IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF TEXAS
AUSTIN DIVISION

LL'S MAGNETIC CLAY, INC. D/B/A ENVIROMEDICA, Plaintiff,	§	
V.	§	
	§	A-17-CV-649-SS
SAFER MEDICAL OF MONTANA, INC., GEORGE S. ACKERSON, AND DOES 1-5, Defendants.	§	

REPORT AND RECOMMENDATION
OF THE UNITED STATES MAGISTRATE JUDGE

TO THE HONORABLE SAM SPARKS
UNITED STATES DISTRICT JUDGE:

Before the court is Plaintiff's Motion for Order Overruling Defendants' Assertion of Privilege/Work Product and Clawback (Dkt. #41).[1] After reviewing the motion and related briefing, the relevant case law, and having considered the parties' oral arguments, the undersigned issues the following Report and Recommendation to the District Court.

I. BACKGROUND

Plaintiff LL's Magnetic Clay, Inc. d/b/a Enviromedica ("Enviromedica") brought this suit under diversity jurisdiction, *see* Dkt. #53 (Second Amd. Compl. or "SAC") at ¶ 9, against Defendants Safer Medical of Montana, Inc. ("Safer Medical"), George S. Ackerson[2] ("Ackerson") (collectively, "Defendants"), and DOES 1-5 seeking declaratory relief. Dkt. #53

[1] The motion was referred by United States District Judge Sam Sparks to the undersigned for a Report and Recommendation as to the merits pursuant to 28 U.S.C. § 636(b), Rule 72 of the Federal Rules of Civil Procedure, and Rule 1(d) of Appendix C of the Local Rules of the United States District Court for the Western District of Texas.

[2] Ackerson's status in the case is unclear to the undersigned. The District Court dismissed Ackerson from the First Amended Complaint for lack of personal jurisdiction. Dkt. #24. Ackerson is listed in the style of the Second Amended Complaint as a defendant in and is included in the description of the "Parties." *See* Dkt. #53 (SAC) at ¶ 5. However, at the hearing, the parties represented that no claims were asserted against him in the Second Amended Complaint. Ackerson is also listed as a responding "Defendant" in this motion practice. Dkt. #48 (Resp.).

(SAC). Enviromedica alleges Ackerson owned and operated Safer Medical and its predecessor entity as an alter ego of himself. Dkt. #53 (SAC) at ¶¶4-5. Enviromedica brings various state law claims and against the Defendants and a claim for false and misleading advertising under 15 U.S.C. § 1125. Safer Medical[3] asserted counterclaims for false and misleading advertising under 15 U.S.C. § 1125 and various state law claims. Dkt. #27 (Counterclaims).

This discovery dispute arose when Enviromedica sought documents through a subpoena duces tecum from non-party Tainio Biologicals, Inc. ("Tainio"), an agricultural product supplier, who is Safer Medical's sole source of key ingredients for a product at issue in this case. Dkt. #48 (Resp.) at 2. After Tainio produced documents on April 16, 2018, Defendants sent Enviromedica a Rule 26(b)(5)(B) "clawback letter" seeking to clawback six documents under the claims that attorney-client privilege and/or work product protections extend to the documents. Defendants contend that Ackerson approached Tainio "to assist with gathering key technical documents, and to confirm key technical facts" because "Tainio was the only source for this information and documentation." *Id*. The documents include notes made by Tainio employees from communications with Ackerson and emails between Tainio employees and Ackerson.[4] Defendants contend the documents contain the substance of attorney-client communications and attorney work product regarding litigation strategy and document collection. Defendants argue Tainio was functioning as its agent in producing the documents, therefore Defendants' privilege extended to Tainio. Dkt. #48 (Resp.) at 2.

II. ANALYSIS

Unless the Constitution, a federal statute, or Supreme Court rule provide otherwise, in a federal action, federal common law governs any claim of privilege. FED. R. EVID. 501. "But, in a

[3] At the time the counterclaims were asserted in response to the First Amended Complaint, Ackerson was not a party to the case. *See* Dkt. #27.

[4] The documents were submitted as Exhibit 7 to the motion. Dkt. #41-2 (Mtn.) Exh. 7.

civil case, state law governs privilege regarding a claim or defense for which state law supplies the rule of decision." *Id*. The parties agree that federal common law governs the assertion of privilege over these documents.

A. Privilege Log

Although the parties dispute the adequacy of Defendants' privilege log, the undersigned finds the log sufficient as it was created at a time when Enviromedica had possession of the documents. As such, Enviromedica did not need to rely on the log to determine whether the documents were privileged.

B. Attorney-Client Communications

Defendants claim the attorney-client privilege protects four of the six documents at issue. "The application of the attorney-client privilege is a 'question of fact, to be determined in the light of the purpose of the privilege and guided by judicial precedents.'" *E.E.O.C. v. BDO USA, L.L.P.*, 876 F.3d 690, 695 (5th Cir. 2017) (quoting *In re Auclair*, 961 F.2d 65, 68 (5th Cir. 1992)). The party asserting the privilege bears the burden of proof. *Id*. For a communication to be protected under the privilege, the proponent "must prove: (1) that he made a *confidential* communication; (2) to a lawyer or his subordinate; (3) for the primary purpose of securing either a legal opinion or legal services, or assistance in some legal proceeding." *Id*. (quoting *United States v. Robinson*, 121 F.3d 971, 974 (5th Cir. 1997)). The privilege also protects communications from the lawyer to his client, if they would disclose the client's confidential communications. *Hodges, Grant & Kaufmann v. U.S. Gov't, Dep't of the Treasury, I.R.S.*, 768 F.2d 719, 720–21 (5th Cir. 1985). Because the privilege protects only confidential communications, the presence of a third person while such communications are made or the disclosure of an otherwise privileged communication to a third person eliminates the intent for

confidentiality on which the privilege rests, unless the third person has a common legal interest with respect to the subject matter of the communication. *Id*. at 721. Once the privilege has been established, the burden shifts to the other side to prove an exception to the privilege. *E.E.O.C. v. BDO*, 876 F.3d at 695.

Defendants argue that Tainio was acting as their agent in collecting documents and, as Safer Medical's sole source of key ingredients for the product, was the only source for this information and documentation. Dkt. #48 (Resp.) at 2. Defendants contend their counsel needed this information in order to give Safer Medical legal advice on how to proceed with the case. *Id*. Defendants also argue their counsel did not move to quash the subpoena to Tainio because counsel was unaware these documents existed. *Id.* at 3. Defendants argue the "technical data and documents from Tainio, and Tainio's assistance was absolutely necessary, because no other entity could provide the needed information" and thus the privilege extended to Tainio as an "agent[] whose assistance is necessary to enable the client's attorneys to provide legal advice." *Id.* at 4.

While courts have recognized that the privilege may extend to non-attorneys hired by attorneys or clients to assist in litigation, Defendants' position takes this principle entirely too far. Under Defendants' theory, any third party supplier would be included in the privilege regardless of whether they share a common legal interest with the party. Similarly, under Defendants' theory, a third-party eye-witness to a car crash could share a party's attorney client privilege because that bystander would be the only person who could provide information the party needs to prepare his case or defense. In this example, however, it is difficult to discern which party the bystander would share the privilege with, as the argument is equally applicable to either party. Similarly, under Defendants' reasoning, one would assume Enviromedica also

shares its privilege with Tainio, as Tainio would also be its only source for this data and these documents, which presumably are also necessary to Enviromedica's counsel in order to provide legal advice. But Defendants have failed to cite a case that extends the privilege as far as they argue. *See* Dkt. #48 (Resp.) at 3-4 (citing *Foley v. Poschke*, 31 N.E.2d 845, 846 (Ohio 1941) (privilege extended to private investigator); *In re Bieter Co.*, 16 F.3d 929, 937 (8th Cir. 1994) (privileged extended to representative of the client who was the functional equivalent of an employee); *Williams v. Sprint/United Mgmt. Co.*, 238 F.R.D. 633, 638-40 (D. Kan. 2006) (extending privilege to a party's HR personnel who "were essentially acting under the authority and control of counsel"); *Carl Zeiss Vision Int'l Gmbh v. Signet Armolite Inc.*, No. 07-cv-0894-DMS (POR), 2009 WL 4642388, at *5-6 (S.D. Cal. Dec. 1, 2009) (extending privilege to corporate committee meetings); *In re Rivastigmine Patent Litig.*, 237 F.R.D. 69, 80 (S.D.N.Y. 2006) (extending privilege to a party's patent agent where document was prepared at request of counsel), abrogated by *In re Queen's University at Kingston*, 820 F/3d 1287 (Fed. Cir. 2016); *SmithKline Beecham Corp. v. Apotex Corp.*, 232 F.R.D. 467, 477 (E.D. Pa. 2005) (extending the privilege to a party's consultants); *Kintera, Inc. v. Convio, Inc.*, 219 F.R.D. 503, 514 (S.D. Cal. 2003) (extending privilege to corporate employees); *see also Upjohn Co. v. U.S.*, 449 U.S. 383 (1981) (extending privilege to corporate employees where communications were made to secure legal advice); *U.S. v. Kovel*, 296 F.2d 918 (2nd Cir. 1961) (extended privilege to accountant employed by a law firm)).

Defendants do not dispute that they had an arms-length business relationship with Tainio as their ingredient supplier. Defendants offer no evidence that they retained Tainio to assist with this litigation. There is no evidence that Defendants had any sort of agency relationship with Tainio—the fact that Ackerson had to reach out numerous times to Tainio to get the documents

demonstrates Tainio was not Defendants' agent. Rather, it is undisputed that Tainio only had relevant documents because of its business relationship with Defendants. Moreover, Defendants' position is inconsistent with the facts of this case and the realities of litigation. As discussed below, despite Defendants' arguments that these were documents necessary to their defense, Ackerson was attempting to collect documents from Tainio that Plaintiff's counsel had requested from Defendants. Defendants maintained that they did not want to subpoena Tainio for the documents because they hoped to keep their relationship with Tainio a trade secret. However, if that is the case, it is unclear how Defendants intended to use these documents in this litigation without disclosing their origin. Finally, as demonstrated by the ex parte documents Defendants submitted to the court, Defense counsel did not ask Ackerson to obtain these documents from Tainio nor did counsel suggest to Ackerson that the attorney-client privilege would extend to Tainio. Court's Hrg. Ex. 1, 2. Ackerson's unsupported belief that he had a "confidential" relationship with Tainio is insufficient to create a privilege where no privilege existed. *See Schanfield v. Sojitz Corp.*, 258 F.R.D. 211, 215–16 (S.D.N.Y. 2009) (privilege holder waived privilege by sending communications to third parties he assumed shared his interest).

Defendants have made no showing or argument that they shared a common legal interest with Tainio. Accordingly, by sharing attorney client communications with Tainio, Defendants waived the privilege. *See Hodges, Grant & Kaufmann*, 768 F.2d at 721.

C. Work Product Materials

Defendants also claim work product protection in all but one of the documents. "Ordinarily, a party may not discover documents and tangible things that are prepared in anticipation of litigation or for trial by or for another party or its representative (including the

other party's attorney, consultant, surety, indemnitor, insurer, or agent)." FED. R. CIV. P. 26(b)(3)(A). The burden of establishing that a document is work product is on the party who asserts the claim, but the burden of showing that the materials should nonetheless be disclosed is on the party who seeks their production. *Hodges, Grant & Kaufmann*, 768 F.2d at 721. "Unlike the attorney-client privilege, work-product protection is not automatically waived by disclosure to a third party who does not share a common legal interest." *Ferko v. Nat'l Ass'n for Stock Car Auto Racing, Inc.*, 218 F.R.D. 125, 136 (E.D. Tex. 2003). Disclosure of work product results in waiver of work-product protection only if work-product is disclosed to adversaries or treated in a manner that substantially increases the likelihood that an adversary will come into possession of the material. *Id*. Unlike the attorney-client privilege, the burden of proving waiver of work-product protection falls on the party asserting waiver. *Id*.

Defendants contend T000405-07 convey work-product regarding documents and data to collect. Dkt. #48 (Resp.) at 6. However, T000405-07 are notes created by a Tainio employee of a telephone call or email with Ackerson about this litigation. *See* Dkt. #41, Exh. 3 (Priv. Log). As the court has already determined that Tainio was not Defendants' agent in this litigation, these notes cannot constitute work product. *See* FED. R. CIV. P. 26(b)(3); *see also Ferko*, 218 F.R.D. at 136 ("the materials must be prepared by or for a party's representative"); *Ricoh v. Aeroflex*, 219 F.R.D. 66, 69-70 (S.D.N.Y. 2003) (holding that work product doctrine does not apply to documents prepared by non-party).

Defendants contend T000413-14 and T000441-442 are emails that forward attorney work product. Dkt. #48 (Resp.) at 6. T000413-14 and T000441-442 are part of an email thread where Ackerson forwards a list of requested documents to be collected to Tainio and what appears to be another third party. Defendants similarly contend "T000086 conveys work-product regarding

documents and data to collect." *Id*. T000086 is an email from one Tainio employee to another Tainio employee forwarding an email from Ackerson to Tainio employees. The forwarded email includes a list of seven types of documents Ackerson would like the recipients to collect. These seven types of documents are included in list of requested documents found in T000413-14 and T000441-442. Defendants also contend T000430 conveys work product. *Id*. T000430 is an email between Tainio employees which forwards an email from Ackerson to a Tainio employee again seeking the documents and asking Tainio to send the documents to Defendants and their counsel, with counsel's email address provided.

However, the list of documents to be collected is not Defendants' work product. It is a list prepared by Plaintiff's counsel and sent to Defendants' counsel with the request that the documents be produced voluntarily before the court entered a scheduling order for the litigation. Dkt. #49-1 Exh. 8. Accordingly, Defendants have no claim of work product in the list as it was not prepared by Defendants' counsel or their agents in anticipation of litigation. *See Ferko*, 218 F.R.D. at 136 ("the materials must be prepared by or for a party's representative"). The undersigned does not need to reach whether work product protections were waived because Defendants have not demonstrated the emails were their work product.

III. RECOMMENDATIONS

For the reasons stated above, the undersigned **RECOMMENDS** the District Court **GRANT** Plaintiff's Motion for Order Overruling Defendants' Assertion of Privilege/Work Product and Clawback (Dkt. #41).

IV. OBJECTIONS

The parties may file objections to this Report and Recommendation. A party filing objections must specifically identify those findings or recommendations to which objections are

being made. The District Court need not consider frivolous, conclusive, or general objections. *See Battles v. United States Parole Comm'n*, 834 F.2d 419, 421 (5th Cir. 1987).

A party's failure to file written objections to the proposed findings and recommendations contained in this Report within fourteen (14) days after the party is served with a copy of the Report shall bar that party from de novo review by the District Court of the proposed findings and recommendations in the Report and, except upon grounds of plain error, shall bar the party from appellate review of unobjected-to proposed factual findings and legal conclusions accepted by the District Court. *See* 28 U.S.C. § 636(b)(1)(C); *Thomas v. Arn*, 474 U.S. 140, 150-53 (1985); *Douglass v. United Services Automobile Ass'n*, 79 F.3d 1415 (5th Cir. 1996)(en banc).

SIGNED August 2, 2018

MARK LANE
UNITED STATES MAGISTRATE JUDGE