CAN YOU KEEP A SECRET?
PROTECTING THE PRIVILEGE FOR IN-HOUSE COUNSEL

KELLI HINSON
Carrington, Coleman, Sloman & Blumenthal, L.L.P.
901 Main Street, Suite 5500
Dallas, Texas 75202
khinson@ccsb.com

State Bar of Texas
IN-HOUSE COUNSEL 101
August 12, 2015
San Antonio

CHAPTER 5

Kelli Hinson – Litigation Partner and Assistant General Counsel
Carrington Coleman Sloman & Blumenthal, LLP
khinson@ccsb.com

Kelli Hinson is a litigation partner at Carrington Coleman in Dallas, Texas, and leads the firm's professional liability practice group. She works primarily in the area of commercial and business litigation and has extensive experience in professional and executive liability matters, including representing attorneys and law firms, officers and directors, and corporate owners and executives.

Kelli has successfully represented commercial clients on a number of significant matters, including representing a majority shareholder in a shareholder oppression case, obtaining a complete reversal of a judgment mandating, among other things, an $85 million dividend; representing officers and directors of public companies against claims including fraud, breach of fiduciary duty, and conspiracy; and winning take-nothing summary judgments for defendants in numerous cases including a legal malpractice action against a major international law firm in which the plaintiffs sought up to $54.3 million in damages, and a federal Oil Pollution Act case in which the plaintiff sought over $38 million in cleanup costs.

Kelli is a frequent author and speaker on matters related to commercial litigation and professional liability matters. Her publications include:

- Remedies for Minority Shareholders in the Wake of *Ritchie v. Rupe*, TexasBarCLE Damages in Civil Litigation Course (2015).
- Majority Rules? Waiting for the Texas Supreme Court to Define (or Reject) Minority Shareholder Oppression, State Bar of Texas Corporate Counsel Section Newsletter (Fall 2013).
- Texas Survey of Professional Liability, published in SMU Law Review's Texas Survey, 66 SMU L. Rev. 1055 (2013); 64 SMU L. Rev. 469 (2011); 63 SMU L. Rev. 729 (2010); 62 SMU L. Rev. 1383 (2009); 61 SMU Law Review 1047 (2008); 60 SMU Law Review 1233 (2007).
- Attorney Disqualification, Texas Bar Journal, November (2009).
- Can You Keep a Secret? How Internal Disputes and Corporate Restructuring Can Affect the In-House Privilege, presented at the Texas State Bar Corporate Counsel Section Meeting (Dallas and San Antonio) (2011).
- Choosing, Using and Examining Expert Witnesses, presented at the University of Houston Law Foundation CLE, The Jury Trial Course (2006, 2007, and 2008).

TABLE OF CONTENTS

TABLE OF AUTHORITIES

Page(s)

Cases

Other Authorities

CAN YOU KEEP A SECRET? PROTECTING THE PRIVILEGE OF IN-HOUSE COUNSEL

By Kelli Hinson[1]

Corporate clients often believe that all internal communications with the company's in-house counsel are protected by the attorney-client privilege, and many attorneys share that view. But there are many situations, including those discussed in this article, in which communications with in-house counsel will not be privileged and could be subject to discovery in litigation. It is, of course, important once you are in litigation to understand when and under what conditions such communications must be produced. But it is perhaps even more important for in-house attorneys to understand and educate their internal clients about these concepts on the front end, before litigation, so the clients can take appropriate steps to protect important communications. By the time the document request lands in your in-box, it may be too late.

I. PRIVILEGE—THE BASICS

The Texas attorney-client privilege is found in Texas Rule of Evidence 503, and the key elements are (1) a confidential communication; (2) between or among an attorney and client and/or their representatives; (3) for the purpose of facilitating the rendition of legal services to the client; (4) which has not been waived. But, as with many legal tests, the elements are more easily recited than applied, and each can present particular problems when applied to in-house counsel.

A. Why Protect the Privilege?

The theory behind protecting the attorney-client communication in the corporate context is the same as in any other context: to encourage the sharing of information so that counsel can provide sound legal representation. If the privilege were eliminated, executives presumably would be reluctant to share information, making corporate compliance with complex and numerous laws even more difficult, and employees would presumably be reluctant to come forward to discuss potentially thorny issues. However, because the attorney-client privilege "stands in derogation of the public's right to every man's evidence . . . [i]t ought to be strictly confined within the narrowest possible limits consistent with the logic of the principle." *Gucci America, Inc. v. Guess?, Inc.*, 2011 WL 9375, *2 (S.D.N.Y. Jan. 3, 2011) (internal quotes omitted).

Accordingly, the party asserting privilege has the burden of "pleading and producing evidence establishing the existence of a privilege." *In re Mem'l Hermann Hosp. Sys*., No. 14-0171, 2015 Tex. LEXIS 464, at *10 (Tex. May 22, 2015) (citations omitted). As the Texas Supreme Court recently reiterated:

> The party asserting the privilege must establish by testimony or affidavit a prima facie case for the privilege. The party need produce "only the 'minimum quantum of evidence necessary to support a rational inference that the allegation of fact is true,'" and tender the documents to the trial court, at which point, "the trial court must conduct an in camera inspection of [the] documents before deciding to compel production."

Id. (citations omitted).

B. Elements

1. Confidential Communication

First, in order to be privileged, a communication must be made in confidence and kept in confidence. A communication is in confidence "if, at the time and in the circumstances of the communication, the communicating person reasonably believes that no one will learn the contents of the communication" other than the parties who are subject to the privilege. 1 Restatement (Third) of the Law Governing Lawyers § 71. This means that the privileged communication should not include unnecessary third parties. For example, the discussion of legal issues in large meetings can dilute the company's ability to claim privilege. In order to bolster the claim that the communication was meant to be kept confidential, in-house counsel should limit the dissemination of those communications to individuals involved in or necessary to the legal discussion.

Beware of email! Workplace conversations happen more and more via email rather than via phone call or face-to-face meetings. The Texas Professional Ethics Committee recently issued Ethics Opinion 648 in which it concluded that lawyers and clients generally do have a reasonable expectation in the confidentiality of email communications. So the mere fact that a communication is sent over email does not necessarily affect its confidentiality. But email communication can present risks.

Ethics Opinion 648 pointed out several circumstances in which email communications might not be confidential, including where the lawyer knows the email recipient shares an email account with others, where the email is sent or received on an unsecure network, or where the lawyer is concerned the NSA or

[1] Kelli Hinson is a litigation partner at Carrington Coleman Sloman & Blumenthal, LLP in Dallas, Texas. Her practice is focused on commercial litigation and professional liability.

other law enforcement agency may intercept and read the email.

On-going email discussions also increase the risk that business discussions will get interjected and dilute the legal nature of the communication. And email also increases the chances that communication will get forwarded to business people with no involvement in the legal decisions.

Company policies on email may also impact confidentiality. If attorney-client communications are stored on a company share drive or archive to which several employees have access, that fact could compromise the confidential nature of the communication. Some commentators have even suggested that if the IT department has the ability to review in-house counsel's emails, that could present a problem.

While it is not necessary to employ extraordinary national-security-level secrecy precautions on legal communications, the more care you and your company take to protect these communications in your business, the more likely it is that the court will recognize and protect their privileged nature in litigation.

2. Between Attorney and Client

Second, to be privileged, a communication generally must be between an attorney and client. As specifically spelled out in Texas Rule of Evidence 503, the communication must be:

- Between the client or a representative of the client and the client's lawyer or a representative of the lawyer;
- Between the lawyer and the lawyer's representative;
- By the client or a representative of the client, or the client's lawyer or a representative of the lawyer, to a lawyer or a representative of a lawyer representing another party in a pending action and concerning a matter of common interest therein;
- Between representatives of the client or between the client and a representative of the client; or
- Among lawyers and their representatives representing the same client.

This usually straightforward element can be more complicated when dealing with in-house counsel.

a. Attorney—

It should go without saying, but to have an attorney-client communication, one of the parties to the communication must generally be a licensed attorney or the communications must take place under the attorney's direction.

In-house attorneys need not be licensed in every state in which they are providing legal services. Model Rule 5.5(d)(1) states that a lawyer not admitted in the jurisdiction may provide legal services to his employer or its organizational affiliates. But generally, you must be licensed in at least one state in order to legally and ethically provide legal advice.[2] Attorneys working in-house will sometimes claim exemption from CLE requirements due to "non-active" or "inactive" status. But, depending on the jurisdiction's requirements for inactive status, claiming such status could make it difficult for counsel to claim she is providing legal services. An attorney on inactive status in Texas, for example, cannot "practice law" in the State of Texas. If you cannot "practice law," then it is hard to demonstrate your communications pertain to the rendition of legal services.

The trio of opinions in the *Gucci v. Guess?* saga illustrates the practical problems of having a non-attorney "in-house counsel." In the first opinion, *Gucci Am., Inc. v. Guess?, Inc.*, No. 09 Civ. 4373, 2010 U.S. Dist. LEXIS 65873 (S.D.N.Y. June 29, 2010), the Magistrate Judge considered communications involving "in-house counsel" who was admitted to the California Bar right after law school but had been on inactive status throughout his employment with Gucci. The Magistrate Judge held that the individual could not lawfully act as an attorney, and the company therefore could not invoke the attorney-client privilege as to his communications. The court found there was no "reasonable belief" the individual was an attorney because the company did no investigation into his ability to practice law. The court requested a more detailed privilege log to determine possible work product protection. A few months later, in *Gucci Am., Inc. v. Guess?, Inc.*, 271 F.R.D. 58 (S.D.N.Y. 2010), the Magistrate Judge reviewed the party's expanded privilege log and reviewed documents in camera and considered in more detail the status of another of Gucci's "in-house counsel." Although this individual was not an attorney, he considered himself to be a "trained legal professional" in the field of intellectual property and, in fact, was named "In-House Counsel of the Year" by an industry group. After a lengthy discussion, the court protected disclosure of communications with non-lawyers (including in-house counsel) to the extent the non-lawyers were working as agents of and at the direction of a lawyer and/or were communicating in anticipation of litigation.

Finally, in *Gucci Am., Inc. v. Guess?, Inc.*, 2011 U.S. Dist. LEXIS 15 (S.D.N.Y. Jan. 3, 2011), the District Court set aside the order of the Magistrate Judge and granted Gucci's motion for protective order. That

[2] State laws vary. An ABA-maintained chart listing the in-house corporate counsel rules by state can be found at: http://www.americanbar.org/content/dam/aba/administrative/professional_responsibility/in_house_rules.authcheckdam.pdf.

court held that in-house counsel need only be "a member of the bar of a court" and not necessarily "actually authorized to engage in the practice of law." The court also held that a corporation is not required to demonstrate "due diligence" in order to fall within the rule that communications may still be privileged if the client "reasonably believes" he is communicating with a lawyer. The District Court, therefore, protected all of the communications at issue.

While this case technically ended with a good result for Gucci, its in-house counsel and executives were put through a lot of trouble and expense that would have been unnecessary had Gucci ensured that its in-house counsel were all duly licensed and able to "practice law." In addition, their privileged communications were reviewed *in camera* by both the Magistrate Judge and the District Judge.

A similar issue can occur when business executives happen to be licensed to practice law. These executives, and others within the company, may assume that a law license automatically conveys privilege. But if the executive's title and job description reflect business responsibilities rather than responsibilities for giving legal advice, it may be more difficult to establish the privilege. If the business executive is, indeed, giving legal advice, make sure that is clear on the face of the communication.

b. Client—

When looking at in-house counsel's communications with internal clients, it can also be difficult to determine who the "client" is. Obviously, companies must act through individuals. So which of those individuals can be considered the recognized corporate representatives for purposes of privilege? The federal courts and some state courts follow the *Upjohn* test;[3] other states follow the control group test, the subject matter test, or some hybrid. In Texas state court, a "representative of the client" is defined as: "(A) a person having authority to obtain professional legal services, or to act on advice thereby rendered, on behalf of the client, or (B) any other person who, for the purpose of effectuating legal representation for the client, makes or receives a confidential communication while acting in the scope of employment for the client." TEX. R. EVID. 503(a)(2).

It is often hard to predict, at the time of the communication, what definition of "client" will apply. So the prudent course is to limit the circle of people involved in the communication to those who have a legitimate need to know.

3. For the Purpose of Securing Legal Advice

The third requirement is that communications with in-house counsel, as with communications with any attorney, must be made for the purpose of securing legal advice in order to be privileged. The privilege protects "not only the giving of professional advice to those who can act on it but also the giving of information to the lawyer to enable him to give sound and informed advice." *Upjohn Co. v. United States*, 449 U.S. 383, 390 (1981). Although courts will often presume that communications with outside counsel are for the purpose of securing legal advice, they generally do not apply the same presumption to in-house counsel. In-house counsel often wear multiple hats – lawyer, corporate secretary, vice-president, head of human resources, etc. Whether a communication is privileged can depend on what hat the lawyer was wearing when she created or received the communication. If she wasn't wearing her lawyer hat, the document probably is not privileged.

Activities that likely will not be protected by the attorney-client privilege include business negotiations, preparation of tax returns, lobbying, serving on corporate committees, and public relations strategizing. Advice concerning human resources actions, press releases, and correspondence present gray areas that may or may not be considered the rendering of "legal advice," depending on the circumstances and the content of the communication.

Although most courts will protect a communication containing a mixture of legal and business advice, some courts require that the entire communication satisfy the requirements of privilege or else will require production of the non-privileged portions. The California Supreme Court considered the privilege for mixed purpose documents in *Costco Wholesale Corp. v. Superior Court*, 219 P.3d 736 (Cal. 2009). This case involved wage and hour claims against Costco in which Costco was charged with misclassification of employees as exempt. Outside counsel interviewed a number of employees and wrote a large memorandum detailing their findings and opinions on classification. Plaintiffs sought production claiming Costco had asserted an "advice of counsel" defense. The court-appointed referee determined the majority of the memo was privileged, but the remaining portions should be produced. The trial court then held that those unprivileged portions could be introduced at trial. Costco sought a writ of mandamus in the court of appeals, which upheld the decision of the trial court. Costco then petitioned the California Supreme Court, which rejected the lower courts' rationale that producing the unredacted portions would not be harmful to Costco. Reasoning that production of the communication itself is harmful, the California Supreme Court ruled the entire communication was protected.

[3] *Upjohn Co. v. United States*, 449 U.S. 383, 390 (1981).

As with the *Gucci* case discussed above, this case presents an ultimate win for the attorney-client privilege, but at great cost to the corporation. One also has to wonder if the result would have been the same if the investigation and memo had been conducted and prepared by in-house counsel.

In order to best protect important communications, in-house counsel should be clear in the communication itself that it is for the purpose of giving legal advice. It can be extremely helpful to begin the communication with language such as: "For the purpose of advising the company on [a particular legal issue], I interviewed the following employees." On the other hand, however, simply stamping every document as a "Confidential Attorney-Client Communication" will dilute the effectiveness. To the extent possible, business advice and legal advice should also be separated into separate communications to reduce the risk that some or all of the legal communications will have to be produced.

4. Which Has Not Been Waived

Finally, in-house counsel and their corporate clients must take care not to waive the privilege. Voluntary disclosure to a third party generally waives the attorney-client privilege, not only for the disclosed communication but often for the entire subject matter. Texas Rule of Evidence 511 states that a person waives privilege if the person "voluntarily discloses or consents to disclosure of any significant part of the privileged matter unless such disclosure itself is privileged." *See also*, FED. R. EVID. 502.

The privilege can be waived if employees forward an otherwise privileged communication to someone outside the attorney-client relationship, such as a business colleague or an adversary, or discuss attorney-client communications at meetings with outsiders. Including independent contractors or other third parties in attorney-client communications will not necessarily waive the privilege, however, if the third parties are considered "functional equivalents of employees." *See, e.g., United States ex rel. Strom v. Scios, Inc.*, No. C05-3004, 2011 U.S. Dist. LEXIS 108485 (N.D. Cal. Sept. 21, 2011).

The privilege may also be waived during litigation through the discovery process. The traditional rule was that any disclosure resulted in waiver. But given the increased volume and complexity of e-discovery, many discovery rules now allow for claw back, especially for electronic documents. Texas Rule of Civil Procedure 193.3(d), for example, provides that a party who inadvertently produces privileged information in discovery does not waive the privilege so long as it identifies the material and the privilege asserted within 10 days of discovering the error. In such a case, the party who received the privileged information must promptly return it and any copies pending a ruling by the court denying the privilege.

In determining whether the disclosure was inadvertent, most jurisdictions consider whether adequate steps were taken to protect privilege and, if there is a waiver, whether the waiver might be limited to particular documents or subject matter instead of a wholesale waiver. Considerations can include the type of precautions taken, the volume of documents reviewed and produced, the timetable, unfairness, agreements reached between the parties as to inadvertent waiver, and steps taken after the discovery of the disclosure to recover documents. The *Felman Prod., Inc. v. Indus. Risk Insurers*, case presents a cautionary tale in this regard. The company in that case produced over a million pages of electronic documents, including thousands of attorney-client privileged documents. The court denied the company's requests to claw back the privileged documents. The company tried to explain how the inadvertent disclosure had occurred, but, in light of the sheer volume of inadvertently-produced documents, the court held it need not even consider the details of the company's pre-production document review process. No. 3:09-0481, 2010 U.S. Dist. LEXIS 74970 (S.D.W.Va. July 23, 2010).

C. Jurisdictional Issues

To make things even more complicated, companies with business in more than one state or more than one country need to consider the laws of all potentially relevant jurisdictions. As mentioned above, whether a jurisdiction has adopted the *Upjohn* test may affect who the "client" is. Different jurisdictions will also have different rules for what communications are privileged and what constitutes waiver. Under Federal Rule of Evidence 501, federal common law generally governs privilege questions in federal court except that, where an element of a claim or defense as to which state law supplies the rule of decision, the privilege question is determined in accordance with state law.

The jurisdiction you are in may even affect whether and to what extent in-house counsel are covered by privilege at all. In *Akzo Nobel Chemicals Ltd. and Akcros Chemicals, Ltd. v. European Commission*, the European Court of Justice held that in-house counsel do not have the requisite independence from their corporate counsel to meet the requirements for Europe's legal professional privilege ("LPP")—similar to our attorney-client privilege. But EU law on this issue is not consistent with the law of the 27 EU member states.

So in-house counsel would be prudent to think about all of the jurisdictions in which the company operates or will likely be called into court and make sure, to the extent possible, that sensitive communications meet the privilege requirements in every jurisdiction.

D. No "Common Interest Privilege" in Texas

One jurisdictional quirk that deserves special note for Texas in-house counsel is that Texas courts do not recognize a "common interest privilege," recognized by some states and relied on by many attorneys and clients. Where applicable, the "common interest privilege" protects communications between parties sharing a mutual interest and their respective counsel, whether or not they are involved in litigation. *See*, 1 Restatement (Third) of the Law Governing Lawyers § 76, cmt. b. The common interest "may be either legal, factual, or strategic in character." *Id*. at cmt. e.

But Texas does not recognize the common interest privilege, as confirmed by the Texas Supreme Court in *In re XL Specialty Ins. Co.*, 373 S.W.3d 46, 50 (Tex. 2012). The Court parsed the wording of Texas Rule of Evidence 503(b)(1)(C), which protects communications:

> By the client or a representative of a client, or the client's lawyer or a representative of the lawyer, to a lawyer or a representative of a lawyer representing another party *in a pending action* and concerning a matter of common interest therein.

It held the plain language of the Rule requires that the clients and counsel seeking to rely on this rule not only are communicating concerning a matter of common interest, but that they are parties to a pending action. *In re XL*, 373 S.W.3d at 51–52. The Court held that, "[a]lthough criticized, the pending action requirement limits the privilege 'to situations where the benefit and the necessity are at their highest, and . . . restrict[s] the opportunity for misuse.'" *Id.* (quoting *United States v. Duke Energy Corp.*, 214 F.R.D. 383, 388 (M.D.N.C. 2003)). The Court thus concluded that the appropriate term for the Texas privilege rule is the "allied litigant doctrine."

The Court also noted that the allied litigant doctrine protects communications made between a client, or the client's lawyer, to another party's lawyer, not to the other party itself. *Id.* at 52–53 (holding that communications between party's lawyer and an unrepresented person were not privileged).

E. Work Product Doctrine

Counsel should note that, even if communications are not protected by the attorney-client privilege because they fail one or more of the elements above, they may still have some protection under the work product doctrine, which is not discussed in depth in this article. Generally, however, Texas Rule of Civil Procedure 192.5 protects:

> (1) Material prepared or mental impressions developed in anticipation of litigation or for trial by or for a party or a party's representatives, including the party's attorneys, consultants, sureties, indemnitors, insurers, employees, or agents; or
>
> (2) A communication made in anticipation of litigation or for trial between a party and the party's representatives or among a party's representatives, including the party's attorneys, consultants, sureties, indemnitors, insurers, employees, or agents.

While work product protection can be broader than the attorney-client privilege in some respects, it can also be more narrow, in that it only protects communications made in anticipation of litigation. *Id.*, *see also*, FED. R. CIV. PROC. 26(b)(3). The work product privilege can also be breached in some circumstances by a showing by the other side that it has "substantial need of the materials in the preparation of the party's case and that the party is unable without undue hardship to obtain the substantial equivalent of the material by other means." TEX. R. CIV. PROC. 192.5(b)(2).

II. SPECIAL CONSIDERATIONS FOR IN-HOUSE COUNSEL

It is important for in-house counsel to understand and educate their internal clients on the basics of attorney-client privilege. But in-house counsel should also be aware of certain special situations in which, despite complying with the elements above, the privilege may still be lost.

A. Subsidiaries and Affiliates

Often, in-house counsel is not just counseling one company, but a network of affiliated companies. Communications with two or more "joint clients" are likely privileged, but counsel should be mindful of what happens to the privilege if the affiliated companies become adverse.

Texas Rule of Evidence 503(d)(5) provides that the attorney-client privilege does not apply to "a communication relevant to a matter of common interest between or among two or more clients if the communication was made by any of them to a lawyer retained or consulted in common, when offered in an action between or among any of the clients." In other words, the privileged communications you had with your client during a joint representation of two or more entities may be used by either of the clients in an action between them.

In *In re Teleglobe Communications Corp.*, 493 F.3d 345 (3rd Cir. 2007), for example, a subsidiary and parent shared the same in-house counsel. Later, the subsidiary sued the parent and sought to discover material prepared by in-house counsel that the parent claimed was privileged. The court held there was a joint representation and ordered the documents produced. Although it was remanded for further fact finding on the

scope of the representation and, thus, the scope of disclosure required, the risk is apparent. *See also, 625 Milwaukee, LLC v. Switch & Data Facilities Co.*, No. 06-c-0727, 2008 U.S. Dist. LEXIS 19943 (E.D. Wis. Feb. 29, 2008).

Fortunately, in actions with third parties, one client may not waive the privilege on behalf of the other. *In re Unitrin Cty. Mut. Ins. Co.*, No. 03-10-00384-cv, 2010 Tex. App. LEXIS 5797 (Tex. App.—Austin July 22, 2010, orig. proceeding). The court in that case found that Rule 503(d)(5) "contemplates that when a communication relevant to a common matter between two clients is requested in discovery, the attorney-client privilege remains intact as to each client unless the suit is between the joint clients."

B. Officers and Directors

The attorney-client privilege can also become complicated when counsel is dealing with officers and directors of the company. The assumption generally is that in-house counsel represents the company, and not the officers and directors, but sometimes it can be tricky. What if, for example, the CEO you have been primarily communicating with gets fired, sues the company for wrongful termination, and wants access to all of the attorney-client communications the two of you had while he was still employed? When an officer who has been working with the attorney leaves the corporation and a dispute arises between the corporation and the former employee, the corporation is often able to assert the attorney-client privilege against the former employee, but again this is an area of risk. *See, e.g.*, *Fitzpatrick v. Am. Int'l. Grp.*, 272 F.R.D. 100 (S.D.N.Y. 2010); *Gilday v. Kenra, Ltd.*, No. 1:09-cv-229-TWP-TAB, 2010 U.S. Dist. LEXIS 106310 (S.D. Ind. Oct. 4, 2010).

United States v. Norris, 753 F. Supp. 2d 492, 526 (E.D. Pa. 2010), *aff'd*, 419 Fed. App. 190 (3d Cir. 2011), presents a similar issue. In that case, in-house counsel was called to testify against the CEO of the company over his objection that their communications were privileged. The court held the CEO did not have any individual attorney-client relationship with in-house counsel that would prevent her from testifying against him. The court discussed the five-part test for determining whether an officer had a personal attorney-client relationship articulated in *In re Bevill, Bresler & Schulman Asset Mgmt. Corp.*, 805 F.2d 120, 124–25 (3d Cir. 1986):

- First, they must show they approached [counsel] for the purpose of seeking legal advice.
- Second, they must demonstrate that when they approached [counsel] they made it clear that they were seeking legal advice in their individual rather than in their representative capacities.
- Third, they must demonstrate that the [counsel] saw fit to communicate with them in their individual capacities, knowing that a possible conflict could arise.
- Fourth, they must prove that their conversations with [counsel] were confidential.
- And, fifth, they must show that the substance of their conversations with [counsel] did not concern matters within the company or the general affairs of the company.

As in-house counsel, you can represent constituents of the organization individually, but you should do it intentionally, rather than accidentally, and you should take care to minimize the risks. Be clear with individuals and make sure they understand whether or not you represent them individually. Understand the risk of conflicts of interest, and make sure the individuals understand that as well. And ensure that the individual understands you may need to convey information to the corporation that you learned from the individual even if that information is harmful to the individual.

C. Shareholder Derivative Actions

Disgruntled shareholders may also be able to access your privileged communications with the company. Pursuant to the "Garner Doctrine," a court may order disclosure of privileged communications related to the conduct being challenged by shareholders in a shareholder derivative suit. The court in *Garner* set forth numerous factors to consider, including but not limited to, the number of shareholders (and percentage), the nature of the claim, whether the claim is colorable, the necessity of the information, the degree of the wrongful action, the risk of disclosing trade secrets, and the appearance of simply fishing for information. *Garner v. Wolfinbarger*, 430 F.2d 1093 (5th Cir. 1970); *see also, In re Occidental Petroleum Corp.*, 217 F.3d 293 (5th Cir. 2000); *but see In re Arterial Vascular Eng'g., Inc.*, No. 05-98-01541-cv, 1999 Tex. App. LEXIS 1917 (Tex. App.—Dallas March 22, 1999, orig. proceeding) (concluding under *Eerie*-type analysis that result would be different under California state law).

D. Internal Investigations

Properly structured and documented, an internal corporate investigation and its fruits should be privileged, but great care is required. Missteps at the outset of the investigation, or along the way, can give the appearance that the investigation is a business activity, rather than legal, and can jeopardize the privilege.

It is, therefore, important that in-house counsel and the individuals acting at their direction know what role they are playing at the outset. Counsel should also put

people on notice, in writing, that the investigation is for use in potential litigation or for the rendering of legal advice.

In writings concerning the investigation, clearly delineate which hat you are wearing with written signals:

1. "In my opinion, as counsel for the company…"
2. "At your direction and in order to provide legal advice to the company…."

Then limit your communication to legal advice. If you have business advice, put it in a separate communication.

As discussed above, you should also limit the number of people receiving the information to the people legitimately involved in legal decisions.

Internal investigations are an area that could really benefit from the use of outside counsel in order to further solidify the fact that the company is conducting a legal inquiry. Courts are more likely to give outside counsel the benefit of the doubt on legal advice vs. business advice.

E. In-House Counsel as Whistle-Blower

The Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, and related regulations (*see* 17 C.F.R. §§ 240.21F-4(b)(4); 205.3(d)(2)) have provided statutory exceptions to the attorney-client privilege to allow counsel to "blow the whistle" on their corporate clients in certain circumstances, including where necessary "to rectify the consequences of a material violation" of the securities laws "in the furtherance of which the attorney's services were used." These exceptions likely trump more restrictive state bar rules. *Van Asdale v. Int'l Game Tech.*, 577 F.3d 989, 995–96 (9th Cir. 2009).

However, if the attorney learns about, but was not involved in, the securities law violation, the statutory exceptions will not apply, and counsel will be governed by the applicable state ethics rules regarding disclosure. Before relying on the statutory whistle-blower provisions, in-house counsel should make sure they fall squarely within the protections. For example, Toyota recently won a $2.6 million arbitration award against its former in-house counsel as a result of counsel's disclosure of privileged documents and information under the guise of "whistleblowing." *See Biller v. Toyota Motor Corp.*, 668 F.3d 655 (9th Cir. 2012).

F. Bankruptcy and Dissolution of Company

In-house counsel should also be aware that, if the company files for bankruptcy, control of the company's attorney-client privilege passes to the bankruptcy trustee, even with respect to pre-bankruptcy communications. *Commodity Futures Trading Comm'n v. Weintraub*, 471 U.S. 343 (1985). The bankruptcy trustee can, and often does, waive that privilege in connection with claims made against the officers and directors, including the company's in-house and outside counsel.

In addition, if the company dissolves, the privilege may be lost. Courts are split on this issue, but the majority view is that "a dissolved or defunct corporation retains no privilege." *SEC v. Carrillo Huettel LLP*, Cause No. 13 Civ. 1735, 2015 U.S. Dist. LEXIS 45988 (S.D.N.Y. Apr. 8, 2015). Although the attorney-client privilege typically survives the death of the client where the client is an individual, "there is no 'tradition' of the privilege surviving the demise of a corporation." *Id.* at *7. Courts finding the privilege does not survive point to the fact that a defunct corporation has no assets or reputation to protect, and that there may not be any individuals left at the company to either assert or waive the privilege. *Id.* at *7-8.

III. CONCLUSION

Knowing the rules affecting the privileges of in-house counsel is essential in making correct privilege decisions during litigation. But as this article demonstrates, knowing and educating clients about these rules *before litigation arises* so they can take appropriate steps to protect important communications can be even more valuable.