MCLE Self-Study Article

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IN-HOUSE COMMUNICATION: PRESERVING THE ATTORNEY-CLIENT PRIVILEGE

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Joe Foresight has been in private practice for many years as a dedicated IP attorney in a New York law firm. Last month, his long-term Silicon Valley technology client offered him an in-house position to join the company as its Chief IP Counsel and VP of Business Affairs. Joe accepted and is now in charge of the relatively small in-house IP group with a paralegal under his supervision. The company also has recently opened sales offices in Germany and an R&D facility in South Korea, with a transactional lawyer in Berlin and a patent agent in Seoul, both working as in-house employees.

When Joe was at the N.Y. law firm, he used the standard notice at the end of his e-mails which essentially indicated that the content of the e-mail (or any attachments) may contain privileged communication and that such e-mail should be returned or destroyed if delivered to an unintended recipient. This notice, along with some other waivers and disclaimers, was automatically generated as a part of his e-mail signature, and was included at the end of every e-mail he sent, even if it was in response to his spouse's request to pick up some Chinese food on the way home.

In his new position as the VP and Chief IP Counsel, Joe is responsible for reviewing and updating the company's electronic communication and data retention policy to remain in compliance with, among other things, laws and regulations related to electronic discovery. He already knows that § 917 of the California Evidence Code provides in relevant part:

> (a) "If a privilege is claimed on the ground that the matter sought to be disclosed is a communication made in confidence in the course of the lawyer-client … relationship, the communication is presumed to have been made in confidence."
>
> (b) "A communication … does not lose its privileged character for the sole reason that it is communicated by electronic means."

Joe thinks that § 917 provides some broad protection. However, since he has been advised that the company is planning on engaging in licensing activities to assert some of the patents in the corporate portfolio, Joe wants to be sure to comply with his ethical duties and also avoid any accusation of spoliation by preserving all the relevant email communications concerning the potential licensing of the patents.

In the midst of all this, Joe learns that the company's CEO has established an e-mail communication policy—attributed to the 19th century Massachusetts politician Martin Lomasney—as follows: *"Never write if you can speak, never speak if you can nod, never nod if you can wink."* As a result of this policy, company employees along with the management try not to include content of any substance in any internal e-mails. Instead, they upload data files with substantive information onto a cloud-based file server and verbally tell the other employees where to find and read the content of the files.

Contemplating this e-mail communication policy, Joe quickly realizes that the process of uploading files and calling the intended persons to review the file content (versus the common practice of sending an e-mail attaching the relevant files) is inconvenient and especially burdensome if he has to keep track of the latest versions of each file as the files are revised by multiple parties over time. He also realizes that the files are typically stored on electronic media that can be accessed by anyone who can log in to the cloud-based file server.

The law firm to in-house transition that Joe had envisioned is not so straightforward anymore, as Joe starts to wonder whether the act of "storing" content on a file server is equivalent to "communicating" the content for the purpose of establishing attorney-client privilege. As in-house counsel, he finds himself contemplating many details, even for actions as simple as sending an e-mail. To determine which steps one may take to minimize the risks associated with electronic

communications in the above scenario, let's start by revisiting some of the basics.

THE ATTORNEY-CLIENT PRIVILEGE

In California, communication between a lawyer and a client, including e-mail communication with a corporate entity, is deemed to be privileged regardless of the mode of communication as long as there is a reasonable expectation of confidentiality in the means of communication.[1] In addition, certain documents may also be protectable under attorney work-product doctrine if prepared by an attorney in anticipation of litigation. In the following discussion, we will mainly focus on the former, *i.e.,* the attorney-client communication privilege (hereafter the "privilege"), which can be asserted to protect a client from having to produce the privileged content. To maintain the privilege, the following must apply:[2]

1) The content should be *communicated* to a *lawyer*.
2) The purpose of the communication should be to seek *legal advice*.

Certain exceptions, such as express waiver, involvement of criminal or fraudulent activity, or lack of a reasonable expectation of confidentiality, may apply to remove the privilege.[3] We will explore some of the above factors in further detail below, and particularly as pertaining to the assertion of privilege in electronic communication.

COMMUNICATION WITH IN-HOUSE COUNSEL

In the context of in-house communication, under U.S. law, the attorney-client privilege applies to content communicated between in-house counsel and the company and those who act on behalf of the company, including company employees.[4] For example, confidential communications made by paralegals or agents of an in-house lawyer for the purpose of assisting the lawyer in communicating legal advice are privileged.[5] Further, factual investigations conducted by an agent, such as gathering statements from employees, are privileged as long as such investigations are performed under direct supervision of in-house counsel.[6]

The privilege would also extend to communications with a patent agent working in-house under the supervision of a licensed in-house lawyer. In April, 2012, the Central District of California, in *Buyer's Direct Inc. v. Belk, Inc.*,[7] held that "privilege may be invoked over communications between a client and the client's registered patent agent" even if the patent agent has acted independently. In contrast, at least one U.S. jurisdiction has found that a patent agent's communication with clients is not privileged for the same reasons that the privilege does not extend to client communication with accountants.[8]

Certain foreign countries do not recognize the privilege even when the communication is with an in-house attorney because the company is viewed as an "employer" and not a client.[9] In particular, China, France, and Switzerland recognize no privilege for in-house counsel communication, while Germany, Japan and Korea recognize a partial privilege.[10] As an example, under Korea's civil law, a witness may refuse to testify if he is an attorney-at-law, a patent agent, or other person having a post responsible for keeping the privileged information "secret" under laws and regulations or on matters relating to a technical or professional secret.[11]

Referring back to Joe's situation, it would be prudent for him to have a thorough understanding of the privilege laws as applicable in Germany and Korea, since the company does business in the two countries using in-house counsel and a patent agent. Since privilege laws are more favorable in the U.S. for in-house counsel, it may be important to establish a policy encouraging employees (particularly those located in Germany and Korea) to directly communicate with Joe in the U.S. (or with outside counsel) about legal questions and matters involving company policy, instead of directing the communication to the attorney resident in Berlin or the patent agent in Korea.

In a situation where there is a need for the foreign attorney or agent to be involved, Joe can forward the relevant portions of the communication to the attorney or agent. The benefit of having all communications initiated from employees in Germany and Korea to go through Joe is twofold. First, the communication would be subject to broader protection afforded under the U.S. privilege laws. [12] Second, the communication would clearly be with an attorney authorized to practice law in the U.S. Thus, any issues that may arise from uncertainty associated with communicating with a non-lawyer patent agent or in-house foreign attorney can be avoided.

Even though the application of privilege in the U.S. extends to in-house counsel and those who work under the supervision of the in-house counsel, Joe needs to be cautious about his own bar status to avoid any waiver of the privilege. Pursuant to California Business & Professions Code Section 6125–6133, to practice as a lawyer, Joe must be an active licensed attorney in the jurisdiction. Since Joe is only admitted to the New York Bar, in order for him to lawfully practice as registered in-house counsel in California, he should apply for limited admission to the California State Bar under Rule 9.46 of the California Rules of Court.[13]

Special and practical circumstances may be present under which an in-house lawyer may not be required to apply for limited admission. For example, Joe's in-house practice may be exclusively under federal laws (*e.g.,* limited to patent or trademark prosecution before the U.S. Patent & Trademark Office). Aside from special cases, an out-of-state in-house lawyer will not be deemed as being lawfully engaged in the practice of law and most likely any communication with him would not be privileged.

For example, in *Gucci America, Inc. v Guess?, Inc.*,[14] Gucci's in-house counsel was admitted to the State Bar of California but did not maintain an active status. The Magistrate Judge in this case held that Gucci could not claim the privilege for communications with its in-house counsel, due to his inactive bar status. The Magistrate Judge agreed

that U.S. law extends the privilege to communications with persons who are mistakenly believed to be attorneys. Nevertheless, he refused to recognize the privilege, arguing that Gucci's belief that the in-house counsel was a lawyer was not reasonable, since Gucci had failed to show that it conducted *some* due diligence to confirm such belief. Subsequently, Judge Shira A. Scheindlin rejected the magistrate judge's findings and ruled that communications between Gucci and its in-house counsel were, in fact, protected by the attorney-client privilege.

Judge Scheindlin reasoned that (1) the in-house counsel, regardless of his inactive status, was an attorney for the purposes of the attorney-client privilege; (2) even if he was not, Gucci reasonably believed him to be one; and (3) to "require businesses to continually check whether their in-house counsel has maintained active membership in bar associations before confiding in them simply does not make sense."[15] Regardless of the above outcome, in Joe's case it would be advisable for him to immediately apply for limited admission in California to avoid any challenge as to the privilege attaching to his in-house communication.

In the age of electronic communication, a common misconception is that if an attorney is copied on an e-mail, the content of the e-mail is automatically privileged. It has been long established, however, that the mere fact that an attorney is involved in a communication does not make that communication privileged.[16] In *United States ex rel. Baklid-Kunz v. Halifax Hospital Medical Center*,[17] a federal magistrate judge in Florida refused to grant a presumption of privilege to documents or electronic communications, based on the argument that the document was simply labeled "Confidential—Attorney Client Privilege."

In particular, when ruling on the issue of privilege as applying to e-mails, if the "To" line was addressed to both in-house counsel and a non-lawyer, the judge ruled that the e-mail *could not* have a primary purpose of seeking legal advice, making it non-privileged. The judge also found numerous e-mails as not privileged because no attorney was included in the "To" or "From" lines, even if an attorney was included in the "cc:" line. If, on the other hand, a communication was e-mailed to the in-house counsel and copied to non-lawyers, the judge ruled that it *might* be privileged.

In view of the above, Joe's best option in setting company policy for preservation of privilege in electronic communication would be to have an educational meeting with the CEO, explaining the relevant laws and how the company's current policy for storing documents on the file server without a clear line of communication to an attorney may jeopardize the application of the privilege. Instead, Joe may want to recommend a policy that would encourage company employees to include Joe in the "To" line of e-mail messages that are transmitted for the purpose of seeking legal advice.

Another pitfall that may lead to inadvertent waiver of the privilege is dissemination of e-mails to large groups of people within or outside the corporate framework. For example, an e-mail containing in-house counsel's legal advice to a few corporate managers can be easily mass forwarded to the entire company or to employees beyond the particular individuals to whom the information is relevant. Mass dissemination may be deemed as a lack of expectation of confidentiality and waiver of the privilege. On the other hand, if the privileged material is disseminated to a limited group on a "need to know" basis, the waiver argument would not apply.[18]

In Joe's case, for example, a competitor may have threatened to sue the company for trademark infringement. The CEO may send an e-mail to Joe, requesting legal advice on this issue and also copy the head of the company's marketing group on the e-mail. This e-mail would be privileged, first because it is a communication seeking legal advice from Joe as the in-house lawyer, and second because the CEO is sharing a privileged communication with the head of marketing, a company employee who has a need to know about the potential trademark infringement suit by the virtue of his responsibilities in marketing a potentially infringing mark.

As an extension of the above example, let's assume Joe responds to the CEO's e-mail and in his e-mail response he copies the company's CTO. A portion of Joe's e-mail may include his legal opinion about issues in which the CTO has a role (*e.g.,* removal of a potentially infringing mark from the company's website) and another portion of Joe's e-mail may include his legal opinion on issues in which the CTO has no role (*e.g.,* seeking injunctive relief in a friendly forum). Arguably, the privilege may be waived as to the second portion of the e-mail due to the loss of confidentiality, since the CTO does not have a need to know about legal strategy that is outside of his technical role with the company.

As a further extension of the above example, let's assume that the CEO forwards Joe's e-mail containing his legal opinion to the entire technology group. Or worse, the CEO forwards Joe's e-mail to a member of the company's board of directors (where the member is simultaneously employed by another company) over an external e-mail route which has no reasonable expectation of confidentiality. Under the above scenarios, the entire content of Joe's e-mail may no longer be privileged due to a waiver of confidentiality. In the former case, the e-mail has been indiscriminately shared with employees who are not on a need to know basis. In the latter case, it has been disseminated over communication lines that may be controlled by the board member's employer.

An adversary may even argue that once the privilege is waived in an e-mail or a portion of an e-mail, it is waived as to the whole subject matter to which that e-mail refers. Accordingly, to avoid the loss of privilege in the above examples, Joe and the CEO need to act prudently and conservatively by crafting separate e-mails for separate audiences. Most importantly, Joe needs to determine which portion of the legal advice is relevant to which audience and direct the relevant portion of the opinion only to those individuals who have a need to know about the subject matter at issue.

For the purpose of clarity, the subject line and/or the top area of an e-mail should always include one or more of the following phrases, as applicable: "Privileged & Confidential," "Attorney-Client Communication" or "Attorney Work-product." It would be further prudent to include within the body of the e-mail phrases that indicate the communication is for "seeking legal advice related to" or is "in response to a request for legal advice regarding" a certain topic. This approach would further confirm that the communication is privileged.

It is noteworthy that the use of the "privilege" or "confidential" labels does not create a privilege that might not otherwise exist. Such markings will be considered only as factors when making a determination as to whether a communication is subject to the privilege.[19] Misuse or overuse of such labels can be unfavorably reviewed by a judge since, as provided in further detail below, the true test for determining the application of privilege is whether or not the communication was for the purpose of seeking or providing legal advice.

LEGAL ADVICE VS. BUSINESS ADVICE

Referring back to Joe's title as both Chief IP Counsel and VP of Business Affairs, it is not uncommon for in-house counsel to engage in, or oversee, both business and legal activities. In the context of the attorney-client privilege, only those e-mail communications that are transmitted in the legal role are protected.[20] For this particular reason, anointing in-house counsel with business-related titles may not be a good idea, if it is expected that most of his responsibilities would be legal in nature. Business titles for in-house lawyers can open the door for a line of attack that is generally not available when communication is with outside counsel.

For example, considering an in-house lawyer's e-mail communication, an opponent may argue over the role of the in-house counsel based on his title as providing business advice, not legal advice, rebutting the presumption of privilege. In *Craig v. Rite Aid Corp.*,[21] the court found that in order to protect certain communications, Rite Aid needed to make a clear showing that the subject communication was for the purpose of obtaining legal advice, otherwise certain documents, including e-mails on which in-house counsel was copied, would not be deemed privileged.

As another example, in *In Re Google, Inc.*,[22] the United States Court of Appeals for the Federal Circuit found that an e-mail sent by Google engineers to the company's vice president, with a copy to the in-house counsel, was not privileged. In this case, the in-house counsel had met with the engineers to determine how to redesign a product to avoid infringement. After the meeting, the engineers sent the subject e-mail saying that the available design-around alternatives were inferior. The court found that the e-mail was not privileged, because (1) it was a response to a request from the *management*, not the *in-house counsel*, and (2) the purpose of the e-mail was to implement a negotiation strategy, not a legal strategy.

In contrast to *Rite Aid* and *Google*, in cases where it has been determined that the communication was primarily or predominantly of legal character, the privilege was *not* deemed lost or waived just because the communication, in addition to the legal advice, included or referred to some non-legal matters.[23] Considering the challenges facing in-house counsel when dealing with privileged communication, in addition to the suggestions provided above as applicable to Joe's scenario, the following best practices should be followed, where relevant and applicable.

PRACTICE TIPS

1) Address communications seeking legal advice directly to in-house counsel. In case of e-mail communication, include in-house counsel's e-mail address in the "To" line and name him or her on the top portion of the e-mail.

2) Do not combine business-related matters in communications involving legal advice. Consider sending separate e-mails, those related to business advice and others related to legal advice.

3) Include in a communication only those non-attorneys who have a need to know about the legal advice being sought or being given. In case of e-mail communication, non-attorney recipients should preferably be included in the "cc" line (not the "To" line).

4) Carefully consider people who should be included on communications involving legal advice based on their roles in the company. Send separate e-mails according to the recipients' need to know about a particular legal topic. Copy a respective non-attorney recipient according to the recipient's corporate responsibility. Group e-mails, while convenient, can easily jeopardize the privilege, especially if the group includes a third party non-employee.

5) In addition to including confidentiality and privilege notices in the communication's header portion, use a lead phrase in the body of the communication to reinforce the notion that the communication is for the purpose of seeking or providing legal advice. In case of e-mail communication, include the label "Privileged and Confidential" in the subject line to provide notice of the privilege in a conspicuous manner. Do not overuse or misuse such labels if they are inapplicable.

6) Avoid an argument for loss of privilege due to the inactive bar status of the in-house counsel by confirming that the in-house counsel is a member of a state bar and is in current compliance with the local bar's admission requirements (*e.g.,* limited admission, continuing legal education, etc.).

7) Advise non-attorney professionals (*e.g.,* paralegals, patent agents, etc.) to communicate through the in-house counsel. Establish a policy to maintain written records or otherwise tangible evidence indicating that non-attorney professionals

are working under the direct supervision of in-house counsel, not independently.

8) If the company operates in foreign jurisdictions, try to route privileged communication through a U.S.-based in-house attorney to enjoy the benefit of U.S. laws, or through outside counsel, where possible. Many foreign jurisdictions do not consider communication with in-house counsel or a non-attorney professional to be privileged.

9) Beware of complicated or half-baked polices regarding electronic communication. An adversary may be able to make a credible argument against the applicability of privilege, if there is no trail of evidence that the purportedly privileged documents were in fact communicated to an attorney.

10) Be mindful of the above policies not only when communicating by way of e-mail, but also when using other electronic means of communication such as text messages, blogs, twitter, Facebook, etc. Categorically, any social media forums that result in dissemination of a message or document to a group of people or to the world would result in the immediate waiver of the privilege. ◂◂

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Endnotes

1. Cal. Evid. Code, § 917; *Citizens United v. Federal Election Commission*, 130 S. Ct. 876 (2010); *U.S. v. Louisville & Nashville R. Co.*, 236 U.S. 318, 336 (1915); *D.I. Chadbourne, Inc. v. Superior Court*, 60 Cal. 2d 723 (1964); *Quon v. Arch Wireless Operating Co., Inc.*, 529 F.3d 892 (9th Cir. 2008).
2. *Pritchard v. County of Erie*, 473 F.3d 413, 419 (2d Cir. 2007); 2,202 *Ranch LLC v. Superior Court*, 113 Cal. App. 4th 1377, 1390 (2003); *see also* Restatement (Third) The Law Governing Lawyers § 118 (Proposed Final Draft No. 1, 1996).
3. *O'Connor v. Ortega,* 480 U.S. 709, 107 S. Ct. 1492, 94 L. Ed. 2d 714, 723 (1987). *See Holmes v. Petrovich*, 191 Cal. App. 4th 1047 (2011), in which the court in view of relevant California Evidence Code §§ 952, 917, 954, and 912 and the "operational realities of the workplace" determined that Holmes waived the privilege when she used the company's computer to e-mail her attorney, since the company's computer use policy made it clear that the company computer was not a means by which to communicate in confidence.
4. *Upjohn Co. v. United States*, 449 U.S. 383 (1981); U.S. v. Rowe, 96 F. 3d 1294 (9th Cir. 1996). *Also see United States v. Kovel,* 296 F.2d 918 (2d Cir. 1961), where the court noted that the privilege protected confidential communications made by agents of an attorney for the purpose of assisting the attorney's representation of the client.
5. *Kovel*, 296 F.2d at 921–22.
6. *Id.*
7. *Buyer's Direct, Inc. v. Belk, Inc.*, 2012 U.S Dist. LEXIS 57543 (C.D. Cal. Apr. 24, 2012). *Also see Sperry v. Florida*, 373 U.S. 379 (1963).
8. *Agfa Corp. v. Creo Prods., Inc.*, Civil Action No. 00-10836-GAO, slip opinion (D. Mass., Oct. 5, 2004).
9. The European Court of Justice (ECJ), the European Union's highest court, has found that, in Europe, the attorney-client privilege does not protect legal advice given by in-house counsel from disclosure or discovery in investigations brought by the European Commission because an in-house lawyer is less able to deal effectively with any conflicts between his professional obligations and the aims of his client. *Akzo Nobel Chems. Ltd. v. European Comm'n,* 2010 E.C.R. 00000 (September 14, 2010).
10. DLA Piper Legal Privilege Handbook 2013, *Your Guide to Legal Privilege Around the World*, available at http://www.dlapiper.com/files/Publication/30de8b8d-3acc-42dc-a35e-d08b924149a1/Presentation/PublicationAttachment/11d-4fae4-f974-4f35-a8d6-d9378229c2fd/DLA_Piper_Legal_Privi-