Are You Protected? Myths of In-House Counsel Attorney-Client Privilege

Who are your clients as an in-house counsel and when are your communications protected by the attorney-client privilege? This interactive panel will discuss potential conflicts of interest between different business constituents that may arise in representing entity clients as an in-house counsel, the scope of the attorney-client privilege in a corporate setting, and best practices for in-house lawyers. Learn also how to protect the attorney-client privilege when working on cross-border issuers with clients and outside counsel in different countries. If you are a private practitioner, this panel will provide useful information in addressing conflicts of interest and the attorney-client privilege for your clients.

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Case Summaries

1. Ethical duties to protect attorney-client privileged communications.
   
a. The ABA Model Rules of Professional Conduct and various state statutes note an attorney’s ethical duties to protect confidential attorney-client communications. For example, ABA Model Rule of Professional Conduct Rule 1.6(a) states that a lawyer shall not reveal information relating to the representation of a client unless the client gives informed consent, the disclosure is impliedly authorized in order to carry out the representation, or the disclosure is required due to some mitigating circumstance, such as to prevent certain death.

   i. California Business and Professions Code section 6068(e) states that it is the duty of an attorney to “maintain inviolate the confidence, and at every peril to himself or herself to preserve the secrets, of his or her client.” Cal. Bus. & Prof. Code § 6068 (2016).

   ii. New York Civil Practice Law and Rules section 4503 states that “an attorney or his or her employee, or any person who obtains without the knowledge of the client evidence of a confidential communication between the attorney or his or her employee and the client in the course of professional employment, shall not disclose, or be allowed to disclose such communication.” N.Y. C.P.L.R. § 4503 (Consol. 2016).

2. As an in-house attorney, who is your client?

   a. The in-house attorney’s client is the corporation. Under ABA Model Rule of Professional Conduct 1.13(a), a lawyer employed or retained by an organization represents the organization acting through its duly authorized constituents. This means that an in-house attorney represents the company, which speaks through its officers, directors, and employees.

   b. The attorney of a corporation does not automatically represent directors, shareholders, or officers. In Waggoner v. Snow, Becker, Kroll, Klaris & Krauss, 991 F.2d 1501, 1509 (9th Cir. 1993), plaintiff co-founder and CEO of a company that retained the defendant as corporate counsel. Id. at 1503. After some financial struggles, the board voted to remove the plaintiff as CEO. Id. at 1504. The plaintiff then sued the defendant for legal malpractice, claiming that the defendant had personally given him false legal advice. Id. The court held that there was no attorney-client relationship between the plaintiff and defendant in part because the defendant had informed everyone on the board that he was counsel only for the company, and because the plaintiff had described the defendant as “corporate
3. Conflicts of interest may arise when representing individual officers or employees of corporation.

   a. **ABA Model Rule of Professional Conduct 1.7** states that a lawyer shall not represent a client if it would be directly adverse to another client or if there is a risk that the representation would be materially limited by the lawyer’s responsibilities to another. Often times, conflicts of interests can arise if in-house counsel decides to represent the company as well as individual officers or employees. For example, if in-house counsel is representing both the company and the CEO, and that company comes under investigation by the government, the company may want to argue that the CEO acted improperly on his or her own accord.

   b. **In-house counsel should always disclose who the client is.** In meetings with company directors, shareholders, or employees, in-house counsel should make a point to explain that in-house counsel represents the company, not the individual, and that there may be conflicts of interest. This way, the individual can seek outside counsel if he or she desires, and there will be no confusion as to what is and is not privileged information.

4. What communications are protected as attorney-client privilege?

   a. **Attorney-client privilege is governed by common law and state law.** Fed. R. Evid. 501. Generally, attorney-client privilege means that an attorney cannot, without the consent of his or her client, be examined as to any communication between the client and the attorney that was meant to be confidential and was in the course of the attorney’s professional employment as a legal advisor. Cal. Evid. Code §§ 952, 954.

   b. **Communications between in-house counsel and management might not be protected by attorney-client privilege if in-house counsel acted in a business capacity.** In Georgia-Pacific Corp. v. GAF Roofing Manufacturing Corp., No. 93 Civ. 5125 (RPP), 1996 WL 29392, at *5 (Jan. 24, 1996), the plaintiff and defendant entered into a contract for the sale of properties and other assets. Id., at *1. The defendant’s management asked its in-house counsel to review the contract before it was signed. Id. The defendant’s in-house counsel then began serving as a negotiator for the defendant, and also reported to management on the negotiations. Id. The contract was later breached and the plaintiff sued the defendant. Id., at *2. The plaintiff moved to compel defendant’s in-house counsel to answer certain questions about communications with management, but defendant objected on attorney-client privilege grounds. Id., at *2-3. The court ruled that “[a]s a negotiator on behalf of management, [in-house counsel] was acting in a business capacity,” and therefore communications related to those negotiations were not protected by privilege. Id., at *4-5.
c. In contrast, if the in-house counsel is acting in a legal capacity, the communications are protected. In *Diversey U.S. Holdings, Inc. v. Sara Lee Corp.*, No. 91 C 6234, 1994 WL 71462, at *1 (N.D. Ill. Mar. 3, 1994), the plaintiff sued the defendant over who was responsible for an environmental contamination. *Id.* The plaintiff demanded four documents written by the defendant’s in-house counsel regarding negotiations between the plaintiff and the defendant, but the defendant claimed that they were privileged. *Id.* The court ultimately ruled that the defendant had waived its privilege, but did state that lawyers who were engaged in negotiations were acting in a legal capacity because drafting legal documents, e.g. contracts, is traditional legal work. *Id.*, at *1-2.

d. Communications between in-house counsel and any employee of the company can be privileged, not just those between an officer or shareholder and in-house counsel. In *Upjohn Co. v. United States*, 449 U.S. 383, 394 (1981), the United States sued the defendant after one of its subsidiaries made potentially illegal payments to foreign officials. *Id.* at 386-387. The general counsel of the defendant sent a questionnaire to its employees who were not management regarding the allegedly illegal payments. *Id.* at 386-87. During the lawsuit, the government sought discovery of those questionnaires. *Id.* at 387-88. The defendant argued that those questionnaires were privileged. *Id.* at 388. The Court ruled that the documents were privileged because the purpose of the questionnaires was for in-house counsel to gain facts it needed to render legal advice. *Id.* at 394-95.

e. In-house attorney-client privilege often will depend on the dominant purpose of the requested communication. In *United States v. Davis*, 131 F.R.D. 391, 408 (S.D.N.Y. 1990), the government sued the defendants for rescission or reformation of subsidy contracts after the defendant breached its contractual obligations. *Id.* at 394. The government moved to compel communications by in-house counsel relating to the negotiation of contracts. *Id.* at 400-01. The court stated “[t]he mere fact that business advice is given or solicited does not, however, automatically render the privilege lost: where the advice given is predominantly legal, as opposed to business, in nature the privilege will still attach.” *Id.* at 401-02. Ultimately, the court found that the defendant had not met its burden of showing that the communications were predominately legal in nature. *Id.* at 402-03. The communications seemed to relate largely to the negotiation process, which is outside of the traditional attorney-client communications. *Id.* at 402. Thus, the privilege did not apply. *Id.* at 403.

f. Example – Internal investigations can be protected by ensuring that the purpose of the investigation is legal in nature, and by hiring outside counsel to conduct the investigation. Whether or not an internal investigation is protected by attorney-client privilege will turn on the purpose of the investigation. However, hiring outside counsel to conduct the investigation may give support to the inference that the investigation is for legal purposes and is thus protected. In


_Holt v. KMI-Continental_, 95 F.3d 123, 134 (2d Cir. 1995), the defendant was sued for alleged racial and sexual discrimination. _Id._ at 126. The plaintiff attempted to rely on two internal reports to show that the defendant’s decisions were racially motivated. _Id._ at 134. One report was a human resources report regarding the defendant’s inability to retain African-American workers, and the other was a report discussing the defendant’s potential liability under the Equal Pay Act. _Id._ The court reasoned that the report discussing liability under the Equal Pay Act was seeking legal advice, and was thus privileged. _Id._ But the report discussing employee retention was not seeking legal advice, and was not privileged. _Id._

In _United States v. Rowe_, 96 F.3d 1294, 1297 (9th Cir. 1996), the defendant was an attorney at a law firm. _Id._ at 1295. The defendant asked two associates at his firm to do some fact investigation regarding a senior partner’s handling of client funds. _Id._ The United States began investigating the firm, and subpoenaed the two associates. _Id._ The court ruled that they could not be subpoenaed. _Id._ at 1297. The court reasoned that the two associates were essentially acting as in-house counsel, and the fact that the defendant later turned the matter over to outside counsel was clearly an indication that litigation was anticipated. _Id._ at 1296. The court stated that “hiring of outside counsel is, obviously, an indication that litigation is anticipated and therefore, that professional legal services are required.” _Id._

5. How to establish that the communications are entitled to protection under the privilege? (In other words, factors to think about to protect communications.)

   a. **Attorney-client privilege protects communications between an attorney and the client from disclosure.** The party asserting the privilege has the burden of establishing its applicability during litigation. Typically, an eight-part test is considered and communications are privileged if the following are met: (1) where legal advice of any kind is sought (2) from a professional legal adviser in his capacity as such, (3) the communications relating to that purpose, (4) made in confidence (5) by the client, (6) are at his instance permanently protected (7) from disclosure by himself or by the legal adviser, (8) unless the protection be waived.

   In _United States v. Ruehle_, 583 F.3d 600, 609 (9th Cir. 2009), the United States sued the defendant for a scheme involving backdated stock options. _Id._ at 602. The defendant made statements to his company’s attorneys about the scheme, but understood that the lawyers would report those statements to an outside auditor. _Id._ at 603. The defendant later claimed that the statements were protected by attorney-client privilege. _Id._ at 605. The court held that the statements were not privileged because defendant could not satisfy the eight-part test. _Id._ at 607-09.

   b. **In multi-district litigation, courts have used electronic internal distribution patterns to determine privilege.** In _In re Vioxx Products Liability Litigation_, 501 F. Supp. 2d 789, 809-13 (E.D. La. 2007), the defendant was a pharmaceutical company that was sued after one of its drugs was found to cause increased risk of heart attack. _Id._ at 790. The defendant asserted privilege over approximately
The court then appointed a Special Master to review the documents. Id. at 791. The defendant argued that because the drug industry is so extensively regulated, everything a member of the industry does carries potential legal problems, and thus virtually everything sent to its legal department was privileged. Id. at 800-01. The court disagreed. Id. at 801. Instead, the court stated that it would determine privilege by whom the emails were sent to. Id. at 809-13. If they were sent to in-house counsel, those documents and attachments were presumed to be sent primarily to obtain legal advice and were therefore privileged. In re Vioxx, 501 F. Supp. 2d at 809-13. However, if they were sent to both lawyers and non-lawyers, or if they originated with lawyers but were eventually forwarded to non-lawyers for edits, they were presumed to not be privileged. Id.


6. Exceptions to the attorney-client communication privilege.

a. The crime-fraud exception can stop in-house counsel from asserting attorney-client privilege. If a client knows it is using an attorney’s advice to further illicit activity, the attorney-client privilege does not apply. An in-house attorney need not know of the illegality involved for the crime-fraud exception to apply. In In re Grand Jury Proceedings, 87 F.3d 377, 382-83 (9th Cir. 1996), the government sued the defendants, who were the president and employees of a company, for federal tax evasion and impeding the Immigration and Naturalization Service. Id. at 379. The government made a prima facie showing that certain communications between the defendants and the corporate attorneys were in furtherance of a crime. Id. at 380. The defendants argued that those communications were still privileged because the corporate counsel was not aware of the crime and did not take affirmative steps to facilitate the crime. Id. The court disagreed with the defendants, ruling that the communications were not privileged because an attorney does not need to know about the crime; the privilege is focused on the client. Id. at 381. Thus, if the client knows there is a crime, and uses an attorney to further that crime, the crime-fraud exception applies. Id.

b. A company can waive privilege over the objections of individual employees if the individual employees’ communications with in-house counsel were related to the company. The Second Circuit has held that for individual employees attempting to prevent a corporation from disclosing a communication between those employees and corporate counsel, the employees must show: 1) they approached counsel for legal advice; 2) they were clearly seeking advice in their individual capacities; 3) counsel saw fit to communicate with them in their
individual capacities; 4) the conversation was confidential; and 5) the conversation did not concern matters within the company or the general affairs of the company. In *United States v. International Board of Teamsters*, 119 F.3d 210, 217 (2d Cir. 1997), the United States began investigating the defendant after a union member who had lost a union election alleged the winning member had illegally raised funds. *Id.* at 212. The defendant wanted to waive its attorney-client privilege for matters regarding the investigation, but an individual employee asserted individual attorney-client privilege in order to prevent the defendant from disclosing communications between him and the defendant’s counsel. *Id.* at 213. The court laid out the above mentioned five-part test, and stated that because the allegedly privileged communications were related to the company, the company was the sole holder of the privilege and could therefore waive it without approval from anyone else. *Id.* at 214-16.

7. Do other countries recognize the attorney-client privilege?

a. **In-house and outside counsel should be aware that many countries do not recognize attorney-client privilege for in-house counsel, and many of those that do recognize it put serious limitations on the privilege.** In instances where allegedly privileged communications took place in a foreign country or involved foreign attorneys or proceedings, some U.S. federal courts will defer to the law of the country that has the most direct and compelling interest in whether those communications should remain confidential. Courts will determine the number and quality of contacts each country has with the case, and use those factors to determine which country has the most direct and compelling interest in having its laws apply. Courts also look to where the allegedly privileged relationship was entered into, and where the allegedly privileged relationship was centered at the time of communication.

In *Astra Aktiebolag v. Andrex Pharmaceuticals, Inc.*, 208 F.R.D. 92, 98 (S.D.N.Y. 2002), the plaintiff, a Swedish pharmaceutical company, sued the defendant over patents. *Id.* at 95-96. The court held that for communications between the plaintiff and its outside Korean counsel, which were related to Korean patents, Korean privilege law would apply. *Id.* at 99. Further, for communications between the plaintiff and its American outside counsel, or communications related to American patents, American privilege law would apply. *Id.* Finally, for documents between plaintiff and its German outside counsel, the court held that German privilege law would apply. *Id.* at 98-99.

8. **Takeaways.** To increase the likelihood of preserving privilege as in-house counsel: 1) disclose who the client is during meetings; 2) clearly document the purpose of communications; 3) consider using different corporate titles when performing business-related work rather than legal work; 4) consider hiring outside counsel to conduct investigations; and 5) be aware of differing international laws relating to privilege.