

Kenyon & Kenyon LLP v Sightsound Tech., LLC

2018 NY Slip Op 31282(U)

June 21, 2018

Supreme Court, New York County

Docket Number: 650795/2014

Judge: Andrea Masley

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SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK: COMMERCIAL PART 48
-----X

KENYON & KENYON LLP,
Plaintiff,

Index No. 650795/2014
Mot. Seq. No. 006

-against -

SIGHTSOUND TECHNOLOGIES, LLC, a
Delaware limited liability company,
SIGHTSOUND TECHNOLOGIES HOLDINGS,
LLC, a Delaware corporation, as Successor
by Merger to SIGHTSOUND TECHNOLOGIES,
INC., a Delaware corporation, DMT LICENSING,
LLC, a Delaware limited liability company, and
GENERAL ELECTRIC COMPANY,
Defendants.
-----X

Masley, J.:

In motion sequence number 006, plaintiff Kenyon & Kenyon LLP (the Firm) moves, pursuant to CPLR 3103 and 3124, to compel defendant General Electric Company (GE) to produce certain documents in response to the Firm's production request of documents served on GE on October 17, 2017.

Background

This discovery dispute arises from GE's refusal to produce certain documents related to its handling of proceeds derived from a patent litigation involving the Firm's former client, defendant SightSound Technologies, LLC (SightSound). The Firm represented SightSound in connection with various litigations involving patents owned by SightSound. In October 2001, when SightSound could not pay its legal fees, the Firm and SightSound entered into to a Security Agreement granting the Firm a first-priority security interest in SightSound's assets, including its intellectual property and the litigation proceeds recovered in connection with its patent rights.

GE, through its subsidiary, defendant DMT Licensing, LLC (DMT), acquired 50% of SightSound. The remaining 50% of SightSound is owned by its holding company,

defendant SightSound Technologies Holdings, LLC (Holdings). In 2012, SightSound settled a patent lawsuit against Napster for \$3.1 million dollars (the Napster Settlement Proceeds). Instead of transferring the proceeds to the Firm, GE directed the payment to be deposited in its bank account.

As part of its document demands, the Firm requests production of documents relating to the transfer of the Napster Settlement Proceeds. GE asserts that the documents are privileged under the attorney-client privilege, or alternatively, the common-interest exception, and, therefore, need not be produced.

On March 30, 2018, at oral argument on the Firm's order to show cause, the Firm argued that the crime-fraud exception overcomes GE's claim of privilege because the requested documents contain communications in furtherance of GE's purported fraud to deprive the Firm of the Napster Settlement Proceeds. At argument, this court granted the Firm's motion to the extent that this court directed GE to provide unredacted copies of the challenged documents for *in camera* review. The court also permitted both parties to provide briefing on the crime-fraud exception.

DISCUSSION

At issue is whether (1) the attorney-client privilege applies to the challenged documents and (2) if so, whether GE's claim of privilege must yield to the Firm's invocation of the crime-fraud exception.

Attorney-Client Privilege

The attorney-client privilege protects disclosure of any confidential communications between attorneys and their clients made for the purpose of obtaining or facilitating legal advice (*Ambac Assur. Corp v Countrywide Home Loans, Inc*, 27

NY3d 616, 623 [2016]). The party asserting the privilege must establish that the communication at issue was (1) between an attorney and client; (2) for the purpose of facilitating or rendering legal advice; (3) of a legal character; and (4) that the privilege was not waived (*id.* at 624).

The court has reviewed the documents *in camera* and concludes that all but two are privileged. The withheld documents reflect communications, between GE and counsel, regarding the drafting of election rights and language of certain contract provisions. As these communications are unquestionably between counsel and client and for the express purpose of legal advice, the communications are protected by the attorney-client privilege.

The two documents that are not privileged relate to Request Numbers 17 and 18. As to Request Number 17, the communication concerns SightSound's tax return, a subject that is business in nature and non-legal. The privilege does not protect from discovery communications of a business nature (*Ambac Assur. Corp. v Countrywide Home Loans, Inc.* 27 NY3d at 638). Further, the discussions are between Alex LePore and Dave Giordano, a CFO of GE Licensing in GE's tax department and not between counsel and client. That Kenneth Glick was copied on the email does not, alone, transform an otherwise ordinary conversation into one that is protected from disclosure by the attorney-client privilege. Where corporations are involved, courts must exercise caution to prevent "the mere participation of an attorney in [in-house matters] from being used to seal off disclosure" (*Spectrum Systems Int'l Corp. v Chemical Bank*, 157 AD2d 444, 447 [1st Dept 1990]). The touchtone inquiry remains whether legal advice was sought. Here, it was not. As to Request Number 18, the document consists of

correspondence between GE and Mr. DeLucia, counsel to the Firm, discussing each parties' position on the core subject of the impending litigation. Thus, the remaining issue is whether the crime-fraud exception applies to the privileged documents.

Crime-Fraud Exception

According to the Firm, during a SightSound board meeting to ratify the Napster settlement agreement, defendants discussed, among other related items, the Firm's security interest in the patents (Plaintiff's Revised Mem. Of Law, at 8, NYSCEF Doc. No. 218). The Firm alleges that a GE employee, claiming to be a DMT representative, attended the meeting and successfully directed the board to transfer the proceeds to GE (*id.*). The Firm also alleges that Kenneth Glick¹ -- GE and DMT's "designee" on the SightSound board of directors -- voted that the Napster payment be transferred to GE instead of the Firm (*id.* at 6). In so doing, the Firm argues, Glick was "patently self-interested" and effectively defrauded the Firm, as a known creditor, including breaching his fiduciary duty to SightSound's shareholders (*id.*).

The Firm's principal allegation of fraud is that Glick was a self-interested board member and directed the transfer of the Napster Settlement Proceeds to his employer, GE, knowing that SightSound was insolvent. On this basis, the Firm contends that the record is replete with "badges of fraud." In response, GE contends that the challenged documents bear no connection to the Napster Settlement Proceeds (Opp. Mem., at 4, NYSCEF Doc. No. 219). GE also rejects the Firm's theory of a "supposed fraudulent scheme to keep the money away from Kenyon" (*id.*).

The crime-fraud exception to the attorney-client privilege lifts the veil of protection

¹ At argument, the Firm stated that Glick is "counsel at GE only" and that Glick has "professed to also be counsel at DMT" (tr at 5).

for communications made in furtherance of contemplated fraud or other wrongful conduct (*Matter of New York City Asbestos Litig.*, 109 AD3d 7, 10-11 [1st Dept 2013]). Preserving the sanctity of privileged communications, "advice in furtherance of a fraudulent or unlawful goal cannot be considered 'sound'" (*In re Grand Jury Subpoena Duces Tecum Dated Sept. 15, 1983*, 731 F2d 1032, 1038 [2d Cir 1984]). Thus, the crime-fraud exception forces disclosure of communications involving fraudulent schemes, alleged breaches of fiduciary duty, or accusations of other wrongful conduct (*Matter of New York City Asbestos Litig.*, 109 AD3d 10-11). A party seeking to compel disclosure based on the crime-fraud exception must establish "a factual basis for a showing of probable cause to believe that a fraud or crime has been committed and that the communications in question were in furtherance of the fraud or crime" (*id.*). The Firm has established neither.

The facts alleged fail to establish probable cause that GE engaged in conversations to either commit or further a fraud on the Firm. The facts indicate that GE received the funds for distribution to DMT under the Asset Purchase Agreement (APA), which this court held gives DMT the "sole discretion" to decide whether the Firm's lien would be a certain category of reimbursable expense under the APA ([Oing, J.], Decision and Order, dated August 2, 2016, NYSCEF Doc. No. 163). GE merely exercised its contractual discretion, as approved by the court. Even if, as the Firm argues, another agreement, the Novation Agreement, released DMT from certain obligations under the APA, that is hardly probable cause to believe fraud was committed or contemplated.

The same is true as to Glick. The Firm alleges that Glick had a fiduciary duty to

NYSCEF DOC. NO. 233

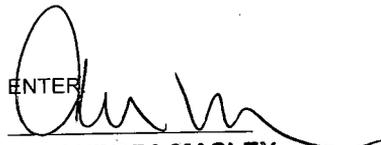
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SightSound's creditors given the company's insolvency. The Firm argues that directors of an insolvent corporation are empowered, as fiduciaries, to protect the interests of the corporations' creditors (see *In re Bear Stearns Litig.*, 870 NYS2d 709, 736-37 [NY Sup. Ct. 2008]). On the premise that the corporation is insolvent, the Firm argues that Glick owes a fiduciary duty to the creditors of SightSound and that a breach of Glick's fiduciary duty is an adequate basis for application of the crime-fraud exception. Contrary to the Firm's insistence, however, SightSound's solvency remains disputed, thus precluding application of the exception (see *Kenyon & Kenyon LLP v SightSound Tech, LLC*, 151 AD 3d 530, 531 [1st Dept 2017] [denying the Firm's motion for summary judgment for failure to establish that SightSound was insolvent]).

Finally, the requested documents do not relate to the Napster Settlement Proceeds. Instead, the documents contain confidential communications between GE and counsel on the Firm's election rights. The withheld documents contain no statements that support the Firm's theory of a "planned taking of Kenyon's property." Accordingly, the Firm's motion to compel is granted, in part, as to Request Numbers 17 and 18 and denied as to the rest.

Dated: 6/21/18

ENTER


HON. ANDREA MASLEY