IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE
IN AND FOR NEW CASTLE COUNTY

AMERICAN LEGACY FOUNDATION, a Delaware non-profit corporation,	)	
Plaintiff,	)	
v.	)	C.A. No. 19406
LORILLARD TOBACCO COMPANY, a Delaware corporation,	)	
Defendant.	)	

MEMORANDUM OPINION AND ORDER

Submitted: October 18, 2004
Decided: November 3, 2004

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LAMB, Vice Chancellor

The defendant moves to compel the production of documents that the plaintiff argues are protected by attorney-client privilege. For the following reasons, that motion is granted in part and denied in part.

I.

The defendant, Lorillard Tobacco Company, a Delaware corporation, is the oldest tobacco company in the United States. The plaintiff, American Legacy Foundation ("ALF"), a Delaware non-profit corporation, was formed pursuant to the terms of the Master Settlement Agreement (the "MSA"), a 1999 agreement in which the nation's largest tobacco companies settled lawsuits brought against them by the attorneys general of 46 states. ALF's mission, as stated in the MSA and incorporated into ALF's bylaws, is to create advertising to reduce youth tobacco product usage in the United States.

This action involves a dispute about certain advertisements produced at the direction of ALF, using funds contributed by the settling tobacco companies, including Lorillard.[1] Lorillard contends that ALF has violated the terms of the MSA by producing ads that vilify and personally attack tobacco companies and

[1] This opinion is the third in a series of opinions concerning the litigation between these parties. *See Am. Legacy Found. v. Lorillard Tobacco Co.*, 831 A.2d 335 (Del. Ch. 2003) ("*Lorillard II*"); *Am. Legacy Found. v. Lorillard Tobacco Co.*, 2002 WL 927383 (Del. Ch. Apr. 29, 2002) ("*Lorillard I*"). Given the detailed recounting of the facts in prior opinions, the court has attempted to prevent duplication by confining itself to the facts relevant to the pending motion.

their employees. ALF argues that it has not violated the terms of the MSA and seeks declaratory relief to that effect.

The pending motion is an attempt by Lorillard to compel the production of certain documents listed on ALF's privilege log.[2] The documents at issue concern communications between ALF and either Arnold Worldwide ("Arnold"), ALF's lead advertising agency, or Porter Novelli, a public relations firm that assists ALF in speech writing and crisis management.[3] In order to ensure that its advertising campaigns comply with the MSA and the law, ALF shares confidential information with both of these firms.[4] This information includes legal advice provided to ALF by its attorney, Wilmer Cutler Pickering Hale and Dorr LLP ("Wilmer Cutler").

ALF contends that confidential communication of privileged information to Arnold is protected by the joint defense, or common interest, doctrine of attorney-

[2] Lorillard's motion to compel initially included two additional categories of documents: (1) financial documents relating to ALF's use of its funds and (2) documents relating to ALF's allocation of expenses between different funding sources. The parties resolved these issues by mutual agreement.

[3] Although ALF implies that its attorney-client privilege could protect documents provided to other third parties, it has apparently agreed to produce such documents for Lorillard. Pl. Answering Br. at 13 n.1.

[4] Lorillard focused its motion to compel on documents shared between ALF and Arnold, but ALF acknowledges that it shares privileged communications with Porter Novelli as well. Pl. Answering Br. at 13 n.1.

client privilege.[5] As a threshold matter, ALF states that it anticipated litigation about its advertising campaign before hiring Arnold. ALF asserts that the joint defense agreement ("JDA") it made with Arnold is evidence of both the anticipation of litigation and the shared common interest.[6] ALF then points to various documents from Lorillard as added proof of ALF and Arnold's common interest. For example, in a July 24, 2001 letter, Lorillard's counsel implied that Lorillard would sue both ALF and Arnold.[7] Additionally, Lorillard's counsel wrote to the CEO of Arnold indicating that a recorded telephone conversation made for an ALF ad was "a serious crime" and stating that "[i]f [Arnold] fail[s] to promptly respond to [Lorilllard's] request for [] additional information, [Lorillard] will have no choice but to pursue the matter through other means, including referring the matter to the proper authorities for further investigation."[8] Based on these facts, ALF claims that it has a valid JDA with Arnold and that any privileged communication regarding legal advice from Wilmer Cutler is protected under the joint defense doctrine of attorney-client privilege as long as it was kept in confidence.

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[5] In the alternative, ALF claims that its communications with Arnold should be protected under an agency theory of attorney-client privilege. This argument is essentially the same argument that ALF puts forward with regard to its communications with Porter Novelli, discussed elsewhere in this opinion.

[6] The JDA between ALF and Arnold was made orally in 1999 and memorialized in 2001. Pl. Answering Br. at 5-7.

[7] Pl. Answering Br. Ex. 7 ("Clearly, and unfortunately, there is no useful purpose to be served by continuing to converse with [ALF] (through its counsel) or Arnold [] (through its counsel) . . . . [W]e will seek redress elsewhere.").

[8] Pl. Answering Br. Ex. 8.

Lorillard argues that, in this action, ALF's communication of privileged information to Arnold cannot be protected by a JDA. Lorillard contends that the JDA between ALF and Arnold is not valid because ALF and Arnold do not (and cannot) have identical legal interests. Lorillard maintains that this action is predicated on a breach of the MSA, under which Arnold cannot be sued.[9] If Arnold cannot be joined as a party, Lorillard continues, then ALF and Arnold cannot have the same interests. Therefore, Lorillard concludes, privileged communications between them cannot be protected by a JDA.

With regard to Porter Novelli, ALF argues that its confidential communications should be protected under an agency theory of attorney-client privilege.[10] ALF claims that Porter Novelli is its agent and that, as its agent, it can receive necessary privileged information without causing ALF to waive attorney-client privilege. ALF maintains that it needs to share privileged information with Porter Novelli employees in order for them to do their job properly. ALF further notes that several Porter Novelli employees worked at ALF's offices, becoming the functional equivalent of ALF's employees. Based on this principal-agent relationship, ALF argues, confidential communication of privileged information to Porter Novelli should not be construed as a waiver of ALF's attorney-client privilege.

[9] Despite this court's holding in *Lorillard II* that a non-signatory could be bound to a contract under certain conditions, neither party discusses this possibility with regard to Arnold.

[10] Pl. Answering Br. at 13 n.1.

Lorillard argues that ALF has waived its attorney-client privilege by disclosing privileged information to Porter Novelli. Lorillard analyzed ALF's privilege log and noted that Porter Novelli received many documents which contained information about ALF's legal advice from Wilmer Cutler. By communicating privileged information to a third party, Lorillard argues, ALF has waived its attorney-client privilege. Therefore, Lorillard claims, ALF should be compelled to produce all documents that were disclosed to Porter Novelli.

The court heard arguments on the motion to compel on October 18, 2004.

II.

"Delaware has long recognized that the attorney-client privilege protects the communications between a client and an attorney acting in his professional capacity where the communications are intended to be confidential, and the confidentiality is not waived."[11] As stated by the Delaware Uniform Rules of Evidence:

> A client has a privilege to refuse to disclose and to prevent any other person from disclosing confidential communications made for the purpose of facilitating the rendition of professional legal services to the client (1) between the client or the client's representative and the client's lawyer or the lawyer's representative, (2) between the lawyer and the lawyer's representative, (3) by the client or the client's representative or the client's lawyer or a representative of the lawyer to a lawyer or a representative of a lawyer representing another in a matter of common interest, (4) between representatives of the client or

[11] *Moyer v. Moyer*, 602 A.2d 68, 72 (Del. 1992).

> between the client and a representative of the client, or (5) among lawyers and their representatives representing the same client.[12]

"The burden of proving that the privilege applies to a particular communication is on the party asserting the privilege."[13]

ALF makes two distinct claims for attorney-client protection of documents in the privilege log. First, ALF claims that it shares common interest and a JDA with Arnold. Second, ALF claims that it has a principal-agent relationship with Porter Novelli. The court will analyze each of these claims separately.

A. Arnold's Joint Defense Agreement

ALF has met its burden of proof that confidential communication of privileged information to Arnold is protected by the attorney-client privilege. "Rule 502(b) of the Delaware Uniform Rules of Evidence sets forth the scope of the attorney-client privilege in Delaware."[14] "The rule assures that the attorney-client privilege will protect confidential communications involving counsel for separate clients so long as the clients share a common interest sufficient to justify invocation of the privilege."[15]

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[12] D.R.E. 502(b).

[13] *Moyer*, 602 A.2d at 72.

[14] *In re Fuqua Indus., S'holder Litig.*, 2002 WL 991666, at *1 (Del. Ch. May 2, 2002). D.R.E. 502(b)(3) protects communications "by the client or the client's representative or the client's lawyer or a representative of the lawyer to a lawyer or a representative of a lawyer representing another in a matter of common interest." *Id.* at *2.

[15] *Metro. Bank & Trust Co. v. Dovenmuehle Mortgage, Inc.*, 2001 WL 1671445, at *5 (Del. Ch. Dec. 20, 2001) (quotations omitted); *see also Reese v. Klair*, 1985 WL 21127, at *6 (Del. Ch.

The record indicates that ALF and Arnold share a common interest that justifies the JDA. At the time of their initial arrangement, both ALF and Arnold anticipated that one or both may be sued by a tobacco company in relation to ALF's planned advertising campaigns. They recognized this possibility, made an oral agreement, and later memorialized it in writing.

The actions of ALF and Arnold are understandable given the unique circumstances surrounding the negotiation of the MSA and the creation of ALF. The MSA was an enormous undertaking that was essentially a compromise between a financially powerful industry and 46 attorneys general representing consumers' rights. The tobacco signatories did not willingly agree to the MSA. They signed the MSA only under the threat of continued litigation.

ALF was formed in accordance with the terms of the MSA and given the responsibility to promote anti-smoking youth awareness. This mandate was incorporated into ALF's bylaws. Yet this mandate is unambiguously at odds with the interests of the tobacco signatories. ALF is in the position of targeting ads against the very companies that are funding its existence. It was reasonable to believe that *any* anti-smoking advertising campaign could trigger a lawsuit from the tobacco companies. Moreover, the risk of litigation could be directly related to

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Feb. 20, 1985) ("[T]he letters between attorneys, copies of which were sent to the appraiser, also remain confidential as communication between the attorneys of clients with common interests and the attorneys' representative.").

the effectiveness of the ads. Therefore, in order to succeed in fulfilling its mandate, ALF needed to put itself at risk of litigation.

ALF also needed either to develop internally the creative talent to design and create advertising or to retain the services of an expert outside advertising agency. ALF chose, quite understandably, to hire Arnold and this choice required ALF to disclose certain privileged information to Arnold on a confidential basis in order to fulfill its mission under the MSA.

Both firms realized from the outset that they could be subject to potential litigation over ALF's advertising campaigns. Thus, they agreed to the JDA in anticipation of litigation. They had a common interest when they agreed to the JDA and they continue to have common interest now. Therefore, their confidential communication regarding Wilmer Cutler's legal advice should be protected under the joint defense, or common interest, doctrine of attorney-client privilege.

Lorillard contends that ALF and Arnold cannot share a joint defense privilege unless their interests are identical. For this proposition, Lorillard cites *Corning*, which states that "for a communication to be protected, the interests must be identical, not similar, and be legal, not solely commercial."[16] This oft-repeated

[16] Def. Reply Br. at 7 n.5 (citing *Corning Inc. v. SRU Biosystems, LLC*, 223 F.R.D. 189, 190 (D. Del. 2004)). Lorillard initially relied on *In re F.T.C.* in its motion to compel. 2001 WL 396522 (S.D.N.Y. Apr. 19, 2001). But in its reply brief, *In re F.T.C.* is notably absent. Regardless of the reason for this absence, *In re F.T.C.* does not support Lorillard's position. The court found in *In re F.T.C.* that the facts "most closely resemble[d] those cases where courts have recognized that a business strategy which happens to include a concern about litigation is not a ground for

test can be traced back to *Duplan,*[17] the "leading 'community of interest' case."[18] However, *Duplan* and its progeny in *Corning* are factually distinguishable from this case because they focus on business transactions surrounding patent litigation.[19] For example, in *Corning*, the party sought protection of information disclosed to a "past potential third-party acquirer[]."[20] As the *Corning* court found, the party disclosed information "not in an effort to formulate a joint defense but rather to persuade [the acquirer] to invest in [the party]."[21] The absence of a joint defense was critical in the court's determination that there was no privilege in *Corning*. Furthermore, one of *Corning's* supporting cases failed to use a narrowly construed identical interest test, choosing instead to use a "substantially identical" test to find a community of interest.[22] Given the different factual circumstances

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invoking the common interest rule." *Id.* at *5; *see also Lugosch v. Congel*, 219 F.R.D. 220, 238 (N.D.N.Y. 2003) ("[I]f the common enterprises embarked on a business mission, though there is a concern about the presence of litigation, the common interest privilege will not be applicable.") (citing *In re F.T.C.*). Here, ALF and Arnold have a joint legal, not business, strategy. Therefore *In re F.T.C.* is not pertinent to this court's analysis.

[17] *Duplan Corp. v. Deering Milliken, Inc.*, 397 F. Supp. 1146 (D.C.S.C. 1975). All of the cases cited for the "identical interest" proposition in *Corning* are the progeny of *Duplan*.

[18] *Oak Indus. v. Zenith Indus.*, 1988 WL 79614, at *4 (N.D. Ill. 1988).

[19] *See, e.g., Corning*, 223 F.R.D. at 189 (not allowing attorney-client privilege to cover information disclosed to a "past potential third-party acquirer[]"); *Oak Indus.*, 1988 WL 79614, at *4 ("[W]e decline to expand the coverage of the attorney-client privilege to information which a party freely shares with other business persons."); *Union Carbide Corp. v. Dow Chemical Co.*, 619 F. Supp. 1036 (D. Del. 1985) (compelling the production of documents relating to the license of a patent).

[20] 223 F.R.D. at 189.

[21] *Id.* at 190.

[22] *In re Regents of the Univ. of Cal.*, 101 F.3d 1386, 1390 (Fed. Cir. 1996).

and broader application of the identical interest test, this court finds that ALF and Arnold do share a community of interest sufficient to fall under the common interest doctrine of attorney-client privilege.

ALF and Arnold established their JDA because they anticipated litigation. Parties may invoke the protection of attorney-client privilege under the joint defense doctrine when they foresee potential litigation.[23] The fact that Lorillard has not sued Arnold does not mean that ALF and Arnold did not have, and do not continue to have, a valid JDA. Litigation was possible[24] and threatened.[25] The absence of actual litigation against Arnold is inconsequential to this analysis of Lorillard's motion to compel.

Therefore, ALF has met its burden of proof and its privileged communication with Arnold is protected by the joint defense doctrine of attorney-client privilege.[26]

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[23] *See WT Equip. Partners, L.P. v. Parrish*, 1999 WL 743498, at *1 (Del. Ch. Sept. 1, 1999) (applying "joint prosecution privilege" to *potential* civil proceedings).

[24] Despite representations to this court that might suggest otherwise, Lorillard may yet attempt to pursue litigation against ALF or Arnold for tortious conduct. At the October 18, 2004 hearing, ALF voiced concerns about potential litigation that would be considered outside of the MSA. Tr. at 63. Through its privilege log, ALF is trying to protect documents that "reflect other types of legal advice beyond personal attack and vilification." Tr. at 63 (listing defamation and trespass as example areas of the law in which it seeks protection).

[25] Lorillard sent ALF's counsel a draft complaint that lists ALF and Arnold as co-defendants in an action for slander, libel, and unfair and deceptive business practices. Pl. Answering Br. Ex. 9.

[26] Since ALF has met its burden under the JDA, the court will not address ALF's claim for attorney-client privilege under an agency theory.

B. Porter Novelli's Relationship

ALF has failed to meet its burden of proof that the documents in the privilege log that were disclosed to Porter Novelli should be protected under attorney-client privilege. As the party claiming attorney-client privilege, ALF has the burden of proof.[27] Yet in its answering brief, ALF fails to address its position with regard to Porter Novelli beyond two footnotes. In those footnotes, ALF argues that Porter Novelli should be treated as its agent. ALF then claims that documents disclosed to Porter Novelli should be protected under an agency theory of attorney-client privilege. The difficulty with ALF's position is that, in the substantive argument contained in the text of the brief, it argues the agency theory solely on behalf of *Arnold*.[28] Only in the footnote does ALF state that "the agency theory also protects otherwise privileged documents that were shared with other of [ALF's] agents like Porter Novelli."[29]

This disjunctive argument obscures the differences between ALF's relationship with Arnold and its relationship with Porter Novelli. Arnold had a very close relationship to ALF that was supervised by counsel.[30] In contrast, there

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[27] *Moyer*, 602 A.2d at 72.

[28] The court need not address the validity of ALF's agency theory of attorney-client privilege. *See supra* note 26.

[29] Pl. Reply Br. at 13 n.1.

[30] As Patrick J. Carome, a partner at Wilmer Cutler, stated in his affidavit:

> On or about November 16, 1999, near the beginning of the time that [ALF] and Arnold began their collaboration, several other lawyers from [Wilmer Cutler] and I, in our

is no evidence that Porter Novelli and ALF shared a similar relationship. David Dobbins, the associate counsel of ALF, hints in his affidavit that Porter Novelli had a relationship that was similar to Arnold's, but nowhere does he explicitly declare any involvement of counsel. His only statement about Porter Novelli employees communicating with ALF's counsel is that they had access to confidential communications "relating to legal advice provided to [ALF]."[31] He does not assert that such communications actually concerned legal advice. Instead, he says simply that they related to legal advice. This distinction is important, especially given the clarity with which Wilmer Cutler described the relationship between ALF and Arnold. Therefore, ALF has not demonstrated the involvement of counsel necessary to protect communications with Porter Novelli.

Without the participation of counsel, the communications between ALF and Porter Novelli cause ALF to waive its attorney-client privilege. In Delaware, "[a] waiver may result from the voluntary disclosure of privileged information to third

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> capacity as counsel for ALF, met at Arnold's offices in Boston with outside counsel for Arnold and a number of Arnold employees who were involved in developing possible concepts for [ALF's] initial advertising campaigns . . . . At or near the outset of this meeting, there was a preliminary discussion in which the attorneys for [ALF] and the attorneys for Arnold consulted and reached a mutual understanding . . . . Aff. at 3-4 ¶ 7.

See also Francis J. Kelly III, president of Arnold, Aff. at 4 ¶ 9 ("Accordingly, Arnold and its counsel have dealt extensively with [ALF's] counsel during these several years.").

[31] David Dobbins Aff. at 1.

parties."[32] Conversely, ALF cites no Delaware law to support its agency theory of attorney-client privilege, relying instead on a group of public relations cases from other jurisdictions.[33] What ALF fails to indicate, though, is that the cases that extend attorney-client privilege to public relations firms depend on the involvement of counsel.[34] In *Copper Market*, the public relations firm "was the functional equivalent of an in-house public relations department . . . seeking and receiving legal advice from [the client's] counsel with respect to the performance of its duties."[35] In *GlaxoSmithKline*, all recipients of the privileged communications "were involved in seeking or giving legal advice and/or gathering and recording information in anticipation of or preparation for litigation."[36] This court acknowledges that in certain circumscribed situations, confidential communications with a public relations firm may be protected by attorney-client privilege. Here, however, ALF has failed to meet its burden of demonstrating that

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[32] Donald J. Wolfe, Jr, & Michael A. Pittenger, *Corporate and Commercial Practice in the Delaware Court of Chancery*, § 7-2[c][1] (2004 ed.) (citing *Zirn v. VLI Corp.*, 621 A.2d 773, 781-82 (Del. 1993)).

[33] *See, e.g., In re Copper Mkt. Antitrust Litig.*, 200 F.R.D. 213 (S.D.N.Y. 2001) (finding that communications between a public relations firm and party's counsel were protected by the attorney-client privilege); *F.T.C. v. GlaxoSmithKline*, 294 F.3d 141 (D.C. Cir. 2002) (extending attorney-client privilege to public relations firms).

[34] Due to ALF's unusual briefing, this oversight is not immediately apparent. The cases cited in the text support its position with regard to *Arnold*, which did involve its counsel. But the problem occurs when ALF attempts to apply the same argument to Porter Novelli in the footnotes.

[35] *Copper Mkt.*, 200 F.R.D. at 216.

[36] *GlaxoSmithKline*, 294 F.3d at 145.

its relationship with Porter Novelli is one of those situations. Therefore, ALF has not validly asserted any privilege with respect to documents reflecting communications with Porter Novelli.

III.

For all these reasons, Lorillard's motion to compel is granted in part and denied in part as follows. Documents in the privilege log that were disclosed exclusively to Arnold are protected by ALF's attorney-client privilege. Lorillard will be allowed to discover documents in the privilege log that were disclosed to Porter Novelli. IT IS SO ORDERED.