

Two Hats, One Lawyer: Demystifying Privilege and Confidentiality for In-House Counsel  
Seminar Written Materials

Among the most confusing aspects of our jobs as in house counsel (IHC<sup>1</sup>) is to make sure that our communications are protected by attorney-client privilege. Case law that's developed in the United States over the years has been narrowing the privilege when it comes to IHC and in Europe it's been all but destroyed entirely. Throw in the overlap of confidentiality and you've got a complicated mess. In this program we'll try to sort that all out.

There are two ways to approach the problem—proactive and reactive. Unfortunately, we often find ourselves in a reactive situation. That occurs when we're already involved in litigation and the other side requests information regarding a conversation they had with IHC. We're then forced to make an argument in favor of privilege in order to protect a conversation and prevent being forced to disclose it to opposing counsel. That's usually an uphill battle.

In those cases we're forced to pick through the facts, emphasize the elements which support privilege and minimize the elements that defeat it. Far too often, however, the facts are a jumbled mess. It's only after sifting through these facts and realizing just how damaging some of our actions were that we say, "Never again....we've got to do something different so we don't find ourselves in this position in the future." That, of course, brings us to the need to be *proactive*.

---

<sup>1</sup> Note: The acronym IHC refers to "in-house counsel" and OC refers to "outside counsel." That's probably self-evident, but I need to mention it anyway.

A proactive approach to privilege is one where we understand the types of gaffes that may destroy the privilege and we institute policies or take precautions so that later, when we find ourselves in litigation, we have an easier time making the argument that the item is privileged. That, of course, means that we need to think about our statements before we make them. Today we'll try to answer the question, "What steps can we take so that statements made by IHC are protected, if we ever get to litigation." So let's talk strategies, tactics and precautions. ..

## **I. PRIVILEGE, DEFINED**

A corporation is entitled to claim the privilege if each element is met. Those elements have been established by a multitude of cases over the years and they are: information discussed between a client and a lawyer, that involves a fact about which the lawyer was informed, told in confidence, for the purpose of securing legal advice, not in furtherance of a crime or tort, which has not been waived.

Let's evaluate these elements, discuss the issues involved in each and also make practical recommendations about the proactive steps we can take to ensure that our communications are covered by the privilege.

## **II. A DISCUSSION ABOUT THE ELEMENTS**

### **1. Information discussed**

As we'll discuss below, the only type of advice that is covered by the privilege is legal advice. However, there's unique distinction to keep in mind- it's only the actual information that is discussed between the parties that's covered. That does not include the underlying facts that may be discussed between attorney and client, nor does it include the impressions that a lawyer may have.

For instance, if you have a conversation with one of your corporate vice presidents about a chemical spill for which your corporate client might be liable, you may be successful in protecting the advice you give to them. However, opposing counsel could be permitted to question your vice president about the circumstances of the spill itself because the underlying facts of the matter are not covered by privilege—only the information you discussed in dispensing the advice.

Furthermore, your impressions are also not covered. So, that opposing counsel might be able to ask about whether your corporate vice president appeared nervous in your conversations, or whether he seemed distracted. That's because only the information discussed in giving the advice is covered, not your impressions.

### **2. Between Client**

#### *a. The Tests*

...and we arrive at the monster issue for the program. "Who is the client," and therefore entitled to invoke/activate the privilege? Here's the logic: IHC does not

represent individual employees, we represent the corporate entity; any advice we give to the corporate entity (that also otherwise fulfills the various elements) is protected by privilege. But the corporate entity acts through its individual constituents—people. So is it permissible to give advice to any person who works for the client and have that protected by privilege? Can we give discuss an upcoming shareholder derivative suit with a janitor of one of the corporate facilities in Anchorage, Alaska and expect it to be protected? The answer is no.

Only certain individual employees are considered to be “the client.” Only those individuals who have certain qualities are capable of triggering privilege. There are two tests that determine whether an employee constitutes a legitimate member of, “the client.” If the employee passes this test, they are considered the client, and then the communications you have with that employee may be protected by the privilege. Note: You’ll need to check which test is in use by your jurisdiction.

The first test is known as the “Control Group Test.” Beware: this test is used in a small minority of States. I like to say that this test focuses on the “person” because it states that a person is the client if they are an employee who is part of the “control group” within the corporation. By control group we mean someone who is in control of the operations of the corporation or, in control of the situation. According to Philadelphia v. Westinghouse Electric Corp., 210 F. Supp. 483, 485 (E.D. Pa. 1962), you are in control of a situation when you played a considerable role in making a decision in which you used the advice requested from the lawyer. Thus, we’re sort of focusing on the particular person’s responsibilities within the entity.

The second test shifts focus to the content of the communication. This test is known as the “subject matter test,” also known as the “Upjohn Test.” Upjohn Co. v. U.S., 449 U.S. 383 (1981). The exact elements may differ slightly among jurisdictions, but here are the basic elements: The communication that occurs with the employee must have been made (1) for the purpose of legal advice (2) at request of the employee’s supervisor (3) *the subject of the conversation must be within the scope of the employee’s duties* and (4) the conversation must have been limited to people who “need to know” about the situation. As you can see, while the test does address some qualities of the individual, the major focus is on the content of the communication.

*b. Other problems with Individual Employees and Privilege*

As stated earlier, IHC does not represent individual employees of the corporation. Consider a situation where IHC collects information from an employee and, in the process, realizes that the employee committed some crime or tort that may cause liability to the company. IHC may then use that information to the disadvantage of the employee in the course of protecting the client. In layman’s terms, we may have to throw the employee under the bus to protect the client.

The problem is that the employees don’t always understand that. It behooves IHC to be clear at the outset of any discussion with employees to remind them that you don’t represent the individual, rather, your allegiance is to the client/company. Of course, the problem is that the employee might be tempted to “lawyer up” which will preclude you from gathering the information you need, but that’s the way the cookie crumbles.

### *c. Subsidiaries*

A related issue to consider is when (or whether) a subsidiary of our corporate client may also be considered “the client.” More often than not, this issue arises in the context of conflicts of interest. Usually it comes up when another lawyer in a law firm represents a client who is suing some corporate entity and that lawyer learns that the opposing party (that corporate entity) is a subsidiary of an existing client of the firm. The question then becomes whether there is a conflict because the subsidiary is one in the same with the parent company and, if that’s the case, you are suing your own client.

It’s important in questions of privilege as well. If you are rendering legal advice to an employee within a subsidiary, you know that the advice will only be protected by privilege if you’re speaking with “a client.” Restatement Section 121 sets forth various criteria in this regard. Items that make it more likely that a related entity is a client are: whether the lawyer received confidential information from the subsidiary, whether the entity is controlled and supervised by the parent organization, whether the original client could be materially harmed by the suit against the subsidiary. Some opposing considerations are that the lawyer no longer represents the initial corporate client and that the two entities became linked after the lawyer began representation of the corporations. Restatement (Third) of the Law Governing Lawyers Sec. 121.

### **3. And Lawyer**

It would appear that this is an easy element—the fact that one party to the potentially protected conversation must be a lawyer. But a recent case gives IHC cause for concern. In Gucci America, Inc., v. Guess?, Inc., 2011 U.S. Dist. LEXIS 15 (S.D.N.Y.

Jan. 3, 2011), the court held that an attorney who acted as IHC but whose license was not active was not considered a lawyer, thus their conversations with the client were not protected by the privilege. Luckily for the client, the appellate court reversed that decision. Since it was reversed, I guess one could make the argument that there is no long term significance of the case. However, the message is clear—stay active as a lawyer and you'll avoid this problem all together.

#### **4. A fact about which the lawyer was informed**

#### **5. Told in confidence**

Confidentiality is a key component of protecting a communication with the privilege. If the communication is not confidential, it is not eligible to be protected. The courts have long held that lawyers only have an expectation of confidentiality with a client, so once it's revealed to a non-client the communication is no longer expected to be kept just between the two of you and it's no longer protected by privilege.

This is an element where many lawyers get a bit confused- the place where the law of privilege and the disciplinary rule of confidentiality appear to interact. The Wisconsin rule on confidentiality looks like this:

#### ***Wisconsin SCR 20:1.6 Confidentiality***

***(a) A lawyer shall not reveal information relating to the representation of a client unless the client gives informed consent, except for disclosures that are impliedly authorized in order to carry out the representation, and except as stated in pars. (b) and (c).***

***(b) A lawyer shall reveal information relating to the representation of a client to the extent the lawyer reasonably believes necessary to prevent the client from committing a criminal or fraudulent act that the lawyer reasonably***

***believes is likely to result in death or substantial bodily harm or in substantial injury to the financial interest or property of another.***

***(c) A lawyer may reveal information relating to the representation of a client to the extent the lawyer reasonably believes necessary:***

***(1) to prevent reasonably likely death or substantial bodily harm;***

***(2) to prevent, mitigate or rectify substantial injury to the financial interests or property of another that is reasonably certain to result or has resulted from the client's commission of a crime or fraud in furtherance of which the client has used the lawyer's services;***

***(3) to secure legal advice about the lawyer's conduct under these rules;***

***(4) to establish a claim or defense on behalf of the lawyer in a controversy between the lawyer and the client, to establish a defense to a criminal charge or civil claim against the lawyer based upon conduct in which the client was involved, or to respond to allegations in any proceeding concerning the lawyer's representation of the client; or***

***(5) to comply with other law or a court order.***

Here's what you need to know about the difference: Privilege is an evidence rule. We cannot be compelled to offer testimony about legal advice that we give to our client. One element that must be fulfilled in order for that advice to be eligible for privilege protection is that the advice must have been given in a confidential manner.

On the other hand, Rule 1.6 "Confidentiality," is a disciplinary matter. That rule states that we can't reveal client confidential information; if we do, we could be sanctioned. Thus, Rule 1.6 is much more broad. It's got nothing to do with whether we can testify against a client or whether the things we talk about with a client are discoverable...it's simpler than that. It says that we can't tell other people about our client's confidential information and, if we do, we can be disciplined.

## **6. For the Purposes of securing legal advice**

If the issue of "who is the client" is a monster issue, then the question of "what is legal advice" is a slew of monsters descending upon the earth (a bit dramatic, I know).

So why is this even an issue? Once information is communicated to a lawyer, doesn't that make it subject to the privilege?

I'm sure one day a long time ago it used to be that we looked primarily at the person—if the lawyer is involved, it's presumed to be privileged. But that was abused. People started funneling everything through IHC in order to get privilege protection. However it doesn't work that way. Lawyers don't get sworn in and then are immediately doused with sticky privilege glue that covers us forever. You can't just hand information to the "person" and once they touch it, the privilege attaches. It's not like we carry a privilege disease- once any information passes through our hands and it's infected with the privilege. If it was so people would be giving everything to us. We'd have the biggest inbox in the company—of course many of us probably have that already!

The standard has evolved. Today it's not solely about the person to whom the communication is made, rather, it's dependent upon the content of the communication – whether that communication is legal in nature. I like to think of it like this—our conversations are only privileged when we're providing legal advice. So if we're in a conversation with a client and we need to take out our proverbial "legal advisor toolbox" to answer a legal question, then and only then is the conversation covered by privilege. Seen another way, the "sticky glue" I referred to earlier is only poured on the legal advisor toolbox. The fact that you're a lawyer isn't enough by itself—you need to be a lawyer who is using your legal advisor's toolbox at the time. For IHC, that can be problematic.

When are we, as IHC, using our legal advisor's toolbox? IHC is said to be wearing two hats—we act as business advisors and also as legal advisors. The

problem is that we are only entitled to have our communications protected by privilege if we are giving legal advice. As you could imagine, it's not always easy to decipher when we're giving legal, not business advice. In fact, courts have become quite skeptical about IHC's role.

Over the years a defacto presumption has evolved in most courts. When evaluating the content of a conversation, most courts presume that outside counsel is giving legal advice. After all, that's the logical reason that outside counsel would be retained- to opine or assist in some legal matter. However, when evaluating the content of statements made by IHC, those statements are presumed to be lending business advice. This presumption is rebuttable, but the onus is on IHC to prove that the content of the communication was actually for legal advice and, therefore, worthy of protection by the privilege.. This presumption has most likely grown out of the abuse by companies in trying to claim privilege, among other factors.

Note: most jurisdictions do not have case law that actually recognizes this presumption. Rather, it simply appears to be the prevailing attitude among jurists throughout the country. So, instead of seeing this as a formal "test" or legal "presumption," IHC would be better served by considering it an unspoken bias of sorts that must be addressed in every case. The thing to remember is that if you've got case law on point in your jurisdiction that sets the presumption clearly, that's great, but don't get complacent if you don't see anything on point – the bias probably still exists.

Over the years a variety of factors have emerged from case law which helps IHC determine whether their actions are for the purposes of rendering legal advice. Below are some topics that have been discussed in those cases. Note—the world of privilege,

much like legal ethics, is very fact sensitive. Arguing whether something is privileged somewhat resembles an analysis of criminal sentencing guidelines—it's often a discussion about facts that resemble aggravating and mitigating factors. Here are some things to consider, each of which will be discussed at greater length in the seminar. Note that none of the elements discussed in this section are really independent “tests.” Every case is quite fact specific, so these elements are more like factors to be weighed than official “tests” that stand alone.

Look at the content of the communication:

Cases like Neuder. Battelle Pacific Northwest National Laboratory, 194 F.R.D. 289 (D.D.C. 2000), established the “Predominate Purpose Test.” That states that where legal and business advice are intertwined, the legal advice must predominate. In other words, privilege only applies where legal advice was the primary and predominate purpose of the communication. You must realize that the legal advice can't be incidental to business advice, it must be the predominate purpose of the communication.

Consider your role:

In the Neuder case, the lawyer was a member of a committee that was determining whether someone should be fired. The capacity as a committee “member” made a difference. IHC should consider the role we play in every fact pattern as well. Maybe IHC shouldn't be considered a

committee member, but be clearly labeled as a legal advisor. Maybe we should even purposefully not be asked to attend all committee meetings. Then it would be apparent that we're only asked to attend when legal advice is needed.

We also see this problem arise in the context of our role as negotiator. Often IHC is seen as acting in a business capacity, not a legal capacity, even if part of our responsibilities as a negotiator involves some legal aspects. Maybe we need to be inventive. So, for example, if we are negotiating a business transaction, maybe we want to assign one lawyer in the legal department as the "negotiator," and another in a strict legal role. Just a thought...

#### Consider how your role is viewed if you bring in OC

In Navigant Consulting, Inc. v. Wilkinson, 220 F.R.D. 467 (N.D. Tex. 2004), there was an internal investigation of employees who were thought to have misappropriated trade secrets. The court considered the IHC tasks to be business in nature because, among other things, the client called in OC. Courts generally believe that when OC is called in on a matter, it's clear that they're being brought in to render legal advice. They then pretty much assume that IHC is placed in a non-legal advisory role.

### Think about the details of your communications

Another case, In re Vioxx Products Liability Litigation, 501 F. Supp. 2d 789 (E.D. La. 2007), mentioned that the details of your communications are important. Consider how your emails (and other communications) are addressed, to whom they're sent, whether lawyers and non-lawyers are "cc'd," whether those non-lawyers are "the client," if the communication is drafted by lawyers as well as non-lawyers, etc. There are a lot of variations here which we'll discuss in the seminar. Suffice it to say, however, keep these factors in mind.

### It's also about the scope of your task:

Are you a negotiator? Conducting an internal investigation? Haggling over terms of a contract? As mentioned above, your role may be a factor in determining whether your communications are protected by privilege. However, many cases warn us not to be so regimented.

Focusing exclusively on your role is a person-focused approach. Instead, consider how you define the scope of your task on a particular matter. That is a content/substance way to look at it. We can take proactive steps in this regard as well. For instance, maybe document it before negotiations between you and executives. Make it clear that you are providing legal analysis of the provisions of the contract, not simply negotiation services. Then, it's critical to follow that up by memorializing other facts which show that the advice was actually legal advice.

### Consider formalities like your title

You're more likely to be considered to be rendering legal advice if you're in the legal department, rather than a "vice president" of some generic division. Also, consider calling yourself some variation of "counsel." The label of your job title may mean something because, after all, it's an amalgamation of factors.

### Other formalities are important too:

Mark documents you create as confidential and privileged. This isn't a get-out-of-jail-free card, but it may help. Of course, maybe we shouldn't mark ALL documents as privileged. Think about it—if you marked everything as privileged knowing full well that some of those communications are purely business in nature, it dilutes the effectiveness of your disclaimer.

### Consider the request that got you involved in the first place

Executives who request your involvement in a matter must make it clear that you're being asked for legal advice. Courts look at the quality of the communications of the non-lawyers and ask, "What were THEY thinking." It can be just as important as what IHC was thinking.

## If you're in Europe, you're in trouble

Finally, note one more item which we'll discuss at more length in the seminar. If you're in Europe, you're in trouble. In Akzo Nobel Chemicals Ltd., v. Commission [1982] ECR 1575 (Case 155/79), the Court of Justice of the European Union (COJ) pretty much obliterated the idea that communications by IHC could be entitled to privilege protection.

## **7. Not in furtherance of a crime or tort**

Every time I discuss crimes and torts in the context of IHC I can see my audience's eyes glaze over. After all, we're IHC, not criminal defense lawyer's, right? Well, there are plenty of instances that should concern IHC. There are a host of financial crimes or frauds about which we must be concerned. Also, there are things like oil spills, chemical releases and even purposeful or negligent release of computer viruses that might cause us to be concerned about crimes and torts in the IHC context.

So there is plenty of reason for IHC to understand the crime-fraud exception to attorney-client privilege. Basically, we must understand that our conversations with our client are not protected by the privilege if the conversation involves the discussion about the commission of a crime or fraud.

## **8. Which is not waived**

A conversation is covered by privilege so long as that privilege is not waived. We can have an intentional waiver or an unintentional waiver (situations where an inadvertent disclosure destroys the privilege).

The privilege is held by the client, so only the clients could make a decision about whether to voluntarily waive the privilege. There are lots of situations where that may occur. Take, for example, if a prosecutor is investigating a company and they offer leniency in return for revealing information that would otherwise be protected by privilege.

On the other hand, there are various ways that privilege may be waived accidentally. In that case you would lose protection otherwise afforded over that conversation. One way that IHC frequently runs afoul are when information is disclosed to an employee who does not qualify as “the client.” If you reveal the information to a non-client the privilege is waived. Note that we’ve already discussed the issue of “who is a client.” There are various times when an employee of IHC’s company may not be considered “a client” for privilege purposes. That causes a real problem in meetings (yes, meetings).

Be careful about who comes to your meetings! If some attendees are not considered “the client,” then their presence at meetings where you discuss legal advice might constitute a waiver of the privilege. This means that IHC needs to conduct a mental test—do a roster check of each attendee at meetings where you know you’ll be dispensing legal advice that you want protected by privilege. Also, don’t be afraid to stop a meeting and ask certain people to leave when you hear potentially privileged communications come up.

## APPENDIX

Here are a few rules we'll be discussing during the program:

**Wisconsin SCR 20:1.13 Organization as client**

**(a) A lawyer employed or retained by an organization represents the organization acting through its duly authorized constituents.**

**(b) If a lawyer for an organization knows that an officer, employee or other person associated with the organization is engaged in action, intends to act or refuses to act in a matter related to the representation that is a violation of a legal obligation to the organization, or a violation of law which reasonably might be imputed to the organization, and that is likely to result in substantial injury to the organization, then the lawyer shall proceed as is reasonably necessary in the best interest of the organization.**

**Unless the lawyer reasonably believes that it is not necessary in the best interest of the organization to do so, the lawyer shall refer the matter to higher authority in the organization, including, if warranted by the circumstances, to the highest authority that can act in behalf of the organization as determined by applicable law.**

**(c) Except as provided in par. (d), if,**

**(1) despite the lawyer's efforts in accordance with par. (b) the highest authority that can act on behalf of the organization insists upon or fails to address in a timely and appropriate manner an action or a refusal to act, that is clearly a violation of law, and**

**(2) the lawyer reasonably believes that the violation is reasonably certain to result in substantial injury to the organization,**  
**then the lawyer may reveal information relating to the representation whether or not SCR 20:1.6 permits such disclosure, but only if and to the extent the lawyer reasonably believes necessary to prevent substantial injury to the organization.**

**(d) Paragraph (c) shall not apply with respect to information relating to a lawyer's representation of an organization to investigate an alleged violation of law, or to defend the organization or an officer, employee or other constituent associated with the organization against a claim arising out of an alleged violation of law.**

**(e) A lawyer who reasonably believes that he or she has been discharged because of the lawyer's actions taken pursuant to pars. (b) or (c), or who withdraws under circumstances that require or permit the lawyer to take action under either of those paragraphs, shall proceed as the lawyer reasonably believes necessary to assure that the organization's highest authority is informed of the lawyer's discharge or withdrawal.**

**(f) In dealing with an organization's directors, officers, employees, members, shareholders or other constituents, a lawyer shall explain the identity of the client when it is apparent that the organization's interests are adverse to those of the constituents with whom the lawyer is dealing.**

**(g) A lawyer representing an organization may also represent any of its directors, officers, employees, members, shareholders or other constituents, subject to the provisions of SCR 20:1.7. If the organization's consent to the dual representation is required by SCR 20:1.7, the consent shall be given by an**

**appropriate official of the organization other than the individual who is to be represented, or by the shareholders.**

**(h) Notwithstanding other provisions of this rule, a lawyer shall comply with the disclosure requirements of SCR 20:1.6(b).**

Also, since we're going to have a long discussion about confidentiality during the course of the program, I want to repeat the ABA Model Rule here as well so that we could refer to it in the course of the seminar.<sup>2</sup>

**Rule 1.6. Confidentiality of information**

**(a) A lawyer shall not reveal information relating to the representation of a client unless the client gives informed consent, the disclosure is impliedly authorized in order to carry out the representation, or the disclosure is permitted by paragraph (b).**

**(b) A lawyer may reveal information relating to the representation of a client to the extent the lawyer reasonably believes necessary:**

**(1) to prevent reasonably certain death or substantial bodily harm;**

**(2) to prevent the client from committing a crime or fraud that is reasonably certain to result in substantial injury to the financial interests or property of another and in furtherance of which the client has used or is using the lawyer's services;**

**(3) to prevent, mitigate, or rectify substantial injury to the financial interests or property of another that is reasonably certain to result or has resulted from the client's commission of a crime or fraud in furtherance of which the client has used the lawyer's services;**

**(4) to secure legal advice about the lawyer's compliance with these Rules;**

**(5) to establish a claim or defense on behalf of the lawyer in a controversy between the lawyer and the client, to establish a defense to a criminal charge or civil claim against the lawyer based upon conduct in which the client was involved, or to respond to allegations in any proceeding concerning the lawyer's representation of the client; or**

**(6) to comply with other law or a court order**

---

<sup>2</sup> Note that the following rule is not the actual ABA rule. Copyright restrictions prohibit me from using the ABA rule, so I've instead used the Delaware rule, which is the same as the ABA rule but avoids any infringement issues.