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SOUTHERN DISTRICT CIVIL PRACTICE ROUNDUP

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Attorney-Client Privilege and Work Product Protection

IN RECENT months, courts in the Southern District of New York have issued a number of decisions touching on important aspects of the attorney-client privilege and work product doctrines. These decisions highlight the fact-intensive nature of determinations regarding the applicability of these protections, as well as the important differences between the two doctrines and the need to tailor factual and legal arguments accordingly.

Witness Prep: Documents

One of the most vexing problems for an attorney preparing a witness for deposition is the extent to which privileged documents should be shown to the witness. On the one hand, such documents may prove useful in refreshing the witness' memory regarding critical events. On the other hand, counsel should be wary that use of documents in this fashion may require their production to adversaries under Fed. R. Evid. 612(2). That rule provides that if, prior to testifying, a witness uses a writing to refresh memory for the purpose of testifying and "the court in its discretion determines it is necessary in the interests of justice, an adverse party is entitled to have the writing produced at the hearing, to inspect it, to cross-examine the witness thereon, and to introduce in evidence those portions which relate to the testimony of the witness."

Magistrate Judge Ronald L. Ellis's opinion in *Karen Suss v. MSX International Engineering Services, Inc.*,[1] suggests that attorneys may have somewhat greater leeway than previously thought in using documents in witness preparation without triggering a waiver. It also instructs that the consequences of showing confidential documents to a deposition witness may turn on whether those documents are covered by the attorney-client privilege or the work product doctrine, with far greater protection extended to those covered by the privilege. The deposition witnesses in that case, both employees of the purchaser in a contract dispute, acknowledged during their depositions that they had reviewed certain documents listed on the purchaser's privilege log. Each further testified, in very general terms, that the documents had refreshed their recollections, although one witness gave no details as to how his recollection was refreshed, and the other merely stated that certain documents had helped her to recall dates and time periods relevant to the execution of a lease that was central to the parties' dispute.

Magistrate Judge Ellis rejected the sellers' assertion that this testimony established that the sellers were entitled to production of otherwise privileged documents. He noted, at the outset, the absence of a uniform analytical framework in the cases applying Rule 612(2), stressing in particular that courts have not sought to distinguish between the type of privilege at issue. Magistrate Judge Ellis observed that the leading case in this circuit, *Berkey Photo, Inc. v. Eastman Kodak Co.*, 74 FRD 613 (SDNY 1977) (Frankel, J.) employed a balancing test reflecting the court's concern that an attorney might aid a witness by showing him work product, and then block access to material that might counteract the effects of that assistance. He concluded that this type of balancing test is appropriate when evaluating a request for production under Rule 612 against a claim of work product protection, but not when the materials are protected under the attorney-client privilege. He based this distinction on the fact that Fed. R. Civ. P. 26(b)(3) charges a court with assessing such things as "substantial need" and "undue hardship" when considering the applicability of work product protection, whereas the protection afforded to materials covered by the attorney-client privilege is absolute, absent a showing of waiver. He held accordingly, that when applying Rule 612 to documents covered by the attorney-client privilege, the "relevant inquiry is not simply whether the documents were used to refresh the witness' recollection, but rather whether the documents were used in a manner which waived the attorney-client privilege." As an example, Magistrate Judge Ellis explained that where documents are shown to a witness who is outside the privileged relationship, they would be subject to production under Rule 612.

Magistrate Judge Ellis noted that his approach was consistent with the text of the rule, which does not purport to change the

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law with respect to privilege, as well as with the advisory committee notes that provide that "nothing in the Rule [should] be construed as barring the assertion of a privilege with respect to writings used by a witness to refresh his memory."

Under this analysis, he concluded that there had been no waiver of the privilege when the documents in question were shown to the deposition witnesses, because those witnesses were within the zone of privilege. Specifically, one witness, the purchaser's in-house counsel, produced the documents in question for her "internal clients," and the other was one of their intended recipients.

Alternatively, Magistrate Judge Ellis held that even if it would be proper in some instances to allow disclosure of attorney-client communications used in witness preparation, this was not such a case because the sellers had failed to establish that either of the witnesses had relied on the documents in testifying so as to trigger Rule 612. Citing the advisory committee notes, he stressed that the witness must rely upon, and not merely review a document before disclosure becomes appropriate under the rule, and held that "[u]nless there is some demonstrated impact on the witness' testimony, the witness cannot be deemed to have relied on the document."

Business or Legal Advice

An area of frequent litigation in disputes over the application of the attorney-client privilege and work product doctrine concerns whether a document was created for legal or business purposes and the extent to which those circumstances govern the document's discoverability. Several recent cases explore different facets of this question.

In *In re Currency Conversion Fee Antitrust Litigation*,[2] Judge William H. Pauley III rejected the plaintiff's argument that a memorandum prepared by a bank's in-house attorney constituted business rather than legal advice and was therefore subject to discovery. The memorandum concerned disclosure requirements under the Truth in Lending Act and steps the bank could take to minimize chances it would be charged with violating those requirements with respect to a 2 percent adjustment assessed on foreign currency transactions.

Recognizing that the attorney-client privilege attaches only to legal and not business advice, Judge Pauley, quoting *United States v. Davis*, 132 FRD 12 (SDNY 1990) (Conboy, J.), observed that " '[t]he mere fact that business advice is given or solicited does not, however, automatically render the privilege lost: where the advice given is predominantly legal, as opposed to business, in nature the privilege will still attach.' " After reviewing the document in camera, Judge Pauley concluded that the advice it rendered was predominantly legal, even if some of it could also be considered business advice, and was thus protected from disclosure by the attorney-client privilege.

Disclosure of investigative materials to government prosecutors and regulators frequently results in a waiver of work product protection.

To Legal, Nonlegal Persons

In *In re Buspirone Antitrust Litigation*,[3] Magistrate Judge Gabriel W. Gorenstein considered whether the attorney-client privilege protected documents that were simultaneously disclosed to legal and non-legal personnel. Some of those documents were "updates" on various generic drug development projects that were regularly sent to the drug company's patent counsel as well as to other company personnel involved in the projects. The drug company resisted disclosure of the documents, arguing that they were protected by the attorney-client privilege because they conveyed information to the patent counsel required for filing patent certifications and responding to regulatory inquiries.

The plaintiffs in that antitrust litigation argued that the documents were not covered by the attorney-client privilege, asserting that documents sent to legal and non-legal recipients for simultaneous review or informational purposes are not created for the primary purpose of securing legal advice — a proposition Magistrate Judge Gorenstein noted is often attributed to *United States v. I.B.M. Corp.*, 66 FRD 206 (SDNY 1974) (Edelstein, J.). But Magistrate Judge Gorenstein explained that *IBM* should not be so broadly construed because *IBM's* focus was on "whether the document asked non-legal personnel to respond to some problem or issue raised within the document." He noted that where no response is requested from a document's non-legal recipients, the fact that it has been circulated to legal as well as non-legal personnel should not affect the determination of whether it was created for legal purposes. Observing that large corporations may have a number of individuals who need to be kept informed of communications to and from counsel on a particular matter, Magistrate Judge Gorenstein found that where a document is circulated for such purposes, "that act is not inconsistent with the underlying communication being for the 'purpose' of obtaining legal advice."

He went on to find that the documents in this case were circulated to key corporate personnel so that they would know the information that was being conveyed to the patent attorney. He found it significant that the non-legal personnel were kept apprised of the projects' progress through more detailed reports intended for that purpose, making it "plain that the documents [at issue] were not sent to the attorney as part of an attempt to shield otherwise non-privileged information from discovery."

Magistrate Judge Gorenstein also rejected the plaintiff's contention that the documents were not privileged because they were created in the normal course of the drug company's business. He noted that the concept of a document's creation in the ordinary course of business has no bearing on a claim based on the attorney-client privilege such as that asserted by the drug company, but is relevant only in the context of the work product doctrine where a determination must be made if the document was created because of the anticipation of litigation.

Such was the case in *Bovis Lend Lease, LMB, Inc., et al. v. Seasons Contracting Corp., et ano.*[4] where defendants in a declaratory judgment action concerning insurance coverage sought discovery of a

number of documents prepared by claims handlers of one of the plaintiff insurance companies. Magistrate Judge Debra Freeman observed that "[i]nsurance 'claim files' may present difficult issues regarding where the line should be drawn between documents prepared in the ordinary course of the insurer's business (which, by its nature, involves claim investigation and analysis) and documents prepared 'in anticipation of litigation.' " Citing *Amoco Oil Co. v. Hartford Accident & Indem. Co.*, No. 93 Civ. 7295, 1995 WL 555696 (SDNY Sept. 18, 1995) (Francis, M.J.) and *American Nat'l Fire Ins. Co. v. Mirasco, Inc.*, Nos. 99 Civ. 12405 & 00 Civ. 5098, 2001 WL 876816 (SDNY Aug. 2, 2001) (Sweet, J.), she concluded that where documents are generated after an insured has denied coverage or referred that matter to counsel, "it can generally be said that the insurer is fairly anticipating litigation, and thus work product immunity will typically attach."

Applying these principles, Magistrate Judge Freeman held that most of the documents sought by the defendant were protected under the work product doctrine. Those documents included claim analyses, litigation risk assessments, and a litigation plan, all created after the litigation was commenced, as well as correspondence between and among the insurance company's claim handler, other insurance company employees and outside counsel.

Disclosure to Government

As we have discussed in previous articles, disclosure of investigative materials to government prosecutors and regulators frequently results in a waiver of work product protection. Most often this issue arises when the government stands as an adversary, or potential adversary, as was the case in *In re Steinhardt Partners, L.P.*, 9 F3d 230 (2d Cir. 1993), where the U.S. Court of Appeals for the Second Circuit found a waiver in the submission of internal investigation materials to the SEC. It noted that corporations have strong incentives to disclose information to the government in order to narrow and shorten an investigation or obtain leniency and that these incentives exist regardless of whether third parties will also have access to the information. But, as Magistrate Judge Gorenstein's recent decision in *Bank of America, N.A., et ano. v. Terra Nova Insurance Co.*[5] demonstrates, even where the adversarial lines are less clear, work product protection can be waived by sharing confidential information with the government.

In that action based on a series of reinsurance contracts, the insurance company's defense was that the agent who had written those contracts had neither actual nor apparent authority to bind the company. Upon learning that the agent had issued the contracts, the insurance company commenced an extensive investigation of the rogue agency, during which the agent in question confessed that he had entered the contracts without authority. The insurance company and its investigators subsequently held meetings with the New York State Insurance Department, a federal prosecutor and a postal inspector, during which they shared their findings and work product generated through the investigation.

Magistrate Judge Gorenstein granted the plaintiff's motion to compel production of those investigative materials. He noted the general proposition that a waiver of work product protection occurs when materials are used in a manner that is inconsistent with that protection, such as when they are provided to an adversary or potential adversary, or used in such a way that they may end up in the adversary's hands. In the context of voluntary disclosures to governmental authorities, Magistrate Judge Gorenstein observed that waivers have been predicated either on the government's status as a potential adversary, or on the likelihood that the disclosing party's adversary will obtain access to the materials through disclosure to the government.

Against this backdrop, Magistrate Judge Gorenstein held that the insurance company's disclosures to the federal and state authorities waived work product protection. He found that the disclosures were voluntary, noting that the meetings with these authorities were arranged at the insurance company's behest and that their disclosures went far beyond the type information they were required by law to provide. He further found that the disclosures were likely motivated by the insurance company's desire to forestall an investigation into its own activities, placing the company and its regulators in potentially adversarial positions. Quoting *Westinghouse Elec. Corp. v. Republic of Philippines*, 951 F2d 1414 (3d Cir. 1991), he concluded that such disclosures are "foreign to the objectives underlying the work-product doctrine."

Magistrate Judge Gorenstein found in the alternative that the insurance company's disclosures to the government substantially increased the potential that they would be disclosed to its adversary. He reasoned that the disclosures were at least in part motivated by the hope that the agent would be prosecuted. Quoting *Information Resources., Inc. v. Dun & Bradstreet Corp.*, 999 FSupp 591 (SDNY) (Stanton, J.) he noted that finding a waiver in such circumstances, "vindicates the principle of full disclosure, prevents the unfairness of selective revelations, and reflects the common-sense perception that in most such cases the privacy attending creation of the work-product had either served its purpose or was of little importance in the first place." He went on to observe that, in the absence of a confidentiality agreement, there is a strong likelihood that disclosures to the government will be made public, either through disclosure as part of an investigation or criminal proceeding, or through freedom of information laws.

(1) No. 02 Civ. 0667, 2002 WL 31854883 (SDNY Dec. 19, 2002).

(2) Nos. MDL 1409, M 21-95, 2002 WL 31458230 (SDNY Nov. 4, 2002).

(3) *Disclosure:* No. MDL 1413, 211 FRD 249 (SDNY 2002). The author represents a party in this consolidated multidistrict litigation uninvolved in the motion which is the subject of this opinion.

(4) No. 00 Civ. 9212, 2002 WL 31729693 (SDNY Dec. 5, 2002).

(5) No. 01 Civ. 646, 2002 WL 31842119 (SDNY Dec. 19, 2002).