

A higher standard

Claiming attorney-client privilege is tougher for in-house counsel

By Todd Presnell

Six months after beginning her job as the company's "vice president & general counsel," Stephanie Cloud receives an e-mail from the company's plant manager requesting her attendance at a hastily scheduled meeting. On arriving at the meeting at the company's plant in the Chicago suburbs, Cloud sees that the plant manager and production supervisor are present, and discovers that the topic of the meeting is the upcoming termination of 61-year-old employee Will Franklin.

The discussions focus on Franklin's work performance over the last year, whether his position is still profitable for the company, whether his production line meets the company's long-term strategic business plan, whether to eliminate his position entirely or give another (younger) employee an opportunity, and any consequences, legal or otherwise, of terminating the man. Cloud offers her insight on all of these subjects, takes copious notes, provides her recommendation, and returns to her office in downtown Chicago to tackle her next matter.

Two years later and in the midst of an age-discrimination lawsuit, Franklin and his lawyer request in discovery copies of lawyer Cloud's notes of the meeting and request that she appear for a deposition. Franklin believes that the notes and details of the discussions held at the meeting will reveal that his termination was solely the result of his age and not because of his performance in

that job. The company dutifully objects to the deposition and to producing any notes on the grounds that both are protected by the attorney-client privilege. The company argues that, because Cloud was a lawyer and present at the meeting, the entire conversation is subject to the privilege. A slam dunk for the company, right? Wrong.

To understand the potential problems in Cloud's situation, it is important to re-examine the purposes underlying the attorney-client privilege. The privilege "serves the function of promoting full and frank communications between attorneys and their clients." *Commodity Futures Trading Comm'n v. Weintraub*, 471 U.S. 343, 348 (1985). Moreover, the privilege "rests on the need for the advocate and counselor to know all that relates to the client's reasons for seeking representation if the professional mission is to be carried out." *Trammel v. United States*, 445 U.S. 40, 51 (1980).

Based on these dual purposes, the attorney-client privilege permits the client to be completely forthcoming and honest with her lawyer, which in turn permits the lawyer to provide legal advice with full knowledge of all relevant facts.

Although generally praised as the oldest and most important of the testimonial privileges, the attorney-client privilege is also viewed as silencing the truth. Accordingly, courts apply the elements of the privilege in a narrow fashion with the goal of striking a balance between preserving the purposes of the privilege while not permitting relevant evidence to be excluded

behind transparent privilege claims.

Although the strict elements of the attorney-client privilege are now set forth in many state statutes and state rules of evidence, the widely accepted — and frequently cited — requirements of the privilege were described long ago by Judge Wyzanski:

The privilege applies only if (1) the asserted holder of the privilege is or sought to become a client; (2) the person to whom the communication was made (a) is a member of the bar of a court, or his subordinate and (b) in connection with this communication is acting as a lawyer; (3) the communication relates to a fact of which the attorney was informed (a) by his client (b) without the presence of strangers (c) for the purpose of securing primarily either (i) an opinion on law or (ii) legal services or (iii) assistance in some legal proceeding, and not (d) for the purpose of committing a crime or tort; and (4) the privilege has been (a) claimed and (b) not waived by the client.

United States v. United Shoe Machinery Co., 89 F. Supp. 357, 358-59 (D. Mass. 1950). In other words, "where legal advice of any kind is sought from a professional legal adviser in his capacity as such, the communications relating to that purpose, made in confidence by the client, are at his instance permanently protected from disclosure by himself or by the legal adviser, except the protection be waived." *Fausek v. White*, 965 F.2d 126, 129 (6th Cir. 1992).

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While it is certainly true that the attorney-client privilege applies when the client is a corporation, see *Upjohn Co. v. United States*, 449 U.S. 383 (1981), the application of the privilege to communications between a corporation and its lawyer is problematic and anything but straightforward. The primary reason for the more difficult application is that, unlike an individual client, the corporate client speaks through the many voices of its directors, officers, employees and other agents. Accordingly, when the corporation seeks to invoke the privilege in court, the questions become:

- who is the client (the officer? the employee?),
- who may assert the privilege, and
- who may waive the privilege.

To answer these questions, courts generally apply two tests — the control group test or the subject matter test. The control group test, which was first espoused in the case of *City of Philadelphia v. Westinghouse Electric Corp.*, 210 F. Supp. 483 (E.D. Pa. 1962), focuses on the position of the corporate employee making the communication to the company's lawyers. This test provides that, "[i]f the employee making the communication, of whatever rank he may be, is in a position to control or even to take a substantial part in a decision about any action which the corporation may take on the advice of the attorney, or if he is an authorized member of a body or group which has that authority, then, in effect, he is (or personifies) the corporation when he makes his disclosure to the lawyer and the privilege would apply." *Id.* at 485.

The key is whether the employee providing information to the lawyer has the ability or authority to make a binding decision on behalf of the corporation after receiving advice from the corporate lawyer. Otherwise, "[i]n all other cases the employee would be merely giving information to the lawyer to enable the latter to advise those in the corporation having the authority to act or refrain from acting on the advice." *Id.* Under this test, therefore, only communications between a company's top management and the company lawyer

will garner protection under the attorney-client privilege.

For many years, the control group test was the majority rule in both federal and state courts. See *Consolidation Coal Co. v. Bucyrus-Erie Co.*, 432 N.E.2d 250 (Ill. 1982). In 1981, however, the U.S. Supreme Court rejected the control group test and adopted what is now referred to as the subject matter test. *Upjohn Co. v. United States*, 449 U.S. 383 (1981). Although expressly declining to "lay down a broad rule or series of rules to govern all conceivable future questions in the [corporate attorney-client privilege] area, the *Upjohn* court recognized five fundamental elements that a

The corporate client has many voices.

corporation must prove in order to secure the attorney-client privilege:

- the communication must be made for legal advice;
- the employee making the communication must have done so at the direction of a superior;
- the superior made the request so that the corporation could secure legal advice;
- the subject matter of communication is within the scope of the employee's corporate duties; and
- the communication is not disseminated beyond those persons who need to know its contents. *Id.* at 394-395.

The subject-matter test is now followed in all federal courts, and at least some variation of this test is followed in a majority of state courts. Nevertheless, some state courts, most notably Illinois, continue to adhere to the elements of the control group test. See *Sterling Finance Management, L.P. v. UBS PaineWebber Inc.*, 782 N.E.2d 895 (Ill.

App. Ct. 2002). With corporations having operations and sales centers in multiple states, however, it is virtually impossible to know in which jurisdiction the company will be sued. Moreover, even if the location of a lawsuit could be predicted, choice-of-law issues provide greater uncertainty as to which corporate attorney-client privilege test will ultimately be applied in a lawsuit.

If the claim is filed in state court, then clearly that state's choice-of-law rules will govern whether the attorney-client privilege rule of the forum state or some other state will apply. For example, although a claim may be filed in a Texas state court (a subject-matter state), Texas' choice-of-law rules may dictate that the privilege law of Illinois (a control-group state) applies. See, for example, *Nance v. Thompson Med. Co.*, 173 F.R.D. 178, 181 (E.D. Tex. 1997). Similarly, a breach of contract claim could be filed in a Tennessee state court (subject-matter state) but the contract may contain a choice-of-law provision mandating that Oklahoma (control-group state) law applies.

If the claim is filed in federal court under federal question jurisdiction, 28 U.S.C. §§ 1331, then federal common law — the *Upjohn* subject-matter test — will be applied. See *Atteberry v. Longmont United Hosp.*, 221 F.R.D. 644 (D. Colo. 2004). On the other hand, where federal court jurisdiction is premised on diversity under 28 U.S.C. §§ 1332, Rule 501 of the Federal Rules of Evidence requires that "privileges are determined according to the state law that supplies the rule of decision." *Carlson v. Freightliner, LLC*, 226 F.R.D. 343, 367 (D. Neb. 2004). In this situation, "[u]nder the *Erie* doctrine, a federal court looks to the forum state's conflict of laws rules in determining which state's privilege law applies." *Id.*

Depending on the jurisdiction, either the control-group or the subject-matter test will apply regardless of whether the corporate lawyer is outside counsel or in-house counsel. Nevertheless, in-house lawyers will receive greater scrutiny from courts, even those applying the subject-matter test, when they attempt to invoke the attorney-

client privilege. The problem arises when the in-house lawyer is charged with providing business advice in addition to legal advice.

Courts are quick to note that the attorney-client privilege does "not protect disclosure of non-legal communications where the attorney acts as a business or economic adviser." *Edwards v. Whitaker*, 868 F. Supp. 226, 228 (M.D. Tenn. 1994). The business/legal advice distinction is many times difficult to make, and courts readily recognize that "legal advice is often intimately intertwined with and difficult to distinguish from business advice." *Leonen v. Johns-Manville*, 135 F.R.D. 94, 99 (D.N.J. 1990).

Courts usually presume that, when a corporate client communicates with its outside counsel, the lawyer is acting in his or her capacity as a lawyer and that the communication is for the purpose of seeking legal advice. See, for example, *Diversified Industries Inc. v. Meredith*, 572 F.2d 596, 610 (8th Cir. 1977). Moreover, "[t]here is a presumption that a lawyer in the legal department or working for the general counsel is most often giving legal advice . . ." *Boca Investering Partnership v. United States*, 31 F. Supp. 2d 9, 12 (D.D.C. 1998). If the in-house counsel also works under a business unit of the corporation or otherwise acts in some management role, however, then the opposite presumption arises — the communication was *not* for the purpose of obtaining legal advice. *Id.*

Thus, the in-house counsel with multiple roles in the company begins the privilege analysis with a presumption that he or she was *not* acting as a lawyer during the subject communication and, therefore, the communication is not privileged. This presumption represents a tremendous burden for in-house counsel to hurdle that is not imposed on a company's outside counsel. At least one commentator, moreover, perceives an actual prejudice by the courts against in-house counsel asserting the attorney-client privilege. See Giesel, "The Legal Advice Requirement of the Attorney-Client Privilege: A Special Problem for In-House Counsel

and Outside Attorneys Representing Corporations." 48 *Mercer Law Review* 1169 (1997).

Because of the skepticism courts show toward in-house counsel, and because of the dual business and legal roles that many in-house lawyers play, some courts apply a heightened standard in determining whether a communication to in-house counsel should receive protection of the privilege. In *re Sealed Case*, 737 F.2d 94 (D.C. Cir. 1984), then-Judge Ginsburg was presented with the issue of whether the attorney-client privilege protected certain communications of an in-house lawyer, identified as C, who also served as the company's vice president. The court outlined the burden of the company as follows:

We are mindful, however, that C was a company vice-president, and had certain responsibilities outside the lawyer's sphere. The company


can shelter C's advice only on a clear showing that C gave it in a professional legal capacity.

Id. at 99 (emphasis added).

Following Ginsburg's ruling, many courts hold that "[a] corporation can protect material as privileged only on a clear showing that the lawyer acted in a professional legal capacity." *Boca Investering Partnership*, 31 F. Supp.2d at 12. This requirement of a clear showing is a form of heightened scrutiny, and means that the proponent "must show by affidavit that precise facts exist to support the claim of privilege." *North Carolina Electric Membership Corp. v. Carolina Power & Light Co.*, 110 F.R.D. 511, 515 (M.D.N.C. 1986).


This heightened standard, however, does not compel a finding that every communication mixing business and legal issues and involving an in-house lawyer will lose its privilege. As one court recognized, "[t]he mere fact that

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business considerations are weighed in the rendering of legal advice does not vitiate the attorney-client privilege." *Picard Chemical Inc. Profit Sharing Plan v. Perrigo Co.*, 951 F. Supp. 679, 685-86 (W.D. Mich. 1996). Thus, courts will examine the entire circumstances surrounding the discussion and use a "predominantly legal" or "but for" analysis to determine whether the privilege applies.

The court will most likely first examine the title and usual role of the in-house counsel. The court in *Boca Investorings Partnership*, for example, noted that "[o]ne important indicator of whether a lawyer is involved in giving legal advice or in some other activity is his or her place on the corporation's organizational chart." 31 F. Supp.2d at 12.

The main inquiry of courts, however, will be "whether the communication is designed to meet problems which can fairly be characterized as predominantly legal." *Leonen v. Johns-Manville*, 135 F.R.D. 94, 99 (D.N.J. 1990). In other words, the "advice given must be predominately legal, as opposed to business, in nature." *Boca Investorings Partnership*,

31 F. Supp.2d at 11. To meet this standard, "the claimant must demonstrate that the communication would not have been made but for the client's need for legal advice or services." *Leonen*, 135 F.R.D. at 99.

To return to the question regarding the discoverability of Stephanie Cloud's conversation and corresponding notes, the answer depends on (1) the jurisdiction in which the age-discrimination case is pending and (2) whether she has taken the correct, preliminary steps to make a "clear showing" that she was acting in her legal capacity. For example, if Mr. Franklin files a claim in Illinois federal court under the federal Age Discrimination in Employment Act (ADEA), then the court will apply the subject matter test because federal law supplies the rule of decision. Assuming Cloud takes the appropriate precautions, then the conversation will likely be privileged.

If, however, Franklin files a claim in Illinois state court based on Illinois' age discrimination act, then the court will apply the control-group test and, regardless of the precautions Cloud takes, the conversation will likely not

receive protection because the communicators — the plant manager and the production supervisor — are arguably not top management who would make decisions based on legal advice.

Cloud cannot control or predict whether Franklin will file a state claim in state court or a federal claim in federal court. In either case, however, she will receive greater scrutiny from the court because of her in-house status. Accordingly, it is clear that simply involving an in-house lawyer such as Cloud in a purely business meeting will not permit a corporation to prevent discovery of that meeting using the attorney-client privilege.

If in-house counsel is involved in a meeting that mixes business and legal matters, however, there are steps that the in-house lawyer can take to put the corporation in the best possible position to "clearly prove" that the communication sought to be protected was for the rendering of legal advice and therefore invoke the privilege to protect truly legal advice.

So, to sum up, a few key considerations to avoid loss of privilege are:

- *Single title* — Cloud's title — vice president and general counsel — will be viewed by the court as indicating her role in the meeting at least to some extent involved business duties, and therefore reduce her chances of successfully invoking the privilege. Where possible, the in-house counsel should maintain one title — general counsel or member of the legal department. In some situations this is impractical because of the in-house counsel's job duties; however, many times the title is more ceremonial. With a single, legal title, courts will more likely presume that the in-house counsel participated in a meeting solely in her legal capacity. See *Boca Investorings Partnership*, 31 F. Supp.2d at 12.

- *Statements of privilege* — If the in-house counsel takes notes or prepares a memorandum about a communication with corporate management or employees, the document should



expressly state that the communication or discussion was made for legal purposes. This statement should come at the beginning of the document, and contain statements such as "The meeting was held to discuss the legal ramifications of . . ." or "This meeting was held to discuss the legal steps that need to be taken to accomplish . . ." It is important to remember that the in-house lawyer's notes will be ultimately reviewed by a court years later, and such introductory statements will go a long way in persuading a judge that the discussions at the meeting were "predominately legal." See *Malco Manufacturing Co. v. Elco Corp.*, 45 F.R.D. 24 (D. Minn. 1968).


• **Privilege and confidential stamp** — Written documents that contain potentially privileged information should be stamped with some variation of "privileged communication to lawyer for legal advice." While such a stamp is

not conclusive of its privileged status, see, for example, *In re Air Crash Disaster*, 133 F.R.D. 515 (N.D. Ill. 1990), it will serve as additional evidence of its legal purpose.

• **Separate and confidential filing** — Privileged documents should also be maintained in the in-house counsel's files rather than in the files of some management figure. Ms. Cloud, for example, should keep her notes in a separate, secure file and not permit one of the managers to keep the notes. In addition, in the in-house counsel's files all legal-related documents should be separately maintained from business-related documents. These actions, while simple, will further enhance the chances that a reviewing court will deem such documents to be legal in nature.

• **Limit distribution** — In determining whether a particular document was intended to be confidential, courts will

look to the persons to whom such documents were distributed. There is a greater likelihood that a court will uphold the privilege if the number of persons receiving the document is relatively small. Thus, the in-house counsel should avoid the temptation to circulate documents, whether by e-mail or otherwise, to anyone other than those who actually need the information as part of their daily work responsibilities.

The in-house counsel, rightly or wrongly, is subject to heightened scrutiny when she or her company seeks to protect communications under the attorney-client privilege. With a full understanding of this scrutiny and by taking precautions, however, the in-house lawyer can counter that scrutiny and increase the likelihood of preventing the discovery of sensitive, confidential documents and other corporate communications. 

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