

# Chapter 9

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## Confidentiality of Communications

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- § 9:1 Introduction
- § 9:2 Attorney-Client Privilege
- § 9:3 Work-Product Doctrine
- § 9:4 Self-Evaluative Privilege
- § 9:5 Whistleblowing
- § 9:6 Waiver
- § 9:7 Retaliatory Discharge/Wrongful Termination
- § 9:8 The Privilege Internationally
- § 9:9 Accountant-Client Privilege
- Exhibit 9A ABA Report on Attorney-Client Privilege for In-House Counsel

### § 9:1 Introduction

The confidentiality question in corporate representation is complex. Confidentiality is governed by established privileges and ethical standards, both of which are intended to promote open and candid communication between the attorney and client, it being understood, of course, and well-established, that a corporation, as a client, is entitled, as is a natural person, to the protection and benefits of the attorney-client and related privileges. In protecting the confidentiality of such communications, three different privileges are available to corporate counsel: the attorney-client privilege and the work-product doctrine (both of which are statutorily provided for in all jurisdictions), and the “self-evaluative” or the “self-critical analysis” privilege, which has its roots in the common law and has gained statutory acceptance in some states. Ethical standards and obligations supporting the confidentiality of communications, on the other hand, have broader scope and applicability than the legally created privileges.

## § 9:2 Attorney-Client Privilege

The Code, which predates the Model Rules, distinguished between confidences and secrets. The Code equated confidences with the attorney-client privilege under applicable law; secrets encompassed the broader boundaries of information gained in representation, the disclosure of which would be detrimental to the client. In both cases, ethical limitations prohibited the lawyer's disclosure. If anything, the current Model Rules are broader than the old Code in this regard. Keep in mind, as discussed in chapter 8, the Model Rules, in regard to the issue of mandatory disclosure and overriding the privilege, have undergone profound modification and are subject to ongoing review. (See, *e.g.*, section 9:5, "Whistleblowing.")

Of course, it must be emphasized, particularly in this connection, that the privilege belongs only to the corporate client. Those who speak for the corporation may invoke the privilege on the corporation's behalf (and may, under certain circumstances, waive it—see section 9:6), but the privilege is not theirs. A considerable body of law has evolved, defining the scope of the attorney-client privilege in a corporate setting. Two major tests emerged over the years in the federal courts to determine whether certain communications within a corporation would be protected as confidential and privileged: (i) the "control group" test, first articulated in *City of Philadelphia v. Westinghouse Electric Corp.*;<sup>1</sup> and (ii) the "subject matter" test adopted in *Harper & Row Publishers, Inc. v. Decker*.<sup>2</sup> Under the control group test, the attorney-client privilege extends to lawyer-related communications on behalf of the corporation only when the person speaking for the entity or receiving information from the lawyer for the organization is found to be in the control group, that is, a small group of top-management people who have the power to control or exert substantial influence over corporate decisions. Generally, this test would extend the attorney-client privilege only to upper-level or senior management. The control group test, by definition, does not protect the communications of those outside that group.

The subject matter test is, by contrast, not so limited; it is designed to protect appropriate communications of lower-level employees as well. The test focuses practically on whether the subject matter of the communication falls within the scope of duties of the person communicating with the attorney. To the extent the communication falls within the scope of duty of the company's representative (regardless of

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1. *City of Philadelphia v. Westinghouse Elec. Corp.*, 210 F. Supp. 483, 485 (E.D. Pa. 1962), *cert. denied*, 372 U.S. 943 (1963).
  2. *Harper & Row Publishers, Inc. v. Decker*, 423 F.2d 487 (7th Cir. 1970), *aff'd mem. by divided court*, 400 U.S. 348 (1971).

that individual's level of responsibility or authority), the communication is generally treated as privileged—even if the employee lacked the power to control or substantially influence corporate decisions.<sup>3</sup>

The Eighth Circuit modified the subject matter test in *Diversified Industries, Inc. v. Meredith*.<sup>4</sup> The court adopted Judge Weinstein's criteria<sup>5</sup> for determining when the attorney-client privilege should apply to corporate communications:

We feel that the limitations suggested by Judge Weinstein have merit and that the attorney-client privilege is applicable to an employee's communication 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; and (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.<sup>6</sup>

The U.S. Supreme Court addressed the corporate-client privilege issue in *Upjohn Co. v. United States*.<sup>7</sup> The Court firmly rejected the control group test and declined to adopt the subject matter test as well. Instead, the Court emphasized that it would not adopt a general rule and would decide the privilege issue on a case-by-case basis. Commentators have struggled with the text of *Upjohn* to establish a set of criteria that corporations may rely upon to determine whether the privilege applies to particular corporate communications. One commentator has asserted that *Upjohn* tracks the criteria set out in the *Diversified Industries* case.<sup>8</sup> Another suggests that counsel should view *Upjohn* as protecting the process of corporate communications,<sup>9</sup> and cites *Baxter Travenol Laboratories, Inc. v. Lemay*<sup>10</sup> for this proposition.

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3. See *FTC v. GlaxoSmithKline*, 294 F.3d 141 (D.C. Cir. 2002), discussed *infra* note 17.
  4. *Diversified Indus., Inc. v. Meredith*, 572 F.2d 596 (8th Cir. 1977) (en banc).
  5. 2 WEINSTEIN'S EVIDENCE ¶ 503(B)[04] (1975).
  6. See *Diversified Indus.*, 572 F.2d at 609.
  7. *Upjohn Co. v. United States*, 449 U.S. 383 (1981).
  8. BUSINESS CRIMES 186–87 (J. Glekel ed., 1982).
  9. John W. Gergacz, *Attorney-Corporate Client Privilege; Cases Applying Upjohn, Waiver, Crime-Fraud Exception, and Related Issues*, 38 BUS. LAW. 1653 (Aug. 1983).
  10. *Baxter Travenol Labs., Inc. v. Lemay*, 89 F.R.D. 410 (S.D. Ohio 1981), *app. denied mem.*, 708 F.2d 721 (6th Cir. 1982).

By reason of the case-by-case approach adopted in *Upjohn*, in-house counsel should keep current on the case law of privilege questions in each relevant jurisdiction.<sup>10,1</sup> *Upjohn* does not bind a state court in construing its state's rules of evidence.<sup>11</sup> A state may adopt a broader or narrower privilege than *Upjohn*; some states still apply the control group or subject matter tests. A 1989 case from New York's highest court reaffirmed a state court's latitude in fashioning its own privilege as a matter of state law. In *Rossi v. Blue Cross & Blue Shield of Greater New York*,<sup>12</sup> the New York Court of Appeals held that there is no ready test to distinguish between protected legal communications and unprotected business or personal communications; the inquiry is necessarily fact-specific. *Rossi* went on to list several "guideposts" to be used to identify privileged communications: (i) the organizational responsibilities of the person giving the advice; (ii) whether the document was clearly an internal, confidential document; (iii) whether the communication occurred in a litigation-related context; (iv) whether the communication expressly concerned the client's legal rights and obligations; and finally, (v) whether the communication dealt primarily with legal matters. Finding the author of the document functioned solely as a corporate attorney, that there was no evidence anyone outside the organization had access to the document, that the document concerned a defamation suit which was imminent and that the communication was predominately of a legal character, *Rossi* held the document was privileged.<sup>13</sup>

In 2002, a lower-court decision, dealing with the scope of the attorney-client privilege and a potential waiver situation, amplified the view in New York State (and appears also to be the rule in most other jurisdictions) that the application of the privilege is determined on a case-by-case basis. Said the court: "The client is a corporation, an entity that communicates by individuals who hold positions as officers, directors, or employees. There is no one person in the corporate hierarchy that is the 'client'[,] instead a myriad of people

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10.1. See Tamar S. Wise, *Updates on Privilege Issues for In-House Counsel in New York*, N.Y.L.J., Apr. 15, 2015.

11. See FED. R. EVID. 501 ("in civil actions . . . with respect to an element of a claim or defense as to which State law supplies the rule of decision, the privilege . . . shall be determined in accordance with State law").

12. *Rossi v. Blue Cross & Blue Shield of Greater N.Y.*, 73 N.Y.2d 588, 540 N.E.2d 703, 542 N.Y.S.2d 508 (1989).

13. *Id. Cf. Stock v. Schnader Harrison Segal & Lewis LLP*, 142 A.D.3d 210 (1st Dep't 2016).

in executive or director positions within the corporation may be in contact with counsel on a legal matter.”<sup>14</sup>

As for the waiver issue, in the context of communications by counsel with various representatives of the client, the court held that internal distribution of a memorandum within the corporation by one employee (who received the legal advice) to another employee facilitated the rendering of that advice, stating that “Legal advice to a corporate client inherently involves dispersing the advice to corporate representatives.”<sup>15</sup> Quoting from a federal case, the court noted that the “privilege protects from disclosure communications among corporate employees that reflect advice rendered by counsel to the corporation. . . . ‘A privileged communication should not lose its protection if an executive relays legal advice to another who shares responsibility for the subject matter underlying the communication.’ . . . This follows from the recognition that since the decision-making power of the corporate client may be diffused among several employees, the dissemination of confidential communications to such person does not defeat the privilege.”<sup>16</sup> Essentially, the court articulated a “need-to-know” test, that is, disclosure of privileged material is limited to employees who need to know in order to assist counsel in rendering legal advice.<sup>17</sup>

In the situation, however, where an attorney’s letter to the client is shown to a third party, that amounts to a limited waiver of the privilege with regard to the contents of that letter—but not a wholesale waiver of the entire subject matter involved, because of the particular circumstances under which the disclosure was made. At the same time, subject matter waiver would apply totally if evidentiary use was sought to be made of the otherwise privileged document.<sup>18</sup>

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14. *Charter One Bank, FSB v. Midtown Rochester L.L.C.*, 739 N.Y.S.2d 179, 190 (Sup. Ct. Monroe Cty. 2002).

15. *Id.*

16. *Id.* (quoting from *Bank Brussels Lambert v. Credit Lyonnais (Suisse) S.A.*, 160 F.R.D. 437, 442 (S.D.N.Y. 1995)).

17. *Charter One Bank*, 739 N.Y.S.2d at 190; see Vincent C. Alexander, *Corporate Attorney-Client Privilege*, N.Y.L.J., May 20, 2002, at 3; see also *FTC v. GlaxoSmithKline*, 294 F.3d 141, 147–48 (D.C. Cir. 2002) (distribution of internal documents to various corporate employees and outside consultants does not waive the attorney-client privilege on a showing that dissemination was restricted to those whose duties related generally to the contents of the documents). *But see* *Luminara Worldwide, LLC v. RAZ Imps., Inc.*, No. 15-cv-03028 (SRN/FLN), 2016 U.S. Dist. LEXIS 158183 (D. Minn. Nov. 15, 2016) (privilege does not protect the discovery preparation of employee-expert or his documents from disclosure).

18. *Charter One Bank*, 739 N.Y.S.2d at 190. For a more complete review of the waiver issue, see section 9:6, *infra*.

The federal courts have, at times, appeared confused on how to interpret *Upjohn*, with at least one court stating that the Supreme Court implicitly adopted the modified subject matter test.<sup>19</sup> Several federal courts have not acknowledged that *Upjohn* adopts any standard at all, only that corporate privilege cases will be decided on a case-by-case basis. Moreover, different standards may apply if the corporation becomes involved in a shareholder derivative suit,<sup>20</sup> or stockholder suit alleging managerial wrongdoing,<sup>20.1</sup> for example, rather than an action brought by a third party; and the courts are split on whether the privilege is applicable to conversations with counsel concerning the contents of a securities filing.

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19. SEC v. Gulf & W. Indus., Inc., 518 F. Supp. 675, 681 n.9 (D.D.C. 1981).
20. See *Buttonwood Tree Value Partners, L.P. v. R.L. Polk & Co.*, No. 9250-VCG, 2018 WL 346036 (Del. Ch. Jan. 10, 2018) (Delaware Chancery Court applies *Garner* privilege exception, declining motion by minority shareholders to compel production of privileged documents); *Garner v. Wolfinbarger*, 430 F.2d 1093, 1103–04 (5th Cir. 1970), *cert. denied*, 401 U.S. 974 (1971) (holding that in a shareholder derivative suit, shareholders could defeat the attorney-client privilege asserted by the corporation through a showing of “good cause”); *Wal-Mart Stores Inc. v. Ind. Elec. Workers Pension Tr. Fund IBEW*, 95 A.3d 1264 (Del. 2014) (citing *Garner*, in ordering Wal-Mart to produce documents relating to an internal investigation otherwise protected by the privilege); see also *Weiser v. Grace*, 179 Misc. 2d 116, 683 N.Y.S.2d 781 (N.Y. Sup. Ct. 1998), where the court, in a shareholder derivative action against the corporation’s directors, held that material prepared by counsel for a special litigation committee was subject to disclosure; *Granite Partners, LP v. Bear, Stearns & Co., Inc.*, 184 F.R.D. 49 (S.D.N.Y. 1999) (“use of selected quotes from . . . interview notes waives any privilege claimed on the unquoted portion of those notes”); Victoria A. Kummer, *Is That Conversation Really Privileged?*, N.Y.L.J., June 9, 2011, GC New York (“[N]o matter how clear the privileged nature of that conversation now [between a company’s general counsel and its CEO], that privilege might someday disappear.”). *But see In re Dow Corning Corp.*, 261 F.3d 280 (2d Cir. 2001), in which the court, while refusing to block a district court order compelling the deposition of Dow Corning’s general counsel in a shareholder suit against the company (because the “scanty record” did not justify the extraordinary relief of a writ of mandamus), nevertheless sent the case back for further consideration, directing the lower court to “consider, however, that relevance without more does not override the privilege and that a protective order will not adequately safeguard the privilege holder’s interests such that the attorney-client privilege may be neglected.” The court noted particularly: “compelled disclosure of privileged attorney-client communications, absent waiver or an applicable exception, is contrary to well established precedent.”
- 20.1. An *applicable exception*, namely, the so-called “fiduciary exception,” has been raised in an action by a shareholder against corporate management for breach of fiduciary duty, entitling claimant to receive confidential communications between the company and its counsel which might otherwise be deemed privileged. *NAMA Holdings, LLC v. Greenberg Traurig LLP*, 133 A.D.3d 46 2015 (1st Dep’t 2015).

Some courts have held otherwise privileged communications are not privileged, generally on the basis that no expectation of confidentiality exists regarding a document intended to be publicly disseminated.<sup>21</sup>

*Upjohn* also discussed the relationship between the corporate attorney-client privilege and the work-product doctrine. The Court stated that the reach of the work-product doctrine extends beyond the attorney-client privilege. Thus, corporate communications may find protection as attorney work product (see section 9:3), rather than as a privileged communication between attorney and client. Of course, if the attorney-client privilege applies, it should be absolute, but the protection of the work-product doctrine can be overcome if the opposing party can demonstrate that applying the doctrine would create an undue constraint on discovering essential information, that is, a particularized need and exceptional showing that, among other things, such information cannot otherwise be obtained—a reflection of the tension which exists between preserving the privilege and the disclosure of significant facts in a particular proceeding.

In two 2002 decisions arising out of the September 11 terrorist attack at the World Trade Center, the federal district court in Manhattan confronted, once again, the applicability of the attorney-client privilege to communications involving third parties, and the reach of the work-product doctrine. The upshot of these opinions confirms that these issues essentially devolve into fact-specific, case-by-case determinations.

The first case<sup>22</sup> involved a motion by certain insurers, seeking to limit their coverage under policies to the Trade Center's leaseholder, to compel testimony regarding communications between attorneys for the leaseholder and employees of the broker that had obtained the coverage, and between those attorneys and employees during their preparation as witnesses for deposition. In granting the motion, the court held that the attorney-client privilege must be narrowly construed (as is always the case). Since, said the court, these employees were not employees of the attorneys' corporate client or the functional equivalent of corporate employees, the privilege does not attach to those communications. Moreover, the court also decided that the "common-interest" privilege, which is a limited exception to the general rule that the attorney-client privilege is waived when an

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21. *Dudley v. Ski World, Inc.*, No. IP87-1025C, 1989 WL 73208 (S.D. Ind. Feb. 20, 1989) (conversations between corporate officials and the company's outside counsel concerning the contents of a prospectus were not privileged); *In re Grand Jury Proceedings*, 727 F.2d 1352, 1356 (4th Cir. 1984); *but cf. In re Grand Jury Subpoena Duces Tecum*, 731 F.2d 1032 (2d Cir. 1984).
  22. *SR Int'l Bus. Ins. Co. v. World Trade Ctr. Props. LLC*, 2002 U.S. Dist. LEXIS 10919 (June 19, 2002).

otherwise protected communication is disclosed to a third party, was inapplicable in the circumstances of this case. The “common-interest” privilege applies where it can be shown that the particular communications were between counsel and joint consulting parties who have a specifically defined common legal interest.<sup>23</sup>

As for the work-product issue, related to the statements made by these employees to the client’s attorneys, there the court said that, while the questioning of a nonparty witness that is designed to elicit an attorney’s work product should not be permitted, that should not preclude questioning as to what that witness said to another party’s attorney or testimony of conversations between the attorney and the witness relating to events that are expected to be the subject of the deposition’s inquiry.

The second, related case<sup>24</sup> also concerned a motion seeking to compel testimony by the leaseholder’s lender’s employees and employees of the lender’s insurance advisor, and the production of certain documents. Here, the court, in rejecting the lender’s argument that the testimony would involve disclosure of privileged communications, reiterated the basic rule that the privilege does not attach to an attorney’s communication when that attorney has not been retained in the capacity of a legal advisor, but hired to give business or personal advice. On the other hand, communications containing or seeking legal advice, as distinct from business advice and information, are protected. The privilege also extends to communications between and among the client’s nonlawyer employees, who made inquiries at the attorney’s direction or relayed that attorney’s advice on legal—not business—issues to other employees.<sup>25</sup>

Finally, dealing with the work-product doctrine, the court determined that notes taken by nonlawyer employees (at the direction of in-house counsel) of what transpired at a particular meeting and then conveyed them to counsel, were not protected by the doctrine (even if it could be found to be in the context of litigation—which was not the case here). These notes merely set forth facts that were reported back to the attorney and are, therefore, not privileged. Additionally, even if

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23. See section 9:6, *infra*. See also *Steel v. Phila. Indem. Ins. Co.*, 381 P.3d 111 (Wash. Ct. App. 2016) (attorney-client and work-product privileges not waived and attorneys’ underlying communications and documents not subject to production by insured’s seeking a settlement reasonableness hearing). *But see* *Guiffre v. Maxwell*, No. 15 Civ. 7433 (RWS), 2016 WL 1756918 (S.D.N.Y. May 2, 2016) (common-interest doctrine applicable only if communications in question otherwise qualify as privileged).

24. *SR Int’l Bus. Ins. Co. v. World Trade Ctr. Props. LLC*, 2002 U.S. Dist. LEXIS 11949 (July 3, 2002).

25. *FTC v. GlaxoSmithKline*, 294 F.3d 141 (D.C. Cir. 2002).

those employees were attorneys, communications between lawyers where one is simply relaying factual information to the other are not privileged or otherwise protected by the work-product doctrine.

The application of the attorney-client privilege and the work-product doctrine often produces unique difficulties in a corporate setting. First, the advice may contain both legal and business elements. This problem arises more frequently with advice given by in-house rather than outside counsel, but the latter often confronts the problem as well. In giving mixed business/legal advice, it is more difficult to sort out the elements likely to be covered by the attorney-client privilege and the work-product doctrine. For example, in 1996, a federal district court in *Georgia-Pacific Corp. v. GAF Roofing Manufacturing Corp.*<sup>26</sup> held that communications between GAF's in-house counsel and management were not privileged, because the in-house counsel negotiated the contract at issue and provided management with business, not legal, advice. And, in a 1998 decision, a federal court also in the Southern District of New York held that, in seeking to assert the privilege, a company had the burden of clearly showing that in-house counsel acted in her "legal capacity" and not as a "business advisor, since counsel is often involved in business matters."<sup>27</sup>

There are no hard and fast rules on how to handle this situation, but the lawyer should be alert to the problem and take all steps possible to separate the two roles.<sup>28</sup> For example, the in-house lawyer

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26. *Ga.-Pac. Corp. v. GAF Roofing Mfg. Corp.*, No. 93 Civ. 5125 (RPP), 1996 WL 29392, at \*4 (S.D.N.Y. Jan. 25, 1996); *cf.* *Bank Brussels Lambert v. Credit Lyonnais (Suisse), S.A.*, 220 F. Supp. 283 (S.D.N.Y. 2002) (in-house counsel held to stricter standard regarding privilege since counsel frequently participates in business decisions); *United States v. Chevron Corp.*, 1996 WL 264769 No. C-94-1885 SBA, (N.D. Cal. Mar. 13, 1996) (there can be no presumption that all communications with inside counsel are related to legal advice); *Borase v. M/A Com, Inc.*, 171 F.R.D. 10 (D. Mass. 1997). *See also* *Craig v. Rite Aid Corp.*, No. 4:08-CV-2317, 2012 WL 426275 (M.D. Pa. Feb. 9, 2012) (documents seeking comments from in-house counsel and management on draft proposal relating to business restructuring not privileged; legal advice not sought).
  27. *Ames v. Black Entm't Television*, No. 98 Civ. 0226 (LMM) AIP, 1998 WL 812051 (S.D.N.Y. Nov. 18, 1998). *See* Thomas B. Cronmiller, *The Conundrum of Preserving In-House Attorney-Client Privilege*, 82 N.Y. ST. B.A. J., Jan. 2010, at 42, for a current outline of the pertinent issues and various factors affecting the applicability of the privilege, where inside counsel is involved. *See also* *SR Int'l Bus. Ins. Co. v. World Trade Ctr. Props. LLC*, 2002 U.S. Dist. LEXIS 10919 (June 19, 2002); Amy L. Weiss, *In-House Counsel Beware: Wearing the Business Hat Could Mean Losing the Privilege*, 11 GEO. J. LEGAL ETHICS 393 (Winter 1998).
  28. *See* *TVT Records v. Island Def Jam Music Grp.*, 214 F.R.D. 143, 145 (S.D.N.Y. 2003) (where court observed, in a situation involving corporate officials with titles of "Senior VP of Legal & Business Affairs" and "VP of Business & Legal Affairs": "As the titles indicate, these representatives

might provide legal advice at one time in one written instrument and offer business advice subsequently in a separate document. The document or communication should also be written or given in such a way that makes it clear that the main purpose of the document or communication is to provide legal advice and all other matters are merely incidental to the legal advice.<sup>29</sup>

This does not mean that a particular memorandum submitted by counsel be filled with the results of legal research, including a multitude of citations and case analyses, to support the advice or opinion rendered.<sup>30</sup> “The absence of legal research in an attorney’s communication is not determinative of the privilege,” said the New York Court of Appeals in *Spectrum Systems International Corp. v. Chemical Bank*,<sup>31</sup> upholding the privilege in connection with a report of an internal investigation submitted by outside counsel to its corporate client. This report, said the court, would be entitled to the same protection if prepared by in-house counsel, “so long as the communication reflects the attorney’s professional skills and judgments. Legal advice may be grounded in experience as well as research.”<sup>32</sup>

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served . . . not only as lawyers, but as high ranking management executives. As such, it is not always readily discernible in what capacity they may have been functioning at the time they participated in particular communications”; *cf.* *Norbrook Labs. Ltd. v. G.C. Hartford Mfg. Co.*, 5:03-CV-165 (N.D.N.Y. Apr. 24, 2003) (outside counsel and director of defendant was denied access to plaintiff’s documents, because the court could not “endorse a situation that places . . . [counsel’s] ethical obligations as an attorney in direct competition with his fiduciary duty to . . . [the defendant]”).

29. When documents are created with more than one purpose in mind, the courts have held that privilege will attach if the primary motivating purpose behind the performance of the work was to assist in pending or impending litigation. *Application of Minebea Co.*, 143 F.R.D. 494, 499 (S.D.N.Y. 1992); *but cf.* *United States v. Rosenthal*, 142 F.R.D. 389 (S.D.N.Y. 1992). *But see In re Leslie Fay Cos., Inc. Sec. Litig.*, 161 F.R.D. 274, 280 (S.D.N.Y. 1995) (internal investigation conducted “primarily for business reasons” and “ancillary existence of ongoing litigation [did] not shield . . . investigatory documentation from discovery”); *E.I. du Pont de Nemours & Co. v. Forma-Pack, Inc.*, 351 Md. 396, 425, 718 A.2d 1129 (1998) (documents prepared by law department for debt collection purposes not protected work product); *Craig*, 2012 WL 426275.
30. The U.S. Supreme Court has not set forth a test to determine when opinion work product is discoverable. However, the Ninth Circuit did offer such a test in *Holmgren v. State Farm Mut. Auto. Ins. Co.*, 976 F.2d 573, 577 (9th Cir. 1992) (opinion work product is discoverable “when mental impressions are *at issue* in a case and the need for the material is compelling”); *see also* section 9:3, *infra*.
31. *Spectrum Sys. Int’l Corp. v. Chem. Bank*, 78 N.Y.2d 371, 380, 575 N.Y.S.2d 809, 815–16 (1991); *see also Seyler v. T-Sys. N. Am., Inc.*, 771 F. Supp. 2d 284 (S.D.N.Y. 2011).
32. *Spectrum Sys. Int’l Corp.*, 78 N.Y.2d at 380, 575 N.Y.S.2d at 815–16.

The fundamental issue presented in these situations is whether the communications or other interplay between in-house counsel and other employees or agents of a common employer are of a *business* nature, in pursuit of a *business purpose*, as distinct from a *legal* purpose.

If documents prepared by inside counsel are couched in terms which are essentially legal in nature, and the attorney was definitely functioning in that capacity as part of a distinct law department, the more likely it is that the material sought to be discovered or disclosed will be protected from scrutiny as privileged and confidential. The New York Appellate Division, in a 1991 decision, addressing this issue, declared: “Based upon our review of the documents and the uncontroverted assertion that defendant’s legal division is a separate unit functioning exclusively as an inside law firm and that its attorneys perform no business functions, we reject the contention that many of the documents were prepared in pursuit of a ‘business’ or, at least, a mixed purpose rather than a ‘legal’ purpose.”<sup>33</sup> The critical element in determining if the privilege will apply in these dual-purpose situations is whether the *primary or predominant* purpose of the attorney-client communication is to solicit or render legal advice.<sup>34</sup>

Of course, the attorney-client privilege, by its very nature, must involve an *attorney* in the communication. In *Gucci America Inc. v. Guess! Inc.*,<sup>35</sup> invoking this requisite element was not that simple: the in-house counsel, whose communications were sought by his company to be protected, was, at the time they were rendered and received, an inactive member of the California bar. Yet the court held that the company was entitled to assume that its communications with

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33. *Quail Ridge Assocs. v. Chem. Bank*, 174 A.D.2d 959, 962, 571 N.Y.S.2d 648, 650 (3d Dep’t 1991). *See* *Boca Investering’s P’ship v. United States*, 31 F. Supp. 2d 9, 12 (D.D.C. 1998) (title, job description and place in corporate organizational chart important factors in determining whether advice from in-house attorney is “legal” or “business” advice); *see also In re Sealed Case*, 737 F.2d 94, 99 (D.C. Cir. 1984).

34. *See In re Kellogg Brown & Root, Inc.*, 756 F.3d 754, 760 (D.C. Cir. 2014) (seeking or obtaining legal advice need not be *sole* purpose to protect communication, so long as it was “one of the significant purposes”); *In re County of Erie*, 473 F.3d 413 (2d Cir. 2007); *see also* Keith D. Krakaur, *Second Circuit on Dual-Purpose Attorney-Client Talks*, N.Y.L.J., July 26, 2007, at 4; Martin Flumenbaum & Brad S. Karp, “*Predominant Purpose*” *Test Used in Privilege Claim Cases*, N.Y.L.J., Jan. 24, 2007, at 3. *But cf.* *Fine v. ESPN*, 12-CV-0836, 2015 WL 3447690 (N.D.N.Y. May 28, 2015) (even if there was a dual purpose in creating sensitive documents, issue is whether they would have been created in same form in absence of litigation).

35. *Gucci Am. Inc. v. Guess! Inc.*, No. 09 Civ. 4373 (SAS), 2011 WL 9375 (S.D.N.Y. Jan. 3, 2011).

counsel were privileged, and that “the privilege may be successfully claimed if the client reasonably believed that the person to whom the communications were made was in fact an attorney.”<sup>36</sup>

The *Gucci* decision raises another issue that affects the in-house practice of law, “namely, whether . . . in-house counsels . . . are engaged in the illegal practice of law when they advise . . . executives” at companies located in states where counsel is not licensed.<sup>37</sup>

The developing trend by various courts, however, to pick apart the attorney-client privilege and work-product doctrine, and weaken the protection they were intended to provide, particularly where in-house counsel is involved, led the Sections of Litigation and Business Law of the ABA, in August 1997, to sponsor a resolution before the ABA’s House of Delegates at its 1997 Annual Meeting, stating that the ABA “supports the principle that the attorney-client privilege for communications between in-house counsel and their clients should have the same scope and effect as the attorney-client privilege for communications between outside counsel and their clients.”<sup>38</sup> The resolution passed and, in circulating the resolution and report, then ABA President Jerome J. Shestack noted the Association’s appreciation of “the essential role of the in-house counsel in providing legal representation for its clients and that erosion of the attorney-client privilege will have a detrimental effect on the ability of in-house counsel to be effective counsel.”<sup>39</sup>

### § 9:3 Work-Product Doctrine

The work-product doctrine is statutorily provided for under Rule 26(b)(3) of the Federal Rules of Civil Procedure. *Hickman v. Taylor*<sup>40</sup> is

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36. See Mark Hamblett, *Court Finds Gucci Communication with Unlicensed GC Privileged*, N.Y.L.J., Jan. 6, 2011.

37. Joel Stashenko, *NYSBA Supports Easing Practice Rules for In-House Counsel*, N.Y.L.J., Nov. 9, 2010 (“According to the [NYS] committee on attorney conduct, 44 states and the District of Columbia have adopted rules permitting out-of-state lawyers employed by instate entities to practice locally. In addition to New York, the states without reciprocity agreements are Hawaii, Mississippi, Montana, Texas and West Virginia . . .”). See Michael J. Sweeney, *Unauthorized Practice of Law and the Transplanted In-House Counsel*, BUS. L. TODAY, Mar. 2014, for a current report of the various state rules (and ABA Rule 5.5(d)) and issues affecting the in-house practice of law.

38. Recommendation to ABA House of Delegates (Aug. 1997), with attached Report from the Chair of the Section of Litigation. See Exhibit 9A.

39. Letter, dated Sept. 11, 1997, from Jerome J. Shestack to conferees of ABA’s Common Grounds II Conference (June 1997). See also Report of ABA’s Task Force on the Attorney-Client Privilege, 60 BUS. LAW. 1029 (May 2005).

40. *Hickman v. Taylor*, 329 U.S. 495 (1947).

the leading case formulating this privilege. The doctrine protects from disclosure any documents prepared by the attorney in anticipation of litigation, including written statements, private memoranda and personal recollections of the attorney.<sup>41</sup> This privilege may be overcome, and production required, by a strong showing of particularized need by the opposing counsel. To make that showing, it must be demonstrated, for example, that the party has a substantial need for the materials and would not be able to obtain the substantive equivalents without undue hardship. The courts, however, have protected the mental processes of attorneys, such as legal analysis and conclusions (that is, “opinion work product”), almost to the point of an absolute prohibition, as distinguished from so-called “fact” work product, which may well be subject to production. This distinction has come into sharp focus in a controversial D.C. Circuit decision, holding that the FTC, in an antitrust investigation, was entitled to the production of confidential attorney documents regarding a drug company’s settlement with a generic producer.<sup>41.1</sup> *Hickman*, as discussed in *Upjohn*, indicated that the work-product doctrine does not protect information concerning the underlying facts in a dispute.<sup>42</sup>

Initially, it was generally held that only those communications prepared in anticipation of actual litigation could generally be categorized as work product. The fact that the documents were prepared to determine whether certain actions—those that have been done or are proposed to be done—might result in future litigation would not necessarily serve as a basis for protecting the documents under this privilege.<sup>43</sup> The ground, however, has been shifting in this area, and a more flexible, case-by-case approach has developed.

For example, an investigation by a regulatory agency appears to be sufficient to meet the “anticipation-of-litigation” requirement for

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41. One exception to the work-product doctrine relates to the prosecution of patent applications. The prosecution of a patent application is not categorized as being “in anticipation of litigation.” See *Oak Indus. v. Zenith Elecs. Corp.*, 687 F. Supp. 369, 374 (N.D. Ill. 1988); but see *Hercules, Inc. v. Exxon Corp.*, 434 F. Supp. 136, 151 (D. Del. 1977) (holding that if the communications prepared by the attorney primarily concern future litigation, and not the prosecution of the patent application, the work-product privilege may apply).
- 41.1. *FTC v. Boehringer Ingelheim Pharm., Inc.*, 778 F.3d 142 (D.C. Cir. 2015) (“[T]he District Court misapprehended the proper distinction between fact and opinion work product . . .”), *cert. denied*, 136 S. Ct. 925 (2016).
42. See *In re Grand Jury Subpoena Dated July 6, 2005*, 510 F.3d 180 (2d Cir. 2007); see also Howard W. Goldstein, *Corporate Crime: Work Product Privilege and the Grand Jury*, N.Y.L.J., Jan. 3, 2008, at 5.
43. *Leonen v. Johns-Manville*, 135 F.R.D. 94 (D.N.J. 1990). See *United States v. Adlman*, 68 F.3d 1495, 1501 (2d Cir. 1995) (“[T]here is no rule that bars application of work product protection to documents created prior to the event giving rise to litigation. Nor do we see any reason for such a

invoking the work-product doctrine.<sup>44</sup> Interestingly, work-product protection has also been afforded to certain material that was prepared before litigation in a case involving interview notes taken by SEC attorneys. In *SEC v. Cavanagh*,<sup>45</sup> a federal district court judge held that such notes were “classic work-product” created during the process of deciding whether to proceed to litigation.<sup>46</sup> In a case, however, where documents were prepared *after* proceedings were dismissed, such material could not be subject to work-product protection.<sup>47</sup>

Most importantly, the U.S. Court of Appeals for the Second Circuit appears to have brought some order to the somewhat chaotic debate about whether the “anticipation-of-litigation” predicate for the application of the doctrine requires that litigation constitute the primary (if not sole) purpose for preparing the sought-after document or whether such

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limitation. In many instances, the expected litigation is quite concrete, notwithstanding that the events giving rise to it have not yet occurred.”); *Weil Ceramics & Glass, Inc. v. Work*, 110 F.R.D. 500, 505 (E.D.N.Y. 1986) (citing *Westhemeco Ltd. v. N.H. Ins. Co.*, 82 F.R.D. 702, 708 (S.D.N.Y. 1979)), *modified on other grounds sub nom.* *Commercial Union Ins. Co. v. Albert Pipe & Supply Co.*, 484 F. Supp. 1153 (1980) (the party seeking the privilege must demonstrate a “substantial probability” of litigation at the time the documents were created).

44. *See* *Martin v. Bally’s Park Place Hotel & Casino*, 983 F.2d 1252, 1261 (3d Cir. 1993) (an inquiry by OSHA was sufficient to anticipate litigation); *Martin v. Monfort, Inc.*, 150 F.R.D. 172, 173 (D. Colo. 1993) (citations omitted) (Department of Labor investigation was sufficient to categorize defendant’s internal studies as created in anticipation of litigation).
45. *SEC v. Cavanagh*, No. 98 Civ. 1818 (DLC), 1998 WL 132842 (S.D.N.Y. Mar. 23, 1998); *see also* *Nat’l Union Fire Ins. Co. v. AARPO, Inc.*, No. 97 Civ. 1438 (JSM), 1998 WL 823611 (S.D.N.Y. Nov. 25, 1998).
46. *See also* *United States v. Roxworthy*, 457 F.3d 590 (6th Cir. 2006) (an accountant’s memorandum, addressed to inside counsel, analyzing tax consequences of a series of transactions, had a designation of “attorney-client privilege,” but no “work-product” label; the court, however, supported the work-product assertion on the grounds the memorandum and surrounding circumstances demonstrated an objectively reasonable anticipation of litigation, and were not prepared to assist in preparation of tax returns); David E. Kahen & Elliot Pisem, *Taxation: Ruling Has Not Resolved Work-Product Privilege Issue*, N.Y.L.J., Oct. 18, 2007, at 5. *Cf.* *United States v. Textron*, 553 F.3d 87 (1st Cir. 2009) (auditors’ tax accrual work papers are *not* protected work product, having been prepared by auditors’ attorneys for purpose of creating reserve fund in anticipation of a dispute with IRS); Tony Mauro, *Reed Smith Brief Speaks “From the Heart” on Work-Product Privilege*, N.Y.L.J., Jan. 29, 2010, at 1.
47. *See* *Gonzalez v. City of New York*, No. 08-CV-2699 (E.D.N.Y. July 31, 2009); *see also* *Howell v. City of New York*, No. CV-06-6347 (ERK) (VVP), 2007 WL 2815738 (E.D.N.Y. 2007).

litigation may be one of several purposes.<sup>48</sup> Before the 1998 Second Circuit decision in *United States v. Adlman*,<sup>49</sup> the 1996 case of *In re Kidder Peabody Securities Litigation* had only added to the confusion in applying the “in-anticipation-of-litigation” standard.<sup>50</sup> There, a federal magistrate held that the work product from an internal investigation was not created “principally or exclusively” in anticipation of litigation, as it was “required for pressing business purposes.” This development further eroded the work-product doctrine, since nearly every document could arguably be produced for dual purposes. This subject was further clouded by a similar decision, in 1997, by the U.S. District Court for the Southern District of New York. In granting plaintiff’s motion, in a securities fraud action, seeking to compel production of notes and memoranda prepared by outside counsel hired by the defendant’s audit committee to investigate that company’s accounting practices and procedures, the court rejected counsel’s claim of work-product protection. It found, like in *Kidder*, that *business purposes* was the primary reason for the investigation. Moreover, the arrangements established among outside counsel, the company’s auditors and the company also triggered a waiver of the attorney-client privilege. While it might be said that the court’s holding must be read narrowly, based on the peculiar procedure employed to deal with the results of the investigation, it is instructive to follow the court’s analysis in this case and be guided accordingly. The court stated: “As evidenced by the Audit Committee’s dealings with Ernst & Young [the company’s outside auditors], Sensormatic hoped to keep the investigation confidential. Once it became clear, however, that the cost of that confidentiality was the inability to get from Ernst & Young an unqualified audit opinion, Sensormatic made a strategic decision to waive the privilege. Once the Audit Committee disclosed to Ernst & Young the substantive and detailed results of the Willkie investigation, including paraphrased statements of what

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48. See C. Evan Stewart, *Policing the Corporate Beat: “One Small Step for Man . . .”*, N.Y.L.J., May 7, 1998, at 1; but see Martin Flumenbaum & Brad S. Karp, *Compelling an Attorney’s Testimony in a Grand Jury Proceeding*, N.Y.L.J., Mar. 27, 2002, at 3.

49. *United States v. Adlman*, 134 F.3d 1194 (2d Cir. 1998); cf. *Maine v. U.S. Dep’t of the Interior*, 298 F.3d 60 (1st Cir. 2002); *Ramsey v. NYP Holdings, Inc.*, No. 00 Civ. 3478 (VM) (MHD), 2002 WL 1402055 (S.D.N.Y. June 27, 2002).

50. 168 F.R.D. 459 (S.D.N.Y. 1996); see also *In re Leslie Fay Cos., Inc. Sec. Litig.*, 161 F.R.D. 274 (S.D.N.Y. 1995); but cf. *In re Woolworth Corp. Sec. Class Action Litig.*, 1996 WL 306576 (S.D.N.Y. June 7, 1996), where the court held that material created by a special audit committee was protected under the work-product doctrine, and that there was no waiver of the attorney-client privilege when the company released a factual report prepared by this committee.

Sensormatic employees had stated in confidence to Willkie attorneys, Sensormatic waived its privilege.”<sup>51</sup>

The judge then proceeded to introduce the so-called “sword and shield” principle, in finding that the Committee’s disclosure of the investigation’s results to the auditors led to a complete subject matter waiver of the attorney-client privilege applicable to the underlying materials on which the investigation was based. The court held that basic fairness required that counsel make available to the plaintiff “all notes of interviews with Sensormatic employees and notes of meetings with the Audit Committee at which Ernst & Young was present, as well as all evidence relied upon in determining which employees were credible.”<sup>52</sup>

And another U.S. magistrate judge ruled in 2006 that the redacted minutes of a meeting of a board’s audit committee, at which counsel was present, were protected by the attorney-client privilege from disclosure, even if the meeting may also have involved a “recounting of business transactions.” Said the court, it “appears . . . that the redacted portion of the minutes contains material which is subject to the attorney-client privilege as the recording of communications between TSA [the company/client] and its attorney who was acting in the capacity of an attorney by giving legal advice.”<sup>53</sup>

In *Adlman*, the court ruled that documents prepared “because of litigation” and not just those prepared “primarily or exclusively for litigation” are entitled to protection from disclosure. Even if a particular document was created, said the court, for the dual purpose of informing a business decision while also anticipating litigation, the requisite test for work-product treatment was satisfied. Importantly, therefore, this broader standard has enhanced the protection afforded

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51. *In re Subpoena Duces Tecum Served on Willkie Farr & Gallagher*, No. M8-85 (JSM), 1997 WL 118369, at \*3 (S.D.N.Y. Mar. 14, 1997); *see also* *Weiser v. Grace*, 179 Misc. 2d 116, 683 N.Y.S.2d 781 (N.Y. Sup. Ct. 1998); *Granite Partners, LP v. Bear, Stearns & Co., Inc.*, *supra* note 20.

52. *In re Subpoena Duces Tecum Served on Willkie Farr & Gallagher*, 1997 WL 118369, at \*4; *see also In re Bear Stearns Cos. Sec., Derivative & ERISA Litig.*, 08 Civ. 2793 (S.D.N.Y. Jan. 27, 2012) (plaintiffs’ counsel cannot rely on work-product doctrine to shield their witnesses’ identities from disclosure); *Plumbers & Pipefitters Local Union No. 630 Pension-Annuity Tr. Fund v. Arbitron*, 2011 U.S. Dist. LEXIS 131091 (S.D.N.Y. Nov. 14, 2011); *cf. In re Gen. Motors LLC Ignition Switch Litig.*, No. 14-MD-2543, 2015 WL 221057 (S.D.N.Y. Jan. 15, 2015) (holding that GM did not use internal investigations report offensively).

53. *Desert Orchard Partners, L.L.C. v. Transaction Sys. Architects, Inc.*, 237 F.R.D. 215 (D. Neb. 2006).

documents prepared by and for clients and their lawyers.<sup>54</sup> This has particular relevance in regard to internal investigations and similar activities that are conducted by counsel.<sup>55</sup> At the same time, while referring to *Adlman*, a U.S. magistrate judge has held that tape recordings made by a plaintiff prior to hiring an attorney were not entitled to work-product protection.<sup>56</sup> And, in rejecting a work-product claim, a federal judge ordered the production of a defendant's investigator's interview notes of the plaintiff, and authorized the deposition of the investigator limited solely to the communications *directly with the plaintiff*. The court, however, in noting that the investigator had been engaged to assist defense counsel and that "virtually everything she [the investigator] has learned about this case is protected by attorney-client privilege or is work-product," held that the plaintiff was not entitled to conduct an extensive deposition of the investigator.<sup>57</sup>

Additionally, a 2002 Second Circuit decision demonstrates how elusive is a clear-cut guide to the perplexed when dealing with the work-product doctrine. In the context of a criminal proceeding, the court rejected the U.S. Attorney's effort to compel an attorney's testimony before a grand jury, holding that the doctrine barred the compulsion of the attorney's testimony about a former client's general counsel's statement made to IRS agents in that attorney's presence. Said the court: "It is one thing for a client to recognize that if he commits a crime in his attorney's presence, the attorney may be compelled to testify to the criminal acts she witnessed. It seems . . . quite different for the client to accept that if he hires an attorney to represent him with respect to his past commission of a crime, the attorney may be compelled to testify against him as to admissions (or denials) he

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54. See also *In re Ford Motor Co.*, 110 F.3d 954 (3d Cir. 1997), where the court found that certain agendas of meetings between technical experts and Ford's in-house counsel, prepared by the experts, were covered by the work-product doctrine; *Satcom Int'l Grp. v. Orbcomm Int'l Partners*, No. 98 CIV. 9095 DLC, 1999 WL 76847 (S.D.N.Y. Feb. 16, 1999).
55. See *In re Kellogg Brown & Root, Inc.*, 756 F.3d 754 (D.C. Cir. 2014); *People v. Kozlowski*, 11 N.Y.3d 223 (2008) (interviews of director-witnesses in internal investigation were covered by work-product doctrine, because prepared to assist in eventual civil litigation); see also chapter 12, "Internal Investigations," *infra*.
56. *Carroll v. Bayerische Landesbank*, No. 99 CIV. 2892 (CBM) (MHD), 2000 WL 1708178 (S.D.N.Y. Nov. 14, 2000).
57. *Casella v. Hugh O'Kane Elec. Co.*, No. 00 CIV. 2481 LAK, 2000 WL 1649513 (S.D.N.Y. Nov. 2, 2000). See Robert W. Seiden, *Private Investigator: Application of the Attorney-Client Privilege*, N.Y.L.J., May 19, 2006, at 4 ("Under current case law, the proper focus in determining privilege between a lawyer and an investigator is on the content and purpose of those communications made during the course of the engagement.").

made in his attorney's presence that tend to prove his guilt with respect to that past crime."<sup>58</sup>

A related question is the role of the nonlawyer assistant to the lawyer: to what extent are communications, fact-gathering tasks, or analytical tasks protected when conducted by paralegals, accountants, consultants, experts,<sup>59</sup> secretaries, investigators, or other agents under the control of the lawyer? (See chapter 12.)<sup>60</sup> The same question extends to circumstances in which those working on behalf of the lawyer are employees or agents of the corporation rather than of the law firm. And, in a related situation, a federal court has decided that confidential communications between attorneys and public relations consultants, retained by the attorneys to assist in dealing with the media in managing the client's legal problems, are covered by the attorney-client privilege.<sup>61</sup> In short, the pitfalls cannot be ignored

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58. *In re Grand Jury Subpoena Dated Oct. 22, 2001*, Nos. 01-6250, 01-6251, 01-6252, 2002 WL 253828, at \*3 (2d Cir. Feb. 21, 2002).

59. While the ABA voted in August 2006 to recommend amending Federal Rule 26 to protect draft expert reports and communications between attorneys and their experts from disclosure under the work-product doctrine, the Sixth Circuit, in *Reg'l Airport Auth. of Louisville & Jefferson Cty. v. LFG, LLC*, 460 F.3d 697 (6th Cir. 2006), held that Rule 26 required such disclosure, following similar decisions by other courts. See Michael Hoenig, *Discovery of Privileged Information Furnished to Experts*, N.Y.L.J., May 8, 2006, at 3. The rule was amended as of December 2010. Under the amendment, draft reports by experts to trial counsel are protected by the work-product doctrine. See also *Tikkun v. City of New York*, No. 05-CV-9901 (S.D.N.Y. Feb. 17, 2010) (expert may testify without disclosing data subject to attorney-client privilege).

60. See *United States v. Kovel*, 296 F.2d 918 (2d Cir. 1961) (privilege covers communications between a client and his accountant, and the accountant and the client's lawyer, where the accountant's role is to clarify communications between attorney and client); *but see United States v. Ackert*, 169 F.3d 136 (2d Cir. 1999), which held that *Kovel* did not apply in a situation involving communications between in-house tax counsel and an investment banker regarding an investment proposal conveyed earlier by the banker to counsel's company.

61. *In re Grand Jury Subpoena Dated March 24, 2003*, No. M11-189 (S.D.N.Y. June 2, 2003); *but see McNamee v. Clemens*, No. 09 Civ. 1647, 2014 WL 6606661 (E.D.N.Y. Nov. 19, 2014), *reaffirming* *McNamee v. Clemens*, No. 09-CV-01649, 2013 WL 6572899 (E.D.N.Y. Sept. 18, 2013) (where public-relations activities on behalf of Roger Clemens, the pitcher accused of taking performance enhancing drugs, conducted to assist in the overall legal strategy, were not entitled to privilege or work-product protection—they were either unconnected to rendering of legal advice, or were not of a legal character); Michael Cardello III & Stephen J. Ginsberg, *Roger Clemens Strikes Out on Privilege Arguments*, N.Y.L.J., Dec. 6, 2013; Colleen T. Davies, Lisa M. Baird & Andrew D. Stillhusen, *PR That's Privileged Protected, Corporate Counsel*, N.Y.L.J., Sept. 25, 2014 (while media advice is "sometimes" privileged, "black-letter law [still not]

when third parties are engaged to assist in the performance of a counsel's services.<sup>61.1</sup>

The tasks given to agents of the attorney must be performed at the direction of, and managed closely by, lawyers.<sup>62</sup> The lawyers should give detailed instructions to agents acting on their behalf in order to argue for protection under the work-product doctrine.

Further complicating the applicability of the work-product doctrine is the requirement, under the Sarbanes-Oxley Act of 2002 (SOX), for independent auditors to evaluate public company financial statements and internal controls, leading to the sharing by management and its counsel of privileged and work-product material.<sup>63</sup>

There are, thus, no absolute and precise road maps in this area. The general rule of privilege, as set out in Rule 501 of the Federal Rules of Evidence, would seem to offer broad coverage, in decreeing that

[t]he common law—as interpreted by United States courts in the light of reason and experience—governs a claim of privilege unless any of the following provides otherwise:

- the United States Constitution;
- a federal statute; or
- rules prescribed by the Supreme Court.

But in a civil case, state law governs privilege regarding a claim or defense for which state law supplies the rule of decision.

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adopted by a majority of jurisdictions"); *see also* *Scott v. Chipotle Mexican Grill, Inc.*, 94 F. Supp. 3d 585 (S.D.N.Y. 2015) (consultant report not privileged since not necessary for attorney to provide legal advice, and was nothing more than business advice); *La Suisse, Societe d'Assurances sur la Vie v. Krause*, No. 06 Civ. 4404, 2014 WL 6765684 (S.D.N.Y. Dec. 1, 2014) (attorney-client privilege does not cover communications between an attorney and a person found not to be an agent of individual clients, although purportedly acting on their behalf).

- 61.1. *See* Allison J. Schoenthal, *Risk of Waiving Privilege When Hiring Third-Party Consultants*, N.Y.L.J., Nov. 9, 2015.
62. *See* *Nat'l Petrochemical Co. of Iran v. M/T Stolt Sheaf*, 930 F.2d 240, 244 (2d Cir. 1991).
63. *See* Joseph M. McLaughlin, *Directors' and Officers' Liability: Sharing Work-Product with Outside Auditors*, N.Y.L.J., Dec. 10, 2009, Corporate Update (summarizes "recent case law addressing the implications of disclosure of work-product protected materials to outside auditors, and recommends best practices to increase the likelihood such disclosures do not constitute waiver of immunity"); *see also* Paul A. Straus & Paul B. Masio, *Protection of Work Product Shared with Outside Auditors*, N.Y.L.J., Dec. 16, 2010 (uncertainty still remains as to whether disclosure of such material destroys work-product protection).

Since states obviously employ their own law in this area, and the broad mandate of Rule 501 does not provide an explicit answer as to what a federal court will do in a given case,<sup>64</sup> counsel will have to continue to proceed carefully and realistically in picking their way through this thicket, in anticipation that their various communications and activities may be disclosable—and act accordingly.

In sum, what can a corporate law department do to protect confidential materials under the claim of privilege or work-product, particularly in the context of an internal investigation such as that in *Upjohn*? There are some practical procedures that can be followed. The most important action that in-house counsel can take to protect privileged documents is to mark the documents “Confidential-Attorney/Client Privilege” or “Confidential-Attorney Work Product.” Second, since communications are privileged only when they relate to obtaining legal advice, the board or an officer should specifically authorize in writing the internal investigation, requesting that a report containing legal conclusions be sent to the corporate official who can implement the advice. Third, the request should mention the possibility of a criminal or civil proceeding, if applicable, since an investigation prepared in anticipation of litigation may be protected by the work-product doctrine. Finally, the communication from counsel to client (or in response to the client) should have appropriate introductory language that indicates it is directed or related to a legal commentary.

Employees involved should also be instructed. They should be informed in writing of the principle of the attorney-client privilege and the importance of maintaining, as strictly confidential, the communications they have with company attorneys. They should also be directed to cooperate completely with counsel. Counsel should, however, inform them, as indicated earlier, that counsel represents the corporation and not individual employees.

Another precaution is to keep investigative findings and communications confidential and disclose them only to corporate officials on a “need-to-know” basis. Finally, by making notes that reflect the attorney’s theories, strategies, and mental impressions, rather than simply reporting findings verbatim, the attorney has a better chance

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64. See *United States v. Nobles*, 422 U.S. 225, 236–40 (1975); *United States v. Dist. Council of N.Y.C.*, No. 90 CIV. 5722 (CSH), 1992 WL 208284, at \*9 (S.D.N.Y. Aug. 18, 1992) (citations omitted) (indicating that the privilege does extend to an attorney’s assistants, as well as a party or other agents of the party).

of establishing the claim of attorney work-product.<sup>64.1</sup> (See chapter 12 for a full discussion of the subject of internal investigations.)

### § 9:4 Self-Evaluative Privilege

The self-evaluative privilege, also known as the self-critical analysis privilege, is a privilege that has been created to protect the type of self-audits that corporations periodically undertake. It was developed in order to promote and encourage these evaluations by protecting the information discovered thereby. This privilege is not, however, universally accepted or absolute. Federal courts disagree as to whether such privilege even exists, or where they otherwise agree on its existence, they disagree as to its application.<sup>65</sup> Where courts have accepted the self-evaluative privilege, four elements have been prescribed in order for it to apply in a particular situation:

1. The information must result from a critical self-analysis by the party asserting the privilege;
2. The public must have a strong interest in preserving the free flow of the type of information sought;
3. The information must be of the type whose flow would be curtailed if discovery were allowed; and
4. No document will be accorded a privilege unless it was prepared with the expectation that it would be kept confidential, and has in fact been kept confidential.<sup>66</sup>

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64.1. See *U.S. Bank Nat'l Ass'n v. PHL Variable Ins.*, Nos. 12 Civ. 6811, 13 Civ. 1580, 2013 WL 5495542 (S.D.N.Y. Oct. 3, 2013) (work-product doctrine protects identity of persons interviewed by counsel in anticipation of litigation; disclosure has "potential to reveal counsel's opinions, thought processes, or strategies").

65. See, e.g., *In re Parmalat Sec. Litig.*, No. 04MD1653 (LAK), 04 Civ. 9771, 2006 WL 2668367, at \*2 (S.D.N.Y. Sept. 24, 2006) ("There is no universally applicable self evaluative privilege in the United States. . . . Even in those jurisdictions that recognize such a privilege, the privilege is rarely if ever absolute and may be overcome by competing considerations . . . ."); *Deel v. Bank of Am., N.A.*, 227 F.R.D. 456, 459 (W.D. Va. 2005) ("Assuming the self-critical analysis privilege is a valid privilege at federal common law, the Court finds that the defendant has not developed sufficient facts to justify its application here."); see also Ronald G. Blum & Andrew J. Turro, *Self-Evaluative Privilege in the Second Circuit: Dead or Alive?*, 75 N.Y. ST. B.A. J., June 2003, at 44.

66. *Dowling v. Am. Haw. Cruises, Inc.*, 971 F.2d 423, 426 (9th Cir. 1992) (quoting Note, *The Privilege of Self-Critical Analysis*, 96 HARV. L. REV. 1083, 1086 (1983)).

The self-evaluative privilege is the most recently created privilege and is, therefore, still in the developmental stage.<sup>67</sup> It was first recognized by the federal courts in *Bredice v. Doctor's Hospital, Inc.*,<sup>68</sup> where the court protected from discovery the minutes and reports of the hospital staff concerning the death of a patient. The court pointed to the overwhelming public interest in such evaluations in order to further improve the care and treatment of patients. The court felt that such evaluations should be protected as confidential in order to encourage future medical peer reviews. In order to overcome this privilege, a showing of necessity would be required, said the court. The principle enunciated in *Doctor's Hospital* was expanded in *Dowling v. American Hawaii Cruises, Inc.*,<sup>69</sup> which held that the privilege would be accorded to a document that was prepared with the intention that it was to be kept confidential and was actually so maintained. However, the U.S. Supreme Court, in connection with the challenged disclosure of a university peer review file, held that such material, even if intended to be confidential, was not privileged or entitled to protection, noting that courts should not "create and apply an evidentiary privilege unless it 'promotes sufficiently important interests to outweigh the need for the probative evidence.'"<sup>70</sup>

The circuits have, as indicated, been split. It has been suggested that this privilege may be derived from the *Upjohn* decision. The general counsel of Upjohn sought to audit questionable payments by the corporation's foreign managers to foreign governments, because he sought to determine whether any of such payments may have violated the Foreign Corrupt Practices Act. Questionnaires on whether such payments were made were sent to all foreign managers, and their responses were protected under the attorney-client privilege cited in *Upjohn*. In essence, these questionnaires constituted a self-audit of questionable payments and were the very type of activity intended to be protected by the self-evaluative privilege.

The self-evaluative privilege has been applied through common law and statutory enactment.<sup>71</sup> The lower federal courts have, under the

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67. See, e.g., *McDougal-Wilson v. Goodyear Tire & Rubber Co.*, 232 F.R.D. 246, 249–50 (E.D.N.C. 2005) ("[T]his particular privilege is 'of recent origin and one that is narrowly applied even in those jurisdictions where it is recognized.'").

68. *Bredice v. Doctor's Hosp., Inc.*, 50 F.R.D. 249 (D.D.C. 1970), *aff'd*, 479 F.2d 920 (D.C. Cir. 1973).

69. *Dowling*, 971 F.2d 423.

70. *Univ. of Pa. v. EEOC*, 493 U.S. 182, 189 (1990).

71. See, e.g., *Wells Dairy, Inc. v. Am. Indus. Refrigeration, Inc.*, 690 N.W.2d 38, 50 (Iowa 2004) ("the self-critical-analysis privilege . . . is solely a creature of statute in Iowa"); *Lawndale Restoration Ltd. v. Acordia of Ill., Inc.*, 853 N.E.2d 791, 798 (Ill. App. Ct. 2006) ("The self-evaluative audit privilege is a creature of statute. The legislature can give it and . . . can take it away.").

common law, applied this privilege in various areas, although not always consistently. It has been successfully employed in the areas of medical peer review,<sup>72</sup> personal injury,<sup>73</sup> railroad safety,<sup>74</sup> products safety,<sup>75</sup> securities regulation,<sup>76</sup> academic peer review<sup>77</sup> and tenure denials,<sup>78</sup> employment practices,<sup>79</sup> and environmental audits.<sup>80</sup> Certain states have enacted legislation on the self-evaluative privilege, but only for environmental audits.<sup>81</sup> Other states that have validated the self-evaluative privilege have also included legislation to provide corporations with some form of immunity from exposure to penalties resulting from the findings and materials contained in the audit.

The primary policy underlying recognition of the self-evaluative privilege is to encourage corporate compliance and self-evaluative audits. Corporations have not generally expanded auditing programs, because they fear that the information uncovered may be used against them. Companies also frequently fail to audit due to a lack of adequate resources. However, if the benefits of self-auditing in preventing costly litigation, fines and penalties, as well as correcting problems at the earliest opportunity and thereby preventing needless harm, are weighed against the cost of auditing, this objection should be overcome, particularly if the self-audit is protected by the self-evaluative privilege.

Thus, to protect audits under the self-evaluative privilege, several actions should be taken. First, considering the rapid growth and change in this area of legal activity, it is advisable for in-house attorneys to become acquainted with the treatment of the self-evaluative privilege in the various jurisdictions in which their companies operate. Not all jurisdictions, as indicated, have accepted this privilege; and, of the jurisdictions that have recognized it, the degree of application varies greatly. Second, make sure that any document that is part of the

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72. *Bredice*, 50 F.R.D. 249.

73. *Dowling*, 971 F.2d 423.

74. *Granger v. Nat'l R.R. Passenger Corp.*, 116 F.R.D. 507 (E.D. Pa. 1987).

75. *Lloyd v. Cessna Aircraft Co.*, 74 F.R.D. 518 (E.D. Tenn. 1977).

76. *In re Crazy Eddie Sec. Litig.*, 792 F. Supp. 197 (E.D.N.Y. 1992).

77. *Keyes v. Lenoir Rhyne Coll.*, 552 F.2d 579 (4th Cir. 1976), *cert. denied*, 434 U.S. 904 (1977).

78. *EEOC v. Univ. of Notre Dame Du Lac*, 715 F.2d 331 (7th Cir. 1983). *But see Univ. of Pa. v. EEOC*, 493 U.S. 182 (1990).

79. *See, e.g., Walker v. County of Contra Costa*, 227 F.R.D. 529, 532 (N.D. Cal. 2005) ("Cases are all over the map on whether the self-evaluative privilege exists in employment discrimination cases."); *Banks v. Lockheed-Ga. Co.*, 53 F.R.D. 283 (N.D. Ga. 1971).

80. *Reichold Chems., Inc. v. Textron, Inc.*, 157 F.R.D. 522 (N.D. Fla. 1994). *But see United States v. Dexter Corp.*, 132 F.R.D. 8 (D. Conn. 1990).

81. Study by Pricewaterhouse LLP, entitled "Detractors from Willingness to Expand [Environmental Auditing] Program."

audit is marked confidential and is kept as such. Third, anyone participating in the evaluation in any manner should be notified that the evaluation is to be kept confidential. Fourth, it should be noted that the person conducting or receiving the evaluation does not have to be an attorney, but the use of a lawyer as part of the process at least offers the prospect that the documents may be covered by the attorney-client privilege. Fifth, it is advisable that in-house counsel investigate the use of an outside auditing firm. Lastly, the most important and successful method of document protection in such effort is a well-established document retention and disposition system. Where a system is in place and properly implemented, the courts will generally respect the procedures and practices employed in such a program, and will tend to treat the information reflected in those documents more favorably in deciding related privilege issues.

Finally, in-house counsel should observe the distinction between a self-audit situation generally and a specific internal investigation, in which the latter investigation could be protected by the appropriate application of the work-product doctrine.<sup>82</sup>

## § 9:5 Whistleblowing

Report of corporate wrongdoing, made to regulatory or law enforcement agencies by corporate employees, is of obvious interest and legitimate concern to in-house counsel—made even more so in light of the rash of corporate scandals cited and the ensuing regulatory and ABA/state ethics code enactments (see chapter 8). In most states, whistleblowing is covered by statutes which outline the steps that must be taken in reporting such misdeeds. For example, in Ohio, the whistleblowing statute requires employees to first report the violation to a supervisor before contacting any governmental agency.<sup>83</sup> Now, of course, on the federal level, involving public companies, the Sarbanes-Oxley Act of 2002 (SOX) has provided broad protection from retaliation for employees of such corporations.<sup>84</sup> The Dodd-Frank Wall Street Reform and Consumer

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82. See chapter 8, note 47, *supra*.

83. *Contreras v. Ferro Corp.*, 652 N.E.2d 940 (Ohio 1995). See Christopher Dunn, *A First Amendment Clash Between Whistleblowing, Legal Ethics*, N.Y.L.J., Feb. 4, 2016 (commenting on disciplinary bar proceedings pending against a public employee/lawyer who failed to report “egregious unlawful conduct” of his government employer, but disclosed it to a reporter).

84. Sarbanes-Oxley Act, § 806, 18 U.S.C. § 1514A (2002); see, e.g., Nate Raymond, *Banker Who Alleges Fraud by Client Given Whistleblower Status*, N.Y.L.J., Jan. 20, 2011 (reporting on the decision in *Markey v.*

Protection Act (Dodd-Frank) has broadened the whistleblower provisions of SOX and also empowered the SEC to implement a reward program to encourage whistleblowing.<sup>84.1</sup> Presumably, that protection extends, as well, to in-house attorneys/employees.<sup>85</sup>

Two areas of concern arise: What is the responsibility of the corporate law department in responding to whistleblowers within

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JPMorgan & Co., 10 Civ. 3824 (S.D.N.Y. Jan. 14, 2011), holding that SOX is designed to promote corporate ethics by protecting whistleblowers from retaliation); Dennis J. Block & Jonathan M. Hoff, *Whistleblower Protection Under the Sarbanes-Oxley Act*, N.Y.L.J., June 26, 2003, at 5; see also Joel Cohen & Michelle L. Pahmer, *Dealing with the Whistleblower/Informer*, N.Y.L.J., July 30, 2003, at 4, for an interesting implication of the new statutory climate; Norman B. Arnoff, *The Lawyer as a Whistleblower*, N.Y.L.J., June 10, 2003, at 3; Lawson v. FMR LLC, 134 S. Ct. 1158 (2014) (SOX applicable to attorneys; dicta); cf. *Sarbanes-Oxley Compliance, Cultural Norms Create Challenges for Counsel Advising Firms Abroad*, 21 CORP. COUNS. WKLY., Apr. 5, 2006, at 108 (“[W]histleblowing is not looked upon as fondly by some members of the European Union and in Asia, where reporting on co-workers is seen as disloyal and suspect.”); Sarah S. Gold & Richard L. Spinogatti, *Does SOX Whistleblower Protection Have Extraterritorial Application?*, N.Y.L.J., Feb. 8, 2012.

- 84.1. 15 U.S.C. § 78u-6 (section 21F of the Securities Exchange Act of 1934, entitled “Securities Whistleblower Incentives and Protection”). See Rebekah Mintzer, *Corporate Whistleblowing, from the Whistleblower’s POV*, CORP. COUNS., Sept. 29, 2014 (“SEC program has had an ‘encouraging start’ from the whistleblower’s perspective.”); Chris W. Haaf & Monica C. Platt, *2011 Sees Focus on Whistleblowing and Dodd-Frank Claims*, N.Y.L.J., Jan. 23, 2012. *But see* note 93.1, *infra*.
85. See *Wadler v. Bio-Rad Labs., Inc.*, No. 15-cv-02356, 2015 U.S. Dist. LEXIS 144468 (N.D. Cal. Oct. 23, 2015) (ousted general counsel protected in whistleblower retaliation suit); Sue Reisinger, *Bio-Rad Fired GC Case a Perfect Storm of Whistleblowing, Eroding Privilege*, CORP. COUNS., Nov. 2, 2015. Subsequently, in pretrial proceedings, the court permitted introduction of privileged material at trial, *Wadler v. Bio-Rad Labs., Inc.*, No. 15-cv-02356, 2016 WL 7369246 (Dec. 20, 2016), followed by a jury award of approximately \$11 million (Feb. 6, 2017). *But see* *Bishop v. PCS Admin. (USA), Inc.*, 2006 U.S. Dist. LEXIS 37230 (N.D. Ill. 2006) (discharged in-house counsel failed to state a whistleblower’s claim under SOX, because she had not alleged any violations of law by employer/client when she complained that the company lacked an adequate compliance program); Edmund M. O’Toole, *Ruling Clarifies Procedural Issues in SOX Retaliation Suits*, N.Y.L.J., Feb. 18, 2010, Corporate Update (commenting on a recent decision, *Lebron v. Am. Int’l Grp., Inc.*, No. 09 Civ. 4285 (SAS), 2009 WL 3364039 (S.D.N.Y. 2009), in which the court, on procedural grounds, denied whistleblower protection to an AIG compliance officer who reported an in-house counsel’s failure to report certain alleged regulatory violations).

the organization,<sup>85.1</sup> and what are the implications of whistleblowing for corporate counsel?<sup>86</sup>

In many whistleblowing situations, an employee will inform a supervisor or another employee of his or her intent to contact authorities, and this information will soon reach the corporate law department. It is advisable for in-house counsel to talk to the employee, but the attorney must always be mindful of the fact that the corporation is the client. Not only, as discussed earlier, is there the presence of a potential conflict between the attorney's obligation to defend the corporation and the employee's belief that the attorney may be representing the individual's interests, but equally important, there must be no appearance or implication by counsel that he or she sought to discourage or threaten the employee from blowing the whistle, if the employee truly believes there is a reasonable basis for doing so.

Whistleblowing situations become even more complicated when it is a member of the corporate law department who decides to take such action regarding corporate wrongdoing. Often, this involves a situation in which the corporate counsel, in the course of his or her duties, uncovers a violation of law by the employer/client. Often described as the guardian of the corporate conscience, in-house counsel is confronted with extraordinary choices and profound ethical considerations<sup>87</sup> when learning of improprieties within the organization—the

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85.1. See Michael Weber & Corinn Jackson, *6 Ways to Protect the Company from Whistleblowers*, CORP. COUNS., Sept. 2, 2015 (establish culture of compliance “that openly encourages and develops internal reporting structures and guards against potential retaliation”).

86. See Deborah L. Cohen, *Wetting Their Whistles: The SEC Is Giving Whistle-Blower Protection One Last Lick*, A.B.A. J., Mar. 2011, at 14 (“sticking point for attorneys defending corporations is that the new rules afford whistle-blowers means to report allegations directly to the SEC, putting employees at odds with companies’ internal compliance structures”). Cf. *Berman v. Neo@Ogilvy LLC*, 801 F.3d 145 (2d Cir. 2015) (whistleblower—including in-house counsel—protected even if only filed internal complaint and did not report wrongdoing to SEC until months after being terminated); *but see Asadi v. G.E. Energy (USA)*, 720 F.3d 620 (5th Cir. 2013); *Verble v. Morgan Stanley Smith Barney, LLC*, No. 3:15-CV-74-TAV-CCS, 2015 WL 8328561 (E.D. Tenn. Dec. 8, 2015).

87. See Catherine Dunn, *Times Investigation Puts Wal-Mart In-House Lawyer Back in the Spotlight*, CORP. COUNS., Dec. 19, 2012 (reporting on alleged bribery by the company in Mexico, and counsel's involvement in the scheme, as well as counsel's attempt to alert company officials, which went unheeded); David Hechler, *Ex-Toyota Lawyer Accuses It of Hiding Evidence in Lawsuits*, N.Y.L.J., Sept. 3, 2009, Corporate Update. Such conduct gains even greater prominence as a result of Toyota's highly publicized recall problems, and the report that the chairman of the U.S.

very situation his or her responsibilities are designed to prevent or correct once discovered.<sup>88</sup>

While not a policeman, counsel is, nevertheless, uniquely situated and qualified to sensitize management and directors and promote a corporate culture of integrity and ethical conduct. Maintaining client confidentiality, which encourages the full and free exchange of information, is a vital ingredient in fostering that attitude. The threat of disclosure, however, obviously inhibits such open communications, making counsel's job that much more difficult. And, the in-house attorney must weigh the value and ideal of confidentiality against the importance of preventing or uncovering corporate malfeasance. In this evolving area of law, where there are no hard and fast, definitive answers to the question of whether or not to disclose or how otherwise to proceed when improprieties come to counsel's attention, counsel must be prepared to make a judgment by balancing the competitive principles in ascertaining what is in the organization's best interests. Professor Wigmore articulated this "interest-balancing" test thusly:

The *injury* that would inure to the [corporate attorney-client] relationship by the disclosure of the communication must be *greater than the benefit* thereby gained for the correct disposal of litigation.<sup>89</sup>

In New York, insofar as whistleblowing by an attorney is concerned, it is problematic whether the New York whistleblower's statute will be available in a wrongful or retaliatory discharge action.<sup>90</sup> (The issue of wrongful termination of in-house counsel under these circumstances is discussed at section 9:7.) This confronts the issue of the attorney-client privilege directly. Theoretically, all communication between

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House of Representatives committee questioned Toyota's conduct "based on files obtained by the Committee . . . from a former Toyota lawyer." Nick Bunkley, *Lawmaker Accuses Toyota of Withholding Documents*, N.Y. TIMES, Feb. 27, 2010, at B3. *But see* David Hechler, *Arbitrator Sanctions Ex-Toyota Counsel for Confidential Information Disclosure*, N.Y.L.J., Jan. 7, 2011 (Corporate Counsel) (reporting arbitrator's decision that while the in-house attorney "believed he was acting as a whistleblower . . . that did not give him the right to disseminate a client's confidential information").

88. Confusion continues to reign regarding "noisy withdrawal" and other reporting requirements of counsel. *See* Sarbanes-Oxley Act, § 307, Pub. L. No. 107-204, 116 Stat. 745 (2002); 17 C.F.R. §§ 205.1-205.7 (2005); William W. Horton, *A Transactional Lawyer's Perspective on the Attorney-Client Privilege: A Jeremiad for Upjohn*, 61 BUS. LAW 95, 114 (Nov. 2005).
89. 8 WIGMORE ON EVIDENCE § 2285 (McNaughton rev. 1961) (emphasis in the original).
90. *See* Wiedner v. Skala, 80 N.Y.2d 628 (1992). For an excellent roundup of the current state of the law in in-house counsel whistleblowing situations, see C. Evan Stewart, *In-House Counsel As Whistleblower: A Rat Without a Remedy*, GC NEW YORK (N.Y.L.J.), Aug. 21, 2008.

attorney and client should be kept confidential, as it arose from the relationship of trust and confidence between those two parties.

However, some courts<sup>91</sup> have recognized that the attorney's professional responsibility to disclose the information may outweigh the obligation to maintain the strict confidentiality of such communications. We know, fundamentally, as the Model Rules provide, that the attorney must preserve the client's confidences and secrets, and shall not reveal information relating to representation of a client unless the client consents, except as necessary, under certain circumstances as outlined in the recently modified Rule 1.6.<sup>92</sup> Correspondingly, "a lawyer shall not knowingly: (a) make a false statement of material fact or law to a third person; or (b) fail to disclose a material fact . . . when disclosure is necessary to avoid assisting a criminal or fraudulent act by a client, unless disclosure is prohibited by Rule 1.6." [Rule 4.1.]<sup>93</sup>

On the other hand, two recent decisions, "addressing the interplay between attorney ethical obligations and statutory regimes that provide bounty awards for whistleblowers," held that such "obligations preclude attorneys from being bounty-seeking whistleblowers against" their clients.<sup>93.1</sup>

Moreover, if an in-house attorney "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

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91. *See, e.g.,* Gen. Dynamics Corp. v. Superior Court, 876 P.2d 487 (Cal. 1994).
  92. *See* section 8:2, *supra*; *cf.* 21 CORP. COUNS. WKLY, Mar. 8, 2006, at 73 (reporting on North Carolina Bar's Ethics Committee advisory that "SEC regulations preempt North Carolina's professional conduct rules . . . to the extent the SEC rules allow disclosure [of confidential information to SEC by attorney for public company] not otherwise permitted in North Carolina"); 17 C.F.R. § 205.6(c).
  93. *See* C. Evan Stewart, *Regulating the Legal Profession: Sense or Nonsense?*, GC NEW YORK (N.Y.L.J.), May 15, 2008.
  - 93.1. Michael Rogoff, Paula Ramer & Deborah Liben, *Ethics Rules Put the Brakes on Attorney Whistleblowers*, N.Y.L.J., Dec. 17, 2013 (reporting on a Second Circuit affirmation of a dismissal of a False Claims Act case, U.S. *ex rel.* Fair Lab. Practices Assocs. v. Quest Diagnostics, 734 F.3d 154 (2d Cir. 2013)); New York County Lawyers' Association Committee on Professional Ethics, Formal Opinion 746 (Oct. 7, 2013) ("disclosure of confidential information [by in-house counsel] . . . to collect whistleblower bounty is unlikely . . . to be ethically justifiable"). *See* C. Evan Stewart, *Navigating State-Based Ethics Rules and Sarbanes-Oxley Requirements*, N.Y.L.J., Sept. 21, 2015 (SEC's asserted disclosure obligations and preemption argument are "in for tough sledding (at best)"); C. Evan Stewart, *Whistleblower Law: What Rights Do Rattling Lawyers Have?*, N.Y.L.J., Mar. 12, 2014 (commenting favorably on *Quest Diagnostics*; "[w]hile being a rat may be appropriate in some limited circumstances, it is not appropriate for lawyers vis-à-vis their clients").

[by that lawyer] 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 interests of the organization. . . .” [Rule 1.13(b).] Rule 1.13(b), concerning reporting out, further requires the lawyer to evaluate various factors and consideration in determining how to proceed; and directs that “[a]ny measures taken shall be designed to minimize disruption of the organization and the risk of revealing information relating to the representation to persons outside the organization. Such measures may include, among others: (1) asking reconsideration of the matter; (2) advising that a separate legal opinion on the matter be sought for presentation to appropriate authority in the organization; and (3) referring the matter to higher [or if necessary, to the highest] authority in the organization. . . .”<sup>94</sup>

If, despite in-house counsel’s best efforts in this regard, “the highest authority that can act on behalf of the organization insists on 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 . . . is reasonably certain to result in substantial injury to the organization, then the lawyer may reveal information relating to the representation whether or not Rule 1.6 permits such disclosure, but only if and to the extent the lawyer reasonably believes necessary to prevent substantial injury to the organization.” [Rule 1.13(c).]

Rule 1.16 provides that, except where otherwise ordered by a tribunal to continue representation, a lawyer shall withdraw from representation if “the representation will result in violation of the rules of professional conduct or other law.” A lawyer may withdraw “if withdrawal can be accomplished without material adverse effect on the interests of the client, or if: (1) the client persists in a course of action involving the lawyer’s services that the lawyer reasonably believes is criminal or fraudulent; (2) the client has used the lawyer’s services to perpetrate a crime or fraud; (3) a client insists upon pursuing an objective that the lawyer considers repugnant or imprudent; (4) the client fails substantially to fulfill an obligation to the lawyer regarding the lawyer’s services and has been given reasonable warning that the lawyer will withdraw unless the obligation is fulfilled . . . .”

In those situations where there is apparent confusion or conflict as between various constituents of the organization, the Model Rules

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94. See *Hays v. Page Perry, LLC*, 92 F. Supp. 3d 1315 (N.D. Ga. 2015) (firm sued for malpractice has no duty to report possible securities fraud to SEC), *aff’d*, 627 F. App’x 892 (11th Cir. 2015) (*per curiam*). See also chapter 8, *supra*, for the reported changes in the Model Rules.

provide that “[i]n 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.” [Rule 1.13(d).]

Along these lines, again as noted in chapter 8, Rule 1.13(e) finally provides that “[a] lawyer representing an organization may also represent any of its . . . constituents, subject to the provisions of Rule 1.7.” Rule 1.7, entitled “Conflict of Interest: General Rule,” as noted earlier, provides that “[a] lawyer shall not represent a client if the representation of that client will be directly adverse to another client.”

Practically, however, even with the fundamental changes being implemented, the Model Rules still do not appear to create a bright light to follow, by providing that in-house counsel “may” reveal certain information gained in confidence in the course of his or her employment *as an attorney* in order to prevent the company from committing a criminal act or to prevent personal injury or death to others. On the other hand, under various statutory requirements, counsel may be obliged to report certain information to public agencies to avoid his or her own civil or criminal exposure. Aside from determining, for example, whether applicable securities regulations require disclosure because the size of the loss or potential loss or the particular circumstances would be material, in-house counsel’s decision to bring the matter to the attention of the regulatory agency must take into account a variety of factors (see section 9:6).

There is still, however, the basic issue of how counsel can discharge his or her other ethical responsibilities effectively, when faced with this conflict.

Counsel, as indicated, should endeavor to convince company management or have it reconsider an earlier negative attitude to make appropriate disclosure on behalf of the organization—even if such disclosure could expose it to various penalties. (In fact, under federal sentencing guidelines, there is a beneficial effect by a company coming forth with such information before enforcement action is initiated.) If such efforts fail, the in-house attorney should seek an outside legal opinion to back up the attorney’s position respecting disclosure, which can be presented, as may be necessary, to the company’s board of directors for its consideration; or otherwise communicate with the board to reveal the facts and circumstances which counsel reasonably believes call for disclosure beyond the walls of the organization.

Finally, if the board, despite counsel’s entreaties, refuses to authorize counsel to make disclosure, counsel most likely must, under particular circumstances, not only make the extraordinarily tough decision

to resign—but if the situation demands it, also “blow the whistle” on the client.<sup>94.1</sup>

This is obviously a serious and problematic course to pursue, but in-house counsel may have little choice; and the ethical principles which govern counsel’s actions (as well as counsel’s fiduciary duty as a faithful employee)<sup>95</sup> unfortunately create a dilemma and leave counsel in the difficult gray area: to stay silent and risk certain consequences; to resign or risk being terminated for insisting on certain steps to be taken by the company (also an unappealing choice, to say the least); or even risk disbarment or damage claims by the client for violating the attorney-client privilege, which certainly cannot be taken lightly or ignored. In this connection, counsel must also be mindful of the admonition of Rule 1.16(d) that “[u]pon termination of representation, a lawyer shall take steps to the extent reasonably practicable to protect a client’s interests.”

In short, there are, regrettably, no easy answers or solutions to these troublesome issues, and counsel must accept the fact that, as an attorney, he or she has accepted the ethical burdens and difficult choices that “go with the territory.”<sup>96</sup>

In *Parker v. MeT Chemicals, Inc.*, for example, the court found that New Jersey’s Whistleblower’s Act applied to in-house counsel and consequently allowed that attorney’s claim for wrongful discharge.<sup>97</sup> Thus, whistleblowing may be appropriate in some circumstances, but it is necessary to consult the particular state’s whistleblower statutes, as well as the rules of professional conduct applicable in the state, in assessing not only counsel’s ethical obligations, but the personal consequences of his or her actions in this regard.

Another area of “whistleblowing” significance that in-house counsel should keep in mind involves the responsibilities of outside auditors who, in the performance of their work, uncover wrongdoing by their client. Section 10A of the Securities and Exchange Act of 1934, added in 1995, was intended by its chief sponsor to require auditors to blow the whistle on fraudulent activities of their clients. The actual effects and reach of this legislation are still, however, indefinite, and require counsel to coordinate his or her participation in the company’s audit

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94.1. See *Wadler v. Bio-Rad Labs., Inc.*, No. 15-cv-02356, 2015 U.S. Dist. LEXIS 144468 (N.D. Cal. Oct. 23, 2015).

95. See *Int’l Cmty. Corp. v. Young*, 486 So. 2d 629 (Fla. Dist. Ct. App. 1986).

96. See David Hechler, *Arbitrator Sanctions Ex-Toyota Counsel for Confidential Information Disclosure*, N.Y.L.J., Jan. 7, 2011 (Corporate Counsel).

97. *Parker v. M&T Chems., Inc.*, 566 A.2d 215 (N.J. Super. Ct. App. Div. 1989). See section 9:7, “Retaliatory Discharge/Wrongful Termination,” *infra*.

affairs to ensure that the client's interests are properly protected.<sup>98</sup> (See section 9:9, "Accountant-Client Privilege.")

### § 9:6 Waiver

Simply stated, the attorney-client privilege "belongs" to the client, not the attorney. It is only the client that can waive it or otherwise consent to its waiver. In the corporate context, however, it may not, in practice, be that simple. "The general rules governing the waiver are more complicated when the issue arises in the context of corporate entities."<sup>99</sup> In this respect, the difficulty for counsel is further heightened in an internal investigation situation "when the company refuses to waive the privilege but the individual employees see the legal advice as integral to the defense and seek to introduce the privileged information into evidence or use that information in connection with an investigation."<sup>99.1</sup>

As noted in chapter 8, in determining the application of the privilege and its implication in a particular situation, where a corporate (or other artificial) entity is involved, the threshold issue is to identify the client and who it is that "speaks" for that client.<sup>100</sup> This can take on crucial significance where a corporate official, under the general principles governing the application of the privilege, can readily be said to be in control or has the ostensible power to exert substantial influence over corporate decisions. On the one hand, therefore, when such an individual communicates with or otherwise interacts with counsel on legal matters, their communications are usually held to be confidential and thereby privileged. On the other hand, once a corporation has

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98. See Thomas L. Riesenberg, *Trying to Hear the Whistle Blowing: The Widely Misunderstood "Illegal Act" Reporting Requirements of the Exchange Act Section 10A*, 56 BUS. LAW. 1417 (Aug. 2001).
99. *In re Grand Jury Proceedings*, 219 F.3d 175, 183 (2d Cir. 2000). See also *Commodity Futures Trading Comm'n v. Weintraub*, 417 U.S. 343 (1985) (the privilege presents "special problems" in the corporate context); *United States v. Hatfield*, No. 06-CR-0550 (JS), 2009 WL 3806300 (E.D.N.Y. Nov. 13, 2009); Stephen M. Kramarsky, *The Attorney-Client Privilege and E-Docs Stored at Work*, N.Y.L.J., Jan. 26, 2010, Special Report (commenting on the *Hatfield* decision, and noting that the case dealt extensively with the waiver issues "as they related to various electronic communications among individuals and their assorted corporate and individual counsel and consultants").
- 99.1. Michael B. Mukasey & Andrew J. Ceresney, *Attorney-Client Privilege and Issues for Corporate Counsel*, N.Y.L.J., Nov. 18, 2011 (demonstrating that in such conflicts the protections afforded by the privilege are not absolute). Cf. *United States v. Wells Fargo Bank, N.A.*, 12-CV-7527, 2015 WL 5582120 (S.D.N.Y. Sept. 22, 2015).
100. See, e.g., *Winans v. Starbucks Corp.*, 08 Civ. 3734 (S.D.N.Y. Dec. 15, 2010), discussed in section 8:2, note 6, *supra*.

already waived the privilege, its employees and officers cannot thereafter assert it. But what happens when the corporation itself—the *client*—expressly asserts *its* privilege in a particular case? Can that same official, without authorization, waive his company’s privilege? The U.S. Court of Appeals for the Second Circuit, and the federal district court, in a case of first impression, have, in effect, said: maybe yes, maybe no.<sup>101</sup>

The appeals court, in remanding this particular case, dealt with several issues, the paramount one being whether there had been an implied waiver of the corporation’s asserted privilege by the corporate officer in his testimony before a grand jury. It concluded that “a corporate officer can impliedly waive the corporation’s attorney-client and work-product privileges even though the corporation has explicitly refused such a waiver. . . .” It cautioned, however, “insofar as the waiver analysis is premised on fairness considerations, that the waiver took place in the context of uncounseled testimony in the grand jury room is [thus] relevant to that analysis,” and the lower court should take that into account in deciding whether there had been a waiver, thereby entitling the government to certain disclosures which the corporation had resisted.<sup>102</sup>

The district court initially held that statements made to the grand jury by the officer (who appeared in his *individual* capacity), as well as by in-house counsel, waived the corporation’s privilege, “because they unfairly, selectively and deliberately disclosed privileged communications for exculpatory purposes.”<sup>103</sup> On appeal, the Second Circuit, in invoking the “sword and the shield” principles, instructed that “a party cannot partially disclose privileged communications or affirmatively rely on privileged communications to support its claim or defense and then shield the underlying communications from scrutiny by the opposing party.” And, said the court, on the implied waiver issue, whether fairness requires disclosure must be decided on

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101. *In re Grand Jury Proceedings*, 219 F.3d 175 (2d Cir. 2000); 2001 WL 311188 (S.D.N.Y. Mar. 27, 2001); 2001 WL 237377 (S.D.N.Y. Mar. 2, 2001). *Cf. In re Grand Jury Subpoena Issued June 18, 2009*, No. 09-3561-CV (2d Cir. Feb. 1, 2010) (corporation, comprised of sole shareholder, officer, and employee, may not refuse to comply with subpoena demanding production of corporate records by asserting Fifth Amendment’s “act of production” privilege).

102. *See Bus. Integration Servs. Inc. v. AT&T Corp.*, No. 06 Civ. 1863 (JGK), 2008 WL 5159781 (S.D.N.Y. Dec. 9, 2008) (corporation waived privilege by ratifying manager’s disclosure of certain parts of corporate counsel’s internal communications).

103. *In re Grand Jury Proceedings*, 219 F.3d at 179. *See United States v. Stewart*, No. 15-CR-287-LTS (S.D.N.Y. July 22, 2016) (bank waived privilege by voluntarily sending letter to FINRA that included substance of an attorney-client confidential communication).

a case-by-case basis, “and depends primarily on the specific context in which the privilege is asserted.”<sup>104</sup> Here, the corporation, (i) asserted its privilege, (ii) did not deliberately disclose any privileged material (indeed, specifically resisted the government’s demand), and yet (iii) the senior corporate official, in contravention of the corporation’s instructions, arguably waived the privilege in his grand jury appearance.

Based on the “limited” record before it, the court was “reluctant to evaluate the district court’s conclusion that the . . . officer’s alleged waiver was purposeful rather than inadvertent. . . . However, this does not mean that all inadvertent disclosures mandate a finding of waiver.” Since, said the court, “the waiver inquiry depends heavily on the factual context in which the privilege was allegedly waived, we leave it to the district court, on remand, to determine—which if any—of the Witness’s statements amount to waiver . . . .”<sup>105</sup>

On remand, the district court, after describing the corporate officer’s testimony before the grand jury, found that “because of Witness’s unique place in the company, . . . his interests and the corporation’s interests to be virtually congruent.” That “near-congruity” factor, said the court, “weighs in favor of a finding that Witness waived Doe Corp.’s attorney-client privilege, although not overwhelmingly.”<sup>106</sup>

On the issue of waiver of the work-product privilege, the district court relied upon the selective or limited submission and disclosure of various documents by the corporation, designed to receive favorable treatment from the government (that is, putting its defense “at issue”), to support its holding that the corporation had thereby waived all work-product (defined as “documents and tangible things”) protection relating to such communications. At the same time, however, the court refused the government’s demand for disclosure of in-house counsel’s assistant’s notes reflecting “opinion” of counsel.<sup>107</sup> Interestingly, upon reconsideration, the court, on the government’s motion seeking certain clarification of the court’s order that the waiver of the attorney’s work-product did not mandate that counsel testify about communications with a particular government agency, held that counsel’s “testimony regarding communications with a third party, that is, not a client, regarding matters relevant to the grand jury inquiry are not protected by any constitutional, common law, or statutory privilege.”<sup>108</sup>

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104. *In re Grand Jury Proceedings*, 219 F.3d at 182–83.

105. *Id.* at 188.

106. *In re Grand Jury Proceedings*, 2001 WL 237377, at \*5.

107. *Id.* at \*19–20.

108. 2001 WL 311188, at \*1.

The waiver of the attorney-client privilege also arises in the critical area of disclosures to auditors of reports of internal investigations conducted by counsel.<sup>108.1</sup> The general view appeared to be that a company, in sharing such a report with its auditor in order to be able to complete the audit, waived the privilege which covered the report in the first place.<sup>109</sup> However, more recent cases take a contrary approach, holding that such disclosure does not necessarily result in a waiver as to third parties.<sup>110</sup>

Another context in which a waiver of the attorney-client privilege is implicated involves the sharing of confidential information between prospectively merging companies,<sup>110.1</sup> or providing such information to a prospective lender.<sup>110.2</sup> Ordinarily, a voluntary disclosure of privileged material constitutes a waiver of the privilege. The use of the

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- 108.1. See John C. Grugan & Eleanor Bradley Huyett, *When the Last Thing You Need Is Another Headache: Auditors in Internal Investigations*, BUS. L. TODAY (Feb. 2017) (attorneys “should ensure that the auditor understands and considers counsel’s obligation to preserve privilege when requesting information or communications from counsel”).
109. See *Medinol, Ltd. v. Bos. Sci. Corp.*, 214 F.R.D. 113 (S.D.N.Y. 2002) (work-product protection waived when minutes and materials of special litigation committee disclosed to outside auditor, which the court described as a “public watchdog”).
110. See John C. Grugan & Eleanor Bradley Huyett, *When the Last Thing You Need Is Another Headache: Auditors in Internal Investigations*, BUS. L. TODAY, Feb. 2017 (outlining practical tips to maintain informed communication and avoid waiver); *Merrill Lynch & Co. v. Allegheny Energy, Inc.*, 229 F.R.D. 441 (S.D.N.Y. 2004) (the auditor is not in an adversarial role; the company’s and its auditor’s interests are aligned); *In re JDS Uniphase Corp. Sec. Litig.*, No. C-02-1486, 2006 U.S. Dist. LEXIS 76169, at \*12 (N.D. Cal. Oct. 5, 2006); see also David Brodsky & Robert J. Malonek, *Trends in Work Product Waivers: Disclosures to Auditors*, N.Y.L.J., Feb. 23, 2007, at 4.
- 110.1. See *Ambac Assurance Corp. v. Countrywide Home Loans, Inc.*, 27 N.Y.3d 616 (2016) (holding that, in New York, the privilege afforded by the common-interest exception is available only with regards to communications related to litigation, and not to M&A transactions, thus reversing *Ambac Assurance Corp. v. Countrywide Home Loans, Inc.*, 124 A.D.3d 129 (1st Dept. 2014)) (holding that parties to a merger may, under certain circumstances, assert the privilege to protect communications among them, including the sharing of common legal advice, and that pending or anticipated litigation was not a requisite element in order to invoke the privilege); Ben Bedell, *Panel Expands Privilege in Corporate Context*, N.Y.L.J., Dec. 5, 2014. The N.Y. Court of Appeals opinion in *Ambac* runs counter to the prevailing view in other jurisdictions that have rejected the “litigation” limitation in invoking the common-interest doctrine.
- 110.2. See Erik J. Olson, Gregory V. Varallo & Rudolf Koch, *The Wheels Are Falling Off the Privilege Bus; What Deal Lawyers Need to Know to Avoid the Crash*, 66 BUS. LAW. 901 (Aug. 2011).

“common-interest” doctrine in such situations may, in fact, shield such information from disclosure.<sup>111</sup>

A variation of the common-interest theme comes into further play when confidential material is shared with third parties, and the IRS, in the course of taxpayer audits, seeks such material from the banks involved in the subject transactions, and not the taxpayers who claimed the attorney-client privilege to preclude disclosure.<sup>111.1</sup>

Then, there is the “advice-of-counsel” waiver. In the case of *In re EchoStar Communications Corp.*, the Federal Circuit held that the asserted reliance on in-house counsel’s legal advice as to a patent-infringement defense waives the attorney-client privilege.<sup>112</sup>

However, when a corporate employee sought to invoke the advice-of-counsel defense, thereby putting *at issue* privileged communications, the essential element of who owns the attorney-client privilege (that is, who is the client?) is implicated. In *United States v. Wells Fargo Bank, N.A.*, it was ruled that a corporation cannot be compelled to disclose such communications, “even if those communications

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111. See *HSH Nordbank AG N.Y. Branch v. Swerdlow*, No. 08 Civ. 6131 (S.D.N.Y. 2009) (fact that parties privy to relevant communications understood them to be confidential under attorney-client privilege brings such communications squarely within common-interests doctrine); see also Douglas H. Flaum & Rachel Sims, *Using the Common Interest Doctrine to Prevent a Waiver of Privilege*, N.Y.L.J., July 28, 2003, at 4, for an excellent review of these issues; *but see In re Vitamin C Antitrust Litig.*, MD 06-1738 (E.D.N.Y. Jan. 20, 2011) (common-interest rule inapplicable where no sharing of a “legal interest” between party asserting rule and parties to whom documents at issue were disclosed); *Guiffre v. Maxwell*, No. 15 Civ. 7433 (RWS), 2016 WL 1756918 (S.D.N.Y. May 2, 2016). *Cf. In re Teleglobe Commc’ns Corp.*, 493 F.3d 345 (3d Cir. 2007) (joint representation of related clients not the same as a “common interest” among separate parties); Michael B. Mukasey & Andrew J. Ceresney, *The Perils and Possibilities of the Joint Defense Agreement*, N.Y.L.J., Mar. 6, 2012.
- 111.1. See *Schaeffler v. United States*, 806 F.3d 34 (2d Cir. 2015) (taxpayer and bank consortium had common interest in outcome of tax analysis related to transaction under audit); *Highland Capital Mgmt., L.P. v. United States*, 626 F. App’x 324 (2d Cir. 2015) (case remanded to reconsider whether privilege applicable).
112. *In re EchoStar Commc’ns Corp.*, 448 F.3d 1294 (Fed. Cir. 2006), *cert. denied*, 127 S. Ct. 846 (2006); *Fort James Corp. v. Solo Cup Co.*, 412 F.3d 1340, 1349 (Fed. Cir. 2005) (scope of waiver covers all other communications on same subject); see *In re Seagate Tech., LLC*, 214 F. App’x 997 (Fed. Cir. 2007) (en banc hearing of major issues regarding waiver of privilege and duty of care); see also Irah H. Donner, *Trade-Offs in Defending Willful Infringement Charge/When Advice of Counsel Is Asserted, How Far Does Waiver of Attorney-Client Privilege Go?*, N.Y.L.J., Apr. 23, 2007, at S8; Lewis R. Clayton, *Advice-of-Counsel Defense and Work Product Immunity*, N.Y.L.J., June 21, 2006, at 3.

would provide a complete defense to one of its employees—at least in the context of a civil dispute.”<sup>112.1</sup>

By contrast, in *Nycomed US Inc. v. Glenmark Generics Ltd.*, the court denied a motion to compel production of certain documents claimed to be privileged, holding there was no implied waiver by reason of party’s citing an in-house counsel’s advice in drafting relevant documents, or by asserting a reliance-on-counsel defense in deposition testimony that did not reveal the principal substance of attorney-client communications.<sup>113</sup>

Another chink in the sacrosanct privilege wall involves the *implicit* waiver proposition, where the U.S. Tax Court has held that a taxpayer implicitly waives the attorney-client privilege as to underlying legal opinions simply by asserting “a reasonable belief defense” and the corollary “reasonable cause/good faith defense,” and accordingly orders the production of such material bearing on the taxpayer’s “state of mind.”<sup>113.1</sup>

Further, we have the so-called “at issue” waiver of the privilege, which is usually triggered in the context of litigation where the “protected” communication is the very subject of the proceedings. “Under the at-issue waiver doctrine, fairness requires a finding of waiver . . . ‘where a party affirmatively places the subject matter of its own privileged communication at issue in litigation, so that invasion of the privilege is required to determine the validity of the party’s claim or defense, and application of the privilege would deprive the opposing party of vital information.’”<sup>114</sup>

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112.1. Edward M. Spiro & Judith L. Mogul, *Employer’s Privilege Trumps Employee’s Advice-of-Counsel Defense*, N.Y.L.J., Dec. 15, 2015 (reporting on *United States v. Wells Fargo Bank, N.A.*, 12-CV-7527, 2015 WL 5582120 (S.D.N.Y. Sept. 22, 2015)).

113. *Nycomed US Inc. v. Glenmark Generics Ltd.*, No. 08-CV-5023 (E.D.N.Y. Oct. 14, 2009) (relying on “Second Circuit jurisprudence,” in citing *In re County of Erie*, 546 F.3d 222 (2d Cir. 2008)); cf. Mark Hamblett, *Bank Changes Tactics, Tone with Waiver of Privilege*, N.Y.L.J., Oct. 14, 2009, at 1 (reporting on Bank of America’s decision to turn over certain documents to the New York State Attorney General in his investigation of the bank’s acquisition of Merrill Lynch, and not rely upon protected legal advice in its defense against the claim that it may have misled shareholders in its reporting of the transaction); C. Evan Stewart, *Pandora’s Box and the Bank of America*, N.Y.L.J., Nov. 4, 2009, Special Report.

113.1. *See Eaton Corp. v. Comm’r*, Docket No. 5576-12 (T.C. 2015) (reinforcing an earlier, controversial Tax Court ruling in *AD Investment 2000 Fund LLC v. Comm’r*, 142 T.C. 248 (2014)).

114. Christopher G. Karagheuzoff & Deidre Sheridan, *Defending Against “At-Issue” Privilege Waiver*, N.Y.L.J., Oct. 24, 2008, at 3 (quoting *Veras Inv. Partners, LLC v. Akin Gump Strauss Hauer & Feld LLP*, 860 N.Y.S.2d 78 (1st Dep’t 2008) (emphasis added by Karagheuzoff & Sheridan)). *See In re County of Erie*, 546 F.3d 222 (2d Cir. 2008), in which the court vacated the lower court’s order to produce emails between the county

As for the waiver of the privilege through the inadvertent or mistaken disclosure of privileged materials, the predominant view appears to be that such disclosure does not necessarily operate as a waiver.<sup>115</sup> However, the concern with the potential adverse consequences of such inadvertent production, and the confusion arising in these situations, led, in part, to the adoption of Federal Rule of Evidence 502 in September 2008, designed to offer guidance in resolving these issues.<sup>116</sup>

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- attorney and county official, holding that at-issue waiver rule applied too broadly to county's privilege claims; Mark Hamblatt, *Circuit Trims 'At-Issue' Waiver's Scope for Privilege*, N.Y.L.J., Oct. 15, 2008, at 1. Cf. Michael M. Martin, *'At-Issue' Waiver of Privilege*, N.Y.L.J., Aug. 10, 2007, at 3. "The traditional evidentiary privileges, and the attorney-client privilege in particular, protect communications, not information." *Id.* at 5 (citing *Deutsche Bank Tr. Co. of Ams. v. Tri-Links Inv. Tr.*, 837 N.Y.S.2d 15 (1st Dep't 2007)).
115. See, e.g., *Dover v. British Airways, PLC (UK)*, No. CV2012-5567, 2014 WL 4065084, at \*3 (E.D.N.Y. Aug. 15, 2014) (inadvertent production not so "completely reckless" as to warrant disclosure); *Rank Grp. Ltd. v. Alcoa, Inc.*, No. 12 Civ. 3769, 2014 WL 1883505 (S.D.N.Y. May 9, 2014) (unauthorized and inadvertent disclosure does not result in waiver); *Coburn Grp. v. Whitecap Advisors*, 2009 WL 2424079 (N.D. Ill. 2009) (simple issue is whether producing party intended privileged material to be produced or whether it was a mistake); *HSH Nordbank AG N.Y. Branch v. Swerdlow*, No. 08 Civ. 6131 (S.D.N.Y. 2009); *Galison v. Greenberg*, 799 N.Y.S.2d 160 (N.Y. Sup. Ct. 2006) ("inadvertent disclosure of a document protected by the attorney-client privilege will not constitute a waiver of the privilege"); *N.Y. Times Newspaper Div. v. Lehrer McGovern Bovis, Inc.*, 300 A.D.2d 169 (1st Dep't 2002); see also note 126, *infra*. But see *Jacob v. Duane Reade Inc.*, 11 Civ. 0160 (S.D.N.Y. Feb. 28, 2012) (privilege waived when counsel did not *diligently* rectify inadvertently disclosed, otherwise protected email); Ronald J. Hedges, *How Not to Use a "New" Technology to Share Privileged Information*, NYSBA J. (Feb. 2018) (citing holding in *Harleysville Ins. Co. v. Holding Funeral Home, Inc.*, No. 15CV00057 (W.D. Va. Feb. 9, 2017), that counsel failed to familiarize themselves with electronic systems to share confidential information and take reasonable steps to avoid inadvertent disclosure).
116. See Margaret A. Dale & Joshua M. Kay, *New Strategies to Protect Privileged Documents from Inadvertent Disclosure*, N.Y.L.J., Oct. 5, 2015 (describing practical strategies such as "privilege screens," "tailored privilege reviews," and "document production quality control"). See also *Valentin v. Bank of N.Y. Mellon Corp.*, No. 09 Civ. 9448 (GBD) (JCF), 2011 WL 1466122 (S.D.N.Y. Apr. 14, 2011) (privilege not waived; disclosure inadvertent since material was produced "by mistake or unintentionally"); Sean Sheely & Tiana McLean, *Finding Comfort in Rule 502(b) in Inadvertent Disclosure*, N.Y.L.J., Oct. 13, 2011; Patrick M. Connors, *Inadvertent Disclosure: Rules of Professional Conduct vs. Procedure*, N.Y.L.J., Jan. 18, 2011 (discussion of "the obligations of the recipient of inadvertent disclosure in a litigation context, which extend far beyond the limited duty stated in Rule 4.4(b) [of New York Rules of Professional Conduct]" and the applicability of FED. R. CIV. P. 26(b)(5)(B) and FED. R. EVID. 502); James M. Altman, *Inadvertent Disclosure and Rule 4.4(b)'s*

There is, furthermore, the ethical consideration: what should the attorney do (or not do) when he or she receives privileged material inadvertently transmitted in the discovery process?<sup>117</sup>

Also, with the common use by employees of emails from their workplace computers to transmit all types of personal communications, the attorney-client privilege as it may relate to such individuals dealing with their personal attorneys is clearly affected.<sup>118</sup> This issue is particularly pertinent when the communication between an employee

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- Erosion of Attorney Professionalism*, N.Y. ST. B.A. J., Nov.–Dec. 2010, at 20; Robert D. Owen & Melissa H. Cozart, *FRE 502, One Year Later: Greater Protection Against Privilege Waiver, but Large Cost Savings Not Seen*, N.Y.L.J., Oct. 5, 2009, Special Report; see also note 126, *infra*.
117. See, e.g., *Rico v. Mitsubishi Motors Corp.*, 171 P.3d 1092 (Cal. 2007) (attorneys and experts disqualified for making use of inadvertently disclosed documents); see also James M. Altman, *Respecting Someone Else's Confidential Information*, N.Y. ST. B.A. J., May 2012, at 20 (outlining various responses in situations that impact a “Receiving Lawyer’s” ethical obligations upon receipt of inadvertently disclosed confidential information; for example, unauthorized disclosure, metadata mining, and employer disclosure of employee material); Anthony E. Davis, *Inadvertent Disclosure—Regrettable Confusion*, N.Y.L.J., Nov. 7, 2011 (“no consistency . . . among the relevant rules of professional conduct, the multiple ethics opinions . . . , the applicable rules of evidence, and the case law governing when privilege is—and is not—deemed to be waived”); Martin Hoenig, *Inadvertent Receipt of Adversary’s Privileged Materials*, N.Y.L.J., Mar. 18, 2008, at 3; cf. Greg Mitchell, *GC, Outside Counsel Removed from Case After Reading Privileged E-Mails*, RECORDER, Jan. 6, 2011.
118. See *Curto v. Med. World Commc’ns, Inc.*, No. 03CV6327 (DRH) (MLO), 2006 WL 1318387 (E.D.N.Y. 2006) (employee did not waive her personal attorney-client privilege covering emails with her attorney that were transmitted and stored on her employer’s computer); *In re Asia Glob. Crossing, Ltd.*, 322 B.R. 247 (S.D.N.Y. 2005); see also Edward M. Spiro & Judith L. Mogul, *Work E-Mail: Client Beware*, N.Y.L.J., Oct. 18, 2011; Richard Raysman & Peter Brown, *E-Mail in the Workplace and Attorney-Client Privilege*, N.Y.L.J., Dec. 11, 2006, at 3. *But see In re Info. Mgmt. Servs., Deriv. Litig.*, 81 A.3d 278 (Del. Ch. 2013) (no expectation of privacy knowing company had right to monitor all emails); *United States v. Finazzo*, No. 10-CR-457 (E.D.N.Y. Feb. 19, 2013); *Long v. Marubeni Am. Corp.*, No. 05 Civ. 639 (GEL) (KNF), 2006 WL 2998671 (S.D.N.Y. 2006); *Kaufman v. Sungard Inv. Sys.*, No. 05-cv-1236 (JLL), 2006 WL 1307882 (D.N.J. 2006) (all these cases demonstrate that employee’s personal attorney-client privilege waived when using company computer because employer’s computer policies precluded expectation of privacy or confidentiality); Debra Cassens Weiss, *Plaintiff Who Discussed Suit with Lawyer on Work E-Mail Can’t Claim Privilege*, A.B.A. J., Jan. 20, 2011; cf. Mark A. Berman, *Expectation of Privacy in Electronic Communication*, N.Y.L.J., Oct. 28, 2008, at 3; H. Christopher Boehning & Daniel J. Toal, *Lines Blur Between Business, Personal Data*, N.Y.L.J., Aug. 28, 2007, at 5.

and her attorney, using her employer's email system, relates directly to an action the employee has brought against her employer.<sup>119</sup>

Another aspect of an employee's use and access to an employer's email system involves the so-called "self-help" discovery efforts by employees seeking to gather company information to support claims against an employer.<sup>119.1</sup> Increasingly, therefore, attorneys, in light of dramatic technological advances in the creation, management, and use of all types of data, "have an obligation to stay abreast of [such] technology, and accordingly . . . must use reasonable care to avoid disclosure of secrets in metadata [information embedded in electronic documents]."<sup>120</sup> This is of particular importance as electronic

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119. See ABA Comm. on Ethics and Prof'l Responsibility, Formal Op. 11-460, *Duty When Lawyer Receives Copies of a Third Party's E-mail Communications with Counsel* (Aug. 2011); James Podgers, *Read All Over: Two New Opinions Describe a Lawyer's Obligations to Keep Email from Falling into the Wrong Hands*, 97 A.B.A. J., Nov. 2011, at 21; see also *Stengart v. Loving Care Agency Inc.*, 973 A.2d 390 (N.J. Super. Ct. App. Div. 2009); *Scott v. Beth Israel Med. Ctr.*, 17 Misc. 3d 934 (N.Y. Sup. Ct. 2007) (court held communications were rendered nonconfidential); Anthony E. Davis, *Privilege in Attorney-Client E-mails in Employment Area*, N.Y.L.J., Nov. 2, 2009, Special Report; David Bender, *Employee Attorney-Client Privilege: In Determining Whether Privilege Attaches to Employee-Attorney Communications Effected Through an Employer's Computer/E-Mail System, the Touchstone Is Whether, in the Circumstances, a Confidence Was Created and Maintained*, N.Y.L.J., Feb. 5, 2008, at 5; Paul H. Aloe, "Scott" Is Dire Warning About E-Mail Communications, N.Y.L.J., Dec. 10, 2007, at 4.
- 119.1. Connie Bertram, *Need-to-Know Basis*, CORP COUNS., Aug. 1, 2012 (emerging law recognizes that, "except in limited circumstances, employees do not have the right to engage in self-help discovery and that employees who do so can be terminated").
120. Anthony E. Davis, *Metadata and Duty to Preserve Confidentiality*, N.Y.L.J., Mar. 5, 2007, at 3, 7 (metadata inadvertently disclosed by counsel in responding to discovery requests may thereby be waived, according to ethics opinions of the ABA and Maryland State Bar). To bring this point home, the ABA, in August 2012, amended Rule 1.1 of its Model Rules, imposing on lawyers the "duty to stay up-to-date and to upgrade and update when it comes to technology and its security." Devika Kewalramani, *Latest ABA Guidance: Old Wine in a Tech-Ethics Bottle?*, N.Y. ST. B.A. J., Nov./Dec. 2012, at 20; see also Lois D. Mermelstein, *Ethics Update: Lawyers Must Keep Up with Technology Too*, BUS. L. TODAY, Mar. 22, 2013; Norman C. Simon, *Coming to Terms with Metadata: Conflicting Views on the Propriety of Mining an Adversary's Embedded Information*, N.Y.L.J., Oct. 27, 2008, at 52; H. Christopher Boehning & Daniel J. Toal, *Poorly Executed Privilege Review Can Lead to Waiver*, N.Y.L.J., June 17, 2008, at 5; Richard Raysman & Peter Brown, *Metadata and Attorney Ethics*, N.Y.L.J., Dec. 11, 2007, at 3; but see note 134, *infra*.

discovery (e-discovery) becomes increasingly prevalent and the protection generally afforded to privileged communications is eroding.<sup>121</sup>

Technology can also pose a serious threat to privileged communications in the form of electronic surveillance, that is, wiretapping or use of bugging devices by governmental investigators.<sup>121.1</sup> Generally, the interception and monitoring (inadvertent or intentional), and the dissemination of attorney-client communications<sup>121.2</sup>, have not received favorable treatment by the courts, which have suppressed evidence obtained in this fashion.<sup>122</sup>

As for the waiver effected by the crime-fraud exception to the attorney-client privilege, that issue continues to arise and points up the critical focus courts will apply in determining whether attorneys' communications "were in furtherance of a scheme to defraud."<sup>123</sup>

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121. See John Hillebrecht, Jessica Masella & Adam Steene, *Seven Principles for Conducting a Digital Forensic Review*, N.Y.L.J., Nov. 21, 2016; Elizabeth Inglesias & Claire O'Sullivan, *The Price of Privilege*, CORP. COUNS., Nov. 1, 2012 (new rules and protocols designed to minimize e-discovery costs do not necessarily protect against production of privileged material); see also Michael B. Mukasey & Andrew Ceresney, *Privacy in the Workplace: An Oxymoron?*, N.Y.L.J., Apr. 22, 2011; Michael Hoenig, *Privileged Communications and E-Mail Chains*, N.Y.L.J., July 9, 2007, at 3. "Common practices may have to be reviewed and changed with particular sensitivity to protecting attorney-client changes. Litigators may have to consider altering their customary privilege log forms to accommodate the challenges posed by e-mail strands." *Id.* at 6 (citing *Muro v. Target Corp.*, 250 F.R.D. 350 (N.D. Ill. 2007)). See Megan E. McEnroe, *E-Mail in Attorney-Client Communications: A Survey of Significant Developments April 2009–June 2010*, 66 BUS. LAW. 191, 192 (Nov. 2010) ("common thread in recent . . . decisions concerns e-mail communications transmitted through a third-party's e-mail system . . . [with] a finding that the client had a subjective expectation of privacy"); see also Sue Reisinger, *E-Discovery in Action: How VW's In-House Lawyers Screwed Up a Litigation Hold*, N.Y.L.J., Jan. 13, 2017 ("VW in-house attorneys tipped off employees about an upcoming litigation hold"); Stephen M. Kramarsky, *The Attorney-Client Privilege and E-Docs Stored at Work*, N.Y.L.J., Jan. 26, 2010, Special Report.
- 121.1. See David L. Hudson Jr., *NSA Surveillance Policies Raise Questions About the Viability of the Attorney-Client Privilege*, 100 A.B.A. J., Sept. 2014, at 1.
- 121.2. See Keith Fisher, *U.S. Border Searches of Electronic Devices: Recent Developments and Lawyers' Ethical Responsibilities*, BUS. L. TODAY (Mar. 13, 2018) (concerns that ordinarily protected confidential information maintained on such devices may be exposed).
122. See Kenneth Breen, Douglas Koff & Sean Haran, *Wiretaps Meet Privileged Communications*, N.Y.L.J., July 12, 2010.
123. *Sieger v. Zak*, No. 19978/05, 2008 WL 598344 (N.Y. Sup. Ct. Feb. 21, 2008). See *Fragin v. First Funds Holdings*, 2016 WL 4256984 (N.Y. Sup. Ct. 2016) (law firm documents and attorney testimony fall within ambit of

The crime-fraud issue has produced an interesting debate among federal agencies, in connection with the ongoing fallout from the Madoff Ponzi scheme and JPMorgan Chase Bank. As reported in the *New York Times*, the bank refused to turn over counsel's interview notes of employees, citing the attorney-client privilege. The Treasury Department's inspector general asserted that "the lawyers' interviews were essentially 'made for the purpose of getting advice for the commission of a fraud or crime.'" Ultimately, the Justice Department, voicing concern for "harmful precedent for future cases" and "skepticism" of the inspector general's accusations, determined not to revoke the privilege and seek those interview materials.<sup>123.1</sup>

The overall concern with selective waiver of the attorney-client and work-product privileges continues to receive significant attention as SEC and other regulatory investigations and proceedings proliferate, with counsel seeking to demonstrate cooperation and compliance by tendering certain confidential information, while at the same time endeavoring to limit or insulate such production from disclosure to third parties.<sup>123.2</sup>

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the crime-fraud exception); *In re Grand Jury Subpoena*, 745 F.3d 681 (3d Cir.), *cert. denied*, 135 S. Ct. 510 (2014) (attorney compelled to testify in inquiry into potential Foreign Corrupt Practices Act violations—a ruling reflecting variances among circuits, and raising concerns that the ruling could have chilling effect on attorney-client communications); Amanda Bronstad, *Judge Denies Access to King & Spalding's Internal GM Notes*, N.Y.L.J., Nov. 25, 2015 (while finding probable cause that GM committed a crime or fraud in concealing material facts from regulator, court ruled there was no showing attorneys' internal notes and memos "were made with intent to further that—or any other—'crime' or 'fraud.'"); *see also* Joseph Boryshansky, Nicole Sprinzen & Stanley Woodward, *Circuits Are Split on Crime-Fraud Exception's Reach*, N.Y.L.J., Feb. 9, 2015; Christine Simmons, *Court Orders Disclosure of Attorney-Client Communication*, N.Y.L.J., Feb. 21, 2013 (reporting on a U.S. Magistrate's ruling, in *Amusement Indus. v. Stern*, 1:07-CV-11586 (S.D.N.Y. 2013), that communications among various law firms were not protected by the attorney-client privilege or work-product doctrine because they were "in furtherance of a crime or fraud"); Beth Bar, *Attorney-Client Privilege Waived in Fraud Dispute*, N.Y.L.J., Mar. 4, 2008, at 24. *Cf.* Mark Hamblett, *Bank Changes Tactics, Tone with Waiver of Privilege*, N.Y.L.J., Oct. 14, 2009, at 1 (reporting on U.S. District Judge Rakoff's comment, in an order relating to the proceedings before him seeking his approval of a proposed Bank of America/SEC settlement of the case involving the bank's acquisition of Merrill Lynch, that the SEC "never seriously pursued the question of whether [the] Bank . . . had waived the attorney-client privilege, 'let alone whether it fit within the crime/fraud exception to the privilege'").

123.1. Ben Protes & Jessica Silver-Greenberg, *A Standoff of Lawyers Veils Madoff Ties to Bank*, N.Y. TIMES, Mar. 5, 2014, at B1.

123.2. *See* Noreen Kelly & Casselle Smith, *Privilege Protection in an Era of Cooperation*, N.Y.L.J., Nov. 21, 2016 ("sensible to revisit how to maximize the possibility of cooperation credit while maintaining the privileges").

The selective or limited waiver has been rejected in a Tenth Circuit decision, *In re Qwest Communications International, Inc.*,<sup>124</sup> which joined other circuits in holding that a company's voluntary disclosure of sensitive information to the government, otherwise covered by the attorney-client or work-product privileges, waived such protection as against private litigants.<sup>125</sup>

As indicated above, ongoing confusion over the application of the selective-waiver doctrine in particular situations prompted the U.S. Judicial Conference's Advisory Committee on Evidence Rules to propose a change in federal evidentiary rules, designed to encourage self-reporting and provide a form of protection for a company against disclosure in subsequent litigation of information it has voluntarily furnished.<sup>126</sup> However, when new Rule 502 was enacted into law in September 2008, it did not include the selective-waiver provision.

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124. *In re Qwest Commc'ns Int'l, Inc.*, 450 F.3d 1179 (10th Cir. 2006). *See also In re Columbia/Healthcare Corp. Billing Practices*, 293 F.3d 289 (6th Cir. 2002); *but see Aronson v. McKesson HBOC, Inc.*, No. 99-CV-20743, 2005 WL 934331 (N.D. Cal. Mar. 31, 2005) (under federal common law, production to government of privileged documents under confidentiality agreement did not waive work-product protection with respect to third parties). *See* John A. Nathanson & K. Mallory Tosch, *Walking the Privilege Line*, N.Y.L.J., July 13, 2009, Special Report (reviewing Department of Justice and SEC guidelines dealing with the issue of selective waivers, and referencing *Williams Cos. v. Thompson*, 562 F.3d 387 (D.C. Cir. 2009), a case in which a confidentiality agreement was found not to have waived the work-product privilege).
125. *See Gruss v. Zwirn*, No. 09 Civ. 6441 (PGG) (MHD), 2013 WL 3481350 (S.D.N.Y. July 10, 2013) (voluntary disclosure to government agency under confidentiality agreement waives privilege as to underlying documents and to third parties); Jeff G. Hammel & Robert J. Malioneck, *Cooperation After "Qwest": Is Selective Waiver Still Possible?*, N.Y.L.J., July 26, 2006, at 4; *see also* note 130, *infra*.
126. Proposed FED. R. EVID. 502(c) would have provided as follows: "In a federal or state proceeding, a disclosure . . . covered by the attorney-client privilege or work product protection—when made to a federal public office or agency in the exercise of its regulatory, investigative, or enforcement authority—does not operate as a waiver of the privilege or protection in favor of non-governmental persons or entities. The effect of disclosure to a state or local government agency, with respect to non-governmental persons or entities, is governed by applicable state law. . . ." As noted, this language was not included in the rule actually adopted. *See* Thomas F. Munno & Benjamin R. Barnett, *New Federal Rule of Evidence Arrives*, N.Y.L.J., Dec. 1, 2008, Special Report; Kevin N. Ainsworth, *Evidence Rule 502 Revamps Waiver-of-Privilege Analysis*, N.Y.L.J., Oct. 6, 2008, at 4; *see also* Peter K. Vigeland, Robert W. Trenchard, Daniel C. Richenthal & Michelle E. Kanter, *Selective Waiver: Changes in Policy and the Law Alter the Calculus in Weighing a Client's Cooperation*, N.Y.L.J., Dec. 1, 2008, Special Report; Michael E. Gertzman, *Uncertainty Continues Concerning Selective Waiver*, N.Y.L.J., July 21, 2008, Special Report; Lauren J. Resnick & Anjula Garg,

While the adoption of new Rule 502, as stated by the Committee, “seeks to provide a predictable uniform set of standards under which parties can determine the consequences of a disclosure of [privileged information],” it does not resolve the issue of selective waiver. Thus, a corporation is still faced with deciding whether to produce certain material and run the risk that it may ultimately be disclosed to third parties or otherwise used against it in different proceedings. And, counsel is left to anticipate whether the courts will follow one route or another in civil litigation, or in connection with a government investigation, in providing guidance to its client.<sup>126.1</sup>

Aside from implied waiver situations, there are those instances in which there has been an explicit waiver by the corporation of its privilege. And, in those cases, in-house counsel must be mindful of the circumstances giving rise to the waiver and anticipate the consequences before proceeding. For example, in *In re Sealed Case*,<sup>127</sup> the court held that voluntary disclosure during a plea proffer could result in a waiver. In *In re Martin Marietta Corp.*,<sup>128</sup> voluntary disclosure to the government during settlement negotiations resulted in a waiver. Furthermore, as separately discussed in this chapter (sections 9:2 and 9:3), where companies have deliberately disseminated selective information to the public that reveals certain confidential communications or rely upon privileged reports, to advance their position publicly, the privilege is lost—either by an explicit strategic decision or by an implied waiver based on the nature of the particular disclosure or the circumstances thereof.<sup>129</sup>

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*Proposed Evidence Rule 502: Monitor’s Privilege Created?*, N.Y.L.J., Dec. 20, 2006, at 4 (proposed rule “would for the first time provide an evidentiary basis for a ‘monitor’s privilege’ to insulate from third-party discovery facts disclosed to independent monitors”).

- 126.1. See Adam S. Lurie, Lambrina Mathews & Salvatore N. Astorina, *Privilege and Work Product Doctrine: Noteworthy Developments*, N.Y.L.J., Mar. 5, 2014, noting that Rule 502(d) is an “underutilized tool” that could be helpful in limiting scope of waiver resulting from disclosure of privileged information.
127. *In re Sealed Case*, 29 F.3d 715 (D.C. Cir. 1994). See also *United States v. Alaska Brokerage Int’l, Inc.*, No. CR06-11 (JLR) (W.D. Wash. 2006) (employees’ statements in a government proffer session could be used against employer, even though not a party to employees’ proffer agreement).
128. *In re Martin Marietta Corp.*, 856 F.2d 619 (4th Cir. 1988).
129. See, e.g., *Calvin Klein Trademark Tr. v. Wachner*, 198 F.R.D. 53, 55 (S.D.N.Y. 2000) (certain documents provided to PR firm by counsel in order to elicit advice to assist in litigation strategizing fall “outside the ambit of protection of the so-called ‘work-product’ doctrine . . . because the purpose of the . . . [doctrine] is to provide a zone of privacy for strategizing about the conduct of litigation itself, not for strategizing about the effects of the litigation on the client’s customers, the media, or on the public generally”); *McGrath v. Nassau Health Care Corp.*, 00CV6454 (E.D.N.Y.

In this connection, another area of potential waiver involves those situations where a corporation reports the results of an internal investigation, having criminal implications, to the authorities, often under a “nonwaiver” agreement. While that may protect the company against governmental action, it does not necessarily immunize the company from third-party action.<sup>130</sup> And, in the case of plea arrangements, particularly with federal authorities, prosecutors, as a condition of the plea agreement, have required a waiver, by the pleading company, of its attorney-client privilege, thereby gaining access to normally privileged materials in an ongoing investigation. Of course, as indicated, once that usually “closed” door is opened, then anyone else can get at the now unprotected information. (See chapter 8, at note 13.)

And what about the disclosure of *drafts* of documents being prepared by counsel for public filings? A recent federal court decision held that a draft of a 10-K section was protected by the attorney-client privilege and not subject to discovery.<sup>131</sup>

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- Sept. 28, 2001) (production ordered of documents and information related to internal investigation by virtue of the “at issue” doctrine, where the company put its investigation at issue by asserting an affirmative defense of appropriate remedial action which included the investigation itself); *Pray v. N.Y.C. Ballet Co.*, No. 96 CIV. 5723 RLC, 1998 WL 558796 (S.D.N.Y. Feb. 13, 1998) (deposition of four attorneys ordered regarding their roles in an investigation of a sexual harassment claim). *But see* *Kayata v. Foote, Cone & Belding Worldwide, LLC*, No. 99 CIV. 9022 VM KNE, 2000 WL 502859 (S.D.N.Y. Apr. 26, 2000) (production denied of documents generated by an employer acting at counsel’s direction during investigation of discrimination claim).
130. *See, e.g., In re Columbia/HCA Healthcare Corp.*, 192 F.R.D. 575 (M.D. Tenn. 2000); *but see In re Columbia/HCA Healthcare Corp.* Billing Practices Litig., 293 F.3d 289 (6th Cir. 2002) (where, despite a confidentiality agreement with the government, selective waiver protection was rejected for documents disclosed to the government). *Cf. In re Steinhardt Partners LP*, 9 F.3d 230 (2d Cir. 1993) (selective waiver applied to documents disclosed to government under confidentiality agreement); *In re Natural Gas Commodity Litig.*, No. 03 Civ. 6186 VMAJP, 2005 WL 1457666, at \*9 (S.D.N.Y. June 21, 2005) (since defendants had explicit written confidentiality and nonwaiver agreements with government, and certain underlying documents having otherwise been provided, court found, under *Steinhardt*, work-product privilege not waived). As to whether it makes good sense for a company to investigate and then report a crime within its organization, see Peter K. Vigeland, Robert W. Trenchard, Daniel C. Richenthal & Michelle C. Kanter, *supra* note 126; Audrey Strauss, *Corporations As Victims of Crime*, N.Y.L.J., July 5, 2001, at 5; Timothy E. Hoeffner & Jonathan Margolis, *Disclosing Illegal Conduct of Public Companies*, N.Y.L.J., Feb. 22, 2001, at 1; Andrew E. Tomback, *Even Corporate Victims Should Investigate Employee Wrongdoing*, N.Y.L.J., Oct. 26, 2000, at 5; Lisa A. Cahill, *Internal Investigations and Waiving Corporate Privilege*, N.Y.L.J., Sept. 21, 2000, at 5.
131. *Roth v. Aon Corp.*, 254 F.R.D. 538 (N.D. Ill. 2009); *see* *Iowa Pac. Holdings, LLC v. Nat’l R.R. Passenger Corp.*, No. 09-cv-02977-REB-KLM, 2011 WL

Also, among the latest developments are decisions dealing with efforts by corporate directors seeking to waive the attorney-client privilege with respect to corporate documents and other protected communications. In a Wisconsin case, the court held that a former director does not have the authority to waive the privilege as to documents that corporate counsel refused to make available by asserting the privilege. It enunciated the principle that the privilege belongs to the corporation. At the same time, it raised the intriguing issue that the result might be different, if the director was a current director.<sup>132</sup> The Delaware Chancery Court, on the other hand, had held that a corporation cannot deny access to a former director, on grounds of privilege, to legal advice furnished to the board during the director's tenure.<sup>133</sup>

Finally, as noted above, in describing the substantial document-production situations that arise nowadays in major litigation, it is important to reiterate that the inadvertent waiver of the attorney-client privilege, or an attorney's work product, and its ethical implications, continue to concern the courts and the commentators. Previously, any disclosure of otherwise protected material, even inadvertent, generally caused a waiver of the privilege. However, recognizing the practical concerns with large-scale productions, recent decisions have rejected the strict application of this rule and provided protection for information that was accidentally disclosed or produced in discovery, while, at the same time, emphasizing the ethical obligations of attorneys caught up in

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1527599 (D. Colo. Apr. 21, 2011) (draft contract prepared by counsel and containing information shared with client entitled to protection); *see also* Stuart H. Gelfand & William M. McGuinness, *Discipline Is Key to Reducing Risk of Losing Privilege*, N.Y.L.J., Apr. 30, 2009, Special Report; Jackie Unger, *Maintaining the Privilege: A Refresher on Important Aspects of the Attorney-Client Privilege*, BUS. L. TODAY, Nov. 2013 ("privilege's many nuances easily result in loss of the privilege when the attorney does not pay close attention to the details of the communication").

132. *Lane v. Sharp Packaging Sys. Inc.*, 640 N.W.2d 788 (Wis. 2002); *Milroy v. Hanson*, 875 F. Supp. 646 (D. Neb. 1995) (dissident director is not "management" and has no authority to pierce privilege).

133. *Moore Bus. Forms, Inc. v. Cordant Holdings Corp.*, Civ. A. Nos. 1391, 14595, 1996 WL 307444 (Del. Ch. June 4, 1996); *see* Edward M. Spiro, *Directors and Waiver of the Attorney-Client Privilege*, N.Y.L.J., Feb. 2, 2006, at 3; *cf.* *Am. S.S. Owners Mut. Prot. & Indem. Ass'n, Inc. v. Alcoa S.S. Co.*, 232 F.R.D. 191 (S.D.N.Y. 2005) (entity is client rather than individuals comprising board of directors). *See also* *Amalgamated Bank v. Yahoo! Inc.*, 132 A.3d 752 (Del. 2016) (directors obligated to produce electronically stored material in response to stockholders' request for books and records). *But see* *Bizzari Suburban Waste Servs. Inc., C.A. No. 10709-JL*, 2016 WL 4540292 (Del. Ch. Aug. 30, 2016) (director barred from access to company's books and records, because demand "not motivated by a proper purpose").

these situations and the corrective measures courts will apply when those obligations are ignored.<sup>134</sup>

### § 9:7 Retaliatory Discharge/Wrongful Termination

As indicated, the consequences to an in-house lawyer persistent in pursuing an issue of possible corporate wrongdoing or criminal conduct up the organization's chain of command, and going "over the head" of his or her superiors, and being rebuffed, can be deadly. One alternative, resignation, is not an appealing alternative. Not only can it be personally and professionally devastating, but the objective of preventing or curing an illegal situation may not be achieved. Indeed, the company may very well welcome just such an action by counsel, especially if it is done quietly (which, as noted, may be what counsel's ethical obligation and professional duty may require). In any event, whether by resigning and blowing the whistle (and being subjected to a possible damage claim and disbarment proceedings), or blowing the whistle and being terminated (and being faced with the same unpalatable prospects, but with an opportunity to claim for wrongful termination), the corporate counsel has a mixed bag to guide him or her—with a lot depending on the jurisdiction where this drama plays out.<sup>135</sup> And, with the overlay of SOX and Dodd-Frank whistleblower protocols, the in-house attorney's ethical responsibilities and professional risks are even more attenuated than ever.<sup>135.1</sup>

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134. See, e.g., *Coburn Grp., LLC v. Whitecap Advisors LLC*, 640 F. Supp. 2d 1032 (N.D. Ill. 2009); *Preferred Care Partners Holding Corp. v. Humana, Inc.*, 258 F.R.D. 684 (S.D. Fla. 2009); *N.Y. Times Newspaper Div. v. Lehrer McGovern Bovis, Inc.*, 300 A.D.2d 169 (1st Dep't 2002); *Long Island Lighting Co. v. Allianz Underwriters Ins. Co.*, 301 A.D.2d 23 (1st Dep't 2002); see also Robert J.A. Zito, *Stop!: The Lawyer's Ethical Duty of Discovery of Inadvertently Disclosed Confidential Information*, N.Y.L.J., May 12, 2008, at S6; *Rico v. Mitsubishi Motors Corp.*, 171 P.3d 1092 (Cal. 2007).
135. See John Gibeaut, *Telling Secrets*, 90 A.B.A. J., Nov. 2004, at 39 ("When In-House Lawyers Sue Their Employers, They Find Themselves in the Middle of the Debate on Client Confidentiality").
- 135.1. See C. Evan Stewart, *The Fork in the Road: The SEC and Preemption*, N.Y.L.J., May 10, 2017 (continued conflict between SEC's permissive disclosure mandate and state confidentiality rules); C. Evan Stewart, *Navigating State-Based Ethics Rules and Sarbanes-Oxley Requirements*, N.Y.L.J., Sept. 21, 2015. Cf. *Dig. Realty Tr., Inc. v. Somers*, 138 S. Ct. 767 (2018) (employee must first report employer securities violations to SEC before being entitled to sue under Dodd-Frank anti-retaliation provisions).

*Balla v. Gambro, Inc.*<sup>136</sup> provides an unfortunate precedent with which in-house counsel must contend in exercising his or her responsibilities in these extraordinary circumstances. In *Balla*, in-house counsel alleged that he was wrongfully discharged after informing the company president that he would do anything to block the shipment of defective dialysis machines, arguing that this action was required under the Illinois Rules of Professional Conduct. However, the Illinois Supreme Court held that in-house counsel did not have a cause of action for retaliatory discharge, on the grounds that allowing such a claim could erode the client's confidence in the attorney and limit the client's communication of important facts to the attorney. Additionally, the court concluded that the corporation should not bear the cost of in-house counsel's compliance with the state's Rules of Professional Conduct. This decision, described by one distinguished law professor in this field as extreme and unconscionable, ought not to be the benchmark to guide in-house lawyers when they seek to perform their duties responsibly.

The better approach is that adopted by the Minnesota Supreme Court, in *Nordling v. Northern States Power Co.* There the court, recognizing that an in-house lawyer is also an employee, upheld a wrongful discharge claim based on a breach of contract, stating that "[w]e see no reason to deny the job security aspects of the employer-employee relationship if this can be done without violence to the integrity of the attorney-client relationship."<sup>137</sup>

*General Dynamics Corp. v. Superior Court*<sup>138</sup> adds further support for the doctrine that in-house counsel is entitled to protection and to enforce a retaliatory discharge claim, where ethical requirements embodied in codes of professional conduct collide with the employer-client's illegitimate demands, and counsel insists on following clear professional guidelines. The California court, in this case, also stressed the fact that nonattorney, fellow employees could pursue such a claim in a similar situation. It should be noted, however, that the court observed that the attorney is protected in disclosing confidential information where rules governing privilege requirements expressly list such requirements in asserting a retaliatory discharge

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136. *Balla v. Gambro, Inc.*, 584 N.E.2d 104 (Ill. 1991).

137. *Nordling v. N. States Power Co.*, 478 N.W.2d 498, 503 (Minn. 1991). See *Fox Searchlight Pictures, Inc. v. Paladino*, 89 Cal. App. 4th 294 (2001) (allowing in-house counsel's claim for retaliatory discharge while acknowledging confidentiality concerns); *Kachmar v. Sungard Data Sys.*, 109 F.3d 173 (3d Cir. 1997) (confidentiality issues did not bar in-house counsel's claim for retaliatory discharge).

138. See *Gen. Dynamics Corp. v. Superior Court*, 876 P.2d 487 (Cal. 1994).

claim.<sup>139</sup> In summary, the law dealing with retaliatory discharge claims by in-house counsel is still evolving.<sup>140</sup> State case law varies, depending on whistleblower statutes, different state rules of professional conduct, and the courts' views of the public policy considerations inherent in the privilege/disclosure tension. It would seem that the trend is to recognize in-house counsels' responsibilities in seeking to encourage compliance by their employers, and to allow claims for retaliatory discharge when counsel is unduly penalized for exercising those responsibilities, with careful attention paid to the underlying principles of the attorney-client privilege.<sup>141</sup>

### § 9:8 The Privilege Internationally

While it is clear that the attorney-client privilege should properly be available to in-house counsel as well as to outside lawyers representing a corporate client (so long as counsel is acting as an *attorney* in

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139. But see *Douglas v. DynMcDermott Petroleum Operations Co.*, 144 F.3d 364 (5th Cir. 1998), *cert. denied*, 525 U.S. 1068 (1999), where the U.S. Court of Appeals reversed a judgment in favor of an in-house lawyer who was discharged for breaching her employer-client's confidence. She had sent, to a Department of Energy whistleblower officer, a copy of her letter to the company's general counsel responding to his reprimand of her for exercising poor judgment at a meeting with DOE auditors reviewing the firm's compliance with anti-bias requirements. In answering certain questions raised by the auditors, the lawyer said she "answered truthfully" regarding various EEOC situations involving company personnel. The court found that corporate counsel had violated her duties of confidentiality and loyalty under Louisiana's Rules of Professional Conduct. While the particular facts in this case may limit the scope of this decision regarding retaliatory discharge, it does highlight the underlying concern under Model Rule 1.13(b), *supra*, under the heading "Whistleblowing," that counsel "should go up the corporate ladder, and not out the door, with complaints about unlawful conduct." William C. Smith, *A Confidence Revealed*, 84 A.B.A. J., Oct. 1998, at 32. *Cf. Bishop v. PCS Admin.*, *supra* note 85; 21 CORP. COUNS. WKLY., Mar. 8, 2006, at 73 (with respect to North Carolina Bar Committee's advisory, see *supra* note 92).
140. See Mary Pat Gallagher, *In-Houser Claims Retaliation for Blowing Whistle on Peer*, N.J.L.J., Nov. 3, 2010 (reporting on a NY-NJ Port Authority in-house attorney's complaint that his constitutional rights were violated when he was suspended for his answers in an internal ethics investigation, *Stanton v. Port Auth.*, No. 10-cv-5351 (D.N.J. Oct. 13, 2010)).
141. See *Waldman v. NYNEX Corp.*, 696 N.Y.S.2d 39 (App. Div. 1st Dep't 1999) (motion to dismiss denied of attorney-employee's claim that he was improperly terminated for raising concerns about employer's questionable billing practices); *Kachmer v. SunGard Data Sys., Inc.*, 109 F.3d 173 (3d Cir. 1997) (in-house attorney not barred by attorney-client privilege from suing employer for retaliatory discharge and sexual harassment); see also *Wieder v. Skala*, 80 N.Y.2d 628 (1992); *Kelly v. Hunton & Williams*, No. 97-CV-5631 (JG), 1999 WL 408416 (E.D.N.Y. June 17, 1999).

performing his or her duties), care must be taken in those situations involving foreign-based counsel acting on behalf of the corporation—either with regard to a U.S. corporation’s activities in another country or representation by foreign counsel of a local, foreign subsidiary or affiliate of a U.S. company. As business operations and commercial activities continue to assume a more international character, it is important to be aware that in certain foreign jurisdictions, lawyers (and their clients) do not often enjoy the same protection of confidentiality afforded in similar situations under U.S. rules—even if the client (or the attorney) is U.S.-based. Of course, the issue under consideration here deals solely with the privilege, and not with the underlying substantive question of a U.S. lawyer’s representation of his or her client’s interests in a foreign jurisdiction—either directly or by the selection and supervision of and participation with a lawyer in that particular jurisdiction. The U.S. lawyer’s responsibility for foreign law and foreign lawyers is beyond the scope of this book; in-house counsel, however, should be aware of and sensitive to the implications involved in such situations.<sup>141.1</sup>

On the privilege question, therefore, the essential point is that the U.S. attorney-client privilege cannot be taken for granted where foreign attorneys and/or clients are involved; and it cannot be assumed, without more, that a judge in the United States will necessarily recognize a foreign company’s claim of the privilege. Thus, while an in-house attorney licensed to practice in one U.S. jurisdiction can perform legal services in another U.S. locale and, under the circumstances outlined, have those services cloaked with the appropriate privilege, the same may not be the case in regard to the operations of a law department of a foreign company or the activities of a foreign lawyer selected by a U.S.-based in-house attorney to render advice or perform services.

In certain foreign jurisdictions, the attorney-client privilege may not even be recognized.<sup>142</sup> Moreover, in-house counsel in certain countries are not necessarily members of a bar or classified formally

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141.1. “In international litigation and in lawsuits involving clients and witnesses located overseas, U.S. motions of privilege and confidentiality often can confound attorneys and clients alike.” Philip M. Berkowitz, *The Attorney-Client Privilege and Advising Across Borders*, N.Y.L.J., Nov. 29, 2013.

142. See Scott Martin, *Can Anyone Keep a Secret Anymore? Beware the Differing Privilege Regime in the Global Environment*, N.Y.L.J., Nov. 16, 2009, Features. And, in civil law countries, such as Germany, France, Italy, and China, the privilege simply does not exist; there are only certain regulations covering the ethical issue of confidentiality. See also *Veleron Holding, B.V. v. BNP Paribas SA*, No. 12-CV-5966, 2014 WL 4184806 (S.D.N.Y. Aug. 22, 2014) (Russian law does not recognize privilege; nor is it available to unlicensed lawyers in the Netherlands); Wise, *supra* note

as “lawyers.”<sup>143</sup> A separate but not unrelated consideration is that of the application of ethics to lawyers’ conduct in international legal affairs, and the growing recognition that an international standard for legal ethics must be established, especially in light of the growing transnational legal practice.<sup>144</sup>

As internal investigations, in today’s global arena, now involve operations, employees, and witnesses abroad, the manner in which such probes are conducted, in light of privilege issues, takes on a wholly new aspect.<sup>145</sup> A recent English High Court decision is especially instructive, in connection with witness interviews as part of an internal inquiry, not only in alerting counsel to the pitfalls of pursuing an investigation abroad, but to highlight the protection afforded the privilege in the United States if properly and carefully

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10.1 (“International corporations should be mindful of foreign in-house counsel in sensitive legal communications. . . . [E]ven purely legal attorney-client communications with in-house counsel may not be protected from disclosure.”).

143. See, e.g., *Renfield Corp. v. E. Remy Martin & Co., S.A.*, 98 F.R.D. 442 (D. Del. 1982) (privilege not available under French law, but court applied U.S. law to provide protection for communication); *Duttle v. Bandler & Kass*, 127 F.R.D. 46 (S.D.N.Y. 1989) (German law recognizes the privilege; but court held that role of tax advisors and notaries involved were more akin to accountants than lawyers and denied application of privilege); *Detection Sys., Inc. v. Pittway Corp.*, 96 F.R.D. 152 (W.D.N.Y. 1982) (court accepted that privilege available as to France and Great Britain, but unclear as to Japan or Mexico); *Honeywell, Inc. v. Minolta Camera Co.*, CIV. A. No. 87-4847, 1990 WL 66182, order slip op. (D.N.J. May 15, 1990) (although a member of Minolta’s patent department in Japan was acting as the functional equivalent of an attorney, court held individual was not licensed to practice law and was not registered as a patent agent and privilege did not attach to his communications); *Bristol-Myers Squibb Co. v. Rhone-Poulenc Rorer, Inc.*, 188 F.R.D. 189, 52 U.S.P.Q.2d 1897 (S.D.N.Y. 1999) (French patent agent’s communications and memoranda not privileged unless agent acting under authority of an American attorney).
144. See Susan F. Friedman, *In-House Counsel Face New Global Challenges*, N.Y.L.J., Aug. 13, 2009, Corporate Update; James Podgers, *The New World/Lawyer Ethics Are Getting More Attention As a Matter of International Law*, 92 A.B.A. J., May 2006, at 26; see also chapter 17, *infra*.
145. See *United States v. Allen*, 864 F.3d 63 (2d Cir. 2017) (conviction based on testimony compelled by foreign regulator under foreign law overturned because use thereof violated defendants’ Fifth Amendment rights); Philip M. Berkowitz, *Attorney-Client Privilege and Cross-Border Investigations*, N.Y.L.J., Jan. 13, 2011. See also Michael E. Gertzman & James J. Beha II, *Deciding Where to Review Overseas Clients’ Documents*, N.Y.L.J., Dec. 8, 2011 (reporting on various decisions involving federal grand jury subpoenas seeking overseas documents of U.S. companies and concluding “that the safest course is [for counsel] to review . . . client’s documents overseas”).

conducted. In the United Kingdom, at least until further determined upon appeal, the legal professional privilege under English law is considerably more constricted, particularly in defining who is treated *as the client* within the corporate entity, and the scope of the work-product doctrine in protecting certain material from disclosure.<sup>145.1</sup>

Furthermore, whether or not in-house counsel (and the client) is entitled to the protection of the privilege at the national or country level in certain countries depends on whether counsel is a member of that country's bar. However, according to the European Commission, for example, and regardless of the lawyer's status at the national level, in-house counsel in Europe may not, with assurance, assert that his or her internal communications are privileged or confidential.<sup>146</sup> Indeed, the Court of Justice of the EU has confirmed that documents prepared by in-house lawyers are *not* privileged under EU rules.<sup>147</sup> This, of course, is of vital importance to foreign subsidiaries of U.S. parents,

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145.1. *In re* RBS Rights Issue Litig., [2016] EWHC 3161 (Ch) (privilege does not extend to notes and certain other material passed between company counsel and current and former employees). *See also* Astex Therapeutics Ltd. v. Astrazeneca AB, [2016] EWHC 2759; Roger A. Burlingame, Steven G. Kobre & Rachel E. Goldstein, *The Sea Change Across the Pond: UK Privilege in Internal Investigations Remains in Flux*, N.Y.L.J., Apr. 2, 2018; Roger A. Burlingame, Steven G. Kobre & Rachel E. Goldstein, *Recent U.K. Decision Jeopardizes U.S. Privilege Assertions for Witness Interviews*, N.Y.L.J., Jan. 30, 2017.

146. *See* J. Triplett Mackintosh & Kristen M. Angus, *Conflict in Confidentiality: How E.U. Laws Leave In-House Counsel Outside the Privilege*, 38 INT'L LAW. 35 (Spring 2004); Caryl Ben Basat & Julian D. Nihill, *Recent Developments in Attorney-Client Privilege*, 31 INT'L LAW. 248 (Summer 1997). *See also* Case 155/79, 1982 AM&S, Ltd. v. Comm'n of the E.C., E.C.R. 1575, 1612 (Ct. Just. of E.C.) (communications by client to employee/attorney *not* covered by attorney-client privilege otherwise recognized in EC Proceedings).

147. Case C-550/07 P, *Akzo Nobel Chems. Ltd. v. Comm'n*; *see* John Gergacz, *In-House Counsel and Corporate Client Communications: Can EU Law After Akzo Nobel and U.S. Law After Gucci Be Harmonized? Critiques and a Proposal*, 45 INT'L LAW. 817 (Fall 2011) (confirming that privileged communications between in-house counsel and corporate employer are "evaluated differently under EU law than in United States"); *see also* Eric B. Bruce, William F. McGovern & Beau D. Barnes, *Mitigating Risk in Asia-Based Investigations*, N.Y.L.J., Nov. 21, 2016 ("vague state secret rules, constantly changing data protection regimes, varying attorney-client privilege laws . . ."); Ava Borrasso, *Privilege and International Implications Against the Backdrop of Panama Papers*, BUS. L. TODAY, July 2016; Robert G. Morvillo & Robert J. Anello, *In International Investigations, All Lawyers Are Not Created Equal*, N.Y.L.J., Dec. 7, 2010; Laila Abou-Rahme & Richard Hornshaw, "Akzo Nobel": *Implications for American Lawyers*, N.Y.L.J., Jan. 13, 2011; Alasdair Balfour & Ianis Girgenson, *EU Court Limits the Scope of Legal Professional Privilege*, BUS. L. TODAY, Sept. 20, 2010.

where materials prepared or received by the local law department of that subsidiary may be vulnerable to disclosure.<sup>148</sup>

### § 9:9 Accountant-Client Privilege

Ordinarily, there is no accountant-client privilege, as there is between a lawyer and client.<sup>149</sup> However, under the Internal Revenue Service Restructuring and Reform Act of 1998, a new (but limited) accountant-client privilege has been established. The 1998 Act provides: "With respect to tax advice, the same common law protections of confidentiality which apply to a communication between a taxpayer and an attorney shall also apply to a communication between a taxpayer and any federally authorized tax practitioner to the extent the communication would be considered a privileged communication if it were between a taxpayer and an attorney."<sup>150</sup>

Obviously, like the attorney-client privilege, the newly enacted privilege is intended to encourage the free flow of information between a client and his or her accountant and to promote accurate disclosure of information. It is too early, however, to ascertain the scope and application of this privilege; judicial decisions and IRS regulations will be needed to clarify its limits.<sup>151</sup>

In its present form, the privilege applies to noncriminal tax matters before the IRS, and noncriminal proceedings by or against the United States in federal court. It does not apply in criminal cases, civil cases not involving the United States, state court cases, cases before any state or

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148. For an excellent summary of the current state of the in-house counsel privilege internationally, see Lawrence W. Newman & David Zaslowky, *In-House Counsel Privilege Around the World*, N.Y.L.J., Nov. 24, 2008, at 3. The authors reiterate the warning that "[i]t is a mistake for U.S. lawyers to assume that other countries provide in-house lawyers with the same attorney-client privilege as we have here in the United States." *Id.* at 6. See also Azish Filabi, Gregory D. Green & Kenneth G. Standard, *Comparative Legal Ethics: The United States and the European Union*, N.Y.S.B.A. INT'L LAW PRACTICUM, Vol. 30, No. 1, at 27 (2017).

149. See, e.g., *Block v. Razorfish, Inc.*, 121 F. Supp. 2d 401 (S.D.N.Y. 2000).

150. But see *Long-Term Capital Holdings v. United States*, No. 3:01CV1290 (JBA), 2002 WL 31934139, at \*4 (D. Conn. Oct. 30, 2002); *United States v. Frederick*, 182 F.3d 496 (7th Cir. 1999).

151. See Edward Brodsky, *The New Federal Accountant-Client Privilege*, N.Y.L.J., Jan. 13, 1999, at 3; see also John J. Tigue, Jr. & Jeremy H. Temkin, *Accountant's Obligation to Maintain Client Confidences*, N.Y.L.J., Jan. 18, 2007, at 3, 6 ("[G]overnment should be on notice that accountants are bound not to reveal confidential information . . . without legal compulsion[,] and accountants should be cautious in responding to government inquiries.").

federal administrative or regulatory agency other than the IRS, and corporate communications with accountants regarding tax shelters.<sup>151.1</sup>

In a prominent challenge to the application of this new privilege and the attorney-client privilege to abusive tax shelters, the Seventh Circuit held that the names of investor-participants in these arrangements were not protected from disclosure,<sup>152</sup> throwing into sharp relief the true efficacy of these privileges (especially the attorney-client one) in the face of the government's efforts to erode their value in particular situations.

In addressing this accountant-client privilege, and its limited application, it should not be confused with the so-called and long-standing "Kovel Accountant" principle, which is covered under the attorney-client privilege discussed above<sup>153</sup> and which provides appropriate confidential protection for the information and material prepared by an accountant at the behest of an attorney on behalf of his client.<sup>154</sup>

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- 151.1. In 2011, the IRS released its *Attorneys Audit Technique Guide*, which instructs auditors in how to deal with attorney-client privilege issues that arise during the conduct of an audit of lawyers' books and records. See Sidney Kass, *IRS Audit Guides on Attorneys and Consultants*, N.Y.L.J., Aug. 15, 2011. See also B. Colby Hamilton, *Panel Denies Exxon Mobil's Accountant Privilege Claim*, N.Y.L.J., May 23, 2017 (in denying motion to quash subpoena by New York Attorney General for auditor's documents, court held that New York does not have broad accountant-client privilege).
152. *United States v. BDO Seidman*, 337 F.3d 802 (7th Cir. 2003); see also *Does v. Wachovia Corp.*, 268 F. Supp. 2d 627 (W.D.N.C. 2003) (involving the Jenkins & Gilchrist law firm's ultimately unsuccessful challenge to a subpoena seeking names of investors (clients) in tax shelters it had promoted); *United States v. KPMG LLP*, 237 F. Supp. 2d 35 (D.D.C. 2002). See *United States v. Kovel*, 296 F.2d 918 (2d Cir. 1961), discussed *supra* note 60.
153. See *United States v. Kovel*, 296 F.2d 918 (2d Cir. 1961), discussed *supra* note 60.
154. See David Gannaway, *The Role of Kovel Accountants in White-Collar Criminal Cases*, N.Y.L.J., Feb. 10, 2014.