

Steps In-House Counsel May Take to Preserve the Attorney-Client Privilege

By Christina Bost-Seaton

The attorney-client privilege has long been held to apply in the corporate context. See *Upjohn Co. v. United States*, 449 U.S. 383 (1981). Determining the contours of this protection, however, is not simple. Whether the attorney-client privilege protects an in-house counsel's communications is determined on a case-by-case basis, depending on the subject matter of each individual communication. Communications to or from in-house counsel are not protected by the privilege simply because the in-house counsel is an attorney. For the attorney-client privilege to protect an in-house counsel's communication, the corporate client has the burden of showing that the in-house counsel's communication (1) was made for the purpose of providing legal advice, and (2) that the communication was intended to be, and was in fact, kept confidential. *Pritchard v. County of Erie*, 473 F.3d 413, 419 (2d Cir. 2007); see also Restatement (Third) The Law Governing Lawyers § 118.

In-house counsel frequently perform both a business and a legal function for their employers. Accordingly, many in-house counsel have two corporate titles—for example, assistant general counsel and vice president, or general counsel and secretary. Only in-house counsel's communications in their legal role, however, are subject to the protection of the attorney-client privilege. An in-house counsel's communications relating to his or her business function are not protected by the attorney-client privilege simply because the in-house counsel is an attorney. *U.S. Postal Serv. v. Phelps Dodge Refining Corp.*, 852 F. Supp. 156, 160 (E.D.N.Y. 1994). As long as the communication is primarily or predominantly of a legal character, however, the privilege is not lost merely because the communication also refers to certain non-legal matters. *Rossi v. Blue Cross & Blue*

Shield, 542 N.Y.S.2d 508, 511 (1989).

Some courts have found that when an in-house counsel conducts a negotiation, he or she is acting in a business—rather than a legal—function, and that the attorney-client privilege does not protect the in-house counsel's communications related to the negotiation. See e.g., *Georgia Pacific v. GAF Roofing Mfg. Corp.*, 1996 U.S. Dist. LEXIS 671 (S.D.N.Y. Jan. 25, 1996). Similarly, one court found that a corporation's senior vice president and deputy corporate counsel's communications about whether the corporation should honor a line of credit were not protected by the attorney-client privilege. *MSF Holdings, Ltd. v. Fiduciary Trust Co., Int'l*, 2005 U.S. Dist. LEXIS 34171 (S.D.N.Y. Dec. 7, 2005) (because the emails at issue did not specifically refer to legal principles or contain any legal analysis, the communications were predominantly commercial in nature and not privileged). Additionally, some courts have found a presumption that a lawyer in the corporation's legal department gives predominantly legal advice protected by the attorney-client privilege, while a lawyer working in a business unit within the corporation gives predominantly business advice that is not subject to the attorney-client privilege. See e.g., *Boca Investings P'ship. v. United States*, 31 F. Supp. 2d 9, 12 (D.D.C. 1998).

Thus, notes of business meetings do not become privileged simply because an attorney was in attendance. Similarly, emails sent in the course of the corporation's day-to-day business do not become privileged simply because in-house counsel is copied on those emails. In *In re Vioxx Products Liability Litigation*, for example, Merck & Co. argued that the "pervasive regulation" of the pharmaceutical industry required that in-house counsel review virtually every communication and document that left the company. The court found that while "the pervasive nature of governmental regulation is a factor that must be taken into

account . . . [corporations] cannot reasonably conclude from the fact of pervasive regulation that virtually everything sent to the legal department . . . will be automatically protected by the attorney-client privilege." 501 F. Supp. 2d 789, 800–801. (E.D. La. 2007).

When considering whether a communication should be protected by the attorney-client privilege, courts also consider whether the communication was kept confidential. This consideration is a waiver-based analysis—that is, by allowing too many employees of the corporation access to a privileged document, the corporation may be deemed to have waived the protection of the attorney-client privilege. Among the factors that courts consider is whether the communication was disseminated only to those employees within the corporation who had a "need to know" the information. *In re Grand Jury Subpoenas*, 561 F. Supp. 1247, 1258–1259 (E.D.N.Y. 1982); *Coastal States Gas Corp. v. Dep't of Energy*, 617 F.2d 854 (D.D.C. 1980). Simply marking a communication as "confidential" does not guarantee that the communication will remain privileged, but such a marking is a factor considered by the courts when making their determination as to whether a communication is subject to the attorney-client privilege. *In re Grand Jury Proceedings*, 2001 U.S. Dist. LEXIS 15646 at *36–37 (S.D.N.Y. Oct. 3, 2001).

Recent Developments

Recently, there have been two troubling attacks upon attorney-client privilege protection for in-house counsel communications.

In *Gucci America, Inc. v. Guess?, Inc.*, a copyright infringement case in the U.S. District Court for the Southern District of New York, Magistrate Judge James L. Cott determined that Gucci could not claim the protection of the attorney-client privilege for communications seeking or providing legal advice that were sent to or from one of Gucci's in-house counsel who was not an active member of the bar. During the in-

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house counsel's deposition, he admitted that while he was a member of the California bar, his membership was inactive. Following an investigation, Gucci discovered that the in-house counsel's membership had been inactive for nearly 14 years. Guess moved to compel Gucci to produce all communications to and from the in-house counsel.

Judge Cott, noting that an essential element of the attorney-client privilege is the participation of an attorney, found that the in-house counsel's failure to maintain an active bar membership meant that he was not an attorney authorized to engage in the practice of law. Further, Judge Cott found that Gucci could not have reasonably believed that the in-house counsel was an attorney who was authorized to practice law because Gucci had failed to exercise the minimal due diligence necessary to confirm that the in-house counsel had maintained an active license. Accordingly, the court found that the attorney-client privilege did not apply to the in-house counsel's communications. *Gucci America, Inc. v. Guess?, Inc.*, 2010 U.S. Dist. LEXIS 65871 (S.D.N.Y. June 29, 2010).

This said, on January 3, 2011, Judge Shira A. Scheindlin rejected Judge Cott's findings, instead ruling that communications between Gucci and its in-house

counsel were, in fact, protected by the attorney-client privilege. Judge Scheindlin further found that to "require businesses to continually check whether their in-house counsel have maintained active membership in bar associations before confiding in them simply does not make sense." *Gucci America, Inc. v. Guess?, Inc.*, 2011 U.S. Dist. LEXIS 15 (S.D.N.Y. Jan. 3, 2011).

In *Azko Nobel Chems. Ltd. and Akros Chems. Ltd. v. Comm'n of the European Communities*, the European Court of Justice (ECJ), the European Union's highest court, found that, in Europe, the attorney-client privilege does not protect legal advice given by in-house counsel from disclosure or discovery in investigations brought by the European Commission. While courts in the United Kingdom (like in the United States) extend the privilege to all lawyers, including in-house counsel, many continental European countries have long held that the attorney-client privilege is restricted to outside counsel, who are believed to be more "independent" and "not bound to the client by a relationship of employment." The ECJ's ruling adopts this more restrictive view, stating that the legal landscape "has not evolved . . . to an extent which would justify a change in the case law and recogni-

tion for in-house lawyers of the benefit of legal professional privilege."

More particularly, the ECJ stated:

An in-house lawyer, despite his enrollment with a Bar or Law Society and the professional ethical obligations to which he is, as a result, subject, 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.

Azko Nobel Chems. Ltd. and Akros Chems. Ltd. v. Comm'n of the European Communities, C-550/07 P (September 14, 2010).

While the ECJ's ruling only applies to European Union competition-law investigations by the European Commission, its firm statements as to in-house counsels' perceived lack of independence indicate that the ECJ is unlikely to extend the attorney-client privilege to in-house counsel anytime soon and gives those who advocate for a more limited application of the privilege another decision supporting their position.

Guidelines for Maintaining the Protection of the Attorney-Client Privilege

Steps that in-house counsel can take to increase the likelihood that their communications will be protected by the attorney-client privilege include:

- Educate non-legal employees about the attorney-client privilege, when it applies, and how it can be waived by sloppy business practices. In-house counsel should remind non-legal employees that routine business communications are not privileged simply because they are sent to in-house counsel.
- Clearly label all written communications seeking or providing legal advice as "confidential" and subject to the "attorney-client privilege." These labels should only be used when applicable; overuse of these labels could result in a court finding that such communications do not warrant protection by the attorney-client privilege.

- Avoid funneling all documents through in-house counsel, as a court may interpret this as a bad-faith attempt to withhold discoverable evidence.
- Request that non-legal employees write, at the top of their written communications with in-house counsel, that the communication constitutes a “request for legal advice.”
- Similarly, when requesting information from non-legal employees, in-house counsel should write, at the top of any written communication, that “this information is being requested for the purpose of rendering legal advice.”
- Where possible, legal and business topics should not be discussed in the same communication.
- When producing documents and creating a privilege log during litigation, in-house counsel should not withhold an entire document as privileged when portions of the document deal only with business information. Rather, in-house counsel should redact and log privileged portions of documents, and then produce the redacted document.
- If there is a fear that litigation may arise with regard to a particular transaction, for example, and in-house counsel have been asked to investigate the facts surrounding that transaction, all the in-house counsel’s documents relating to that investigation should specifically state that they were created “in anticipation of litigation.”
- To minimize the possibility of a court finding that the attorney-client privilege has been waived because the communication was distributed too widely, in-house counsel should be careful to distribute the communication to only those non-lawyers who truly have a “need to know.” In-house counsel should consider having the corporation disable the “reply all” feature on its email client and include in each communication a record as to why that communication needed to be distributed to each of its recipients.
- In-house counsel with both a business and a legal title may want to include only their legal title on any communications transmitted in their legal function. Similarly, when acting as an attorney, in-house counsel may want to include “Esq.” after their names as a further indication that they are acting in their role as an attorney.
- In-house counsel may want to sequester privileged electronic documents in a separate database, or to individually password-protect privileged documents, distributing the password to only those employees with a true “need to know” the information. Paper copies of privileged documents should be kept under lock and key so that they are not accessible to all employees or to the general public.
- The corporation’s document-retention policy should specifically describe the various mechanisms by which the corporation protects privileged documents. More importantly, the corporation must follow its written policy.
- In-house counsel may want to include a disclaimer on emails to protect against inadvertent waiver. While such disclaimers are generally not enforceable, courts may find that they constitute circumstantial evidence that the communication was intended to be kept confidential. In such circumstances, courts may find that the corporation did not waive its attorney-client privilege with regard to the document. Alternatively, courts may find that the attorney-client privilege was waived with regard to the document, but not with regard to all communications related to the subject matter discussed within the document.