

EVALUATING YOUR RECORD RETENTION PROGRAM WHEN YOUR COMPANY "REASONABLY ANTICIPATES" FILING LITIGATION

By Kevin Brady

In a "litigation free" atmosphere, if the company has created and implemented a clearly defined and reasonable record retention plan that identifies those business-critical records that should be kept for legal, business or regulatory reasons and has set appropriate retention periods, then information not meeting the retention guidelines can be destroyed. *See Lewy v. Remington Arms Co.*, 836 F.2d 1104, 1111-12 (8th Cir. 1988). However, with pending or threatened litigation, the destruction component of the record retention plan must be flexible enough to preserve potentially relevant information that does not exist elsewhere for fear of destroying data relevant to the litigation and then facing a spoliation charge. The difficult question is determining when litigation becomes "reasonably anticipated"?

More courts are starting to face situations where they are forced to address the issue of when a company should "reasonably anticipate" litigation and thus implement a plan to preserve relevant data. The most recent focus on this issue has been two patent infringement cases filed almost simultaneously with one common party (Rambus, Inc.) involving the same set of facts with two different judges, one on the east coast, and one on the west coast. These two cases are unique in that they are one of the few times that courts have analyzed the "reasonably anticipates" litigation from the perspective of the company filing the lawsuit as opposed to the responding party. Unfortunately, the two courts reached opposite and conflicting outcomes.

RAMBUS I – THE VIRGINIA ACTION

Rambus is a company that develops and licenses technologies to companies that manufacture semiconductor memory devices such as Direct Random Access Memory ("DRAM"). On August 8, 2000, Rambus brought an infringement action against Infineon Technologies. *Rambus, Inc. v. Infineon Techs. AG*, 220 F.R.D. 264 (E.D. Va. 2004). ("Rambus I" or the "Virginia Action"). During discovery, Infineon moved to compel the production of documents and testimony relating to, among other things, Rambus' document retention and destruction policy. *Id.* at 270.

Infineon argued that Rambus instituted its document retention program at the same time it knew that it would be filing litigation regarding certain patents. Infineon argued, therefore, that Rambus failed to preserve relevant evidence. Infineon noted that Rambus' privilege log showed that, in February 1998, at the same time at which the Company's outside counsel was developing the Company's document retention program, he sent and received attorney-client communications regarding "legal strategy in anticipation of litigation" and "strategic patent litigation." Moreover, Infineon argued that three weeks after the 1998 Shred Day¹ Rambus' in-house counsel, Neil Steinberg, sent Outside Counsel a memorandum entitled "preliminary infringement study." *Id.* at 285.

¹ Shred Days occurred in 1998, 1999 and 2000 when Rambus's employees participated in a company-wide purging event. On these days, Rambus employed an outside company to provide on-site document shredding devices to destroy documents as part of its document retention policy. Employees were instructed to follow document retention policy guidelines to determine what to keep and what to throw away and they were given burlap sacks for material that needed to be shredded.

Rambus responded by pointing to the slide presentation that its outside Counsel gave to Rambus employees immediately before Shred Day. This presentation instructed employees that, *inter alia*, documents designated as containing trade secret information should be retained for the life of the trade secret, that personnel records should be kept for a period of three years, and that employees should "LOOK FOR THINGS TO KEEP" and to "LOOK FOR REASONS TO KEEP IT." *Id.* Infineon also referenced an internal Rambus document from June of 1999 that discussed the company's goals for 1999. The company's stated goals under the heading "Licensing/Litigation Readiness," included:

- Prepare licensing positions against 3 manufacturers;
- Prepare litigation strategy against 1 of the 3 manufacturers (re: 3D);
- Ready for litigation with 30 days notice; and
- Organize 1999 shredding party at Rambus.

Id. at 287.

Infineon alleged that Rambus had destroyed approximately two million pages as part of its annual "Shred Day" program that were pertinent to the issues in the Virginia Action. *Id.* at 280. Moreover, Infineon alleged that the destruction was part of Rambus's licensing strategy to protect its portfolio of patents (which expressly included, as part of this strategy, filing lawsuits against DRAM manufacturers) and so at the same time Rambus was planning to destroy information related to its patents, it was "anticipating litigation" with those manufacturers. *Id.* at 285. Infineon further argued that even though Rambus had claimed that the information related to the creation and implementation of the document retention policy was privileged, the crime/fraud exception to the work product privilege compelled the disclosure of that information because Rambus had spoliated relevant information. *Id.* at 270. Rambus admitted that when it instituted its document retention policy, there were some discovery-related concerns – Company executives felt that if the Company was ever asked to produce information from the thousands of backup tapes the Company had, that it would be "beyond...human endurance" to figure out what was on the tapes and that they would have to review all the information contained on the tapes, which would require vast resources. *Id.* at 285. Rambus contended that it adopted its document retention policy for wholly legitimate business reasons (reducing search and review costs), and not for the purpose of eliminating potentially damaging documents. *Id.* at 286.

In its March 17, 2004 opinion granting Infineon's motion to compel, the court found that even if Rambus did not create its document retention policy in bad faith, it was guilty of spoliation since it "anticipated litigation" when it instituted its document retention program. *Id.* at 280. The court did not identify a specific point in time when Rambus should have anticipated litigation, but rather focused on the improper connection between the shredding of documents as part of its document retention policy and the Company's preparations for patent litigation. *Id.* at 285.

RAMBUS II – THE CALIFORNIA ACTION

In an action filed on August 29, 2000, Hynix Semiconductors sued Rambus seeking a declaratory judgment of non-infringement with regard to eleven Rambus patents. [Hynix Semiconductor Inc. v. Rambus, Inc.](#), No. C-00-20905 RMW, 2006 WL 565893 (N.D. Cal. Jan. 5, 2006) ("*Rambus II*" or the "California Action"). In January 2005, after the Virginia court's finding of spoliation, Hynix moved for leave to add a defense of unclean hands. The court granted the motion and also ordered that the unclean hands defense would be a separate initial phase of the trial of the parties' claims. *Id.* at 2. The California court, like the Virginia court, had to decide whether Rambus adopted its document retention plan in order to destroy documents in advance of a planned litigation

campaign against DRAM manufacturers and if so, whether the court should dismiss Rambus' patent claims against Hynix as a sanction for such conduct. *Id.* at 1. Hynix, armed with the discovery and rulings from the Virginia Action, sounded the same theme that Infineon had sounded in the Virginia Action – that Rambus adopted its document retention policy with an eye toward destroying documents about its DRAM patents at the same time that it was contemplating litigation regarding those patents, and that Rambus had spoliated evidence and prejudiced Hynix's rights. *Id.* at 19. Unfortunately for Hynix, the California court did not see things the same way the Virginia court had.

The California court found that because the first lawsuit initiated by Rambus with regard to its DRAM patents (against Hitachi) had not been filed until January 18, 2000, litigation was not actively pending when Rambus formulated and adopted its document retention policy or at the time of the 1998 and 1999 Shred Days. *Id.* at 21. The court then had to address the issue of when litigation was "reasonably foreseeable" to Rambus. *Id.* This presented a unique issue for the court, in that almost all of the prior decisions dealing with "reasonably anticipating" litigation focused on that issue from the perspective of a party responding to the filing and not the party which had filed, or was contemplating filing, a lawsuit. The California court decided that although Rambus included litigation as part of its licensing strategy as early as February 1998, the institution of litigation could not be said to have been "reasonably probable" at that time because several contingencies had to occur before Rambus would engage in litigation. In particular, the Court noted that "the path to litigation was neither clear nor immediate" because those contingencies included, among other things, Rambus needing the approval of its Board to even commence negotiations with a DRAM manufacturer about the patents in question. In addition, the targeted DRAM manufacturers first had to reject Rambus's licensing terms before Rambus filed suit against them. *Id.* at *22.

As a result, the court found that "although Rambus began formulating a licensing strategy that included a litigation strategy as of early 1998, Rambus did not actively contemplate litigation or believe litigation against any particular DRAM manufacturer to be necessary or wise before its negotiation with Hitachi failed...in late 1999." *Id.* at 24. The court determined that litigation became probable in late 1999 when litigation counsel for the Hitachi matter was selected. "Thus, Rambus's adoption and implementation of its content neutral document retention policy in mid-1998 was a permissible business decision [and] the destruction of documents on the 1998 and 1999 Shred Days pursuant to the policy did not constitute unlawful spoliation." *Id.* While Hynix did prove that Rambus destroyed additional records on Shred Day 2000, in December 2000 which was after Hynix had initiated the California Action, Hynix failed to demonstrate that Rambus destroyed any information relevant to the patents at issue. *Id.*

In finding that Rambus did not engage in unlawful spoliation of evidence, the court noted that "[t]he implementation of a document retention policy that was intentionally designed to discard damaging documents should litigation later become probable or actually commence would be improper. The evidence here does not support the conclusion that Rambus intentionally designed its Document Retention Policy to get rid of *particular* damaging documents." *Id.* at *25 (emphasis added).

LESSONS LEARNED FROM THE TWO RAMBUS CASES

So how do we reconcile these two decisions, and more importantly, what steps should a company take to avoid the result in the Virginia Action and, on the other hand, to maximize the possibility that it will get the result in the California Action? First, we need to take a look at the cases from

the courts' perspectives. In the California Action, the court viewed the events from a practical perspective. For instance, in referring to Rambus's document retention policy, citing Arthur Andersen LLP v. United States, 544 U.S. 696 (2005), the California court seemed unfazed by the annual "Shred Days" and potentially discoverable information because it noted that a legitimate consequence of the policy is that "relevant information may be kept out of the hands of adverse parties." *Rambus II* at *20. However, the Court did note that "a policy adopted or utilized to justify the destruction of relevant information is not a valid document retention policy." *Id.*

By comparison, in the Virginia Action, the court took a more holistic view by analyzing the temporal relationship between the document retention policies and Rambus' litigation planning. The Virginia court found that Rambus intended to destroy potentially relevant information because it "explicitly linked" the document retention policy to the shredding of documents in preparation for litigation. *Rambus I* at 287. The California court also considered Rambus's acts in the context of the industry it was involved in and noted that in 1998, when Rambus was formulating both policies, Rambus did think future litigation against the DRAM manufacturer was possible if licensing negotiations had failed. *Rambus II* at *23. In short, in order for the prospects of the chance of filing litigation to change from possible to probable, something more needed to occur. The court in referring to the ABA Section of Litigation, Civil Discovery Standards, August 1999, Standard No. 10, noted that "probable" means "litigation must be more than a possibility" because as a practical matter, "[l]itigation 'is an ever-present possibility in American life.'" *Rambus II* at *21 (quoting *Nat'l Union Fire Ins. Co. v. Murray Sheet Metal Co.*, 967 F.2d 980, 984 (4th Cir. 1992)). So, as a result, the California court set a higher standard for "anticipating litigation" – not the "possibility" but rather the "probability" that litigation will occur. Cf. *Zubulake v. UBS Warburg LLC*, 220 F.R.D. 212, 216 (S.D.N.Y. 2003) (noting that UBS Warburg should have anticipated litigation when the "possibility" existed that Ms. Zubulake might sue before she filed her EEOC claim).

Key Points to Remember:

- 1) **Planning your retention program.** While initiating a record retention policy is a fairly standard and recommended business practice, it should be done, if at all possible, in a "litigation free" environment or at the very least separate and distinct from any litigation planning or strategy. The purpose for creating and implementing a record retention program should be clear in its focus on what the company defines as its "records." It should be media neutral and serve a legitimate business purpose.
- 2) **Making the decision about litigation.** When companies are faced with potential litigation – whether it is "possible" or "probable" litigation – there should be an internal corporate procedure for a committee to review and determine whether the company "reasonably anticipates" litigation. And a decision should be made in good faith and on an informed basis. This is especially significant in situations where courts in different jurisdictions set different standards for determining when litigation is "reasonably anticipated." Companies need to be prepared to address these differences in reaching a decision about litigation.
- 3) **Consider the industry in assessing experience.** Since "litigation is an ever-present possibility in American life," a company should consider its own litigation experiences as well as the litigiousness of the industry it is in, when making a decision about the likelihood of litigation occurring.