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PRESERVING AND CONTROLLING THE ATTORNEY-CLIENT PRIVILEGE IN M&A DEALS

In the context of M & A, there has been substantial litigation over waivers of attorney-client privilege due to the practical necessity of sharing information outside the zone of privilege. Pre-closing, the authors focus on the exception to waiver known as the common-interest doctrine and the exception for financial advisers involved in the deal. Post-closing, they address litigation over control of privilege in mergers and asset sales. They end pre- and post-closing discussions with general tips to avoid inadvertent waivers and loss of control.

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In recent years, a robust body of case law has developed regarding the treatment of the attorney-client privilege in the context of mergers and acquisitions. In these transactions, privilege issues arise before the deal closes as a result of the practical necessity of sharing information with parties outside the zone of privilege, such as financial advisors, investment bankers, and potential suitors. After the deal closes, parties face similarly complex issues regarding which entity controls the privilege, particularly over pre-closing communications about the deal.

Corporate practitioners need to understand the potential pitfalls surrounding privilege in these situations to guard against inadvertent waiver or transfer of the privilege. The variety of approaches that courts have applied in evaluating privilege issues complicates this task. This article analyzes the current case law involving both pre-closing and post-closing privilege issues, and

ultimately suggests some practical steps to mitigate the risk of waiver or unintended transfer of the privilege.

PRE-CLOSING PRIVILEGE ISSUES

The Common-Interest Doctrine

The attorney-client privilege generally is waived when a communication that would otherwise be protected by the privilege is disclosed to a third party. Issues with waiver of the privilege arise in the context of mergers and acquisitions because companies participating in such transactions regularly disclose sensitive information to prospective parties as well as members of the broader transaction team, including investment bankers, consultants, and various other financial advisors. When privileged information is shared to promote a shared legal interest between the parties, courts generally recognize an exception to the

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waiver rule referred to as the “common interest privilege” that permits parties “who have common interests to coordinate their positions without destroying the privileged status of their communications with their lawyers.”¹

To invoke the common-interest privilege, parties must demonstrate that (1) the communication is protected by the attorney-client privilege and (2) the communication is made to further a legal interest or strategy common to the parties.² There is widespread disagreement about what constitutes a “shared legal interest,” but generally communications regarding business or commercial issues fall outside of the ambit of the privilege even where parties to the communication have a common interest.³

The scope of the common-interest protection is not uniform across jurisdictions. Delaware courts read the common-interest privilege broadly. Delaware codified the common-interest doctrine in 1980, providing that:

A client has a privilege to refuse to disclose and to prevent any other person from disclosing confidential communications made for the purpose of facilitating the rendition of professional legal services to the client . . . (3) by the client or the client’s lawyer or a representative of the lawyer to a lawyer or a representative of a lawyer representing another in a matter of common interest.⁴

Delaware law “sanctions the privilege’s application to attorney-client communications including an investment banker, especially within the context of a pending transaction,” where the discussions at issue “involved

legal issues regarding the transaction.”⁵ For example, in *In re Quest Software Inc. Shareholders Litigation*,⁶ the company’s shareholders sought discovery of documents from Quest, including unredacted notes, minutes, and draft minutes of the special committee meeting regarding the merger transaction at issue in the litigation. The Quest shareholders maintained that Quest had effectively waived the attorney-client privilege over the contested communications by disclosing them to third parties, including the financial advisor for the special committee. Nevertheless, the Delaware Chancery Court held that the documents were shielded by the common-interest doctrine because “the parties all shared a legal interest in the potential legal risk” of accepting the transaction.⁷ In Delaware, the analysis of whether or not the privilege applies depends on whether the parties’ positions were adverse to each other “at the time the challenged communication was made. If the parties were in common interest with respect to the matters addressed, the communication will remain privileged.”⁸

Though the New York courts have historically taken a stricter approach in evaluating whether a common legal interest exists, there has been a recent shift towards a more liberal application of the common-interest doctrine. In *Ambac Assur. Corp. v. Countrywide Home Loans, Inc.*,⁹ for example, the court declined to follow the historical approach to the privilege wherein application of common-interest protection required that there be “pending or reasonably anticipated” litigation.¹⁰ Instead, the *Ambac* court held that the common-interest privilege applied to pre-closing communications between Countrywide, Bank of America, and their respective counsel where the parties had (1) signed a merger agreement without contemplating litigation;

¹ Restatement (Third) of Law Governing Lawyers § 76 cmt. b.

² See, e.g., *Ambac Assur. Corp. v. Countrywide Home Loans, Inc.*, 124 A.D.3d 129, 134 (N.Y. App. Div. 1st Dep’t 2014).

³ *In re Quest Software Inc. Shareholders Litig.*, No. CV 7357-VCG, 2013 WL 3356034, at *4 (Del. Ch. July 3, 2013); see also *Ambac*, 124 A.D.3d at 134.

⁴ Del. R. Evid. 502(b)(3).

⁵ *3Com Corp. v. Diamond II Holdings, Inc.*, No. 3933-VCN, 2010 WL 2280734, at *4-6 & n.18 (Del. Ch. May 31, 2010).

⁶ No. CV 7357-VCG, 2013 WL 3356034 (Del. Ch. July 3, 2013).

⁷ *In re Quest*, 2013 WL 3356034, at *5.

⁸ *3Com Corp.*, 2010 WL 2280734, at *8.

⁹ 124 A.D.3d 129 (1st Dep’t 2014).

¹⁰ *Id.* at 130.

(2) signed a confidentiality agreement governing the pre-close exchanges of information; and (3) needed the shared advice of counsel “in order to accurately navigate the complex legal and regulatory process involved in completing the transaction.”¹¹

The *Ambac* decision recognizing the application of the common-interest privilege where litigation is not presently pending or threatened is significant for several reasons. First, the decision brings the New York approach closer to that of Delaware and a number of federal courts.¹² The opinion additionally suggests that the inclusion of a financial advisor in the attorney-client privileged discussion is less likely to waive the privilege and make the communications discoverable. Nevertheless, it is worth noting that the issue of whether pending or prospective litigation is a necessary element of the common-interest privilege has not yet been addressed and settled by New York’s highest court, the Court of Appeals.¹³ Further, although *Ambac* addresses the application of the common-interest privilege to shared communications *after* execution of a merger agreement, the court did not address whether the privilege applies *before* the execution of a merger agreement, such as to privileged communications shared during a due diligence process.

Waiver Issues Relating to Financial Advisors Involved in the Deal

Financial advisors and investment bankers frequently play a role in corporate transactions. Their inclusion in otherwise privileged communications raises the issue of whether their participation amounts to waiver of the privilege. Again, courts in different jurisdictions have

adopted divergent approaches. Delaware courts recognize a broad rule whereby the presence of an investment banker will not destroy the privilege as long as “the person making the disclosure in fact regarded that disclosure as confidential and, if there was an expectation of confidentiality, whether the law will sanction that expectation.”¹⁴ Delaware law sanctions the expectation of confidentiality to “protect communications disclosed to the client’s financial advisor in the corporate transactional context.”¹⁵ Still, under Delaware law, only those communications “involving legal matters” between the company, its attorneys, and its financial advisor are privileged – the privilege does not extend to communications addressing purely financial or business matters.¹⁶

By contrast, the general rule outside of Delaware is that privileged communications shared with financial advisors will remain privileged only if (1) the investment banker is an agent of the client; (2) the investment banker is acting in its capacity as an agent; and (3) the communication is made for the purpose of facilitating the rendition of legal advice.¹⁷ Federal courts generally follow the so-called *Kovel*¹⁸ doctrine allowing confidential communications made to third-party agents to fall within the attorney-client privilege when the third party is *necessary* to facilitate communication between the attorney and client, and the communication *involves legal advice*.¹⁹

¹¹ *Id.* at 136-37.

¹² See, e.g., *FSP Stallion 1 LLC v. Luce*, No. 2:08-cv-01155-PMP-PAL, 2010 U.S. Dist. LEXIS 110617, at *57-58 (D. Nev. Sept. 30, 2010) (common interest doctrine applies when parties are engaged in a common legal enterprise, even if actual litigation is not in progress); *Nidec Corp. v. Victor Co.*, 249 F.R.D. 575, 578 (N.D. Cal. 2007) (“The protection of the privilege under the community of interest rationale, however, is not limited to joint litigation preparation efforts. It is applicable whenever parties with common interests join forces for the purpose of obtaining more effective legal assistance.”).

¹³ In a recent case, the Northern District of New York explained the existing tension in New York law regarding whether “reasonably anticipated litigation” is required for the common interest privilege to apply. *Fine v. ESPN, Inc.*, No. 5:12-CV-0836, 2015 WL 3447690, at *1-2 n. 9 (N.D.N.Y. May 28, 2015).

¹⁴ *3Com Corp. v. Diamond II Holdings, Inc.*, No. CIV.A. 3933-VCN, 2010 WL 2280734, at *4 (Del. Ch. May 31, 2010).

¹⁵ *Id.*

¹⁶ *Id.* at 6.

¹⁷ See, e.g., *Sieger v. Zak*, 874 N.Y.S.2d 535 (N.Y. 2d Dep’t 2009) (holding communication to investment banker was not privileged where he was not an agent of the client for purpose of making the communication); *Southern Guar. Ins. Co. of Georgia v. Ash*, 192 Ga. App. 24, 383 S.E.2d 579 (1989) (holding that agents of client were within attorney-client privilege).

¹⁸ *U.S. v. Kovel*, 296 F.2d 918 (2d Cir. 1961).

¹⁹ See, e.g., *Urban Box Office Network, Inc. v. Interfase Managers, L.P.*, No. 01 Civ. 8854 (LTS)(THK), 2006 WL 1004472 (S.D.N.Y. April 17, 2006) (holding that communications between financial advisor and counsel involving advice on a disclosure schedule was privileged, but communications between the same regarding a capitalization table were not privileged); *Stafford Trading, Inc. v. Lovely*, No. 05-C-4868, 2007 WL 611252 (N.D. Ill. Feb. 22, 2007) (holding that communications between counsel, financial advisor, and

General Tips to Avoid Pre-Closing Waiver

Keeping these privilege issues in mind, counsel involved in the deal prior to the time that a financial advisor is retained should take steps to ensure that the investment banker is either retained by the lawyer to facilitate the lawyer's rendition of legal advice to the client, or retained by the client as the client's agent, preferably with an engagement letter specifying that the investment banker will assist the attorneys involved with the provision of legal advice. Attorneys retained after the investment banker is hired in a transaction involving a Delaware corporation may be well-advised to include in the transaction agreement a Delaware choice of law and forum selection clause to protect communications with the financial advisors. For non-Delaware corporations, attorneys should be mindful of and try to take all precautions to preserve the privilege, including exclusion of financial advisors from communications and meetings providing sensitive legal advice, and review of the board minutes to confirm they reflect the correct attendees during portions when sensitive legal advice is given.

To avoid pre-closing waiver, it is important to be familiar with the law regarding the common-interest doctrine in the specific jurisdiction because the degree of protection varies from forum to forum. Practitioners should also take note that determinations of whether the common interest is "legal" or adequately "shared" by the parties are highly contextual. Parties should be cautious about discussions involving both legal *and* business issues, as the latter frequently fall outside the protection of the privilege. To the extent possible, it may be prudent to limit the non-legal personnel included in discussions in which a claim of privilege may be asserted. Additionally, parties should recognize that a signed merger agreement increases the likelihood that the common-interest privilege will apply.²⁰

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client involving legal advice on drafting the asset purchase agreement and structuring the transaction were privileged because the financial advisor was acting as the client's agent); *Louisiana Mun. Police Employees Ret. Sys. v. Sealed Air Corp.*, 253 F.R.D. 300 (D.N.J. 2008) (holding communications involving investment banker were not privileged because the engagement letter between the client and investment banker made no mention of legal advice or legal services, and provided that investment advisor was an independent contractor and not an agent).

²⁰ *In re JP Morgan Chase & Co. Securities Litigation*, No. 06 C 4674, 2007 WL 2363311, at *5 (N.D. Ill. Aug. 13, 2007) ("The

POST-CLOSING PRIVILEGE ISSUES

Separate and apart from the complex issue of whether communications exchanged during deal negotiations will be deemed privileged, privilege issues likewise arise after the consummation of a merger or transaction. It is important to understand which party controls the privilege at each stage of the transaction to avoid waiving the privilege.

As a general rule, the attorney-client privilege belongs to and remains with the corporation.²¹ When there is a change of control, therefore, the privilege will belong to the successor corporation, and new management will control the privilege and have the right to assert or waive it. From a practical perspective, this ensures that new management has access to privileged information to the extent it needs to exercise the privilege in ongoing or new litigation, or to defend patents or other intellectual property. Delaware General Corporate Law Section 259 codified this principle, providing that "following a merger, all property, rights, privileges, powers, and franchises, and all and every other interest shall be thereafter, as effectively the property of the surviving or resulting corporation."²²

Privilege Issues in Asset Sales

In the case of an asset sale, it is not always clear which party controls the privilege post-close. Generally, the sale of assets, without more, does not transfer the privilege.²³ The majority of recent cases look to the

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Court agrees that after the parties to the merger signed the merger agreement, they shared a common interest in ensuring that the newly agreed merger met any regulatory conditions and achieve shareholder approval With this in mind, the court sees significant benefit in allowing the [parties'] attorneys to communicate freely and openly and to exchange confidential documents.").

²¹ *Commodity Futures Trading Commission v. Weintraub*, 471 U.S. 343, 349 (1985) (U.S. Supreme Court recognized the general rule 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.").

²² Del. Code Ann. tit. 8, § 259 (West).

²³ See, e.g., *Zenith Elecs. Corp. v. WH-TV Broad Corp.*, No. 01 C 4366, 2003 WL 21911066, *1 (N.D. Ill. 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); *Pilates, Inc. v. Georgetown*

“practical consequences” rather than the formalities of the transaction.²⁴ If the practical consequences result in the transfer of control of the business and continuation of the business under new management, the authority to assert or waive the privilege will follow as well.²⁵ Courts have held that whether a transfer of assets preserves a claim of privilege is “a question of fact that should be answered based upon the totality of the circumstances and examined on a case-by-case basis.”²⁶ In determining whether the “practical consequences” of a given transaction result in the “transfer of control,” courts consider such factors as the extent of the assets acquired, including whether stock was sold, whether the purchasing entity continues to sell the same product or service, whether the old customers and employees are retained, and whether the same patents and trademarks are used.²⁷

Because the determination of whether the privilege remains with the seller or transfers to the buyer is determined on a case-by-case basis, individual case examples are illustrative. *Postorivo v. AG Paintball Holdings, Inc.*,²⁸ for example, involved an asset purchase agreement through which the seller sold substantially all of its assets. The agreement excluded certain assets, including the rights to proceeds received

in a piece of pending litigation. The asset purchase agreement provided that the buyer could purchase the seller’s rights in a judgment or settlement of the litigation for its fair market value. The seller in *Postorivo* was to provide the buyer with the filings related to the litigation as well as requested documents related to the case, but the asset purchase agreement specifically allowed the seller to withhold certain information to preserve the privilege. In a dispute between the buyer and the seller, the buyer argued that it controlled the privilege relating to the excluded asset. The Delaware Court of Chancery disagreed, and held that the privilege relating to the excluded asset remained with the seller. Analyzing the practical consequences of the transaction between the parties, the court determined that it made more sense for the seller to retain the privilege because the seller was actively prosecuting the litigation – an effort that would be hamstrung if the buyer controlled the privilege.²⁹ Lending further support to the seller’s position, the court explained, was the fact that the asset purchase agreement specifically provided that the seller would retain the privilege as to the excluded asset.³⁰

Likewise, in *Sobol v. E.P. Dutton, Inc.*,³¹ an author entered into contracts with a party for publication of a book series that granted certain rights to be shared with the author, including, for instance, picture and television rights. Those contracts were eventually assigned to another party, Dutton. In later litigation, the author sought production of communications between the first party with whom he contracted and the first party’s attorneys. Dutton argued, ultimately unsuccessfully, that it controlled the privilege as the successor-in-interest to the contracts. The court held that because there was no new management of the first party and the first party continued to exist and conduct business, the case involved a simple transfer of assets and thus the privilege remained with the seller.³²

In contrast to *Postorivo* and *Sobol*, there are also examples where the privilege does transfer to the buyer. For instance, in *Soverain Software LLC v. Gap, Inc.*,³³ the court found that the privilege belonged to the acquiring company. In *Soverain*, a software business filed for bankruptcy and a coalition of several bidders

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Bodyworks Deep Muscle Massage Ctrs., Inc., 201 F.R.D. 261 (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); *In re Grand Jury Subpoenas 89-3 and 89-4*, 734 F. Supp. 1207, 1211 n. 3 (E.D. Va.) (“[a] transfer of assets, without more, is not sufficient to effect a transfer of the privileges; control of the entity possessing the privileges must also pass for the privileges to pass”), *aff’d in relevant part*, 902 F.2d 244 (4th Cir. 1990).

²⁴ See, e.g., *American International Specialty Lines Insurance Co. v. NWI-I, Inc.*, 240 F.R.D. 401, 406 (N.D. Ill. 2007); *Soverain Software LLC v. Gap, Inc., et al.*, 340 F.Supp.2d 760, 763 (E.D. Tex. 2004).

²⁵ See, e.g., *Sobol v. E.P. Dutton, Inc.*, 112 F.R.D. 99, 103 (S.D.N.Y. 1986) (attorney-client privilege did not pass to acquiring corporation in asset sale because acquiring corporation was not successor-in-interest to or new management of the selling corporation).

²⁶ See, e.g., *SimpleAir, Inc. v. Microsoft Corp.*, No. 2:11-CV-416-JRG, 2013 WL 4574594, at *2 (E.D. Tex. Aug. 27, 2013).

²⁷ See, e.g., *M-I, LLC v. Stelly*, No. 4:09-cv-1552, 2010 WL 2196281, at *4–5 (S.D. Tex. May 26, 2010).

²⁸ No. 2991-VCP, 2008 WL 343856 (Del. Ch. Feb. 7, 2008).

²⁹ *Postorivo*, 2008 WL 343856, at *8.

³⁰ *Id.*

³¹ 112 F.R.D. 99 (S.D.N.Y. 1986).

³² *Id.* at 103.

³³ 340 F. Supp. 2d 760 (E.D. Tex. 2004).

was formed to purchase collectively a large portion of assets, then redistribute the assets to individual coalition members. One of the coalition members received certain patents of the bankrupt software business. Amazon argued that the entity could not claim attorney-client privilege regarding communications between the bankrupt company and its patent counsel regarding the acquired patents. The court disagreed and held that the acquiring company in essence continued the business of the bankrupt company by using the patents to sell the same product, servicing customers with contracts for the product, hiring engineering personnel, and retaining the inventors as consultants.³⁴ Amazon also argued that the use of the intermediary coalition in bankruptcy waived the privilege because assets were transferred first to the intermediary before being transferred to the acquiring company. Again the court dismissed Amazon's argument, holding that such a rule would severely curtail the options of bankruptcy courts and those administering bankruptcy estates.³⁵

In another case arising out of the transfer of assets in bankruptcy, *SimpleAir, Inc. v. Microsoft Corp.*,³⁶ Google filed a motion to compel production of documents that were withheld as privileged by the plaintiff. The lender to the bankrupt company bought the assets in bankruptcy and then sold them to SimpleAir, a company formed by the named inventors of the patents at issue in the dispute with Google. The business of SimpleAir was not to operate a business similar to the bankrupt company, rather it was a patent enforcement business. As such, the patents were not used in the same fashion as they had been by the bankrupt entity. Google focused on the disparate business models to assert that SimpleAir could not claim privilege between the original company and its patent counsel. The court nevertheless allowed SimpleAir to retain the privilege, citing numerous factors including the facts that (1) SimpleAir acquired the vast majority of the assets from the lender; (2) the inventors of the patents formed SimpleAir and were behind the acquisition, so their interest in preserving the privilege was the same at SimpleAir as it had been at the now-bankrupt entity; and (3) the value of a bankrupt business is not in continuing the failed business model, but in the assets.³⁷

As these cases demonstrate, practitioners should be aware that control of the privilege in asset sales hinges on the court's assessment of the "practical consequences" of the transaction. Careful analysis of the extent to which the sale transfers control of the company is helpful in predicting whether or not the seller will retain the privilege.

PRIVILEGE ISSUES RELATING TO TRANSACTION COMMUNICATIONS

A subset of the attorney-client privilege in the mergers and acquisitions context relates specifically to communications between the seller and its counsel regarding the deal and negotiation of the transaction. The ownership of this privilege becomes particularly significant in post-closing litigation between the buyer and the seller relating to the transaction. If the buyer controlled the privilege, it would be entitled to use the pre-merger communications between the seller and its counsel against the seller. Courts treat this privilege as a separate inquiry from the privilege needed to operate the business, and two primary approaches to this specific privilege have emerged: the "New York Rule" and the "Delaware Rule."

The New York Rule

The New York Rule articulates an exception to the general rule that the attorney-client privilege transfers to new management. Under the New York Rule, the privilege relating to deal negotiations is retained by the seller after the consummation of the transaction.

The New York Rule grew out of the New York Court of Appeals decision in *Tekni-Plex, Inc. v. Meyner & Landis*.³⁸ In *Tekni-Plex*, the issue was before the court on a motion to disqualify counsel and motions relating to access to certain documents. The New York Court of Appeals assessed communications in two categories: (1) privileged communications regarding the company's general operations and (2) privileged communications relating to the merger negotiations. On the second point, the Court of Appeals held that the privilege associated with the merger negotiations remained with the seller. The court reasoned that the new entity's misrepresentation and breach of warranty claims did not derive from the rights it inherited from the seller, rather, the rights of the seller with regard to disputes arising from the merger transaction remained independent from and adverse to the buyer. The court further explained that granting the new entity the privilege over the merger

³⁴ *Id.* at 763-64.

³⁵ *Id.* at 764.

³⁶ No. 2:11-CV-416-JRG, 2013 WL 4574594 (E.D. Tex. Aug. 27, 2013).

³⁷ *Id.* at *3.

³⁸ 89 N.Y.2d 123 (N.Y. 1996).

negotiation communications and documents would thwart rather than promote the purposes of the privilege.³⁹ The *Tekni-Plex* court emphasized that corporate actors should not labor under the threat that their privileged communications with counsel concerning the negotiations might be available to the buyer for use against it in any ensuing litigation because such a fear would significantly chill attorney-client interactions during the transaction.⁴⁰

The Delaware Rule

In stark contrast to the New York Rule, the Delaware Rule provides that control of any privileged communications in a merger – including those between the seller and its counsel related to the merger negotiations – passes to the buyer unless the parties otherwise agree in the merger agreement. The Delaware Rule was articulated by the Delaware Court of Chancery in *Great Hill Equity Partners IV, LP v. SIG Growth Equity Fund I, LLP*.⁴¹ In *Great Hill*, the sellers argued that the New York rule should apply, but the Court of Chancery rejected the application of such a rule, holding that it would be contradictory to Delaware General Corporation Law Section 259, which provides for the transfer of “all privileges” in a merger effectuated under Delaware law. The court rejected the seller’s argument that the privileges referred to in the statute did not include the attorney-client privilege because, the Court held, the only reasonable interpretation based on the plain language of the statute was that *all* privileges were transferred.⁴² The seller in *Great Hill* alternatively argued that an exception for privileged deal communications should be recognized, but the court declined to do so, explaining that it must enforce the statute as written, which sets forth a clear and unambiguous default rule that all privileges pass to the acquirer in a merger. The court emphasized in the opinion that the parties to a Delaware law asset transaction, merger, or sale of stock can negotiate special contractual agreements to protect themselves from automatic application of the statutory rule and prevent certain aspects of the privilege from transferring to the buyer.⁴³

It is worth noting that Delaware General Corporation Law Section 259 applies only in the context of mergers, and therefore the rule in Delaware relating to asset purchase negotiation documents is not yet settled.

The major takeaway of this discussion of privilege relating to transaction communications is that the parties to the deal should pay close attention to the law governing any possible dispute over privilege, as various jurisdictions have adopted vastly different approaches. Additionally, to the extent possible, the parties should specify in the transaction agreement who will hold the privilege for certain communications post-closing.

Waiver of Transaction Privilege

The rules discussed above regarding control of the privilege apply unless there is a waiver of the privilege. Knowing disclosure of privileged communications to third parties results in waiver of the privilege. As in the pre-closing context, parties to a merger transaction must also be aware of how privileges can be waived after the deal has closed to guard against waiver.

Mergers and asset purchase deals usually involve the transfer of computers and servers that house privileged communications, including those relating to deal negotiations. One issue that frequently arises post-closing is whether that transfer of computers and servers to the buyer waives the privilege. The short answer is: maybe.

Many courts have found waiver based on the granting of access to computers and servers post-closing. For example, *Kaufman v. SunGard Inv. Systems*⁴⁴ involved a dispute between the buyer and seller arising out of an asset acquisition. The seller’s communications with its counsel relating to the negotiation of the deal remained on the seller’s computers – which the buyer acquired – after the deal closed. The *Kaufman* court ultimately held that the privilege applicable to the communications at issue was waived because the seller deliberately transferred communication to the buyer.⁴⁵ The court underscored the fact that the seller did not remove or segregate communications with its counsel at the time of the closing, nor did it take steps to protect or segregate the existing communications after the closing.⁴⁶ In short, the seller failed to take reasonable measures to

³⁹ *Id.* at 138.

⁴⁰ *Id.* at 138-39.

⁴¹ 80 A.3d 155 (Del. Ch. 2013).

⁴² *Id.* at 158.

⁴³ *Id.* at 161.

⁴⁴ No. CIV.A.05-CV-1236, 2006 WL 1307882 (D.N.J. May 10, 2006).

⁴⁵ *Id.* at *3.

⁴⁶ *Id.*

withhold the communications or ensure their confidentiality. Moreover, the asset purchase agreement did not include any language regarding control of the privilege.

In another dispute involving an asset purchase agreement, *Current Medical Directions, LLC v. Salomone*,⁴⁷ the court likewise held that the seller waived the privilege applicable to its communications with counsel regarding the deal. The *Salomone* court concluded that disclosure of privileged communications results in waiver unless the party seeking the application of the privilege can show: (1) it intended to maintain confidentiality and took reasonable steps to prevent its disclosure; (2) it promptly sought to remedy the situation after learning of the disclosure; and (3) the party in possession will not suffer undue prejudice if a protective order is granted.⁴⁸ The court held that the privilege had been waived because, as in *Kaufman*, the seller did not take reasonable steps to prevent disclosure. Specifically, even though the contested e-mails were on the computer servers sold to the buyer in the acquisition, the seller made no effort to delete the e-mails from the server prior to or after the acquisition.⁴⁹

Significantly, waiver issues may arise not only where there is litigation between the buyer and the seller, but where there is litigation with a third party. In *Society of Professional Engineering Employees in Aerospace v. Boeing Co.*,⁵⁰ Boeing was involved in employment litigation. The transaction that gave rise to issues of privilege waiver in the litigation was Boeing's sale of its aircraft manufacturing company to Spirit. As part of the transaction, Boeing provided a one-year support period during which Boeing provided e-mail services to all Spirit employees until Spirit's own e-mail services were available. During that period, Spirit employees accessed their own e-mail accounts on the Boeing servers. After the support period had expired, the e-mail accounts were copied and transferred to Spirit's servers and Boeing's access was terminated. During the support period, however, Spirit employees had access to e-mails created or received by Boeing employees before the deal closed, and those e-mails were also transferred to Spirit's servers after the support period ended. In particular, Boeing's director of employee/union relations became a

Spirit employee, but post-closing he retained access to pre-closing communications with Boeing's in-house labor counsel. Three years after the transaction, Spirit provided several of these e-mails to the plaintiffs in response to a subpoena served in the employment litigation. When Boeing invoked the privilege, the court held that the privilege as to the communications between Boeing's then-director of employee/union relations and Boeing's counsel was waived when Boeing turned the communications over to Spirit. In short, Boeing did nothing to protect the privileged communications and failed to provide a reason that the privileged communications could not have been identified and protected.⁵¹

General Tips to Avoid Post-Claims Waiver

To avoid post-closing privilege waiver, an effort must be made to prevent disclosure of privileged communications. One way to protect the privilege is to include provisions in the merger agreement expressly indicating the intention to do so. Nevertheless, parties to a transaction should be warned that this is not always enough.⁵² Parties should also take reasonable steps to prevent disclosure, including actions intended to identify, isolate, and remove privileged communications before transferring computers or servers. Courts have honored parties' attempts to prevent disclosure. For instance, in *Orbit One Communications, Inc. v. Numerex Corp.*,⁵³ the parties entered into an asset purchase agreement. After the deal closed, litigation arose between the buyer and the seller, and the buyer argued that the seller waived certain deal negotiation documents because privileged communications remained on the seller's former president's work computer at closing, and the asset purchase agreement transferred ownership of that computer. The court found in favor of the seller and held there was no waiver because the buyer lacked possession or immediate control of the computer. Before the buyer took possession of the computer, the former president removed all possibly privileged communications concerning the acquisition from the computer and the company's servers. The court deemed these precautions reasonable and upheld the privilege.⁵⁴

⁵¹ *Id.* at *4.

⁵² See, e.g., *Zenith Elecs. Corp.*, No. 01 C 4366, 2003 WL 21911066, *1 (holding there was waiver despite a provision in the agreement regarding control of the privilege where the documents were transferred).

⁵³ 255 F.R.D. 98 (S.D.N.Y. 2008).

⁵⁴ *Id.* at 108.

⁴⁷ No. 600941/06, 2010 WL 724686 (N.Y. Sup. Feb. 2, 2010).

⁴⁸ *Id.* at *10.

⁴⁹ *Id.* at *10-11.

⁵⁰ No. CIV.A. 05-1251-MLB, 2010 WL 3083536 (D. Kan. Aug. 5, 2010).

Counsel can remove privileged communications in a few ways. For instance, during deal negotiations, the parties involved can create a special designated e-mail folder for privileged communications, and save all privileged or potentially privileged e-mails there, including sent items. After closing, the e-mail folder can be removed and withheld. Along a similar vein, corporate counsel can make it a negotiation point with the buyer that the seller be permitted to remove all e-mails with counsel during a set time period, regardless of content. Because both scenarios include the seller taking affirmative steps to remove e-mail items, it may be prudent to include an “inadvertent production clause” in the deal agreement. These clauses are common in litigation in large e-discovery matters, and essentially provide that (1) the seller is taking steps to remove privileged communications, (2) in the event the buyer finds any privileged communications belonging to the

seller, it does not operate as waiver of the privilege, (3) the buyer is obligated to notify the seller if it finds any such privileged communications, (4) the buyer must return all copies to the seller, and (5) the buyer agrees not to use the inadvertently disclosed documents in any litigation.

CONCLUSION

Given the number of privilege issues that arise in the context of mergers and acquisitions both before and after the deal closes, it is critical for corporate counsel to be aware of the myriad ways privilege can be waived or transferred in the course of these transactions. Because courts in various jurisdictions differ in their approaches to these issues, special consideration must be paid to the specific law of the forum. ■