Attorney-Client Privilege Between A Board Committee and Outside Counsel: An Outline of Authorities

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1. Issue: Can an attorney-client privilege exist between a board committee and outside counsel retained by that committee, separate and apart from a privilege between the corporation and outside counsel?


3. Model Rule 1.13(a): “A lawyer employed or retained by an organization represents the organization acting through its duly authorized constituents.”
   a. MR 1.13 Comment [1]: “An organizational client is a legal entity, but it cannot act except through its officers, directors, employees, shareholders and other constituents.
   b. MR 1.13 Comment [2]: “When one of the constituents of an organizational client communicates with the organization’s lawyer in that person’s organizational capacity, the communication is protected by Rule 1.6 [confidentiality]. Thus, by way of example, if an organizational client requests its lawyer to investigate allegations of wrongdoing, interviews made in the course of that investigation between the lawyer and the client’s employees or other constituents are covered by Rule 1.6. This does not mean, however, that constituents of an organizational client as the clients of the lawyer.”

4. Privilege between special committee and counsel as against members of the company’s board
   b. Delaware law allows a board to form a special committee. 8 Del. C. § 141(c). If that special committee retains counsel, communications between the
committee and counsel may be protected from disclosure to members of the board. *See Moore Business Forms, Inc. v. Cordant Holdings Corp.*, 1996 Del. Ch. LEXIS 56 (Del. Ch. June 4, 1996).

5. Privilege between board committee and counsel as against shareholders

   a. *Ryan v. Gifford*, 1007 Del. Ch. LEXIS 168 (Ct. Chancery Del., November 30, 2007). In shareholder derivative action, plaintiffs sought production of communications between outside counsel and the special committee of the Board involved in investigating alleged stock option backdating at the company. The special committee had retained the law firm of Orrick Herrington & Sutcliffe LLP.

      i. Court held: “There appears to be no dispute that, absent waiver or good cause, the attorney-client privilege protects communications between Orrick and its client, the Special Committee.”

      ii. Nevertheless ordered communications produced on grounds that privilege had been waived by the special committee’s disclosure to the whole board of counsel’s report. Court held that the “partial waiver” of the presentation of counsel’s report “operates as a complete waiver for all communications regarding this subject matter.” *2007 Del. Ch. LEXIS* at *12.


6. Privilege between Special Committee and Counsel as Against Bankruptcy Trustee

   a. *In re BCE West, L.P.*, 2000 U.S. Dist. LEXIS 12590 (S.D.N.Y. August 31, 2000). Corporation formed Special committee to investigate whether corporation should pursue and enter into certain acquisition transactions. Board resolutions specifically authorized the committee to retain counsel independent from the counsel representing the board of directors. Special Committee retained counsel who communicated extensively with the special committee. Special committee ultimately approved the restructuring proposal. However, corporation eventually filed for Chapter 11 bankruptcy protection.

      i. Plan Trustee sought production of all files maintained by counsel for the special committee, arguing that plan trustee has the ability to waive the privilege.

      ii. Court held: “It is counterintuitive to think that while the Board permitted the Special Committee to retain its own counsel, the Special
Committee would not have the benefit of the attorney-client privilege inherent in that relationship or that the Board of Directors or management, instead of the Special Committee, would have control of such privilege. The attorney-client privilege, therefore, applied to and protected the confidential communications between the Special Committee and [its counsel.]” 2000 U.S. Dist. LEXIS at *4.

iii. Court rejected argument that the Trustee could waive the privilege in this instance. “Because the Special Committee is a separate and distinct group from the Board of Directors, with separate legal representation, the privilege afforded it is not the privilege of the corporation, but rather, is the privilege of the Special Committee. Accordingly, the Plan Trustee cannot waive it.” 2000 U.S. Dist. LEXIS at *6.
Accidents happen. Bad things happen to good lawyers. Sometimes lawyers commit malpractice. During the course of the representation of any client, a lawyer will come to question whether something that lawyer did constitutes malpractice. Sometimes the answer is obvious, other times not. Perhaps the client has already threatened or hinted at a malpractice claim. In nearly all instances, however, the lawyer is likely to begin her analysis in the office of the firm’s designated general counsel or go to an ethics and risk management guru. What the lawyer seeks is legal advice. What can or must I do to inform the client of this potential problem? Is the client or opposing counsel or the court that says I erred correct? What about this or that fact and what about my analysis on that issue? Can I stay in the case? What about unpaid fees? Do I need a waiver and what should it look like? Can I mitigate the client and the firm’s damages by pursuing x or y course of action? What do we tell the carrier? Will they sue us? What should we do to prepare our file? Do I need a litigation hold?

These are all questions that the lawyer should be asking and questions that a competent and effective Firm counsel will answer. The question presented here is whether those conversations should enjoy the attorney client privilege as between the lawyer/law firm and its in-house lawyer the same way it would be enjoyed with any other corporation and its in house lawyer, or does the law firm’s fiduciary duty to the client trump that assumption?

Some basic principles are at play. First, there is the notion that the law firm represents the client and the firm has a duty under RPC 1.4 to provide all or most information relevant to the client’s matter. Perhaps that should include the benefit of in-house counsel’s analysis of the lawyer’s error? Certainly that analysis may benefit the client at the likely expense of the law firm. Second is the related notion that the entire firm owes the client the duties of loyalty, and when in-house counsel is advising a lawyer on the potential malpractice claim, that advice is being provided by a member of the firm and it is inherently adverse to the firm’s current client. Finally, there are policy considerations. Why should a law firm enjoy a B list relationship with its in-house lawyers and be forced to bear the expense of outside counsel for even the most basic consult? These questions have been confronted in a series of recent cases, many leaving open the practical challenges of real world in firm communication and the extent to which those communications slide along the scale between bright line rules.

The US District Court for the District of Massachusetts and the US District Court for the Northern District of California have held that the attorney-client privilege is unavailable when a lawyer discusses a current client’s potential legal malpractice claim with in-house counsel.1

both of those cases, a client was permitted to discover communications between their former lawyer and the law firm’s in-house counsel about the client’s legal malpractice claim. Other courts, however, have held that the attorney-client privilege does apply because the lawyer and the in-house counsel have an attorney-client relationship.\(^5\) Although courts differ on whether the attorney-client privilege applies when a lawyer confers with in-house counsel about a current client’s potential legal malpractice claim, there are several key factors that courts look at when reaching their decision. This article will focus upon important factors that courts are likely to consider when determining if the attorney-client privilege is available to a lawyer who confers with in-house counsel about a current client’s potential legal malpractice claim.

The attorney-client privilege applies when a client seeks legal advice from a lawyer and there is a reasonable and continuing expectation that the communications will be confidential.\(^3\) The purpose of the attorney-client privilege is to encourage full and truthful disclosures between an attorney and a client.\(^4\) Consequently, a client’s communications with their lawyer, including in-house counsel, is generally protected from disclosure. Some cases hold that in light of its important purpose, the attorney-client privilege must be broadly construed.\(^5\) Nevertheless, most recent cases hold that because the privilege is an obstacle to the truth, it should be narrowly construed.\(^6\)

The main struggle for courts deciding if the attorney-client privilege is available to a lawyer who confers with in-house counsel about a current client’s potential legal malpractice claim is whether a lawyer’s fiduciary duty to a client should override the lawyer’s attorney-client privilege with in-house counsel.

The fiduciary question only arises in the context of the current attorney client relationship. When the attorney-client relationship terminates, the communications between a lawyer and in-house counsel about a former client’s legal malpractice claim are protected by the attorney-client privilege. It is logical that the former client is not be entitled to a lawyer’s communications with in-house counsel about the former client’s current legal malpractice claim because the duty of loyalty has changed and is drastically limited. However, the communications between a lawyer and in-house counsel about a client’s potential legal malpractice claim will not be protected by the attorney-client privilege if the lawyer does not unequivocally terminate the attorney-client relationship. In Cold Spring Harbor Laboratory v. Ropes & Gray LLP, the court held that a fiduciary must perform “an affirmative act” that informs the client that the fiduciary’s representation has unequivocally ended.\(^7\) Until the fiduciary unequivocally informs the client that representation has ended, the fiduciary owes a fiduciary duty to the client. The court in the Cold Springs matter was not only unconvinced that

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4 See, e.g., United States v. Collis, 128 F.3d 313, 320 (6th Cir. 1997); United States v. Gray, 876 F.2d 1411, 1415 (9th Cir. 1989).


6 See, e.g., In re Keeper of Records, 348 F.3d 16, 22 (1st Cir. 2003) (“the attorney-client privilege must be narrowly construed because it comes with substantial costs and stands as an obstacle of sorts to the search for truth”).

the attorney client relationship was terminated, but it also held that the on-going fiduciary duty trumped the privilege.  

The current attorney-client relationship, on the other hand, is dependent upon a lawyer’s undivided loyalty to his client. A lawyer’s fiduciary duty to a client consists of a lawyer’s responsibility to act in the best interest of his client, even if that means subordinating the lawyer’s personal interest to that of the client’s. Consequently, as occurred in the Cold Springs case, the court found that a lawyer’s fiduciary duty to his client trumped the lawyer’s attorney-client privilege with in-house counsel. Although it varies by jurisdiction, two important factors that courts are likely to look at are: (1) the structure of the in-house counsel position; and (2) whether the law firm has disclosed the potential conflict of interest between the lawyer and the client.

An important factor in determining whether the firm will enjoy a privilege turns on whether the in-house counsel is solely dedicated to in-house counsel duties. In Hunter, Maclean, Exley & Denn v. St. Simons Waterfront, LLC, the court found that when the lawyer in that case sought advice from in-house counsel about a client’s potential legal malpractice claim, the lawyer was the sole beneficiary of the advice, and therefore, the communications were protected by the attorney-client privilege. Importantly, the court emphasized that the attorney-client privilege will apply if the role of in-house counsel is clearly defined prior to the communications between a lawyer and in-house counsel about a current client’s potential legal malpractice. The in-house counsel may not represent clients of the firm and must not have worked on the client’s case. Firm lawyers who serve as in-house counsel on an ad hoc basis may have the burden of proof to show that their role as in-house counsel was defined prior to communications between a firm lawyer and themselves about a client’s potential legal malpractice claim.

Even where the requirements for the in-house counsel role are not satisfied, a court may still recognize the attorney-client privilege between a lawyer who confers with in-house counsel about a current client’s potential legal malpractice claim if the lawyer discloses to the client the potential conflicts of interest and the client waives the conflicts. This in an important step in any continuing relationship between law firm and client in the fact of allegations of malpractice, but is less easily satisfied in the early stages when the extent or gravity of a potential error is under consideration. It is clear, however, that a client’s and a lawyer’s interests conflict when a lawyer begins to prepare his defense to a current client’s potential legal malpractice claim. Under Rule 1.7 of the Model Rules of Professional Conduct, the lawyer may not continue to represent the client unless, among other things, the lawyer receives the client’s written informed consent. Because there is a potential conflict between a lawyer’s personal interest and a lawyer’s fiduciary duty to the client, the lawyer must fully disclose the potential conflicts to the client. The lawyer’s representation of the client may not continue unless the client makes a fully informed decision to

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8 However, see RFF Family Partnership, LP v. Burns & Levinson, LLP, 2012 WL 6062740 (Mass. Super. 2012) where the Superior Court of Massachusetts strayed from the District Court of Massachusetts’s opinion in Cold Spring, and determined that the attorney-client privilege trumps a lawyer’s fiduciary duty to her client.


waive the potential conflicts. An appropriately drafted waiver may be sufficient to preserve the post waiver privileged communications.

In *Garvey v. Seyfarth Shaw LLP*, the court held that the attorney-client privilege did apply between a lawyer who conferred with in-house counsel about a current client’s potential legal malpractice claim. 11 The court relied heavily on the fact that the client was advised of the potential conflicts of interest between the client and the lawyer, the client retained independent counsel, and the client waived the potential conflicts. Because the client was fully informed of the potential conflicts of interest, and waived the potential conflicts, the client could not then use the lawyer’s continued representation of the client as a means to demand production of communications between the lawyer and in-house counsel. As the *Garvey* court stated, the client cannot “have it both ways.” The client cannot insist that the lawyer continue representation of the client but then, after the fact, demand that the lawyer’s fiduciary duty to the client trumps the lawyer’s attorney-client privilege with in-house counsel. The attorney-client privilege between a lawyer who confers with in-house counsel about a current client’s potential legal malpractice claim will likely be recognized if the client has been fully informed of the potential conflicts of interest and the client waives the potential conflicts. 12

In light of recent court decisions, lawyers need to be aware that communications with in-house counsel about a potential legal malpractice claim may not be protected by the attorney-client privilege. Great debate rages about the policy considerations on both sides. For now, lawyers may want to get a signed agreement from the client which acknowledges and accepts that lawyers working on their case may need to seek internal advice about their ethical obligations and that such internal advice does not waive the attorney-client privilege. In-house lawyers must be cautious defining their duties and ideally dedicate their practice to representing the firm. Law firms should also be sensitive to the fact that the law of in-house privilege is a moving target. Documenting internal consultation is important, but it should be done in a manner and with a mind to the possibility that it may be produced some day. Finally, conflict waiver letters with clients sooner rather than later are clearly in order.

Business Successors and the Transpositional Attorney-Client Relationship

By Henry Sill Bryans* | Author Bios

This Article focuses on the potential right of a business successor to assert various elements of a predecessor’s attorney-client relationship and the implications to practitioners of a successor’s ability to do so. An attorney-client relationship that the courts permit to be asserted by a business successor is referred to in the Article as a “transpositional” relationship. The Article examines in what context a successor may (1) enforce the duty of confidentiality of the predecessor’s counsel; (2) assert the predecessor’s attorney-client privilege; (3) disqualify the predecessor’s counsel under the principles of Model Rule 1.9, or its equivalent, on the ground that such counsel should be viewed as the successor’s former counsel for purposes of the Rule; and (4) assert a malpractice claim against the predecessor’s counsel based exclusively on services provided to the predecessor. The Article concludes with some general observations about the decisions examined, the need of transactional lawyers to be familiar with the principles that courts have relied on, and transaction provisions that might be used to blunt the surprising, and arguably unfair, results that this line of decisions can sometimes produce.

I. INTRODUCTION

A business entity may be characterized as a “successor” to a predecessor business in a variety of contexts. This characterization is most commonly litigated by a party that seeks to hold an existing entity liable for certain obligations of an entity that no longer exists or is otherwise unable to pay the claim. Cases commonly involve a successor’s alleged exposure for a predecessor’s products claims,

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1. Black’s Law Dictionary defines a “successor” as “[a] corporation that, through amalgamation, consolidation, or other assumption of interests, is vested with the rights and duties of an earlier corporation.” BLACK’S LAW DICTIONARY 1473 (8th ed. 2004).

2. See, e.g., Turner v. Bituminous Cas. Co., 244 N.W.2d 873, 883–84 (Mich. 1976) (applying the continuity of enterprise test); see generally RESTATEMENT (THIRD) OF TORTS: PRODUCTS LIABILITY § 12 cmt. c (1998) (stating that in products liability litigation approximately twenty jurisdictions reject the “continuity of enterprise” test and the “product line” exception in favor of the arguably more specific criteria set forth in section 12).
environmental claims, retiree health benefits, state tax liabilities, and collective bargaining obligations.

Whether an entity is characterized as a successor of another for liability purposes is invariably a fact-intensive inquiry and the conclusion is frequently influenced by the context in which the issue arises. Courts have devised a variety of doctrines to transfer a predecessor's liability to a successor when neither the structure of the transaction nor the documentation under which the transaction was effected would otherwise produce such a result. An entity labeled a “successor” for one purpose may well not be so characterized for another purpose. Even decisions in a single context can be difficult to reconcile, are often infected with public (and statutory) policy overtones, and, to the skeptic, may appear highly “result-oriented.”

This Article focuses not on any of the potential liabilities of a business successor, but rather on one potential right of a business successor: the right to assert various elements of a predecessor's attorney-client relationship and the implications to practitioners of a successor's ability to do so. Put more directly, it is the purpose of this Article to examine in what context a successor may (1) enforce the duty of confidentiality of the predecessor's counsel; (2) assert the predecessor's attorney-client privilege; (3) assert the right to withhold information from another party; and (4) assert the right to assert a claim of attorney-client privilege against a third party.


5. See, e.g., Bates v. Dir. of Revenue, 691 S.W.2d 273, 278 (Mo. 1985) (construing the Missouri state tax delinquency successor statute to apply to successive successors of a delinquent taxpayer); see generally Raymond P. Carpenter, Sr., Avoiding Successor Tax Liability in a Sale of Business Assets, 18 Bus. L. Today, Nov./Dec. 2008, at 49.


7. Under the laws of virtually every state, a statutory merger or consolidation vests the surviving or resulting corporation with all of the property rights, real and personal, of each of the corporations party to the merger or consolidation and the surviving corporation is responsible for all of the liabilities of each of the corporations party to the merger or consolidation. See, e.g., Del. Code Ann. tit. 8, § 259 (2001). Put simply, all of the rights and obligations of the corporate parties to the transaction, except contractual rights that expressly provide for termination upon a merger or consolidation, and permits, licenses, and other such rights that do not by applicable statute or regulation survive a merger or consolidation, are vested by operation of law in the “survivor.”

8. These doctrines include the “product line” exception and the “continuity of enterprise doctrine” (both of which historically have been most commonly applied in products liability cases, see supra note 2) and the “de facto merger doctrine” which, depending on the facts and the jurisdiction, may be applied to any of the predecessor's liabilities. See, e.g., Knapp v. N. Am. Rockwell Corp., 506 F.2d 361, 369 (3d Cir. 1974) (products liability), cert. denied, 421 U.S. 965 (1975).

9. See, e.g., Howard Johnson Co., Inc. v. Detroit Local Joint Executive Bd., 417 U.S. 249, 264 n.9 (1974) (“There is, and can be, no single definition of ‘successor’ which is applicable in every legal context. A new employer, in other words, may be a successor for some purposes and not for others. Thus, our holding today is that Howard Johnson was not required to arbitrate with the Union representing the former Grissom employees in the circumstances of this case. We necessarily do not decide whether Howard Johnson is or is not a ‘successor employer’ for any other purpose.” (citations omitted)).

10. See, e.g., Knapp, 506 F.2d at 369 (“If we are to follow the philosophy of the Pennsylvania courts that questions of an injured party's right to seek recovery are to be resolved by an analysis of public policy considerations rather than by a mere procrustean application of formalities, we must, in considering whether the TMW-Rockwell [stock-for-assets transaction] was a merger, evaluate the public policy implications of that determination.”).
Business Successors and the Transpositional Attorney-Client Relationship

The Article sometimes refers to attorney-client relationships in which a court has enabled a successor entity to enforce, or reap the benefits of, a pre-existing attorney-client relationship of its predecessor, to which it was otherwise a stranger, as “transpositional” attorney-client relationships.

This Article is not intended to be an exhaustive review of the substantial body of case law that has developed on the issues described above. It is, instead, an effort to examine a limited number of decisions to identify the principal factors relied upon to support the result and steps that the predecessor, or its counsel, might take to limit the effect of certain of the holdings. The Article will examine (1) the decision most frequently cited in the context of transpositional attorney-client relationships; (2) case law building on the applicable principles, exclusive of those cases addressing transpositional attorney-client relationships in the malpractice context; and (3) some of the relevant case law dealing with the subject in the context of malpractice claims. The Article concludes with (1) several observations about the decisions examined from a transactional lawyer’s perspective and (2) thoughts about this somewhat unique area of transactional practice and provisions that might be used to blunt the surprising, and arguably unfair, results that the line of decisions examined can sometimes produce.

II. Tekni-Plex

Issues of privilege, confidentiality, and disqualification in a transpositional attorney-client relationship are well illustrated by the unanimous decision of the New York State Court of Appeals in Tekni-Plex, Inc. v. Meyner & Landis. 14 Tekni-Plex, Inc. (“old Tekni-Plex”), was incorporated in 1967 to produce packaging products. 15 Meyner and Landis (“M&L”), a New Jersey law firm, began its representation of old Tekni-Plex in 1971. 16 M&L handled a variety of assignments for old Tekni-Plex, including environmental permitting and compliance issues. 17 During the first twenty years of its existence, old Tekni-Plex had eighteen

12. A “transpositional” attorney-client relationship is an attorney-client relationship that a court has transposed, or interchanged. To “transpose” is to “reverse the order or place of . . . to move into a different position or order . . . to move (a term) from one side of an algebraic equation to the other.” WEBSTER’S II NEW COLLEGE DICTIONARY 1172 (2001).
13. Because all of the decisions reviewed involve fundamental corporate transactions, the facts are often intricate; every effort has been made to restrict the case descriptions to those facts necessary to understand the court’s analysis.
15. Id. at 665.
16. Id.
17. Id.
shareholders, of whom Tom Tang was one.\textsuperscript{18} In 1986, Tang became the CEO, sole director, and sole shareholder of old Tekni-Plex.\textsuperscript{19}

Tang sold old Tekni-Plex in 1994.\textsuperscript{20} To effect the transaction, the buyers incorporated a new corporation named TP Acquisition Company (“new Tekni-Plex”) and merged old Tekni-Plex into it.\textsuperscript{21} In the merger, new Tekni-Plex changed its name to Tekni-Plex, Inc., and Tang’s shares in old Tekni-Plex were converted into approximately $43 million (that is, the purchase price for old Tekni-Plex).\textsuperscript{22} M&L represented old Tekni-Plex and Tang in the sale transaction.\textsuperscript{23}

Following the merger, new Tekni-Plex commenced an arbitration proceeding against Tang in New York for alleged misrepresentations made by Tang in the Agreement and Plan of Merger (“Merger Agreement”) pursuant to which he had sold old Tekni-Plex.\textsuperscript{24} The alleged misrepresentations at issue in the arbitration involved the status of environmental permitting and compliance by old Tekni-Plex on a laminator machine at its plant in Somerville, New Jersey.\textsuperscript{25} New Tekni-Plex alleged that old Tekni-Plex had misrepresented to the State of New Jersey the nature of air emissions from the laminator when it was initially permitted several years before the sale transaction and that Tang had similarly misrepresented the nature of such air emissions to new Tekni-Plex in the Merger Agreement.\textsuperscript{26} It was clear from the record that “M&L counseled old Tekni-Plex concerning environmental compliance and assisted the company in obtaining the permit for the laminator machine at the Somerville facility.”\textsuperscript{27}

M&L filed an appearance on behalf of Tang in the arbitration.\textsuperscript{28} New Tekni-Plex promptly moved, by order to show cause, in the Supreme Court of the State of New York for an order enjoining M&L from representing Tang in any action against new Tekni-Plex and for an order disqualifying M&L from representing Tang in the then pending arbitration.\textsuperscript{29}

The supreme court issued two orders: the first enjoined M&L from representing Tang in the arbitration; the second enjoined M&L from disclosing to Tang any information obtained from old Tekni-Plex and ordered M&L to deliver to new Tekni-Plex all files of old Tekni-Plex in its possession.\textsuperscript{30} After the Appellate Division affirmed the supreme court’s orders,\textsuperscript{31} Tang and M&L appealed to the New York State Court of Appeals.
The court of appeals began its analysis by noting that the duty of confidentiality that lawyers owe their clients extends following the termination of representation and that “[e]ven after representation has concluded, a lawyer may not reveal information confided by a former client, or use such information to the disadvantage of the former client or the advantage of a third party.”³²

The court then noted that DR 5-108(A)(1) of New York’s Code of Professional Responsibility, ³³ the analog to Model Rule of Professional Conduct 1.9 that was in effect at the time of the decision, provided that, absent consent of a former client, a lawyer may not “represent another person in the same or a substantially related matter in which that person’s interests are materially adverse to the interests of the former client.”³⁴ The court then stated that a party seeking disqualification of a former counsel under New York’s DR 5-108(A)(1) must show (1) the existence of a former attorney-client relationship, (2) that the current matter is substantially related to a matter on which the former counsel provided legal advice, and (3) that the interests of the moving party (i.e., former client) are materially adverse to the firm’s current client.³⁵ The court explained that satisfaction of the three-part test creates an irrebuttable presumption of disqualification, thus both (1) protecting “a client’s secrets and confidences by preventing even the possibility that they will subsequently be used against the client in related litigation” and (2) freeing clients “from apprehension that information imparted in confidence might later be used to their detriment.”³⁶

The Tekni-Plex court then summarized the relationship between M&L and old Tekni-Plex:

It is undisputed that M&L represented old Tekni-Plex for over 20 years on a variety of legal matters. As counsel to the corporation, the law firm’s duties of confidentiality and loyalty ran to old Tekni-Plex on these matters. Concomitantly, the attorney-client privilege attached to any confidential communications that took place between M&L and [old] Tekni-Plex corporate actors in the course of this representation. The power to assert or waive the privilege, moreover, belonged to the management of old Tekni-Plex, to be exercised by its officers and directors.³⁷

³². Id. at 666–67 (citations and internal quotation marks omitted).
³³. N.Y. COMP. CODES R. & REGS. tit. 22, § 1200.27 (2008). M&L was a New Jersey law firm. So far as it appears, old Tekni-Plex had significant operations in New Jersey and M&L’s advice to old Tekni-Plex was likely rendered in New Jersey. In Oswall v. Tekni-Plex, Inc., 691 A.2d 889, 892–94 (N.J. Super. Ct. App. Div. 1997), another case involving new Tekni-Plex in which M&L was disqualified from representing Tang (in Tang’s capacity as a witness adverse to new Tekni-Plex) in litigation pending in New Jersey, the court applied the New Jersey Rules of Professional Conduct in its analysis. Nonetheless, the New York State Court of Appeals proceeded, without discussion, on the basis that the New York Code of Professional Responsibility, as then in effect, governed the issue of whether M&L could represent Tang in an arbitration pending in New York, as well as to whether new Tekni-Plex was entitled to (a) all pre-transaction files relating to M&L’s representation of old Tekni-Plex and (b) information on advice given by M&L to Tang in the course of the sale transaction. Tekni-Plex, 674 N.E.2d at 666–67. This was likely so because the issues arose from an arbitration commenced in New York.
³⁴. Tekni-Plex, 674 N.E.2d at 667 (internal quotation marks omitted).
³⁵. Id.
³⁶. Id.
³⁷. Id. at 668 (citations omitted).
The court noted that Tang and M&L contended that the transaction should not be deemed to transfer M&L’s attorney-client relationship with old Tekni-Plex to new Tekni-Plex because (1) the transaction was a mere transfer of assets and the accounting was such for tax purposes, and (2) by reason of the merger, M&L’s sole former client, old Tekni-Plex, ceased to exist. 38

The court dismissed the argument by Tang and M&L that, for purposes of the duty of confidentiality, the attorney-client privilege, and former client disqualification, M&L only had an operative attorney-client relationship with old Tekni-Plex. The court stated:

When ownership of a corporation changes hands, whether the attorney-client relationship transfers as well to the new owners turns on the practical consequences rather than the formalities of the particular transaction. In Commodity Futures Trading Commission v. Weintraub, [471 U.S. 343 (1985)], the Supreme Court held that power to exercise the attorney-client privilege of an insolvent corporation passed to the bankruptcy trustee, who assumed managerial responsibility for operating the debtor company’s business (see id. at 352–53). In reaching this conclusion, the Court noted with regard to solvent corporations that

when control of a corporation passes to new management, the authority to assert and waive the corporation’s attorney-client privilege passes as well. 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. 39

The Tekni-Plex court then dismissed the relevance of the fact that the merger caused the technical termination of the existence of old Tekni-Plex 40 and drew a solid line between M&L and new Tekni-Plex:

Following the merger, the business of old Tekni-Plex remained unchanged, with the same products, clients, suppliers and non-managerial personnel. Indeed, under the Merger Agreement, new Tekni-Plex possessed all of the rights, privileges, liabilities and obligations of old Tekni-Plex, in addition to its assets. Certainly, new Tekni-Plex is entitled to access . . . any relevant pre-merger legal advice rendered to old Tekni-Plex that it might need to defend against these liabilities or pursue any of these rights.

As a practical matter, then, old Tekni-Plex did not die. To the contrary, the business operations of old Tekni-Plex continued under the new managers. Consequently, control of the attorney-client privilege with respect to any confidential communications between M&L and corporate actors of old Tekni-Plex concerning these operations passed to the management of new Tekni-Plex. An attorney-client relationship between M&L and new Tekni-Plex necessarily exists. 41

Once the Tekni-Plex court had established a former attorney-client relationship between M&L and new Tekni-Plex, the court’s conclusion came quickly. Because M&L had advised old Tekni-Plex on the same environmental compliance

38. Id.
39. Id. (quoting Weintraub, 471 U.S. at 349) (citations omitted).
40. Id. at 669.
41. Id. (citing Weintraub, 471 U.S. at 349).
issues that formed the basis for the claim of new Tekni-Plex that Tang had made misrepresentations in the Merger Agreement, and because M&L’s proposed representation of Tang was clearly adverse to new Tekni-Plex, the court of appeals affirmed the lower courts’ holdings that M&L was disqualified from representing Tang in the arbitration. 42

With respect to pre-merger advice given by M&L to old Tekni-Plex, the court held:

[T]he management of new Tekni-Plex continues the business operations of the pre-merger entity. Control of the attorney-client privilege with regard to confidential communications arising out of those operations—including any pre-merger communications between old Tekni-Plex and M&L relating to the company’s environmental compliance—thus passed to the management of new Tekni-Plex. As a result, new Tekni-Plex now has the authority to assert the attorney-client privilege to preclude M&L from disclosing the contents of these confidential communications to Tang. 43

In light of the foregoing holding, the court concluded that ownership of M&L’s files relating to its representation of old Tekni-Plex on environmental compliance matters necessarily passed to new Tekni-Plex. 44 The court, in part, justified its holding that new Tekni-Plex held the right to invoke the pre-merger attorney-client relationship of old Tekni-Plex on the basis that new Tekni-Plex could well be called upon to prosecute or defend third-party suits arising from the assets that it acquired, and the liabilities that it assumed, from old Tekni-Plex in the merger. 45

The court rejected M&L’s argument that it was acting as counsel for both old Tekni-Plex and Tang when it advised old Tekni-Plex on environmental matters, holding that there was an “insufficient record from which we can conclude that M&L jointly represented the corporation and Tang individually on matters other than the merger.” 46

With respect to M&L’s representation of old Tekni-Plex and Tang in negotiating the sale transaction, however, the court held that M&L was clearly representing Tang during the merger negotiations and that information exchanged between M&L and Tang relating to the transaction itself, and related files, were not acquired by new Tekni-Plex by reason of the merger or otherwise. 47

The Tekni-Plex court stated that, in a post-transaction dispute, “new Tekni-Plex cannot both pursue the rights of the buyer [new Tekni-Plex] and simultaneously assume the attorney-client rights that the buyer’s adversary (old Tekni-Plex) retained regarding the transaction.” 48 The court somewhat obliquely stated that the Merger Agreement “recognized the community between the selling shareholder and his corporation and expressly provided that it be preserved in any subse-

42. id. at 666.
43. id. at 670 (citing Weintraub, 471 U.S. at 349).
44. id.
45. id.
46. id. at 671.
47. id. at 672.
48. id. at 671.
quent dispute regarding the acquisition.” 49 It also stated that the Merger Agreement effectively provided that “in any dispute arising from the merger transaction, the rights of the acquired corporation, old Tekni-Plex, relating to the transaction would remain independent from and adverse to the rights of new Tekni-Plex.” 50 It is not clear exactly what the Merger Agreement actually provided on this issue, nor is it clear how much the provision referred to affected the result reached by the court on M&L’s advice to Tang on the transaction itself. The court gave abundant independent reasons to support its conclusion that new Tekni-Plex could not reasonably have assumed that it acquired rights with respect to that advice by reason of the merger or otherwise. Nonetheless, as discussed in Part VI below, drafting against a contrary result may be prudent.

Tekni-Plex was a wake-up call for transactional lawyers. Although the holding was not surprising analytically, at least in the context of a merger transaction (in which, by operation of law, the surviving corporation succeeds to all of the attributes of the predecessor “disappearing” corporation), it produced potential disqualification issues, and confidentiality restrictions, that many transactional lawyers had not previously considered closely. Obviously, the result in Tekni-Plex has the greatest impact when counsel acting for the seller in an acquisition, who would ordinarily represent the seller in defending post-closing claims by the buyer under the agreement, 51 has a long-standing pre-transaction relationship with the selling company and gave advice to the company on matters underlying its representations and warranties in the purchase agreement (as was, of course, the case in Tekni-Plex itself).

There are four aspects of Tekni-Plex that merit closer inspection.

1. Reliance on Weintraub. One might argue quite plausibly that the Tekni-Plex court used the Supreme Court’s opinion in Weintraub for a bit more than it was worth—or at least should have been worth. The holding in Weintraub was simply that a “trustee of a corporation in bankruptcy has the power to waive the corporation’s attorney-client privilege with respect to prebankruptcy communications.” 52 The Court reached that conclusion for two reasons. First, “[w]hen control of a corporation in bankruptcy has the power to waive the corporation’s attorney-client privilege with respect to prebankruptcy communications.” 53 Second, “[i]n light of the [Bankruptcy] Code’s allocation of responsibilities, it is clear that the trustee plays

49. Id. Although the opinion does not explain the precise construct of the provision to which it refers, it seems possible that it was this provision that may have prompted new Tekni-Plex to seek the relief that it did with respect to confidences not related to the negotiations.
50. Id. at 672.
51. Difficult issues may arise in some contexts when transactional counsel seeks to litigate issues arising under documents that they prepared or negotiated. See, e.g., In re SRC Holding Corp., 352 B.R. 103 (Bankr. D. Minn. 2006), aff’d in part, rev’d in part, 364 B.R. 1 (D. Minn. 2007), rev’d sub nom. Leonard v. Dorsey & Whitney LLP, 553 F.3d 609 (8th Cir. 2009). These issues are sometimes generally referred to as the “litigating underlying work problem.” Nonetheless, most firms that represent a party in a business acquisition would, absent special circumstances, anticipate representing the same client in post-transaction disputes if they had the competence generally to handle such a matter.
53. Id. at 349.
the role most closely analogous to that of a solvent corporation’s management.” 54 Now, it is also true that the Court somewhat mysteriously stated, “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.” 55 But the references to “takeover” and “merger” in the litany of causes for a management change are somewhat regrettable. Beyond the fact that both are dicta in the context of the facts at issue in Weintraub, 56 there was absolutely no discussion of why—from a policy standpoint—custody of the attorney-client privilege ought to survive an intervening fundamental transaction. Thus, while the arguably imprecise litany of sources of a change in management that was recited in Weintraub made the job of the Tekni-Plex court marginally easier, in the context of the facts at issue in Weintraub, it might fairly be described as a “gift.” The following paragraph in the Tekni-Plex opinion is illustrative of the court’s confusion on this point:

Weintraub establishes that, where efforts are made to run the pre-existing business entity and manage its affairs, successor management stands in the shoes of prior management and controls the attorney-client privilege with respect to matters concerning the company’s operations. It follows that, under such circumstances, the prior attorney-client relationship continues with the newly formed entity. 57 There is simply no satisfactory predicate in these two sentences for any “newly formed entity.” Until one reaches the last three words, one might think that the opinion was addressing new management (or management-equivalent, in the case of Weintraub) of an existing entity. One cannot tell whether the Tekni-Plex court may have believed that a change in management alone is enough to give rise to a “newly formed entity” or, conversely, that the change in management of an existing entity alone was enough to transport the principle there announced to what most would consider a newly formed entity. Neither result is particularly appealing. 58

2. Transaction Structure. The Tekni-Plex court held that little weight should be given to the form of the intervening fundamental transaction when considering transpositional attorney-client relationships. The court stated that under

54. Id. at 353.
55. Id. at 349 (emphasis added).
56. In a decision after Weintraub, but prior to Tekni-Plex, the former parent of a divested subsidiary argued, unsuccessfully, that Justice Marshall’s reference in Weintraub to “takeovers” was dictum and should be ignored. See Medcom Holding Co. v. Baxter Travenol Labs., Inc., No. 87 C 9853, 1988 WL 33826, at *2 (N.D. Ill. Apr. 7, 1988). One cannot be sure whether Justice Marshall meant “takeover” in the context of a fundamental transaction, or simply, for example, a proxy contest in which insurgents succeed in gaining control of an existing entity.
58. In fairness, the Tekni-Plex court, in other places, recognized the statutory results of a merger. 674 N.E.2d at 669. Nonetheless, the construction of the quoted paragraph, and others, lead to the view that the court was prepared to extend “management transitions” to those in which a fundamental transaction not having the effect of a merger had intervened. Subsequent decisions discussed below confirm that view.
the Merger Agreement, “new Tekni-Plex possessed all of the rights, privileges, liabilities and obligations of old Tekni-Plex, in addition to its assets.” That was so because that is the general statutory effect of a merger. But the Tekni-Plex court did not believe that it was confining its analysis to statutory mergers; instead, it took the more sweeping view that “[w]hen ownership of a corporation changes hands, whether the attorney-client relationship transfers as well to the new owners turns on the practical consequences rather than the formalities of the particular transaction.” The “practical consequences” included, in the court’s view, whether the transaction involved a continuity of the business enterprise of the seller. This test (using the term loosely)—best captured by the statement that “the business of old Tekni-Plex remained unchanged, with the same products, clients, suppliers and non-management personnel”—is frequently utilized in subsequent decisions involving transpositional attorney-client relationships, albeit with increasing flexibility.

The acquisition of all of the outstanding equity of an existing entity, either in a single transaction or by means of a tender offer and subsequent short-form merger in which the target survives, obviously is a “change of ownership” that leaves the existing entity intact. Few would dispute that such a transaction ought not to affect the incidences of the target entity’s historic attorney-client relationships. As noted above, merger transactions in which the target is not the survivor give rise to a similar conclusion because of the commonly understood statutory effects of a merger. But “successorships” arising from asset sales are not easily characterized as “ownership of the pre-transaction client changing hands.” While the Tekni-Plex court subordinated the mechanics, or form, of the transaction to the “practical consequences,” it did so without any well-articulated reason why a wholly independent purchasing entity, at arm’s-length to the seller, should inherit the attributes of the seller’s attorney-client relationship (other than those relating to the negotiation of the transaction itself) merely because the transaction included sufficient assets of the seller to enable the purchaser to continue the seller’s business (or, as some later courts hold, a discrete portion of it). It may well be that the emphasis on “practical consequences” is simply shorthand for the notion that the existence of a potentially transpositional attorney-client relationship should not turn on the form of the transaction. But many other matters depend

59. Id. at 669.
60. Id. at 668 (emphasis added).
61. Id. at 669.
62. Such a transaction is obviously only possible, as a practical matter, in the case of a privately held company.
64. Such an entity may not have even been in existence when the events relevant to the pre-transaction attorney-client relationship occurred or, alternatively, was engaged in diverse other businesses with no expectation of the acquisition when the events relevant to the pre-transaction attorney-client relationship occurred.
on the form of the transaction,\textsuperscript{66} and if \textit{Tekni-Plex} is to be viewed as importing the public policy considerations that drive successorship decisions in other areas where the form of the transaction is frequently disregarded,\textsuperscript{67} the court should have articulated a more compelling basis for that result.

\textbf{3. The Duty of Confidentiality and the Attorney-Client Privilege.} One might fairly question whether the \textit{Tekni-Plex} parties, and the court, badly conflated the ethical duty of confidentiality with the attorney-client privilege. The former, which is grounded in agency and fiduciary law, is a rule of professional responsibility. The latter is an evidentiary privilege. Although both principles seek, at their core, to permit the \textit{client} to control confidences shared with his or her lawyer, the duty is far broader than the privilege. DR 4-101(B) of the New York Code of Professional Responsibility,\textsuperscript{68} as in effect when \textit{Tekni-Plex} was decided, generally prohibited a lawyer from knowingly revealing a confidence or secret of a client, or using a confidence or secret to the client's disadvantage, without the client's consent.\textsuperscript{69} DR 4-101(A) defined “confidences” as “information protected by the attorney-client privilege under applicable law.”\textsuperscript{70} To that extent, the duty to protect confidences and the evidentiary attorney-client privilege are co-terminus. But DR 4-101(A) defined “secret” as “other information gained in the professional relationship [presumably \textit{not} privileged] that the client has requested be held in violate or the disclosure of which would be embarrassing or would be likely to be detrimental to the client.”\textsuperscript{71} DR 5-108(A)(2) effectively extended the benefit of DR 4-101, requiring the non-disclosure of client confidences, to former clients.\textsuperscript{72}

By contrast, the attorney-client privilege, as famously described in \textit{United States v. United Shoe Machinery Corp.},\textsuperscript{73} 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

\begin{itemize}
\item \textsuperscript{66} Such matters include the tax consequences of the transaction to the buyer and the seller, the post-closing responsibility for pre-closing liabilities, and in some cases, the extent to which third-party consents are required.
\item \textsuperscript{67} One such example is product liability. See supra note 2.
\item \textsuperscript{68} N.Y. \textsc{comp. codes r. & regs. tit. 22, § 1200.19 (2008)}.
\item \textsuperscript{69} Model Rule 1.6 is, of course, even broader. It prohibits a lawyer from disclosing, again subject to certain exceptions and absent client consent, “information relating to the representation,” see Model Rules of Prof’l Conduct R. 1.6 (2008), a term substantially broader than New York’s former terms of “confidences” and “secrets.” Indeed, information relating to the representation applies not only to matters communicated in confidence by the client but also to information, otherwise non-public, acquired from sources other than the client.
\item \textsuperscript{70} N.Y. \textsc{comp. codes r. & regs. tit. 22, § 1200.19 (2008)}.
\item \textsuperscript{71} Id.
\item \textsuperscript{72} Id. § 1200.27. Model Rule 1.9(c)(2) does the same with respect to “information relating to the representation” required to be kept confidential by Model Rule 1.6. See Model Rules of Prof’l Conduct R. 1.9(c)(2) (2008).
\end{itemize}
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.\textsuperscript{74}

Although the \textit{United Shoe} formulation would not, on its face, include within the attorney-client privilege advice rendered by the lawyer to the client, at least to the extent that it did not reveal the substance of the communications by the client to the lawyer, most of the more modern formulations of the principle do.\textsuperscript{75}

While the \textit{Tekni-Plex} court acknowledged that the obligation to protect confidences and secrets arose from New York's Code of Professional Responsibility,\textsuperscript{76} it promptly, and without any explanation, shifted gears and stated that “[c]oncomitantly, the attorney-client privilege attached to any confidential communications that took place between M&L and Tekni-Plex corporate actors in the course of this representation.”\textsuperscript{77} That statement likely proves too much. That is, although communications to counsel by members of a corporate control group are generally subject to the privilege,\textsuperscript{78} the corporation's attorney-client privilege attaches to communications between counsel and lower-level employees only in certain circumstances.\textsuperscript{79} The court's confusion on this point is best illustrated by its discussion of the rights of new Tekni-Plex to the historical advice (unrelated to the transaction itself) given by M&L to old Tekni-Plex. After describing the task before it correctly as the need to determine “whether M&L was properly enjoined from revealing to Tang any confidential communications obtained from old Tekni-Plex and whether new Tekni-Plex owns the confidences created during the law firm's prior representation of old Tekni-Plex,”\textsuperscript{80} the court slipped into a discussion of control of the attorney-client privilege\textsuperscript{81} and concluded that “[a]s a result, new

\textsuperscript{74} Id. at 358–59.
\textsuperscript{75} Judge Higginbotham comprehensively articulates the modern view:

In theory, the client states facts and the attorney gives advice; and in theory, if the advice to the client does not reveal what the client told him it is not privileged. . . . Whatever the conceptual purity of this “rule,” it fails to deal with the reality that lifting the cover from the advice will seldom leave covered the client's communication to his lawyer. Nor does it recognize the independent fact gathering role of the attorney. Finally, enforcement of the rule would be imprecise at best, leading to uncertainty as to when the privilege will apply. . . . A broader rule . . . protects from forced disclosure any communication from an attorney to his client when made in the course of giving legal advice. . . . [W]e think the broader rule better serves the interests underlying the attorney-client privilege and is not inconsistent with the principle that the attorney-client privilege should be applied narrowly.


\textsuperscript{76} Tekni-Plex, Inc. v. Meyner & Landis, 674 N.E.2d 663, 666–67 (N.Y. 1996).
\textsuperscript{77} Id. at 668 (citing Commodity Futures Trading Comm'n v. Weintraub, 471 U.S. 343, 348 (1985)).

\textsuperscript{79} In \textit{Upjohn Co. v. United States}, 449 U.S. 383, 394 (1981), the Supreme Court noted five conjunctive factors that aid in establishing when communications with counsel by employees outside the control group would be protected by the attorney-client privilege.

\textsuperscript{80} Tekni-Plex, 674 N.E.2d at 670.
\textsuperscript{81} Again, the court cited \textit{Weintraub}, in which, of course, the Supreme Court dealt only with the attorney-client privilege.
Tekni-Plex now has the authority to assert the attorney-client privilege to preclude M&L from disclosing the contents of these confidential communications to Tang.\footnote{1051} This fundamental confusion relating to which of the two doctrines the court intended to address leaves the precise intent of the opinion on this issue unclear. Most conservatively read, the opinion addresses the broader notion of the obligation to preserve client, and former client, confidences, which would necessarily include communications subject to the attorney-client privilege.\footnote{82} That reading, however, goes beyond the question raised and answered in Weintraub, which, correctly or otherwise, the Tekni-Plex court relied upon so heavily.

Neither the Tekni-Plex opinion, nor most of those that follow it, reflect on the purpose behind the attorney-client privilege and the policies served by vesting in a successor entity the authority to control it. The privilege exists on the dual assumptions that full disclosure of the client’s problems is the key to effective legal assistance and that such disclosure will only be made if the client has assurances that they will remain confidential.\footnote{84} The attorney-client privilege is a common law response to these assumptions and is intended to encourage open communication between the client and the lawyer for the purpose of facilitating effective legal representation and legal compliance.\footnote{85} Having said that, most courts subscribe to the principle that because the privilege “has the effect of withholding relevant information from the fact-finder, it apples only where necessary to achieve its purpose.”\footnote{86}

Weintraub stood for the proposition that the corporate attorney-client privilege could be waived (and, presumably, asserted) exclusively by the trustee in bankruptcy. But because the facts there at issue involved a challenge by prior management to the trustee’s waiver, the Court in Weintraub did not have as clear an occasion to—and did not—overtly consider why its holding was consistent with the purpose of the privilege—encouraging open communications with counsel by the pre-petition entity. While the Court articulated at the outset the underlying purpose of the privilege—fostering effective legal representation and the administration of justice\footnote{87}—it did not state why it believed it important that post-petition control of the privilege with respect to pre-petition communications be vested

\footnote{82}{Tekni-Plex, 674 N.E.2d at 670.}
\footnote{83}{Presumably, if Tang had a right to discovery in the arbitration proceeding (a point not discussed in the opinion, and often dependent on the terms of the underlying agreement in which the parties agreed to arbitration or the rules of the arbitration body), he might well have obtained from new Tekni-Plex information, if any, relating to M&L’s representation of old Tekni-Plex on the environmental matters at issue that was subject to M&L’s duty of confidentiality but was not subject to the attorney-client privilege.}
\footnote{84}{Fisher v. United States, 425 U.S. 391, 403 (1976).}
\footnote{85}{8 JOHN H. WIGMORE, EVIDENCE IN TRIALS AT COMMON LAW § 2291, at 544–54 (J. McNaughton ed., rev. ed. 1961).}
in anyone. Although perhaps otherwise privileged communications should not lose their protection because of an intervening bankruptcy (Weintraub), merger (Tekni-Plex), or sale of substantially all of a corporation’s assets as a going concern (decisions discussed below), and that to hold otherwise would rend the fabric of the privilege, the point is not so obvious that it does not bear some discussion in the decisions. Indeed, in light of a substantial body of case law holding that the attorney-client privilege should be construed as narrowly as possible without undermining its underlying purpose, a discussion of the need, from a policy standpoint, to vest control of the privilege in a successor that was a stranger to the original communications was clearly called for in Tekni-Plex or any one of the numerous decisions following in its footsteps.

4. An Arguably Artificial Construct. In granting new Tekni-Plex the right to “preclude M&L from disclosing, [post-closing, to Tang], the contents of . . . confidential communications [made, pre-closing, between old Tekni-Plex and M&L],” the Tekni-Plex court quite arguably failed to recognize that, at the time the transaction was negotiated—indeed, quite arguably at any time prior to the closing—M&L was under no constraints in sharing information relating to its historical representation of old Tekni-Plex with Tang, the sole owner of old Tekni-Plex. Regardless of whether M&L did so in every case, a more pragmatic approach would have been to deem the firm as having done so, at least insofar as such historical information related to representations made by Tang, with M&L’s advice, in the Merger Agreement.

III. RELATED CASE LAW NOT RAISING MALPRACTICE CLAIMS

In the past fifteen years, there have been a number of decisions dealing with transpositional attorney-client relationships outside of claims for malpractice. Substantially all of these decisions cite Tekni-Plex, but many distinguish it. The seven decisions reviewed briefly below serve to highlight the varied transactional settings in which transpositional attorney-client relationships have been asserted.

A. **Bass Public Ltd. Co. v. Promus Companies Inc.**

Holiday Corporation (“old HC”), a publicly traded company, began diversifying out of real estate ownership in the mid-1980s. Old HC sold portions of its Holiday Inn business to Bass Public Limited Company (“Bass”), a publicly traded U.K. company. By early 1988, Bass was operating approximately 200 Holiday

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91. Id. at *1.
92. *Id.*
Inns as owner, licensor, or manager. In mid-1989, Bass and old HC agreed upon the terms of a transaction in which Bass would acquire the operational control of the remaining 1,600 Holiday Inns. This was accomplished by old HC (1) “dropping down” all non-Holiday Inn assets into a wholly owned subsidiary named Promus, (2) spinning off Promus to old HC shareholders (with the result that old HC's shareholders owned shares in both old HC and Promus), (3) merging old HC with Bass U.S.A., a wholly owned subsidiary of Bass (the company surviving that merger referred to here as “new HC”), and (4) converting the old HC shares in the merger into shares of Bass and new HC. Although, following the merger, new HC operated the business of old HC, the composition of the board of directors and top management of new HC was entirely changed.

Promus was a party to the Agreement and Plan of Merger (“Merger Agreement”) between old HC, Bass, and Bass U.S.A. In the Merger Agreement, Promus made representations and warranties about the business of old HC and agreed to indemnify Bass, post-merger, for material inaccuracies in its representations and warranties. Promus was also a party to a tax-sharing agreement in which it assumed liability for all tax exposure of old HC and its subsidiaries for all pre-merger tax periods.

Following the merger, Bass and several of its subsidiaries, including new HC, sued Promus for violations of the Securities Exchange Act of 1934, breaches of the tax-sharing agreement, misrepresentations under the Merger Agreement and the tax-sharing agreement, and breaches of express warranties and its obligation to indemnify under the Merger Agreement. Latham & Watkins (“L&W”), which had represented old HC on a number of matters since 1986, advised both old HC and Promus in connection with the spin-off and merger transactions. Following the merger, L&W had no continuing attorney-client relationship with new HC, but it continued to advise Promus. Indeed, L&W had, with new HC's knowledge and without its objection, advised Promus on a number of post-merger disputes with Bass and its subsidiaries, including new HC.

Not surprisingly, L&W entered an appearance for Promus in the litigation brought against Promus by Bass. Bass moved to disqualify L&W on the ground that a number of matters on which L&W had advised old HC, and on which old

93. Id.
94. Id.
95. Id. at *1–2.
96. Id. at *2.
97. Id.
98. Id.
99. Id.
100. Id.
101. Id. at *3.
102. Id.
103. Id.
104. Id. at *4.
HC had furnished confidential information to L&W, were substantially related to matters at issue in the litigation and that if L&W were permitted to represent Promus it would breach its duty of confidentiality to new HC.105 The plaintiffs alleged that L&W “breached its duty of fidelity” to new HC and “threatens to violate [old HC’s] confidences by representing Promus in litigation over issues on which [L&W] had advised [old HC] for years.”106

The Bass court, writing two years before Tekni-Plex, denied the motion to disqualify. Although the court appeared willing to assume that new HC and old HC were the same entity for the purpose of analyzing L&W’s obligations to protect the confidences of its former client, it relied on the Second Circuit’s rule that disqualification arising from such an obligation is not applicable when (1) the prior representation included the simultaneous representation of two clients and (2) the complaining client had knowledge of the simultaneous representation, because, in those circumstances, “the complaining client would have no reason to believe that confidences of one client would be withheld from the other.”107

The court reasoned that since L&W has represented old HC and Promus concurrently and management of the two entities was in many important respects co-terminus, new HC could not show that “that it had any expectation that the information it now wants to protect through disqualification would be kept confidential from Promus.”108 Put another way, the court concluded that “Latham & Watkins possesses no information from its pre-merger representation of [old HC] relevant to this litigation that is not already known by Promus.”109

Finally, the Bass court was also influenced in its analysis by (1) its view that L&W had not “changed sides” in the matters at issue—“it is the client, and not the attorney, who has changed position”110—and (2) in any event, the agreement obligated each side to provide information in its possession to the other in connection with any post-transaction disputes.

Bass represents a more pragmatic resolution of the issues than Tekni-Plex. The Bass court was in no doubt influenced in part by the fact that in smaller post-merger disputes, Bass and its subsidiaries had not protested L&W’s representation of Promus.111 L&W succeeded in demonstrating a highly interwoven co-client relationship between old HC and Promus; M&L failed in a similar effort in Tekni-Plex in showing a co-client relationship between old Tekni-Plex and Tang. Bass can be read as highlighting the artificiality of the distinction advanced in Tekni-Plex between M&L’s historic representation of old Tekni-Plex and its admittedly joint representation of both old Tekni-Plex and Tang in the sale transaction.

105. Id.
106. Id. at *5. The plaintiffs also alleged that certain L&W lawyers might be called as witnesses and that L&W’s representation of Promus in the litigation raised the appearance of impropriety. Id.
108. Id. at *7.
109. Id. at *8.
110. Id. at *7 (quoting Kempner, 662 F. Supp. at 1278).
111. See id. at *3–4.
B. **Soverain Software LLC v. Gap, Inc.**112

Divine, Inc., and Open Market, Inc., jointly conducted a software business called Transact.113 Both Divine and Open Market filed for bankruptcy.114 A coalition of bidders operating through Saratoga DMS LLC ("Saratoga") was successful in acquiring certain assets of the debtors, including Transact, in the bankruptcy proceedings.115 Saratoga then transferred Transact, and the patents on which its business was based, to Soverain.116 Soverain brought the instant action against the Gap and Amazon for infringement of the Transact patents.117

Amazon sought to discover from Soverain certain communications between Open Market and Divine and attorneys for those companies.118 Amazon did not dispute that if Open Market and Divine had continued to conduct the Transact business, they would have been able to assert the attorney-client privilege with respect to the communications that Amazon now sought.119 Soverain asserted that, by virtue of acquiring and operating the Transact business, it had a continuing right to assert the privilege with respect to the communications at issue because it should be deemed to be the corporate successor to the Transact business, as previously conducted by Open Market and Divine, and as such, the successor to the attorney-client relationships of both companies relating to the Transact business with the right to assert their attorney-client privilege as to communications relating to the business.120

Amazon cited a number of decisions for the proposition that the transfer of some assets or a single patent does not effectively transfer the attorney-client privilege relating to those assets.121

The Soverain court did not dispute the contention that isolated asset transfers do not transfer a right to assert the attorney-client privilege.122 It held, however, that "this bright-line rule does not apply equally to the myriad ways control of a corporation or a portion of a corporation can change hands"123 and that "whether the attorney-client relationship transfers . . . to the new owners turns on the

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113. Id. at 762.
114. Id.
115. Id.
116. Id.
117. Id.
118. Id.
119. Id.
120. Id.
121. Id. at 763 (citing Telectronics Proprietary Ltd. v. Medtronic, Inc., 836 F.2d 1332, 1336–37 (Fed. Cir. 1988) (patent); In re Yarn Processing Patent Validity Litig., 530 F.2d 83, 90 (5th Cir.) (patent), reh'g denied, 536 F.2d 1025 (5th Cir. 1976); Zenith Elecs. Corp. v. WH-TV Broad. Corp., No. 01 C 4366, 2003 WL 21911066, at *1–2 (N.D. Ill. Aug. 7, 2003); In re Grand Jury Subpoenas 89-3 & 89-4, 734 F. Supp. 1207, 1211 n.3 (E.D. Va.), aff'd in part, vacated in part, 902 F.2d 244 (4th Cir. 1990)).
122. Id.
123. Id.
practical consequences rather than the formalities of the particular transaction.” 124 Looking at the “practical consequences,” the court saw more than “a mere transfer of assets.” 125 The court held that the following factors justified a conclusion that Soverain was a successor to the Transact business and had the right to assert the privilege as it related to the communications between Open Market and Divine and their respective attorneys: (1) Soverain’s principal business was the sale of the Transact product, (2) Soverain retained the patents for the Transact product, (3) Soverain serviced customers with contracts for the Transact product, (4) engineering personnel who had previously supported the Transact product when it was marketed by Open Market and Divine continued to support that product for Soverain, and (5) Soverain retained two inventors of the Transact patents as consultants and they were assisting Soverain in the launch of a new version of the Transact product. 126

In holding that Soverain controlled the Open Market/Divine attorney-client privilege, the court rejected additional arguments by Amazon that the use of an intermediary (Saratoga) ought to be deemed a waiver, and the buyer’s failure to assume any liabilities of the Transact business ought to defeat a claim that the buyer acquired an ongoing business. 127 The court held that accepting the “intermediary as waiver” argument could curtail some sales out of bankruptcy and accepting the “failure to assume liabilities” argument might substantially eliminate the right to succeed to the attorney-privilege in the bankruptcy sale process, whether or not an intermediary was used. 128 It declined to accept either argument.

Although courts sometimes assert that the attorney-client privilege is not a property right that can be sold, 129 decisions such as Soverain suggest that it can, so long as enough assets and attributes of an ongoing business are transferred. 130 Again, there was no discussion in the opinion how or why Soverain’s assertion of the attorney-client privilege following the completion of the debtors’ bankruptcy proceedings with respect to communications had by the debtors prior to the commencement of their respective bankruptcy proceedings furthered the ability of the pre-petition debtors to obtain competent legal advice. Indeed, the Soverain court acknowledged that if it had viewed the patent acquisitions out of bankruptcy as a “mere transfer of assets,” the privilege would likely not have followed into Soverain’s hands. 131 Thus, it can be argued that Soverain, and other decisions like it, implicitly accept the notion that the privilege is but one of the sticks in the bundle, provided the bundle is large enough and the buyer uses the sticks to conduct the same business that had been conducted by the seller.

124. Id. (citing Tekni-Plex, Inc. v. Meyner & Landis, 674 N.E.2d 663, 668 (N.Y. 1996)).
125. Id.
126. Id. at 763–64.
127. Id.
128. Id. at 764.
130. See supra note 126 and accompanying text.
C. In Re I Successor Corp.\textsuperscript{132}

Interliant, Inc., filed for relief under chapter 11 in 2002.\textsuperscript{133} In 2003, Interliant, in the course of its bankruptcy proceeding, sold substantially all of its assets to Intrepid Acquisition Corporation and changed its name to “I Successor Corporation.”\textsuperscript{134} The sale was effected by means of an asset purchase agreement, approved by the bankruptcy court, which provided that (1) the buyer would not be “deemed, considered, or held to be a successor” to the debtor, and (2) that the buyer was not assuming any of the debtor’s pre-petition liabilities.\textsuperscript{135}

In 2004, the court approved Interliant’s third amended plan of liquidation which authorized the debtor’s committee of unsecured creditors (the “Committee”) to prosecute preference and fraudulent conveyance claims after confirmation.\textsuperscript{136} The Committee brought an adversary action against several of Interliant’s former principals and their affiliates for the recovery of pre-petition transfers of cash that it alleged to be preferences or fraudulent conveyances under the federal bankruptcy and/or New York law and for breaches of fiduciary duty to the pre-petition debtor.\textsuperscript{137} Proskauer Rose, LLP, which had represented Interliant in various transactions pre-bankruptcy, entered its appearance for the defendants on certain counts of the adversary action.\textsuperscript{138} The Committee moved to disqualify the firm on the ground that its prior work for Interliant was substantially related to certain of the claims in the adversary action.\textsuperscript{139} The defendants represented by Proskauer responded that, because Interliant sold all of its assets and was no longer a going concern, no attorney-client privilege or former client status could have passed to the post-petition entity on the Committee.\textsuperscript{140}

The court began by reviewing the nature of “substantial relationship” under New York’s Code of Professional Responsibility,\textsuperscript{141} as well as the obligations of confidentiality and loyalty under Canons 4, 5, and 9 of the New York Code, as then in effect.\textsuperscript{142} The court rejected the firm’s argument that a lawyer owes no duty of loyalty to a former client and that the only ongoing duty owed to a former client is to preserve client confidences:

Contrary to defendants’ assertion, numerous courts have held that the substantial relationship test effectuates both the duty of loyalty and the duty of confidentiality.

\begin{itemize}
  \item \textsuperscript{132} 321 B.R. 640 (S.D.N.Y. 2005).
  \item \textsuperscript{133} Id. at 644.
  \item \textsuperscript{134} Id.
  \item \textsuperscript{135} Id.
  \item \textsuperscript{136} Id. at 644–45.
  \item \textsuperscript{137} Id. at 645.
  \item \textsuperscript{138} Id. at 646.
  \item \textsuperscript{139} Id.
  \item \textsuperscript{140} Id.
  \item \textsuperscript{142} I Successor Corp., 321 B.R. at 647–52.
\end{itemize}
In the seminal case setting forth the substantial relationship test, *T.C. Theatre Corp. v. Warner Bros. Pictures, Inc.*, Judge Weinfeld of the Southern District of New York held that only through the substantial relationship test “can the lawyer's duty of absolute fidelity be enforced and the spirit of the rule relating to privileged communications be maintained.”

After establishing the extent of the duty owed to a former client, the court addressed the defendants’ argument that Interliant (renamed I Successor), following the sale of its assets to a third party, should not be viewed as Proskauer's former client. Starting with *Weintraub*, in which the Supreme Court held that a chapter 7 trustee controlled the debtor's attorney-client privilege, the court stated that the same rule applied in a chapter 11 liquidation. As a result, it held that “the attorney-client privilege of Interliant passed to the post-petition managers, acting in their roles on behalf of the debtor when control of Interliant passed to them” and that “the fact that the debtor continues to exist solely to pursue lawsuits to collect assets to pay liabilities is irrelevant just as it was in the Chapter 7 liquidation case the Supreme Court considered in *Weintraub*. The court reasoned that because I Successor (the post-petition Interliant) shared pre-petition Interliant’s attorney-client privilege, “I Successor [was] Proskauer's former client.”

Curiously, the defendants did not appear to argue that the buyer of substantially all of Interliant's assets had also acquired the incidents of Interliant's pre-petition attorney-client relationship with the firm, or so the court concluded. The court rejected the notion that the right to assert the incidents of the pre-petition attorney-client relationship had, essentially, disappeared. The court stated that because the claims at issue were property rights of Interliant that were not sold to Intrepid Acquisition Company, “protection of the duties of confidentiality and loyalty owed to I Successor/Interliant as a former client and present litigant in the process of liquidation are just as important as if the company were an ongoing business entity.”

After the court concluded that Interliant, acting through the Committee, had succeeded to the pre-petition corporation's attorney-client relationship and that, therefore, the post-petition Interliant was effectively Proskauer's former client, the

143. *Id.* at 649–50 (citation omitted).

144. *Id.* at 652.

145. *Id.*

146. *Id.*

147. “Here, [the firm] does not contend, pursuant to *Tekni-Plex*, that the attorney-client privilege passed to the purchasers of Interliant's assets.” *Id.* at 653–54. The firm may have believed it was precluded from advancing such a claim because of the “non-successor” assertions in the asset purchase agreement.

148. The firm attempted to analogize the current situation to that in *Federal Deposit Insurance Corp. v. Amundson*, 682 F. Supp. 981, 987 (D. Minn. 1988), where the court held that the FDIC had not acquired the right to assert the pre-liquidation bank's attorney-client privilege because it had made no effort to reconstitute the bank. The court rejected the application of the result there to the facts before it because it believed that the FDIC was best characterized as a “purchaser” of the liquidated bank's assets that had failed to continue the business of the liquidated bank. *I Successor Corp.*, 321 B.R. at 652–54.

149. *I Successor Corp.*, 321 B.R. at 654.
court examined whether the claims in the adversary action were “substantially related” to those matters on which the firm had advised Interliant pre-petition.\footnote{Id. at 658–61.} As to the claims alleging breaches of fiduciary duty, the court found a substantial relationship because the breaches were alleged to have occurred in the same transactions as those in which the firm advised pre-petition Interliant.\footnote{Id. at 659.} As to the remaining claims at issue, the court found a substantial relationship because the corporate practices at issue in authorizing the transactions in which Proskauer had previously advised the pre-petition Interliant were equally implicated in the transactions attacked in these remaining claims on which Proskauer sought to represent the defendants.\footnote{Id. at 660.} Accordingly, the court disqualified the firm from representing the defendants in the adversary action.

Although the defendants in \textit{I Successor} who opposed disqualification of their counsel did not argue that the incidences of Interliant’s pre-petition attorney-client relationship passed to Intrepid in the asset sale (perhaps, as noted above, because the purchase agreement purported to disclaim Intrepid’s status as a successor to Interliant),\footnote{Id. at 653–54.} both \textit{Bowater}, discussed immediately below,\footnote{See infra notes 156–66 and accompanying text.} and NWI-I, discussed immediately thereafter,\footnote{See infra notes 167–94 and accompanying text.} suggest that, although those cases involved the attorney-client privilege and not former counsel status, such an argument may well have created at least a hurdle for the court to overcome. In the end, however, the court’s apparent concern with the alleged side-switching of the law firm may well have forced the same result. The notion of “substantially related” may be, in at least some of these cases, the dog that wags the tail. If courts believe that they see a “substantially related” engagement by a firm that is now even arguably on the other side of the table, they can be expected to explore the notion of a transpositional attorney-client relationship even when the facts and decisional law may suggest otherwise.


\textit{Bowater} involved a motion to compel production of sixty-three documents in a class action brought against Bowater by retired employees of Great Northern Paper (“GNP”).\footnote{Id. at *1.} Sixty-two of the documents reflected communications with counsel for Bowater and GNP during the period that GNP was Bowater’s wholly owned subsidiary.\footnote{Id. at 653–54.} After the creation of the documents at issue, (1) Bowater sold all of the stock of GNP to Inexcon of Maine, Inc., (2) GNP filed for bankruptcy, (3) Brascan Corp. purchased substantially all of the assets of GNP pursuant to

\begin{itemize}
\item \footnote{Id. at 658–61.}
\item \footnote{Id. at 659.}
\item \footnote{Id. at 660.}
\item \footnote{Id. at 653–54.}
\item \footnote{See infra notes 156–66 and accompanying text.}
\item \footnote{See infra notes 167–94 and accompanying text.}
\item \footnote{No. 03-227-P-C, 2005 WL 5885367 (D. Me. May 13, 2005).}
\item \footnote{Id. at *1.}
\item \footnote{Id.}
a court-approved asset purchase agreement (the “APA”), and (4) as ostensibly authorized by Weintraub, GNP's trustee in bankruptcy waived GNP's attorney-client privilege as to the documents at issue.\(^{159}\) Bowater argued that the trustee's waiver was ineffective because control of the privilege passed to Brascan in the court-approved sale.\(^{160}\) The plaintiffs, seeking production, argued that “a bare transfer of assets—unaccompanied by a transfer of stock or a complete merger of the sold corporation into the purchaser—does not transfer ‘client’ status to the asset purchaser, and thus does not transfer the right to assert or waive the corporation's pre-sale attorney-client privilege.”\(^{161}\) Bowater, by contrast, relied on both Tekni-Plex and Soverain for the proposition that a court must look at the “practical consequences” of a transaction and that, quoting Tekni-Plex, “[i]f the practical consequences of the transaction result in the transfer of control of the business and the continuation of the business under new management, the authority to assert or waive the attorney-client privilege will follow as well.”\(^{162}\)

The Bowater court examined the terms of the APA pursuant to which Brascan acquired substantially all of GNP's assets. The court believed it significant that the APA defined the purchased assets as including “all of [GNP's] right, title and interest in all properties, assets, and rights of any kind, whether tangible or intangible, real or personal, owned, licensed, or leased by Seller in connection with or incidental to the operation of the Business or otherwise”\(^{163}\) and defined “rights” as including (1) the “exclusive right to represent itself as carrying on the business [of GNP] in succession to [GNP],”\(^ {164}\) and (2) the right to assert obligations of confidentiality, and similar obligations, of GNP.\(^ {164}\) The court concluded that because the “practical consequence” of the APA was to transfer all control and continuation of GNP's business to Brascan, the right to waive the attorney-client privilege “with respect to communications between Bowater legal representatives and GNP rests with the managers of Brascan and not with GNP's bankruptcy trustee.”\(^ {165}\)

Bowater represents a combination of the business continuity concept emphasized in Tekni-Plex and Soverain, and the express terms of the GNP/Brascan asset transfer. The court seemed substantially more interested in the latter, raising the question of whether the “practical consequences” are the objective results of the transaction or those that the parties may seek to establish by the terms of their contract. As will be seen below, however, to the extent subsequent transaction parties may have read Bowater for the proposition that the attributes of a predecessor's attorney-client relationship may be transferred solely by the use of effective draftsmanship, they were to be disappointed.

\(^{159}\) See id.

\(^{160}\) Id. Bowater also argued that (1) a jointly held privilege cannot be waived unilaterally, and (2) the trustee's waiver could not require the production of documents in Bowater's sole possession. Id.\(^ {161}\)

\(^{161}\) Id. at *1 (quoting plaintiffs' motion to compel).

\(^{162}\) Id. at *2 (quoting Tekni-Plex, Inc. v. Meyner & Landis, 674 N.E.2d 663, 668 (N.Y. 1996)) (ellipses in original).

\(^{163}\) Id. (emphasis in original).

\(^{164}\) Id.

\(^{165}\) Id.
Bowater was decided nine weeks after I Successor but it did not cite that decision, much less attempt to distinguish it. Facially, the two decisions are at odds. The I Successor court held that a creditors' committee standing in the shoes of the debtor retained the right to move to disqualify the debtor's pre-petition counsel on a former counsel/substantial relationship argument following a sale of the debtor's ongoing business to a third party. The Bowater court, on the other hand, held that the intervening sale of the debtor's ongoing business divested the trustee of control of the debtor's pre-petition attorney-client privilege. Bowater made precisely the argument—that the intervening asset purchaser acquired the incidents of the pre-petition attorney-client relationship—that the I Successor defendants opposing disqualification of their counsel did not make. And it is true that the asset purchase agreements in I Successor and Bowater took completely opposite positions on whether the asset purchaser should be deemed a “successor” of the debtor. Nonetheless, neither agreement expressly addressed which entity would succeed to the debtor's pre-petition attorney-client relationships and one wonders whether the provisions of the two agreements were more than fortuitously coincident with the result that the court otherwise thought appropriate under the particular facts of each case. Of course, I Successor and Bowater involved somewhat different issues: former client status and the duty of confidentiality on the one hand (for disqualification purposes), and control of a prior entity's attorney-privilege on the other. To this point, however, it does not appear that courts have meaningfully distinguished those issues in transpositional cases, and there is nothing in either opinion that clearly suggests that either court believed that the considerations, and results, should turn on which aspect of the pre-petition debtor's attorney-client relationship was at issue. Indeed, the I Successor court reached its conclusion on former client status based largely on its conclusion that the creditors' committee controlled pre-petition Interliant's attorney-client privilege.

E. American International Specialty Lines Insurance Co. v. NWI-I, Inc. 167

The decision arose in the context of suit by the underwriter of a $100 million pollution legal liability insurance policy seeking a declaration that the insureds named under the policy were not entitled to coverage. 168 The policy, which the plaintiff issued to Fruit of the Loom, Inc. (“old FTL”), in 1998, covered seven contaminated properties. 169 In 1999, old FTL, NWI Land Management, Inc., and thirty of their affiliates filed a voluntary petition under chapter 11 in the bankruptcy court in Delaware. 170 The debtors' Third Amended Plan of Joint Reorganization (“the Joint Plan”), which was confirmed in early 2002, provided that the
successors of old FTL after bankruptcy would include (1) a successor liquidation trust ("SLT"); (2) a custodial trust; and (3) an entity to which the apparel assets were transferred by old FTL in the bankruptcy ("Newco") and any successor to Newco.\textsuperscript{171} Newco thereafter transferred the apparel assets to a subsidiary of Berkshire Hathaway, Inc. ("new FTL").\textsuperscript{172} The apparel assets consisted of substantially all of old FTL's business operations, including the FTL name.\textsuperscript{173} New FTL continued the operations of old FTL.\textsuperscript{174}

Shortly following confirmation of the Joint Plan, old FTL and NWI entered into a settlement agreement to resolve certain environmental claims.\textsuperscript{175} The settlement agreement provided for the transfer to the custodial trust of the seven contaminated properties covered by the policy.\textsuperscript{176} The custodial trust was created to own the seven contaminated properties, carry out administrative functions regarding those properties, and to manage and/or fund remedial actions on those properties.\textsuperscript{177} The SLT was created to hold certain assets of NWI and old FTL and to distribute its assets to provide funding to the custodial trust.\textsuperscript{178} Old FTL changed its name to NWI-I and became wholly owned by the SLT.\textsuperscript{179} The assets held by NWI-I consisted of equity interests in NWI and certain insurance policies, including the subject policy.\textsuperscript{180} Put simply, the reorganization plan and the settlement agreement divided the business and assets of old FTL and NWI into basically three parts: (1) old FTL's operating assets and business, which were sold to and thereafter continuously operated by new FTL; (2) the seven contaminated properties, which were transferred to the custodial trust; and (3) rights under various insurance policies, including the policy at issue in the litigation, which remained in old FTL (renamed NWI-I and wholly owned by the SLT). The proceeds of the insurance policies were intended to be paid to the custodial trust to permit it to clean up the subject properties.

The settlement agreement provided that the SLT was the legal successor in interest to certain rights under the policy at issue in the litigation.\textsuperscript{181} The trust agreements for the custodial trust and for the SLT each included a section entitled “Preservation of Privilege,” which provided:

> In connection with the rights, claims and causes of action that constitute the [assets of the SLT or the custodial trust], any attorney-client privilege, work-product privilege, or other privilege or immunity attaching to any documents or communications (whether written or oral) transferred to the [SLT or the custodial trust] shall vest in

\textsuperscript{171. Id.}
\textsuperscript{172. Id.}
\textsuperscript{173. Id. at 403 n.1.}
\textsuperscript{174. Id. at 403.}
\textsuperscript{175. Id.}
\textsuperscript{176. Id.}
\textsuperscript{177. Id.}
\textsuperscript{178. Id.}
\textsuperscript{179. Id.}
\textsuperscript{180. Id. at 403–04.}
\textsuperscript{181. Id. at 403.}
The court was required to rule as to what entity had the right to claim or waive the attorney-client privilege relating to communications between the old FTL debtors and their counsel made prior to, and during, the bankruptcy proceeding relating to the insurance policy at issue in the litigation, the seven contaminated properties covered by it, and the environmental settlement agreement. Not surprisingly, old FTL and its affiliates argued that the court should hold that (1) old FTL retained control of the attorney-client privilege as it related to the policy at issue in the litigation; (2) the SLT and the custodial trust retained control of the attorney-client privilege as it related to the environmental condition and remediation of the seven contaminated properties; and (3) old FTL, the SLT, and the custodial trust retained control of the attorney-client privilege as it related to the environmental settlement agreement and the order approving the environmental settlement agreement.

The court began its analysis with reference to Weintraub. The court noted that, following Weintraub, “several courts have recognized that assignees or transferees of most, if not all, of a corporation's assets will have the authority to assert or waive the attorney-client privilege.” The court then noted that naked transfers of assets, without more, have been held by many courts to be insufficient to transfer control of the transferor's attorney-client privilege. After emphasizing the “practical consequences” test originally set forth in Tekni-Plex and repeated in Soverain, the court stated:

[W]e see no reason to deviate from the well-established principle that the right to assert or waive a corporation's attorney-client privilege is an incident of control of the

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182. Id. at 404.
183. Id.
184. Id. at 405.
185. Id. at 406 (citing Ramada Franchise Sys., Inc. v. Hotel of Gainesville Assocs., 988 F. Supp. 1460, 1463 (N.D. Ga. 1997) (finding that the authority to assert or waive the old company's attorney-client privilege passed to the new company when it acquired all of the assets and control of the old company during bankruptcy); In re Fin. Corp. of Am., 119 B.R. 728, 737–39 (Bankr. C.D. Cal. 1990) (holding that the authority to assert the corporation's attorney-client privilege passes with the transfer of substantially all of the corporation's assets and liabilities); In re Crescent Beach Inn, 37 B.R. 894, 896 (Bankr. D. Me. 1984) (holding that the transferee of all the assets of a reorganized company was the debtor's successor for purposes of the attorney-client privilege and was therefore entitled to assert the privilege formerly held by the debtor)).
186. Id. (citing, inter alia, Zenith Elecs. Corp. v. WH-TV Broad. Corp., No. 01 C 4366, 2003 WL 21911066, at *1–2 (N.D. Ill. Aug. 7, 2003) (sale of certain assets did not transfer the right to invoke the attorney-client privilege despite contract provision stating that the privilege transferred with the sale); NCL Corp. v. Lone Star Bldg. Ctrs., Inc., 144 B.R. 170, 174 (S.D. Fla. 1992) (transfer of a lease did not transfer the attorney-client privilege); In re Grand Jury Subpoenas 89-3 & 89-4, 734 F. Supp. 1207, 1211 n.3 (E.D. Va.), aff'd in part, vacated in part, 902 F.2d 244 (4th Cir. 1990); Pilates, Inc. v. Georgetown Bodyworks Deep Muscle Massage Ctrs., Inc., 201 F.R.D. 261, 264–65 (D.D.C. 2000) (assignee of trademarks had no right to assert the attorney-client privilege where there was no transfer of control of the corporation); SMI Indus. Can. Ltd. v. Caelter Indus., Inc., 586 F. Supp. 808, 814–15 (N.D.N.Y. 1984) (assignment of trademarks and goodwill did not assign attorney-client privilege)).
corporation. If we examine the practical consequences of the transaction or multiple transactions at issue here, this Court concludes that New FTL is the only entity that acquired the right to assert or waive the attorney-client privilege after bankruptcy. New FTL purchased substantially all of Old FTL’s business operations and continues to operate Old FTL’s business. Therefore, because the practical consequences of the Asset Purchase Agreement resulted in the transfer of control of Old FTL’s business and the continuation of that business under new management, the authority to assert or waive the attorney-client privilege transferred to New FTL. 187

In reaching this conclusion, the court noted that neither the SLT nor the custodial trust controlled old FTL’s business, and “defendants concede that they are entities that have no connection to the business operations of the pre-bankruptcy old FTL or its affiliates.” 188 Because new FTL controlled old FTL’s business operations, the court held that new FTL held the exclusive right to assert or waive the attorney-client privilege of old FTL and its affiliates. 189 In reaching the conclusion that old FTL’s privilege was controlled exclusively by new FTL, the court necessarily found ineffective the provisions in the trust agreements of the SLT and the custodial trust that allocated to them control of old FTL’s privilege. 190 The court noted that it was not the first court to decline to enforce such a provision and that

defendants have not provided any case law nor has our research revealed any that supports allocating the attorney-client privilege based on the division of a debtor’s assets to multiple successor entities. Absent control of the corporation, this Court finds that the attorney-client privilege does not pass to a successor entity, even with respect to the assets that were transferred to that successor. 191

Finally, the court rejected the defendants’ argument that I Successor required the court to permit old FTL (renamed NWI-I) to control the privilege. The court noted that I Successor involved the issue of a conflict with a former “client” and not control of the attorney-client privilege. 192 However, the court did not articulate precisely why, in its view, the differing issues ought to produce differing results. Importantly, the court noted that the I Successor court was not forced to examine whether the asset purchaser should not have been deemed the successor. 193 In any event, the court concluded that, to the extent that the analysis in I Successor might

187. Id. at 406–07 (citation omitted) (emphasis added).
188. Id. at 407.
189. Id.
190. Id.
191. Id. (citing Zenith Elecs. Corp., 2003 WL 21911066, at *2 (refusing to enforce an allocation of the privilege to the purchaser of assets constituting far less than all of the seller’s ongoing business, stating that giving effect to such a provision would “allow anyone to evade waiver of the privilege, despite the transfer of privileged documents to a third party, merely by agreeing to transfer the privilege and accepting consideration for it,” and that the seller’s “attorney-client privilege simply was not a property right that could be sold”)).
192. Id. at 408. Although, as noted in Part III.C, the I Successor court based its “former client” holding largely on its analysis of where control of the pre-petition debtor’s attorney-client privilege resided.
193. Id.
produce a contrary result, it would “decline to follow I Successor” because “we are not bound by out-of-circuit decisions.”

The court’s opinion in NWI-I addresses a number of interesting issues in the transpositional representation context. First, the court rejects “slicing and dicing” control of the privilege along the lines of the assets transferred. It rejects such an approach when the underlying documentation expressly provided for it; it surely would reject the same effort if simply argued on a conceptual basis. It bears noting that nothing in the opinion discourages expressly providing for an allocation of control of the seller’s privilege to the buyer, but the NWI-I court would likely hold that any such allocation that was inconsistent with the “practical consequences” of the transaction would be ineffective, at least as to third parties. Obviously, the result in NWI-I is entirely consistent with the analysis in Bowater.

Second, the NWI-I opinion reflects the notion that only the purchaser of substantially all of the assets that continues the seller’s operations will qualify as a successor to the attorney-client privilege. Taken at face value, if the operational assets of a single unified business had been allocated relatively evenly between two purchasers, then the seller’s privilege might well simply evaporate. But because the court seemed to endorse the result in Soverain that a transpositional attorney-client relationship can be found in the purchase of select assets constituting a separate ongoing business, it might well endorse the bifurcation of control of the seller’s privilege incident to the transfer of distinct businesses operated by a single seller to two different purchasers, provided that each thereafter continued to operate the separate operations purchased.

NWI-I raises again the question of precisely what policy the dicta in Weintraub actually serves. That is, by placing “takeovers” and “mergers” in the litany of events that could give rise to a “change in control of management,” the Weintraub court created a line of decisions stretching from Tekni-Plex to Soverain to NWI-I, and beyond, in which strangers to the original attorney-client communication, and the underlying need for it, inherit their “predecessor’s” right to assert it under the Tekni-Plex court’s “practical consequences” test. In NWI-I, the court placed control of the attorney-client privilege in new FTL with respect to communications to which it was not a party that related to assets and claims in which it had no economic interest or exposure.

As noted above, if one justifies the privilege as encouraging open and candid communication with counsel, the only basis for vesting it in a purchaser of substantially all of the assets of an ongoing business, who thereafter continues that business, is that it is part of the “bundle of sticks” acquired. It remains a leap to equate new management of an existing entity, who no one could seriously dispute has the right to control the assertion of the entity’s attorney-client privilege (or, perhaps more accurately, counsel’s duty of confidentiality), with management of a stranger that elects to reconstitute the seller’s business in a new organization and continue to operate it. If the latter result fosters the purposes behind the privilege, the decisions have yet to articulate precisely why.

194. Id.
F. INTELSAT, LTD. V. INTERNATIONAL TELECOMMUNICATIONS SATELLITE ORGANIZATION

The International Telecommunications Satellite Organization (“ITSO”) was established by intergovernmental agreement in the early 1970s to provide, on a commercial basis, the space segment for a global telecommunications satellite system. In 2001, ITSO privatized by transferring to Intelsat substantially all of its commercial assets and business operations, as well as its management team and approximately 1,000 employees. As a result of that transaction, ITSO was left with only minor assets, and minimal duties and staff.

In 2006, Intelsat sued ITSO, seeking ITSO’s compliance with an obligation to document the transfer of certain real property in Washington, D.C. ITSO promptly moved to disqualify Intelsat’s counsel, Wiley Rein LLP, on the ground that the firm had served as its counsel prior to the 2001 privatization transaction on matters that could be viewed as substantially related to the current dispute.

The district court denied ITSO’s motion to disqualify Wiley Rein. The court held that, based on the “practical consequences” of the 2001 privatization transaction (citing Tekni-Plex), Intelsat, not ITSO, should be deemed the former client of Wiley Rein for purposes of New York’s former DR 5-108(A), which prohibited representation adverse to a former client on a substantially related matter. The court stated that

there is no valid concern regarding misuse of confidential information, since Wiley at no point had any attorney-client relationship with either ITSO or its new management team put in place after the restructuring. Thus, whatever confidential information Wiley may have acquired in the course of its representation of the parent is no more than what Intelsat’s current employees, carried over from the parent, already know.

The result in Intelsat is not surprising. It is completely consistent with Bass. Both decisions focus on the post-transaction location of pre-transaction management with whom the pre-transaction counsel had a relationship and engraft on the entity that inherited that management the duty of loyalty that counsel owed its ostensible former client as to substantially related matters. One might see this as triumph of “substance over form,” which is but another formulation of the “practical consequences” test in Tekni-Plex.

Some might still find the Intelsat court’s holding somewhat troubling despite the justification that the court gave for it. It is not likely that, regardless of how

198. Id.
199. Id.
200. Id.
201. Id. (citing Tekni-Plex, Inc. v. Meyner & Landis, 674 N.E.2d 663, 668 (N.Y. 1996)).
202. Id.
small and insignificant ITSO would become as a result of the 2001 privatization transaction, it understood that its long-time counsel could appear adverse to it in subsequent disputes relating to a matter on which it had previously been counseled by the same firm. A transpositional attorney-client relationship is potentially at substantial odds with the expectations of some of the parties to the transaction and can produce results that, while perhaps in some instances justified pragmatically, are nonetheless unsettling.

G. POSTORIVO V. AG PAINTBALL HOLDINGS, INC. 203

The litigation arose in the context of an asset purchase agreement (as amended, the “Agreement”), pursuant to which National Paintball Supply, Inc. (“NPS”), sold substantially all of its assets to AJ Intermediate Holdings, Inc. (“AJI”). 204 Following the transaction, AJI contributed the NPS assets to a newly formed entity named KEE Action Sports Holdings, Inc. (“KEE”). 205 Pursuant to the Agreement, NPS retained defined assets and liabilities, and associated rights and privileges derivative of such excluded assets and liabilities. 206 The chief assets excluded from the purchase, and retained by NPS, were claims of NPS, then in litigation, against two entities that the Agreement defined collectively as the “Procaps Litigation.” 207 Under the Agreement, KEE had the option to acquire the interest of NPS in the Procaps Litigation at a price to be determined in accordance with valuation methods specified in the Agreement. 208

Following the closing under the Agreement, (1) the purchasers and their affiliates brought an action for indemnity for various alleged breaches of representations and warranties made by NPS and Postorivo, the founder and majority shareholder of NPS, in the Agreement, and (2) Postorivo brought an action, directly and derivatively, against affiliates of KEE for declaratory and equitable relief, and damages, alleging fraud, waste, breach of fiduciary duty, conversion, and breach of contract. 209 The actions were then consolidated in the Delaware Court of Chancery. 210

The parties had substantial discovery disputes, some of which turned on their respective rights to assert the attorney-client privilege “as to documents or communications regarding [1] the operation of [NPS’s] business before the [Agreement], [2] the operation of the [historic NPS] business after the [Agreement], [3] communications regarding the [Agreement], and [4] the excluded assets and liabilities.” 211 “During the pendency of [various pre-trial motions], the

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204. Id. at *2.
205. Id.
206. Id.
207. Id.
208. Id.
209. Id. at *1.
210. Id.
211. Id.
The parties reached agreement on each of these categories of privilege claims except the last one—[control of the attorney-client privilege relating to] the excluded assets and liabilities.”

The Postorivo court began its analysis by holding that since the Agreement provided that it was to be construed in accordance with the laws of New York and no party to the litigation challenged the application of New York law to the locus of the privilege, New York law controlled that issue. That conclusion led to an extensive review of Tekni-Plex and the basis for that decision. The court concluded that the parties’ agreement relating to (1) the attorney-client privilege for communications affecting the ongoing business of the post-acquisition entity, including pre-Agreement documents and communications, and (2) the attorney-client privilege for communications that Postorivo and NPS had with counsel regarding the negotiation of the Agreement, related contracts, and the acquisition transaction itself were consistent with the holdings in Tekni-Plex.

Under the Agreement, the purchasers acquired an option to purchase the sellers’ interest in the Procaps Litigation and section 1.6 of the Agreement expressly required the sellers to cooperate with the purchasers to enable the purchasers to value the Procaps Litigation. But section 1.6 of the Agreement also provided that although NPS was obligated to “promptly forward to [KEE] all filings served or made by any party to the Procaps Litigation and all other information relating to the Procaps Litigation that is reasonably requested by [KEE],” that obligation was “subject to such restrictions as may be reasonably requested by NPS upon advice of its outside counsel that such restrictions are required in order to preserve [the] attorney-client privilege.”

The purchasers’ chief argument for controlling the attorney-client privilege relating to the Procaps Litigation, section 1.6 notwithstanding, was the holding in NWI-I that control of a predecessor’s privilege was indivisible. The Postorivo court agreed that, while NWI-I was both relevant and supported KEE’s position, it was distinguishable in several respects. The present case did not involve a bankruptcy or a circumstance where assets had purportedly been transferred to different and unrelated purchasers. Under the “practical consequences” test of Tekni-Plex, the court held that preserving the sellers’ control of the attorney-client privilege as it related to assets retained by the sellers (even if subject to an option in the purchasers) made far more sense. Indeed, creating a circumstance in
which the sellers continued to prosecute the Procaps Litigation but the purchasers purported to control the attorney-client privilege would have been untenable. 220

Postorivo stands for several propositions. First, choice of law in transaction documents may substantially affect the outcome of a transpositional attorney-client issue. Although many jurisdictions appear to have adopted the Tekni-Plex analysis, the parties might assure that result with greater certainty—if that is what is desired—by choosing New York law to govern their agreement. 221

Second, as a general matter, courts are not impressed when litigants appear to be reneging on their initial bargain. Section 1.6 of the Agreement pretty clearly produced a result contrary to that advanced by KEE on the matter at issue in the litigation. The court captured this point as follows: “This Court generally eschews mandating actions contrary to the intent explicitly reflected in freely negotiated contracts among sophisticated, well-represented parties.” 222

Third, precedent in this area only goes so far. To the extent that courts adopt the “practical consequences” analysis of Tekni-Plex, they are likely to step back and attempt to ask what the parties would have expressly provided for on the issue if they had equal bargaining power. 223 Although the Postorivo court believed that KEE’s reliance on the indivisibility holding in NWI-I was sufficiently colorable to avoid a Postorivo/NPS motion for attorney’s fees, 224 it refused to follow a holding that, in its view, produced a wholly inappropriate and unworkable result under the facts before it.

IV. RELATED CASE LAW IN THE MALPRACTICE CONTEXT

We have examined a number of decisions involving judge-made transpositional attorney-client relationships in the context of a business successor’s right to (1) assert a predecessor’s right to enforce the duty of confidentiality, (2) control the predecessor’s attorney-client privilege, and (3) disqualify the predecessor’s counsel under Model Rule 1.9 or analogous provisions. We now turn to the question of a business successor’s standing to pursue its predecessor’s counsel for acts of malpractice to which the successor, but for the transaction conferring that status, was otherwise a stranger.

One might question the significance of such an inquiry because the predecessor could have expressly assigned causes of action against its counsel, known or unknown, as part of the transaction itself. There are two reasons why that

220. See id.
221. This assumes, of course, that such a choice would be honored under applicable conflicts of laws analysis. There may, of course, be reasons why the parties want the law of some jurisdiction other than New York to control the interpretation of their agreement generally but still to have the Tekni-Plex result apply on the issues that it addresses.
223. And, of course, the parties in Postorivo quite arguably did expressly aver to it. Having said that, however, it is obvious that a straightforward application of Tekni-Plex’s “practical consequences” test can produce results for which at least some of the transaction parties would never have expressly provided.
argument does not render the inquiry moot. First, there is likely the need for a rule in the vast majority of transactions containing no such provision. More importantly, courts in approximately fifteen jurisdictions—a majority of the jurisdictions in which the issue has been considered—generally prohibit the assignment of claims for malpractice as against public policy. In those states, a court will be—or at least should be—forced to decide in any fundamental transaction, other than perhaps a merger or sale of stock, whether the case law fashioning transpositional attorney-client relationships in other contexts should be used to override what predecessor’s counsel, and now malpractice defendant, would argue is an otherwise prohibited assignment of a cause of action for malpractice.

Historically, torts of a personal nature, such as claims for personal injury, have not been assignable. Courts have emphasized “the uniquely personal nature of legal services and the contract out of which a highly personal and confidential attorney-client relationship arises.” Courts that have prohibited the assignment of claims for legal malpractice have advanced several additional policy reasons to support the prohibition. First, many assignment cases arise in the context of a litigant induced to accept an assignment of an adversary’s claim for malpractice against the adversary’s counsel as a component of a settlement package. Courts have expressed concern that the mere possibility of such transactions can diminish vigorous advocacy in the underlying case and undermine a lawyer’s duty of loyalty to the client. Other courts have noted the unseemly nature of the assignee arguing, in the prosecution of the assigned malpractice claim, that if the former opponent’s counsel had done a better job, the former opponent would have prevailed over the assignee in the underlying case. Still other courts have expressed a concern that the free assignability of malpractice claims might give rise to the

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225. In my experience as a transactional lawyer, the issue never surfaced in the negotiation of an acquisition agreement. It is, for obvious reasons, not a provision likely to be offered by the seller or its counsel, particularly if counsel’s relationship with the seller is longstanding, and it is also one that, for obvious reasons, buyer’s counsel may be reluctant to propose.


228. Id. at 86. Other courts have been less persuaded by the personal nature of the attorney-client relationship. See, e.g., Hedlund Mfg. Co., Inc. v. Weiser, Stapler & Spivak, 539 A.2d 357, 359 (Pa. 1988) (“By contrast [to a claim for damages for personal injury], a claim for damages based upon legal malpractice does not involve personal injury in that it arises out of negligence and breach of contract, and the injury alleged concerns purely pecuniary interests. The rights involved are more akin to property rights which can be assigned prior to liquidation.”).


trafficking in such claims and that such a market would be inconsistent with the effective administration of justice.232

Insofar as pre-petition malpractice claims of a debtor in bankruptcy are concerned, courts have construed section 541(a)(1) of the Bankruptcy Code233 as providing that such claims are a part of the estate and may be pursued by a debtor-in-possession or a trustee.234 Although at least one court has held that the effect of the Bankruptcy Code vesting pre-petition malpractice claims in the bankruptcy estate preempts state-created prohibitions on the assignment of such claims,235 another court has held that state-created prohibitions would operate to prevent a proposed assignment of a pre-petition malpractice claim by a chapter 7 trustee to a creditors’ committee.236 Because these decisions are not grounded in the Tekni-Plex line of succession cases, but rather in provisions of the Bankruptcy Code, they will not be addressed here.

A. RICHTER V. ANALEX CORP.237

Analex D.C. (“old Analex”), a District of Columbia corporation, was represented by Paul Richter for a number of years.238 In 1990, a Nevada corporation also named Analex (“new Analex”) purchased certain assets from old Analex.239 Subsequent to the asset purchase, Richter sued new Analex for “breach of contract, collection of obligations, intentional interference with contractual relations and conversion” and new Analex counterclaimed for malpractice arising from work performed by Richter for old Analex.240 Richter moved to dismiss the counterclaim on the grounds that the services at issue were performed for old Analex, that old Analex and new Analex were different entities, that old Analex still existed, and that old Analex could maintain the action if it so desired.241 New Analex argued that, as the corporate successor to old Analex, it had standing to pursue the claim and that, in any event, the asset purchase agreement should be interpreted as assigning the claim to new Analex and that it had standing to pursue it as an assignee.242

232. See, e.g., Goodley, 133 Cal. Rptr. at 87. For a critique of the policy considerations advanced by courts in support of a prohibition on assignability, see Pennell, supra note 226, at 494–505.

233. 11 U.S.C. § 541(a)(1) (2006) (providing that the property of the estate includes, subject to exceptions not here relevant, “all legal or equitable interests of the debtor in property as of the commencement of the case”).


238. Id. at 355.

239. Id.

240. Id. at 356.

241. Id.

242. Id. at 356–57.
The court rejected new Analex’s claim that it was the corporate successor to old Analex. The court noted that new Analex only acquired “certain assets” of old Analex, and that old Analex apparently remained in more than just nominal corporate existence (as evidenced by a non-compete that it entered into with new Analex in connection with the asset sale). The court did not expressly hold that if it accepted that new Analex was the “corporate successor” of old Analex that it would have afforded new Analex standing to pursue the malpractice claim for that reason alone, but there was a strong implication to that effect.

The court did, however, accept the argument that new Analex may have acquired the malpractice claim by assignment in its asset purchase agreement with old Analex. The agreement defined the assets acquired to include claims relating to the business acquired. The court rejected Richter’s argument that the term “claims” could not have included malpractice claims because such claims were not assignable. While acknowledging a substantial body of case law on the non-assignability of malpractice claims, the court was not persuaded that, in the context of the asset purchase transaction, the policies cited by other courts in prohibiting assignment were applicable:

In this case, plaintiff was the attorney for the predecessor corporation whose liabilities now burden defendant. The legal malpractice claim was not bartered or sold to an unrelated third party; indeed, [new] Analex argues that its liabilities, assumed from [old Analex], arose directly out of plaintiff’s conduct. Moreover, the interests involved are purely pecuniary in nature and do not implicate the kinds of concerns raised by the sale or assignment of a personal injury claim.

The Analex court concluded that under these circumstances, “public policy does not prohibit the assignment of a legal malpractice claim and District of Columbia law does not prevent it.” In denying the motion to dismiss, the court left to further factual development whether the terms of the asset purchase agreement between old Analex and new Analex, when properly construed, should be interpreted as assigning the claim against Richter to new Analex.

Richter is interesting in at least two respects. First, unlike many other cases involving transpositional attorney-client relationships in the malpractice setting, the court faced head-on—no doubt because it was conceded by new Analex that the prevailing rule precluded the assignment of legal malpractice claims—the relationship between the non-assignability of malpractice claims in many jurisdic-

243. Id. at 356.
244. Id.
245. See id.
246. Id. at 357–58.
247. Id. at 357.
248. Id.
249. Id. at 358.
250. Id.
251. Id.
252. Id. at 356.
tions and the alleged rights of business successors (or, here, mere asset purchasers) to pursue the malpractice claims of their predecessors (or, here, their sellers).

Second, in reaching its conclusion, the court relied in part on *Hedlund Manufacturing*. 253 Although *Hedlund* permitted the assignment, in a separate instrument, of a malpractice claim to an apparent successor (by asset purchase), it did so in an opinion that, on its face, placed no weight on the assignee's status as the successor to the assignor. Because the *Analex* court rejected the “successorship” argument advanced by new *Analex*, the opinion is more clearly derived from *Hedlund Manufacturing*, and decisions like it, than the business successorship line of cases. Nonetheless, the court’s reasoning in *Analex* is useful precedent for a buyer that fails to convince the court of successorship status, and insofar as it confronts the policy issues underlying the anti-assignment cases, it is, or may be, of use in jurisdictions in which assignments of legal malpractice claims are otherwise prohibited.

**B. GENERAL SECURITY INSURANCE CO. V. JORDAN, COYNE & SAVITS, LLP** 254

The *Jordan Coyne* litigation had, at its foundation, two separate story lines. In the first, insofar as relevant here, General Security Indemnity Company (“GSI”) retained Carol Stone and her firm, Jordan Coyne, to defend a GSI-insured in litigation arising from an automobile accident. 255 The plaintiff was ultimately awarded $500,000 at a damages trial at which neither Stone nor any other lawyer in her firm were present, although the plaintiff’s medical bills were only $2,000. 256 Stone’s efforts to have the award set aside were unsuccessful. 257

In the second story line, SCOR Reinsurance Company, which was the parent company of both GSI and General Security Indemnity of Arizona (“GSINDA”), caused GSI and GSINDA to enter into an agreement under which GSINDA assumed GSI’s liabilities under its existing insurance policies and undertook responsibility for the administration of those policies and any ensuing claims on them. 258 Included in the policy liabilities assumed by GSINDA was GSI’s liability to the plaintiff in the auto accident litigation. 259 Accordingly, GSINDA, not GSI, paid the plaintiff’s claim. 260

GSINDA held a power of attorney from GSI giving it the authority to act in GSI’s name for the purpose of administering and servicing the policy obligations that it had assumed from GSI. 261 Using that power of attorney, GSINDA commenced an action, purportedly on GSI’s behalf, against Stone and her firm, Jordan 253. See id. at 357. See also supra note 228.
255. Id. at 954.
256. Id.
257. Id.
258. Id.
259. Id.
260. Id.
261. Id. at 955.
Coyne, for legal malpractice and breach of fiduciary duty for failure to provide competent legal services in the auto accident litigation.262

After holding that an insurer had standing to maintain a malpractice action against its insured’s counsel,263 the court addressed the question of whether the commencement of the action by GSINDA, albeit in GSI’s name, pursuant to a power of attorney amounted to a prohibited assignment of a malpractice claim.264 The court noted that under MNC Credit Corp. v. Sickels,265 malpractice claims were not assignable.266 Sickels also involved the assignment of a claim between two commonly controlled corporations.267 However, whereas Sickels involved a naked assignment, the action by GSINDA, purportedly on GSI’s behalf, pursuant to a power of attorney was not, in the court’s view, so clearly a prohibited assignment.268 The court noted that “courts in Virginia and elsewhere have held that the policy concerns discussed in Sickels and Goodley [v. Wank & Wank, Inc.]269 are offended in circumstances where a formal assignment has been avoided but the true plaintiff-in-interest is someone other than the defendant-attorney’s former client.”270 After reviewing several cases involving “virtual” assignments, the court concluded that permitting GSINDA to maintain the action pursuant to the power of attorney granted by GSI would amount to an “impermissible assignment of GSI’s legal malpractice claim against defendants” that would “run afoul of the concerns articulated in Goodley and adopted in Sickels, namely the trading of legal malpractice claims and the subjection of attorneys to negligence actions by strangers to the attorney-client relationship.”271 Accordingly, the court denied GSINDA the right to pursue the action and required GSI to file a claim reciting “whether it ha[d] suffered any loss as a result of the alleged malpractice, and if not, any reason why its claim against the defendants should not be dismissed.”272

In reaching the forgoing result, the court was forced to respond to GSINDA’s reliance on Richter, discussed above. The court rejected Richter based on the conclusion that it simply was not reconcilable with Sickels, which the court said “adopted a bright-line rule against the assignment of legal malpractice claims,”273 and therefore the holding in Richter could not be said to be the law of Virginia.274

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262. Id.
263. Id. at 958.
264. Id. at 958–59.
265. 497 S.E.2d 331 (Va. 1998).
267. 497 N.E.2d at 317 n.1.
269. 133 Cal. Rptr. 83, 87 (Ct. App. 1976).
272. Id. at 962.
273. Id.
274. Id.
Jordan Coyne is instructive on at least two points. First, in adhering to Sickels, the court effectively held that “no assignment” of malpractice claims means “no assignment” of malpractice claims, regardless of whether the facts relating to a particular assignment raise fewer of the policy considerations than courts have believed to be present in other cases. 275 Equally important, however, is that the Jordan Coyne court applied the bright-line no-assignment rule and was simply not persuaded by the notion that some form of quasi-“successorship” argument should produce a different result. 276 If every court in every jurisdiction with a strong anti-assignment rule would acknowledge that “successorship” arguments—other than in a case of a merger—nonetheless require an assignment analysis, the results in many transpositional cases in the malpractice context may not be substantially different, but the opinions would be more transparent. It may well be the case, however, that litigants have succeeded in masking both the true nature of the transfer and the applicability of case law on assignments by emphasizing, to the exclusion of all else, a Tekni-Plex analysis.

C. Greene’s Pressure Treating & Rentals, Inc. v. Fulbright & Jaworski, LLP 277

BJ Service Company (“BJS”), which owned a patent for a method of commissioning (purging) pipelines (the “’842 Patent”), concluded that a pipeline purging process developed by Coulter Service Company infringed the ’842 Patent. 278 BJS made threats of an infringement action against Coulter and several subsequent owners of the Coulter process. 279 The first subsequent owner of the Coulter process, Pipetronix, was sufficiently concerned about the BJS claim that it retained Fulbright & Jaworski, which rendered an opinion to Pipetronix that the Coulter process did not infringe the ’842 Patent. 280 When the third subsequent owner of the Coulter process, Greene’s Pressure Treating & Rentals, Inc. (“Greene”), received a threat from BJS, it commenced an action seeking a declaratory judgment of non-infringement and BJS, represented by Fulbright, brought an infringement action. 281 Greene advised the Fulbright firm that its position in the two cases was contrary to the legal opinion of noninfringement that it had given to the prior owner of the Coulter process some years earlier. 282 Although Greene moved to disqualify the Fulbright firm, the motion was denied as moot when the cases were dismissed. 283

Following termination of the underlying cases, Greene brought an action against the Fulbright firm for malpractice, breach of fiduciary duty, and violations

275. Id. at 961 n.24.
276. Id. at 961. Although the Jordan Coyne court did not engage in a Tekni-Plex mode of analysis, it is likely that, if it had done so, its holding would have been the same.
278. Id. at 42.
279. Id.
280. Id.
281. Id.
282. Id.
283. Id.
of a Texas deceptive trade practices act. The Fulbright firm moved for summary judgment on the ground that it had never had an attorney-client relationship with Greene and thus owed Greene no duty. The trial court granted the motion and Greene appealed, solely on its claim of breach of fiduciary duty.

On appeal, the court began the substance of its analysis by summarizing the basis for Greene's allegation of breach of fiduciary duty. The court stated that while Greene conceded that it had no direct relationship with the Fulbright firm, it should be deemed to have an attorney-client relationship with that firm and have standing to maintain a claim against it because (1) Greene purchased the Coulter process in part on reliance on Fulbright's opinion to Coulter's immediate transferee, Pipetronix, that the Coulter Process did not infringe on the '842 patent, and (2) the Fulbright opinion was effectively transferred from the addressee (Pipetronix) to its buyer (Pipeline Integrity) to Greene as part of the successive transfer of the Coulter process. The court stated that Greene was effectively contending that its purchase of the Coulter process constituted a purchase of "the right to assert the former attorney-client relationship that once concerned the asset." The court acknowledged that a merger might well transfer an attorney-client relationship, but that the burden of showing such a transfer in an asset sale was far higher. After reviewing the terms of the asset purchase agreement, which provided, in the main, for an "as is" transfer, the court rejected Greene's contention that "its purchase of the Coulter Process . . . constitutes a continuation of an 'operating division or unit of a company.'" The court concluded that the evidence did not suggest that either Pipeline Integrity, from whom Greene acquired the Coulter process, or Greene ever contemplated that Greene would be taking over any part of the seller's operations, but rather that Greene would use the purchased assets in its own operations and that the transfer in which Greene acquired the Coulter process was no more than a "a bare transfer of assets." Because the court viewed the transaction as no more than a naked asset sale, and the seller remained in existence, it saw no basis to transpose Fulbright's prior attorney-client relationship with the first transferee of the Coulter process to Greene. Accordingly, the court affirmed the lower court's grant of summary judgment in favor of Fulbright.

284. Id.
285. Id.
286. Id.
287. Id. at 43.
288. Id.
289. Id.
290. Id. at 44.
291. Id. The court was no doubt also influenced by the fact that Greene acquired only approximately 5 percent of the seller's assets. Id. at 42.
292. Id. at 44.
293. Id.
294. Id. at 45.
295. Id.
296. Id.
Although by the time of the Greene’s Pressure Treating decision there existed a fair body of case law on the transpositional attorney-client relationship in the malpractice context, the court cited none of it. Nor did the court cite any of numerous Texas decisions that prohibit the assignment of legal malpractice claims. The court appeared to assume that the principles in a disqualification decision discussing the effects of a merger, and Weintraub, which, of course, related to the right to control the attorney-client privilege, would be fully applicable in a transpositional case relating to a malpractice or breach of fiduciary duty claim. The plaintiff’s argument in Greene’s Pressure Treating for a transpositional relationship with Fulbright—or at least one robust enough to provide a basis for a malpractice action—may well have been very weak. However, the court’s opinion is most clearly evidence that many courts will provide no more analysis of the underlying issues in transpositional malpractice cases than they believe necessary to frame a result that appears correct in the context of the facts.

D. Parus Holdings, Inc. v. Banner & Witcoff, Ltd. 299

Parus Holdings, like Greene’s Pressure Treating, involved intellectual property. As is often the case when potentially transpositional attorney-client relationships are at issue, Parus Holdings involves two story lines: one relating to the representation at issue, the other to the change in the entity that would assert a malpractice claim.

The first story line involves Vail, Inc., a company in the web telephony business that developed what it believed to be a unique computer-controlled telephony process (the “System”). Vail retained Banner & Witcoff, Ltd., to file a provisional patent application on the System. After the filing of the provisional application, a partner in the Banner firm withdrew from the firm and, after obtaining Vail’s former files at the Banner firm, filed patent applications on behalf of a former Vail employee making claims similar to the claims in Vail’s patent applications. Ultimately, patents on the System, or its equivalent, issued to both the assignee of Vail’s applications and to an entity formed by the former employee. In the second story line, Parus Holdings, through a series of transactions, acquired the division of Vail that held the patent applications and patents on the System. Parus brought an action against the former employee of Vail and the

300. Id. at 997. Because the court ruled on a motion to dismiss, the court assumed the facts alleged in Parus’s complaint to be true and the recitation below is based on the same assumption.
301. Id.
302. Id. at 1001.
303. Id. at 997–98.
304. Id. at 1001.
entity that he had formed. 305 The Banner firm entered an appearance for the defendant and only withdrew on the morning of the scheduled argument on Parus’s motion to disqualify them. 306

After Parus settled its action with Vail’s former employee, it sued the Banner firm, as well as a partner in the firm and the former partner who filed the competing applications, seeking $1.3 million in legal fees that it had expended in its action against the former Vail employee. 307 Parus’s complaint alleged (1) breach of fiduciary duty, citing Model Rules 1.6 and 1.9 (in the Banner firm’s representation of Vail’s former employee in the patent action, allegedly making the case harder to settle and on terms less favorable to Parus); (2) malpractice, citing Model Rule 1.7 (for assisting Vail’s former employee in obtaining the competing patents, for releasing Vail files to Vail’s former employee, for failing to advise Vail to obtain assignments from the inventors named on the Vail patent applications, and for other advice to Vail’s former employee adverse to Vail); and (3) violations of the Illinois Trade Secrets Act. 308 Although many of the claims asserted by Parus involved events occurring after Vail transferred the relevant assets to Parus, arguably all of the claims are dependent on Parus being given the right—through its asserted “status as a successor” 309—to sue for alleged wrongs committed by one or more of the defendants against Vail. The Banner firm moved to dismiss substantially all of the counts in which it was named, primarily on the ground that Parus lacked standing to bring them. 310

The court began by quoting the allegations made by Parus in its complaint that it was the “successor-in-interest” to Vail’s web telephony business by reason of its purchase of patents covering the System. 311 The court acknowledged that Parus did not allege in its complaint in any detail “when or how” it became the successor to Vail, 312 but assumed, for purposes of the Banner firm’s motion, that the factual allegations in the complaint and in the plaintiff’s brief in response to the motion to dismiss were true. 313 In response to the Banner firm’s motion to dismiss, Parus further alleged that, in addition to the Vail patents and the System, it acquired Vail’s marketing plan for the System, hired several of Vail’s former employees (including Kuganov, the inventor of the System, as the Chief Technology Officer of Parus), and that, because it acquired “‘control of a portion of Vail’s business,’ ” it became “‘the successor-in-interest to Vail’s web telephony business, VE Systems.’ ” 314 Parus alleged that the transaction was not a mere assignment of patent rights, but rather

305. Id. at 998.
306. Id.
307. Id. at 998–99.
308. Id. at 998–1000.
309. Id. at 1001.
310. Id. at 1000.
311. Id. at 1000.
312. Id.
313. Id. at 1000 n.2.
314. Id. at 1001 (quoting from the Parus brief in response to the Banner firm’s motion to dismiss) (internal quotation marks omitted).
a “continuation of that portion of Vail’s business responsible for the development and marketing of the System.”

The court then stated that although the parties had not cited to the court, and the court had not located, any Illinois opinions “addressing the question of when a successor organization succeeds to the attorney-client relationships of its predecessor organization,” there were opinions in several other jurisdictions addressing the issue in the context of “whether a successor organization has the power to assert and waive attorney-client privilege and/or seek to disqualify opposing counsel based on an attorney-client relationship that existed with the predecessor organization.” The court acknowledged only one case dealing with the rights of a successor in a malpractice context (Greene’s Pressure Treating) and asserted that the court in Greene’s Pressure Treating held that the principles that apply in the attorney-client privilege cases and the former client disqualification cases also apply in the transpositional malpractice cases. Relying on the cited cases, the court held that Parus had sufficiently alleged “successorship” under the formulations in NWI-I and Soverain that it would not dismiss Parus’s claims of malpractice against the Banner firm that accrued, if at all, when the Banner firm’s client was Vail.

Consciously or otherwise, the Parus Holdings court made the same omission as the Greene’s Pressure Treating court—it failed to acknowledge, much less explain away, a healthy body of Illinois case law prohibiting the assignment of legal malpractice claims. Although the genealogy of Parus as a successor to Vail is not perfectly clear, and the court seemed unconcerned about it for purposes of deciding the motion, it appeared to involve at least one transfer that was not a statutory merger because, by its own filings, Parus appears to have alleged that it acquired assets of a division of Vail. By holding that the right of a successor to pursue a malpractice claim arising from the representation of a predecessor must be tested on the same principles as issues relating to the attorney-client privilege and former client status, the court may be viewed as effectively deciding that “anti-assignment” case law is irrelevant to malpractice claims in a business successor context. But, if that is the intended effect of the holding, a word or two as to why the anti-assignment cases are not relevant would seem to be in order.

Beyond the issue of assignment, there is no discussion in Parus as to why the test for succeeding to a malpractice case should be the same as that applied to the confidentiality obligation, or the attorney-client privilege, or former client status.

315. Id.
316. Id.
317. Id. at 1002. In support of this statement, the court cited five opinions, all of which are discussed above: Weintraub, Postorivo, NWI-I, Soverain, and Tekni-Plex. Id.
318. Id.
320. See Parus Holdings, 585 F. Supp. 2d at 1002.
V. SOME OBSERVATIONS

A. ADMITTED INFREQUENCY

It bears noting that whether an attorney-client relationship is transpositional is not likely to arise, as a practical matter, in a straightforward mergers and acquisitions practice unless a transaction provides for post-closing indemnification and those provisions are subsequently invoked. That excludes substantially all acquisitions of public companies but nonetheless extends to a wide variety of other transactions. One is therefore struck with the apparent infrequency with which such issues surface, at least in reported decisions. However, the decisional law that does exist produces unwanted leverage in the buyer and awkward results for the seller and its counsel. Practitioners in the mergers and acquisitions field who regularly document transactions with post-transaction relief mechanics need to be sensitive to the case law on transpositional attorney-client relationships and the manner in which it may impact them and their clients.

B. CHOICE OF LAW

In the absence of express contractual language addressing potential transpositional issues, courts have shown a willingness to look to choice of law provisions in the principal transaction document. Although the Tekni-Plex analysis now appears to be accepted in a number of jurisdictions, a choice of New York law would likely mandate application of Tekni-Plex principles (absent, perhaps, contrary provisions on the specific issues in the document itself). A similar result would likely occur if New York courts or arbitration were chosen as a forum for resolving post-transaction disputes and the issue arose in the context of such proceedings.

C. PARTIAL DIVESTITURES

The issues that were the subject of Tekni-Plex most readily arise in a sale or other transfer of all or substantially all of the assets of a going concern, regardless of the structure of the transaction. We have seen, however, from such decisions as Soverain and Parus Holdings that the purchase of less than all or substantially all of the seller’s assets can nonetheless give rise to a Tekni-Plex analysis if the

321. The far more common situation raising a potential post-closing conflict for seller’s counsel arises when, following the closing, the buyer seeks to retain seller’s counsel to continue performing some or all of the legal work that it previously performed when the business was owned by the seller. Unless seller’s counsel is careful to obtain, at the outset of any such engagement, the right to represent the seller, or other indemnifying parties, in whatever post-closing disputes may subsequently arise, historic seller’s counsel may be conflicted from representing either party in such subsequent disputes. In Tekni-Plex, of course, M&SL found itself “conflicted out” even though it undertook no work from new Tekni-Plex.

322. A starting point for drafting in light of these issues, that may or may not be appropriate in the context of a particular transaction, is set forth in Part VI.

323. See supra Part III.B.

324. See supra Part IV.D.
court is persuaded\(^{325}\) that the buyer acquired the principal elements of an ongoing business and continues to operate it. From the buyer's perspective, a recitation that it is also acquiring the goodwill associated with the business unit that is the subject of the transaction would likely assist in promoting a transpositional result, although courts do not seem to have expressly relied on such a provision.

**D. INDIVISIBILITY**

*Bowater\(^ {326}\) and NWI-I\(^ {327}\) both stand, at least in part, for the proposition that, at least insofar as control of the attorney-client privilege is at issue, courts will not readily (1) peel off control of it from the buyer of the ongoing business, or (2) permit the "slicing and dicing" of such control depending upon what underlying event, circumstance, or asset is at issue. However, decisions such as *I Successor Corp.*\(^ {328}\) suggest that other aspects of a transpositional attorney-client relationship, such as former client status, may not be as subject to an indivisibility argument.

**E. SIDE SWITCHING**

Courts will examine closely allegations of "side switching" in the context of a transpositional attorney-client relationship. In the motions to disqualify in *Bass*\(^ {329}\) and *Intelsat*,\(^ {330}\) side switching was advanced in support of the motions but rejected by the court on the apparent ground that counsel continued to represent the entity in which the historic management team, who had full knowledge of the facts relating to the dispute at issue, resided. In *I Successor Corp.*,\(^ {331}\) on the other hand, the court concluded that the firm's efforts to represent prior members of the debtor's management and related entities in defense of claims asserted by the debtor's creditors' committee and arising from matters in which the firm had acted as the pre-petition debtor's counsel was, in its view, unacceptable side switching because the firm's prior client had been the pre-petition debtor and not the individual members of its management.

**F. SPIN-OFFS**

As is clear from *Bass* and *Intelsat*, spin-offs and other internal corporate reorganizations present fertile ground for arguing transpositional attorney-client issues. Practitioners involved in such transactions would do well in the transactional planning process to consider which entity they would likely view as their

\(^{325}\) Indeed, in the context of a motion to dismiss, this perhaps might be the case if it is simply clearly alleged.

\(^{326}\) See supra Part III.D.

\(^{327}\) See supra Part III.E.

\(^{328}\) See supra Part III.C.

\(^{329}\) See supra Part III.A.

\(^{330}\) See supra Part III.F.

\(^{331}\) See supra Part III.C.
post-transaction client and what arguments others might advance, and in what contexts, to frustrate the desired result.

G. CO-CLIENT STATUS

Meyner and Landis was unable, at least in the procedural context in which Tekni-Plex arose, to convince the court that it had an historic attorney-client relationship with Tang. Had it been able to do so, the entire result in the Tekni-Plex litigation might have been different. In Bass, on the other hand, Promus succeeded in convincing the court that old HC and Promus had been, effectively, co-clients of Latham & Watkins, and that conclusion clearly played a significant role in the court’s holding. Practitioners faced with a potential transpositional attorney-client relationship would do well to consider how strong their “co-client argument” would be and what they would offer to demonstrate it if called upon to do so.

H. PRE-TRANSACTION DISCLOSURE

The holding in Tekni-Plex is based in part on the arguably artificial construct that, by reason of its historic attorney-client relationship with old Tekni-Plex, Meyner and Landis had knowledge of facts underlying the claim made by new Tekni-Plex that it had not, to that point, disclosed to Tang. While that may have been so, it was, in hindsight, preventable, or at least subject to mitigation. It is frequently difficult to anticipate what post-transaction indemnification claims a buyer will construct during whatever post-closing period the transaction document provides for it to do so. Nonetheless, transaction counsel can mitigate the arguably harsh holding in Tekni-Plex that prevented Meyner and Landis from sharing, following the closing, information with Tang relating to Tekni-Plex’s claim by carefully reviewing with clients having post-transaction indemnification exposure, prior to execution of definitive documentation, the areas most likely to produce post-transaction claims and the facts underlying them. There is nothing in Tekni-Plex to suggest that such a process would have been inappropriate in any respect and it is, of course, an element of careful representation. Of course, to the extent that Meyner and Landis did not believe there were any problematic issues associated with the matters that gave rise to the claim by new Tekni-Plex, they may not have thought it necessary to review facts surrounding environmental permits initially obtained almost a decade prior to the sale transaction.

I. ANTI-ASSIGNMENT CASE LAW

If a law firm finds itself as a defendant in a malpractice action in which the plaintiff is claiming standing to sue on an alleged transpositional attorney-client relationship with an assignee.

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332. Old HC and Promus were part of the same affiliated group until shortly prior to the acquisition of old HC by new HC and during that time shared common management.
client relationship, counsel to the firm would do well to examine the state of
decisional law relating to the assignment of legal malpractice actions in those
jurisdictions with law that might apply. In both Greene’s Pressure Treating333 and
Parus Holdings,334 the courts did not address, much less reconcile, their analysis
with respectable bodies of case law that would have precluded assignment in
other contexts. Although the court in Greene’s Pressure Treating denied the plaintiff
standing to maintain the action, it did so on the basis that the transactions at issue
did not operate to transfer the attorney-client relationship of a previous owner of
the technology to the plaintiff and not as a prohibited or ineffective assignment of
a legal malpractice action. Similarly, in denying a law firm defendant’s motion to
dismiss a legal malpractice action based substantially on the firm’s representation
of the plaintiff’s alleged predecessor, the Parus Holdings court ignored a substantial
body of facially applicable case law prohibiting such assignments. An argument
should be advanced on anti-assignment case law when it is available and courts
should confront the issue directly.

VI. CONCLUSION AND RECOMMENDATIONS

As is likely clear from the above, there is much to quarrel with in the line of
cases in this area. Some conflate a lawyer’s ethical duty of confidentiality with the
evidentiary attorney-client privilege. Tekni-Plex and its progeny seem to carry Wein-
straub well beyond its holding and likely even beyond some of the loose language
in the opinion. None attempt to offer a plausible, convincing rationale for vesting
in a third-party arm’s-length purchaser the incidents of the seller’s attorney-client
relationship, regardless of the structure of the transaction. While it is true that
the decisions attempt to fill an arguable void in the black letter understanding of
professional responsibility rules (on confidentiality and former client conflict) and
previously understood principles of the attorney-client privilege in the context of
fundamental corporate transactions, they largely do so in a conclusory fashion.
Thus, they beg the question of whether a transpositional attorney-client relation-
ship was simply part of the rights sold and bought with the other assets acquired
(regardless of the form of transaction) because no clear policy consideration is
offered or analyzed. Although a handful of the decisions question whether it is
appropriate to apply the same analysis regardless of the aspect of the previous
attorney-client relationship at issue,335 more seem mechanically, and unques-
tioningly, to apply the “practical consequences” formulation to all facets of the previous
relationship. While some of the decisions in the malpractice context acknowledge
the local jurisdiction’s case law prohibiting assignment of malpractice claims,336

333. See supra Part IVC.
334. See supra Part IV.D.
335. See, for example, the discussion of NWI-I in Part III.E, where the court distinguished the case
before it, involving control of the attorney-client privilege, from I Successor, discussed in Part III.C,
invoking former client conflict (but without significant analysis of why the tests should be different).
336. See, e.g., supra Parts IVA & B.
decisions in other jurisdictions where anti-assignment case law is equally strong refuse to even consider whether those well-established principles have any bearing on the issue at all.\textsuperscript{337} The desire of business acquirers to purchase effectively as many of the incidents of the seller’s attorney-client relationship as possible is obvious; it is not so obvious what the rationale is for constructing judge-made doctrines to permit them to do so, particularly when those doctrines seem in many cases inconsistent with the underlying purpose of the attribute deemed to have been acquired.

If one were writing on a clean slate, one might ask such questions as the following: (1) How does the transposition of a predecessor’s attorney-client relationship to an arm’s-length third-party purchaser further the purposes of the attorney-client privilege? (2) Are the policies—whatever they might be—favoring disqualification of seller’s counsel from representing his or her longstanding client in post-transaction disputes outweighed by the normal expectations of the parties in such a circumstance? (3) How does the transposition of the duty of confidentiality to an arm’s-length third-party purchaser further public policy when, in many cases, the information could have been shared, pre-transaction, without the violation of any rule, with a recipient who is subsequently held to be “off-limits” by virtue of the closing? And, last, (4) why should an arm’s-length third-party purchaser have standing to bring a malpractice claim against counsel who performed no legal services for that party, particularly when the actual client may have even considered and rejected the claim for one of many reasons?

We are, of course, not writing on a clean slate. Absent a “perfect storm” of particularly compelling facts, highly skilled advocacy, and an extremely bright and independent-minded court,\textsuperscript{338} it may be unreasonable to assume that—whatever number of weak underpinnings may exist—the Tekni-Plex line of cases will be critically re-examined. Thus, at the least, transaction counsel and their clients need to be educated about the possibility of a transpositional attorney-client relationship and, although not generally customary today, they may wish to consider whether to bargain for a contrary result when transposition would be unacceptable.\textsuperscript{339} While some courts have questioned the efficacy of contractual language in this context,\textsuperscript{340} it seems reasonable that, so long as a proposed relationship does not result in an artificial bifurcation of attributes of the relationship, a court should honor a bargain struck between two parties dealing at arm’s length, at least insofar as it reflects their post-transaction relationships \textit{inter se}.

Post-transaction dispute mechanics are seldom provided for in agreements for the acquisition of public companies. However, such provisions remain common in transactions for the acquisition of privately held businesses, as well as

\textsuperscript{337} See, e.g., supra Parts IV.C & D.

\textsuperscript{338} A persuasive ethics opinion taking issue with the Tekni-Plex holding, at least as to some of its more onerous applications, would also, of course, be helpful.

\textsuperscript{339} Of course, it is possible that the parties may actually wish to assure, by express documentation, the application of some or all of the Tekni-Plex holding; that course would certainly be more candid, and substantially less expensive, than waiting for a court to impose it.

\textsuperscript{340} See, e.g., supra Part III.E.
for subsidiaries or divisions of publicly held companies. Although generally not found in documentation for such transactions, it is reasonable to request a provision in an asset purchase agreement, plan and agreement of merger, or comparable document, along the following lines:\[341\]:

Section XX. Concerning Counsel. Purchaser acknowledges that AB&C LLP has acted as counsel for Seller for several years and that, in the event of any post-closing disputes between the parties hereto (under Section YY [providing for indemnification] or otherwise), Seller and Shareholders reasonably anticipate that AB&C LLP will represent them in such matters. Accordingly, to the extent required by reason of applicable decisional law, or otherwise, Purchaser expressly (a) consents to AB&C LLP’s representation of Seller and/or Shareholders in any post-transaction matter in which the interests of Purchaser, on the one hand, and Seller and/or Shareholders, on the other hand, are adverse, whether or not such matter is one in which AB&C LLP may have previously advised Seller, [and] (b) consents to the disclosure by AB&C LLP to Seller and/or Shareholders of any information learned by AB&C LLP in the course of its representation of Seller, whether or not such information is subject to the attorney-client privilege and/or AB&C LLP’s duty of confidentiality and whether or not such disclosure is made before or after the Closing[, and (c) irrevocably waives any right it may have to discover or obtain information or documentation relating to the representation of Seller and Shareholders by AB&C LLP in the transactions provided for herein and contemplated hereby]. [Seller may retain copies of such of its files] [Seller shall have the right to access and copy such of its files, during normal business hours, on not more than 24 hours prior written notice] as it reasonably determines may be necessary or desirable to assist it in connection with any potential post-closing disputes. [Purchaser further covenants that it shall not assert any claim against AB&C LLP in respect of legal services provided to Seller by that firm, whether or not such services relate to the business or the assets of Seller to be acquired by the Purchaser pursuant to the terms hereof.] If and to the extent that, at any time subsequent to the Closing, the Purchaser shall have the right to assert or waive an attorney-client privilege with respect to any communication between Seller and any person representing it that occurred at any time prior to the Closing, the Purchaser shall not waive such privilege without the prior written consent of [Seller] [insert a designated representative of Seller].

There are, of course, countless modifications that might be made to the foregoing. Although the Tekni-Plex court did not grant the buyer a right of access to information relating to the representation of the seller in the transaction itself, some may believe that, if the entire subject is to be addressed at all, that holding may be

\[341\] To the extent that the following may be deemed to constitute an advanced waiver by the Buyer under Model Rule 1.6 or 1.9 (or their equivalent) of rights that might otherwise accrue to it under the Tekni-Plex analysis, one could argue that, because the nature of the future conflict (if there is one at all) and the waiver of the duty of confidentiality (if there is one at all) are reasonably described and because the Buyer will presumably be represented by counsel in negotiating the provision, the provision could well constitute “informed consent” required by those rules (and as that term is defined in Model Rule 1.0(e)). Having said that, the author is unaware of any decision addressing the enforceability of the various elements of the provision that follows and, if used in any form, it is possible that a court might find some application of it, or some portions of it, unreasonable in certain factual settings.
worth memorializing and clause (c) above does so. Others may believe it unnecessary to address that issue as a matter of contract, relying instead on the Tekni-Plex court’s holding. Some may also not feel the need to obtain, or be prepared to seek, the substance of the last full sentence appearing in brackets. The point, however, is simply that if the rather surprising, at least to some, effects of Tekni-Plex and later decisions are unwanted, there are, or at least there should be, contractual means available to work a contrary result, at least as it relates to the rights of counterparties as against each other.
HENRY SILL BRYANS

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Mr. Bryans, who is a graduate of Yale University (B.A. 1968) and the University of Pennsylvania Law School (J.D. magna cum laude 1971), served as law clerk for the late Hon. Henry J. Friendly, then Chief Judge of the U.S. Court of Appeals for the Second Circuit. He has appeared on many continuing legal education panels on corporate and securities matters, mergers and acquisitions, and professional responsibility and risk management. He is a member of the American and Pennsylvania Bar Associations and a life member of the American Law Institute.
Hypotheticals

In Firm Privilege
Special Committee Investigation Privilege
Transmutation of the Attorney-Client Privilege

In Firm Privilege

Andrea is a lawyer at Law Firm. Andrea represents Herschel in an age discrimination case against a Georgia prison where he worked. Law Firm and Herschel have a contingency fee agreement where the Firm will receive 25% of the gross recovery. Andrea and her team have worked diligently on the case for over two years and expect there is a good chance for a large settlement. There is substantial lawyer time invested in the case. Despite Andrea’s confidence, one of three causes of action was just dismissed on summary judgment on the grounds that the statute of limitations on that claim had expired. The dismissed claim reduces the settlement value of the case. The period of limitations was calculated and analyzed in a memo by Andrea’s associate, Carl. Andrea made the decision to delay filing the matter. It could have been filed sooner. Andrea is convinced the Judge is wrong and even opposing counsel was surprised at the ruling.

Andrea goes to the Firm general counsel Rick. Rick is a born leader and, although his practice focused principally on handling professional liability matters on behalf of clients for many years, his services are now rendered almost exclusively to the Firm. The few outside matters he handles all involve long standing clients who trust only him. In reality, however, he doesn’t do the work, he assigns those few and far between matters to other partners in the office staying on as billing partner so he can get credit at year-end bonus time.

Andrea vents to Rick and explains all the reasons why the Judge was wrong and why her statute analysis is correct. She provides the associate's memo to Rick along with a cover memo describing the conversation she had with Carl regarding the analysis. She reports that Herschel has consulted a lawyer at a legal clinic who has sent her a letter with a case that is aligned with the Court’s ruling and has asked whether she was aware of the case and what she plans to do now. Andrea confides to Rick that in the back of her mind she recalls seeing the case that may or may not be from a persuasive jurisdiction and that it is aligned with the Court’s ruling, but explains why she doesn’t think it mattered.

Rick provides Andrea advice about how to work the matter up for appeal, advises her to inform the client to consult independent counsel on the Firm's continued representation and asks her to prepare a chronology memo regarding her research, conversations and legal analysis so that he can document his file while the issues are still fresh in her mind.

What is privileged?
Special Committee Investigation Privilege

The Wall Street Journal publishes an article that the SEC is taking an aggressive look at the accounting practices followed by the leading horse and buggy whip manufacturers. The article hints that the SEC has sent subpoenas to one of more of the leading manufacturers in this industry.

Amalgamated Buggy Whip Corp. is a publicly traded company, one of the top 5 in the business.

Recognizing that an investigation may be underway, Jane Jones, the Chair of the Audit Committee of the Board of Amalgamated, retains outside counsel at the law firm of LMNOP LLP to conduct an internal review. LMNOP LLP sends its engagement letter to “Jane Jones, Chair, Audit Committee, Amalgamated Buggy Whip Corp.” The letter says “You have retained us on behalf of the Audit Committee to conduct an investigation. There shall be no representation under this Agreement of the Corporation or any individual officer, director or employee.”

Version One: LMNOP conducts a review; interviews the CFO and others; prepares a report of its findings, which are quite critical of the CFO; and sends to it Ms. Jones, cc’ing to the Board President (who is not on the Committee.) Ms. Jones makes a report to the full Board of the conclusions of the investigation. The Board then seeks copies of all communications between the Special Committee and LMNOP.

Version Two: Different facts: After LMNOP completes its review, it sends its report to Ms. Jones. Ms. Jones does not inform the board or anyone else of the law firm’s findings. The SEC brings an action against the company and seeks production of the report, as well as all communications between the Committee and LMNOP.

Transmutation of the Attorney-Client Privilege

YourSpace claims that Mugbook misappropriated YourSpace's intellectual property in creating Mugbook's social media platform. YourSpace and its Founders, who are minority shareholders in YourSpace, hire Law Firm to engage in pre-litigation negotiations with Mugbook. Law Firm has done intellectual property work for YourSpace since its inception. After negotiations fail, Law Firm represents YourSpace and the Founders in a suit against Mugbook in federal court for conversion and trade secret violations seeking monetary damages and injunctive relief.

The court grants Mugbook's motion to dismiss and YourSpace and the Founders, represented by Law Firm, appeal. While the appeal is pending, Mugbook negotiates with the majority shareholders in YourSpace (the venture capitalists) to sell the Company's assets to a shell corporation in exchange for cash and stock in Mugbook. The shell corporation ("new" YourSpace) plans to carry on the operations of "old" YourSpace.

Following the sale and merger, "new" YourSpace replaces Law Firm with new counsel and moves to dismiss the appeal, claiming the Founders lack standing to proceed with the appeal on their own behalf. When the Founders oppose the motion "new" YourSpace moves to disqualify
Law Firm because it can no longer represent the Founders against its now former joint client (YourSpace) in the same or a substantially related matter. It also asks the court to order Law Firm to turn over all of its client files to "new" YourSpace, including all attorney-client communications with the the Founders during the joint representation on the grounds that the privilege does not apply to communications between joint clients.

The court disqualifies Law Firm and allows the Founders to proceed with the appeal with new counsel. But what about the client files? Is "new" YourSpace right that as a former joint client it is entitled to Law Firm's files, including all of the Founders' privileged communications during the joint representation?
May a Law Firm Have Privileged Communications with In-House Counsel Regarding a Current Client?

By William T. Barker

In the words of the United States Supreme Court, “the attorney-client privilege is the oldest of the privileges for confidential communications known to the common law. Its purpose is to encourage full and frank communication between attorneys and their clients and thereby promote broader public interests in the observance of law and administration of justice.” It does this by removing the fear of compelled disclosure of information. “[T]he privilege exists to protect not only the giving of professional advice to those who can act on it but also the giving of information to the lawyer to enable him to give sound and informed advice.”

In recent years, attorneys have faced an increasingly complex array of legal and ethical duties arising from complicated regulatory regimes, changes in rules of professional conduct, and heightened disclosure obligations under Sarbanes-Oxley and similar legislation. The Model

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4 Upjohn, 449 U.S. at 390.
Rules of Professional Conduct recognize that lawyers may need to obtain confidential legal 
advice about client representation.⁵

In order to guide attorneys on complex ethical issues and assist them in reaching the right 
decision, in-house counsel have become fixtures at law firms.⁶ Indeed, many law firms have 
created general counsel positions and formed professional responsibility committees. 
Specialization among attorneys has only increased the importance of these outlets, especially 
with the growth of law firms and the increasingly complex representations they undertake. As a 
result, the attorney-client privilege is critical to ensuring that attorneys receive the best possible 
advice on complicated legal and ethical issues.

Lawyers in these firms commonly consult their in-house counsel on conflict of interest 
and other issues regarding obligations to current clients and on claims or potential claims by 
current clients. If and when such clients later sue the law firm, it has become common for them 
to seek discovery regarding the law firm’s communications with in-house counsel during the 
firm’s representation of the client (by now, usually a former client). As one commentator 
explains:

When presented with a claim of malpractice or other misconduct, a law firm often investigates the allegations against it. 
In the course of such an investigation, the responsible partners or 
shareholders of the firm may interview other lawyers, interview 
staff members, review documents, research applicable law, and so 
on. The investigating lawyers typically take notes and prepare 
memoranda. The issue then becomes whether the law firm can

⁵ Model Rules of Prof’l Cond., R. 1.6(b)(4) & cmt. [9] (“A lawyer’s confidentiality 
obligations do not preclude a lawyer from securing confidential legal advice about the lawyer’s 
personal responsibility to comply with these rules.”) (2011); id. Rule 5.1 & cmt. [3] (recognizing 
law firm procedures permitting lawyers to make confidential reports on ethical issues to 
1.6(b)(4) & cmt. [9] (2010); id. Rule 5.1 & cmt. [3].
⁶ Elizabeth Chambliss & David B. Wilkins, The Emerging Role of Ethics Advisors, General 
Counsel, and Other Compliance Specialists in Large Law Firms, 44 Ariz. L. Rev. 559 (2002); 
Peter R. Jarvis & Mark J. Fucile, Inside an In-House Legal Ethics Practice, 14 Notre Dame J.L. 
protect as confidential the contents and result of its internal investigation. The aggrieved client would surely like to know what the investigation revealed. After all, a damning report by the firm itself is powerful evidence in related litigation and just the revelation of unfavorable facts may portend a nice settlement.

The law firm, on the other hand, wants to keep the results of its investigation a secret from the client. The investigation is sure to frame the firm's defense of any related lawsuit. And, if the investigation reveals that the lawyers responsible for the representation arguably were negligent or engaged in some sort of professional misconduct, revealing that information to the client would be disastrous. Accordingly, law firms generally seek to protect information developed or revealed during their internal investigations by asserting the attorney-client privilege or by invoking work product immunity. The "client" in this circumstance is the law firm, and the attorneys with whom it hopefully shares a privilege and to whom claims of work product immunity belong are the law firm lawyers who conducted the internal investigation.7

A few federal district courts have held that the firm has no privilege for such communications.8 Others have largely agreed, but with some qualifications.9 One has disagreed.10 The first two appellate decision on that issue have now been rendered by the Illinois

Appellate Court, in Garvy v. Seyfarth Shaw LLP.,\textsuperscript{11} and the Georgia Court of Appeals in Hunter, Maclean, Exley & Dunn v. St. Simons Waterfront, LLC.\textsuperscript{12} Both upheld the privilege. As this is written, the issue is now pending before the Georgia Supreme Court (in Hunter, Maclean) and the Massachusetts Supreme Judicial Court.\textsuperscript{13}

This article will review the issue and argue that the privilege should be honored, at least so long as the law firm promptly and appropriately notifies its client of any potentially viable claim against the firm of which the firm is aware. It will examine the facts of cases that have addressed this issue to consider whether the privilege should have been upheld in each of them.

I. Development of the Law

A. Law Firm In-House Counsel Serve a Valuable Function.

Today’s lawyers operate in an increasingly complex legal environment, one with increased risks of liability, disqualification, discipline and sanctions based on an increasing volume of statutes, rules, cases and other forms of ethical and legal guidance. The law of lawyering has become a recognized specialty, worthy of its own Restatement.\textsuperscript{14} As a result, lawyers themselves increasingly need legal advice to guide them in their practices on behalf of their own clients.

\textsuperscript{11} Garvy v. Seyfarth Shaw LLP, 966 N.E.2d 523 (Ill. App. Ct. 2012). The same division of that court followed its own holding in MDA City Apartments LLC v. DLA Piper LLP (US), 2012 WL 975634, 967 N.E.2d 424 (Ill. App. Ct. 2012). That case does not add significantly to the analysis, so it will not be discussed. The Illinois Supreme Court has denied review in both cases.


\textsuperscript{13} RFF Family Partnership, LP v. Burns & Levinson, LLP, Docket No. SJC-11371 (Mass.).

\textsuperscript{14} \textsc{Restatement (Third) of the Law Governing Lawyers} (2000).
Larger firms (not necessarily ones that would be considered “large” in an absolute sense) have responded by hiring or designating lawyers as in-house counsel to the firm. Professor Elizabeth Chambliss has studied and documented this development. She reports that:

firms increasingly are hiring their own in-house counsel to provide day-to-day ethics advice, monitor internal policies and procedures, and respond to potential and actual malpractice claims against the firm.…

Most observers view law firms' increasing reliance on in-house counsel as a positive development. In addition to improving risk management and lowering the cost of liability insurance, the presence of firm counsel may improve the ethical climate of the firm. Although the role of firm counsel varies significantly from law firm to law firm, at its most robust it includes a wide range of proactive, compliance-oriented activities, such as reviewing firm policies and procedures, conducting lawyer and nonlawyer ethics training, and going door to door to invite questions from firm members. Such activities may contribute enormously to firm-wide compliance with professional regulation.

The availability of in-house legal and ethical advice, without the extra cost and inconvenience of seeking a non-firm lawyer, benefits the firm’s clients and the legal system, as well as the lawyers and their firms, and “may dramatically improve the quality of firms' self-regulation.” The availability of in-house counsel “encourages lawyers to raise questions that they might otherwise ignore.” And in-house counsel can provide assistance in navigating and reconciling obligations, including potential disclosure obligations to the client and public, and can provide ready advice in response to client behavior or a lawyer’s mistakes that may avoid or

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15 Elizabeth Chambliss, The Professionalization of Law Firm In-House Counsel, 84 N.C. L. Rev. 1515 (2006); Elizabeth Chambliss & David B. Wilkins, The Emerging Role of Ethics Advisors, General Counsel, and Other Compliance Specialists in Large Law Firms, 44 ARIZ. L. REV. 559 (2002). See also Peter R. Jarvis & Mark J. Fucile, Inside an In-House Legal Ethics Practice, 14 NOTRE DAME J.L. ETHICS & PUB. POLICY 103 (2000).
17 Elizabeth Chambliss, supra note 16, 80 NOTRE DAME L. REV. at 1757.
18 Id.
alleviate harm to clients.\textsuperscript{19} It is therefore in the public interest for the law to encourage and facilitate the use of law firm in-house counsel.

\textbf{B. Consultations of Law Firm Personnel Seeking Legal Services from the Firm’s Regularly Designated Counsel Are Privileged, Unless There Is Some Special Basis For A Legal Exception To The Privilege}

The advantages of in-house counsel in promoting legal compliance are simply one example of the advantages of legal advice to all kinds of clients in achieving that result. One mechanism that the law has long used to support the ability and willingness of clients to seek advice is the attorney-client privilege. As the Restatement explains:

The rationale for the privilege is that confidentiality enhances the value of client-lawyer communications and hence the efficacy of legal services. The rationale is founded on three related assumptions. First, vindicating rights and complying with obligations under the law and under modern legal processes are matters often too complex and uncertain for a person untrained in the law, so that clients need to consult lawyers. The second assumption is that a client who consults a lawyer needs to disclose all of the facts to the lawyer and must be able to receive in return communications from the lawyer reflecting those facts. It is assumed that, in the absence of such frank and full discussion between client and lawyer, adequate legal assistance cannot be realized. Many legal rules are complex and most are fact-specific in their application. Lawyers are much better situated than nonlawyers to appreciate the effect of legal rules and to identify facts that determine whether a legal rule is applicable. Full disclosure by clients facilitates efficient presentation at trials and other proceedings and in a lawyer's advising functions.

The third assumption supporting the privilege is … that clients would be unwilling to disclose personal, embarrassing, or unpleasant facts unless they could be assured that neither they nor their lawyers could be called later to testify to the communication. Relatedly, it is assumed that lawyers would not feel free in probing client's stories and giving advice unless assured that they would not thereby expose the client to adverse evidentiary risk. Those assumptions cannot be tested but are widely believed by lawyers to be sound. The privilege implies an impairment of the search for truth in some instances. Recognition of the privilege reflects a judgment that this impairment is outweighed by the social and

\textsuperscript{19} See generally, \textit{id.} at 1722-24.
moral values of confidential consultations. The privilege provides a zone of privacy within which a client may more effectively exercise the full autonomy that the law and legal institutions allow.\textsuperscript{20}

To further these ends, the privilege must extend to communications between an in-house lawyer, acting as counsel for a corporation, and individual corporate employees.\textsuperscript{21} Indeed, the Supreme Court recognized that the privilege was particularly important in the corporate context, in light of the corporation’s need to comply with a “vast and complicated array of regulatory legislation.”\textsuperscript{22}

As many courts have recognized, communications between attorneys in a law firm and the firm’s in-house counsel are privileged. In \textit{United States v. Rowe},\textsuperscript{23} the Ninth Circuit held that attorneys at a law firm may function as “in-house counsel,” and that their communications are protected by the privilege.\textsuperscript{24} As another court succinctly stated, “[n]o principled reason appears for denying [the] attorney-client privilege to a law partnership which elects to use a partner or associate as counsel of record[.]”\textsuperscript{25}

Several courts have recognized that a law firm can invoke the attorney-client privilege against former clients. For example, in \textit{Nesse v. Pittman},\textsuperscript{26} a federal district court held that a former client could not discover internal attorneys’ notes, because when an attorney “is talking to a lawyer for the organization, who has an obligation to represent that organization competently, the privilege [applies] so as to encourage that client to be as candid as possible when she speaks

\textsuperscript{20} \textsc{Restatement (Third) of the Law Governing Lawyers}, § 68, cmt. c (2000).
\textsuperscript{21} See id. at 394.
\textsuperscript{22} Id. at 392.
\textsuperscript{23} United States v. Rowe, 96 F.3d 1294 (9th Cir. 1996).
\textsuperscript{24} Id. at 1296.
\textsuperscript{26} Nesse v. Pittman, 206 F.R.D. 325, 331 (D.D.C. 2002),
to the lawyer.” Similarly, in *Lama Holding Co. v. Shearman & Sterling*, the court held that because “[i]t is undisputed that an attorney-client relationship can exist within a law firm,” a firm need not produce timesheets that reflected conversations between the firm’s attorneys and in-house counsel.

Professor Chambliss argues that application of the privilege to consultations with law firm in-house counsel would provide important benefits to clients and the public:

Such protection would encourage firm members to seek early advice about their duties to clients and to correct mistakes or lapses, if possible, to alleviate harm. Broad protection of in-firm privilege also would encourage law firms to pursue internal investigations where questions of misconduct arise. Finally, broad protection of communication with in-house counsel would encourage law firms to invest in and formalize the role of firm counsel, which in turn would promote compliance with professional regulation.

This article considers whether there is some special exception to these familiar principles when firm personnel consult in-house counsel regarding issues raised by representation of a still-current client.

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28 Elizabeth Chambliss, *supra* note 16, 80 NOTRE DAME L. REV. at 1724. *See also* TattleTale Alarm Sys. v. Calfee, Halter & Griswold, LLP, 2011 WL 382267, at *5, 2011 U.S. Dist. LEXIS 10412, at * 14 (S.D. Ohio Feb. 3, 2011) (“[I]ndividual lawyers who come to the realization that they have made some error in pursuing their client's legal matters should be encouraged to seek advice promptly about how to correct the error, and to make full disclosure to the attorney from whom that advice is sought about what was done or not done, so that the advice may stand some chance of allowing the mistake to be rectified before the client is irreparably damaged. If such lawyers believe that these communications will eventually be revealed to the client in the context of a legal malpractice case, they will be much less likely to seek prompt advice from members of the same firm. While consultation with outside counsel might be a fair substitute in some cases, by the time a matter has progressed to the point where outside counsel are called in, it may be too late to protect the client from damage. All of this suggests that, as a practical matter, there are societal values to be served by allowing members of a law firm to converse openly and freely about potential mis-steps in their representation of a client without worrying about whether the client will eventually be able to use those communications to the lawyer's disadvantage.”)
C. Some Courts Have Found an Exception to the Privilege When In-House Counsel is Consulted Regarding Matters Affecting a Current Client.

While the availability of privilege for communications with law-firm in house counsel is generally recognized, a number of courts have held that it cannot be invoked against a litigant that was a current client of the firm at the time of the communications and whose representation was the subject of those communications. These cases have relied on various combinations of arguments that (1) any such communications must be available to the client pursuant to the firm’s fiduciary duty to it and (2) any privilege is vitiated by a conflict of interest inherent in advising the firm about a current client’s representation.

1. Background: Valente v. Pepsico

The law-firm cases all rely, directly or indirectly, on a case involving corporate in-house counsel, Valente v. Pepsico, Inc. In February, 1970, Pepsico had purchased 74% of the stock of Wilson Sporting Goods Co. It then considered and took various actions that led to a merger of the two companies under the Delaware Short-Form Merger statute in December 1972. Minority shareholders and warrant-holders of Wilson sued Pepsico and its officers alleging misrepresentations, unfairness of the transactions, and violations of the securities laws. Prior to the merger, various Pepsico officers, including its general counsel, Peter DeLuca, sat on Wilson’s board.

In planning for a merger, Pepsico sought to optimize the tax consequences, both minimizing any immediate tax burden and preserving favorable tax attributes of Wilson. Plaintiffs in this case sought documents generated in this planning process, arguing that Pepsi had an obligation to share the tax benefits with them, at least by reflecting those benefits in the prices offered for their securities and was obliged to disclose information about those benefits to permit plaintiffs to consider that information in making decisions about the terms offered in the

merger. The tax studies would reflect the price considerations used by Pepsico and the effect of the tax benefits in determining the price offered to the Wilson security holders.\(^{30}\)

Pepsico claimed attorney-client privilege for some of those documents. In examining that claim the court noted the holding of *Garner v. Wolfinbarger*,\(^{31}\) that a corporation may be denied use of the privilege in litigation against its own shareholders. That principle was not directly applicable here, because Pepsico was not being sued by its own shareholders.\(^{32}\) But the basis of the rule was “the understanding that a corporation is, at least in part, the association of its shareholders, and it owes to them a fiduciary obligation which is stronger than the societal policy favoring privileged communications.”\(^{33}\) Moreover, both Pepsico (as majority shareholder) and general counsel DeLuca (as a Wilson director) owed a fiduciary duty to Wilson’s minority shareholders, a duty protecting the minority shareholders from domination and overreaching by controlling shareholders and directors.

As to documents reflecting the advice of DeLuca, “he owed separate fiduciary duties to two separate entities and their interests. He could not subordinate fiduciary obligations which the owed to Wilson and minority shareholders of Wilson to those [owed] his client Pepsico.”\(^{34}\) While he had no attorney-client relationship with Wilson, a lawyer-director’s “knowledge in one capacity cannot be separated from the other, nor can his duties as a fiduciary be lessened or increased because of professional relationship.”\(^{35}\) The court invoked the rule that there is no privilege between jointly represented clients, who have no expectation of confidentiality against one another. Nor can the attorney prefer one against the other. The court concluded that, because “DeLuca owed fiduciary duties to both Wilson [and its shareholders] and to Pepsico,”

\(^{30}\) *Id.* at 365.
\(^{31}\) *Garner v. Wolfinbarger*, 430 F.2d 1093 (5th Cir. 1990).
\(^{32}\) *Valente*, 68 F.R.D. at 367.
\(^{33}\) *Id.* at 367-68.
\(^{34}\) *Id.* at 368.
\(^{35}\) *Id.*
Pepsico could not now claim a privilege against the shareholders.\textsuperscript{36} Similar reasoning applied to outside counsel Frangos when he replaced DeLuca on the Wilson board.\textsuperscript{37} And his obligations were imputed to his law firm.\textsuperscript{38}

2. \textit{In re Sunrise Securities Litigation}

\textit{Valente} was applied, by analogy, to law firm in-house counsel in \textit{In re Sunrise Securities Litigation},\textsuperscript{39} a suit by the FDIC and FSLIC, shareholders, and depositors against lawyers for a failed institution. At first, the court declined to recognize any privilege when the law firm consulted its own members.\textsuperscript{40} On reconsideration the court was “persuaded that it is possible that in some instances for a law firm, like other business or professional associations, to receive the benefit of the attorney-client privilege when seeking legal advice from in house counsel.”\textsuperscript{41} But special problems exist for law firms. “[W]hen a law firm seeks legal advice from its in house counsel, the law firm’s representation of itself (through in house counsel) might be directly adverse to, or materially limit, the law firm’s representation of another client, thus creating a prohibited conflict of interest.”\textsuperscript{42}

The court then found \textit{Valente} to provide the appropriate rule for such situations: “a law firm’s communication with in house counsel is not protected by the attorney-client privilege if the communication implicates or creates a conflict between the law firm’s fiduciary duties to itself and its duties to the client seeking to discover the communications.”\textsuperscript{43} This would require examination of the individual documents to determine which would be protected.

\textsuperscript{36} \textit{Id.}
\textsuperscript{37} \textit{Id.} at 368-69.
\textsuperscript{38} \textit{Id.} at 369.
\textsuperscript{39} \textit{In re} Sunrise Sec. Litig., 130 F.R.D. 560, 595 (E.D. Pa. 1989).
\textsuperscript{40} \textit{Id.} at 572.
\textsuperscript{41} \textit{Id.} at 595.
\textsuperscript{42} \textit{Id.}
\textsuperscript{43} \textit{Id.} at 597.
The court also stated that this rule would not apply where the law firm consulted outside counsel, because the latter would not have a conflict.\textsuperscript{44} It declined to consider whether the principles of \textit{Garner} might preclude the law firm from asserting privilege as to outside counsel.\textsuperscript{45}

3. \textit{Bank Brussels Lambert v. Credit Lyonnais (Suisse), S.A.}

In \textit{Bank Brussels Lambert v. Credit Lyonnais (Suisse), S.A.},\textsuperscript{46} Credit Lyonnais (Suisse) ("CLS") asserted that if the claim brought by Bank Brussels succeeded, that would be the fault of CLS’s counsel in the transaction, Rogers & Wells ("Rogers"). Rogers had represented CLS in the litigation before CLS advised it of the potential malpractice claim. Rogers conducted an “internal review” of its work in the transaction but continued to represent CLS. The internal review included special conflicts checks on the other parties to the litigation. Eventually, CLS terminated the representation and asserted a third-party claim against Rogers. It then sought the conflicts checks and other internal review documents.\textsuperscript{47} The court found them unprotected, in part because identity of a firm’s clients is not privileged.\textsuperscript{48} But the court also reasoned that Rogers was obliged to inform CLS of any conflicts disclosed before undertaking a representation and that the purpose was to maintain Rogers’ loyalty to its clients, including CLS. So they were conducted, in part, for the benefit of CLS.\textsuperscript{49} “This court finds that a law firm cannot invoke the attorney-client privilege against a current client when performing a conflict check in furtherance of representing that client.” (Because the documents at issue included internal review documents other than the conflict checks, the court’s description of the issue is imprecise.)

\footnotesize{\textsuperscript{44} Id. n.12.}  
\footnotesize{\textsuperscript{45} Id.}  
\footnotesize{\textsuperscript{46} 220 F. Supp. 2d 283 (S.D.N.Y. 2002).}  
\footnotesize{\textsuperscript{47} The court never says what other documents existed, but does not say there weren’t any such documents. \textit{Id.} at 287-88.}  
\footnotesize{\textsuperscript{48} \textit{Id.} at 288.}  
\footnotesize{\textsuperscript{49} \textit{Id.} at 287.
4. Koen Book Distributors

Koen Book Distributors v. Powell, Trachtman, Logan, Carrle, Bowman & Lombardo, P.C.\textsuperscript{50} was a malpractice action by plaintiffs who had hired the firm to perfect security interests that became important when the debtor filed for bankruptcy. The firm continued to represent the plaintiffs, who eventually said they were considering a suit for malpractice. But they continued to retain the firm for another month before terminating its services, during which it conducted a scheduled bankruptcy hearing. In the interim between the notification of the potential malpractice action and the discharge, the firm generated various documents among its lawyers, discovery of which was sought in the malpractice suit. The court identified \textit{Sunrise} and \textit{Valente} as the governing precedents. Neither privilege nor work product immunity can “shield a lawyer’s papers from discovery in a conflict of interest context.”\textsuperscript{51}

The law firm argued that, before raising the potential malpractice claim, the clients were already represented by other counsel with respect to that claim. The court was unpersuaded: “[s]imply because plaintiffs may have retained other counsel does not remove the conflict so long as defendants also continued to represent them.”\textsuperscript{52} The firm argued that it was unfair to deprive it of privilege and work product protection while the clients continued to retain it. While recognizing that the firm was “enmeshed in an unenviable situation,” the court was unmoved. “[T]he firm still owed a fiduciary duty to plaintiffs while they remained clients.”\textsuperscript{53} It could have tried to promptly withdraw or could have sought the clients’ consent to begin preparing its defense, but it failed to do either.

\textsuperscript{51} \textit{Id.} at 286.
\textsuperscript{52} \textit{Id.}
\textsuperscript{53} \textit{Id.}
On review, most of the documents were found discoverable, even though they would ordinarily have been privileged:

These documents, with one exception, are e-mails from one lawyer to another in the firm concerning if and how to continue to represent the clients and how to respond to the clients' communications. Permeating the documents is consideration of how best to position the firm in light of a possible malpractice action. They clearly establish that the law firm was in a conflict of interest relationship with its clients.54

5. *Thelen Reid & Priest LLP v. Marland*

In *Thelen Reid & Priest LLP v. Marland*,55 Marland had retained Thelen in seeking to obtain financial benefit from alleged knowledge of improprieties in transactions by which Credit Lyonnais, a French bank, had acquired the assets of Executive Life Insurance Company (“ELIC”) in an auction conducted by the California Department of Insurance (“CDOI”). When CDOI refused to agree to sufficient benefits, Thelen filed a *qui tam* action for Marland, but CDOI filed its own action. CDOI asked Thelen to represent it and agreed to allow Marland and his European counsel to share in any fee paid to Thelen. Difficulties arose in prosecuting the CDOI action, some due to allegedly improper actions of Marland. Thelen claimed to have withdrawn from Marland’s representation by September, 2002. In December, 2002, Thelen negotiated a new agreement with Marland and his European counsel. Thelen eventually recovered over a billion for CDOI. Thelen paid Marland over $19 million from its fee. Marland then demanded arbitration to set aside the December, 2002 agreement and recover additional amounts. He contended that the representation had not been terminated until the December, 2002 agreement, which he claimed was invalid. Thelen sued to enjoin the arbitration.56

54 *Id.*
Marland demanded that Thelen produce communications with the firm’s in-house general counsel and other firm lawyers who gave advice relating to his representation or the CDOI matter while he was a client. Thelen asserted attorney-client privilege. The court identified *Sunrise Securities* instructive, and granted the motion to compel, with some exceptions.\(^57\)

In limiting the required production, the court relied on a bar opinion by the New York State Bar Association\(^58\) and recognized that:

> law firms should and do seek advice about the their legal and ethical obligations in connection with representing a client and that firms normally seek this advice from their own lawyers. Indeed, many firms have in-house ethics advisers for this purpose. A rule requiring disclosure of all communications relating to a client would dissuade attorneys from referring ethical problems to other lawyers, thereby undermining conformity with ethical obligations. Such a rule would also make conformity costly by forcing the firm either to retain outside counsel or terminate an existing attorney-client relationship to ensure confidentiality of all communications relating to that client. This court declines to follow such a strict rule, preferring one that is consistent with a law firm in-house ethical infrastructure.\(^59\)

The court reasoned that

> while consultation with an in-house ethics adviser is confidential, once the law firm learns that a client may have a claim against the firm or that the firm needs client consent in order to commence or continue another client representation, then the firm should disclose to the client the firm's conclusions with respect to those ethical issues.\(^60\)

Accordingly, Thelen was not required to produce “documents reflecting consultations between Thelen lawyers on the firm's ethical and legal obligations to Marland,” but “must produce any communications discussing claims that Marland might have against the firm or

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\(^57\) *Id.* at *4-8, 2007 U.S. Dist. LEXIS 17482, at *17-20.*  
\(^60\) *Id.* at *8, 2007 U.S. Dist. LEXIS 17482, at *20-21.*
discussing known errors in its representation of Marland.” Thelen was also required to produce “any communications discussing known conflicts in its representation of Marland or other circumstances that triggered Thelen's duty to advise Marland and obtain Marland's consent.”

6. Burns v. Hale & Dorr LLP

Burns v. Hale & Dorr LLP was a suit based on failure of Hale & Dorr (“H&D”) to prevent dissipation of funds provided to it to form the corpus of a trust. The funds were the proceeds of a medical malpractice judgment by Alexis J. Burns against doctors responsible for her birth injuries. Her attorney at the time arranged for H&D to create a trust for her benefit (“the Trust”) and the proceeds were deposited in the H&D trust account. H&D drafted a declaration of trust (“Declaration”) providing for an H&D affiliate, Haldor, to manage the trust funds and for two trustees to be appointed: Alexis’s father, David Burns (“Mr. Burns”) and an independent trustee. Mr Burns never signed the Declaration and no independent trustee was ever appointed. Nonetheless, between May, 1999 and April, 2003, H&D and/or Haldor, allegedly distributed $1.6 million to Mr. Burns, at his request, without requiring him to demonstrate that the money would be used for his daughter’s benefit (and it was not so used). In April, 2003, H&D learned that Mr. Burns was incarcerated. The Office of Public Guardian brought this action on behalf of Alexis, and sought discovery. H&D claimed privilege for all communications with its in-house counsel from April to August, 2003.

Because Alexis had never been a client of H&D (which had represented Mr. Burns), the court realized that Bank Brussels and Koen Books were distinguishable. Nonetheless, it concluded that

61 Id. at *8, 2007 U.S. Dist. LEXIS 17482, at *20.
62 Id.
64 Id. at 171-72.
the principle is, in essence, the same and the reasoning is compelling. Haldor held, managed and invested the Trust Funds for the benefit of Alexis Burns. It now seeks to shield from discovery documents prepared in anticipation of a possible lawsuit by Alexis Burns. H & D contends that it owes no duty to Ms. Burns because it merely served as an agent for her father, its actual client.65

Because H&D and Haldor owed fiduciary duties to Alexis, they should not be allowed to withhold information from her.66

7. *In re SONICblue Inc.*

*In re SONICblue Inc.*67 was a bankruptcy. Pillsbury Winthrop Shaw Pitman, LLP (“PWSP”), had been *SONICblue*’s general corporate, securities, and litigation counsel since approximately 1989. In that capacity, PWSP had given certain opinions relating to offers of debt securities (“Notes”). After *SONICblue* filed for bankruptcy reorganization, the Noteholders sued the company’s officers and directors. The D&O insurer denied coverage based on failure to disclose in the application for coverage demands that had been received from the Noteholders; settlement was reached in which the Noteholders agreed to look only to the insurance for payment. The directors and officers then made demand on PWSP (apparently regarding the insurance application) and entered into a tolling agreement.68 That created a conflict for PWSP which was not adequately disclosed to the court.69

*SONICblue* also had disputes with joint venture partners VIA Technologies and S3 Graphics, and the Noteholders participated in negotiations regarding those disputes. The joint venturers agreed to a $12.5 million settlement from *SONICblue*, subject to the creditors’

65 Id. at 173.
66 Id. at 173-74.
68 Id. at *1-4, 2008 Bankr. LEXIS 181 at *4-14.
69 Id. at *6-7, 2008 Bankr. LEXIS 181 at *23-24
approval. The Noteholders conditioned their approval on a Senior Indebtedness Waiver that would improve their position at the expense of the general unsecured creditors. PWSP’s analysis of claims against the estate and prosecution of objections to them brought to light certain issues which might provide the Noteholders a claim against PWSP based on its opinions. Because the Senior Indebtedness Waiver would benefit the Noteholders, its approval would reduce the amount of their possible claim against PWSP. That created a conflict for PWSP which was not adequately disclosed to the court.70

SonicBlue Claims LLC (“SBClaims”) brought the conflicts to light, leading the United States Trustee to move for PWSP’s disqualification. PWSP was disqualified as counsel for the Debtor and a trustee was appointed. The court ordered the Trustee to investigate the nondisclosures and propose a remedy. SBClaims brought this proceeding against the Noteholders to equitably subordinate their claims. The Trustee and SBClaims then sought discovery from PWSP to better understand the firm’s conduct and motives, with the Trustee waiving SONICblue’s attorney client privilege. PWSP then asserted its own privilege for communications with its in-house counsel.71

The court relied on the cases already discussed to conclude that PWSP could not “use the attorney–client privilege or the work product doctrine to shield its communications with in–house counsel after its conflict of interest became apparent.”72 The court reasoned that

courts generally have followed a restrictive approach in granting the protection of attorney-client privilege to confidential communications with in-house legal counsel. Moreover, a law firm's consultation with in-house counsel, like that of PWSP's here, raises an additional layer of concern that is unique to the legal profession. As one court noted, “[a] law firm's representation of a client, and its ability to meet its ethical and fiduciary obligations to that client, may be affected by its representation of another client,

70 Id. at *5-7, 2008 Bankr. LEXIS 181 at *14-24.
71 Id. at *7-8, 2008 Bankr. LEXIS 181 at *19-23.
72 Id. at *8 2008 Bankr. LEXIS 181 at *32 (some capitalization in original omitted).
even if the second client is the law firm itself.” In other words, when a law firm chooses to represent itself, it runs the risk that the representation may create an impermissible conflict of interest with one or more of its current clients. In light of these ethical concerns, the courts that have considered the issue have resoundingly found that, where conflicting duties exist, the law firm's right to claim privilege must give way to the interest in protecting current clients who may be harmed by the conflict. As a result, a law firm cannot assert the attorney-client privilege against a current outside client when the communications that it seeks to protect arise out of self-representation that creates an impermissible conflicting relationship with that outside client.73

But the court also recognized that “public policy encourages lawyers to consult with in-house counsel to understand and comply with their professional responsibilities and ethical restraints.”74 Accordingly, it agreed with Thelen that the law should “allow[] the privilege to be asserted until such time as the firm has, or should have, determined that dual representation of itself and an outside client should not continue without the informed consent of the outside client.”75

Relying on United States v. Mett,76 PWSP argued that a fiduciary is disabled from claiming the privilege with respect to advice sought in the course of its fiduciary duties, but not for advice sought on its own behalf, to defend against claims by its beneficiary.77 The court found this rule inapposite:

PWSP's argument fails to account for the unique attributes of the fiduciary relationship between the firm as the attorney and its client, SONICblue. First, the very nature of the attorney-client relationship exceeds other fiduciary relationships where the fiduciary must execute its duties faithfully on behalf of its beneficiaries. Attorneys are governed by an ethical code that requires the utmost loyalty on the part of the attorney, including the duty not to represent another client if it would create a conflict of interest with the first client. Second, the scope of PWSP's

73 Id. at *9, 2008 Bankr. LEXIS 181 at *25-27 (citations omitted).
74 Id. at *9, 2008 Bankr. LEXIS 181 at *27 (citation omitted).
75 Id. (citation omitted).
76 United States v. Mett, 178 F.3d 1058 (9th Cir. 1999).
77 Id. at *9, 2008 Bankr. LEXIS 181 at *27-28.
fiduciary relationship with SONICblue included much more than simply administering an ERISA plan as in Mett. In Mett, the Ninth Circuit recognized that the fiduciary could not assert the attorney-client privilege against its beneficiaries for all matters within the scope of its fiduciary duties—there, the administration of the ERISA plan. Here, however, the scope of PWSP's fiduciary duties were broad-ranging and prohibited PWSP from engaging in any activity that was adverse to SONICblue's interests. Applying Mett's reasoning, PWSP cannot invoke the privilege as to any matter within that broad scope of fiduciary activities. This would include its failure to comply with its duty of loyalty by entering into a second representation that created a conflict with its representation of SONICblue. Finally, it is important to note that in this bankruptcy setting there is an additional overlay of fiduciary duties. Under the Bankruptcy Code, PWSP, as debtor's counsel, had a duty to remain disinterested and not to represent any adverse interests. It owed this duty not just to SONICblue but to the creditors on whose behalf it was administering the estate and to the court. The ethical lapses alleged against PWSP clearly fall within the scope of the broad fiduciary duty that it owed to all of these parties. As a result, PWSP's personal defense theory will not excuse production in the conflict of interest context.78

While there was “some inking of impending ethical issues … when e-mails among several lawyers in the firm expressed concern over the ramifications of the coverage dispute,” no conflict had been shown to exist at that time.79 A potential conflict clearly arose when the directors requested a tolling agreement; PWSP clearly knew of a conflict no later than the time it executed the tolling agreement, so its ability to withhold communications regarding the insurance conflict was impaired no later than that date.80 PWSP knew it had another conflict no later than the date the Noteholders made their indemnification demand. By January, 2007, it knew that accusations of malpractice created yet another conflict.81 Thus, “PWSP has no right to claim privilege for any communications with in-house counsel between September 7, 2006

78 Id. at *10, 2008 Bankr. LEXIS 181 at *28-30.
79 Id. at *10, 2008 Bankr. LEXIS 181 at *30.
80 Id. at *10, 2008 Bankr. LEXIS 181 at *31.
81 Id.
[when it signed the tolling agreement] and March 26, 2007 [when the disqualification motion was filed].”

SBClaims also sought discovery regarding PWSP’s communications with its outside counsel, retained to respond to the allegations of impropriety. The court found no basis for denying the privilege between a law firm and its outside counsel, unless the crime-fraud exception applied. As of the time of the decision, the record did not establish applicability of that exception.

8. Asset Funding Group, LLC v. Adams & Reese LLP

Asset Funding Group, LLC v. Adams & Reese LLP was a legal malpractice case in which the firm asserted the attorney-client privilege for communications with its in-house counsel. The opinion is silent on the facts relating to the alleged malpractice. The court discussed the foregoing cases and followed Sunrise Securities Litigation in concluding that “the attorney-client privilege between the lawyers in the firm is vitiated” when “the seeking of legal advice by one lawyer from another lawyer inside the firm ‘implicates or creates a conflict of interest.’”

9. Cold Spring Harbor Laboratory v. Ropes & Gray, LLP

Cold Spring Harbor Laboratory v. Ropes & Gray, LLP, was a malpractice action alleging that Ropes & Gray (“R&G”) and its former partner mishandled a series of patent applications (in part by copying from a prior patent application). CSHL sought “All documents concerning discipline, disbarment, intra-firm investigation, criminal investigation, and/or

82 Id. at *10, 2008 Bankr. LEXIS 181 at *31-32.
83 Id. at *11, 2008 Bankr. LEXIS 181 at *33-34.
85 Id. at *4, 2008 U.S. Dist. LEXIS 96505, at *9.
termination of employment of [Matthew] Vincent in connection with acts giving rise to the claims in this action,’ limited to documents generated between the time CSHL raised its allegations with R&G in April of 2008, and December of 2008, inclusive.”

R&G argued that CSHL had agreed that such documents would remain confidential, but the court found that no agreement had been reached on that point. The court summarily ruled that “absent an affirmative act on the part of R&G that would have caused CSHL to know that R&G had unequivocally ended its representation, R&G's fiduciary duty to CSHL overrides any claim of privilege.”

10. E-Pass Technologies, Inc. v. Moses & Singer, LLP

E-Pass Technologies, Inc. v. Moses & Singer, LLP, was a malpractice case alleging inadequate representation of E-Pass as a plaintiff in multiple patent infringement actions. The law firm sought to withhold communications with its in-house counsel at a time when it was defending both E-Pass and itself against a motion for attorneys’ fees. The court, relying on Thelen, rejected the unprecedented argument that notwithstanding its fiduciary duty, at the same time it was representing E-Pass on the motion it could engage in intra-firm communications relating to how to protect itself from liability on the motion and then withhold those communications from E-Pass. Moses & Singer's interests were in conflict with those of E-Pass to the extent its interests were not fully aligned with E-Pass. If it intended to separately—and confidentiality—represent itself on the fees motion it had a duty to disclose this conflict and obtain E-Pass's consent to continued representation. Because it failed to do so, it cannot claim that internal communications discussing or implicating such a conflict are privileged.

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D. Newer Cases Have Upheld the Privilege

1. TattleTale Alarm Systems v. Calfee, Halter & Griswold, LLP

The former unanimity of the limited authority on this issue was broken in TattleTale Alarm Systems v. Calfee, Halter & Griswold, LLP. TattleTale lost a patent for failure to pay the maintenance fee, and claimed that its lawyers, the Calfee firm, had assumed responsibility for assuring that the fee was paid. TattleTale sought all documents relating to its representation, and Calfee claimed privilege and work product immunity as to loss-prevention documents created after it became aware that TattleTale might assert a malpractice claim. TattleTale argued that no documents created while Calfee still represented it could be withheld. The court disagreed.

Prima facie, the documents were privileged, so the court viewed the issue as whether Ohio would recognize an exception. Ohio law recognizes few exceptions, most notably the crime-fraud exception and the self-protection exception; it also recognizes a third exception “for documents that bear on the issue of whether a party or insurer has failed to make a good faith effort to settle a case, describing such documents as ‘wholly unworthy of the protections afforded by any claimed privilege.’” Thus, Ohio withholds protection from communications that serve no societal value, but grants it where the purposes of the attorney-client privilege would be served. “In most cases, the rendering of sound legal advice furthers societal goals in the fair administration of justice.” The Ohio Supreme Court also tends to withhold the privilege where allowing it “would effectively prevent a party from proving his or her case

92 Id. at *2-4, 2011 U.S. Dist. LEXIS 10412, at *5-11.
94 Id. at *5, 2011 U.S. Dist. LEXIS 10412, at *13.
because all, or at least the bulk, of the most relevant evidence is contained in privileged communications."\(^95\)

None of the reasons for creating an exception applied in *TattleTale*:

it can hardly be argued that loss prevention communications are of the same character as communications about contemplated fraudulent or criminal behavior, so the reasons which led to the creation of the crime-fraud exception are simply inapplicable. As to the question of what values are served by applying the privilege to loss prevention communications, individual lawyers who come to the realization that they have made some error in pursuing their client's legal matters should be encouraged to seek advice promptly about how to correct the error, and to make full disclosure to the attorney from whom that advice is sought about what was done or not done, so that the advice may stand some chance of allowing the mistake to be rectified before the client is irreparably damaged. If such lawyers believe that these communications will eventually be revealed to the client in the context of a legal malpractice case, they will be much less likely to seek prompt advice from members of the same firm. While consultation with outside counsel might be a fair substitute in some cases, by the time a matter has progressed to the point where outside counsel are called in, it may be too late to protect the client from damage. All of this suggests that, as a practical matter, there are societal values to be served by allowing members of a law firm to converse openly and freely about potential mis-steps in their representation of a client without worrying about whether the client will eventually be able to use those communications to the lawyer's disadvantage.\(^96\)

Nor is a legal malpractice plaintiff likely to be unable to prove its case without access to intra-firm loss prevention communications. In particular, TattleTale’s would largely turn on communications between itself and Calfee, to all of which it would have access.

While it might be argued that an undisclosed conflict of interest might render loss-prevention communications “unworthy” of protection, “the Court [saw] no evidence that an Ohio court would exclude certain communications from the ambit of the attorney-client privilege

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\(^{95}\) *Id.*

\(^{96}\) *Id.* at *5, 2011 U.S. Dist. LEXIS 10412, at *14-15.*
simply due to the lawyer's alleged misconduct or breach of an ethical duty." 97 The court then considered the cases discussed above to see whether they provided reasons that might persuade the Ohio Supreme Court.

Those cases all rely, directly or indirectly, on Valente v. Pepsico, 98 a case which has been criticized and is contrary to other authority that those cases did not consider. 99 This led the court to conduct a balancing analysis along the lines called for by Garner v. Wolfinbarger. 100 Garner was a shareholder suit against corporate directors, and the issue was whether the shareholders could discover communications about the legal advice the attorney had rendered to the corporation about the transactions challenged by the shareholders. The Garner court had concluded that when corporate wrongdoing was alleged, the shareholders should be entitled to breach the privilege if they could make an adequate showing of good cause. The court identified various factors which, in the corporate shareholder context, touched on the issue of good cause, including the percentage of shareholders seeking relief, the apparent strength or weakness of their claims, the extent to which the misconduct alleged was criminal or unlawful, whether the communications related to past actions or contemplated ones, and whether there was proof available from other sources. 101

Applying that test to the facts in TattleTale, the court concluded that none of the factors favored allowing access to the privileged communications:

There are other sources of proof; the discussions presumably involve, for the most part, actions or inactions which took place in the past, as opposed to proposed (and potentially illegal or fraudulent) actions; and the alleged conduct, while wrongful to the

97 Id. at *6, 2011 U.S. Dist. LEXIS 10412, at *17.
99 That other authority was In re Teleglobe Communications Corp., 493 F.3d 345 (3rd Cir. 2007); Eureka Investment Corp. v. Chicago Title Insurance Co., 743 F.2d 932 (D.C. Cir. 1984); and J. WIGMORE, EVIDENCE, § 2312 (McNaughton rev, ed 1961), all discussed at notes 190-96, infra.
100 Garner v. Wolfinbarger, 430 F.2d 1093 (5th Cir. 1970).
extent that it might be characterized as negligent, is not alleged to be criminal, illegal, or fraudulent.\textsuperscript{102}

In light of the value of the privilege in encouraging lawyers to seek legal advice, TattleTale had not shown good cause for invading the privilege under the federal common law standard. That persuaded the court that Ohio would not create a new exception to the attorney-client privilege.\textsuperscript{103}

\textbf{2. Garvy v. Seyfarth Shaw LLP}

\textit{Garvy v. Seyfarth Shaw LLP}\textsuperscript{104} was another malpractice case. It was one result of a chancery action by Peter Garvy’s siblings against Peter and his father, Gene, regarding conduct of a family business, of which Peter was formerly president. The law firm of Seyfarth Shaw LLP (“Seyfarth”) had advised Peter and the business regarding various of the matters at issue in the suit. Seyfarth immediately sent a very detailed letter on November 3, 2004 addressing those claims and their relation to Seyfarth's work. If the allegations of the complaint were correct, Seyfarth’s conduct would arguably have constituted malpractice. The letter further explained that to Peter and explained the resulting conflicts that would be entailed in representing Peter in the suit:

because Garvy's and Gene's interests could diverge as a result of the various proceedings against both of them, Seyfarth advised them to consider and decide between themselves, with the advice of independent counsel, whether they wanted Seyfarth to represent both of them in the chancery litigation. Finally, Seyfarth explained that because its prior advice would be an issue in the chancery litigation, there was the potential that Seyfarth could be seen as taking positions to favor its own interests over the interests of Garvy and Gene. The fact that Seyfarth attorneys could be witnesses could also adversely affect its ability and effectiveness in representing either of them. The letter discussed various ways in which the issues could develop during the course of the litigation and disclosed what Seyfarth intended to argue with respect to the

\textsuperscript{102} \textit{Id.} at *10, 2011 U.S. Dist. LEXIS 10412, at *28-29.
\textsuperscript{103} \textit{Id.} at *10, 2011 U.S. Dist. LEXIS 10412, at *29.
different counts in the alternative scenarios. Finally, the letter stated: "Because plaintiffs have made so many allegations relating to the role of Seyfarth Shaw in this matter, we strongly encourage you to seek independent counsel regarding the import of this consent and your rights in this matter." 105

Seyfarth asked Peter to review the issues with independent counsel before determining whether to continue to use Seyfarth. 106 Peter promptly retained Allan Horwich of Schiff Hardin. Horwich asserted legal malpractice claims arising from Seyfarth’s advice to Peter and the family business before the chancery action was filed. 107

Peter Woodford was Seyfarth’s in-house General Counsel, who advised Seyfarth attorneys regarding ethical and liability issues which arose in connection with Seyfarth’s representation of Peter. In particular, he did so between November 3, 2004 (when Seyfarth notified Peter of the conflicts) and May 2, 2007, when Seyfarth withdrew from representing Peter, over Peter’s protest. As part of his representation, Woodford negotiated with Horwich regarding those claims. 108

By letter of December 23, 2004, Horwich advised that a fee payment was on the way, "without prejudice to any claims [Peter] may have against Seyfarth and in particular without prejudice to any right he may have to recover amounts expended in defense of the litigation to the extent, for example, that the litigation is based on or arises out of advice given by Seyfarth that was ill-founded." The letter asked Seyfarth to continue representing Peter in the litigation. It also suggested settlement discussions, to include “any possible claim Peter has against

105 Id. at 528 (emphasis by Seyfarth).
106 Id. at 528.
107 Id. at 526-27.
108 Id. at 527-29.
Seyfarth.”

On February 16, 2005, Horwich asked Seyfarth to enter into a tolling agreement, which it did on March 7, 2005.

In June, 2006, Seyfarth retained lawyers at Jenner & Block to represent Seyfarth regarding Peter’s claims. The Jenner & Block lawyers negotiated unsuccessfully with Peter’s lawyers at Schiff Hardin. Horwich continued to request that Seyfarth continue its representation. When Seyfarth later stated an intent to withdraw, Horwich objected to its doing so. But when the settlement negotiations in the chancery action broke down, Seyfarth withdrew, over Peter’s objection.

Peter brought this action. Peter has described his claims as concerning:

(i) discrete acts of transactional malpractice by Seyfarth that led to [Peter] being terminated and sued; (ii) breach of fiduciary duty claims relating to Seyfarth’s secret restrictions on the Seyfarth lawyers handling the litigation against [Peter]; (iii) Seyfarth’s self-interest and self-dealing; and (iv) Seyfarth’s undisclosed value billing.

Seyfarth counterclaimed for legal fees, and Peter raised breach of fiduciary duty as a defense.

Peter demanded production of all of Seyfarth’s internal and external communications regarding his representation, including any information relating to his malpractice claims. Seyfarth asserted the privilege, but the circuit court ruled that “the attorney-client privilege did not apply” to the communications, “with the exception of communications related to requests for ethics advice. However, the court ruled that Woodford's ultimate conclusions regarding ethics

109 Id. at 529; id., R. C2130.
110 Id. at 529.
111 Id. at 529.
112 Id. at 529-30.
113 Petition for Leave to Appeal, at 2, Garvy v. Seyfarth Shaw LLP, No. 11 4142, (Ill. Sup. Ct.).
114 Garvy, 966 N.E.2d at 529.
115 Id. at 529-30.
issues were subject to disclosure." Seyfarth refused to comply, was held in contempt, and appealed. The Appellate Court reversed.

In the Appellate Court’s view, the circuit court had based its rulings on the fiduciary duty exception to the attorney-client privilege. Illinois has not, as yet, adopted that exception. But even if it had, the court concluded that the exception would not apply, because there was already an adversarial relationship between Peter and Seyfarth when Seyfarth sought the legal advice in question.

Moreover, even under the cases relied upon by Peter, the law firm could avoid loss of its privilege by either withdrawing from the representation or obtaining client consent to the conflict. Here, Seyfarth had fully disclosed the conflicts (including the possible malpractice claim) and had recommended that Peter consult independent counsel. After Peter did so, his independent counsel asked Seyfarth to continue the representation. That waived any conflict:

Garvy cannot have it both ways. He cannot insist that Seyfarth continue to represent him in the chancery litigation while he has malpractice claims pending against Seyfarth, but then use that continued representation to insist that Seyfarth produce all documents related to legal advice sought in relation to the malpractice claims generated during that time.

Peter argued that he was not relying on the fiduciary duty exception, but was contending that existence of the fiduciary duty precluded Seyfarth from having any expectation that the communications with counsel were confidential. The court dismissed this as simply an effort to call the fiduciary duty exception by a different name.

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116 Id. at 530.
117 Id. at 530-31.
118 Id. at 526, 540.
119 Id. at 535-36.
120 Id. at 536.
121 Id. at 536-38.
122 Id. at 537.
Finally, Peter argued that, as members of the Seyfarth firm, the in-house counsel who advised Seyfarth necessarily represented him as well, thereby creating what he alternately described as a “common” or “conflicting” representation, precluding any privilege. But a concurrent representation is only common (and the privilege inapplicable) with respect to a common interest of the clients, and there was no common interest regarding the potential malpractice claims.123


Hunter, Maclean, Exley & Dunn v. St. Simons Waterfront, LLC124 arose from representation of a real estate developer, SSW. The firm (“HM”) drafted the sales contracts for high end condominiums and also handled the closing of sales. In late 2007, buyers began attempting to rescind, and one of HM’s litigators opined that, given the large earnest money deposits (15%) on high-dollar condos, courts were unlikely to grant specific performance. As the attempted rescissions continued, another litigator reviewed and responded to buyers’ claims. On February 18, 2008, there was a conference call with SSW in which the lawyers intended to discuss the merits of the rescission claims and the way in which they proposed to negotiate with rescinding buyers. According to the lawyers, SSW’s president was angry and announced an intention to hold HM responsible for the rescissions. According to SSW, it pressed for the lawyers to pursue specific performance and did not intend to make a claim at that time, deciding to do so only after retaining new counsel. HM claimed that it had told SSW before the February 18 call that it would need to withdraw and that SSW would need to retain new counsel.125 HM

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123 Id. at 538-39. Peter also attempted to argue that the crime-fraud exception barred the privilege, but the court dismissed that argument as waived. Id. at 539.
125 Id. at 612-13. HM also claims that the need for SSW to retain new counsel was also discussed in the February 18 call and that, after the angry exchange, it again told SSW that it needed to retain new counsel. Brief of Appellee, at 5, St. Simons Waterfront, LLC v. Hunter,
claimed to have discussed the firm’s adversity and need to withdraw with SSW’s general counsel.  

HM believed it was being discharged and immediately began efforts to locate replacement local counsel (while SSW sought to find new counsel in Atlanta), also undertaking an internal investigation and consulting outside counsel. But efforts to find new local counsel were initially unsuccessful, so HM continued to handle closings, the last of which occurred in April, 2008, after SSW had retained new counsel. It also stalled, responded to, and negotiated rescission claims.  

Immediately after the February 18 phone call, the problem was reported to Arnold Young, HM’s in-house general counsel. While HM was looking for new counsel and continuing to represent SSW, HM started looking into its exposure regarding SSW’s possible claims (without informing SSW of this). The investigation was conducted by Young and Mason; Young had no involvement in representation of SSW, but Mason was one of the litigators dealing with buyer rescission claims. HM also retained outside counsel to assess and analyze possible claims against it. (There were indications that the outside counsel was first contacted to seek representation for SSW, but it clearly never undertook such representation.)  

As already noted, there was a dispute about whether, what, and when HM told SSW about the conflict created by the rescission claims. It is undisputed that HM never told SSW

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Maclean, Exley & Dunn, No. S12G1924 (Ga.). SSW contends that it was not told of HM’s need to withdraw until February 27. Appellant ‘s Brief, at 5. SSW also contends that, even if it were told on or before February 18 that it needed to retain new counsel, it was not provided (either on February 27 or before) with information sufficient to give informed consent to continued representation by HM. Brief of Appellant, at 4, 6.

126 730 S.E.2d at 615.
127 Id. at 613.
128 Id. at 613-14.
129 See note 125, supra.
that it had begun preparing a defense against SSW’s potential claims. \(^{130}\) In any event, SSW eventually did retain new counsel who, according to HM, asserted a claim against HM on April 3 and requested that HM report this to its malpractice carrier. But, according to HM, the letter also requested HM to continue conducting closings. \(^{131}\) SSW does not deny that the letter said what HM claims, but denies that SSW then had the full facts necessary to provide an informed consent to HM’s continued representation, because HM had not disclosed that it had been building a defense against SSW’s claims for the prior six weeks. \(^{132}\) The trial court found that SSW was “oblivious” to the conflict. \(^{133}\) But HM argued that this finding is not supported by the record, \(^{134}\) but makes no claim that any information conveyed regarding the conflict was confirmed in writing. HM’s representation of SSW continued through June 2008. \(^{135}\)

SSW later sued. In discovery, HM claimed privilege for its communications with Young and outside counsel. The trial court sustained the claim as to outside counsel, but not as to Young. It certified the case for immediate review. \(^{136}\)

The court of appeals reviewed the prior authority on law firm privilege with respect to then-current clients and observed that “Georgia has yet to address the applicability of the attorney-client privilege to a law firm's in-house communications concerning a current client. To put it plainly, we are in uncharted jurisprudential waters.” \(^{137}\) It concluded that “none of the decisions from other jurisdictions addressing this issue do so in a way that is entirely consistent

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\(^{130}\) 730 S.E.2d at 615.

\(^{131}\) Brief of Appellee, at 5, St. Simons Waterfront, LLC v. Hunter, Maclean, Exley & Dunn, No. S12G1924 (Ga.).

\(^{132}\) Supplemental Brief of Appellant, at 5, St. Simons Waterfront, LLC v. Hunter, Maclean, Exley & Dunn, No. S12G1924 (Ga.).

\(^{133}\) 730 S.E.2d at 616.


\(^{135}\) 730 S.E.2d at 616.

\(^{136}\) Id. at 614-17.

\(^{137}\) Id. at 619.
with Georgia law.”138 It was persuaded by and adopted as its own the analysis in a law review article, which it found to be “in accord with the general principles of Georgia law …, and one that provides an analytical framework striking the proper balance between safeguarding the integrity of the attorney-client privilege and honoring this state's vigorous and necessary conflict rules.”139

The court “reject[ed] the Draconian rule adopted in other jurisdictions that automatically imputes conflicts of interest to in-house counsel,” finding no textual support for that rule in Georgia’s rules of professional conduct and concluding that such a rule would increase[] the cost of privileged advice by requiring firms to either retain outside counsel or hastily withdraw from the representation. Additionally, this approach “discourage[s] firms from seeking early advice when problems with clients arise … .” thereby precluding a robust and frank assessment of potential conflicts and undermining conformity with ethical obligations. And the firm's “duty of loyalty to the client does not prevent the firm from attempting to defend against client claims” because the effort to defend “is no more ‘disloyal’ when it involves inside rather than outside counsel.”140

In the court’s view, Georgia law would not place a law firm “in the perilous position of having their lawyers withdraw prematurely or without careful advice”141 That would be the effect were the bright line rule adopted by some courts applied to facts like those in this case:

A lawyer who has a nonwaivable conflict of interest with a client no doubt must withdraw, but a firm concerned with whether a client has a malpractice claim against it will often need to carefully consider that question. Yet, a lawyer who must withdraw clearly cannot do so in a way that violates his ethical obligations to the client. What then is a conflicted lawyer to do when there are multiple on-going representations and, despite the lawyer's reasonable efforts, replacement counsel is unable to quickly step in

138 Id. In particular, it found “no overt support within our prior case law, statutes, or rules of professional conduct to warrant adopting the sweeping, bright-line rule of automatic imputation of conflicts of interest to in-house counsel.” Id. n.29.
139 Id. at 619, citing Elizabeth Chambliss, supra note 16, 80 NOTRE DAME L. REV. at 1745(II)(C).
140 Id. at 620 (footnotes omitted).
141 Id.
and take over the representation? In such a situation, the conflicted lawyer finds himself in the awkward position of either hastily withdrawing in violation of the professional rules of conduct, having to consult with (and hire) outside counsel, or risk waiver of the privilege.\footnote{Id.}

The court concluded that conflicts ought not to be imputed to the firm’s in-house counsel who has no individual conflict, if counsel’s role properly established the firm as counsel’s sole client on risk-management matters.\footnote{Id. at 621-22.} The court agreed with the ABA ethics committee that consultation with in-house counsel “does not give rise to a per se conflict of interest between the firm and its client, although a personal conflict will arise if the principal goal of the … consultation is to protect the interest of the consulting lawyer or law firm from the consequences of a firm lawyer's misconduct.” In that situation, “the representation may continue only if the client gives informed consent.”\footnote{Id. at 623 (footnotes omitted), quoting ABA COMM. ON ETHICS & PROF’L RESP., FORMAL OP. 08-453, at 6. See discussion at notes __, infra.}

If a situation arises requiring informed consent “if the firm fails to provide ‘adequate notice to the client of the firm's potentially adverse interests, the firm has no argument for waiver of firm counsel's imputed conflict.’”\footnote{Id. (footnote omitted), quoting Elizabeth Chambliss, supra note __, 80 NOTRE DAME L. REV. AT 1750 (II) (D).}

Because the trial court had applied the bright line rule that the court of appeals rejected, it remanded the case to the trial court for further fact finding and exercise of discretion under the proper standard:

On remand, the trial court should evaluate whether the communications at issue otherwise meet the standard for attorney-client privilege. In reaching this determination, “the trial court should consider the totality of the circumstances” and “[i]n addition to the requirement that an attorney-client relationship exists, relevant factors generally include, but are not limited to, the nature and purpose of the communication and how and to whom the communication was made.”
If the communications in question meet the foregoing standard, the court should then evaluate whether the attorneys with whom those communications were made satisfy the above-described criteria such that the in-house attorney was and remained completely segregated from the underlying matter or that the client has waived any conflict or imputed conflict after having such conflict disclosed to it prior to any agreement to continue the representation. If so, the usual rules of privilege will attach. If not, then the trial court should conduct an in camera review of SSW's requested discovery and the items on Hunter Maclean's privilege log and require production of communications that implicate the conflict of interest—i.e., those discussing claims the client might have against the firm, known errors in the firm's representation of the client, conflicts in its representation, and other circumstances that would have triggered the firm's duty to advise the client and obtain the client's consent.146

4. **RFF Family Partnership, LP v. Burns & Levinson, LLP**

*RFF Family Partnership, LP v. Burns & Levinson, LLP*147 is a malpractice suit. The law firm, B&L, represented a financier, RFF, who was to provide a $1.4 million loan to be secured by a first mortgage.148 There were purported preexisting liens in the amount of $2.7 million, which were neither discharged nor subordinated.149 According to B&L, the validity of these liens was disputed and the law firm procured title insurance with no exception for them, so that the title insurer, rather than RFF, assumed the risk of their validity.150 But RFF claims that it was not informed of the existence of these purported liens.151

The borrower defaulted. An assignee of one of the disputed mortgages sought to enjoin the foreclosure in Land Court, but B&L defeated that attempt and RFF completed the

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146 *Id.* at 624-25 (footnotes omitted).
148 Memorandum and Order on Plaintiff’s Motion To Compel and Defendants’ Motion for Protective Order (“RFF Order”), at 1, *RFF Family P’ship, LP v. Burns & Levinson, LLP*, Civil Action No. 12-2234-BLS1 (Mass. Super. Ct.).
150 *B&L Br.*, at 5-6.
151 *RFF Order*, 3; *RFF Br.* at 4-5.
According to B&L, the assignee’s Land Court suit was then submitted to the title insurer, which retained Richard E. Briansky of Prince Lobel Tye, LLP (“PLT”) to represent RFF in that suit. B&L continued to represent RFF in transactional matters while PLT represented it in the Land Court action.

Almost a year after PLT began representing RFF, it sent a demand letter to B&L, accusing it of negligently failing to disclose the purported liens and failing to obtain their subordination. B&L lawyers consulted with David Rosenblatt, whom the trial court found to be functioning as in-house counsel. B&L then sent a copy of the demand letter to RFF’s principal, with notice that it would be withdrawing. In response, RFF said that PLT had no authority to pursue or threaten a malpractice claim and requested B&L to continue its representation, which it did. B&L also sent PLT a letter denying any malpractice. B&L claims that PLT then sent a letter confirming RFF’s desire to have B&L continue to represent it.

According to B&L, PLT, on behalf of RFF, sued the parties with claims under the disputed liens, and B&L cooperated in that suit, which, as this is written, is awaiting decision after trial in federal court.

PLT, on behalf of RFF, filed this malpractice action against B&L and sought all of its internal communications regarding RFF. The trial court ordered production of documents relating to consultations with in-house counsel because B&L failed to provide a privilege log.
But it allowed the privilege to be asserted in the deposition it also compelled.\textsuperscript{162} As did the Garvy court, the trial court concluded that the fiduciary exception to the privilege does not apply to consultations seeking advice for the fiduciary’s own benefit, as opposed to the ordinary affairs of the fiduciary office. It reasoned that, with respect to advice which one attorney seeks from another regarding a claim or potential claim for malpractice,

the first attorney seeks the second’s legal advice solely for the first attorney’s guidance and benefit, at his or her own expense. The first attorney’s interests are, or may be, adverse to his client’s perhaps to the point of requiring withdrawal. Before the first attorney can make a fully informed decision concerning the appropriate course, however, s/he may be well advised to consult counsel who may be better schooled in ethical rules, and will almost certainly be better capable of dispassionate analysis of the problem at hand.\textsuperscript{163}

Compelled disclosure of communications to the lawyer’s ethics counsel does little to advance the interests of the client (who is owed disclosure of the material facts whether or not the first attorney has consulted counsel), but does much to undermine the important societal goals served by the attorney-client privilege…. Ultimately, it is usually in the best interests of both the first attorney and of the client that the ethical issues be examined by a competent advisor who has been fully informed of all relevant facts, with none withheld out of fear that the consultation will not remain private.\textsuperscript{164}

RFF appealed and the appeal was transferred to the Massachusetts Supreme Judicial court.

\textbf{II. Garvy Was Correctly Decided}

Because Garvy has a clearly determined set of facts and presents the clearest case for upholding the privilege, it will be analyzed first. Moreover, the analysis will assume, as essentially all cases on this issue have assumed, that the issue is purely one of common law,

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\textsuperscript{162} RFF Order, at 5-11. \\
\textsuperscript{163} RFF Order, at 9. \\
\textsuperscript{164} RFF Order, at 10.
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where the courts are free to shape the law as they think best. But attorney-client privilege is part of the law of evidence. In most states, evidence law generally, and the law of attorney-client privilege in particular is codified in statutes or rules. Unless the applicable statute or rule authorizes an exception, it may limit the freedom of the courts to create one. The effect of codification will be discussed in the final section of this article.

A. The Fiduciary Duty Exception to the Privilege Would Not Apply on the Facts in *Garvy*

Courts allowing a then-current client to pierce a law firm’s privilege for communications with its counsel have relied, in part, on the so-called fiduciary exception to the privilege. The Illinois Appellate Court had described the nature and origins on that exception as follows:

The fiduciary-duty exception arose in the context of trust law, and was historically based on the principle that the true owner of a trust is the trust's beneficiary, who possesses all of the legal rights associated with the trust and toward whom the trustee has a fiduciary duty. Accordingly, English common law held that “when a trustee obtained legal advice relating to his administration of the trust, and not in anticipation of adversarial legal proceedings against him, the beneficiaries of the trust had the right to the production of that advice.” “The theory of the rule was that the trustee obtained the advice using both the authority and the funds of the trust, and that the benefit of [the] advice regarding the administration of the trust ran to the beneficiaries.” In essence, the beneficiary, not the trustee, was the true “client” of the attorney, and so was the real possessor of the attorney-client privilege. The beneficiary could therefore discover the communications between the attorney and the trustee without being subject to assertion of the attorney-client privilege.165

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Illinois has not yet adopted this exception. *Mueller*, 927 N.E.2d at 807; *Garvy*, ¶ 35. And some courts have refused to recognize it. Thus, the Supreme Court of Texas held that “[t]he attorney-client privilege serves the same important purpose in the trustee-attorney relationship as it does in other attorney-client relationships.” Huie v. DeShazo, 922 S.W.2d 920, 924 (Tex. 1995). *Accord* Wells Fargo v. Super. Ct., 990 P.2d 591, 595-97 (Cal. 1997). It has also been
As the Garvy court concluded, the fiduciary-duty exception would not have applied in Garvy, even if Illinois were to recognize it, because that the exception “is limited by the requirement that the subject of the communications with the attorney was the ordinary affairs of the trust or corporation: if the communications concern the personal liability of the fiduciary or were made in contemplation of adversarial litigation, the exception does not apply.”166 All of the communications at issue in Garvy “concern[ed] the personal liability of the [law firm],” and they were made after the potential for liability had been identified and disclosed to Peter.

Moreover, application of the fiduciary exception must be considered on a communication-by-communication basis. The Ninth Circuit so held in United States v. Mett,167 reversing a criminal conviction for improper admission of privileged communications. The law firm had represented a corporation, its employee benefit plan, and corporate executives (including the sole shareholder). The executives were also pension plan trustees, and they transferred plan assets into the corporation’s accounts (purportedly as a loan). They then consulted the law firm about the personal consequences of their conduct. They were later prosecuted for embezzlement, and those communications with counsel were admitted into evidence under the fiduciary exception.

The Ninth Circuit observed that the English case which was the origin of the fiduciary exception distinguished between two pieces of advice from the same lawyer, requiring the lawyer to produce advice on the propriety of the trustees’ paying advances to the testator’s children, but permitting him to withhold advice, received after suit was brought, addressing “’how

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166 Mueller, 927 N.E.2d at 807 citing United States v. Mett, 178 F.3d 1058, 1063-64 (9th Cir. 1999).
167 Mett, 178 F.3d at 1063.
Thus, otherwise-privileged communications about the ordinary affairs of the fiduciary res are available to the beneficiary, but “[w]hen a legitimate personal interest does emerge--such as when a corporate manager is sued by shareholders--the manager then becomes entitled to legal advice which is not discoverable by the shareholders.”

In Mett, as in Garvy, no suit had been brought when the relevant communications occurred, but they were nevertheless protected:

Both the context and content of the Foley memoranda indicate that they ought to have been treated as privileged matter. As for the context of the legal advice, it came in the midst of CAG's financial crisis and hard on the heels of the federal investigation that resulted in the defendants' conviction for art fraud. Although no legal action was then pending against the defendants in connection with the pension plans, CAG employees had begun asking difficult questions regarding the financial condition of the plans. Trouble was in the air. The defendants thus had good reason to seek advice from Foley regarding their personal exposure to additional civil and criminal liabilities arising from the pension plan withdrawals.

The content of the relevant communications was “plainly ‘defensive on the trustees’ part.” In no way was it advice regarding the administration of the plan.

In Mett, the government urged application of the fiduciary exception to defeat the privilege whenever the advice relates to fiduciary matters. The Ninth Circuit rejected that argument, because the exception would then threaten to swallow the privilege and so broad an exception would be unmoored from the rationale for limiting the privilege. It reasoned that “where the attorney-client privilege is concerned, hard cases should be resolved in favor of the privilege, not in favor of disclosure,” because “[a]n uncertain privilege, or one which purports to be certain but results in widely varying applications by the courts, is little better than no privilege

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168 178 F.3d at 1063, quoting Talbot v. Marshfield, 12 L.T.R. 761, 762 (Ch. 1865).
170 Mett, 178 F.3d at 1064.
171 Id. at 1063 (quoting Riggs Nat’l Bank v. Zimmer, 355 A.2d 709, 711 (Del.Ch.1976)).
Additionally, denying the privilege would likely lead ERISA trustees to forego legal advice, and that might hurt plan beneficiaries, because well-counseled trustees who understand their duties can better comply with those duties.

Nor could the trustees be deemed to have waived protection of the privilege by not using an independent counsel, who did not also represent the benefit plan:

the application of the fiduciary exception is not simply a question of conflict of interest, resolved “by multiplying the number of lawyers.” In other words, it is not the terms of an engagement letter, but rather the nature of the particular attorney-client communication that is dispositive. This communication-by-communication analysis, while perhaps untidy, is crucial if the attorney-client privilege and the fiduciary exception are to coexist. On the one hand, the attorney-client privilege demands that a communication, obtained for a trustee's own protection, be shielded from disclosure. The force of this general proposition is undiminished, irrespective of whether the attorney consulted also did work for the plan. By the same token, the beneficiaries are entitled to inspect communications regarding plan administration, whether or not the attorney dispensing the advice is generally consulted regarding nonfiduciary matters. In the words of the Second Circuit, “[a]n employer's retention of two lawyers (one for fiduciary plan matters, one for non-fiduciary matters) would not frustrate a plan beneficiary's ability to obtain disclosure of attorney-client communications that bear on fiduciary matters.”

Thus, the fiduciary exception to the privilege provides no basis for requiring the law firm to consult only with outside counsel and avoid consulting its in-house counsel.

In Garvy, as in Mett, the communications at issue were entirely defensive, concerning claims that past actions might have given rise to liability. In no sense did they relate to the ongoing conduct of Seyfarth’s representation of Peter. Consequently, the fiduciary exception did not apply and the privilege remains intact.

172 Id. at 1065 (quoting Upjohn Co. v. United States, 449 U.S. 383, 393 (1981)).
173 Id. at 1065-66 (citations omitted) (quoting Becher v. Long Is. Lighting Co. (In re Long Is. Lighting Co.), 129 F.3d 268, 272 (2d Cir.1997)).
There is also a related rule that leads to the same conclusion. In formulating the fiduciary exception, the Restatement provides that the exception applies only where the relevant attorney-client “communication occurred prior to the assertion of the charges.”

In Garvy, the communications at issue occurred after Seyfarth had notified Peter of the conflict and, in almost all cases, after Horwich had asserted the malpractice claim.

Once the existence of the dispute is fully known to the beneficiary (as it was in Garvy), both beneficiary and fiduciary can take steps to protect their own interests and it would be unfair to deny the fiduciary the ability to obtain privileged advice. It would be especially unfair in the circumstances in Garvy, where Peter was informed of the possible malpractice, was required to obtain and did obtain independent legal advice, asserted a malpractice claim, and then repeatedly asked Seyfarth to continue representing him and thereby waived the conflict arising from his potential claim. By agreeing to continue the representation, Seyfarth should not be deemed to have waived or forfeited its right to prepare a defense with the same confidentiality as Peter was entitled to in preparing to prosecute his claims.

Thus, even apart from inapplicability of the flaws in Peter’s arguments for piercing the privilege, the Garvy court properly ruled that

Garvy cannot have it both ways. He cannot insist that Seyfarth continue to represent him in the chancery litigation while he has malpractice claims pending against Seyfarth, but then use that continued representation to insist that Seyfarth produce all documents related to legal advice sought in relation to the malpractice claims generated during that time.

None of the cases barring law-firm privilege for consultations with in-house counsel have engaged in more than conclusory analysis or considered the implications of the limits to the fiduciary exception developed in the case law just described. Nor did Valente, on which all of

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them relied, directly or indirectly. Those cases ought not to be followed without analysis which does consider those limits and their implications. On the facts of Garvy, those limits preclude application of the fiduciary exception. So, the privilege was properly upheld, unless barred by a conflict of interest, apart from the fiduciary exception.

B. A Conflict of Interest Did Not Forfeit Seyfarth’s Attorney-Client Privilege Regarding Communications About Its Potential Liability to Peter, Especially After the Conflict Had Been Fully Disclosed.

The cases denying privilege for communications with in-house counsel rely heavily on what they see as a conflict of interest when firm counsel advises regarding possible obligations to a current client. In Garvy, Peter argued that existence of a conflict was a basis to deny privilege independent of the fiduciary exception, though he confused that argument by characterizing firm counsel’s representation of the firm as either “common” or “conflicting.” The Garvy court never directly addressed the argument based on conflict, though many of its conclusions on the fiduciary exception also bear on the conflict argument. In any event, analysis of the conflict argument does not support any different result.

1. There Is No Conflict When a Lawyer or Law Firm Seeks Legal Advice from In-House Counsel To Assure Compliance with Its Legal Obligations.

In-house counsel offer attorneys and clients multiple advantages. For example, in-house attorneys can help advise a firm’s attorneys on legal and ethical compliance in response to client behavior, assist firms to correct any mistakes that may occur in a timely fashion to alleviate harm to clients, and help firms navigate and reconcile a complex web of client and public disclosure or

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176 See also Elizabeth Chambliss, supra note 16, 80 NOTRE DAME L. REV. at 1741 (criticizing all of the current-client cases as “misapply[ing] Garner in two important respects, such that the denial of privilege is even broader than Garner would demand. First, the cases rely on Valente, and Valente gets Garner wrong.” Garner established a balancing test in which the party seeking the information had the burden of showing good cause, while Valente reverses the burden. Second, the current-client cases ignore the distinction in Garner between communications before assertion or disclosure of the charges and communications after that.)

other obligations. In-house counsel also can benefit clients by providing attorneys with ready access to advice concerning the permissibility of attorneys’ fees arrangements and the existence of potential conflicts.

Both the American Bar Association and the New York State Bar Association have concluded that consultation with law firm in-house counsel about a current representation involves no inherent conflict of interest. As the ABA explained:

A lawyer's effort to conform her conduct to applicable ethical standards is not an interest that will materially limit the lawyer's ability to represent the client. On the contrary, "it is inherent in that representation and a required part of the work of carrying out the representation. It is, in other words, not an interest that 'affects' the lawyer's exercise of independent professional judgment, but rather is an inherent part of that judgment." For example, a lawyer who is asked by a client to undertake a course of action that the lawyer fears might be criminal or fraudulent would be well-advised to consult with in-house ethics counsel on the propriety of following the client's direction. Although the lawyer has an interest in avoiding conduct that will violate her own ethical duties, the consultation also serves the legitimate purpose of enabling the lawyer to advise a firm client about the legality and wisdom of the proposed course of action and about other available options. In situations such as this, where the lawyer is seeking prophylactic advice to assist in her representation of the client, there is no significant risk that the lawyer's ability to consider, recommend, or carry out an appropriate course of action for the client will be materially limited by the lawyer's interest in avoiding ethical misconduct.

The New York State Bar Association reached the same conclusion:

[a] lawyer's interest in carrying out the ethical obligations imposed by the Code is not an interest extraneous to the representation of the client. It is inherent in that representation and a required part of the work in carrying out the representation. . . . It is too much a part of the fabric and tradition of legal practice to require specific disclosure and consent.

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178 See generally Elizabeth Chambliss, supra note ____, 80 NOTRE DAME L. REV. at 1722-24.
179 See id.
180 ABA COMM. ON ETHICS & PROF’L RESP., FORMAL OP. 08-453, at 2-3 (footnotes omitted).
Accordingly, “[a] law firm may form an attorney-client relationship with one or more of its own lawyers to receive advice on matters of professional responsibility concerning ongoing client representation(s), including on matters implicating the client’s interests, without thereby creating an impermissible conflict between the law firm and the affected client(s).”182 This is a fundamental principle that bears repeating: the procurement of legal advice from other lawyers within the law firm does not automatically create a conflict with the representation of the existing client. Rather, the “carrying out [of] ethical obligations” by the attorney seeking the advice actually benefits the interests of the client and therefore should not be discouraged by the courts.

This analysis applies, inter alia, to advice sought for the purpose of determining whether a conflict has arisen requiring the lawyer to withdraw from the representation or to seek the client’s informed consent for continued representation. But a different analysis becomes applicable once the firm has concluded that a client may have a malpractice claim against it.183 That requires consultation with the client about the implications of that possibility and the conflict it creates for the lawyer’s continued representation.184 In Garvy, of course, that consultation occurred when Seyfarth informed Peter of the conflict and directed him to consult independent counsel, which he did.

As the ABA opinion summarizes:

Consent of the client is not required before a lawyer consults with in-house ethics counsel, nor must the client be informed of the consultation after the fact. The consultation does not give rise to a per se conflict of interest between the firm and its client, although a personal interest conflict will arise if the principal goal of the ethics consultation is to protect the interest of the consulting lawyer or law firm from the consequences of a firm lawyer's

182 See id. at p. 1 (Digest).
183 See, e.g., Benjamin P. Cooper, The Lawyers’s Duty To Inform His Client of His Own Malpractice, 61 BAYLOR L. REV. 174 (2009).
184 See ABA FORMAL OP. 08-453, at 2.
misconduct. In that event, the representation may continue only if
the client gives informed consent.\textsuperscript{185}

This analysis was accepted by the courts in \textit{Thelen}\textsuperscript{186} and \textit{SONICblue}\textsuperscript{187} and does not
appear to have been considered by the earlier cases. The circuit court in \textit{Garvy} also accepted this
analysis, so there was no issue on appeal regarding any of Seyfarth’s communications prior to
the letter informing Peter of the conflicts that would affect any representation in the chancery
action. Nonetheless, the point is worth noting both because it is generally important to law firm
in-house counsel and because it would impact some of the pre-\textit{Thelen} cases.

2. The Privilege in \textit{Garvy} Was Not Vitiated by any Conflict of Interest.

After the November 3, 2004 letter, Seyfarth’s consultations with Woodford and Jenner &
Block were directed to defending or settling Peter’s claim. Those consultations did involve a
conflict. As the ABA explained, “when the principal purpose of the consultation is to protect the
interests of the consulting lawyer or the firm (typically for action already taken), the risk that the
consulting lawyer's representation of the firm's client will be materially limited may be
significant.”\textsuperscript{188}

But even where there is a conflict, it does not follow that the result is forfeiture of the
privilege. The cases denying privilege for consultations with in-house counsel cite little
authority (and that ill-reasoned and inapposite) and offer no analysis to support imposing such a
forfeiture. Others who have considered this precise problem have found such a forfeiture
unwarranted.

\textsuperscript{185} Id. at 6.
\textsuperscript{187} SonicBlue Claims LLC v. Portside Growth & Opportunity Fund (In re SonicBlue Inc.), Adv.
18, 2008).
\textsuperscript{188} ABA FORMAL OP. 08-453, at 3.

The Restatement rejects the “conflict” theory by concluding that a law firm ought to be able to assert the attorney-client privilege against existing clients:

[a] lawyer may refuse to disclose to the client certain law-firm documents reasonably intended only for internal review, such as a memorandum discussing . . . the firm’s possible malpractice liability to the client. The need for lawyers to be able to set down their thoughts privately in order to assure effective and appropriate representation warrants keeping such documents secret from the client involved.189

These conclusions are supported by well-reasoned cases that have considered the effect of a conflict on the privilege, albeit not in the context of law-firm counsel. A leading case is *Eureka Investment Corp. v. Chicago Title Insurance Co.*190 Chicago Title had insured the title of an apartment building that Eureka wished to convert to condominiums, and the insurance covered the enforcement or attempted enforcement of local legislation granting tenants certain rights. Eureka was represented in the condo conversion by its long-time counsel, Fried Frank. Tenants obtained an injunction and Chicago Title agreed to the retention of the firm to handle the litigation, thereby becoming a joint client with Eureka in that litigation. Chicago Title wanted to defend the litigation and Eureka wanted to settle and get on with the conversion. Eureka settled and sued Chicago Title, obtaining a verdict in its favor. On appeal, Chicago Title contended that Eureka had breached its duty of cooperation by colluding with Fried Frank to settle and sue Chicago Title, at a time when Fried Frank was representing Chicago Title and owed it a duty of loyalty. In connection with that argument, it contended that the district court had erred in sustaining Eureka’s claim that its communications with Fried Frank on that subject were

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privileged. In essence, it claimed (similarly to Peter’s claim in Garvy) that Fried Frank’s conflict of interest vitiated the privilege.

The D.C. Circuit disagreed. It framed the dispute as one regarding application of two principles stated by Wigmore. One the one hand, “‘a communication by A to X as the common attorney of A and B, who afterwards become party opponents, is not privileged as between A and B since there was no secrecy between them at the time of communication.’”\(^\text{191}\) On the other hand,

\[\text{[a] communication by A to X as A's attorney, X being then also the attorney of B, now become the party opponent, is ordinarily privileged because of the relation of X toward A. Nor does the fact of A's knowledge that X is already B's attorney, nor the fact of B's being already adversely interested destroy the privilege. This is so because, although X ought not to undertake to act for both in any matter where there is a possibility of adverse interests, nonetheless A is protected by reason of the relation.}\(^\text{192}\)

The D.C. Circuit concluded that the second principle applied here:

First, Wigmore's first principle presupposes the absence of secrecy between the parties at the time of communication. Here, although there was no secrecy with respect to the defense of tenant claims, Eureka assuredly was concealing from CTI its consideration of legal action against the latter. Second, and closely related, Wigmore's first principle presupposes that the communication at issue was made in the course of the attorney's joint representation of a “common interest” of the two parties. Here, although Fried, Frank was representing Eureka and CTI in a matter of common interest at the time the communications at issue were made, those communications were not made in the course of its representation on that matter; indeed, they were made in the course of representation distinctly not in the interest of CTI. The policy behind Wigmore's first principle—to encourage openness and cooperation between joint clients—does not apply to matters known at the time of communication not to be in the common interest of the attorney's two clients.\(^\text{193}\)

\(^{191}\) *Id.* at 936-37 (*quoting J. Wigmore, Evidence*, § 2312, at 603-09 (McNaughton rev, ed 1961)).

\(^{192}\) *Id.* at 937 (*quoting J. Wigmore, supra*, at 608).

\(^{193}\) *Id.*
Accordingly, the court concluded, “[g]iven Eureka's expectations of confidentiality and the absence of any policy favoring disclosure to CTI, Eureka should not be deprived of the privilege even if, as CTI suggests, the asserted attorney-client relationship should not have been created.”194 The same principle applies in Garvy, even if Seyfarth ought not to have undertaken to represent itself in preparing to defend Peter’s claim. In Garvy, there is no policy to encourage openness and cooperation between Peter and Seyfarth regarding Peter’s claim against Seyfarth. Notwithstanding its continued representation of Peter in the underlying matter, Seyfarth had a right (once it had notified Peter of the conflict) to defend itself against Peter’s claims. In particular, Seyfarth had a right, for that purpose, to have privileged communications not available to Peter. Certainly, Peter was not offering to disclose his own privileged communications on that subject.

*Eureka* was followed on this point by *In re Teleglobe Communications Corp.*195 This was a dispute between subsidiaries (the “Debtors”) of a bankrupt corporation, Teleglobe, and its former parent, Bell Canada Enterprises (“BCE”) regarding BCE’s decision to cease funding projects of Teleglobe. That decision was the result of a review referred to as “Project X.” BCE’s in-house counsel had represented Teleglobe on various matters where Teleglobe and BCE had common interests, but had advised BCE alone on Project X. Teleglobe now sought to discover privileged communications relating to Project X, but the Third Circuit reversed an order to produce. It applied

[t]he guiding principle of *Eureka* ... that when an attorney errs by continuing to represent two clients despite their conflicts, the clients--who reasonably expected their communications to be secret--are not penalized by losing their privilege. Indeed, Eureka is merely one in a line of cases that hold that communications

194 *Id.*
195 *In re Teleglobe Comm’c’s Corp.*, 493 F.3d 345 (3rd Cir. 2007).
outside the scope of the joint representation or common interest remain privileged.\textsuperscript{196}

By the same token, even if Seyfarth’s self-representation in preparing a defense had been improper, that should not produce forfeiture of its privilege regarding that representation. \textit{Valente} and other cases holding that a conflict vitiates the privilege took no account of either the \textit{Eureka Title} line of authority or the \textit{RESTATEMENT}’s treatment of this issue. Moreover, \textit{Valente}, on which all the other cases directly or indirectly relied, mistakenly applied the rules governing joint representations to a situation involving a separate representation of Pepsico on a matter where the subsidiary shareholder plaintiffs did not share a common interest with Pepsico. Given their inadequate and mistaken analysis, those cases are not persuasive.

b) \textbf{Conflicts of the Lawyers Representing the Client Ought Not Automatically Be Imputed to Firm Counsel Not Involved in That Representation}

The usual rule is that all lawyers in a firm are deemed to represent each of its clients, and any conflicts of one lawyer are imputed to the others.\textsuperscript{197} But application of that principle to firm in-house counsel not involved in representing the client is questionable. If obtaining privileged advice requires consultation with outside counsel or withdrawal from the representation, that both increases the cost of obtaining such advice and discourages seeking it early, when there may be the best chance to avoid or mitigate any problems. Moreover, as Prof. Chambliss explains:

\begin{quote}
Requiring the firm to obtain outside counsel or withdraw from the representation also does not serve the interests of the outside client. Certainly, the client is no better off if the firm
\end{quote}

\textsuperscript{196} \textit{Id.} at 381. \textit{Accord} Douglas R. Richmond, \textit{supra} note 7, 54 \textit{SYRACUSE L. REV.} at 100-01 (“To be sure, a firm that attempts to continue to represent a client in a matter after being threatened with malpractice liability or otherwise being accused of misconduct may suffer a disqualifying conflict of interest. But the consequences of the firm's conflict of interest ought to be limited to its withdrawal from the representation and the financial detriment that surely accompanies the cessation of work for the client; the disgorgement or forfeiture of fees earned in the representation, perhaps enhanced tort liability, disciplinary action against deserving lawyers by the appropriate professional authorities, or some combination of these” (footnotes omitted)).

\textsuperscript{197} \textbf{MODEL RULES OF PROF’L CONDUCT}, R. 1.10 (2011).
retains outside counsel. And the client's interests may be seriously harmed by encouraging the firm to withdraw at the first hint of a problem because withdrawal limits the firm's opportunity (and incentive?) to mitigate harm to the client.\textsuperscript{198}

The arguments for imputing conflicts to all lawyers are based on the duty of each to be loyal to all firm clients. But “the firm's duty of loyalty to the client does not prevent the firm from attempting to defend against client claims. This effort to defend is no more ‘disloyal’ when it involves inside rather than outside counsel.”\textsuperscript{199}

If there is no imputation in this context where imputation would further no one’s interest, then firm counsel has no conflict, and any consequences of a conflict would no longer matter.

c) The Conflict in Garvy Was Waived

In any event, analysis of the consequences of improper representation is beside the point, because Seyfarth’s self-representation in preparing a defense was not improper. Peter, through his independent counsel, repeatedly and expressly waived the conflict created by the prospective malpractice claim.

Without a waiver, any effort by Seyfarth to defend itself while actively continuing to represent Peter arguably would have been impermissibly disloyal to Peter.\textsuperscript{200} The waiver did not excuse Seyfarth from the obligation of loyalty to Peter in defending the litigation brought by his siblings. But it surely permitted Seyfarth to begin preparing a defense and for negotiations with Peter about a possible settlement. Because Seyfarth could properly act as a client in preparing its

\textsuperscript{198} Elizabeth Chambliss, supra note 16, 80 NOTRE DAME L. REV. at 1747-48 (footnotes omitted).
\textsuperscript{199} Id. at 1748.
\textsuperscript{200} Defensive efforts during the period while Peter was deciding whether to request continued representation and while no representational activity was occurring would seem permissible. If Peter chose to seek representation elsewhere, the effect would be the same as if Seyfarth had withdrawn upon giving notice. If Peter waived the conflict and continued the representation, it would hardly matter that some of the defensive activity occurred before the waiver was received. On the facts in Garvy, there was no need to consider what rule would apply had Garvy refused to waive the conflict but required Seyfarth to continue representing him until substitute counsel could be obtained.
own defense, it was no more disloyal to act as its own counsel. Absent impermissible disloyalty, any argument for forfeiture of the privilege collapses.

The fact that the conflict in Garvy was fully disclosed and expressly waived also distinguishes Garvy from Mueller Industries, Inc. v. Berkman, where the Illinois Appellate Court found a joint representation that might defeat any privilege between the parties. There, a corporate executive used corporate counsel to engage in undisclosed self-dealing with respect to corporate matters. As the Mueller Industries court also held, the crime-fraud exception also applied to bar privilege claims. Whatever the justification for finding an unexpected joint representation in that context, there is no such justification in Garvy.

3. Seyfarth’s Fiduciary Duty of Disclosure Did Not Preclude It From Having Confidential Communications with Counsel


(1) Waste Management Protected from Disclosure Documents Analogous to Those That Were the Subject of the Garvy Appeal

In challenging the Appellate Court’s decision, Peter did not rely on the fiduciary duty exception to the privilege. Rather, he relied on the proposition that an attorney is under a fiduciary duty to disclose all material facts regarding the relationship. He further argues that, under Illinois law, “it is the attorney-client privilege, not the duty to disclose, that is the exception.” Accordingly, he contended that, even when Seyfarth lawyers consulted outside counsel at Jenner, “they could not have had any reasonable expectation of keeping their

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202 Id. at 807-09.
communication confidential from their client.” Portions of his argument relied on the cases holding that a conflict of interest precludes any privilege for communications with in-house counsel, but Peter’s argument went considerably further. And no case has ever gone as far in precluding a fiduciary’s (including a law firm’s) reliance on the attorney-client privilege, as Peter asked the Illinois Supreme Court to do here.

Peter relied on Waste Management, Inc. v. International Surplus Lines Insurance Co., a case in which the Illinois Supreme Court limited assertion of the attorney-client privilege in a way not accepted elsewhere. So, even if Waste Management supported preclusion of the privilege in Garvy, that would likely have little impact outside Illinois. But Waste Management does not support that result.

Waste Management involved a dispute about insurance coverage for liability relating to disposition of hazardous wastes. The policies provided that the insurers had the right but not the duty to defend. Waste Management was sued in the Miller case, which it defended and settled, seeking indemnification for $2,150,000 in settlement costs and $850,000 in defense costs. The prior owners of the site involved in the Miller case sued Waste Management (in the Nunn case), and Waste Management counterclaimed, obtaining a judgment for $10,675,342.17 and settling

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205 Id. at 18.
206 Id. at 10-11.
with some of the prior owners for payment of $1.5 million. The insurers denied coverage and this litigation ensued.\textsuperscript{209}

The insurers requested defense counsel’s files in both cases, and Waste Management withheld many documents based on claims of privilege and work product. The circuit court ordered production of the documents relating to the \textit{Miller} case but not the \textit{Nunn} case. Counsel for Waste Management stood in contempt and appealed. The Appellate Court reversed in part, calling for an in-camera review of both files.\textsuperscript{210} The Illinois Supreme Court held that the attorney-client privilege did not apply to the case at all as to the files in the underlying cases.\textsuperscript{211} But the privilege did apply to communications in preparation for the coverage action, and the circuit court should conduct an in-camera review to distinguish between the two types of documents.\textsuperscript{212}

The insurers argued that the privilege did not apply because Waste Management and placed the contents of the files “at issue” by filing the coverage action. The supreme court agreed that this was true: “Indeed, it is the very conduct of defense counsel in the underlying litigation which is the basis of insurers’ declaratory judgment action and its defense to insureds' declaratory judgment action. We therefore agree that defense counsel's litigation files in the underlying cases are … at issue in the present [coverage] action.”\textsuperscript{213} But the court went on to place its decision on broader grounds.

First, it agreed with the insurers that, “in light of the cooperation clause in the insurance policy, the attorney-client privilege is unavailable.”\textsuperscript{214} The cooperation clause requires the

\textsuperscript{209} Waste Management, 579 N.E.2d at 324-25.
\textsuperscript{210} Id. at 325.
\textsuperscript{211} Id. at 329. It also held that the work product protection did not apply, because defense counsel’s files were “at issue.” Id. at 331.
\textsuperscript{212} Id. at 332.
\textsuperscript{213} Id. at 327.
\textsuperscript{214} Id.
insured to “‘give all such information and assistance as the insurers may reasonably require.’”

As the court viewed the contract, even if there were no cooperation clause, the same obligation would be implied. As the court explained,

Typically, the insurer has little or no knowledge of the facts surrounding a claimed loss, while the insured has exclusive knowledge of such facts. The insurer is, therefore, dependent on its insured for fair and complete disclosure; hence, the duty to cooperate. While the insured has no obligation to assist the insurer in any effort to defeat recovery of a proper claim, the cooperation clause does obligate the insured to disclose all of the facts within his knowledge and otherwise to aid the insurer in its determination of coverage under the policy. The insurer is entitled, irrespective of whether its duty is to defend or to indemnify, to gain as much knowledge and information as may aid it in its investigation, or as may otherwise be significant to the insurer in determining its liability under the policy and in protecting against fraudulent claims. To hold otherwise effectively places the insurer at the mercy of the insured and severely handicaps it in contesting a claim.

Consequently, the court concluded that “[a] fair reading of the terms of the contract renders any expectation of attorney-client privilege, under these circumstances, unreasonable. We conclude that the element of confidentiality is wanting and, therefore, the attorney-client privilege does not apply.”

The court also agreed with the insurers that the privilege was unavailable under the common interest doctrine. As the court stated the doctrine, “when an attorney acts for two different parties who each have a common interest, communications by either party to the

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215 *Id.* at 327-28.
216 *Id.* at 332 (supplemental op.). Moreover, Waste Mangagement’s “‘duty to cooperate concerning matters covered by the insurance agreement did not end with the termination of the underlying lawsuit, but rather continues for as long as insureds seek to enforce its terms, and certainly to the point when insurers were requested to perform their end of the bargain. The fact that the parties are now adverse concerning the interpretation of such terms does not negate insureds’ contractual duty.” *Id.* at 328.
217 *Id.* at 333 (supplemental op.).
218 *Id.* at 328.
attorney are not necessarily privileged in a subsequent controversy between the two parties."219

Waste Management and the insurers shared a common interest in defeating or minimizing the claim in the Miller case. While the common interest doctrine is usually applied where the parties were jointly represented by counsel, the court did not think it should be so limited:

On these facts, a less flexible application of the doctrine effectively defeats the purpose and intent of the parties' agreement. Insureds and insurers share a special relationship; they are in privity of contract. In a limited sense, counsel for insureds did represent both insureds and insurers in both of the underlying litigations since insurers were ultimately liable for payment if the plaintiffs in the underlying action received either a favorable verdict or settlement. To deny discovery in this instance would be to disregard considerations of public policy which require encouragement of full disclosure by an insured to his insurer.220

But, as previously noted, in Waste Management, the court held that neither the cooperation clause nor the common interest doctrine limited the privilege for communications in preparation for the coverage action.221 The court did not elaborate on its reasons for this holding. But, obviously, there was no common interest regarding the coverage action, where the parties would be adversaries. The cooperation duty as it applied to attorney-client communications, must have been viewed as limited to communications regarding matters of common interest (as the reasoning related to that duty would also suggest).

In Garvy, the Waste Management analysis clearly shows that the common interest doctrine cannot apply to Seyfarth’s communications in preparation for adversarial negotiations or litigation with Peter. By the same token, Waste Management’s cooperation clause analysis

219 Id.
220 Id. at 329. The Restatement applies common interest principles to mandate sharing only among co-clients. Restatement (Third) of the Law Governing Lawyers, § 75 (2000). Absent joint representation, those principles apply only where “two or more clients with a common interest … agree to exchange information.” Id. § 76(2). Thus, contrary to Waste Management, the Restatement does not permit a client to be exposed to common interest limits on the privilege unless the client has agreed to the sharing of information.
221 Waste Management, 579 N.E.2d at 332.
does not apply to those communications. The communications whose production was compelled in *Waste Management* are analogous to the communications relating to Seyfarth’s transactional representation of Peter prior to the chancery action and to its work defending that action on his behalf. Seyfarth never sought to withhold any of those communications. The communications it did withhold are similar to those *Waste Management* held protected by the privilege.

Indeed, the line drawn by *Waste Management* between documents that must be produced and those protected from disclosure is analogous to the line drawn by the fiduciary exception to the privilege, if Waste Management is analogized to a fiduciary in conducting the underlying actions for common benefit. Conduct of the underlying litigation was thus treated as the ordinary business of the common enterprise and not protected by the privilege, while preparation for litigation between Waste Management and the insurers was treated as Waste Management’s personal business and, therefore, privileged. Thus, for the same reasons the fiduciary exception to the privilege does not apply to the loss prevention documents at issue in the *Garvy* appeal, Waste Management’s declaration that the privilege does not apply is also inapplicable.

Accordingly, *Waste Management* does not support Peter’s argument for precluding the privilege. But *Waste Management* does suggest that Peter might be entitled to have an in-camera review determine whether the documents withheld related to his ongoing representation or, as Seyfarth asserts, to preparation to defend Peter’s claim against Seyfarth. Prior to the appeal, Peter does not appear to have requested such a review, but he might be able to do so in the circuit court.

(2) The Loss Prevention Documents Withheld by Seyfarth Are Not “At Issue” in the Malpractice Litigation

This conclusion is bolstered by the fact that, unlike the files at issue in *Waste Management*, the loss prevention documents withheld by Seyfarth are not “at issue” in the malpractice litigation. There is ample law on when attorney-client communications have been
placed “at issue” in litigation, and that shows that the loss-prevention communications in *Garvy* were not placed “at issue.”

Most obviously, attorney-client communications are placed at issue when the client relies on a defense of acting in accordance with advice of counsel. But, while the scope of “at issue” waiver is a matter of divided authority, the more numerous and better reasoned cases hold that “at issue” waiver cannot occur on account of the assertion of issues by the privilege holder’s opponent that would create a supposed need to examine the privileged materials to prove the opponent’s assertions. Under that test, mere pre-litigation investigation and analysis by Seyfarth firm could not place its privileged communications at issue, unless Seyfarth somehow injected those communications into this lawsuit, which Peter does not claim it has done.

A leading case is *Rhone-Poulenc Rorer, Inc. v. Home Indemnity Co.* In *Rhone-Poulenc*, the Third Circuit declined to follow authorities that have extended the waiver rule to “cases in which the client’s state of mind may be in issue.” Any such extension would be contrary to the fundamental basis of the privilege:

> While [such] opinions dress up their analysis with a checklist of factors, they appear to rest on a conclusion that the information sought is relevant and should in fairness be disclosed. Relevance is not the standard for determining whether or not evidence should be protected from disclosure as privileged, and that remains the case even if one might conclude the facts to be disclosed are vital, highly probative, directly relevant, or even go to the heart of an issue.

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224 32 F.3d. at 864.

225 32 F.3d. at 864.
Because the attorney-client privilege is intended to assure a client that he can consult with counsel in confidence, finding that confidentiality may be waived depending on the relevance of the communication completely undermines the interest to be served. Clients face the greatest risk of disclosure for what may be the most important matters. Furthermore, because the definition of what may be relevant and discoverable from these consultations may depend on the acts and circumstances of as yet unfiled litigation, the client will have no sense of certainty or assurance that the communication will remain confidential.  

Other courts have agreed with and elaborated on these points. The purpose of the privilege “is to encourage and promote full and frank consultation between a client and a legal advisor by removing the fear of compelled disclosure of information.” The privilege cannot have that effect unless the client is confident of its operation. “An uncertain privilege, or one that purports to be certain but results in widely varying applications … is little better than no privilege at all.”

226 32 F.3d. at 864. This approach is followed by most state courts and many federal courts. E.g., In re County of Erie, 546 F.3d 222, 229 (2nd Cir. 2008) (privilege not waived unless holder relies in litigation on privileged advice); Lorenz v. Valley Forge Ins. Co., 815 F.2d 1095, 1099 (7th Cir. 1987) (no special privilege rule for insurance bad faith cases); Ex parte State Farm Fire & Cas. Co., 794 So. 2d 368, 373-76 (Ala. 2001) (suit for reimbursement of attorney fees does not waive privilege; waiver occurs only when content of the privileged communications has been put in issue); Aetna Cas. & Surety Co. v. Superior Ct., 200 Cal. Rptr. 471, 476–77 (Cal. Ct. App.1984) (no implied waiver unless insurer puts its own state of mind at issue; assertion that conduct objectively proper does not do so); Hutchinson v. Farm Family Cas. Ins. Co., 867 A.2d 1, 8–9 (Conn. 2005) (insurance bad faith plaintiff’s alleged need, even if compelling, cannot justify disclosure of privileged materials); Hartford Fin. Servs. Grp., Inc v. Lake County Park & Recreational Bd., 717 N.E.2d 1232, 1235-36 (Ind. Ct. App. 1999) (fact that case involves insurance bad faith claim does not limit application of privilege); Palmer v. Farmers Ins. Exch., 861 P.2d 895, 906-07 (Mont. 1993) (even in first-party insurance bad faith cases, privilege applies unless waived and mere disclosure that advice was obtained does not waive unless insurer relies on that advice as defense; need for evidence does not permit discovery or use of privileged communications); State ex rel. United States Fid. & Guar. Co. v. Mont. Second Jud. Dist. Ct., 783 P.2d 911, 914–16 (Mont. 1989) (privilege applies in third-party bad faith cases; need does not prevent application of privilege).


balancing. Accordingly, as the Eighth Circuit has explained, the privilege cannot be withheld based solely on an opponent’s purported need to access attorney-client communications:

The attorney-client privilege, like all other evidentiary privileges, may obstruct a party’s access to the truth. Although it may be inequitable that information contained in privileged materials is available to only one side in a dispute, a determination that communications or materials are privileged is simply a choice to protect the communication and relationship against claims of competing interests. Any inequity in terms of access to information is the price the system pays to maintain the integrity of the privilege. An unavailability exception is, therefore, inconsistent with the nature and purpose of the privilege.229

But, there is a competing line of authority which permits somewhat wider access to privileged communications.230 The leading case taking such a broader view is Hearn v. Rhay.231 That was a suit against prison officials, in which the court held that the officials placed at issue the legal advice they had received by raising the defense of qualified immunity. This defense required the plaintiff to prove that the defendant “‘knew or reasonably should have known that the action he took … would violate the constitutional rights of the [plaintiff] or … took the action he did with the malicious intention to cause a deprivation of constitutional rights or other injury.’”232 While defendants argued that they only sought to assert the objective reasonableness of their conduct, the court pointed out that the defense necessarily put their state of mind at issue.233 It articulated the following test for finding waiver:

(1) the assertion of the privilege was the result of some affirmative act, such as filing suit, by the asserting party; (2) through this affirmative act, the asserting party put the protected information at issue by making it relevant to the case; and (3) application of the

229 Admiral Ins. Co. v. United States District Court, 881 F.2d 1486, 1494 (8th Cir. 1989).
230 Rhone-Poulenc characterized such cases as being of “doubtful validity.” Rhone-Poulenc Rorer, Inc. v. Home Indem. Co., 32 F.3d 851, 864 (3d Cir. 1994).
232 68 F.R.D. at 578 (quoting Wood v. Strickland, 420 U.S. 308, 322 (1975)).
233 68 F.R.D. at 581 n. 15.
privilege would have denied the opposing party access to information vital to his defense.\textsuperscript{234}

The \textit{Hearn} test only finds waiver when the information is “vital” to the other party’s opposition to the case being presented by the client claiming privilege. Mere relevance is not enough. Loss prevention communications will rarely be vital to a client’s claim against a law firm.

In a case like \textit{Garvy}, the client can and must rely on communications between itself and the law firm. These will establish what the firm was retained to do, what disclosures (e.g., regarding conflicts) were made by the firm, what advice the firm provided, and what instructions were given to it. The client can and must also rely on evidence of what the law firm did (and did not do) externally to further the client’s interests, including all of its communications with third parties. The client can even rely on all of the firm’s internal communications in carrying out the representation, as opposed to those with firm counsel directed to loss prevention and mitigation. The lawyers’ conduct will be judged by an objective standard of care based on the care, skill, diligence, and knowledge ordinarily exercised by attorneys under similar circumstances.\textsuperscript{235} If the client has a case, it should be provable based on evidence other than the law firm’s loss prevention communications, especially those made after the client knew of the potential claim.\textsuperscript{236}

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{234} 68 F.R.D. at 581. Professor Rice reports that the \textit{Hearn} approach is widely followed in the federal courts. \textsc{Paul R. Rice}, \textsc{Attorney-Client Privilege in the United States}, § 9:50, at 216–21 n. 51 (2007). Even if \textit{Hearn} were the predominant test in the federal courts, authority in the state courts, already referenced, is heavily to the contrary.
\item \textsuperscript{235} \textsc{Ronald E. Mallen & Jeffrey M. Smith}, \textsc{Legal Malpractice} § 20:2 (2012).
\item \textsuperscript{236} \textsc{TattleTale Alarm Sys. v. Calfee, Halter & Griswold, LLP}, 2011 WL 382267, *6, 2011 U.S. Dist. LEXIS 10412, *15-16 (S.D. Ohio Feb. 3, 2011) (“It is simply not the case that a legal malpractice plaintiff will be functionally unable to prove negligence without gaining access to intra-firm communications made during loss prevention efforts. The client still has access to every communication between the client and the firm and to every communication made by the lawyer, whether within the firm or outside of it, that reflects how the lawyer was carrying out the client's legal business. It is hard to conceive of a case where the only evidence of legal malpractice is found within the firm's loss prevention communications.”).
\end{itemize}
\end{footnotesize}
Thus, the latter communications should not be regarded as “at issue,” even under *Hearn*. That conclusion is supported by *Frontier Refining, Inc. v. Gorman-Rupp Co.*, which found it unnecessary to decide between *Hearn* and *Rhone-Poulenc*, because there was no waiver even under *Hearn*. Frontier sued Gorman-Rupp, a manufacturer of pumps used in Frontier’s operations for equitable indemnity with respect to personal injury claims against Frontier arising out of an explosion allegedly caused by the pumps. To assess the reasonableness of personal injury settlements, Gorman-Rupp sought discovery of Frontier’s communications with its counsel concerning the cases settled. But the reasonableness of the settlements could be determined by reviewing the evidence in the underlying cases and Gorman-Rupp could inquire of Frontier’s employees about Frontier’s motivations for settling. Consequently, “the privileged and protected information at issue [on the discovery motion] was not truly ‘vital’ to Gorman-Rupp’s defense.”

Similar analysis was an alternate ground for finding no waiver in *Metropolitan Life Insurance Co. v. Aetna Casualty & Surety Co.* Metropolitan sought coverage from its own insurers for 200,000 asbestos personal injury cases. Two of the excess carriers sought to discover attorney-client communications in the underlying actions, contending that Metropolitan had placed those communications at issue by bringing the coverage action, thereby waiving the privilege. The defendant insurers argued that they needed the privileged communications to determine the reasonableness of the settlements made in the underlying cases. The court disagreed. Metropolitan would have the burden of proving the settlements reasonable, and that question could be determined without any use of privileged materials. Reasonableness

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238 136 F.3d at 702.
239 Metro. Life Ins. Co. v. Aetna Cas. & Sur. Co., 730 A.2d 51 (Conn. 1999). The court also held that even a showing of need would not have permitted privileged information to be discovered. *Id.* at 62
should be examined under an objective standard. Reasonableness is
determined according to factors such as, but not limited to,
“whether there is a significant prospect of an adverse judgment,
whether settlement is generally advisable, [whether] the action is
taken in good faith, and whether it is not excessive in amount.

…. [D]efendants in the present case can assess whether the
settlements were reasonable by examining the facts of the asbestos
tort actions—the same material that [Metropolitan] had available to
it when making its decision—and by consulting experts, just as
[Metropolitan] had the opportunity to do.240

*Home Indem. Co. v. Lane Powell Moss & Miller*,241 likewise found no waiver, even under
*Hearn*. The Lane law firm had defended Home’s insured, which suffered an excess judgment
Home had to settle for $7 million. Home sued Lane, claiming that it had made a policy limits
offer that Lane had failed to transmit to the plaintiffs. Lane argued that its failure was not the
cause of the loss, because plaintiffs had never intended to settle within limits, seeking only to set
Home up. On this basis, it sought discovery of the plaintiffs’ lawyers’ files. But the court found
exploration of state of mind unnecessary, because plaintiffs had made a within-limits offer that
Home had rejected only because it thought it had already insulated itself against excess liability
by the offer Lane had failed to transmit.242 Similarly, Home proved the reasonableness of its
settlement with plaintiffs without relying on the advice of its counsel, so that advice was never
put into issue.243

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240 730 A.2d at 62 (citations omitted); see, e.g., United States Fire Ins. Co. v. Asbestosspray, Inc.,
182 F.3d 201, 212 (3rd Cir. 1999) (claim that objective circumstances made it reasonable to
delay filing interpleader action did not place legal advice at issue); Home Ins. Co. v. Advance
allegation that its settlement of the underlying action was reasonable did not waive privilege with
respect to underlying action); Occidental Chem. Corp. v. Hartford Acc. & Indem. Co., 584
N.Y.S.2d 247 (N.Y.A.D. 1992) (insurance coverage action did not waive insured’s privilege as
to communications with defense counsel in the underlying actions).
241 Home Indem. Co. v. Lane Powell Moss & Miller, 43 F.3d 1322 (9th Cir. 1995).
242 43 F.3d at 1326–27.
243 43 F.3d at 1327; *see also* Lexington Ins. Co. v. Swanson, 240 F.R.D. 662, 670 (W.D. Wash.
2007)(even under *Hearn* test, privileged materials could not be discovered without a showing
that they would be necessary to claimant’s contention of insurance bad faith); Dixie Mill Supply
Accordingly, even under *Hearn*, law-firm loss prevention communications will rarely be “at issue” in a client’s action against the law firm, and those in *Garvy* do not appear to be “at issue” in that case (at least so long as any documents relating to Peter’s ongoing representation are disclosed).

**b) Fiduciary Duty Does Not Trump the Privilege as to Loss Prevention Communications**

Peter argued that the privilege is simply irrelevant where the party claiming the privilege was then a fiduciary of the person now seeking disclosure. He argued that, if parties are in a fiduciary relationship, the fiduciary “‘is under a duty to disclose all material facts.”244 In particular, “a *fiduciary* who is silent, and thus fails to fulfill his duty to disclose material facts concerning a cause of action, has fraudulently concealed that action, even without affirmative acts or representations.”245

But the privilege is not inconsistent with this duty. As the United States Supreme Court pointed out in *Upjohn v. United States*246: “[a]pplication of the attorney-client privilege … puts the adversary in no worse position than if the communications had never taken place. The privilege only protects disclosure of communications; it does not protect disclosure of the

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245 *DeLuna*, 857 N.E.2d at 246.

underlying facts by those who communicated with the attorney.”247 As already noted,248 Peter, as Seyfarth’s former client, is entitled to full disclosure of all of the underlying facts. But that does not entitle Peter to disclosure of everything that his former lawyers said about those facts in confidential communications with their own counsel.

Courts outside Illinois do not treat the fiduciary duty of disclosure as precluding any expectation of confidentiality in contexts like that in Garvy: the very fact that the fiduciary exception to the privilege recognizes the right of lawyers to have privileged communications with their own counsel regarding possible liability to a client demonstrates that. The only relevant respect in which Illinois law appears to differ from that elsewhere is the limit on the privilege imposed by Waste Management. Because that limit does not support Peter’s demand to bar the privilege for Seyfarth’s communications regarding Peter’s possible claim, there is no reason for Illinois to apply fiduciary principles to that demand any differently than other jurisdictions would.

Peter effectively argued that Seyfarth could not have confidential communications regarding his potential claims unless and until it withdrew from representing him. Yet, Peter repeatedly asked (and eventually demanded) that Seyfarth continue with his representation, even though he well knew of his potential claims against Seyfarth (and was presumably engaging in confidential communications with his own counsel to prepare to prosecute them). There is no reason why Peter, having gotten the benefit of the continued representation he asked for, should get a bonus denying Seyfarth the ability to begin confidentially preparing its defense while the representation continued.

248 See text at notes 235-36, supra.
III. In *Hunter, Maclean*, The Georgia Supreme Court Should Determine or Direct the Trial Court To Find the Facts Necessary To Apply the Forgoing Analysis

The facts in *Hunter, Maclean* were not as well developed prior to the appeal as the facts in *Garvy*. If, as HM claims, SSW’s in-house counsel was promptly informed of the need for SSW to seek new counsel and the reasons for that, most of the analysis applied to *Garvy* would also apply in *Hunter, Maclean*.

To be sure, HM cannot rely on waiver of the conflict, because neither the waiver nor the information on which it was based was confirmed in writing, which the Georgia rules require. But once the client has asserted a claim or been informed of the existence of a possible claim and of the firm’s need or desire to withdraw, the client is on notice of the need for new counsel and can take such steps as the client wishes to consider or pursue the possible claim. Even without a waiver, the client in that situation ought not to be able to use the firm’s need to continue the representation until substitute counsel can be engaged to deprive the firm of the ability to have privileged defensive consultations with its in-house counsel. Accordingly, there is no need for the more extensive disclosures that might be necessary to seek a waiver allowing the law firm to continue its representation despite the conflict.

If, as SSW claims, SSW was “oblivious” of the conflict for a substantial time while HM was preparing its defense, that might provide a basis for a different analysis, as will be discussed in section V. Even on that basis, however, SSW was surely not “oblivious” of the conflict once it had obtained new counsel and that counsel had asserted the claim. So, even if HM failed to provide notice as soon as it had identified the conflict, and even if that failure justifies denial of the privilege, that denial ought not to continue after SSW or its counsel had identified the potential claim.

249 GA. R. PROF’L CONDUCT, R. 1.7(b).
IV. RFF Family Partnership Was Properly Decided

In *RFF Family Partnership*, the consultations with in-house counsel occurred only after PLT, counsel for RFF in the Land Court action, had asserted a claim against B&L. Even assuming that asserting a claim was outside the scope of PLT’s representation of RFF, identifying the possibility of such a claim was an appropriate method of seeking to minimize any loss that might result from the Land Court action, for the benefit of both RFF and the title insurer. B&L then sought to withdraw. When PLT asked B&L to continue its representation, that was a waiver of the same type found in *Garvy*. B&L had notified RFF of the nature of the claim by forwarding PLT’s demand letter (even if PLT had not already notified RFF and if PLT’s knowledge would not be attributed to RFF).

V. Revisiting the Earlier Cases

The foregoing analysis has identified two types of communications that clearly ought to retain the protection of the privilege. The first type can be called “ethics communications,” those in which firm counsel are called upon to diagnose potential problems and assess the firm’s obligations to clients, courts, and others. The second type consists of loss prevention and minimization communications regarding possible problems asserted by or disclosed to the relevant client. *Bank Brussels, Koen Books, Cold Spring Harbor*, and *TattleTale* all seem to involve only those types of communications, indicating that the former three cases reached the wrong result.

In *Sunrise Securities*, the court examined three pre-suit documents, two of which it found unprivileged business advice and one of which it found privileged,250 neither of which is problematic under the analysis here. The parties seeking discovery there disclaimed any request for documents that “constitute or reflect communications with Blank Rome's outside counsel” or

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are “internal communications in which [Blank Rome] was representing itself in the shareholders' case, at least insofar as those documents were created after separate counsel was obtained for Sunrise,” so none of those documents were at issue.\textsuperscript{251} But the special master was directed to require production of any post-suit documents which “contain communications or legal advice in which Blank Rome's representation of itself violated Rule 1.7 with respect to a Blank Rome client seeking the document.”\textsuperscript{252} That direction is contrary to the analysis here.

*Thelen* protected the firm’s ethics communications. But the requirement to produce loss prevention and minimization communications included those occurring after possible problems had already been asserted by the client. As to the latter, the decision appears to be incorrect. Still, there might have been loss prevention and minimization communications occurring before any assertion by or disclosure to the client. In the absence of more information about any such communications, it is not possible to determine whether there might have been a proper basis to require disclosure of those.

The opinion in *Asset Funding* sets forth none of the relevant facts, so it cannot be assessed in relation to the analysis here.

*SONICblue* is at the opposite end of the spectrum from *Garvy*. The communications which the court ordered disclosed were loss-prevention communications occurring after the firm must have known of a conflict created by a possible claim against the firm but nonetheless withheld that information from the bankruptcy court, which alone had sole power to approve continuing representation. The firm continued to represent the Debtor for another six months (and, presumably, to bill for that representation), despite undisclosed conflicts that impaired its ability to provide disinterested advice on dealings with various creditors. Given the duty to disclose all conflicts to the bankruptcy court, this was arguably an effort to perpetrate a fraud on

\textsuperscript{251} *Id.*
\textsuperscript{252} *Id.*
the court and on the creditors whose interests conflicted with those of the firm. So, even if the
privilege were otherwise applicable, the crime-fraud exception might bar its invocation. In those
circumstances, giving the Trustee access to communications with in-house counsel arguably
might have been a reasonable step to determining the appropriate sanction to be imposed on the
firm.

Similarly, E-Pass Technologies involved loss-prevention communications occurring after
the firm must have known of a conflict created by a possible claim against the firm but
nonetheless withheld that information from the client, while continuing to shape the client’s
defense against fee claims that created the conflict. Disclosure there could have been appropriate
under an analysis similar to that suggested for SONICblue.

Burns also appears to involve loss prevention and minimization communications in the
absence of any disclosure to the beneficiary to whom the firm owed fiduciary duties. But, unlike
SONICblue, the firm was not providing any ongoing legal services affecting her interests. So,
the case for honoring the privilege is weaker than in Garvy, but stronger than in SONICblue and
E-Pass Technologies.

In short, the analysis which protects the privilege in Garvy arguably depends on prompt
disclosure of any conflict (unless already known to the client) once the firm has completed its
initial assessment of the potential problem and of its relevant duties to the client, courts, and
others. If disclosure was required and not made, the privilege claim may be greatly weakened, if
not lost.

VI. The Impact of Codification of Evidence Law

All of the above analysis and almost all of the cases in the issue of in-firm privilege has
treated the scope of the privilege as an issue governed by common law, which the courts are free
to shape. But, in most jurisdictions, the law of evidence, including the law of privilege, is
codified in statutes or rules. Ordinarily, courts are bound by the terms of the codification and are not free to expand or contract the privilege by decisional law, even if they think doing so would be desirable. Thus, if a consultation with in-house counsel meets the basic requirements for the privilege (attorney-client relationship, confidentiality, etc.), courts are limited in their ability to make nonstatutory exceptions. And there does not appear to be any jurisdiction with a statutory exception for lawyer conflicts of interest or law firm consultations with in-house counsel regarding the affairs of a current client, even in cases where the law firm did not promptly and appropriately notify the client of a potential claim.

Some nonstatutory exceptions may be justifiable. The fiduciary exception, for example, proceeds on the premise that, under the law of the fiduciary relationship, the beneficiary is the real client of the attorney, entitled to know of the contents of any consultation regarding the ordinary affairs of the fiduciary’s office. But, as shown above, that exception does not apply to law firm loss prevention communications regarding defense of claims or possible claims.

It is not apparent that there is any similar analysis that would support a nonstatutory exception for lawyer conflicts of interest or law firm consultations with in-house counsel regarding the affairs of a current client, even in cases where the law firm did not promptly and appropriately notify the client of a potential claim. If not, courts governed by codified privilege

253 See, e.g., CALIF. EVID. CODE, §§ 950-62 (lawyer-client privilege); DEL. UNIF. R. EVID., R. 502 (same).
254 E.g., Roberts v. City of Palmdale, 853 P.2d 496, 501, 20 Cal. Rptr. 2d 330, 335 (Cal. 1993) (‘‘Our deference to the Legislature is particularly necessary when we are called upon to interpret the attorney-client privilege, because the Legislature has determined that evidentiary privileges shall be available only as defined by statute. Courts may not add to the statutory privileges except as required by state or federal constitutional law, nor may courts imply unwritten exceptions to existing statutory privileges.’’ (citations omitted)).
255 See discussion at notes 165-74, supra.
law, including federal courts in cases where the substantive issues are ones governed by state law,256 would not be free to create such an exception.

As previously noted,257 one might justify denying the privilege in *SONICblue* on the basis of the crime-fraud exception. Codifications of the attorney-client privilege also codify that exception.258 But even if that exception would have been applicable on the facts of *SONICblue*, it likely would not be applicable in all cases where the law firm did not promptly and appropriately notify the client of a potential claim.

And the court in *SONICblue* was not limited to application of the crime-fraud exception. The substantive issue there was the propriety of the law firm’s conduct in the bankruptcy, including its representation of the Debtor. That issue was governed by federal bankruptcy law, so the privilege issue was governed by federal common law.259 Thus, the bankruptcy court had the authority to find a nonstatutory exception to the privilege if it found that appropriate.

Whether federal appellate courts will agree remains to be seen.

**VII. Conclusion**

*Garvy* correctly held that a client is not entitled to discover otherwise privileged law-firm loss prevention communications with in-house counsel after the client has been informed of any conflict. Moreover, a client is not entitled to discover otherwise privileged ethics communications in which firm counsel are called upon to diagnose potential problems and assess the firm’s obligations to clients, courts, and others, and such communications should be protected. Cases to the contrary should not be followed. Cases where any conflict remained unknown to the client must be analyzed on their own facts and in light of applicable codifications of privilege law.

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257 See discussion in Section V, *supra*.
TRANSMUTATION OF THE ATTORNEY-CLIENT PRIVILEGE

COMMODITY FUTURES TRADING v. WEINTRAUB, 471 U.S. 343 (1985)

The officer and director of a corporate debtor appealed from an order of the United States District Court for the Northern District of Illinois affirming a United States Magistrate's order that debtor's trustee in bankruptcy had the authority to waive the corporation's attorney-client privilege. The Court of Appeals reversed the decision. However, the Supreme Court held that the trustee of a corporation in bankruptcy has the power to waive the corporation's attorney-client privilege with respect to pre-bankruptcy communications. When control of the corporation passes to new management, the authority to assert and waive the privilege also passes, and the new managers may waive the privilege with respect to corporate communications made by former officers and directors.

TEKNI-PLEX v. MEYNER, 674 N.E. 2d 663 (N.Y. 1996)

Successor corporation moved to disqualify law firm from representing former owner of predecessor corporation in arbitration initiated by successor alleging breach of warranties in a merger agreement regarding the corporation's compliance with environmental laws and to enjoin the law firm from disclosing to the former owner any information obtained from the predecessor corporation and for an order directing law firm to return to predecessor all files in the firm's possession concerning its prior representation of predecessor. The Court held that the successor corporation is entitled to access any relevant pre-merger legal advice rendered to predecessor corporation that it might need to defend against liabilities or pursue rights. Successor corporation, however, does not control the attorney-client privilege with regard to confididential communications concerning its (the law firm's) representation of the predecessor corporation with regard to the merger transaction.


Sellers of business that was merged into a wholly-owned acquisition subsidiary of buyer brought action against buyer and subsidiary, and the subsidiary subsequently moved to disqualify attorneys who represented sellers during business sale negotiations and in litigation. The Court held that the attorneys' representation of business sellers in litigation against buyer and sold business that merged into a wholly owned acquisition subsidiary of buyer was not a prohibited conflict of interest, under Maryland law, attorneys were still representing the sellers, their former clients, litigation involved only actions of parties after close of merger-sale, not issues that occurred while attorneys represented subsidiary, and all facts pertinent to subsidiary's alleged failure to act arose after merger-sale closing. This case only deals with the actions of the parties after the close of the merger.

Patent holder brought patent action against two companies. One defendant moved to compel production of documents, and patent holder asserted attorney-client privilege. The Court held that whether the attorney-client relationship transfers to new owners of a client's assets turns on the practical consequences, rather than the formalities, of the particular transaction, and if the practical consequences of the transaction result in the transfer of control of a business and the continuation of the business under new management, the authority to assert or waive an attorney-client privilege will follow as well.


After retirees of a company's former subsidiary brought suit against several parties asserting claims under Employee Retirement Income Security Act ("ERISA"), the Court held that if the practical consequences of the transaction result in the transfer of control of the business and the continuation of the business under new management, the authority to assert or waive the attorney-client privilege will follow as well. The Court, like in Sovereign, was not persuaded that the sale at issue was merely a transfer of assets. The APA defined "assets" as "all of seller's right, title and interest in all properties, assets, and rights of any kind, whether tangible or intangible, real or personal, owned, leased, by Seller in connection with or incidental to the operation of the Business or otherwise."

**In Re I Successor Corp, 321 B.R. 640 (S.D.N.Y. 2005)**

A post-confirmation committee of unsecured creditors brought an adversary proceeding on behalf of a corporate Chapter 11 debtor pursuant to a plan of liquidation, which authorized the committee to prosecute debtor's actions post-confirmation. The Committee brought a motion to disqualify a law firm from representing any of debtor's former officers and directors due to alleged conflict of interest created by work that firm previously did for debtor. The Court held that 1) pre-petition attorney-client privilege of corporation, and law firm's duties of confidentiality and loyalty to it, continued and passed to post-petition managers; 2) substantial relationship test applied to adversary proceeding.


After corporate debtor's assets were transferred in bankruptcy proceedings to multiple successor entities, only the new entity, which purchased substantially all of the debtor's business operations and continued to operate debtor's business, acquired the right to assert or waive the pre-confirmation attorney-client privilege after bankruptcy.
INELSAT, LTD. v. INT. TEL. SATELLITE ORG. WL 844816 (S.D.N.Y. MAR 16, 2007)

This decision focuses on the post-transaction location of pre-transaction management with whom the pre-transaction counsel had a relationship and engrained on the entity that inherited that management the duty of loyalty that counsel owed its ostensible former client as to substantially related matters. One might see this as triumph of “substance over form,” which is but another formulation of the “practical consequences” test in Tekni-Plex. Henry Sill Bryans, Business Successors and the Transpositional Attorney-Client Relationship, 64 Bus. Law. 1039, 1066 (2009).

POSTORIVO v. AG PAINTBALL HOLDINGS, INC. 2008 WL 343856 (DEL. CH. FEB. 7, 2008)

Plaintiffs that sold substantially all of their assets to a predecessor company to defendants in an asset purchase agreement (APA), filed action for torts and breach of contract and also sought declaratory and injunctive relief. Following the order consolidating with plaintiffs’ action the defendants’ contract indemnity action brought against plaintiffs in Superior Court, plaintiffs moved to preclude defendants’ alleged violation of attorney-client privilege. The Court concluded that the parties’ agreement relating to 1) the attorney-client privilege for communications affecting the ongoing business of the post-acquisition entity, including pre-Agreement documents and communications, and 2) the attorney-client privilege for communications that Postorivo and NPS had with counsel regarding the negotiation of the Agreement, related contracts, and the acquisition transaction itself were consistent with the holdings in Tekni-Plex.

IN RE FLAG TELECOM HOLDINGS, LTD., 2009 WL 5245734 (S.D.N.Y. JAN. 14, 2009)

After a predecessor holding company filed for bankruptcy, a new entity emerged as a successor company. The reorganization plan transferred the old entity's assets to the new entity, with the exception of certain assets specifically set aside. The Bankruptcy Court approved a Litigation Trust Agreement that assigned the trustee the duty to commence litigation of the debtor's pre-bankruptcy causes of action and to collect documents relating to the transferred causes of action and to control related attorney-client privileges. A group of shareholders of the predecessor holding company filed suit alleging a violation of the Securities Act of 1933 and the Exchange Act of 1934. The District Court held that the language of the Litigation Trust gave the trustee sole authority to waive any privilege attached to the documents by citing the Supreme Court's holding in Weintraub and the "practical consequences" test from Tekni-Plex.

UTSTARCOM, INC. v. STARENT NETWORKS, CORP., 2009 WL 4908579 (N.D. ILL. FEB. 20, 2009)

A successor company claimed that it was entitled to the privilege with respect to documents from predecessor company. The Court held that the successor company may assert the privilege because the successor company purchased substantially all of the predecessor company's assets including all transferable licenses, permits, and intangible assets. The Court further reasoned that the predecessor company's employees were now
employed by the successor company, the predecessor company had its own management and general counsel, and following the acquisition, the successor company continued the operations in the same location and provided the same products and services to the existing clients.

**GIRL SCOUTS-W. OKLAHOMA, INC. v. BARRINGER-THOMSON, 2011 OK 21, 252 P.3d 844 (OKLA. SUP. CT. 2011)**

Surviving entity filed a replevin action against the predecessor's attorney seeking to recover all documents and files in her possession concerning her representation of the predecessor prior to the merger, including details of agreements between the predecessor and its former employees for which the surviving entity was now responsible. After stating that it found the reasoning in *Weintraub* and *Tekni-Plex* persuasive, the Court emphasized the fact that the business of the preceding entities was being continued by the successor entity and that the materials sought after were not from the merger agreement. The Court held that the preceding entity's privilege was passed to the successor entity by operation of law as a result of the merger.

**FACEBOOK INC., v. CONNECT U INC. NO. C07-01389JW, SEPT 2, 2009**

Note: Order Granting in part and denying in part for delivery of client files.

Originally, Facebook was involved in a law suit against ConnectU and its founders as joint clients under the representation of Finnegan and Boies. Next, ConnectU and its founders split and obtained separate representation. The Court held that Facebook, who is now the principal of ConnectU, has the right to examine files in order to competently conduct the business operations of ConnectU, even if certain files in the possession of those law firms may reflect the independent rights, interest and liabilities of ConnectU. The logic in *Tekni-Plex* governs the outcome in this case. However, the Court declines to order Finnegan and Boies to hand over files pertaining to ConnectU's litigation against Facebook as otherwise would severely threaten attorney-client communication.