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In-House Counsel and Protecting Attorney-Client Privilege in Investigations and Litigation

Recent Case Law and Common Applications

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Today's faculty features:

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In-House Counsel and Protecting Attorney-Client Privilege in Investigations and Litigation

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Overview

- The applicable legal standards and factors considered in applying the privilege to In-House Counsel communications

- Recent developments and common applications
  - Internal investigations, including Corporate Miranda warnings
  - Board presentations
  - Mergers and acquisitions
  - Business globalization

- Suggested best practices

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The Attorney-Client Privilege

- To ensure open and complete communication between a client and his attorney by eliminating the possibility of subsequent compelled disclosure of their confidential communications.

- The party invoking the privilege must establish that:
  - the professed privilege holder is or sought to become the attorney's client;
  - the person to whom the communication was made was a licenses attorney "or his subordinate" acting in the capacity of a lawyer at the time the communication was made;
  - the communication concerns a fact that was communicated to the attorney by his client outside the presence of strangers;
  - for the purpose of obtaining a legal opinion, legal services or "assistance in some legal proceeding";
  - the communication was not made "for the purpose of committig a crime or tort";
  - the professed holder actually claimed the privilege; and
  - he did not waive the privilege.

In re Vioxx Prods. Liab. Litig., 501 F. Supp. 2d 789 (E.D. La. 2007);
United States v. Noriega, 917 F.2d 1543 (11th Cir. 1990).

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The Applicable Legal Standards and Factors Considered in Applying the Privilege to In-House Counsel Communications

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A Different Standard?

Courts have repeatedly held that there is no distinction between the standard to be applied for in-house and outside counsel for purposes of the attorney-client privilege.

See Hertzog, Calamari & Gleason v. Prudential Ins., 850 F.Supp.255 (S.D.N.Y. 1994);
U.S. v. Mobil Corp., 149 F.R.D. 533 (N.D. Tex. 1993).

But there is a distinction,

at least in application.

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Why is a different standard applied to in-house counsel?

- Principally because in-house counsel often perform non-legal business functions within their organizations and the law requires that privilege analysis distinguish the two

- Having attorneys serve in dual capacities is the most frequently-cited factor as a basis for denying a claim for privilege.

See Teltron, Inc. v. Alexander, 132 F.R.D. 394 (E.D. Pa. 1990); *N.C. Elec. Membership Corp. v. Carolina Power & Light Co.,* 110 F.R.D. 511, 517 (M.D.N.C. 1986)

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Satisfying the "Attorney" Requirement of the Attorney-Client Privilege

General Rule:

- If an in-house counsel is acting in her capacity as an attorney, the attorney-client privilege applies. Where, however, counsel is acting as a business advisor or has only limited involvement, the privilege does not apply.

- "The privilege is limited to confidential communications with an attorney acting in his professional capacity for the express purpose of securing legal advice. As a general rule, an attorney who serves a client in a business capacity may not assert the attorney-client privilege because of the lack of a confidential relationship. Thus, ordinary business advice is not protected."

See Teltron, Inc. v. Alexander, 132 F.R.D. 394 (E.D. Pa. 1990)*; N.C. Elec. Membership Corp. v. Carolina Power & Light Co.,* 110 F.R.D. 511, 517 (M.D.N.C. 1986)

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There is no silver bullet

No single factor is dispositive in every case

See N.C. Elec. Membership Corp. v. Carolina Power & Light Co., 110 F.R.D. 511, 516 (M.D.N.C. 1986)

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Examples of Potentially "Non-Legal" Functions Performed by In-House Counsel

- Conducting investigations
- Fact-gathering regarding issues that may later be the subject of litigation
- Regulatory compliance issues
- Matters concerning the functioning of the entity
- Negotiating a transaction

See e.g. Georgia Pacific v. GAF Roofing Mfg. Corp., 1996 U.S. Dist. Lexis 671 (S.D.N.Y.) (negotiations)*; Giffin v. Smith,* 688 S.W.2d 112 (Tex. 1985) (General counsel's communications found not to be privileged despite his role in corporate investigation because there was no evidence that the communication was confidential).

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Dual Capacities

- In-house counsel routinely handle mixed business and legal functions, sometimes with dual titles such as
  - Corporate Secretary
  - Vice President
  - Board Member

- Some courts distinguish whether an in-house lawyer is within the company's legal department vs. working in a business unit.

  See e.g. Boca Investerings P'ship v. United States, 31 F.Supp.2d 9, 12 (D.D.C. 1998)

- These are sometimes perceived to be capacities separate from their legal functions. In some situations, an even higher standard is applied where such is the case:

  > "[I]n a situation where the author or recipient of the allegedly privileged documents functions as a corporate manager as well as an attorney, efforts must include clear designation of those communications sent or received in his capacity as a legal advisor."

  Hardy v. New York News, Inc., 114 F.R.D. 633, 644 (S.D.N.Y. 1987)

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How Does an In-House Attorney Meet this Burden?

Court's finding in *Hardy*

"Although some of the documents [were] addressed to [in-house counsel], there was nothing to indicate that [he] requested or received any of the documents at issue, or the information contained in them, in the capacity of a legal advisor and solely for the purpose of rendering advice to the corporation."

Hardy v. New York News, Inc., 114 F.R.D. 633, 644 (S.D.N.Y. 1987)

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Applicable Test

The client's communication must be for the **primary or dominant purpose** of soliciting legal, rather than business, advice.

See N.C. Elec. Membership Corp. v. Carolina Power & Light Co., 110 F.R.D. 511, 514 (M.D.N.C. 1986);
Teltron, Inc. v. Alexander,132 F.R.D. 394, 396 (E.D. Pa. 1990)
("[must be able] to clearly demonstrate that the advice to be protected was given in a professional legal capacity.");
U.S. Postal Serv. v. Phelps Dodge Ref. Corp., 852 F.Supp. 156 (E.D.N.Y. 1994).
Rossi v. Blue Cross & Blue Shield, 542 N.Y.S.2d 508, 511 (1989)
(the privilege is not lost just because the communication also refers to non-legal matters).

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Factors to be Considered

- Is the subject "ordinary business activities"?
  - Whether the subject matter of the document is primarily business-oriented, such as documents discussing cost information, technical data, contract negotiations, delivery problems or lobbying efforts.

See Coleman v. Am. Broad. Cos., 106 F.R.D. 201, 205 (D.C. Cir. 1985) (concluding that communications between an attorney and another individual which relate to business, rather than legal matters, do not fall within the protection of the privilege.); *N.C. Elec. Membership Corp. v. Carolina Power & Light Co.*, 110 F.R.D. 511, 514 (M.D.N.C. 1986).

  - Stated differently, would the document have been prepared whether or not the attorney was sent a copy?

U.S. Postal Serv. v. Phelps Dodge Ref. Corp., 852 F.Supp. 156, 163 (E.D.N.Y. 1994).

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Factors to be Considered (cont.)

- Do the documents specifically request legal advice or, if generated by counsel, reference the request for legal advice?

See Texas Brine Co. v. Dow Chemical Co., 2017 WL 5625812 (E.D. La. 2017) (identifying a legal issue in the e-mail is not sufficient); *N.C. Elec. Membership Corp. v. Carolina Power & Light Co*., 110 F.R.D. 511, 514 (M.D.N.C. 1986)

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Factors to be Considered (cont.)

- Was the communication confidential?

Whether the document in question is simply marked "Memorandum" with no notation of confidentiality

See N.C. Elec. Membership Corp. v. Carolina Power & Light Co., 110 F.R.D. 511, 516 (M.D.N.C. 1986)

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This is not just a question of labeling, but such a marking is a factor.

Does the communication itself reveal any confidential information?

See In re Grand Jury Proceedings, 2001 U.S. Dist. Lexis 15646 at 36 (S.D.N.Y. 2001); N.C. Elec. Membership Corp. v. Carolina Power & Light Co., 110 F.R.D. 511, 514 (M.D.N.C. 1986).

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In-House Counsel's Use of Auditors for Review of Privileged Documents

Ravenall v. Avis Budget Group, Inc., 2012 U.S. Dist. Lexis 48658 (E.D.N.Y. 2012)

Where in-house counsel hired the auditor to disseminate and collect questionnaires for an audit and then asked the auditor to review the responses to make an initial assessment regarding classification as exempt or non-exempt, court found that asking the auditor to review and assess the questionnaires waived the company's privilege (even though disseminating and collecting them was permissible)

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Can you overuse your "Privileged" stamp?

No case so finding, but perhaps

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Factors to be Considered (cont.)

- Did the attorney have only “Limited Involvement” in the matter?
  - Whether the document is addressed to a number of individuals, only one of whom is in-house counsel.
  - “Copying the lawyer” does not create a privileged document.
  - An entity cannot shield its business transactions from discovery simply by funneling its communications through an attorney

See Texas Brine Co. v. Dow Chemical Co., 2017 WL 5625812 (E.D. La. 2017);
Pacamor Bearings Inc. v. Menebea Co., 918 F. Supp.491, 511 (D.N.H. 1996);
U.S. Postal Serv. v. Phelps Dodge Ref. Corp., 852 F.Supp 156 (E.D.N.Y. 1994);
Teltron, Inc. v. Alexander, 132 F.R.D. 394, 396 (E.D. Pa. 1990);
Hardy v. New York News, Inc., 114 F.R.D. 633 (S.D.N.Y. 1987).

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Factors to be Considered (cont.)

- Did the attorney have only "Limited Involvement" in the matter (cont.)?
  - Whether the document is addressed to counsel vs. "cc" and whether many others, outside of the legal function, are addressees
  - Whether the document refers to her as "counsel"
  - Whether the documents were segregated from other, non-privileged documents
  - Whether the document was marked as "Privileged" and/or "Confidential"

See Texas Brine Co. v. Dow Chemical Co., 2017 WL 5625812 (E.D. La. 2017);
U.S. Postal Serv. v. Phelps Ref. Corp., 852 F.Supp 156 (E.D.N.Y. 1994);
Hardy v. New York News, Inc., 114 F.R.D. 633 (S.D.N.Y. 1987).

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Factors to be Considered (cont.)

- Is the topic of the communication the subject of "pervasive regulation"?

In the Vioxx MDL, Merck argued that the breadth and scope of FDA regulation made extensive involvement of the legal team in business operations a necessity.

This argument was largely successful as the court distinguished the "pervasive regulation" theory from the "collaborative effort" argument (that distribution to non-lawyers was a necessity because both legal and non-legal personnel were involved in decision making). Likely this distinction was made because in every company non-legal personnel are part of a "collaborative effort" daily.

See In re Vioxx Prods. Liab. Litig., 501 F.Supp.2d 789 (E.D. La 2007);
But see Texas Brine Co. v. Dow Chemical Co., 2017 WL 5625812 (E.D. La. 2017)
(e-mails that "implicate the application of certain regulations" were not deemed privileged because they included "no indication of any legal advice sought or provided")

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Attachments to E-mails

- A separate analysis even if the e-mail itself is deemed privileged

- Attachments have been required to "independently earn that protection" and are increasingly found not to be privileged independent of the e-mail to which it is attached.

  AM General Holdings, LLC v. The Renco Group, LLC, 2013 WL 1668627 (Del. Ch. Ct. 2013);
  Muro v. Target Corp., 2006 WL 3422181 (N.D. Ill. 2006).

- "Attachments which do not, by their content, fall within the realm of the attorney-client privilege cannot become privileged by merely attaching them to a communication with the attorney.

  Kleen Products, LLC v. International Paper, 2014 WL 647558 (2014)

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ABA/BNA Lawyers' Manual on Professional Conduct

ABA's guidelines on how to protect sensitive communications:

- an employee-lawyer should "[a]void serving in both a legal and an administrative or business decision making role."
- "when not clearly acting as a legal advisor, make a written record of the legal aspects of any communication, and/or have another lawyer participate in the communications in the role of legal advisor."
- "make sure that requests for legal advice are so designated and that counsel's capacity as legal advisor is spelled out in writing."
- "avoid combining legal and non-legal matters in either oral or written communications, and never let non-legal matters predominate in sensitive communications."

Sec. 91:2209

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Recent Application: *US v. Halifax Hospital Medical Center*

- Hospital claimed privilege for hundreds of its in-house counsel's e-mails to a False Claims Act whistleblower.
- Judge protected none of the documents claimed to be privileged by the hospital.
- "Communications between corporate client and corporate counsel…involve a much different dynamic and require the proponent to satisfy a 'purpose and intent' threshold test."

2012 WL 5415108 (M.D. Fla. Nov. 6, 2012)

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Recent Application: *US v. Halifax Hospital Medical Center*

- "when a communication is simultaneously emailed to a lawyer and a non-lawyer, the corporation 'cannot clam that the primary purpose of the communication was for legal advice or assistance because the communication served both business and legal purposes."

- The court found that putting a lawyer in the "cc" field of an e-mail also sent to non-lawyers meant the e-mail was not privileged.

- The court found that employees' communications with in-house counsel regarding the legality of certain payments fell into the crime-fraud exception because it contemplated such acts and was not privileged.

2012 WL 5415108 (M.D. Fla. Nov. 6, 2012)

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The In-House Privilege in the Context of Internal Investigations

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Rule 1.13 of the ABA Model Rules of Professional Conduct

(a) A lawyer employed or retained by an organization represents the organization acting through its duly authorized constituents…

(f) In dealing with an organization's directors, officers, employees, members, shareholders or other constituents, a lawyer shall explain the identity of the client when the lawyer knows or reasonably should know that the organization's interests are adverse to those of the constituents with whom the lawyer is dealing.

Comment 10: ….Care must be taken to assure that the individual understands that, when there is such adversity of interest, the lawyer for the organization cannot provide legal representation for that constituent individual, and that discussions between the lawyer for the organization and the individual **<u>may not be privileged</u>**.

ABA Model Rules of Prof'l Conduct (1983) (emphasis added)

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Broadcom Option Backdating Investigation

- Broadcom's board hired lawyers to conduct an internal investigation regarding its alleged practice of backdating stock options. Shortly thereafter, civil suits were filed against the company and several of its executives.

- The lawyers conducted an interview of the CFO, but never disclosed to him that they represented only Broadcom and that whatever he told them could later be disclosed at Broadcom's discretion.

- The SEC and US Attorney's Office then commenced an investigation of several Broadcom executives relating to the company's option granting practices and Broadcom agreed to allow interviews of its attorneys regarding the internal investigation, including information concerning the CFO's interview.

- The CFO was indicted, but claimed that the information from the meetings was privileged. The lawyers claimed that, at the beginning of the interview, they had provided the CFO with an Upjohn or Corporate Miranda warning, but the CFO denied receiving such a warning.

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Broadcom Option Backdating Investigation (cont.)

- The district court held that: “an oral warning, as opposed to a written waiver of the clear conflict presented by [the law firm’s] representation of both Broadcom and [the CFO], is simply not sufficient to suspend or dissolve an existing attorney-client relationship and to waive the privilege.”

- Ultimate outcome:
  - Ninth Circuit reversed based upon the CFO’s knowledge that the investigation was to be turned over to the company’s auditors and probably the government.
  - The district court referred the law firm to the California State Bar for disciplinary action.

See United States v. Ruehle, 583 F.3d 600 (9th Cir. 2009);
United States v. Nicholas, 606 F.Supp.2d 1109 (C.D. Cal. 2009).

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The Proper *Upjohn* or *Corporate Miranda* Warning

- Disclosures (before the interview begins):
  - The lawyer represents the company and not the individual personally
  - The interview is part of an investigation being conducted for the purpose of providing legal advice to the company
  - The interview is protected by the attorney-client privilege that belongs solely to the company and not the individual
  - The privilege is subject to waiver at any time by the company without the individual's consent or knowledge
  - The substance of the interview is to be kept confidential, including as to other employees
  - The individual may want to retain outside counsel to represent his interests.

- Make a written record of the disclosures
  - Additionally, *Upjohn* Waivers are sometimes utilized at the time of hiring or at the inception of an investigation.

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Penn State/Sandusky Proceedings

- Penn State's GC appeared with each university administrator when they testified before the grand jury.
- The GC then testified to the grand jury herself regarding admissions the administrators made to her disclosing communications with them to the grand jury.
- The administrators claimed that they thought the GC was their lawyer for the purpose of the grand jury testimony.

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Penn State/Sandusky Proceedings

- The GC testified that :
  - she told the administrators "…that I could go in [to the grand jury room], but I was general counsel for Penn State, that there was no confidentiality…I mean, if the board asked, I would tell them."
  - she did not advise the administrators of their Fifth Amendment rights before they testified before the grand jury.

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Penn State/Sandusky Proceedings

- Pennsylvania Superior Court determined that:
  - the GC "did not provide anything akin to Upjohn warnings"
  - the GC did not explain the difference between her representation of the administrators in their individual capacities and as agents of Penn State
  - the administrators did not know that the GC did not represent them in their individual capacities
  - therefore, all communications between the administrators and the GC were protected by the attorney-client privilege

Commonwealth v. Schultz, No. 280 MDA 2015, 2016 WL 285506 (Pa. Super. Ct Jan. 22, 2016)

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KBR Internal Investigation: Affirmation of In-House Counsel Privilege

- Upon receipt of an employee tip about possible violation of the False Claims Act, an investigation was undertaken by a director of the Code of Business Conduct program in conjunction with a team of non-lawyers. After the investigations were completed, summary reports were prepared and forwarded to the company's law department.

- **District Court**: Investigations were "undertaken pursuant to regulatory law and corporate policy rather than for the purpose of obtaining legal advice." Department of Defense "require[s] contractors to have internal control systems such as [defendants'] COBC program" so that reported instances of alleged misconduct can be investigated and reported. The use of these "routine corporate, and apparently ongoing, compliance investigation(s)" was nothing more than the company's implementing DOD requirements. Ordered the internal investigation documents produced.

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KBR Internal Investigation: Affirmation of In-House Counsel Privilege

- **D.C. Circuit, June 27, 2014**:
  - Vacated the district court's document production order and confirmed that *Upjohn* is the standard by which the attorney-client privilege should be judged when assessing whether confidential employee communications made during a company's internal investigation led by company lawyers will be protected by the attorney-client privilege.

  - The test for applying the privilege is whether obtaining or providing legal advice was "**a** primary purpose of the communications," rejecting the rule that the privilege applies only if the communications would not have been made but for the fact that legal advice was sought—**one** of the significant purposes—**the privilege can apply even if the communication also had a business purpose**.

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KBR Internal Investigation: Affirmation of In-House Counsel Privilege

- **D.C. Circuit, June 27, 2014**:
  - Investigators are not required to inform interviewed employees that the purpose of the interview is to assist the company in obtaining legal advice. Upjohn does not require "a company to use magic words" to gain the benefit of the privilege for an internal investigation.
  - That many of the interviews in the investigation were conducted by non-attorneys was not dispositive. The investigation was conducted at the direction of attorneys in KBR's legal department. The D.C. Circuit held that communications made by and to non-attorneys serving as agents of attorneys in internal investigations are routinely protected by the privilege.
  - Upjohn did not require or hold that involvement of outside counsel was a necessary prerequisite for the privilege to apply.

In re Kellogg Brown & Root, Inc., 2014 WL 2895939, No. 1:05-CV-1276 (D.C. Cir. June 27, 2014)

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OSHA Compliance Self-Audits

- Despite its own policy statements, OSHA routinely seeks disclosure of the results of self-audits, arguing that such audits provide business advice rather than legal advice or that the audits are shared with individuals not necessary to the rendering of legal advice.

- For example, in *Solis v. Milk Specialties*, OSHA subpoenaed documents prepared at the request of in-house counsel concerning fire safety compliance efforts. The court found no privilege applicable saying that the burden to show it was legal advice is "more difficult in the context of in-house counsel because counsel is often involved in business matters."

OSHA®

854 F.Supp.2d 629 (E.D. Wis. 2012)

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Privilege Waived if Thoroughness of Investigation is the Defense

In *Koss v. Palmer Water Dept*., a federal magistrate judge held that an employer waived its privilege—both as to communications involving in-house counsel and outside counsel—when it used the thoroughness of its investigation as a defense in a sexual harassment lawsuit.

Civil Action No. 12-30170-MAP (D. Massachusetts, October 7, 2013)

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In-House Counsel Discussions with Former Employees

One state's supreme court has declined to "expand the privilege" to discussions between in-house counsel and former employees based upon Upjohn.

Newman v. Highland Sch. Dist.
(Wash. Oct. 20, 2016)

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The In-House Privilege in the Context of Technology-Related Waiver

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Possible Sources of Technology-Related Waivers

The increased use of both authorized and unauthorized technology as a vehicle to communicate or store otherwise privileged information has affected the ability to assert privileges where such use exposes the information to third-parties, such as:

- Social networking sites
- Cloud computing
- Mobile devices, including BYOD-related issues (as much as 75% of own device use is not approved)

Many entities have established Information Governance policies to control such communications and/or to provide evidence of an attempt to show no intentional relinquishment of privileged information.

Also note that a recent case found a company's effort to protect its information by wiping a terminated employee's iPhone wrongful because of the loss of the employee's personal information.

Rajaee v. Design Tech Homes, Ltd., No. H-13-2517, 2014 U.S. Dist. LEXIS 159180 at *3 (S.D. Tex. Nov. 11, 2014*); See Computer Fraud and Abuse Act, 18 U.S.C. § 1030*

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The In-House Privilege in the Context of “At Issue” Waivers

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B of A's Proxy Statement re: Merrill Lynch Acquisition

- Regarding investigations conducted by the SEC and the NY Attorney General's office concerning possible misleading statements in B of A's proxy statement which solicited approval for the acquisition of Merrill Lynch, B of A claimed that the statements were not misleading and that the bank's lawyers determined what to disclose, but was not willing to waive the A/C privilege so that the lawyers' involvement could be investigated.

- B of A claimed that it had not put the subject matter of legal advice "at issue" because it had not asserted reliance of legal advice as a justification for any inadequate or wrongful disclosures; but rather, that the disclosures complied with all applicable laws.

- B of A claimed that a regulator cannot create a basis for waiver of the A/C privilege by compelling answers to questions that might provoke answers concerning privileged communications. The holder of the privilege alone must affirmatively place the advice he received from his attorney "at issue" in the case.

- B of A's ultimate agreement to waive the privilege and settle with the SEC did not resolve the question as to the NY AG's investigation, which was ongoing.

Bank of America

See Securities and Exchange Commission v. Bank of America Corp., 653 F.Supp.2d 507, 508 (S.D.N.Y. 2009)

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B of A's Proxy Statement re: Merrill Lynch Acquisition

Question:

If B of A had not chosen to waive the privilege, would both investigations have been thwarted due to lack of evidence regarding reliance on legal advice?

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The In-House Privilege in the Context of Board Presentations

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Maxim Option Back-Dating Case

- **Facts**: A special committee formed by Maxim's board of directors shared the report of its outside counsel's special investigation with the full board, which included individual board members who were under investigation for alleged wrongdoing.

- **Trial Court Decision**
  - Maxim waived any claim to privilege regarding communications with outside counsel because board members who were individual defendants were present at the meeting that the relationship between the individual defendant board members and the special committee was "adversarial in nature," and that the privilege did not therefore survive.
  - The board presentations waived privilege not merely as to the report itself, but to all communications relating to the subject matter of the investigation.

Ryan v. Gifford, Civ. Action No. 2213-CC (Del. Ch. Nov. 30, 2007), [unpublished opinion]

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Maxim Option Back-Dating Case

- **Subsequent Denial of Interlocutory Review**

"The decision was the result only of the application of well-settled precedent to a set of particular and specific facts.... [T]he relevant factual circumstances here include the **receipt of purportedly privileged information by the director defendants in their individual capacities** from the Special Committee. The decision would not apply to a situation (unlike that presented in this case) in which board members are found to be acting in their fiduciary capacity, where their personal lawyers are not present, and where the board members do not use the privileged information to exculpate themselves. Similarly, the decision would **not affect the privileges of a Special Litigation Committee formed under Zapata, or any other kind of committee that (unlike the Special Committee here) has the power to take actions without approval of other board members**."

Ryan v. Gifford, 2008 Del. Ch. LEXIS 2 (Del. Ch. Jan. 2, 2008)

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And what about that PR firm the in-house counsel hires during its time of crisis?

- Was the PR firm hired because of current/threatened litigation or just routine everyday PR work? (Is it the same firm?)
- Was the PR firm really hired to facilitate the rendering of legal advice? (Put it in the retention agreement)
- That argument has had mixed results, but it has been successful on occasion, i.e. where Martha Stewart claimed the PR firm was hired to influence the coverage of her case and not just the opinion of her, in general.
- Use the same safeguards utilized for maintaining internal privileged documents.

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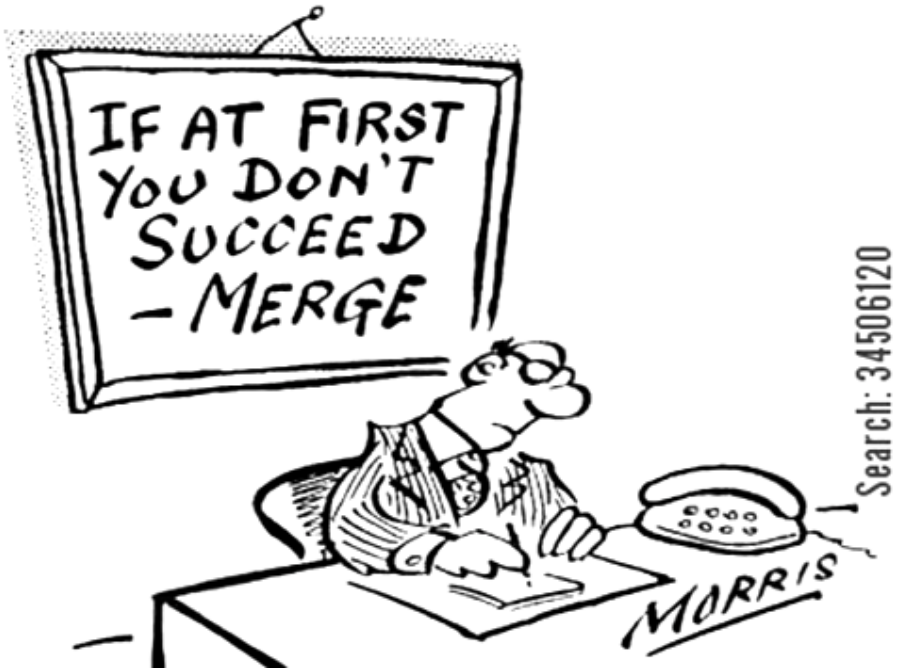
The In-House Privilege in the Context of Mergers & Acquisitions



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"Hey, you wanna talk about ripe for a takeover?"

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Who Owns the Attorney/Client Privilege After an Asset Acquisition?

- **New York**:
  - The seller retains the privilege as to communications with its counsel concerning the transaction and as to assets/liabilities not included in the sale.
  - The buyer acquires the privilege as to pre-closing issues pertaining to post-closing operations

See Tekni-Plex, Inc. v. Meyner & Landis, 674 N.E.2d 663 (N.Y. 1996);
Postorivo v. AG Paintball Holdings, Inc., Del. Ch., C.A. No. 2991, VC Parsons (2/7/08) (applying New York law)

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Who Owns the Attorney/Client Privilege After an Asset Acquisition?

- **Illinois**:
  - The buyer generally acquires the privilege as a whole, including assets/liabilities not included in the sale

See American Int'l Specialty Lines Ins. Co. v. NWI-I, Inc., 240 F.R.D. 401 (N.D. Ill 2007)

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Who Owns the Attorney/Client Privilege After an Asset Acquisition?

- **Delaware**:
  - While the buyer generally acquires the privilege as a whole, including assets/liabilities not included in the sale, ***parties may contract around a transfer of the privilege in the merger documents***.

Great Hill Equity Partners IV LP v. SIG Growth Equity Fund I LLLP, 80 A.3d 155 (Del. Ch. 2013)

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“Common Interest” Doctrine

Is there waiver in the context of sharing information concerning legal claims against a business during due diligence disclosures as part of evaluation of the significant risks?

- May vary between jurisdictions/federal circuits and as to the subject matter, but one line of cases holds that there is a “common interest” between the negotiating parties and no waiver results.

  See Hewlett-Packard Co. v. Bausch & Lomb, 115 F.R.D. 308 (N.D. Cal. 1987)

  3Com Corp. v. Diamond II Holdings Inc., 2010 Del. Ch. Lexis 126 (2010)

  (affirms common interest “in the transactional context” under Delaware law);

  FSP Stallion 1 LLC v. Luce, 2010 U.S. Dist. Lexis 110617 (applying Nevada law)

- But see *Ambac Assur. Corp. v. Countrywide Home Loans, Inc.* (applying New York law) finding that the common interest privilege did not apply to a transaction and only applies to pending or anticipated litigation.

  57 N.E.3d 30 (N.Y. 2016)

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Key Distinction: Restrictions on Disclosure

- Otherwise privileged information contained in offering documents provided to multiple potential investors—Not protected by common interest doctrine.

Santella v. Grizzly Indus. Inc. (D. Ore. 2012)

- Negotiation that was "largely locked up" and subject to a confidentiality agreement which included provisions for control over access to the privileged information—Protected by common interest doctrine.

Tenneco v. S.C. Johnson (N.D. Ill. 1999)

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What about drafts of documents when litigation ensues over whether an agreement exists or its terms?

While there is some split as to how far the privilege extends in this context, courts seem to recognize that a draft contract prepared by an attorney contains information shared between attorney and client which is entitled to protection, i.e. the precise reason that the draft wasn't shared during negotiations.

ComputerHope.com

See Iowa Pac. Holdings, LLC v. Nat'l R.R. Passenger Corp., 2011 WL 1527599 (D. Colo. 2011)

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When In-House Lawyer for Parent Company Represents an Affiliate Entity

- In general, in-house counsel may advise and represent an affiliate and her communications be protected by the attorney-client privilege. This is sometimes referred to as the joint client privilege or the co-client privilege.

- But, questions arise when the interests of the 2 entities diverge.

  In re Teleglobe Communications Corporation, 493 F.3d 345 (3rd Cir. 2007)

- And, what about any otherwise privileged pre-closing communications when the affiliate is sold to a third party?

  - At least one court has held that the buyer of a subsidiary had control to waive the privileged communications with the parent's in-house counsel as to pre-closing communications.

    Polycast Technology Corporation v. Uniroyal, 792 F.Supp 244 (S.D.N.Y. 1992)

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The Impact of Business Globalization on the In-House Privilege

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Countries with no Attorney-Client Privilege

- First, some countries do not recognize any attorney-client privilege
  - France
  - Italy
  - Sweden

- Many others have significant limitations to the privilege especially as it applies to in-house counsel.

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Akzo Nobel Case: No Privilege for In-House Counsel Communications

On September 14, 2010, the European Court of Justice issued its final opinion ***excluding communications between in-house counsel and the entity's employees*** from the protection of the European Union's counterpart to the attorney-client privilege ("the legal professional privilege") in the context of a dawn raid by European Commission authorities.

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From *Akzo Nobel* Opinion:

- "An in-house lawyer…does not enjoy the same degree of independence from his employer as a lawyer working in an external law firm does in relation to his client. Consequently, an in-house lawyer is less able to deal effectively with any conflicts between his professional obligations and the aims of his client."

- Also cited as a basis for the decision: The court's concern over the fact that in-house counsel are **"dual-purpose"** lawyers in that they perform functions in addition to legal representation of the company.

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Akzo Nobel Case: Possible Implications

- Although in the context of an investigation into alleged anti-competitive activities, the language of the opinion seems to indicate broader application by the ECJ to a broader context.

- Communications with in-house counsel in the United States that would be clearly privileged must be scrutinized in any company operating in the EU or routinely conducting business there.

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Akzo Nobel Case: Possible Implications

Questions:

- In an EU investigation (or perhaps any EU proceeding), will the origin of the communication determine whether a communication is privileged? Or the location of the proceeding?
- May information seized by an EU investigation containing attorney-client communications be shared with its U.S. counterparts?
- Does information contained in digital form exist anywhere it can be accessed by computer?
- If a U.S. court determines that an entity had no expectation that the communication would be privileged because of its significant business in the EU, will that conceivably affect a domestic privilege determination?
- If a U.S. court is asked to determine whether such communications are privileged that would otherwise not be privileged in the EU, what would be the outcome?

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Was *Akzo Nobel* Limited to Its Facts?

- To the extent that some argued that Akzo Nobel was just a function of the specific facts before it, 2 years later, the ECJ found that an in-house attorney may not represent its employer before the ECJ because of a lack of independence created by the employment relationship between lawyer and client.

Prezes Urzedu Komunikacji Elekronicznej and Republic of Poland v European Commission C-422/11 and C-423/11

- Also note that the Federal Social Court in Germany ruled in 3 cases that lawyers whose employer is not a law firm, i.e. in-house lawyers, are not entitled to an exemption from the duty to make contributions to the statutory pension insurance scheme because of a lack of independence from their employer.

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Belgacom Case: In-House Counsel Advice May Be Privileged

In March of 2013, the Brussels Court of Appeals opined that, under Belgian law, legal advice rendered by in-house counsel may be afforded protection equivalent to legal privilege.

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Belgacom Case

- Similar to *Akzo Nobel*, this was a dawn raid to investigate allegedly anticompetitive behavior, but was carried out by the Belgian Competition Authority under Belgian law. (EU Members themselves have the principal responsibility for regulation of lawyers.)

- The court explicitly declined to follow the EU rule articulated in *Akzo Nobel* under Belgian law.

- Also noted that the Belgian privilege is derived from the European Convention on Human Rights and the EU Charter of Fundamental Rights.

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Belgacom Case: Possible Implications

Questions:

- Since the language of the opinion limits the privilege to in-house counsel that are members of the Belgian Institute for Company Lawyers ("IJE/IBJ"), can an in-house lawyer who is not a member or in another country avail herself of this privilege? Statutory law attaches confidentiality to only members' legal advice because they subject themselves to professional responsibility rules.

- Given that the basis was a Belgian law which is premised upon the European Convention of Human Rights and the EU Charter of Fundamental Rights, could this serve as a basis for challenges to the *Akzo Nobel* ruling in other EU countries and in other circumstances?

- Note here that the court found that national laws applied (as opposed to EU laws) when a national authority acts at the request of the EU Commission.

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Suggested Best Practices

- Make strategic decisions regarding which types of documents to protect
- Reconsider dual titles and perhaps dual functions, where possible
- Make a practice of specifically referencing the “request for legal advice” or of the “legal advice” being provided
- Address communications to counsel rather than using “cc”
- Label documents to be protected as “Attorney-Client Privileged” and “Confidential” (but perhaps not a label to every e-mail transmitted)
- In addition to in-house counsel themselves, non-lawyers who interact with in-house lawyers must be educated on privilege parameters

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Suggested Best Practices (cont.)

- Separate factual recitations and business considerations from actual legal advice as much as possible, i.e. “here is what the law is” or “here is my legal advice”
- Create a new e-mail rather than hitting the “Reply” option as an initial e-mail may affect whether the Reply is privileged. *See Vioxx Products Liability Litigation*, 501 F.Supp.2d 789 (E.D. La. 2007)
- Determine whether the business is subject to “pervasive regulation” expanding the scope of the privilege.
- Understand whether data/communications are being stored on a server in the European Union or other jurisdiction where privilege may not be recognized
- Create appropriate *Upjohn/Corporate Miranda* warning documents for investigation interviews
- Consider the information to be disclosed at board meetings and attendees
- Except where absolutely necessary, assume the privilege does not exist
- Where absolutely critical to protect privilege, involve outside counsel

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In-House Counsel and Protecting Attorney-Client Privilege in Investigations and Litigation

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Facts Versus Privileged Communications

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Facts Versus Privileged Communications

- The attorney-client privilege applies to confidential communications between client and lawyer made for the purpose of seeking, obtaining, or providing legal advice.

- The privilege is intended to foster candor in attorney-client relationships and thereby improve the quality of the legal representation provided.

- **Communications may be privileged; facts are not.**

Facts Versus Privileged Communications

- Communications concerning facts may be privileged:

> A fact is one thing and a communication concerning that fact is an entirely different thing. The client cannot be compelled to answer the question 'what did you say or write to the attorney?' but may not refuse to disclose any relevant fact within his knowledge merely because he incorporated a statement or such fact into his communication with the attorney.

Upjohn v. United States, 449 U.S. 383, 395-96 (1981).

> The privilege covers both (i) those communications in which an attorney gives legal advice; and (ii) those communications in which the client informs the attorney of facts that the attorney needs to understand the problem and provide legal advice.

Federal Trade Comm'n v. Boehringer Ingelheim Pharm., Inc., 892 F.3d 1264 (D.C. Cir. 2018).

Facts Versus Privileged Communications

- Facts are not privileged – regardless of who possesses them:

  The Court agrees that Plaintiff is not entitled to the actual communications for legal advice, which an officer or employee of the Defendant, a corporation, requested or received from its counsel. However, the facts of which the Defendant had possession, whether in the possession of business people or attorneys, paralegals, or all of the above, and the decisions made, and actions taken, pursuant to and following those privileged communications, are not privileged.

Polansky v. Executive Health Resources, Inc., 300 F.Supp.3d 658, 661 (E.D. Pa. 2018).

Facts Versus Privileged Communications

- Facts provided to or by the lawyer are not privileged; but the lawyer's legal conclusions regarding those facts may be:

> Facts are discoverable, the legal conclusions regarding those facts are not. A litigant cannot shield from discovery the knowledge it possessed by claiming it has been communicated to a lawyer; nor can a litigant refuse to disclose facts simply because that information came from a lawyer.

Rhone-Poulenc Rorer Inc. v. Home Indem. Co., 32 F.3d 851, 864 (3d Cir. 1994).

Facts Versus Privileged Communications

- Whether a communication or document is authored by or addressed to an attorney is not dispositive of privilege.

- The privilege can also extend to communications or documents that reflect confidential communications between client and counsel for the purpose of seeking, obtaining, or providing legal advice.

Lewis v. Wells Fargo & Co., 266 F.R.D. 433, 444 (N.D. Ca. 2010); *see also SEPTA v. CaremarkPCS Health, L.P.*, 254 F.R.D. 253, 259 (E.D. Pa. 2008) ("The privilege may also extend to certain documents, that while not involving employees assisting counsel, still reflect confidential communications between client and counsel ….").

Facts Versus Privileged Communications

- In the corporate context, privileged communications may be shared among employees to relay information requested by counsel, or to properly inform those employees with a need-to-know of counsel's legal advice so they can act appropriately.

Davine v. Golub Corp., 2017 WL 517749, * 2 (D. Mass. 2017); *In re Vioxx Prod. Liab. Litig.*, 501 F.Supp.2d 789, 811 (E.D. La. 2007); *SmithKline Beecham Corp. v. Apotex Corp.*, 232 F.R.D. 467, 476 (E.D. Pa. 2005); *Santrade, Ltd. v. General Elec. Co.*, 150 F.R.D. 529, 545 (E.D.N.C. 1993).

Facts Versus Privileged Communications

- Notes, memoranda, or other documents memorializing or reflecting confidential communications with counsel are privileged (absent waiver).

United States v. DeFonte, 441 F.3d 92, 95 (2d Cir. 2006); *Adamowicz v. I.R.S.*, 672 F.Supp.2d 454, 470-71 (S.D.N.Y. 2009).

- Drafts of confidential communications to and from counsel are also privileged.

Laethem Equip. Co. v. Deere & Co., 261 F.R.D. 127, 142 (E.D. Mich. 2009).

Facts Versus Privileged Communications

- As a general rule (with jurisdiction-specific exceptions) the privilege applies to confidential, non-public drafts of agreements, contracts, and other documents prepared by an attorney at the request of the client, as well as confidential communications to an attorney attaching drafts for review and legal comment, and draft documents that contain attorney notes or comments reflecting legal advice regarding the contents.

See U.S. v. Davita, Inc., 301 F.R.D. 676 (N.D. Ga. 2014); *United Food and Commercial Workers Union v. Chesapeake Energy Corp.*, 2012 WL 2370637, *10 (W.D. Ok.); *Montgomery v. Leftwich, Moore & Douglas*, 161 F.R.D. 224, 227 (D.D.C. 1995); *Muller v. Walt Disney Prods.*, 871 F. Supp. 678, 682 (S.D.N.Y. 1994).

Facts Versus Privileged Communications

- Privilege depends on the purpose and confidential nature of communications between client and lawyer.
- Facts do not become privileged because a client communicates them to their lawyer, or vice-versa.
- Merely communicating with or copying a lawyer on a non-privileged email or forwarding a document to a lawyer does not imbue the email or the document with privilege.

Towne Place Condominium Assoc. v. Philadelphia Indem. Ins. Co., 284 F.Supp.3d 889, 895-96 (N.D. Ill. 2018).

Facts Versus Privileged Communications

- Generally, when a client transmits information to an attorney with the intent that it be communicated to a third party, such information is not confidential, and no privilege attains.

See United States v. Williams, 698 F.3d 374 (7th Cir. 2012); *In re Grand Jury Subpoena*, 204 F.3d 516, 522 and n.5 (4th Cir. 2000) ("An individual cannot purchase anonymity by hiring a lawyer to deliver his money or his messages.").

Facts Versus Privileged Communications

- What about facts compiled or analyzed at the request (or direction) of counsel?

In re General Motors Ignition Switch Litigation, 180 F.Supp.3d 521 (S.D.N.Y. 2015):

  - In the midst of government investigations, press inquiries and threats of civil litigation, GM retained outside counsel to conduct an internal investigation into faulty ignition switches and alleged delays in recalling affected vehicles.

  - Counsel reviewed tens of millions of documents, interviewed more than 200 current and former employees, and prepared a 315 page report (which GM proceeded to share with its board of directors, the Federal government and counsel for plaintiffs).

Facts Versus Privileged Communications

In re General Motors Ignition Switch Litigation, 180 F.Supp.3d 521 (S.D.N.Y. 2015) (continued):

- Plaintiffs moved to compel attorney notes and memoranda relating to the witness interviews, arguing that GM's release of counsel's report waived any privilege or work product protection and that in any event, the interviews were not conducted for the purpose of obtaining legal advice. *Id.* at 525-26.

- Outcome: The SDNY found the witness interviews were attorney-client privileged communications. GM and its counsel kept the interviews confidential, counsel provided up-front, *Upjohn* warnings and conducted the interviews with a primary purpose of providing legal advice to GM. *Id.* at 527-28.

- The district court also held that GM did not waive the privilege by sharing counsel's report with the Government and counsel for plaintiffs, because the report contained only facts – not privileged communications or the legal conclusions of counsel. *Id.* at 529-31.

Protecting the Privilege: Preparing for Deposition as In-House Counsel

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Quash the Subpoena/Deposition Notice If Possible – Try to Limit the Scope if Not

- Know the law of the relevant jurisdiction – you may have grounds to object and move to quash the subpoena/deposition notice and/or for a protective order limiting the scope or length of your deposition.

- The following factors (from *Shelton v. Amer. Motors Corp.*, 805 F.2d 1323 (8th Cir. 1986) are considered by many courts when considering objections and other challenges to in-house counsel depositions:
  - Is the information sought relevant and non-privileged?
  - Is the information sought crucial to the requesting party's case preparation?
  - Is there no less intrusive means to obtain the information?

- Consider proposing a substitute witnesses, or negotiating for interrogatories in lieu of deposition.

Get Counsel and Start Preparing

- Assuming efforts to quash your deposition fail, you should get separate outside counsel to represent you. Separate counsel eliminates potential conflicts of interest and will help ensure you receive unbiased, focused advice on privilege and ethics issues.
- Thorough preparation – with your outside counsel – is critical to protecting the privilege at your deposition.
- You need to understand the company's position regarding your potentially privileged communications and work product well ahead of your deposition.
- At the same time, you must be mindful of your own ethical obligations.

Get Comfortable in the Batter's Box

- Understand the subject matter and any other limitations on your deposition:
  - Is there a protective order or agreement limiting the scope of your deposition?
  - Is the adversary prohibited from inquiring about certain types of communications or thought processes?
  - Will the court be available to determine privilege objections "on the spot"?
  - Has the company identified for you the communications it considers to be privileged and its position regarding waiver?
  - If you wear multiple hats within your company, which apply to your deposition (i.e., in what capacity are you being deposed)?

Get Comfortable in the Batter's Box

- Know the rules of the game:
  - What are the duration & distance limitations for the deposition?
  - Which objections are subject to potential waiver?
  - On what good faith bases may you refuse to answer?
  - Do the parties have a "clawback" agreement to cover the inadvertent disclosure of privileged communications? Can you obtain agreement that your deposition transcript will be sealed for a reasonable period to accommodate a privilege review and any necessary further action?
  - When are you permitted to confer with counsel during the deposition, and are your communications during breaks considered potentially discoverable in the relevant jurisdiction?

Know the Boundaries to Protect the Privilege

- Thoroughly re-acquaint yourself with the contours of the attorney-client privilege, the work product doctrine, the joint-defense privilege and any other potentially applicable limitations on discovery (i.e., trade secrets, privacy obligations, etc.).
  - Understanding the general principles is not enough; you need to know the state of the law in the relevant jurisdiction.
  - Make sure your understanding of the law is consistent with that of your outside counsel and, if possible, your company.
  - You should closely review with your outside counsel any privilege or other discovery orders in the litigation, as well as any other significant privilege or relevant discovery decisions previously issued by the court.

Know the Boundaries to Protect the Privilege

- Remember that the client holds the privilege. You need to understand the company's position on privilege and related issues well before your deposition.

- Your outside counsel and counsel for the company should discuss how privilege objections will be handled; your outside counsel should prepare you for the mechanics of potential objections and accompanying instructions.

Know the Boundaries to Protect the Privilege

- To properly protect the privilege, you need to know what is considered a waiver and how the scope of waiver is determined.
  - Although the privilege belongs to the company, even inadvertent disclosure of privileged communications in discovery can lead to a finding of waiver.
  - Waiver may extend to all privileged communications regarding the same subject matter, and can go even further in some circumstances.
  - Using the privilege as a sword does not work; selective waiver is almost always a bad idea in litigation, especially where the waiver is made "on the fly" during a deposition.
  - Again, preparation is key. Work with your outside counsel to identify areas of anticipated questioning likely to implicate potentially privileged communications.

Consider Confidentiality Concerns

- As you work to identify areas of deposition inquiry likely to raise potential privilege issues/concerns, consider whether your legal advice was sought and provided in confidence.
  - Were the participants in your privileged communications (including cc's) appropriately limited to a need-to-know basis?
  - Has the confidential nature of your privileged communications been consistently respected and maintained?
  - Are your privileged e-mails and other written communications clearly identified as such?
  - Does your company have any policies and procedures concerning the solicitation and provision of legal advice from in-house counsel? Have they been consistently followed?

Consider Your Roles and Responsibilities as In-House Counsel

- You need to consider the various "hats" you wear within your organization and how they might impact your deposition testimony, as well as your ability to identify and protect potentially privileged communications.
  - Do you have legal and business roles and responsibilities within the company? Have those different roles always been clearly defined and delineated?
  - Do you have a written job description? Is it accurate? Is it complete?
  - Have you consistently made clear in what capacity you are providing advice, information and input to your colleagues?
  - Do your colleagues respect the distinct nature of your roles when they seek your legal advice, as opposed to business advice or counsel?

Make Preparation a Priority

- To effectively protect the privilege at deposition, you must dedicate sufficient time to thoroughly prepare with your outside counsel.
- Depositions of in-house counsel are considered extraordinary events by outside counsel – your should treat them as such and prepare yourself for what could be an intense, pressure-filled atmosphere.
- Consider conducting a mock deposition with outside counsel to help prepare for anticipated areas of questioning. Ensure that you share a mutual understanding of any potentially relevant privileged communications and any work-product issues.
- Talk with outside counsel about how you will handle privilege issues and related objections as they may arise at deposition.

Remember – You Are a Witness Now, Not the Lawyer on the Case

- As you prepare for your deposition, consider the possibility that we, as lawyers, may not always make the best witnesses. Why not? Well, for example, we …

> hate to admit that we don't know the answer to something (really anything); after all, that's what we're paid for, knowing the answer. This urge is especially strong among in-house counsel who are involved in almost every aspect of the company's business. Their clients rely on them to know the inner workings of the business and to keep them on the straight and narrow. To admit that they don't know some detail often feels to them like an admission that they haven't done their job, even if it's not accurate. Depositions are about real world events; they require witnesses to acknowledge imperfect facts and imperfect decisions.

Albert Vreeland and Jennifer Howard, *The Care and Feeding of In-House Counsel*; The Alabama Lawyer 340 (September 2006).

A Final Note: Consistent Respect for the Privilege Will Ensure its Protection

- To successfully protect attorney-client privileged communications against discovery, it has to be respected on an everyday, ongoing basis.

> The smart deposing lawyer … will not merely ask the in-house counsel to repeat communications made to him by upper management and hope that she momentarily forgets the privilege and answers the question. Rather, the lawyer will attempt, through rigorous questioning, to lay a foundation for the argument that the communications are not actually privileged or, alternatively, that the privilege has been waived. For example, the lawyer will ask the in-house lawyer to name all recipients of the subject communication to see if any third parties received the information which, if so, would constitute a waiver of the privilege. Or, the lawyer will question the in-house attorney about all the measures taken to ensure that the communication remained confidential and not subject to disclosure, again hoping to later argue that a waiver has occurred. ***The equally smart in-house lawyer, therefore, will take the necessary steps – long before receiving a deposition subpoena – to ensure that the privilege is not only established at the time of the communication, but also maintained thereafter.***

Todd Presnell, *Depositions of In-House Counsel – Protecting the Attorney-Client Privilege*, In-House Def. Q. 50 (Winter 2007) (emphasis supplied).

QUESTIONS?