IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

KATHRYN MENNEN, SARAH MENNEN, ALEXANDRA MENNEN, SHAWN MENNEN, and JOHN MENNEN,	)	
Plaintiffs,	)	
v.	)	C.A. No. 8432-ML
WILMINGTON TRUST COMPANY, a Delaware Corporation, GEORGE JEFFREY MENNEN, and OWEN J. ROBERTS, not Individually but solely as the individual Trustee of the TRUST ESTABLISHED BY GEORGE S. MENNEN FOR THE BENEFIT OF GEORGE JEFFREY MENNEN u/a/d 11/25/1970, a Delaware trust.	)	
Defendants.	)	

MASTER'S REPORT
(Motion to Compel)

Draft Oral Report: August 9, 2013
Submitted on Exceptions: September 6, 2013
Final Report: September 18, 2013

Kevin G. Abrams, J. Peter Shindel, Jr., and Matthew L. Miller of Abrams & Bayliss LLP, Wilmington, Delaware; Attorneys for Plaintiffs.

Thomas W. Briggs, Jr., Jay N. Moffitt, Matthew R. Clark and Brendan W. Sullivan of Morris, Nichols, Arsht & Tunnell LLP, Wilmington, Delaware; Attorneys for Defendant Wilmington Trust Company.

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LEGROW, Master

This report is the second of two privilege rulings I have made in this relatively short-lived case in which the beneficiaries of a trust contend that the former corporate trustee breached its duties by, among other things, improperly treating the trust as a directed trust and thereby acceding to what turned out to be patently unsuccessful investment decisions made by the individual trustee. By my count, the parties collectively have spilled more than 180 pages of ink on a series of motions to compel regarding whether the corporate trustee properly has invoked attorney-client privilege to shield from discovery a number of documents. The latest issue arises from the beneficiaries' request that I clarify an earlier privilege ruling in light of the corporate trustee's decision to invoke an advice of counsel defense to the beneficiaries' claims. Notwithstanding the verbosity of the parties' submissions and the corporate trustee's efforts to unduly complicate the issue, my decision largely remains a relatively straightforward application of the facts to established precedent. For that reason, and in view of the expedited schedule in this case, I have endeavored to confine my analysis to the issue at hand, leaving aside the corporate trustee's exaggerated contentions that construing waiver as the beneficiaries urge me to do is "unprecedented," would toll the death knell for honest and forthright communications between clients and their counsel, and would stand as an outlier from earlier decisions defining the scope of waiver that results when a party invokes an advice of counsel defense. As set forth below, I recommend that the Court enter an order finding that Wilmington Trust waived attorney-client privilege for all of its communications with counsel regarding its powers and duties

under the trust agreement, aside from those communications in which counsel provides advice directly evaluating Wilmington Trust's potential exposure or its litigation strategy.

BACKGROUND

This action was filed in March 2013 by Kathryn Mennen, Sarah Mennen, John Mennen, Shawn Mennen, and Alexandra Mennen[1] (collectively, the "Beneficiaries"), who are beneficiaries of a trust created in 1970 by George S. Mennen for the benefit of John H. Mennen (the "Trust"). The defendants are Wilmington Trust Company ("Wilmington Trust"), the corporate trustee of the Trust,[2] and George Jeff Mennen ("Jeff"),[3] who is the individual trustee. The Complaint seeks damages in excess of $100 million as a result of alleged breaches of the Co-Trustees' fiduciary duties. The Complaint also names as a defendant the individual trustee of a trust established by George S. Mennen for the benefit of Jeff and his issue ("Jeff's Trust"), and alleges one count against the individual trustee of Jeff's Trust.

This action (the "Beneficiary Action") was preceded by a petition for instructions that Wilmington Trust filed on May 25, 2012 to remove Jeff as the individual co-trustee of the Trust (the "Petition Action"). In the Petition Action, Wilmington Trust alleged that the Trust was a directed trust that required Wilmington Trust to follow the instructions of the individual trustee with respect to certain trustee powers and responsibilities, and that investment decisions directed by Jeff had caused the Trust to lose a substantial portion of its value. In the Petition Action, Wilmington Trust sought (1) removal of Jeff as

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[1] Until last month, Alexandra was a minor and the case initially was filed on her behalf by her
[2] Wilmington Trust resigned as corporate trustee of the Trust on May 28, 2013.
[3] For the sake of clarity, I use certain of the parties' first names. No disrespect is intended.

individual trustee, (2) an order authorizing the adult beneficiaries of the Trust to appoint a successor individual co-trustee, and (3) access to certain investment information Jeff allegedly was withholding. Although the Beneficiaries were identified as interested parties and received notice of the Petition Action, they did not participate in that case. It was not until this action was filed in March 2013 that the Beneficiaries appeared in this Court. At that point, the Petition Action was stayed by agreement of the parties.

An expedited schedule then was entered in the Beneficiary Action, and the parties proceeded to conduct discovery. On June 12, 2013, the Beneficiaries filed a motion to compel against Wilmington Trust and Jeff, seeking production of certain categories of documents that Wilmington Trust and Jeff had withheld on the basis that the documents were shielded from discovery by attorney-client privilege and/or the work product doctrine. The motion to compel raised three issues regarding Wilmington Trust's assertion of privilege: (1) whether Wilmington Trust could withhold documents related to the Petition Action (the "Petition Action Documents"), or whether those documents were not privileged as to the Beneficiaries under *Riggs National Bank of Washington, D.C. v. Zimmer*;[4] (2) whether communications regarding Wilmington Trust's powers and duties under the Trust Agreement (the "Powers and Responsibilities Documents") were privileged under *Riggs*; and (3) whether Wilmington Trust's decision to plead an advice of counsel defense as an affirmative defense in its answer to the complaint constituted a waiver of the privilege.

[4] 355 A.2d 709 (Del. Ch. 1976).

Wilmington Trust argued that the first two categories of documents were privileged, but as to its advice of counsel defense, Wilmington Trust argued that the Beneficiaries' motion was premature because Wilmington Trust had not determined whether it would pursue that defense. In its opposition to the first motion to compel, Wilmington Trust affirmatively represented that it "recognize[d] that it [would] have to waive its privilege to withhold confidential communications regarding its powers and duties *if* it elect[ed] to pursue an advice-of-counsel defense."[5] During argument, counsel for Wilmington Trust again acknowledged that if it decided to invoke its advice of counsel defense, it would "certainly produce any documents that relate to advice of counsel and powers and duties."[6] On July 25, 2013, I issued a final report recommending that the Court grant in part and deny in part the Beneficiaries' motion to compel.[7] As to Wilmington Trust's privileged documents, I recommended that the Court find that (1) Wilmington Trust was entitled to withhold the Petition Action Documents, but was required to produce a privilege log of the withheld documents; (2) the Powers and Responsibilities Documents that were not related to the Petition Action or the Beneficiary Action were not privileged under *Riggs*; and (3) Wilmington Trust should determine, if it had not already done so, whether to pursue its advice of counsel defense.[8] None of the parties took exception to that report, and it confirmed by Order dated August 12, 2013.

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[5] Wilmington Trust Co.'s Opp'n to Pls.' Mot. to Compel the Produc. of Privileged Documents (hereinafter "Opp'n Mot. to Comp.") ¶ 19 (emphasis in original).
[6] *Mennen v. Wilmington Trust Co.*, C.A. No. 8432-ML (July 2, 2013) (TRANSCRIPT) (hereinafter "July 2 Transc.") at 55:12-15.
[7] *Mennen v. Wilmington Trust Co.*, 2013 WL 4083852 (Del. Ch. July 25, 2013).
[8] *Id*.

Two days before I issued my final report, Wilmington Trust ended its equivocation regarding the advice of counsel defense, and alerted the parties that it intended to pursue its advice of counsel defense and therefore would withdraw its claim of privilege with regard to "advice and documents related to the Co-Trustees['] duties and powers."[9] In the same breath, however, Wilmington Trust stated that its withdraw of its privilege claim "[did] not affect Wilmington Trust's assertion of privilege with regard to any advice or documents created in early 2012, following the bankruptcy filing of Wave2Wave Communications, Inc., and thereafter."[10] Wilmington Trust's letter indicated that it would continue to withhold on the basis of privilege documents created after the Wave2Wave bankruptcy filing.[11] Wave2Wave was the Trust's largest investment and, according to Wilmington Trust, its bankruptcy filing in February 2012 caused Wilmington Trust to seek legal advice because it anticipated that the Beneficiaries might make claims against the trustees relating to that investment or the administration of the Trust.[12]

Wilmington Trust's advice of counsel defense is based on Article TENTH of the Trust Agreement, which provides:

> The Trustees may consult with legal counsel … concerning any question which may arise with reference to the Trustees' duties or obligations under this Agreement, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by

[9] Transmittal Aff. of J. Peter Shindel, Jr., Esquire in Support of Pls.' Opp'n to Wilmington Trust Co.'s Exceptions to the Master's Aug. 9, 2013 Draft Report (hereinafter "Shindel Aff.") Ex. 6 at p. 1.
[10] *Id*. at p. 2.
[11] *Id*.
[12] *Mennen*, 2013 WL 4083852, at *5.

> the Trustees in good faith and in accordance with the opinion of such counsel.[13]

Although the precise nature of Wilmington Trust's defense may not be articulated until dispositive motions are filed or this case is tried, Wilmington Trust apparently will argue that for each of the investment decisions challenged in the Beneficiary Action (except one such decision after the Wave2Wave bankruptcy), Wilmington Trust received advice from its counsel regarding Jeff's power under the Trust Agreement to direct Wilmington Trust and Wilmington Trust's duty to follow Jeff's investment direction.[14]

After receiving Wilmington Trust's letter and my final report, which did not address the July 23, 2013 letter, the Beneficiaries sought clarification of what Wilmington Trust was required to produce in light of its decision to pursue its advice of counsel defense. Specifically, the Beneficiaries contended that Wilmington Trust's advice of counsel defense had placed all the Powers and Responsibilities Documents at issue, even those after the Wave2Wave bankruptcy, and that Wilmington Trust should be required to produce the documents it had not yet produced.[15]

So began a letter writing campaign in which Wilmington Trust argued that the only advice of counsel it was relying on in defense of the Beneficiaries' claims was the advice Wilmington Trust received when deciding "whether to follow Jeff's directions for a given investment action alleged in the Complaint."[16] Wilmington Trust had produced all Powers and Responsibilities Documents created before the Wave2Wave bankruptcy,

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[13] Verified Compl. Ex. A, p. 27.

[14] *See* Wilmington Trust Co.'s Opening Br. in Support of Exceptions to the August 9, 2013 Draft Report (hereinafter "Opening Br.") at 4-5.

[15] Shindel Aff. Ex. 7.

[16] Shindel Aff. Ex. 8, at p. 5.

but because all but one of the investment decisions challenged in the complaint occurred before the Wave2Wave bankruptcy, Wilmington Trust argued that it had not waived privilege after that time. Wilmington Trust reasoned that, because any legal advice it received after it made those investment decisions could not possibly have factored into the decision at the time it was made, such legal advice was not placed "at issue" by the advice of counsel defense.[17] As to the one investment decision that occurred after the Wave2Wave bankruptcy, Wilmington Trust stated that it was not asserting an advice of counsel defense regarding that decision.[18] In response, the Beneficiaries argued that Wilmington Trust's attempt to limit its waiver based on the purpose for which the privileged communications were made, or based on the time period in which the communications were made, was unsupported by Delaware cases defining the "at issue" waiver as a subject matter waiver.[19]

I feel compelled to point out that the parties' request for "clarification" was something of a misnomer, as my report on the first motion to compel did not address in any real sense the scope of Wilmington Trust's waiver if it elected to advance its advice of counsel defense, because at the time I issued my report the parties did not appear to be disputing the scope of the waiver. In any event, this dispute became, in essence, a second motion to compel that culminated in a hearing on August 9, 2013. At the conclusion of that hearing, I issued a draft report from the bench. In my draft report, I recommended that the Court enter an order finding that, by invoking an advice of counsel defense

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[17] *Id*. at p. 5-7.
[18] *Id*. at p. 5-6.
[19] Shindel Aff. Ex. 9.

regarding the directed nature of the Trust, Wilmington Trust had waived attorney-client privilege as to all Powers and Responsibilities Documents, regardless of when those documents were created.[20] I also held that the "at issue" waiver of privilege did not equate to a waiver of work-product protection, and that I would not address whether Wilmington Trust was required to produce work-product until a privilege log had been produced and the Beneficiaries explained why production of specific work-product documents was appropriate under Rule 26(b)(3).[21]

Wilmington Trust filed a notice of exception to that draft report, which the parties briefed in short order. While the parties were briefing the exceptions, Wilmington Trust produced a privilege log, followed by a revised privilege log that corrected a few small errors (the "Privilege Log").[22] In its briefing, Wilmington Trust advanced four exceptions to my draft report, which largely are alternative rulings Wilmington Trust would like me to make, in declining order of preference. Wilmington Trust first argues that, by asserting an advice of counsel defense, it has not waived privilege as to any attorney-client communication after the Wave2Wave bankruptcy, unless the communication (1) discloses information known or provided to Wilmington Trust before any action it took at the direction of Jeff Mennen, and (2) Wilmington Trust asserts an advice of counsel defense as to that action. Second, in the event that I decide that Wilmington Trust's waiver extends beyond the Wave2Wave bankruptcy, Wilmington

[20] *Mennen v. Wilmington Trust Co.*, C.A. No. 8432-ML (Aug. 9, 2013) (TRANSCRIPT) (hereinafter "Aug. 9 Transc.") at 31:24-37:6.
[21] *Id*. at 37:7-41:14.
[22] Ltr. to Court from Shindel dated Sept. 5, 2013, Ex. 1 (hereinafter "Privilege Log").

Trust argues that the waiver does not extend to communications concerning Wilmington Trust's assessment of its potential liability, if any, as a result of the failed investments or other challenged actions. If I reject the first two arguments, Wilmington Trust contends that I should abstain from making any decision about the scope of the waiver in this case until Wilmington Trust has provided a privilege log to the Beneficiaries, the Beneficiaries have challenged particular documents on that log, and I have reviewed the documents *in camera*. Finally, even if its first three arguments are unsuccessful, Wilmington Trust asks that I clarify that my ruling makes no decision regarding whether Wilmington Trust has waived privilege respecting communications arising after the commencement of this action. As explained more fully below, the Beneficiaries contend that the first three arguments lack merit, but agree with Wilmington Trust that I need not decide whether Wilmington Trust has waived privilege for documents created after the Beneficiary Action was filed, because that issue is "not before the Court."[23] This is my final report, in which I largely adopt my draft report.

ANALYSIS

Attorney-client privilege operates as an exception to the broad and far-reaching scope of discovery permitted under Rule 26(b). The privilege exists for the purpose of encouraging "full and frank communications" between counsel and client, recognizing that such open communication is necessary if attorneys are to render effective legal

[23] Pls.' Opp'n to Wilmington Trust Co.'s Exceptions to the August 9, 2013 Draft Report (hereinafter Opp'n Br.) at 50.

assistance.[24] The privilege is not unqualified, however, and may be waived when a party injects either (1) the privileged communications themselves into litigation, or (2) an issue into the litigation, the truthful resolution of which requires an examination of confidential communications.[25] This "at issue" exception is based on principles of waiver and fairness, and operates to prevent a party from using privilege as both a "shield" during discovery and a "sword" through the remainder of the litigation.[26]

A. Wilmington Trust cannot confine the subject matter of the waiver to communications it received when it took the particular actions challenged in the complaint

Wilmington Trust first argues that my draft report defined far too broadly the scope of the subject matter of Wilmington Trust's waiver. In Wilmington Trust's view, because Article TENTH allows a trustee to rely on advice of counsel for particular actions that it took, and Wilmington Trust only is asserting an advice of counsel defense for actions it took before the Wave2Wave bankruptcy, only advice it received before the Wave2Wave bankruptcy falls within the scope of the waiver. In other words, Wilmington Trust contends that "[t]he subject matter of Wilmington Trust's advice-of-counsel defense here is limited to the *actions* as to which it is asserting the defense – the following of Jeff Mennen's directions for particular investment."[27] Wilmington Trust

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[24] *In re Quest Software Inc. S'holder Litig.*, 2013 WL 3356034, at *2 (July 3, 2013) (quoting *Zirn v. VLI Corp.*, 621 A.2d 773, 781 (Del. 1993)). *See also Upjohn Co. v. United States*, 449 U.S. 383, 389 (1981); *Moyer v. Moyer*, 602 A.2d 68, 72 (Del. 1992).

[25] Donald J. Wolfe & Michael A. Pittenger, *Corporate and Commercial Practice in the Delaware Court of Chancery*, § 7.02(c)(2), at 7-32 (2012) (citing cases).

[26] *In re Quest*, 2013 WL 3356034, at *2; *Hoechst Celanese Corp. v. Nat'l Union Fire Ins. Co. of Pittsburgh*, 623 A.2d 1118, 1125 (Del. Super. 1992).

[27] Wilmington Trust Co.'s Reply in Support of Exceptions (hereinafter "Reply") at 3 (emphasis in original).

contends that, although it received advice after the Wave2Wave bankruptcy regarding whether, and to what extent, the Trust was a directed trust, the purpose of the advice was entirely different after the bankruptcy filing. According to Wilmington Trust, although the pre-bankruptcy advice it received was for the purpose of administering the Trust, the advice it received after the bankruptcy was for the purpose of evaluating its potential liability to the Beneficiaries for the losses suffered by the Trust.[28]

If I were to agree with Wilmington Trust's proposed constraints on the scope of its waiver, Wilmington Trust would not be required to produce any privileged communications after it learned of the Wave2Wave bankruptcy in February 2012, unless the privileged communication disclosed information known or provided to Wilmington Trust before that date.[29] Whether coincidentally or otherwise, this likely would mean that Wilmington Trust would be entitled to maintain its advice of counsel defense without producing any additional documents, because in my July 25th Report I held that documents created before the Wave2Wave bankruptcy and relating to Wilmington Trust's powers and duties were not privileged under *Riggs*. The Beneficiaries decry Wilmington Trust's effort to self-limit its waiver, arguing that Wilmington Trust has erected an artificial distinction between privileged communications before the Wave2Wave bankruptcy, and those made after that date. The Beneficiaries contend that Wilmington Trust's present position on the subject matter of the waiver is inconsistent both with its earlier representations to the Court and with its July 23rd letter indicating

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[28] *See id*. at 1-2.
[29] *See* Opening Br. at 19.

that its waiver applied to all Powers and Responsibilities Documents. The Beneficiaries contend that, although Wilmington Trust asks the Court to focus on an "action-by-action" analysis, the heart of Wilmington Trust's defense goes to whether, and to what extent, the Trust was a directed trust, and that many of the post-bankruptcy documents on Wilmington Trust's privilege log appear to address and evaluate that very issue.

A party's decision to rely on advice of counsel as a defense in litigation is a conscious decision to inject privileged communications into the litigation.[30] That decision operates as a partial waiver of the privilege.[31] The waiver is "partial" in the sense that it does not open to discovery all communications between the client and its attorneys, but only those communications that relate to the subject matter of the disclosed communications.[32] Neither Delaware courts nor those in other jurisdictions have articulated a bright-line rule to determine what constitutes the subject matter of the waiver. The issue necessarily turns on the particular facts of each case, but the decision is guided by the purposes behind the rule: fairness and discouraging use of attorney-client privilege as a litigation weapon.[33]

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[30] *Glenmede Trust Co. v. Thompson*, 56 F.3d 476, 486 (3d Cir. 1995).
[31] *Citadel Holding Corp. v. Roven*, 603 A.2d 818, 825 (Del. 1992).
[32] *Zirn v. VLI Corp.*, 621 A.2d 773, 781-82 (Del. 1993); *Citadel Holding Corp.*, 603 A.2d at 825; *In re Unitrin, Inc. S'holder Litig.*, 1994 WL 507859, at * 2 (Del. Ch. Sept. 7, 1994).
[33] *Zirn*, 621 A.2d at 781-82; *Citadel*, 603 A.2d at 825.

There is a manifest risk to allowing a party asserting an advice of counsel defense to self-define the scope of the waiver. That, however, is precisely what Wilmington Trust seeks to do in this case. As the Third Circuit explained, a party asserting an advice of counsel defense

> should not be permitted to define selectively the subject matter of the advice of counsel on which it relied in order to limit the scope of the waiver of the attorney-client privilege and therefore the scope of discovery. To do so would undermine the very purpose behind the exception to the attorney-client privilege at issue here – fairness.
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> The party opposing the defense of reliance on advice of counsel must be able to test what information had been conveyed by the client to counsel and vice-versa regarding that advice – whether counsel was provided with all material facts in rendering their advice, whether counsel gave a well-informed opinion[,] and whether that advice was heeded by the client.[34]

By attempting to confine the advice it placed at issue to the particular investments or actions challenged in the Beneficiary Action – at least those actions that occurred before the Wave2Wave Bankruptcy – Wilmington Trust describes the advice on which it relied in an illogical and inconsistent manner. The advice that Wilmington Trust received – and the advice on which it relied – was the extent to which the trust agreement required the corporate trustee to follow investment directions from the individual trustee. In other words, the advice of counsel that Wilmington Trust placed at issue by pursuing this defense is the issue of whether, and to what extent, the Trust is a directed trust, and, in light of the nature of the Trust, Wilmington Trust's powers and responsibilities under the trust agreement. Wilmington Trust recognized as much when it indicated both in its

[34] *Glenmede Trust Co.*, 56 F.3d at 486. *See also Unitrin*, 1994 WL 507859, at * 2 (noting that it would be unfair to allow defendants to select those parts of privileged communications that could be used in the proceedings, while invoking privilege to thwart the plaintiffs' effort to test the reliability of the advice).

opposition to the first motion to compel and in its July 23rd letter that it was waiving privilege as to all the Powers and Responsibilities Documents.[35] In all of its representations to both the Court and the Beneficiaries before July 23rd, Wilmington Trust made no mention of its current argument – that the waiver was limited to advice it received as to those particular actions or decisions that were challenged in the Beneficiary Action.

These inconsistent positions, and the shifting sands of Wilmington Trust's argument over the course of the present motion, reveal, if nothing else, an understandable desire on the part of Wilmington Trust to achieve that which any number of overused proverbs instruct we cannot do: "have our cake and eat it too," "have the best of both worlds," or "have it both ways." Wilmington Trust's position contravenes Delaware precedent defining the scope of the waiver by the subject matter of the advice placed at issue, and to limit the waiver in the manner Wilmington Trust suggests would unfairly limit or eliminate the Beneficiaries' ability to assess the reliability of the advice and the factual information on which it was based.

Much of Wilmington Trust's argument that the subject matter of its advice of counsel defense is limited to the particular actions or decisions challenged in the

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[35] Opp'n to Mot. to Comp. ¶ 19 ("[Wilmington Trust] nevertheless recognizes that it will have to waive its privilege to withhold confidential communications regarding its powers and duties *if* it elects to pursue an advice of counsel defense.") (emphasis in original); Shindel Aff. Ex. 5 at p. 1 ("We recognize that Wilmington Trust will have to waive [the] asserted privilege [for advice given to Wilmington Trust regarding its duties and powers with regard to the Trust Agreement] *if* it elects to pursue an advice-of-counsel defense.") (emphasis in original); *id*. Ex. 6 at p. 1-2 ("[i]n light of its advice of counsel defense, Wilmington Trust has determined to withdraw and not assert any claim of privilege with regard to documents falling within Category (b)," which was defined as "advice and documents related to the Co-Trustees [sic] duties and powers").

complaint is predicated on a number of decisions that have been issued in patent infringement cases and, even more so, on portions of an attorney-client privilege treatise that discuss privilege in patent cases. Although patent infringement cases offer some helpful analysis in determining the scope of an advice of counsel waiver, Wilmington Trust's overreliance on those cases is misplaced for three reasons: (1) the cases do not uniformly – or even overwhelmingly – stand for the proposition Wilmington Trust asserts; (2) unique aspects of substantive patent law distinguish some of the finer points of those cases from the case at hand; and (3) the facts of this case distinguish it from the authorities on which Wilmington Trust relies.

First, Wilmington Trust contends that cases addressing the scope of an advice of counsel waiver in the area of patent infringement recognize that an advice of counsel waiver extends only to the information base of the legal advice from which the reliance allegedly arose.[36] Wilmington Trust contends that cases involving willful infringement of a patent recognize that the "go-ahead" decision, *i.e.,* the decision that a defendant made to continue to produce or market the product at issue notwithstanding the alleged infringement, is the subject of the advice of counsel waiver, and therefore the scope of the waiver extends only to the information known or provided to the decision-maker at the time he or she made the "go-ahead" decision.[37]

In making this argument regarding the "go-ahead" decision in patent law, which Wilmington Trust analogizes to its decision to follow particular investment directions

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[36] Opening Br. at 8; Reply at 5-6.
[37] *See* Opening Br. at 8 (citing John W. Gergacz, *Attorney-Corporate Client Privilege* § 5:24, at 599-600 (3d ed. 2013)).

received from Jeff Mennen, Wilmington Trust relies on a treatise explaining attorney-client privilege, but only on that portion of the treatise that specifically addresses patent law. Even that section of the treatise, however, does not stand for the broad proposition that Wilmington Trust advances. As the treatise's author explains,

> If the "go-ahead" decision was revisited by the infringing company upon receipt of additional patent opinions, then those opinions have become a part of the decision's information base. One can point to two decision points from which reliance could have arisen: the initial "go-ahead" and the "revisit," thereafter. Thus, discovery of the later legal opinions, in fairness, should be allowed. … [S]uch a test limits any incentive for an infringer to ignore later legal advice and, thus, argue not reliance thereon, because those opinions were not relied upon.[38]

The decisional law in patent infringement cases also does not always agree with the sections of the treatise on which Wilmington Trust relies.[39] Some courts have held that defendants who assert an advice-of-counsel defense waive all communications regarding infringement, validity, and enforceability of the patent, including communications with the "opinion counsel," who gave the opinion on which the "go-ahead" decision was based, and trial counsel, who provided opinions regarding the same subject matter after litigation was anticipated or filed.[40] Even courts that do not extend waiver to communications with trial counsel have required production of communications with opinion counsel about the same subject matter as the waiver, even

[38] Gergacz, *supra* note 37, at 600 (3d ed. 2013).
[39] Wilmington Trust has not cited any decision in which a court expressly adopted Professor Gergacz's theory regarding "go-ahead" decisions.
[40] *See, e.g.*, *Informatica Corp. v. Bus. Objects Data Integration, Inc.*, 454 F. Supp. 2d 957, 964-65 (N.D. Cal. 2006); *Affinion Net Patents, Inc. v. Maritz, Inc.*, 440 F. Supp. 2d 354, 357 (D. Del. 2006).

if those communications were made after the "go-ahead" decision.[41] Thus, a number of patent cases, including the Federal Circuit's decision in *In re Seagate*, support the conclusion that the scope of Wilmington Trust's waiver is all communications regarding its powers and duties under the Trust Agreement, not just the opinions or "information base" at the time it made the "go ahead" decision challenged in the Beneficiaries' complaint.

Second, even if the decisional law in patent infringement cases fully supported Wilmington Trust's position, it is not clear that some of the specific rulings in those cases necessarily translate to non-patent cases. Application of attorney-client privilege in patent cases depends on substantive aspects of patent law.[42] As the Federal Circuit explained, patent infringement is a strict liability offense, which means that the nature of the offense, *i.e.*, the alleged infringer's state of mind or intent, only becomes relevant in determining whether enhanced damages should be awarded.[43] An enhanced damages award requires a showing of willful infringement, although such a showing does not guarantee that exemplary damages will be awarded.[44] Alleged infringers facing a willful infringement claim often rely upon advice of counsel as a defense to the claim, and "[a]lthough an infringer's reliance on favorable advice of counsel, or conversely his failure to proffer any favorable advice, is not dispositive of the willfulness inquiry, it is

[41] *See In re Seagate Tech., LLC*, 497 F.3d 1360, 1370 (Fed. Cir. 2007); *In re EchoStar Commc'ns Corp.*, 448 F.3d 1294, 1299 (Fed. Cir. 2006); *Kelsey-Hayes Co. v. Motor Wheel Corp.*, 155 F.R.D. 170, 172 (W.D. Mich. 1991).
[42] *Affinion Net*, 440 F. Supp. 2d at 356 n.2.
[43] *In re Seagate Tech., LLC*, 497 F.3d at 1368.
[44] *Id*.

crucial to the analysis."[45] In patent cases, an advice of counsel defense to a willful infringement claim takes the form of the infringer arguing that it relied on counsel's advice of non-infringement or patent invalidity when deciding to market or produce a product. For this reason, and because the court's inquiry is focused solely on the willfulness of the alleged infringement, the Federal Circuit has concluded that, although reliance on advice of counsel waives communications with "opinion counsel," the waiver does not extend to "trial counsel," who is engaged in the adversarial process and focused on litigation strategy.[46] In contrast, opinion counsel provides an "objective assessment" for purposes of making business decisions.[47]

This is not to say that patent cases discussing attorney-client privilege are not persuasive authority to consider in non-patent cases. It simply means that particular aspects of the Federal Circuit's application of the advice of counsel defense depend on the substantive law underlying willful infringement, and where that substantive law is not present in other cases, a court conceivably could reach a different conclusion regarding the scope of the waiver resulting from an advice of counsel defense.

Finally, even if patent cases were entirely analogous to cases arising under other areas of the law, factual distinctions in this case require a different result. This is not a case in which a defendant received advice of counsel, relied on that advice, then was sued and hired separate counsel to advise it in the lawsuit. Here, Wilmington Trust

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[45] *Id*. at 1369 (citing *Electro Med. Sys., S.A. v. Cooper Life Scis., Inc.*, 34 F.3d 1048, 1056 (Fed. Cir. 1994)).
[46] *Id*. at 1373.
[47] *Id*.

administered the Trust for a number of years relying (it contends) on advice of its in-house counsel. After Wave2Wave declared bankruptcy, the Wilmington Trust employees administering the trust sought advice both from their in-house counsel and from attorneys at Morris, Nichols, Arsht & Tunnell LLP ("Morris Nichols"). After the Wave2Wave bankruptcy, Wilmington Trust continued to serve as the corporate trustee administering the trust, and although some of the advice Wilmington Trust received from both its in-house counsel and Morris Nichols appears to be in the nature of evaluating Wilmington Trust's potential liability, much of the advice it received related to decisions regarding the continued administration of the trust.[48] Although the tone of the advice may have changed in light of Wilmington Trust's concerns about its own liability, the fact remains that Wilmington Trust received advice after the Wave2Wave bankruptcy regarding its powers and duties under the Trust, and it likely used that advice in evaluating directions it received from Jeff Mennen and in continuing to administer the trust.[49]

Accordingly, Wilmington Trust's attempt to paint all counsel as "trial counsel" after the Wave2Wave bankruptcy rings hollow. A review of the Privilege Log reveals the broad brush Wilmington Trust wielded when it made its privilege determinations. Although Wilmington Trust attempts to paint every communication with counsel after the

[48] *See, e.g.*, Privilege Log entries 1-9, 12-14, 18, 24, 32-35, 39, 42, 44 (advice from in-house counsel and/or Morris Nichols attorneys regarding issues relating to the administration of the trust).

[49] Even after the Federal Circuit's decision in *Seagate,* several courts considering the scope of an advice of counsel waiver in patent cases have held that employing the same firm or attorneys as both "opinion counsel" and "trial counsel" will result in the waiver extending to all communications, including those with "trial counsel." *See, e.g.*, *Tyco Healthcare Grp. LP v. E-Z-EM, Inc.*, 2010 WL 2079920, at *2-3 (E.D. Tex. May 24, 2010); *Duhn Oil Tool, Inc. v. Cooper Cameron Corp.*, 2009 WL 3381052, at *15 (E.D. Cal. Oct. 15, 2009).

Wave2Wave bankruptcy as one intended to "position itself" in litigation, the subject matter of many of the communications primarily relate to the administration of the trust. Although, as I explain below, Wilmington Trust is entitled to redact those portions of the documents that directly address either litigation strategy or counsel's evaluation of Wilmington Trust's defenses and potential exposure in litigation, the remainder of those documents reflect advice Wilmington Trust received regarding its powers and duties, and fall within the scope of the waiver that Wilmington Trust described in its representations to this Court and the Beneficiaries.

That conclusion, and the reason that the scope of the waiver extends beyond the last "go ahead" decision that Wilmington Trust contends it made regarding the specific claims in the complaint, finds support in several cases outside the context of patent law. For example, in *Wal-Mart Stores Inc. v. AIG Life Insurance Co.*, the plaintiff faced a statute of limitations defense, and indicated that it "elected to produce attorney-client documents relating to [the corporate owned life insurance policies at issue in the case]." The plaintiff sought, however, to limit the waiver to communications three or more years before the lawsuit was filed because documents created less than three years before filing would not bear of the statute of limitations issue.[50] The Delaware Superior Court held that, by producing certain privileged documents relating to its knowledge of the claims, the plaintiff waived privilege for all communications with its counsel regarding the life

[50] 2008 WL 498294, at *3.

insurance policies at issue, specifically rejecting the plaintiff's claim that the waiver could be limited temporally.[51]

In *Glenmede Trust Co. v. Thompson*, the Third Circuit also rejected a plaintiff's effort to narrowly define the scope of the subject matter involved in its advice of counsel waiver, concluding that the waiver applied to all communications regarding the transaction at issue in the litigation, regardless of the time the communication was made or its purpose.[52] The Court reasoned that the party opposing the advice of counsel defense must be able to test the advice that was given, and, to do so, must have a full understanding of whether the advice was fully informed and whether it was heeded by the client.[53] The U.S. District Court for the Southern District of New York reached a similar conclusion in *Bank Brussels Lambert v. Credit Lyonnais (Suisse) S.A.*, a case involving Credit Lyonnais's issuance of certain letters of credit to third party entities and the later conversion of accounts receivable in which Bank Brussels contended it had a superior interest.[54] Credit Lyonnais invoked an advice of counsel defense, but argued – similar to Wilmington Trust in this case – that the scope of the waiver was limited to its state of mind when it issued the letters of credit, and that therefore it had not waived privilege for

[51] *Id*. Wilmington Trust's attempt to distinguish *Wal-Mart* is unpersuasive. Although Wilmington Trust correctly points out that the plaintiff in that case already had produced some privileged documents and the motion to compel involved only one document, the Court's holding that the proposed temporal limitation was inconsistent with Delaware law does not turn on those issues. Likewise, although the *Wal-Mart* court noted that the document at issue discussed historical facts, that analysis did not appear to factor into its decision regarding the proposed temporal limitation and, in any event, the Privilege Log describes several documents that appear to contain retrospective analyses of historical facts.
[52] 26 F.3d 476, 486-87 (3d Cir. 1995).
[53] *Id*. at 486.
[54] 1995 WL 598971 (S.D.N.Y. Oct. 11, 1995).

any communications with counsel after the last letter of credit was issued.[55] The District Court was not persuaded by that argument, holding that "[o]nce the waiver is created, parties may not limit the waiver temporally."[56] The District Court reasoned that there was no discernible line between the communications the defendant sought to rely on and the advice it sought to withhold from discovery, because the later communications could "shed light on [Credit Lyonnais's conduct before it issued the last letter of credit], its state of mind, and the legal advice given by [its counsel]," and therefore "the communications may be vital to the plaintiffs' ability to meet" the advice of counsel defense.[57]

For similar reasons, Wilmington Trust's communications with counsel after the Wave2Wave bankruptcy may be essential to allow the Beneficiaries to respond to the advice of counsel defense. Under the terms of the trust agreement, a trustee may only rely on advice of counsel if it does so "in good faith" and "in accordance with the opinion of such counsel." Although the parties dispute whether "good faith" in this context refers to subjective good faith or objective good faith, they contend – and I agree – that I need not decide that issue at this juncture. Whether the test is subjective or objective, Wilmington Trust's communications with counsel, which may include, among other things, its historical summaries of the advice that was given and the action that was taken,

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[55] *Id.* at *2.
[56] *Id.* at *3.
[57] *Id.* at *4. *Accord Smith v. Alyeska Pipeline Serv. Co.*, 538 F. Supp. 977 (D. Del. 1982) (finding waiver by voluntary production of opinion letter and concluding that the plaintiff had waived all communications regarding the subject matter of the opinion letter, rejecting the argument that communications after the date the opinion letter was sent to defendants remained privileged because those communications were based on "other information").

its analysis of whether the advice was consistent with the terms of the trust agreement, and its communications regarding whether it should continue to act consistent with the earlier advice, will allow the Beneficiaries to evaluate and respond to the defense and in fairness must be produced.

B. Wilmington Trust may redact certain limited areas of advice

Wilmington Trust next argues that, even if I do not adopt its position that post Wave2Wave communications fall outside the subject matter of the waiver, I should find that Wilmington Trust has not waived the privilege for attorney-client communications (1) made after the Wave2Wave bankruptcy, and (2) concerning Wilmington Trust's assessment of its potential liability, if any. Wilmington Trust suggests that this result is mandated under principles of "fairness," and the purpose of the attorney-client privilege in protecting full and forthright communications between clients and their counsel.

In many respects, and in light of the way Wilmington Trust has framed the documents on its Privilege Log, this argument seems to be a repurposed version of Wilmington Trust's first argument, intended to achieve largely the same result. As discussed above, nearly all the communications on the Privilege Log purport to have been made for the purpose of evaluating Wilmington Trust's potential liability or for developing litigation strategy. This careful framing aside, it appears – based on the subject matter of the documents described in the Privilege Log and the identities of the persons participating in the communications, that many of the documents that Wilmington Trust contends were litigation driven or for litigation purposes were, in fact, used for purposes of Wilmington Trust's continued administration of the Trust. Even

those documents that genuinely were created to evaluate Wilmington Trust's potential liability or its strategy in diffusing possible claims appear to contain extensive discussion of Wilmington Trust's powers and duties. The fact that those documents were created under the specter of possible litigation does not change the analysis, at least where, as here, Wilmington Trust continued to evaluate its power and duties under the Trust Agreement to continue to administer the trust.

In its exceptions to the draft report, Wilmington Trust introduced for the first time an argument that some of the post-bankruptcy communications contained advice that had "also been given to Wilmington Trust's corporate parent, M&T Bank, as a joint client with Wilmington Trust," and that those communications were protected under a "joint client" privilege that had not been waived, because Wilmington Trust could not unilaterally waive privilege as to communications sent to joint clients.[58] Although this argument does not reappear in Wilmington Trust's reply brief, it is not clear whether Wilmington Trust has abandoned it, and I therefore briefly will address it.

None of the facts introduced to date in any briefing on the various motions to compel support a conclusion that M&T was a joint client of either Morris Nichols or Wilmington Trust's in-house attorneys regarding the Trust or the Beneficiaries' claims. Aside from the bare factual assertions contained in Wilmington Trust's opening brief in support of its exceptions, which are unsupported by affidavits or other evidence, all of Wilmington Trust's previous representations and statements, including sworn affidavits, indicate that Wilmington Trust alone retained Morris Nichols to provide advice to

[58] Opening Br. at 22-23.

Wilmington Trust. In affidavits submitted to the Court in connection with the Beneficiaries' first motion to compel, Wilmington Trust's Vice President and Senior Counsel attested to the fact that "*Wilmington Trust* retained [Morris Nichols] to work *with us* in assessing *Wilmington Trust's* options and alternatives for positioning *itself* in the event of claims by the beneficiaries against *it*,"[59] and one of Morris Nichols' attorneys stated that he was retained by senior counsel for Wilmington Trust in early March 2012 "to provide legal advice and counsel in connection with Wilmington Trust's concern" that it would be sued by the Beneficiaries.[60] None of the affidavits submitted by Wilmington Trust in opposition to either motion to compel make mention of M&T's retention of Morris Nichols to provide advice to M&T. Nor does Wilmington Trust's letter of July 23rd mention its current position that communications after the Wave2Wave bankruptcy were protected under a "joint client" or "co-client" privilege.

Wilmington Trust's Privilege Log reveals that it is claiming a "co-client" privilege for nearly every document contained on the log, even when no M&T employee participated in the communication. On those communications where M&T does appear, the most logical conclusion to be drawn from the information on the log – and the conclusion supported by earlier affidavits submitted by Wilmington Trust – is that M&T was acting as one would expect a parent company to act: obtaining information so that it could understand the potential liability its subsidiary faced, and providing, where appropriate, its own counsel to participate in the subsidiary's communications with the

[59] Opp'n to Mot. to Comp., Aff. of Beth A. Ungerman (hereinafter "Ungerman Aff.") ¶ 5 (emphasis added).

[60] *Id.*, Aff. of Thomas R. Pulsifer ¶ 2.

subsidiary's attorney.[61] Although M&T's participation in the communications does not destroy the privilege, it also does not serve as a basis to conclude that M&T was a "joint client" with Wilmington Trust. Logic dictates the same conclusion. It is not clear why M&T would be seeking advice of counsel on its own behalf and regarding its own liability, since it was not named as a defendant in any litigation and had not participated (to my knowledge) in administering the Trust. There has been no suggestion that the Beneficiaries believe M&T is liable for Wilmington Trust's actions, or that the Beneficiaries will look to M&T to satisfy any judgment the Court might enter against Wilmington Trust. In short, there is no fact in the record, and no logical conclusion to be drawn, that supports the contention that M&T retained Morris Nichols to provide advice to M&T regarding M&T's interests or potential liability. Accordingly, the argument that the communications are separately protected under a "joint client" privilege fails.

There is, however, some merit to a portion of Wilmington Trust's argument that the scope of its waiver does not extend as far as the Beneficiaries contend. Although I have concluded that the scope of the waiver includes all the Powers and Responsibilities Documents, I do not believe that it includes those portions of documents in which counsel directly provides advice evaluating Wilmington Trust's potential liability or its litigation strategy. I previously held that Wilmington Trust's advice-of-counsel waiver did not extend to attorney work product, unless the Beneficiaries can establish a

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[61] *See* Ungerman Aff. ¶ 4 ("I worked with [Wilmington Trust employees] and other in-house counsel for Wilmington Trust and its parent, M&T Bank, to review, consider and protect *the position of Wilmington Trust* with regard to claims by the Trust's beneficiaries *against Wilmington Trust*.") (emphasis added).

substantial need for the materials and can show that they cannot obtain substantially equivalent material by other means.[62] To the extent these limited communications directly addressing litigation strategy or potential liability do not qualify as work-product, they may be withheld because they fall outside the scope of the waiver. Both Delaware courts and courts in other jurisdictions have recognized the need to protect true advice regarding potential exposure and litigation strategy.[63] In light, however, of the clever labeling in Wilmington Trust's Privilege Log, I take care to emphasize that any communications withheld on this basis should be strictly limited to those *directly* evaluating potential exposure or litigation strategy, and not just communications made "for the purpose" of providing such advice, or "concerning" such advice. For that reason, I expect that, for most documents, it will be more appropriate to redact the particular aspects of the communication that qualify, rather than withholding the document altogether. If further questions arise regarding whether particular redactions or documents fall within this relatively narrow limitation on the scope of the waiver (and the course of history in this litigation suggests that such disputes will indeed arise) those documents should be submitted to the Court for *in camera* review.

[62] Ct. Ch. R. 26(b)(3). The Beneficiaries have not challenged my ruling regarding the work-product doctrine.

[63] *See, e.g.*, *Oracle Corp. v. PeopleSoft, Inc.*, C.A. No. 20377 (Del. Ch. Sept. 28, 2004) (TRANSCRIPT) at 35, 41; *Pfizer Inc. v. Warner-Lambert Co.*, C.A. No. 17524 (Del. Ch. Dec. 21, 1999) (TRANSCRIPT) at 89-90; *Hoechst Celanese Corp. v. Nat'l Union Fire Ins. Co. of Pittsburgh*, 623 A.2d 1118, 1125-26 (Del. Super. 1992); *McCormick-Morgan, Inc. v. Teledyne Indus., Inc.*, 134 F.R.D. 275, 281 (N.D. Cal. 1991).

C. There is no reason to postpone resolving the scope of the waiver

In its opening brief, Wilmington Trust contended that I should postpone ruling on the scope of Wilmington Trust's at-issue waiver until the Beneficiaries have challenged the assertion of privilege as to specific documents on the Privilege Log, and the challenged documents have been reviewed *in camera*. Wilmington Trust seems to largely abandon that argument in its reply brief, but I will address it for the sake of completeness. In a nutshell, although that would be one method for resolving the scope of the waiver, it is not the only method, nor does it promise to be the most efficient method given the advanced state of the parties' briefing on this topic, the expedited nature of the litigation, and the length of time Wilmington Trust took to produce a privilege log that contained, in the end, only 49 entries.

D. The Beneficiaries' attempt to inject new motions or requests for relief is not procedurally proper

Finally, I note that the Beneficiaries' brief in opposition to Wilmington Trust's exceptions appears to introduce two arguments or requests for relief that were not (1) addressed in the draft report or (2) the subject of any of the motions or "requests for clarification" that form the basis of the draft report. It is not clear to me why these arguments appear for the first time in a brief in opposition to exceptions to a draft report, but, whatever the reason, the arguments fall well outside the scope of the issues presently before me.

The first such argument urges me to order Wilmington Trust to produce certain documents on the Privilege Log, even if I determine that those documents are not

encompassed within the scope of the "at issue waiver."[64] The documents at issue are Powers and Responsibilities Documents that were created after the Wave2Wave bankruptcy but alleged are related to Trust administration rather than the Petition Action. The Beneficiaries contend that, under my ruling in the July 25th Report, those documents are not privileged and must be produced. Although the Beneficiaries may well be correct as to the merits of that argument, it does not appear that they have attempted to meet and confer with Wilmington Trust, nor have they filed a motion to compel those documents. Briefing on the current notice of exceptions is confined to the draft report I issued on August 9, 2013, which related solely to the scope of the at-issue waiver. Although I appreciate the Beneficiaries' frustrations with the myriad discovery disputes in this case, I feel constrained to limit my ruling to the issues properly before me.

I reach a similar conclusion regarding the Beneficiaries' argument that Wilmington Trust's conduct in discovery and its shifting positions regarding the scope of its waiver operate as an independent basis for finding that Wilmington Trust has waived attorney-client privilege. First, this argument also does not address Wilmington Trust's exceptions to the draft report, and therefore is not technically before me. Second, even if the argument properly were presented, the two cases relied on by the Beneficiaries do not support the expansive position they ask me to adopt; *Klig v. Deloitte LLP*[65] involved a finding of waiver that resulted from a party's utter failure to make a good faith attempt to properly invoke the privilege by preparing an adequate privilege log, and the Court in *In*

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[64] *See* Opp'n Br. at 45-46.
[65] 2010 WL 3489735, at *3-4 (Del. Ch. Sept. 7, 2010).

re Seagate[66] found that waiver was proper when a party engaged in "chicanery." Neither case supports a broadly stated rule that misconduct in discovery supports a finding that privilege has been waived. Finally, even if the caselaw supported such a finding, it would not be proper here. Although I have largely rejected Wilmington Trust's position regarding the scope of the at-issue waiver, I cannot conclude that its arguments were made in bad faith or solely for the purpose of unduly delaying these proceedings. If, however, it turns out that further delays associated with discovery disputes necessitate amendments to the scheduling order, I will not be inclined to postpone trial in this action unless no other option is available, or unless the Beneficiaries consent to the delay. I will, however, be inclined to consider a properly filed motion to alter the schedule to eliminate Wilmington Trust's opportunity to file dispositive motions before trial, a remedy that appears, at this juncture, more proportional to the conduct with which the Beneficiaries take issue.

[66] 497 F.3d 1360, 1374-75 (Fed. Cir. 2007).

CONCLUSION

For the foregoing reasons, I recommend that the Court find that Wilmington Trust has waived attorney-client privilege for all the Powers and Responsibilities Documents created before the Beneficiary Action was filed, except those portions of the documents in which counsel directly evaluates Wilmington Trust's potential liability or its litigation strategy. This is my final report in this matter and exceptions may be taken in accordance with Court of Chancery Rule 144.

Respectfully submitted,

/s/ *Abigail M. LeGrow*
Master in Chancery