

New Decision on the Application of Attorney-Client Privilege to Communications With In-House Counsel

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Memorandum

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A recent decision out of the Northern District of Illinois provided a more expansive application of the attorney-client privilege to communications with in-house counsel than other courts have been willing to adopt. In *Roth v. Aon Corp.*, Case No. 04 C 6835, 2008 U.S. Dist. LEXIS 106161 (N.D. Ill. Jan. 8, 2009), Judge Denlow held that the attorney-client privilege protected an e-mail and an attachment sent by a company's CFO to the Deputy General Counsel and several non-lawyer executives in which the CFO requested comments to a draft of the company's Form 10-K. *Roth* went against the trend in recent opinions of limiting the application of the privilege to e-mails involving in-house counsel that involve a mixture of business and legal issues. Whether *Roth* represents the beginning of a new trend to broaden the application of the attorney-client privilege remains unclear, especially in light of other recent decisions that have taken a narrower view.

Nature of dispute

Plaintiff investors brought a motion to compel the production of an e-mail and attached memorandum, both of which were initially produced but later "clawed back" on the grounds of attorney-client privilege. Defendant Aon's CFO sent the e-mail to Aon's Deputy General Counsel and several others – including Aon's head of investor relations,

Controller, and an Aon employee in the Controller's division – requesting that they each provide comments on the attached memorandum. The memorandum contained a draft of the "Compensation for Services" section of Aon's Form 10-K.

Aon argued that the CFO's e-mail involved "a core legal issue" – the scope of disclosure to the SEC under the securities laws – and contained information that was provided to counsel for the purpose of obtaining legal advice. Plaintiff, on the other hand, argued that the e-mail sought business, and not legal, advice regarding the draft Form 10-K language, and noted that the e-mail never explicitly sought legal advice. *Id.*, 2008 U.S. Dist. LEXIS 106161, at *5.

Protection of Business Communications

The Court applied the Seventh Circuit's eight-prong test to determine the applicability of the attorney-client privilege,¹ and concluded that the e-mail and attachment "did reasonably seek legal advice." *Id.*, 2008 U.S. Dist. LEXIS 106161, at *9. The Court observed that under SEC rules, Form 10-Ks must contain "extremely detailed financial, legal and structural information pertaining to the company," and "[t]he determination of what information should be disclosed for compliance is not merely a business operation, but a legal concern." *Id.*, 2008

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¹ In the Seventh Circuit, the attorney-client privilege attaches "(1) Where legal advice of any kind is sought (2) from a professional legal adviser in his capacity as such, (3) the communications relating to that purpose, (4) made in confidence (5) by the client, (6) are at his instance permanently protected (7) from disclosure by himself or by the legal adviser, (8) except the protection be waived." *United States v. White*, 950 F.2d 426, 430 (7th Cir. 1991).

U.S. Dist. LEXIS 106161, at *8-*9. Read broadly, the Roth court seems to conclude that any discussion of a proposed SEC filing necessarily includes legal as well as business concerns, and is thus privileged when it includes in-house counsel.

The Court in *In re Vioxx Products Liability Litig.*, 501 F. Supp. 2d 789 (E.D. La. 2007), resolved a somewhat similar issue—involving regulation by the FDA as opposed to the SEC—quite differently.² The *Vioxx* court rejected Defendant Merck’s argument that pervasive regulation by the FDA meant that “virtually everything a member of the industry does carries potential legal problems vis-à-vis government regulators” and therefore any e-mail communications with in-house counsel about the company’s affairs should be deemed privileged. *Id.* at 800. Instead, the Court ruled that all of Merck’s internal e-mails had to be analyzed on an individual basis to ensure that the primary purpose of each communication was to provide legal advice or assistance. *See also In re Seroquel Products Liability Litig.*, No. 6:06-md-1769-Orl-22DAB, 2008 WL 1995058, at *7 (M.D. Fla. May 7, 2008) (requiring that communication with in-house counsel was primarily to facilitate rendering legal advice for privilege to apply).

Protection of Communications Including Non-Lawyers

The *Roth* Court also refused to invalidate the privilege because the e-mail was sent to non-lawyers, reasoning that each was an employee who was directly involved with Form 10-K disclosures and within the corporation’s privilege. According to the Court, “[t]o disallow corporations the space to collectively discuss sensitive information with legal counsel would be to ignore the realities of large-scale corporate operation.” *Roth*, 2008 U.S. Dist. LEXIS 106161, at *11. On this point, *Roth*’s holding was consistent with *In re New York Renu with Moistureloc Product Liability Litig.*,

No. MDL 1785, 2008 WL 2338552 (D.S.C. May 8, 2008), where the court noted that “an attorney need not be a recipient *at all* for the privilege to attach” so long as the e-mail is sent to those with a “need to know” and legal advice was implicitly or explicitly sought. *New York Renu*, 2008 WL 2338552, at *10.

The *Vioxx* court reached a different conclusion on this issue as well. It rejected Merck’s argument that “the distribution to every department of the company is part of a ‘collaborative effort to accomplish a legally sufficient draft.’” *Vioxx*, 501 F. Supp. 2d at 803. Instead, the *Vioxx* court found that, absent evidence to the contrary, the inclusion of non-lawyers on e-mails to in-house counsel suggested that the primary purpose of the communication was not to seek legal advice – and therefore the e-mails were not privileged. *See also Seroquel*, 2008 WL 1995058, at *7 (finding that AstraZeneca failed to show that communications of “technological, science, public relations, or marketing” documents with attorneys and non-attorneys were made “primarily to facilitate the rendition of legal advice” and therefore were not privileged).

Protection of Drafts of Public Documents

The *Roth* Court also determined that the draft Form 10-K did not lose its privilege when it was later finalized and became part of the public record. *Roth*, 2008 U.S. Dist. LEXIS 106161, at *10. Citing to other Seventh Circuit district court cases, the Court held that “unless the communication does not at the outset meet the elements of attorney-client privilege, then a draft of a document which becomes public record does not thereby lose that privilege.” *Id.* (citing *In re JP Morgan Chase & Co. Sec. Litig.*, 2007 U.S. Dist. LEXIS 60095 (N.D. Ill. Aug. 13, 2007)).

Here again, not all courts agree with this analysis. Instead, courts have grappled with when, and to what extent, the privilege will be maintained as to drafts of later-disclosed documents. For example, in *In re*

² For further insight into the holding and consequences of the *Vioxx* decision, see Daniel C. Zinman, Memorandum to Clients and Friends of the Firm, “Strategies For Addressing The Eroding Attorney-Client Privilege For In-House Counsel: A Look At The Recent Multidistrict *Vioxx* Products Liability Litigation” (Oct. 17, 2007), available at http://www.rkollp.com/Vioxx_Privilege_Memo_to_Clients.pdf.

Grand Jury Proceedings, 727 F.2d 1352 (4th Cir. 1984), the Fourth Circuit found that the attorney-client privilege did not apply to information communicated to an attorney to prepare a prospectus where there was an understanding that the information would be made known to third parties. *Id.* at 1356. In *U.S. v. (Under Seal)*, 748 F.2d 871 (4th Cir. 1984), the Fourth Circuit subsequently clarified that “it is only when the client authorizes the attorney to perform services which demonstrate the client’s intent to have his communications published that the client will lose the right to assert to the privilege.” *Id.* at 875.

Taking a different approach, in *Schenet v. Anderson*, 678 F. Supp. 1280 (E.D. Mich. 1988), the district court concluded that the attorney-client privilege applies to all information conveyed by clients to their attorneys for the purpose of drafting documents that are intended to be disclosed to a third person, and to all documents reflecting such information, provided that the information is not contained in the document that ultimately is published and is not otherwise disclosed to third persons; the privilege would be waived only as to those portions of preliminary drafts that are later revealed to third parties. *Id.* at 1284. The *New York Renu* court adopted the *Schenet* approach and, contrary to *Roth*, embarked on a line-by-line analysis of the privilege of each document, protecting as privileged only those portions of drafts that did not appear in the final public version. *See also Seroquel*, 2008 WL 1995058, at *3 (holding that “[f]inal documents sent to third parties should be disclosed, as should drafts of those documents, with the privileged exception of words that do not appear in the final version and were articulated in the context of legal advice to and from a client.”).

Conclusion and Guidance

The *Roth* decision should be read cautiously in light of other district court decisions in the past few years. Courts clearly are continuing to wrestle with a variety of questions regarding the application of the privilege to communications with in-house counsel. The *Roth*,

Vioxx, *Seroquel*, *New York Renu* and *Schenet* decisions, however, provide helpful guidance on what employees and counsel should keep in mind when communicating with their colleagues:

- Communications with outside counsel are presumed to be privileged. Internal communications with in-house counsel, however, are not presumptively privileged because these lawyers typically do not render purely legal services.
- Despite the reasoning in *Roth*, e-mails sent simultaneously to internal attorneys and business people may not be considered privileged. Because the same advice arguably is being sought from lawyers and non-lawyers, absent evidence to the contrary the primary purpose of these e-mails is sometimes presumed to be non-legal.
- As a logical corollary to this point, e-mails between only attorneys stand a greater likelihood of receiving privileged treatment.
- E-mails addressed to lawyers, and copied to non-lawyers, are more likely to be considered privileged because the copied non-lawyers arguably are being informed of the legal advice being sought from the lawyers and not being asked to provide any advice themselves. Further, the company should be able to demonstrate that the non-lawyers who are copied are within the group of people who have some involvement in the underlying issue and are likely to seek legal advice on the issue.
- Edits by lawyers to documents that are not obviously legal in nature (such as marketing, technical, business and other documents) are unlikely to be considered privileged absent proof that the primary purpose of the edits is to render legal advice.
- If an attachment is circulated to both lawyers and non-lawyers for comments, the attachment may well be discoverable. If, however, an attachment is sent only to internal counsel for comments, the attachment is likely privileged. Moreover, if that

attachment, which now contains the attorney's edits, is subsequently forwarded to non-lawyers, it is no longer privileged unless those non-lawyers require the lawyer's legal advice to fulfill their duties.

- Parties cannot claim privilege over an entire e-mail thread where only certain e-mails within the thread contain legal advice from internal counsel.

As repeated throughout *Vioxx* and *Seroquel*, companies that choose to mix legal consultation with business decisions must deal with the consequences. Accordingly, by keeping in mind the following suggestions, individuals will increase their chances of protecting communications with in-house counsel privileged.

- **Legal Purpose**

State up-front in the e-mail that the primary purpose of the communication is to provide legal advice.

- **Content**

Ensure that the e-mail actually seeks or contains substantive and identifiable legal advice.

If an e-mail seeks or contains both legal and non-legal advice, divide the advice between two e-mails.

- **Addressees**

If an e-mail is being sent to lawyers and non-lawyers, consider whether including the non-lawyers is necessary. If it is, copy the non-lawyers and make the lawyers the primary recipients.

Before forwarding attorney comments on draft documents to non-lawyers, make sure those employees have a clear and identifiable need to see the comments in order to carry out their corporate duties.

- **Legend**

If you believe the e-mail is privileged, say so by using a legend that identifies the e-mail as privileged.

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