GREENSFELDER

The Privilege Continuum: Practical Tips for Assessing Privilege

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ACC St. Louis Chapter

The Privilege Continuum

Whether or not a document contains privileged content is rarely a clear binary "yes" or "no," but a continuum of specific facts.

Our Mission

Bring into focus:

- Appreciate the risks upfront and adapt as appropriate
- Reduce the risk of inadvertent disclosure or waiver
- Avoid the risk of over-claiming non-existent privilege

Why should we care?

- An ounce of prevention is worth a pound of cure
- Unintentional waiver of attorney-client privilege or work product
- Forfeiture or loss of “cooperation credit” in a government investigation
- Loss of credibility and evidentiary issues arising from over-claiming privilege (e.g., triggering preservation duty or foreclosing defenses)

Privilege: The Fundamentals

DEFINITIONS

ATTORNEY-CLIENT

(1) it reflects a communication between an attorney and a client;

(2) legal advice is requested, provided, or referenced; ***and***

(3) it is confidential (*i.e.*, not shared with a third party to the privileged relationship)

WORK PRODUCT

(1) it reflects an attorney's thought processes or a communication between an attorney and a client;

(2) it is prepared in connection with pending or anticipated litigation or regulatory investigation; ***and***

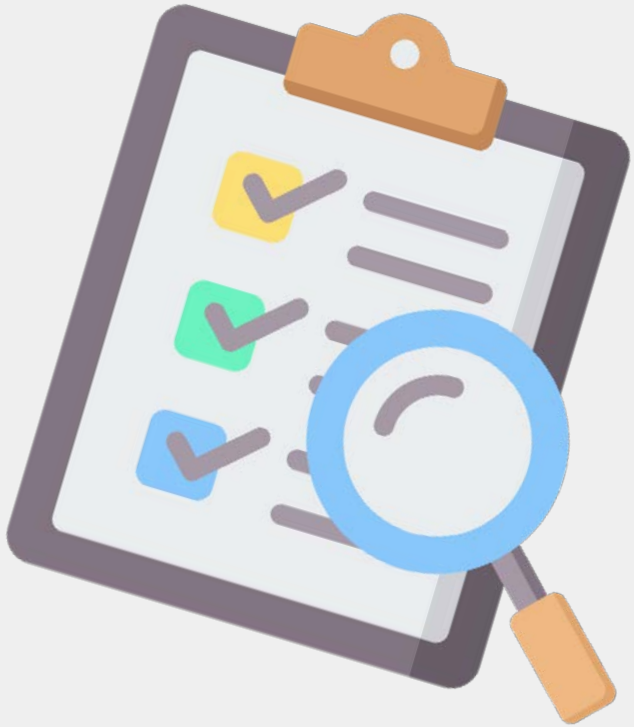
(3) it is not waived (*i.e.*, it was not disclosed to an adversary)

Generally evaluate:

(1) Parties to the Communication

(2) Purpose of the Communication

(3) Confidentiality



That’s the fundamentals…

But what about communications in unique scenarios faced by businesses and in-house counsel?

"[M]erely sending a communication to an attorney does not cloak a document in the attorney-client privilege."

Glenwood Halsted LLC v. Vill. of Glenwood, No. 11-CV-6772, 2013 WL 140794, at *2 (N.D. Ill. Jan. 11, 2013)

Third-Parties

(Independent Auditors, Investigators, Public Relations)

Third Parties

- Attorney-client privilege and work product can extend to outsiders
- Although highly fact-specific, cases have extended privilege to:
  - Outside auditors
  - Public relations firms
  - Private investigators

Independent Auditors

- In the wake of Enron and other scandals, the SEC is focusing more on the diligence of independent auditors, and as a result, auditors are taking a deeper dive.

- *Resulting in…*
  - Dangerous tension between the independent auditor's need for information to support its audit findings and the company's need to protect its privileged information.

Independent Auditors

The dilemma

How to provide information required by the auditor to render an accurate opinion without waiving the privilege vis-à-vis third parties in subsequent litigation.

Independent Auditors
(Attorney-Client Privilege)

Is the attorney-client privilege waived if a company discloses its communications regarding assessment of the likelihood of litigation stemming from a recent acquisition to its independent auditors to determine the adequacy of the company's contingency reserves?

-Yes-

and

-No (maybe)-

Independent Auditors
(Attorney-Client Privilege)

The majority view: disclosure to an independent auditor constitutes a waiver of the attorney-client privilege.

United States v. El Paso, 682 F.2d 530, 540 (5th Cir. 1982): disclosure of privileged information to independent auditors destroys any confidentiality with respect to that information, and "with the destruction of confidentiality goes as well the right to claim the attorney-client privilege."

Independent Auditors
(Work Product)

Minority view: Disclosure also constitutes waiver of work product protection.

Medinol Ltd. v. Boston Scientific Corp, 214 FRD 113, 114 (SD NY 2002): "By certifying the public reports that collectively depict a corporation's financial status, the independent auditor assumes a *public* responsibility transcending any employment relationship with the client. The independent public accountant performing this special function owes ultimate allegiance to the corporation's creditors and stockholders, as well as to the investing public. This "public watchdog" function demands that the accountant maintain total independence from the client at all times and requires complete fidelity to the public trust." *citing US v. Arthur Young & Co*, 465 US 805, 818 (1984)

Independent Auditors
(Work Product)

Majority view: Information prepared because of the prospect of litigation may be protected by the work product doctrine when disclosed to auditors.

Merrill Lynch & Co. v. Allegheny Energy Inc , 229 FRD 441 (S.D.N.Y. 2004)

US v. Deloitte, 610 F3d 129 (Ct. App. 2010)

- Blanket waiver would discourage companies from engaging in critical self-analyses
- The interests of the auditors and company are aligned in exposing corporate fraud and accuracy of the financial statements

Best Practices to Preserve Privilege

- Engagement letter with robust confidentiality clause and emphasis on the attorney-client privilege and work product doctrine
- Parties agree to abide by the “treaty” between the American Institute of Certified Public Accountants and the ABA which contains numerous limitations on counsel’s obligations to respond to audit request letters

- Avoid “creating” documents for the purpose of the audit

PR Firm Communications

If purpose of the communications is to manage the corporation's public image and reputation → **Not Privileged**

Calvin Klein Trademark Trust v. Wachner, 198 F.R.D. 53, 54 (S.D.N.Y. 2000) (PR firm was "simply providing ordinary public relations advice…")

PR Firm Communications

If the purpose of the communication is to assist in securing legal advice → **Privileged**

In re Grand Jury Subpoenas, 265 F.Supp.2d 321 (S.D.N.Y 2003) (attorneys' communications with PR firm were protected from disclosure under the attorney-client privilege for the purpose of assisting counsel in defending high profile criminal case when addressing the media, or otherwise influencing public opinion. Client's communications were not made for a similar purpose, and were not protected)

Private Investigators

Yes?

or

No?

Whether or not the communications with a PI are privileged depends on the purpose for which the information was obtained.

Hypothetical

Attorney retains an investigator to track the activities of two debtors and identify their assets in a pre-bankruptcy effort to collect a judgment.

Privileged

In re Genger, Debtor, No 19-13895, 2021 WL 471434 (Bankr. S.D.N.Y. Feb. 9, 2021)(investigator's reports concerning the activities of debtors and their domicile were prepared in anticipation of litigation and protected from disclosure as work product)

Hypothetical

Law firm served dual roles as claims investigator and legal advisor to defendant–insurer. Plaintiff moved to compel documents relating to attorneys' fact-gathering and claims assessment.

Not Privileged

Roc Nation LLC v. HCC Int'l Ins. Co., 2020 WL 1970697 (S.D.N.Y. April 24, 2020) (the work product doctrine did not extend to documents and communications relating to counsel's fact-gathering, which are ordinarily generated by an insurer to assess a claim)

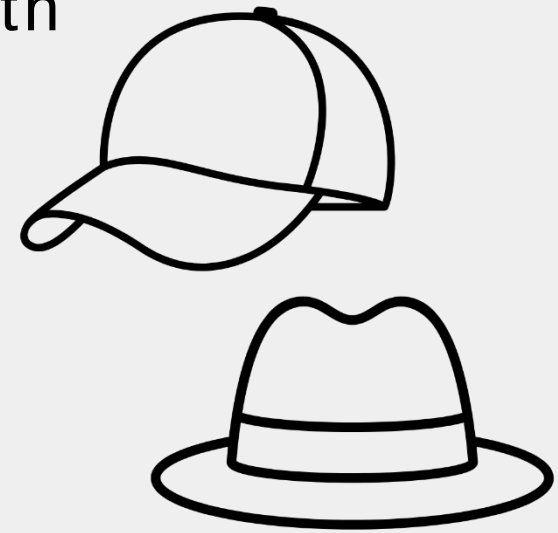
What to Do

- Carefully define the scope of the investigator's services
- Make clear the purpose for which the investigator is retained and to whom the investigator will report
- Emphasize that communications between the parties and any resulting reports or work product are privileged and confidential, and may not be disclosed without prior authorization
- Understand that communications with third parties outside of counsel (e.g., witnesses) are not protected under the attorney-client privilege

Attorneys Serving in Business Roles

The Two Hats Dilemma

- In-house counsel often serve both business *and* legal roles.
- The attorney-client privilege generally does not extend to business advice such as accounting, business, or public relations services.



- The line between business services and legal advice, however, may be very gray.

What about dual purpose communications/documents?

- Was the purpose of communication to provide legal advice?
  - Some courts require it to be the sole purpose
- Similar analysis for work product
  - Was the document created “because of” (potential) litigation?
  - Was the “primary” motivating purpose of the document (potential) litigation?

In re Grand Jury (SCOTUS, Docket No. 21-1397)

- Raised Circuit split on application of attorney-client privilege to dual purpose communications
  - Specifically, 9th and D.C. Circuits, and within 9th Circuit
- Fully briefed and argued before SCOTUS, several amici filings

In re Grand Jury (SCOTUS, Docket No. 21-1397)

- "Because of" Test:
  - Typically applied in context of work product protection
  - Looks at totality of circumstances and whether made "because of" need for legal advice
  - Ninth Circuit rejected this test because more applicable to work product questions, not AC privilege

In re Grand Jury (SCOTUS, Docket No. 21-1397)

- "Significant Purpose" Test (D.C. Circuit):
  - *In re Kellogg Brown & Root, Inc.*, 756 F.3d 754 (D.C. Cir. 2014) (then-Judge Kavanaugh): Internal investigation involving both legal and business aspects. Internal business people acted under supervision of in-house counsel, but no outside counsel. Court landed on significant purpose analysis. Requires a genuine legal purpose of communication
  - Evaluates whether legal advice was "one of the significant purposes"
  - Two overlapping purposes (legal and non-legal) can exist—no rigid distinction

In re Grand Jury (SCOTUS, Docket No. 21-1397)

- "Significant Purpose" Test (D.C. Circuit):
  - Addressed by 9th Circuit in In re Grand Jury
  - Commented that no other Circuits have adopted *Kellogg* (although some district courts have), "very specific context of corporate internal investigations"
  - "The *Kellogg* test would only change the outcome of a privilege analysis in truly close cases, like where the legal purpose is just as significant as a non-legal purpose."
  - Ninth Circuit left open possibility of applying this test in different factual circumstances

In re Grand Jury (SCOTUS, Docket No. 21-1397)

- "Primary Purpose" Test (9th Circuit):
  - Requires evaluating and determining the primary purpose of the communication
  - Was the primary purpose of the communication to give or receive legal advice (as opposed to business advice)?
  - The implication being a communication can only have one primary purpose

In re Grand Jury (SCOTUS, Docket No. 21-1397)

- Writ dismissed as improvidently granted, no resolution on issue (January 2023)
- Result: Continued lack of clarity and predictability on dual purpose communications and how to treat them
- Case pertained to tax issues, tax practitioners must be particularly sensitive to these decisions

In re Grand Jury (SCOTUS, Docket No. 21-1397)

- What now?
  - Counsel may want to be more intentional about separating legal v. non-legal communications
    - Reality: this is complicated and not practical
  - Privilege reviews will continue to be difficult
    - No uniformity in how these questions will be addressed by counsel/parties
  - Outcome of application of privilege may vary by court/Circuit
    - Personal ramifications on both in-house and outside counsel in terms of what is discoverable

Other Decisions

City of Roseville Employees' Ret. Sys. v. Apple Inc., 2022 WL 3083000 (N.D. Cal. Aug. 3, 2022):

- Real life example of how this issue is currently playing out in litigation claims of privilege—addresses several specific privilege claims by Apple
- Ninth Circuit's decision in *In re Grand Jury*: "did not intend to announce a bright-line rule that advice involving regulatory compliance is, per se, business advice … Conversely, the cases cited by Defendants do not stand for the proposition that advice relating to regulatory compliance is always legal advice."
- Disclosure committee emails with a lawyer on the committee not AC and had to be disclosed
- Left open that *Kellogg* may be applied in unique circumstances—Ninth Circuit construes *Kellogg* to be vary narrow in application

Other Decisions

- *Vioxx Prods. Liab. Litig.*, 501 F. Supp. 2d 789 (E.D. La. 2007): Email sent to lawyers and business people requesting review and comment not privileged because "primary purpose" was not to obtain legal advice.
- *In re Grand Jury Subpoena Duces Tecum*, 731 F.2d 1032 (2d Cir. 1984): Evaluating documents involving both legal and business advice. Some documents were protected related to tax advice under various laws and consequences. But status report mentioning corporate reorg and communications that indicated a fraudulent conveyance were not protected.
- *In re Spalding Sports Worldwide, Inc.*, 203 F.3d 800 (Fed. Cir. 2000): communication was for purpose of legal advice directed to in-house legal department, even though did not expressly ask for legal advice because "invention record was prepared and submitted primarily for the purpose of obtaining legal advice."

But what if I label it?

From: Joe Smith
To: Jane Doe
Date: April 17, 2019
Subject: AC Priv: Draft Contract

Attorney-Client Privilege/Work Product

Jane,

See attached for your review.

Thanks,
Joe

Time and Time Again, Courts Reject Mere Labels

Erickson v. Hocking Technical College, Case No. 2:17-cv-360, 2018 U.S. Dist. LEXIS 50075 (S.D. Ohio Mar. 27, 2018):

> Labeling "Attorney-Client Privileged Information" on an email drafted three days after the at-issue meeting "does not operate to retroactively render the earlier, otherwise-unprivileged discussions subject to the attorney-client privilege."

Valley Forge Ins. Co. v. Hartford Iron & Metal, Inc., No. 1:14-cv-00006-RLM-SLC, 2017 U.S. Dist. LEXIS 57370, at *15-16, *17, *17-18, *19, *19- 20 (N.D. Ind. April 14, 2017):

> "[L]abeling communications as 'privileged and confidential' or 'attorney-client work product' 'does not render the documents privileged when they contain no communication made or work done for the purpose of providing informed legal advice.'"

Keep in mind…

- "where a communication contains both legal advice and business advice, attorney-client protection only applies if the legal advice predominates over the business advice; the privilege does not apply where legal advice is **merely incidental to business advice**." *In re Syngenta AG MIR 162 Corn Litig.*, 2017 WL 1106257, at *7 (D. Kan. Mar. 24, 2017)
- "**copying an attorney does not** make a communication privileged, and it is not apparent that the purpose of the email was to solicit legal advice as opposed to business advice." *Nucap Indus. Inc. v. Robert Bosch LLC*, 2017 WL 3624084, at *2 (N.D. Ill. Aug. 23, 2017)

Keep in mind…

- "As the Court had previously suggested, the record here reflects that Sedgwick wore **two hats**: that of claims handler and legal counsel." *In re Residential Cap., LLC*, 575 B.R. 29, 37 (Bankr. S.D.N.Y. 2017)
  - In two hat situations, courts will often break down the communication between business and legal aspects, and at most only protect some.
- "edits …[that] constitute nothing more than **simple editorial changes** … do not qualify for attorney-client privilege protection." *Entrata, Inc. v. Yardi Sys., Inc.*, 2018 WL 5438129, at *3 (D. Utah Oct. 29, 2018)

Lessons Learned

1. Attempt to distinguish and separate dual communications, as best you can.
2. Labels don’t cut it: your communication will not be protected simply by labeling it “privileged”.
3. Expressly call out whether legal advice is being requested or provided.
4. In the *Apple* case discussed, court pointed out that factors suggesting not for legal advice: high number of recipients and the attorney is merely cc'd on emails.
5. Be cautious when a privileged communication becomes something else (business, social) including on informal communication channels like chats.

Compliance

Compliance

Are all communications relating to compliance investigations privileged?

-No-

Not covered by privilege:

- The attorney-client privilege only protects communications made for the purpose of obtaining legal advice, not communications for the purpose of:
  - complying with a legal requirement
  - obtaining business or regulatory advice
  - furthering or carrying out a crime or fraud
- Not sufficient that compliance department operates under supervision or oversight of legal department
  - *United States ex rel. Baklid-Kunz v. Halifax Hospital Medical Center*, 2012 U.S. Dist. LEXIS 158944, at *11-12 (M.D. Fla. Nov. 6, 2012)

Not covered by privilege:

- *United States ex rel. Barko v. Halliburton Co.*, No. 1:05–cv–1276, 4 F.Supp.3d 162, 166, 2014 WL 929430, at *2 (D.D.C. Mar. 11, 2014): Communications not protected by the attorney-client privilege because they were made for the purpose of complying with a regulatory requirement, rather than seeking legal advice
- *In United States ex rel. Gale v. Omnicare, Inc.*, 2013 U.S. Dist. LEXIS 143831, at *4 (N.D. Ohio Oct. 4, 2013): no attorney-client privilege protection for Compliance Committee meetings and documents because they were required by a prior agreement with the government
- *Wultz v. Bank of China Ltd.*, 979 F Supp. 2d 479 (S.D.N.Y. 2013): Judge Scheindlin focused on lack of involvement of in-house counsel, “privilege does not apply to an internal corporate investigation…made by management itself.”

So what is covered?

- Internal Investigations: if the communications were made for the **primary purpose** of obtaining or providing legal advice
  - Conducted with the assistance of an attorney

In re Gen. Motors LLC Ignition Switch Litig., 80 F. Supp. 3d 521 (S.D.N.Y. 2015): "So long as obtaining or providing legal advice was one of the significant purposes of the internal investigation, the attorney-client privilege applies, even if there were also other purposes for the investigation…"

Competitive Intelligence

Competitive Intelligence

Whether or not a company's competitive intelligence research and analysis is privileged largely depends on the nature of the information provided, and the purpose for which it is compiled. See *FTC v. Abbive, Inc.,* No. 14-5151, 2015 WL 8623076 (E.D.Pa. Dec. 14, 2015)

Hypothetical

ABC Corp is a leading manufacturer of tooth paste with whitening properties that make the teeth sparkle. It's CI team routinely combs public sources (patent applications, FDA submissions, SEC filings, websites, etc.) to determine the status and timing of competing products coming to the market to assess the impact on ABC's business.

Privileged?

-No-

Hypothetical

Abbive, Inc., 2015 WL 8623076

- Under the A/C privilege, “facts are discoverable, [while] legal conclusions regarding those facts are not[.]” at *2
- Analysis of when a competitor’s product would enter the market was not provided for the purpose of obtaining or providing legal advice. *3

Hypothetical

The ABC Corp CI team includes a scientist who is responsible for analyzing patent applications for toothpaste with whitening properties to report any potential infringements to in-house counsel.

Privileged?

-Yes-

Hypothetical

The communication is likely protected under the attorney-client privilege if the primary purpose is to secure legal advice, rather than business or technical advice.

See SmithKline Beecham Corp., 232 FRD 467, 481 (E.D.Pa. 2005); *In re Spalding Sports Worldwide, Inc.*, 203 F.3d 800, 805-806 (Fed. Cir. 2000)

What have we learned?

1. Neither the business nor in-house counsel should overuse labels by stamping everything privileged
2. Communications should be expressly for the purpose of requesting or providing legal advice
3. Don’t overshare—keep it to those necessary for the legal discussion—”need to know”
   - Don’t engage in long string emails discussing multiple issues where only a minor part involves legal advice
4. Robust engagement letters that establish the attorney-client relationship, bounds of work product, and confidentiality expectations
5. Outside counsel to retain consultants/agents pursuant to robust Kovel agreements, when appropriate

Thank you!

GETTING IN TOUCH

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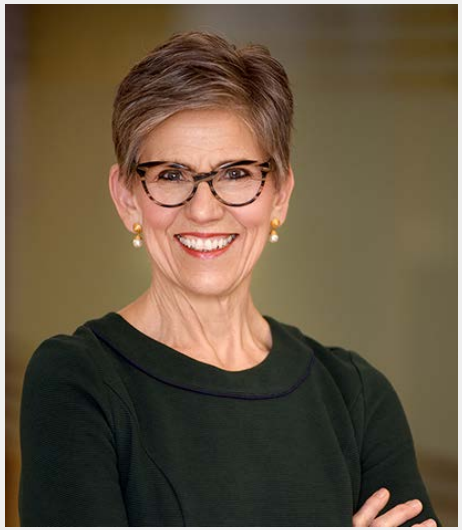

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