WILMERHALE

Privilege Standing Committee Update

2007-01-04

- Privileged documents obtained by a party outside of discovery and without wrongdoing are not the proper subject of a protective order and may be used by the acquiring party.
- District Court, declining to apply *EchoStar*, orders production of attorney work product not communicated to client.
- Privileged documents produced to opposing counsel are discoverable because disclosure was deemed voluntary and failure to compile and produce a privilege log constitutes waiver of privilege.
- Practice Tip

Privileged documents obtained by a party outside of discovery and without wrongdoing are not the proper subject of a protective order and may be used by the acquiring party.

A defendant may use an otherwise privileged document, so long as the defendant did not participate in wrongfully obtaining it, according to the Southern District of New York. *Shanahan v. Vallat*, 2006 U.S. Dist. LEXIS 83221 (S.D.N.Y. Nov. 15, 2006). Non-party Phoenix Telecommunications, Ltd. ("Phoenix") moved to intervene and for a protective order prohibiting certain defendants ("Defendants") from using or disclosing the contents of a privileged document belonging to Phoenix and outlining potential future litigation against them. *Id*. at *1-2. Co-defendant, Maurice Vallat, obtained the document during his tenure as Chairman of Phoenix. *Id*. at *2-3. Following his termination, Vallat consented to Defendants' search of his effects and Defendants obtained the document. *Id*. After the court granted Phoenix's motion to intervene, Phoenix moved for a protective order pursuant to Fed .R. Civ. P. Rule 26. *Id*.

After the court initially ruled that a Rule 26 protective order is not appropriate for documents obtained outside of the discovery process, Phoenix amended its motion, citing (1) the court's inherent equitable powers, and (2) cases where disclosure or use of privileged information has been restricted when a party obtained the information wrongfully. *Id*. at *4-5. The court denied Phoenix's motion. *Id*. at *5. As the court explained, whether or not Vallat acted improperly in allowing Defendants access to the document, Phoenix had not demonstrated that Defendants themselves did anything wrong. *Id*. Rather, the movant must show that the party seeking to use the privileged document "improperly induced the attorney to provide the information" or otherwise acted improperly in the course of obtaining it. *Id*. at *5-6.

The court noted that the result might be different had Defendants sought to use privileged documents, "innocently obtained outside of discovery, in litigation *against the holder of the privilege*." *Id*. at *7 (emphasis in original). However, since Phoenix, the holder of the privilege, was not a party to the action, "whether the Document is covered by the privilege is irrelevant absent a showing of wrongdoing by . . . Defendants." *Id*.

District Court, declining to apply *EchoStar*, orders production of attorney work product not communicated to client.

A defendant who asserts advice of counsel as a defense to willful trade dress infringement must produce work product never communicated to the client. *Adidas America, Inc. v. Payless Shoesource, Inc.*, 2006 U.S. Dist. LEXIS 79154 (D. Or. Oct. 19, 2006). In an opinion rejecting application of the Federal Circuit's decision in *In re EchoStar Communications Corp.*, 448 F.3d 1294 (Fed. Cir. 2006), the district court held that 9th Circuit case law was not affected by *EchoStar*, and that attorney work product never communicated to the client should be produced to permit the plaintiff to evaluate the reasonableness of defendant's alleged reliance on advice of counsel. *Adidas*, 2006 LEXIS 79153, at *3.

In 2001, Adidas brought suit against Payless for willful infringement of its "Three-Stripe" trade dress, among other distinctive marks. *Id.* at *1. Payless asserted advice of counsel as a defense to willfulness, and, in doing so, voluntarily waived attorney-client privilege and work product protection for certain documents. *Id.* Payless acknowledged the general waiver, but moved for a protective order to prevent discovery of a class of documents that had been prepared by counsel *but not shared* with Payless. *Id.* The court denied the motion and ordered production of the documents in question. This ruling, along with all document production, was subsequently stayed pending the resolution of an unrelated interlocutory appeal. *Id.* at *2.

In 2006, just months after the Federal Circuit issued its opinion in *EchoStar* (holding that work product never communicated to a client retains its protected status, even when defendant asserts an advice of counsel defense), the interlocutory appeal was resolved and the infringement case was returned to the trial court. Payless then moved for modification of the court's prior order requiring production of undisclosed attorney work product, relying on *EchoStar*. *Id.*

The court stated that the Federal Circuit's opinion was not binding on it, and cited district court decisions in the 9th Circuit that found such material to be discoverable and highly relevant. *Id.* The court expressed concern that if "discovery of 'uncommunicated' materials [is] not allowed, accused infringers could easily and unfairly shield themselves from discovery of unfavorable advice by simply asking their counsel not to send it." *Id.* at *3. The court also noted that it was troubled by Payless's "repeated non-compliance with this court's previous orders based simply on the fortuitous timing of a favorable, but non-binding opinion." *Id.*

Privileged documents produced to opposing counsel are discoverable because disclosure was deemed voluntary and failure to compile and produce a privilege log constitutes waiver of privilege.

A federal district court has held that a party may retain otherwise privileged documents that the opposing party claimed to have produced inadvertently because (1) the defendant's conduct demonstrates that the disclosure was voluntary, not inadvertent; (2) even if the disclosure was inadvertent, privilege was waived by defendant's failure to properly redress disclosure; and, (3) defendant's failure to keep and maintain a privilege log during document production constituted a waiver of privilege and work product protection. *Wunderlich-Malec Systems, Inc. v. Eisenmann Corp.*, 2006 U.S. Dist. LEXIS 84889 (N.D. Ill. Nov. 17, 2006).

Eisenmann Corporation ("Eisenmann") made thirty binders of documents available to plaintiff, Wunderlich-Malec ("W-M"). *Id.* at *2. Four of the thirty binders had been identified by Eisenmann's counsel as containing privileged attorney-client communications and work product and had been removed from the production, but due to disorganization at Eisenmann's headquarters, they were reincorporated and made available to plaintiff. *Id.*

Eisenmann did not realize that it had produced the privileged documents until five weeks after W-M had viewed and duplicated the binders in question. At that point, it made several intermittent requests to W-M (initially for 17 pages, then for 146 pages, and finally for 129 pages) seeking return of some of the "inadvertently" produced documents. *Id.* W-M then filed a motion for a ruling that Eisenmann had waived privilege as to documents in the four binders. In responding to the motion, Eisenmann attached as an exhibit, its first privilege log. *Id.* at *3. W-M further argued that regardless of whether Eisenmann waived privilege through the inadvertent production, it did so by failing to compile and submit a privilege log. *Id.* at *6-8.

The court first turned to the question of whether the production of the four binders was inadvertent or voluntary. It assumed that the claimed documents were privileged, but concluded that even if defendant had not *intended* to disclose the documents, it did so little to prevent the disclosure that the production was, for all intents and purposes, voluntary. *Id.* at *4-5.

The court also found that even if Eisenmann's disclosure was inadvertent, it had waived the privilege because: (1) Eisenmann had taken inadequate precautions to prevent inadvertent disclosure; (2) it had been tardy and inconsistent in attempting to rectify the error; (3) the scope of the discovery was not so extensive so as to make the disclosure of the privileged documents reasonable; (4) the extent of the "inadvertent" disclosure was sizable in comparison to the total documents produced to plaintiff; and, (5) Eisenmann did not demonstrate that fairness required the exclusion of the documents—there was nothing so damaging in the disclosures that Eisenmann would be unduly prejudiced. *Id.* at *5-6. Additionally, the court found that Eisenmann's failure to produce a privilege log prior to responding to the plaintiff's motion resulted in a waiver of privilege, independent of the inadvertent disclosure. *Id.* at *7-8.

Practice Tip

Before engaging in otherwise privileged communication with clients via email, it is important to determine whether a third party has access to, or the ability to read, the client's inbound or outbound email messages. Recent

district court decisions indicate that when an employee—relevant to our practice, is the case when an employee is also a client—has been made aware that his or her employer can view email correspondence (even if the correspondence is conducted via a personal, password-protected email account), the correspondence may not be confidential and the privilege does not attach.

Attorney-client privilege might be similarly undermined if counsel is conducting email correspondence with a client whose email account is shared (e.g., with a spouse or mail sent to a general department-wide inbox). Inquiring as to whether a client's employer has distributed a policy on email confidentiality, or has otherwise communicated to the client that email communications can be monitored, can help ensure that privileged attorney-client discussion retains the protection of a confidence.