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Beware the Privilege Waiver During Investor Due Diligence

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As though commercial transactions were not already fraught with enough potential pitfalls, a recent decision from the Southern District of New York highlighted yet another risk that could carry significant consequences to commercial litigations – the dreaded waiver of attorney-client privilege.

Before commencing the litigation in question, the eventual plaintiff M7D was searching for potential investors. M7D ultimately found an interested party, and entered into a non-disclosure agreement specifying that an "agent of [M7D] is furnishing to [the investor] certain information . . . concerning [M7D] . . . which is strictly confidential." After agreeing to maintain the confidentiality of information exchanged between M7D and the investor, the investor's law firm conducted due diligence regarding M7D's intellectual property and trade secrets.

The investor, however, decided to "disclose to M7D at least some of the legal advice" related to the transaction (that is, the legal advice provided to the investor concerning M7D's intellectual property), and the parties to the transaction then "worked together to solicit additional potential investors." That legal advice was ultimately memorialized in a presentation to M7D from the investor.

Although M7D believed the presentation to be privileged, it became the subject of a motion to compel in a litigation subsequently filed by M7D. Defendants in the litigation argued that any legal advice in the presentation was waived when the investor disclosed it to M7D. M7D, in turn, argued that the common interest doctrine—an exception "to the rule that the attorney-client privilege 'is generally waived by voluntary disclosure of the [privileged] communication to another party'"—protected the privileged nature of the legal advice. According to M7D, the potential investor "shared M7D's interest in ensuring that its intellectual property was strong, valid, and enforceable."

The Court disagreed with M7D—finding that at the relevant time, the potential investor only "contemplated investing in M7D, but it had not done so." Whereas "M7D had a legal interest in the scope, validity, and enforceability of its patents," the investor "only contemplated purchasing such an interest." According to the Court, "[b]y sharing privileged communications with a counterparty with which it shared no legal interest at that time, [the investor] waived the attorney-client privilege." Although not referenced in the decision, the Court's holding is consistent with the New York Court of Appeal's decision in *Ambac Assurance Corp. v. Countrywide Home Loans*, which we wrote about here.

The outcome of this dispute highlights the importance of consulting counsel before sharing *any* legal advice with a third party—even if the party seeking to share the information believes the privileged will be kept intact. For example, in this case, the potential investor's due diligence into M7D's intellectual property could have contained information damaging to M7D's future litigation asserting that IP.

The case is *Carnegie Institute of Washington, et al., v. Pure Grown Diamonds, Inc., et al.*, C.A. No. 20-cv-189, in the Southern District of New York—a copy of which can be found here.

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