Experts, privilege and civil procedure: recent rulings

Among other issues, federal courts have recently addressed questions arising when employees serve as experts.

BY GREGORY P. JOSEPH

Employees can be experts, but can they be designated nontestifying experts to shield their work from discovery? Is there a settlement privilege? Must litigation be threatened for joint-defense/common-interest protection to apply? Can a federal judge transfer part of an action to another district? This article explores these questions and other recent developments concerning experts, privilege and civil procedure.

• *Employees as nontestifying experts.* One of the parties in *Tellabs Operations Inc. v. Fujitsu Ltd.*, 2012 U.S. Dist. Lexis 60749 (N.D. Ill. May 1, 2012), a patent infringement action, assigned employees to inspect the other party's product and later designated the employees nontestifying experts under Rule 26(b)(4)(D) of the Federal Rules of Civil Procedure to immunize their work from discovery. The Tellabs court analyzed whether an employee can be "retained or specially employed...in anticipation of litigation" within the rule, a question that it noted has divided the lower courts. The court found it unnecessary to answer the question, holding as a matter of fact that the inspection was conducted in the ordinary course of business, not in anticipation of litigation. The court suggested, however, that if it had found the employees' work undiscoverable, that finding might have permitted an adverse inference because it would have resulted in the employer's failing to produce relevant evidence by rendering its employees' testimony uniquely available to itself and unavailable to its opponent.

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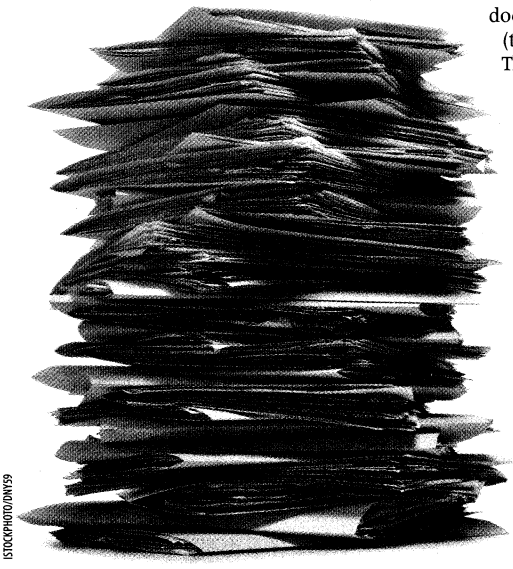
• *Employee expert reports.* If a salaried employee is designated a testifying expert and must file a Rule 26(a)(2)(B) report, Rule 26(a)(2)(B)(vi) contemplates that the report will include "a statement of the compensation to be paid for the study and testimony." Does that require disclosure of the employee's annual compensation and benefits? An allocation? In *SEC v. Nadel*, 2012 U.S. Dist. Lexis 53173 (E.D.N.Y. April 16, 2012), the court followed several decisions holding that no compensation disclosure or discovery is required at all because "the expert's status as a full-time, salaried employee...is sufficient to demonstrate bias," although remarking that the result could change if the adversary can point to a "specific circumstance raising suspicion that the particular compensation paid to [the employee] affected his opinions."

• *De-designated expert witnesses.* Not every case goes smoothly. Sometimes experts originally designated to testify later come to conclusions that make the prospect of proffering them horrifying. The moment a testifying expert is converted to nontestifying status, however, the adversary is highly motivated to find out why. Does the adversary still have the right under Rule 26(b)(4)(A) to depose an expert initially designated to testify, or is the expert protected by Rule 26(b)(4)(D)(ii)? That provision bars discovery from a nontestifying expert except in "exceptional circumstances under which it is impracticable for the party to obtain facts or opinions on the same subject by other means" (e.g., if the nontestifier has conducted destructive testing). The court in *Decena v. Am. Int'l Cos.*, 2012 U.S. Dist. Lexis 61303 (E.D. La. May 1, 2012), reviewed the case law and found "no consensus of authority" on this question. It followed the majority rule, which bars discovery from the de-designated expert, finding it repugnant to the rule to "allow...a party to utilize his opponent's expert's opinions to prepare his own case, and at his opponent's expense."

• *Settlement privilege.* Settlement discussions are largely, but not entirely, inadmissible under Fed. R. Evid. 408, but are they privileged? The answer to that question mattered in *In re MSTG Inc.*, 675 F.3d 1337 (Fed. Cir. 2012), in which the defendant sought communications and settlement agreements between the plaintiff and six other companies (including former defendants) against which the plaintiff had alleged the same patent infringement. The defendant maintained that the evidence was relevant and admissible on the question of what would constitute a reasonable royalty if the defendant were found liable for infringement, particularly to test the opinion of the plaintiff's expert on that issue. The U.S. Court of Appeals for the Sixth Circuit had recognized a settlement privilege in *Goodyear Tire & Rubber Co. v. Chiles Power Supply Inc.*, 332 F.3d 976, 979-83 (6th Cir. 2003), which would foreclose discovery, but the Federal Circuit sided with the majority of circuits that have refused to recognize a privilege, among other reasons because Rule 408 did not exclude the evidence and, in enacting Rule 408, Congress had "directly addressed the admissibility of settlements and settlement negotiations but in doing so did not adopt a settlement privilege."

• *Joint-defense/common-interest trigger.* Common-interest or joint-defense protection exists as an exception to the general rule of waiver when attorney-client privileged material is shared with a nonparty. It applies to communications among parties that share a common legal interest, but must there be actual or pending litigation for the common-interest rule to apply? As discussed in *U.S. v. Duke Energy Corp.*, 2012 U.S. Dist. Lexis 59565 (M.D.N.C. April 30, 2012), the circuits are split on that question. The Duke court approved a magistrate judge's determination that, at a minimum, there must be a " 'palpable threat of litigation...at least as stringent as the anticipation of litigation standard used for work product.' " (Note that this latter standard, too, is the subject of a circuit split.)



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DOCUMENT DISPUTE: Third Circuit held a company couldn't appeal adverse privilege ruling when documents' custodian was co-defendant's law firm.

• *Appealing adverse privilege ruling over documents held by third party.* Generally, discovery orders are unappealable because they are interlocutory, and in *Mohawk Indus. v. Carpenter*, 130 S. Ct. 599 (2009), the U.S. Supreme Court barred interlocutory review under the collateral order doctrine of orders overruling assertions of attorney-client privilege. In light of *Mohawk*, the Fourth Circuit ruled in *U.S. v. Myers*, 593 F.3d 338 (4th Cir. 2010), that even a citation for civil contempt is insufficient to permit a party to file an appeal of an adverse privilege ruling—only a nonparty may immediately appeal a civil contempt order; a party must suffer criminal contempt to appeal a decision allowing discovery of privileged material.

In *Perlman v. U.S.*, 247 U.S. 7 (1918), the Supreme Court carved out an exception to the contempt requirement. It held that when a court orders a third party to produce privileged documents, the privilege holder may immediately appeal the order because the privilege holder itself cannot disobey the order, be held in contempt and appeal the contempt citation. But there is less to this exception than meets the eye.

Thus, in *In re Grand Jury ABC Corp.*, 2012 U.S. App. Lexis 10558 (3d Cir. May 24, 2012), the corporate privilege holder asked a law firm representing a co-defendant (an officer of the corporation) to hold the privileged materials. The court ordered the corporation to produce the documents. The corporation argued that it could appeal this adverse ruling under *Perlman* because the custodian of the documents was a third party (the co-defendant's law firm). The Third Circuit rejected this analysis because the corporation could suffer criminal contempt by refusing to obey the court's order, as the documents were still within its control, albeit held by another. The Third Circuit identified, but did not resolve, the question whether, after *Mohawk*, any party (or subject of a grand jury investigation) may ever invoke *Perlman* because that party is in a position to suffer criminal contempt and appeal the contempt citation.

• *Partial transfer of a case.* 28 U.S.C. 1631 authorizes a federal district judge to transfer a case to cure a lack of jurisdiction "to any other [district] court in which the action...could have been brought." In *Johnson v. Mitchell*, 2012 U.S. Dist. Lexis 65934 (E.D. Calif. May 10, 2012), the court concluded that it lacked personal jurisdiction over one defendant. Jurisdiction over that defendant existed in the district in which he resided, but that district lacked jurisdiction over the other defendants. Recognizing that "[t]he Circuits are split regarding whether the language of 28 U.S.C. § 1631 permits federal courts to partially transfer an action," the court adopted the line of authority permitting transfer of claims as well as entire actions. It reasoned: "It would indeed be a curious result that a district court could transfer an action under § 1631 containing a single claim over which it lacked jurisdiction but could not transfer that claim if the claimant made an additional claim in his action over which the court did have jurisdiction."

• *District courts and circuit precedent.* It is axiomatic that district courts are bound by the rulings of their courts of appeals "no matter how egregiously in error they may feel their own circuit to be." *Nakal v. Personal Probation Officer*, 2012 U.S. Dist. Lexis 14856 (C.D. Calif. Feb. 6, 2012). In the absence of governing authority in its own circuit, a district court should "look to the opinions of other circuits for persuasive guidance, always chary to create a circuit split." *U.S. v. Bryan Co.*, 2012 U.S. Dist. Lexis 78407 (S.D. Miss. June 6, 2012).

What if intracircuit law is in conflict? Some courts invoke the earliest-case rule, which provides that the district court should follow the line of authority within the circuit that contains the earliest decision "because a decision of a prior panel cannot be overturned by a later panel." *Centeno v. NCL (Bahamas) Ltd.*, 2012 U.S. Dist. Lexis 39741 (S.D. Fla. March 21, 2012).

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