WILMERHALE

Privilege Standing Committee Update

2007-02-08

District Court Grants Protective Order to Third Party Asserting Work-Product Protection in Bankruptcy Action

According to the Eastern District of Pennsylvania (McLaughlin, J.), a non-party creditor may assert the work-product privilege in response to a subpoena served by the defendant-debtor in an adversary bankruptcy action. *In re Student Finance Corporation*, No. 06-MC-69, 2006 U.S. Dist. Lexis 86603 (E.D. Pa. Nov. 29, 2006). Allegations of fraudulent loan and business practices forced the Student Finance Corporation ("SFC") into involuntary bankruptcy, and many of the loans it had issued went into default, leaving the Royal Indemnity Corporation ("Royal") the largest creditor in SFC's bankruptcy. *Id*. at *3-4. In preparing for litigation that Royal contemplated bringing against both SFC and the trucking schools that allegedly participated in SFC's fraudulent transfers, Royal's attorneys hired a professional investigation firm to gather relevant information on SFC and the trucking schools. *Id*. at *4-5.

In subsequent litigation, the court-appointed bankruptcy trustee ("Trustee") brought suit against Career Path Training Corporation ("Career Path"), to recover funds that Career Path had allegedly received as fraudulent transfers from SFC. *Id*. at *7-8. Career Path subpoenaed the documents that the private investigation firm had generated in the course of its investigation, on behalf of Royal, into the conduct of SFC and the trucking schools (including Career Path). *Id*. at *8. When the investigation firm did not respond to the subpoena, Career Path filed a motion to compel production

of the documents. *Id*. at *9. Royal, the investigation firm, and Royal's law firm ("Respondents") sought a protective order on the grounds that the investigation documents constituted work product and were therefore privileged. *Id*.

Although the court determined that Respondents could not claim work-product protection under Fed. R. Civ. Pro. 26(b)(3) because they were not, in fact, parties to the litigation in which the work-product claim arose, *id*. at *14-23, it nevertheless held that the investigative documents were entitled to work-product protection because1) Rule 45 provides courts the authority to quash subpoenas seeking "privileged or other protected matter"; 2) the text of Rule 26(c) grants courts greater latitude in granting protective orders than 26(b)(3) allows with respect to findings of work-product protection; and 3) the common law work product doctrine articulated in *Hickman v. Taylor*, 239 U.S. 495 (1947), is permissive in scope. *In re Student Finance*, 2006 U.S. Dist. Lexis 86603, at *31-34. The court ruled that the documents clearly constituted work product, and granted the protective order because their production in the context of concurrent suits arising out of a bankruptcy could "impair [creditors'] attorneys' ability to investigate their clients' potential claims and to develop legal strategies," and "enable a defendant to utilize the creditors' investigation as his own and thereby free-ride" on the creditors' work. *Id*. at *49-50.

Undisclosed Opinion of Counsel Obtained by Accused Infringer Held Insufficient to Preclude Finding of Willful Infringement

Evidence that an accused patent infringer obtained an opinion of counsel relating to its liability is not sufficient to preclude a finding of willful infringement where defendant fails to disclose the substance of the advice. In *Black & Decker Inc. ("B&D") v. Robert Bosch Tool Corp. ("Bosch")*, the defendant Bosch filed several post-trial motions in an effort to overturn the jury's verdict finding willful infringement of B&D's patents for a jobsite radio. No. 04 C 7955, 2006, U.S. Dist. LEXIS 92882, at *2 (N.D. Ill. Dec. 22, 2006). Bosch argued, *inter alia*, that the finding of willful infringement should be overturned because it had sought legal advice regarding invalidity and infringement and had, therefore, acted in good faith. *Id.* at *17. At trial, however, Bosch did not waive the attorney-client privilege and introduce its counsel's advice. Instead, it asserted that *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004) (en banc), required that the company not be penalized for its refusal to waive the privilege. *Black & Decker Inc.*, 2006 U.S. Dist. LEXIS, at *17. The court (St. Eve, J.) agreed that under *Knorr-Bremse*, "Bosch is allowed to invoke the attorney-client privilege without any adverse inference. The *Knorr-Bremse* decision, however, does not hold that a positive inference of good faith can be made if a party does seek legal advice." *Id.* at *18 (internal citations omitted). The court found that there was clear and convincing evidence of Bosch's willful infringement and nothing to suggest that Bosch had adequately refuted the claim. *Id.* As a result, the court allowed the jury verdict to stand. *Id.* at *24.

ERISA Fiduciaries May Only Assert Attorney-Client Privilege Against a Beneficiary with Regard to Legal Advice Relating to Pending or Imminent Litigation

In a recent case, the Southern District of New York (Lynch, J.) addressed the "fiduciary exception" to the attorney-client privilege. *Black v. Pitney Bowes* involved claims by an employee under the Employee Retirement Income Security Act of 1974 ("ERISA") against plaintiff's employer, its

retirement plan, and the plan administrator (collectively, "Pitney Bowes" or "employer") arising from denial of disability benefits. No. 05 Civ. 108 (GEL), 2006 U.S. Dist. LEXIS 92263, at *1 (S.D.N.Y. Dec. 21, 2006). During discovery, the parties sought clarification regarding Pitney Bowes's right to assert the attorney-client privilege over material related to its fiduciary duties under ERISA. *Id.* at *2. The court ruled that the employer could not invoke the attorney-client privilege to shield its communications with attorneys from a plan beneficiary where the communications related to matters falling under its fiduciary obligations to employee beneficiaries under the plan of administration. *Id.* at *4. A claim of privilege could be maintained, however, when the employer was required to defend against a beneficiary's claims because, in that instance, the employer was not acting in the interests of that beneficiary and was not operating as a fiduciary. *Id.*

After noting the difficulty in determining whether an employer's purpose in soliciting legal advice was to perform fiduciary duties or to avoid potential litigation associated with performing those duties, the court ruled that a claim of attorney-client privilege by the employer would only be appropriate where the legal advice sought related to specific litigation. *Id.* at *6-8. Pitney Bowes had withheld all documents containing legal advice post-dating a letter from the plaintiff challenging the denial of short-term disability benefits. *Id.* at *10-11. Because Pitney Bowes did not deny Black's long-term disability claim (also a subject of the suit) until a later date, the court ruled that the employer would have to produce any documents relating to legal advice sought for purposes of making the long-term disability determination, unless they also contained advice regarding imminent or pending litigation. *Id.* at *11-12.

DOJ Curtails "Thompson Memorandum" Encouraging Privilege Waiver in Corporate Prosecutions; Senator Specter Says Changes Do Not Go Far Enough

On December 12, Deputy Attorney General Paul McNulty announced a significant shift in how the Department of Justice ("the Department") employs privilege waivers in corporate prosecutions. The change came about in response to mounting dissatisfaction with the Department's previous policy, which was embodied in the controversial "Thompson Memorandum" of 2003. Under the old policy, the Department encouraged corporations to prove their cooperation with government investigations by, among other things, waiving the attorney-client privilege and producing the results of their internal investigations, and denying payments of attorneys' fees to employees under investigation. Numerous critics, including the ABA, the ACLU, the U.S. Chamber of Commerce, and elected officials, charged that this policy impinged upon the constitutional right to counsel.

The new "McNulty Memorandum" requires that the Assistant Attorney General for the Criminal Division authorize any request for potentially privileged "purely factual" (Category 1) information from a corporate defendant. A United States Attorney may request that a corporation produce "attorney-client communications or non-factual attorney work product" (Category 2) only if the corporation's response to an initial request for Category 1 information "provides an incomplete basis to conduct a thorough investigation," and if the Deputy Attorney General then provides prior written approval of the request for Category 2. Moreover, although prosecutors may consider, for charging decision purposes, the corporation's response to a request for Category 1 information, prosecutors may not take a corporation's response to a Category 2 information request into account for charging

decision.

For more on the McNulty Memorandum, see http://www.wilmerhale.com/publications/whPubsDetail.aspx?publication=3507.

The McNulty Memorandum may not be the final word on the subject of corporate privilege waivers. The federal rules reform advisory committee recently proposed the addition of a new Federal Rule of Evidence—tentatively, Rule 502—which would codify "limited waiver" of attorney-client privilege. Also, on January 4, Senator Arlen Specter of Pennsylvania re-introduced legislation he had previously proposed while serving as the Chair of the Senate Judiciary Committee. The "Attorney-Client Privilege Protection Act of 2007" would prohibit the Department from conditioning grants of immunity on corporate waivers of privilege and would severely limit the conditions under which corporate decisions not to waive privilege could affect prosecutors' charging decisions. The Act's prospects for passage are unclear. The Privilege Standing Committee will summarize any meaningful developments in future Reports.

Practice Tip

A memorandum documenting a witness interview is more likely to be deemed deserving of work-product protection if it contains an attorney's mental impressions in addition to a mere recitation of a witness's statements. If the memorandum contains such impressions, include a note at the outset of the document indicating that it contains the mental impressions of counsel.