by Steinberg. In his view, it "Should Result In Quick Settlements By Several Companies."

Thus, the record is that, in October 1998, one month after implementing the document destruction plan that was part of its Licensing and Litigation Strategy, Rambus decided to slow down its schedule slightly. It did so for two reasons. One was to allow its adversaries to get locked into a position with production of products that used Rambus technology. The other reason was to allow Rambus to strengthen its patent portfolio. But, both reasons were in pursuit of the company's Licensing and Litigation Strategy. And, a key part of that strategy was to get rid of discoverable documents. The first purge had occurred by the time the schedule was slowed slightly.

(iii) 1999

After the documents were shredded in September 1998 and the company's schedule was adjusted in October 1998, Karp set about to further refine the enforcement scenario for 1999. To that end, by email entitled "Enforcement Scenario For 1999," Karp sent to Rambus' chairman, president and vice president of engineering, and other officers a scenario that he developed based on "inputs from the 11/30 [1998] management staff meeting." Karp obviously understood the significance of this document because he instructed the recipients not to make copies of it and to return all copies to him after a discussion on the following Monday. DTX 3691.

The attachment is titled "Patent Enforcement 1999." According to Karp and Johnson, this document was prepared by Karp with input from Johnson, whose practice specialty is litigation. The subtitle of the attachment is "NUCLEAR WINTER SCENARIO."

The first part of the document refers to a breakdown in the relationship between Rambus and Intel, Rambus' largest licensee, and to the possibility that the relationship between the two might come to an end. The complete breakdown of the Intel/ Rambus relationship was thought to be unlikely. Thus, the discussion as to litigation with Intel is described as hypothetical.

The second part of the document, however, discusses "COMPLAINTS AGAINST DRAM COMPANIES." The discussion, which is not described as hypothetical, articulated "potential causes of action against DRAM companies" to include patent infringement, breach of contract, other common law claims (fraud and business disparagement or defamation), and antitrust actions. The document also identified specific litigation targets and articulated the strategy that those targets should be sued in separate suits and in separate, specifically identified fora, so as to minimize the ability of the targets to cooperate with each other in defending the case. Five candidates were identified. They were: Fujitsu (or Mitsubishi), Hitachi, Hyundai (now Hynix), NEC, and Siemens (now Infineon).

In a section entitled "NEGOTIATION TACTICS," the enforcement plan for 1999 suggested meetings at which the targets would be shown how they infringe by using claim charts. The proposed royalties would be high (5% to 10%), if settlement was not thought desirable in a particular case, or low (1% to 2%), if settlement was desired by Rambus. However, Karp concluded by stating:

> My recommendation is that we should not be too concerned with settlement at this point and should push for very high rates. We would give them a very short time to accept our royalty terms by setting a short expiration date of the offer to settle. During the meeting we would make it very clear to them that protracted negotiations are not possible and that we are ready to file suit.

DTX 3691, p. 3 (emphasis added). That, of course, was the approach actually taken with both Hitachi and Infineon. Specifically, Rambus started the process with Hitachi on October 22, 1999, DTX 5380, and, when Hitachi did not agree in short order, Rambus filed suit on January 18, 2000. Rambus first asserted its claims against Infineon on June 23, 2000, and, when a license did not materialize quickly, Rambus filed an action against Infineon on August 8, 2000.

Karp's statement in DTX 3691 is but one reason why the Court considers incredible his testimony in both the Infineon and Hynix unclean hands trials that, in 1998 and 1999, Karp and Rambus regarded litigation as unlikely because the goal was to reach settlement. This document, like other contemporaneous business records, substantially disproves that and kindred assertions.

In April 1999, Rambus, through Karp, instructed its outside patent counsel, Lester Vincent of the Blakely Sokoloff firm, to comply with the Rambus document retention policy and to "clean out all the Rambus files that had issued." DTX 3710. According to Vincent, by April 19, 1999, he had followed Karp's April 5th request and cleaned 11 of 49 issued patent files at Blakely Sokoloff in accord with the Rambus document retention policy. At that time, Karp asked Vincent to speed the process up and a secretary was assigned full time to file clearance. DTX 3737; DTX 9007.[22]

In June 1999, Steinberg made a presentation to Rambus executives. DTX 3689. According to a Rambus privilege log, the topics were intellectual property and litigation strategy. In a section of the presentation entitled "KR99.5 Update for IP," the executives were given a status report.[23]

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[22] Citing the testimony of Johnson, and deposition testimony of individuals from IBM, as well as Deipenbrock, Rambus' former in-house counsel, and Vincent, Rambus contends that, once a patent is issued, it is standard practice to strip the patent prosecution file of all documentation other than that which is in the public record. The Court is doubtful that there is such a practice, but, even if there is such a practice, that kind of destruction cannot take place by outside lawyers when the client is anticipating, or reasonably should anticipate, litigation.

[23] "KR" stands for "key results" and "99.5" stands for "half way through 1999."

Under the category "Current: IP ACQUISITION AND PROTECTION," Steinberg advised that more than ten continuation cases based on the 1990 filing (the `898 application) with claims directed to SDRAM, DRDRAM, and SLR-DRAM had been filed. Steinberg further announced as an objective, the commencement of license negotiation with at least one company with the purpose of starting the "clock for calculation of damages by Q4/99-Q1/00." Steinberg then proposed amended goals, the second of which was to begin license negotiations with one company, thereby starting the clock for calculation of damages by Q4/99, and then to begin license negotiations with two additional companies during Q1/00. Finally, he advised that the amended goal would include the choosing of "one company to litigate with during Q1/00" and to "[c]ommence litigation during Q2/00 upon ex/board approval."

Steinberg also informed the Rambus executives of the selected "SDRAM Targets" for whom infringement cases would be prepared in "Q4`99." Those targets included Hitachi and Infineon, against whom Rambus actually filed patent litigation actions in January 1999 and August 2000, respectively. It was the stated objective to select the first target by "early Q4`99" and the second and third target by "mid-Q4`99." The factors to be considered in selecting the target included the opponent's "Licensing and Litigation Capabilities," and the "Economic Impact of Licensing and Litigation" in the United States, Europe, and Korea.

Thus, by June 1999, the scheduled slowdown proposed by Steinberg in October 1998 went by the wayside and planning for litigation resumed apace. Indeed, in June 1999, Karp and Steinberg were preparing Rambus' intellectual property department's third quarter goals. A first cut of those goals was prepared on June 27, 1999. DTX 4067. The third section of the "IPQ3'99 Goals" was addressed to the company's "Licensing/Litigation Readiness." The goals included the preparation of licensing positions against three manufacturers (item 3D), the preparation of a litigation strategy against one of the three manufacturers thusly identified (item 3E), to be ready for litigation with 30 days notice (item 3F), and to "organize 1999 shredding party at Rambus" (item 3G) (emphasis added).

To achieve item 3G of Rambus' 1999 Licensing/ Litigation Readiness goals, a second shredding event occurred on August 26, 1999. DTX 4068; DTX 3759. On this occasion, the company's chief executive officer, Geoff Tate, advised that he was aware of, but would not be attending, the shredding party. DTX 3759.[24] On Shred Day 1999 (August 26, 1999), Rambus destroyed 188 boxes (or 487,688 pages) of documents.

On September 24, 1999, Karp and others made an "IP Strategy" presentation to Rambus executives, addressing the question whether there was life at Rambus if Intel should pursue other technology. DTX 3698. The presentation goes on to explain that the "[b]est route to IP credibility is through victory over a major DRAM manufacturer." Slide 4 advises that

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[24] The '263 patent issued on September 14 1999, and the '918 patent issued on March 27, 2000.

- Even if we gain some initial settlements, we will have to ultimately pursue remedies in court
    - Companies like Micron will fight us tooth and nail and will never settle

The next slide explains why DRAM manufacturers are the most attractive litigation target: direct infringers, good litigation story, larger number of patents-in-suit, and limited exposure to counterclaims. DTX 3698.

On October 14, 1999, the board of directors was given an update respecting the targets for anticipated litigation. DTX 3675. In particular, they were shown a detailed matrix that Steinberg, in continued pursuit of the company's Licensing and Litigation Strategy that had begun in 1998, had created for selecting litigation targets. The matrix for legal considerations included such topics as the adversary's experience in battle, the litigation story, Rambus' exposure to counterclaims, and venue flexibility. There was also a matrix for business considerations such as the size of the recovery, the ability to settle, the significance of the products of the adversary, and the ability to drive competitor's standards.

The matrix for each area, legal and business, reflected the company's goals of confirming and establishing respect for "Rambus IP." This, of course, was one of the reasons for hiring Karp and, for developing the company's Licensing and Litigation Strategy beginning in early 1998.

The board was informed that, of 13 potential litigation adversaries, those achieving the highest score on the legal matrix were, in order, Hitachi, NEC, Samsung, Fujitsu, and Toshiba, while those achieving the highest score on the business matrix were, in order, Micron, Hitachi, A&D, Hyundai (now Hynix), and Samsung. The overall combined weighting (60% for the legal factors, 40% for the business factors) produced the following overall rankings, in order: Hitachi, Samsung, Hyundai (now Hynix), NEC, and Micron. The board was also informed of a timeline for negotiations which culminated in the filing of a complaint in Delaware.

The "#1 Target Recommendation" was Hitachi, which was to be approached during the fourth quarter for settlement discussions. If, after six weeks, a license had not been achieved, the objective was to file suit in Delaware "ASAP." That strategy and those tactics are precisely those proposed in Karp's November 1998 paper entitled "Enforcement Scenario for 1999," DTX 3691, p.3, "NEGOTIATION TACTICS," which, of course, is simply a more refined articulation of the Licensing and Litigation Strategy developed in February 1998.

The board was also briefed on "VENUE SELECTION" and the importance of selecting a proper venue in which to conduct the anticipated litigation. The presentation disclosed that:

> 3 Venues have been considered
>
> - Eastern District VA (rocket docket)
> - Delaware

- Northern CA

Each venue was evaluated and Delaware was considered to be the "most attractive" forum.

By letter of October 22, 1999, DTX 5380, Rambus implemented its plan against Hitachi. That, of course, is in the fourth quarter of 1999.

In November 1999, Rambus retained Gray Cary Ware & Freidenrich ("Gray Cary") to represent it in the patent infringement action to be filed in the District of Delaware (a previously selected venue) against Hitachi. Also, in late 1999 or early 2000, Rambus selected Howrey & Simon to represent it in a case against Hitachi in the International Trade Commission.

(iv) 2000

In a document entitled "IP Update 1/18/00," DTX 3673, the Rambus board of directors was informed that the action against Hitachi would be filed in the District of Delaware as of 3:30 p.m. eastern standard time that day. A copy of the cover page of the complaint for patent infringement was attached and the board was told that the company expected to expand the Delaware litigation to include 10 U.S. patents and then to expand the litigation to Germany based upon the European counterpart of the original Horowitz disclosure. The action was eventually transferred to the Northern District of California.

Lester Vincent, acting on his own, stopped "cleaning" the patent prosecution files in his office when he learned that Hitachi had been sued. No one at Rambus gave him that instruction. On June 22, 2000, Vincent learned, by email from Karp, that the

Hitachi litigation had settled. The next day, June 23, 2000, Vincent resumed cleaning out his Rambus prosecution files in accord with the previous instructions from Karp to act expeditiously in completing that task.

Also, on June 23, 2000, Rambus first asserted the ’804 patent against Infineon by way of a letter from Steinberg to Infineon’s vice president, Dr. Andreas von Zitzewitz. On that day, Vincent cleaned out his ’804 prosecution file. DTX 3784.

After June 23, 2000, Infineon and Rambus engaged in negotiation and discussions respecting a possible license by Infineon and a possible means of settling the patent infringement claim made by Rambus. Once again, as envisioned by Rambus’ Licensing and Litigation Strategy, when a settlement did not occur in short order, Rambus filed an action against Infineon on August 8, 2000.

On July 17, 2000, approximately one month after having first asserted the ’804 patent against Infineon and six months after suing Hitachi and approximately three weeks before filing the action against Infineon, Steinberg issued a memorandum to all Rambus executives that was entitled “Reminder of Document Destruction Policy re: Contracts.” DTX 3700. Steinberg instructed the Rambus executives to destroy draft contracts and materials used during negotiations that are not part of the final contract. According to Steinberg, that pertained to “all licenses.” At the time that Steinberg issued the July 17 destruction order, Rambus had negotiated license contracts with at least 14 different DRAM manufacturers, at least seven of which were on the litigation target list.[25]

In December 2000, some three and a half months after filing the action against Infineon, a company-wide document destruction plan was conducted in conjunction with a transfer of offices from one location to another. At that time, during the pendency of Rambus v. Infineon and in the midst of discovery in that case, Rambus destroyed 575 boxes (or 1,495,575 pages) of documents.

(v) Other Findings Of Fact

The foregoing facts, which are established by clear and convincing evidence, permit the Court to make other factual findings, also shown by clear and convincing evidence. The foregoing facts are summarized briefly below, and the permissible inferences and additional findings follow.

In February 1998, Rambus consulted Cooley Godward with an eye toward developing a licensing and litigation strategy to enforce its intellectual property. Following these consultations, Karp, who was the head of Rambus' IP department, realized that the royalty rates that Rambus would seek to extract would push the company into litigation quickly. Rambus' board of directors were informed of

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[25] Documents respecting these contracts and negotiations could be relevant or lead to the discovery of admissible evidence respecting the issue of damages and reasonable royalties as well as other reasonable licensing terms in any litigation, including the one initiated three weeks later by Rambus against Infineon.

this likelihood in March 1998. Indeed, the board was also informed of an already extant tiered litigation strategy, which involved filing a suit for breach of contract or patent infringement, or both, in specified venues. The board presentation defined near term actions that were necessary to ready the company for litigation. One of the identified near term actions was the development and implementation of a document retention policy. Another was the cleaning out of Rambus' patent prosecution files, so that they would conform to the official files maintained by the PTO, commonly referred to as "file wrappers."

Rambus relies on the testimony of Karp and Johnson in support of the notion that Rambus' discussions with Cooley Godward in February 1998 and the presentation given to the board in March 1998 were focused on licensing, rather than litigation. Rambus also relies on the testimony of Johnson and Karp to advance the related notion that, in 1998, litigation was a distant prospect, which would only ensue in the event that Rambus' licensing efforts were not successful. Johnson and Karp go so far as to assert that litigation was not even in contemplation or seriously considered in the first quarter of 1998 or as of the time (September 1998) when the first wholesale destruction of documents took place.

The testimony of Karp and Johnson to that effect is rejected as not credible. Johnson's testimony is flatly at odds with that of Diane Savage, who at the time was Johnson's law partner, and who the Court accepts as a credible witness because her demeanor was convincing and she has nothing at issue in this dispute. Additionally, her testimony is consistent with Rambus' contemporaneous business records and Cooley Godward's billing records. Savage testified that Karp told her that he needed "litigation assistance," and, for that reason, she put him in contact with Johnson, a litigator. Licensing lawyers were involved in the early meetings as well, but that is unremarkable given that Rambus' licensing strategy was also under review. Karp's notes of the February 12 meeting, the Licensing and Litigation Strategy document which Karp and Johnson prepared together, and Karp's presentation to the board of directors refute the testimony given by Johnson and Karp that the focus of Rambus' efforts at this stage was confined to licensing and that litigation was merely an ephemeral possibility.

One does not make oneself "battle ready," nor establish a discovery database, nor identify potential venues, nor identify specific litigation targets, nor select experts, to address a vaguely anticipated litigation potentiality. The efforts of Karp and Johnson to suggest that those terms mean something else amount to nothing more than after-the-fact spin.

Johnson's testimonial demeanor, when addressing the issue of anticipation of litigation, was that of an advocate for Rambus, rather than that of a professional who was disinterested in the outcome. His bias is understandable, to some extent, because he was defending advice that he had given. However, Johnson's bias can hardly be thought to aid the credibility of testimony, especially when it is inconsistent with Rambus' contemporaneous business records. Johnson's defensive and adversarial manner might be attributed in part to the fact that his advice to Rambus was incomplete. In Johnson's presentations to Rambus, he failed to explain that spoliation could occur not only on the "eve of litigation," as he put it, but also if documents were destroyed when the company anticipated, or reasonably should have anticipated, litigation. That is a serious omission given that the test for spoliation universally includes this component. Nor did Johnson's presentation, or anything else he claims to have said, explain that, in order to have an effective suspension of the document destruction plan during litigation, employees must be specifically instructed respecting what documents are relevant to the litigation (and thus cannot be destroyed) and what documents are not relevant (and thus can be destroyed). In sum, the fact that Johnson's testimony, in part, is offered in defense of his less than complete advice is another reason not to credit his testimony respecting the issue of whether and when Rambus anticipated litigation. When that is considered in perspective of the conflict between Johnson's testimony and that of Diane Savage and the Rambus business records, Johnson's testimony on the topic of Rambus' anticipation of litigation is rejected as lacking credibility.

Karp's testimony is likewise incredible on that topic. It too is thoroughly at odds with the corporate business records and with Karp's contemporaneous writings on the subject. Indeed, Karp sent an email discussing Rambus' document retention policy to other Rambus executives, on May 14, 1998, referring to Johnson as "Rambus' litigation counsel." DTX 3697. Karp cannot now credibly be heard to say that Johnson's advice on document retention was sought without regard to the benefit it would have in future litigation. Furthermore, Karp's testimonial demeanor when answering questions on the topic of when Rambus anticipated litigation with DRAM manufacturers was evasive and unconvincing.

By the summer of 1998, Rambus had retained Neil Steinberg as outside counsel. One of Steinberg's responsibilities was to prepare for litigation related to Rambus technology and Rambus patents against third parties using SDRAMs and DDR-DRAMS, as well as the RDRAM. This significantly undercuts Rambus' position that it did not anticipate litigation with DRAM manufacturers until much later, and further demonstrates the unreliability of the testimony given by Karp and Johnson on this point.

The presentations made by Johnson and Karp in July and August 1998 provide further support for the factual conclusion that the September 1998 document destruction was executed in anticipation of litigation. In those presentations, Rambus' managerial executives and staff were informed of the document retention policy. The content of the presentations makes clear that a principal animating factor for the adoption of the document retention policy was the apprehension of forthcoming litigation with DRAM manufacturers and the discoverability of Rambus' files in that litigation. Several of Rambus' top executives confirmed that they were told that eliminating discoverable documents (paper and electronic) was a principal impetus for the adoption of the document retention plan. Rambus' internal communications confirm the concern over the discoverability of email communication, which according to Johnson is a particularly troublesome area because of the candid views often expressed in this casual form of communication.

In October 1998, one month after implementing its document destruction plan on Shred Day 1998, and at Steinberg's urging, Rambus decided to slow down its schedule for implementing the

Licensing and Litigation Strategy. The purpose of this deceleration was to allow Rambus to secure a strategic and tactical advantage over the targeted DRAM manufacturers. By slowing the pace of its Licensing and Litigation Strategy, which Rambus knew and expected to lead to litigation with DRAM manufacturers, Rambus sought to strengthen its patent portfolio through the filing of continuation cases and to allow sufficient time for DRAM manufacturers to fully commit to RDRAM technology. The slow down also allowed Rambus to take advantage of the information it had obtained from JEDEC's efforts to set an industry standard on SDRAM.

In November 1998, with Johnson's assistance, Karp prepared a memorandum that outlined Rambus' patent enforcement plans for 1999. In that memorandum, Rambus took the view that it possessed three enforceable patents: the `327 patent covering DDR (and dual edged clocking), the `481 patent covering DDR (with PLL circuitry), and the `580 patent covering the DDR and PC100 (access time register). These patents were issued respectively in 1996, 1997, and November 1998. At that point, Rambus had already prepared claim charts relative to Micron and Fujitsu devices under the `580 patent. This sort of activity, which must have been accomplished before the date of the correspondence, is typically done in connection with the anticipation of litigation.

The patent enforcement strategy for 1999 (prepared in November 1998) provided for a short period for negotiating a license and settlement, to be immediately followed by the initiation of litigation. So, even if one were inclined to disregard the clear evidence of anticipated litigation before September

1998 (which the Court is not inclined to do), the record clearly shows that, by November 1998, the enforcement scenario for 1999 anticipated litigation with DRAM manufacturers. Indeed, Rambus followed this strategy to the letter with both Hitachi and Infineon in late 1999 and 2000. In that regard, it is important to note that Karp, one of the authors of the 1999 enforcement strategy, said at the time the strategy was articulated in 1998 that litigation (not settlement) was the likely consequence of the company's strategy.

In April 1999, Neil Steinberg was hired on as in-house patent counsel. At a deposition given in Rambus v. Infineon, he was asked what the scope of his duties and responsibilities were when he came on board. His response was:

> I was handling prosecution matters, patent prosecution matters. I was handling licensing matters. I was handling--we were preparing for litigation.

DTX 9007.[26] That, of course, was what he had been doing since mid-1998 when he was retained as outside counsel.

As far back as February 1998, Rambus had been advised or had concluded that it needed to clean out its patent prosecution files, whether in-house or outside, to assure that they conformed with the

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[26] Steinberg later testified to the contrary when, after the piercing orders, he realized it was necessary to move the anticipation of litigation to a much later time. In so doing, he testified falsely.

official files. To that end, in an April 5, 1999 meeting with Lester Vincent, Rambus' outside counsel, Karp instructed Vincent to comply with that policy and to achieve that result. Karp met with Vincent again on April 19, 1999, and Vincent reported that he had accomplished approximately one-fourth of the task. Karp pressed Vincent to increase the pace and to finish the job. Consequently, a secretary was assigned full time to the purging project. Clearly then, the Rambus document destruction program was back in full swing by April 1999.

Karp and Steinberg headed the intellectual property department at Rambus. Their goal for the third quarter of 1999 was to have a litigation strategy prepared against one of the three manufacturers as to whom licensing negotiations would be initiated, and to be ready for litigation within 30 days notice. In other words, the deceleration of the litigation strategy called for in October 1998 was over by June 1999. By October 14, 1999, Rambus had prepared a detailed litigation matrix to help select appropriate targets. It then launched its program against Hitachi in October 1999, with whom it filed suit in January 2000.

Thus, although in the fall of 1998, Steinberg slowed the progress toward litigation, the mobilization for litigation was back in full operation by April 1999 and certainly no later than June 1999. The documentary record for 1999 confirms that, although the litigation anticipated by Rambus as of 1998 had to be delayed, the company nonetheless anticipated that litigation would occur against specifically identified DRAM manufacturers in specifically identified fora by the end of 1999 or early 2000. It is of little moment, in assessing whether and when

Rambus anticipated litigation, that the plans for litigation and the anticipation of litigation demonstrated by the documents as early as 1998 were slowed down by the deliberate conduct of Rambus in order to allow its identified litigation targets to become so entrenched in their positions that, for economic and business reasons, the targets might be more inclined to settle than to litigate.

Thus, the record clearly and convincingly establishes that, by the time it implemented its document destruction policy on Shred Day in September 1998, Rambus held the view that it would soon be in litigation with manufacturers of RDRAMS, SDRAMs and DDR-DRAMs over patents which Rambus thought covered the products being manufactured by those manufacturers. This is evident from the official business records of Rambus, which reveal that by early 1998 Rambus had developed a Licensing and Litigation Strategy. The licensing component of the strategy called for such high royalties that the company expected to be in litigation soon after seeking those royalties. Indeed, the company expected that litigation would be necessary to establish both its intellectual property rights and its royalty rates. Rambus' official business records demonstrate that the document retention program was an integral component of this litigation strategy.

By the time Rambus implemented its document destruction policy on Shred Day in September 1998, it had identified the most likely and attractive litigation targets, and had settled on a number of possible legal theories to press against specific targets, depending upon whether the target was already a licensee. Rambus had also begun its reverse engineering efforts and planned to develop claim charts shortly thereafter. Additionally, Rambus had selected three fora it thought would be most advantageous to it. Among the factors that Rambus considered in selecting these fora was the average time to trial, as Rambus believed it could gain a tactical advantage over DRAM manufacturer targets by developing an electronic document database in advance. All of these efforts on the part of Rambus were components of its overarching Licensing and Litigation Strategy, as manifested by the contemporaneous business records.[27]

By mid-1999, Rambus once again pressed forward with the implementation of its Licensing and Litigation Strategy. The company's business documents show that the destruction of documents on Shred Day in August 1999 was an integral part of that strategy. Just as it had in 1998, Rambus continued to anticipate that licensing would not succeed because of the high royalty rates that would be proposed, and thus Rambus anticipated litigation throughout 1999. In fact, the company used 1999 to continue refining its approach to selecting litigation targets and the most advantageous fora in which to conduct litigation against those targets.

Finally, it is well to remember that, in December 2000, while discovery in Rambus v.

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[27] Karp testified that the document destruction program was motivated by fear of subpoenas from third-parties which might need Rambus documents in cases to which Rambus was not a party. There is no evidence to support the existence of such an apprehension and Karp's testimony on the subject is regarded as incredible.

Infineon was underway, another mass document purge took place at Rambus. That destruction took place while litigation that had been anticipated as of 1998 (DTX 3691) was actually in progress.

The record proves that Rambus engaged in pervasive document destruction in 1998 and 1999 while it anticipated litigation, or reasonably should have anticipated litigation, and in 2000 while it was actually engaged in litigation.

It is also appropriate to assess the record respecting when Rambus anticipated litigation with Samsung. Rambus executed a patent license agreement with Samsung in October 2000. Under that agreement, Samsung was permitted to use certain Rambus technology, including that which is the subject of the two patents-in-suit in Rambus' counterclaims, in the manufacture of DRAM and other products. Under the original Samsung/Rambus license executed in October 2000, Samsung was obligated to pay a running royalty that was a percentage of sales revenue for SDRAM, DDR-DRAM and controller products made by Samsung. In June 2005, after Samsung and Rambus failed to reach an agreement on a renewal of the license or a Standstill Agreement, Rambus filed suit in the Northern District of California. Samsung then filed an action for declaratory judgment on the following day in this Court.

While Rambus might plausibly argue that it did not anticipate litigation with Samsung from October 2000 until some point in the months before June 2005, Rambus cannot muster a colorable argument that it did not anticipate litigation with Samsung before the execution of the license agreement. Samsung was one of the DRAM manufacturers targeted by Rambus' matrices. By late 1999, Samsung was considered by Rambus to be the second most attractive litigation target. So while Rambus arguably did not anticipate litigation with Samsung when it destroyed documents in December 2000, it most certainly did anticipate litigation with Samsung on both Shred Day 1998 and Shred Day 1999. To conclude otherwise is to ignore the logical, common sense inferences to be drawn from the specific text of Rambus' business records, which simply pile one on top of the other, to lead to that conclusion.

(b) Were Relevant Documents Destroyed?

The factual record on this point begins with the finding made at the conclusion of the first trial in Rambus v. Infineon. At that time, the Court held that Rambus had destroyed documents relevant to litigation. Rambus, Inc. v. Infineon Techs. AG, 155 F. Supp. 2d at 682. That finding, of course, was made on a record that is not as complete as the one which was developed subsequently in Rambus v. Infineon and in Hynix v. Rambus. However, the subsequent record confirms, clearly and convincingly, this facet of the spoliation test.

Additionally, the record clearly establishes that Rambus' document retention policy actually targeted discoverable documents, including email messages, files on individual computers, network servers or floppy disks, corporate databases, backup tapes, system records and logs, and computers and disks. DTX 3686. This reference was included in the presentation made by Johnson to the Rambus managers. Likewise, Karp's presentation focused on information that was discoverable in litigation, emails in particular.

A number of Rambus' witnesses testified that the reason for adopting the document retention policy was to get rid of discoverable documents. Of particular concern were emails which were described as potentially quite harmful in litigation. Accordingly, email backup tapes were eliminated and employees were told to purge their own individual email files unless it was necessary to keep an email for some purpose and then it should be saved to a particular file or reduced to hard copy. DTX 5185; DTX 9016.[28]

Discoverability is a concept that exists only in the context of litigation. To target, and then to destroy, documents that are thought to be discoverable is to identify documents that would be relevant or would lead to the discovery of admissible evidence in litigation. For Rambus, that meant documents that were relevant in patent litigation because that is where Rambus expected litigation to occur. There can be no doubt that Rambus destroyed discoverable documents pursuant to its document retention policy.

The document retention policy also provided for the destruction of documents, drafts and materials used during negotiations (including notes of meetings and telephone conversations, presentation slides, memoranda, and checklists). Steinberg

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[28] In the Hynix litigation, Rambus discovered some of the back up tapes and some of them were restored to readability. However, the backup tapes did not include files on UNIX and Macintosh workstations during the period from 1998 to 2000. 9 Trial Tr. 1574:9-22.

reemphasized the need to destroy contract-related documents as late as July 17, 2000. Those kinds of documents have particular relevance in the damages aspect of patent litigation. They can also lead to the discovery of admissible evidence.

Rambus instructed its outside patent counsel, Lester Vincent, to purge the patent prosecution files so as to make them conform to the file wrapper and thereby to eliminate much information that typically is useful in patent litigation in addressing validity and infringement issues as well as the conduct of the applicant before the PTO. The prosecution files that were moved in-house when Steinberg joined Rambus were likewise cleansed and with the same results. Documents of the sort destroyed by Vincent quite clearly are relevant to patent litigation. At a minimum, they are reasonably calculated to lead to the discovery of admissible evidence.

Rambus also destroyed email archives and other electronic files. From 1990 until shortly before Karp arrived on the scene in October 1997, the company had used Macintosh computers. By the time Karp arrived, most of the Macintosh computers had been eliminated. However, there were Macintosh backup tapes that had been saved from the early days forward (e.g. 1990 to 1997). Many of the Macintosh backup tapes were destroyed in the implementation of the document retention policy. By virtue of the document retention policy, the backup tapes for emails were destroyed every three months from its inception in September 1998 forward. That some of those tapes were stumbled upon during the Hynix v. Rambus litigation does not negate that others were destroyed.

The record also establishes that prior art documents were discarded by Rambus. Steinberg admitted that, in 1999, he threw away prior art documents on which he had made substantive notations.

Of course, Rambus' litigation adversaries cannot, and cannot be expected to, demonstrate with certainty the content of destroyed documents. On this record, and under the applicable law, that responsibility is on the shoulders of Rambus. For example, in Anderson v. Cryovac, Inc., 862 F.2d 910 (1st Cir. 1998), the court explained that:

> [i]n the case of intentional misconduct, as where concealment was knowing and purposeful, it seems fair to presume that the suppressed evidence would have damaged the non-disclosing party. (citations omitted) It seems equally logical that where discovery material is deliberately suppressed, its absence can be presumed to have inhibited the unearthing of further admissible evidence adverse to the withholder, that is, to have substantially interfered with the aggrieved party's trial preparation.

Id. at 925 (emphasis added). The court went on to hold that "[t]he presumption, if it arises, should be a rebuttable one. It may be refuted by clear and convincing evidence demonstrating that the withheld material was in fact inconsequential." Id.

The court explained the need for this stringent standard with the following observation:

> We are keenly aware of the stringency of the standard, yet we believe it to be an appropriate antidote for deliberate misconduct. A party who is guilty of, say, intentionally shredding documents in order to stymie the opposition, should not easily be able to excuse the misconduct by claiming that the vanished documents were of minimal import. Without the imposition of a heavy burden such as the 'clear and convincing' standard, spoliators would almost certainly benefit by having destroyed the documents, since the opposing party could probably muster little evidence concerning the value of papers it never saw. As between guilty and innocent parties, the difficulties created by the absence of evidence should fall squarely upon the former.

Id. at 925 (emphasis added).

Further, from a description of many of the destroyed documents, it is reasonable to infer that many were relevant to the patent litigation planned by Rambus as part of its litigation strategy. Telectron, Inc. v. Overhead Door Corp., 116 F.R.D. 107, 133 (S.D. Fla. 1987). And, as the court held in Telectron:

> while it is now impossible to determine precisely what or how many documents were destroyed, the bad-faith destruction of a relevant document, by itself, 'gives rise to a strong inference that production of the document would have

> been unfavorable to the party responsible for its destruction.' Coates v. Johnson & Johnson, 756 F.2d 524, 551 (7th Cir. 1985) (citations omitted); see also Nation-Wide Check Corp. v. Forest Hills Distributors, 692 F.2d 214, 217 (1st Cir. 1982); National Association of Radiation Survivors v. Turnage, 115 F.R.D. 543 (N.D. Calif. 1987); Wm. T. Thompson Co. v. General Nutrition Corp., 593 F. Supp. 1443, 1455 (C.D. Calif. 1984).

Id.

The record shows deliberate destruction of documents designed by Rambus to rid itself of documents discoverable in litigation, and documents of the type that likely would be relevant in litigation. Rambus has failed to establish that the destroyed documents were of minimal or little import.

Rambus has not tried to prove what kind of documents were among the 1,054 boxes (2.7 million pages) it destroyed or the computer tapes it degaussed. Rather, it argues that it produced many relevant documents; and, it did. But, where, as here, the destruction was part of a litigation strategy, the volume of documents destroyed was so great, the destruction targeted documents that were discoverable in litigation, and the destruction is shown to have reached so many types of likely relevant documents, that alone is inadequate to discharge Rambus' burden.

Rambus argues that the document destruction program was designed to save documents relevant to litigation and that the "litigation holds" had that result. Each of these points is addressed in turn.

The first argument has its genesis in Karp's presentation to the Rambus staff in August 1998. It is true that Karp's presentation slides had a notation at the foot of each page, in bold letters, articulating "LOOK FOR THINGS TO KEEP." DTX 4024. According to Johnson, that instruction is confusing and frustrates the purpose of a legitimate document retention policy. Rambus points to this language as evincing an intent not to destroy documents relevant to litigation.[29] In any event, wholly apart from the fact that the instruction does not even mention litigation, the general precatory language does not identify what documents would be relevant in litigation, and thus does not support Rambus' contention. Unless employees are instructed as to what to save, the general "look for things to keep" means nothing.[30]

The second argument is directed to take advantage of the principle that a document retention program must be suspended when litigation is, or reasonably should be, anticipated, so as to remove

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[29] That argument, if accepted, supports the view that the document retention policy was adopted when Rambus was anticipating litigation; otherwise, there would be no need to mention retaining documents relevant to litigation.

[30] Rambus' own management characterized the policy as the "'scorched earth' theory of document retention." HTX 330. In dealings with Intel, Rambus itself was unable to locate many important documents that had been swept up in the wake of the document retention policy and destroyed.

from the reach of destruction documents relevant to the anticipated litigation. Rambus asserts that, at two different times, it complied with that requirement. First, Rambus relies on the testimony of Neil Steinberg that, when litigation was anticipated in late 1999, he instructed a number of people from Rambus to retain documents "relevant to litigation." Having found that Steinberg has testified falsely on important matters, the Court will not credit his testimony on that point. Furthermore, Steinberg's testimony is substantially undercut by the evidence that shows that, in July 2000, he actually instructed Rambus executives to destroy contract drafts and documents related to the license negotiations. This, according to Steinberg, was accomplished pursuant to the company's "Document Destruction Policy." Taking into account that Steinberg is not a credible witness and that he actually acted contrary to the instructions he purportedly gave, the Court finds Steinberg's testimony on the point to be unbelievable and further finds that Steinberg gave no instructions to anyone at Rambus to retain documents "relevant to litigation."

Rambus also has offered testimony from a lawyer at Gray Cary that when he, and others in his firm, interviewed Rambus witnesses (approximately 40 in number), they usually gave a standard admonition not to destroy documents "relevant to litigation." And, a few Rambus witnesses said that they recalled instructions to that effect. Those instructions were said to have been given in late 1999 or early 2000, depending upon when the interviews occurred. There is evidence that Cecilia Gonzalez, of Howrey & Simon, gave similar instructions to Steinberg.

Assuming that those instructions were given to some employees, Rambus has offered no proof to show that the recipients were informed what documents were relevant to the litigation. That is an especially significant failure of proof when one considers that the document retention policy was widely broadcast within the company as necessary to get rid of documents that were discoverable in litigation. Further, in the runup to the extensive destruction of documents in December 2000 (575 boxes, amounting to almost 1.5 million pages), the record discloses that no specific instructions respecting retaining documents relevant to litigation were issued. This is confirmed by Melinda Kauffman, DTX 9017, who said that specific instructions related to pending litigation were not given and instead employees were given a general reminder about the document retention policy. Also, Rambus' Rule 30(b)(6) witness, Robert Kramer, Director of Litigation at Rambus, testified that he was unaware of any instructions other than to follow the document retention policy.

Moreover, there is evidence that Rambus employees and agents did not follow the instructions. For example, Karp, the author of the policy, destroyed files in June and July 2000. Steinberg instructed employees to destroy relevant documents in July 2000. Vincent (who also had been interviewed by Gray, Cary) destroyed relevant files after June 23, 2000. And, of course, a very large quantity of documents were destroyed in December 2000 while the action in <u>Rambus v. Infineon</u> was underway.

Additionally, it is important to note that on Shred Day 1998 Rambus destroyed 291 boxes, on

Shred Day 1999 the company destroyed 188 boxes, and in December 2000, it destroyed 575 boxes, a total of 1,054 boxes. Assuming approximately 2,600 pages of documents per box (which is the average number of pages in the boxes of documents that Rambus did produce), it appears that from September 1998 through December 2000, Rambus destroyed 2.7 million pages of documents.[31] Of course, the volume of destroyed documents alone does not establish their relevance to the litigation. But, in view of the other evidence, it is probative of that point.

Considering the lack of specificity in defining what documents would be relevant to litigation, considering that the document retention policy focused on destruction of documents discoverable in litigation, considering that Rambus kept no records of the kinds of documents that were destroyed, considering the volume of documents destroyed, and considering the extent and kind of evidence destroyed after the vague "hold" instruction was given, the naked instruction not to destroy relevant documents is not sufficient to overcome the presumption. Rambus has not satisfied its burden.

5. Additional Conclusions of Law: Spoliation

Rambus defends the spoliation charge by arguing that its document retention policy is like many others, was adopted largely in the form recommended by counsel, and that, if its program constitutes spoliation, most, if not all, of corporate

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[31] By contrast Rambus produced 138,000 pages in 59 boxes before the first trial in Rambus v. Infineon and, on remand, it produced 105,000 pages of documents in 38 boxes.

America is in jeopardy. For several reasons, Rambus' argument misses the mark.

First, the allegation of spoliation is not directed to the constituent elements of Rambus' policy. Nor is it asserted that the adoption and implementation of document retention policies are per se acts of spoliation. Indeed, many corporations have such policies. There is no need to canvass and recite the case law finding such policies to be generally permissible. And, since there has been no per se attack on the Rambus policy, there is no need to survey the policy to assess how it measures to standard.

Second, there is no dispute that counsel were involved in advising as to the content of the policy and in helping to present the policy to employees. That, however, does not change the fact that Rambus implemented the policy when it anticipated, or reasonably should have anticipated, litigation. Thus, the involvement of Johnson and Steinberg, as shown by the record, does not militate against a finding of spoliation.

Contrary to Rambus' third argument, neither corporations nor individuals are at risk of a finding of spoliation merely because they adopt or implement a proper document retention policy. However, any company that implements a document retention policy during or in anticipation of litigation, and destroys documents relevant to the actual or anticipated litigation, will face and lose a spoliation charge. But, that is as it should be.

In any event, the law recognizes that document retention policies and actual or anticipated litigation can coexist. For example, a company can modify its policy to preserve documents reasonably thought relevant to the actual or anticipated litigation. To accomplish that, however, the company must inform its officers and employees of the actual or anticipated litigation, and identify for them the kinds of documents that are thought to be relevant to it.[32] Other mechanisms, such as collecting the relevant documents and segregating them, may accomplish the same result. These points are by way of illustration and are not exclusive.

It is not sufficient, however, for a company merely to tell employees to "save relevant documents," without defining what documents are relevant. If the testimony from Gray Cary is accepted, that is all that was done in late 1999 or in 2000. As explained above, this sort of token effort will hardly ever suffice, and it will always fall short when the document retention program had an articulated principal focus of ridding the company of documents that are discoverable in litigation.

Nor can a company make a document retention program an integral part of its litigation strategy and, pursuant thereto, target for destruction documents that are discoverable in litigation. Rambus has cited no decision that supports such an approach. The Court has found none. And, if the result of finding spoliation on this record is to deter others from such conduct under like circumstances, then that is desirable.

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[32] If management does not desire to disclose to employees the fact of anticipated litigation, it can tell employees to preserve documents meeting certain specific descriptions, and/or then collect and save the specific documents.

Generally, whether spoliation has occurred is measured, as Silvestri teaches, by looking at the totality of the circumstances. A legitimately adopted and implemented policy will pass muster. The conduct of Rambus does not for the reasons outlined above. Fortunately, that conduct appears to be sui generis. None like it is reported in the periodicals, the trade press, or the decisional law. That further underscores the point that corporate America has little to fear from a decision holding Rambus accountable for spoliation of evidence.

Lastly, Rambus points to the decision in Hynix Semiconductor, Inc. v. Rambus Inc., 2006 WL 565893 (N.D. Cal. 2006), wherein it was held, as part of a decision on the issue of unclean hands, that Rambus did not engage in the spoliation of evidence. The record of that proceeding and the resulting decision have been studied carefully. For the reasons that follow, the decision is not persuasive.

First, it appears that the decision gives considerable credence to the slant put on the Rambus business records by both Karp and Johnson. As explained above, the testimony of Karp and Johnson[33] is pointedly at odds with the company's contemporaneous business records and the law firm's billing records. In fact, the contemporaneous business records convincingly disprove the version of events sponsored in the testimony of Karp and Johnson. Also, as explained previously, Karp's testimony is at odds with the text of documents that he authored in which he spelled out his own views on

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[33] Karp and Johnson both gave essentially the same testimony in Rambus v. Infineon and Hynix v. Rambus.

the likelihood of litigation. And, the testimony of Karp and Johnson is at odds with the testimony of Johnson's partner, Diane Savage, about why Karp contacted Cooley Godward and why Johnson was assigned to respond to Karp's request for litigation assistance. Furthermore, for reasons set forth in the findings of fact, the testimony of Karp and Johnson is not credible on the issue of anticipation of litigation, and their efforts to show that Rambus did not anticipate litigation in 1998 and 1999 are simply unconvincing in the face of such a strong documentary record to the contrary.

Second, the Hynix decision appears to be significantly influenced by the view that "[t]he evidence here does not support the conclusion that Rambus intentionally designed its Document Retention Policy to get rid of particular damaging documents." Hynix, 2006 WL 565893, *25. The record, it is respectfully submitted, shows quite clearly that Rambus acted intentionally to rid its files of discoverable documents because of the damage that such documents could do in litigation. Rambus may not have identified specific documents as damaging and then destroyed those specifically identified documents, but Rambus engaged in equally pernicious conduct by designating for destruction nearly all discoverable documents at a time when it anticipated litigation.

Documents are not discoverable unless they either contain evidence that supports a claim or defense or they are reasonably calculated to lead to the discovery of admissible evidence. Fed. R. Civ. P. 26 (a) and (b). The decision to use the description "discoverable" to mark documents for destruction was not made by accident. It was a description chosen by

Johnson, a litigation specialist, and Karp, who talked extensively with Johnson and who by virtue of previous employment was intimately familiar with litigation in the patent arena.

Third, and relatedly, the Hynix decision places significance in the conclusion that Rambus' document retention plan was "content neutral." Hynix, 2006 WL 565893, *24. With respect, that conclusion does not square with the evidence that the program was implemented principally to rid the company of discoverable documents at a time when it anticipated litigation with DRAM manufacturers.

Fourth, the decision in Hynix appears to have been influenced by a peculiarity of California work product law. According to the Hynix decision, the undisputed fact that documents dated in 1998 and 1999 were claimed in Rambus v. Infineon to be protected by the work product doctrine is irrelevant, despite the fact that work product protection is available only when the document was produced in anticipation of litigation. According to the Hynix decision, that fact "does not support the conclusion that litigation was anticipated because the [privilege] log was prepared by California lawyers," and "California law differs from federal law in that it protects a lawyer's work product prepared 'in a nonlitigation capacity.'" Id.

Assuming this to be a proper statement of the California work product doctrine, the California work product doctrine is entirely irrelevant. Federal law governs claims of work product protection and attorney-client privilege in federal cases. See Fed. R. Civ. P. 26(b)(3); Fed. R. Evid. 501. If there were any doubt on that point, it would be dispelled by the fact that Rambus' patent infringement claims are federal question claims. Rule 26(b)(3) could hardly be more clear in requiring the anticipation of litigation with respect to the work product doctrine:

> a party may obtain discovery of documents and tangible things otherwise discoverable under subdivision (b)(1) of this rule and prepared in anticipation of litigation or for trial by or for another party or by or for that other party's representative (including the other party's attorney, consultant, surety, indemnitor, insurer, or agent) only upon a showing that the party seeking discovery has substantial need of the materials in the preparation of the party's case and that the party is unable without undue hardship to obtain the substantial equivalent of the materials by other means (emphasis added).

See also In re Echostar Communications Corp., 448 F.3d 1294, 1301 (Fed. Cir. 2006) (applying Rule 26(b)(3) in patent infringement action).

Rambus has continually emphasized that it hired respected counsel, and it can only be assumed that even Rambus' California-based lawyers were aware of this most basic Federal Rule of Civil Procedure and the fact that they were litigating a federal question case in federal court.

The Court has not relied here on the fact that Rambus labeled a number of the relevant business documents as work product in determining that Rambus anticipated litigation with DRAM manufacturers when it destroyed relevant documents, but it is nonetheless a permissible inference.[34] However, the rejection of the argument in the Hynix decision is another reason that the decision is not persuasive.

Fifth, the decision in Hynix sought to distinguish the controlling decision on spoliation in this circuit, Silvestri v. General Motors Corp., by observing that the spoliating plaintiff in Silvestri knew he was going to make a claim, had hired experts, and had retained counsel. Hynix, 2006 WL 565893, *21. These indicia were sufficient to show anticipation of the litigation that was filed some three years later. By contrast, said the Hynix decision, in 1998 and 1999, "the path to Rambus planned litigation was neither clear nor immediate." Id. at 22.

This distinction is more ephemeral than real. To begin, as explained above, Rambus well knew by 1998 and in 1999 that it was going to engage in patent litigation against specific DRAM manufacturers in specific fora. And, Rambus had set a timetable for reverse engineering as set forth in many of its quarterly goal setting documents. Thus,

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[34] Furthermore, even the cited California case afforded work product protection only to the mental processes of lawyers in a nonlitigation capacity. Many of the 1998-1999 documents for which the protection was claimed were those authored only by Karp who is not a lawyer. Of course, if there was anticipated litigation and Karp was working with a lawyer as to it, Karp's work can get protection. And, in Rambus v. Infineon, Rambus sought that protection for Karp's work and it was given. See Rambus Inc. v. Infineon, 222 F.R.D. 280 (E.D. Va. 2004), the sealed version of which is Docket No. 715 in Rambus v. Infineon (a copy of which shall be placed under seal in this record).

the real distinction is that Rambus had not, in 1998 or until late 1999, hired counsel to prosecute the litigation it planned to bring against specific DRAM manufacturers. Relatedly, the Hynix decision fixed the point at which "litigation became probable" in late 1999 when Rambus undertook to hire counsel to file an action against Hitachi. Id. at 24.[35] At least in this circuit, the point at which litigation becomes probable does not necessarily correspond with when a party anticipated, or reasonably should have anticipated, litigation. Nor did the Second Circuit adopt such a rule in Kronisch, the case cited as controlling in the Hynix decision.

In the Hynix decision, the court suggests that litigation was not "probable" because a number of contingencies had yet to occur:

> (1) the direct RDRAM ramp had to be sufficiently developed so as not to jeopardize RDRAM production; (2) Rambus's patents covering non-RDRAM technology had to issue; (3) product samples from potentially infringing DRAM manufacturers had to be available in the market; (4) the non-compatible products had to be reverse engineered and claim charts made showing coverage of the actual products; (5) Rambus's board had to approve commencement of negotiations with a DRAM manufacturer; and (6) the

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[35] The decision acknowledges that "hiring of litigation counsel or actually filing suit is certainly not necessary to demonstrate that a company contemplates litigation." Id.

> targeted DRAM manufacturer had to reject Rambus's licensing terms.

Id. at *22. To suggest that all of these contingencies had to occur before Rambus can be deemed to have anticipated litigation is to ignore the reality that Rambus actually expected and anticipated that all of these contingencies would come to pass and lead Rambus into litigation with DRAM manufacturers.[36] Rambus developed its document retention policy expressly for the purpose of preparing for the coming litigation. As explained above, it is not unusual that the anticipation litigation is quite concrete, notwithstanding that the events giving rise to the litigation have not yet occurred. Adlman, 68 F.3d at 1501. That is exactly the situation presented here.

Sixth, the Hynix decision seems to be influenced significantly by evidence that Johnson informed Rambus that it would cost $1.5-3.0 million to prepare for litigation, but Rambus never budgeted such an amount specifically for litigation. The record is not well-developed respecting Rambus' budget process but it does show that the budget about which Karp was testifying extended from the fall of 1999 through the second quarter of 2000. Moreover, the record, taken as a whole, shows that Rambus reasonably expected litigation at the time of the budget presentation to which Karp referred. And, thus, the fact that there was not a line item for

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[36] Interestingly, it does not appear that all of these contingencies had come to pass at the point in September 1999 when the Hynix court found that litigation became probable. See id. at 23.

litigation in that specific presentation is of little consequence in assessing anticipation of litigation.

More importantly, one does not have to budget for litigation to anticipate it. As explained fully above, Rambus clearly anticipated litigation from early 1998 forward. Quite clearly, in June 1999, Steinberg and Karp set goals for the third quarter of 1999, one of which was to be ready for litigation on 30 days notice. And, Rambus was at the time engaged in reverse engineering and preparing claim charts. Furthermore, one of Steinberg's goals was to start the damage clock running not later than the fourth quarter of 1999. Of course, the concept of damages is intimately linked with litigation. To anticipate starting the damages clock is to anticipate litigation.

For those reasons and in perspective of the rest of the record, the absence of a budget figure for litigation in the presentation to which Karp referred, does not support the conclusion that Rambus did not anticipate litigation in 1998 or in June 1999, the date of the budget presentation about which Karp testified.

In a post-hearing motion, Hynix sought reconsideration of the unclean hands decision in Hynix on the ground that the court had adopted a "reasonably probable" standard when it cited with approval the American Bar Association's Civil Discovery Standards. The post-hearing motion of Hynix was denied when the court explained that "reasonably probable" equated with "reasonably foreseeable."[37] And, in the Hynix decision, the court

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[37] Hynix Semiconductor, Inc. v. Rambus Inc., No. C-00-20905RMW, Order On Motion For New Trial Or Permission To Appeal.

held that the word "probable" in the ABA Standard means "that litigation is more than a possibility." Id. at *21.

Thus, the Hynix decision fixed the point at which litigation became more than a possibility as late 1999 when Rambus undertook to retain counsel to prosecute its case against Hitachi. With respect, that does not square with the record created by a great number of Rambus' contemporaneous business records and the testimony given by Steinberg to the effect that in 1998 and mid-1999 his job was, in part, to prepare for litigation. Those records and the testimony are outlined fully above and will not be repeated here. As explained above, the record, taken as a whole, rather clearly shows that litigation "became more than possibility" in 1998. In fact, patent litigation was by then a foregone conclusion. As seen by Karp, Rambus' Vice President of Intellectual Property, litigation was the preferred, if not essential, course to setting a reasonable royalty for Rambus' patent licenses.

In concluding otherwise, the Hynix decision also relied significantly on the testimony of Geoff Tate. See id. at *23. Then Rambus' Chief Executive Officer, Mr. Tate has been determined to have given false sworn testimony, and hence not to be a credible witness. Rambus Inc. v. Infineon Techs. AG, 155 F. Supp. 2d 661, 681-82 (E.D. Va. 2001).

For the foregoing reasons, the decision in Hynix does not aid Rambus.

And, for the reasons set forth above, the record shows clearly and convincingly that in 1998, 1999 and 2000 Rambus engaged in the spoliation of evidence.

6. Exceptional Case

Here, Rambus planned for litigation beginning in 1998 and throughout 1999. As part of that plan, it identified and selected litigation targets--the DRAM industry generally and Samsung specifically. It identified the most desirable fora for litigation as part of the plan. And, as part of the plan, Rambus established and implemented a pervasive document destruction program. Rambus' destruction plan called for the destruction of discoverable documents. Thus, its program cannot be characterized as content neutral or innocent. Rambus' licensing and litigation strategy has generated a substantial amount of litigation and a large part of that litigation has been devoted to uncovering, and dealing with, the facts surrounding, and the consequences of, a most far-reaching document destruction plan.

For the foregoing reasons, the Court finds that Rambus' spoliation of evidence relevant to the '263 and '918 patents, while in anticipation of litigation with DRAM manufacturers such as Samsung, renders this case exceptional.[38]

III. VEXATIOUS OR UNJUSTIFIED LITIGATION

The second ground asserted by Samsung for a finding of exceptional case essentially amounts to a claim of vexatious or unjustified litigation. Samsung

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[38] The key determination on this point is whether Rambus' litigation misconduct makes this case exceptional. Whether Rambus' spoliation would also have supported a finding of unclean hands that would bar enforcement of the patents is irrelevant.

argues that Rambus asserted the counterclaims in bad faith, given that the Court already had found the relevant patents unenforceable in Rambus v. Infineon by virtue of the unclean hands finding. Samsung charges that the counterclaims were asserted merely to bolster the motion to transfer. Further, Samsung asserts that Rambus' tendering of the covenants not to sue, rather than confronting the motion for partial summary judgment, is proof that Rambus never had any intention to litigate the counterclaims in this Court. This, of course, is the paradigm case to which the Brooks Furniture test applies. In order to ground an exceptional case finding on this charge of vexatious litigation, the Court must find that Rambus brought its infringement counterclaims in subjective bad faith and that they were objectively baseless.

It is settled that, by June 2005, Rambus' management had decided that patent litigation with Samsung must not be allowed to occur in the Eastern District of Virginia. It is certainly logical to infer that the decision issued from the bench in Rambus v. Infineon was a motivating factor behind that decision. While Rambus had initially preferred to litigate in multiple districts, it is plausible that Rambus had come to regret that approach and, by June 2005, preferred that all of its patent litigation should take place, if possible, in its home forum, the Northern District of California. That is especially so considering that it was involved in other litigation there.

When Rambus was confronted with the action filed in this district by Samsung, it had to decide, inter alia, whether to assert counterclaims. Rambus explains its decision to file counterclaims as the product of unsettled law with respect to whether its infringement claims on the patents-in-suit were compulsory counterclaims. For that reason, says Rambus, it asserted the counterclaims on the '263 and '918 patents out of an abundance of caution in order to preserve its infringement claims. To the contrary, however, the Federal Rules of Civil Procedure settled that issue decades ago. The notion that Rambus' counterclaims were compelled is without merit.

The general rule with respect to compulsory counterclaims is that

> A pleading shall state as a counterclaim any claim which at the time of serving the pleading the pleader has against any opposing party, if it arises out of the transaction or occurrence that is the subject matter of the opposing party's claim and does not require for its adjudication the presence of third parties of whom the court cannot acquire jurisdiction.

Fed. R. Civ. P. 13(a). See also St. Paul Fire and Marine Ins. Co. v. Seafare Corp., 831 F.2d 57, 58 (4th Cir. 1987). However, one of the specifically enumerated exceptions to the compulsory counterclaim rule is that a party need not assert a counterclaim if "at the time the action was commenced the claim was the subject of another pending action." Id. Rambus filed patent infringement claims against Samsung in the Northern District of California on June 6, 2005, which included the '263 and '918 patents. Samsung filed its action for declaratory judgment in this Court on June 7, 2005. While Rambus' infringement claims with respect to the '263 and '918 patents had not been the subject of a pending action for very long when Samsung filed its action for declaratory judgment, the action was nevertheless pending and the infringement claims as to the '263 and the '918 patents were among the subjects of that action. Given the settled law on this point, the Court cannot accept Rambus' reliance on that theory to explain its motivations for asserting the counterclaims.

Absent any other explanation of its decision to assert patent infringement counterclaims, and given the established record that Rambus sought to avoid litigation in the Eastern District of Virginia at almost any cost, it is a permissible inference that Rambus filed the counterclaims in order to bolster its motion for transfer of venue. Indeed, the counterclaims and the motion to transfer venue were both filed on July 12, 2005, and Rambus concedes that the two were filed in direct connection with one another. The inference is further justified by the fact that, after Rambus' motion to transfer venue was denied, Rambus voluntarily dismissed the counterclaims with prejudice and gave Samsung covenants not to sue. Clearly, preservation of its infringement claims on the '263 and '918 patents was not nearly so important to Rambus as circumventing litigation in the Eastern District of Virginia.

However, Rambus also asserts that it was warranted in asserting the counterclaims, notwithstanding the bench ruling that the patents-in-suit were unforceable against Infineon for unclean hands and spoliation. On that score, Rambus is correct. When Rambus filed its answer and counterclaims on July 12, 2005, the court in Hynix Semiconductor, Inc. v. Rambus, Inc., Case No. CV0020905RMW (N.D.

Cal.) already had ruled on April 22, 2005 that this Court's bench ruling in Rambus v. Infineon could not be given collateral estoppel effect on the issue of unclean hands because the Court never issued findings of fact or conclusions of law as a result of the parties' settlement. Further, Rambus was actively litigating the issues of spoliation and unclean hands in the Northern District of California, and a trial date on those issues had been set. Moreover, the course of this litigation can hardly be characterized as vexatious in light of the fact that, shortly after Samsung filed this action, Rambus provided covenants not to sue on the '263 and '918 patents and voluntarily dismissed its counterclaims with prejudice.

For the foregoing reasons, it cannot be said that Rambus asserted its counterclaims in subjective bad faith, and thus Rambus' assertion of its counterclaims cannot support an exceptional case finding. That being the case, there is no need to assess whether the counterclaims were objectively baseless. See Brooks Furniture, 393 F.3d at 1381 ("Since we conclude that the first requirement (subjective bad faith) is not satisfied here, we need not decide whether the second (objectively baseless) standard was met.").

IV. WHETHER RAMBUS' PRE-FILING SPOLIATION WARRANTS AN AWARD OF ATTORNEY'S FEES UNDER 35 U.S.C. § 285 OR THE COURT'S INHERENT POWER

After having found this to be an exceptional case based on Rambus' spoliation of evidence, the determination as to whether an award of attorney's fees is appropriate under § 285 is committed to the Court's discretion. Having presided over the case, "the trial judge can best weigh the relevant considerations, such as the closeness of the case, the tactics of counsel, the flagrant or good faith character of the parties' conduct, and any other factors contributing to imposition of punitive sanctions or to fair allocation of the burdens of litigation." Perricone v. Medicis Pharmaceutical Corp., 432 F.3d 1368, 1380-1381 (Fed. Cir. 2005). See also J.P. Stevens Co., Inc. v. Lex Tex Ltd., Inc., 822 F.2d 1047, 1051 (Fed. Cir. 1987). "The court's choice of discretionary ruling should be in furtherance of the policies of the laws that are being enforced, as informed by the court's familiarity with the matter in litigation and the interest of justice." S.C. Johnson & Son, Inc. v. Carter-Wallace, Inc., 781 F.2d 198, 201 (Fed. Cir. 1986) (citing Yarway Corp. v. Eur-Control USA, Inc., 775 F.2d 268, 277 (Fed. Cir. 1985)). "[A]ttorney fees are not to be routinely assessed against a losing party in litigation[,] in order to avoid penalizing a party for merely defending or prosecuting a lawsuit, and are awarded to avoid a gross injustice." Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp., 372 F. Supp. 2d 833, 851 (E.D. Va. 2005) (quoting Revlon, 803 F.2d at 679).

Whether to exercise the discretion to award attorney's fees begins with the recollection that Samsung, not Rambus, initiated this action. Not long thereafter, Rambus voluntarily dismissed its counterclaims with prejudice and signed covenants not to sue with respect to the patents-in-suit. Rambus terminated its claims at a sufficiently early stage in the litigation that it would not be grossly unjust for Samsung to bear the burden of its own litigation costs. And, considering that Rambus promptly issued covenants not to sue on the four patents-in-suit after Samsung filed this action and dismissed its counterclaims with prejudice early on, this case is unique in that an award of attorney's fees would not serve as deterrence to the litigation misconduct at issue.[39]

Moreover, in exceptional cases, the aggrieved party is entitled to an award of "the portion of its attorney fees which related to the vexatious litigation strategy and other misconduct." Beckman Instruments, Inc. v. LKB Produkter AB, 892 F.2d 1547, 1553 (Fed. Cir. 1989) (emphasis added). "The determination of the amount of the award remains within the discretion of the trial court, since it is the trial judge who is in the best position to know how severely [the offending party's] misconduct has affected the litigation." Id. Thus, where litigation misconduct forms the basis for a finding that there is an exceptional case under § 285, the record must establish a causal nexus between the fees claimed and the misconduct.

The record here is insufficient to establish a causal nexus between the misconduct found (pre-filing spoliation of evidence) and the fees sought by Samsung. In that regard, it is necessary to remember that the spoliation of documents was the basis for Samsung's request for a declaration that Rambus' unclean hands barred enforcement of the patents-in-suit. That misconduct, although it was

[39] Of course, that would not be the case if Rambus had persisted in the pursuit of its counterclaims or further defended Samsung's declaratory judgment action, thereby making it necessary to further litigate the spoliation of evidence.

the basis for the requested declaration, did not cause Samsung to incur the fees for which it now seeks an award. Instead, the misconduct merely afforded Samsung a ground upon which to seek the declaration, a course on which it embarked voluntarily.

Nor was it necessary for Samsung to prove the spoliation as the basis for an unclean hands defense in opposition to Rambus' counterclaims because Rambus dismissed those with prejudice. Thus, Samsung cannot be heard to assert that the fees which it now seeks were causally connected to the spoliation as a predicate for an unclean hands defense to Rambus' counterclaims. For these reasons, Samsung has not established that the requested attorney's fees are related to the misconduct on which the Court has found the case exceptional, and thus an award of attorney's fees is not appropriate.

Samsung also seeks an award of attorney's fees under the Court's inherent power to sanction the prosecution of bad faith litigation and litigation misconduct. "When rules alone do not provide courts with sufficient authority to protect their integrity and prevent abuses of the judicial process, the inherent power fills the gap." Shepherd v. American Broadcasting Cos., Inc., 62 F.3d 1469, 1474 (D.C. Cir. 1995). "The inherent power encompasses the power to sanction attorney or party misconduct," and includes the power to assess attorney's fees "when a party has acted in bad faith, vexatiously, wantonly, or for oppressive reasons." Chambers v. NASCO, Inc., 501 U.S. 32, 45-46 (1991) (quoting Alyeska Pipeline Service Co. v. Wilderness Society, 421 U.S.

240, 259 (1975)) (omitting internal quotation marks). In Chambers, the Supreme Court held that

> if a court finds that fraud has been practiced upon it, or that the very temple of justice has been defiled, it may assess attorney's fees against the responsible party, as it may when a party shows bad faith by delaying or disrupting the litigation or by hampering enforcement of a court order. The imposition of sanctions in this instance transcends a court's equitable power concerning relations between the parties and reaches a court's inherent power to police itself, thus serving the dual purpose of vindicating judicial authority without resort to the more drastic sanctions available for contempt of court and making the prevailing party whole for expenses caused by his opponent's obstinacy.

Id. at 46 (omitting internal citations and quotation marks). Of course, inherent powers must be exercised with restraint and discretion. See id. at 44.

With respect to when it is appropriate to invoke the inherent power, the Supreme Court has advised that the sanctioning scheme found in various statutes and rules has not displaced courts' inherent power. See id. at 46. However, "when there is bad-faith conduct in the course of litigation that could be adequately sanctioned under [a statute or] the Rules, the court ordinarily should rely on the [statute or] Rules rather than the inherent power." Id. at 50. However, "if in the informed discretion of the court, neither the statute nor the Rules are up to the task, the court may safely rely on its inherent power." Id. As the Federal Circuit has characterized the Supreme Court's admonition, "courts should only resort to further sanctions when misconduct remains unremedied by those initial tools," i.e. "where the rules or statutes do not reach the acts which degrade the judicial system." Amsted Industries Inc. v. Buckeye Steel Castings Co., 23 F.3d 374, 379 (Fed. Cir. 1994) (quoting Chambers, 501 U.S. at 41-42).

Given that the Court found this case to be exceptional, it cannot be said that § 285 was inadequate to reach Rambus' spoliation. Rambus' litigation misconduct was not left unremedied by § 285. Rather, the Court simply exercised its discretion in finding that an award of attorney's fees on that basis was not appropriate. Thus, with respect to spoliation, it is unnecessary further to consider whether an award of attorney's fees under the inherent powers is necessary to sanction Rambus' spoliation.

However, the Court rejected a finding of exceptionality based on Rambus' alleged "gaming of the system," and thus it is necessary to consider whether it is appropriate to impose, under the Court's inherent power, sanctions for the asserted vexation or the bringing the counterclaims in bad faith. For the reasons set forth previously, the Court finds that Rambus did not assert its counterclaims in bad faith or for the purpose of vexation. Nor, given the posture of the Hynix v. Rambus case in the Northern District of California at the time the counterclaims were filed can it be said that the counterclaims were objectively baseless. Under the facts of this case, it cannot be said that the presentation of the counterclaims was vexatious or in bad faith, notwithstanding that Rambus spoliated evidence in anticipation of litigation.[40]

CONCLUSION

Considering the record as a whole, and for the foregoing reasons, the Court finds that this is not an appropriate case in which to award attorney's fees to Samsung. Hence, SAMSUNG'S MOTION FOR FINDING THAT SAMSUNG IS A PREVAILING PARTY AND THE AWARD OF REASON-ABLE ATTORNEY'S FEES (Docket No. 87) and SAMSUNG'S MOTION TO FIND THIS AN EXCEPTIONAL CASE AND FOR ATTORNEY FEES UNDER 35 U.S.C. § 285 (Docket No. 89) will be denied.

The Clerk is directed to send a copy of this Memorandum Opinion to all counsel of record.

It is so ORDERED.

/s/

Robert E. Payne
United States District Judge

Richmond, Virginia
Date: July 18, 2006

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[40] Samsung's claim for attorney's fees, whether under § 285 or the Court's inherent power, is not directed toward fees incurred in addressing Rambus' defense of Samsung's declaratory judgment complaint.

APPENDIX G

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
Richmond Division

[Filed JUL 18, 2006]

Civil Action No. 3:05cv406

SAMSUNG ELECTRONICS CO., LTD.,
Plaintiff,

v.

RAMBUS INC.,
Defendant.

ORDER

For the reasons set forth in the accompanying Memorandum Opinion (Docket No. 136), it is hereby ORDERED that Samsung's petition for attorney's fees (Docket Nos. 87 and 89) is DENIED.

The Clerk is directed to close the case and to send a copy of this Order to all counsel of record.

It is so ORDERED.

/s/ Robert E. Payne
UNITED STATES DISTRICT JUDGE

Date: July 18, 2006
Richmond, VA