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In re Pacific Pictures Corp.: Ninth Circuit Rejects "Selective Waiver" of Attorney-Client Privilege

BY THE SECURITIES LITIGATION AND ENFORCEMENT PRACTICE

On April 17, 2012, the United States Court of Appeals for the Ninth Circuit issued its decision in *In re Pacific Pictures Corp.*, No. 11-71844, ___ F.3d ___, 2012 WL 1293534 (9th Cir. Apr. 17, 2012), holding that a party waives attorney-client privilege in any future litigation by voluntarily disclosing privileged documents to the federal government. In issuing this decision, the Ninth Circuit resolved a critical issue for entities facing agency investigations and joined the majority of other circuits in rejecting the theory of "selective waiver."

Background on *Pacific Pictures*

The *Pacific Pictures* case emerged from a dispute between the heirs of the creators of the comic book character Superman (the "Heirs") and DC Comics, the company to whom Superman's creators ceded their intellectual property rights in the 1930s. Around 2000, Hollywood producer and attorney Marc Toberoff ("Toberoff") created a joint venture with the Heirs in order to manage the litigation with DC Comics and to work toward production of a new Superman movie. One of Toberoff's employees, David Michaels ("Michaels") later absconded with copies of several documents from the files of Superman's creators.[1] Michaels sent the documents to DC Comics, along with a cover letter detailing an alleged plan by Toberoff to gain control of the Superman character for himself. DC Comics gave the documents to an outside attorney who then sought to obtain them through discovery in the pending litigation. Toberoff refused to produce the documents, claiming they contained privileged communications he had with the Heirs. In April 2007, a magistrate judge ordered Toberoff to turn over certain documents, including Michaels' cover letter, to DC Comics. In December 2008, Toberoff finally produced at least some of the documents.

In 2010, DC Comics filed suit against Toberoff, the Heirs, and three entities controlled by Toberoff ("Petitioners"), alleging that Toberoff interfered with its contractual relationships with the Heirs. Michaels' cover letter formed the basis of the lawsuit and was incorporated into the complaint. Shortly after the suit was filed, Toberoff asked the U.S. Attorney's Office to investigate Michaels. In response, the U.S. Attorney's Office issued a grand jury subpoena for the documents, as well as a letter stating that if Toberoff voluntarily complied with the subpoena the government would "'not provide the … documents … to non-governmental third parties except as may be required by law or court order.'" *Id.* at *2. The letter also stated that disclosure would indicate that Toberoff had "'obtained all relevant permissions and consents needed (if any) to provide the … documents … to the government.'" *Id.* Toberoff complied with the subpoena without redacting anything from the documents. DC Comics then requested all documents disclosed to the government, claiming that disclosure of the unredacted copies waived any remaining privilege. The magistrate judge agreed, holding that a party may not

selectively waive attorney-client privilege, and ordered Toberoff to produce the documents to DC Comics.

The case reached the Ninth Circuit when Petitioners sought a writ of mandamus overturning the magistrate's order. Petitioners argued that disclosure of documents to the government, as opposed to a civil litigant, does not waive privilege as to the world at large. In doing so, Petitioners squarely presented an issue the Ninth Circuit had deferred addressing on two prior occasions:[2] whether to adopt the theory of "selective waiver" accepted by the Eighth Circuit in *Diversified Industries, Inc. v. Meredith*, 572 F.2d 596 (8th Cir. 1978), but rejected by every circuit to consider the issue since. S*ee In re Qwest Commc'ns Int'l*, 450 F.3d 1179, 1197 (10th Cir. 2006); *Burden–Meeks v. Welch*, 319 F.3d 897, 899 (7th Cir. 2003); *In re Columbia/HCA Healthcare Corp. Billing Practices Litig.*, 293 F.3d 289, 295 (6th Cir. 2002); *United States v. Mass. Inst. of Tech.*, 129 F.3d 681, 686 (1st Cir. 1997); *Genentech, Inc. v. United States Int'l Trade Comm'n*, 122 F.3d 1409, 1416–18 (Fed. Cir. 1997); *In re Steinhardt Partners, L.P.*, 9 F.3d 230, 236 (2d Cir. 1993); *Westinghouse Elec. Corp. v. Republic of Philippines*, 951 F.2d 1414, 1425 (3d Cir. 1991); *In re Martin Marietta Corp.*, 856 F.2d 619, 623–24 (4th Cir. 1988); *Permian Corp. v. United States*, 665 F.2d 1214, 1221 (D.C. Cir. 1981).

The Ninth Circuit denied the petition. It rebuffed the Eighth Circuit's reasoning in *Diversified* that rejecting selective waiver "'may have the effect of thwarting the developing procedure of corporations to employ independent outside counsel to investigate and advise them in order to protect stockholders.'" *Id*. at *4 (quoting *Diversified*, 572 F.2d at 611). The Court explained that corporations had proven willing to employ outside consultants and to cooperate voluntarily with the government even in the absence of the protection that a theory of selective waiver might provide. More importantly, the Court reasoned, adopting selective waiver would not promote the policy goal behind the attorney-client privilege. Rather than encouraging full disclosure between clients and their attorneys, selective waiver would merely serve to encourage voluntary disclosure to government agencies. The Ninth Circuit determined that, while this may be a worthy goal, extending the privilege beyond its underlying purpose would entail a balancing of competing societal interests better left to the province of Congress. The Court emphasized that Congress had considered adopting a theory of selective waiver multiple times in the past but declined to do so.

The Court also rejected Petitioners' argument in favor of a narrow theory of selective waiver that would apply only where a confidentiality agreement was in place with the government. Again, the Court reasoned that such a theory did not promote the goals underlying the attorney-client privilege. Further, the fact that Toberoff produced the documents in response to a subpoena did not compel a different outcome. The Ninth Circuit acknowledged that involuntary disclosures do not automatically waive privilege, but it reasoned that "without the threat of contempt, the mere existence of a subpoena does not render testimony or the production of documents involuntary." *Id*. at *6. The Court noted that the subpoena specifically contemplated that Toberoff could redact privileged materials, but he chose not to do so.

Conclusion

Pacific Pictures confirms that, after deferring judgment on the issue twice in the past ten years, the Ninth Circuit will not buck the trend of other federal appellate courts rejecting the theory of selective waiver of attorney-client privilege. The Court's wholesale rejection of the theory cautions against relying on confidentiality agreements with the government as a means of protecting or maintaining privilege. Even the use of agreements such as the Securities and Exchange Commission's Model Confidentiality Agreement, which expressly declares the intent to preserve attorney-client privilege with respect to third parties, will not protect privileged materials from subsequent discovery by private

litigants. The case thus offers a potent warning that entities under government investigation must take care to redact privileged materials when responding to agency subpoenas, especially if related civil litigation cases, such as securities class actions or derivative actions, have been filed or are anticipated.

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[1] An amended opinion was issued by the Ninth Circuit panel on May 10, 2012, along with an Order noting that the prior opinion "referred to allegations of misconduct made against an attorney by the name of David Michaels," referenced here as the former employee, and stating that "the opinion is hereby amended to reflect that there has been no finding of wrongdoing on the part of Mr. Michaels."

[2] *See United States v. Bergonzi*, 403 F.3d 1048, 1050 (9th Cir. 2005); *Bittaker v. Woodford*, 331 F.3d 715, 720 n. 5 (9th Cir. 2003).