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TWENTY-SIXTH ANNUAL
CORPORATE COUNSEL SYMPOSIUM
TUESDAY, OCTOBER 27, 2015

Dancing in the Dark: The Art and Ethics of Handling the Unexpected in Litigation

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1. PowerPoint

2. The Art and Ethics of Handling the Unexpected in Litigation Outline, October 2015

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Tuesday, October 27, 2015

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Video: The Rainmaker (1997), directed by Francis Ford Coppola (Paramount Pictures) [used to emphasize ethical response and common sense]

The Six Relationships

1. **In-House and Outside Counsel**

   Video: Meet the Parents (2000), directed by Jay Roach (Universal Studios) [used to emphasize the importance of trust]

2. **Senior Executives/Business Line Managers**

   Video: Justin Bieber's deposition (Posted by TMZ) [used to illustrate the nightmare witness]

3. **Experts, Vendors, and Insurers**

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The Six Relationships (cont.)

4. **Government Regulators**

5. **Current & Former Employees**

Video: Scrubs, created by Bill Lawrence (Touchstone Television) [used to illustrate how not to respond to a surprise from an employee]

6. **Judges, Arbitrators, and Opposing Counsel**

Video: National Lampoon's Animal House (1978), directed by John Landis (Universal Pictures) [used to illustrate the difficult judge and the difficult opposing counsel]

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Lessons Learned – Key Takeaways

The Circle of Trust

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Dancing in the Dark: The Art and Ethics of Handling the Unexpected in Litigation

By Susan Flint, J Jackson, Jaime Stilson, Kristin Westgard and Faisal Zubairi

I. Introduction

Some might say that the only predictable part of litigation is knowing that something unpredictable will occur during the course of a case. This outline of materials presented focuses on frequent topics where unexpected issues arise in litigation. It is designed to provide an overview of ethics rules, relevant court rules, and case law on hot-topic areas that provide guidance on how to handle some of those unanticipated issues.

II. Legal Holds and Document Collection

The Issues. The implementation of legal holds and the collection of relevant documents in any litigation can be wrought with unanticipated issues and questions. Hot topics in include inadequate implementation of a legal hold, questions about the timing of when the hold was implemented, the scope of the hold, failure to identify all potential individuals that should be subject to the hold, collection deficiencies, and of course, related sanctions available for these deficiencies.

A. Legal Hold Basics. A party's duty to preserve evidence rests on whether it reasonably anticipates litigation. *See Stevenson v. Union Pac. R.R. Co.*, 354 F.3d 739, 746 (8th Cir. 2004); *see also Zubulake v. UBS Warburg LLC*, 220 F.R.D. 212, 216 (S.D.N.Y. 2003). "A general concern over litigation does not trigger a duty to preserve evidence. [A party has] no duty to preserve relevant documents or evidence until a potential claim was identified or future litigation was probable." *Realnetworks, Inc. v. DVD Copy Control Ass'n*, *Inc.*, 264 F.R.D. 517, 526 (N.D. Cal. 2009); *Bel Air Mart v. Arnold Cleaners, Inc.,* 2014 WL 763185, at *3 (E.D. Cal. Feb. 21, 2014) (citing *Realnetworks*). Once the duty arises, the duty remains in place until the litigation has concluded.

B. Failing to Implement a Hold When the Duty is Triggered. Courts have imposed sanctions where a party failed to implement a legal hold early enough—finding that the duty to preserve can be triggered *before* litigation commenced. For example, in *KCH Serv., Inc. v. Vanaire*, the plaintiff moved the court for default judgment, sanctions, and an adverse inference instruction based on the defendant's spoliation of evidence. 2009 WL 2216601 (W.D. Ky. July 22, 2009). The court found that defendant's duty to preserve was triggered when plaintiff's president called defendant's president indicating his belief that plaintiff's software was unlawfully used by defendant. Rather than implementing a legal hold, defendant's employees were instructed to delete software and other ESI before the litigation commenced. The Court ordered an adverse inference instruction be read to the jury regarding defendant's spoliation of evidence.

C. Destruction of Relevant ESI Subject to a Legal Hold. Once a legal hold is in place, litigants **must** preserve all potentially responsive information, including old hard drives, servers, thumb drives, or other portable media.

1. For example, a defendant discarded a computer with relevant information after litigation began, leading to sanctions in the form of an adverse inference instruction to the jury and an award of reasonable attorneys' fees associated with plaintiff's motion for sanctions. *See, e.g.*, *Grady v. Brodersen*, 2015 WL 1384371 (D. Colo. Mar. 23, 2015).

2. While preservation obligations under American discovery can be difficult for foreign clients to understand, lack of understanding is not an excuse. *See In the Matter of Certain Opaque Polymers*, USITC Inv. No. 337-TA-883, Order No. 27 (Oct. 20, 2014) (American counsel sanctioned $1,944,000 for foreign client deleting and losing data and offering incredible explanations for missing information).

D. Failure to Follow an Implemented Hold. Some litigants get into trouble by self-imposing a broad legal hold that they then fail to follow. *See In Re Actos Product Liability Litig.*, 2014 WL 2872299 (W.D. La. June 23, 2014) (product manufacturer Takeda had previously imposed an overly broad hold on itself in an unrelated matter and the court determined in instant matter that spoliation had occurred because Takeda failed to follow the earlier hold, and further finding sanctions were appropriate).

E. Discovery Disclosure and Production Obligations. Rules 3.2 and 3.4 of the Model Rules of Professional Conduct discourage obstructionist tactics and require that lawyers act fairly with opposing counsel and parties to the litigation, including during discovery. In addition, Federal Rule of Civil Procedure ("FRCP") 26 subsections (e) and (g) set forth the certification requirements for discovery responses as well as the obligations of a party to supplement their discovery responses.

1. *Ethics Apply.* Rule 3.2 of the Model Rules of Professional Conduct discourages obstructionist tactics, stating "a lawyer shall make reasonable efforts to expedite litigation consistent with the efforts of the client." Model R. Prof'l Conduct 3.2. Further, Rule 3.4 requires, among other things, that a lawyer shall not "unlawfully obstruct another party's access to evidence," "falsify evidence," "knowingly disobey an obligation under the rules of a tribunal," or "make a frivolous discovery request or fail to make a reasonably diligent effort to comply with a legally proper discovery request." Model R. Prof'l Conduct 3.4. Minnesota has adopted both model rules. *See* Minn. R. Prof'l Conduct 3.2, 3.4.

2. *Certification under FRCP 26(g).* FRCP 26(g) specifies that every required disclosure under Rule 26, and every discovery request, response, or objection in the litigation, must be signed by at least one attorney (or by the party itself, if unrepresented). That signature represents certification by the attorney that, with respect to a disclosure, it is complete and

correct when made, and with respect to a discovery request, response or objection, it is consistent with the law, non-frivolous, and neither unreasonable or unduly burdensome. Fed. R. Civ. P. 26(g)(1).

3. *Duty to Supplement under FRCP 26(e).* FRCP 26(e) requires that a party who has made a disclosure under the Rule, or who has responded to an interrogatory, request for production or request for admission, must supplement or correct its disclosure or response in a timely matter if the party learns, that in some material respect, the disclosure or response is incomplete or incorrect, and is not otherwise known (or has not be made known) to the other parties during the discovery process. Fed. R. Civ. P. 26(e).

4. A party's failure to meet its obligations under Rule 26 can result in sanctions. *See, e.g., E-Trade Sec. LLC v. Deutsche Bank AG*, 230 F.R.D. 582, 593-595 (D. Minn. 2005) (imposing series of $5,000 sanctions for failure to reasonably investigate existence of relevant and responsive information required by FRCP 26).

F. Outside Counsel's Obligation to Verify Client's Implementation of a Legal Hold and Confirm Collection. Recent case law suggests that in the day and age of electronic discovery, outside counsel should be very wary of relying entirely on inside counsel to implement a legal hold and collect potentially responsive documents. *See Brown v. Tellermate*, 2014 WL 2987051 (S.D. Ohio July 1, 2014). In *Brown,* the court sanctioned both outside counsel and Tellermate in for failure to investigate and critically examine information regarding existence and availability of documents. The court found that Tellermate and outside counsel were either grossly negligent or committed willful, bad faith acts during discovery, supporting the court's exclusion of certain evidence and award of attorneys' fees to plaintiffs for bring the motions for sanctions. *Brown,* in part, relied on Rule 26's disclosure and supplementation requirements outlined above, noting that outside counsel is required to approach discovery cooperatively and in good faith. *See Brown*, 2014 WL 2987051 at *16-17.

G. Sanctions. As many of the above-cited cases demonstrate, the failure to preserve and produce relevant evidence can lead to a spoliation determination and/or sanctions. FRCP 37 generally governs sanctions for discovery violations. The Eighth Circuit has also weighed in on circumstances where sanctions are appropriate.

1. FRCP 37(c) automatically bars a party from using evidence that was not disclosed or supplemented pursuant to FRCP 26(a) or (e). Fed. R. Civ. P. 37(c)(1). In addition to or instead of automatic exclusion, Rule 37 permits a court wide latitude in ordering other sanctions, including payment of reasonable expenses and attorneys' fees; the use of an adverse inference instruction with the jury; and "other appropriate" sanctions. Fed. R. Civ. P. 37(c)(1)(A)-(C).

2. Judges have wide latitude in determining appropriate sanctions for discovery violations. For example, in *Robin Singh Ed. Servs. v. Blueprint Test Prep. LLC,* a California court of appeals decision upheld a trial court's award of a variety of sanctions for discovery abuses against Blueprint just short of termination of the suit, including preclusion of evidence orders, adverse inference instructions to the jury, monetary fines, and attorneys' fees and costs associated with bringing multiple motions for sanctions. 2013 WL 240273 (Ca. Ct. App. 2d Jan. 23, 2013). The discovery abuses included obstructive behavior by the Blueprint counsel during depositions, including speaking objections and coaching the witness. *See* https://www.youtube.com/watch?v=pocKf4-pfhM. In upholding the trial court's sanction awards, the California Court of Appeals found that "[t]he trial court here did not abuse its discretion in imposing virtually every nonmonetary sanction TestMasters asked for other than terminating sanctions." *Robin Singh*, 2013 WL 240273, at *30.

3. Eighth Circuit law requires a finding of intentional destruction of evidence and prejudice to impose sanctions in relation to evidence destroyed before litigation begins. *See Stevenson v. Union Pac. R.R. Co.,* 354 F.3d 739, 746 (8th Cir. 2004) (citing *Lewy v. Remington Arms Co.*, 836 F.2d 1104, 1111-1112 (8th Cir. 1988) (adverse instruction is only appropriate where the spoliation or destruction of evidence is intentional and indicates a fraud or desire to suppress the truth); *E-Trade,* 230 F.R.D. at 590 (pre-litigation conduct of selectively preserving some documents but not others supported inference of bad faith and award of sanctions against certain defendants). However, when litigation has already commenced, "a corporation cannot blindly destroy documents and expect to be shielded by a seemingly innocuous document retention policy." *Stevenson,* 354 F.3d at 749 (quoting *Lewy*, 836 F.3d at 1112). Therefore, parties must carefully navigate situations upon discovery of inadvertent deletion or destruction of potentially relevant documents after litigation has commenced and a legal hold is already in place.

4. Sanctions can be imposed not only against the party, but counsel as well. *See Brown*, 2014 WL 2987051; *Robin Singh*, 2013 WL 240273. *See also Coquina Invs. v. Rothstein*, 2012 WL 3202273 (S.D. Fla. Aug. 3, 2012) *aff'd sub nom*, *Coquina Invs. v. TD Bank, N.A.*, 760 F.3d 1300 (11th Cir. 2014). In *Coquina*, the court awarded sanctions post-trial against TD Bank and their outside counsel, Greenberg Traurig, pursuant to FRCP 37, based on "a pattern of discovery violations" that prejudiced Coquina's ability to prove its case. The court's sanctions included a finding that certain elements were proved by Coquina as an evidentiary matter to prevent further prejudice on appeal and reasonable attorneys' fees associated with Coquina's motions for sanctions levied against both TD Bank and outside counsel. *Id.* at *17. The court noted that "it often times appear[ed] that this litigation was conducted in an Inspector Clouseau-like fashion. However, unlike a Pink Panther film, there was nothing amusing about this conduct and it did not conclude neatly." *Id.* at *1.

III. Inadvertent Disclosure of Privileged Information

The Issues. A litigant's worst nightmare occurs upon learning that a key privileged document has inadvertently made its way into the hands of the opposing party. While the Federal Rules have made advances in protecting litigants from the consequences of inadvertent disclosures because of the reliance on technology to handle ESI discovery, sometimes that is not enough. On the other end of the spectrum, opposing lawyers have a duty to notify a producing party when they receive privileged information. This section covers the basic tools at a litigant's disposal to protect privileged information, addresses circumstances where litigants have failed to adequately use those tools, and provides reminders about ethics obligations associated with receipt of inadvertently produced privileged information.

A. Use of Confidentiality Agreements/Protective Orders with Clawback Provisions. FRCP 26(c) permits a party to move for a protective order. Relying in part on FRCP 26(c)(G), many parties routinely enter into Confidentiality Agreements or seek Court-approved Protective Orders designed not only to shield confidential information from the public, but also to specify procedures for the parties to follow in clawing back inadvertently disclosed privileged information.

B. Clawing Back Privileged Documents and Fed. Rule of Evidence 502. Federal Rule of Evidence ("FRE") 502, added in 2007, covers circumstances surrounding waiver of the attorney-client privilege and attorney work product, specifically addressing subject matter waiver and inadvertent disclosures.

1. For corporate counsel, FRE 502(b) and 502(d) are of particular importance.

2. FRE 502(b) holds that a disclosure will not waive privilege if "(1) the disclosure is inadvertent; (2) the holder of the privilege or protection took reasonable steps to prevent disclosure; and (3) the holder promptly took reasonable steps to rectify the error, including (if applicable) following Federal Rule of Civil Procedure 26 (b)(5)(B)." Fed. R. Evid. 502(b).

3. In addition to the use of Confidentiality Agreements or Protective Orders, parties may also request that a court enter an order pursuant to FRE 502(d) regarding how to handle the inadvertent disclosure of privileged information during discovery. FRE 502(d) dictates that "[a] federal court may order that the privilege or protection is not waived by disclosure connected with the litigation pending before the court—in which event the disclosure is also not a waiver in any other federal or state proceeding." Fed. R. Evid. 502(d).

C. When Clawback Provisions and/or FRE 502 Are Not Enough. Circumstances may arise where clawback provisions and FRE 502 protections are insufficient to shield a party from a waiver of privilege, including lack of diligence during the review and production of ESI. *See, e.g., Mt. Hawley Ins. Co. v. Felman Prod., Inc.*, 271 F.R.D. 125, 136 (S.D. W.Va. 2010) (treatment of inadvertent disclosure of privileged material was in compliance with parties' ESI stipulation, but court held this was not enough to avoid violating FRE 502(b) and waiving privilege because defendant Felman did not take reasonable steps to prevent disclosure

when it failed "to test the reliability of keyword searches by appropriate sampling").

D. Receipt of a Privileged Document from an Opposing Party. If you receive what appears to be privileged information from an opposing party, certain obligations attach.

1. Model Rule of Professional Conduct 4.4(b) states that "a lawyer who receives a document relating to the representation of the lawyer's client and knows or reasonably should know that the document was inadvertently sent shall promptly notify the sender."

2. In addition, some states require that the receiving lawyer refrain from examining the materials, resulting from codification of a (now outdated) formal opinion from the ABA. *See, e.g.*, New Jersey R. Prof'l Conduct 4.4(b) (following ABA Formal Opinion 92-368) (requiring that a lawyer not read a privileged document or if "he or she has begun to do so, shall stop reading the document, promptly notify the sender, and return the document to the sender").

3. Minnesota follows Model Rule 4.4(b), only requiring notification to the other side of an inadvertent disclosure, whether through paper or ESI production. *See* Minn. R. Prof'l Conduct 4.4(b) ("A lawyer who receives a document or electronically stored information relating to the representation of the lawyer's client and knows or reasonably should know that the document or electronically stored information was inadvertently sent shall promptly notify the sender.")

4. If there is any doubt that a privileged document received from an opposing party, ethics rules require that the receiving lawyer avoid risking the violation of an ethical obligation. *See* ABA Formal Opinion 11-460. While a receiving party need not concede a privilege claim or waive the right to demand its production or use in the litigation, it must describe the circumstances of the revelation that the document might be privileged, draft a letter to opposing counsel, and request a response indicating whether the party intends to claim privilege over the document, and if so, demand its inclusion on a privilege log. *Id.* In addition, the party may draft and send a pleading to the court notifying it of the situation. *Id.*

5. Failure to follow relevant ethics rules regarding the receipt of inadvertently privileged information from an opposing party can result in severe sanctions, including disqualification of the receiving lawyer. *See, e.g., Maldonado v. New Jersey*, 225 F.R.D. 120 (D.N.J. 2004) (disqualifying counsel where he failed to give notice upon receipt of inadvertently produced privileged document, based on fact that counsel waited several months and evidence that counsel used inadvertently disclosed material to form the basis of his client's strategy in the case).

IV. Bad Discovery Orders

The Issues. Parties are sometimes hit with unexpectedly harsh discovery orders that can not only put them at a disadvantage in litigation, but also put confidential or trade secret information in jeopardy. Several examples follow.

A. Sanctions Available Where a Party Overdesignates Documents Pursuant to a Protective Order. A party must balance legitimate business concerns in protecting confidential information with the requirement that discovery be handled in accordance with the applicable court rules *and* any agreements between the parties regarding confidentiality. In some instances, courts have sanctioned parties for overdesignating documents during discovery in violation of a stipulated Protective Order. *See Procaps S.A. v. Patheon Inc.*, 2015 WL 4430955 (S.D. Fla. July 20, 2015) (plaintiffs sanctioned and ordered to re-review and re-designate documents after designating 95% of documents as "highly confidential").

B. Sanctions Available for Failure to Abide by Confidentiality Agreements. If parties enter into a Confidentiality Agreement or Protective Order, they are expected to abide it. Failure to do so can result in severe sanctions, particularly if the failure leaks highly confidential information. *See, e.g.*, *Apple Inc. v. Samsung Elec. Co., Ltd.*, Case No. 11-cv-1846, 2014 WL 2854994 (N.D. Cal. June 23, 2014) (court awards sanctions against both Samsung and its outside counsel, Quinn Emmanuel for breaching attorneys' eyes only provision of the confidentiality agreement, totaling over $2 million in attorneys' fees and costs associated with pursuing sanctions and dealing with the aftermath of the breach).

C. Court Refusals to Protect Business Secrets. Sometimes, a party's protestations about protecting trade secrets are not enough to protect them from public disclosure, despite the entry and use of a Protective Order in a case. For example, in *Level 3 Comm'ns., LLC v. Limelight Networks, Inc.*, a third party's trade secrets were introduced into evidence without its permission. 611 F.Supp.2d 572 (E.D. Va. 2009). Despite the third party's attempts to seal the information, the court ruled that public's First Amendment right to access the trial trumped the third party's interests in keeping their trade secrets and evidence was not protected or sealed.

V. Depositions

The Issues. A variety of unexpected issues can arise during the deposition phase of discovery. Two common issues that have been repeatedly litigated are an opposing party's right to take the deposition of senior executives from the other party, and the consequences (and relief available) when a party fails to provide adequate testimony from a designated corporate witness pursuant to Fed. R. Civ. P. 30(b)(6).

A. Senior Executive Depositions. Many jurisdictions employ a two-part test when evaluating whether a high-level executive can be required to sit for a deposition.

1. For example, in *Groupon, LLC v. Groupon, Inc.*, the court articulated the following: "In determining whether to allow an apex deposition, courts consider (1) whether the deponent has unique first-hand, non-repetitive knowledge of facts at issue in the case and (2) whether the party seeking the deposition has exhausted other less intrusive discovery methods." 2012 WL 359699, at *2 (N.D. Cal. Feb. 2, 2012) (internal citations omitted)).

2. Part of that analysis considers whether depositions of other personnel who would know as much would be less burdensome on the party subject to the deposition request. *See Thomas v. International Business Machines*, 48 F.3d 478 (10th Cir. 1995) (plaintiff could not compel IBM Chairman John Akers' attendance for deposition in employment discrimination case for employee he'd never met; other personnel would know as much and would be "less burdensome").

3. Note however, that outside of depositions, executives have been ordered to participate in a case, even where they executive might not have personal knowledge of the dispute. For example, in *U.S. Bank N.A. v. First Am. Title Ins.*, *Co.*, Magistrate Judge Keys' order requiring that U.S. Bank's CEO personally appear for a settlement conference was affirmed by Judge Schiltz, based on the perception given the length and complexity of case the CEO's presence was required so "that every avenue for settlement [could] be explored—even avenues that would not be explored in a less daunting case." Order, Case No. 11-CV-1979 (PJS/JJK) (D. Minn. Nov. 12, 2014).

B. Bad FRCP 30(b)(6) witnesses. One of the most common blunders during discovery is the unprepared or uncooperative witness designated as a corporate representative pursuant to FRCP 30(b)(6). These blunders can lead to sanctions pursuant to FRCP 37. *See Cedar Hill Hardware & Constr. Supply, Inc. v. Ins. Corp. of Hannover*, 563 F.3d 329, 345 (8th Cir. 2009) (failure to provide a knowledgeable witness in response to a Rule 30(b)(6) notice is a sanctionable offense under FRCP 37(b)(2)); *see also CitiMortgage, Inc. v. Chicago Bancorp, Inc.*, 2013 WL 3946116, at *3 (E.D. Mo. July 31, 2013) (ordering sanctions in the form of attorneys' fees and costs related to motion to compel production of witness adequate to provide testimony response to 30(b)(6) notice); *Aviva Sports, Inc. v. Fingerhut Direct Marketing, Inc.*, 2013 WL 1867555 (D. Minn. May 3, 2013) (affirming order of Magistrate Judge Mayeron for sanctions after party failed to produce an adequate Rule 30(b)(6) witness twice, confirming that attorneys' fees related to the second deposition and the motion for sanctions were appropriate).

VI. Experts

The Issues. Working with experts requires skill and management of expectations, protocols, and cost. One of the most important issues during discovery is the protection of expert report drafts—and the rules vary depending on whether a case is in federal or state court. In addition, unexpected issues can arise with experts gone rogue.

A. Protecting Draft Expert Reports from Disclosure.

1. *The Standard under the Federal Rules*. FRCP 26(a)(2)(B) requires that a party provide a written report for witnesses "retained or specially employed to provide expert testimony" or those "whose duties as the party's employee regularly involve giving expert testimony." FRCP 26(b)(4)(B) specifically protects draft reports and draft written summaries, stating "Rules 26(b)(3)(A) and (B) protect drafts of any report or disclosure required under Rule 26(a)(2), regardless of the form in which the draft is recorded."

2. *The Problem: Not All States Follow the Federal Rules*. Not every state has adopted the Federal Rules' protection of drafts exchanged between outside counsel and the expert. For example, Minnesota has declined to adopt the provisions of the Federal Rules that specifically protect draft reports so it is likely best practice to assume that draft reports are discoverable. Therefore, a party must take steps to protect attorney comments to expert drafts from disclosure.

3. Best practices in doing so include providing comments by telephone, and avoiding the exchange of documents between the attorneys and the expert, including key documents or outlines.

B. "Ownership" of An Expert. What happens when an expert you hired goes south? Can the other side attempt to call that expert as a witness in their own case, even if you do not list them as a witness at trial? Or conversely, what happens if the opposing party's witness is so helpful to your case-in-chief you would like to call them adversely, but the other side does not include them on their witness list? The answer, in part, depends on the timing of withdrawal of the expert witness.

1. FRCP 26(b)(4)(D)(ii) only permits discovery of (and by extension, testimony from) an expert specially retained but not expected to testify at trial if there are exceptional circumstances under which it is "impracticable for the party to obtain facts or opinions on the same subject by other means." If a party withdraws the testifying expert designation from an expert *prior* to his or her deposition (*i.e.* after the designation or report), many courts in the past permitted the "consultative privilege" to be restored. *See, e.g.*, *Calloway Gold Co. v. Dunlop Slazenger Grp. Ams. Inc.*, 2002 WL 1906628 (N.D. Del. Aug. 14, 2002) (submission of an expert report did not waive the protection provided to non-testifying experts); *see also FMC Corp. v. Vendo Co.*, 196 F. Supp. 2d 1023 (E.D. Cal. 2002). The rationale behind permitting reassertion of the consultative privilege absent exceptional circumstances stemmed from

the fact that the purpose behind permitting expert discovery of a testifying expert (*i.e.*, preparation for cross-examination and avoidance of surprise at trial) is not implicated with a non-testifying expert. *See Plymovent Corp. v. Air Tech Solutions*, *Inc.*, 243 F.R.D. 139, 143 (D.N.J. 2007); *see also Mantolete v. Bolger*, 96 F.R.D. 179, 181 (D. Ariz. 1982) ("there is no need for a comparable exchange of information regarding non-witness experts"). However, this approach has eroded over time, particularly since 2009 when Judge Easterbrook of the Seventh Circuit posited that "a witness identified as a testimonial expert is available to either side; such a person can't be transformed after the report is disclosed." *SEC v. Koenig*, 557 F.3d 736 (7th Cir. 2009) (affirming district court ruling allowing opposing side to play deposition testimony of other side's expert at trial).

2. For courts that permit a testifying expert to be shielded upon re-designation as a non-testifying expert, some nonetheless have found "exceptional circumstances" exist to permit discovery or deposition testimony, including the following: (1) evidence deteriorated or was destroyed after the non-testifying expert's observation but before the opposing party's expert examined the evidence (*Spearman Indus., Inc. v. St. Paul Fire & Marine Ins. Co.*, 128 F. Supp. 2d 1148, 1152 (N.D. Ill. 2001)), (2) where there are no other available experts in the specified field (*id.*), (3) where the testifying expert relied on the non-testifying expert's work or there is substantial collaboration between them (*Long-Term Capital Holdings, LP v. U.S.*, 2003 WL 21269586, at *2 (D. Conn. May 6, 2003)), and (4) where it is cost-prohibitive to replicate the non-testifying expert's work (*id.* at *2).

3. Of course, obtaining discovery from an expert witness and calling them at trial are two different issues. The majority approach is that an expert is not a "party witness" and cannot be compelled to appear at trial if not on the opposing side's witness list—nor are that expert's opinions "party admissions" under FRE 801. *See, e.g.*, *Kirk v. Raymark Indus., Inc.*, 61 F.3d 147 (3d Cir. 1995) ("despite the fact that one party retained and paid for the services of an expert witness, expert witnesses are supposed to testify impartially in the sphere of their expertise . . . we fail to comprehend how an expert witness, who is not an agent of the party who called him, can be authorized to make an admission for that party"). In order to offer testimony of an opposing expert at trial, the safest route is to push for deposition testimony that can be read or played to the jury—*if* the testimony is otherwise admissible.

VII. Regulatory Pressures and Privilege

Issue. New guidance from the Department of Justice issued in September 2015 (the so-called "Yates Memo") may raise new challenges for corporations using inside or outside counsel to conduct internal investigations and seeking cooperation credit during a government investigation. In addition to dealing with regulatory pressures and policies, a company and its counsel need to understand who holds what privilege, and the consequences of waiver.

A. Who Holds the Privilege?

1. *Attorney-Client Privilege*. If a company is considering waiving the attorney-client privilege in order to facilitate complete cooperation with government regulators, it is the company, not its lawyers, that hold the power to waive the privilege.

2. *Work Product*. While the work product doctrine centers on an attorney's mental impressions used to formulate a strategy in anticipation of or during litigation or investigation and has long been thought to be held by the lawyer rather than the client, a recent decision suggests differently. It may be the client's protection to waive, rather than the lawyer's. *See Gruss v. Zwirn*, 296 F.R.D. 224 (S.D.N.Y. 2013). In *Gruss*, the Court held that the defendant, as the client, "had a presumptive right of access to [its attorneys'] entire file, including the interview notes." *Id.* at 229.

B. To Waive or Not to Waive. No matter the type of privilege, the question of whether to waive privilege has long plagued corporations under investigation by the government. Most frequently, the question arises when a corporation considers whether to waive attorney-client privilege and work product related to an internal investigation on the subject under government scrutiny. The pressure to waive privilege can be intense. The following provides a brief description of government policy on waivers in connection with seeking cooperation credit.

1. *Past DOJ Policies Requesting Waiver.* Until 2008, corporations came under increasing pressure to voluntarily waive the attorney-client privilege or be found "uncooperative" in DOJ investigations. *See, e.g.*, Memorandum from Deputy Attorney General to Heads of Department Components and United States Attorneys, "Principles of Business Organizations," (Jan. 20, 2003), available at http://www.americanbar.org/content/dam/aba/migrated/poladv/priorities/privilegewaiver/2003jan20_privwaiv_dojthomp.authcheckdam.pdf (the "Thompson Memo").

2. *The SEC's Seaboard Report.* Similarly, current SEC policy (originating from the 2001 Seaboard report) includes a company's voluntary waiver of attorney-client privilege and work product as a factor to be considered when determining whether to bring charges, reduce charges, seeking lighter sanctions, or the include mitigating language to announce and resolve enforcement actions. *See* U.S. Securities and Exchange Commission, "Report of Investigation Pursuant to Section 21(a) of the Securities Exchange Act of 1934 and Commission Statement on the Relationship of Cooperation to Agency Enforcement Decisions," Release No. 34-44969 (Oct. 23, 2001), available at http://www.sec.gov/litigation/investreport/34-44969.htm.

3. *The Filip Memo*. Current DOJ policy regarding waivers is codified in the 2008 Filip Memo. The Filip Memo establishes that a corporation need not produce (and prosecutors were barred from requesting) privileged materials "as a condition for the corporation to receive cooperation credit." *See*

Memorandum from Deputy Attorney General Mark R. Filip to Heads of Department Components and United States Attorneys, "Principles of Federal Prosecution of Business Organizations," (Aug. 28, 2008), available at http://www.justice.gov/sites/default/files/dag/legacy/2008/11/03/dag-memo-08282008.pdf.

4. *The Yates Memo.* On September 9, 2015, the DOJ issued the Yates Memo, outlining six principles to guide DOJ enforcement actions against individuals with accountability/ culpability for corporate wrongdoing. *See* Memorandum from Deputy Attorney General Sally Quillan Yates to Heading Department Components and United States Attorneys, "Individual Accountability for Corporate Wrongdoing," (Sept. 9, 2015), available at http://www.justice.gov/dag/file/769036/download. Importantly, the Yates Memo requires that a corporation provide to the DOJ "all relevant facts about the individuals involved in corporate misconduct." *Id.* Although the Yates memo appears to carefully limit the request to non-privileged information, it is now unclear how the DOJ will address assertions of privilege in internal investigations in the assessment of total cooperation by a corporation when disclosing individuals within the corporation who may have individual accountability.

C. Consequences of Waiver. The biggest risk in waiving privilege during a government investigation is that civil litigants in later private litigation will push for production of that same privileged information.

1. Only the Eighth Circuit recognizes a concept of "selective waiver," which can shield privileged information provided to the government from disclosure in later civil litigations. *See Diversified Indus., Inc. v. Meredith*, 572 F.2d 596, 611 (8th Cir. 1978) (company's disclosure of outside counsel's memoranda of employee interviews to the SEC in response to a subpoena constituted only a "limited waiver" of the privilege and were protected from disclosure in later private civil litigation).

2. But in most other jurisdictions, where a corporation discloses privileged information to the government (including attorney work product) regarding an internal investigation, courts have held any protection previously held is waived. *See, e.g., Gruss*, 296 F.R.D. at 229 (court ordered that law firm's notes and summaries from its internal investigation of a client had to be turned over; no attorney work product privilege because investigation's findings were originally reported to SEC); *see generally In re Pacific Pictures*, 679 F.3d 1121 (9th Cir. 2012); *In re Qwest Comm. Int'l, Inc.*, 450 F.3d 1179 (10th Cir. 2006); *Columbia/HCA Healthcare Corp. Billing Practices Litig.,* 293 F.3d 289 (6th Cir. 2002).

3. To avoid waiver, the best course, if possible, is for a corporation to provide the government with all facts related to the internal investigation, but continue to assert privilege over the opinion portions of the investigative report or other interview memoranda written by lawyers heading up the investigation.

VIII. Current and Former Employee Witnesses

The Issues. How a party approaches the need and use of current or former employees as witnesses in a case is a consistent issue in litigation.

A. Rules on Contacting Former Employees of an Adverse Party. Applicable ethical rules of professional conduct govern contact with former employees of an adverse party. A litigant should always check the ethics rules in the jurisdiction in which a case is brought. As a general matter, a lawyer is prohibited from communicating with a person whom he or she knows is represented by another lawyer, unless consent is received from the representing lawyer or communication is otherwise authorized by law or court order. *See* Model R. Prof'l Conduct 4.2. Minnesota has adopted this model rule. *See* Minn. R. Prof'l Conduct 4.2. What seems to be a straightforward rule is one that has generated controversy and confusion over the years. If contacting a former employee of an adverse corporation, it is best to inquire whether they are represented by company counsel or if they are otherwise represented before speaking with them about the substance of the case.

B. Representing Current and Former Employees of Your Corporate Client. A corporate lawyer's first duty is to the company. After the Supreme Court's decision in *Upjohn Co. v. United States*, it has become common practice for lawyers representing a corporation to provide "*Upjohn* warnings" to employees while interviewing them in connection with the litigation or internal investigation in order to reduce the risk of any potential conflict between the corporation and the employee. 449 U.S. 383 (1981). Such warnings advise the employee that the lawyer represents the company, and not necessarily the employee, for purposes of the attorney-client privilege.

Ultimately, it is upon to the corporation to determine whether it has its outside counsel also represent its current and former employees. In order to determine that, the corporation, along with outside counsel, must evaluate, based on the circumstances, whether there is a risk of conflict between the corporation's position and the employee's position in the litigation. Under *Upjohn*, when determining the scope of privilege, a court will look to the employee's position in the company and relationship to the subject matter of the litigation." *Id*. at 394.

If outside counsel represents both the corporation and the current and former employees, then the attorney-client privilege attaches to communications covering the subject matter of the litigation related to the former employee's employment. *See Peralta v. Cendant Corp.*, 190 F.R.D. 38, 41 (D. Conn. 1999); *Export–Import Bank of the United States v. Asia Pulp & Paper Co., Ltd.*, 232 F.R.D. 103, 112 (S.D.N.Y. 2005) ("Virtually all courts hold that communications between company counsel and former company employees are privileged if they concern information obtained during the course of employment."); *Surles v. Air France*, 2001 WL 815522, at *5-6 (S.D.N.Y. July 19, 2001) (sustaining defendant's assertion of attorney-client privilege over communications between defendant's counsel and former employees). Similarly, work product protections

exist. *See, e.g.*, *Peralta*, 190 F.R.D. at 42 (finding both privileges applicable); *Surles*, 2001 WL 815522, at *6 (same).

If a determination is made that the corporation's outside counsel will not represent the current or former employee, then necessarily, "no attorney-client privilege applies" between the corporation's counsel and the employee. *Peralta*, 190 F.R.D. at 41. However, the corporation's counsel can work with the employee to find separate counsel, and as prudent, enter into a joint defense agreement to protect certain communications between them from disclosure.

C. Compensation. Questions often arise regarding whether a corporation can compensate its former employees in providing testimony in a case.

1. In any federal case, a witness is entitled to compensation for attendance and reimbursement for travel expenses. *See generally* 28 U.S.C. § 1821; Fed. R. Civ. P. 45. A similar rule applies in Minnesota. *See* Minn. R. Civ. P. 45.

2. Under the Model Rules, Rule 3.4(b) provides that a lawyer may not "falsify evidence, counsel or assist a witness to testify falsely, or offer an inducement to a witness that is prohibited by law." Model R. Prof'l Conduct 3.4(b). Comment 3 to Rule 3.4 clarifies that "it is not improper to pay a witness's expenses or to compensate an expert witness," so long as the fee is not conditioned on their testimony. *Id.*; *see also* ABA Comm. on Ethics and Prof'l Responsibility Op. No. 96-402. As a result, cases have held that there is nothing improper with a corporate defendant compensating its former employees for preparing and giving testimony. *See, e.g.*, *Prasad v. MML Investors Servs., Inc.*, 2004 WL 1151735, at *1-2, *7 (S.D.N.Y. May 24, 2004) (holding that a paid former employee fact witness was not improperly heard at an arbitration even when his compensation agreement came to light two days before he first testified); *Smith v. Pfizer, Inc.*, 714 F. Supp. 2d 845, 852-53 (M.D. Tenn. 2010) ("It is not necessarily improper for a party to pay a fact witness if the money compensates the witness, at his or her professional rate, for lost time.") Facts surrounding that compensation, are however, generally available as a topic of cross-examination by opposing counsel to establish bias at trial.

IX. Trial

The Issues. The pressures of trial often lead to unexpected issues—several of which we touch on here related to witnesses and judge/arbitrators.

A. Are In-House Officers Required to Attend an Out-of-State Trial? Confusion regarding a court's power to order party officers to attend trial under Federal Rule of Civil Procedure 45 was resolved in the 2013 amendments. Prior to that, a split had developed regarding whether a corporate party's officers outside of the 100-mile radius of the court could be required to appear.

1. Rule 45 (c)(1) dictates that a person can be subpoenaed to attend a trial, hearing or deposition either "(A) within 100 miles of where the person resides,

is employed, or regularly transacts business in person; or (B) within the state where the person resides, is employed, or regularly transacts business in person, if the person (i) is a party or a party's officer; or (ii) is commanded to attend a trial and would not incur substantial expense." Fed. R. Civ. P. 45(c)(1).

2. Prior to the 2013 Rule amendments, some courts required that a corporation bring out-of-state witnesses beyond the court's subpoena power to trial on the basis that modern advancements have made long distance travel much less burdensome than it was in the past. *See In re Vioxx Prods. Liab. Litig.,* 438 F. Supp. 2d 664, 668 (E.D. La. 2006) (requiring a Merck officer residing in Pennsylvania to testify at trial in New Orleans because "the purposes behind the 100 mile rule no longer justify its existence"). Others strictly read Rule 45, finding out-of-state officers outside of the court's subpoena power.

3. While there may be good reason to follow the logic of *Vioxx*, the Advisory Committee amended Rule 45 in 2013 to clarify that officers may *not* be compelled "to travel more than 100 miles *unless* the party or party officer resides, is employed, or regularly transacts business in the state." Fed. R. Civ. P. 45 Advisory Committee Note; *see also Havens v. Mar. Commc'ns/Land Mobile, LLC*, 2014 WL 2094035, at *2 (D.N.J. May 20, 2014). Therefore, the analysis necessarily rests on whether the individual officer at issue regularly transacts business in the court's locale.

B. Surprise witnesses. Rule 26(a) lists mandatory disclosures that must be made even in the absence of a request from the opposing party during discovery. These disclosures include the identification of witnesses and documents that may be used to support the disclosing parties' claims or defenses, computations of damages, and insurance agreements. Fed. R. Civ. P. 26(a)(1)(A). If an opposing party lists a new witness on their witness list, a motion in limine to exclude that witness is appropriate, and *should*, but does not always, result in mandatory exclusion. Fed. R. Civ. P. 26(a)(1)(A); Fed. R. Civ. P. 37(c)(1).

C. Outrageous Judicial Behavior. When faced with a judge whose behavior defies both the applicable procedural and ethics rules, some litigants have questioned whether anything can be done procedurally to address the improper behavior, beyond protecting the record during the proceedings and addressing the behavior on appeal. Some, for example, have sought a writ of mandamus. However, those efforts have been unsuccessful here in Minnesota. *See State v. Davis*, 592 N.W.2d 457, 459 (Minn. 1999) (writ of mandamus cannot be used to control judicial discretion or as a replacement for an appeal).

D. Outrageous Opposing Counsel Behavior. Litigants have more leeway in handling unexpected and outrageous behavior by opposing counsel, beyond objections and motions for mistrial. Attorneys can be sanctioned or held in contempt for outrageous behavior at trial, including disobeying pretrial rulings. *See, e.g.*, *O2 Micro Int'l Ltd. v. Beyond Innovation Tech. Co.*, 521 F.3d 1351 (Fed. Cir. 2008) (in addition to sanctions, attorney who violated pretrial order

prohibiting reference to plaintiff's choice of Cayman Islands as its headquarter for tax purposes by asking in voir dire if anyone had a problem with companies that put their headquarters in the Caribbean for tax purposes held in contempt and sentenced to 48 hours in jail).

E. Sanctionable Behavior by Witnesses. Sometimes, the unexpected occurs from the witness, whether planned by opposing counsel or not. In *Sutch v. Roxborough Mem. Hosp.*, a court levied $1 million in sanctions against an insurance defense attorney in a medical malpractice case when the defense's expert witness mentioned the plaintiff's smoking history during testimony despite a specific pretrial order banning the subject at trial. *See* Matt Fair, *Philly Legal World Rattled by $1M Witness Flub Sanction,* Law360, May 8, 2015, available at http://www.law360.com/articles/653446/philly-legal-world-rattled-by-1m-witness-flub-sanction.