Knoxville Bar Association

THE CONSIGLIERE

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Let us know your ideas and suggestions for *THE CONSIGLIERE:*

- Call or e-mail Chris Field at 312-8183 or ccf@lyblaw.net or Marsha Wilson at 522-6522 or mwilson@knoxbar.org.
- Submit an article for consideration.
- Give us your feedback on this newsletter.
- Tell us about CLE topics or networking events you would like the Section to sponsor.

FROM THE CO-CHAIRS

It's the start of a new year and we are excited to unveil a new series of meetings and CLE events from the Corporate Counsel Section.

We plan to have our traditional four quarterly events this year. We will start with a social event at Nama in Bearden on March 14 at 5:30. We also will be bringing additional CLE opportunities throughout the year. This formula has worked well for the last three years that Co-Chair Marcia Kilby and I have overseen.

Our Membership and Meetings Chairman, Ned Morgan, is working hard on putting together an agenda and dates for our quarterly meetings. We try to blend fun with information, and hope that all attendees will be treated to both.

Last year's big story for corporate counsel was e-discovery. We will continue to bring updates in that field. However, it seems that the political landscape and the Fiscal Cliff are the pressing political issues that will color the nature of our events.

As usual, we will also bring a fantastic annual CLE in August. This event never fails to be an informative (and scary) session for corporate counsel in our area. Peter Brewer of Baker Donelson put together a fantastic program last year. He has just confirmed BPR Chief Disciplinary Counsel Sandy Garrett for this year. Stay tuned for more details.

Additionally, we depend on Chris Field to publish our quarterly newsletter, *The Congisliere*. I would encourage you to read it every quarter, as it has informative articles about many issues that a corporate counsel would wish to know or keep in their toolbox. It's certainly quality through and through.

We would also encourage input from the local bar. Please provide us with any ideas you may have regarding CLE's and other informational topics that we can help with. This is our true goal, to be informative to lawyers both in-house and out.

Wherefore, the Corporate Counsel Section respectfully requests this honorable Bar to once again support our annual activities. Thanks for your participation.

David Headrick
Co-Chair of the KBA Corporate Counsel Section

SECTION MEETING

When: March 14, 2013, 5:30 p.m.

Where: Nama, 5130 Kingston Pike

Catch up with your fellow section members over spicy tuna rolls and warm sake!

TAX TIDBIT

Business Provisions in the 2012 American Taxpayer Relief Act

By: Darsi Newman Sirknen

Woolf, McClane, Bright, Allen & Carpenter, PLLC

The recently-enacted 2012 American Taxpayer Relief Act extends several tax breaks for businesses that would have otherwise expired at the end of 2012. Some of the more commonly-used extenders include 15-year straight-line depreciation of leasehold improvements, qualified restaurant buildings and improvements, and qualified retail improvements; increased expensing (i.e., current deduction) limitations for equipment and certain real property under § 179; and the work opportunity tax credit. Most of the extenders were retroactive to the beginning of 2012 and will expire at the end of 2013 if not re-extended.

Generally, a business cannot deduct the cost of property it purchases if the property will be useful beyond the year in which it is purchased. Instead, the cost of the property is "capitalized" and depreciated over several years. Without the extension of 15-year straight-line depreciation for leasehold improvements, qualified restaurant building and improvements, and qualified retail improvements, the cost of such improvements would be depreciable over the 39-year period generally applicable to buildings. In reducing the cost recovery period for such improvements, Congress recognized that the improvements were not always useful for as long as the building itself and allowed businesses to recover improvement costs over a period that was more in line with the improvements' useful lives.

Section 179 is another exception to the generally-applicable depreciation rules. It allows corporate taxpayers to deduct certain capital costs in the year in which they are made instead of recovering them through depreciation. A qualifying taxpayer may generally elect to deduct up to $500,000 of capital expenditures, subject to a gradual reduction once total capital expenditures exceed $2 Million. These limits were extended through 2013, at the end of which time the maximum deduction amount will decrease to $25,000, with the phaseout beginning once total expenditures reach $200,000. Together with the 15-year depreciation allowance described above, § 179 encourages investment in capital by allowing the purchaser to recover its costs in the form

TAX TIDBIT: BUSINESS PROVISIONS IN THE 2012 AMERICAN TAXPAYER RELIEF ACT

of tax deductions sooner than would otherwise be allowed under standard depreciation rules.

The work opportunity tax credit is generally worth up to $2,400 for each eligible employee, although higher limits are available for certain veterans or long-term family assistance recipients. Eligible employees include members of the following groups: (1) qualified members of families receiving assistance under the Temporary Assistance for Needy Families (TANF) program; (2) qualified veterans; (3) qualified ex-felons; (4) residents of designated communities; (5) vocational rehabilitation referrals; (6) qualified summer youth employees; (7) qualified members of families in the Supplemental Nutritional Assistance Program (SNAP); (8) qualified Supplemental Security Income recipients; or (9) long-term family assistance recipients. To be eligible, the employee must also have completed at least 120 hours of service for the employer. The goal of the work opportunity credit is to encourage the hiring of individuals included within traditionally disadvantaged groups.

Although not related to the 2012 American Taxpayer Relief Act, businesses should be aware of a change in the employee's portion of withholding tax in 2013. The Federal Insurance Contributions Act (FICA) imposes two taxes on employers and employees: the Social Security tax and the Medicare tax. The Medicare tax is 1.45% of wages for both employers and employees. The Social Security tax is generally 6.2% of wages for both employees and employers up to a ceiling amount ($113,700 in 2013); however, the 2010 Tax Relief Act temporarily reduced the employee's portion of the Social Security tax to 4.2%. That reduction was not extended past the end of 2012; thus, for 2013, the employee's portion of the Social Security tax has returned to 6.2%. In addition to the increase in Social Security tax, the Patient Protection and Affordable Care Act enacted in 2010 also added 0.9% to the employee's share of Medicare Tax for wages in excess of $200,000 beginning in 2013. Neither of these increases affects the amount of Social Security and Medicare taxes the employer must pay itself; however, they do affect the amount that the employer must withhold from the employee's pay to cover the employee's portion of the taxes.

INTELLECTUAL PROPERTY

When Aggressive Litigation Preparation Ultimately Spoils the Prize

By: Ian G. McFarland,
Merchant & Gould, P.C.

Rambus, Inc. develops technology for incorporation into various products and has attained a patent portfolio related to those efforts, from which part of its revenue is derived through licensing fees paid by product manufacturers and sellers. However, Micron Technologies, Inc., a large manufacturer, views Rambus's recent licensing position as unreasonable and refuses to take a license. Unsatisfied and afraid that other manufacturers will follow Micron's

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lead, Rambus decides that patent litigation is necessary. In fact, Rambus quietly began 'preparing for battle' several months earlier, when it implemented a document retention and destruction policy in a way that discriminated between documents helpful to its case and those potentially helpful to an adverse party. In particular, Rambus purged its patent prosecution files of any notes or critical information, and held company-wide "shred days" to destroy all documents subject to discovery in litigation, with the explicit caveat for employees to lookout for any documents tending to establish elements for its case. After the lawsuit commences, and despite the efforts of Rambus to conceal, discovery reveals the document retention and destruction tactics employed by Rambus and the court rules that those tactics constituted bad faith spoliation of evidence that prejudiced Micron. Accordingly, the court sanctions Rambus by holding that it cannot enforce its patents against Micron, thereby leaving Rambus without recourse against Micron's infringement, and likely others too. Indeed, its overzealous preparation for litigation was the predominant reason for its downfall. [1] *But why?*

The answer lies in the motivation for and execution of the document retention and destruction policy. The law imposes on all parties an obligation to preserve information once litigation becomes reasonably foreseeable. Even if Rambus's document destruction predated the reasonable prospect of a lawsuit, it still constituted bad faith because it was adopted to make Rambus 'battle ready' for litigation, was executed selectively with respect to content, and there were efforts to conceal the extent of the document destruction. "[Plaintiff's] destruction of evidence was of the worst type: intentional, widespread, advantage seeking, and concealed."[2] The destruction was prejudicial to Micron because it was left without the ability to attain evidence relevant to many of its claims and defenses, one of which being inequitable conduct. The consequence of inequitable conduct (a/k/a unclean hands) is unenforceability of the entire patent, and therefore, the court found that dispositive sanctions were justified. "[T]he deterrent effect of fees and costs or monetary sanctions would be insufficient; the temptation to destroy unfavorable evidence at the outset of high stakes litigation would overshadow the prospect of [lesser sanctions]."[3]

Every litigation counsel will prepare and distribute a litigation hold, or information retention policy, as one of the first measures after being retained. To Rambus's detriment, discovery revealed that it had retained outside litigation counsel very early on, but that it failed to follow instructions regarding document retention and failed to otherwise inform counsel of its execution of the litigation hold. The challenge then in avoiding Rambus's fate, is to diligently adhere to a sound information retention policy and foster a healthy dialogue between the counsel overseeing it and the individuals responsible for implementing and executing it.

An effective legal hold notice will communicate that all potentially relevant information must be preserved. To that extent, the bounds of 'potentially relevant information' should be clearly defined. Whether embodied as a paper document or electronically stored, all potentially relevant information, regardless of whom it helps or hurts, is subject to discovery by an adverse party in litigation. Preservation of this information, therefore, must be comprehensive. Consequently, an effective policy will address both

institutional retention as well as individual retention. Frequently, the sources of potentially relevant information may not be limited to infrastructure at the company's office and accessible by the IT staff, but rather may include personal computers and devices accessible outside the office. Importantly, the scope of the retention obligation may also attach to vendors, independent contractors, service providers, and other third party custodians. A distinct point-of-contact should be provided to each individual custodian for any questions, and some measure of responsibility should be placed on the individual custodians for ensuring that everyone subject to the policy is aware of it and understands it.

In conclusion, when it comes to document retention, transparency and neutrality will always result in a better outcome than covertness and selectivity.

[1] This hypothetical is loosely based on the facts provided in *Micron Technologies, Inc. v. Rambus, Inc.*, Case No. 00-792, 2013 U.S. Dist. LEXIS 154 (D. Del. Jan. 2, 2013).

[2] *Id*. at * 69-70.

[3] *Id*. at * 64.

Disclaimer: The information contained herein is strictly informational; it is not to be construed as legal advice.

ETHICS AND PROFESSIONAL RESPONSIBILITY

Defining a Corporation's Duties under Fed. R. Civ. P. 30(b)(6)

By: Greg Brown & Chris Field,
Lowe Yeager & Brown

You are general counsel at a large, regional restaurant supply company. The company was started in the mid-1960s. Until a few years ago, a number of the account managers had been with your company from its start. About six years ago, the company began to lose accounts to competitors. As the decline continued, each of the remaining old guard was "let go" and replaced with a younger counterpart.

Your company has been sued in federal court by a number of the former account managers for unlawfully "firing and hiring" on the basis of age. The head of human resources who oversaw the terminations has been elevated to vice president of operations. He is clearly the person most acquainted with the facts surrounding the turnover. The new head of HR was hired from outside the corporation and has no first-hand knowledge of the facts.

ETHICS AND PROFESSIONAL RESPONSIBILITY: Defining a Corporation's Duties under Fed. R. Civ. P. 30(b)(6)

Your company has retained a well-respected employment litigation firm, Obskur & Befudel, PLLC, to represent it in the case. Thus far, you have been very pleased with OB's professionalism and its tenacious representation, and you have taken a hands-off approach to the litigation.

Recently, the plaintiffs have noticed your company's deposition under Federal Rule of Procedure 30(b)(6). Obskur & Befudel advised your company to identify the *new* human resources director as the corporate designee, and you initially agreed that she could be qualified to testify on behalf of the company. In the weeks leading to the deposition, however, it has become obvious that OB is not putting any significant effort into preparing the witness for the deposition. They gave her some thin personnel folders and related email correspondence to review, but have not done much, if anything, to educate her about the corporation's decision-making. You also suspect that Obskur & Befudel is intentionally excluding the former head of human resources from the prep sessions. Your suspicions are confirmed when you confront the attorneys, as they confess their tactic with mischievous smirks. There are only three days before the deposition.

What are your duties, as a corporation, under Rule 30(b)(6)? Do you have a duty to produce the old human resources director? If not, do you have a duty to ensure that the old human resources director and the other decision-makers with actual knowledge are involved in the prep sessions?

To address a common misconception, a corporation does not have a duty under Rule 30(b)(6) to designate the "person most knowledgeable" of the underlying facts or designated areas of inquiry. It is not even necessary that the designee have *any* personal knowledge of the subject matter of the action, so long as the corporation takes the steps required to prepare the designee. Therefore, in our hypothetical, the new human resources director could be an appropriate designee, so long as she is properly prepared.

Under Rule 30(b)(6), the scope of the deposition is defined by the topics identified in the deposition notice. Those topics, in turn, provide a template for the corporation's preparation of its designee. The corporation must utilize all sources of relevant information reasonably known to the corporation to educate the designee. Using our hypothetical, assuming some of the topics identified in our opposing parties' notice concern events or decisions known by the old head of human resources, you are required, at a minimum, to take steps in the preparation sessions to gather his knowledge concerning those topics. In some situations, it may make sense for the corporation to designate more than one designee and relegate each designee's testimony to certain, limited topics. Certainly, it might be advisable for our hypothetical company to identify both the old and new human resource directors as designees.

In the end, as general counsel, you must assert yourself in the litigation process and ensure that your corporation fulfills its duties under Rule 30(b)(6). Otherwise, by following the bad advice of litigation counsel, your corporation could be hit with sanctions, including evidence preclusion, monetary sanctions, and even entry of default.[1] In addition, failure to properly prepare a witness may be a violation of Tennessee Rule of Professional Conduct 3.4(d), which prohibits attorneys from "fail[ing] to make

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a reasonably diligent effort to comply with a legally proper discovery request by an opposing party."

[1] For an extensive analysis of federal case law concerning a corporation's duties in preparing for a 30(b)(6) deposition , QBE Ins. Corp. v. Jorda Enterprises, Inc., 277 F.R.D. 676 (S.D. Fla. 2012), provides an excellent overview of federal case law on the subject.

Contact Information

See the contact information on the left-hand margin of this page. Use the hyperlinks to contact our Co-Chairs, David Headrick and Marcia Kilby; Editor Chris Field; or the KBA's Executive Director, Marsha Wilson.

See the web site address at the bottom of the left-hand margin on this page to access the official Knoxville Bar Association web site by the hyperlink.