POSITIONING FOR LITIGATION:

PRESERVING CORPORATE CONFIDENTIALITY

AND

THE ATTORNEY-CLIENT PRIVILEGE

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"Avoid Business Issues With In-House Counsel" admonished a recent headline in the New Jersey Law Journal (January 11, 1993), by way of introducing an article on protecting the attorney-client privilege. "Not a practical course of action," I thought to myself. "No sensible in-house counsel would encourage a client not to discuss business."

There are better alternatives. It is possible to function effectively as a business lawyer without sacrificing the protection afforded by the attorney-client privilege and related attorney work product privilege. What is required is understanding the rules, educating clients, and on-going awareness to assure timely action.

Advance planning and enlisting the cooperation of the client can establish and preserve confidentiality of information which, in the event of litigation, a client would prefer not to disclose.

As most lawyers, but not necessarily their clients, know, the attorney-client privilege is a rule of evidence. Rule 26(b)(1) of the Federal Rules of Civil Procedure provides:

> Parties may obtain discovery regarding any matter, not privileged..." Rule 501 of the Federal Rules of Evidence provides, "...the privilege of a witness...shall be governed by the principles of the common law..."

BACKGROUND

Attorneys cherish the attorney-client privilege because it encourages clients to make full disclosure of information to their attorneys, making it more likely that an attorney will obtain the information needed to provide good legal advice. Clients cherish the privilege because it makes them feel comfortable disclosing information which they know or suspect would, if known to certain others, be damaging or embarrassing.

The judicial process, however, does not cherish the privilege. Courts are dedicated to finding facts and doing justice in a particular case or controversy. The rules of evidence are generally designed to exclude evidence which is unreliable. Thus, dying declarations are generally recognized as an exception to the hearsay rule on the theory that on one's death bed one is unmotivated to lie and highly motivated to tell the truth.

Unlike most evidence which is excluded by formal rules of evidence, evidence protected by the attorney-client privilege is highly reliable, and therefore of great interest to the courts in the fact-finding and evaluation processes. Permitting a party to withhold attorney-client privileged information, rather than furthering the judicial process, frustrates it.

The judicial process tolerates the privilege because it recognizes a social good as being "derived from the proper performance of the functions of lawyers acting for their clients (which) is believed to outweigh the harm that may come from the suppression of the evidence in specific cases", Wyzansky, J., in United States v. United Shoe Machinery Corporation, 80 F. Supp. 357, 358 (D.Mass. 1950).

There is, however, considerable tension between doing justice in a particular case based upon as much information as possible and maintaining an adversary system in which lawyers function effectively. The system resolves the tension (theoretically) by balancing the interests of lawyers and clients on one side, and judges and juries on the other, a balancing process summarized by describing the privilege being "strictly construed" United Shoe Machinery, supra, at 358.

Thus, designating information as "privileged and confidential" does not, merely by virtue of such designation, entitle it to the protection of the attorney-client privilege, even when the information is directed to an attorney (in-house or outside counsel). More is required.

BASIC PRINCIPLES AND CASES

Cases and commentaries show amazing consistency in their descriptions of the principles which underlie the attorney-client privilege. Historic underpinnings are regularly rehearsed when the privilege is discussed.

The principle was mentioned as early as 1580 in Kelway v. Kelway, 21 Eng. Rep. 47 (Ch. 1580). More recently, Judge Hastings in Radiant Burners, Inc. v. American Gas Association, 320 F. 2d 341 (7th Cir. 1963) opened his discussion of the principle by stating, "Dean Wigmore teaches that history of the attorney-client privilege finds its origin in the reign of Elizabeth I..." at 318. Judge Hastings then proceeds to quote from Wigmore (on Evidence), summarizing four factors (8 Wigmore §2285) and eight basic steps for analysis (8 Wigmore §2292) as follows:

The four fundamental conditions (factors) are:

"1. The communications must originate in a confidence that they will not be disclosed.

"2. This element of confidentiality must be essential to the full and satisfactory maintenance of the relation between the parties.

"3. The relation must be one which in the opinion of the community ought to be sedulously fostered.

"4. The injury that would inure to the relation by the disclosure of the communications must be greater than the benefit thereby gained for the correct disposal of litigation.

"Only if these four conditions are present should a privilege be recognized"

The eight basic analytical steps are:

"1. Where legal advice of any kind is sought

"2. From a professional legal adviser in his capacity as such

"3. The communications relating to that purpose

"4. Made in confidence

"5. By the client

"6. Are at his instance permanently protected

"7. From disclosure by himself or by the legal adviser

"8. Except the protection be waived."

Like Judge Wyzansky in United Shoe Machinery, Judge Hastings in Radiant Burners emphasized that while the privilege was worth preserving, it was an obstacle to the investigation of the truth and ought to be strictly construed, "within the narrowest possible limits consistent with the logic of its principle", at 323.

Judge Hastings also emphasized the specificity of the decision-making process, noting, "(t)he limitation surrounding any information sought must be determined for each document separately considered on a case-by-case basis", at 324.

Judge Wyzansky stated the basic factors determining when the privilege applies slightly differently United Shoe Machinery, at 358-9, saying 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
>
> "4. The privilege has been (a) claimed and (b) not waived by the client."

Another variation is found in Diversified Industries, Inc. v. Meredith, 572 F. 2d 596, 609 (8th Cir. 1977), citing 2 Weinstein's Evidence ¶503(b)[04] (1975), in which the court found attorney-client privilege applies if:

> 1. The communication was made for the purpose of securing legal advice
>
> 2. The employee making the communication did so at the direction of his corporate superior
>
> 3. The superior made the request so that the corporation could secure legal advice
>
> 4. The subject matter of the communication is within the scope of the employee's corporate duties
>
> 5. The communication is not disseminated beyond those persons who, because of the corporate structure, need to know its contents
>
> "We note, moreover, that the corporation has the burden of showing that the communication in issue meets all of the above requirements."

Compare the statement in Upjohn Co. v. United States, 449 U.S. 383, 389, 101 S. Ct. 677, 684, 66 L.Ed.2d 584 (1981), in which the court said that to enjoy the privilege, the communication at issue must be:

> 1. Made by Upjohn employees to counsel for Upjohn acting as such and at the direction of corporate superiors
>
> 2. To secure legal advice from counsel
>
> 3. Communication concerning matters within the scope of employee's corporate duties
>
> 4. Communications considered "highly confidential when made"

5. Communications which have been kept confidential.

These various requirements may be summarized as follows: For a corporation to assert it is entitled to withhold information from scrutiny by the judicial process on the basis of the attorney-client privilege, the corporation must be able to show that (i) the information was disclosed by a corporate employee acting within the scope of that employee's corporate duties (ii) in seeking legal advice from counsel, (iii) the information was considered confidential when made available and (iv) its confidentiality has been maintained. (Failure to maintain the information as confidential, whether such failure is deliberate or inadvertent, "waives" the privilege.)

WORK PRODUCT IMMUNITY (PRIVILEGE)

The concept of work product immunity is an outgrowth of the fundamental concerns underlying the attorney-client privilege, but the work product privilege is different in nature and scope of application.

The judicial process grants work product immunity out of a policy concern that the privacy of an attorney's trial preparation should not be invaded.

In Hickman v. Taylor, 329 U.S. 495 (1947), the court held that "memoranda, statements and mental impressions" fell outside of the attorney-client privilege, but nevertheless determined them to be worthy of protection from discovery by opposing counsel. To meet this perceived need for protection from discovery, the Hickman court established a "work product" privilege.

Work product immunity is described as "qualified" in contrast to the attorney-client privilege, which is "absolute". The work product privilege belongs to the attorney, not the client, and is qualified in the sense that it may be overridden in appropriate circumstances. See In Re Sealed Case, 856 F. 2d 268 (D.C. Cir. 1988) (more than a showing that the party seeking the information has "substantial need" of the materials and is unable "without undue hardship" to obtain substantially equivalent information by other means may be required).

In some respects, work product immunity is broader than attorney-client privilege. For example, it is not confined to information or materials gathered or assembled by or under the supervision of a lawyer. Moreover, while the original formulation in Diversified Industries, supra, was that the privilege applies only to documents prepared "in seeking legal advice", in rehearing en banc, the privilege was broadened to include investigation by an outside law firm.

SELF-CRITICAL ANALYSIS

Courts have stated that a privilege exists for materials collected by a corporation in connection with "self-critical analysis", but the privilege is often difficult to assert and its scope is limited. In Diversified Industries, supra, the court spoke of extending the attorney-client privilege to self-critical analysis because "it will encourage corporations to seek out and correct wrong-doing in their own house and to do so with attorneys who are obligated by the Code of Professional Responsibility to conduct the inquiry in an independent and ethical manner", at 610.

The doctrine appears to have been first articulated in Bredice v. Doctors Hospital, Inc., 50 F.R.D. 249 (D.D.C. 1970), reh. 51 F.R.D. 187 (D.D.C. 1970), aff'd 479 F. 2d 920 (D.C. Cir. 1973). The issue in that case was whether minutes of a hospital staff meeting at which clinical reports were reviewed and analyzed to improve hospital care and treatment should be made available in connection with a malpractice action. The court held that there was "an overwhelming public interest" in having such meetings remain confidential and permitted assertion of the privilege.

In Wylie v. Mills, 195 N. J. Super. 332, 478 A. 2d 1273 (Law Div. 1984), the court also recognized a need to encourage safety improvements and therefore permitted assertion of the privilege on the basis that three basic criteria had been met:

(i) the information consisted of criticisms or self-evaluation conducted by the party opposing the request for production;

(ii) the unfettered need for internal confidentiality should be encouraged as a matter of public policy;

(iii) the analysis or evaluation would be discontinued in the future if it were made subject to disclosure.

If the party claiming the privilege meets these criteria, the moving party must then show its interests outweigh the need to apply the privilege. CPC Intern. v. Hartford Acc., 262 N. J. Super. 191, 198, citing Wei v. Bodner, 127 F.R.D. 91, 101 (D.N.J. 1989).

Records a company is required by law to maintain are unlikely to be protectable as "self-critical analysis" (e.g. toxic waste manifests and data for EEO-1 reports). Protection under the self-critical analysis privilege has frequently been sought in environmental cases, largely without success. In State ex rel. Celebrazze v. CECOS Int'l, Inc., 66 Ohio App 3d 262, 583 N.E. 2d 1118 (1990), the operator of a hazardous waste facility was not permitted to assert the privilege on the grounds that there was "a clear legislative directive that the hazardous waste industry be subject to public scrutiny", CPC, supra, at 198. Similar reasoning was following in United States v. Dexter, 132 F.R.D. 8 (D. Conn. 1990), and Artesian Water Company v. New Castle County, No. C.A. 5106, 1981 WL 15606 (Del.Ch. 1981, unpublished), cited in CPC, supra, at 199.

The environmental cases indicate that the difficulty of asserting a privilege of self-critical analysis is increased where there are extensive government regulations requiring internal audits. The combination of documents prepared to comply with government regulations and for a business purpose makes their protection under a self-critical analysis privilege unreliable. Information gathered in anticipation of litigation is more likely to be protectable. For example, in Hardy v. New York News, Inc., 114 F.R.D. 633 (S.D.N.Y. 1987), documents prepared for a business purpose were also useful for litigation and were not protected, but documents prepared at the request of counsel, including documents prepared by a non-lawyer in connection with pending litigation, were found to be privileged.

Thus, internal procedures for gathering information and requesting documents be generated may have a significant impact on a corporation's ability to protect such information from discovery.

Despite attempts to assert otherwise, to date, research discloses no accountant-client or consultant-client privilege, see e.g. Baxter Travenol Laboratories v. Lemay, 89 F.R.D. 410 (S.D. Ohio) and U.S. v. Arthur Young & Co., 465 U.S. 805 (1984). In the latter case, Arthur Young & Co., an accounting firm, was hired by a corporation to assure compliance with federal securities laws. While being hired by "the corporation" was not sufficient to permit the information generated by the accounting firm to be protected from discovery under the work product privilege, had internal corporate procedures laid the proper groundwork, the outcome might have been different. For example, if, in the Arthur Young & Co. case, the accounting firm had been hired by the company's general counsel to advise as to whether the company's accounting practices conformed to SEC requirements, and paid out of the company's legal rather than the company's accounting budget, the accountant's work papers, analysis and recommendations might have been seen as part of the general counsel's work product. Even if the accountants' work papers were deemed not protected, it might have been possible to protect their analysis from discovery.

WAIVER

Waiver of the attorney-client privilege may occur (in fact, is most likely to occur) inadvertently. Where the client does not continue to treat information as confidential, the attorney-client privilege may be lost. Such loss can occur when employees of a corporation attend a meeting outside the scope of their duties to the corporation, at which attorney-client privileged information is discussed. Arguably, the privilege is lost whenever privileged information is transmitted electronically in the absence of a secure system for assuring confidentiality of electronic communications and confidentiality of back up copies.

As noted above, the attorney-client privilege belongs to the client. Thus, knowing and communicating who the client is becomes fundamental to asserting the privilege effectively. Especially for in-house counsel dealing with a corporation's employees (whether or not officers) and directors (who may or may not be employees of the company), failure to distinguish between the individual and the corporate client and timely advise individuals of the distinction and the fact that the lawyer regards the corporation, not the individual, as the client, can place counsel in the awkward position of having become attorney for the individual rather than the corporation.

Circumstances may cause "the client" to change. Even when all of the factors and analytical steps described above indicate that confidential information is entitled to the protection of the attorney-client privilege, a person or group which "steps into the shoes" of the corporation may be entitled to access to such information. For example, the shareholders in a shareholder derivative suit can become the client against whom the privilege cannot be asserted, see Garner v. Wolfinbarger, 430 F.2d 1093 (5th Cir. 1970), cert. denied 401 U.S. 974 (1971) and Weil v. Investment/Indicators, Research & Management, Inc., 647 F. 2d 18 (9th Cir. 1981); *cf.* In re Fugua Industries Inc. Shareholders Litigation, 1999 Del.Ch.LEXIS 190, 1999 WL 959182 (Del. Ch. Sept. 17, 1999), in which the court determined that the requirements of Garner had not been met. Similarly, a bank regulatory agency which takes over a bank "stands in the shoes of" the bank and becomes the client, against which the privilege cannot be asserted. (Work product immunity belongs to the lawyer, and the effect of a change of circumstances causing a change in the client does not impact that immunity. It may however impact the related privilege of "self-critical analysis".)

Where privileged documents are inadvertently mixed in with unprivileged documents and delivered in the course of discovery, the privilege is lost. SEC v. Cassando, 189 FRD 83, SDNY, September 29, 1999. Courts however are sometimes sympathetic to the problems of extensive discovery; where many documents are delivered, the right to demand additional privileged documents may be denied as unjust, see Champion International Corp. v. International Paper, 486 F. Supp. 1328 (N.D.Ga. 1980).

Where otherwise privileged documents are delivered as part of corporate cooperation with investigation by a government agency, the privilege is lost in the absence of effective steps to maintain it. For example, voluntary disclosure of privileged documents to the SEC waived the privilege in Subpoena Duces Tecum v. Fulbright & Jaworski, 738 F. 2d 1367 (D.C. Cir. 1984) and In re Sealed Case, 676 F. 2d 793 (D.C. Cir. 1982).

A limited waiver may be possible (circuits are in conflict on this point). In Teachers Insurance and Annuity Association v. Shamrock Broadcasting Co., 521 F. Supp. 638 (D.C.N.Y. 1981), the court found the privilege had been waived, but indicated that an express, contemporaneous reservation or stipulation showing the disclosing party made an effort to protect the privilege and disclose without waiving its rights would have made a difference in the court's analysis. The court also indicated that evidence that the SEC had agreed to accept disclosure on the understanding that the disclosure did not constitute a waiver would have made a strong case for finding that no waiver had occurred.

As a practical matter, in connection with investigations by government agencies, when cooperating with the investigation, a corporation should, before turning over documents, obtain a commitment from the government agency that it will maintain the confidentiality of the documents provided, and a signed stipulation to the effect that by providing documents voluntarily, the corporation will not waive the attorney-client or work product privilege. If such an agreement cannot be obtained, it is appropriate for the corporation to reevaluate the advisability of

cooperating with the government agency, as in the absence of such an agreement and stipulation, the corporation must move forward with the understanding that it is vulnerable to disclosing information which it might otherwise not be required to disclose.

SOME PRACTICAL SUGGESTIONS

What then, can in-house counsel do to minimize the impact of discovery of corporate information and maximize the scope of protection of the attorney-client privilege, the work product of counsel privilege, and the scope of protection afforded to internal investigations under the doctrine of "self-critical analysis"?

The most effective way to minimize the information which must be produced in connection with discovery is to minimize the production of documents containing confidential information. Developing verbal communication skills and client relationships which facilitate using verbal rather than written communication will reduce the number of documents generated and thus the number of documents which must be produced in response to discovery.

Client education in this regard is essential. When producing and disseminating documents, in-house counsel must be aware at all times, and remind clients when appropriate, of the requirements of asserting the attorney-client privilege and the work product privilege, and communicate and mark communications accordingly. Clients must be aware that simply marking documents "Privileged and Confidential" does not make them so, even when the documents are sent to a lawyer. Marking a document which is not in fact privileged as if it were not only is ineffective as to that document, but undermines the confidentiality of other documents similarly marked.

There are times when information must be requested or provided in writing. Under those circumstances, when requesting information in writing, state, if true, that it is being requested in connection with or in anticipation of litigation. For example, one might write, "While we hope we can avoid litigation, in preparation for that eventuality...."

If a written communication must be generated in connection with giving legal advice, including a statement that the communication is for the purpose of providing legal advice may bolster the likelihood of asserting effective protection under the attorney-client privilege. When providing both legal and business advice, distinguish between them.

Even when providing advice in writing believing it will remain privileged, consider language carefully in light of the possibility that the document may ultimately be discoverable. Drafting such documents can be tricky. For example, when describing an alternative course of action which is less desirable from a legal standpoint, but the most legally desirable course of action is unacceptable for business reasons, one might state, "This (second legal best) will put us in the position of..., which may be on balance a better business decision". Alternatively, on might state, "This will put us in a weaker legal position, but if the safest course of action, in terms of avoiding litigation, is unacceptable from a business standpoint, doing... is better than...". The first formulation makes the advice sound like business rather than legal advice. The second formulation emphasizes that legal advice is being given, but also indicates that the recommended alternative course of action will result in a weaker legal position, which may have a different set of undesirable consequences. Thus, the best course of action remains: avoid generating documents which, if discovered by third parties, could foreseeably damage, weaken or otherwise harm one's corporate client.

The wide use of computers and electronic mail to create and electronically transmit information means that avoiding generating documents includes not only avoiding reducing information to writing on paper, but also, avoiding transmitting information electronically. Sending e-mail is particularly seductive because it feels more like a telephone conversation than like writing a memorandum. E-mail messages tend to be casual and conversational in tone and are rarely drafted with the kind of care and attention to editing that is typical of more formal written communications. In addition, such messages may be sent over systems which do not assure confidentiality. In the absence of fairly elaborate schemes of passwords and limited access, information on a network may be available to anyone on the network. Information which moves (unencrypted) across the Internet is even less likely to be seen as

having been treated as confidential information. Today, most requests for document production include electronic communications in their definition of "documents". Accordingly, it is appropriate to include reference to electronic as well as "hard" (paper) documents when designing procedures and sending reminders to avoid producing documents containing privileged information.

A good record retention and destruction program can assist in minimizing the number of documents which a corporation must produce in response to a request for discovery. Once a lawsuit is filed, destruction of relevant records is not permitted. If however a corporation has a regular record retention and destruction schedule to which adheres, the number of documents that corporation has to produce is, as a by-product, reduced, as are the related costs of storage, administration, review and reproduction. Again, such record retention and destruction procedures should include procedures for handling electronic as well as hard copies of documents.

Specific procedures regarding destruction of electronic copies of documents may be required. The problem is particularly acute in corporations in which an electronic "back up" copy of everything produced (and sometimes everything received electronically) on a network is made automatically every night and stored for future reference in the event of "need". It is well-established that electronic copies are subject to discovery. Thus, a record retention and destruction program which ignores procedures for destroying electronic copy is no longer an effective program.

In protecting the attorney-client privilege, an educated client can be of great assistance. Clients need (and are entitled) to understand the broad outlines of the attorney-client privilege and the work product privilege, and cooperate in assuring that requirements for being able to assert the privilege are met. For example, clients must understand that having an attorney present at meetings does not make everything said at the meeting privileged and protectable under the attorney-client privilege. Similarly, clients must understand that sending otherwise discoverable documents to an attorney does not somehow magically make the documents privileged.

Most clients, if asked, will agree that some communications are better made verbally than in writing, but clients as well as lawyers must listen well and trust one another if such verbal communication is to be adequate. If a client feels the lawyer doesn't understand a problem, or take it seriously, there may be a strong temptation to "put it in writing" to assure that it receives attention. Similarly, if a lawyer feels a client isn't listening, there is a strong temptation to put advice in writing so the client cannot later claim the lawyer did not provide adequate counsel.

There are also some practical guidelines, which one might hesitate to put into a corporate policy, but which can be beneficial customs. For example, if you must lose your temper, do it verbally - marginal notes such as "this is illegal!" (whether true or not) are not helpful if the document on which they are written is produced under a discovery order. A corporate custom which encourages picking up a telephone rather than dictating a memo or sending an e-mail message can help.

Fostering development of a supportive corporate culture, implementing procedures to establish and maintain confidential documents as confidential, encouraging limited distribution of documents on a "need to know" basis and establishing corporate structures which facilitate giving lawyers sufficient management control to supervise or oversee persons outside the legal department (e.g. accountants and consultants) in connection with providing legal advice, can extend the scope of the attorney-client privilege.

An educated client accepts the reality that good legal advice can make constructive business contributions to business decisions and brings lawyers into corporate plans early, thus enabling the lawyer to advise regarding known pitfalls and establish procedures which support protection of confidential information and subsequent assertion of the attorney-client privilege. Once suit is filed, it may be too late to prevent the discovery of unfavorable or even arguably irrelevant documents. Effective procedures must have been in place before litigation looms.

Since not every communication with a lawyer is covered by the attorney-client privilege, clients can benefit by encouraging their lawyers to distinguish between business and legal advice. Part of educating the client may be encouraging the client, when unsure whether business or legal advice is being given, to ask. Such inquiry clarifies

the issues and helps both parties focus on what information is and is not privileged.

A client can also assist by accepting that work done for or under the supervision of counsel may have its confidentiality protected in ways in which work done for others, including the CEO, may not. Thus, a flexible corporate structure which gives attorneys the authority to supervise when expansive protection of the attorney-client and work product privileges is sought or likely to be desirable may benefit the corporation. Particularly where a company knows it will want to protect information developed, especially in anticipation of litigation, delegating to lawyers the hiring and supervision of accountants, consultants, etc. may be advisable.

To summarize, corporate clients can assist their in-house counsel by understanding the general scope of the attorney-client privilege, minimizing the number of documents created, establishing and implementing procedures to maximize confidentiality and the scope of protection of documents which are generated, and recognize, accept and utilize the advantages of delegating certain responsibilities to in-house (or outside) counsel regardless of "corporate politics" and traditional corporate organization charts.

CONCLUSION

The attorney-client privilege is absolute, and thus among the strongest privileges a corporation can assert in limiting document production, even under the new and more liberal and expansive Federal Rules of Civil Procedure. For that reason, it is narrowly construed.

The most certain method of assuring that a particular document need not be produced in connection with litigation is not to have created the document. To the extent that a document must be created and a company plans to rely on the attorney-client privilege to avoid disclosing the document to others, it is the joint responsibility of client and counsel to assure that all parties involved understand the basics, and that effective procedures are established and maintained for handling the information and documentation which the corporation may wish to assert is privileged. Knowledge, awareness, and procedures which consistently build internal records indicating an intention that the information sought to be protected under the privileges is being retained as confidential and that the privilege is intended to apply maximize the likelihood that the privilege can be asserted successfully.