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Shredding Before Suing? Think Twice (Update)

Parties that are considering filing suit are now on notice from at least one federal Court of Appeals: shredding relevant documents after identifying litigation targets can lead to spoliation sanctions, even if the destruction occurred before litigation was “imminent” or “probable without significant contingencies.” The same court also approved piercing the attorney-client privilege to provide key evidence of the party’s knowledge and intentions before it filed suit. The privilege was pierced based on the crime-fraud exception, citing a state penal statute prohibiting willful destruction of any document knowing that the document “is about to be produced in evidence,” with the intent “to prevent it from being produced.” Although this decision arose in patent litigation, the spoliation principles appear to have wide application outside the patent arena.

In a prior Sutherland [Legal Alert](#), we reported that Rambus Inc. lost the right to assert its patents against Micron Technology, Inc., after a federal judge concluded that Rambus intentionally destroyed numerous relevant documents in preparation for enforcing its patent portfolio. That spoliation finding has been affirmed on appeal, because litigation was “reasonably foreseeable” when Rambus destroyed relevant documents. The sanction rendering the Rambus patents unenforceable was reversed, however, based upon inadequate factual findings of bad faith and prejudice.

This decision may not provide businesses with a bright-line rule—the Court of Appeals for the Federal Circuit emphasized that the standard is “flexible [and] fact-specific”—but potential plaintiffs now are on notice that document destruction occurring after they identify litigation targets will, at the very least, raise a strong presumption that spoliation has occurred.¹ In a companion case, the Federal Circuit reversed a California federal court ruling that sided with Rambus.² The Federal Circuit remanded both cases for further proceedings.³

When is litigation “reasonably foreseeable”?

In both cases, the Federal Circuit had the opportunity to address a very practical problem: When will litigation be deemed “reasonably foreseeable,” triggering the duty to preserve evidence? Rambus argued for a narrow test that would require litigation to be “imminent, or probable without significant contingencies,” to trigger the duty to preserve evidence. The Federal Circuit rejected that test, instead ruling that “reasonably foreseeable” is an objective standard that does not ask whether the party in fact reasonably foresaw litigation, but instead asks whether a reasonable party in the same factual circumstances would have reasonably foreseen litigation. Indeed, the Federal Circuit explained that whether litigation is “reasonably foreseeable” is a flexible, fact-specific standard that allows a district court to exercise the discretion necessary to confront the myriad factual situations inherent in the spoliation inquiry. This standard does not trigger the duty to preserve documents from the mere existence of a potential claim or the distant possibility of litigation. Neither does litigation have to be “imminent, or probable without significant contingencies,” as proposed by Rambus.

¹ See *Micron Technology, Inc. v. Rambus Inc.*, 255 F.R.D. 135 (D. Del. 2009), *aff’d in part, vacated in part, and remanded Micron Technology, Inc. v. Rambus Inc.*, No. 2009-1263 (Fed. Cir. May 13, 2011).

² See *Hynix Semiconductor Inc. v. Rambus Inc.*, No. 2009-1299, -1347 (Fed. Cir. May 13, 2011), *affirming in part, vacating in part and remanding* 591 F. Supp. 2d 1038 (N.D. Cal. 2006), and other rulings not related to spoliation.

³ The Federal Circuit coordinated Hynix’s appeal of the California district court judgment and Rambus’s appeal of the Delaware decision. After oral argument in April 2010, the court *sua sponte* ordered reargument of both cases before an expanded panel of five judges in October 2010. The Federal Circuit rarely uses expanded panels.

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In applying the objective standard of “reasonably foreseeable,” in the *Micron* case, the Federal Circuit found that the Delaware federal district court had sufficient evidence to support its finding that litigation was reasonably foreseeable to Rambus no later than December 1998—the point in time when Rambus identified potential litigation targets. The following timeline details the relevant events that occurred leading up to the December 1998 date:

- October 1997: Rambus hires in-house counsel to manage patent portfolio.
- March 1998: Rambus’s in-house counsel works with outside counsel to develop both licensing and litigation strategies. Specific to litigation, the in-house counsel and outside counsel discuss trial graphics and claims, retaining experts, gathering critical documents, implementing a document retention policy, and building a case against potential litigation targets, including Micron, Fujitsu, Samsung and Hyundai.
- July 1998: Rambus implements a companywide document retention policy and destroys relevant, discoverable documents.
- August–September 1998: Rambus retains outside patent prosecution counsel.
- September 3, 1998: First major “Shred Day,” when employees destroyed documents pursuant to the company’s new document retention policy.
- Near end of 1998–December 1998: Rambus identifies potential litigation targets in anticipation that business negotiations with Intel might fail. Rambus creates internal claim charts asserting infringement against Micron. Rambus also articulates a time frame and motive (around Q1 of 2000, to allow industry investment to reach the “point of no return”) for implementation of the Rambus litigation strategy.

After finding that litigation was “reasonably foreseeable” for Rambus as of December 1998, creating a duty to preserve documents following that date, the trial court also found that Rambus continued to destroy relevant documents after December 1998. Another major Shred Day occurred in August 1999.

Based on these events, the Federal Circuit simply needed to determine whether the “district court clearly erred when it determined that, at some time before the second shred day in August of 1999, litigation was reasonably foreseeable.” The Federal Circuit panel concluded that the district court did not clearly err, finding sufficient evidence supporting these key conclusions:

- Rambus intended to implement a document retention policy to support its litigation strategy by frustrating the fact-finding efforts of its litigation opponents. Indeed, there was sufficient evidence to show that Rambus instituted the document retention policy to make itself “battle ready.” For example, despite the policy’s stated goal of destroying all documents once they were old enough, employees were instructed to look for helpful documents to keep. Moreover, on March 16, 1998, an internal email noted a “growing worry” that email backup tapes were “discoverable information,” and discussions began regarding how long to keep these backup tapes.
- Rambus was on notice of potentially infringing activities by particular manufacturers well before the second Shred Day. Indeed, numerous internal documents manifested Rambus’s plan to play its “IP card with the DRAM companies” against SDRAM products, through either a patent infringement or a breach of contract suit.

- Rambus took several steps to prepare for litigation prior to its second Shred Day in August 1999. In particular, on June 27, 1999, Rambus established “IP 3Q ’99 Goals,” including goals for “Licensing/Litigation Readiness.” These goals included “[p]repar[ing] litigation strategy against 1 of the 3 manufacturers,” being “[r]eady for litigation with 30 days notice,” and “[o]rganiz[ing] [the] 1999 shredding party at Rambus.” In addition, on July 8, 1999, Rambus’s outside litigation counsel prepared a timeline for the proposed patent infringement suits showing that Rambus planned to file complaints on October 1, 1999.
- Given that Rambus is the plaintiff-patentee, it was Rambus’s decision to litigate. In other words, whether litigation was reasonably foreseeable was largely dependent on whether Rambus chose to litigate.
- The relationship between Rambus and the manufacturers involving RDRAM did not make litigation significantly less likely, but only delayed Rambus’s initiation of litigation until the manufacturers were either too invested in RDRAM for the SDRAM litigation to negatively impact Rambus’s sales, or until Rambus had no choice but to sue because RDRAM was rejected.

Piercing the Attorney-Client Privilege

The trial court based its findings on numerous communications that a prudent attorney and client would expect to be protected by the attorney-client privilege. Citing a California penal statute, the Federal Circuit affirmed the trial judge’s conclusion that piercing the privilege was proper, because Micron had presented a prima facie case under the crime-fraud exception. That statute prohibited willful destruction of any document knowing that the document “is about to be produced in evidence,” with the intent “to prevent it from being produced.”

Rambus urged that the statute “ ‘connote[s] a temporal closeness’ ” between the destruction of the evidence and the time when it was to be produced, and argued that such temporal closeness was missing under these facts. The Federal Circuit rejected that view, because it “would make no sense to allow Rambus to escape liability, criminal or otherwise, by intentionally destroying evidence and then waiting for an arbitrary time before choosing to file suit.”

Next Steps

It remains to be seen how this objective “reasonably foreseeable” standard will be applied to a defendant. As both the party accused of spoliation and the plaintiff, Rambus was uniquely qualified to recognize when litigation was reasonably foreseeable. Also, because of the importance of these issues to the parties, a motion for rehearing is likely; the deadline for filing rehearing motions has been extended to June 27. All businesses that anticipate being plaintiffs or defendants in litigation should monitor the progress of these cases and consider carefully how their holdings might apply to different facts.



If you have any questions about this Legal Alert, please feel free to contact any of the attorneys listed below or the Sutherland attorney with whom you regularly work.

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