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PROTECTING ATTORNEY-CLIENT PRIVILEGE WHEN WEARING YOUR BUSINESS ADVISOR HATS

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Refresher (The Basics)

Attorney-Client Privilege

- *The attorney-client privilege is intended to encourage "full and frank communication between attorneys and their clients, and thereby promote broader public interests in the observance of law and the administration of justice." Upjohn Co. v. United States, 449 U.S. 383, 389 (1981).*
- It "protects only those disclosures necessary to obtain informed legal advice which might not have been made absent the privilege." *Fisher v. United States*, 425 U.S. 391, 403 (1976).

Attorney-Client Privilege in the United States

- The attorney-client privilege protects:
    - Communications that are:
        - Confidential
        - Exchanged between a lawyer and their client
        - For the purpose of giving or receiving legal advice
- No differentiation between legal advice provided by in-house counsel and legal advice provided by outside counsel – communications with both are protected. *NLRB v. Sears, Roebuck & Co.*, 421 U.S. 132, 154 (1975).

Waiving Attorney-Client Privilege

- The protection of the attorney-client privilege can be lost:
    - The privileged communications are placed **"at-issue"** in the litigation. Privileged communications are placed "at-issue" when "it would be unfair for a party who has asserted facts that place privileged communications at issue to deprive the opposing party of the means to test those factual assertions through discovery of those communications." *Windsor Secs., LLC v. Aent Fox, LLP*, 273 F.Supp.3d, 512, 520 (S.D.N.Y. 2017).
    - Attorney-client communications made **in the presence of third parties** are not privileged unless the third party's presence is consistent with an intention to keep the communications confidential. Similar principles apply where attorney-client communications, even though privileged originally, are disclosed to third parties. *In re Consol. Litig. Concerning Intern. Harvester's Disposition of Wisconsin Steel*, 666 F. Supp. 1148, 1156–57 (N.D. Ill. 1987).

Wearing Two Hats

In Re Grand Jury, 23 F.4th 1088 (9th Cir. 2021)

- Court recognized that attorneys often wear "dual hats, serving as both a lawyer and a trusted business advisor."
- "Dual purpose" communications – courts have examined three tests to determine whether these are protected:
  - The Primary Purpose Test
  - Because Of Test
  - A Primary Purpose Test

The Primary Purpose Test

- In light of the two hats often worn by in-house lawyers, communications between a corporation's employees and its in-house counsel . . . must be scrutinized carefully to determine whether ***the predominant purpose*** of the communication was to convey business advice and information or, alternatively, to obtain or provide legal advice." *Brown v. Barnes & Noble, Ins.*, 474 F.Supp. 3d 637 (S.D.N.Y. 2019) (*emphasis added*).

- The Second, Fifth, Sixth and Ninth Circuits follow the Primary Purpose Test. Communications by in-house counsel involving mixed business and legal advice are protected only if the primary purpose of the communication is to obtain or give legal advice.

- When business and legal advice are intertwined, the legal advice must **predominate** for the communication to be protected.

- When the legal advice is **merely incidental** to business advice, the privilege does not apply.

- Implies that a dual-purpose communication can only have *one* primary purpose.

Because of Test

- Typically applies in the work-product context.
- Does not consider whether litigation was a primary or secondary motive behind the creation of a document.
- Instead looks at the totality of the circumstances.
- "Affords protection when it can fairly be said that the document was created because of anticipated litigation, and would not have been created in substantially similar form but for the prospect of that litigation." *In re Grand Jury Subpoena*, 357 F.3d 900, 908 (9th Cir. 2004).

In Re Grand Jury, 23 F.4th 1088 (9th Cir. 2021)

- Held: "The primary purpose" test applies to attorney-client privilege claims for dual-purpose communications
- "The client must consult the lawyer for the purpose of obtaining legal assistance and not predominantly for another purpose."
- Rejected "[a]pplying a broader 'because of' test to attorney-client privilege might harm our adversarial system if parties try to withhold key documents as privileged by claiming that they were created 'because of' litigation concerns**."**

"A Primary Purpose" vs "The Primary Purpose"

- D.C. Circuit: "Was obtaining or providing legal advice a primary purpose of the communication, meaning one of the significant purposes of the communication?" *In re Kellogg Brown & Root, Inc.*, 756 F.3d 754 (D.C. Cir. 2014).
- Can be impossible to determine whether the purpose was A or B when the purpose was A and B.
- Recognized that none of the other circuits have openly embraced *Kellogg*.
- 9th Circuit declined to choose between **the** primary purpose and **a** primary purpose.
- "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."

Supreme Court granted *certiorari* in *In re Grand Jury*

- Argued on January 9, 2023.
- But . . . January 23, 2023, Supreme Court *certiorari* dismissed as "improvidently granted."
    - Improvidently? A "DIG"

Considerations for In House Counsel:

The Dreaded "CC"

- Courts have made it clear that a corporation cannot insulate its files from discovery simply by "cc-ing" in-house counsel.
- The attorney-client privilege applies to communications among employees when in-house counsel is copied **if the documents contain communications intended to be confidential** and **the dominant purpose of the communication was to obtain legal advice.**
    - One reason the 9TH Circuit rejected the "because of" test, is because it would create "perverse incentives for companies to add layers of lawyers to every business decision in hopes of insulating themselves from scrutiny in any future litigation."
- Before you CC: is this employee part of the "**control group**"?
    - i.e. Is the employee in a position to control or take a substantial part in a decision about action which the corporation may take upon the advice of an attorney?

Burden of Proof

- "The burden of proving each element of the privilege **rests on the party claiming protection**." *U.S. Postal Serv. v. Phelps Dodge Ref. Corp.*, 852 F. Supp. 156 (E.D.N.Y. 1994) (emphasis added).
    - The party invoking privilege has the burden of proving privilege and must do so through specific and competent evidence.
    - Conclusory assertions are not enough to prove privilege
        - An oft-cited Federal decision out of Florida's South District: "[W]hat the party asserting a privilege must do, at minimum…(1) Bates stamp each document or otherwise specifically identify each communication; (2) start with Rule of Evidence 501, and if necessary proceed to case law, to determine what law of privilege governs the communication, and identify the elements of that privilege; (3) for each document or communication identify the evidence that establishes that each element of the privilege applies to that communication; (4) prepare a privilege log that has enough information about the communication so that the opposing party or the Court can determine, at minimum, that the claimed privilege might apply; and (5) engage in a meaningful give-and-take conferral with opposing counsel, where both parties have before them the privilege log, the elements of the applicable privilege law, and the party asserting the privilege has before him or her the allegedly privileged communication and the evidence that establishes each element of the privilege, so that questions can be answered. If at that point, the parties disagree about the applicable privilege, then the dispute should be briefed for the Court." *Campero USA Corp. v. ADS Foodservice, LLC*, 916 F. Supp. 2d 1284, 1293 (S.D. Fla. 2012)

Third-Party Communication

- "The privilege also is held to cover communications made to **certain agents** of an attorney, including accountants hired to assist in the rendition of legal services." *United States v. Schwimmer*, 892 F.2d 237 (2d Cir. 1989) (emphasis added).
    - Only communications to third parties that are intended to facilitate legal representation are protected.
    - This requires a showing that the communication to third parties were made in confidence and that the third party reasonably understood it to be made in confidence.

Cases:

Dolby Labs. Licensing Corp. v. Adobe Inc., 402 F. Supp. 3d 855 (N.D. Cal. 2019)

- The content within the document contained information about the technology at issue within the legal claims (copyright infringement and breach of contract) but did not contain any legal advice as to those claims.
- Held: Because the attachment **only provided factual information** regarding the disputed technology, the court held that it was **business advice** and could not be protected by attorney-client privilege.
    - "It does not convey any analysis or opinion and relates **purely to underlying facts**, which are not protected by attorney-client privilege."

Boca Investerings P'ship v. United States, 31 F. Supp. 2d 9 (D.D.C. 1998)

- Document No. 5 was a partially protected document produced by Thomas M. Nee, a lawyer who is not employed in the legal department or as general counsel for AHP. He instead identified himself as the "Vice President for Taxes for AHP." Defendant argues that because Mr. Nee was not barred in New York and he was not a member of AHP's legal department, this document should have to be produced in full and could not be afford attorney-client privilege. Mr. Nee himself also testified that the exclusive purpose of this document was to provide tax advice to AHP. Despite this, the court upheld the magistrate judge's decision to partially produce the document because the tax advice was given in connection with a lawyerly opinion as to the tax consequences of a transaction.

Spread Enterprises, Inc. v. First Data Merch. Services Corp., CV 11-4743 ADS ETB, 2013 WL 618744 (E.D.N.Y. Feb. 19, 2013)

- In an email chain between the business director and executive for First Data Merchant Services Corporation ("First Data"), a proposed solution to overcharges were discussed. In a series of emails thereafter, First Data's in-house counsel ("GC") was "cc'd" on the emails. GC claims that they only included him in emails when their intent was to seek legal advice. Further, GC claimed that he spoke on the phone with other business executives discussing the legal implications of the content included in the email chain. However, the court determined that First Data had the burden of proving that privilege existed, and they failed to provide specific enough evidence to do so, demonstrating the importance of diligence when it comes to protecting privilege at the onset and asserting privilege properly.

Practical Tips for In-House Counsel:

- Include choice of law provisions in contracts, selecting the jurisdiction that offers the appropriate privilege protections to meet the company's needs.
    - 9th Circuit v. D.C. Circuit
- With sensitive issues, separate the legal advice from the business information whenever possible.
- Communications to/from in-house counsel or outside counsel for the purpose of seeking or giving legal advice should be kept as confidential as possible. Do not "cc" other employees except on a strict "need-to-know" basis
- Whenever possible, label written communications to indicate that advice is being sought on a legal question.
- Know the rules for key jurisdictions (including international).
- Be wary of communications with third-party consultants.
- When in doubt, pick up the phone.