Clients&FriendsMemo

Tempting Fate: Two Recent Federal Decisions Apply Fairness Test to Protect Attorney-Client Privilege in Face of Extrajudicial Disclosures

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On February 25 and March 26, 2013, two federal district courts refused to find a broad waiver of the attorney-client privilege in the face of extrajudicial disclosures of privileged communications. In both decisions, the courts reasoned that extrajudicial disclosures of privileged communications should result in a waiver of the attorney-client privilege only where fairness compels such a result. A fairness inquiry, however, is highly fact-specific and subjective, and there is no guarantee that a court will find an absence of waiver. (In each case, the courts ultimately concluded that fairness did not warrant a waiver beyond the materials that actually were disclosed because they were not offered in the underlying actions.) The lesson learned, of course, is that companies should avoid the issue altogether by guarding against extrajudicial, or other, disclosures of their privileged communications in the first instance.

A. Two Recent Federal Decisions Apply Fairness Test To Protect Privilege

1. *LG Electronics*

On February 25, 2013, in Wi-LAN, Inc. v. LG Electronics, Inc.,[1] a federal district court in the Northern District of California granted a motion to quash LG Electronics' ("**LG**") subpoena seeking materials related to a letter Wi-LAN received from its outside counsel concerning its patent rights (the "**Letter**") against LG Electronics and which Wi-LAN deliberately transmitted to LG during the licensing negotiations which preceded the initiation of litigation.

Wi-LAN had filed a patent infringement suit in the Southern District of New York claiming, among other things, that LG owed it royalties in connection with a Wi-LAN patent. Before Wi-LAN filed suit against LG, Wi-LAN's general counsel received the Letter from Wi-LAN's outside counsel (which also was Wi-LAN's litigation counsel). The Letter, addressed only to Wi-LAN's general counsel, was marked "CONFIDENTIAL" on every page, and contained an analysis of the relevant patent and other information related to Wi-LAN's patent assertion. In an attempt to convince SG to

[1] Wi-LAN, Inc. v. LG Electronics, Inc., Case No. C 10-80254 JF (PSG) (N.D. Cal. Feb. 25, 2013).

pay Wi-LAN royalties, Wi-LAN's general counsel emailed the Letter to LG without placing any qualifications on its use.

The Letter failed to convince LG of Wi-LAN's position. Accordingly, Wi-LAN filed its patent infringement suit in the Southern District of New York. Shortly before the close of discovery, LG served a subpoena on Wi-LAN's counsel in the Northern District of California for documents and testimony relating to the subject matter of the Letter, and Wi-LAN moved to quash. The district court initially found that Wi-LAN had waived privilege with respect to the Letter, denied Wi-LAN's motion to quash the subpoena, and eventually held Wi-LAN's attorneys in contempt for failing to comply with the subpoena. Wi-LAN appealed to the Federal Circuit.

Addressing the law in the Ninth Circuit, and relying, in part, on the Second Circuit's reasoning in Auersperg ex rel. von Bulow v. von Bulow (In re von Bulow), 828 F.2d 94 (2d Cir. 1987),[2] the Federal Circuit vacated the district court's order. The Federal Circuit found that the "district court erred by rejecting considerations of fairness – i.e., whether LG would be unfairly prejudiced by Wi-LAN's assertion of privilege against discovery into attorney-client communications beyond the four corners" of the Letter.[3]

On remand, the district court applied the fairness test and granted Wi-LAN's motion to quash, ruling that Wi-LAN's waiver of the attorney-client privilege was limited only to the Letter itself. The court reasoned that LG would not be unfairly prejudiced for several reasons, including that: (a) Wi-LAN had never used, and never would use, the Letter in the underlying action; (b) Wi-LAN sent LG the Letter before the underlying action was filed; (c) LG had already prevailed on summary judgment of non-infringement on the merits in the underlying action; and (d) LG could still use the Letter itself to the extent still relevant to any remaining proceedings.

2. *Wal-Mart Stores*

Addressing a similar issue on March 26, 2013, the court in Betty Dukes v. Wal-Mart Stores, Inc.,[4] found that Wal-Mart's comments to the New York Times concerning a privileged legal memorandum (the "**Memorandum**") did not waive Wal-Mart's attorney-client privilege pertaining to

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[2] In re von Bulow involved the acquittal of Claus von Bulow and subsequent publication by Alan Dershowitz, von Bulow's attorney, of the well-known book Reversal of Fortune. With Mr. von Bulow's permission, the book recounted portions of conversations between von Bulow and Dershowitz concerning the criminal proceedings. In subsequent civil litigation there was an attempt to discover the undisclosed portions of each conversation, on the theory that any privilege had been waived. The Second Circuit declined to extend such a waiver, holding that Mr. von Bulow's express extrajudicial waiver of his privilege (i.e., his consent to publication of the book) had not prejudiced his opponent, and that there was therefore "no reason in logic or equity to broaden the waiver beyond those matters actually revealed." In re von Bulow, 828 F.2d at 103.

[3] Wi-LAN, Inc. v. LG Electronics, Inc., 684 F.3d 1364, 1373 (2012).

[4] Betty Dukes v. Wal-Mart Stores, Inc., Case No. 01-cv-2252 CRB (JSC) (March 23, 2013).

that Memorandum. The Memorandum was discussed in a 2010 New York Times article, and concerned alleged gender disparities in pay and promotion at Wal-Mart – the same issues involved in the litigation. The New York Times article quoted a Wal-Mart spokesperson who, among other things, criticized the methodology used to reach conclusions set forth in the Memorandum and noted that the Memorandum still did not find significant disparities between the hourly wages of men and women. The court noted that when Wal-Mart made these statements to the New York Times, "Wal-Mart intentionally disclosed privileged information."

In light of these deliberate statements, the plaintiff argued that "Wal-Mart's voluntary decision to comment on 'the substance and merits of the Memo in The New York Times,' waived the privilege as to the entire Memo." The court disagreed, explaining "that fairness must be the touchstone in determining whether Wal-Mart's disclosure of certain findings in the Memo compels the disclosure of the entire Memo." Then, just like the court in LG Electronics, the court looked to the Second Circuit's decision in In re von Bulow and found "no unfairness to Plaintiffs" because Wal-Mart did not attempt "to use any portions of the Memo in this litigation" and because disclosures "made in public rather than in court – even if selective – create no risk of legal prejudice until put at issue in the litigation by the privilege holder."

B. Companies Should Guard Against Extrajudicial, And Other, Disclosures Of Privileged Communications

As the above decisions make clear, a fairness inquiry is highly fact-specific and subjective and there is no guarantee that a court will find an absence of waiver. In fact, other federal courts have found that a party did waive its attorney-client privilege because of an extrajudicial disclosure of privileged communications.

For instance, in In re OM Group Securities Litigation,[5] a plaintiff shareholder sued defendant corporation in a shareholder action. The defendant corporation's audit committee conducted an investigation of the defendant. The audit committee's counsel, and a forensic accounting firm hired by counsel, gave a PowerPoint presentation to the corporation's full board of directors regarding the findings of the ongoing investigation. After providing plaintiff with the PowerPoint presentation itself, along with two spreadsheets regarding the investigation, defendant refused to provide any of the requested underlying documents.

Accordingly, the plaintiff shareholder filed a motion to compel production of documents underlying the presentation arguing that the defendants waived any privilege over the documents containing the same subject matter as the presentation. The defendants argued that the scope of any waiver should be narrowly construed because they would not gain an unfair tactical advantage by the

[5] In re OM Group Securities Litigation, 226 F.R.D. 579 (N.D. Ohio 2005).

PowerPoint presentation and the two spreadsheets. The court ordered the production of the underlying documents, finding they were within the scope and subject matter of the audit committee's intentional disclosure and reasoning that "[d]efendants attempt to restrict application of the fairness doctrine solely to whether they would gain a tactical advantage in litigation by not disclosing the underlying documents. The Court does not interpret the fairness doctrine so narrowly. The Court must consider not only whether there is a tactical benefit but whether it is fair to uphold the privilege considering the nature of the disclosure."[6]

Considering the uncertainty of whether a court will limit waiver of privilege after conducting a fairness investigation when faced with the extrajudicial disclosure of protected communications, companies should seek to avoid the issue altogether. Every effort should be made to protect privileged communications and, to the extent an extrajudicial disclosure is considered, careful thought should be given to the effects of such disclosure in future proceedings.

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[6] OM Group, 226 F.R.D. at 593 (but declining to find a waiver as to investigation materials created for the audit committee after the presentation to the full board, but not shared with the full board). Other courts have also found subject matter waivers of the attorney-client privilege because of extrajudicial disclosures of privileged communications. See, e.g., Flagstar Bank, FSB v. Freestar Bank, N.A., No. 09 C 1941, 2009 WL 2706965 (N.D. Ill. Aug. 25, 2009) (finding subject matter waiver where the defendant's president sent a letter authored by defendant's counsel to an employee of a company the defendant hired for marketing services, but not clearly applying fairness test); Smith v. Alyeska Pipeline Service Co., 538 F. Supp. 977, 982 (D. Del. 1982) (finding that the plaintiff had waived the privilege when plaintiff's attorney, acting on behalf of plaintiff, sent an opinion letter to the defendant concerning the same subject matter as that contained in other privileged documents, but not clearly applying fairness test).