CORRECTLY APPLYING THE PRIVILEGE – AN ISSUE FOR IN-HOUSE COUNSEL

Written and Presented by:

JOHN P. KINCADE
jkincade@winstead.com

Co-Written by:

JAMES MIERS

Winstead PC
500 Winstead Building
2728 N. Harwood Street
Dallas, Texas 75201
214.745.5707

State Bar of Texas
IN-HOUSE COUNSEL 101
COURSE
August 13, 2014
San Antonio

CHAPTER 5

JOHN KINCADE is a Shareholder with Winstead PC where he has practiced since 1987. Before joining Winstead, he served in 1986-1987 as a Briefing Attorney to the Texas Supreme Court, Honorable Franklin S. Spears (deceased). Mr. Kincade's practice focuses on commercial, business, financial services and banking, and securities litigation, arbitration, and regulatory enforcement. His regular speaking and writing topics include financial services and securities litigation and the attorney-client privilege. He is a 1986 graduate with distinction from St. Mary's University School of Law and a 1983 B.A. graduate from the University of Texas at Austin. He currently serves as the 2014 Chair of the Securities Section of the Dallas Bar Association; is a member of the Texas Bar Foundation; and is a member of the Board of Directors of the Dallas Zoo, where he has formerly served on the Zoo Board's executive committee as chair of the compensation committee and chair of the governance committee.

JAMES MIERS is an associate attorney practicing in Winstead PC's Commercial Litigation Practice Group. James received his Bachelor of Arts in Government from the University of Texas at Austin in 2010. He graduated *cum laude* from SMU Dedman School of Law in 2013. While in law school, James served as the Vice President of the Student Bar Association and Senior Case Note and Comment Editor for the International Law Review Association. James is a member of the Texas Bar and the Dallas Bar Association, and his practice includes oil and gas litigation, financial services and securities litigation, labor and employment litigation, and general business and commercial litigation.

TABLE OF CONTENTS

I. INTRODUCTION ... 1
A. Definitions. ... 1
B. Rules of Privilege. ... 1
C. Who May Claim the Privilege. ... 1

II. THE BASICS OF THE ATTORNEY-CLIENT PRIVILEGE ... 1
A. The Purpose of the Privilege ... 2
B. Federal Law ... 2
C. Texas Law ... 2

III. COMMUNICATIONS ... 3

IV. THE LAWYER ... 4

V. PURPOSE OF THE COMMUNICATION ... 4
A. Heightened Scrutiny Applied to In-House Communications ... 5
B. The Primary Purpose Test ... 5
1. Determining Purpose from Content ... 5
2. Determining Purpose from Lawyer's Activities ... 6
3. Determining Purpose from Organizational Structure ... 6
4. Funneling ... 6
C. Analyzing "Context" to Determine "Purpose" ... 7
D. One of the Significant Purposes ... 8
E. Investigations ... 9

VI. THE CLIENT ... 9
A. Federal Law ... 9
B. Texas Law ... 10

VII. MAINTAINING CONFIDENTIALITY ... 11
A. Examples of Waiving Confidentiality ... 11
B. Qualifying as Confidential ... 11
C. Maintaining Confidentiality under "Need to Know" Analysis ... 13
D. "Functional Equivalent" of Employee ... 13

VIII. DUAL REPRESENTATION BY IN-HOUSE (OR OUTSIDE) COUNSEL: THE IDENTITY OF THE "CLIENT" AND AN EMPLOYEE'S PURPORTED "PERSONAL" PRIVILEGE ALONGSIDE THE COMPANY'S PRIVILEGE ... 13

IX. DUTY OF LOYALTY DURING LITIGATION OR INVESTIGATION: CORPORATE "*MIRANDA* WARNING" ... 14

X. CONFIDENTIALITY OF EMPLOYEE'S PERSONAL PRIVILEGED COMMUNICATIONS ... 15

XI. JOINT DEFENSE, COMMON INTEREST, AND ALLIED LITIGANTS DOCTRINES ... 16

XII. PARENT AND SUBSIDIARY ISSUES ... 16

XIII. POST TRANSACTION CONTROL OF PRIVILEGE ... 17

XIV. THE CRIME/FRAUD EXCEPTION ... 18

XV. OFFENSIVE-USE DOCTRINE OF WAIVER ... 19

ADDITIONAL REFERENCES ... 20

TABLE OF AUTHORITIES

Page(s)

FEDERAL CASES

AHF Cmty. Dev., LLC v. City of Dallas, 258 F.R.D. 143 (N.D. Tex. 2009) 3

Bass Pub. Ltd. v. Promus Cos., 868 F. Supp. 615 (S.D.N.Y. 1994) 18

Boca Investerings Partnership v. United States, 31 F. Supp. 2d 9 (D.D.C. 1998) 6

City of Philadelphia v. Westinghouse Elec. Corp., 210 F. Supp. 483 (E.D. Pa. 1962) 9

Commodity Futures Trading Cmm'n v. Weintraub, 471 U.S. 343 (1985) 13, 14, 18

Diversified Indus., Inc. v. Meredith, 572 F.2d 596 (8th Cir. 1977) 13

Exxon Mobil Corp. v. Hill, 751 F.3d 379 (5th Cir. 2014) 7

Freescale Semiconductor, Inc. v. Maxim Integrated Prods., No. A-13-CV-075-LY, 2013 U.S. Dist. LEXIS 155391, 2013 WL 5874139 (W.D. Tex. Oct. 30, 2013) 10

FTC v. GlaxoSmithKline, 294 F.3d 141 (D.C. Cir. 2002) 13

Gucci Am., Inc. v. Guess? Inc., No. 09-Civ-4373 (SAS), 2011 U.S. Dist. LEXIS 15, 2011 WL 9375 (S.D.N.Y. Jan. 3, 2011) 4

Hancock v. Hobbs, 967 F.2d 462 (11th Cir. 1992) 3

Harper & Row Publishers, Inc. v. Decker, 423 F.2d 487 (7th Cir. 1970) 10

Hercules v. Exxon Corp., 434 F. Supp. 136 (D. Del. 1977) 5

Hodges, Grant & Kaufmann v. U.S., 768 F.2d 719 (5th Cir. 1985) 2

In re Avantel, 343 F.3d 311 (5th Cir. 2003) 2

In re Bevill, 805 F.2d 120 (3d Cir. 1986) 14

In re Bieter Co., 16 F.3d 929 (8th Cir. 1994) 13

In re Currency Conversion Antitrust Litig., No. 05 Civ. 7116, 2010 U.S. Dist. LEXIS 117008, 2010 WL 4365548 (S.D.N.Y. Nov. 3, 2010) 7

In re Grand Jury Proceedings, 517 F.2d 666 (5th Cir. 1975) 2

In re Grand Jury Subpoena, 274 F.3d 563 (1st Cir. 2001) 14

In re Grand Jury Subpoena, 419 F.3d 329 (5th Cir. 2005) 18

In re Kellogg Brown & Root, Inc., No. 14-5055, 2014 U.S. App. LEXIS 12115, 2014 WL 2895939 (D.C. Cir. June 27, 2014) 5, 8, 9

In re LTV Sec. Litig., 59 F.R.D. 595 (N.D. Tex. 1981) 3

In re Mirant Corp., 326 B.R. 646 (Bankr. N.D. Tex 2005) 17

In re Qwest Communs. Intern. Inc., 450 F.3d 1179 (10th Cir. 2006) 2

In re Royce Homes, LP, 449 B.R. 709 (Bankr. S.D. Tex. 2011) 11, 15, 16

In re Sealed Case, 737 F.2d 94 (D.C. Cir. 1984) 4

In re Teleglobe Comm. Corp., 493 F.3d 345 (3d Cir. 2007) 16, 17

In re Vioxx Prods. Liab. Litig., 501 F. Supp. 2d 789 (E.D. La. 2007) 4, 6

Interfaith Housing Del. v. Georgetown, 841 F. Supp. 1393 (D. Del. 1994) 17

Koumoulis v. Indep. Fin. Mktg. Grp., 295 F.R.D. 28 (E.D.N.Y. 2013) 5, 6

Lindley v. Life Investors Ins., 267 F.R.D. 382 (N.D. Okla. 2010) 6

MacKenzie-Childs LLC v. MacKenzie-Childs, 262 F.R.D. 241 (W.D.N.Y. 2008) 17, 18

Marten v. Yellow Freight Sys., No. 96-2013-GTV, 1998 U.S. Dist. LEXIS 268, 1998 WL 13244 (D. Kan. 1998) 6

McCaugherty v. Sifferman, 132 F.R.D. 234 (N.D. Cal. 1990) 18

Medcom Holding Co. v. Baxter Travenol Labs., 689 F. Supp. 841 (N.D. Ill. 1988) 18

Muro v. Target Corp., 243 F.R.D. 301 (N.D. Ill. 2007) 13

Nat'l Converting & Fulfillment Corp. v. Bankers Trust, 134 F. Supp. 2d 804 (N.D. Tex. 2001) 10

Neuder v. Battelle Pac. N.W. Nat'l Lab., 194 F.R.D. 289 (D.D.C. 2000) 6

Nguyen v. Excel Corp., 197 F.3d 200 (5th Cir. 1999) 11

Parus Holdings, Inc. v. Banner & Witcoff, Ltd., 585 F. Supp. 2d 995 (N.D. Ill. 2008) 18

Radiant Burners, Inc. v. Am. Gas Ass'n, 320 F.2d 314 (7th Cir. 1963) 10

Shelton v. Am. Motors Corp., 805 F.2d 1323 (8th Cir. 1996) 5

Southeast Pa. Transp. Auth. (SEPTA) v. Caremark PCS Health, L.P., 254 F.R.D. 253 (E.D. Pa. 2008) 7

Stoffels v. SBC Communs., Inc., 263 F.R.D. 406 (W.D. Tex. 2009) 5

Stovall v. United States, 85 Fed. Cl. 810 (Fed. Cl. 2009) 4

Suzlon Wind Energy Corp. v. Shippers Stevedoring Co., 662 F. Supp. 2d 623 (S.D. Tex. 2009) 9

United States Postal Serv. v. Phelps Dodge Ref. Corp., 852 F. Supp. 156 (E.D.N.Y. 1994) 7

United States v. El Paso Co., 682 F.2d 530 (5th Cir. 1982) 2, 11, 12, 13

United States v. Graf, 610 F.3d 1148 (9th Cir. 2010) 13, 14

Upjohn Co. v. United States, 449 U.S. 383, 101 S. Ct. 677, 66 L. Ed. 2d 584 (1981) .... *passim*

Wells v. Rushing, 755 F.2d 376 (5th Cir. 1985) 3

Willy v. Admin. Review Bd., 423 F.3d 483 (5th Cir. 2005) 3

OTHER CASES

Arkla, Inc. v. Harris, 846 S.W.2d 623 (Tex. App.—Houston [14th Dist.] 1993, no pet.) 11

Axelson, Inc. v. McIlhany, 755 S.W.2d 170 (Tex. App. – Amarillo 1988, orig. proceeding) 11

Griffin v. Smith, 688 S.W.2d 112 (Tex. 1985) (per curiam) 11

Huie v. DeShazo, 922 S.W.2d 920 (Tex. 1996) 2, 3

In re Carbo Ceramics, 81 S.W.3d 369 (Tex. App.—Houston [14th Dist.] 2002, no pet). 11

In re El DuPont de Nemours & Co., 136 S.W.3d 218 (Tex. 2004) 11

In re ExxonMobil Corp., 97 S.W.3d 353 (Tex. App.—Houston [14th Dist.] 2003, no pet.) 4

In re JDN Real Estate-McKinney L.P., 211 S.W.3d 907 (Tex. App.—Dallas 2006, no pet.) 19

In re Monsanto Co., 998 S.W.2d 917 (Tex. App.—Waco 1999, no pet.) 10

In re Seigel, 198 S.W.3d 21 (Tex. App.—El Paso 2006, no pet.) 19

In re Small, 346 S.W.3d 657 (Tex. App.—El Paso 2009, no pet.) 12, 19

In re USA Waste Mgmt. Res., 387 S.W.3d 92 (Tex. App.—Houston [14th Dist.] 2012, no pet.) 11

In re XL Specialty Ins. Co., 373 S.W.3d 46 (Tex. 2012) 2, 10, 16

Keene Corp. v. Caldwell, 840 S.W.2d 715 (Tex. App.—Houston [14th Dist.] 1992, no writ) 3

Lesikar v. Moon, No. 14-11-01016-CV, 2012 Tex. App. LEXIS 7311, 2012 WL 3776365 (Tex. App.—Houston [14th Dist.] Aug. 30, 2012, pet. denied) 19

Marathon Oil Co. v. Moye, 893 S.W.2d 585 (Tex. App.—Dallas 1994, pet. denied) 3

Republic Ins. Co. v. Davis, 856 S.W.2d 158 (Tex. 1993) 2, 19

Rossi v. Blue Cross & Blue Shield, 73 N.Y.2d 588 (1989) 5

Salatini v. State, No. 05-04-01855-CR, 2005 Tex. App. LEXIS 10664, 2005 WL 3540854 (Tex. App.—Dallas Dec. 28, 2005, pet. denied) 4

Tekni-Plex, Inc. v. Meyner & Landis, 674 N.E.2d 633 (N.Y. 1996) 18

Trenwick Am. Litig. Trust v. Ernst & Young, 906 A.2d 168 (Del. Ch. 2006) 17

FEDERAL: STATUTES, RULES, REGULATIONS, CONSTITUTIONAL PROVISIONS

28 U.S.C. § 1331 3

FED. R. EVID. 501 2

OTHER: STATUTES, RULES, REGULATIONS, CONSTITUTIONAL PROVISIONS

ABA MODEL RULE 1.13 14

DEL. R. EVID. 502(D) (6) 17

TEXAS RULE OF EVIDENCE 503 .... *passim*

DEL. CODE ANN. tit. 8, § 259 18

OTHER AUTHORITIES

Cullen M. Godfrey, *Recent Developments: The Revised Attorney-Client Privilege for Corporations in Texas*, 30 TEX. TECH L. REV. 139, 144-45 (1999) 9

JOHN HENRY WIGMORE, EVIDENCE IN TRIALS AT COMMON LAW § 2292 1

PAUL R. RICE, 1 ATTORNEY-CLIENT PRIVILEGE IN THE UNITED STATES § 7.3 5

PAUL R. RICE, 1 ATTORNEY-CLIENT PRIVILEGE IN THE UNITED STATES § 7.6 5

PAUL R. RICE, 1 ATTORNEY-CLIENT PRIVILEGE IN THE UNITED STATES § 7.2 7

Paul R. Rice, *Attorney-Client Privilege: Continuing Confusion About Attorney Communications, Drafts, Pre-Existing Documents, and Sources of the Facts Communicated*, 48 AM. U. L. REV. 967, 972 (1999) 4

RESTATEMENT (THIRD) OF THE LAW GOVERNING LAWYERS § 72 (2000) 4, 9

TEX. DISCPL. R. PROF'L CONDUCT 1.12 cmt. 5 .... 14, 15

TEX. DISCPL. R. PROF'L CONDUCT 1.12 cmt. 4 14

CORRECTLY APPLYING THE PRIVILEGE – AN ISSUE FOR IN-HOUSE COUNSEL

I. INTRODUCTION

Texas Rule of Evidence 503 states:

A. Definitions.

As used in this rule:

(1) A "client" is a person, public officer, or corporation, association, or other organization or entity, either public or private, who is rendered professional legal services by a lawyer, or who consults a lawyer with a view to obtaining professional legal services from that lawyer.

(2) A "representative of the client" is:

(A) a person having authority to obtain professional legal services, or to act on advice thereby rendered, on behalf of the client, or

(B) any other person who, for the purpose of effectuating legal representation for the client, makes or receives a confidential communication while acting in the scope of employment for the client.

(3) A "lawyer" is a person authorized, or reasonably believed by the client to be authorized, to engage in the practice of law in any state or nation.

(4) A "representative of the lawyer" is:

(A) one employed by the lawyer to assist the lawyer in the rendition of professional legal services; or

(B) an accountant who is reasonably necessary for the lawyer's rendition of professional legal services.

(5) A communication is "confidential" if not intended to be disclosed to third persons other than those to whom disclosure is made in furtherance of the rendition of professional legal services to the client or those reasonably necessary for the transmission of the communication.

B. Rules of Privilege.

(1) *General rule of privilege.* 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:

(A) between the client or a representative of the client and the client's lawyer or a representative of the lawyer;

(B) between the lawyer and the lawyer's representative;

(C) by the client or a representative of the client, or the client's lawyer or a representative of the lawyer, to a lawyer or a representative of a lawyer representing another party in a pending action and concerning a matter of common interest therein;

(D) between representatives of the client or between the client and a representative of the client; or

(E) among lawyers and their representatives representing the same client.

(2) *Special rule of privilege in criminal cases.* In criminal cases, a client has a privilege to prevent the lawyer or lawyer's representative from disclosing any other fact which came to the knowledge of the lawyer or the lawyer's representative by reason of the attorney-client relationship.

C. Who May Claim the Privilege.

The privilege may be claimed by the client, . . . or similar representative of a corporation, association, or other organization, whether or not in existence. The person who was the lawyer or the lawyer's representative at the time of the communication is presumed to have authority to claim the privilege but only on behalf of the client.

II. THE BASICS OF THE ATTORNEY-CLIENT PRIVILEGE

The attorney-client privilege protects from disclosure confidential communications made between a client and an attorney for purposes of obtaining legal advice or services. *See Upjohn Co. v. United States*, 449 U.S. 383, 389, 101 S. Ct. 677, 66 L. Ed. 2d 584 (1981) (applying privilege to in-house corporate investigations); TEX. R. EVID. 503(b); 8 JOHN HENRY WIGMORE, EVIDENCE IN TRIALS AT COMMON LAW § 2292, at 554 (McNaughton rev. 1961) [hereinafter "WIGMORE ON EVIDENCE"]. The specific elements of the attorney-client privilege under federal common law have been explained as follows:

1) When legal advice of any kind is sought
2) from a professional legal advisor in his capacity as such,
3) the communications relating to that

purpose,
4) made in confidence
5) by the client,
6) are at this instance permanently protected
7) from disclosure by himself or by the legal adviser,
8) except when the protection [is] waived.

United States v. El Paso Co., 682 F.2d 530, 538 n. 9 (5th Cir. 1982) (quoting WIGMORE ON EVIDENCE § 2292, at 554).

A. The Purpose of the Privilege

The principle goal of the privilege is safeguarding communications. It allows "unrestrained communication and contact between an attorney and client in all matters in which the attorney's professional advice or services are sought, without fear that the confidential communications will be disclosed by the attorney, either voluntarily or involuntarily, in any legal proceeding." *Huie v. DeShazo*, 922 S.W.2d 920, 922 (Tex. 1996) (quoting *West v. Solito*, 563 S.W.2d 240, 245 (Tex. 1978)). By safeguarding these communications the privilege seeks to promote the full disclosure of information between an attorney and the client, thereby supporting the administration of justice. *Upjohn,* 449 U.S. at 389; *In re XL Specialty Ins. Co.*, 373 S.W.3d 46, 49 (Tex. 2012). But cloaking attorney-client communications with a privilege from disclosure comes at the expense of another equally important societal goal – ascertaining the truth. Thus, the privilege stands opposed to the interest of openness in discovery, especially when it suppresses the discovery or production of relevant evidence. *Upjohn*, 449 U.S. at 389 (recognizing costs of privilege); *In re XL Specialty Ins.*, 373 S.W.3d at 49 (same). For this reason, the privilege is strictly construed and narrowly applied, requiring that the party championing its application carry the burden of proving it. *Hodges, Grant & Kaufmann v. U.S.*, 768 F.2d 719, 721 (5th Cir. 1985); *see also In re Qwest Communs. Intern. Inc.*, 450 F.3d 1179, 1185 (10th Cir. 2006) (Privileges "must be strictly construed and accepted 'only to the very limited extent that permitting a refusal to testify or excluding relevant evidence has a public good transcending the normally predominant principle of utilizing all rational means for ascertaining truth.'"). At its core the privilege represents the tension "between the desire for openness and the need for confidentiality in attorney-client relations," and it tips the balance for confidentiality if its elements are present. *In re XL Specialty Ins.*, 373 S.W.3d at 49 (quoting *Republic Ins. Co. v. Davis*, 856 S.W.2d 158, 160 (Tex. 1993)). Given its unique position in the search for truth, the attorney-client privilege, unsurprisingly, is "the oldest of the privileges for confidential communications known to the common law." *Id.* (quoting *United States v. Zolin*, 491 U.S. 554, 562, 109 S. Ct. 2619, 105 L. Ed. 2d 469 (1989)); *see also Upjohn Co.*, 449 U.S. at 389.

B. Federal Law

In federal law the privilege arises under "[t]he common law – as interpreted by United States courts in the light of reason and experience . . . ." *See* FED. R. EVID. 501. One of the most quoted and comprehensive definitions of the federal common law attorney-client privilege appears in *United States v. United Shoe Machinery Corp.*:

> The privilege applies only if (1) the asserted holder of the privilege is or sought to become a client; (2) the person to whom the communication was made (a) is a member of the bar of a court, or his subordinate and (b) in connection with this communication is acting as a lawyer; (3) the communication relates to a fact of which the attorney was informed (a) by his client (b) without the presence of strangers (c) for the purpose of securing primarily either (i) an opinion on law or (ii) legal services or (iii) assistance in some legal proceeding, and not (d) for the purpose of committing a crime or tort; and (4) the privilege has been (a) claimed and (b) not waived by the client.

89 F. Supp. 357, 358-59 (D. Mass. 1950); *see also In re Grand Jury Proceedings*, 517 F.2d 666, 670 (5th Cir. 1975) (adopting the *United Shoe* elements).

C. Texas Law

Texas, like most states, has codified the privilege as a rule of evidence. Texas Rule of Evidence Rule 503 provides that "[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 legal services to the client" between the client and his lawyer, or either party's representative. TEX. R. EVID. 503(b)(1). Unlike federal law, Rule 503 provides specific definitions for core elements of the privilege, including the terms "client," "lawyer," "representative," and "confidential communication" rather than relying exclusively on common law interpretations. *See id.* In practice, a corporation's right to apply the privilege will be judged at times by both federal and state law. For instance, in Texas state court actions and federal diversity actions, the state law rule will apply. FED. R. EVID. 501 (federal courts apply forum state's law to resolve claims of attorney-client privilege); *In re Avantel*, 343 F.3d 311, 323 (5th Cir. 2003). The common law federal rule of privilege will apply "in

civil proceeding[s] where the court's jurisdiction is premised upon a federal question, even if the witness-testimony is relevant to a pendant state law count which may be controlled by a contrary state law of privilege." *Hancock v. Hobbs*, 967 F.2d 462, 466-67 (11th Cir. 1992) (federal civil rights claim and Georgia state law tort claims against police officer analyzed under federal privilege permitting disclosure of plaintiff's prior psychiatric records that were otherwise privileged under state law); *see also Willy v. Admin. Review Bd.*, 423 F.3d 483, 495 (5th Cir. 2005) ("As [plaintiff's] claims arise under federal law – and are before us on federal question jurisdiction under 28 U.S.C. § 1331 – the federal common law of attorney-client privilege governs our analysis.").[1]

III. COMMUNICATIONS

A central component of the privilege is the communication passing between the client and the attorney. So long as the communication is directed to obtaining legal advice, the actual "subject matter of the information communicated is irrelevant when determining whether the privilege applies." *Marathon Oil Co. v. Moye*, 893 S.W.2d 585, 589 (Tex. App.—Dallas 1994, pet. denied) (orig. proceeding); *Keene Corp. v. Caldwell*, 840 S.W.2d 715, 720 (Tex. App.—Houston [14th Dist.] 1992, no writ) (orig. proceeding). In *Keene*, the trial court ruled that certain documents containing attorney-client communications were nonetheless discoverable because "the information in the documents was relevant or [] the documents contained factual recitations that did not constitute an attorney's mental impression, legal advice or opinions." *Keene Corp.*, 840 S.W.2d at 720. The appellate court vacated that ruling because the trial court had failed to recognize "that the documents constituted communications between attorney and client under TEX. R. CIV. EVID. 503(b)." *Id.* The Houston court of appeals furthermore explained that, "[i]f a document is privileged or exempted from discovery under the rules, the fact that certain information within the documents may be discoverable through other means does not overcome the privilege." *Id.* Indeed, a central tenet of the privilege is that it protects disclosure of communications only, not the disclosure of underlying facts communicated to an attorney. *See Upjohn*, 449 U.S. at 396. Thus, "[w]hile the privilege extends to the entire communication, including facts contained therein . . . a person cannot cloak a material fact within the privilege merely by communicating it to an attorney." *Huie*, 922 S.W.2d at 923. The Texas Supreme Court illustrated this point as follows:

> Assume that a trustee who has misappropriated money from a trust confidentially reveals this fact to his or her attorney for the purpose of obtaining legal advice. The trustee, when asked at trial whether he or she misappropriated money, cannot claim the attorney-client privilege. The act of misappropriation is a material fact of which the trustee has knowledge independently of the communication. The trustee must therefore disclose the fact (assuming no other privilege applied), even though the trustee confidentially conveyed the fact to the attorney. However, because the attorney's only knowledge of the misappropriation is through the confidential communication, the attorney cannot be called on to reveal this information.

Id. In *Huie*, the Texas Supreme Court evaluated whether communications between a trustee and his attorney about trust matters were privileged from disclosure to trust beneficiaries. *Id.* The court determined that notwithstanding the beneficiaries' right to fully depose the trustee's attorney on *factual* matters involving the trust, any communications between the trustee and his lawyer "made confidentially and for the purpose of facilitating legal services [were] protected" from disclosure. *Id.* at 923-24. Thus in the court's example, in the most simplistic of terms the beneficiary could ask the trustee, "isn't it true you misappropriated funds . . . ?" but the beneficiary could not ask the trustee's lawyer, "isn't it true your client told you he misappropriated funds?"

It becomes clear then that not all "communications" necessarily fall within the privilege. The privilege may not be asserted to protect generally all communications from the attorney to the client. Instead, the privilege "shields communications from the lawyer to the client only to the extent that these are based on, or may disclose, confidential information provided by the client or contain advice or opinions of the attorney." *AHF Cmty. Dev., LLC v. City of Dallas*, 258 F.R.D. 143, 146-48 (N.D. Tex. 2009) (court did not extend privilege to every communication between company and in-house counsel, but only those which company established were related to specific legal advice it had sought). A client usually cannot assert the attorney-client privilege to prevent disclosure of the fact that he has spoken with his attorney. Nor does the privilege shield the communications between that client and the attorney if those communications did not contain confidential information the client has passed to attorney for purpose of seeking or receiving legal advice. *Wells v. Rushing*, 755 F.2d 376, 379 n. 2 (5th Cir. 1985); *but see In re LTV Sec. Litig.*, 59 F.R.D. 595, 602 (N.D. Tex. 1981) (advocating for adoption of

---

[1]Unless otherwise noted, federal cases cited analyze or construe the federal common law attorney-client privilege rather than a state law privilege.

broad privilege protecting *any* communication from attorney to client made within course of giving legal advice). "Therefore, to establish the privilege for the responsive communication of the attorney, the client must prove that the attorney-client privilege protects both sides of the conversation." Paul R. Rice, *Attorney-Client Privilege: Continuing Confusion About Attorney Communications, Drafts, Pre-Existing Documents, and Sources of the Facts Communicated*, 48 AM. U. L. REV. 967, 972 (1999) (citing *In re Sealed Case*, 737 F.2d 94, 99 (D.C. Cir. 1984)). In most instances, however, when a document contains privileged advice, opinion or analysis, as well as extraneous communications, courts will afford the privilege to the entire document, including purely factual statements, and the back and forth communications. *See In re ExxonMobil Corp.*, 97 S.W.3d 353, 357 (Tex. App.—Houston [14th Dist.] 2003, no pet.).

Finally, despite somewhat archaic precedent limiting the privilege to communications from the client to the attorney, and not vice-versa, most if not all courts now recognize the attorney's communications to the client are equally privileged. *See Stovall v. United States*, 85 Fed. Cl. 810, 814-15 (Fed. Cl. 2009) (court engages in discussion of circuit split regarding scope of attorney communications protected under attorney-client privilege, but rejects plaintiff's argument that attorney-client privilege applies only to communications from client to attorney). "While this [one-way communication] view finds support in the privilege's 'ancient moorings,' courts, over time, have come to realize that excluding all attorney communications from the privilege's aegis could erode the incentive for individuals to seek advice and thereby undercut the reason for having the privilege in the first place." *Id.*

IV. THE LAWYER

The Texas Rules of Evidence specifically define a "lawyer" as "a person authorized, or reasonably believed by the client to be authorized, to engage in the practice of law in any state or nation." TEX. R. EVID. 503(a)(3). In the corporate setting, in-house counsel readily satisfies the lawyer element of the privilege:

> The second group of communications is to or from the resident general counsel of United and his juniors. On the record as it now stands, the apparent factual differences between these house counsel and outside counsel are that the former are paid annual salaries, occupy offices in the corporation's buildings, and are employees rather than independent contractors. These are not sufficient differences to distinguish the two types of counsel for purposes of the attorney-client privilege. And this is apparent when attention is paid to the realities of modern corporate law practice. The type of service performed by house counsel is substantially like that performed by many members of the large urban law firms. The distinction is chiefly that the house counsel gives advice to one regular client, the outside counsel to several regular clients.

United Shoe Mach. Corp., 89 F. Supp. at 360. Still, judicial endorsement of in-house counsel readily satisfying the lawyer element of the privilege can be read as less than ringing. *See In re Sealed Case*, 737 F.2d at 99. In face of the government's attempt to compel grand jury testimony from a corporation's former "vice president and general counsel" regarding internal corporate communications, the D.C. Circuit acknowledged the lawyer's prior services as vice president and in-house counsel and then remarked, "that status alone does not dilute the privilege. We are mindful, however, that [lawyer] was [also] a Company vice president, and had certain responsibilities outside the lawyer's sphere." *Id.* (citations omitted); *see also* 1 RESTATEMENT (THIRD) OF THE LAW GOVERNING LAWYERS § 72 (2000).

An in-house counsel's "inactive" bar status does not destroy the privilege when the lawyer is a member of a bar admitted to practice law in some state. *See Gucci Am., Inc. v. Guess? Inc.*, No. 09-Civ-4373 (SAS), 2011 U.S. Dist. LEXIS 15, at *14, 2011 WL 9375 (S.D.N.Y. Jan. 3, 2011) (corporate client/employer had reasonable belief individual was lawyer for purposes of asserting privilege because individual held law degree, performed legal work, and corporation paid his legal dues). However, an individual who has surrendered his law license cannot satisfy the definition of a "lawyer," and a prospective client's knowledge of a surrendered license defeats the client's argument he "reasonably believed" the individual was a lawyer. *See Salatini v. State*, No. 05-04-01855-CR, 2005 Tex. App. LEXIS 10664, at *4-6, 2005 WL 3540854 (Tex. App.—Dallas Dec. 28, 2005, pet. denied).

V. PURPOSE OF THE COMMUNICATION

For the privilege to arise, the confidential communications between the client and lawyer must be made "*for the purpose of*" obtaining or providing legal services. *United Shoe*, 449 at 389; TEX. R. EVID. 503(b)(1) (emphasis added). Although determining the "purpose of" a communication would appear to be a straight forward analysis, in the context of "mixed" legal and business communications between a client and in-house lawyer, the inquiry is anything but clear. This complexity flows from the modern reality that in-house lawyers are often involved in many (and

sometimes all) facets of the business organizations they represent, from legal analyses and representation to business judgments and decisions. *See, e.g.*, *In re Vioxx Prods. Liab. Litig.*, 501 F. Supp. 2d 789, 797 (E.D. La. 2007) (the purpose element is "often problematic vis-à-vis internal corporate communications"). In *Vioxx*, for example, the court expressed a difficulty applying the attorney-client privilege in a corporate setting "because modern corporate counsel have become involved in all facets of the enterprises for which they work . . . participat[ing] in and render[ing] decisions about business, technical, scientific, public relations, and advertising issues, as well as purely legal issues." *Id.* at 797. Other courts express similar concerns. *See* PAUL R. RICE, 1 ATTORNEY-CLIENT PRIVILEGE IN THE UNITED STATES § 7.6 (identifying courts' struggles with the subtleties of corporate agents having dual roles as employee and attorney). Courts even allow their concerns about these overlapping legal and business responsibilities to metastasize into a fear that businesses will seek to "immunize internal communications" from otherwise legitimate discovery. *Id.* § 7.2.

> Intent problems arise most frequently in a corporate or other business context when the attorney is in-house counsel. In-house counsel often has responsibilities which extend beyond the mere rendering of legal advice . . . . Many courts fear that businesses will immunize internal communications from discovery by placing legal counsel in strategic corporate positions and funneling documents through counsel (*viz.* addressing documents to the lawyers with copies being sent to the employees with whom communication was primarily intended). . . . As a result, courts require a clear showing that the attorney was acting in his professional legal capacity before cloaking documents in the privilege's protection.

Id. (footnotes omitted).[2]

A. Heightened Scrutiny Applied to In-House Communications

Coursing through some legal opinions is a judicial hostility to the role of in-house lawyers relative to the purpose of communications. This jaundiced viewpoint has undoubtedly lead to heightened scrutiny of the "purpose of" element when applied to in-house counsel's communication in an after-the-fact dispute. *See Rossi v. Blue Cross & Blue Shield*, 73 N.Y.2d 588, 593 (1989). Scrutiny is heightened in the "case of corporate staff counsel, lest the mere participation of an attorney be used to seal off disclosure." *Id.* This heightened scrutiny of in-house lawyers' communications has only increased in the last two decades owing to the growing presence and exacerbating prevalence of email in the work place. PAUL R. RICE, 1 ATTORNEY-CLIENT PRIVILEGE IN THE UNITED STATES § 7.3; *In re Vioxx*, 501 F. Supp. 2d at 798 (unlike more formal methods of communication, the immediacy of email and other forms of electronic communication make it "so convenient" to draw in-house counsel into intra-office communications involving business and legal issues that "might be seen as having some legal significance" regardless of whether the inquiry "is ripe for legal analysis").

B. The Primary Purpose Test

The answer of how best to determine if a "mixed" legal and business communication was made for the purpose of securing legal advice lies in the "primary purpose" or "predominance" test. That test inquires whether mixed legal and business communications were for the *primary* purpose of rendering legal advice or assistance, or whether the legal advice *predominates* the communication. *See, e.g.*, *In re Kellogg Brown & Root, Inc.*, No. 14-5055, 2014 U.S. App. LEXIS 12115, *12-14, 2014 WL 2895939 (D.C. Cir. June 27, 2014) (when attorney-client communications have both legal and business purposes, "many courts (including this one)" use the primary purpose test to resolve privilege disputes); *In re Vioxx*, 501 F. Supp. 2d at 798; *Hercules v. Exxon Corp.*, 434 F. Supp. 136, 147 (D. Del. 1977) ("[o]nly if the attorney is 'acting as a lawyer' – giving advice with respect to the legal implications of a proposed course of conduct – may the privilege be properly invoked."). The primary purpose test is itself no real panacea, requiring courts to draw distinctions that are especially difficult to identify in the business setting. *Cf. United Shoe*, 89 F. Supp. at 359 (court observed lawyers not acting as business advisors "even though occasionally their recommendations had in addition to legal points some economic or policy or public relations aspect and hence were not unmixed opinions of law"); *see also* PAUL R. RICE, 1 ATTORNEY-CLIENT PRIVILEGE IN THE UNITED STATES § 7.6 (test forces a case-by-case analysis).

1. Determining Purpose from Content

Courts look to tease out the "primary purpose" of the communication in various ways. Foremost among them is an obvious focus on the content of the communication itself. *In re Vioxx*, 501 F. Supp. 2d at

---

[2]Compounding the complexity and concern in one court's view is the in-house lawyer's functioning as both legal counsel to the entity and as a client contact for outside counsel. *See Shelton v. Am. Motors Corp.*, 805 F.2d 1323, 1326 n. 3 (8th Cir. 1996).

798; *see also Stoffels v. SBC Communs., Inc.,* 263 F.R.D. 406, 411 (W.D. Tex. 2009) ("The critical inquiry is, therefore, whether any particular communication facilitated the rendition of predominantly legal advice or services to the client."). When non-legal advice is "inextricably intertwined" with legal advice, the whole communication, of course, may be privileged. *Vioxx*, 501 F. Supp. 2d at 798. But legal advice that is simply incidental to a business communication, absent something else, is not sufficient to establish a primary legal purpose. *See Koumoulis v. Indep. Fin. Mktg. Grp.*, 295 F.R.D. 28, 45 (E.D.N.Y. 2013) (even in "outside" counsel context court determined that company primarily sought advice on conducting human resources investigations and, despite fact that outside's counsel's advice may have included some legal advice, predominant purpose was the provision of advice about human resource actions, not legal matters); *Lindley v. Life Investors Ins.*, 267 F.R.D. 382, 402 (N.D. Okla. 2010) (memorandum from assistant general counsel to general counsel labeled as "privileged" was not afforded privilege because despite mixture of legal and business advice, memorandum primarily conveyed business-related content to extent it recited results of taskforce's investigation on ways to better manage insurance claims).

2. Determining Purpose from Lawyer's Activities

Another recognized primary purpose analysis focuses on the specific activities performed by in-house counsel. *See Neuder v. Battelle Pac. N.W. Nat'l Lab.*, 194 F.R.D. 289, 292-93 (D.D.C. 2000). "To be privileged, the communication must relate to the business or transaction for which the attorney has been retained." *Id.* at 293. In *Neuder*, the court evaluated the role occupied by the in-house lawyer who sat on a personnel committee charged with making all personnel-related decisions, including terminating employees. *Id.* at 291. In a wrongful-termination suit, the employer argued that all communications and documents generated by and distributed to the committee were privileged because the in-house lawyer attended the committee meetings to render legal advice. *Id.* Rejecting the employer's argument, the court held that any legal advice sought from the lawyer was merely incidental to the committee's employment action, and the primary purpose of in-house counsel's attendance was to render business rather than legal advice. *Id.* at 293-94. The *Neuder* court did identify, however, certain privileged documents, including notes prepared by various committee members requesting and memorializing advice from in-house counsel that accompanied meeting logs, as well as specific comments in the committee minutes indicating that a committee member was specifically requesting legal advice from in-house counsel. *Id.* at 296. The court ruled that these denotations made by the committee members clearly reflected their intent to seek legal rather than business advice from in-house counsel. *Id.; see also Marten v. Yellow Freight Sys.*, No. 96-2013-GTV, 1998 U.S. Dist. LEXIS 268, at *8-10, 1998 WL 13244 (D. Kan. 1998) (court found that in-house lawyer's participation as voting member on company's employee review committee indicated lawyer's actions went beyond providing legal advice, even though lawyer's legal considerations potentially influenced the committee's vote).

3. Determining Purpose from Organizational Structure

Another factor used in the primary purpose evaluation looks at the attorney's place in the entity's organizational structure. One court went so far as to declare:

> "[t]here is a presumption that a lawyer in the legal department or working for the general counsel is most often giving legal advice, while the opposite presumption applies to a lawyer . . . who works for the Financial Group or some other seemingly management or business side of the house."

Boca Investerings Partnership v. United States, 31 F. Supp. 2d 9, 12 (D.D.C. 1998), *rev'd on other grounds,* 314 F.3d 625 (D.C. Cir. 2003). In *Boca Investerings*, the attorney held the position of "vice president for taxes" and officed in the company's tax department. *See id*. The court contrasted this physical arrangement with the more traditional self-contained "legal department" or an "office of general counsel." *See id*. It furthermore determined the lawyer was not under the direction or control of the general counsel's office. Despite its presumption, the court acknowledged that "[a] lawyer's place on the organizational chart is not always dispositive, and the relevant presumption therefore may be rebutted by the party asserting the privilege." *Id.* The district court ultimately held the challenged memorandum was not privileged because the attorney primarily provided non-legal tax advice to the organization, and the organization failed to show that the memorandum contained any privileged legal advice. *Id.*

4. Funneling

When conducting a "primary purpose" analysis courts are wise to, and wary of, attempts by business organizations to "funnel" potentially sensitive or damaging documents and communications through corporate counsel in an effort to trigger application of privilege. Although evidence of funneling may itself not necessarily be grounds for finding that a non-legal

purpose predominates, it may also be enough for a court to justify imposing a higher burden on the party seeking privilege. This outcome is especially true when the circumstances surrounding the communication indicate that in-house counsel was not the primary intended recipient of the communication and was merely added to the communication in an attempt to protect it from possible disclosure. A "corporation cannot be permitted to insulate its files from discovery simply by sending a 'cc' to in-house counsel." *United States Postal Serv. v. Phelps Dodge Ref. Corp.*, 852 F. Supp. 156, 163 (E.D.N.Y. 1994); *see also* PAUL R. RICE, 1 ATTORNEY-CLIENT PRIVILEGE IN THE UNITED STATES, § 7.2. But the mere fact that a document addressed to in-house counsel was also sent to many other individuals in the organization does not necessarily indicate that it was not prepared for a primary purpose of obtaining legal assistance. *See In re Currency Conversion Antitrust Litig.*, No. 05 Civ. 7116, 2010 U.S. Dist. LEXIS 117008, at *18, 2010 WL 4365548 (S.D.N.Y. Nov. 3, 2010) ("a communication containing legal advice does 'not lose [its] privileged status when shared among corporate employees who share responsibility for the subject matter of the communication.'"). Furthermore, evidence that non-attorneys received a communication to notify them of the legal advice sought from or given by in-house counsel may serve to help satisfy privilege requirements. *See Southeast Pa. Transp. Auth. (SEPTA) v. Caremark PCS Health, L.P.*, 254 F.R.D. 253, 263-64 (E.D. Pa. 2008).

C. Analyzing "Context" to Determine "Purpose"

The Fifth Circuit recently vacated a district court's holding that an in-house attorney's memorandum was "primarily *business* advice rather than *legal* advice." *See Exxon Mobil Corp. v. Hill*, 751 F.3d 379, 381 (5th Cir. 2014) (emphasis in opinion) (vacating district court ruling that attorney-authored memorandum not privileged). The circuit court applied the codified Louisiana attorney-client privilege, which employs the same phraseology as TEX. R. EVID. 503(b)(3), and focused its analysis on the phrase "*made for the purpose of facilitating the rendition of professional legal services to the client*." *Id.* (emphases in opinion). Most notably, the court looked to the *context* of the memorandum at issue, which addressed disclosure of certain company controlled data during contract negotiations. The court said:

> Context here is key: The document was prepared during contract negotiations in which both sides were assisted by legal counsel. The negotiations, according to the record, involve a number of legal issues, including indemnity for downstream tort claims, storage and handling of nuclear residue, licensure, trade secrets, and other issues.
>
> Disclosure of material facts is a universal concern in contract law. When [the opposite contracting party] requested internal data prepared by and on behalf of Exxon Mobil, it is no surprise that Exxon Mobil would seek advice from its attorney as to how to respond. All of this is to say that the *context* in which the Stein Memo was produced—even before we say anything of the memorandum itself—strongly suggests that Exxon Mobil was approaching its in-house counsel for just the sort of lawyerly thing one would expect of an in-house lawyer: advice on transactional matters. Though we recognize that in-house counsel can often play a variety of roles within an organization, this record is devoid of any indication that Stein was providing business advice divorced from its legal implications.

Id. at 382 (emphasis added). This cited passage makes clear the Fifth Circuit's focus on the context of the communication when attempting to determine the purpose of the communication. Having first established the context, only then did the court turn to the content.

> Especially when viewed in context, the Stein Memo cannot be mistaken for anything other than legal advice. Stein drafted a proposed response to [the opposite contracting party] in which she included elaborate language disclaiming liability for any reliance [that other party] may have on the data, stating that the data was prepared for Exxon Mobil's own internal use and disclaiming any warranty as to the accuracy of the test results. The manifest purpose of the draft was to deal with what would be the obvious reason Exxon Mobil would seek its lawyer's advice in the first place, namely to deal with any legal liability that may stem from under-disclosure of data, hedged against any liability that may occur from any implied warranties during complex negotiations.

Id. at 382 (footnote omitted). Whether *Exxon Mobile* reflects a significant turn toward "context" in the "purpose of" analysis remains to be seen, but the court's focus on divining context before diving into a content inquiry may prove helpful to business entities trying to protect mixed legal and business communications. Certainly, a more significant turn for business entity clients is another circuit court opinion declaring the

"primary purpose" test simply means that seeking legal counsel need be but only *one* of the significant purposes of the communication for the privilege to attach.

D. One of the Significant Purposes

In the context of a mixed-purpose internal investigation in which the company sought both legal and non-legal advice from in-house counsel, the D.C. Circuit Court of Appeals rejected a district court's "but for" reading of the primary purpose test and instructed that a mixed business and legal communication satisfies the primary purpose test so long as obtaining legal advice is *one* of the primary purposes of the mixed communication. *In re Kellogg Brown & Root, Inc.*, No. 14-5055, 2014 U.S. App. LEXIS 12115, 2014 WL 2895939 (D.C. Cir. June 27, 2014) (vacating district court opinion). In *Kellogg*, the defense contractor's former employee filed a False Claims Act complaint alleging that a KBR subcontractor defrauded the United States Government by inflating costs and accepting kickbacks on military contracts. *See id.* at *2. KBR admittedly conducted an internal investigation of the charges 1) because its corporate policy required it, given the fact the claims involved allegations of fraud; and 2) to comply with U.S. Department of Defense regulations that it report improper conduct relative to a contract. *Id.* at *3. During discovery the employee sought production of documents relating to KBR's internal investigation. KBR refused, asserting the attorney-client privilege applied because the company had conducted the investigation under the direction of its in-house counsel. The district court ordered production, finding KBR "had not shown that 'the communication would not have been made 'but for' the fact the legal advice was sought,'" but rather, was "undertaken pursuant to regulatory law and corporate policy . . . ." *Id.* In short, the district court reasoned that conducting the investigation to obtain legal advice may have been one of the reasons KBR conducted the investigation, but the primary purpose for conducting the investigation (and hence the communications passing to counsel during it) was to satisfy corporate policy and the regulatory requirement.

The district court distinguished the internal investigation at issue on three grounds from the investigation evaluated by the Supreme Court in *Upjohn*. First, the KBR investigation was overseen entirely by in-house counsel without consulting outside attorneys. *See id.* at *7. Second, KBR's in-house counsel directed non-attorneys to conduct employee interviews, while all of the interviews in *Upjohn* were conducted by attorneys. *See id.* *7-8. Lastly, in *Upjohn* the attorneys expressly informed the interviewed employees that the purpose of the interview was to assist the company in obtaining legal advice, but in *Kellogg* the interviewed employees signed a confidentiality agreement that did not mention the purpose of the investigation. *Id.* at *8-9. The D.C. Circuit vacated the district court's ruling. Correcting the district court's erroneous *Upjohn* distinctions, the circuit court reasoned that a privilege claim is not affected simply because in-house counsel never contacted outside counsel. *Id.* at *7. Furthermore, the circuit court explained that confidentiality is not necessarily waived because non-attorneys conducted interviews at the direction of in-house counsel. *Id.* at *8-9. Non-attorneys often serve as agents to in-house counsel, rendering those non-attorneys' communications nonetheless privileged as a representative of the attorney. *Id.*; *see also* TEX. R. EVID. 503 (representative of a lawyer). Lastly, the D.C. Circuit noted that attorney-client privilege does not require that the company inform the employees that interviews are being conducted for the purpose of obtaining legal advice. *See id.* at *9. More important was the fact that employees were expressly told not to discuss their interviews without authorization of the company's general counsel. *Id.*

Ultimately, the D.C. Circuit rejected the trial court's "but for" reading of the primary test, *i.e.*, the primary purpose of a communication is to obtain or render legal advice "only if the communication would not have been made 'but for' the fact legal advice was sought." Adopting a much broader interpretation, the court explained that the primary purpose test requires the reviewing court to determine whether obtaining "legal advice was *a* primary purpose of the communication", or as otherwise stated, "one of the significant purposes" of the communication. *Id.* at *12-14. (emphasis in opinion) The D.C. Circuit made the following significant pronouncement:

> So long as obtaining or providing legal advice was one of the significant purposes of the internal investigation, the attorney-client privilege applies, even if there were also other purposes for the investigation and even if the investigation was mandated by regulation rather than simply an exercise of company discretion.

Id. at *10.

> Given the evident confusion in some cases, we also think it important to underscore that the primary purpose test, sensibly and properly applied, cannot and does not draw a rigid distinction between a legal purpose on the one hand and a business purpose on the other. After all, trying 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 or B when the purpose was A and B. It is thus not correct for a court to presume that a communication can have only one primary purpose. It is likewise not correct for a court to try to find *the* one primary purpose in cases where a given communication plainly has multiple purposes. Rather, it is clearer, more precise, and more predictable to articulate the test as follows: Was obtaining or providing legal advice *a* primary purpose of the communication, meaning one of the significant purposes of the communication? As the Reporter's Note to the RESTATEMENT says, 'In general, American decisions agree that the privilege applies if one of the significant purposes of a client in communicating with a lawyer is that of obtaining legal assistance.'

1 RESTATEMENT § 72, Reporter's Note, at 554.

> We agree with and adopt that formulation – 'one of the significant purposes' – as an accurate and appropriate description of the primary purpose test. Sensibly and properly applied, the test boils down to whether obtaining or providing legal advice was one of the significant purposes of the attorney-client communication.

Id. at *12-13 (emphasis in opinion). Notably, the court twice used the phrase "sensibly and properly applied" to describe how district courts are to analyze mixed communications. *Kellogg* is likely to have a major effect on the primary purpose test. Business entities can be expected to argue for application of the "one of the significant purposes" analyses, whereas opposing parties trying to pierce the privilege will argue *Kellogg* should be limited to internal investigations. To be sure, *Kellogg* is likely to represent a turning away from the complex, confusing, and sometimes contrived analysis courts apply to "mixed" communications.

E. Investigations

As reflected in the *Kellogg* decision incident investigations are a fertile source of privilege disputes. Interpreting Texas law, the United States District Court for the Southern District of Texas evaluated whether an energy company was entitled to claim privilege over two documents identified in its privilege log – an email and a memorandum. *Suzlon Wind Energy Corp. v. Shippers Stevedoring Co.*, 662 F. Supp. 2d 623, 658-59 (S.D. Tex. 2009). The email, prepared by one of the company's officers and sent to multiple individuals, including the company's in-house counsel, factually summarized an accident that led to the litigation. *Id.* The memorandum was prepared by in-house counsel and sent to the company's CEO, the CEO for the company's subsidiary, and in-house counsel for the company's subsidiary. *Id.* at 659. Following an *in camera* review of both documents, the court ruled that the email was merely intended to act as notice of the accident to individual's at the company and was not intended to facilitate the rendition of legal advice from in-house counsel. *Id.* As for the memorandum, citing Texas case law, the court determined in-house counsel created the report in his capacity as the company's lawyer, not merely as an investigator. *Id.* (citing *In re Texas Farmers Ins. Exch.*, 990 S.W.2d 337 (Tex. App.—Texarkana 1999, pet. denied) and *Harlandale Indep. School Dist. v. Cornyn*, 25 S.W.3d 328 (Tex. App.—Austin 2000, pet. denied)). Furthermore, the context of counsel's investigation, preparation, and dissemination of the memorandum report indicated a clear desire to maintain confidentiality of its contents. *Id.* (noting that the memorandum was disclosed to senior officers and in-house counsel only).

VI. THE CLIENT

There is no question than an entity may function as the client and hold the privilege. But "complications in the application of the privilege arise when the client is a corporation, which in theory is an artificial creature of the law, and not an individual." *Upjohn*, 449 U.S. at 389-90. Texas legal ethics rules furthermore instruct that when an attorney represents an organization rather than an individual, the attorney represents the entity, not the individuals that own, operate, or are employed by the entity, although those individuals may act for the entity. *See* TEX. DISCIPL. R. PROF'L CONDUCT 1.12. Similarly, "[a] lawyer employed or retained by an organization represents the organization acting through its duly authorized constituents." ABA MODEL R. PROF'L CONDUCT 1.13. In order to define the scope of the privilege, it is necessary to determine who qualifies as the "client."

A. Federal Law

Over thirty years ago, the United States Supreme Court in *Upjohn* analyzed federal treatment of attorney-client privilege for business entities, evaluating the two tests developed by the circuits – the "control group" test and the "subject matter" test. *Upjohn*, 449 U.S. at 389. The more rigid "control group" test arose from an opinion by the United States District Court for the Eastern District of Pennsylvania. *City of Philadelphia v. Westinghouse Elec. Corp.*, 210 F. Supp. 483 (E.D. Pa. 1962), *pet. for mandamus and prohibition denied sub. nom.*, *Gen. Elec. Co. v. Kirkpatrick*, 312 F.2d 742 (3d Cir. 1962), *cert. denied*,

372 U.S. 943, 83 S. Ct. 937, 9 L. Ed. 2d 969 (1963). The "control group" test applies the privilege only to communications between corporate counsel and upper-level managers and officers authorized to seek and act on the legal advice on behalf of the business entity. *See Upjohn*, 449 U.S. at 391; *Radiant Burners, Inc. v. Am. Gas Ass'n*, 320 F.2d 314, 323-24 (7th Cir. 1963). Application of the "control group" test restricted the scope of the "client" for privilege purposes and, furthermore, created problems for in-house counsel conducting investigations that required communicating with lower-level employees. *See* Cullen M. Godfrey, *Recent Developments: The Revised Attorney-Client Privilege for Corporations in Texas*, 30 TEX. TECH L. REV. 139, 144-45 (1999) (discussion of the many difficulties created by application of control group test in corporate setting). On the other hand, the "subject matter" test extended the understanding of the scope of "client" to lower-level employees who possessed knowledge of the subject matter pertaining to the attorney's advice and communicated with the attorney at the direction of corporate superiors despite the fact their respective job functions fell outside of the "control group." *Harper & Row Publishers, Inc. v. Decker*, 423 F.2d 487, 491-92 (7th Cir. 1970), *aff'd per curiam by divided court*, 400 U.S. 348, 91 S. Ct. 479, 27 L. Ed. 2d 433 (1971).

The Supreme Court in *Upjohn* rejected the "control group" test. The Court found the control group test "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." *Upjohn*, 449 U.S. at 392. The Court faulted the control group analysis for focusing only on the ability of someone in corporate management to act on the advice of counsel, while ignoring the need of corporate attorneys to obtain the type of information from lower-level employees often required to give reasoned legal advice. *Id.* at 395. The Court nonetheless expressly refused to adopt the "subject matter" test but did tacitly bless its scope and elements. In that regard, the Court stated an entity's attorney-client privilege must be determined on a case-by-case basis after evaluating whether:

1) the information helped the attorney provide legal advice to the company;
2) the communications related to the employee's corporate duties;
3) the employee was "sufficiently aware" of the purpose of the attorney's inquiry; and
4) the communication was kept confidential.

Upjohn, 449 U.S. at 394. More than three decades after its issuance, the *Upjohn* opinion remains the foremost precedent on corporate attorney-client privilege, and its analysis still guides courts in applying the attorney-client privilege to an attorney's representation of a business entity. *See, e.g., Freescale Semiconductor, Inc. v. Maxim Integrated Prods.*, No. A-13-CV-075-LY, 2013 U.S. Dist. LEXIS 155391, at *11, 2013 WL 5874139 (W.D. Tex. Oct. 30, 2013) (applying *Upjohn* analysis to determine privilege applied to anonymous communications between employee-whistleblower and corporate counsel via online reporting service). The *Freescale* court found that communications between the whistleblower and the corporation's general counsel satisfied the *Upjohn* test because the information the employee whistleblower provided was intended to assist the general counsel with an internal investigation, just like the questionnaires at issue in *Upjohn*. *Id.*

B. Texas Law

The current form of Texas Rule of Evidence 503 embraces a dual model utilizing both the "control group" and "subject matter" tests. The rule defines a "representative of the client" as "a person having authority to obtain professional legal services, or to act on advice thereby rendered, on behalf of the client" (incorporating the control group test), or "any other person who, for the purpose of effectuating legal representation for the client, makes or receives a confidential communication while acting in the scope of employment for the client" (incorporating the subject matter test). TEX. R. EVID. 503(a)(2)(A) & (B).

> "Rule 503(b) protects not only confidential communications between the lawyer and client, but also the discourse among their representatives . . . [and] is an exception to the general principle that the privilege is waived if the lawyer or client voluntarily discloses privileged communications to a third party."

In re XL Specialty Ins., 373 S.W.3d at 49-50.

Prior to an amendment to Rule 503 in 1998, Texas exclusively followed the "control group" test as currently codified in Texas Rule of Evidence 503(a)(2)(A). Application of the rigid control group test led the Texas Supreme Court in *National Tank Co. v. Brotherton* to reject a party's argument that the corporate attorney's communication with an employee was privileged pursuant to the Supreme Court's holding in *Upjohn*. *See* 851 S.W.2d 193, 198 (Tex. 1993). Noting that the Texas Rules of Evidence only recognized privileged communications under the "control group" test at the time, the court ruled the *Upjohn* decision did not affect the scope of the attorney-client privilege provided by Rule 503. *See National Tank*, 851 S.W.2d at 198. Following its

decision in *National Tank*, the Texas Supreme Court's 1998 rule revision extended the privilege to communications involving non-control group representatives having authority to act on counsel's advice or those who make or receive advice in the course of employment. *See* TEX. R. EVID. 503(a)(2)(B); *In re Monsanto Co.*, 998 S.W.2d 917, 922 (Tex. App.—Waco 1999, no pet.). "The adoption of the subject matter test by Texas represents an alignment with the reasoning of the United States Supreme Court in *Upjohn* . . . ." *Nat'l Converting & Fulfillment Corp. v. Bankers Trust*, 134 F. Supp. 2d 804, 806 n. 1 (N.D. Tex. 2001).

> The "subject matter" test deems an employee's communication with the corporation's attorney privileged if two conditions are satisfied. First, that the communication is made at the direction of her superiors in the corporation. Second, where the subject matter upon which the attorney's advice is sought by the corporation and dealt with in the communication is the performance by the employee of the employee's duties of her employment.

In re USA Waste Mgmt. Res., 387 S.W.3d 92, 96 (Tex. App.—Houston [14th Dist.] 2012, no pet.). Although Texas Rule of Evidence 503 reflects something of a "hybrid" test utilizing independent elements of both the "control group" test and "subject matter" test, the Texas Supreme Court has noted that the amendment to Rule 503 effectively replaced the "control group" test with the "subject matter" test. *See In re El DuPont de Nemours & Co.*, 136 S.W.3d 218, 225 n. 3 (Tex. 2004) ("However, for attorney-client privilege, the subject matter test has replaced the control group test pursuant to the amendment of Rule 503.").

VII. MAINTAINING CONFIDENTIALITY

Oftentimes, evaluating whether a business organization is entitled to assert privilege over attorney-client communications requires not only an analysis of who produced the communication, but also to whom the communication was disseminated. Disclosure of documents or communications to third parties waives the confidentiality of the communication, as "[w]hat is vital to the privilege is that the communication be made *in confidence* for the purpose of obtaining *legal advice from the lawyer*." *United States v. El Paso Co.*, 682 F.2d 530, 538 (5th Cir. 1982) (emphasis in original); *see also Arkla, Inc. v. Harris*, 846 S.W.2d 623, 629 (Tex. App.—Houston [14th Dist.] 1993, no pet.) (if client attempts to assert privilege over matter that has been disclosed to third party, client bears burden to prove that no waiver occurred). The privilege is waived when the client voluntarily discloses confidential or privileged communications to a third party. *See* TEX. R. EVID. 503(a)(5); *In re Royce Homes, LP*, 449 B.R. 709, 724-25 (Bankr. S.D. Tex. 2011) ("Courts ask whether a party intended to provide third parties access to his or her confidential attorney-client communications in determining whether disclosure was voluntary."); *see also In re Carbo Ceramics*, 81 S.W.3d 369, 376 (Tex. App.—Houston [14th Dist.] 2002, no pet.) (designating individual as fact witness and listing privileged letter as trial exhibit list indicated production was intentional and voluntary rather than involuntary, thereby waiving privilege).

A. Examples of Waiving Confidentiality

A party's failure to assert the privilege when confidential information is sought during legal proceedings can constitute a voluntary disclosure. *Nguyen v. Excel Corp.*, 197 F.3d 200, 206-07 (5th Cir. 1999) (court ruled that corporation voluntarily waived privilege by not objecting to opposing counsel's deposition questions to corporate executives regarding confidential communication with corporate counsel); *Axelson, Inc. v. McIlhany*, 755 S.W.2d 170, 177-78 (Tex. App.—Amarillo 1988, orig. proceeding) (disclosure of confidential communications to government investigators and media waives confidentiality requirement of attorney-client privilege), *aff'd in part* and *rev'd in part*, 798 S.W.2d 550, 554 (Tex. 1990) ("Since there was evidence that the investigation was disclosed to the FBI, IRS, and *The Wall Street Journal*, the court of appeals properly held [the attorney-client] privilege[] had been waived."). Much like a brushfire that grows into a wildfire, a so-called "limited" waiver can be hard to contain. "Disclosure of any significant portion of a confidential communication waives the privilege as a whole." *See id.* at 208. In *Nguyen*, the court found that corporate executives' deposition testimony disclosing the directions they gave to the company's attorneys, as well as the legal research the attorneys conducted, waived the company's privilege over the attorneys' conclusions based on their research that the attorneys had communicated back to the executives. However, waiver of the privilege to one document does not cause "an automatic blanket waiver" of all other allegedly privileged documents. *In re Carbo Ceramics*, 81 S.W.3d at 377 (although defendant had waived privilege to letter by voluntarily disclosing it to third parties, waiver remained limited to that letter and did not waive privilege on other documents not so disclosed).

B. Qualifying as Confidential

To qualify as "confidential" under the Texas Rules

of Evidence, a communication must be of the type that is "not intended to be disclosed to third persons other than those to whom disclosure is made in furtherance of the rendition of professional legal services to the client or those reasonably necessary to the communication." TEX. R. EVID. 503(a)(5). The party asserting privilege must bring forward evidence to show the confidentiality of the communication. *See Griffin v. Smith*, 688 S.W.2d 112, 114 (Tex. 1985) (per curiam). In *Griffin*, the plaintiff sought to depose a corporate defendant's vice president and general counsel concerning his knowledge of allegedly slanderous statements made about plaintiff. The in-house lawyer refused to testify citing the attorney-client privilege. The trial court's ruling upholding the privilege assertion was in error, however, because there was "no evidence" in the record "to support a finding that any of the communications . . . meet the confidentiality requirement" of Rule 503. *Id.*

In *Mariner Health Care Inc. v. Indemnity Co.*, the district court evaluated whether an attorney retained by the insurer to analyze the policy holder's claim and advise on coverage of that claim could be deposed regarding certain of her activities. No. 3:04-MC-039-M, 2004 U.S. Dist. LEXIS 29914, at *16-19, 2004 WL 2099870 (N.D. Tex. Sept. 20, 2004) (applying Texas law of privilege). Plaintiffs asserted that the attorney acted as a "factual investigator," participating in meetings with plaintiffs and other third parties, which waived the company's claim that her communications were privileged and hence, subjected her to discovery. *Id.* at **4-5. The corporation opposed the deposition. The court first determined the privilege applied to the attorney's factual investigation because "[i]t is not possible to give a legal opinion without performing an investigation or collecting information." *Id.* at *10 (quoting *Harlandale Indep. Sch. Dist. v. Cornyn*, 25 S.W.3d 328, 333 (Tex. App. – Austin 2002, pet. denied)). "The letters she wrote, the meetings she attended, and the conversations she had with third parties were to make sure she had the facts needed to provide her client with sound legal advice." *Id.* The court then evaluated whether the attorney's communications with the insured and insured's counsel were privileged under the "confidentiality" requirement as defined under Rule 503(a)(5). *Id.* at *15. The court ruled that the insurance company could not protect the attorney's participation in meetings with the insured and with their counsel under Rule 503 because her presence constituted an underlying fact rather than a confidential communication. *See id.* at *18. Furthermore, the court ruled the fact that the attorney authored several letters to the insured, although signed by someone else, was not confidential. *Id.* at *18. Finally, as to the deposition, the court denied the insured's request under established authority that deposition of counsel is "disfavored" and the same factual information known to the attorney was "available from other sources." *Id.* at *21-26.

In *United States v. El Paso Co.*, in-house tax attorneys for the company participated in preparing accounting and tax analysis documents and memoranda assessing the company's potential tax liabilities. 682 F.2d at 538-39. These types of documents were commonly known as "tax pool analyses." The Fifth Circuit considered the company's claim that the tax pool analysis and related memoranda were privileged attorney-client communications. *Id.* at 538. Attorneys for the IRS argued that the tax documents were drafted for business purposes, and that the company's attorneys did not participate in the creation of the tax documents for purposes of rendering legal advice. *Id.* at 539. The court first noted that publicly traded companies like El Paso must (1) prepare a tax pool analysis or similar analysis of contingent tax liabilities and (2) disclose that determination in its financial reports. *Id.* at 534-535 (tax pool analysis "prepared for financial reporting purposes alone . . ." and "undertaken solely to ensure . . . corporation sets aside on its balance sheet a sufficient amount to cover contingent tax liability"). The court then expressed its "reluctance" to hold that an attorney's analysis of "soft spots" in the company's tax returns and in-house lawyers' judgments on the potential outcome of litigation were not legal advice. *Id.* 539 (assuming licensed lawyers in tax department were providing legal and not accounting advice). Rather than pinning its analysis on the role of the attorneys acting as lawyers in the preparation of the tax documents, the court instead focused on confidentiality. *Id.* 539-40 (any need "to cloak these communications with secrecy, however, ends when the secrets pass through the client's lips to others"). The court noted that company officials discussed "some of the information and many of the potential tax liability issues" with independent auditors and sent both the tax pool analysis as well as supporting memoranda to its auditors. *See id.* at 539-40. As a result, El Paso "neither expected nor preserved" confidentiality and the attorney-client privilege did not apply. *Id.* at 540-41. The company created the documents "with the knowledge that independent accountants may need access to them to complete the audit." *Id.* at 540. Therefore, the court found, the company breached the confidentiality element required to shield the documents and related communications. *Id.* at 542.

In an oil and gas dispute, the plaintiffs argued a company waived confidentiality as to three emails regarding potential royalty interests on leased property. *In re Small*, 346 S.W.3d 657, 665 (Tex. App.—El Paso 2009, no pet.). All three emails included corporate counsel as either the sender or recipient, and an affidavit by one of the company's directors affirmed

that all communications were related to title work conducted at the corporate attorney's direction. *Id.* at 664. Recipients of the emails were a company executive, another "high-level" employee, and a professional landman. The court of appeals reversed the trial court's order directing the company to produce the emails. There was no indication according to the court of appeals that the emails had been disclosed to "third persons other than those [] to whom disclosure [was] made 'in furtherance of the rendition of professional legal services to the client or those reasonably necessary for the transmission of the communication.'" *See id.* (all recipients of the emails acted within scope of the corporate structure) (citing TEX. R. EVID. 503(a)(5)).

C. Maintaining Confidentiality under "Need to Know" Analysis

In a business entity or other organization, confidentiality is not necessarily destroyed or waived simply because the communication may be sent to multiple individuals within or even without the organization. *FTC v. GlaxoSmithKline*, 294 F.3d 141, 147 (D.C. Cir. 2002); *Diversified Indus., Inc. v. Meredith*, 572 F.2d 596, 602 (8th Cir. 1977). Courts permit "need-to-know" individuals to have access to privileged communications, allowing the organization to retain the privilege so long as it can show that the individuals granted access are those who reasonably "need to know" the content of the communication in their role in the organization. *See Diversified Indus.*, 572 F.2d at 606 ("the corporation must establish that the communication was not disseminated beyond those with the need to know"); *see also Muro v. Target Corp.*, 243 F.R.D. 301, 305-06 (N.D. Ill. 2007) (privilege can be waived "if the communication is shared with corporate employees who are not 'directly concerned' with or did not have 'primary responsibility' for the subject matter of the communication").

D. "Functional Equivalent" of Employee

The fact that an individual is not an employee of the organization does not necessarily leave the communication outside the scope of confidentiality. Communications with an "outsider" who acts as a "functional equivalent" of an employee may be privileged if the non-employee has a significant relationship with the organization and possesses the "very sort of information that the privilege envisions flowing most freely." *In re Bieter Co.*, 16 F.3d 929, 937-38 (8th Cir. 1994) (commercial and retail development consultant was "in all relevant respects the functional equivalent of an employee" for purposes of applying the attorney-client privilege). In *Bieter*, the consultant regularly worked out of the company's office, often acted as the sole representative in meetings and certain business deals, and was considered the only person with knowledge of the relevant facts surrounding the litigated transaction. For these reasons, the court looked past the legal nature of his status as an independent contractor and instead focused on the "functional" aspects of his relationship with the company. *Id.* at 938; *see also GlaxoSmithKline*, 294 F.3d at 148 (sharing communication with outside public relations and governmental affairs consultants who had significant relationship to company and who were "completely intertwined" with company's legal strategy did not waive company's privilege). The D.C. Circuit in *GSK* reasoned that "there is no reason to distinguish between a person on the corporation's payroll and a consultant hired by the corporation if each acts for the corporation and possess the information needed by attorneys in rendering legal advice." *GalxoSmithKline*, 249 F.3d at 148. Corporate counsel "worked with the[] consultants in the same manner as they did with full-time employees; indeed, the consultants acted as part of a team with full-time employees regarding their particular assignments . . . bec[oming] integral members of the team assigned to deal with issues [that] . . . were completely intertwined with [defendant's] litigation and legal strategies." *Id.*

VIII. DUAL REPRESENTATION BY IN-HOUSE (OR OUTSIDE) COUNSEL: THE IDENTITY OF THE "CLIENT" AND AN EMPLOYEE'S PURPORTED "PERSONAL" PRIVILEGE ALONGSIDE THE COMPANY'S PRIVILEGE

A corporation or other organizational "inanimate entity can only act through agents [because the entity] cannot speak directly to its lawyers." *Commodity Futures Trading Cmm'n v. Weintraub*, 471 U.S. 343, 348 (1985). In the context of government investigations, be they civil, criminal or parallel, the organization will often waive its privilege in return for a "favorable" disposition or resolution. Nonetheless, some corporate officers, directors, employees and other agents who communicated with corporate counsel relative to the underlying matters will later attempt to claim a "personal" attorney-client privilege over *their* communications – after the corporation waives its privilege – in an effort to shield those communications from reaching the government. This circumstance involves a corporate officer's or director's "personal" privilege analysis, given that it is the entity, the director or officer, or both that, as a "client," is simultaneously claiming or waiving the privilege. *See, e.g., United States v. Graf*, 610 F.3d 1148, 1157 (9th Cir. 2010) (corporate representative claiming privilege relating to communications with general counsel despite corporation's voluntary waiver of privilege). The issue of dual representation and waiver can also arise when a change in control occurs, be it a new

corporate owner or a bankruptcy trustee stepping into the shoes of the former company. *Weintraub*, 471 U.S. at 349 ("Displaced managers may not assert the privilege over the wishes of current managers, even as to statements that the former might have made to counsel concerning matters within the scope of their corporate duties.").

The Third Circuit's "*Bevill* Test" is the recognized standard for determining whether a corporate employee holds a "joint" privilege over his or her communications with corporate counsel. *In re Bevill*, 805 F.2d 120, 123 (3d Cir. 1986); *Graf*, 610 F.3d at 1160 (adopting *Bevill* analysis and noting First, Second, and Tenth Circuits have expressly adopted and applied the standard). *Bevill* requires that an employee establish five elements – principle of which is that an attorney-client relationship existed between the employee and corporate counsel:

a) the employee approached the organization's counsel for purposes of seeking legal advice;
b) the employee made clear to counsel that he was seeking legal advice in his *individual* capacity and not solely in his representative capacity;
c) the *lawyer agreed* to represent the employee and communicate with him in his individual capacity despite the presence of the dual representation conflict;
d) communications between the lawyer and employee were confidential; and
e) substance of the communications did not concern the organization's business or its general affairs.

In re Bevill, 805 F.2d at 123 ("any privilege that exists as to a corporate officer's role and functions within a corporation belongs to the corporation, not the officer"); *Graf*, 610 F.3d at 1160-61. The *Bevill* analysis does not invade an officer's or director's personal attorney-client privilege because neither has a privilege relative "to communications made in their role as corporate officials." *Bevill*, 805 F.2d at 125. If an individual officer, director, employee, or other agent can satisfy the *Bevill* analysis, then the employee conceivably may prevent disclosure of privileged communications even after the corporation has waived its privilege. *See, e.g.*, *Graf*, 610 F.3d at 1157 (functional equivalent employee's communications to in-house not privileged); *In re Grand Jury Subpoena*, 274 F.3d 563, 571-72 (1st Cir. 2001) (disclosure prevention only extends to specific communications made in "corporate officer's personal capacity [that] are separable from those made in his corporate capacity"); *In re Bevill*, 805 F.2d at 123 (officers failed to satisfy test). To date, no Texas court has formally adopted the *Bevill* test.

IX. DUTY OF LOYALTY DURING LITIGATION OR INVESTIGATION: CORPORATE "*MIRANDA* WARNING"

When a lawyer for an organization communicates with a director, officer, employee, or other "constituent" of the organizational client the lawyer must explain to the individual that the entity is the client, and not the individual in two instances: "when it is apparent that the organization's interests are adverse to those of the constituent [] with whom the lawyer is dealing or when explanation appears reasonably necessary to avoid misunderstanding on [the constituent's] part." TEX. DISCPL. R. PROF'L CONDUCT 1.12(d); *see also* ABA MODEL RULE 1.13(f). This obligation does not rest within the attorney-client privilege *per se*, but with the attorney's professional responsibility obligations. TEX. DISCPL. R. PROF'L CONDUCT 1.12. To avoid potential confusion, the lawyer's disclosure should address four key points:

a) that he or she represents the organization and not that person individually;
b) that he or she is communicating with the individual for purposes of gathering facts to provide legal advice to the organization;
c) that the individual's communications with the attorney are privileged, but that the organization alone holds the privilege; and
d) that the individual may not disclose the substance of the communication to any third party, whether inside or outside the organization, except when discussing the communications with the individual's attorney.

ABA MODEL RULE 1.13 cmt. 10; *see also* TEX. DISCPL. R. PROF'L CONDUCT 1.12 cmt. 4 (attorney should explain that he or she represents the organization, that he or she cannot represent constituent if there is an adversity of interest, and that constituent's disclosures to attorney may not be privileged as far as individual constituent is concerned). The attorney should also advise the individual to consider obtaining independent legal counsel. *See id.* This disclosure obligation does not preclude an attorney from representing an organization and its director, officer, employee, or other constituent so long as there is no conflict of interest precluding such "dual" representation. TEX. DISCPL. R. PROF'L CONDUCT 1.12 cmt. 5.

Dual representation, failure to give the disclosure, or both can result in problems for counsel regardless of whether he or she is in-house or outside counsel. In *United States v. Rhuele*, the company was under criminal investigation for improperly backdating stock options. 583 F.3d 600, 602-03 (9th Cir. 2009). The

company hired outside counsel to conduct an investigation, and determined it would self-report any problems with its financial reports and fully cooperate with government regulators. *Id.* Outside counsel interviewed the company's CFO as part of the internal review. At that time outside counsel was already defending the company and the CFO individually in a securities fraud class action lawsuit. In the interview counsel advised the CFO to secure independent counsel regarding possible individual claims against him relative to the options back-dating inquiry. *Id.* at 604. Following completion of the internal review and the company's report to governmental authorities, outside counsel, at the company's instruction, disclosed the contents of counsel's conversations with the CFO and others to government investigators. *Id.* at 605. When the CFO learned the government intended to use the contents of those conversations to support criminal charges against him, he objected and claimed the communications were shielded by his attorney-client privilege with outside counsel relative to the options back-dating inquiry. *Id.* Neither the CFO nor outside counsel fared well.

The district trial court condemned the conduct of outside counsel, finding that the CFO had a "reasonable belief" outside counsel were jointly acting as his and the company's attorney in the options back-dating investigation, and ordered the communications suppressed from the evidence. *Id.* at 606 (district court referred attorneys' conduct to the state bar disciplinary authority). On the government's interlocutory appeal, the Ninth Circuit reversed. First, the Ninth Circuit ruled that the trial court erroneously applied too broad of a view of the privilege and improperly placed the burden on the government to negate the existence of the privilege. *Id.* at 609 (trial court failed to strictly interpret and narrowly apply privilege as required under federal common law). Second, the CFO's belief his back-dating conversations with counsel were confidential to him personally was not reasonable. In his testimony the CFO acknowledged an understanding that outside counsel intended to disclose "all information" obtained through the internal investigation to government authorities. *Id.* at 610 (contrary to the confidentiality element of the privilege). Third, outside counsel's potential violation of the California Rules of Professional Conduct did not warrant suppression of evidence. *Id.* at 613 ("[I]n some cases, material protected by the attorney-client privilege may come to light as a result of counsel's breach of a duty of confidentiality, [b]ut it is the protected nature of the information that is material, not the ethical violation by counsel."). Furthermore, a "state rule of professional conduct cannot provide an adequate basis for a federal court to suppress evidence that is otherwise admissible." *Id.* (quoting *United States v. Lowery*, 166 F.3d 1119, 1124 (11th Cir. 1999)). Outside counsel's failure to obtain written consent from the CFO while simultaneously counseling the company to disclose communications from the investigation was "troubling," but this conduct did not create an independent basis for suppressing the CFO's statements. *Id.*

X. CONFIDENTIALITY OF EMPLOYEE'S PERSONAL PRIVILEGED COMMUNICATIONS

Confidentiality of an individual employee's communications in a corporate setting is a major issue potentially limiting an individual employee's assertion of a personal privilege over communications with personal counsel. After "extensively review[ing] the law of waiver in the context of the attorney-client privilege," the United States Bankruptcy Court for the Southern District of Texas evaluated whether attorney-client privilege protected an individual employee's emails that were transmitted on the debtor-company's servers. *See In re Royce Homes, LP*, 449 B.R. 709, 733 (Bankr. S.D. Tex. 2011). In *Royce Homes*, the former CEO asserted that thousands of emails sent from his work computer to the company's attorney, who also represented him individually in certain matters, were privileged from production to or review by the company's (*i.e.*, the estate's) bankruptcy trustee. *Id.* "In order to satisfy the Fifth Circuit's definition of a confidential communication, the party invoking the attorney-client privilege must have had a reasonable expectation of confidentiality or privacy." *Id.* In analyzing whether an individual employee waives his attorney-client privilege by transmitting or storing communications on company property, the court considered the following factors:

a) does the corporation maintain a policy of banning personal or other objectionable use,
b) does the company monitor the use of the employee's computer or email,
c) do third parties have a right of access to the computer or emails, and
d) did the corporation notify the employee, or was the employee aware, of the use and monitoring policies?

Id. at 735 (quoting *In re Asia Global Crossing, Ltd.*, 322 B.R. 247, 257 (Bankr. S.D.N.Y. 2005)). The court found that (1) the former CEO knew that communications were monitored by the company, (2) he was notified of this fact per the company's employee handbook, and (3) his former secretary advised him she was copying her computer's hard drive for the bankruptcy trustee. *Id.* at 732-33. Therefore, the court ruled, the executive did not have a reasonable expectation that his personal email communications with counsel would remain confidential, and he waived

any attorney-client privilege by failing to maintain confidentiality over the communications. *Id.* at 733. The *Royce* result may have turned differently had the former CEO acted when told by his former secretary of the trustee's intent to copy her hard drive, to which the CEO raised no objection. Even though the lawyer in *Royce Homes* also acted as counsel to the company, this fact did not materially factor into the court's analysis relative to privilege or waiver, and there appeared to be no dispute that the former company counsel and CEO had an attorney-client relationship separate and apart from the company's attorney-client relationship.

XI. JOINT DEFENSE, COMMON INTEREST, AND ALLIED LITIGANTS DOCTRINES

All lawyers are familiar with and have likely used the terms "joint defense" and "common interest" when describing a privilege existing between two or more clients. Although these terms are often used somewhat interchangeably, they are not the same conceptually or legally. The Texas Supreme Court has summarized these concepts as follows:

- "The joint client or co-client doctrine applies 'when the same attorney simultaneously represents two or more clients in the same matter.'" *In re XL Specialty Ins.*, 373 S.W.3d at 50.
- The joint defense applies when "multiple parties to a lawsuit, each represented by different attorneys, communicate among themselves for the purpose of forming a common strategy." *Id.* at 51 (further clarifying that communication must include at least one party's attorney for joint defense to apply).
- More broadly, the common interest privilege "appl[ies] when there has been a sharing of information between or among *separately* represented persons." *Id.* at 52 (emphasis in original) (clarifying common interest apart from joint defense or joint client does not exist under Texas law).

As seen from these descriptions, the common interest rule, not recognized in Texas as a stand-alone doctrine, is more expansive than the so-called joint defense doctrine. In each identified circumstance the clients share a mutual interest albeit not necessarily an "identical" interest.

The joint client aspect of the Texas privilege and the common interest rule (where recognized) apply whether or not a lawsuit or legal proceeding is ongoing. *Id.* On the other hand, the joint defense rule, at least in Texas, applies only when an action is "pending." TEX. R. EVID. 503(b)(1)(c). Furthermore, although referred to as "joint defense," the doctrine can apply not only to defendants but also to any parties aligned by a common interest, regardless of their pleading alignment, so long as they are parties to a pending action. *Id.* For that reason, the Texas Supreme Court advises that the privilege is more appropriately referred to as an "allied litigant" privilege. *In re XL Specialty Ins.*, 373 S.W.3d at 52 (noting similar monikers as "allied lawyer doctrine" and "joint litigant"). The key under Rule 503 is to remember that regardless of whether called "joint defense," "common interest," or "allied litigant" privilege, it only protects communications made between a client, or the client's lawyer, to another party's lawyer *in a pending action* and "concerning a matter of common interest in that pending action." *Id.*

XII. PARENT AND SUBSIDIARY ISSUES

Application of the attorney-client privilege in the parent-subsidiary context is at times as confounding and perplexing to courts as is the application of the "purpose of" element of the privilege. Much like the introduction of mixed legal and business communications in the context of the "purpose of" analysis, the presence of two or more entity-clients can lead to complex, winding analyses. Nonetheless there are general guidelines to direct in-house counsel.

Sharing privileged communications within a corporate "family" structure generally does not waive the privilege. Communications related to legal matters of common interest between two or more entities represented by the same lawyer are privileged against third parties. *In re Teleglobe Comm. Corp.*, 493 F.3d 345, 370 (3d Cir. 2007) (applying Delaware law); *In re XL Specialty Ins.*, 373 S.W.3d at 50-51 (citing *Teleglobe*). Generally, there are three rationales offered for the rule. First, corporate family members compromise "one client" despite maintaining a separate corporate existence. Second, corporate family members are joint or co-clients. And third, corporate family members are in a "community of interest" with one another. *Teleglobe*, 493 F.3d at 370-72 (finding only second rational accurate and persuasive). In Texas, as noted above, in the absence of a "pending action" only those family clients represented by the same lawyer can fall under the co-client or joint representation scope of the attorney-client privilege. The privilege attaches to and protects confidential communications between in-house counsel and "corporate family" representatives, including for instance, the parent, the subsidiary, and tiered subsidiaries. The Third Circuit stated:

> [P]arent companies often centralize the provision of legal services to the entire corporate group in one in-house legal department. . . .The universal rule of law . . . is that the parent and subsidiary share a

> community of interest, such that the parent (as well as the subsidiary) is the 'client' for purposes of the attorney-client privilege. . . .Numerous courts have recognized that, for purposes of the attorney-client privilege, the subsidiary and the parent are joint clients, each of whom has an interest in the privileged communications.

Id. at 369-70. Under this analysis, the parent can designate centralized in-house counsel for an affiliate or subsidiary corporation to provide legal services to parent, affiliate, and subsidiary. To do so, the parent and subsidiaries/affiliates should document the designation in writing and have each respective board approve the designation by resolution.

Delaware law recognizes the more broad "common interest" doctrine component of the attorney-client privilege. The privilege can apply when, for instance, a parent and wholly owned subsidiary have the same interest and any duties owed to the subsidiary ultimately flow up to the parent. *See Trenwick Am. Litig. Trust v. Ernst & Young*, 906 A.2d 168, 192 (Del. Ch. 2006). Furthermore, the parent generally does not owe any duty to a *solvent* subsidiary. *Id.* at 200. The common interest doctrine serves to protect the communications just as if the two companies were co-clients. However, the common interest doctrine might not offer a cloak of privilege if the subsidiary is not wholly owned by the parent. *See id.* In addition, an *insolvent* subsidiary or one within the "zone of insolvency" can cause the common interest to evaporate. Furthermore, the adverse litigation exception to the co-client privilege permits either party to the co-client relationship to waive the privilege. *See* TEX R. EVID. 503(D) (5); DEL. R. EVID. 502(D)(6). The Restatement (Third) Of The Law Governing Lawyers would permit co-clients to agree in advance to shield disclosure in later adverse litigation, but it is questionable whether a court would enforce such an agreement. *See In re Mirant Corp.*, 326 B.R. 646, 652 (Bankr. N.D. Tex 2005) (applying Georgia law) (refusing to enforce an agreement because it did not extend privilege beyond that which normally exists in joint representation). A co-client may unilaterally waive the privilege as to its own communication made within the scope of the joint representation, but a co-client may not unilaterally waive the privilege as to a joint communication or a privileged communication that related only to the other client. *See Teleglobe*, 493 F.3d at 36; *Interfaith Housing Del. v. Georgetown*, 841 F. Supp. 1393, 1402 (D. Del. 1994). In the end, the *Teleglobe* court summed up the quandary of when to obtain separate counsel as follows:

> [T]he question of when to acquire separate counsel is often difficult. . . . [T]he best answer is that once the parties' interests become sufficiently adverse that the parent does not want future controllers of the subsidiary to be able to invade the parent's privilege, it should end any joint representation on the matter of the relevant transaction.

Teleglobe, 493 F.3d at 373.

Reading *Teleglobe* and the other similar opinions make the following points worthy of consideration by in-house counsel advising a parent-subsidiary client relationship.

a) "Intra-group information sharing" does not amount to a waiver of the attorney-client privilege.

b) The joint client privilege is subject to bilateral, not unilateral, control. Therefore, one joint client cannot unilaterally strip the other of the protection of the privilege in disputes with third parties. Both joint clients must consent to a waiver of the privilege.

c) In the event of adverse litigation between the joint clients, the privilege is generally waived.

d) If attempting to shield communications from disclosure, counsel should consider:

   1) jointly representing parents and subsidiaries only when necessary;
   2) clearly limiting the scope of the joint representations; and
   3) advising the parent to engage separate counsel for a subsidiary when its interest could diverge from that of the parent.

XIII. POST TRANSACTION CONTROL OF PRIVILEGE

Control of the privilege following an acquisition or divestiture raises its own set of issues. Generally, control of a corporation's (client's) privilege passes with the control of corporation. *Weintraub*, 471 U.S. at 350 (rejecting former corporate counsel's assertion of privilege over communications he had with company officers before corporation filed for bankruptcy). "New managers installed as a result of a takeover, merger, loss of confidence by shareholders, or simply normal succession, may waive the attorney-client privilege with respect to communications made by former officers and directors." *Id.* at 349 (trustee acquired corporation's privilege when company filed bankruptcy petition). But when less than full control passes, counsel should be mindful of other considerations. For instance, a transfer of assets alone

is not generally enough to transfer control of the company's privilege. *See MacKenzie-Childs LLC v. MacKenzie-Childs*, 262 F.R.D. 241, 248 (W.D.N.Y. 2008). For the privilege to transfer, the asset transfer must be accompanied by "something more," such as control of business, the acquiring corporation continuing the business of the transferring corporation, or both. *Id.* ("the privilege does not pass to the acquiring corporation unless (1) the asset transfer was also accompanied by a transfer of control of the business and (2) management of the acquiring corporation continues the business of the selling corporation.") A purchaser acquiring an entire business line or division, although not the entire company, may also acquire control of the privilege as it relates to communication about that division or the business line. *Parus Holdings, Inc. v. Banner & Witcoff, Ltd.*, 585 F. Supp. 2d 995, 1003 (N.D. Ill. 2008) (plaintiff acquired privilege when it purchased an entire division, not just patent rights to the system produced and marketed by the division). As is to be expected, unless an agreement provides otherwise, when the parent sells its subsidiary, the new owner of the subsidiary gains and controls the privilege of the subsidiary. *See Bass Pub. Ltd. v. Promus Cos.*, 868 F. Supp. 615, 619-20 (S.D.N.Y. 1994); *Medcom Holding Co. v. Baxter Travenol Labs.*, 689 F. Supp. 841, 844 (N.D. Ill. 1988). In the sale of shares of stock, "a corporate entity buys not only its material assets but also its privileges." *McCaugherty v. Sifferman*, 132 F.R.D. 234, 245 (N.D. Cal. 1990).

Post-transaction control of the privilege remains an important issue. In *Great Hill Equity Partners IV v. SIG Growth Equity Fund I*, the Delaware Court of Chancery held that pre-merger attorney-client privilege communications between an acquired company and its counsel pass to the surviving corporation absent contrary language in the merger acquisition agreement. 80 A.3d 155 (Del. Ch. 2013). Following a merger, the new control group (buyer) sued the selling stockholders (seller) for fraudulent inducement after finding pre-merger communications in the company's files between the selling stockholder group and the company's lawyers. *Id.* The sellers sought an order requiring the buyer to return the communications and documents and to exclude the communications from being introduced as evidence. The Chancery Court denied the seller's motion. The Chancery Court's ruling relied on (1) the absence of any provision in the merger agreement about ownership of the pre-merger privilege of the target company, and (2) Section 259 of Delaware General Corporation Law ("DGCL"), which provided that "all property rights, privileges . . . and all and every other interest shall be thereafter as effectually the property of the surviving or resulting corporation." *Id.* at 160-62 (quoting DEL. CODE ANN. tit. 8, § 259). New York law differs from Delaware law on this point. *See Tekni-Plex, Inc. v. Meyner & Landis*, 674 N.E.2d 633, 670 (N.Y. 1996). The New York Court of Appeals held that under New York law the attorney-client privilege regarding general business matters passes to the buyer of the surviving corporation in the merger. *Id.* Conversely, pre-merger attorney-client communications about the merger (including negotiations) do not pass to the surviving corporation or fall under the buyer's control. *Id.* at 670-71.

XIV. THE CRIME/FRAUD EXCEPTION

Attorney-client privilege does not protect attorney-client communications "[i]f the services of the lawyers were sought or obtained to enable or aid anyone to commit or plan to commit what the client knew or reasonably should have known to be a crime or fraud." TEX. R. EVID. 503(d); *see also In re Grand Jury Subpoena*, 419 F.3d 329, 336 (5th Cir. 2005). A party asserting the crime/fraud exception bears the burden of proof and must show:

a) a *prima facie* case of the contemplated crime or fraud; and
b) a nexus between the communications at issue and the alleged crime or fraud.

In re Grand Jury Subpoena, 419 F.3d at 336 (citing *Granada Corp. v. First Court of Appeals*, 844 S.W.2d 223, 227 (Tex. 1992) and *Arkla, Inc. v. Harris*, 846 S.W.2d 623, 629-30 (Tex. App.—Houston [14th Dist.] 1993, no pet.) (orig. proceeding)). If a document is asserted to be privileged, the fraud alleged by the opponent must have occurred relative to the document and its preparation, and the document must have been created with the intent to perpetrate the fraud. *In re Small*, 346 S.W.3d at 666. "Mere allegations of fraud are not sufficient." *Id.* (plaintiff failed to establish *prima facie* case because it did not show privileged document created with intent to perpetrate fraud). The simple fact that the plaintiff's cause of action involves allegedly fraudulent conduct is not enough to satisfy the exception. *In re Seigel*, 198 S.W.3d 21, 29 (Tex. App.—El Paso 2006, no pet.) (orig. proceeding) (simply restating fraud allegations in petition without any evidence on each fraud element and failure to tie alleged fraud to communication fails to establish *prima facie* case).

In the oil and gas lease dispute in *Small*, the plaintiff asserted that all privileged documents were created as part of "a fraudulent scheme to obtain and use releases from various interest owners to convince others to also release their interest in" the lease. *Id.* at 667. The court of appeals rejected the plaintiff's crime/fraud exception because the "evidence" proposed as plaintiff's *prima facie* case consisted solely of its allegations of fraud alleged in the lawsuit. *Id.* Proof of

the fraud, the plaintiff argued, was to be found within the withheld privileged documents. The court rejected that this sort of contention could support a crime/fraud case, finding that by following plaintiff's reasoning, "the exception would overrun the rule . . . [and p]arties seeking such discovery would simply argue that withheld documents prove their case," causing the attorney-client privilege to "cease to exist in many situations." *Id.* There must be independent evidence of fraud and a link between the privileged communications or documents to the fraud to sustain the crime/fraud exception. *See id.*

XV. OFFENSIVE-USE DOCTRINE OF WAIVER

A party opposing application of the privilege may assert that the proponent waived the privilege under the "offensive-use" doctrine. "In an instance in which the privilege is being used as a sword rather than a shield, the privilege may be waived." *Republic Ins. Co. v. Davis*, 856 S.W.2d 158, 163 (Tex. 1993) (orig. proceeding). Texas courts have imposed strict requirements on parties seeking to apply the offensive-use doctrine. To show an offensive-use waiver, the discovering party must prove:

a) the privilege proponent is seeking affirmative relief;
b) the privileged information would be outcome determinative of the relief being sought (*i.e.*, it must go to the very heart of the affirmative relief), if it were to be believed by the fact finder; and
c) disclosing the privileged information is the only means by which the discovering party can obtain the evidence.

In re JDN Real Estate-McKinney L.P., 211 S.W.3d 907, 923 (Tex. App.—Dallas 2006, no pet.) (citing *Republic Ins. Co.*, 856 S.W.2d at 163). A court must uphold the privilege if a party seeking discovery fails to establish any one of these elements. *See Republic Ins. Co.*, 856 S.W.2d at 163; *In re JDN Real Estate-McKinney L.P.*, 211 S.W.3d at 923.

In *Republic Insurance*, the Texas Supreme Court ruled the trial court abused its discretion in ordering the defendant to produce privileged documents. The court determined that the defendant's declaratory judgment action was not the type of "affirmative relief" required under the first element of the offensive-use doctrine. *Republic Ins. Co.*, 856 S.W.2d at 164. This type of relief, the court ruled, was defensive in nature, and is not "the type of affirmative relief that would result in offensive use waiver." *Id.* In *JDN Real Estate-McKinney L.P.*, the appellate court similarly rejected a plaintiff's offensive-use argument, ruling that the plaintiff never asserted the evidence was unavailable from other sources. *JDN Real Estate-McKinney L.P.*, 211 S.W.3d at 923. The court of appeals held that this failure rendered the entire argument insufficient under the *Republic Insurance* test. *See id.*

In *Lesikar v. Moon*, the appellate court rejected a defendant's attempt to apply the offensive-use waiver against a trustee-plaintiff withholding privileged emails from discovery. *See Lesikar v. Moon*, No. 14-11-01016-CV, 2012 Tex. App. LEXIS 7311, at *17-18, 2012 WL 3776365 (Tex. App.—Houston [14th Dist.] Aug. 30, 2012, pet. denied). The defendant argued that a party suing for attorney's fees waives the privilege to any communications or documents that will establish a defense to the claim. *See id.* at *18. The trial court disagreed and found the privileged emails "did not go to the very heart of the affirmative relief sought" because the defendant failed to establish the emails would be outcome determinative, in all probability, if they were believed by a fact finder. *See id.* The court of appeals held that the trial court did not abuse its discretion by denying defendant's offensive-use argument.

ADDITIONAL REFERENCES

Alex Wilson Albright, *Survey of the Law of Privilege in Texas Courts*, STATE BAR OF TEXAS ADVANCED CIVIL LAW (2001)

David Keltner, *Attorney-Client Privilege*, STATE BAR OF TEXAS ADVANCED IN HOUSE COURSE (2008)

RESTATEMENT (THIRD) OF THE LAW GOVERNING LAWYERS (ALI 2014)

Paul Rice, *Attorney-Client Privilege in the United States* (Kevin T. Barnett et al. eds., Thompson Reuters 2013-14 ed.)