So Ordered.

Dated: September 28, 2023

G. Michael Halfenger
Chief United States Bankruptcy Judge

UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF WISCONSIN

In re:

Cornerstone Pavers, LLC, et al.,[1]	Case No. 20-20882-gmh
Debtors.	Chapter 11 Jointly Administered

Cornerstone Pavers, LLC, Plaintiff, v. Zenith Tech, Inc., Defendant.	Adv. Proc. No. 21-02044-gmh

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ORDER ON PAYMENT OF EXPENSES FOR OPPOSING MOTION TO COMPEL

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1. Jointly administered with *In re Burlington Pavers Leasing, LLC*, Case No. 20-20884, and *In re Cornerstone USA, LLC*, Case No. 20-21331.

In December 2022 Cornerstone Pavers, LLC, moved for an order compelling Zenith Tech, Inc., to produce certain communications that Zenith withheld during discovery as protected by the attorney-client privilege, primarily arguing that Zenith waived the privilege by voluntarily disclosing other communications concerning the same subject matter. After those parties had fully briefed their dispute, third-party defendant West Bend Mutual Insurance Co. moved to be heard in support of Cornerstone's motion, adding that Zenith waived the privilege with respect to the withheld communications when it introduced the legal opinion of its general counsel in a declaration filed in opposition to a motion for summary judgment.

The court granted West Bend leave to be heard; reviewed the withheld communications *in camera*; and denied the motion to compel, applying Wisconsin law on the attorney-client privilege and waiver thereof, pursuant to Federal Rule of Evidence 501, made applicable here by Federal Rule of Bankruptcy Procedure 9017. Pursuant to 11 U.S.C. §105(a); the court's inherent authority; and Federal Rule of Civil Procedure 37(a)(5)(B), made applicable here by Bankruptcy Rule 7037, the court ordered Cornerstone, West Bend, and their attorneys to explain why they should not be required to pay Zenith's expenses incurred in opposing the motion. Both Cornerstone and West Bend timely complied with that order.

I

As a preliminary matter, Cornerstone notes in its response that the court should have applied Evidence Rule 502, made applicable here by Bankruptcy Rule 9017, not Wisconsin law, to its motion to compel. Cornerstone is correct, at least to some extent. Evidence Rule 501 generally provides that, "in a civil case, state law governs privilege regarding a claim or defense for which state law supplies the rule of decision." But Evidence Rule 502(f) provides that, "even if state law provides the rule of decision", Rule 502 applies, "notwithstanding Rule 501", when a motion to compel is based on a disclosure in a federal proceeding, as happened here. Thus, to the extent that the motion

to compel was based on Zenith's disclosure of communications in this proceeding, Rule 502 applies, though that is not necessarily the case to the extent that Cornerstone and West Bend sought to compel Zenith's production of privileged communications on other grounds, e.g., because Zenith asserted the privilege with respect to communications that are not protected by the privilege.

Neither Cornerstone nor West Bend seeks reconsideration on these grounds, however, and the outcome is the same under either Evidence Rule 502 or Wisconsin law. Under Rule 502(a), when "a communication or information covered by the attorney-client privilege" is disclosed "in a federal proceeding", and the privilege is thereby waived, "the waiver extends to an undisclosed communication or information" but "only if: (1) the waiver is intentional; (2) the disclosed and undisclosed communications or information concern the same subject matter; and (3) they ought in fairness to be considered together." Wisconsin's relevant statutes say much the same thing. See ECF No. 107, at 3–4 (discussing and applying Wis. Stat. §§905.03(5)(b) & 905.11). Accordingly, though the court referenced the wrong law, it made no difference to the outcome.

II

Turning to the heart of the matter: Civil Rule 37(a)(5)(B) provides that if a party moves for an order compelling discovery and the court denies the motion, then the court "must, after giving an opportunity to be heard, require the movant, the attorney filing the motion, or both to pay the party . . . who opposed the motion its reasonable expenses incurred in opposing the motion, including attorney's fees." This rule is subject to an exception, however: "the court must not order this payment if the motion was substantially justified or other circumstances make an award of expenses unjust." Fed. R. Civ. P. 37(a)(5)(B). The court has afforded both Cornerstone and West Bend the opportunity to be heard, and they have availed themselves of that opportunity. For the reasons set forth below, Cornerstone was substantially justified in seeking an order

compelling Zenith to produce the withheld communications, but West Bend was not. Furthermore, West Bend has not identified any "other circumstances" that make an award of Zenith's expenses incurred in responding to West Bend unjust. *Id.*

Cornerstone's and West Bend's arguments in support of the motion to compel must be understood in the context of this litigation. The claims and counterclaims in this proceeding arise from essentially three documents: a highway-construction contract between Zenith and the Wisconsin Department of Transportation, a related subcontract between Zenith and Cornerstone that Zenith terminated, and a surety bond that Zenith alleges was issued by West Bend to insure the performance of that subcontract. As noted above, Cornerstone's main argument for an order compelling Zenith to produce certain communications withheld during discovery as privileged was based on Zenith's disclosure during discovery of other communications about its decision to terminate Cornerstone's subcontract. West Bend's distinct argument for such an order rested on a declaration of Zenith's counsel describing her reading of some of the bond's terms.

A

The disclosure at the center of Cornerstone's main argument was of one sentence in an email sent by a Zenith employee named Chad Shihata shortly before Zenith terminated the subcontract with Cornerstone. In relevant part, Shihata's email states, "From conversations below, . . . I feel that at this point in the project that it would be unwise to kick [Cornerstone] off and try to completely bring in someone new as there just isnt [sic] enough time." ECF No. 88-3, at 10. The "conversations below" to which this refers include a few emails to and from Cecelia McCormack, an attorney for Zenith, that Zenith redacted, asserting attorney-client privilege. See *id.* at 10–11.

Cornerstone argued that Zenith's voluntary disclosure of Shihata's reference to and apparent description of the emails to and from McCormack that Zenith withheld as privileged waived the privilege with respect to those emails and any other privileged communications concerning the same subject matter (i.e., Zenith's decision to terminate

the subcontract with Cornerstone). The court disagreed, concluding that Shihata's reference to "conversations below", when "[r]ead in context", was an "allusion to communications with counsel", "a mere statement *that* [such] communications occurred, not a disclosure *of* those communications." ECF No. 107, at 4. And even that overstates the matter: the logistical concern that Shihata identified in his relevant email is a material subject of *non*-privileged communications that Zenith disclosed, which were also part of the aforementioned "conversations below", but not of the *privileged* communications that Zenith withheld. See ECF No. 88-3, at 12 ("[I]t's getting late in the game, but if we don't make this move now, we'll wish we had later this fall."); *id.* ("[I]t's my opinion that the project has zero chance of being completed on[ ]time with Cornerstone performing the concrete paving and ancillary work.").

Still, the court rejected Cornerstone's argument only after reviewing the withheld communications *in camera*. As Cornerstone explains, there was no way for it to know, without seeing those communications, whether their subject matter was described in Shihata's email, and it had good reason, based on that email's contents, to think that, by voluntarily disclosing that email, Zenith may have waived the privilege, in whole or at least in part, with respect to the withheld communications. Because Cornerstone had a reasonable basis in law and fact to move for an order compelling Zenith to produce the withheld communications, its motion was substantially justified. See *United States v. Kemper Money Mkt. Fund, Inc.*, 781 F.2d 1268, 1274 & 1278–79 (7th Cir. 1986); see also *Stewart v. Astrue*, 561 F.3d 679, 683 (7th Cir. 2009). The court may not, therefore, order Cornerstone to pay Zenith its expenses incurred in opposing the motion.

B

West Bend lacked a reasonable basis in law and fact for its separate argument in support of an order compelling Zenith to produce privileged communications. As mentioned above, West Bend's argument, independent of Cornerstone's, was based on a declaration that Zenith filed, earlier in this proceeding, in response to West Bend's

filing of a motion for summary judgment against Zenith on its claim against West Bend to recover on a surety bond allegedly issued to insure the performance of Cornerstone's subcontract with Zenith. West Bend's summary-judgment motion and Zenith's opposition to that motion were based in substantial part on the parties' differing interpretations of certain terms of the bond. Among the materials that Zenith filed in response to West Bend's summary-judgment motion is a declaration provided by Cecelia McCormack, one of its attorneys, describing how she read the relevant bond terms when and after she reviewed them in July 2019. See ECF No. 71-2, at 2–3 ("I read Section 3.2 of the Bond to require . . . . I read Section 3.3 of the Bond to require . . . .").

West Bend argued that by "specifically introducing [McCormack's] legal opinion explaining how she read and interpreted West Bend's Bond, Zenith . . . placed the legal opinion of its . . . counsel at issue and waived any privilege in connection[] with the subject." ECF No. 97, at 1–2. In support of this argument, West Bend cited caselaw stating that if "the client relies on [privileged] communications during legal proceedings. . . . the client can be charged with waiving the privilege not only as to the particular communication that was disclosed, but as to all attorney-client communications concerning the same subject matter." *Id.* at 2 (quoting *Milwaukee Elec. Tool Corp. v. Chervon N. Am. Inc.*, No. 14-CV-1289, 2017 WL 2929522, at *1 (E.D. Wis. July 10, 2017)). There is a clear disconnect between West Bend's argument and this caselaw: McCormack's declaration does not mention any *privileged* communications; it describes some *non*-privileged communications—mainly emails and letters that McCormack sent to an attorney representing West Bend after Zenith terminated the subcontract with Cornerstone, see ECF No. 71-2, at 5—and states how McCormack read certain of the

bond's terms. This is not the stuff of waiver.[2] And more to the point, West Bend has not identified any reliance by Zenith on any *privileged* communications in this proceeding.

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2. McCormack's testimony by declaration as to her reading of the relevant bond terms may have been inadmissible, had anyone objected to it. *Jimenez v. City of Chicago*, 732 F.3d 710, 721 (7th Cir. 2013) ("As a general rule, . . . an expert may not offer legal opinions."). No one did, so that testimony was merely superfluous, at least to the extent that it represents McCormack's opinions about how the bond's terms should be construed. "Ordinarily, '[i]nterpretation of an insurance contract presents a question of law.'" ECF No. 82, at 3 (quoting *SECURA Ins. v. Lyme St. Croix Forest Co., LLC*, 918 N.W.2d 885, 889 (Wis. 2018)). And it is for the court to resolve questions of law. Cf. *Jimenez*, 732 F.3d at 721 ("It is the role of the judge, not an expert witness, to instruct the jury on the applicable principles of law . . . .").

McCormack's testimony by declaration also has no clear bearing on any possible factual issues that may arise with respect to construction of the bond's terms. "Under Wisconsin law, 'interpretation of a contract—insurance or otherwise—creates a question of fact for the jury *only* when extrinsic evidence illuminates the parties' understandings at the time they entered into the agreement.'" ECF No. 82, at 4 (quoting *Fontana Builders, Inc. v. Assurance Co. of Am.*, 882 N.W.2d 398, 411 (Wis. 2016)). McCormack's declaration describes her reading of the bond's terms as of no earlier than July 2019, months after the bond was issued, in December 2018. ECF No. 71-2, at 2 ("At about the time Zenith . . . was terminating Cornerstone, July 22, 2019, I reviewed the . . . Bond . . . ."); ECF No. 71-11, at 1. In fact, McCormack's declaration may, at least in part, describe her reading of the bond's terms more than two *years* after the bond was issued—i.e., as of March 3, 2022, when she executed the declaration—because her repeated use of "I read" in her declaration renders many of its statements ambiguous as to whether they are in the past or present tense, even when taken in context. See ECF No. 71-2, at 2–4. But see ECF No. 104, at 11 (asserting that "paragraphs 5-8" of McCormack's declaration describe "her reading of the West Bend bond and, thereafter, how she interpreted the same and exchanged emails with West Bend's Claims Representative"). Aside from this, the bond was issued by West Bend to Cornerstone without any discernable involvement by McCormack or anyone else at Zenith, so McCormack's testimony about how she read the bond's terms, whenever she read them, has no discernable relevance to how the parties understood the bond's terms when it was issued. See ECF No. 55-8, at 3–4 (describing the process by which Cornerstone applied for and West Bend issued the bond).

Moreover, in opposing West Bend's motion for summary judgment, Zenith did not rely on McCormack's declaration testimony about how she read the bond's relevant terms. Zenith instead cited the bond itself when presenting its views as to the proper construction of those terms. See, e.g., ECF No. 71, at 6 (citing McCormack's declaration for factual testimony about whether Zenith gave West Bend notice under section 3.1 of the bond and when Zenith terminated the subcontract with Cornerstone); *id.* (quoting ECF No. 71-11, at 2) (explaining Zenith's view that it complied with section 3.2 of the bond).

Finally, if Zenith *had* relied on McCormack's declaration testimony about her reading of the bond's terms, even *that* would not have waived the attorney-client privilege as to her confidential communications with her client. Because an attorney's non-confidential statements to non-clients are not privileged, a client's use of such statements in litigation is generally not a waiver of communications to which the privilege applies. See *Milwaukee Elec. Tool Corp.*, No. 14-CV-1289, 2017 WL 2929522, at *1 (describing subject-matter waiver of the attorney-client privilege due to the client's reliance on *privileged communications* during a legal proceeding); see also *United States v. Snyder*, 71 F.4th 555, 566 (7th Cir. 2023) (first citing *Lange v. Young*, 869 F.2d 1008, 1012 n.2 (7th Cir. 1989); and then citing *United States v. BDO Seidman, LLP*, 492 F.3d 806, 815 (7th Cir. 2007)) ("The attorney-client privilege . . . . protect[s] confidential

West Bend now posits that its position was substantially justified because Zenith may rely on the advice of counsel to defend its termination of the allegedly bonded subcontract with Cornerstone. See ECF No. 112, at 8–10. Again, though, West Bend cites caselaw for a rule that does not align with its argument: "[a] defendant may . . . waive the privilege by asserting reliance on the advice of counsel *as an affirmative defense*." *Id.* at 9 (emphasis added) (quoting *Rhone-Poulenc Rorer Inc. v. Home Indem. Co.*, 32 F.3d 851, 863 (3d Cir. 1994)). Zenith did not plead advice of counsel as an affirmative defense to any of the claims asserted against it in this proceeding. ECF No. 18, at 9 (stating Zenith's affirmative defenses).[3] Moreover, West Bend did not make this argument in seeking an order compelling Zenith to produce the communications Zenith withheld as privileged, so West Bend cannot justify that effort by making this argument now.

West Bend also argues that, reading through the disclosed non-privileged communications at issue on Cornerstone's motion to compel, Zenith's Chad Shihata seems to change his mind about the logistical feasibility of terminating the subcontract with Cornerstone and that "[t]he change in . . . Shihata's view . . . is apparently based upon the advice of counsel", provided by McCormack in the communications that Zenith withheld as privileged. See ECF No. 112, at 9. West Bend does not, however,

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communications between attorney and client made for the purpose of seeking or providing legal advice.").

3. Perhaps Zenith *could have* asserted an affirmative defense of advice of counsel in this proceeding. The defense is ordinarily raised "where a party is accused of acting willfully" and "asserts as an essential element of its defense that it relied upon the advice of counsel". See *Rhone-Poulenc Rorer Inc.*, 32 F.3d at 863 (first citing *Mellon v. Beecham Grp. PLC*, No. 86-2179, 1991 WL 16494 (D.N.J. Jan. 3, 1991); and then citing *W.L. Gore & Assocs., Inc. v. Tetratec Corp.*, No. 89-3995, 1989 WL 144178 (E.D. Pa. Nov. 28, 1989)) (explaining that, "in a patent suit, where an infringer is alleged to have acted willfully, the advice of the infringer's lawyer may be relevant to the question of whether the infringer acted with a willful state of mind"). One of Cornerstone's claims is based on Zenith's alleged breach of the duty of good faith and fair dealing, implicit in every contract governed by Wisconsin law. See *Beidel v. Sideline Software, Inc.*, 842 N.W.2d 240, 250 (Wis. 2013). Some jurisdictions recognize advice of counsel as a defense to such a claim. See, e.g., *Towers Ins. Co. of N.Y. v. Capurro Enters. Inc.*, No. C 11-03806, 2012 WL 3791410, at *7–9 (N.D. Cal. Aug. 31, 2012) (applying California law). Whether Wisconsin is among them is not clear, but no matter: West Bend does not address that issue, and, again, Zenith did not plead and has not otherwise asserted advice of counsel as an affirmative defense.

explain why that matters. The effectiveness of an attorney's confidential legal advice to a client does not ordinarily affect whether their communication is or remains protected by the attorney-client privilege. Indeed, it is hard to imagine how the privilege would ever apply if any suggestion that an attorney may have succeeded in swaying a client by providing legal advice was sufficient to render their communication unprotected by the privilege. West Bend (and Cornerstone) may *want* a full picture of Zenith's decision-making process with respect to its termination of the subcontract at issue, but they are not *entitled* to that, at least to the extent that it includes privileged communications.

As the caselaw that West Bend relies upon clearly states, the advice of counsel "is not in issue", such that the privilege is waived, "merely because it is relevant, and does not necessarily become in issue merely because the attorney's advice might affect the client's state of mind in a relevant manner." *Rhone-Poulenc Rorer Inc.*, 32 F.3d at 863. Rather, "[t]he advice of counsel is placed in issue where the client . . . attempts to prove [a] claim or defense by disclosing or describing an attorney client communication." *Id.* (first citing *N. River Ins. Co. v. Phila. Reinsurance Corp.*, 797 F. Supp. 363, 370 (D.N.J. 1992); and then citing *Pittston Co. v. Allianz Ins. Co.*, 143 F.R.D. 66, 71 (D.N.J. 1992)). Zenith has not disclosed or described any privileged communications in an attempt to prove any claim or defense (or for any other reason), so its counsel's advice is not in issue, and West Bend has not put forth any reasonable basis in law or fact for concluding otherwise.

Finally, West Bend argues that Civil Rule 37(a)(5)(B) does not permit (much less require) the court to order it to pay any of Zenith's expenses because Cornerstone, not West Bend, was "the movant" with respect to the motion to compel Zenith's production of privileged communications. This argument impermissibly elevates form over substance. True, West Bend nominally moved merely "to be heard" on Cornerstone's motion. And had West Bend merely offered its support for that motion, perhaps it could now argue that it was not "the movant". But West Bend introduced its own

distinct rationale for an order compelling Zenith's production of privileged communications, and that rationale was, at best, only tangentially related to Cornerstone's arguments for such an order. As a result, the court required Zenith to file a sur-reply to Cornerstone's reply in support of its motion *combined with* a "response to West Bend's request to be heard", specifically requiring that Zenith "address[] . . . the factual and legal bases for its claim of privilege over each document withheld on that ground". ECF No. 99, at 3. Understandably, Zenith opted to respond to West Bend's argument, rather than to merely oppose its request "to be heard", and reasonably incurred expenses in doing so. See ECF No. 104, at 11–12.

West Bend would hardly have been satisfied if the court, having granted West Bend's motion "to be heard" on Cornerstone's motion for an order compelling Zenith's production of privileged communications, had not considered whether West Bend's independent argument for such an order was meritorious, reasoning that West Bend only wanted to say something and have the court hear it, but not act on it. However West Bend stylized its motion, it was, in any reasonable sense, a movant seeking an order compelling another party to produce privileged materials.

Indeed, to the extent it raised a waiver rationale distinct from Cornerstone's, West Bend's motion "to be heard" was markedly attenuated from Cornerstone's motion to compel. West Bend argued for waiver of the privilege with respect to a "subject" (the meaning of the bond's relevant terms) that was completely different from the "subject matter" as to which Cornerstone asserted waiver of the privilege (Zenith's decision to terminate the subcontract with Cornerstone). Compare ECF No. 88, at 3–6, with ECF No. 97, at 1–2. And nothing in the disclosed communications on which Cornerstone based its motion suggests that any of the withheld communications that it sought to compel Zenith to produce say anything about the bond or how McCormack (or anyone else) understood its terms. This all suggests that West Bend was not asking merely "to be heard" on Cornerstone's motion to compel but was instead trying to bootstrap its

own such motion onto Cornerstone's largely unrelated one. West Bend cannot, now that the court has rejected its argument, assert otherwise to avoid the repercussions for this.

III

For the reasons above, IT IS ORDERED that Cornerstone is not required to pay Zenith's expenses incurred in responding to Cornerstone's motion to compel Zenith's production of communications withheld as privileged.

IT IS FURTHER ORDERED that West Bend—or William Piper, the attorney who filed West Bend's motion to be heard—must pay Zenith its expenses reasonably incurred in responding to West Bend's separate argument for an order compelling Zenith to produce communications withheld as privileged, subject to the following:

- By no later than **14 days** after the date on which this order is entered, Zenith must file a statement of any such expenses.
- If Zenith fails to timely file such a statement, it forfeits the right to recover any such expenses and the court will take no further action on the matter.
- If Zenith timely files such a statement, then by no later than **7 days** after the statement is filed, West Bend must file any objections to the statement.
- If West Bend fails to timely object to Zenith's statement, West Bend forfeits the right to object and the court may order West Bend to pay Zenith its stated expenses without further notice or opportunity for a hearing.
- If West Bend timely objects to Zenith's statement, the court may order further proceedings, schedule a hearing, or rule on each objection and order West Bend to pay Zenith's stated expenses—in whole or in part, as appropriate given the court's ruling on each of West Bend's objections—without further notice or opportunity for a hearing.

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