

Is It Privileged? Privilege Issues for In-House Counsel

By Robert LoBue

The attorney-client privilege is a potent and practical rule of law based on the recognition that “sound legal advice or advocacy...depends upon the lawyer’s being fully informed by the client.” *Upjohn Co. v. United States*, 449 U.S. 383, 389 (1981). The privilege bars the compelled disclosure of communications between an attorney and client when the communication was made in confidence for the purpose of seeking legal advice. Like all attorneys, in-house counsel must be cautious in protecting communications that fall under this rule; care should be taken to satisfy each requisite element and inadvertent disclosures should be avoided or quickly remedied. Yet, in-house counsel, whose clients are not individuals but corporations comprised of numerous employees, face unique challenges in doing so. It may be, in the words of *Upjohn*, that the privilege is meant to encourage “full and frank communication” between attorney and client, but to whom can in-house counsel freely speak when the client is a corporation? Are only executives’ communications with counsel protected, or does the privilege extend to communications with all employees? Is a conversation with a former employee privileged? Are foreign in-house counsel treated the same as U.S. corporate counsel for privilege purposes? And, when in-house counsel also provides business advice, what information will be protected?

Elements of the Privilege Applied to In-House Counsel

Although the general rule of attorney-client privilege is easily stated, there are several wrinkles when the rule is applied to in-house counsel. For example, “client” and “confidential” take on special meaning in the in-house context. The corporation is the client, yet in-house counsel must discuss legal strategy and otherwise interact with employees whom the counsel does not represent and whose interests may end up diverging from that of the client. Nonetheless, the privilege is protected when the corporation distributes legal advice received from counsel through corporate employees, and information gathered by employees for transmission to counsel for the rendering of legal advice is also usually privileged.

The very definition of “attorney” takes on some complexity in the in-house context. In-house counsel who are admitted in other states can register to practice in New York under Part 522 of the Rules of the New York Court of Appeals, so long as they register within 30 days of employment and maintain bar membership obligations

in the state of admission. Registration only authorizes an attorney to provide legal services to the *corporation*, and not to “any customers, shareholders, owners, partners, officers, employees or agents of the identified employer.” Part 522.4(c). Providing legal services to such other parties is not only unauthorized, but likely will not be protected by the attorney-client privilege. On the other hand, if the attorney is admitted to practice in New York, courts often protect communications when an employee seeks legal advice about personal matters, so long as the employee made clear that she was seeking legal advice in an individual capacity and the communication was not about general corporate matters.

More complications arise in the case of foreign in-house counsel for U.S. corporations. Courts have taken divergent views: some have held that a legal practitioner functioning as such in a foreign country qualifies as an “attorney” for purposes of the attorney-client privilege, regardless of whether the foreign counsel is admitted in a U.S. jurisdiction or in his home country. *See, e.g., Renfield Corp. v. E. Remy Martin & Co. S.A.*, 98 F.R.D. 442, 444 (D. Del. 1982) (applying privilege under U.S. law because French in-house counsel, although not members of a bar, were the “functional” equivalent of U.S. lawyers, as they were competent to render legal advice and permitted by law to do so). Other courts have held that communications with foreign in-house counsel are only privileged where the parties have a reasonable expectation of confidentiality under the privilege laws of the foreign country. *See Louis Vuitton Malletier v. Dooney & Bourke*, No. 04 Civ. 5316 (RMB)(MHD), 2006 WL 3476735, at *17-18 (S.D.N.Y. Nov. 30, 2006) (declining to follow *Renfield* and instead looking to whether the participants in the communication expected that it would be confidential; because French law did not provide privilege for French in-house counsel, the court concluded that no privilege could be asserted); *see also Honeywell Corp. v. Minolta Camera Co.*, Civ. A. No. 87-4847, 1990 WL 66182, at *3 (D.N.J. May 15, 1990) (finding that *Renfield* was “contrary to the law of [the Third] Circuit,” and denying application of the privilege because the Japanese corporate employee was not licensed to practice law or a registered patent agent in any country). Further, the European Court of Justice has held that under E.U. law there is no “legal professional privilege” for communications with in-house counsel, because in-house lawyers are not considered independent due to their employment by the corporation. *Akzo Nobel Chemicals and Akcros Chemicals v. Commission*, C-550/07 P (Sept. 14, 2010). Thus,

a domestic corporation cannot assume that its communications with foreign in-house counsel will be protected under either U.S. or foreign law.

Exceptions to and Waivers of Attorney-Client Privilege

A party may be foreclosed from reliance on the attorney-client privilege due to either an exception to the general rule or waiver of the privilege. There are several exceptions to the privilege, such as when the communication is used to further a crime or fraud, when the party invoking the privilege has put the communications “at issue” (by, say, pleading an advice-of-counsel defense), or when the attorney waives the privilege in order to defend himself in litigation or collect a fee. In-house counsel must be particularly wary of the “fiduciary exception.” This exception is applicable to communications between a fiduciary and an attorney when the fiduciary sought legal advice for the benefit of the party seeking disclosure of the communication. This exception is based on the premise that both parties in the fiduciary relationship have “a mutuality of interest” in the fiduciary’s freely seeking legal advice, and that the fiduciary does not act for its own benefit but for the benefit of others—stockholders, union members, clients, etc. See *In re Stenovich*, 756 N.Y.S.2d 367, 380 (N.Y. Sup. Ct. 2003). When such a relationship exists, the court will determine whether “good cause” exists to require production of otherwise protected documents. For example, in a shareholder litigation, *Stenovich* held that a shareholder can obtain information about otherwise privileged communications between the board of directors and corporate counsel regarding the specific details of merger negotiations. Although often invoked in the context of derivative suits, the “controlling feature” of this exception is “whether the legal advice was sought for the benefit of the party seeking disclosure as a result of a fiduciary relationship.” *Id.* at 381.

Because the privilege belongs to the client, it can be waived by the client. When the client is a corporation, “the power to waive the corporate attorney-client privilege rests with the corporation’s management and is normally exercised by its officers and directors.” *Commodity Futures Trading Comm’n v. Weintraub*, 471 U.S. 343, 348 (1985). That principle can lead to some unexpected results when a change of control occurs. When control of the corporation passes to new management only the new management has the authority to assert or waive the privilege, and an assignee of all or substantially all of a corporation’s assets can also assert or waive the corporation’s privilege. For example, if a corporation sells one of its subsidiaries and the purchaser later claims breach of the sale agreement, the purchaser may waive privilege as to communications that the selling corporation’s general counsel

had with management of the subsidiary before the sale. Similarly, the trustee of a corporation in bankruptcy has the power to waive the corporation’s attorney-client privilege with respect to pre-bankruptcy communications.

The common interest doctrine allows parties facing common legal problems in pending or threatened civil litigation to communicate with each other, but in-house counsel should be cautious not to inadvertently waive the attorney-client privilege by over-reliance on that principle. The common interest doctrine does not create any privilege for communications where one does not otherwise exist; it merely protects against an argument that the sharing of otherwise privileged matters constitutes a waiver. The common interest privilege, moreover, does not protect communications when the parties merely share some common *business* as opposed to legal interest. For example, courts have found the attorney-client privilege to be waived when a party’s counsel communicated with investment banks regarding certain business aspects of a merger. See *In re Stenovich*, 756 N.Y.S.2d at 378. If corporate counsel intend to rely on the common interest doctrine, they should enunciate that intent before sharing communications and ideally reduce the understanding to a written agreement.

The Scope of Protection for Corporate Communications

Current employees: Two tests have been articulated for determining whether communications with current corporate employees are privileged. The minority view, now relegated primarily to Illinois, is the “control group” test. Under that test, the privilege may be invoked only with respect to communications with employees who are in a position to control, or take a substantial role in determining, the course of action a corporation may take based on the legal advice.

The majority rule, which is used in all non-diversity federal and most state cases, is the “subject-matter” or *Upjohn* test. This rule was created because the control group test was thought to “discourag[e] the communication of relevant information by employees of the client to attorneys seeking to render legal advice to the client corporation.” *Upjohn*, 449 U.S. at 392. Under this test, communications regarding the subject matter of a legal representation are protected as long as they were made by employees to in-house counsel at the direction of corporate superiors and the employees were aware that they were being questioned so the corporation could receive legal advice. This approach allows in-house counsel to gather facts from employees of non-executive rank in appropriate cases.

Former employees: Courts have recognized the need for corporate counsel to obtain knowledge from former employees in order to advise the corporation. As a result,

the attorney-client privilege may extend to communications between corporate counsel and a former employee if these communications (1) concern knowledge obtained or conduct which occurred during the course of the former employee's employment with the corporation; or (2) relate to communications which themselves were privileged and which occurred during the employment relationship. This does not mean that former employees are insulated from contact by an adversary's attorney; the opposing counsel need only advise the former employee of his representation and interest in the litigation and direct the former employee to avoid disclosing privileged or confidential information. *Muriel Siebert & Co., Inc. v. Intuit, Inc.*, 8 N.Y.3d 506, 511 (2007).

Mixed business and legal responsibilities: Many in-house counsel serve multiple roles in a company, often providing both business and legal advice. Courts are wary of assertions of privilege by attorneys with these dual responsibilities. For example, in *In re Sealed Case*, 737 F.2d 94, 99 (D.C. Cir. 1984), the court held that where the in-house counsel was a "[c]ompany vice-president, and had certain responsibilities outside the lawyer's sphere...[t]he company can shelter the [counsel's] advice only on a *clear showing* that the [counsel] gave it in a professional legal capacity" (emphasis added). Other courts have held the test to be "whether counsel was participating in the communications primarily for the purpose of rendering legal advice or assistance." *In re Vioxx Products Liability Litigation*, 501 F. Supp. 2d 789, 798 (E.D. La. 2007).

A communication that mixes business and legal advice does not automatically lose its privilege. Instead, courts will look at a number of different factors:

The substance of the communication. Courts will not protect communications where a substantial portion of the communication involved the rendering of business advice by the in-house counsel. However, the inverse is not necessarily true—even where legal aspects predominate, courts may separate the two spheres as much as possible and only protect those parts that are identifiable as legal.

The purpose of the communication or meeting. Courts will look to whether the communication or meeting was designed to address problems which can be characterized as predominantly legal. One case, *Georgia-Pacific Corp. v. GAF Roofing Mfg. Corp.*, No. 93 Civ. 5125 (RPP), 1996 WL 29392, at *4 (S.D.N.Y. Jan. 25, 1996), held that the negotiation of a contract by in-house counsel is a business and not a legal task. However, most courts focus on whether changes to contracts were legal in nature or business-related (e.g., prices of goods or services).

The title of the in-house counsel. Titles that mix business with legal roles (i.e., Vice President of Development and Assistant General Counsel) weigh against the privi-

lege. As part of this inquiry, courts sometimes look at the counsel's position on the corporate organizational chart.

Who the in-house counsel communicated with. Simply including the in-house counsel as one of several recipients to a communication or one of several participants at a meeting is not sufficient to establish privilege.

Recommendations for Protecting the Privilege

There are many common-sense steps that in-house counsel can take to better protect the privilege. First, clearly indicate when a communication is legal in nature. Documentation that a communication is for legal purposes—whether in the form of express disclaimers, prefatory language (such as "the meeting was held to discuss the legal consequences of..." or "this meeting was held in anticipation of litigation"), and email subject lines—ensures that the recipient will keep in mind the obligations of confidentiality and also helps convince a court that the communication addresses legal and not business concerns. Clear and visible designation also makes it less likely that privileged information will be inadvertently disclosed to a third-party or produced in litigation to opposing counsel.

Second, when in-house counsel occupies multiple positions, non-legal roles should be kept as distinct as possible from legal roles. Because courts require a "clear showing" that such counsel was acting in a legal capacity, it is best to ensure that meetings, documents, and conversations address only one of the counsel's roles—either business or legal—and attend to the other issues separately. If business issues were to arise at a "legal" meeting, the attorney-client privilege could very well be lost if the legal issues are not found by a court to have predominated.

Third, communicate regarding privileged matter—i.e., rendering legal advice or collecting information so as to render such advice—on a need-to-know basis. When litigation has ensued or is anticipated, discussions regarding legal strategy and issues should take place outside the presence of likely witnesses.

Finally, the conduct of corporate investigations when illegal conduct is suspected or has been alleged can present special problems that are often best handled by outside counsel. In particular, the *Upjohn* decision requires that specific warnings be given to interviewees in order to preserve the corporate attorney-client privilege.

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