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THE JUDICIAL SYSTEM'S UNJUST RELATIONSHIP WITH ATTORNEY-CLIENT PRIVILEGE: HOW JUDGES KNOWINGLY (AND ERRONEOUSLY) ABROGATE IMPORTANT CONTRACTUAL ARRANGEMENTS IN CORPORATE TRANSACTIONS

*Edward S. Adams**

A company retains outside counsel to manage its legal affairs. Over several years, the attorneys help the company manage its tax, environmental, and employment issues. Facing an economic downturn, the company decides its best option is to sell off a substantial portion of its assets to sustain the company as it weathers the economic winds and determines what its future as a company should look like. Outside counsel helps the company negotiate the asset transfer agreement with a Buyer, and the parties agree to a provision that explicitly allows the Seller to retain control of the attorney-client privilege over certain excluded assets. The contract specifically defines what constitutes the excluded assets, including legal liabilities that may arise from operations prior to closing.

Sometime after closing, government agencies begin investigating how certain assets, now owned by the Buyer, complied with environmental laws while the Seller used them in their operations. These agencies seek documents and communications between the Seller and its legal counsel from the time of the alleged violations of law. The Seller and its counsel assert that attorney-client privilege protects those past communications from disclosure. The government then turns to the Buyer, who has come to possess the assets and a large portion of the communications in question because of the asset transfer, and requests that the Buyer waive the attorney-client privilege over these communications. The Buyer, not wanting to face the ire of a government body, quickly complies and waives any attorney-client privilege it may hold over the communications. Now in possession of the communications, governmental prosecutors bring legal action against the Seller for alleged violations of environmental laws and hope to use the communications at trial. The Seller moves to exclude the communications, as they would have been obtained in violation of the attorney-client privilege. Pointing to the asset transfer agreement and the provision ad-

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dressing pre-asset transfer liabilities, the Seller asserts that the clear terms of the agreement left the Seller with power over the attorney-client privilege for these communications.

Despite these clear terms that both parties understood, a results-oriented judge finds a way to ignore the plain-language of the contract. Instead of respecting the terms of the asset purchase agreement and finding that the Seller retained the rights over the attorney-client privilege, the judge believes the effect of the transaction was that the Seller sold its entire business and rights. As a result, the Buyer's waiver is deemed effective and the communications that were once privileged are open to all sides. Now, the Seller (and its legal counsel, potentially) faces grave legal consequences, ranging from fines to prison time.[1] How could this happen?

Some courts and commenters have suggested that the attorney-client privilege should not be transferable by contract in a sale of assets between two companies.[2] This view of attorney-client privilege in the corporate context can lead to odd results where parties have contracted for the privilege but courts fail to recognize the terms of the parties' agreement. Negotiated alienability of attorney-client privilege in the context of transfer-of-asset deals is essential to predictable, efficient business outcomes and best reflects the intention of the bargaining parties. A failure to protect asset-transfer transactions or to recognize the terms of a negotiated contract leads to unexpected and unjust results—and asserted privileges may be disregarded. In some situations, it can even lead to infringement of basic liberties.

Why do courts feel they can disregard the plain terms of an agreement?[3] The precedent governing the transfer of attorney-client privilege lays out a foundational test—which most courts adhere to when analyzing a transaction like the one above—that asks: 1) whether a sale also transferred control of the business, and 2) whether the acquiring corporation's management has continued the selling corporation's business.[4] Ultimately, and remarkably, the courts often examine the "practical consequences" of the transaction and intentionally ignore the language agreed to by the parties to determine whether transfer of the business has taken place.[5] In doing so, courts have expanded this ambiguous test

1. In the case of the attorney-defendant in United States v. Adams, No. 0:17-CR-00064-DWF-KMM, 2018 U.S. Dist. LEXIS 41165 (D. Minn. Mar. 12, 2018), which is discussed below, the government pressured the defendant's own in-laws to provide testimony favorable to the government's theory of its case—a case the government later dismissed in its entirety when the true facts emerged—by using emails in its possession as leverage against the testifying parties.

2. *See, e.g.*, Zenith Elecs. Corp. v. WH-TV Broad. Corp., No. 1 C 4366, 2003 WL 21911066, *1 (N.D. Ill. Aug. 7, 2003); Am. Int'l Specialty Lines Ins. Co. v. NWI-I, Inc., 240 F.R.D. 401 (N.D. Ill. 2007); Grace M. Giesel, *Control of the Attorney-Client Privilege After Mergers and Other Transformational Transactions: Should Control of the Privilege be Alienable by Contract?*, 48 SETON HALL L. REV. 309 (2018).

3. *See, e.g.*, *Zenith Elecs. Corp.*, 2003 WL 21911066 at *2; *Am. Int'l Specialty Lines Ins. Co.*, 240 F.R.D. 401; *Adams*, 2018 U.S. Dist. LEXIS 41165.

4. Commodity Futures Trading Comm'n v. Weintraub, 471 U.S. 343, 349 (1985).

5. *See, e.g.*, Tekni-Plex, Inc. v. Meyner & Landis, 674 N.E.2d 663, 668 (N.Y. 1996).

beyond its original intention. When applied to asset transfers, it becomes clear that the public policy purposes behind the "practical consequences" framework are not fulfilled by ignoring plain contract terms.

A Delaware court has recently recognized the need to enforce contracts that delineate where the attorney-client privilege rests after an asset transfer.[6] This Article will argue that courts across the country should recognize the important and legitimate reasons for this type of decision. Part I will review how the attorney-client privilege functions for corporations and how courts respect the importance of the privilege in other contexts. Part II will review the fundamental corporate changes in which these questions can arise and situations in which courts choose to recognize the importance of protecting the attorney-client privilege. Part III will argue that courts should apply certain underlying principles that are discussed in Parts II and III to the asset-transfer context. This would result in parties being permitted to contemplate attorney-client privilege issues that may arise following an asset sale and contract to resolve the issues before they ever truly come to fruition. Example provisions are provided as a conclusion.

I. How Does Attorney-Client Privilege Work in the Corporate Context?

Attorney-client privilege is the longstanding common law principle that communications between a lawyer and a client are to be kept confidential and protected from disclosure under most circumstances.[7] The attorney-client privilege protects communications (1) between a client and their attorney, (2) that were intended to be and were in fact kept confidential, and (3) that were made for the purpose of obtaining or providing legal advice.[8] The goal of this privilege is to facilitate open and full communication between clients and their attorneys.[9] Attorneys need to know the facts of the case that they have taken on, and clients need to know their rights, the surrounding law, and how both affect their legal matter. Accordingly, this privilege extends to both individuals and legal entities, such as a corporation. [10]

The seminal corporate attorney-client privilege case is *Upjohn Co. v. United States*. In *Upjohn*, Upjohn Co. was conducting an internal investigation regarding payments made by one of its foreign subsidiaries to or for the benefit of foreign government officials.[11] Upjohn Co., acting in tandem with its General Counsel and outside counsel, distributed a confidential questionnaire to "All

6. *See* DLO Enters., Inc. v. Innovative Chem. Prods. Grp., No. 2019-0276-MTZ, 2020 Del. Ch. LEXIS 202 (Del Ch. June 1, 2020).

7. *See* Upjohn Co. v. United States, 449 U.S. 383, 389 (1981).

8. *In re* County of Erie, 473 F.3d 413, 419 (2d Cir. 2007).

9. *Id.*

10. *Upjohn*, 449 U.S. at 390.

11. *Id.* at 386.

Foreign General and Area Managers" as part of an investigation into the matter.[12] The responses to this questionnaire from Upjohn Co. employees were sent to the General Counsel.[13] Meanwhile, the Internal Revenue Service had begun its own investigation into the tax consequences of these payments and sought production of the questionnaire.[14] The Supreme Court ultimately sided with Upjohn Co.'s objections that the questionnaire and the responses were privileged communications between a client and its counsel.[15]

The Court noted the conflicting interests of the lower court's "control group" test, which essentially held that, if communications are made by an employee "in a position to control or even to take a substantial part in a decision about any action which the corporation may take upon the advice of the attorney," the privilege applies.[16] This framework would disincentivize corporations from investigating their own conduct—or, at the very least, uncovering all substantive facts—because their attorney-client privilege only protects communications made amongst the "control group."[17] The Court correctly determined that the results of this test would contravene the basic purposes of attorney-client privilege.[18] Accordingly, the privilege was extended to the confidential communications between the corporation's employees and its counsel.[19]

The *Upjohn* Court recognized the importance of attorney-client privilege having a predictable application.[20] The "control group" test was largely unpredictable and it led to divergent decisions.[21] This uncertainty posed problems for parties hoping to uncover wrongdoing within their own organization or parties pursuing, discussing, or evaluating various legal remedies available to them. As such, the "control group" test made it impossible for parties to know ahead of time whether their communications would be treated as privileged. Accordingly, the *Upjohn* Court's recognition that the privilege applies more broadly compared to the "control group" test was premised on the importance of predictability.

The importance of predictability should not be understated. This is especially true in the corporate context where management regularly seeks legal counsel to comply with laws that are sometimes arbitrary and rarely instinctive.[22] Securing open and complete legal advice requires shared trust between the attorney and the corporation, which grows more complicated as board members, man-

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12. *Id.* at 386-87.
13. *Id.* at 387.
14. *Id.* at 388.
15. *Id.* at 397.
16. Upjohn Co. v. United States, 449 U.S. 383, 390 (1981).
17. *Id.* at 391-92.
18. *Id.* at 392.
19. *Id.* at 394-95.
20. *Id.* at 393.
21. *Id.*
22. Upjohn Co. v. United States, 449 U.S. 383, 392 (1981).

agement, and employees communicate with attorneys on behalf of the corporation. Acting in conformity with the law requires both sides of an attorney-client relationship to trust that all "bad facts" have been brought to light so that attorneys can properly represent the corporation. The chances of these "bad facts" being revealed dramatically decrease as the application of the privilege becomes more unclear. Courts should always be working towards treating the privilege as one that has clear and predictable application, with the possibility of private parties agreeing amongst themselves how it should be assigned.

Yet, unlike in the individual context, the application of the attorney-client privilege in the corporate context gives courts trouble due to the nature of corporations—ownership and control is subject to change, thereby allowing for control over the attorney-client privilege to change as well. In *Commodity Futures Trading Commission v. Weintraub*, Chicago Discount Commodity Brokers filed for bankruptcy after being investigated by the Commodity Futures Trading Commission for potential violations of the law.[23] The corporation's former counsel, Gary Weintraub, refused to answer several questions under deposition from the Commission on the grounds that answering them would require breaking attorney-client privilege.[24] The Commission sought and received waiver of all attorney-client privilege from the bankruptcy trustee, John Notz, over any communications prior to Notz' appointment as the bankruptcy trustee.[25] The Supreme Court found that this waiver was sufficient to compel Weintraub to testify, as there were then no grounds to assert the privilege.[26]

It was not in dispute that the corporation's management could control and waive the corporation's attorney-client privilege or that this power passed to new management as well.[27] What was crucial was the Court's determination that, as a result of the bankruptcy trustee's extensive powers and responsibilities, "the trustee plays the role most closely analogous to that of a solvent corporation's management."[28] Because Notz, as the trustee, was effectively the manager of the insolvent corporation, Notz controlled the corporation's attorney-client privilege and his waiver of the privilege over the information in question was effective.[29]

A key takeaway from *Weintraub* is how the attorney-client privilege can be transferred and how courts justify the practice. If management of the corporation changes hands, the corporation's attorney-client privilege is held by the new management. Accordingly, the new management can choose to waive its privilege over communications that, prior to the changing of hands, were pro-

23. Commodity Futures Trading Comm'n v. Weintraub, 471 U.S. 343, 345 (1985).

24. *Id.* at 346.

25. *Id.*

26. *Id.* at 358.

27. *Id.* at 349.

28. *Id.* at 353.

29. Commodity Futures Trading Comm'n v. Weintraub, 471 U.S. 343, 353-54 (1985).

tected from disclosure. The old management cannot control how the current management operates, including how it chooses to assert or waive the privilege.

This decision is important for understanding how courts have been led astray when applying this basic principle to transactions like asset sales. While this outcome was appropriate in this case, courts have improperly extended the principle to asset sales by ignoring what makes asset purchases unique in both the eyes of the law and the practical business world. While some precedent appears to respect the importance of clear asset purchase agreements, there is still a great degree of ambiguity left to be resolved.[30] Until it is resolved, attorneys working to negotiate these agreements may find themselves unsure if provisions protecting aspects of the attorney-client privilege will be enforced.

A. *Why is Attorney-Client Privilege Important?*

The unfairness of uncertain applications of attorney-client privilege is even more apparent in the context of a criminal action. When an individual faces a loss of their liberty, it is of the utmost importance that attorney-client privilege is maintained or at least clearly applied. The Fifth Amendment's right against self-incrimination is one of the most well-known principles of criminal law. Each time an arrest is made, the accused should hear a *Miranda* warning,[31] which includes the right to remain silent, and the accused in a criminal action is permitted to keep silent in the face of prosecutorial questioning before and during trial.[32] The Fifth Amendment's extensive history and sometimes controversial results are a product of both its position in the Constitution and its importance to a fair criminal justice system.[33] This emphasis on fairness in the face of prosecutorial coercion is further exemplified by the Sixth Amendment's right to counsel.[34] The Sixth Amendment recognizes that the accused still needs proper legal counsel to understand their rights and to navigate the criminal justice system.[35] Due to the seriousness of being charged with a crime—and the

30. *See* discussion *infra* Part III.C.

31. *See* Miranda v. Arizona, 384 U.S. 436 (1966).

32. *See* Ohio v. Reiner, 532 U.S. 17 (2001). The Fifth Amendment's protection against self-incrimination can potentially even extend to a witness who is not accused of the crime in question. *See id.* at 18, 21-22. In *Reiner*, a witness in an involuntary manslaughter trial was able to invoke her right against self-incrimination. *Id.* at 22. She asserted her innocence and was not accused of the crime, yet the court found it reasonable that she might fear being implicated in the alleged crimes by her answers. *See id.* at 18, 21-22.

33. *See, e.g.*, Berghuis v. Thompkins, 560 U.S. 370 (2010). The defendant in *Berghuis*, suspected of a fatal shooting, was given his *Miranda* rights and subjected to police interrogation. *Id.* at 374. He remained silent for three hours but never explicitly invoked his right to remain silent. *Id.* at 374-75. He eventually gave incriminating statements that led to his conviction. *Id.* at 376. On appeal to the Supreme Court, the Court found, in a 5-4 decision, that his Fifth Amendment rights had not been infringed since he had waived his right to remain silent through the voluntary statements. *Id.* at 388-89.

34. *See, e.g.*, Gideon v. Wainwright, 372 U.S. 335 (1963) (extending the right to counsel to state criminal proceedings).

35. *Id.* at 345.

unique legal challenges presented by the criminal justice system—even sophisticated parties are customarily left to retain legal counsel in order to mount a proper defense.[36]

However, once the accused has invoked their right to silence, who are they to turn to? Their most reliable confidant in the moment is invariably their attorney. By permitting the accused to communicate with their attorney confidentially through the protection of the attorney-client privilege, society recognizes that justice can only be attained when the accused is permitted to privately discuss their situation and receive advice, free from the threat of disclosure.[37] This privilege may prevent certain underlying facts from coming to light (and the defense strategy of the accused as well), but the balance of interests weighs towards privileged confidentiality when comparing the resources of a single individual to that of a government body bringing criminal charges.[38]

To what extent does society at large respect and expect this privilege? And to what extent are these expectations actually mirrored by our courts? As a common law principle, attorney-client privilege inevitably does not receive the same respect as constitutionally enshrined rights. So how are judges meant to respect the privilege in unusual circumstances, while also providing fair and just results to all interested parties? Is ambiguity fair to criminal defendants? If not, how can this ambiguity be resolved?

One such unusual circumstance can involve the investigation of a lawyer. In a recent high-profile case, the Federal Bureau of Investigation raided attorney Michael Cohen's office, seizing documents that fell under the attorney-client privilege.[39] After legal counsel for Cohen was permitted to review the docu-

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36. *Id.* ("Even the intelligent and educated layman has small and sometimes no skill in the science of law. If charged with crime, he is incapable, generally, of determining for himself whether the indictment is good or bad. He is unfamiliar with the rules of evidence. Left without the aid of counsel he may be put on trial without a proper charge, and convicted upon incompetent evidence, or evidence irrelevant to the issue or otherwise inadmissible. He lacks both the skill and knowledge adequately to prepare his defense, even though he have a perfect one. He requires the guiding hand of counsel at every step in the proceedings against him. Without it, though he be not guilty, he faces the danger of conviction because he does not know how to establish his innocence." (quoting Powell v. Alabama, 287 U.S. 45, 68-69 (1932))).

37. *See* In re Itron, Inc., 883 F.3d 553, 562 (5th Cir. 2018) (discussing the importance of the privilege even if it resulted in important evidence being withheld. "But a privilege that gives way whenever its contents become relevant or even 'highly relevant' to an opposing party's arguments cannot serve this purpose. Such a defeatable 'privilege' is hardly a privilege at all. Such a rule would also fail to protect the client's confidences when protection is needed most. And the rule's unpredictability would impair the client's ability to safely confide in counsel." (citations omitted)).

38. *See generally* Lance Cole, *Revoking Our Privileges: Federal Law Enforcement's Multi-Front Assault on the Attorney-Client Privilege (and Why It Is Misguided)*, 48 VILL. L. REV. 469, 483 (2003) (discussing how protecting attorney-client privilege actually furthers various societal interests, like the "efficient administration of justice," the "effective functioning of our legal system," and voluntary compliance with the law).

39. Claire Foran, *Michael Cohen Raid and Attorney-Client Privilege: What is a 'Taint Team'?,* CNN, https://www.cnn.com/2018/04/10/politics/cohen-raid-trump-attorney-client-privilege/index.html (April 10, 2018).

ments, the FBI set up a "taint team" to make a determination as to whether the seized documents were privileged or not.[40] Under the expected procedures, a taint team is meant to consist of "neutral" individuals who sort through seized documents to maintain the attorney-client privilege of all affected parties.[41] Despite these noble aspirations, the "neutral" individuals used for these taint teams often work in the same office as the prosecution.[42] These conflicts of interest have led to growing criticism over the use of taint teams.

In *In re Search Warrant Issued June 13, 2019*, the government, pursuant to a search warrant, seized documents from a law office.[43] A taint team was put in place to go through these documents to determine whether they were non-privileged, encompassed by the search warrant, or privileged.[44] The law firm sought injunctive relief from this practice, which the lower court had denied.[45] The Fourth Circuit Court of Appeals reversed the district court, holding that the taint team's review of the seized documents was injurious and irreparable.[46] The court emphasized the impropriety of allowing the Executive Branch, the prosecutor in the case, to assume judicial powers and make decisions as to what constituted privileged materials.[47] This apparent violation of the Nondelegation Doctrine was exasperated by the use of non-lawyers in the taint team.[48] The court ultimately concluded that the magistrate judge or an appointed special master should bear the responsibility of reviewing the materials to determine whether they would be privileged.[49] Anything else would be counter to the goals of attorney-client privilege in the sense that the party who is meant to be barred from access to privileged information is the same party deciding whether it should enforce that restriction.[50]

In *In re Grand Jury Subpoenas 04–124–03 & 04–124–05*, the Sixth Circuit Court of Appeals provided another example of judicial skepticism towards taint teams and their potential to easily infringe on the attorney-client privilege. Ven-

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40. Alan Feuer, *Judge Orders Document Review in Cohen Case to End Next Week*, NEW YORK TIMES, https://www.nytimes.com/2018/06/26/nyregion/cohen-trump-document-review.html (June 26, 2018).

41. United States v. Pedersen, No.3:12–cr–00431–HA, 2014 WL 3871197, at *29 (D. Or. Aug. 6, 2014).

42. *See* Robert J. Anello & Richard F. Albert, *Government Searches: The Trouble With Taint teams; White-Collar Crime*, N.Y. L. J., (Dec. 5, 2016), https://www.law.com/newyorklawjournal/almID/1202773889792/government-searches-the-trouble-with-taint-teams/?slreturn=20200205143556.

43. *In re* Search Warrant Issued June 13, 2019, 942 F.3d 159 (4th Cir. 2019), *as amended* (Oct. 31, 2019).

44. *Id.* at 166.

45. *Id.* at 169.

46. *Id.* at 175.

47. *Id.* at 176.

48. *Id.* at 177.

49. *In re* Search Warrant Issued June 13, 2019, 942 F.3d 159, 181 (4th Cir. 2019), *as amended* (Oct. 31, 2019).

50. *Id.* at 179, 181.

ture Holdings LLC (Venture) filed for bankruptcy and reorganized under new management.[51] The bankruptcy proceedings led to increased scrutiny regarding what was believed to be fraudulent transfers by the former Venture CEO and owner, Larry Winget, to other companies that Winget owned while associated with Venture (Affiliated Companies).[52]

The federal government took interest in the matter and eventually issued several grand jury subpoenas to the reorganized New Venture.[53] When Winget and the Affiliated Companies filed motions to intervene and modify the subpoenas to preserve purported personal and corporate attorney-client privileges, the government proposed a taint team that would make the determination as to the privileged status of the numerous documents in question.[54] The district court approved the taint team plan, thus further denying Winget and the Affiliated Companies' requests to initially review the documents themselves to make specific privilege claims.[55]

The 6th Circuit reversed, unpersuaded by the government's promises to "act conservatively, and [to] err on the side of caution."[56] The court was not concerned with "the merits of any potential privilege claims" because it was far more concerned that the taint team "procedure[s] would present a great risk to the appellants' continued enjoyment of privilege protections."[57] There were "inevitable, and reasonably foreseeable" risks that confidential information could leak beyond what was supposed to be a closed, neutral team.[58] To remedy the situation, the court appointed a Special Master to conduct a proper privilege review.[59]

In the criminal context, the attorney-client privilege unsurprisingly does not receive the same type of protection by courts that rights found in the Constitution do. However, taint team use encroaches on the rights afforded to criminal defendants, so the outstanding question is whether any particular Constitutional provision prohibits their use. Taint teams are used primarily in the initial investigation to determine whether charges will be brought. Because of this, the Sixth Amendment may not protect attorney-client privilege in the taint team context because some courts require charges to be brought against someone before the

51. *In re* Grand Jury Subpoenas 04–124–03 & 04–124–05, 454 F.3d 511, 513 (6th Cir. 2006).

52. *Id.*

53. *Id.* at 514.

54. *Id.* at 514-15.

55. *Id.* at 515.

56. *Id.* at 517, 524.

57. In re Grand Jury Subpoenas 04–124–03 & 04–124–05, 454 F.3d 511, 516, 522 (6th Cir. 2006). Importantly, the government did not yet possess the documents, negating any argument based in exigency. *Id.* at 523.

58. *Id.*

59. *Id.* at 524.

Sixth Amendment rights can attach to an individual.[60] Without protection under the Sixth Amendment, where should one turn for protection of the goals of attorney-client privilege?

One might believe that the Fifth Amendment and the principles of due process would preempt attempts by prosecutors to decide for the court what constitutes privileged materials. However, the standard for establishing Fifth Amendment violations is likely too high for defendants to find protections against taint team use. Defendants must show government misconduct that is "shocking to the universal sense of justice" and so intrusive into the attorney-client relationship that he or she suffered substantial prejudice.[61]

This standard immediately leaves a defendant—and their attorney—wondering how they could possibly meet such a high bar in the criminal context. Taint team procedures happen behind closed doors and within the internal system of the prosecutor's office. Outside of a clear admission, there would simply be no way of proving that information has or has not leaked because of misconduct by personnel on a taint team.

The Fourth Amendment may provide the strongest constitutional challenge to the use of taint teams. Under the Fourth Amendment, the government cannot unreasonably search and seize from areas in which an individual has a reasonable expectation of privacy.[62] Even if the government has a warrant for part of what is searched, seized, and reviewed by a taint team, information and communications outside the scope of the warrant are inevitably caught up in the prosecutorial net, so it appears that courts should lean towards restricting their use under the principles of the Fourth Amendment. However, that has not proven true; instead, courts are lenient and rely on doctrines like the good faith exception to the Fourth Amendment.[63]

Although courts largely seek to protect the scope of the privilege, the examples discussed above illustrate the potentially precarious position the privilege may find itself in. In the criminal context, the importance of the privilege is clear: fairness requires that individuals facing a loss of liberty should be entitled to frank and unfiltered communication with their legal counsel. Courts more easily recognize this when making decisions that have liberty-infringing implications. When the power and resources of a government body are pointed towards the prosecution of an individual, it is easy for courts to rationalize stepping in and ensuring fair rules. There is a societal interest in ensuring predictable results for individuals affected by the wide net cast by prosecutors. Taint teams create severe uncertainty; they may allow for prosecutors to have easy access to privileged communications. This uncertainty has prompted de-

60. *See* Steven J. Mulroy, *The Bright Line's Dark Side: Pre-Charge Attachment of the Sixth Amendment Right to Counsel*, 92 WASH. L. REV. 213 (2017).

61. United States v. Tillisy, No. CR13-310RSL, 2014 U.S. Dist. LEXIS 161028, at *5 (W.D. Wash. Nov. 14, 2014) (quoting from United States v. Gurolla, 333 F.3d 944, 950 (9th Cir. 2003)).

62. *See* Katz v. United States, 389 U.S. 347, 360-61 (1967) (Harlan, J., concurring).

63. United States v. Jarman, 847 F.3d 259, 261 (5th Cir. 2017).

served skepticism regarding their use. And the question remains: why don't courts respect the importance of a predictable application of attorney-client privilege in corporate dealings and civil courts?

Courts should understand the important role they play in protecting the attorney-client privilege and its crucial role in the judicial system. It is incumbent on courts to recognize the inherent injustice of taint teams and their potential to infringe on the rights and privileges of criminal defendants. Business entities understand the importance of who controls the privilege and have addressed who possesses control over it in various types of transactions. When economic interests, important legal rights, and jobs are on the line, businesses want to ensure that their rights and interests are protected by contract. It would be prudent to respect any provisions that seek to resolve the judicial system's unpredictable relationship with attorney-client privilege.

II. Fundamental Corporate Changes

Before reviewing specific examples of how the attorney-client privilege functions in the corporate context, it is important to remember the numerous ways that fundamental corporate changes can take place. Parties may choose to transfer their stock, merge with another corporation, or sell certain assets. They each have unique motivations behind them, and they each can have drastically different results and legal consequences. Attorneys practicing in this area must understand these unique legal consequences and how they relate to their clients' goals. These varying options provide a foundation by which companies can engage in efficient transactions with predictable results. If the results were less predictable, companies could choose not to engage in these transactions on the grounds that their uncertainty creates too much risk. This would undermine the societal benefits of commerce and hinder future growth and change.

A. *Stock Transfers*

The legal significance of a stock transfer hinges on the fundamentals of how stock relates to corporate control. For example, under Delaware law, corporations must explicate the amount of authorized stock in their certificate of incorporation.[64] Corporations can create separate classes or series of stock with unique rights or privileges, but the default rules provide that ownership of common stock constitutes control over one vote in the corporation.[65] Stockholder voting, in turn, is required for many corporate actions, such as the election of the board members who direct the corporation.[66] In the case of some actions that fundamentally alter the status of the corporation, like a merger, the

64. DEL. CODE ANN. tit. 8, § 102(a)(4).

65. DEL. CODE ANN. tit. 8, § 151, DEL. CODE ANN. tit. 8, § 212(a).

66. DEL. CODE ANN. tit. 8, § 216(3).

approval of a majority of all stockholders is necessary.[67] In summary, while each state's laws for corporate organization have some degree of variety, control of a corporation is dependent on who owns the stock, and majority ownership of stock gives immense control over many aspects of a corporation. There are often legal, business, and practical consequences to this change of stock control.

In *Norlin Corp. v. Rooney, Pace, Inc.*, Norlin Corporation (Norlin) was facing a hostile takeover by Rooney, Pace Inc (Rooney) and Piezo Electric Products, Inc. (Piezo).[68] Norlin began fearing a takeover when Rooney and Piezo, through several transactions, purchased approximately 32% of Norlin's outstanding stock.[69] In an attempt to defend the current standing of the corporation, Norlin made several stock transfers of common and preferred stock that led to Norlin's directors controlling 49% of the corporation's outstanding stock.[70] Yet, these transfers were done without shareholder approval, in violation of New York Stock Exchange (NYSE) rules; the NYSE responded by delisting Norlin's common stock and moving towards delisting the company from the exchange.[71]

Piezo sought a preliminary injunction to have the stock transfers declared void to avoid Norlin's removal from the stock exchange and to prevent Norlin from voting the shares for any reason.[72] The court recognized the self-interested and self-entrenching motives of the directors' stock transfers.[73] The court thus affirmed the lower court's grant of a preliminary injunction on the ability to vote the shares because of the "probable illegality" of the share transfers and the "irreparable harm" that followed.[74]

The scenario in *Norlin* underscores the significance of stock transfers and stock control. Although Norlin and Piezo found themselves on opposite sides of a hostile takeover, both understood what was at stake. Suppose Norlin had successfully made the stock transfers and gained greater control over the corporation's shares – in that case, the directors could have kept themselves in their powerful positions of control over the corporation. In other words, they would keep their jobs. Further, if Piezo could wrestle control away from Norlin, Piezo could have greater control over which individuals sat on Norlin's board and what actions Norlin took as a corporation.

Another important aspect of *Norlin* is the method by which Piezo attempted to take control. This takeover makes no mention of merger discussions between the two parties, meaning their relationship was not viewed as even potentially

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67. DEL. CODE ANN. tit. 8, § 251.
68. Norlin Corp. v. Rooney, Pace, Inc., 744 F.2d 255, 258 (2d Cir. 1984).
69. *Id.* at 259.
70. *Id.*
71. *Id.* at 260.
72. *Id.*
73. *Id.* at 265-67.
74. Norlin Corp. v. Rooney, Pace, Inc., 744 F.2d 255, 269 (2d Cir. 1984).

mutually beneficial.[75] Piezo must have believed the only reasonable pathway to taking over Norlin was to acquire the already outstanding shares. If not, it would have pursued more amicable and cooperative merger discussions by which it could have clarified the terms of the transaction and achieved much less uncertain results. To simplify, there were specific business and legal motivations behind Piezo's stock purchases. Piezo did not just want Norlin's assets, and it could not acquire Norlin by way of a merger transaction, so it sought the various pieces that constitute control over Norlin: its stock.

B. *Mergers and Acquisitions*

Mergers and acquisitions deserve the greatest focus when discussing fundamental corporate changes. Mergers can take several forms and have differing motivations, but the common formula starts with two constituent corporations: an acquiring party and a target party. The two entities ultimately become one by completion of the merger. While that basic formula may seem simple, mergers can involve complex and creative transactions that demonstrate why they are appealing for businesses looking to make drastic changes.

City of North Miami Beach General Employees' Retirement Plan v. Dr Pepper Snapple Group., Inc. demonstrates a reverse triangular merger. In the reverse triangular merger, a Dr Pepper subsidiary, Salt Merger Sub, Inc. (Merger Sub), merged with Maple Parent Holdings Corp. (Maple Parent) with Maple Parent being the surviving corporation after the merger.[76] Merger Sub merged into Maple Parent, and Maple Parent then became the subsidiary of Dr Pepper.[77] Each Merger Sub common stock share was converted into a share of Maple Parent's stock, and each Maple Parent common stock share was then converted into a right to receive new shares of Dr Pepper common stock.[78] Maple Parent was required to declare a $9 billion cash dividend to Dr Pepper prior to closing of the merger.[79] As a result of the transaction, Maple Parent would own 87% of Dr Pepper's common stock, and JAB Holding Company would be Dr Pepper's controlling stockholder.[80]

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75. *Id.* at 265 n.7.

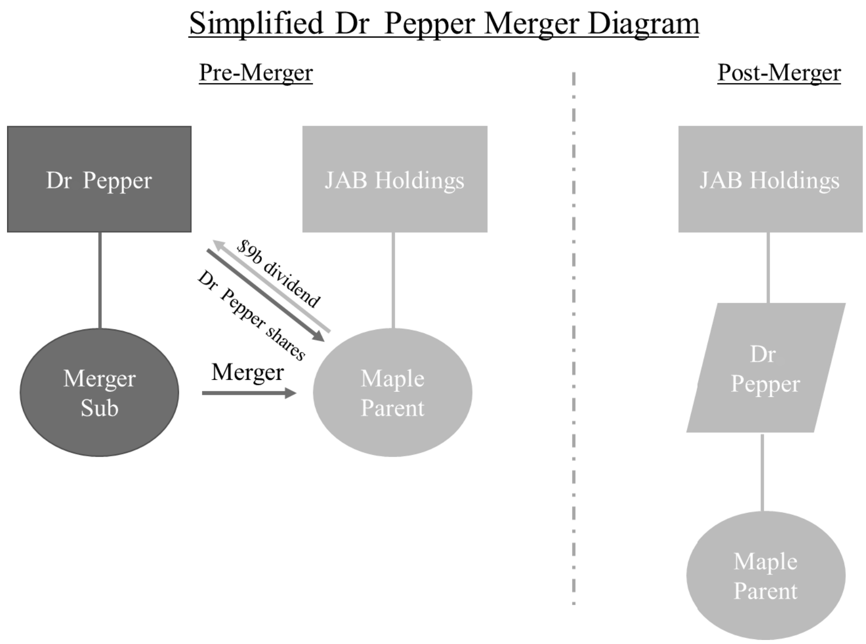
76. City of N. Miami Beach Gen. Emps.' Ret. Plan v. Dr Pepper Snapple Grp., Inc., 189 A.3d 188, 193 (Del. Ch. 2018).

77. *Id.*

78. *Id.*

79. *Id.*

80. *Id.*



The transaction illustrates several important mechanisms and aspects of a merger. First, it may involve subsidiaries merging or acquiring at the behest of parent companies. The parent companies own large portions of the subsidiaries' stock and use those shares as bargaining chips in the negotiations. This creates a certain amount of flexibility for the transaction in that there is not just a single percentage of control that can be sold or divided; an acquiring party could take complete ownership or majority ownership depending on its capabilities or goals. This also maintains the legal barriers between subsidiaries and parent companies so that parent companies are still protected from the potential liabilities of a target subsidiary. It is also necessary to reemphasize how the blackletter law can influence the ramifications of a merger. In the case of *Dr Pepper Snapple Group., Inc.*, it was a question of Delaware law and whether, under Section 262 of the Delaware General Corporation Law, Dr Pepper's stockholders, as the parent corporation, were entitled to appraisal rights.[81] Because Dr Pepper was not a constituent corporation in the merger transaction, its shareholders were not entitled to those rights, even if they effectively controlled the constituent corporation that was being dissolved.[82]

Lastly, depending on the terms of the merger agreement, the surviving corporation could take different forms. The reverse triangular merger above provides one example of how a merger can be structured, with a subsidiary compa-

81. *Id.* at 190.

82. City of N. Miami Beach Gen. Emps.' Ret. Plan v. Dr Pepper Snapple Grp., Inc., 189 A.3d 188, 201 (Del. Ch. 2018).

ny being dissolved into the target company. However, a straightforward merger might simply look like a target company being dissolved into the acquiring company, with the acquiring company surviving the merger. The merger might also result in the two merging parties becoming a new legal entity entirely. This article is not intended to be a review of merger law because there are numerous aspects worthy of coverage; instead, this section is meant to illustrate that parties choose certain transaction structures because of their legal consequences.

Title Insurance & Trust Company v. County of Riverside clarifies how a merger can happen by mechanism of a stock transfer and how this can be viewed as a change of ownership.[83] California law required that property that changed ownership after the year 1976 be subject to a reassessment for tax purposes.[84] In 1979, Spicor merged with Ticor, and Spicor common stock was converted to Ticor common stock.[85] As a result of this conversion, Ticor became a subsidiary of Spicor's parent company, Southern Pacific Company.[86] Meanwhile, Ticor wholly owned its own subsidiary, Title Insurance and Trust Company (TITC), which owned property in two California counties.[87] The counties in which these properties were located, Riverside County and Merced County, reassessed the land.[88] TITC disputed this reassessment because TITC itself was merely a subsidiary of the merging corporation, so the question before the court was whether there was a change of ownership over land TITC owned.[89] The court answered this question in the affirmative because, under the relevant law of the state and with these facts, the law defined a change of ownership to include newly acquired indirect control by purchase of stock.[90] In other words, because Ticor became a subsidiary of Southern Pacific Company, Ticor's subsidiary—TITC—also became a subsidiary of Southern Pacific Company.

Sav-On Drugs v. County of Orange is another California case in which merging parties were surprised by the same law.[91] Jewel Development Company (JDC), a subsidiary of Jewel Companies, Inc. (Jewel), merged with Sav-on Drugs, Inc. (Sav-on).[92] A stock exchange served as consideration, whereby Sav-on stock was exchanged for Jewel's preferred stock; Sav-on was merged into JDC following this stock transfer, and the company changed its name to Sav-on Drugs, Inc. (JDC/Sav-on).[93] Sav-on Realty Inc. (Realty) was a subsidiary of

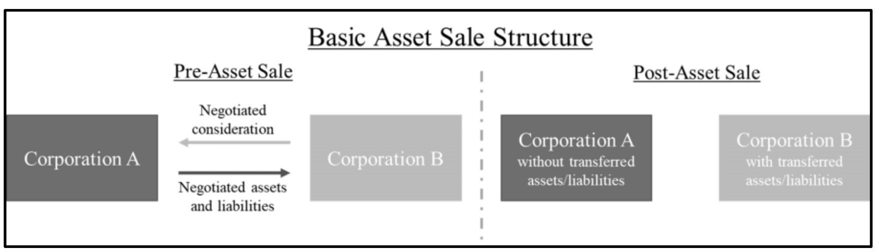
83. Title Ins. & Trust Co. v. County of Riverside, 767 P.2d 1148 (1989).
84. *Id.* at 1149.
85. *Id.* at 1151.
86. *Id.*
87. *Id.*
88. *Id.*
89. Title Ins. & Trust Co. v. County of Riverside, 767 P.2d 1148, 1151 (1989).
90. *Id.* at 92; *see also* CAL. REV. & TAX. CODE § 64(c).
91. Sav-On Drugs v. County of Orange, 236 Cal. Rptr. 100 (Cal. Ct. App. 1987).
92. *Id.* at 102.
93. *Id.*

Sav-on, and both it and JDC/Sav-on owned realty.[94] When JDC/Sav-on challenged the reassessment of their real property post-merger, the court found that, under the applicable California law, the merger constituted a change of ownership over the property; this change of control was contemplated by the statute as a scenario in which reassessment was proper.[95]

While these specific results may not be replicated in every state, these examples highlight the financial and legal consequences to merger transactions and fundamental corporate changes. Attorneys assisting businesses must always be prepared to manage these issues so that their clients are not surprised by the governing law, like in the cases above. The other side of that coin is that businesses should be able to expect certain results based on consistent legal rules. Otherwise, one of the law's societal benefits is undermined; if parties cannot predict how the law will view their behavior, parties will lose the incentive to plan and act in accordance with the governing law.

C. *Asset Sales*

Sales of assets are the simplest of the three potential fundamental corporate changes in that, in its most basic form, it involves a party transferring assets for some form of consideration. This scenario obviously presents several questions regarding how many assets, which assets, and why sell the assets, so it requires a greater focus than a mere description. One unique motiving factor behind why a company may engage in asset transfers over other forms of business transactions is that liabilities do not typically follow the assets.



In *Hernandez v. Enterprise Rent-A-Car Co. of San Francisco*, a young girl (Hernandez) had been injured in an automobile accident.[96] She brought suit against Enterprise Rent-A-Car Co. of San Francisco (Enterprise) for her injuries on the theory that the former owner of the vehicle, National Car Rental Systems (NCRS), would have been strictly liable for her injuries.[97] In 1995, NCRS had sold the assets of its rental car business to another party, New NCRS, which

94. *Id.*

95. *Id.* at 104-05.

96. Hernandez v. Enter. Rent-A-Car Co. of San Francisco, 249 Cal. Rptr. 3d 467, 469 (Cal. Ct. App. 2019).

97. *Id.*

then went bankrupt and sold the assets to Cerberus Capital Management L.P. (Cerberus).[98] It was undisputed that, through a series of transactions, Enterprise had become a joint owner of these assets, so Hernandez argued Enterprise was liable on the theory of successor liability purportedly because it "'continued the business of NCRS,' 'merged with NCRS,' and/or 'assumed the liabilities of NCRS.'"[99]

The court was not convinced for several reasons.[100] First, Cerberus had never acquired the vehicle that allegedly brought about Hernandez' injuries nor any corporation to which liability may have attached to for the accident.[101] Second, nothing was preventing Hernandez from bringing action against General Motors Corp., which had acquired NCRS and was a legitimate successor to its liabilities.[102] Despite buying assets that had flowed through potentially liable companies, Enterprise was the wrong target for the claim because none of the relevant liabilities flowed to it.[103]

Hernandez illustrates the separation between a business entity's assets and the business entity itself. Even though NCRS had sold the relevant vehicle in 1993, the potential liability remained with NCRS (later General Motors) and did not follow the asset.[104] This serves an important function in that companies cannot simply offload their responsibilities by selling the asset that brought about an injury. Another conclusion to be drawn from this is that a business is not its assets; a business is the legal entity itself, and it exists even without its assets. The *Hernandez* scenario also illustrates the importance of asset purchase agreements (APAs) and how they delineate the parties' understanding of the transaction. The APA between the bankrupt New NCRS and Cerberus specifically defined "Acquired Assets" so as to not include the vehicle related to Hernandez' injury, making any argument that Enterprise would be liable much weaker.[105]

Ramirez v. Amsted Industries, Inc. provides an example in which the liabilities potentially followed the assets to the asset-acquiring party.[106] The plaintiff, Efrain Ramirez (Ramirez), was injured in 1975 by a power press that had been manufactured in the 1940s by Johnson Machine and Press Company (Johnson).[107] In 1962, Johnson sold its assets to the defendant, Amsted Industries,

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98. *Id.* at 470.
99. *Id.* at 475.
100. *Id.* at 478-79.
101. *Id.* at 476-78.
102. Hernandez v. Enter. Rent-A-Car Co. of San Francisco, 249 Cal. Rptr. 3d 467, 472-73, 478-79 (Cal. Ct. App. 2019).
103. *Id.* at 478-79.
104. *Id.* at 470, 472-73.
105. *Id.* at 476-77.
106. Ramirez v. Amsted Indus., 431 A.2d 811 (N.J. 1981).
107. *Id.* at 812-813.

Inc. (Amsted).[108] The lower court had granted Amsted's motion for summary judgment on the product defect claims because it did not believe the agreement evidenced any assumption of liability.[109] The New Jersey Supreme Court disagreed and upheld the Appellate Division's reversal against Amsted by denying the motion.[110]

The court noted provisions in the purchase agreement that purported to limit Amsted's liability, as well as the traditional New Jersey rule that the sale of assets does not transfer debts and liabilities.[111] However, the court discussed several exceptions that would allow for successor liability following an asset transfer, and the court was focused on whether Amsted had merely continued the business of Johnson, which would potentially subject Amsted to liability.[112] Intentionally expanding New Jersey's traditional approach to the "continuation" exception in order to effectuate its underlying public policy rationale, the court believed this transaction constituted a situation in which strict products liability for successor corporations could be extended to Amsted.[113] Although this merely sent the matter to trial, the court set out a standard by which Amsted could potentially face liability as a successor corporation for a claim that allegedly arose prior to Amsted's ownership of the injury-causing asset.[114] Put simply, the liability potentially followed the asset because, as a matter of law, the buyer might be found to be a mere continuation of the seller given this scenario. What was influential to the court's decision was that Amsted had acquired and advertised with Johnson's trade name, and it further acquired and used Johnson facilities, employees, equipment, and customer lists.[115] Thus, "[b]y acquiring all of the Johnson assets and continuing the established business of manufacturing and selling Johnson presses, Amsted" could not avoid liabilities that arose because of certain defective products.[116]

While also providing a clear example of when a court will decide liabilities should follow an asset, *Ramirez* discusses four exceptions to the standard rule: 1) an express or implied assumption of debts and liabilities, 2) a "de facto merger," 3) the purchasing corporation is merely a continuation of the selling corporation, or 4) the transaction is consummated to escape responsibility for the debts and liabilities.[117]

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108. *Id.* at 813.

109. *Id.*

110. *Id.* at 812.

111. *Id.* at 815.

112. Ramirez v. Amsted Indus., 431 A.2d 811, 815 (N.J. 1981).

113. *Id.* at 824-25.

114. *Id.*

115. *Id.* at 822.

116. *Id.*

117. *Id.* at 815 (first citing Menacho v. Adamson United Co., 420 F. Supp. 128, 131 (D.N.J. 1976); then citing Jackson v. N.J. Mfrs. Ins., 400 A.2d 81 (N.J. Super. Ct. App. Div. 1978); then citing N.J. Transp. Dep't v. PSC Res., Inc., 419 A.2d 1151(N.J. Super. Ct. Law Div. 1980); then

The fourth exception exists to prevent fraudulent and bad-faith asset transfers. While the first exception simply recognizes that parties will sometimes agree amongst themselves that the liabilities should follow to the buyer, the second and third exceptions are examples of when judges will determine potential liability themselves, based on the legal substance of the transactions. This reliance on judicial discretion creates uncertainty for businesses and grants broad, unpredictable powers to judges. States have implemented statutes limiting this power. For example, pursuant to the Minnesota statute, the agreement between the parties governs the extent to which liability will flow from a seller to a buyer following an asset purchase.[118] The "de facto merger" is explicitly curtailed, and, even if the purchaser is deemed a mere continuation of the seller, it cannot be held liable solely for that reason.[119] This creates more freedom for a Minnesota business; it does not have to be concerned with the unpredictable will of a judge who may decide, with vague reasoning, that the business should face the legal consequences of the actions of the third parties simply because it purchased assets from that third party. Accordingly, Minnesota businesses may choose asset transfers as a meaningful pathway to separating assets from failing businesses, a pathway that is less certain without the statute.

This discussion is meant to serve as an overview of the basic transactions a party may engage in that fundamentally alter its existence. The details of how each transaction functions reveals the different motivations that could lead a party to engage in one transaction method over another. Where a merger can lead to the dissolution of a corporation, stock transfers and asset sales allow for the entity to continue its existence. All provide room for friendly negotiations, but stock transfers can involve a subsidiary finding control involuntarily transferred to another party. Asset sales allow for purchasing companies to distance themselves from liabilities while still gaining the assets. This review barely scratches the surface of the numerous details specific to a given company that would change how it approaches these issues, and the results could vary alongside those details.

Each method is not always exclusive to the others, which allows for creativity based on the bargaining chips available to a party and the goal it is aiming towards. The takeaway is that companies engage in one over another in order to achieve the expected result. Companies strategically choose their preferred transaction form based on the goals, limitations, and benefits of the deal. Courts should understand this as they interpret the agreements that govern these transactions. If a court understands the basics of the corporate legal world, it is more likely to understand the necessity of allowing parties to resolve ambiguity amongst themselves. And, evidently, one area that continues to present great ambiguity for parties is the attorney-client privilege. This ambiguity incentiviz-

citing Wilson v. Fare Well Corp., 356 A.2d 458 (N.J. Super. Ct. Law Div. 1976); and then citing to McKee v. Harris-Seybold Co., 109 N.J. Super. 555, 561 (N.J. Super. Ct. Law Div. 1970)).

118. MINN. STAT. § 302A.661, subd. 4.

119. *Id.*

es parties to resolve the uncertainty of the attorney-client privilege by assigning its division in the asset purchase agreement itself. Disregarding the agreement not only undermines the contract, but it undermines the entire body of law that has been created to govern this area. This reduces public confidence in the law and creates an environment in which potential parties view the law as openly hostile to the wishes of those who come before the court. If courts will not honor agreements created on a shared understanding of how asset purchases function, where else are individuals and corporations to turn to have their agreements enforced?

III. Attorney-Client Privilege During Fundamental Corporate Changes

It is not always patently clear how basic principles of attorney-client privilege should function in these complex and unique transactions. As a result, *Weintraub* has been extended in surprising ways to facts that are clearly outside the scope of the original bankruptcy scenario the decision was based on. *Weintraub* can certainly apply in analogous transactions. However, the decision's basic principles should not be so easily extended to distinguishable transactions, such as a sale of assets.

A. *Attorney-Client Privilege in Stock Transfers*

Weintraub's principles apply easily to situations in which a simple stock transfer takes place. Take *Goodrich v. Goodrich*, for example. *Goodrich* involved a dispute between a father, Morgan Goodrich, and his two sons, as well as several resulting lawsuits between them.[120] Prior to the relevant stock transfer, there had been an equity action between the corporation, T&M Associates, Inc. (T&M), and the two sons over alleged misappropriated funds.[121] The law firm of Clauson Atwood & Spaneas (CAS) had represented T&M in the litigation.[122] Meanwhile, the sons had brought a separate civil action against T&M's board regarding the board's decision to terminate the sons' employment.[123] While the civil suit was ongoing, Morgan transferred the T&M stock to his sons.[124] The sons then added T&M as a plaintiff in the case against the board and moved to disqualify CAS from representing the board.[125] The question to be answered was whether CAS had an attorney-client relationship with new T&M following the stock transfer.[126] The resolution of this question was im-

120. Goodrich v. Goodrich, 960 A.2d 1275 (N.H. 2008).
121. *Id.* at 1279.
122. *Id.* at 1278.
123. *Id.* at 1279.
124. *Id.*
125. *Id.*
126. Goodrich v. Goodrich, 960 A.2d 1275, 1279 (N.H. 2008).

portant to determining whether a CAS attorney could claim attorney-client privilege over communications between him, old T&M, and Morgan, or if new T&M and the sons could waive the privilege.[127] The trial court held that there was no attorney-client relationship between CAS and new T&M because it believed there was a lack of sufficient similarity between the primary businesses of old and new T&M.[128] The New Hampshire Supreme Court vacated and remanded this decision because it was an improper application of the "practical consequences" test.[129]

Goodrich provides a simple explanation of how the "practical consequences" test is intended to function and when attorney-client privilege will transfer. When corporate ownership changes, whether the attorney-client privilege also transfers depends on the "practical consequences" of the transaction.[130] This "practical consequences" test involves determining if "efforts are made to run the pre-existing business entity and manage its affairs" as opposed to a "mere transfer of assets with no attempt to continue the pre-existing operation."[131] With the former, the privilege would transfer to the new management, but the privilege would not transfer with the latter.

The *Goodrich* court explains that the "proper focus is upon whether control of old T&M passed with the transfer of ownership to" the sons.[132] By providing proof of the continued corporate existence following the stock transfer, it was then the challenging party's burden—the board and CAS' burden— to rebut the presumption that all privileges followed to the new management or that control had not transferred.[133] In other words, it was not a question of whether the business entity "exist[s] 'as it did' under prior ownership," but whether control over that entity had changed hands.[134] Therefore, in *Goodrich*, it was improper for the trial court to have examined whether there was sufficient similarity between the primary business of the new T&M compared to the old T&M.[135]

Accordingly, the New Hampshire Supreme Court believed there was a valid attorney-client relationship between new T&M and CAS and remanded to determine whether the test for disqualification was then met.[136] The stock transfer was key to this ruling; it, by default, transferred control.[137] This conclusion was bolstered by new T&M's acquired rights and obligations, including the numer-

127. *Id.*
128. *Id.* at 1284.
129. *Id.* at 1288.
130. *Id.* at 1281.
131. *Id.*
132. Goodrich v. Goodrich, 960 A.2d 1275, 1285 (N.H. 2008).
133. *Id.* at 1286.
134. *Id.* at 1285.
135. *Id.* at 1288.
136. *Id.* at 1287.
137. *Id.* at 1286.

ous project files, various corporate debts, and potential claims from prior corporate misconduct.[138]

The *Goodrich* court understood that the parties had particular financial and legal expectations by engaging in a stock transfer. The court recognized the intended purpose of transferring the entirety or majority of the stock in a company: it is a transfer of ownership and control. A contrary decision would have been antithetical to the basics of corporate law. However, the idea that the attorney-client privilege should follow was simply an application of precedent and the "practical consequences" test.[139] This example demonstrates a situation in which a party could reliably predict the application of the privilege. If control of the corporation has been transferred by stock, the privilege will likely follow; if control has not shifted by a stock transfer, the privilege will most likely not follow. Parties can contemplate a transaction with these rules in mind.

It is also notable that the *Goodrich* court rebuffed the examination of the similarity of the business conduct before and after the stock transfer. On one hand, this might reflect a certain amount of judicial restraint towards defining what a "business" is and how similar it must be before and after a fundamental corporate change. On the other hand, it is likely the court was taking the opportunity to center the "practical consequences" framework on whether control has transferred, which might implicitly always require a focus on the entirety of the facts and circumstances.

B. *Attorney-Client Privilege in Mergers*

Mergers provide the most notable examples of how courts handle attorney-client privilege in the corporate context. *Tekni-Plex, Inc. v. Meyner & Landis* provides insight into both attorney-client privilege for mergers in general, as well as how the privilege applies to the communications facilitating the merger transaction itself. Prior to the relevant merger, Tekni-Plex, Inc. (Tekni-Plex) had a single shareholder, Tom Tang, who also served as president, CEO, and sole director.[140] For 23 years, Tekni-Plex retained the law firm of Meyner and Landis (M&L) for help with several environmental matters.[141] In 1994, with M&L representing both Tang and the corporation, Tekni-Plex merged with and into TP Acquisition Company (Acquisition), a shell company created solely for the merger.[142] Old Tekni-Plex conveyed all of its tangible assets, intangible assets, rights, and liabilities to Acquisition, and its shares were cancelled.[143] Acquisition changed its name to Tekni-Plex, Inc. (New Tekni-Plex).[144] New

138. Goodrich v. Goodrich, 960 A.2d 1275, 1286 (N.H. 2008).

139. *Id.* at 1283.

140. Tekni-Plex, Inc. v. Meyner & Landis, 674 N.E.2d 663, 665 (N.Y. 1996).

141. *Id.*

142. *Id.*

143. *Id.*

144. *Id.*

Tekni-Plex subsequently brought an arbitration action against Tang.[145] The merger agreement had included representations and warranties concerning environmental matters, and New Tekni-Plex alleged Tang had breached these in several ways.[146] Tang retained M&L as his legal counsel, but New Tekni-Plex moved to disqualify M&L based on its prior representation of Old Tekni-Plex.[147]

The court's ruling ultimately divided the issues between communications related to ongoing business operations and negotiation communications.[148] The first important question was whether the attorney-client relationship between M&L and Old Tekni-Plex transferred to New Tekni-Plex.[149] Relying on *Weintraub* and the "practical consequences" framework, the court determined that Old Tekni-Plex and its business operations had not died and had actually continued on under the new management of New Tekni-Plex. Thus, the attorney-client relationship, and its attendant privileges, existed between M&L and New Tekni-Plex.[150] This conclusion was drawn from the fact that, in addition to owning all of Old Tekni-Plex's assets, new Tekni-Plex "possessed all of the rights, privileges, liabilities and obligations of" Old Tekni-Plex.[151] Further, New Tekni-Plex might have needed access to pre-merger legal advice in its defense against the acquired liabilities or to enforce the acquired rights.[152]

This conclusion meant New Tekni-Plex controlled the privilege for non-merger related communication and for ongoing business operations.[153] This included the environmental matters that M&L had assisted Old Tekni-Plex with.[154] The privilege regarding these various legal matters transferred to New Tekni-Plex, so New Tekni-Plex could prevent M&L from disclosing any of this privileged information to Tang.[155]

However, the court carved out certain exceptions regarding the merger transaction itself in that Old Tekni-Plex retained the privilege over negotiation communications.[156] The Merger Agreement provided that Old Tekni-Plex's rights would be separate from the buyer's rights for disputes regarding the merger transaction itself.[157] The court found public policy reasons in favor of rec-

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145. *Id.*
146. Tekni-Plex, Inc. v. Meyner & Landis, 674 N.E.2d 663, 665 (N.Y. 1996).
147. *Id.* at 666.
148. *Id.* at 670.
149. *Id.* at 668.
150. *Id.* at 669.
151. *Id.*
152. Tekni-Plex, Inc. v. Meyner & Landis, 674 N.E.2d 663, 669 (N.Y. 1996).
153. *Id.* at 670.
154. *Id.*
155. *Id.*
156. *Id.* at 672.
157. *Id.* at 671.

ognizing this provision of the agreement.[158] The Old Tekni-Plex was effectively run by one individual, Tang.[159] Turning over the transaction communications would thus run counter to the goals of attorney-client privilege because these types of business communications could be chilled in future attorney-client relationships if they might eventually be released.[160] Further, the parties contemplated and provided for this very scenario in their agreement.[161]

The *Tekni-Plex* court gave effect to the terms of the merger agreement because it would be needless to ignore the parties' intentions. Both the buyer and the seller understood that their transaction could become the basis for a legal dispute, so they clarified in the agreement itself what each side should expect in such a situation. By discussing and preparing for the problem they encountered, the parties facilitated a more efficient transaction. Ignoring this type of creative planning would only lead to more inefficiency and confusion for those looking to negotiate future mergers where interests can quickly and easily become more disputed and adverse than that of a buyer-seller relationship. By explicitly demarcating the boundaries of the rights and privileges, the parties in *Tekni-Plex* prevented unnecessary confusion; it was then up to the court to allow for that simple solution.

Great Hill Equity Partners IV, LP v. SIG Growth Equity Fund I, LLLP clarifies how failing to include the provisions that divide rights and privileges can affect attorney-client privilege. *Great Hill* involved an acquisition by merger, which implicated Section 259 of the Delaware General Corporation Law.[162] Section 259 provides that "all property, rights, privileges, powers and franchises, and all and every other interest shall be thereafter as effectually the property of the surviving or resulting corporation."[163] The Buyer had brought a fraudulent inducement claim against the Seller for the relevant acquisition.[164] The Buyer later revealed that, in the course of the merger, it had acquired files with communications between the Seller and its counsel regarding the negotiations for the merger.[165] The Seller made a *Tekni-Plex* argument that it had retained the attorney-client privilege over these documents because they related to the transaction itself.[166]

Notably, the court addressed *Tekni-Plex* and its holding that communications related to the negotiations itself did not pass to the surviving corporation. The *Great Hill* court characterized such a ruling as "judicial improvisation" that

158. Tekni-Plex, Inc. v. Meyner & Landis, 674 N.E.2d 663, 671 (N.Y. 1996).

159. *Id.*

160. *Id.* at 672.

161. *Id.*

162. Great Hill Equity Partners IV, LP v. SIG Growth Equity Fund I, LLLP, 80 A.3d 155, 156 (Del. Ch. 2013).

163. *Id.*

164. *Id.*

165. *Id.*

166. *Id.* at 158.

was in conflict with the plain wording of Section 259.[167] Thus, the court did not believe it was its role to create an exception for attorney-client privilege in the context of Delaware mergers.[168] The court further found the Seller's argument that use of the "privilege" in Section 259 was meant to apply only to those pertaining to property rights unavailing, as "property" was already a term used in the statute.[169] Therefore, "all . . . privileges" belonged to the Buyer, including the attorney-client privilege.[170] Accordingly, the court ultimately decided that the plain meaning of Section 259 dictates that all pre-merger communications pass to the surviving corporation, whether they are related to the business operations or merger negotiations.[171]

This conclusion should not distract from a key point in *Great Hill*. The court made it clear that negotiating parties should be permitted to protect themselves and provide for a division of the privilege.[172] Thus, the Seller in *Great Hill* could have used their contractual freedom to exclude certain communications in the merger, and the *Great Hill* court would have respected such a provision.[173] It should also be noted that the court believed that, at least under the specific Delaware statute, the attorney-client privilege is not a property right, yet could still be divided to some degree.[174]

Great Hill should serve as a clear indicator that courts should respect clear provisions that allow a seller to retain their attorney-client privilege after an asset sale. Where there is no statute governing how attorney-client privilege can be assigned, parties should be free to assign it as they please. While new statutes could certainly be implemented to govern particular types of asset sales, it would be counter to the guidance of *Great Hill* for courts to rewrite an agreement that two parties have already agreed to and fail to enforce privilege-assigning provisions.

C. *Attorney-Client Privilege in Asset Sales*

While contracting should provide certainty for who will hold the attorney-client privilege after an asset sale, some courts are skeptical and question its legitimacy. In *Zenith Electronics Corp. v. WH-TV Broadcasting Corp.*, the court, interpreting an asset purchase agreement that affirmed the transfer of "all rights, privileges, claims, causes of action and options relating to or pertaining to the

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167. *Id.* at 159.

168. Great Hill Equity Partners IV, LP v. SIG Growth Equity Fund I, LLLP, 80 A.3d 155, 160 (Del. Ch. 2013).

169. *Id.* at 158.

170. *Id.*

171. *Id.* at 160.

172. *Id.* at 160-61.

173. *See id.* at 162.

174. *See* Great Hill Equity Partners IV, LP v. SIG Growth Equity Fund I, LLLP, 80 A.3d 155, 162 (Del. Ch. 2013).

Business or the Assets" to the Buyer, explicitly stated that attorney-client privilege was not a property right that could be sold.[175]

This concept can be seen in practice in *American International Specialty Lines Insurance Co. v. NWI-I, Inc.* In *American International*, an insurer brought suit to determine whether it was obligated to cover certain legal claims regarding pollution of land owned by the original policy holders.[176] Prior to this dispute, Fruit of the Loom, Inc. (Old FTL) and NWI Land Management Corp. (NWI) filed for bankruptcy, and several different successor entities were involved in the final reorganization plan, including a New FTL, the entity to whom the apparel assets of Old FTL were transferred, a custodial trust (CT), and a Successor Liquidation Trust (SLT).[177] The agreements creating both the SLT and CT contained provisions for "Preservation of Privilege;" it purported to place the attorney-client privilege for any communications transferred to the SLT and CT with those entities.[178] Old FTL and NWI then settled certain environmental claims that arose from the several properties that belonged to Old FTL.[179] Because of this settlement, the properties were transferred to the CT.[180] Old FTL became NWI-I, and the SLT became its owner.[181]

The question of which entities held the attorney-client privilege arose when the insurer sought documents from the law firms that represented Fruit of the Loom debtors.[182] What ultimately mattered to the decision was which entity had gained control of the business operations of Old FTL.[183] Despite the provisions hoping to divide the privilege amongst entities, the court determined that the only entity who controlled the privilege was New FTL.[184] Through the agreements, it had gained control of substantially all of Old FTL's business and ongoing business operations.[185] Under the "practical consequences" framework, this was enough for the court to conclude that control and continuation of Old FTL transferred to New FTL, with the authority to control the attorney-client privilege being a part of that transfer.[186] Accordingly, neither CT nor SLT had control of either Old FTL's business or authority for privilege.[187] Citing *Zenith*, the court refused to recognize any provision that attempted to divide the au-

175. Zenith Elecs. Corp. v. WH-TV Broad. Corp., No. 01 C 4366, 2003 WL 21911066, at *1 (N.D. Ill. Aug. 7, 2003).

176. Am. Int'l Specialty Lines Ins. Co. v. NWI-I, Inc., 240 F.R.D. 401, 404 (N.D. Ill. 2007).

177. *Id.*

178. *Id.* at 405.

179. *Id.* at 404.

180. *Id.*

181. *Id.*

182. Am. Int'l Specialty Lines Ins. Co. v. NWI-I, Inc., 240 F.R.D. 401, 404 (N.D. Ill. 2007).

183. *Id.* at 407.

184. *Id.*

185. *Id.*

186. *Id.*

187. *Id.*

thority over the privilege.[188] The court, with reference to *Weintraub*, explained that the ultimate question was who now controlled the corporation.[189]

The court was well aware of what the parties bargained for, but instead chose to enforce what it believed to be applicable precedent over the terms of the agreement. This clearly creates several dilemmas for businesses wishing to negotiate around attorney-client privilege because the certainty of their agreement will always be in doubt. However, *American International* may be distinguishable in that there were multiple successor entities of Old FTL, creating such a complicated scenario that a focus on a theoretical, singular attorney-client privilege was necessary to resolve the dispute. On the other hand, complexity is usually not the measure for the legal system. Beyond a reference to a lack of precedent in support of divisibility, the decision ultimately fails to justify the conclusion that it is improper to divide the attorney-client privilege.[190]

If the court had seen contract enforcement as its role in this scenario, the result would have been more straightforward. Instead, by conducting its own analysis of the transaction in order to decide that only one business should control the privilege, the court returned a result that is ultimately ambiguous in its reasoning and unclear in its future applicability. The court cited a lack of precedent as the basis for its conclusion, but a lack of precedent is not an endorsement of rewriting agreements. *American International* should serve as a one-off case so that the court can be forgiven for effectively throwing its hands up in the air and looking for the simplest result.

Asset sales are an area of great uncertainty for this area of the law. This fact lends itself to the idea that asset purchase agreements should always include provisions clarifying the division of the attorney-client privilege. This uncertainty is not necessary, and courts should apply the logic of attorney-client privilege in mergers to the asset sale context. Specifically, parties who take the initiative to address future, potential issues should be able to expect that their agreements will be held up in court. If a seller in an asset transfer negotiates a provision explaining its expectation that it will retain the attorney-client privilege over pre-sale matters, courts should not overturn the clear provision based on its own idea of what the agreement should entail. Unlike a merger, the business entity making the sale of assets would continue to exist and would still be entitled to its own rights (and bound by its prior obligations). By enforcing the provision, the court would be upholding basic contract law and recognizing the unique aspects of an asset transfer.

However, although always fact-dependent, parties negotiating for a sale of assets may not always be capable of predicting how a court will honor the agreement or how a court will treat the attorney-client privilege. There are several issues that make asset sales a unique area of analysis for this topic. The "practical consequences" test is already an inherently problematic device in that

188. Am. Int'l Specialty Lines Ins. Co. v. NWI-I, Inc., 240 F.R.D. 401, 407 (N.D. Ill. 2007).

189. *Id.*

190. *Id.* at 408.

it is not confined by particularly clear principles. The cases discussed above and below should provide examples of how courts must apply these vague principles to conflicting scenarios. Second, asset sales, like all corporate actions, can take many forms with different motivations and goals behind them. There are both unique legal and business implications to asset transfers that distinguish them from mergers. When these numerous issues collide in a legal dispute, should parties not be permitted to resolve these issues amongst themselves before the dispute even arises? Why should courts rewrite contracts between sophisticated parties that continue to exist even after the sale closes?

Soverain Software LLC v. Gap, Inc. provides an initial example of how courts will apply *Weintraub* and the "practical consequences" test to asset transfers. In *Soverain*, two corporations, Open Market, Inc. and Divine Inc. (Open and Divine), filed for bankruptcy.[191] Saratoga DMS LLC (Saratoga) purchased a large amount of the two companies' assets, which included three patents and a business, Transact, that utilized the patents.[192] Saratoga then transferred those assets to Soverain Software, LLC (Soverain), which continued to operate the Transact business making use of the patents.[193] In a subsequent legal dispute between Soverain and Amazon.com Inc. (Amazon), Amazon sought production of past communications regarding the Transact business between the now defunct Open and Divine and their legal counsel.[194] Soverain asserted attorney-client privilege over these communications, arguing that it effectively was the corporate successor to the Transact business and the accompanying Open and Divine attorney-client relationship.[195]

The court, citing *Weintraub*, first clarified what the "practical consequences" test for determining whether the attorney-client privilege transfers along with the transaction asks: 1) whether control of the business has transferred, and 2) whether the new management continues the business.[196] Under this framework, something more than a mere transfer of assets is required in order for the privilege to follow the assets.[197] The court noted 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."[198]

The court partly focused on the Transact product being Soverain's principal source of business, Soverain retaining the patents for the business product, and that two of the inventors for the Transact patents were retained as consultants to support ongoing and future endeavors.[199] Under these facts, this transfer of the

191. Soverain Software LLC v. Gap, Inc., 340 F. Supp. 2d 760, 762 (E.D. Tex. 2004).
192. *Id.*
193. *Id.*
194. *Id.*
195. *Id.*
196. *Id.* at 763.
197. *See* Soverain Software LLC v. Gap, Inc., 340 F. Supp. 2d 760, 763 (E.D. Tex. 2004).
198. *Id.*
199. *Id.*

Transact business was more than a mere transfer of assets.[200] The court found it irrelevant that the assets were first diverted to Soverain from Saratoga and that no liabilities were transferred. Accordingly, the court believed Soverain was the successor to Transact's business and controlled the privilege over the communications.[201]

Soverain raised the questions of whether and how the privilege can transfer in the wake of an asset purchase agreement. The answer to the first question is that it can transfer, but the court acknowledges the "myriad ways control of a corporation or a portion of [a] corporation can change hands" complicates the remainder of the analysis.[202] This might indicate the "practical consequences" test will always become an analysis of the facts and circumstances of the relevant matter. If parties wish to resolve this ambiguity amongst themselves beforehand, how should the court handle such forward thinking? Courts should respect parties that plan ahead and assign the privilege before the issue reaches the court.

That is just what the court in *Postorivo v. AG Paintball Holdings, Inc.* did. The *Postorivo* court respected the negotiated agreement of the Buyer and the Seller such that the privilege was permitted to be divided.[203] Eugenio Postorivo was the sole-owner of National Paintball Supply (NPS).[204] NPS sold substantially all of its assets to AJ Intermediate Holdings, Inc. (AJI), which then formed a new company, KEE Action Sports Holdings (KEE Action), with the combined assets of another company.[205] The asset purchase agreement between NPS and AJI explicitly excluded certain assets and liabilities from the transaction, as well as the rights and privileges attached to those assets and liabilities.[206] Specifically, the right to pursue a particular cause of action, the "Procaps Litigation," had been excluded in the APA.[207]

Litigation ensued between the Buyer and the Seller regarding the transaction.[208] As could be expected, issues arose surrounding several groups of communications that came into the Buyer's hands as a result of the asset sale.[209] The Seller argued that the privilege for these communications was still in its hands as a result of the APA terms that excluded the "Procaps Litigation."[210] Because

200. *Id.*

201. *Id.*

202. *See id.*

203. Postorivo v. AG Paintball Holdings, Inc., Civ. No. 2991-VCP, 3111-VCP, 2008 Del. Ch. LEXIS 17 (Del. Ch. Feb. 7, 2008).

204. *Id.* at *3.

205. *Id.* at *4-5.

206. *Id.* at *6.

207. *Id.* at *20.

208. *Id.* at *9.

209. Postorivo v. AG Paintball Holdings, Inc., Civ. No. 2991-VCP, 3111-VCP, 2008 Del. Ch. LEXIS 17, at *10-11 (Del. Ch. Feb. 7, 2008).

210. *Id.* at *20.

of the APA's choice of law provisions, the court analyzed the matter under New York law.[211] Although resolved prior to the decision, there initially had been disputes regarding which party held the privilege for communications about business operations and transaction negotiations.[212] The court followed the *Tekni-Plex* decision to explain how the parties came to the proper conclusion that business operation communications followed to the Buyer, while negotiation communications could remain with the Seller.[213]

The *Postorivo* court then discussed the privilege as it pertained to the excluded assets and "Procaps Litigation." The court concluded that the privilege was retained in that which Seller explicitly excluded from the asset sale.[214] Analyzing the practicality of the situation, the court noted the impracticality of ignoring the agreed upon APA terms.[215] If the court did not permit the Seller to retain the privilege in the excluded asset, the Seller would have to prosecute the litigation without being able to control attorney-client privilege over certain communications related to the litigation, while the Buyer, a potentially adverse party, would have that control.[216] Further, the court wanted to give effect to the clear intent of the parties, who were both sophisticated, represented, and aware of the what was being negotiated.[217]

Postorivo distinguished these facts from those of *American International* in that the present matter was not a bankruptcy, and the assets were not transferred to multiple entities.[218] Between *Postorivo* and *American International*, *Postorivo* provides a much more coherent explanation for its ultimate decision. While *American International* simply relies on precedent (or the lack of it), *Postorivo* explains why it would give effect to the provisions negotiated between the parties. On the other hand, *Postorivo*'s reasoning may be consistent with *American International* in that it reinforces the flexible nature (and potential unpredictability) of the "practical consequences" test. In other words, for asset transfers, some courts may follow a path of least resistance to decide where it believes the attorney-client privilege should lie. If so, *Postorivo* and *American International* only conflict in outcome and do not conflict in their ultimate reasoning.

It would be unfortunate if *Postorivo* was simply an extension of *American International* instead of a repudiation. Such a reading would create more uncertainty in asset transfer agreements because negotiating parties could never be certain which facts will be important to any particular judge or if the relevant provisions will be respected should any form of litigation follow the transaction.

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211. *Id.* at *11.

212. *Id.* at *13.

213. *Id.* at *13-20.

214. *Id.* at *29.

215. Postorivo v. AG Paintball Holdings, Inc., Civ. No. 2991-VCP, 3111-VCP, 2008 Del. Ch. LEXIS 17, at *28 (Del. Ch. Feb. 7, 2008).

216. *Id.*

217. *Id.* at *28-29.

218. *Id.* at *28.

If *Postorivo* stands for the legal principle that the attorney-client privilege can be assigned, such as through an "Excluded Assets" provision, this would allow for more flexibility and certainty in the negotiating process. A court that chooses to respect such a provision would simply be furthering the shared intentions of the parties. Looking to the future, *Postorivo* should serve as the relevant precedent for courts. If a party has excluded pre-sale privileged matters from an asset sale, courts should simply enforce the agreement in front of them.

Coffin v. Bowater Inc. provides a unique example of how a court will analyze the attorney-client privilege in the asset transfer context.[219] In *Coffin*, Great Northern Paper, Inc. (GNP), a subsidiary of Bowater, Inc. (Bowater), filed for bankruptcy.[220] This bankruptcy came after Bowater had sold GNP to Inexcon of Maine, Inc. (Inexcon).[221] Fifteen former GNP employees brought a claim against Bowater arguing that Bowater was obligated to assume certain GNP retiree benefits, such as retiree health and welfare benefits.[222] Disputes arose surrounding production of several documents that were in Bowater's possession.[223]

These documents consisted of communications between counsel for Bowater and GNP, the large majority of which were from before the sale to Inexcon.[224] The retiree plaintiffs argued the documents could be produced because GNP's trustee in bankruptcy had purportedly waived any privilege over the communications.[225] In opposition to this, Bowater argued the bankruptcy trustee did not have the authority to waive the privilege over the documents.[226] Further, they argued that the privilege was actually held by Brascan Corp. (Brascan), to whom Bowater had sold GNP's assets via a court-approved Asset Purchase Agreement.[227]

The court ultimately sided with Bowater; the bankruptcy trustee did not have the authority to waive the privilege.[228] The asset sale to Brascan was not merely a transfer of assets in the sense that the practical consequences of the agreement was a transfer of virtually all control of the prior GNP business to Brascan.[229] The court pointed to the specific wording of the asset purchase agreement to support this conclusion.[230] This included Brascan having the "ex-

219. Coffin v. Bowater Inc., Civ. No. 03-227-P-C, 2005 U.S. Dist. LEXIS 9395 (D. Me. May 13, 2005).

220. *Id.* at *3.

221. *Id.*

222. *Id.*

223. *Id.* at *3-4.

224. *Id.*

225. Coffin v. Bowater Inc., Civ. No. 03-227-P-C, 2005 U.S. Dist. LEXIS 9395, at *4 (D. Me. May 13, 2005).

226. *Id.*

227. *Id.*

228. *Id.* at *9.

229. *Id.* at *7-9.

230. *Id.*

clusive right to represent itself as carrying on the Business in Succession to Seller," assuming the confidentiality obligations, and assuming the tangible and intangible rights.[231] Therefore, Brascan, not the bankruptcy trustee, controlled the privilege and held the authority to waive or assert the privilege over the communications between Bowater's legal representatives and GNP.[232]

What is notable about *Coffin* is that the court did choose to honor the terms of the asset purchase agreement. Again, it should not be controversial to merely point to a provision in an asset purchase agreement and enforce it as it is. However, it also used the wording of the agreement to support the argument that control of the business and its attendant attorney-client privilege had shifted. It is not clear whether this ruling applies the other way, when an asset purchase agreement would explicitly reserve a certain amount of business control, exclude certain assets, or assign attorney-client privilege for certain matters. Arguably, it would not apply in such a situation because the *Coffin* court was merely citing the asset purchase agreement as evidence of whether control of the business had been transferred or not. Thus, a court seeking to hold that control has shifted to a Buyer could simply say the asset purchase agreement limiting what is transferred is not dispositive of the issue and that other factors point to a transfer of control.

An example of this form of judicial illegitimacy can be found in *United States v. Adams*, in which the court interpreted *Tekni-Plex*'s holding to be based on the narrow terms of the relevant agreement in that case and thus not persuasive to the case at hand.[233] In *Adams*, Apollo Diamond, Inc. (Apollo) and Apollo Diamond Gemstone Corporation (ADGC) sold certain assets of their business, using several asset purchase agreements, to Scio Diamond Technology Corporation (Scio).[234] These asset purchase agreements explicitly excluded certain assets.

In a separate action brought by the government against Apollo's legal counsel, Edward S. Adams, the government obtained communications between Apollo management and Adams.[235] The government purported to have obtained waiver of any privilege over these communications from Scio, as the successor to Apollo and AGDC.[236] Adams argued that Scio was not the successor to the Apollo business and lacked the authority to waive privilege over these communications, as evidenced by the asset purchase agreements that explicitly excluded certain assets.[237]

231. Coffin v. Bowater Inc., Civ. No. 03-227-P-C, 2005 U.S. Dist. LEXIS 9395, at *8 (D. Me. May 13, 2005).

232. *Id.* at *9.

233. United States v. Adams, No. 0:17-CR-00064-DWF-KMM, 2018 U.S. Dist. LEXIS 41165, at *18-19 (D. Minn. Mar. 12, 2018).

234. *Id.* at *3.

235. *Id.* at *4.

236. *Id.*

237. *Id.*

Persuaded that the privilege had passed to Scio, the court sided with the government that the communications were no longer privileged following Scio's waiver.[238] With the "practical consequences" framework in mind, the court looked to both the APA itself and the surrounding circumstances.[239] Apollo transferred many tangible and intangible assets including its intellectual property rights, website, equipment, machinery, and inventory. The court further emphasized that it believed Apollo did not continue its business because it was paying only one employee and did not sell any products after the Scio transaction.[240] Further outside considerations were statements made by various individuals connected to Apollo about the asset transfer to the SEC.[241] The court interpreted several vague statements about "rebooting" the company as indicative of a transfer of the business in its entirety.[242] These statements were viewed as more determinative than Scio's own characterization in SEC communications of the transaction as an asset purchase and not a business acquisition.[243]

This exposes an unexplained aspect of how the court analyzed this transaction. According to the court, the SEC only considers an acquisition to be a business acquisition if "the nature of revenue-producing activity remains the same after the acquisition and if that activity continues."[244] *Adams* raises questions regarding the meaning of "business" in this context. The *Adams* court justified its conclusion partly on the fact that Apollo did not sell any product after the transaction, but the court also recognized that Apollo had functionally ceased all revenue related activity for the year prior to the asset transfer.[245] This demonstrates the ambiguity of a term like "business," where it may be unclear what constitutes a corporation's "business." The *Adams* court believed it understood what constituted Apollo's "business." While in most cases, what constitutes a business might be so clear it will not be in dispute, it becomes unclear why a court should have the authority to quickly conclude control of a business has been transferred when it fails to even address what the business was in the first place. Furthermore, when can the "business" that stays at the corporation be sufficient to prevent the privilege from being separate? The *Adams* court cited to *Soverain* to explain that it must be something more than the seller's liabilities that remain with it in order for the privilege to be retained.[246] That cannot be

238. *Id.* at *9.

239. United States v. Adams, No. 0:17-CR-00064-DWF-KMM, 2018 U.S. Dist. LEXIS 41165, at *9-11 (D. Minn. Mar. 12, 2018).

240. *Id.* at *10.

241. *Id.* at *14-18.

242. *Id.* at *14-15.

243. *Id.* at *16-17.

244. *Id.* at *17.

245. United States v. Adams, No. 0:17-CR-00064-DWF-KMM, 2018 U.S. Dist. LEXIS 41165, at *12 (D. Minn. Mar. 12, 2018).

246. *Id.* at *13.

characterized as a comprehensive standard, so Adams has the effect of creating an unclear and ambiguous rule of the type that is a bane to those seeking contractual and legal certainty. It is even more profoundly perplexing when one considers the fact that one government entity's recognition of the type of transaction that occurred—an entity like the SEC that specializes in determining the type of transaction—was given no weight by a court, which only considered such an issue in passing and likely with little understanding or sophistication to appreciate the long-lasting effects its twisted, results-driven decision has on commercial parties.

In this last way, *Adams* illustrates a lens through which courts may consider outside factors to rationalize what a court believes to be the "practical consequences" of a transaction. The *Adams* court was more interested in outside factors than the asset purchase agreements—agreements negotiated by and between sophisticated parties with capable counsel. Accordingly, the court focused on how the parties characterized the transaction and what the seller's business looked like on a practical level following the transaction. This focus was meant to uncover whether control of the business had shifted, and it intentionally left the contractual agreement between the parties relating to the transaction behind.[247] This outcome speaks to the initial issue: what are courts to include in their evaluation of whether control has transferred? The inherently unpredictable "practical consequences" test sometimes points to outside factors like the ones discussed above, or it may emphasize the parties' agreement. How clear must an agreement be to warrant respect by the courts? It would be unfair to negotiating parties to never allow them to be certain their agreements will be enforced. Bad cases make bad law, as do bad and incompetent judges.

Coffin does lend itself to the argument that courts would and should respect the terms of the agreements that parties have bargained for. The court chose to solely consider the asset purchase agreement, when it could have looked outside the agreement to evaluate the "practical consequences" of the transfer. Without the specific wording of the asset purchase agreement, the court would have had to consider those outside factors. Because the parties specified how they wished an objective party to understand the transaction, they secured a result aligned with their intentions. This furthers the purpose of contract law, but does the *Coffin* court further the purpose of attorney-client privilege?

The answer is yes. An individual or a corporation seeks legal counsel to resolve difficult questions. If the individual or corporation cannot predict that its communications will remain confidential, the goal of open discussion between attorney and client will be hindered. By explicitly setting the boundaries of the privilege in an asset transfer, parties can remain confident that privileged communications will stay privileged. A contrary result would lead individuals and corporations to treat every communication as potentially unprivileged. This would clearly be contrary to the goals of attorney-client privilege. As such, *Coffin* reaffirms the attorney-client privilege's guiding principles and underscores

247. *Id.* at *11.

the importance of a predictable application of the privilege. Accordingly, *Postorivo* and *Coffin* provide the most suitable answer for resolving the problem created by *Weintraub*'s tenuous application to asset transfers. The attorney-client privilege should be assignable by contract.

IV. In the Civil and Corporate Context, Failure to Respect Freedom of Contract and Asserted Privilege Leads to Unjust Results

The cases above highlight why parties looking to negotiate asset purchase agreements or other fundamental corporate changes should be permitted to include provisions that clarify the division of the attorney-client privilege. Thankfully, there is a growing amount of case law in favor of allowing parties to contract for themselves how the privilege should be assigned. These cases respect the basics of the freedom of contract and prevent asserted privileges from being unjustly ignored. The cases above, however, highlight a particular failure to coherently justify or fully explain unclear rules. This lack of unity in the law means negotiating parties can only prepare to the extent that is possible. This preparation has taken the form of provisions that exclude particular assets or attempt to apportion the attorney-client privilege. Again, these provisions are inserted with the understanding that courts may throw them aside. Courts should respect the intentions of the bargaining parties and allow for more efficient dealings that contemplate these matters before they even arise in legal disputes.

A. *Public Policy Favors Enforcing Negotiated Contracts*

The well understood benefits of freedom of contract explain why courts should consistently apply these principles to parties contracting to protect themselves during asset transfers. Contractual freedom maximizes overall welfare by allowing for parties to confidently engage in transactions that would not be possible without the power of judicial enforcement implicitly backing the arrangement.[248] Negotiations and due diligence will reveal the extent to which each side of a transaction is exposed to risk, establishing to what degree a party might be unsure of whether the other side will follow through on the agreement. Being bound by the contract and understanding that a court will enforce its terms resolves this uncertainty and mitigates these inherent risks.

This foundational concept is applicable to all contracts. *Ammerman v. City Stores Co.* illustrates the basic principle that, by both sides of an agreement being bound by the contract, the uncertainty and risk of the agreement are tempered. In *Ammerman*, the defendants were a development group looking to receive approval from the local zoning board in order to build a shopping center

248. Louis Kaplow & Steve Shavell, Economic Analysis of Law 1705 (A.K. Auerbach and M. Feldstein eds., 3rd ed. 2002).

before another development could do so.[249] The plaintiff was a department store hoping to secure a location in the future shopping center.[250] The defendants promised the plaintiffs "the opportunity to become one of [their] contemplated center's major tenants" in exchange for a letter by the plaintiff committing itself to the location, as the letter would be helpful in getting approval from the zoning board.[251] The court had interpreted this arrangement as an option-lease contract, and the plaintiffs exercised its option once all the necessary conditions had been met.[252] Thus, the plaintiffs were entitled to specific performance.[253]

This arrangement involved inherent risk, and this risk was mitigated by each side being bound by certain obligations in the contract. The defendants were in less vulnerable of a position and exploited it, demonstrating why contracts exist and why courts enforce them. The defendants merely risked losing one shopping center unit if the zoning hearing was successful. The plaintiffs risked two things: 1) severing any potential business relationship with the other development group by publicly committing to their business rival, and 2) the defendants reneging on the agreement once the zoning issues had been resolved. Considering the defendants attempted to renege on their agreement, the concerns were valid. By enforcing the contract terms, the court upheld one major benefit of contract use: keeping less vulnerable parties from reneging on agreements with a more vulnerable party.

This applies to asset transfers and explains the importance of enforcing the agreement between the parties as they negotiated it. In the most basic of terms, parties contract for asset transfers to ensure that the seller relinquishes control of the asset and that the buyer will provide the agreed upon consideration. One part of this consideration offered in exchange for an asset could be control of the attorney-client privilege over certain communications. Courts should be deferential to the agreement and enforce provisions assigning the attorney-client privilege because it was part of the consideration offered in the exchange. A refusal to enforce such provisions then increases the risk of each transaction—both the specific provision and the surrounding transaction become less concrete. When this occurs, the court retroactively decreases the value of the consideration that was offered, and a buyer is unjustly enriched by having gained an asset for less than what it was sold. This then leads to a decreased chance of these transactions being entered into in the first place, creating greater inefficiencies overall.

Another risk of asset sales is that new entrants may engage with a buyer or seller and undermine an already existing agreement.[254] In other words, a seller already bound by an agreement to sell an asset finds a new buyer willing to pay

249. Ammerman v. City Stores Co., 394 F.2d 950, 952 (D.C. Cir. 1968).

250. *Id.*

251. *Id.* at 952-53.

252. *Id.* at 954.

253. *Id.* at 956.

254. LOUIS KAPLOW & STEVE SHAVELL, ECONOMIC ANALYSIS OF LAW 1719 (2002).

a higher price. On the other side of the coin, a buyer may find that another seller is willing to sell an asset of similar value for a lower price. This creates a scenario in which one party may be tempted to breach a contract in order to extract a greater amount of value from its pre-contract position. However, the contract serves the purpose of keeping each party committed to following through. This commitment also prevents parties from creating irrelevant excuses to avoid the contract terms.

In *Pramco III, LLC v. Partners Trust Bank*, the plaintiffs had agreed to purchase two loans from the defendants.[255] The asset sale agreement had required the defendant to "update, to the date of closing, all material documents" in their possession that related to the loans.[256] Among several other reasons, the plaintiff sued for rescission of the agreement when it became aware of a draft financial statement that explained that the collateral securing the loans had lost significant value over the preceding months.[257] Despite the failure to include this document, the plaintiffs were denied summary judgment.[258] The defendants had not agreed to provide a promise as to the truth or accuracy of its file, only that it would update the review file with documents in its possession.[259] Even if the defendant failed to provide one document, it was still a triable issue of fact whether the breach was so substantial as to defeat the parties' expectations, which would warrant rescission.[260]

Contracts keep committed parties from finding convenient excuses to no longer comply with a bargain. The plaintiff in *Pramco III* would have known the $3,233,087 loans were on compromised ground, but its 80% bid was about double that of any other bidder.[261] It likely came to realize after making the deal that it had overpaid to purchase the loans and was looking to back out because of it. The draft financial statement may have provided the escape route the plaintiff was looking for. However, the court was not willing to allow a party to use a potentially immaterial detail to avoid its contractual obligations. The plaintiff likely already understood the value of the asset but made a poor business decision with its excessive bid.[262]

Courts should not permit parties to play business games in contravention of the legal obligations they have taken on. Contracts will inherently involve implied qualifiers and legal terms of art. The court in *Pramco III* was willing to let a jury decide the boundaries of the terms and implied qualifiers, but it was also an indicator that the court believed the draft financial document was not ultimately material and that rescission may be improper for one minor failure.

255. Pramco III, LLC v. Partners Tr. Bank, 842 N.Y.S.2d 174, 177 (Sup. 2007).
256. *Id.*
257. *Id.*
258. *Id.* at 187.
259. *Id.* at 182-84.
260. *Id.* at 184.
261. Pramco III, LLC v. Partners Tr. Bank, 842 N.Y.S.2d 174, 178-79 (Sup. 2007).
262. *Id.* at 178.

While good lawyering may include making questions out of clear contract terms, good jurisprudence will allow the contract itself to guide the result. Where there is ambiguity as to what the parties want, courts may feel less confident with a result. However, when parties explicitly lay out what they expect, it is wise to let the result be what is written in the contract. This prevents further surprise and any potential gamesmanship by a party in a powerful position.

Evidently, if a pattern of nonenforcement were to take hold, it would begin to take its toll on the greater society. Many economic activities require no formal mechanisms, such as a contract, to ensure their performance, but formal mechanisms are crucial for the remaining economic activities.[263] The more economic activity expands beyond interpersonal networks to involve contracting with strangers in arms-length transactions, the greater the chance that more imposing means will be necessary to ensure that each economic interaction does not turn into an exercise in wasted time and sunken costs.[264] As Douglass North discusses, contract enforcement takes on greater significance as developing countries become more integrated in the global economy, where a failure to consistently enforce contracts leads to economic inefficiency and weakened growth rates.[265] In other words, economic activity often involves situations in which the risk of unseen, excessive costs could prevent a party from believing it would find any economic gain from engaging in a transaction. If parties were to continually avoid these transactions because of a lack of confidence in their actual enforcement, numerous markets would lose out on enormous amounts of economic activity. Courts should always lean towards enforcing contracts so as to prevent creating an atmosphere of uncertainty in a particular market or the broader economy.

The benefits and basic protections offered through strict contract enforcement are not controversial, and a protection regarding an asset's surrounding rights and privileges should not be either. However, courts are quick to limit the freedom of contract for public policy reasons. But none of the underlying public policy rationales for why courts may refuse to enforce contract provisions apply in the context of asset transfers in which one party wishes to explicitly retain the attorney-client privilege. As precedent begins to weaken the arguments for refusing to enforce the provisions, courts may begin to rely on these standard reasons in order to reach particular results. No public policy rationale should permit that.

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263. OLIVER E. WILLIAMSON, THE MECHANISMS OF GOVERNANCE 332 (1996).

264. DOUGLASS C. NORTH, INSTITUTIONS, INSTITUTIONAL CHANGE AND ECONOMIC PERFORMANCE 55 (1990).

265. Michael Trebilcock & Jing Leng, *The Role of Formal Contract Law and Enforcement in Economic Development*, 92 VA. L. REV. 1517, 1522 (2006) (citing DOUGLASS C. NORTH, INSTITUTIONS, INSTITUTIONAL CHANGE AND ECONOMIC PERFORMANCE 55 (1990)).

1. Unconscionability

Unconscionability is one of the exceptions to contractual freedom that illustrates these public policy considerations. A contract is unconscionable if no one acting within their senses would agree to its terms, indicating that one party has taken advantage of the other.[266] The public policy consideration at stake is that of preventing stronger negotiating parties from imposing oppressive, one-sided terms on the weaker party.[267] Some courts consider factors like: boilerplate and adhesion contract terms, excessive price disparities, penalty clause inclusion, denials of basic rights, the circumstances and purpose of the contract, a power imbalance between the parties, or exploitation of unsophisticated parties.[268] However, courts are reluctant to rewrite contracts between sophisticated parties.[269]

For example, in *Accusoft Corp. v. Palo*, the two parties had previously signed an agreement settling a dispute over how particular software could be used and monetized.[270] The creator of the software (Palo and Snowbound Software) failed to include a provision addressing certain existing licenses for the software's use and disputed Accusoft's ongoing license relationship with a third party.[271] The court disagreed with Snowbound's assertion that it was owed anything outside of what was included in the settlement agreement on the grounds that it was not the court's place to "rewrite contracts freely entered into between sophisticated business entities."[272] The fact that both parties were "business entities of reasonable sophistication" and well-represented by attorneys was crucial to the court's decision that it would honor the wording of the parties' agreement.[273]

Unconscionability cannot be argued as the grounds for not enforcing the plain terms of an asset transfer agreement. The public policy goals that the unconscionability exception is premised upon are not furthered by refusing to enforce an asset transfer agreement that provides for division of the attorney-client privilege. It is difficult to argue, under circumstances in which both parties likely were represented by legal counsel, that there was a power imbalance between a buyer and a seller in an asset transfer. Courts would not be sympathetic to an argument that a represented buyer was unaware of the provision. Attorneys for both sides would notice its inclusion or exclusion and discuss it with both their

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266. *See* Ryan v. Weiner, 610 A.2d 1377, 1382-83 (Del. Ch. 1992).

267. James v. Nat'l Fin., LLC, 132 A.3d 799, 814 (Del. Ch. 2016).

268. Fritz v. Nationwide Mut. Ins. Co., 1990 Del. Ch. LEXIS 193, at *11-12 (Del. Ch. Nov. 23, 1990) (citing Willie v. Southwestern Bell Telephone Co., 549 P.2d 903, 906-07 (Kan. 1976)).

269. Meredith Miller, *Contract Law, Party Sophistication and the New Formalism*, 75 MO. L. REV. 496 (2010), https://scholarship.law.missouri.edu/mlr/vol75/iss2/7.

270. Accusoft Corp. v. Palo, 237 F.3d 31, 37 (1st Cir. 2001).

271. *Id.* at 39.

272. *Id.* at 41 (quoting from Mathewson Corp. v. Allied Marine Indus., Inc., 827 F.2d 850, 855 (1st Cir.1987)).

273. *Id.* at 41-42.

client and the other party. If both parties find its inclusion suitable, it is not unenforceable on grounds of unconscionability.

Unconscionability is only one of several public policy reasons a court may refuse to enforce the terms of a contract. Courts will not enforce contracts that are illegal for obvious reasons: they are not compatible with governing law.[274] Unless a state were to implement a new statute, there is no violation of law by including a provision that protects a seller's attorney-client privilege. When courts invalidate these provisions without reference to any law, they act by their own will and not as faithful agents of a legislature. Although outside of the scope of this article, the future may require codification of rules that rebuke results-oriented judges and permit companies to contract for attorney-client privilege in asset transfers. Courts do not need to begin striking down these provisions as explicitly illegal before codification measures could be considered.

2. Undue Influence and Duress

Courts will not enforce contracts that are formed under undue influence or duress.[275] Undue influence occurs when there is "unfair persuasion of a party who is under the domination of the person exercising the persuasion or who by virtue of the relation between them is justified in assuming that the person will not act in a manner inconsistent with his welfare."[276] Duress involves some sort of wrongful restraint, such as coercion or a threat, that pushes an individual to act against or outside of their own will.[277] *Crown Cork & Seal USA, Inc. v. Belhurst* is illustrative and discusses the concepts together. The parties had reached a settlement agreement regarding a wrongful death suit against Crown Cork, but the couple (the Belhursts) who had signed the settlement agreement argued for rescission based partly on the theory that their own attorney had exerted undue influence on them before they signed the agreement.[278] The Belhursts based this argument on allegations that their attorney had been angry, forceful, hostile, abusive, and violent, while further testifying that the attorney had banged on the table and jumped out of his chair to wave his hands around.[279] The court found otherwise and believed the attorney's account that he had explained the agreement such that the Belhursts understood what they signed.[280] The court explained that, even if the attorney's conduct had been as

274. *See* Kashani v. Tsann Kuen China Enter. Co., 118 Cal. App. 4th 531, 537, 554 (2004) (refusing, because of state law, to enforce a contract in violation of an Executive Order preventing certain transactions involving Iran).

275. Crown Cork & Seal USA, Inc. v. Behurst, No. 3: 10-CV-251-HZ, 2012 U.S. Dist. LEXIS 4150, at *27-28 (D. Or. Jan. 12, 2012).

276. *Id.* at *27 (quoting Smith v. Ellison, 15 P.3d 67, 70 (2000)).

277. *Id.* at *28-29 (quoting Or. Bank v. Nautilus Crane & Equip Corp., 683 P.2d 95, 103 (Or. Ct. App. 1984)).

278. *Id.* at *19.

279. *Id.* at *14-15.

280. *Id.* at *15.

the Belhursts claimed, such actions would be "insufficient to establish undue influence or duress."[281] There was no evidence that the attorney had created an environment in which there were no reasonable alternatives available to the Belhursts.[282]

It should be clear that, in the asset transfer context, public policy arguments based in undue influence and duress will rarely have any relevance whatsoever. Most asset transfers between companies will be negotiated with the assistance of attorneys who are acting to facilitate mutually beneficial business deals, not coercive arrangements that exploit or threaten clients. The likelihood of its application may increase in the context of a sole proprietorship or a partnership, but that is yet to be evidenced in any way. Attorneys are incentivized to make all options known to their clients. It would be even more difficult to argue that a specific provision protecting attorney-client privilege was the only term entered into coercively. It would be the entire agreement that is in violation of public policy on these grounds, not just that provision. Overall, the important point is that courts have not relied on undue influence or duress as reasons to not enforce provisions that protect the attorney-client privilege and are unlikely to move in that direction. If they did move in that direction, the result would be case-specific with little precedential value.

3. Fraudulent Contracts

Fraudulent contracts are further disfavored for public policy reasons. The public good at stake requires little explanation: society does not benefit from legal obligations and business deals created out of "intentional perversion[s] of truth."[283] Setting aside how society views fraudulent behavior as inherently immoral, the public also wants to avoid the concrete side-effects of such behavior, like attempts to defraud government bodies or distort market prices.[284] Fraudulent inducement—the duty to not engage in wrongful conduct to induce another's entrance into a contract—allows for the innocent party induced by the fraud to void the contract and seek damages.[285] Such cases will always depend on the specific facts of the case before the court, and there will always be gradations of what constitutes wrongful behavior.[286] Accordingly, it is difficult to ar-

281. Crown Cork & Seal USA, Inc. v. Behurst, No. 3: 10-CV-251-HZ, 2012 U.S. Dist. LEXIS 4150, at *29 (D. Or. Jan. 12, 2012).

282. *Id.* at *30.

283. 15 *Corbin on Contracts* § 85.1 (2020).

284. *Id.*

285. *See* Llewellyn-Jones v. Metro Prop. Group, LLC, 22 F. Supp. 3d 760, 780, 785 (E.D. Mich. 2014); *see also* Fay v. Showcase Motors, 2019 Wash. App. LEXIS 2074, at *26 (Wash. Ct. App. May 31, 2019) (discussing how fraudulent misrepresentations allow for contracts to be void or rescinded).

286. *See* Corbin, *supra* note 283 (2020) ("The methods by which people attempt to relieve others of their possessions are beyond enumeration. New and ingenious methods continually supplement outworn ones . . . The exact line where honest dealings end and fraud begins is not easy to draw.").

gue that provisions that protect attorney-client privilege are inherently fraudulent for the plain reason that both parties have to agree to the provision's existence in the agreement, and courts do not attempt to explain away the provisions this way. However, that does not excuse a court's failure to explain a decision in which it disregards a provision assigning the attorney-client privilege.

Undue influence and fraud depend on actions and circumstances external to the agreement itself, while illegality or unconscionability depend on the provisions themselves being problematic. The former will likely never have application to the discussion because they are meant to target and protect the integrity of the process by which agreements are made. Provisions that protect attorney-client privilege do not end up imposing undue restrictions on either party, and the likelihood of wrongful coercion taking place in these contexts is low compared to others. The latter, illegality and unconscionability, are not relevant either. It would require a showing of contract terms so repugnant to the law and public policy that a court would not be making its decision on the grounds of whether attorney-client privilege protection provisions are against public policy. In summary, courts have failed to provide a clear public policy rationale for ignoring provisions both parties have agreed to and that protect the attorney-client privilege. None of the traditional public policy reasons for ignoring contract terms have been invoked by courts to provide even a bare minimum of a public policy rationale that is not dependent on adherence to precedent.

B. *Recent Precedent Shows the Dangers of Ignoring Negotiated Contract Terms*

With that said, failure to give effect to provisions that prepare for division of the attorney-client privilege are unjustified by the growing amount of precedent in support of such a practice. *Tekni-Plex*, at the very least, stands for the notion that courts will respect these provisions to some uncertain degree. Although *Great Hill* is a Delaware case and partly dependent on a specific Delaware merger statute, its basic principles are applicable beyond Delaware mergers. *Great Hill* encouraged parties to "use their contractual freedom" to protect themselves and "exclude from the transferred assets the attorney-client communications they wish to retain as their own."[287] There is growing precedent that courts should respect the terms of agreements that hope to divide the attorney-client privilege.

Shareholder Representative Services. LLC v. RSI Holdco, LLC (*RSI Holdco II*) serves as a recent example in which the Delaware Chancery Court held to *Great Hill*'s guidance. In *RSI Holdco II*, RSI Holdco, LLC (Holdco) acquired Radixx Solutions International, Inc. (Radixx) by way of a merger agreement.[288]

287. Great Hill Equity Partners IV, LP v. SIG Growth Equity Fund I, LLLP, 80 A.3d 155, 161 (Del. Ch. 2013).

288. S'holder Representative Servs. LLC v. RSI Holdco, LLC, No. 2018-0517-KSJM, 2019 Del. Ch. LEXIS 196, at *3 (Del. Ch. May 29, 2019).

Radixx's selling stockholders were designated as Shareholder Representative Services LLC (Representative) under the merger agreement.[289] The merger agreement provided that Representative would hold the attorney-client privilege over all pre-merger privileged communications, with the provision further providing that no party "may use or rely on any of the Privileged Communications in any action or claim against or involving any of the parties."[290] Alleging breach of the merger agreement, litigation ensued between Representative and Holdco regarding an allegedly withheld "holdback amount" that had not been repaid.[291] As a result of the merger, Holdco had obtained computers and servers with approximately 1,200 pre-merger emails that were presumably privileged.[292] Holdco wanted to use these emails in the litigation against Representative.[293]

Holdco's chief argument was that any privilege over the communications had been waived.[294] Citing the guidance of *Great Hill*, the court quickly dispensed with any argument that Holdco could use these emails in the litigation.[295] Looking solely to the merger agreement and noting "its plain and broad language," the court concluded that it was clear and unambiguous that Representative still held the attorney-client privilege over these emails.[296] It further acknowledged that the provision went beyond preserving the privilege by requiring that neither party use the privileged communications in any litigation involving the parties.[297]

There is no reason these principles should not also apply in the asset transfer context, as evidenced by a recent case: *DLO Enterprises, Inc. v. Innovative Chemical Products Group, LLC*. The decision, out of the Delaware Chancery Court, was largely influenced by *Postorivo*.[298] *DLO Enterprises* revolved around a legal dispute between a buyer and a seller following an acquisition that was consummated by use of an asset purchase agreement.[299] Daniel and Leane Owen sold substantially all the assets of Arizona Polymer Flooring, Inc (Target) to Innovative Chemical Products Groups, LLC and ICP Construction, Inc. (Buyers), and the Target was then renamed DLO Enterprises.[300] Alleging mis-

289. *Id.* at *4.

290. *Id.* at *4-5.

291. *Id.* at *6.

292. *Id.* at *4.

293. *Id.* at *8.

294. S'holder Representative Servs. LLC v. RSI Holdco, LLC, No. 2018-0517-KSJM, 2019 Del. Ch. LEXIS 196, at *9 (Del. Ch. May 29, 2019).

295. *Id.* at *7-12.

296. *Id.* at *8-9.

297. *Id.* at *8.

298. DLO Enters., Inc. v. Innovative Chem. Prods. Grp., No. 2019-0276-MTZ, 2020 Del. Ch. LEXIS 202, at *14 (Del. Ch. June 1, 2020).

299. *Id.* at *1.

300. *Id.* at *1-2.

representation by the Owens and DLO Enterprises (Sellers), litigation arose when the parties could not agree as to who bore the responsibility for allegedly defective products that were sold before the asset transfer but returned afterwards.[301]

The Buyer sought to use or receive several documents from the Sellers that the Sellers argued were protected by attorney-client privilege.[302] "Category One Documents" were pre-closing communications between Sellers and their legal counsel regarding the negotiations.[303] The court had to determine if the Buyers had purchased the right to waive the privilege.[304] It referenced the reasoning of both *RSI Holdco II* and *Great Hill*, but further noted that decisions for mergers and Delaware's Section 259 merger statute did not control by default for asset transfers.[305] The court was convinced that it must look to the asset purchase agreement, not any statute, to determine if the Buyers had purchased the right to waive the privilege.[306]

Looking to the purchase agreement, Section 8.9 gave the Buyers waiver rights only over assets and liabilities that it acquired.[307] Section 1.1 defined assets to not include "Excluded Assets."[308] Section 1.2 defined "Excluded Assets" to include the Sellers' "rights under or pursuant to this Agreement."[309] The court interpreted this, under *Postorivo*'s guidance, as a provision that entitled the Sellers to retain the privilege over communications related to the asset purchase agreement negotiations.[310] Because the Buyers had failed to negotiate for inclusion of that which was excluded in the asset transfer, it did not purchase the right to waive the privilege over the communications.[311]

The court justified application of *Postorivo* as precedent by noting the significant differences between mergers and asset transfers.[312] It noted that beyond the differences in governing law, they also "present practical differences."[313] Asset purchases do not result in the extinguishment of one entity in the same way mergers do, and many interests and privileges remain with the still-existing entity.[314] Further, asset purchase arrangements create adversarial relationships in

301. *Id.* at *2.

302. *Id.* at *3.

303. *Id.*

304. DLO Enters., Inc. v. Innovative Chem. Prods. Grp., No. 2019-0276-MTZ, 2020 Del. Ch. LEXIS 202, at *6 (Del. Ch. June 1, 2020).

305. *Id.* at *7.

306. *Id.* at *9.

307. *Id.* at *11.

308. *Id.* at *12.

309. *Id.* at *14.

310. DLO Enters., Inc. v. Innovative Chem. Prods. Grp., No. 2019-0276-MTZ, 2020 Del. Ch. LEXIS 202, at *14 (Del. Ch. June 1, 2020).

311. *Id.*

312. *Id.* at *9-10.

313. *Id.* at *9.

314. *Id.*

which each side has independent rights.[315] Therefore, by default, the *DLO Enterprises* court believed each party in an asset purchase negotiation should retain the privilege over its position in the negotiating relationship.[316]

Courts should respect the legal significance of a chosen form of transaction. An asset transfer is legally significant in its differences to a merger, both in terms of its treatment under the law and party expectations. *DLO Enterprises* recognized this difference when differentiating between cases like *Great Hill* and *Postorivo* and when interpreting an asset purchase agreement.[317] When courts decide to ignore the legal significance of the chosen form of transaction, parties may find their results in court to be surprising and unexpected.

For example, in *United States v. Adams*, the court chose to ignore both the buyer's and the seller's understanding of the asset sale to not be a transfer of the business. It was undisputed that the transaction in *Adams* was actually a series of transactions memorialized by a corresponding series of asset purchase agreements. It was also undisputed that, following the closing, the buyer itself had "characterized the transaction as an asset purchase rather than a purchase of a business" in several communications with the SEC.[318] Nevertheless, the court relied on the buyer's consent to waive the seller's privilege and the buyer's desire to punish the seller and its corporate officers to determine that the supposed practical consequences of the asset transfers was an acquisition that transferred control of both the business and the attorney-client privilege.[319] Further, the court refused to even allow the privilege with regard to negotiations to remain with the seller.[320] This decision, although decided prior to it, is in clear contrast with the more recent *DLO Enterprises*. Ideally, the *Adams* court's reasoning should be viewed as outdated, ill-advised, results-oriented, and wholly inconsistent with basic corporate law and attorney-client privilege precedent.

Failure to give effect to provisions that alienate the attorney-client privilege are counter to contract law and the intentions of the parties. Contractual agreements create an environment in which parties can bind themselves to negotiated positions so that they can predict how courts will rule on any given issue in any future legal dispute. This facilitates more efficient transactions with less variables being left unpredictable. There is a failure to justify or explain unclear rules for attorney-client privilege, creating a sense of disunity in the law that could easily be remedied by allowing parties to assign the privilege by their own agreement.

315. *Id.* at *10.

316. DLO Enters., Inc. v. Innovative Chem. Prods. Grp., No. 2019-0276-MTZ, 2020 Del. Ch. LEXIS 202, at *10 (Del. Ch. June 1, 2020).

317. *Id.* at *10-11.

318. United States v. Adams, No. 0:17-CR-00064-DWF-KMM, 2018 U.S. Dist. LEXIS 41165 at *16 (D. Minn. Mar. 12, 2018).

319. *Id.* at *19-20.

320. *Id.* at *18-19.

While some courts would like to refocus the analysis on whether control of the entity has taken place, this inevitably can lead to focusing on the similarity of the businesses before and after the transaction. In *Goodrich*, the lower court had misconstrued the "practical consequences" test this way, requiring appellate court intervention.[321] It should not be surprising that the lower court found the "practical consequences" framework confusing, and this confusion can mean that efficient business transactions are undermined by flexible rules with occasionally unpredictable application.

An important example of this lack of clarity can be seen in *Tekni-Plex*'s decision that appears to recognize an inherent ability to alienate and divide the attorney-client privilege by contract.[322] Despite the ultimate ruling, *Tekni-Plex*'s reasoning is not clear in several ways. First, there is no explanation or justification as to why attorney-client privilege should even survive a fundamental corporate change like a merger in which one legal entity ceases to exist.[323] Although the reasoning relied on *Weintraub* and the general concept of control passing to new management, it fails to confront the meaningful differences between a bankruptcy trustee and the management of a newly acquiring entity controlling the attorney-client privilege.[324] Further, the *Tekni-Plex* court fails to articulate to what extent courts should defer to the merger agreement.[325] A merger might be understood as a de facto transfer of control, but that is clearly not the case under a "practical consequences" test that intentionally ignores the formalities of the transaction in favor of analyzing it "[a]s a practical matter."[326] On one hand, the court seems to conduct its own analysis of the transaction to determine whether control has shifted, but it then relies on the specific wording of the agreement to conclude that the privilege should be divided for the merger-related communications.[327] To exasperate this, the court never recites the explicit wording of the agreement that purports to divide the attorney-client privilege.[328] This complicates practice for transactional attorneys and makes the holding's application to different circumstances difficult to predict. Relying on *Tekni-Plex* would leave attorneys negotiating mergers guessing as to the specific wording that would be necessary to effectuate one result over another.

This confusion can be seen in an asset transfer scenario with *Coffin v. Bowater*, in which the court gave effect to the provision but partially as a mechanism to

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321. Goodrich v. Goodrich, 960 A.2d 1275, 1284, 1288 (N.H. 2008).

322. Tekni-Plex, Inc. v. Meyner & Landis, 674 N.E.2d 663, 670-72 (N.Y. 1996).

323. Henry S. Bryans, *Business Successors and the Transpositional Attorney-Client Relationship*, 64 BUS. LAW. 1039, 1047 (2009).

324. *Tekni-Plex*, 674 N.E.2d at 668.

325. *Id.* at 670-72.

326. *Id.* at 669.

327. *Id.* at 670-71.

328. *Id.* at 671.

point towards the idea that transfer of control had taken place.[329] If the asset purchase agreement had failed to articulate the parties' intentions for the privilege's assignment, it remains unclear whether the court would have reached the same result based on the "practical consequences" of the matter. It could be argued that such a situation would simply constitute distinguishing facts, but if that is so, provisions assigning the privilege or excluding certain assets should be given more weight if they are present.

Because of this unclear reasoning, in *United States v. Adams*—a criminal action with liberty-infringing implications—the court construed the result in cases like *Tekni-Plex* to simply be dependent on the specific agreement with "no bearing on [his] case."[330] Adams had argued that, even if the attorney-client privilege had passed to the buyer, the seller retained the privilege over communications related to the asset purchase negotiations themselves.[331] While this is a reasonable reading and application of *Tekni-Plex*, the court did not find this persuasive because Adams did not identify language in the relevant asset purchase agreements that was comparable to "the very specific language" of *Tekni-Plex'*s merger agreement.[332] Because the court did not provide the language used in *Tekni-Plex* that it apparently believed would have been sufficiently specific to warrant enforcement, it can only be inferred what language would have been necessary in the *Adams* purchase agreements.[333] The point is that *Tekni-Plex*'s ability to persuade is not completely clear to those relying on it.

Although dealing with a Delaware merger and its specific relevant statute, *Great Hill* perhaps provides a clearer rule for how courts should confront any fundamental corporate change and asset transfer. The *Great Hill* court simply said that parties should be permitted to use their contractual freedom to exclude certain communications.[334] However, *Great Hill*, like *Tekni-Plex*, was a merger and not an asset purchase transaction, so what should control in the asset transfer context? *Postorivo* provides the clear answer for how this concept should operate in the context of an asset transfer. By giving effect to the intent of the contracting parties, the court ultimately encourages efficient and predictable

329. *See* Coffin v. Bowater Inc., Civ. No. 03-227-P-C, 2005 U.S. Dist. LEXIS 9395 at *9 (D. Me. May 13, 2005).

330. United States v. Adams, No. 0:17-CR-00064-DWF-KMM, 2018 U.S. Dist. LEXIS 41165, at *18-19 (D. Minn. Mar. 12, 2018).

331. *Id.*

332. *Id.*

333. *Id.*; *see also* Reply in Support of Motion Asserting Certain Privileges Implicated by Yahoo! Email Seizure, United States v. Adams, No. 0:17-CR-00064-DWF-KMM, 2018 U.S. Dist. LEXIS 41165, at *3 (D. Minn, Mar. 12, 2018). It was undisputed that the Buyer would only be obtaining the "Seller's right, title, and interest in and to *certain* of the property, assets, rights, and *privileges* of Seller." Reply, *Adams*, 2018 U.S. Dist. LEXIS 41165 (No. 90), at *8 (emphasis added). The APAs in question explicitly excluded several assets, and Seller retained the privileges, including the attorney-client privilege, attached to those assets. *Adams*, 2018 U.S. Dist. LEXIS 41165, at *11-13. The court chose to disregard this language. *Id*.

334. Great Hill Equity Partners IV, LP v. SIG Growth Equity Fund I, LLLP, 80 A.3d 155, 160-61 (Del. Ch. 2013).

transactions in the future.[335] Moving forward, *DLO Enterprises* provides an example of how parties can protect their attorney-client privilege for asset purchases and how courts should analyze the contract. Parties looking to negotiate asset purchase transfers should be able to rely on cases like *Postorivo* and *DLO Enterprises* to protect themselves through asset-exclusion clauses.

C. *Uncertainty Created by Courts Refusing to Enforce Contract Terms Runs Counter to Public Policy*

Failure to uphold terms in asset purchase agreements that clarify the division of the attorney-client privilege post-asset transfers undermines the purpose and importance of the privilege. The purpose of attorney-client privilege is to facilitate the administration of justice by promoting "full and frank" communications and encouraging compliance with the law.[336] *Upjohn* serves as the quintessential example of why this is important. Had Upjohn Co.'s legal counsel been unable to conduct its investigation without a certain degree of confidentially, it would have been disincentivized to do so. By permitting the investigation communications to remain privileged, Upjohn Co. was given the opportunity to understand its rights and work towards compliance with the law.[337] Society's interests are furthered when corporations can predict how courts will respond when facing complex legal questions concerning their businesses.

Tekni-Plex demonstrates how public policy interests are furthered by respecting the assignment of privilege within an agreement. The merger agreement itself had divided the privilege for scenarios in which, post-merger, the buyer's and seller's interests became separate and adverse.[338] Had the court not respected this division, the party bringing suit would have had access to privileged communications between a party and its legal counsel regarding the very matter in dispute.[339] The *Tekni-Plex* court thus furthered several societal interests. It respected the intentions of the parties, encouraged efficiency in future negotiations, and prevented the chilling of communications between corporations and their legal counsel as deals are negotiated.[340] A decision otherwise would mean any corporation negotiating a similar transaction would never feel their communications are truly confidential. This would clearly undermine the purpose of the attorney-client privilege.

In the asset transfer context, *Postorivo* provides the clearest example of how the public policy goals of the attorney-client privilege are furthered by respecting terms that assign the privilege between parties. The asset purchase agreement in

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335. Postorivo v. AG Paintball Holdings, Inc., Consolidated Civil Action No. 2991-VCP, 3111-VCP, 2008 Del. Ch. LEXIS 17 at *28-29 (Del. Ch. Feb. 7, 2008).

336. Commodity Futures Trading Comm'n v. Weintraub, 471 U.S. 343, 348 (1985).

337. *See* Upjohn Co. v. United States, 449 U.S. 383, 394-95 (1981).

338. Tekni-Plex, Inc. v. Meyner & Landis, 674 N.E.2d 663, 671 (N.Y. 1996).

339. *Id.* at 672.

340. *Id.*

Postorivo had specifically excluded a cause of action, the "Procaps Litigation" from the asset transfer.[341] It was not disputed that control of the corporation had transferred to the buyer, but the court still permitted the attorney-client privilege over communications related to the "Procaps Litigation" to remain with the seller as a result of the provisions excluding them.[342] By giving effect to this provision, the court prevented an unjust situation in which a party that had no interest in a particular cause of action could control the privilege over its related communications. In other words, the court protected the very goal of attorney-client privilege: protect communications between clients and their counsel as they face complicated legal matters.

Lastly, *DLO Enterprises* reinforces the attorney-client privilege interests that *Postorivo* furthers. The court noted the adverse interests of parties negotiating an asset transfer, interests that could only be protected by also protecting the privileges attendant to corporate negotiations.[343] Each sale will entail unique interests that deserve the protection of the attorney-client privilege. If courts want to protect them, the best way is to allow parties to decide for themselves what is worth protecting. That decision will be reflected in the agreement, and courts undermine those interests when they refuse to enforce the contract.

To conclude with one final point, allowing parties to contract for attorney-client privilege divisions in the asset-transfer context allows parties to protect themselves from inadvertently waiving their privilege over documents and communications. Asset transfers will often involve the transfer of storage facilities or computer hard drives that may contain privileged communications. Once a legal dispute arises between a buyer and seller, a buyer in possession of the seller's privileged documents or communications can raise the argument that the failure to protect the privileged communications precludes the seller from being able to assert attorney-client privilege. Although the transaction was a merger, *RSI Holdco II* provides an example of how this situation arises. Because of the merger, the Buyer had obtained thousands of pre-merger emails, with an unknown number falling under attorney-client privilege.[344] The Buyer argued that the transfer of the communications had constituted waiver of the privilege.[345] The case was ultimately decided by holding to the terms of the merger agreement, and the issue of waiver was not given thorough discussion.[346] The question remains how waiver would apply if this had been an asset-transfer without any specific provisions addressing the issue.

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341. *Postorivo v. AG Paintball Holdings, Inc.*, Consolidated Civil Action No. 2991-VCP, 3111-VCP, 2008 Del. Ch. LEXIS 17 at *5 (Del. Ch. Feb. 7, 2008).

342. *Id.* at *29.

343. DLO Enters., Inc. v. Innovative Chem. Prods. Grp., No. 2019-0276-MTZ, 2020 Del. Ch. LEXIS 202, at *10 (Del. Ch. June 1, 2020).

344. Shareholder Represenative Services LLC v. RSI Holdco, LLC, No. 2018-0517- KSJM, 2019 Del. Ch. LEXIS 196, at *4 (Del. Ch. May 29, 2019).

345. *Id.* at *9.

346. *Id.* at *10-11.

Federal Rule of Evidence 502(b) deals with the issue of waiver by inadvertent disclosure, and it sets out that inadvertent disclosure does not constitute waiver if "(1) the disclosure is inadvertent; (2) the holder of the privilege or protection took reasonable steps to prevent disclosure; and (3) the holder promptly took reasonable steps to rectify the error."[347] Delaware Rule of Evidence 510(c) mirrors this standard almost exactly. In other words, courts look to the party asserting the privilege to demonstrate that it took reasonable steps to maintain the confidence of the communications they claim are privileged.[348] These standards underscore the importance of permitting parties to do their due diligence by contracting with these issues in mind. Because courts look to see if a party took reasonable steps to protect their communications, it would be unfair to deny parties the practical solution of planning ahead of time to protect their confidential communications. It would be counter to both practicality and the rules intended to govern these circumstances.

Further, the issue of waiver by inadvertent disclosure is separate from the concept of explicit waiver by a party who the court has deemed holds the attorney-client privilege over the communications in question after an asset-transfer has taken place. The former would consist of inadvertent waiver over communications for which the seller still held the privilege, while the latter would consist of privilege having transferred to the buyer. However, these two scenarios overlap in the sense that a seller who is concerned about either scenario could contract to protect that which it seeks to protect from transfer and potential disclosure. As courts encounter more disputes that result in a buyer arguing waiver through inadvertent disclosure has taken place, a greater consensus will form regarding the conditions necessary to find waiver. It would be beneficial for all businesses encountering uncertainty in these areas to have clear rules that permit them to simply contract for retention of certain privileges.

Parties should be permitted to determine for themselves how the attorney-client privilege will be assigned following an asset transfer agreement. This would simplify and clarify the great amount of uncertainty courts have created for parties engaging in asset transfers. It would be faithful to the basic tenants of contract law by giving effect to the intentions of the parties and allowing for more efficient transactions. It would also be faithful to a growing amount of precedent, and it would further the goals of attorney-client privilege.

347. FED. R. EVID. 502(b).

348. *See* United States v. Finazzo, No. 10-CR-457 (RRM)(RML), 2013 U.S. Dist. LEXIS 22479, at *19 (E.D.N.Y Feb.13, 2013) (finding that the burden was on the criminal defendant to prove that their open discussion of a purportedly privileged communication did not constitute waiver).

V. The Necessary Language to Protect the Attorney-Client Privilege After an Asset Transfer

What language should attorneys include in asset transfer agreements to protect the attorney-client privilege? This answer is dependent on an assumption that courts would respect the chosen language, but a unified answer would help courts to recognize what parties intend by including language of this kind. And if a court chooses to find that the privilege has not been protected by the agreement, should the parties understand such a ruling to be *because* of inadequacies in the wording of the agreement or in spite of the clear wording of the agreement?

United States v. Adams, discussed above, provides an example of this dilemma. Recall that *Adams* involved several asset agreements that were argued to have protected the attorney-client privilege over emails of an attorney working for Apollo.[349] The court had decided that, under the "practical consequences" framework, Scio was the business successor to Apollo following the asset transfer, meaning the attorney-client privilege had passed to Scio.[350] However, this decision was in spite of the provisions included in the asset transfer agreements.

As explained in the briefings for the defendant, the Apollo-Scio asset purchase agreements transferred only certain "Purchased Assets," with the only "intangible assets" being transferred being specifically enumerated and those that "relate to or are used in the operation of the Purchased Assets or Business."[351] The agreement specifically excluded certain assets under an "Excluded Assets" provision. This included Apollo's contract rights, real property rights, and Apollo's books and records that did not primarily relate to the "Purchased Assets or Business." Most importantly, the agreement further excluded liabilities under a "Retained Liabilities" provision. This included liabilities related to the agreement transaction documents, liabilities "from events occurring" or "conditions existing" prior to closing, and liabilities related to any "Legal Proceedings" arising out of events or occurrences prior to the closing of the asset transfer agreement. In other words, the agreement contemplates Apollo retaining power over any and all issues that relate to any business prior to the asset transfer, including the attorney-client privilege.[352]

The court understood the existence of these provisions, and likely what was intended, but it found them immaterial.[353] It did not matter to the court what the

349. United States v. Adams, No. 0:17-CR-00064-DWF-KMM, 2018 U.S. Dist. LEXIS 41165, at *4 (D. Minn. Mar. 12, 2018).

350. *Id.* at *13-14.

351. Memorandum of Law in Support of Motion Asserting Certain Privileges Implicated by Yahoo! Email, Seizure, United States v. Adams, No. 0:17-CR-00064-DWF-KMM, 2018 U.S. Dist. LEXIS 41165, at *6 (D. Minn, Mar. 12, 2018).

352. *See* Reply in Support of Motion Asserting Certain Privileges Implicated by Yahoo! Email Seizure, United States v. Adams, No. 0:17-CR-00064-DWF-KMM, 2018 U.S. Dist. LEXIS 41165, at *2 (D. Minn, Mar. 12, 2018).

353. *Adams*, 2018 U.S. Dist. LEXIS 41165, at *13.

intention or meaning of these provisions were. It did not matter that Apollo was still an existing, separate legal entity from Scio because the court believed enough assets had been transferred that the realities of how corporations are run could be set aside. Because a reasonable reader would understand the expected legal significance of the included provisions, *Adams* provides an example of how results-oriented courts dealing with these questions may not find clear and unambiguous agreement language important to their ruling. A court could find the privilege passes to a buyer in spite of the wording of the agreement.

It bears repeating that certain unavoidable aspects of the law, as it currently stands, complicate the question of what the proper wording should be in an asset purchase agreement to protect the privilege. The *Adams* court cited to cases like *American International* and *Tekni-Plex*, where courts made their own determinations as to whether the privilege should transfer, irrespective of what any agreement between the parties may include.[354] *Postorivo* and its deference to the asset purchase agreement must gain more sway before parties can be confident courts will no longer refuse to enforce such provisions based on questionable conclusions that control of the business has been transferred. If courts continue to forget the legal significance of assets sales and refuse enforcement of provisions that clarify the seller's expectation that it will retain the attorney-client privilege over its business, parties will continue to speculate as to what wording must be included to convince a judge of what was intended in the asset purchase.

As a side note, it is clear that it is the agreement itself that must contain the provision protecting the attorney-client privilege. While this may come as no surprise to some, *In re Mirant Corp.* provides an example in which a parent company hoped to use a joint representation agreement (the Protocol) as the foundation for an argument that it still controlled the attorney-client privilege after a divestiture of its subsidiary.[355] Troutman Sanders LLP (Troutman) had jointly represented The Southern Company (TSC) and Mirant Corp. (Mirant) as it divested from Mirant.[356] The Protocol simply stated, "as to all matters and at all times, [Troutman] will protect the confidences of each Client and take whatever measures are necessary to assure that confidential information is not shared with the other Client."[357] When Mirant later faced Chapter 11 bankruptcy, several discovery disputes arose between the two companies regarding past transactions between them.[358] When TSC argued it still held privilege over several documents Mirant requested, the court disagreed.[359] It found that the Protocol did not even address the attorney-client privilege, and even if the Protocol pro-

354. *Id.* at *17.

355. *In re* Mirant Corp., 326 B.R. 646, 652 (Bankr. N.D. Tex. 2005).

356. *Id.* at 648.

357. *Id.*

358. *Id.* at 649.

359. *Id.* at 652.

vision had been extended so, it would not be enforced as contrary to public policy.[360]

Now assume the jurisdiction in which one practices adheres to the agreements negotiated between the parties. What language should be included so that courts realize the parties have provided for protection of the attorney-client privilege? As discussed above, this area is consistently evolving, and different jurisdictions may have different understandings of what is necessary to make protection of the attorney-client privilege explicitly clear after an asset purchase. The cases above describe some scenarios in which the agreement was sufficient to protect some aspect of the privilege. However, because it is still developing, there may not yet be unified thinking on the necessary provisions.

The protection and division of the privilege has received much more attention in the merger context compared to asset sales. One study found that one third of merger agreements do not address the issue, while the remainder that do address the issue have come to no consensus on what wording should be used.[361] Scott Burton discusses this "gray area" and provides some general recommendations to "tame the inherent ambiguity" of privilege in these transactions.[362] For asset transfers, Burton recommends defining the term "excluded assets" to so as to clarify that all attorney-client privileged materials are not items transferred in the asset sale.[363] Although he provides no sample language, practitioners can look to examples below to tailor language that is necessary to achieve a seller's goals. Burton further recommends that the sellers provide for the seller's retention of the privilege over the transaction advice.[364] Lastly, any drafting party in this area must be aware of jurisdictional differences that might influence the wording that is necessary.[365]

Jaculin Aaron discusses the wording attorneys can include in asset purchase agreements to protect the desired privileged documents and communications.[366] The first is meant to serve as a broad protection:

"Seller Controls Privilege (Broad)

The attorney-client privilege, attorney work-product protection, and expectation of client confidence arising from legal counsel's representation of the Company prior

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360. *Id.*

361. Paul Koenig, *What to Make of the Great Hill Case - The M&A Bar is Not Yet in Agreement on How Best to Address Merger Agreement Privilege Issues*, SRS/ ACQUIOM White Paper Series (Aug. 1, 2016), https://www.srsacquiom.com/resources/merger-agreement/.

362. Scott Burton, *Addressing the Attorney-Client Privilege in M&A Transactions*, Partnering Perspectives (2016), https://us.eversheds-sutherland.com/portalresource/lookup/poid/Z1tOl9NPluKPtDNIqLMRV56Pab6TfzcRXncKbDtRr9tObDdEoK3Eo43!/fileUpload.name=/Pages%20from%20Sutherland%20Partnering%20Perspectives%20(Winter%202016)_v7-3.pdf.

363. *Id.* at 15.

364. *Id.*

365. James R. Evans, et al., *Protecting Attorney–Client Privilege for Pre-Merger Communications*, 45 The COLO. LAW., Oct. 2016, at 71.

366. Jaculin Aaron, *Changes in Control: Preserving the Privilege in M&A Transactions*, 15 MERGERS & ACQUISITIONS L. REP. 1073 (July 23, 2012).

> to the Effective Time, and all information and documents covered by such privilege or protection, shall belong to and be controlled by the Seller and may be waived only by Seller, and not the Company, and shall not pass to or be claimed or used by Buyer or the Company . . . ."[367]

Aaron explains that this is meant to protect pre-transaction privileged materials that relate to the business operations of the seller, not negotiation communications.[368] She then provides a provision that could specifically addresses the privilege the seller would like to retain following an asset transfer:

> "*Privileged Materials Excluded from Sale of Assets*
>
> Excluded Assets include: (i) any attorney-client privilege and attorney work product protection of Seller or associated with the Business as a result of legal counsel representing Seller or the Business, including in connection with the transactions contemplated by the Agreement; (ii) all documents maintained by legal counsel as a result of representation of the Seller or the Business; (iii) all documents subject to the attorney-client privilege and work-product protection described in subsection (i); and (iv) all documents maintained by the Seller in connection with the transactions contemplated by this Agreement."[369]

Andrew Share discusses the wording attorneys can include in asset purchase agreements to protect the negotiation communications.[370] He recommends specifying what is excluded from the asset sale:

> "Excluded Assets include: (i) any attorney-client privilege of Seller or associated with the Business as a result of legal counsel representing Seller, including in connection with the transactions contemplated by the Agreement; and (ii) all files maintained by legal counsel as a result of representation of the Seller or the Business, and all files maintained by the Seller, in connection with the transactions contemplated by this Agreement."[371]

Share recognizes that this wording may not protect against an argument stating that the privilege has been waived if the documents or communications were to come into the buyer's possession in a way that the buyer could review them.[372]

DLO Enterprises is worthy of closer inspection as well since even its wording is not as clear as the example above. This case provides an example of how negotiation communications can be protected. Recall, *DLO Enterprises* involved a dispute over whether the buyer or the seller held the attorney-client privilege over communications between the seller and its counsel.[373] The com-

367. *Id.*

368. *Id.*

369. *Id.*

370. Andrew L. Share, *Preserving the privilege: attorney-client communication in the sale of business assets*, NIXON PEABODY (Apr. 5, 2011), https://www.nixonpeabody.com/en/ideas/articles/2011/04/05/preserving-the-privilege-attorney-client-communication-in-the-sale-of-business-assets.

371. *Id.*

372. *Id.*

373. DLO Enters., Inc. v. Innovative Chem. Prods. Grp., No. 2019-0276-MTZ, 2020 Del. Ch. LEXIS 202, at *3 (Del. Ch. June 1, 2020).

munications regarded the asset transfer transaction itself.[374] Because of the language in the purchase agreement, the seller was able to retain privilege over the disputed communications and the court discussed the relevant language that it found persuasive to its ruling.[375] Section 1.1 of the purchase agreement defined "Assets" as:

> "Sellers will sell, convey, assign, transfer and deliver to Purchaser, and Purchaser will purchase and acquire from Sellers free and clear of any Liens, all of Sellers' right, title and interest in all of the properties and assets of Sellers, **excluding only the Excluded Assets** and the Contributed Assets . . . ."[376]

Section 1.2 defined Excluded Assets as, "the [Sellers'] rights under or pursuant to this Agreement and agreements entered into pursuant to this Agreement." This persuaded the court that the seller still controlled the privilege over the communications despite a provision under Section 8.9 that stated, "The parties intend that, at all times after the Closing, [Buyer] will have the right in its discretion to assert or waive any attorney work-product protections, attorney-client privileges and similar protections and privileges relating to the Assets and Assumed Liabilities."[377] Pursuant to the guidance of *Postorivo*, where "Excluded Assets" are defined to include "all rights of the Sellers" under the purchase agreement, the "Assets" do not include the attorney-client privilege over transaction communications.[378]

Sentinel Offender Services, LLC v. G4S Secure Solutions, Inc. provides a unique example of the language a seller could include in an agreement to protect certain information. In *Sentinel*, the plaintiff Buyer had bought all the issued and outstanding shares of the defendant Seller's subsidiary.[379] Under the label of a "Transition Services Agreement," the purchase agreement included a confidentiality provision that required the Buyer to return any "Confidential Information" it had, and it affirmed the Seller's property rights over any "Confidential Information" it received, possessed, or became aware of in connection with the purchase agreement.[380] The phrase "confidential information" was defined as "any information . . . relating to [Seller's] business, which is generally not known to Person other than [Seller] and its Affiliates and which is of value to [Seller]."[381] The Buyer brought breach of contract and fraud claims against the Seller that were related to the purchase agreement.[382] The question before the court was whether the Seller could assert attorney-client privilege over sev-

374. *Id.*

375. *Id.* at *12.

376. *Id.*

377. *Id.*

378. *Id.* at *14.

379. Sentinel Offender Servs., LLC v. G4S Secure Sols., Inc., No. SACV 14-298-JLS (JPRx), 2015 U.S. Dist. LEXIS 192229, at *1 (C.D. Cal. Sept. 3, 2015).

380. *Id.* at *2.

381. *Id.* at *2-3.

382. *Id.* at *3.

eral communications.[383] These included emails between the purchased subsidiary and its counsel "relating to a disputed contract" as well as any other pre-closing communications between the subsidiary and its legal counsel.[384]

The court found that "these provisions constitute[d] an 'express' carve out as contemplated by *Great Hill*."[385] *Sentinel* was a California court applying precedent from a Delaware case. Thus, it would seem at least practitioners in some California and Delaware courts can potentially rely on wording that purports to protect "confidential information" extending to protect attorney-client privilege. Accordingly, confidentiality provisions may prove more useful in the future.

RSI Holdco II provides an example of wording that was convincing to a court that a Seller had retained the privilege over pre-merger communications.[386] Recall that *RSI Holdco II*'s holding was dependent on *Great Hill*'s guidance.[387] The wording read as follows:

> "Any privilege attaching as a result of [counsel] representing [Radixx] . . . in connection with the transactions contemplated by this Agreement [1] shall survive the [merger's] Closing and shall remain in effect; provided, that such privilege from and after the Closing [2] shall be assigned to and controlled by [the selling stockholders' representative]. [3] In furtherance of the foregoing, each of the parties hereto agrees to take the steps necessary to ensure that any privilege attaching as a result of [counsel] representing [Radixx] . . . in connection with the transactions contemplated by this Agreement shall survive the Closing, remain in effect and be assigned to and controlled by [the selling stockholders' representative]. [4] As to any privileged attorney client communications between [counsel] and [Radixx] . . . prior to the Closing Date (collectively, the "Privileged Communications"), [Holdco], the Merger Subsidiary and [Radixx] (including, after the Closing, the Surviving Corporation), together with any of their respective Affiliates, successors or assigns, agree that no such party may use or rely on any of the Privileged Communications in any action or claim against or involving any of the parties hereto after the Closing."[388]

John Mark Zeberkiewicz and Daniel Kaprow write to discuss the importance of this decision on protecting attorney-client privilege in a sale or merger.[389] Zeberkiewicz and Kaprow explain that practitioners are encouraged to

383. *Id.*

384. *Id.*

385. Sentinel Offender Servs., LLC v. G4S Secure Sols., Inc., No. SACV 14-298-JLS (JPRx), 2015 U.S. Dist. LEXIS 192229, at *10 (C.D. Cal. Sept. 3, 2015).

386. John P. Stigi III, *Delaware Chancery Court Provides Useful Guidance for Protecting Pre-Merger Privileges in Post-Closing Litigation Between Buyers and Sellers*, NAT'L L. REV. (June 5, 2019), https://www.natlawreview.com/article/delaware-chancery-court-provides-useful-guidance-protecting-pre-merger-privileges.

387. S'holder Representative Servs. LLC v. RSI Holdco, LLC, No. 2018-0517-KSJM, 2019 Del. Ch. LEXIS 196, at *10 (Del. Ch. May 29, 2019).

388. *Id.* at 4-5.

389. John Mark Zeberkiewicz & Daniel E. Kaprow, *Precluding Pre-Merger Communications in Post-Merger Dispute*, HARVARD L. SCH. F. ON CORP. GOVERNANCE (June 12, 2019), https://corpgov.law.harvard.edu/2019/06/12/precluding-pre-merger-communications-in-post-merger-dispute/.

include privilege claw-back provisions that clearly express the expected treatment of pre-transaction privileged communications.[390] This would include defining the scope of the materials subject to the provision by expressly assigning control of the privilege to the Seller and prohibiting the Buyer from using the privileged materials.[391]

Another group of attorneys, discussing how *Great Hill* could apply in the context of a merger, provides some guidance and example language for how to exclude privileged communications from a transaction.[392] It should be noted that the original wording was intended for a merger, not an asset sale. However, if tailored properly, it can be used to protect privileged communications in an asset sale. It has been modified from its original wording accordingly with the modified wording in bold.

> "From and after the Effective Time, (i) the [**Seller**] of [**the Acquired Assets**] immediately prior to the Effective Time (the "**Seller**") shall be the sole holders of the attorney-client privilege with respect to the engagement of [Seller Counsel] by the [**Seller**], and neither the [**Buyer**] nor its Affiliates shall be a holder thereof, (ii) to the extent that files of [Seller Counsel] in respect of such engagement constitute property of the client, only the **[Seller]** and their respective Affiliates (and none of Parent, the [**Buyer**] or their respective Affiliates) shall hold such property rights and (iii) [Seller Counsel] shall have no duty whatsoever to reveal or disclose any such attorney-client communications or files to Parent, the [**Buyer**] or any of their Affiliates by reason of any attorney-client relationship between [Seller Counsel] and the [**Seller**] or any of its respective Affiliates or otherwise. This Section is irrevocable, and no term hereof may be amended, waived or modified, without the prior written consent of [Seller Counsel]."[393]

It should also be noted that this provision would be most potent in protecting the privilege of negotiation communications because it is pointed most directly at Seller's relationship with the counsel for the transaction. However, it still has utility in the unique context of an asset transfer where the selling company would still exist, potentially have a past relationship with its counsel, and potentially have a future relationship with its counsel. In other words, additional wording that defines and references Acquired Assets and any Excluded Assets, as discussed above, could remedy this example provision's limitations.

CONCLUSION

These potential options for assignment of the attorney-client privilege will remain in question until courts unify around the idea that such contract terms deserve to be enforced. While courts may believe parties are incapable of con-

390. *Id.*

391. *Id.*

392. Lawrence B. Friedman, et al., *Attorney-Client Privilege in M&A Transactions*, CLEARY GOTTLEIB CASE L. DEVS. (Apr. 2, 2015), https://www.clearymawatch.com/2015/04/attorney-client-privilege-in-ma-transactions/.

393. *Id.*

tracting for themselves on this issue, the privilege is one that parties can understand and use for their own purposes. Currently, it should be no issue for parties to include provisions that protect privileged communications over negotiations for the sale of assets. This would involve inclusion of terms that differentiate between the privilege as it relates to the negotiations and the business itself. Protecting the privilege over the negotiation communications should be uncontroversial even under a strict reading of rulings like *Tekni-Plex*. Protecting the privilege over the business' privileged communication should be just as uncontroversial. While results-oriented judges may seek to overturn the will and intention of a negotiated contract, courts should enforce provisions that seek to protect the general attorney-client privileges of businesses which are making asset sales. This would recognize the unique differences of asset sales when compared to other fundamental corporate changes, and it would be faithful to the basic purposes of contract law. Further, it would be fundamentally compatible with the goals of the attorney-client privilege. Should courts fail to recognize these provisions, parties intending to provide for this protection will find their agreements drawn into question, undermining their individual rights to negotiate and contract as they please. Courts should enforce provisions that protect the attorney-client privilege for a seller after an asset sale. A contrary decision would lead to greater injustice and increased inefficiency for numerous future transactions. Courts have failed to articulate a coherent public policy rationale for why asset sales should be treated the same as mergers in this area, and they should not be applying inconsistent law to such distinguishable business transactions.