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Privilege Caselaw Developments

In our second in a series of occasional alerts on the law of privilege, we present three recent federal court cases of potential interest, each concerning circumstances that can lead to waiver of privilege. *First*, *Barbini* v. *First Niagara Bank, N.A.*, addresses how privilege and work product protection can be inadvertently waived in connection with an internal investigation of alleged sexual harassment. *Second*, *IQVIA, Inc.* v. *Veeva Sys., Inc.* illustrates the difficult lines to be drawn in deciding whether communications with an auditing firm are privileged. *Third*, in *VR Optics, LLC* v. *Peloton Interactive, Inc.*, the defendant failed to qualify for common-interest protection with respect to communications with business partners where the communications did not reflect "a joint defense effort."

Barbini v. *First Niagara Bank, N.A.*, No. 16-cv-7887, 2019 WL 1922041 (S.D.N.Y. Apr. 29, 2019)

Barbini demonstrates **how privilege and work product protection can be inadvertently waived**, in the context of an internal investigation of alleged sexual harassment. It flows from the generally non-controversial principle that attorney-client privilege can be waived when "a client asserts reliance on an attorney's advice as an element of a claim or defense." *Id.* at *4 (citing *In re Cty. of Erie*, 546 F.3d 222, 228 (2d Cir. 2008)). But what happens when a defendant does not *expressly* assert such an advice-of-counsel defense, and only *impliedly* does?

In *Barbini*, the defendant bank undertook an investigation to respond to employees' complaints of sexual harassment by their supervisor. Following the investigation, First Niagara issued a "final written warning" to the supervisor, but did not terminate him. Not long after First Niagara issued the warning, however, both the supervisor and the complaining employees were terminated for alleged violations of New York notary law and company notary policy. The employees who had complained about harassment filed suit, claiming that the bank used the alleged notary violations as a pretext to terminate them for filing sexual harassment complaints.

During a deposition, the HR representative responsible for conducting the sexual harassment investigation testified that he "thoroughly discussed" a "cause of action" and the decision to issue a final warning with in-house counsel, and that in-house counsel "made or assisted in making pivotal determinations regarding how to handle the sexual harassment investigation and how to discipline the individuals involved." *Id.* at *2,*6. The HR representative further testified that he did *not* discuss the company's notary policy during any conversations with these in-house lawyers. *Id.* at *2. Defendant's counsel asserted privilege when

plaintiffs asked questions regarding what in-house counsel advised on the question of issuing a final warning.

Plaintiffs sought to reopen two depositions to ask follow-up questions on the discussions leading up to the defendant's decision to issue a final warning and to terminate the employees. Defendant, meanwhile, had filed a motion for a protective order preventing further questioning on the subject. The magistrate judge permitted additional questioning and denied defendant's motion for a protective order, finding that the defendant had waived privilege by "functionally" raising an advice-of-counsel defense—even though it did not expressly assert that defense in its answer. *Id.* at *7.

Defendant moved for the district court to review the magistrate judge's decision. The district court reviewed the decision for an abuse of discretion.

The district court refused to conclude that the finding of waiver was an abuse of discretion. It agreed that the defendant had not expressly asserted an advice-of-counsel defense, and even that the defendant had "expressly disclaimed reliance on counsel in a subsequent letter." *Id.* at *5. Nonetheless, the court concluded that the defendant had waived privilege "by implication." *Id.* at *6. It considered that:

- The HR representative's testimony about communications with counsel, "although a close call," went "further than just generalized references to counsel's advice." Id.
- The HR representative testified that he "thoroughly discussed" the situation with its counsel. Id.
- The bank's defense opened the door to the substance of the communications because it required that the sexual harassment and notary investigations be truly independent. And "the only way to assess their separateness is by accepting [HR representative's] testimony that he relied on [in-house counsel's advice] and handled the first one appropriately and independently of the second." Id.

Even more significant, according to the court, was that the defendant had raised a *Faragher/Ellerth* defense in its answer to plaintiffs' claims. This defense, specific to the employment harassment context, asserted that the bank "undertook good faith efforts to prevent and remedy any alleged discrimination or retaliation and that Plaintiffs unreasonably failed to avail themselves of [First Niagara's] internal procedures for remedying any such discrimination or retaliation" and that the actions taken toward the plaintiffs were "job-related and consistent with business necessity." *Id.* This defense directly put the independence of the internal investigations at issue, but defendant's simultaneous assertion of the privilege denied the plaintiffs the information necessary to rebut the defense. This "creates the type of unfairness to opposing counsel that waives the communication's privilege." *Id.* at *7 (citing *In re Cty. of Erie*, 546 F.3d 222 (2d Cir. 2008)). Therefore, the court found that the magistrate judge's finding that the bank functionally raised a *Faragher/Ellerth* defense was not clearly erroneous.

Barbini illustrates the heightened potential for implied waiver in a litigation relating to conduct that had been the subject of an internal investigation. The case also serves as a reminder to practitioners about the need for care when preparing witnesses, as a court can find waiver even if an advice-of-counsel defense is not formally invoked or pleaded, based on testimony.

***IQVIA, Inc.* v. *Veeva Sys., Inc.*,**
No. 2:17-cv-00177, 2019 WL 2083305 (D.N.J. May 13, 2019)

The presence of a third party in otherwise privileged communications generally waives privilege, unless an exception applies, as it does when the **third party is facilitating the provision of legal advice**. A core example of such a third party is an accountant; other types of companies, like public relations firms and financial consultants, may face more difficulty meeting this exception. *See Church & Dwight Co. Inc.* v. *SPD Swiss Precision Diagnostics, GmbH*, No. 14-CV-585, 2014 WL 7238354, at *2 (S.D.N.Y. Dec. 19, 2014); *Exp.-Imp. Bank of the U.S.* v. *Asia Pulp & Paper Co.*, 232 F.R.D. 103, 113 (S.D.N.Y. 2005). *IQVIA* reflects that even communications with an auditing firm do not always qualify for this exception.

IQVIA and Veeva compete to offer market research and customer data products and services to companies in the life sciences industries. IQVIA sought to license customer data to Veeva for specific uses but required Veeva to make certain assurances that it would not use the data to improve its products that competed with IQVIA's. IQVIA retained Ernst and Young ("EY") to assess the accuracy of the assurances, and "to determine whether the assurances could be confirmed," to "assess and document the process and procedures designed to protect IMS's intellectual property rights," and to "identify examples of non-compliance," if any. *IQVIA*, 2019 WL 2083305, at *1. EY prepared a Statement of Work, which indicated that its reports "are or may be protected from disclosure by the attorney-client privilege, work product protection, or both" but also noted that "[n]one of the Services or any Reports will constitute any legal opinion or advice." *Id.* at *2.

IQVIA came to believe that Veeva had used the data they licensed improperly and brought a trade secrets suit, relying on information it received from an EY audit of the process and data. Veeva sought the production of communications among IQVIA, IQVIA's in-house counsel, and EY. IQVIA asserted privilege over the communications.

A Special Master for the court identified the key legal principles governing the dispute, under Third Circuit law. He observed that the Third Circuit has construed "what assists an attorney in rendering legal advice narrowly," and the cases reflect that it can be difficult to draw clean lines. *Id.* at *4 (citation omitted). The principles include:

Attorney-client privilege may attach to communications with an accountant where the accountant is retained "for the purpose of obtaining or providing legal advice." *Id.* (citation omitted).

But "[i]f what is sought is not legal advice but only accounting service . . . or if the advice sought is the accountant's rather than the lawyers, no privilege exists." *Id.* (citation omitted).

"[W]hile legal advice given to a client by an attorney is protected by the privilege, business advice generally is not." *Id.* (citation omitted).

The party claiming privilege "should demonstrate that the communication would not have been made but for the client's need for legal advice or services." *Id.* (citation omitted).

The Special Master therefore framed the question as whether the "attorney-client privilege that existed between IQVIA and IQVIA's in-house counsel transferred to and protected communications between EY and IQVIA . . . ." *Id.* at *5. His answer was no, for three reasons. *First*, the Special Master found that "the professional conclusion" and therefore the "advice being sought from the Veeva assessment was that of EY's rather than IQVIA's in-house legal team . . . ." *Id.* *Second*, EY was being retained for a "predominately business purpose"—deciding whether to go forward with the deal to license certain data to Veeva—and not for a primarily legal purpose. *See id.* (quoting *Louisiana Mun. Police Emps. Ret. Sys.* v. *Sealed Air Corp.*, 253 F.R.D. 300, 305 (D.N.J. 2008)). *Finally*, because EY was looking at Veeva's systems and processes for handling data, and not IQVIA's system and data, the court determined that withholding the communications related to the assessment would not serve the fundamental purpose of attorney-client privilege "to encourage clients to make full disclosure to their attorneys." *Id.* at *6 (quoting *Fisher* v. *United States*, 425 U.S. 391, 403 (1976)).

IQVIA reinforces how fact-specific determinations of privilege and waiver may be where third parties are involved. Practitioners seeking to protect privilege are well-advised to review relevant case law in their jurisdiction and understand waiver principles before engaging in communications or commissioning work product that could become discoverable.

VR Optics, LLC v. *Peloton Interactive, Inc.*, No. 16-cv-6392, 2019 WL 2121690 (S.D.N.Y. May 15, 2019)

A recent decision in a patent infringement lawsuit involving Peloton, the maker of interactive exercise bikes, revisits an issue covered before in this series on privilege law: **what types of business dealings are sufficiently "legal" and sufficiently "cooperative" to invoke the common-interest doctrine**. The common-interest doctrine is an exception to the rule that disclosing attorney-client privileged communications to third parties waives the privilege. To apply, the party asserting privilege must show: (1) a common interest of "sufficient legal character" and (2) "a joint defense effort . . . undertaken by the parties." *VR Optics*, 2019 WL 2121690, at *3–4. In this ruling, Peloton succeeded in showing the first element but not the second. *Id.*

Eric Villency and Joseph Coffey own a design firm, Villency Design Group ("VDG"). *VR Optics, LLC* v. *Peloton Interactive, Inc.*, No. 16-cv-6392, 2017 WL 3600427, at *1 (S.D.N.Y. Aug. 18, 2017) (summarizing background of the case). Peloton hired VDG to design its now well-known interactive exercise bike. *Id.* During the design phase, Peloton became aware that its product design might infringe a U.S. patent (the "McClure patent") and obtained an opinion of counsel as to the McClure patent's validity and "the strength of relevant prior art." *VR Optics*, 2019 WL 2121690, at *1–2. But Peloton's CEO did not maintain the confidentiality of this opinion. Instead, in conversations at bars and on business trips, he revealed the details of counsel's legal advice to Villency and Coffey along with his "hopes and dreams" and "every detail of his entrepreneurial journey." *Id.* at *4. In fact, Peloton's CEO testified that "he shared everything . . . about every step of Peloton." *Id.* at *2. Then Villency and Coffey, instead of using the information to design around the patent for Peloton, acquired the McClure patent, formed a new company (Plaintiff VR Optics), and sued Peloton for patent infringement. *Id.* at *1.

In the instant order, the court resolved VR Optics' motion to compel Peloton's communications with its IP counsel regarding the McClure patent. The court found that Peloton waived the privilege when its CEO revealed the communications to Villency and Coffey—unless Peloton could show that the common-interest doctrine applied. *Id.* at *2–3. The court reasoned it was Peloton's burden to show a common interest of sufficiently legal character and a "joint defense effort or strategy decided upon and undertaken by the parties." *Id.* at *4 (citing *United States* v. *Schwimmer*, 892 F.2d 237, 243 (2d Cir. 1989)). The court sided with Peloton on the first prong, finding that an assessment of patent validity and infringement risk was sufficiently legal despite its attendant business ramifications. *Id.* at *3–4.

But with regard to the second prong, the court found Peloton failed to meet its burden because Peloton's CEO did not make the statements to Villency and Coffey to further a "joint defense effort or strategy"—it found he made them gratuitously. *Id.* at *4. The court observed that it was a "close question," but found persuasive that the oral disclosures "were part of broader conversations at bars and on business trips" in which Peloton's CEO was "sharing everything." *Id.* The court observed that the "broad, abstract, and personal nature of these conversations suggests that the disclosures were 'not made in order to facilitate the rendition of legal services.'" *Id.* (citing *Johnson Electric North America, Inc.* v. *Mabuchi North America Corp.*, No. 88-cv-7377, 1996 WL 191590, at *3 (S.D.N.Y. Apr. 19, 1996)). Sharing "[h]opes, dreams, and the entrepreneurial journey" simply falls short of establishing cooperation on a common legal strategy. *Id.* Rather, the common-interest doctrine requires "both a theoretical and a practical component": "[i]n theory," parties among whom privileged information is shared "must have a common legal, as opposed to commercial, interest" and "[i]n practice, they must have demonstrated cooperation in formulating a common legal strategy." *Bank Brussels Lambert* v. *Credit Lyonnais (Suisse) S.A.*, 160 F.R.D. 437, 447 (S.D.N.Y. 1995) (cited in *VR Optics*, 2019 WL 2121690, at *4).

VR Optics is a reminder that sharing privileged information with third parties, outside of an attorney-client privileged relationship, always must be approached with caution. Not only should there be a common legal

interest (and not merely a commercial one), but, additionally, care should be taken that the sharing of confidential information is directed to pursuing that common legal interest, and not merely gratuitous.

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This memorandum is not intended to provide legal advice, and no legal or business decision should be based on its content. Questions concerning issues addressed in this memorandum should be directed to:

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