WILMERHALE

Privilege Standing Committee Update

2007-08-31

Federal Circuit Clarifies Scope of Privilege Waiver for Advice of Counsel Defense

On August 20, 2007, the Federal Circuit Court, sitting en banc, unanimously held that asserting an advice of counsel defense and disclosing opinions of opinion counsel do not constitute waiver of the attorney-client privilege, or of work product protection, for communications with trial counsel, barring unusual circumstances. *In Re Seagate Technology, LLC*, Misc. Docket No. 83, 2007 U.S. App. LEXIS 19768 at *32, *36-7 (Fed. Cir., August 20, 2007).

Respondents Convolve, Inc. (Convolve) and Massachusetts Institute of Technology sued petitioner Seagate Technology, LLC (Seagate), alleging infringement of several patents. *Id*. at *6-7. Prior to the lawsuit, Seagate had commissioned opinions regarding the patents at issue, which opinions concluded that many of the patent claims were invalid, and that Seagate did not infringe. *Id*. at *7-8. As the court noted, "Seagate's opinion counsel operated separately and independently of trial counsel at all times." *Id*.

After initiation of the lawsuit, Seagate expressed its intent to rely on the opinion letters in defending against willful infringement. *Id*. at *8. Convolve moved to compel discovery of communications concerning the subject matter of the opinions, including communications to trial counsel. *Id*. The trial court found that Seagate had waived privilege and work product protection with regard to all such documents, and ordered Seagate to produce them. *Convolve, Inc. v. Compaq Comp. Corp.*, 224 F.R.D. 98 (S.D.N.Y. 2004) (Francis, Magistrate J.). Seagate petitioned the Federal Circuit for a writ of mandamus directing the trial court to vacate its order to produce. The Federal Court, *sua sponte*, ordered en banc review, and granted Seagate's petition. *In Re Seagate Technology*, 2007

U.S. App. LEXIS 19768 at *10.

In the wake of the Federal Circuit Court's holding in *In re Echostar Commc'ns. Corp.*, 448 F.3d 1294 (Fed. Cir. 2006), that an assertion of advice of counsel waives privilege for all communications on the same subject matter, federal courts have reached disparate conclusions regarding the extent to which such a waiver extends to communications with trial counsel. *In Re Seagate Technology*, 2007 U.S. App. LEXIS 19768 at *26-7. Noting this confusion, the court concluded that "the significantly different functions of trial counsel and opinion counsel advise against extending waiver to trial counsel. … Because of the fundamental difference between these types of legal advice, this situation does not present the classic 'sword and shield' concerns typically mandating broad subject matter waiver." *Id*. at *27-8. The court declined, however, to establish an absolute rule to this effect, allowing that courts might "exercise their discretion in unique circumstances to extend waiver to trial counsel, such as if a party or counsel engages in chicanery." *Id*. at *32 (attorney-client privilege), *36 (work product protection).

The court further opined on the standard for a finding of willful infringement in patent cases.

Third Circuit Denies Wholly-Owned Subsidiaries Access to Parent Corporation's Privileged Documents in Suit Brought by Subsidiaries

The Third Circuit (Ambro, J.) recently held that a parent corporation can invoke the attorney-client privilege to prevent the production of documents to bankrupt, wholly-owned subsidiaries in litigation brought by the debtor subsidiaries against the parent for breach of contract, breach of fiduciary duty, and other claims. *In re Teleglobe Commc'ns Corp.*, No. 06-2915, slip op. (3d Cir. July 17, 2007).

In 2000, Bell Canada Enterprises (BCE) bought the Canadian company, Teleglobe, along with Teleglobe's U.S. subsidiaries, and promptly directed the newly acquired companies to assume billions of dollars of debt in order to develop a new fiberoptic network. *Id.* at 9. In 2001, BCE began to reassess the project and, using the internal codename "Project X," began to consider how it might restructure Teleglobe. *Id.* In April of 2001, BCE stopped funding Teleglobe, effectively abandoning its subsidiary to bankruptcy. Teleglobe's US-based subsidiaries ("Debtors") filed for Chapter 11 bankruptcy protection in Delaware (Teleglobe sought relief under Canadian law) and subsequently, with their creditors, brought suit against BCE for breach of contract, breach of fiduciary duties, misrepresentation, and estoppel. *Id.* at 11.

During discovery, Debtors sought the production of documents created by BCE's in-house counsel and outside counsel hired to work on Project X, claiming that because BCE and Teleglobe had shared in-house counsel, they were co-clients in a joint-representation and therefore entitled to access each others' documents. Debtors argued that as wholly-owned subsidiaries of Teleglobe, they were entitled to assume Teleglobe's position in the joint representation. *Id.* at 13.

A Special Master overseeing discovery reviewed the challenged documents *in camera* and concluded that the documents supported Debtors' claim; the documents "revealed a broad legal representation of both BCE and Teleglobe by BCE's in-house attorneys relating to Teleglobe's restructuring alternatives." *Id*. at 18. The Special Master further held that even documents created by outside counsel for BCE alone were discoverable by Teleglobe because the documents had been

reviewed by in-house counsel, who could not withhold them from its other client, Teleglobe. *Id.* The District Court adopted the Special Master's findings and held that the documents were discoverable by Debtors because, as Teleglobe's wholly-owned subsidiaries, they were part of the joint representation as a matter of law. *Id.* at 19. BCE appealed the production order to the Third Circuit. On the basis of the findings discussed below, the Circuit Court reversed and remanded to the District Court.

First, the court held that although BCE and Teleglobe were co-clients in a joint representation (with in-house counsel as the companies' attorney), the scope of that representation was limited by the intent and expectations of the clients, and that the joint representation had ceased "when it be[came] clear to all parties that the clients' legal interests ha[d] diverged." *Id.* at 33.

Second, the court applied the "default" exception to the joint-client privilege: "[w]hen former co-clients sue one another, the default rule is that all communications made in the course of the joint representation are discoverable." *Id.* at 42. However, a joint representation (and the parties' attendant right to access each others' legal documents) does not extend to "matters known at the time of communication not to be in the common interest of the attorney's two clients." *Id.* at 48 (internal quotations omitted). This is true even if the attorney representing both clients does not heed his or her ethical obligations to stop the joint representation as soon as the clients' divergent interests become known. *Id.*

Relying on *Eureka Inv. Corp. v. Chicago Title Ins. Co.*, 743 F.2d 932 (D.C. Cir. 1984), the Third Circuit held that although in-house counsel improperly continued to represent Teleglobe after the two companies' interests diverged, BCE could not be penalized for its counsel's errors: "Counsel's failure to avoid a conflict of interest should not deprive the client of the privilege. The privilege, being the client's, should not be defeated solely because the attorney's conduct was ethically questionable." *In re Teleglobe,* No. 06-2915 at 48. Therefore, the court concluded that BCE's clear intent to terminate the co-client relationship, as demonstrated by its decision to hire outside counsel to advise in its restructuring of Teleglobe, effectively ended the joint representation—and Teleglobe's right to review legal documents—despite in-house counsel's failure to withdraw from its representation of Teleglobe. *Id.*

Third, the court held that there was no support in the record for a finding that Debtors had been parties to the joint-representation among Teleglobe, BCE and in-house counsel. *Id.* at 77. Further, because the attorney-client privilege with respect to confidences shared by the jointly represented cannot be waived by only one of the co-clients—both must agree to a waiver to third-parties—Teleglobe could not unilaterally waive the privilege and allow Debtors access to the documents. *Id.* at 73-76.

Fourth, documents reflecting advice of outside counsel that were beyond the scope of the joint representation did not become available to Teleglobe merely because they passed through in-house counsel's hands. *Id.* at 78-83. Again invoking the "*Eureka* principle," the Circuit held that in-house counsel's failure to recognize and address the conflict caused by its continuing joint representation should not strip BCE of its right to seek independent counsel and to protect that counsel's work product from discovery. *Id.* The court held that it is the "scope" of the joint

representation that is dispositive of questions concerning what materials must be shared among the clients; the fact that the information was shared with the joint attorney does not effect a waiver of BCE's privilege. *Id.* at 83.

In conclusion, the court instructed the District Court to determine the precise scope of the joint representation by evaluating the parties' intent and also by considering when they had congruent legal interests and at what point those interests diverged. *Id.* at 92-93. The court further instructed that evidence must support a finding that Debtors were a party to the joint representation among BCE and Teleglobe, and that such an expansion of the co-client relationship between BCE and Teleglobe could not be found as a matter of law. *Id.*

Massachusetts High Court Holds that Public Records Law Does Not Allow Access to the Commonwealth's Privileged Documents

In an unanimous decision, the Massachusetts Supreme Judicial Court recently ruled that the Commonwealth's public records law does not allow a private litigant to access documents reflecting attorney-client communications between a Massachusetts agency and its counsel. *Suffolk Constr. Co., Inc. v. Div. of Capital Asset Mgmt.*, 449 Mass. 444 (2007).

The decision resulted from a suit brought by Suffolk Construction (Suffolk), a contractor hired by Division of Capital Asset Management (DCAM), an agency of the Commonwealth's executive branch, to restore a public building now known as the John Adams Courthouse. Related to its breach of contract lawsuit, Suffolk made several public records requests, one of which sought documents between DCAM and its counsel. *Id.* at 447.

Suffolk argued that because the SJC had previously held that work product was not exempt from public records requests, documents protected by the attorney-client privilege should be similarly available for inspection. The court held that the public records law did not extinguish the attorney-client privilege, and that as with private parties, "confidential communications between public officers . . . and their legal counsel undertaken for the purpose of obtaining legal advice or assistance are protected under the normal rules of the attorney-client privilege." *Id.* at 450. The court distinguished privileged communications from work product, which is accessible as a public record unless the document falls under the "deliberative process" exception (a temporally-limited exception applied to memorandum about agency policy setting, *id.* at 455), by noting that work product is discoverable on a showing of need, unlike the "all but inviolable" attorney-client privilege. *Id.* at 446.

The court further held that allowing a private litigant to pierce the agency's privilege with a mere public records request would have a deleterious effect on the ability of public agencies to obtain advice of counsel, and would also give private litigants an unfair advantage over their public opponents who would have no such channel to access the private party's privileged documents. *Id.*

The court found that the purpose of the public records law would not be undermined by preserving the privilege because the agency would have to produce detailed indices accounting for its withheld documents and asserting grounds for its claim of privilege—grounds that could be challenged, as in any other proceeding. *Id.* at 460. Although the Legislature was silent on whether an exception to

the public records law existed to shield privileged documents, the Court found that "[i]f the Legislature intended to divest government officials and entities . . . of a privilege as basic and important as the attorney-client privilege, it would have made that intention unmistakenly clear."

House Judiciary Committee Takes Action to Curb Agency Demands for Waiver of Attorney-Client Privilege

On August 1, 2007, the House Judiciary Committee approved H.R. 3013, the "Attorney-Client Privilege Protection Act of 2007." The bill responds to the practice by various government agencies of encouraging organizations under scrutiny to waive attorney-client privilege and work product protections in order to avoid or reduce sanctions. H.R. Res. 3013 § 2(a). The stated purpose of the bill is to place on government agencies "clear and practical limits" designed to preserve attorney-client privilege and work product protections. *Id.* § 2(b).

The bill would forbid US government agents from demanding, requesting, or conditioning treatment on disclosure of protected communications. Proposed § 3014(b)(1). Furthermore, failure to cooperate with the government with regard to (A) assertions of attorney-client privilege or work product protection, (B) provision of counsel or payment of legal fees for employees, (C) entry into joint defense or common interest agreements with employees, (D) sharing of information with employees, or (E) failure to terminate or sanction employees could no longer be considered when making civil or criminal charging decisions. *Id.* § 3014(b)(2). However, the act would not prohibit agency investigators from requesting information that the agency reasonably believes is not protected by attorney-client privilege or the work product doctrine, and would not prohibit an agency from accepting an organization's "voluntary and unsolicited" disclosure of otherwise privileged information. *Id.* § 3014(c)-(d).

H.R. 3013 is a companion to S.186, an identical bill introduced in the Senate in January 2007 by Sen. Arlen Specter. A link to H.R. 3013 may be found here: http://thomas.loc.gov/cgi-bin/query/z?c110:H.R.3013:. The Senate's companion bill, S. 186, may be found here: http://thomas.loc.gov/cgi-bin/query/C?c110:./temp/~c1107C5qhz.

Practice Tip

When drafting documents, attorneys must carefully ensure litigation is anticipated before affixing the "work product" label to a document. Understanding the doctrine's reach can prevent an attorney from unintentionally triggering document preservation obligations. For more on protecting work product, read Unintended consequences of employing the "Work Product" label: A primer.