
PRESERVING THE ATTORNEY-CLIENT PRIVILEGE IN CORPORATE COMMUNICATIONS: COMMON ERRORS

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INTRODUCTION

The attorney-client privilege is under attack. There is no question that one of the lynch pins of our profession is literally under siege. The American Bar Association has recognized the problem and formed a task force to address it. See <http://www.abanet.org/buslaw/attorneyclient/home>. Likewise, the Association of Corporate Counsel, U.S. Chamber of Commerce and other professional and business groups have joined forces to gather facts and present them to the United States Congress. See <http://www.acca.com/Surveys/attyclient2.pdf>.

There are several forces at work undermining the attorney-client privilege in the corporate context. Many in-house counsel are called upon to do far more than practice law. They are required to make strategic business decisions and wear many hats. When acting as a business leader, in-house counsel may be doing a great job ... of losing the privilege. Advances in technology also serve to undermine the privilege. It is increasingly difficult to ensure absolute confidentiality of electronic communications. Finally, our own government is hard at work attacking the privilege. In 2006, United States Deputy Attorney General Paul J. McNulty announced revisions to the so called "Thompson memorandum" that had been issued in 2003. The new guidance adopts a tiered approach to be followed by prosecutors. The Thompson memorandum had been roundly criticized by the profession as a blatant attempt to eviscerate the privilege. The McNulty memorandum is an attempt to "take the edge" off of the Thompson memorandum. Nevertheless, waiver requests continue to be a hot button item. Iowa in-house counsel with international clients are painfully aware that this is not just an American problem. The European union recently held that the attorney-client privilege does not apply to attorneys who are employed as in-house counsel. See *Joined Cases T-125/03 & T-253/03, Akzo Nobel Chems. Ltd. & Akcros Chems. Ltd. v. Comm'n*, 2007 ECJ CELEX LEXIS 555 (Sept. 17, 2007).

In the face of these forces, it is more important than ever for corporate counsel and attorneys representing corporate entities to be familiar with the fundamentals of the privilege and the best ways to protect it. This article discusses the top traps for counsel and offers some practical suggestions for avoiding these pitfalls.

PRIVILEGE PITFALLS

1. Failing to recognize the fundamentals of the privilege.

It may seem simplistic to suggest that the attorney who forgets the fundamentals of the attorney-client privilege is asking for trouble. Nevertheless, it seems that many of us forget the basics. To be privileged, a communication must: (1) be made by an attorney acting as such; (2) to a client; (3) in confidence. See Upjohn Co. v. United States, 449 U.S. 383 (1981). Every single communication must be analyzed with these fundamentals in mind.

Indeed, only by revisiting the fundamentals of the privilege can we make sense of some decisions. A recent Pennsylvania decision points out the importance of sticking to the fundamentals. A lawyer sent a communication to a regular corporate client explaining a new development in the law and warning the client to take a proactive approach. The communication was ultimately determined not to be protected by the attorney-client privilege. This is because the client had not asked for the lawyer's input and therefore, the technical elements of the attorney-client privilege were not satisfied.

2. Failing to act as "an attorney."

One need look no further than a colleague's business card to identify problems associated with determining when in-house counsel is acting as an attorney. Many in-house attorneys perform important functions that cannot be described as the provision of legal services. Attorneys serve as assistant counsel and "director of governmental affairs." Others might be designated not only as general counsel, but also "vice president", "secretary" or "director of risk management." It is common for in-house counsel to provide input on a number of issues, some of which may clearly be legal, while others are clearly business. It is when an in-house counsel renders advice that is a mix of both legal and business advice that problems develop. Our courts have attempted to formulate workable standards for determining if an attorney is acting as an attorney as opposed to a business leader. See In re Bieter Co., 16 F.3d 929 (8th Cir. 1994). Where roles may be intertwined, courts often require corporations to prove that they sought "primarily" legal advice from in-house counsel to avail themselves of the privilege. See, e.g. Sedco Int'l, S.A. v. Cory, 683 F.2d 1201 (8th Cir. 1992), *cert. denied* 459 U.S. 1017 (1982). Still other courts have held that, to be protected, the legal advice given to the client must be the "predominant element" in a communication. See United States v. Davis, 132 F.R.D. 12 (S.D.N.Y. 1990).

There are a number of areas of which corporate counsel should be wary. For example, in-house counsel acting as a human resource professional or risk manager may

not be protected by the privilege. In Neuder v. Battelle Pacific Northwest National Laboratory, 194 F.R.D. 289 (D.D.C. 2000), the court held that an attorney's communications were not protected by the attorney-client privilege. In that case, the attorney was serving on a personnel action review committee. The lawyer, together with the rest of the committee, reviewed terminations to determine if they complied with company policy and practices. When the plaintiff, a former employee, brought a discrimination claim, the court held that, although the attorney may have provided some legal advice during committee discussions, his role was primarily non-legal in that he simply served as another member of the committee determining whether the termination was consistent with company policy. Likewise, in Kramer v. Raymond Corp., 1992 Lexis 7418 (E.D. Pa. 1992), the court held that an attorney serving on a product liability risk reduction committee was not serving in a predominantly legal capacity. The attorney's communications were therefore not protected by the privilege. See also Ga. – Pac. Corp. v. GAF Roofing Mfg. Corp., 1996 WL 29392 (S.D.N.Y. Jan. 25, 1996).

From a practical standpoint, in-house counsel should be extremely careful when serving on corporate committees such as affirmative action, personnel review, ERISA claim review, diversity, or product liability committees. If possible, it is essential for corporate counsel to segregate legal advice from non-legal business communications. This is really the only way to guarantee the protection of the privilege.

3. Forgetting who “the client” is.

A corporation acts through people. Corporate counsel should be aware of the tests that might be applied in a given jurisdiction when determining whether the persons with whom the in-house counsel is speaking are considered “the client” for purposes of the privilege. Courts use the “control group test” or the “subject matter” test when analyzing communications. See Upjohn Co., 449 U.S. 383; E.I. du Pont de Nemours & Co. v. Forma-Pack, Inc., 718 A.2d 1129 (Md. 1998). As corporate counsel deal with employees, former employees and others, they should be mindful of that employee's role in the corporation, the subject matter of the discussion and the nature of any litigation, pending or threatened.

Attorneys should be aware that they might be seen as acting in a fiduciary capacity or that they might be representing someone other than a corporate entity. For example, corporate counsel conducting certain activities may in fact be acting on behalf of ERISA fiduciaries or claimants as opposed to the corporate entity.

4. Representing multiple clients.

All lawyers are especially careful when representing multiple clients. However, sometimes in the corporate context, it is not always obvious when a lawyer is doing so. A recent decision by the Delaware chancery court highlights the danger of providing privileged information in the corporate context.

In Ryan v. Gifford, 2007 WL 4259557 (Del. Ch. No. 30, 2007); 2008 WL 43699 (Del. Ch. Jan. 2, 2008), the Delaware Chancery court held that an investigative report of counsel to a special board committee lost its privileged status when it was disclosed to directors who were also defendants in a derivative action. In the face of an SEC investigation of alleged stock option backdating, Maxim Integrated Products, Inc. created a special committee of outside directors to investigate the allegations. The law firm representing the special committee ultimately presented a report to the entire Board of Directors, including those directors who were individually named as defendants in a pending civil derivative action. The court granted a motion compelling the production of the report. The court held that the privilege had been waived because the privileged material had been produced to the individual director defendants and their counsel and that the defendant's interests were "not common with the client."

The court's decision in Ryan created quite a stir. While the court later tried to clarify its decision to limit its application, the decision nevertheless should be closely analyzed by anyone representing Delaware corporations.

5. Squandering the "attorney-client privilege."

Any attorney involved in complex commercial litigation is used to receiving a number of documents in the discovery process that may be labeled "confidential" or "privileged." Typically this occurs because the person creating the document really did not think about whether it was privileged. Many documents that may be designated as privileged have to be produced because they do not truly satisfy the elements of the attorney-client privilege.

Corporate counsel should remember that overuse of the "attorney-client privilege" legend may cause to cheapen it. It should be remembered that usually such documents are reviewed in camera by a court with a limited understanding of the facts years after the document was created. Saving the "attorney-client" designation for documents that are truly protected should ensure a greater degree of protection.

6. Sloppy communication.

Confidentiality is the hallmark of the attorney-client privilege. Attorneys must take reasonable steps to ensure that their communications are confidential. Transmitting a communication to parties outside of the control group or management team may cause it to lose its privileged status. See Pritchard v. County of Erie, 2007 WL 3232096 (W.D.N.Y. Oct. 31, 2007).

Counsel should be extremely cautious when acting as a "guest" on a "hosted" wireless internet. This is especially true if the internet is hosted by opposing counsel or a third party. Such sites typically require users to agree to terms and conditions when they log on. Counsel should pay particular attention to the conditions they are being asked to agree to. If they are agreeing that their messages may be monitored, they will not have

an expectation of privacy and will therefore forfeit the privilege. See Scott v. Beth Israel Med. Ctr., 847 N.Y.S.2d 436 (N.Y. Sup. Ct. 2007).

7. Designating counsel as corporate representative.

Designating an attorney as a Rule 30(b)(6) witness is extremely dangerous. To be sure, most courts generally hold that merely designating an attorney pursuant to Rule 30(b)(6) does not waive any privilege. However, because an in-house attorney is an agent of the corporate entity, serving as a Rule 30(b)(6) witness may cause in-house counsel to unintentionally waive their client's privilege. See Motley v. Marathon Oil Co., 71 F.3d 1547 (10th Cir. 1995). This is especially true if the attorney may be serving in a dual role. See Adler v. Wallace Computer Servs., Inc., 202 F.R.D. 666 (N.D. Ga. 2001).

Like signing a 30(b)(6) designation, in-house counsel should be cautious about authoring or signing affidavits or cover letters to governmental agencies such as the Iowa Civil Rights Commission or Securities Exchange Commission. Once again, while merely signing an affidavit does not waive the attorney-client privilege, all the pitfalls associated with serving as a Rule 30(b)(6) representative likewise accompany signing an affidavit.

8. Inadvertent waiver.

Of late, many governmental agencies, including the Securities & Exchange Commission and the Department of Justice, have encouraged companies to "cooperate" in investigation and to do so by agreeing to waive the attorney-client privilege and work-product doctrine. In-house counsel should be very clear as to the extent of any waiver he or she intends to authorize.

At present there are competing philosophies on the scope of such a waiver. At one end of the spectrum is the Eighth Circuit's holding that a limited waiver is possible. See Diversified Indus., Inc. v. Meredith, 572 F.2d 596 (8th Cir. 1977). In Diversified Industries, the defendant provided privileged communications to the SEC. In subsequent litigation, an opposing party argued that the SEC disclosure waived the attorney-client privilege. The court held that although there was a waiver of the privilege, it was only effective for actions initiated by the SEC and that the corporation could assert the attorney-client privilege to protect those released documents in subsequent litigation against parties other than the SEC. This well reasoned approach may provide solace to attorneys practicing in Iowa.

Corporate counsel should, however, be aware of competing philosophies when it comes to waiver. A number of jurisdictions hold that a full and complete waiver of the attorney-client privilege occurred following the disclosure of confidential information to the government. See Permian Corp. v. United States, 665 F.2d 1214 (D.C. Cir. 1981). In Permian, the court rejected the limited waiver theory as "wholly unpersuasive" and held that an express "reservation of confidentiality" contained in documents transmitting privileged information made no difference whatsoever. The court held that a corporate

client should not be allowed to “pick and choose among his opponents” and reasoned that the limited waiver would frustrate, rather than promote, full disclosure.

There are numerous other pitfalls associated with a deferred prosecution agreement. This is especially true if the DPA includes a prospective waiver rather than merely a waiver regarding past misconduct.

Counsel should keep in mind that, although documents provided to third parties are clearly not protected by the attorney-client privilege, drafts of those documents may receive protection. See Klobluk v. Univ. of Minn., 574 N.W.2d 436 (Minn. 1998); see also SEC v. Beacon Hill Asset Mgmt. LLC, 2004 U.S. Dist. LEXIS 18390 (S.D.N.Y. Sept. 14, 2004). To protect documents in draft form from being swept up in an inadvertent disclosure argument, counsel should ensure that all drafts for circulation include an attorney, that the attorney is clearly asked to provide legal input, and that the documents are clearly labeled “drafts.”

9. Sloppy investigations.

There are a number of problems that can arise when in-house counsel is conducting an internal investigation. Counsel should take steps to uniformly use the “Upjohn” or “corporate Miranda” warning at the beginning of any employee interview. The warning typically includes the following elements: (1) the attorney represents only the corporation; (2) the interview is covered by the attorney-client privilege; (3) the privilege belongs to and is controlled by the company, not the individual employee; and (4) the company, in its sole discretion, can decide whether to waive the privilege and disclose information from the interview to third parties. The uniform use of the warning serves multiple purposes. First, it fulfills corporate counsel’s ethical obligation to refrain from misleading an employee with interests potentially adverse to those of the corporation. See Model Rules of Prof’l Conduct R. 1.13(f) (2007). In addition, the use of the warning should enable counsel to cloak the interview with the protection of the attorney-client privilege. Finally, a failure to give the warning may result in the privilege being determined to be held jointly by the employee and the company. This would obviously forfeit exclusive corporate control over the privilege. See Adler, 202 F.R.D. 666.

Corporate counsel should be prepared to respond to questions from employees regarding whether they need to retain separate counsel. Counsel should not offer advice to the unrepresented employee, except the advice that the individual should obtain counsel. Giving any other guidance may result in a violation of corporate counsel’s professional duties.

10. Failing to control agents.

Corporate counsel regularly use staff to assist in investigations or other matters. It is important to remember that, unless they are tightly controlled, agents may cause a waiver of the privilege. Generally, courts scrutinize agency claims very closely. A court

will only uphold the attorney-client privilege or work product doctrine in an agency situation if it is clear that that agent was acting under the direct supervision and control of counsel. See, e.g., Cuno, Inc. v. Pall Corp., 121 F.R.D. 198 (E.D.N.Y. 1988); Carter v. Cornell Univ., 173 F.R.D. 92 (S.D.N.Y. 1997).

To make it easier to establish the agency privilege, in-house counsel should follow some simple rules: (1) ensure the documents evidence the “agency” relationship on their face; (2) precisely define the role of the agent; (3) clearly document the legal purpose of the agent’s activity; and (4) make sure that in-house counsel is included in all communications, especially email.

PRESERVING THE PRIVILEGE

There are some simple steps that in-house counsel can take to avoid the pitfalls discussed above and to protect the privilege. In particular, in-house counsel should consider the following:

1. Consider the challenges posed by the pervasive use of email and electronic communication.
2. Do not place the “attorney-client privileged” legend on every email.
3. When writing, note the fact that the client requested the legal advice by writing words such as “in response to your request for legal advice.”
4. Segregate legal functions from those that are non-legal.
5. Segregate the facts in a document from legal advice.
6. Maintain separate legal and business files where permissible.
7. Educate your clients on the privilege.
8. Avoid serving as Rule 30 designee.
9. Don’t even consider a waiver without competent criminal counsel.
10. Know the corporate Miranda warning – “I REPRESENT THE CORPORATION, NOT YOU. THIS INTERVIEW IS COVERED BY THE ATTORNEY-CLIENT PRIVILEGE. THAT PRIVILEGE BELONGS TO THE CORPORATION – NOT YOU. THE CORPORATION MAY DECIDE, IN ITS SOLE DISCRETION, WHETHER OR NOT TO DISCLOSE THIS INFORMATION TO THIRD PARTIES, INCLUDING THE GOVERNMENT.”
11. Avoid using a business title when giving legal advice.

12. Don't write what can be said.
13. Limit the number of recipients of communication.
14. Avoid being an affiant or 30(b)(6) designee.
15. Consider adding a "do not distribute or copy this document DIRECTIVE."
16. If asked whether the employee should obtain counsel, the answer is always: "I cannot advise you on that matter" or ... "yes."

CONCLUSION

In this environment, it is extremely important for corporate counsel to make every effort to protect the attorney-client privilege. This is certainly one area of the law where being proactive may pay off.