BROOKS PIERCE
FOUNDED 1897

PRIVILEGE, WORK PRODUCT, AND RELATED ETHICAL ISSUES FOR INSIDE COUNSEL IN LITIGATION AND INVESTIGATION

Gary S. Parsons
Brooks, Pierce, McLendon, Humphrey & Leonard, LLP
Suite 1700, 150 Fayetteville St.
Raleigh, NC 27601
919.573.6241
gparsons@brookspierce.com

I. Attorney-Client Privilege

A. The Rationale

A generation ago, the United States Supreme Court acknowledged that "the attorney-client privilege is the oldest of the privileges for confidential communications known to the common law." *Upjohn Co. v. United States,* 449 U.S. 383, 389 (1981) (citations omitted). The leading commentator on federal evidence summarized the rationale aptly:

> The privilege was, and continues to be, premised on the theory that the public benefit in encouraging clients to fully communicate with their attorneys in order to enable the attorney to act most effectively, justly and expeditiously in providing sound legal advice, outweighs the harm caused the loss of relevant information.

Jack B. Weinstein & Margaret A. Berger, *Weinstein's Evidence Manual* § 18.03[1] (Joseph M. McLaughlin ed., Matthew Bender 2014).

B. The General Rule – Federal

Although not adopted as part of the Federal Rules of Evidence, Supreme Court Standard 503 is frequently cited by the federal courts and "is a powerful and complete summary of black-letter principles of lawyer-client privilege." *Id.* The general rule, summarized in Standard 503(b), is:

> A client has a privilege to refuse to disclose and to prevent any other person from disclosing confidential communications made for the purpose of facilitating the rendition of professional legal services to the client, (1) between himself or his representative and his lawyer or his lawyer's representative, or (2) between his lawyer and the lawyer's representative, or (3) by him or his lawyer to a lawyer representing another in a matter of common interest, or (4) between representatives of the client or between the client and a

> representative of the client, or (5) between lawyers representing the client.

Id.

C. Elements – State Law

North Carolina's courts have established five elements that must be met for a confidential communication to be privileged:

> A privilege exists if (1) the relation of attorney and client existed at the time the communication was made, (2) the communication was made in confidence, (3) the communication relates to a matter about which the attorney is being professionally consulted, (4) the communication was made in the course of giving or seeking legal advice for a proper purpose although litigation need not be contemplated and (5) the client has not waived the privilege.

State v. Murvin, 304 N.C. 523, 531, 284 S.E.2d 289, 294 (1981) (emphasis added).

D. Governing Law – Federal Courts

Federal common law generally controls privilege claims in federal courts where the claim or defense is governed by federal law. FED. R. EVID. 501. In civil cases where state law provides the rule of decision on a claim or defense, however, that state's law will be applied to privilege claims. *Id.*

The sources of federal law on privilege claims are Supreme Court Standard 503 on privilege generally and FED. R. EVID. 502 concerning waiver of privilege. FED. R. CIV. P. 26(b)(3), 26(b)(4), and 26(b)(5) control discovery immunity for trial preparation materials.

Counsels' ethical obligations will be governed by the Rules of Professional Conduct applied by the forum district. North Carolina's three federal districts all apply the North Carolina Rules of Professional Conduct. Local Civil Rule 83.7d(b), E.D.N.C.; LR 83.10e(b), M.D.N.C.; LCvR 83.1(a), W.D.N.C.

E. Who Owns the Privilege

The privilege belongs to the client, regardless of whether the client is a party to the case in which the communication is sought. 3 Jack B. Weinstein & Margaret A. Berger, *Weinstein's Federal Evidence* § 503.20 (Joseph M. McLaughlin, ed., Matthew Bender 2d ed. 1997).[1] If the client is not present when privileged information is requested, the client's disapproval of any disclosure is

[1] Hereinafter cited as "Weinstein's Fed. Evid."

presumed. Kenneth S. Broun, *Brandis & Broun on North Carolina Evidence* § 129 & n.128 (7th ed. LexisNexis Matthew Bender) (citing N.C. Rules of Prof'l Conduct R. 1.6(a)).

The attorney must invoke the privilege on the client's behalf and refuse to reveal confidential communications. *Id.* The lawyer may reveal confidential client information only when the client gives informed consent, to comply with a court order, or when another exception under the Rules of Professional Conduct applies. N.C. Rules of Prof'l Conduct RR. 1.6(a), 1.6(b).

F. What Are "Privileged Communications"

Privilege applies to "any expression" by which the client seeks to convey information to the lawyer or his/her representative. 3 Weinstein's Fed. Evid. § 503.14[1] & n.2. The privilege applies to oral and written communications, as well as nonverbal conduct that is intended as communication. *Id.* nn.3–4.

The privilege applies to communications by the client to the lawyer and by the lawyer to the client. *Id.* § 503.14[2]. It also applies to communications with non-lawyers acting as agents of a lawyer. *In re Kellogg Brown & Root, Inc.*, 756 F.3d 754, 758 (D.C. Cir. 2014). Thus, "communications made by and to non-attorneys serving as agents of attorneys in internal investigations are routinely protected by the attorney-client privilege." *Id.*

Communications that are not made to facilitate the lawyer's provision of legal services to the client are not privileged. 3 Weinstein's Fed. Evid. § 503.14[1]. Threats against the lawyer or others thus are not privileged. *Id.*

G. "Non-Privileged Communications"

1. *Pre-Existing Facts Contained in Communications*

The privilege does not "protect *facts* which the client communicates to the attorney, nor does it protect facts which an attorney obtains from independent sources and then conveys to the client." *Banc of Am. Secs. v. Evergreen Int'l Aviation, Inc.*, 2006 NCBC 2, ¶ 14, 2006 NCBC LEXIS 3, at *10 (N.C. Super. Ct. Jan. 25, 2006) (citation and quotation marks omitted); *see also* 3 Weinstein's Fed. Evid. § 503.14[4][a].

For example, the client may not be compelled to answer, "What did you tell your lawyer about the amount you claimed as a business expense?" 3 Weinstein's Fed. Evid. § 503.14[4][a]. The client must answer, however, if asked, "Did you spend the amount you claimed as a business expense for business meals or travel?" *Id.*

2. *Facts Obtained From Sources Other Than the Client*

Communications from third parties, other than client representatives, to the lawyer are not privileged. *Id.* § 503.14[2]. This exception applies even if the communication is later relayed by the lawyer to the client. *Id.*

Facts obtained by the lawyer from public documents or sources are not privileged. *Id.* § 503.14[4][b]. The work product immunity may shield this information. *Id.* Privilege will not. *Id.*

3. *Basic Facts Concerning the Attorney-Client Relationship*

i. The client's identity

Generally, the client's identity is not shielded by attorney-client privilege. *Id.* § 503.14[5][a]. The courts have found exceptions where disclosure would (1) implicate the client in the matter for which he sought advice, (2) provide the "last link" in an existing chain of incriminating evidence, or (3) reveal the client's communications to the attorney. *Id.*

ii. Identity of client paying more than $10,000 cash for legal fees

The Internal Revenue Code, 26 U.S.C. § 6050I, requires disclosure of cash payments over $10,000. Most decisions have held that requiring a lawyer to comply with this reporting standard does not violate attorney-client privilege or the ethical rules prohibiting revealing client information. 3 Weinstein's Fed. Evid. § 503.14[5][d] & n.36.

Those courts reason that a client seeking to avoid this disclosure can simply pay in a form other than cash. *Id.* Further, the decisions suggest that the lawyer should caution clients who offer to pay cash in amounts exceeding $10,000 that the lawyer will have to disclose the client's identity and the fee arrangement in the required IRS form. *Id.*

iii. Consultation with lawyer

"Confidential communications" generally do not include (1) the fact that the client consulted with a lawyer, (2) the fact that the client retained a lawyer, or (3) the lawyer's identity. *Id.* § 503.14[5][e], *see also* 1 Charles T. McCormick, *McCormick on Evidence* § 90 (Kenneth S. Broun et al. eds., 7th ed. 2013).[2] The court errs, however, if it instructs the jury that it can infer the client's guilt because he/she consulted a lawyer soon after a crime occurred. 3 Weinstein's Fed. Evid. § 503.14[5][e].

Because only the substance of the communications is privileged, it is proper to inquire into the date the client conferred with the attorney. *See, e.g.*, *Williams v. McCoy*, 145 N.C. App. 111, 550 S.E.2d 796 (2001). The date the lawyer was retained is also outside the privilege. *Id.* at 114, 550 S.E.2d at 799.

iv. Nature of services and amount of fees

---

[2] Hereinafter cited as "McCormick on Evidence."

Lawyers may be required to answer questions about whether he or she provided business or tax advice. 3 Weinstein's Fed. Evid. § 503.14[5][f]. The attorney may also be compelled to disclose whether he or she was being consulted as a lawyer or a friend. *Id.*

Similarly, the lawyer's billing records, expense reports, and travel records are generally held not to be privileged, because they do not disclose the substance of the advice sought or given. *In re*

Grand Jury Proceedings, 33 F.3d 342, 353–54 (4th Cir. 1994). Bills, ledgers, statements and time records that reveal the client's motive in seeking representation, litigation strategy, or specific nature of the services rendered, such as specific legal issues researched, however, are privileged communications and are protected from disclosure. *Chaudhry v. Gallerizzo*, 174 F.3d 394, 402 (4th Cir. 1999).

v. Identity of person paying legal fees

The courts are generally split on whether the privilege extends to the identity of the person paying the client's legal fees. 3 Weinstein's Fed. Evid. § 503.14[5][g]. The majority rule compels disclosure. *Id.* Those favoring disclosure cite to the ethical dangers and inherent conflict of interest resulting from dual employment. *Id.*

4. *Documents Presented to Attorney*

Pre-existing documents gathered by the client and turned over to the lawyer do not become privileged merely by coming into the attorney's possession. *Id.* § 503.14[6]. Indeed, the Supreme Court has observed:

> This Court and the lower courts have … uniformly held that pre-existing documents which could have been obtained by court process from the client when he was in possession may also be obtained from the attorney by similar process following transfer by client in order to obtain more informed legal advice.

Fisher v. United States, 425 U.S. 391, 403–04 (1976).

H. Communications by Corporate Employees

The commentators agree that:

> The scope of the privilege in the corporate context . . . has presented an exceptionally troublesome question that is even yet not fully resolved. The difficulty is basically one of extrapolating the essential operating conditions of the privilege from the paradigm case of the traditional individual client who both supplies information to, and receives counsel from, the attorney.

1 McCormick on Evidence § 87.1, at 534.

1. *Upjohn Rejected the "Control Group" Test*

Until 1981, the control group test reflected the trend in dealing with the privilege's application to corporations. 3 Weinstein's Fed. Evid. § 503.22[b]. This standard is

> one of the narrowest approaches to the reach of the privilege. This test was first articulated in *City of Philadelphia v. Westinghouse Electric Corp* [210 F. Supp 483 (E.D. Pa. 1962)], a case in which the court declined to find that corporations were excluded from the privilege. The court suggested a test that would focus on whether the employee making the communication, of whatever rank, is in a position to control, or even to take a substantial part in, a decision about any action which the corporation may take on the advice of the attorney, or whether the employee is an authorized member of a body or group which has that authority. If so, then, in effect, the individual is (or personifies) the corporation when making disclosures to the lawyer and the privilege would apply. Under this view, in all other cases, the employee merely would be giving information to the attorney to enable the attorney to advise those in the corporation having the authority to act or refrain from acting on the advice.

Id.

In rejecting the "control group" doctrine, the Supreme Court reasoned:

> In a corporation, it may be necessary to glean information relevant to a legal problem from middle management or non-management personnel as well as from top executives. The attorney dealing with a complex legal problem 'is thus faced with a "Hobson's choice." If he interviews employees not having "the very highest authority," their communications to him will not be privileged. If, on the other hand, he interviews *only* those employees with "the very highest authority," he may find it extremely difficult, if not impossible, to determine what happened.
>
> The control group test adopted by the court below thus frustrates the very purpose of the privilege by discouraging the communication of relevant information by employees of the client to attorneys seeking to render legal advice to the client corporation. The attorney's advice will also frequently be more significant to noncontrol group members than to those who officially sanction the advice, and the control group test makes it more difficult to

> convey full and frank legal advice to the employees who will put into effect the client corporation's policy.

Upjohn v. United States, 449 U.S. 383, 391–92 (1981) (internal citations and quotation marks omitted).

In *Upjohn*, the corporation's lawyers were investigating whether its foreign subsidiaries had made payments to foreign governments to secure business from those governments. In concluding that the company employees' communications with its lawyers were privileged, the Court focused on three general factors—that the communications: (1) were made for the express purpose of securing legal advice for the corporation, (2) related to the employees' specific corporate duties, and (3) were treated as confidential within the corporation. *Id.* at 394–95.

Although abandoning the very narrow control group test, the Court, unfortunately, declined to articulate a clear standard to guide lawyers and corporations concerning the privilege's scope. *Id.* at 396–97. Instead, the Court observed that "while such a 'case-by-case' basis may to some slight extent undermine desirable certainty in the boundaries of the attorney-client privilege, it obeys the spirit of the Rules." *Id.*[3]

2. *In-House Counsel*

i. The general rule

One of the clearest statements on this subject comes from the Ninth Circuit, which held:

> In determining the existence of a privilege, "no attempt [is] made to distinguish between 'inside' and 'outside' counsel . . . ." 2 Jack B. Weinstein et al., *Weinstein's Evidence* Par. 503(a)(2)[01], at 503–30 (1996). *See also* 1 Scott N. Stone & Robert K. Taylor, *Testimonial Privileges* § 1.10, at 1–35 (2d ed. 1993) ("Judge Wyzanski in *United States* v. *United Shoe Machinery Corp.* [89 F. Supp. 357, 360 (D. Mass. 1950)] established the principle that the attorney-client privilege will apply to confidential communications concerning legal matters made between a corporation and its house counsel . . . . *This principle has been followed with virtual unanimity by American courts.*")

United States v. Rowe, 96 F.3d 1294, 1296 (9th Cir. 1996) (underline emphasis added; italics in original); *accord In re Kellogg Brown & Root, Inc.,* 756 F.3d 754, 758 (D.C. Cir. 2014) ("[T]he

---

[3] North Carolina, although declining thus far to decide which test it will apply—control group or "subject matter"—does apply the privilege to corporate attorney-client communications. *See Brown v. Am Partners Fed. Credit Union*, 183 N.C. App. 529, 536–37, 645 S.E.2d 117, 122–23 (2007).

general rule … is that a lawyer's status as in-house counsel does not dilute the privilege." (citations and quotation marks omitted)).

ii. The lawyer's role

An in-house lawyer must be providing primarily legal, as opposed to business, advice for the privilege to apply. 6 James Wm. Moore et al., Moore's Federal Practice § 26.49[4][a] (Matthew Bender 3d ed.[4] Communications to and from inside lawyers regarding business matters and management decisions, rather than seeking or supplying advice on legal issues, are not privileged. *Id.*

The lawyer's position in the company is a key factor in determining privilege issues. *Id.* Some courts presume that a lawyer working in the corporation's legal department is providing legal advice. *Id.* When the lawyer works primarily in business or management, the opposite is presumed. *Id.* In either event, the presumption is rebuttable, and the party asserting the privilege has the burden of proof to establish its applicability. *Id.*

3. *Compliance Officers*

i. Generally

The privilege's applicability to chief compliance officers is a subject of much debate. The argument is often made that placing compliance in its own department, separate from the legal department, will dilute the attorney-client privilege and lead to greater transparency during corporate investigations and responses to government inquiries. *See* Michele DeStefano, *Creating a Culture of Compliance: Why Departmentalization May Not Be the Answer*, 10 Hastings Bus. L. J. 71, 138–39 (2014). Because the privilege applies only to communications that were made in seeking legal advice, the contention is that:

> In the case of compliance officers, regardless of their training or the department in which they sit, the common view is that compliance officers are not really acting as lawyers or providing legal advice and, therefore, cannot garner attorney-client privilege protection.

Id. at 139 (emphasis added).[5]

Despite this general view, which the SEC endorses, the line is not nearly so bright or clear. *Id.* at 139–42. Communications that include both business and legal advice can be privileged, so long

[4] Hereinafter cited as "Moore's Fed. Practice."
[5] This dilemma is amplified by some compliance officers' insistence that, even if they are lawyers "by trade," they do not hold themselves out as representing the company and try not provide legal advice. DeStefano, *supra* p. 8, at 140–41.

as one of their primary purposes was obtaining legal advice. *Id.* at 141. Determining the "primary purpose" can be extremely difficult. *Id.* at 142. Moreover, compliance officers frequently retain counsel, either inside or outside, to attempt to cloak their work with the privilege. *Id.* at 143–44.

ii. Internal compliance investigations

A recent, significant decision clarified the "primary purpose" test in deciding the privilege's application to internal compliance investigations. *See In re Kellogg Brown & Root, Inc.*, 756 F.3d 754 (D.C. Cir. 2014), *rev'd United States ex rel Barko v. Halliburton Co.,* 37 F.Supp. 3d 1 (D.D.C. 2014). In that case, the D.C. Circuit reversed a District Court's determination that privilege did not apply to "a routine corporate, and apparently ongoing, compliance investigation required by regulatory law and corporate policy …. that would have been conducted regardless of whether legal advice were sought." *United States ex rel Barko,* 37 F.Supp. at 5.

On appeal, the D.C. Circuit held:

> [T]rying to find *the* one primary purpose for a communication motivated by two sometimes overlapping purposes (one legal and one business, for example) can be an inherently impossible task. It is often not useful or even feasible to try to determine whether the purpose was A <u>or</u> B when the purpose was A <u>and</u> B.
>
> ….
>
> In the context of an organization's internal investigation, <u>if one of the significant purposes of the internal investigation was to obtain or provide legal advice</u>, the privilege will apply. That is true <u>regardless of whether an internal investigation was conducted pursuant to a company compliance program required by statute or regulation, or was otherwise conducted pursuant to company policy</u>. *Cf.* Andy Liu et al., *How To Protect Internal Investigation Materials from Disclosure*, 56 GOVERNMENT CONTRACTOR ¶ 108 (Apr. 9, 2014) ("Helping a corporation comply with a statute or regulation — although required by law — does not transform quintessentially legal advice into business advice.").

In re Kellogg Brown & Root, Inc., 756 F.3d at 759–60 (underline emphasis added; italics in original) (rejecting test adopted by the District Court, under which privilege applied only if "the communication would not have been made 'but for' the fact that legal advice was sought.").

iii. Compliance in the real world—practical effects of housing compliance in a separate department

In our experience, separating compliance from the legal department often results in a cleaner demarcation between the two functions. Having the two functions housed in the legal department can result in more gray areas on privilege issues. Although helpful cases can be found to support applicability of the privilege to the compliance internal investigations, there is still scant law in this field—certainly not enough to support broad pronouncements on a majority rule. *See* DeStefano, *supra,* at 138-39.

There is plenty of thought in the compliance world that business compliance is a business function that is not intended to be privileged, nor should it be. *Id.* As a practical matter, therefore, we often recommend that, when routine compliance work is being performed, the company should assume that the information gathered and findings will not be privileged.

iv. Compliance in the real world—strategies to protect privilege where the compliance officer does not report to the general counsel

As risk to the company increases, however, situations will arise that are not routine. In these instances, in-house counsel or outside lawyers can and should be retained to direct the investigation. The usual *Upjohn* measures should be undertaken, including having most of the interviews conducted by lawyers from the company's legal department or its outside lawyers, treating the information gathered as confidential within the company, documenting that the company has undertaken the investigation to obtain legal advice for the corporation, and limiting the interviews and recipients to matters related to the employees' specific corporate duties. *Supra*, p. 7.

4. *Former Employees*

Most courts have refused to prohibit *ex parte* contact by lawyers with unrepresented former employees of a corporation who have no existing relationship with the corporation. Moore's Fed. Practice § 26.49[4][a] & n.33. If, however, the former employees "participated substantially in the legal representation of the organization in the matter," the lawyer may not ethically speak with them regarding the subject of the dispute or transaction. N.C. Rules of Prof'l Conduct R. 4.2, cmt. [2]; *see also* 97 Formal Ethics Opinion 2 (N.C. State Bar, Jan. 16, 1998).

Moreover, even where dealing with former employees who were not involved in the representation, the lawyer must take care not to seek or obtain privileged communications with the employer's lawyer. N.C. Rules of Prof'l Conduct R. 4.2, cmt. [9]; R. 4.4, cmt. [2]. If the lawyer is given documents by the former employee that may be privileged, he or she should immediately return them to the former employee. *Id.*

5. *Current Employees*

Another thorny area involves current employees who approach in-house or outside corporate counsel seeking personal legal advice, rather than on behalf of the corporation. Initially, the

lawyer must be alert to the risk that the subject on which the employee is asking for help may present a potential conflict of interest. Where such a current or potential conflict exists, the lawyer should

> advise any constituent, whose interest the lawyer finds adverse to that of the organization of the conflict or potential conflict of interest, that the lawyer cannot represent such constituent, and that such person may wish to obtain independent representation. Care must be taken to assure that the individual understands that, when there is such adversity of interest, the lawyer for the organization cannot provide legal representation for that constituent individual, and that discussions between the lawyer for the organization and the individual may not be privileged.

N.C. Rules of Prof'l Conduct R. 1.13 cmt. [10].

The privilege can extend to advice given by the corporation's lawyers to employees in their individual capacities. 6 Moore's Fed. Practice § 26.49[4][a]. Proponents of the privilege must establish that:

> (1) they approached counsel for the purpose of seeking legal advice; (2) when they approached counsel, they made it clear they were seeking legal advice in their individual capacities rather than their representative capacities; (3) counsel agreed to communicate with them in their individual capacities, knowing that a possible conflict could arise; (4) their conversations with counsel were confidential; and (5) the substance of their conversations with counsel did not concern matters within the company or the general affairs of the company.

Id.

Given the lawyer's duty to decline to provide advice where the representation would actually or potentially be adverse to the organization, it would be a rare case where an attorney could ethically agree to communicate with the employee in his or her individual capacity, "knowing that a possible conflict could arise." *Id.* When the employee's interests "are or have a reasonable possibility of being in conflict with the interests of" the corporation, the employer's lawyer cannot provide legal advice to the employee, other than to seek other counsel. N.C. Rules of Prof'l Conduct R. 4.3(a).

6. *Waiver of Privilege*

    i. Who can waive

If the corporation is the client, it can waive the privilege. 6 Moore's Fed. Practice § 26.49[5][f]. The waiver is effective even if the employee who communicated with the lawyer opposes it. *Id.* If the corporation's employee is the client, however, the privilege belongs to the employee, and the corporation cannot waive it. *Id.*

ii. The recipient's "need to know"

As implied in *Upjohn*, the corporation must treat the communications as confidential to protect their privileged status. *See* 449 U.S. at 395.The privilege is waived if the communications are disclosed to persons other than those who "need to know the content of the communication to perform their job effectively or to make informed decisions concerning, or affected by, the subject matter of the communication." 6 Moore's Fed. Practice § 26.49[5][f].[6]

iii. The lawyer as investigator

Corporations from time to time ask their lawyers to act both as an internal investigator and a legal advisor. In the course of the investigation, the lawyer will take statements from the company's employees that would, without more, be privileged under *Upjohn*.

Waiver arises, as to inside or outside counsel's investigation, when the company pleads the adequacy of its investigation as a defense to the claims asserted in the ensuing litigation. 6 Moore's Fed. Practice § 26.49[5][f]. After placing the investigation's sufficiency in issue, the company will not be allowed to use the privilege "as both a sword and a shield." *Id.* Thus, the company must be aware going into the investigation that it ultimately may have to choose between maintaining privilege and waiving it if adequacy of the investigation becomes a critical issue in the ensuing litigation.

To preserve the privilege in investigations, the company should:

- Use a lawyer within the legal department, or outside counsel, to direct the investigation;

- Document from the outset that the information is being sought to obtain legal advice for the company;

[6] *See, e.g.*, *Scholtisek v. Eldre Corp.*, 441 F. Supp.2d 459, 464 (W.D.N.Y. 2006) ("The 'need to know' must be analyzed from two perspectives: (1) the role in the corporation of the employee or agent who receives the communication; and (2) the nature of the communication, that is, whether it necessarily incorporates legal advice. To the extent that the recipient of the information is a policymaker generally or is responsible for the specific subject matter at issue in a way that depends upon legal advice, then the communication is more likely privileged." (citations omitted)).

- Continue with gathering and producing routine accident reports—suspending them suggests bad faith or a "coverup";
- Make clear that this investigation is in addition to the "routine" activities that take place after every incident;[7]
- Limit communications and interviews to the employee's specific duties within the company;
- Communicate clearly that all information concerning the investigation is to be treated as confidential within the company; and
- Limit disclosure to persons who need to know the results (1) to do their jobs effectively and (2) to make decisions about the findings.

iv. Selective waiver

From time to time, lawyers attempt to disclose privileged communications to certain third parties while maintaining the privilege as to other persons or entities. Most courts, including the Fourth Circuit, have rejected the "selective waiver" theory. *See id.* § 26.49[5][g] & n.59; *In re Martin Marietta Corp.*, 856 F.2d 619, 623 (4th Cir. 1988). They generally hold that "a client should not be allowed to pick and choose among opponents, waiving the privilege for some and resurrecting the claim of confidentiality to obstruct others." 6 Moore's Fed. Practice § 26.49[5][g].

v. Inadvertent waiver

a. Ethical issues

When a lawyer receives a writing that was mistakenly sent or produced by the opposing lawyer or party, he or she should promptly alert the opponent so that the opponent can take measures to protect the client. N.C. Rules of Prof'l Conduct R. 4.4(b). Although the lawyer may choose, in his or her professional judgment, to return the document unread, the rules no longer expressly require that he or she do so. *Id.*, cmts. [2]–[3].[8]

Metadata presents a separate issue that the N.C. State Bar dealt with in a *sua sponte* formal ethics opinion in 2010. Specifically, the Bar declared that "a lawyer who <u>sends</u> an electronic

---

[7] *See Nat'l Union Fire Ins. Co. v. Murray Sheet Metal Co., Inc.*, 967 F.2d 980, 984 (4th Cir. 1992) ("materials prepared in the ordinary course of business or pursuant to regulatory requirements or for other non-litigation purposes" are not protected work product); *Cook v. Wake County Hosp. Sys.*, 125 N.C. App. 618, 623–24, 482 S.E.2d 546, 550–51 (1997) (documents prepared in regular course of business do not enjoy work product immunity from discovery).

[8] *See* RPC 252(1985 Rules of Professional Conduct), partially superseded by N.C. Rules of Prof'l Conduct R. 4.4(b), cmts. [2]–[3].

communication must take reasonable precautions to prevent the disclosure of confidential information, including information in metadata, to unintended recipients." 2009 Formal Ethics Opinion 1, op. 1 (N.C. State Bar Jan. 15, 2010) (emphasis added).

On the subject of lawyers receiving electronic communications from another party or the party's lawyer, the opinion stated that

> a lawyer may not search for confidential information embedded in metadata of an electronic communication from another party or a lawyer for another party. By actively searching for such information, a lawyer interferes with the client-lawyer relationship of another lawyer and undermines the confidentiality that is the bedrock of the relationship. Rule 1.6. Additionally, if a lawyer unintentionally views confidential information within metadata, the lawyer must notify the sender and may not subsequently use the information revealed without the consent of the other lawyer or party.

Id., op. 2 (emphasis added).

This opinion also appears to at least partially resurrect RPC 252, which held that a lawyer who received materials that appeared on their face to be privileged or confidential and that appeared to have been sent inadvertently must return them sender, unread. Specifically, the opinion held:

> Although Rule 4.4(b) does not require a lawyer to return an inadvertently sent paper document or specifically prohibit the use of information contained in such a document, Rule 8.4(d) prohibits conduct that is "prejudicial to the administration of justice." As comment [4] to Rule 8.4 observes, "[t]he phrase 'conduct prejudicial to the administration of justice' in paragraph (d) should be read broadly to proscribe a wide variety of conduct, including conduct that occurs outside the scope of judicial proceedings." Allowing the use of confidential information that is found embedded within metadata would inhibit the efficient functioning of the modern justice system and also undermine the protections for client confidences in the Rules of Professional Conduct and the attorney-client privilege. Therefore, the use of found metadata is "prejudicial to the administration of justice" in violation of Rule 8.4(d) and is prohibited.

2009 Formal Ethics Opinion 1, op. 2 (emphasis added).

b. Fed. R. Evid. 502

This rule was adopted to deal with

> the widespread complaint that litigation costs necessary to protect against waiver of attorney-client privilege or work product have become prohibitive due to the concern that any disclosure (however innocent or minimal) will operate as a subject matter waiver of all protected communications or information. This concern is especially troubling in cases involving electronic discovery.

Fed. R. Evid. 502, Advisory Comm. Note (2008).

Rule 502 was not intended to alter federal or state law concerning the initial question of whether the privilege applies. *Id.* It does, however, govern inadvertent waiver questions in federal court, even if, as in diversity cases, state law applies on the privilege issue. Fed. R. Evid. 502(f); *see also* Fed. R. Evid. 501. Rule 502 also governs waivers in state court arising from inadvertent disclosures in federal proceedings. Fed. R. Evid. 502(b).

A disclosure will not waive the privilege if:

1. The disclosure was <u>inadvertent</u>;

2. The holder of the privilege <u>took reasonable steps to prevent</u> disclosure; and

3. The holder promptly took <u>reasonable steps to rectify</u> the error…

Id. (emphasis added). The party asserting that the disclosure was inadvertent bears the burden of proof on each of these elements. 6 Moore's Fed. Practice § 26.49[5][h][iii].

In reviewing reasonableness of steps to <u>prevent</u> disclosure, the courts consider:

> any precautions taken to prevent such disclosures, the time taken to rectify the error, the scope of discovery, the extent of disclosure, and the overriding issue of fairness. Other considerations bearing on the reasonableness of a producing party's efforts include the number of documents to be reviewed and the time constraints for production.

Id.

Reasonable steps to rectify disclosure include complying with Fed. R. Civ. P. 26(b)(5)(B), which provides:

> If information produced in discovery is subject to a claim of privilege or of protection as trial-preparation material, the party making the claim may notify any party that received the information of the claim and the basis for it. After being notified, a party must promptly return, sequester, or destroy the specified information and any copies it has; must not use or disclose the information until the claim is resolved; must take reasonable steps to retrieve the information if the party disclosed it before being notified; and may promptly present the information to the court under seal for a determination of the claim. The producing party must preserve the information until the claim is resolved.

(emphasis added). If the party to whom the inadvertent disclosure has been made does not return the documents or respond to the notification, the disclosing party should seek relief from the court to avoid any contention that it has been lax in its efforts to rectify the disclosure. 6 Moore's Fed. Practice § 26.49[5][h][iii].

I. Litigating Privilege Issues

Contrary to the assumption of many, the burden of persuasion on the existence or nonexistence of the privilege falls on the party asserting it, not on the party seeking the communications. *See Santrade, Ltd. v. Gen. Elec. Co.*, 150 F.R.D. 539, 542 (E.D.N.C. 1993); *In re Miller*, 357 N.C. 316, 336, 584 S.E.2d 772, 787 (2003). The party claiming privilege must persuade the court that each element of the privilege exists for each communication, and that the privilege has not been waived. *Santrade*, 150 F.R.D. at 542; *In re Miller*, 357 N.C. at 335–36, 584 S.E.2d at 786–87.

Thus, "if any one of these five elements is not present in any portion of an attorney-client communication, that portion of the communication is not privileged." *In re Miller*, 357 N.C. at 335, 584 S.E.2d at 786 (emphasis added); *see, e.g.*, *Brown v. Am Partners Fed. Credit Union*, 183 N.C. App. 529, 535–36, 645 S.E.2d 117, 122 (2007) (where record did not clarify who members of a "Supervisory Committee" or individuals "from management" were or the nature of their duties or responsibilities with the proponent company, company had not sufficiently demonstrated that the communication was not "'made in the presence of a third person who is not an agent of either party'").

Moreover, "this burden may not be met by mere conclusory or *ipse dixit* assertions, or by a blanket refusal to testify. Rather, sufficient evidence must be adduced, usually by means of an affidavit or affidavits, to establish the privilege with respect to each disputed item." *In re Miller*, 357 N.C. at 336, 584 S.E.2d at 787 (emphasis added) (citations and quotation marks omitted); *see also Byrnes v. Jetnet Corp*, 111 F.R.D. 68, 71 (M.D.N.C. 1986) (where proponent of the privilege does not establish the necessary factual predicate, "an improperly asserted privilege is the equivalent of no privilege at all").

II. Multi-Jurisdictional Practice—States

A. Licensure

The current trend is that

> a lawyer, for purposes of the privilege, is a person authorized, or reasonably believed by the client to be authorized, to practice law in any state or nation. Although older federal cases deny the privilege when the attorney is not a member of the State Bar in the jurisdiction in which services are rendered, membership in the Bar of the state in which the services are rendered is no longer controlling.
>
> The privilege may be asserted even if the communication would not be privileged in the jurisdiction where the lawyer is licensed.

3 Weinstein's Fed. Evid. § 503.12[1][a] (emphasis added).

The privilege applies if the client reasonably believed that the person he or she was consulting was a lawyer, even though that person, in fact, was not. *Id.* § 53.12[1][b]. As with most such calls, whether the belief was reasonable depends on the circumstances. *See, e.g.*, *United States v. Boffa,* 513 F.Supp. 517, 523 (D.Del. 1981) (where person falsely told defendant he was a lawyer, and defendant believed person was a lawyer and made confidential statements to him, privilege applied).

B. "Inside" or "Outside" Counsel

As with general privilege calls, the lawyer's status as a full-time employee of a client does not affect the privilege analysis. 3 Weinstein's Fed. Evid. § 503.12[1][c]. The determinative issue is whether the lawyer was acting as a legal rather than a business advisor when the communication was made. *Id.*

1. *Illustrative Case—Federal*

In *Gucci America, Inc., v. Guess?, Inc.*, No. 09 Civ, 4373 (SAS), 2011 U.S. Dist. Lexis 15 (S.D.N.Y. Jan. 3, 2011), Gucci's in-house counsel was an "inactive" member of the California bar. He was also admitted to the Central and Southern District of the U.S. District Courts of California. During his employment with Gucci, he was legal counsel, then director of legal services, and eventually was promoted to Vice President, Director of Legal and Real Estate.

In these positions, the lawyer provided legal services to Gucci, including appearing before courts and administrative agencies, filing trademark applications, handling employment disputes, and negotiating leases. Gucci was his sole client at the time, and Gucci did not check behind the counsel to determine his status with the California or any other state's bar.

In holding that communications with the in-house counsel were privileged and overruling a Magistrate Judge's recommendation to the contrary, the District Judge stated:

> Every communication on legal matters (as opposed to business advice) between Moss and his employer were clearly *intended* to be protected attorney-client communications. The purpose of the privilege is to protect the client's communication, and to encourage full and frank disclosure when seeking legal advice, which is why the client holds the privilege and only the client can assert or waive it. Gucci should not be penalized because its attorney, a member of the bar in two jurisdictions, may not have been "authorized to practice law" based on his "inactive" status as a member of the California bar.

Id. at *14.

As to the contention that Gucci should have exercised due diligence to assure that its in-house counsel was properly licensed, the Court held:

> To require businesses to continually check whether their in-house counsel have maintained active membership in bar associations before confiding in them simply does not make sense. While an attorney has an obligation to ensure that he is properly practicing law — and faces the specter of disciplinary action if he engages in unauthorized practice — the sins of the attorney must not be visited on the client so long as the client has acted reasonably in its belief that its counsel is, in fact, an attorney.

Id. at *24.

2. *Illustrative Case—State*

In *State v. Van Landingham*, 283 N.C. 589, 197 S.E.2d 539 (1973), the Court held that communications between a murder suspect and a young lawyer who had passed the bar examination but not yet taken his oath as an attorney were not privileged.[9] There, however, licensure was not the dispositive issue. The Court specifically noted that "the evidence is devoid of any suggestion that the defendant <u>thought</u> [the young man] was a licensed attorney." *Id.* at 601, 197 S.E.2d at 547 (emphasis added).

Also, some of the communications from the declarant to the law graduate were made over the telephone while the law graduate's wife was in the room with the declarant. *Id.* at 594, 197

[9] The lawyer had just started work as a law clerk for a North Carolina Court of Appeals judge. *Van Landingham*, 283 N.C. at 594, 197 S.E.2d at 542.

S.E.2d at 542. The other communications were made in the wife's presence when the as-yet unsworn lawyer entered his home and immediately told the declarant that he was not yet an attorney and could not give her legal advice. *Id*. at 594, 197 S.E.2d at 543. Instead, he told the suspect not to make any statements to him or to anyone else until she could consult with a duly licensed lawyer. *Id.*

No North Carolina cases have directly addressed the issue of whether licensure is required for privilege to apply. The leading commentator on North Carolina evidence, however, states that "when the 'client' reasonably believes that he is dealing with an attorney, the privilege should be accorded." Kenneth S. Broun, *Brandis & Broun on North Carolina Evidence* § 129 n.116 (7th ed. LexisNexis Matthew Bender) (citing Uniform Rule of Evidence 502(a)(3)).

C. Ethical Issues

N.C. Rules of Prof'l Conduct R. 5.5(d) provides:

> A lawyer admitted to practice in another United States jurisdiction or in a foreign jurisdiction, and not disbarred or suspended from practice in any jurisdiction, or the equivalent thereof, does not engage in the unauthorized practice of law in this jurisdiction and may establish an office or other systematic and continuous presence in this jurisdiction for the practice of law if the lawyer's conduct is in accordance with these Rules and:
>
> > (1) the lawyer provides legal services to the lawyer's employer or its organizational affiliates; the services are not services for which pro hac vice admission is required; and, when the services are performed by a foreign lawyer and require advice on the law of this or another U.S. jurisdiction or of the United States, such advice is based upon the advice of a lawyer who is duly licensed and authorized by the jurisdiction to provide such advice; or
> >
> > (2) the lawyer is providing services limited to federal law, international law, the law of a foreign jurisdiction or the law of the jurisdiction in which the lawyer is admitted to practice, or the lawyer is providing services that the lawyer is authorized by federal or other law or rule to provide in this jurisdiction.

(emphasis added).

An in-house or other lawyer thus may ethically provide legal services to his or her employee and its affiliates, so long as those services do not involve appearing in North Carolina's state trial or appellate courts or administrative agencies. *Id.*; *see also* N.C.G.S. § 84-4.1 (governing pro hac vice admission for out-of-state attorneys). Lawyers licensed in other states may also provide legal services involving federal or international law, or the law of another jurisdiction in which he or she is licensed. N.C. Rules of Prof'l Conduct 5.5(d)(2).

An in-house lawyer licensed in a jurisdiction outside the United States must base his or her advice on federal law or the law of any state on the advice of another lawyer duly licensed by the applicable jurisdiction to provide that advice. N.C. Rules of Prof'l Conduct 5.5(d)(1). A foreign lawyer may also provide legal services involving federal or international law, or the law of another jurisdiction in which he or she is licensed. N.C. Rules of Prof'l Conduct 5.5(d)(2).

Appearances in federal courts are governed by the various districts' local rules. *See e.g.* Local Civil Rule 83.1(e), E.D.N.C.; L.R. 83.1(d), M.D.N.C.; LCvR 83.1(B), W.D.N.C.

III. Multi-Jurisdictional Practice—Foreign Nations

A. Privilege Laws Vary in Foreign Jurisdictions

Unlike the United States, foreign jurisdictions often hold that communications between an in-house lawyer and that lawyer's employer are not privileged from discovery in investigations. *See, e.g., Shire Development LLC v. Cadila Healthcare, Ltd*, No. 1:10-cv-00581-KAJ, 2012 U.S. Dist. LEXIS 97648 (D. Del. June 28, 2012) (interpreting the law of India); Case C-550/07 P, *Akzo Nobel Chem. Ltd v. Comm'n, 2010 E.C.R. I-08301* (regarding the law in the European Union).

The European Court of Justice upheld lower decisions concluding that two emails between an in-house lawyer and a manager in the company were not privileged. Case C-550/07 P, *Akzo Nobel Chem. Ltd v. Comm'n*, 2010 E.C.R. I-08301. In doing so, the Court agreed that the in-house lawyer was subject to professional ethical obligations; however, it rejected application of the privilege to in-house counsel because:

> a. Notwithstanding his enrolment with a bar or law society of a member state and the fact that he was subject to professional ethical obligations, it followed from an in-house lawyer's economic dependence and close ties with his employer that he did not enjoy the level of professional independence comparable to that of an external lawyer in-house lawyers were not independent for the purposes of the condition for legal professional privilege; [sic]
>
> ….

> d. An in-house lawyer cannot, whatever guarantees he has in the exercise of his profession, be treated in the same way as an external lawyer, because he occupies the position of an employee which, by its very nature, does not allow him to ignore the commercial strategies pursued by his employer, and thereby aspects [sic] his ability to exercise professional independence.

Shire Development LLC, at *15–16 (citing Case C-550/07 P, *Akzo Nobel Chem. Ltd v. Comm'n*, 2010 E.C.R. I-08301).[10]

Indian law also restricts attorney-client privilege to outside counsel. *Id.* at *17.

B. Choice of Law

Some federal courts apply the "touching base" test to determine whether the privilege issue is governed by the law of the United States or of a foreign nation. *See, e.g., Duplan Corp. v. Deering Milliken, Inc.*, 397 F.Supp. 1146, 1169–70 (D.S.C. 1974); *Gucci America, Inc. v. Guess?, Inc.*, 271 F.R.D. 58, 65 (S.D.N.Y. 2010). Under this test,

> communications relating to legal proceedings in the United States, or that reflect the provision of advice regarding American law, "touch base" with the United States and, therefore, are governed by American law, even though the communication may involve foreign attorneys or a foreign proceeding.
>
> ….
>
> Conversely, communications regarding a foreign legal proceeding or foreign law "touch base" with the foreign country.

Gucci America, Inc., 271 F.R.D. at 65 (citations omitted).

In patent cases, issues arise concerning whether communications with patent agents, rather than patent lawyers, are privileged. Courts have held that communications with a foreign patent agent regarding a U.S. patent are covered by U.S. privilege law, which does not extend privilege to those communications. *In re Rivastigmine Patent Application*, 237 F.R.D. 69, 74 (S.D.N.Y. 2006). If the communication concerns a foreign patent, then, as a matter of comity, the foreign country's law controls the privilege issue. *Id.*

IV. Joint Defense or Common Interest Privilege

---

[10] Of the 27 European Union nations, only the United Kingdom, Ireland, the Netherlands, Greece, Portugal, Belgium, and Poland extend attorney-client privilege to in-house counsel. *See Shire Development LLC*, at *16; *Belgacom*, Case No. 2011/MR/3, Brussels Court of Appeals (March 5, 2013). The remainder, including Germany and France, do not. *Id.*

The joint defense or common interest privilege has been applied in the Fourth Circuit and North Carolina's state courts. *Sheet Metal Workers Int'l Ass'n v. Sweeney*, 29 F.3d 120, 124 (4th Cir. 1994); *Raymond v. N.C. Police Benevolent Ass'n, Inc.*, 365 N.C. 94, 99, 721 S.E.2d 923, 926–27 (2011); *Morris v. Scenara Research, LLC*, 2011 NCBC 33, 2011 NCBC LEXIS 34, at *20 (N.C. Super. Ct. Aug. 26, 2011).

In applying the doctrine, the courts generally recognize:

> Whether an action is ongoing or contemplated, whether the jointly interested persons are defendants or plaintiffs, and whether the litigation or potential litigation is civil or criminal, the rationale for the joint defense rule remains unchanged: persons who share a common interest in litigation should be able to communicate with their respective attorneys and with each other to more effectively prosecute or defend their claims.

In re Grand Jury Subpoenas, 902 F.2d 244, 249 (4th Cir. 1990).

Moreover, "the common interest doctrine requires a meeting of the minds, but it does not require that the agreement be reduced to writing or that litigation actually have commenced." *Hunton & Williams v. United States Dep't. of Justice*, 590 F.3d 272, 287 (4th Cir. 2010). A common interest agreement can thus be oral and can be entered into before any civil or criminal litigation has begun.

This privilege applies only when the parties "share a common interest about a legal matter." *United States v. Aramony*, 88 F.3d 1369, 1392 (4th Cir. 1996). Preservation of an employer's reputation does not constitute a "legal matter" for purposes of the joint defense privilege. *Id.* The employer must be subject to civil or criminal liability for the employee's acts to be a legal matter. *Id.*

Once the common interest privilege exists, one party cannot unilaterally waive it. *In re Grand Jury Subpoenas*, 902 F.2d at 249–50. All parties to the joint defense agreement must join in the waiver for it to be effective. *Id.*

V. Work Product Immunity

Fed. R. Civ. P. 26(b)(3) codifies the common law work product doctrine. It protects from discovery

> documents and tangible things that are prepared in anticipation of litigation or for trial by or for another party or its representative (including the other party's attorney, consultant, surety, indemnitor, insurer, or agent).

FED. R. CIV. P. 26(b)(3)(A).

A. Protects Only Documents—Not Facts

Lawyers have long thrown "work product" around loosely, seeking to protect oral communications with witnesses and experts. It applies, however, only to "documents and tangible things," not to what the attorney has said to persons other than his or her client. 6 Moore's Fed. Practice § 26.70[2][a]. Facts contained in the documents are freely discoverable, although a chart or compilation of facts are immune from discovery. *Id.*; Fed. R. Civ. P. 26(b)(3).

B. Documents and Tangible Things

Fed. R. Civ. P. 26(b)(3) does not precisely define the term "documents and tangible things." Courts have applied work product immunity to letters, interview notes, interview transcripts, surveillance tapes, studies, and "post-it" notes attached to files by the attorney. 6 Moore's Fed. Practice § 26.70[2][b].

Of interest, some courts have held that a lawyer's selection and compilation of groups of documents culled from many thousands gathered for production may qualify as work product if there is a real possibility that the attorney's thought processes would be revealed by disclosing what he or she had chosen. *Id.*; *Boyce & Isley, PLLC v. Cooper*, 195 N.C. App. 625, 642–43, 673 S.E.2d 694, 705, *disc. rev. denied*, 363 N.C. 651, 686 S.E.2d 512 (2009).

There is a division of authority concerning whether a lawyer's selection of documents to show a witness in preparation for his or her deposition is protected work product. *See N. Natural Gas Co. v. Approximately 9117.53 Acres*, 289 F.R.D. 644, 647–48 (D. Kan. 2013) (considering cases on both sides of the issue). Some cases hold that the attorney's selection is protected. *Sporck v. Pehl*, 759 F.2d 312, 316 (3d Cir. 1985). Others hold that:

> The most that can be said from the fact that the witness looked at a document is that someone thought that the document, or some portion of the document, might be useful for the preparation of the witness for his deposition. This is a far cry from the disclosure of the lawyer's opinion work product.

N. Natural Gas Co., 289 F.R.D. at 650 (citing *Sporck*, 759 F.2d at 319 (dissenting opinion)).

C. Types of Work Product

There are two general types of work product: (1) "fact" work product, *i.e.,* "documents prepared in anticipation of litigation or for trial, which do not contain the mental impressions, conclusions, opinions, or legal theories of an attorney or other representative of a party concerning the litigation," and (2) "opinion" work product, consisting of documents which do contain the lawyer's mental impressions, conclusions, and theories.

D. Fact Work Product

Fact work product can be discovered on a showing that the party seeking the documents "has substantial need for the materials to prepare its case and cannot, without undue hardship, obtain their substantial equivalent by other means." Fed. R. Civ. P. 26(b)(3)(A)(ii).

1. *Anticipation of Litigation*

In deciding the discoverability of fact work product, the first issue is "whether the documents or tangible things were prepared in anticipation of litigation or for trial." *Nat'l Union Fire Ins. Co. v. Murray Sheet Metal Co.*, 967 F.2d 980, 984 (4th Cir. 1992). Because events are often documented "with the general possibility of litigation in mind, the mere fact that litigation does eventually ensue does not, by itself, cloak material with work product immunity." *Id.* (internal citations and quotation marks omitted).

The test set out by the Fourth Circuit is that

> the document must be prepared *because* of the prospect of litigation when the preparer faces an actual claim or a potential claim following an actual event or series of events that reasonably could result in litigation. Thus, we have held that materials prepared in the ordinary course of business or pursuant to regulatory requirements or for other non-litigation purposes are not documents prepared in anticipation of litigation within the meaning of Rule 26(b)(3).

Id. (second emphasis added).

The decision turns on whether the report would have been prepared even if no litigation was ever filed. 6 Moore's Fed. Practice § 26.70[3][c][ii]. If the business or entity routinely prepares the report at issue, under the same circumstances, regardless of whether litigation occurs, work product immunity does not attach. *Id.*; *see also Cook v. Wake County Hosp. Sys.*, 125 N.C. App. 618, 482 S.E.2d 546 (1997) (accident report prepared after fall on hospital's premises pursuant to

routine risk management procedure not work product, because would have been prepared regardless of whether injured party intimated desire to sue the hospital).

More specifically,

> internal investigative reports, such as those prepared by manufacturers following injuries sustained by their products, are more problematic, because it is often difficult to tell whether the report was motivated by the threat of litigation. In these cases, courts tend to focus on <u>whether the report was prepared in response to a specific, concrete claim, or whether it was prepared with an eye only to claims that might possibly arise in the future</u>. Even in cases in which a specific claim is involved, <u>if there are other, equally strong reasons for preparing the report, such as product improvement, safety of future product users, or avoidance of adverse publicity, courts will generally require production of the report</u>.

6 Moore's Fed. Practice § 26.70[3][c][ii] (emphasis added).

A party cannot shield routine investigations from discovery by retaining a lawyer to conduct or oversee the investigation. *Id.* If the materials would not be protected work product if produced by a non-lawyer, they are not immune from discovery merely because they were prepared by or delivered to a lawyer. *Allied Ir. Banks, P.L.C. v. Bank of Am., N.A.*, 240 F.R.D. 96, 109 (S.D.N.Y. 2007). On the other hand, specific documents written by the lawyer managing the investigation would be protected if they are expressly directed to litigation strategy or possible defenses. *Id.*

"Anticipation of litigation" extends beyond civil suits. 6 Moore's Fed. Practice § 26.70[3][d]. A federal agency investigation provides reasonable grounds for anticipating litigation. *Id.*; *Martin v. Montfort, Inc.*, 150 F.R.D. 172, 173 (D.Colo. 1993). Indeed, "litigation is virtually the only purpose behind investigations by some agencies." 6 Moore's Fed. Practice § 26.70[3][d].

2. *By or For a Party or a Party's Representative*

By its terms, Rule 26(b)(3) is not limited to protecting documents prepared by the attorney. The protection has been extended to studies ordered by a lawyer in preparation for trial, litigation consultants' documents, materials prepared by an accountant under the lawyer's direction, and an opinion letter written by an expert as part of the lawyer's preparation for the impending lawsuit. *Id.* § 26.70[4] & nn.57–58.

Because the immunity extends to documents prepared by "a party's representative," courts have held that memoranda prepared by a defendant bank's assistant vice president analyzing factual and financial issues raised by a minority shareholder suit constituted work product/trial

preparation materials under Fed. R. Civ. P. 26(b)(3). *Canel v. Lincoln Nat'l Bank*, 179 F.R.D. 224, 226–27 (N.D. Ill. 1998).

Testifying experts, however, are not "party representatives" for purposes of the rule. *Republic of Ecuador v. Mackay*, 742 F.3d 860, 870–71 (9th Cir. 2014). Instead, the "protections of Rules 26(b)(4)(B) and (C) are the exclusive protections afforded to expert trial-preparation materials." *Carrion v. For the Issuance of a Subpoena Under 28 U.S.C. §1782(a) (In re Republic of Ecuador)*, 735 F.3d 1179, 1187 (10th Cir. 2013) (emphasis added).[11]

3. *Party Invoking Work Product Immunity Has Initial Burden of Proof*

As with attorney-client privilege, merely alleging that a document is work product will not suffice to protect it from discovery. 6 Moore's Fed. Practice § 26.70[5][a]. To show entitlement to work product immunity, the party contending that its documents are protected must show that "the material is a document or tangible thing prepared in anticipation of litigation for that party." *Id.*

4. *Party Seeking Discovery Must Show Substantial Need or Undue Hardship*

After the objecting party satisfies the fact-finder that fact work product immunity applies, the party seeking the materials may obtain them only by "showing (1) substantial need of the materials in preparation of the party's case, and (2) that the party is unable without undue hardship to obtain the substantial equivalent of the materials by other means." *Id.* § 26.70[5][b].

i. Substantial need.

To meet the "substantial need" test, the pursuing party must show that the "facts contained in the requested documents are essential elements of the requesting party's prima facie case." *Id.* § 26.70[5][c]. Courts have held that "substantial need" applies to test results that cannot be duplicated, photographs taken immediately after an accident when the scene has since changed, or contemporaneous statements taken from or made by parties or witnesses. § 26.70[5][c] & nn.70–71.1.

A party's desire to find evidence corroborating facts it already has, however, will rarely be held to meet the substantial need standard. *See, e.g.*, *Director, Office of Thrift Supervision v. Vinson & Elkins, LLP*, 124 F.3d 1304, 1308 (D.C. Cir. 1997).

[11] Rule 26(b)(4)(B) protects drafts of expert reports or disclosures from discovery. Rule 26(b)(4)(C) protects communications between a party's attorney and a testifying expert, except those concerning the expert's compensation, and any facts, data, or assumptions the attorney provided and the expert considered.

ii. Undue hardship

Undue hardship usually turns on whether the documents contain facts that witnesses can no longer recall or whether the party seeking the documents would have to go to unusual expense to obtain the information. 6 Moore's Fed. Practice § 26.70[5][d].

The party seeking discovery, however, must bring forward facts, not mere assertions of unavailability or faulty memory, before discovery of fact work product may be compelled. *In re Int'l Sys. & Controls Corp. Sec. Litig.*, 693 F.2d 1235, 1240 (5th Cir. 1982). If the party can get the facts by deposition, discovery of work product will not be compelled. *Id.*

In the usual case, the expense of taking one or a few depositions will not be held to be "unusual expense." *Id.* at 1241. Interviews in foreign countries at a cost of over a million dollars may qualify as undue hardship, but the court should usually consider whether the information can be discovered in other ways at much lower expense before compelling work product production. *Id.*

E. Opinion Work Product

Opinion work product is held by some courts to be absolutely protected from discovery. 6 Moore's Fed. Practice § 26.70[6][e]; *Willis v. Duke Power Co.*, 291 N.C. 19, 36, 229 S.E.2d 191, 201 (1976), *Boyce & Isley, PLLC v. Cooper*, 195 N.C. App. 625, 638, 673 S.E.2d 694, 702, *discr. rev. denied*, 363 N.C. 651, 686 S.E.2d 512 (2009).

The majority of federal courts, however, have permitted discovery on a showing of extraordinary circumstances. 6 Moore's Fed. Practice § 26.70[6][e]; *see, e.g.*, *In re Doe,* 662 F.2d 1073, 1079 (4th Cir. 1981) ("[W]hile the protection of opinion work product is not absolute, only extraordinary circumstances requiring disclosure permit piercing the work product doctrine."). Those courts caution, however, that "opinion work product enjoys a nearly absolute immunity and can be discovered only in very rare and extraordinary circumstances." *In re Grand Jury Proceedings*, 33 F.3d 342, 348 (4th Cir. 1994) (emphasis added).

VI. Client Confidentiality – The Ethical Rules[12]

A. The General Rule

Rule 1.6, captioned "Confidentiality of Information," provides:

> (a) A lawyer shall not reveal information acquired during the professional relationship with a client unless the client gives informed consent, the disclosure is impliedly authorized in order to

[12] All citations in this section to "Rule" are to the current North Carolina Rules of Professional Conduct. They are based primarily on the ABA Model Rules of Professional Conduct, although there are some provisions unique to North Carolina.

> carry out the representation or the disclosure is permitted by paragraph (b).

A lawyer's ethical duty of confidentiality is broader than attorney-client privilege or work product immunity. *See* Rule 1.6 cmt. [3]. Those limitations on disclosure apply to judicial and other proceedings in which the lawyer may be compelled to produce evidence concerning a client. *Id.* The ethical duty applies in all situations and

> applies not only to matters communicated in confidence by the client but also to all information relating to the representation, whatever its source. A lawyer may not disclose such information except as authorized or required by the Rules of Professional Conduct or other law.

Id. (emphasis added).

B. Exceptions to the General Rule

Rule 1.6(b) provides the exceptions to the general rule, which apply both to individual and organizational clients. Thus:

> A lawyer may reveal information protected from disclosure by paragraph (a) to the extent the lawyer reasonably believes necessary:
>
> (1) to comply with the Rules of Professional Conduct, the law or court order;
>
> (2) to prevent the commission of a crime by the client;
>
> (3) to prevent reasonably certain death or bodily harm;
>
> (4) to prevent, mitigate, or rectify the consequences of a client's criminal or fraudulent act in the commission of which the lawyer's services were used;
>
> (5) to secure legal advice about the lawyer's compliance with these Rules;
>
> (6) to establish a claim or defense on behalf of the lawyer in a controversy between the lawyer and the client; to establish a defense to a criminal charge or civil claim against the lawyer based upon conduct in which the client was involved; or to respond to allegations in any proceeding concerning the lawyer's representation of the

client; …

Rule 1.6(b) (emphasis added).

1. *Preventing Commission of a Crime By the Client*

When a lawyer learns during the representation that the client intends to commit a crime, the lawyer may disclose confidential information to the extent the lawyer reasonably believes disclosure is necessary to prevent the client from committing a future crime. Rule 1.6(b)(2). This exception "recognizes that a lawyer should be allowed to make a disclosure to avoid sacrificing the interests of the potential victim in favor of preserving the client's confidences when the client's purpose is wrongful." *Id.* cmt. [6].

Unlike ABA Model Rule 1.6(b)(2), the North Carolina rule does not require that the crime or fraud is "reasonably certain to result in substantial injury to the financial interests or property of another" in order for the lawyer to be permitted to disclose confidential information. *Cf.* N.C. Rule Prof'l Conduct R. 1.6(b)(2).

2. *Preventing Reasonably Certain Death or Bodily Injury*

A lawyer may disclose confidential information when he or she reasonably believes it is necessary to prevent death or serious bodily injury. Rule 1.6(b)(3). This exception

> recognizes the overriding value of life and physical integrity and permits disclosure reasonably necessary to prevent reasonably certain death or substantial bodily harm. Such harm is reasonably certain to occur if it will be suffered imminently or if there is a present and substantial threat that a person will suffer such harm at a later date if the lawyer fails to take action necessary to eliminate the threat.

Id. cmt. [6] (emphasis added).

The comment gives an example of a client's accidental discharge of toxic waste into a municipal water supply. *See id.* Disclosure is permitted if:

a. There is a "present and substantial risk" that a person consuming the water;

b. Will contract "a life-threatening or debilitating disease"; and

c. Disclosure by the lawyer is "necessary to eliminate the threat or reduce the number of victims."

Id.

3. *Criminal or Fraudulent Acts in Which the Lawyer's Services Were Used*

Rule 1.6(b)(4) applies when the lawyer does not learn about the client's crime or fraud until after it has been committed. *Id.* cmt. [9]. This provision recognizes that, although the lawyer can no longer prevent the wrongful act, "there will be situations in which the loss suffered by the affected person can be prevented, rectified or mitigated." *Id.* In those situations, the lawyer can reveal confidential information "to the extent necessary to enable the affected persons to prevent or mitigate reasonably certain losses or to attempt to recoup their losses." *Id.*

This exception does not apply when the person who committed the crime or fraud subsequently employs the lawyer to represent him or her concerning the offense. *Id*.

4. *Securing Advice Regarding Compliance with Ethical Rules*

This self-evident exception authorizes disclosure "because of the importance of a lawyer's compliance with the Rules of Professional Conduct." *Id.* cmt. [10].

5. *Claim or Defense in Controversy Between Lawyer and Client*

A lawyer can reveal confidential information to defend against claims by clients or by nonclients when it involves conduct in which the client was involved. Rule 1.6(b)(6). The disclosure should be limited to information that is reasonably necessary to defend the lawyer. 2 Ronald E. Mallen, Jeffrey M. Smith & Allison D. Rhodes, *Legal Malpractice* § 15:6, at 661 (2014 ed.).

The issue also arises in claims by in-house counsel for wrongful termination. *See id.* § 15:7, pp. 670–75. The North Carolina State Bar dealt with this issue in a 2001 ethics opinion. There, the Bar concluded that a former in-house legal counsel could not reveal information and documents to establish a claim for wrongful termination in the lawyer's own action against the former client/employer unless an exception to the duty of confidentiality applied and the court permitted the disclosure. 2000 Formal Ethics Opinion 11 (N.C. State Bar Jan. 18, 2001).

The opinion explained:

> Although Rule 1.6(d)(6) permits a lawyer to reveal confidential client information "to the extent the lawyer reasonably believes necessary to establish a claim or defense on behalf of the lawyer in a controversy between the lawyer and the client....," Comments [18] and [19] to Rule 1.6 clarify that <u>this exception is generally intended to enable the lawyer to defend his or her representation of a client or to prove legal services were rendered in an action to collect a fee</u>.
>
> Public policy favors a client's right to terminate the client-lawyer relationship for any reason and at any time without adverse consequence to the client. Rule 1.16, Comment [4]. If confidential information may be revealed whenever an in-house corporate

> lawyer's employment is terminated, a chilling effect on a corporation's right to terminate its legal counsel at will may ensue. Nevertheless, there is also a public policy, recognized by the courts of North Carolina in a number of recent decisions, against the termination of an employee for refusing to cooperate in the illegal or immoral activity of his or her employer. Because of this public policy, the courts, in a few limited situations, have allowed an employee to go forward with a wrongful termination claim as an exception to the employment-at-will doctrine.
>
> The Ethics Committee cannot make a definitive ruling in the light of the competing public policies illustrated in this inquiry—one favoring the protection of client confidences and the right to counsel of choice and the other condemning the termination of an employee for refusing to participate in wrongful activity. The exception in Rule 1.6(d)(6) is broad enough to include a wrongful termination action. Nevertheless, even when there is an exception permitting disclosure of confidential information, the lawyer must make every effort practicable to avoid unnecessary disclosure of information relating to a representation, to limit disclosure to those having the need to know it, and to obtain protective orders or make other arrangements minimizing the risk of disclosure.
>
> Given the competing public policies described above, a lawyer may reveal no client confidences in a complaint for wrongful termination except as necessary to put the opposing party on notice of the claim. Prior to disclosing any other confidential information of the former employer and client, the lawyer must obtain a ruling from a court of competent jurisdiction authorizing the lawyer to reveal confidential information of the former client, and even then may only reveal such confidential information as is necessary to establish the wrongful termination claim.

Id. op. 2 (emphasis added).

6. *Disclosure is Discretionary, Not Mandatory*

Rule 1.6(b) "permits but does not require the disclosure of information acquired during a client's representation." *Id.* cmt. [16]. Before making a discretionary disclosure under this rule, the lawyer should first try to persuade the client to take proper action to eliminate the circumstances making the disclosure necessary. *Id.* Significantly, "a lawyer's decision not to disclose as permitted by paragraph (b) does not violate this Rule." *Id.* (emphasis added).

Other rules, however, may require disclosure. *Id.* Examples include Rule 3.3(b), requiring disclosure of to a tribunal when the lawyer knows that a person intends, is engaging, or has

engaged in criminal or fraudulent conduct; Rule 8.1, regarding lawful demands for information from a bar disciplinary authority; and Model Rule 8.3, requiring reporting of ethical violations by a lawyer or a judge. *See* Rule 1.6(b) cmt. [16].

C. The Organization As Client

1. *Who Is the Client*

Keep front of mind that "a lawyer employed or retained by an organization represents the organization acting through its duly authorized constituents." Rule 1.13(a). For purposes of the lawyer's duty of confidentiality, this means that

> when one of the constituents of an organizational client communicates with the organization's lawyer in that person's organizational capacity, the communication is protected by Rule 1.6. Thus, by way of example, if an organizational client requests its lawyer to investigate allegations of wrongdoing, interviews made in the course of that investigation between the lawyer and the client's employees or other constituents are covered by Rule 1.6. This does not mean, however, that constituents of an organizational client are the clients of the lawyer. The lawyer may not disclose to such constituents information relating to the representation except for disclosures explicitly or impliedly authorized by the organizational client in order to carry out the representation or as otherwise permitted by Rule 1.6.

Rule 1.13, cmt. [2] (emphasis added).

A lawyer managing an investigation, quite apart from preserving attorney-client privilege, must take care to perform the lawyer's ethical duty to maintain the client's confidences in dealing with persons inside the organization. Over-disclosure, in addition to privilege waiver, constitutes an ethical violation that could subject the lawyer to professional discipline.

The ethical duty of confidentiality, as noted earlier, extends beyond the attorney-client privilege. Mallen et al, *supra* p. 27, § 15:6. It extends even further than protection of the client's "confidences and secrets," as provided in the 1969 Model Code of Professional Responsibility. *Id.* Rule 1.6 now protects "all information acquired during the representation." Rule 1.6 cmt. [3]; Mallen, Smith & Rhodes, § 15:6.

A lawyer thus must keep confidential from the constituents of the organization "all information acquired during the representation." The lawyer may reveal information to the organizational client's constituents only to the extent the client expressly authorizes the disclosure or it is impliedly authorized in order to carry out the representation.

2. *Duty to Explain Who the Client Is*

As discussed at pp. 10-11, *supra*, this is an area that requires care for any lawyer advising an organization. In interviews and meetings, the lawyer needs candor and trust from the company's constituents with whom he or she is meeting. The constituents will want reassurance that the lawyer is "on their side."

Rule 1.13(f), however, <u>requires</u> that the lawyer explain that the organization is the client "when the lawyer <u>knows or reasonably should know</u> that the organization's interests are adverse to those of the constituents with whom the lawyer is dealing." *Id.* (emphasis added). This obligation is mandatory, not permissive.

In these circumstances, the lawyer should also advise the constituent that:

a. A conflict of interest exists between the organization and the constituent;

b. The lawyer cannot represent the constituent;

c. The constituent may want to retain independent counsel; and

d. Discussions between the lawyer and the individual may not be privileged.

Id. cmt. [10].

3. *Duty to "Go Up the Ladder"*

Lawyers are usually bound by the organization's constituents' decisions, even when they appear unreasonable or counterproductive. Rule 1.13 cmt. [3]. When the lawyer is acting as a legal advisor, policy and operations decisions, even when they involve serious peril to the organization, are outside the lawyer's province. *Id.*

However, when the lawyer knows that a constituent is acting or intends to act in a manner that (1) violates the constituent's legal duty to the organization or (2) is a violation of law that might be imputed to the client, the lawyer <u>must</u> proceed as reasonably necessary in the organization's best interests. *Id.* The lawyer's obligation arises when the constituent's act "is likely to result in substantial injury to the organization." Rule 1.13(b).

The rule further provides that, unless the lawyer reasonably believes that it is not in the organization's best interests to do so, "the lawyer <u>shall</u> refer the matter to higher authority in the organization, including, if warranted by the circumstances, to the highest authority that can act on behalf of the organization as determined by applicable law." *Id.* (emphasis added).

The "highest authority" will usually be a corporation's board of directors or similar governing body. *Id.* cmt. [5].

4. *Duty to "Go Out the Door"*

i. With the Information

If the lawyer has gone "up the chain" and

> the highest authority that can act on behalf of the organization insists upon action, or a refusal to act, that is clearly a violation of law and is likely to result in substantial injury to the organization, the lawyer may reveal such information outside the organization to the extent permitted by Rule 1.6 and may resign in accordance with Rule 1.16.

Rule 1.13(c) (emphasis added). Again, this disclosure is discretionary and is concurrent with and not in addition to the responsibility conferred by Rule 1.6. *Id.* cmt. [6].

ii. From the Representation – Mandatory

A lawyer must withdraw if "the client demands that the lawyer engage in conduct that is illegal or violates the Rules of Professional Conduct or other law." Rule 1.16, cmt. [2]. A client's mere suggestion of illegal or unethical conduct does not require withdrawal. *Id.* The client may suggest such conduct "in the hope that a lawyer will not be constrained by a professional obligation." *Id.*

iii. From the Representation – Optional

A lawyer may withdraw if "the client persists in a course of action that the lawyer reasonably believes is criminal or fraudulent, for a lawyer is not required to be associated with such conduct even if the lawyer does not further it." *Id.* cmt. [7]. The lawyer may withdraw if his or her services were misused in the past, even if the client would be materially prejudiced by the withdrawal. *Id.*

iv. Make Sure the Highest Authority Knows When You Go

If the lawyer reasonably believes that he or she has been discharged because of his or her taking actions pursuant to Rule 1.13(b) or (c), the lawyer shall proceed as reasonably necessary to assure that the entity's highest authority is aware of the lawyer's discharge. Rule 1.13(e). This applies to a lawyer who has withdrawn because he or she was permitted or required to withdraw under these subsections. *Id.*

VI. My Personal Top Takeaways

Much of this paper was intended to refresh or expand upon ideas that are familiar to most organizational lawyers. With the benefit of over thirty years' experience representing

organizations and serving their lawyers, a number of points struck me as worthy of reiterating in conclusion.

They are:

- The lawyer's role in a matter should be clearly defined at the outset, so that the availability of attorney-client privilege, or the lack thereof, is understood.

- The lawyer should avoid providing legal advice to the organization's constituents, to avoid inadvertent waiver of privilege and, more importantly, potential ethical problems.

- Proving availability of the privilege is the burden of the claimant, not the party seeking the information. A mere assertion, without bringing forward facts to establish every element of the privilege, is no privilege at all.

- American lawyers can ethically work for an organization in a jurisdiction in which the lawyer is not licensed, so long as their work does not require pro hac vice admission. Communications with those lawyers are privileged, so long as the other necessary elements exist.

- Privilege applies only to confidential communications—not to facts learned by the lawyer or the client from other sources and shared between the attorney and the client.

- Work product protection applies only to documents or things, not to facts.

- The ethical duty of confidentiality is broader than the protection provided by the attorney-client privilege. The lawyer is ethically bound to keep confidential <u>all information</u> acquired during the representation. The privilege shields only confidential communications made for the purpose of rendering legal services to the client.