



IN THE COURT OF COMMON PLEAS OF CENTRE COUNTY, PENNSYLVANIA

CIVIL ACTION - LAW

GEORGE SCOTT PATERNO,  
as duly appointed representative of the  
ESTATE and FAMILY of JOSEPH PATERNO, et al.

Plaintiffs,

v.

NATIONAL COLLEGIATE ATHLETIC  
ASSOCIATION ("NCAA"), et al.

Defendants.

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)  
)  
) Docket No. 2013-2082  
)  
)

) Type of Case: Commercial  
)  
)  
)

) Type of Pleading: Addendum To  
) Memorandum of Law In Support  
) of Motion To Overrule Objections  
) By Defendant Pennsylvania State  
) University To Notice of Intent To  
) Issue Subpoena To Pepper  
) Hamilton, LLP Pursuant To Rule  
) 4009.211  
)  
)

) Filed on Behalf of: Plaintiff George  
) Scott Paterno as Duly Appointed  
) Representative of the Estate and  
) Family of Joseph Paterno  
)  
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### ADDENDUM: UNPUBLISHED CASES

<b><u>Page</u></b>	<b><u>Cases</u></b>
Ad-001	Lane v. Hartford Accident & Indem. Co., 1990 Pa. Dist. & Cnty. Dec. LEXIS 328 (Pa. C.P. 1990)
Ad-007	Ryan v. Gifford, No. 2213-CC, 2008 Del. Ch. LEXIS 2 (Del. Ch. Jan. 2, 2008)
Ad-015	Sandvik Intellectual Prop., AB v. Kennametal, Inc., No. 10-cv-654, 2011 U. S. Dist. LEXIS 11104 (W.D. Pa. Feb. 4, 2011)

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**Lane v. Hartford Accident and Indemnity Company**

**no. 104-S-1989**

**COMMON PLEAS COURT OF DAUPHIN COUNTY, PENNSYLVANIA**

*1990 Pa. Dist. & Cnty. Dec. LEXIS 328; 5 Pa. D. & C.4th 32*

**February 7, 1990, Decided**

**DISPOSITION:** [\*1] Motion for protective order.

codified at 42 Pa. Cons. Stat. § 5928, was not inviolate and yielded the further the administration of justice.

**CASE SUMMARY:**

**PROCEDURAL POSTURE:** Attorney for pizza company filed a motion for a protective order claiming that the documents requested by defendant insurer in plaintiffs' action to recover a consent judgment from the insurer were irrelevant, and the attorney-client privilege and the work-product doctrine prohibited their production and rendered his testimony incompetent.

**OUTCOME:** The court granted the attorney's motion for a protective order as to nos. 2, 3, 4, 5, and 7, denied the motion as to nos. 1, 6, and 8, and withheld as to nos. 9, and 10 until the court conducted an in camera examination.

**COUNSEL:** *Ralph B. Pinskey*, for plaintiffs.

*C. Kent Price*, for defendant.

**JUDGES:** DOWLING, J.

**OPINION BY:** DOWLING, J.

**OPINION**

**OVERVIEW:** Plaintiffs obtained a \$ 3 million consent judgment against a pizza company whose employee forced plaintiffs to reveal details of their sex life and engaged in individual therapy in the form of sexual intercourse. The settlement was in the exact amount of the insurance coverage. Plaintiffs filed suit to recover the judgment, but the insurer alleged collusion and fraud in the execution of the settlement. The insurer served the pizza company's attorney with notice of a deposition request, and the attorney filed for a protective order, contending that the requested documents were irrelevant, and the attorney-client privilege and work-product doctrine prohibited their production and rendered his testimony incompetent. The court granted counsel's motion in part, but generally held that the insurer was entitled to obtain documents that explained how the settlement figure was arrived at, and to this extent, what went on between the pizza company and its attorney. The court noted that the attorney-client privilege, which was

[\*\*32] DOWLING, J., February 7, 1990 -- The three-million-dollar pizza sex scandal is once again before us.<sup>1</sup> This time the problem centers around the scope of permissible discovery as it relates to relevancy, the attorney-client privilege and the work-product doctrine.

<sup>1</sup> See *Lane v. Hartford Accident and Indemnity Co.*, 109 Dauphin Rep. 366 (1989), for details and background.

Plaintiffs commenced this action against Hartford

Accident and Indemnity Company to recover a \$ 3 million judgment entered by consent decree against B&H Pizza. The judgment arose out of the settlement of an action initiated by plaintiffs against the B&H defendants, which provided that it was the intent of the parties that the court enter a consent order granting judgment in the amount of \$ 3 million, representing the limits of the liability policy at issue in the instant action. [\*2] In the settlement agreement plaintiffs agreed that they would seek satisfaction solely from the insurer. Although plaintiffs [\*\*33] requested that Hartford satisfy the judgment, Hartford has refused, alleging that there was no coverage for the underlying action and that there was collusion and fraud in the execution of the settlement.

On November 3, 1989, deponent Harvey Freedenberg, Esq., counsel of record for B&H Pizza, was served with a subpoena and a notice of deposition which included the following list of documents which were to be produced at the deposition:

"(1) All correspondence, including enclosures, between the office of McNees, Wallace & Nurick and Ralph Pinskey, Esq., relating or in any way pertaining to the claims asserted in *Lane et al., B&H Pizza Company Inc. et al.*, Court of Common Pleas, Dauphin County, Pennsylvania, Civil Action no. 797-S-1987;

"(2) All correspondence, including enclosures, between the office of McNees, Wallace & Nurick and Hartford relating or in any way pertaining to the aforesaid action;

"(3) All discovery responses, including answers to interrogatories, responses to requests for production of documents and answers to requests for [\*3] admissions, which you received from the plaintiffs in the aforesaid action;

"(4) All discovery responses, including answers to interrogatories, responses to requests for production of documents, and answers to requests for admissions, which you served upon the plaintiffs in the aforesaid civil action;

"(5) All deposition transcripts generated in the aforesaid civil action;

"(6) All documents prepared, generated or produced which evidence, memorialize or in any way [\*\*34] relate or pertain to the evaluation and process of evaluating the

aforesaid civil action for settlement purposes;

"(7) All pleadings and exhibits, not including the complaint, filed in the aforesaid civil action;

"(8) Reports and curriculum vitae/resumes of all experts, consultants or others retained or consulted for any reason on behalf of defendants in the aforesaid civil action;

"(9) All documents prepared, generated or produced as a result of or in the course of all investigations conducted by or on behalf of defendants relating or pertaining to the aforesaid civil action; and

"(10) All statements obtained and produced relating or pertaining to the claims asserted in the aforesaid civil action."

Attorney [\*4] Freedenberg has filed a motion for a protective order claiming that the requested documents are irrelevant and that the attorney-client privilege and the work-product doctrine prohibit their production and render his testimony incompetent.

Let us begin by first identifying the issues in this suit, for upon them rest the resolution of the conflicting policies of broad discovery and protection of the attorney-client relationship. Plaintiffs contend that defendant Hartford breached its duty to defend and indemnify its insureds, the B&H defendants, in the underlying suit and, in the absence of either assuming such defense under a reservation of rights, or instituting a declaratory-judgment action to obtain a ruling on such duties, are precluded from litigating the issue of coverage and contesting the amount of the consent judgment. Defendant Hartford maintains that coverage must still be proven, and that it is not prevented from contesting the [\*\*35] amount of the consent judgment if such judgment is not fair and reasonable and/or if such judgment involved fraud or collusion.

On May 18, 1987, defendant Hartford first received notice of the claims from its insureds with a demand for [\*5] representation and defense. On August 28, 1987, defendant Hartford denied coverage and declined to defend or indemnify its insureds. On October 29, 1987, approximately five months after being initially notified of the claims, defendant Hartford was advised by counsel for the insureds that a voluntary settlement of the underlying suit was being considered, which settlement

would include a stipulated judgment "within the amount of the applicable policy limits," said amount being \$ 3 million. Ultimately, such a judgment was entered by consent of the parties to the underlying suit.

In one's rush to research, the law and set forth an imposing list of citations with perhaps a few pertinent quotes, we must not stray too far from the unique underlying factual background. Plaintiffs have obtained a \$ 3 million consent judgment for injuries allegedly sustained as a result of the activities of one James L; Miller (now deceased) who was hired by the plaintiffs' employer, B&H Pizza, to provide "psychodynamic supervision training." It would appear this training was primarily sexually oriented; and as a result, plaintiffs claim they were forced to disclose details of their sex life and even engaged [\*6] in individual therapy in the form of sexual intercourse. Add to this the fact that the settlement was in the exact amount of the insurance coverage, and that plaintiffs have agreed that they would seek satisfaction only from the insurance company; and one might detect a scent not ordinarily associated with the odor of pizza. We thus start with an [\*\*36] extraordinary type of claim involving conduct not usually incident to the rather large sum of money involved.

The prime reason for discovery has been said to relate to basic principles of good judicial administration, namely, the improvement of trial techniques by the elimination of surprise. Goodrich-Amram 2d § 4001(c):1. It has become the chief tool of the litigation section of the bar and traces its origin back to the equity bill of discovery in English Chancery practice. The Supreme Court of the United States has declared that mutual knowledge of all the relevant facts is essential to proper litigation. See *Hickman v. Taylor*, 329 U.S. 495 (1947). Our Superior Court, in *Elkman v. Elkman*, 196 Pa. Super. 133, 173 A.2d 682(1961), commended that:

"Great advances have been made in modern times to [\*7] prevent a trial from being just a game of hide-and-seek. Rules have been promulgated to make each side reveal relevant evidence to the other. All of these rules are designed to make a trial a procedure for ascertaining the true facts. It is only after these facts have been ascertained that true justice can be dispensed." *Elkman at 136, 173 A.2d at 683.*

Yet there are some curmudgeons from the bygone days who proclaim that the drama is gone from trial and lament the passing of the battle of wits between counsel,

characteristic of the old era. They would point out that the great art of cross-examination has diminished into nit-picking questions about what the witness said in his deposition and would analogize the change as one from draw poker to showdown.

It must be admitted that the procedure is time-consuming and expensive, and when abused, as it often is in this day of computer printouts of hoards [\*\*37] of interrogatories, and investigations being replaced by depositions, it becomes annoying and oppressive. How frequently do we encounter situations where plaintiff sues everyone within the curtilage and then weeds out the obviously non-involved parties by deposition? [\*8] As one famous advocate has stated, "It makes litigators think they are trial lawyers."

Be that as it may, discovery is here to stay, and it is to be given a liberal interpretation so as to acquaint both sides with all the pertinent facts. While it seems clear, and has long been recognized that discovery should provide a party access to everything that is or may become evidence in the case, it is equally clear that discovery should not ordinarily nullify the long-established privilege between attorney and client.

The origin of the doctrine that communications between a client and his lawyer are privileged can be traced to Elizabethan times where it is said that the oath and honor of the banister protects him from being required to disclose the secrets of his clients. Later, in the eighteenth century when the emphasis upon the code of ethics had lessened and the need of ascertaining the truth loomed larger than the pledge of secrecy, a new justification was found on the theory that lawyers can only act effectively if they are fully informed of the facts by the parties whom they represent, and full disclosure would be promoted only if the client knows that what he tells the lawyer cannot [\*9] be extorted from his counselor's lips. The argument, although not stated in so many words, appears to be that justice is best served by frank disclosure in the lawyer's office rather than by an unrestricted inquiry into the pertinent facts. Yet, Wigmore notes, "Its benefits [\*\*38] are all individual and speculative; its obstruction is plainly concrete,"<sup>2</sup> and McCormick opines:

"If one were legislating for a new commonwealth, without history or customs, it might be hard to maintain that a privilege for lawyer-client communications would facilitate more than it would obstruct the administration

of justice. But we are not writing on a blank slate. Our adversary system of litigation casts the lawyer in the role of fighter for the party whom he represents. A strong sentiment of loyalty attaches to the relationship, and this sentiment would be outraged by an attempt to change our customs so as to make the lawyer amenable to routine examination upon the client's confidential disclosures regarding professional business. Loyalty and sentiment are silken threads, but they are hard to break." *McCormick on Evidence*, § 87, at 176.

2 Wigmore, *Evidence*, § 2291.

[\*10]

The attorney-client privilege is governed in our commonwealth by 42 Pa. C. S. § 5928 which provides:

"In a civil matter counsel shall not be compelled or permitted to testify to confidential communications made to him by his client, nor shall the client be compelled to disclose the same, unless in either case the privilege is waived upon the trial by the client."

This statute is essentially a codification of the Pennsylvania common law of attorney-client privilege. *In re Westinghouse Electric Corp.*, 76 F.R.D. 47, 53 (WD. Pa. 1977); *Keller v. Jenkintown Cab Company*, 238 Pa. Super. 456, 462, 357 A.2d 689, 692 (1976). The common-law rule was that "all professional communications are sacred. If the particular case forms an exception it must be shown by [\*39] him who would withdraw the seal of secrecy, and... should be shown clearly." *Moore v. Bray*, 10 Pa. 519, 524-5 (1849). See also, *Alexander v. Queen*, 253 Pa. 195, 97 Atl. 1063 (1916).

The attorney-client privilege exists only to aid in the administration of justice, and when it is shown that the interest of justice can only be frustrated by the exercise of the [\*11] privilege, the court may require that the communication be disclosed. *Brennan v. Brennan*, 281 Pa. Super. 362, 422 A.2d 510 (1980).

"The purpose of the attorney-client privilege is to encourage frank communication and full disclosure between client and attorney. See, e. g., *Upjohn Co. v. United States*, 449 U.S. 383, 389, 101 S.Ct. 677, 682, 66 L.Ed. 2d 584 (1981). However, 'because the privilege obstructs the search for the truth and because its benefits are, at best, "indirect and speculative," it must be "strictly

confined within the narrowest possible limits consistent with the logic of its [purpose]." ' " *Delco Wire v. Weinberger*, 109 F.R.D. 680, 687 (E.D. Pa. 1986).

The scope and rationale of the work-product doctrine were first enunciated in *Hickman v. Taylor*, 329 U.S. 495 (1947). There, the Supreme Court stated:

"Historically, a lawyer is an officer of the court and is bound to work for advancement of justice while faithfully protecting the rightful interests of his clients. In performing his various duties, however, it is essential that a lawyer work with a certain degree of privacy, free from unnecessary [\*12] intrusion by opposing parties and their counsel. Proper preparation of a client's case demands that he assemble information, sift what he considers to be the relevant from the irrelevant facts, prepare his legal theories and plan his strategy without undue and needless interference. That is the historical and the necessary way [\*40] in which lawyers act within the framework of our system of jurisprudence to promote justice and to protect their clients' interest. This work is reflected, of course, in interviews, statements, memoranda, correspondence, briefs, mental impressions, personal beliefs, and countless other tangible and intangible ways -- aptly though roughly termed by the Circuit Court of Appeals in this case as the work product of the lawyer." *Id.* at 510-1.

The law governing the discovery of an attorney's work product has been substantially codified in *Pa.R.C.P.* 4003.3, which provides in pertinent part that: "The discovery shall not include disclosure of the mental impressions of a party's attorney or his conclusions, opinions, memoranda, notes or summaries, legal research or legal theories." This rule seems to immunize the lawyer's mental impressions, [\*13] conclusions, opinions, memoranda, notes or summaries, legal research or legal theories.

However, as stated in the explanatory note to the rule:

"There may be situations where his conclusions or opinion as to the value or merit of a claim, not discoverable in the original litigation, should be discoverable in subsequent litigation. For example, suit is brought against an insurance carrier for unreasonable refusal to settle, resulting in a judgment against the insured in an amount in excess of the insurance coverage."

See also, *Nedros v. Pa. National Insurance Co.*, 31 D.&C. 3d 456, 459-60 (1981). "The rule is but a qualified privilege and loses the status when good cause is shown for its abandonment." *Trzesniowski v. Erie Insurance Exchange*, 59 D.&C. 2d 44, 48 (1973).

The instant case seems to present a variation of the bad-faith refusal to settle example cited by the [\*\*41] drafters of rule 4003.3 and as illustrated in the above cited cases. Here the insurance carrier desires all documents in the possession of its insured's counsel which pertain to his evaluation of, and the eventual settlement of, the underlying suit, which settlement figure is asserted as being binding [\*14] upon defendant Hartford.

*Condon v. Petacque*, 90 F.R.D. 53 (N.D. Ill. 1981), involved a case of legal malpractice. Defendant subpoenaed plaintiffs counsel for a deposition and to bring to the deposition "all records, correspondence, notes, memoranda or other documents in [his] possession or under [his] control which relate in any way to the subject of this lawsuit." Plaintiff moved to quash the subpoena on the basis that the material sought to be produced was protected by the attorney-client privilege and the attorney work-product doctrine. Defendant's request for the enumerated materials was directed to the development of a statute of limitations defense.

In denying the motion to quash, the court said:

"Although the work-product doctrine embodied in rule 26(b)(3) is of wider breadth than the attorney-client privilege, *Harper & Row Publishers Inc. v. Decker*, 423 F.2d 487, 492 (7th Cir. 1970), affirmed by an equally divided court, 400 U.S. 348, 91 S.Ct. 479, 27 L.Ed. 2d 433 (1971), we believe that the material sought by defendants, if indeed it constitutes 'work product' at all, is properly discoverable upon defendants' showing that [\*15] they have substantial need for the material in conjunction with the preparation of their defense and that they would be unduly burdened or unable to obtain the information by other means." *Condon at 54*.

In essence, Hartford Accident and Indemnity wants to know how the settlement figure of \$ 3 million was arrived at, and to this extent, what went [\*\*42] on between B&H Pizza Inc. and its attorney. It would seem that at the very least under the facts of the case, i.e., the type of intangible injury, the relatively high figure, and its coinciding with the amount of coverage, an

explanation is called for.

It must be noted that the attorney-client privilege only applies to what the client told the lawyer, and not vice versa, and, as stated above, the work-product exception is only a qualified privilege and does not apply where it concerns what may be highly relevant evidence. Furthermore, the application of these exceptions obstructs the search for the truth, and because its benefits are at best speculative, it must be "strictly confined within the narrowest possible limits consistent with the logic and purpose." *In re Grand Jury investigation*, 599 F.2d 1224, 1235. See also, [\*16] *United States v. Nixon*, 418 U.S. 683 (1974).

Examining a number of the decisions involving both privileges handed down in the last 30. years leads one to conclude that the court must, in the exercise of its discretion, determine on a case-by-case basis whether the privilege should be applied or ignored.

The objection as to relevancy is somewhat difficult to determine without reviewing the particular documents. Broadly speaking, they come under the allegations of possible fraud and collusion. How can we rule on whether there is such a defense until discovery reveals the contents? We feel that the admitted facts, the \$ 3 million settlement, the type of injury, and the amount of insurance coverage is enough to place the matter, at least at this stage, at issue.

Now as to the specific documents requested, as set forth above in full:

(1) The correspondence between plaintiffs counsel and counsel for B&H Pizza certainly does not involve the attorney-client privilege, and we feel [\*\*43] that the potential relevancy outweighs the work-product objection.

(2), (3), (4), (5) and (7) These are all matters which either are in the possession of defendant Hartford or readily [\*17] available to it, being matters of record.

(6) All documents which relate to the evaluation of the claim. These could, of course, be highly relevant, and we feel that both the attorney-client and work-product privileges must give way in the interests of justice, i.e., the search for the truth.

(8) Expert reports and accompanying curricula vitae.

We fail to see how this material infringes upon either privilege, and its relevancy cannot be determined at this time.

(9) and (10) All documents and statements involving any investigation of the case. This is extremely broad, and much of the material is probably encompassed within the other requests. Insofar as it is not involved, the material will have to be submitted to the court for an in camera examination before a ruling can be made.

The deposition of attorney Harvey Freedenberg may be taken, but it should be deferred until the court has examined the documents in nos. (9) and (10) above. It is not possible to decide in advance what questions may be

objectionable, except to rule that inquiry may be had generally into matters concerning the settlement evaluation, attorney-client and work-product objections notwithstanding.

Accordingly, [\*18] we enter the following

#### ORDER

And now, February 7, 1990, defendants' motion for protective order is granted as to nos. (2), (3), (4), (5) and (7) and denied as to nos. (1), (6) and (8) and withheld as to nos. (9) and (10) until the court conducts an in camera examination.





WALTER E. RYAN, JR., and DONNA CONRAD, in the right of and the benefit of  
MAXIM INTEGRATED PRODUCTS, INC., Plaintiffs, v. JOHN F. GIFFORD,  
FREDRICK G. BECK, CARL W. JASPER, TUNC DOLUCA, PIROOZ  
PARVARANDEH, RICHARD C. HOOD, VIJAYKUMAR ULLAL, CHARLES G.  
RIGG, MICHAEL J. BYRD, JAMES R. BERGMAN, B. KIPLING HAGOPIAN,  
A.R. FRANK WAZZAN, ERIC P. KARROS, M.D. SAMPELS, and ALAN HALE,  
Defendants, and MAXIM INTEGRATED PRODUCTS, INC., Nominal Defendant.

Civil Action No. 2213-CC

COURT OF CHANCERY OF DELAWARE, NEW CASTLE

2008 Del. Ch. LEXIS 2

December 20, 2007, Submitted  
January 2, 2008, Decided

**NOTICE:**

THIS OPINION HAS NOT BEEN RELEASED FOR PUBLICATION. UNTIL RELEASED, IT IS SUBJECT TO REVISION OR WITHDRAWAL.

**SUBSEQUENT HISTORY:** Motion granted by *Ryan v. Gifford*, 2008 Del. Ch. LEXIS 15 (Del. Ch., Feb. 7, 2008)

**PRIOR HISTORY:** *Ryan v. Gifford*, 2007 Del. Ch. LEXIS 168 (Del. Ch., Nov. 30, 2007)

**CASE SUMMARY:**

**PROCEDURAL POSTURE:** Defendant company moved pursuant to Del. Sup. Ct. R. 42 for certification of an interlocutory appeal of the trial court's order directing the company to produce all communications between the company's counsel and a special investigative committee that occurred during an investigation into stock option backdating. The company also moved to stay proceedings pending appeal.

**OVERVIEW:** Plaintiff shareholders filed a derivative action after learning that the stock option grants of some

businesses almost certainly had been backdated. The company established a special committee to investigate. The special committee retained the law firm as the special committee's counsel and the law firm conducted an investigation with forensic accounting assistance. The law firm and special committee presented its final report, purportedly only orally, to, inter alia, attorneys representing defendant directors in the derivative action. The trial court granted the shareholders' motion to compel the law firm, the business that provided forensic accounting assistance, and the company to produce related documents. The company sought certification to pursue an interlocutory appeal. The trial court found that the company failed to satisfy the requirements of Del. Sup. Ct. R. 42 for such an appeal, especially since the shareholders showed good cause for seeking the documents, courts had refused to apply the attorney-client privilege to protect materials when shareholders had done so, and the company had not even challenged that basis for granting the shareholders' motion to compel.

**OUTCOME:** The trial court denied the company's application for an order certifying an interlocutory appeal. It also denied the company's motion to stay proceedings pending appeal.

**COUNSEL:** [\*1] Norman M. Monhait, of ROSENTHAL MONHAIT & GODDESS, P.A., Wilmington, Delaware; **OF COUNSEL:** Clinton A. Krislov and Jeffrey M. Salas, of KRISLOV & ASSOCIATES, LTD., Chicago, Illinois; Thomas G. Shapiro, Edward F. Haber, Michelle H. Blauner, and Robert E. Ditzion, of SHAPIRO HABER & URM LLP, Boston, Massachusetts, Attorneys for Plaintiffs.

"J" Jackson Shrum, of ARCHER & GREINER, P.C., Wilmington, Delaware; **OF COUNSEL:** Michael J. Ioannou, Lita M. Verrier, and Sue H. Handelman, of ROPERS MAJESKI, KOHN & BENTLEY, San Jose, California, Attorneys for Nominal Defendant Maxim Integrated Products, Inc.

## OPINION

### MEMORANDUM OPINION

CHANDLER, Chancellor

This case involves what is now admitted stock option backdating that occurred at Maxim Integrated Products, Inc. ("Maxim" or the "Company"). On November 30, 2007, this Court issued a letter decision resolving several discovery disputes and other pre-trial issues in this case.<sup>1</sup> One of the issues resolved in that November 30 decision concerned plaintiffs' motion to compel Orrick Herrington & Sutcliffe LLP ("Orrick," counsel to Maxim's "Special Committee"), and LECG Corporation (retained by Orrick for forensic accounting assistance), and Maxim (including its Special [\*2] Committee) to produce all communications between Orrick and the Special Committee that occurred during their investigation into the option backdating, including Orrick's presentation of the investigation's final report to the Special Committee and to Maxim's board of directors. Maxim has now moved, pursuant to Supreme Court Rule 42, for certification of an interlocutory appeal of this limited aspect of the November 30 decision. Plaintiffs Ryan and Conrad oppose certification. For the following reasons, I deny Maxim's application for an order certifying an interlocutory appeal. Finding that there is no basis to stay the November 30 decision under *Kirpat, Inc. v. Delaware Alcohol Beverages Control Commission*,<sup>2</sup> I further deny Maxim's motion to stay proceedings pending appeal.

<sup>1</sup> *Ryan v. Gifford*, C.A. No. 2213-CC, 2007 Del. Ch. LEXIS 168, 2007 WL 4259557 (Del. Ch. Nov.

30, 2007).

<sup>2</sup> 741 A.2d 356 (Del. 1998).

## I. FACTUAL BACKGROUND

To place the November 30 decision's discovery rulings in context, it is necessary to describe at some length the factual background of this dispute. This derivative action was filed on June 12, 2006, following the publication of Merrill Lynch's report asserting that stock option grants were [\*3] almost certainly backdated at a number of companies, including Maxim. Two days later, on June 14, 2006, Maxim established a Special Committee, comprised of a single director, Peter De Roeth, which was charged with investigating the Company's stock option grants and practices. As I noted previously, the Special Committee in this case was not an independent Special Litigation Committee under *Zapata Corp. v. Maldonado*.<sup>3</sup> In addition, although Maxim's board could have given the Special Committee power to act without consulting the remaining members of the board (all of whom had roles in Maxim's option granting practices and some of whom were recipients of backdated options), it chose not to do so.

<sup>3</sup> 430 A.2d 779 (Del. 1981).

De Roeth retained Orrick as the Special Committee's counsel, and it was Orrick that conducted the investigation with forensic accounting assistance from LECG Corporation. Together, Orrick and LECG conducted extensive interviews and collected and analyzed huge volumes of electronic and paper material.

As Maxim noted in an 8-K filing with the SEC, in the course of the investigation, the Special Committee's legal and accounting advisors identified, preserved and collected [\*4] approximately thirteen terabytes of electronic data. After running the agreed-upon search terms and eliminating software applications and duplicates, 120 gigabytes of electronic information were reviewed. The Special Committee's legal and accounting advisors reviewed a total of 270,000 electronic documents (not including metadata documents) and a total of 50,000 hard copy documents. They also conducted thirty-two interviews of current and former employees, members of Maxim's board of directors and auditing partners of both firms that audited Maxim's financial statements during the relevant time period. Some individuals were interviewed on more than one occasion.

Plaintiffs' burden in this litigation also has been made even more difficult by the frequent invocation of the *Fifth Amendment* privilege not to testify. Defendant Carl Jasper (Maxim's former CFO), as well as other individuals who played central roles in the administration of Maxim's stock option plan (including Maxim's former treasurer, Timothy Ruehle, and stock administrator, Sheila Raymond) have asserted their *Fifth Amendment* privilege not to testify.<sup>4</sup>

4 Defendant John Gifford, Maxim's former CEO, has recently advised the Court [\*5] by letter that he would no longer be asserting his *Fifth Amendment* privilege not to testify.

On January 18 and 19, 2007, Orrick and the Special Committee presented its final report, *purportedly only orally*, to Maxim's board of directors. In attendance at the board meeting were De Roeth, other members of Maxim's board of directors (including director defendants Frank Wazzan, Kipling Hagopian, and James Bergman), attorneys from Orrick, **as well as attorneys from Quinn Emanuel, who represent the director defendants in this derivative action.**<sup>5</sup> Following this presentation, the board met on several occasions to deliberate and discuss actions in response to the Special Committee's findings and conclusions.

5 Quinn Emanuel represents the director defendants, and other present and former Maxim officers or directors (defendants Doluca, Byrd, Karros, and Sampels) (collectively, the "Individual Defendants") in this litigation. Throughout this litigation, and at the time of the January 2007 board meetings, Maxim has been represented by separate counsel, Ropers, Majeski, Kohn & Bentley ("Ropers"). The choice to have separate counsel presumably reflects an awareness that the Individual Defendants in [\*6] this case have interests different from those of Maxim.

Notwithstanding the significant cost of the investigation, the importance of its results, and the need for transparency, no written report of the Special Committee's findings and recommendations was ever prepared, submitted or published. No board members were permitted to leave the room with any documents or notes from the meetings discussing the investigation. The presentation evidently was completed in a manner that left little, or no, paper trail. Maxim has instructed the

directors in this litigation not to answer questions regarding the board meetings or their decision making.

On February 1, 2007, Maxim publicly announced the results of the Special Committee's review. Maxim noted that there were "deficiencies related to the process for granting stock options to employees and directors," and that, in certain instances, the recorded exercise price of option grants to employees and directors "differed" from the fair market value on the "actual measurement date," but otherwise publicly exonerated the directors from any wrongdoing or malfeasance. The public report did not assign responsibility to any individuals for the option anomalies, [\*7] but noted that defendants Gifford and Jasper had resigned in connection with the investigation.

In Maxim's non-public report to NASDAQ, the Company was far more forthcoming regarding the Special Committee's findings than it was in its public disclosures. The Company explained:

. The Special Committee's review of Maxim's stock option grants to directors and rank-and-file employees between 1996 and the third quarter of fiscal year 2006 revealed a number of misdated option grants. Among the director grants reviewed, such misdated options included (1) grant dates that appeared to have been selected after the grant date; (2) occasions on which a grant date was selected and later changed to a date with a lower price; (3) grants at relatively low market prices which lacked contemporaneous evidence of grant selection and (4) utilization of the "one day lookback" provision in the 1996 Plan, which allowed the Interim Options Committee to select as the grant date either the day on which the grant was made or the prior day.

. The Special Committee's review of the thirty-eight quarterly grants to existing rank-and-file employees made between the first fiscal quarter of 1996 through the third fiscal [\*8] quarter of 2006 revealed that grant dates fell at market prices that were uniquely low. The evidence also revealed the existence of general process issues, including (1) grant lists that were

not entirely finalized until after the selection of the grant date; and (2) post-grant-date changes by Mr. Gifford to the number of shares recommended to particular employees.

. The Special Committee was unable to locate contemporaneous documentation of a number of the grant-date selections. Some grant dates appeared to have been selected after the grant date and on some occasions a grant date appeared to have been selected and later changed to a date with a lower price.

The Special Committee found that the employees most involved in the selection of grant dates for directors were John F. Gifford, Maxim's former Chief Executive Officer, and Carl Jasper, who served as Maxim's Chief Financial Officer from April 1999 until January 2007. The Special Committee concluded that based on the evidence developed in the investigation, that Mr. Gifford and Mr. Jasper had knowledge of and participated in the selection of grant dates for director, rank and file and new hire employee option grants from 1999 through [\*9] 2005 either with hindsight or prior to completion of the formal grant-approval process.

As a result of the Special Committee's investigation, Gifford's employment as a part-time strategic advisor to the Company was terminated and Jasper's employment with the Company was terminated. In addition, based upon the findings of the Special Committee, the Company decided to change the responsibilities of Ruehle and Raymond. Other than minor corporate governance changes, no other remedial actions have been taken. Despite these findings of the Special Committee, Maxim's board of directors, which itself was conflicted (since the Special Committee found that some board members received backdated options), did not take any action to recover the damages Maxim sustained from the backdating of its options and the unjust enrichment of its officers and directors from their receipt of the backdated options.<sup>6</sup>

<sup>6</sup> See *Conrad v. Blank*, 940 A.2d 28, 2007 Del. Ch. LEXIS 130, 2007 WL 2593540, at \*7 (Del. Ch.), where Vice Chancellor Lamb found "troubling" the fact that directors, after concluding that the corporation's stock options

were erroneously issued with "incorrect measurement dates," "... did nothing to remedy those past 'errors.'"

Although Maxim [\*10] now asserts far-reaching privileges for the Special Committee's work, it has, as discussed above, provided details of this work to third-parties, including NASDAQ and publicly to investors (through the SEC Form 8-K). Moreover, the Special Committee itself provided a number of documents to the SEC, the United States Attorney's Office, and Maxim's current and former auditors.

Additionally, as I have previously concluded, the director defendants in this case have specifically made use of the Special Committee's findings and conclusions for their personal benefit and have argued to this Court that the Special Committee's exoneration of them should be accorded deference. The director defendants have made these arguments in a brief, opposing plaintiffs' motion to amend the complaint, in which coincidentally Maxim has expressly joined.<sup>7</sup> Further, the director defendants have extensively relied upon the Special Committee's findings both in opposing plaintiffs' motion for summary judgment and in support of their own motion for summary judgment. At the time of the November 30 decision, in their unamended summary judgment brief, the director defendants explicitly rely upon the unwritten "findings" [\*11] of the Special Committee that purport to absolve the director defendants of liability. In further support of their motion, the director defendants laud "the Special Committee's comprehensive investigation," which included "32 individual interviews." Interestingly, however, these same director defendants, who clearly control Maxim's litigation position,<sup>8</sup> have refused to produce to plaintiffs (who prosecute this action on behalf of Maxim) materials related to the Special Committee's investigation. Even more interestingly, since the November 30 decision, the director defendants have submitted an amended brief in support of their motion for summary judgment that purports to disavow reliance on the Special Committee's findings, despite their explicit reliance thereon in the first brief in support of their motion.

<sup>7</sup> Maxim's assertion that "the Special Committee's findings have not been used by Maxim as grounds for a motion to dismiss," (Maxim Application, at p.10) is deceptive at best, in light of the fact that Maxim expressly joined

the individual director defendants' brief that made this precise argument.

8 There can be no doubt that the individual director defendants making these arguments [\*12] control Maxim's litigation position as these defendants comprise a majority of Maxim's current board members (Wazzan, Bergman, Doluca, and Hagopian) and Maxim's current Chief Executive Officer (Doluca).

In light of the above facts and the convenient and selective invocation of the attorney-client privilege, this Court on November 30, 2007, granted plaintiffs' motion to compel. Specifically, the Court ruled that Maxim, its Special Committee, and Orrick must produce all material related to the Special Committee's investigation that were withheld on grounds of attorney-client privilege.<sup>9</sup> Maxim now seeks certification for an interlocutory appeal of one portion of this ruling.

9 The Court also directed Orrick to turn over its work-product, including its interview notes, for *in camera* review. Orrick does not seek to appeal any aspect of this Court's ruling, including the ruling that plaintiffs have made a showing of good cause to obtain its non-opinion work product.

## II. ANALYSIS

Supreme Court Rule 42 sets forth the standards for certification of interlocutory appeals by a trial court. Under this Rule, no interlocutory appeal may be certified unless the order from which appeal is to be taken [\*13] (1) determines a substantial issue, (2) establishes a legal right,<sup>10</sup> and (3) meets at least one of the criteria enumerated in Supreme Court Rule 42(b)(i)-(v). Those criteria include the reasons listed in Rule 41 for certification of questions of law,<sup>11</sup> questions of the trial court's jurisdiction, instances where the trial court has set aside precedent, or instances where the trial court has ruled on a dispositive issue. Usually, the Supreme Court accepts interlocutory appeals only where the circumstances are "extraordinary" or "exceptional."<sup>12</sup> Maxim's application seeks immediate appellate review of what it purports is a significant question of law that is of first impression in this state. Because this Court's November 30 letter decision applied only established precedent, Maxim is incorrect, and because I conclude Maxim has failed to establish any other permissible justification for its application, I decline to certify its interlocutory appeal.

10 A court resolves a substantial issue where it resolves at least one substantive legal issue; a court establishes a legal right when it determines an essential issue regarding the merits of a case. *In re Kent County Adequate Pub. Facilities Ordinances Litig.*, 2007 Del. Ch. LEXIS 137, 2007 WL 2875204, at \*2 (Del. Ch. Sept. 26, 2007).

11 See [\*14] SUP. CT. R. 41(b) (listing reasons for accepting certification, including whether the question is one of first instance in the state, focuses on conflicting trial court decisions, or relates to construction or application of a statute that has not been settled by the Court).

12 DONALD J. WOLFE, JR. & MICHAEL A. PITTENGER, CORPORATE AND COMMERCIAL PRACTICE IN THE DELAWARE COURT OF CHANCERY § 14-4 (supp. 2006).

*A. Maxim's interlocutory appeal would be futile: the November 30 Order provided two alternative bases for granting plaintiffs' motion to compel and Maxim has challenged only one*

Maxim seeks an interlocutory appeal solely of this Court's conclusion that the Company's Special Committee's communications with the director defendants and their individual counsel constituted a waiver of attorney-client privilege. In the November 30 decision, however, I expressly determined that any claim to privilege was vitiated by plaintiffs' showing of good cause under the longstanding principle of *Garner v. Wolfinbarger*<sup>13</sup> as adopted and applied by this Court numerous times over the past three decades.<sup>14</sup> As then-Vice Chancellor Jacobs noted in 1987, *Garner* is technically not an exception to attorney-client [\*15] privilege.<sup>15</sup> Instead, where a plaintiff shareholder demonstrates good cause under the *Garner* framework, Delaware courts refuse to apply the privilege and permit discovery of otherwise protected materials.<sup>16</sup> Such is the case here, where plaintiffs have established good cause under *Garner* and thereby rendered inapplicable any privilege that would protect the materials they seek.

13 430 F.2d 1093 (5th Cir. 1970).

14 See, e.g., *In re Freeport-McMoran Sulphur, Inc. S'holder Litig.*, C.A. No. 16729, 2005 Del. Ch. LEXIS 7, 2005 WL 225040, at \*3-5 (Del. Ch. Jan. 26, 2005); *In re Fuqua Indus., Inc.*, C.A. No.

11974, 2002 Del. Ch. LEXIS 52, 2002 WL 991666, at \*3-6 (Del. Ch. May 2, 2002); *Sealy Mattress Co. of N.J. v. Sealy, Inc.*, C.A. No. 8853, 1987 WL 12500 (Del. Ch. June 19, 1987); *Tabas v. Bowden*, C.A. No. 6619, 1982 Del. Ch. LEXIS 444, 1982 WL 17820, at \*2-3 (Del. Ch. Feb. 16, 1982); *Cascella v. GDV, Inc.*, C.A. No. 5899, 1979 WL 175245, at \*2 (Del. Ch. Sept. 13, 1979). 15 *Sealy Mattress*, 1987 WL 12500, at \*3.

16 See *Grimes v. DSC Communs. Corp.*, 724 A.2d 561, 569 (Del. Ch. 1998) (concluding that plaintiff had satisfied his burden of showing good cause under *Garner*).

Maxim's application for certification of interlocutory appeal does not discuss or challenge this Court's conclusion that [\*16] plaintiffs demonstrated good cause under *Garner*; it only seeks review of the waiver analysis in the November 30 decision. Because the *Garner* determination provides an independent basis for the November 30 decision, however, even a successful appeal on the waiver issue would prove futile. The Committee's comment to Supreme Court Rule 42 clarifies that the rule's purpose is to "sav[e] time" and "advance the litigation." 17 Certifying a purely academic appeal such as this one would undermine the rule's purpose.

17 SUP. CT. R. 42 cmt.; see also *E.I. du Pont de Nemours & Co. v. Allstate Ins. Co.*, 686 A.2d 1015, 1016 (Del. 1997) ("[I]nterlocutory appeals interrupt[] the progress of litigation and are counter-productive if they delay the final resolution of the case. The decision to grant interlocutory review is discretionary and highly case-specific. The goal, in all events, is to facilitate the orderly disposition of claims without inadvertently promoting a piecemeal approach to litigation.") (citation omitted).

*B. The Court's November 30 Order neither determined a "substantial issue" nor established a "legal right"*

Supreme Court Rule 42(b) prohibits certification of an interlocutory appeal [\*17] unless the application, as a threshold matter, both determines a substantial issue and establishes a legal right. 18 Maxim has failed to demonstrate that the Court's November 30 decision did either. Contrary to Maxim's assertion, this Court's decision did not establish a "new legal right of access to internal corporate information." 19 Instead, the Court reiterates that, as in *Fleischman*, where this Court was

also asked to certify under Rule 42 an order requiring production of material relating to an independent investigation of backdating, the decision "simply grants a *limited procedural right* to plaintiff--access to documents that defendants have expressly relied upon in support of their motion to dismiss." 20 Here, the November 30 decision merely gave a similar limited procedural right to plaintiffs. As noted above, since the issuance of this Court's November 30 decision, the director defendants have--in a seeming coincidence of timing--filed an amended brief in support of their motion for summary judgment in which they superficially state that they do not rely on the findings of the Special Committee for the purposes of their motion. At the time of the November 30 decision, however, [\*18] the director defendants explicitly asserted that the findings of the Special Committee were entitled to deference from this Court. Moreover, even if this Court ignores the suspicious timing of the director defendants' purported disavowal of reliance on the investigation, Maxim seeks to further avail itself of the Special Committee's report, which will redound to the benefit of the director defendants.

18 "A court resolves a substantial issue where it resolves at least one substantive legal issue; a court establishes a legal right when it determines an essential issue regarding the merits of a case." *West Willow-Bay Court, LLC v. Robino-Bay Court Plaza, LLC*, C.A. No. 2742-VCN, 2007 Del. Ch. LEXIS 176, 2007 WL 4357667, at \*2, n.8 (Del. Ch. Dec. 6, 2007) (citing *In re Kent County Adequate Pub. Facilities Ordinances Litig.*, 2007 Del. Ch. LEXIS 137, 2007 WL 2875204, at \*2 (Del. Ch. Sept. 26, 2007)).

19 Maxim Application at 5.

20 2007 Del. Ch. LEXIS 124, 2007 WL 2410386, at \*4 (emphasis added).

Maxim also appears to argue that the November 30 decision decided a "substantial issue" because it will affect Delaware corporate customs and long-standing principles of good corporate governance. Not only are such dire consequences exaggerated, but fears thereof are also misplaced. [\*19] The decision was the result only of the application of well-settled precedent to a set of particular and specific facts. Though detailed more fully above, it is worthwhile to repeat that the relevant factual circumstances here include the receipt of purportedly privileged information by the director defendants in their individual capacities from the Special Committee. The

decision would not apply to a situation (unlike that presented in this case) in which board members are found to be acting in their fiduciary capacity, where their personal lawyers are not present, and where the board members do not use the privileged information to exculpate themselves. Similarly, the decision would not affect the privileges of a Special Litigation Committee formed under *Zapata*, or any other kind of committee that (unlike the Special Committee here) has the power to take actions without approval of other board members.<sup>21</sup>

21 As plaintiffs correctly observe, any special committee always has, always had (and will continue to have) to deal with the possibility that its communications will not be privileged if good cause is shown under *Garner*.

Maxim also erroneously argues that the decision results in a [\*20] waiver of privilege as a consequence of the director defendants' exercise of their duty of due care and that the decision therefore imposes conflicting duties on directors. The decision neither imposes duties on directors nor prevents directors from complying with their duty to act with due care, loyalty and in good faith. 22 Maxim appears to fail to appreciate the difference between compliance with fiduciary duties and doing so while maintaining a privilege. In any event, the only thing that directors cannot do under the decision is receive purportedly privileged material while acting in their personal (as compared to fiduciary) capacity and still maintain the privilege.

22 See *Stone v. Ritter*, 911 A.2d 362 (Del. 2006).

*C. Maxim has failed to establish any of the specific criteria in Supreme Court Rule 42(b)*

Even if this appeal were not futile, and even if the November 30 decision did determine a substantial issue or establish a legal right, certification remains improper because Maxim has failed to prove applicable any of the criteria listed in Supreme Court Rule 42(b).

1. The November 30 decision did not decide an issue of first impression under Delaware law

Maxim's application appears [\*21] to rest on the contention that the decision presents a question of first impression in Delaware because "Counsel could find no Delaware case that held that a committee of the board waived privilege over its entire investigation by reporting

its findings to the full board."<sup>23</sup> The Court notes that one need not consult even a single case to find the well established principle on which the November 30 decision is based. Rule 510 of the Delaware Rules of Evidence explains that privilege is destroyed whenever the holder of the privilege "voluntarily discloses or consents to disclosure of any significant part of the privileged matter."<sup>24</sup> This clear codification of the principle notwithstanding, plenty of cases also rely on this bedrock principle of waiver.<sup>25</sup>

23 Maxim Application at 9.

24 DEL. R. EVID. 510.

25 See, e.g., *Weeden v. State*, 647 A.2d 1078, 1081-82 (Del. 1994) (concluding that defendant waived his privilege); *Khanna v. McMinn, C.A. No. 20545-NC*, 2006 Del. Ch. LEXIS 86, 2006 WL 1388744, at \*39 (Del. Ch. May 9, 2006) (concluding defendant corporation waived privilege by disclosure); *Texaco, Inc. v. Phoenix Steel Corp.*, 264 A.2d 523, 525 (Del. Ch. 1970) (holding that privilege is waived once there is disclosure [\*22] to an outsider by the client or by the attorney with the client's authority).

Maxim appears to argue that its application presents a novel question of law simply because no case has previously applied Rule 510 in the unique factual context of this case. Such an argument must fail. The mere application of long-held precedent to new facts does not make an order worthy of appeal.<sup>26</sup> Moreover, Maxim's logic is self defeating. Just as Maxim's counsel "could find no Delaware case that held that a committee of the board waived privilege over its entire investigation by reporting its findings to the full board," this Court could find no case, in which certification of an interlocutory appeal was granted, where the movant sought review of only one of two independent bases for a decision or where the movant seeks review of a decision that applies well established law to new facts. More importantly, the Court could find no case where a board's Special Committee disclosed its findings on the misconduct of director defendants to those defendants themselves and to their individual, outside counsel and later successfully claimed that such disclosure did not constitute a waiver. Indeed, had the Court [\*23] found such a case, the November 30 decision may have read differently.

26 See *Achtermann v. Bussard, C.A. No. 05C-04-198 RRC*, 2007 Del. Super. LEXIS 399.

2007 WL 1152720, at \*1 (Del. Super. Ct. Apr. 10, 2007) (denying certification because the decision merely "required the application of a unique set of facts to established principles of negligence law."), *aff'd*, 922 A.2d 414 (Del. 2007).

It is not clear that the privilege between Orrick and the Special Committee extends to the Company itself but, even if it does, that privilege was waived by disclosure to the director defendants, who attended the January meeting in their individual--not fiduciary--capacities along with their individual, outside counsel.<sup>27</sup> Disclosure to outsiders has never failed to waive privilege under Delaware law. Maxim's "Chicken Little" argument that the Court's November 30 decision changes the law of privilege, therefore, is vastly overstated. The sky is not falling. Maxim has merely been struck by an acorn that it brought upon itself through its careless and suspicious practices.

27 *Ryan v. Gifford*, C.A. No. 2213-CC, 2007 Del. Ch. LEXIS 168, 2007 WL 4259557, at \*3 (Del. Ch. Nov. 30, 2007). Furthermore, the director defendants cannot be said to have shared the Special [\*24] Committee's goals of objectively investigating Maxim's options practices when these same director defendants were acting at every step with an eye to their own defense in the present litigation.

2. Maxim has not established (or even attempted to establish) any of the other criteria of Rule 42(b)

Maxim does not make any other serious arguments that another of the criteria under Supreme Court Rule 42(b) applies in this case. The other reasons an interlocutory appeal may be permitted include resolution of conflicting trial court decisions, construction or application of a previously unconsidered statute, consideration of controverted jurisdiction, or consideration of an order that reverses or sets aside a prior decision of the court, a jury, or an administrative agency. None of those situations is present here.<sup>28</sup> Consequently, the application for certification of

interlocutory appeal is improper.

28 Maxim blithely suggests that an interlocutory appeal is appropriate under Supreme Court Rule 42(b)(iii) because it would "serve considerations of justice." In so suggesting, Maxim apparently has failed to read all of the Rule. By its very language, Rule 42(b)(iii) does not apply here. This Court [\*25] simply did not "reverse or set aside a prior decision of the court, a jury, or an administrative agency." See *Smith v. Lawson, C.A. No. 01C-12-105 RRC*, 2006 Del. Super. LEXIS 53, 2006 WL 496137, at \*3 (Del. Super. Ct. Feb. 15, 2006) ("Thus, under the plain language of Rule 42(b)(iii), no interlocutory appeal may be certified from an order of this Court that did not set aside or reverse the jury's verdict.").

### III. CONCLUSION

Maxim has failed to satisfy the requirements of Supreme Court Rule 42. First, an appeal of the waiver analysis in this Court's November 30 decision would be futile because the Court decided the privilege issue on two independent grounds and Maxim has not appealed the other basis for the decision. Second, Maxim has not proved that the decision determined a "substantial issue" or established a "legal right." Third, the November 30 decision did not address a question of first impression and none of the other specific criteria of Rule 42(b) are present in this case. Maxim's rhetorically charged application stated more cogently its position than did its brief opposing plaintiffs' motion to compel, but rhetoric alone cannot justify Maxim's attempt to keep from plaintiffs the materials I ordered the [\*26] company to produce on November 30. Because Maxim has not satisfied Supreme Court Rule 42, I deny its application for certification of interlocutory appeal. I further deny Maxim's motion to stay the November 30 decision, finding the application meritless and finding no basis under *Kirpat, Inc.* to justify granting the motion.

IT IS SO ORDERED.





**SANDVIK INTELLECTUAL PROPERTY AB, Plaintiff, v. KENNAMETAL, INC.,  
Defendant.**

**2:10-cv-00654**

**UNITED STATES DISTRICT COURT FOR THE WESTERN DISTRICT OF  
PENNSYLVANIA**

**2011 U.S. Dist. LEXIS 11104**

**February 4, 2011, Filed**

**SUBSEQUENT HISTORY:** Magistrate's recommendation at *Sandvik Intellectual Prop. AB v. Kennametal, Inc.*, 2012 U.S. Dist. LEXIS 102733 (W.D. Pa., Feb. 16, 2012)

**COUNSEL:** [\*1] For FREDERICK H. COLEN, Special Master: Frederick H. Colen, Reed Smith, Pittsburgh, PA.

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**JUDGES:** Terrence F. McVerry, United States District Court Judge.

**OPINION BY:** Terrence F. McVerry

**OPINION**

**MEMORANDUM OPINION AND ORDER OF COURT**

Presently before the Court for disposition is the EXPEDITED MOTION TO COMPEL [\*2] PRODUCTION OF MATERIAL AND TESTIMONY PERTAINING TO DEFENDANT'S TEXTURE COEFFICIENT TESTS AND MEASUREMENTS, with brief in support filed by Plaintiff, Sandvik Intellectual Property AB ("Sandvik") (Document Nos. 131 and 132), the brief in OPPOSITION filed by Defendant, Kennametal, Inc. ("Kennametal") (Document No. 138), the REPLY BRIEF filed by Sandvik (Document No. 143), and the SUR-REPLY IN OPPOSITION filed by Kennametal (Document No. 147). Additionally, the requested claw-back documents in question were submitted to the Court for an *in camera* review. Upon consideration of the arguments of the parties, the applicable case law, and the Court's examination of the documents, the Court will grant the Motion to Compel.

**Background**

On April 27, 2009,<sup>1</sup> Sandvik filed a one-count Complaint against Kennametal in which it alleged that Kennametal infringed two patents, namely *U.S. Patent Nos. 5,487,625* ("the '625 patent") and *5,654,035* ("the '035 Patent") patent.<sup>2</sup> Sandvik is the owner by assignee of both United States patents. The '625 Patent issued on January 30, 1996, from Application No. 159,217, filed on November 30, 1993. The '035 Patent issued on August 5, 1997, from Application No. 532,359, [\*3] filed on September 22, 1995.

1 The case was originally filed in the United States District Court for the Western District of North Carolina, Asheville Division. By Order dated May 12, 2010, the case was transferred pursuant to 28 U.S.C. § 1404(a) to the Western District of Pennsylvania. See Document No. 41.

2 On January 31, 2011, the parties filed a Stipulation of Dismissal of Claims under *U.S. Patent No. 5,654,035*. This dismissal has no effect on the parties' assertions of claims and counterclaims with respect to the '625 Patent.

The '625 Patent is a product patent for a cutting tool with a specified coating with characteristics that the inventors claim make it suitable for cutting metals at high temperatures. The '035 Patent is a method patent for coating a cutting tool with at least one layer of such specified substance that involves the use of certain gases in a specified order.

Sandvik has alleged that Kennametal is infringing both patents by making and/or selling certain grades of coated cutting tools. The coatings on the products, rather than the underlying structures, are at issue.

On July 16, 2009, Sandvik filed its First Amended Complaint in which it specifically identified the [\*4] following Kennametal alleged infringing products: coated cutting tools marketed under the following names and/or grades: KC9110, KC9310, KC9315, KC9320, KC9325, and KC5515 (a/k/a TN5515).

Kennametal filed an Answer to the Amended Complaint and Counterclaim and asserts the affirmative defenses of unenforceability and invalidity of both patents. Specifically, Kennametal argues that the patents-in-suit are invalid because the texture coefficient ("TC") claim term is "insolubly ambiguous," which renders the patent indefinite.

Sandvik disputes that there are "critical details" missing from the patents-in-suit and in support of its position intends to rely upon certain documents produced by Kennametal in this case. Among its rolling document productions in response to Sandvik's requests, Kennametal has produced several hundred pages of documents which pertain to its internal TC testing.

On December 17, 2010, Sandvik issued to Kennametal a notice of deposition under *Rule 30(b)(6)* on several topics, including Kennametal's internal TC testing. On December 28, 2010, Kennametal informed Sandvik that the 30(b)(6) deposition would not be going forward.

On January 3, 2011, counsel for the parties met [\*5] whereupon Kennametal informed Sandvik that inquiry into Kennametal's internal TC testing was protected by the attorney-client privilege and/or work product doctrine. Kennametal asserted a claim of privilege on all documents pertaining to its internal TC testing of relevant product since February 2001, on the ground that such testing was done in anticipation of litigation.<sup>3</sup>

3 According to Sandvik, Kennametal has withheld in excess of 59,000 pages of documents which relate to Kennametal's internal TC testing on the basis that such testing was done in anticipation of litigation.

Sandvik disagreed strongly with Kennametal's broad assertion of privilege and work product, especially in light of Kennametal's previous production of hundreds of pages of TC-related documents.<sup>4</sup>

4 Sandvik describes the produced TC-related documents as totaling roughly 400 pages; Kennametal describes the same documents not in reference to page number, but as 68 potentially privileged documents, of which 54 are subject to the attorney-client privilege and/or work product doctrine.

On January 7, 2011, Kennametal informed Sandvik that the TC-related documents previously produced had been inadvertently produced and requested [\*6] the return or destruction of these "protected" documents pursuant to the "claw back" provision agreed upon by the parties.

Presently before the Court is a Motion to Compel in

which Sandvik requests that (1) Kennametal be required to produce all internal TC testing of cutting inserts and (2) Kennametal not be permitted to "claw back" documents related to TC testing which already have been produced. Kennametal claims that the materials presently at issue are protected by the attorney-client privilege or the work product doctrine.<sup>5</sup>

5 While Kennametal has produced a privilege log for the claw back documents, it has not to the Court's knowledge produced a privilege log for the approximately 59,000 pages of documents that it has withheld from production.

## Discussion

### A. Attorney-Client Privilege

The Court does not need to decide whether the four documents at issue are protected by the attorney client privilege as Sandvik has agreed to withdraw its motion with respect to these four documents. *See* Reply at n.6 (Document No. 143).

### B. Work-Product Doctrine

Generally, whereas the "attorney-client privilege protects the confidentiality of communications between attorney and client made for the purpose [\*7] of obtaining legal advice," *Genentech, Inc. v. U.S. Intern. Trade Com'n*, 122 F.3d 1409, 1415 (Fed. Cir. 1997), the work-product doctrine "protects the attorney's thought processes and legal recommendations." *Zenith Radio Corp. v. United States*, 764 F.2d 1577, 1580 (Fed. Cir. 1985). Documents are prepared in anticipation of litigation when "in light of the nature of the document and the factual situation in the particular case, the document can be fairly said to have been prepared or obtained because of the prospect of litigation. *In re Grand Jury Proceedings*, 604 F.2d 798, 803 (3d Cir. 1979). The preparer's anticipation of litigation must be objectively reasonable. *Martin & Bally's Park Place Hotel & Casino*, 983 F.2d 1252, 1260 (3d Cir. 1993). Generally, a reasonable anticipation of litigation requires the existence of an identifiable specific claim or impending litigation at the time the materials were prepared. *Montgomery County v. MicroVote Corp.*, 175 F.3d 296, 305 (3d Cir. 1999).

As the Federal Circuit has explained, the work product doctrine is:

designed to balance the needs of the adversary system: promotion of an attorney's preparation in representing a client versus society's [\*8] general interest in revealing all true and material facts to the resolution of a dispute." Unlike the attorney-client privilege, which provides absolute protection from disclosure, work product protection is qualified and may be overcome by need and undue hardship. However, the level of need and hardship required for discovery depends on whether the work product is factual, or the result of mental processes such as plans, strategies, tactics, and impressions, whether memorialized in writing or not. Whereas factual work product can be discovered solely upon a showing of substantial need and undue hardship, mental process work product is afforded even greater, nearly absolute, protection.

*In re Seagate Tech., LLC*, 497 F.3d 1360, 1375 (Fed. Cir. 2007). Information most closely related to an attorney's litigation strategy is absolutely immune from discovery, while information with a more tenuous relationship to litigation strategy might be available in circumstances evincing a substantial need or undue hardship on the part of the discovery proponent. *Fed. R. Civ. P. 26(b)(3)*. Accordingly, information that is merely factual may not be withheld under the umbrella of work product.

The threshold [\*9] determination in a case involving a claim of work product privilege is whether the material sought to be protected from discovery was prepared in anticipation of litigation. The determination of whether materials were prepared in anticipation of litigation, however, while central to the work product doctrine, eludes precision. This is especially the case in certain contexts where the discovery opponent routinely performs investigations and accumulates files even when no litigation ensues.

Kennametal boldly asserts that *all* of its TC testing and measurements, which began in 2000, were conducted in anticipation of litigation with Sandvik.<sup>6</sup> The record before the Court reflects that while Kennametal was aware of the Sandvik patents as early as February 2000,<sup>7</sup>

the record reflects no evidentiary support for Kennametal's claims that in 2000 litigation with Sandvik could reasonably have been anticipated.

6 During the meet-and-confer session on January 3, 2011, Kennametal's counsel asserted the work product doctrine with regard to all of its TC testing made after receipt of a February 2001 letter from Sandvik. However, Kennametal now claims that its work product materials date to February 2000, [\*10] a year before Kennametal received the Sandvik letter.

7 See Declaration of John J. Prizzi, Exhibit A-email dated February 2, 2000, in which Hans-Guenter Prengel notes that "[w]ithin development activities of the CVD coating for the new P10 / P26 grades I need your help in some general issues (the background is to understand better our technical position vs newer Sandvik patents regarding our current and future CVD products)."

In addition, John J. Prizzi, former Chief Counsel for Intellectual Property of Kennametal, states that in 2000 Kennametal had in place a "procedure for periodically reviewing competitive patents for potential infringement to avoid litigation" and that the evaluation of "whether there was any potential infringement" was "part of our regular practice when competitor patents were evaluated." Prizzi Decl. ¶ 6. The Court finds that Kennametal has failed to demonstrate that any of its internal TC testing and measurements conducted in 2000 were conducted in reasonable anticipation of litigation. This evidence does not support the existence of an objectively reasonable real or imminent threat of litigation. Accordingly, the Court finds that all Kennametal internal TC testing [\*11] documents generated during the time frame 2000 -- February 22, 2001 do not qualify as work product and must be produced.

However, the issue of whether Kennametal must produce documents generated after February 22, 2001 is a much closer call. By letter dated February 22, 2001, Sandvik notified Kennametal that it had studied the Kennametal coated products under the KC 8050 designation and concluded that the products "seem to be coming at least within our interpretation of the scope of the claims of our *US Patents 5,487,625* and *5,861,210*." 8 See Declaration of John J. Prizzi, Exhibit E. Litigation

was not mentioned in the letter. In response to the Sandvik letter, Kennametal conducted TC testings on its KC 8050 production to determine if Kennametal was in violation of the Sandvik patents. *Id.*, Exhibit H. The record before the Court does not reflect how this issue was resolved between the parties.

8 The Court notes that neither the Kennametal coated products under the KC 8050 designation nor the Sandvik *US Patent 5,861,210* are involved in this litigation.

Approximately four years later, on January 25, 2005, Sandvik sent a cease-and-desist letter notifying Kennametal that its inserts under the [\*12] KC 9325 designation meet the limitations of at least claim 1 of the '625 patent. Sandvik demanded that "Kennametal cease and desist from making, using, selling and/or offering for sale such inserts." See Declaration of John J. Prizzi, Exhibit L.

It appears that the internal TC testing performed after the receipt of these two letters may be factual work product documents and thus protected by the work product doctrine. However, upon a showing of substantial need and undue hardship, factual work product documents become discoverable if the documents contain operative facts relevant to issues involved in the present litigation. *Fed. R. Civ. P. 26(b)(3)(A)(ii)*.

Kennametal contends that the patent-in-suit is fatally indefinite and thus invalid because the texture coefficient claim is "insolubly ambiguous." Kennametal has unquestionably made testing parameters a central issue on the invalidity of the subject patent-in-suit. The documents sought by Sandvik involve product testing and provide details about how Kennametal investigates, determines and evaluates characteristics of materials and products, including texture coefficients. The documents reflect tests and measurements conducted by engineers [\*13] and other technical personnel; the documents do not reveal the mental impressions of an attorney. Accordingly, the Court finds that Kennametal may not withhold such information that is merely factual under the umbrella of the work product doctrine.

Accordingly, the Court finds that Sandvik has made a showing of substantial need of the internal TC testing performed by Kennametal and thus, Kennametal must produce all of its TC-testing documents in their entirety.

**Conclusion**

For these reasons, the Motion to Compel all documents relating to Kennametal's internal testing of texture coefficients will be granted. Further, the 54 documents related to testing already produced by Kennametal for which it sent a claw-back letter on January 7, 2011 will be deemed beyond the scope of any attorney-client privilege or work product doctrine and are not subject to claw-back. Kennametal will be ordered to produce a witness competent to testify on Kennametal's behalf pursuant to *Fed. R. Civ. P. 30(b)(6)* on each of the topics identified in Plaintiff's deposition notice. Finally, Kennametal will be ordered to produce forthwith all documents and materials which relate to Kennametal's practice and knowledge [\*14] of testing of texture coefficients and measurements.

An appropriate Order follows.

McVerry, J.

**ORDER OF COURT**

**AND NOW**, this 4th day of February, 2011, it is hereby **ORDERED** that the Expedited Motion to Compel Production and Testimony Pertaining to Defendant's Texture Coefficient Tests and Measurements filed by Plaintiff is **GRANTED**.

It is **ORDERED** that Sandvik's motion as to the four documents to which Kennametal asserted the attorney client privilege (Priv Log 1-3) is **DENIED AS MOOT**.

It is further **ORDERED** that the 51 remaining documents (Priv Log 4 - 54) related to testing produced by Kennametal for which it sent a claw-back letter on January 7, 2011, are hereby deemed beyond the scope of the work product doctrine, and are not subject to claw-back and may be removed from sequestration;

It is further **ORDERED** that Kennametal shall immediately produce forthwith all documents and materials which relate to Kennametal's practice and knowledge of texture coefficients testing; and

It is further **ORDERED** that Kennametal must produce a witness competent to testify on Kennametal's behalf pursuant to *Federal Rule of Civil Procedure 30(b)(6)* [\*15] on each of the topics identified in Plaintiff's deposition notice.

It is further **ORDERED** that the parties shall submit on or before **February 11, 2001**, an agreed upon proposed Scheduling Order, which addresses the following:

a. the date by which Kennametal will produce the remainder of its documents and materials which related to Kennametal's practice and knowledge of texture coefficients testing;

b. the date on which Kennametal will produce a witness competent to testify on Kennametal's behalf pursuant to *Federal Rule of Civil Procedure 30(b)(6)* on each of the topics identified in Plaintiff's deposition notice; and

c. the date by which Sandvik will file its claim construction Reply brief.

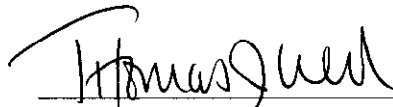
Upon approval of the proposed Scheduling Order, the Court will reschedule the date for the claims construction hearing.

BY THE COURT:

/s/ Terrence F. McVerry

United States District Court Judge

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*Counsel for Plaintiff George Scott Paterno, as duly  
appointed representative of the Estate and Family  
of Joseph Paterno*

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a true and correct copy of the foregoing **ADDENDUM TO  
MEMORANDUM OF LAW IN SUPPORT OF MOTION TO OVERRULE OBJECTIONS  
BY DEFENDANT PENNSYLVANIA STATE UNIVERSITY TO NOTICE OF INTENT  
TO ISSUE SUBPOENA TO PEPPER HAMILTON, LLP PURSUANT TO RULE 4009.211**

was served this 9<sup>th</sup> day of May, 2014 by first class mail and email to the following:

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