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Efficient Practice or Malpractice: Disclosing Privileged Information

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You've been worried since the phone call last week. Management was pressing the general counsel to do everything possible to head off a formal SEC investigation. The general counsel stated he wanted to send the SEC the report of your law firm's investigation of the company's conduct. You both knew that investigation was confidential work product written to provide a candid assessment and advice to the company. It wouldn't look good in front of a jury in the pending class action. How could the general counsel expect you to find a way to disclose a confidential document without waiving the privilege?

Your advice now to the general counsel is not what he wants to hear, but you feel you must advise him to preserve the privilege. After an uncomfortably long pause, the general counsel responds, "John, I'm disappointed in you. It seems to me we ought to at least consider what I heard Columbia/HCA's legal department had done. I understand their outside counsel got the SEC to agree that disclosure would not waive any privileges. Why can't you do that?"

You quickly need some answers: What are the pros and cons of limited production of arguably privileged information even if it is subject to a protective order or stipulation to preserve the privilege? Would such a protective order be legally effective to preserve the privilege? In the absence of a protective order, would either a stipulation or a reservation of privilege rights suffice?

While courts commonly enter protective orders to allow limited disclosure of trade secrets while preserving confidentiality, such orders can also be applied to preserve the attorney client and work product privileges. Such limited disclosures of privileged information may be beneficial or even mandatory in cases involving coverage and indemnity issues, advice of counsel defenses, attorney fee disputes, and other conduct of attorneys, such as patent cases. Limited disclosure may also be beneficial in defending regulatory agency investigations and in some multi-jurisdictional disputes. In other cases, limited disclosure may be tactically advantageous or simply a cost-savings measure.

The Ninth Circuit has upheld the entry and presumably the legal effectiveness of a protective order preserving the attorney client communication privilege following a limited disclosure. Nonetheless, the brevity of the court's analysis and the unusual procedural posture of the case indicates that caution should be exercised in relying on it. Presumably, its rationale would apply with equal or even greater acceptance to the work product privilege. Few other courts have addressed the issue. There does not appear to be any precedent from the California State courts.

In a few cases, limited disclosure, even in the absence of a protective order, has not been found to result in a complete waiver of privilege. In these cases, the disclosing party entered into a stipulation preserving privilege or unilaterally reserved privilege claims. However, the overwhelming majority view is that such stipulations and reservations are not legally effective — the confidentiality of any documents would be irretrievably lost due to even a limited disclosure.

Why Disclose Confidential Attorney-Client Communications?

In a host of circumstances disclosure of privileged information may be beneficial, cost effective, or both. Some disclosure is likely to be beneficial or mandatory in matters in which the conduct of counsel has been placed in issue. For example, in coverage litigation, the insured may be required to establish the reasonableness of the insured's settlement of an underlying case. Insureds in such cases have been required to disclose work product and attorney client communications. See, *Conoco, Inc. v. U. S. Boh Brothers Construction Co.*, 191 F.R.D. 107 (W.D. La. 1998). Even where limited disclosure is not

mandatory, the insured may determine that it is beneficial to do so or appropriate to satisfy its duty of cooperation with its insurer. See, e.g., *North River Ins. Co. v. Columbia Cas. Co.*, 1995 U. S. Dist. Lexis 53 (S.D.N.Y.) (Insured's limited disclosure to an apparently friendly carrier later held to have been a complete waiver allowing a hostile carrier access to the previously privileged matter. No protective order, stipulation or reservation employed.) Limited disclosure may also be mandatory or beneficial in cases involving legal malpractice issues, attorney fee issues and advice of counsel defenses. Various pre-litigation circumstances may lead to a decision that limited disclosure is beneficial to avert an SEC, Department of Labor, or other agency investigation. In multi-jurisdictional disputes, limited disclosure in one forum may be beneficial in averting a decision on privilege in that forum that could have adverse collateral estoppel effects on cases elsewhere. In all cases, there is the potential economy of avoiding the cost of privilege logging, of suspending depositions pending resolution of privilege issues, and of potential follow-on motion practice.

Could a Protective Order Effectively Preserve Privilege Claims?

Two cases within the Ninth Circuit have upheld the effectiveness of a protective order in preserving privilege while permitting limited, voluntary disclosure. The Ninth Circuit upheld the effectiveness of a protective order in *McDowell v. Calderon*, 197 F. 3d 1253, 1255-56 (9th Cir., 1999) cert. denied 68 U.S.L.W. 3656, 120 S. Ct. 1708 (2000). The Court held that the Federal Rules of Civil Procedure gave a District Court in a habeas corpus proceeding the authority to enter an order that attorney client privileged documents disclosed to the prosecution could be used only in the habeas proceeding and would continue to be privileged and confidential for other matters. In the District Court habeas proceeding, McDowell challenged his conviction claiming ineffective assistance of counsel in his underlying murder trial. Accordingly, he placed his own attorney client communications in issue. The California Attorney General moved to vacate the protective order on the basis that "federal law does not provide for partial waivers of attorney client privilege." The District Court denied the motion to vacate and a subsequent motion for reconsideration; both orders were upheld by the Ninth Circuit at page 1255:

"It is debatable whether the district court can so limit the Attorney General's use of the documents from McDowell's trial counsel's file. The question being a debatable one, the District Court did not commit clear error when it limited access to the file pursuant to the terms of the protective order. District courts have very broad discretion in fashioning discovery orders under Fed. R. Civ. P 26(c), and the protective order did not fall clearly outside the bounds of the authority."

The unusual procedural posture of *McDowell* may limit its application but should not undermine its rationale. Even though the Federal Rules of Civil Procedure do not expressly apply in habeas proceedings, the federal courts are empowered to draw on them as examples in habeas cases. *Harris v. Nelson*, 394 U.S. 286, 89 S. Ct. 1082, 1091 (1969). In any event, the Ninth Circuit's ruling on the extent of the District Court's powers under Rule 26(c) should be binding precedent in civil cases. In addition, the District Court may have been particularly inclined to issue a protective order by the circumstances in *McDowell* — a death penalty defendant forced to disclose attorney-client communications if he is to be able to assert his ineffective assistance of counsel defense. In less compelling circumstances, a trial judge may be less willing to enter a *McDowell* type protective order. Nonetheless, should the trial judge be persuaded good cause exists for issuance of a protective order, it would appear to be enforceable within the Ninth Circuit.

Although the Ninth Circuit did not address work product privilege, the Court's rationale would certainly appear to extend to work product. If anything, a district court's ability to limit or regulate work product discovery is even less debatable than its ability to regulate attorney-client communication privilege. Other courts addressing limited disclosures have been less protective of the attorney-client privilege and more willing to find a waiver of it than of the work product privilege, provided the claimed work product is truly work product. See, e.g., *Weil v. Investment/Indicators, Research & Management*, 647 F. 2d 18, 23 (9th Cir. 1981) (attorney-client privilege "narrowly construed"); and *Dunhall Pharms., Inc. v. Discus Dental, Inc.*, 994 F. Supp. 1202, 1206 (C.D. Cal. 1998)(finding scope of waiver of work product narrower than waiver of attorney-client communication privilege).

In a second recent case in the Ninth Circuit, the Southern District of California entered a protective order allowing limited disclosure without a general waiver of privilege. *Playboy Enterprises, Inc. v. Welles*, 60 F. Supp. 2d 1050, 1054-55 (S.D. Cal. 1999). The protective order provided that disclosure for discovery purposes of claimed privileged documents to an outside computer consultant, acting ostensibly as an officer of the court, would not constitute a waiver of applicable privileges.

It may be appropriate to consider the identity of any other jurisdictions that may be called on to enforce a protective order. While there does not appear to be any precedent from the California State courts or other federal circuit courts contrary to McDowell, dicta in at least one decision is contrary. The Bankruptcy Court for the Northern District of Oklahoma stated that selective waiver of the attorney-client and work product privileges could not be provided for in a protective order even though that court ordered that disclosure of certain privileged documents would not waive privilege as to any other documents. In *re Commercial Financial Services*, 247 B. R. 828 (N.D. Okla. 2000). This dicta raises a question yet to be decided: Will a court, such as the Financial Services court, enforce a McDowell type order based on res judicata principles, even though that court would be unwilling to enter such an order?

The few reported cases to date do not provide guidance on the effectiveness of blanket protective orders to preserve work product and attorney client communication privileges. In general, blanket protective orders have been permitted by the Ninth Circuit. *San Jose Mercury News, Inc. v. U.S. Dist Ct. — Northern Dist.*, 187 F. 3d 1096, 1103 (9th Cir. 1999). They may not be available under any circumstances in the California state courts, depending upon the trial court's interpretation of *Stadish v. Superior Ct.*, 71 Cal. App. 4th 1130 (1999) (blanket protective order voided as an impermissible delegation of judicial powers in allowing parties to designate matters confidential without express provision for subsequent judicial review); see also *Los Angeles Superior Court, Local Rule 7.19* (protective orders only to be entered on a "document-by-document" basis), cf. *Stadish v. Superior Ct.*, 71 Cal. App. 4th 1130 (1999) (Zebrowski, J. concurring) (blanket orders may be available even in Los Angeles Superior Court if appropriately drafted).

Are Stipulations or Reservations Effective to Preserve Privilege?

Neither the Ninth Circuit nor the California State courts have addressed the effectiveness of a stipulation to preserve privilege following limited, voluntary disclosure in the absence of a protective order.

The Northern District of California has held such stipulations to be ineffective. In *Atari Corp. v. Sega of America*, 161 F.R.D. 417, 420 (N.D. Cal. 1994), it held that Sega waived the attorney client privilege when it provided Atari's consultant with an otherwise privileged document as part of a settlement negotiation, even though the parties expressly agreed that disclosure would not waive applicable privileges. Many courts outside the Ninth Circuit have held similarly, most recently in *In Re: Columbia/HCA Healthcare Corp. Billing Practices Litigation*, 192 F.R.D. 575 (M.D. Tenn, 2000) (appeal filed, 2000 U.S. App. Lexis 21206, 6th Cir., August 15, 2000). Columbia had produced privileged documents to the Department of Justice subject to an agreement with the government that production of documents did not and would not constitute a waiver of the attorney-client communication or work product privileges. Nonetheless, the court held that a determination of what constitutes a waiver of privilege is a legal question, one the parties cannot negate by agreement. The court held that "voluntary disclosure of privileged materials to the government constitutes a waiver of the attorney-client privilege to all other adversaries."

A minority view contrary to these decisions was first stated in dicta but not applied in *Teachers Insurance & Annuity Association of America v. Shamrock Broadcasting Co.*, 521 F. Supp. 638 (S.D.N.Y. 1981). The minority view found application in *Jobin v. Bank of Boulder*, 161 B. R. 689, 695-6 (Colo. 1993), in which the court found that the Bank of Boulder had not waived applicable privileges despite limited disclosure. The bank had taken substantial steps to insure maintenance of confidentiality by those to whom it had made disclosure, including entering into an agreement that the limited disclosure would not constitute a waiver generally of applicable privileges.

The Ninth Circuit has held that parties may not effectively preserve the attorney client communication and work product privileges by making a limited disclosure and purporting, at the time of that disclosure, to reserve a right to assert applicable privileges in the future. *Weil v. Investment/Indicators, Research &*

Management, 647 F. 2d 18, 23 (9th Cir. 1981)(case fact statement does not specify clearly if disclosure was completely voluntary or with reservation of privilege claims). Only the Eighth Circuit Court of Appeals has expressed a somewhat different view in holding that production in a non-public SEC investigation could be done without causing a general waiver of applicable privileges, if done with a reservation of rights by the producing party. *Diversified Industries, Inc. v. Meredith*, 572 F. 2d 596 (8th Cir. 1977).