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# PRIVILEGED COMMUNICATIONS BETWEEN COUNSEL AND THE CORPORATE CLIENT

ROBERT G. MARKEY\* AND CRAIG S. BONNELL\*\*

## I. INTRODUCTION

**A**T THE DIRECTION OF the Upjohn Company's top management, the company's in-house and outside counsel conducted an internal investigation of payments made by Upjohn and its subsidiaries to officials of 136 foreign countries in which the company conducted business. The investigation was initiated by management over concern that the payments had not been properly reported to the Securities and Exchange Commission (SEC). In *United States v. Upjohn*,<sup>1</sup> the Sixth Circuit Court of Appeals affirmed the district court's holding that Upjohn's attorney-client privilege was waived with respect to facts disclosed to the SEC. In addition, according to the Court of Appeals, documents not originally furnished to the SEC could be subject to disclosure pursuant to an Internal Revenue Service summons despite a claim of attorney-client privilege.<sup>2</sup>

*Upjohn* was accepted by the United State Supreme Court on certiorari jurisdiction.<sup>3</sup> The case was argued before the Court on November 5, 1980. In deciding the case, the Court will be providing guidance on the attorney-client privilege as applied to corporations, an area of many distinct problems and limitations because of the nature of the entity claiming the privilege. The Court may also set boundaries as to the extent to which the attorney work-product doctrine may be used to exempt documents from pre-trial discovery.

At present inconsistent lower federal appellate court decisions governing the use of the attorney-client privilege and work-product doctrine apply to the discovery of communications between counsel and the corporate client. Because of the distinctions that have developed in the application of the corporate attorney-client privilege and work-product doctrine due to the unique factual settings in which the issues have arisen, prior case law may not be totally preempted by the Supreme Court decision in *Upjohn*. This article will explore some of these divergent opinions to determine the probable effect that the Court's

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<sup>1</sup> 600 F.2d 1223 (6th Cir. 1979), *cert. granted*, 100 S. Ct. 1310 (1980) (No. 79-886).

<sup>2</sup> *Id.* at 1227-28.

<sup>3</sup> *United States v. Upjohn Co.*, 100 S. Ct. 1310 (1980) (No. 79-886).

decision in *Upjohn* will have upon communications between counsel and the corporate client.

## II. THE EXTENT OF THE CORPORATE ATTORNEY-CLIENT PRIVILEGE

The attorney-client privilege generally protects from disclosure the substance of confidential communications made *by the client* in seeking the advice of legal counsel.<sup>4</sup> With the exception of two extraordinary situations in which the privilege cannot be invoked,<sup>5</sup> the client's communications to his lawyer for the purpose of procuring legal advice are privileged. The attorney's advice to the client, however, is open to disclosure.<sup>6</sup>

The modern theory of the attorney-client privilege is to promote freedom of consultation with legal advisors by prohibiting disclosure absent the client's consent.<sup>7</sup> The application of the privilege to the inanimate, artificial entity represented by the corporation creates difficulties in determining (1) which corporate agents have the power to invoke the privilege and (2) the scope of the information for which a responsible agent may invoke or waive the privilege.<sup>8</sup>

### A. Identification of the "Client" for Corporate Attorney-Client Privilege

Certain communications between a corporation and its attorney are privileged from disclosure. This application of the attorney-client

<sup>4</sup> 8 J. WIGMORE, WIGMORE ON EVIDENCE § 2292 (Rev. ed. 1961). Wigmore has provided probably the most oft-cited formulation of the privilege. He maintains that the following conditions must exist if the privilege is to be established and the communications protected: (1) Where legal advice of any kind is sought (2) from a professional legal adviser in his capacity as such, (3) the communications relating to that purpose, (4) made in confidence (5) by the client, (6) are at this instance permanently protected (7) from disclosure by himself or by the legal adviser, (8) except the protection be waived. *Id.*

<sup>5</sup> The first exception to the attorney-client privilege occurs when "[C]ommunications [are] made by a client to his attorney during or before the commission of a crime or fraud for the purpose of being guided or assisted in its commission. . . ." *Garner v. Wolfenbarger*, 430 F.2d 1093, 1102 (5th Cir. 1970), *cert. denied*, 401 U.S. 974 (1972), *on remand* 56 F.R.D. 499 (S.D. Ala. 1971). See also *Burlington Indus. v. Exxon Corp.*, 65 F.R.D. 26 (D. Md. 1974). The second situation which renders the privilege inapplicable occurs when "the same attorney acts for two or more parties having a common interest . . . [and one] subsequent[ly] [becomes embroiled in a] controversy with the other." *Garner v. Wolfenbarger*, 430 F.2d at 1103.

<sup>6</sup> *SCM Corp. v. Xerox Corp.*, 70 F.R.D. 508, 515 (D. Conn.), *appeal dismissed*, 534 F.2d 1031 (2d Cir. 1976) (citing *Natta v. Zletz*, 418 F.2d 633, 637-38 (7th Cir. 1969)); *United States v. IBM*, 66 F.R.D. 206 (S.D.N.Y. 1974). The attorney may, however, be able to prohibit discovery by application of the work-product exception. See notes 95-123 *infra* and accompanying text.

<sup>7</sup> 8 J. WIGMORE, *supra* note 4, at § 2291. But see, ABA, Proposed Model Rules of Professional Conduct, R. 1.13 (Jan. 1980).

<sup>8</sup> *United States v. Upjohn Co.*, 600 F.2d 1223, 1226 (6th Cir. 1979), *cert. granted*, 100 S. Ct. 1310 (1980) (No. 79-886).

privilege to a corporation was not recognized in the district court decision of *Radiant Burners, Inc. v. American Gas Ass'n*<sup>9</sup> primarily because the court could not identify the nebulous "client" who could act on behalf of the organization to invoke the privilege.<sup>10</sup> *Radiant Burners* was reversed by the Seventh Circuit Court of Appeals which held to the pre-existing assumption that the attorney-client privilege extends to corporations without defining the "client" who could invoke the privilege on behalf of the entity.<sup>11</sup>

The importance of identifying and defining the client in the corporate setting is crucial because the scope of the attorney-client privilege is narrow. Any portion of a privileged communication which discloses factual information furnished by a witness (one other than the client) is not protected.<sup>12</sup> Even though it did not acknowledge a corporate privilege, the *Radiant Burners* trial court recognized the identification of the corporate alter ego problem inherent in the application of the attorney-client privilege to a corporation. Courts have uniformly held that communications made to counsel by a member of top management who guides and integrates the corporation's several operations, are privileged.<sup>13</sup> "The difficulty arises when, after the attorney-client relationship has been established by the top management, communications are made to counsel by subordinate corporate agents and employees."<sup>14</sup>

In *United States v. United Shoe Machinery Corp.*,<sup>15</sup> an early case dealing with the corporate attorney-client privilege, the court granted a blanket extension of the privilege to all employees of the corporation without delineating the extent of the privilege among various classes of employees. This broad shield could theoretically prohibit the divulgence

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<sup>9</sup> 207 F. Supp. 771, 773 (N.D. Ill. 1962), *rev'd*, 320 F.2d 314 (7th Cir.), *cert. denied*, 375 U.S. 929 (1963).

<sup>10</sup> Determining that the corporate entity is best represented by its shareholders, the court denounced the anomaly that would exist if the privilege were extended to cover potentially thousands of "clients":

[I]t becomes apparent that the confidential nature of communications and documents so vital an element of the attorney-client privilege could never exist when such documents and information are readily available to so many thousand persons, whose qualifications for the most part are solely a monetary interest. Indeed, since all of the activities of every corporation are only for the common or group interest, it can never assert a reasonable or proper claim of secrecy.

*Id.* at 775.

<sup>11</sup> *Radiant Burners, Inc. v. American Gas Ass'n*, 320 F.2d 314 (7th Cir.), *cert. denied*, 375 U.S. 929 (1963).

<sup>12</sup> *Hickman v. Taylor*, 329 U.S. 495, 508 (1947). *See also* 8 J. WIGMORE, *supra* note 4, at § 2318.

<sup>13</sup> *E.g.*, *United States v. Upjohn Co.*, 600 F.2d at 1226; *Natta v. Hogan*, 392 F.2d 686, 692 (10th Cir. 1968).

<sup>14</sup> *United States v. Upjohn Co.*, 600 F.2d at 1226.

<sup>15</sup> 89 F. Supp. 357 (D. Mass. 1950).

of any corporate wrongdoing by making corporate counsel a repository for any questionable facts related to company operations.<sup>16</sup> *United Shoe's* blanket extension has been replaced by a variety of tests developed by the federal courts in subsequent decisions which restrict the classes of persons within a corporation who can claim or waive the attorney-client privilege on behalf of the entity.

### 1. The Control Group Test

The control group test followed by the Sixth Circuit in *Upjohn* protects communications between corporate counsel and the individuals responsible for making decisions within the organization after legal advice has been procured.<sup>17</sup> Employees in this protected class are the individuals "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 an attorney."<sup>18</sup> Thus, all members of the group with authority to act on the legal advice are members of the control group. *City of Philadelphia v. Westinghouse Electric Corp.*<sup>19</sup> gives the following illustration of a control group member:

An example might be the head of the Claims Department, who frequently has authority to settle damage claims without any action by the Board of Directors or the chief officers, or without their ever being advised of it. In such [a] case, the communication would be privileged because the claims executive was the person who could act upon the lawyer's advice and he was the person receiving it.<sup>20</sup>

In addition to the Sixth Circuit's use in *Upjohn*, the control group test has recently been adopted by the Third Circuit.<sup>21</sup> The Second Circuit has yet to adopt any particular test but tacitly embraced the control group test in affirming a decision by the District Court for the Southern District of New York.<sup>22</sup>

The control group test encourages free and open communications between the members of the group and corporate counsel. Its use is generally predictable test because of the definition in terms of lines of responsibility. Unlike the other tests discussed below, which concentrate in dif-

<sup>16</sup> *United States v. Upjohn Co.*, 600 F.2d at 1227.

<sup>17</sup> Employees in the protected class are not necessarily the same people considered controlling for purposes of federal securities laws. *See, e.g.*, Securities Act of 1933, § 1, 15 U.S.C. § 77a (1976).

<sup>18</sup> *City of Philadelphia v. Westinghouse Electric Corp.*, 210 F. Supp. 483, 485 (E.D. Pa. 1962), *mandamus and prohibition denied sub nom.*, *General Electric Co. v. Kirkpatrick*, 312 F.2d 742 (3d Cir. 1962), *cert. denied*, 372 U.S. 943 (1963).

<sup>19</sup> *Id.* at 485.

<sup>20</sup> *Id.* at 486.

<sup>21</sup> *In re Grand Jury Investigation*, 599 F.2d 1224 (3d Cir. 1979).

<sup>22</sup> *In re Grand Jury Subpoena*, 599 F.2d 504 (2d Cir. 1979).

ferent degrees on the subject matter of the communication, the control group test does not rely on the circumstances surrounding the communication but focuses on the person seeking the legal advice.<sup>23</sup>

## 2. The Subject Matter or *Harper & Row* Test

In *Harper & Row Publishers, Inc. v. Decker*<sup>24</sup> counsel for one of the defendant-petitioners had prepared memoranda while "debriefing" employees and former employees shortly after each person had testified before a grand jury. The Seventh Circuit Court of Appeals found that no personal attorney-client privilege could be invoked by the interviewees because of the absence of an individual attorney-client relationship. In determining whether the interviewees could avail themselves of the corporation's attorney-client privilege, however, the *Harper & Row* court dismissed the limitations of the control group test in favor of the creation of a subject matter test:

We conclude that an employee of a corporation, though not a member of its control group, is sufficiently identified with the corporation so that his communication to the corporation's attorney is privileged where the *employee makes the communication at the direction of his superiors* in the corporation and where the subject matter upon which *the attorney's advice is sought by the corporation* and dealt with in the communication is the performance by the employee of the duties of his employment.<sup>25</sup>

The *Harper & Row* test has been criticized for the encouragement it provides to top management to shield itself from knowledge of corporate wrongdoing. Once top management becomes aware of the legal problems surrounding a transaction, it can instruct an employee to communicate directly with the corporation's attorney.<sup>26</sup> The decision-making

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<sup>23</sup> The control group test has been criticized as discouraging corporations from conducting internal investigations. See *In re Grand Jury Investigation*, 599 F.2d 1224 (3d Cir. 1979) and authorities cited therein. The Third Circuit scoffed at this criticism:

We do not doubt that the ability to conduct a confidential investigation would make "compliance with laws governing corporate activity" more palatable, see *Report of the Committee on Federal Courts, supra*; we do doubt, however, that a corporation would risk civil or criminal liability under those complex laws by foregoing introspection. In our opinion, the potential costs of undetected noncompliance are themselves high enough to ensure that corporate officials will authorize investigations regardless of an inability to keep such investigations completely confidential.

*Id.* at 1237.

<sup>24</sup> 423 F.2d 487 (7th Cir. 1970) (per curiam), *aff'd per curiam by an equally divided court*, 400 U.S. 348, *rehearing denied*, 401 U.S. 950 (1971).

<sup>25</sup> *Id.* at 491-92 (emphasis added).

<sup>26</sup> *Upjohn* criticized the subject matter test:

The "subject matter" test encourages senior managers purposely to

power resides with management, of course, and thus it remains this group's right to act on any legal advice procured by the communication. The attorney-client privilege, acting as a possible bar to discovery<sup>27</sup> is thereby invoked by a group of employees who may not even be aware of the results of the privileged communication on the corporation.

### 3. The New Tests—Relevancy and Modified *Harper & Row* Analysis

Within the last several years, federal courts have developed standards for determining the extent of corporate attorney-client privilege that examine both the position of the employee within the organization and the subject matter of the information in question. The pre-existing control group and *Harper & Row* tests have been combined to create new standards based on the relevance of the communication to the legal problem addressed.

In *In re Ampicillin Antitrust Litigation*<sup>28</sup> Judge Richey of the United States District Court for the District of Columbia ruled that the attorney-client privilege may not be claimed in a corporate context unless the following requirements are met:

- (i) The particular employee or representative of the corporation must have made a communication of information which was *reasonably believed to be necessary to the decision-making process* concerning a problem on which legal advice was sought;
- (ii) The communication must have been made for the purpose of securing *legal* advice;
- (iii) The *subject matter* of the communication to or from an employee must have been related to the performance by the employee of the duties of his employment; and
- (iv) The communication must have been a confidential one, . . . .<sup>29</sup>

Judge Richey found this test preferable to the control group and *Harper & Row* tests because it preserves privileged communications in

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ignore important information they have good business reasons to know and use. Corporate counsel should not be the exclusive repository of unpleasant facts.

The "subject matter" approach enables the corporation's management—via agents—to "communicate" to counsel the details of transactions about which management is only dimly aware and to have these communications protected by the attorney-client privilege. Thus, once management is informed in a general way of transactions posing legal problems, it can order subordinate agents to communicate the full details directly to counsel.

United States v. Upjohn Co., 600 F.2d at 1227.

<sup>27</sup> United States v. Goldfarb, 328 F.2d 280, 282 (6th Cir. 1964).

<sup>28</sup> 25 F.R. Serv. 2d 1248 (D.D.C. 1978) (emphasis added).

<sup>29</sup> *Id.* at 1254 (citations omitted and emphasis added). Judge Richey later applied this test again in the same litigation. [1978-1] Trade Cas. (CCH) ¶62,105 (May 8, 1978).

a proper context but prevents middle managers and virtually any employee from hiding behind *Harper & Row* by making otherwise unprotected communications with each other through the attorneys. Relevant communications are those that are considered necessary to the solution of the legal problem at the time made rather than extraneous information that later becomes relevant in resolution of the problem.<sup>30</sup>

The Eighth Circuit, in *Diversified Industries, Inc. v. Meredith*,<sup>31</sup> adopted what the court considered as a “modified *Harper & Row*” test:

[T]he attorney-client privilege is applicable to an employee’s communication if (1) the communication was made for the purpose of securing legal advice; (2) the employee making the communication did so at the direction of his corporate superior; (3) the superior made the request so that the corporation could secure legal advice; (4) the subject matter of the communication is within the scope of the employee’s corporate duties; [and] (5) the communication is not disseminated beyond those persons who, because of the corporate structure, need to know its contents.<sup>32</sup>

The primary difference between *Diversified*’s test and the *Harper & Row* test is the requirement that a reasonable belief exist that the information communicated and subsequent legal advice are necessary to decide upon a course of action. The *Harper & Row* test requires only that an employee request advice at the direction of a superior and that the advice deal with the performance of the employee’s duties.<sup>33</sup> In order to prevent channeling of all corporate communications to attorneys, *Diversified* puts the burden of proof on the employer to show that the communications meet all of the requirements, including that the communication was made for the purpose of seeking legal advice and is not disseminated beyond those who need to know its contents.<sup>34</sup> Thus, the receipt of a routine report by corporate counsel would be protected under the *Harper & Row* test and, if relevant, under the *Ampicillin* test, but not under *Diversified* “either because the communication will have been made available to those who do not need to know or because the communication was not made for the purpose of securing legal advice.”<sup>35</sup>

The standards enunciated by *Ampicillin* and *Diversified* are consistent with the objectives of protecting disclosures made in procuring

<sup>30</sup> See *id.* at 1255 n.8.

<sup>31</sup> 572 F.2d 596 (8th Cir. 1977).

<sup>32</sup> *Id.* at 609.

<sup>33</sup> *Harper & Row Publishers, Inc. v. Decker*, 423 F.2d 487 (7th Cir. 1970) (per curiam), *aff’d per curiam by an equally divided court*, 400 U.S. 348, *rehearing denied*, 401 U.S. 950 (1971).

<sup>34</sup> *Diversified Indus., Inc. v. Meredith*, 572 F.2d 596, 609 (8th Cir. 1977).

<sup>35</sup> *Id.*



legal advice and preventing abuse of the attorney-client privilege.<sup>36</sup> *Diversified* appears more reasonable since it does not require a determination of the relevancy of communications funneled through corporate counsel. *Diversified's* approach puts the responsibility on employee-agents to maintain a limited distribution pattern for any material subject to the attorney-client privilege. Since dissemination will only be to people who have a need to know,<sup>37</sup> *Diversified* represents a logical and fair use of the attorney-client privilege.

When the Supreme Court defines the "client" in the *Upjohn* corporate setting, it will not be resolving the only difficulty apparent in applying the attorney-client privilege to a corporate entity. There are a number of limitations relating to the corporate use of the privilege that should be examined.

### B. Communications With an "Attorney"

In order for the attorney-client privilege to apply to shield discovery of a client's communications, there must be an attempt to secure legal advice.<sup>38</sup> Limitations arise in the application of the attorney-client privilege to protect communications to "special counsel" or to a non-attorney employee of the lawyer.

The *Diversified* litigation involved the disclosure of memoranda that had been prepared respecting bribes allegedly made to purchasing agents of other business entities, including the Weatherhead Company. Special counsel had been retained to conduct an investigation of *Diversified's* business after disclosure in an SEC consent decree revealed a "slush fund" for the payment of bribes. Two separate letters prepared by counsel, along with other documents, were sought by the plaintiff, Weatherhead, in this separate civil action.

The federal appellate court initially held that the special counsel "was employed solely for the purpose of making an investigation of facts and to make business recommendations. The work that [the] Law Firm was employed to perform could have been performed just as readily by non-lawyers. . . ."<sup>39</sup> The court held that two memoranda prepared for *Diversified* by special counsel were not entitled to privilege protection because the law firm was not retained to provide legal services or advice.<sup>40</sup> Diver-

<sup>36</sup> *United States v. Goldfarb*, 328 F.2d 280, 282 (6th Cir. 1964).

<sup>37</sup> *Diversified Indus., Inc. v. Meredith*, 572 F.2d at 609.

<sup>38</sup> 8 J. WIGMORE, *supra* note 4, at 554.

<sup>39</sup> *Diversified Indus., Inc. v. Meredith*, 572 F.2d at 603.

<sup>40</sup> *Id.* at 603-04. *Diversified's* first opinion seems to view a corporation's attorney in the limited degree of a representative in an adversary relationship. This is the view expressed by Dean McCormick:

Our adversary system of litigation casts the lawyer in the role of a fighter for the party whom he represents. A strong sentiment of loyalty attaches to the relationship, and this sentiment would be outraged by an attempt to change our customs so as to make the lawyer amenable to

sified's communications were protected in a subsequent *en banc* hearing which held the "modified *Harper & Row*" test protected communications between the law firm and the employees of Diversified as well as the product thereof.<sup>41</sup> The *en banc* court disagreed with the prior determination that the special counsel were not providing the requisite legal advice to invoke the attorney-client privilege:

The charge to the professional legal adviser was a broad one. The law firm was given complete autonomy to conduct a professional investigation and inquiry. It was authorized to procure such assistance including accounting services as reasonably required. It was authorized to interview any employee of the corporation who might have knowledge of the facts—from the President to the nonmanagerial employees. Perhaps most importantly, it was given the authority to analyze the accounting data, to evaluate and draw conclusions as to the propriety of past actions and to make recommendations for possible future courses of action . . . . To be sure, there are possibilities of abuse, but the application of the attorney-client privilege to this matter and others like it will encourage corporations to seek out and correct wrong-doing [*sic*] in their own house and to do so with attorneys who are obligated by the Code of Professional Responsibility to conduct the inquiry in an independent and ethical manner.<sup>42</sup>

The protection afforded to communications with outside counsel by the federal courts has not always been so broad as that reflected in the *Diversified* opinion, nor should it be. In *SEC v. Canadian Javelin, Ltd.*<sup>43</sup> the attorney-client privilege was claimed when the SEC attempted to discover documents containing the conclusions of an attorney retained as special, independent counsel designated by the company to perform an investigation pursuant to an injunction and consent decree. The general purpose of the decree was to prevent false statements about Javelin's finances. The specific duty of the independent counsel was to monitor and report on compliance with the injunction.<sup>44</sup> The decree

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routine examination upon the client's confidential disclosure regarding professional business. Loyalty and sentiment are silken threads, but they are hard to break.

MCCORMICK, EVIDENCE § 87 at 176 (2d ed. 1972).

<sup>41</sup> *Diversified Indus., Inc. v. Meredith*, 572 F.2d at 610-11.

<sup>42</sup> *Id.* at 610. While *Diversified's* claim of privilege was thus upheld, the victory was indeed a hollow one. It has been pointed out that although "the privilege was stoutly contested in the trial court, on appeal, and in *en banc* rehearing, the same report which the court found to be privileged was subpoenaed by the SEC and ultimately obtained by the plaintiff from the SEC, while the rehearing was pending." Kidston, *Privileged Communications*, 34 BUS. LAW. 853, 859 (1979).

<sup>43</sup> 451 F. Supp. 594 (D.D.C. 1978).

<sup>44</sup> *Id.* at 596.

specifically indicated that Javelin could "have no business or professional relationship . . . other than the performance of the functions" with the outside counsel.<sup>45</sup> The *Javelin* court found the attorney-client privilege to be nonexistent because the attorney owed no duty to Javelin.<sup>46</sup>

The difference between the results in *Javelin* and *Diversified* represents the difference in the scope of duties undertaken by the "attorney" in the cases. The attorney in *Javelin* owed no obligation to the corporation<sup>47</sup> since he had been hired to perform investigative services rather than render legal advice to a client. The attorneys in *Diversified*, on the other hand, were engaged by the client for the purpose of providing the type of legal service and advice traditionally rendered by lawyers.<sup>48</sup> Thus, in order for the attorney-client privilege to apply to communications with outside counsel, the parties must be in a relationship in which the attorney is obligated to provide legal advice to the client and is expected to be loyal to the client's interests.<sup>49</sup>

The attorney-client privilege may apply to communications made to a non-attorney if disclosures to the attorney's agent are made for the purpose of securing legal advice.<sup>50</sup> This extension of the privilege is not automatic but becomes applicable when the attorney uses another person in a consultative role *before* the legal advice is given.<sup>51</sup> There are limitations on the extension based on the timing and quality of the advice given.

In *United States v. Kovel*<sup>52</sup> a former Internal Revenue Service agent (not an attorney) employed by a tax law firm refused to respond to a grand jury question on the basis that he "was an employee under the direct supervision of the partners" of a law firm.<sup>53</sup> The federal appellate court held that the attorney-client privilege extended to situations in which an accountant performed services for the attorney prior to the rendering of legal advice:

We cannot regard the privilege as confined to "menial or ministerial" employees. Thus, we can see no significant difference between a case where the attorney sends a client speaking a foreign language to an interpreter to make a literal translation of the client's story; a second where the attorney,

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<sup>45</sup> *Id.*

<sup>46</sup> *Id.*

<sup>47</sup> *Id.*

<sup>48</sup> *Diversified Indus., Inc. v. Meredith*, 572 F.2d at 600.

<sup>49</sup> *United States v. Upjohn Co.*, 600 F.2d at 1226.

<sup>50</sup> *United States v. Schmidt*, 360 F. Supp. 339 (M.D. Pa. 1973).

<sup>51</sup> *Id.* at 347.

<sup>52</sup> 296 F.2d 918 (2d Cir. 1961).

<sup>53</sup> *Id.* at 919.

himself having some little knowledge of the foreign tongue, has a more knowledgeable non-lawyer employee in the room to help out; a third where someone to perform that same function has been brought along by the client; and a fourth where the attorney, ignorant of the foreign language, sends the client to a non-lawyer proficient in it, with instructions to interview the client on the attorney's behalf and then render his own summary of the situation, perhaps drawing on his knowledge in the process, so that the attorney can give the client proper legal advice.

Accounting concepts are a foreign language to some lawyers in almost all cases, and to almost all lawyers in some cases. Hence, the presence of an accountant, whether hired by the lawyer or by the client, while the client is relating a complicated tax story to the lawyer, would not destroy the privilege, any more than that of the linguist in the second or third variations of the foreign language theme discussed above . . . . What is vital to the privilege is that the communication be made *in confidence* for the purpose of obtaining *legal advice from the lawyer*.<sup>54</sup>

*Kovel* thereby extended the attorney-client privilege to accountants providing services to an attorney *before* legal advice is rendered. The timing of the accountant's consultation appears critical. In *United States v. Cote*<sup>55</sup> an accountant for husband and wife taxpayers was specifically retained by their lawyer to conduct an audit of the taxpayers' books and records. The lawyer maintained custody over the books and records while the accountant examined them in the attorney's office. Subsequent to the audit the lawyer advised his clients to file amended returns for three separate years, reflecting more income for each year. The IRS subsequently summoned the accountant, who refused to turn over his workpapers by "claiming they were in the possession and control of the attorney."<sup>56</sup> The attorney asserted the attorney-client privilege when summoned to bring the documents. In finding that the accountant's audit was conducted for the benefit of the attorney prior to his giving advice to his clients "and was an integral part of . . . [the advice rendered]," the court supported the privilege.<sup>57</sup> Ironically, by filing the tax returns, the taxpayers were deemed to have waived the privilege since a substantial portion of the returns reflected

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<sup>54</sup> *Id.* at 921-22 (emphasis in original).

<sup>55</sup> 456 F.2d 142 (8th Cir. 1972).

<sup>56</sup> *Id.* at 144.

<sup>57</sup> *Id.* The court's decision turned on the fact that the attorney had not advised the taxpayers to file amended returns before reviewing the accountant's workpapers. "[I]f the advice to file the returns was first given by Murphy [the attorney] and thereafter the accountant was employed simply to make the correct mechanical calculations, the privilege would not apply." *Id.*

"at least in part, the substance of . . . [the] information [communicated to the attorney]." <sup>58</sup>

In situations where the timing of the accountant's consultation will prohibit invocation of the attorney-client privilege because the accountant's services are rendered *after* the legal advice, the client may still be able to prevent disclosure by asserting a fifth amendment privilege against self-incrimination. In *In Re Grand Jury Subpoena Served Upon J. K. Lasser & Co.* <sup>59</sup> the taxpayers, subjects of a grand jury investigation, moved to quash a subpoena *duces tecum* served on an accountant hired by their attorney to prepare their tax return. It was established that the taxpayers had consulted the attorney for advice with respect to both the investigation of their previous year's return and preparation of a return for the current year. Prior to seeking the assistance of the accountant, the attorney determined his course of action with respect to his clients' return. He then utilized the accountant's services to complete the return. The taxpayers argued that the fifth amendment privilege had been preserved through the intervention of the attorney-client privilege while the government asserted that no attorney-client privilege arose since the lawyer rendered his advice before consulting the accountant. <sup>60</sup>

Rather than summarily dismissing the taxpayer's claim on the basis of the timing of the advice, as *Kovel* would seem to dictate, the court engaged in a lengthy examination of the accountant's role in "the effective implementation of the attorney-client plan to pay the tax without disclosing information that might incriminate the taxpayers." <sup>61</sup> The court concluded:

[There was] no showing here that the least complexity attended the simple matter of adding the figures and computing the tax from the table furnished in the instruction pamphlet accompanying the return forms. No difficult question or complex accounting concept was referred to during the oral argument; it appeared only that the reference to the accountant was made as a matter of convenience and possible economy. In principle it cannot, in effect, be held that it is necessary or particularly ap-

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<sup>58</sup> *Id.* at 145. In determining that the disclosure of the end results of the accountant's work waived the privilege as to the underlying workpapers, which included some data not revealed in the amended tax returns, the court relied upon the authority of *United States v. Tellier*, 255 F.2d 441, 448 (2d Cir.), *cert. denied*, 358 U.S. 821 (1958): "[T]he privilege attaches to the substance of a communication and not to the particular words used to express the communication's content." 456 F.2d at 145.

<sup>59</sup> 448 F. Supp. 103 (E.D.N.Y. 1978).

<sup>60</sup> *Id.* at 108.

<sup>61</sup> *Id.*

propriate to invoke the services of an accountant to file an apparently simple tax return.<sup>62</sup>

Since the court based its determination on the simplicity of the tax return, the decision implies that if the attorney first decides upon a course of action and subsequently enlists the aid of an accountant to perform *complicated* accounting services, communications between the attorney and the accountant, and the accountant's workpapers, may well be privileged.

Thus, except for the possible application of the fifth amendment privilege, *Kovel* would not extend the attorney-client privilege to communications with the accountant or his workpapers unless the activity took place after counsel is retained and before the rendering of legal advice.<sup>63</sup> The accountant would also have to be an agent of the attorney in order for the privilege to apply.<sup>64</sup>

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<sup>62</sup> *Id.* at 108-09.

<sup>63</sup> One interesting problem which apparently has yet to be raised in any of the *Kovel*-type extensions of the attorney-client privilege concerns the encroachment of such an extension on Federal Rules of Civil Procedure 26(b)(4) dealing with expert witnesses. Rule 26(b)(4) states, *inter alia*:

(4) *Trial Preparation: Experts.* Discovery of facts known and opinions held by experts, otherwise discoverable under the provisions of subdivision (b)(1) of this rule and acquired or developed in anticipation of litigation or for trial, may be obtained only as follows:

(A)(i) A party may through interrogatories require any other party to identify each person whom the other party expects to call as an expert witness at trial, to state the subject matter on which the expert witness is expected to testify, and to state the substance of the facts and opinions to which the expert is expected to testify and a summary of the grounds for each opinion. (ii) Upon motion, the court may order further discovery by other means, subject to such restrictions as to scope, and such provisions, pursuant to subdivision (b)(4)(C) of this rule, concerning fees and expenses as the court may deem appropriate.

(B) A party may discover facts known or opinions held by an expert who has been retained or specially employed by another party in anticipation of litigation or preparation for trial and who is expected to be called as a witness at trial, only as provided in Rule 35(b) [*i.e.*, physicians' reports] or upon a showing of exceptional circumstances under which it is impracticable for the party seeking discovery to obtain facts or opinions on the same subject by other means.

There would not be a correlative problem in federal criminal cases because the provisions of Federal Rule of Criminal Procedure 16(b)(2) exempt from disclosure documents or statements made by the attorney or his agent in connection with the investigation or defense of the case.

The Seventh Circuit Court of Appeals, however, recently ruled that client fraud destroys the work-product doctrine except as it applies to the thought processes of an attorney. *In re: Special September 1978 Grand Jury (II)*, No. 79-1218 (April, 1980).

<sup>64</sup> *United States v. Kovel*, 296 F.2d 918 (2d Cir. 1961).

### C. Communication With the "Right" Lawyer

The attorney-client privilege will not apply if the corporation has waived the privilege or if the realities of the situation indicate that the lawyer was not acting as a legal adviser but merely as a member of the business team. In either case, an individual officer, director or employee, who may have made communications in reliance on the privilege, will be stripped of its protection.

An individual cannot claim an attorney-client privilege as an officer of a corporation which has waived the privilege unless the attorney also represented the officer in an individual capacity.<sup>65</sup> The individual representation must be proven by evidence showing a personal representation at the time of the communications subject to the attorney-client privilege. For example, in *United States v. Bartlett*,<sup>66</sup> an attorney, Parker, attended two of the company's director meetings at which he was accused by Bartlett, the company president, of attempting to take over the company. Litigation followed in which Bartlett was charged with numerous violations of the securities, mail fraud and wire fraud statutes. In response to Bartlett's claim that the attorney-client privilege attached to information communicated between Bartlett and Parker at these meetings, it was held that no attorney-client relationship had existed at the time of the disclosure. In the court's view, at the time the alleged confidential communications were made the relationship established was between the attorney and the corporation. "The fact that Parker may have subsequently represented Bartlett at some SEC hearings does not establish that Parker was serving as Bartlett's attorney at the time here critical. The fact that Bartlett accused . . . Parker of conspiracy to take over the company . . . goes far to negate any attorney-client relationship then existing."<sup>67</sup>

Because of limitations on the individual application of the attorney-client privilege, counsel for a corporation has the burden of advising a corporate officer or employee of the problems associated with confidential communications when the lawyer is representing only the corporation.<sup>68</sup> Since counsel may represent both the corporation and the officer,

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<sup>65</sup> *In re Grand Jury Subpoena Duces Tecum*, 391 F. Supp. 1029, 1033-34 (S.D.N.Y. 1975).

<sup>66</sup> 449 F.2d 700 (8th Cir.), *cert. denied*, 405 U.S. 932 (1971).

<sup>67</sup> *Id.* at 704.

<sup>68</sup> When the corporation waives the privilege respecting communications made to counsel by a corporate officer or employee, such person stands alone and without any protection notwithstanding the fact that he may be a member of the control group. See *In re Grand Jury Proceedings*, Detroit, Michigan, 434 F. Supp. 648 (E.D. Mich.), *aff'd* 570 F.2d 562 (6th Cir. 1977). "[I]n the absence of any indication to the company's lawyer that the lawyer is to act in any other capacity than as lawyer for the company in giving and receiving communications from control group personnel, the privilege is and should remain that of the company and not that of the communicating officer." *Id.* at 650.

extensive plans should be made at the earliest stage of any investigation or inquiry for dual representation. In this manner, corporate officers, directors and employees will be able to make a complete disclosure to counsel without loss of the privileged status of the communication through corporate waiver.<sup>69</sup>

The status of an individual attorney within the corporate enterprise can be as critical as that of an employee asserting the attorney-client privilege. When the attorney acting as counsel for the corporate client has acquired a substantial ownership or managerial interest in the corporation, communications between the attorney and other members of the corporation are divested of the attorney-client privilege.<sup>70</sup> *Federal Savings and Loan Insurance Corp. v. Fielding*<sup>71</sup> indicated that the objectives of the attorney-client privilege would be thwarted if the privilege was extended to communications between members of the ownership or management team:

The relationship [between attorney and client] must be one which supports the reason for the ethical and evidentiary sanctions, that is, the public policy promoting full disclosure in the interests of obtaining sound and well-considered legal advice. When the attorney and the client get in bed together as business partners, their relationship is a business relationship, not a professional one, and their confidences are business confidences unprotected by a professional privilege.<sup>72</sup>

Because of the importance of free disclosure in securing legal advice, it is important for a corporation to offer adequate protection to employees if the corporation waives the attorney-client privilege. Equally essential is a structuring of situations where the attorney-client

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<sup>69</sup> *In re Grand Jury Subpoena Duces Tecum*, 391 F. Supp. 1029 (S.D.N.Y. 1975).

<sup>70</sup> *Federal Savings and Loan Insurance Corp. v. Fielding*, 343 F. Supp. 537 (D. Nev. 1972). The *Fielding* case was a complicated piece of litigation in which the plaintiffs were ex-officers and directors of two corporations who also served as counsel to the corporations and the other directors. The defendants were ex-officers, directors and employees of the corporations, many of whom had availed themselves of the plaintiffs' legal services both in a corporate and an individual capacity. Suit was filed over alleged securities violations, and the defendants attempted to foil the lawsuit by asserting the attorney-client privilege as between plaintiffs and defendants. The court held that no privilege existed and that the plaintiffs' fiduciary duties as members of the corporations' "control groups" were far more deserving of recognition than the attorney-client privilege. Certainly this rule would also apply to an attorney who becomes a majority shareholder and, arguably, to corporate counsel who acquires any "substantial" financial interest in a corporate client.

<sup>71</sup> *Id.*

<sup>72</sup> *Id.* at 546.



privilege may be asserted in a manner so that little doubt will arise as to the relevance of communications in procuring legal advice.

D. *Waiver Through Disclosure of Privileged Information*

In *United States v. Upjohn*<sup>73</sup> the court held that an IRS summons to the chief legal officer of a company was enforceable with respect to files, documents, and communications made to counsel during the course of an internal investigation of the company. The results of the investigation had been made known to the SEC on a Form 8-K report. The court found that even if the communications had been privileged when made, the company's disclosure to the SEC dealt a fatal blow to a subsequent assertion of the privilege:

In the present case, the Company made disclosures to the SEC with respect to the questionable payments in its 8-K report . . . . Furthermore, the Company agreed to furnish the SEC with any additional data it might request with respect to such payments . . . copies of the SEC reports and related data was [sic] also furnished to the IRS. Having disclosed some data with respect to questionable payments, it now seeks to hold back other data relating to the same matter. Under the circumstances, the company should be deemed to have waived the attorney-client privilege with respect to the same matter, if indeed it ever existed.<sup>74</sup>

The *Upjohn* court's ruling is a proper application of the general rule concerning waivers of the privilege through disclosure. A succinct formulation of this rule is that "[o]nce . . . [a] party begins to disclose any confidential communication for a purpose outside the scope of the privilege, the privilege is lost for all communications relating to the same matter."<sup>75</sup>

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<sup>73</sup> 78-1 U.S.T.C. ¶ 9277, 41 A.F.T.R.2d 78-796 (W.D. Mich. 1978), *aff'd in part, rev'd in part*, 600 F.2d 1223 (6th Cir. 1979), *cert. granted*, 100 S. Ct. 1310 (1980) (No. 79-886).

<sup>74</sup> *Id.* at 83,603, 41 A.F.T.R.2d at 78-803.

<sup>75</sup> *Burlington Indus. v. Exxon Corp.*, 65 F.R.D. 26, 46 (D. Md. 1974). A question thus arises as to when a disclosure is made "for a purpose *within* the scope of the privilege." In the corporate context there appears to be only three types of actual disclosure that will not effect a limited waiver of the privilege: (1) An inadvertent disclosure of the privileged material. *SCM Corp. v. Xerox Corp.*, 70 F.R.D. 508, 519 (D. Conn.), *appeal dismissed*, 534 F.2d 1031 (2d Cir. 1976) ("[p]rivilege not waived by inadvertent failure to excise from another document in discovery procedure sentence allegedly disclosing the substance of legal advice." *Id.*), (2) A disclosure of a privileged communication from one executive of the corporate client to another. ("A discussion between executives of legal advice should be privileged." *Id.* at 518). Arguably, this is no disclosure at all since executives are generally identified as the corporate client. *Cf. Herbert v. Londo*, 73 F.R.D. 387, 400 (S.D.N.Y. 1977) (purposeful receipt by "non-control group" employee of copy of lawyer's memorandum containing legal advice and addressed to "control group" members did not waive the privilege) and (3) Although still virgin territory,

The majority rule is that any disclosures before the SEC will effect a permanent waiver of the material disclosed.<sup>76</sup> This rule applies even when the disclosure is voluntary.<sup>77</sup> During the SEC investigation of Penn Central, the agency deposed counsel for a group of prospective underwriters of Penn Central commercial paper. The lawyer-witnesses contacted their underwriter-clients and advised them that "it might be in [the clients'] best interest to waive the attorney-client privilege concerning the discussions at a meeting" held in counsel's office.<sup>78</sup> The attorney then testified before the SEC and produced a memorandum prepared by counsel.

As a consequence of both the delivery of a memorandum by one of the lawyer-witnesses at the time that the underwriting was still in the planning stage and the lawyer's testimony before the SEC, the court found that the attorney-client privilege had been waived. Thus, in subsequent litigation against another client of the lawyer's firm the memorandum referred to above and certain other documents were subject to discovery—the privileged nature thereof notwithstanding—simply because they had been voluntarily produced to the SEC in another proceeding.<sup>79</sup>

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it appears that the privilege may be retained if the attorney or client discloses a privileged communication to counsel for a third person who has a "community of interest" with the client. In *Burlington Indus. v. Exxon Corp.*, 65 F.R.D. 26 (D. Md. 1974), the plaintiff asserted such a privilege; the court cited with approval Proposed Federal Rule of Evidence 503(b) which recognizes such a privilege, but then analyzed the problem in terms of the work-product doctrine. *Id.* at 43-44.

Examples of limited disclosure that do effect a limited waiver of the privilege abound. For example, disclosure of privileged information by the attorney to opposing counsel during negotiations aimed at settling a lawsuit effects a waiver of the information disclosed. *See, e.g., I.B.M. v. Sperry-Rand Corp.*, 44 F.R.D. 10 (D. Del. 1968).

<sup>76</sup> *See, e.g., SEC v. Dresser Indus., Inc.*, 453 F. Supp. 573 (D.D.C. 1978). *Cf. Herbert v. Londo*, 73 F.R.D. 387 (S.D.N.Y. 1977) (disclosure to the SEC is not a waiver).

<sup>77</sup> *In re Penn Cent. Commercial Paper Litigation*, 61 F.R.D. 453 (S.D.N.Y. 1973).

<sup>78</sup> *Id.* at 458.

<sup>79</sup> A similar situation occurred in the field of patent law. Since an applicant must disclose to the patent office "information concerning a description of the product, the processes used, and public use and sale for more than one year," no attorney-client privilege may be claimed. *Burlington Indus. v. Exxon Corp.*, 65 F.R.D. 26, 39 (D. Md. 1974). This differs from an SEC proceeding, however, in that such disclosures must be made before the applicant may receive a patent, whereas not every attorney assisting in a securities transaction expects to find himself testifying before the SEC. Hence, in patent applications no privilege may attach, while in the securities area a valid privilege is deemed waived. Furthermore, in this day and age, once an SEC investigation is concluded, it would appear that absent good cause shown, most information furnished to the SEC can be reached by a Freedom of Information Act request.

*Diversified Indus., Inc. v. Meredith*<sup>80</sup> further opened the door to future litigation in the SEC disclosure area by applying a waiver more restrictive than the general rule. In the original hearing the court determined that the privilege never attached to the communications at issue. The court was "reluctant to hold that the voluntary surrender of privileged material to a governmental agency in obedience to an agency subpoena constitutes a waiver of the privilege for all purposes."<sup>81</sup> Judge Heaney, in a separate opinion concluded that no waiver occurred because "[a] waiver of the privilege must occur in the same proceeding in which it is sought to be invoked."<sup>82</sup>

Upon the subsequent *en banc* hearing, the court's decision was set aside, resulting in a finding that the attorney-client privilege did attach in litigation following compliance with a government subpoena. As to the waiver issue the court said:

We finally address the issue of whether Diversified waived its attorney-client privilege with respect to the privileged material by voluntarily surrendering it to the SEC pursuant to an agency subpoena. As Diversified disclosed these documents in a separate and nonpublic SEC investigation, we conclude that only a limited waiver of the privilege occurred. To hold otherwise may have the effect of thwarting the developing procedure of corporations to employ independent outside counsel to investigate and advise them in order to protect stockholders, potential stockholders and customers.<sup>83</sup>

While nothing in this language would indicate that the court established a more restricted waiver than that found in *Penn Central*, other factors combine to dictate such a conclusion. The majority *en banc* opinion was written by Judge Heaney, who had authored an opinion concurring in part and dissenting in part in the lower court. His opinion, after declaring the existence of a "limited waiver," cites *Bucks County Bank and Trust Co. v. Storck*,<sup>84</sup> which held that a party who waived the privilege to testify on a motion for the return of property illegally seized by law enforcement officers could later revive the privilege to squelch testimony in a subsequent civil case. In addition, Judge Heaney stated, "I agree with the majority of the court . . . that the privileges claimed by Diversified, if originally extant, *were not* waived by the voluntary

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<sup>80</sup> 572 F.2d 596, 603 (8th Cir. 1977).

<sup>81</sup> *Id.* at 604 n.1.

<sup>82</sup> *Id.* at 604 (Heaney, J., concurring in part and dissenting in part) (quoting *United States v. Goodman*, 289 F.2d 256, 259 (4th Cir.), *vacated and remanded on other grounds*, 368 U.S. 14 (1961)).

<sup>83</sup> 572 F.2d at 611 (citations omitted).

<sup>84</sup> 297 F. Supp. 1122 (D. Haw. 1969).

disclosures made by Diversified to the Securities & Exchange Commission. . . ."<sup>85</sup>

In addition to SEC disclosure, there are a number of other areas in which the attorney-client privilege is considered to be waived through disclosure to a party extant to the attorney-client relationship. In *Garfinkle v. Arcata National Corp.*<sup>86</sup> the court held that documents developed by counsel for the defendants in connection with the ultimate issuance of an acquisition opinion letter to the plaintiffs were subject to discovery and not protected by the attorney-client privilege. According to *Garfinkle*, disclosures will be considered to waive the privilege in acquisition transactions where the opinion of counsel is directed to a non-client party to the transaction.<sup>87</sup>

Another type of opinion letter, that issued by counsel to accountants for use in connection with the preparation of financial reports, is likely to develop into a fertile source of privilege litigation. One authority despairingly reports, "I express no opinion as to what the law is when applied to the house counsel's and outside counsel's letters requested by auditors for financial reports and related matters. This is likely to be a growing problem for all of us."<sup>88</sup>

In our judgment an attorney's response to an auditor's inquiry may be exposed to discovery by the court. There are three counts upon which these letters will fail to qualify as privileged communications. First, accountants are arguably not identifiable as the "client." While it is generally true that communications between the agent of the client and the attorney are privileged,<sup>89</sup> it is difficult to characterize an independent auditor as an agent of the client. Secondly, the information requested is not "legal advice." Typically, the client does not intend to

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<sup>85</sup> *Diversified Indus., Inc. v. Meredith*, 572 F.2d at 611-12 (Heaney, J., concurring in part and dissenting in part) (emphasis added). See also, *Permian Corp. v. United States*, 556 SEC. REG. & L. REP. (BNA) A-1, (June 4, 1980), which held that confidential, "privileged" documents inadvertently and unintentionally given to a target company during the process of expedited discovery retained their privileged status and were not subsequently discoverable by the Department of Energy in a different proceeding.

<sup>86</sup> 64 F.R.D. 688 (S.D.N.Y. 1974).

<sup>87</sup> *Id.*

<sup>88</sup> Kidston, *Privileged Communications*, 34 BUS. LAW. 853, 855 (1979).

<sup>89</sup> In *United States v. Kovel*, 296 F.2d 918 (2d Cir. 1961), the court said, in dictum:

We do not deal in this opinion with the question under what circumstances, if any, such communications could be deemed privileged on the basis that they were being made to the accountant as the client's agent for the purpose of subsequent communication by the accountant to the lawyer; communications by the client's agent to the attorney are privileged . . . .

*Id.* at 922 n.4.

take any action in recognition of the letter's contents and the auditor desires the information merely to calculate its affect on the corporation's financial statement. This brings us to the third reason these responses will fail to qualify for privilege protection. Attorneys' responses are requested to assist the auditor in assessing the materiality of such information for the benefit of readers of the financial statements. If the attorney's response reveals a significant potential liability the client's financial statements may require a provision for the contingent liability. If the attorney's response gives the client a clean bill of health or discusses liabilities deemed too remote to deserve comment in the financial statements, these facts will be indirectly disclosed by an unqualified opinion.<sup>90</sup> Clearly, confidentiality should not be contemplated with respect to these responses.

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<sup>90</sup> A similar problem arises when in-house counsel and the company's financial managers must make such representations to auditors about the state of the company. The following, taken from a recent article, is excerpted at length due to the importance of the message it conveys:

A key aspect of the relationship between the financial and legal departments revolves about the relationship with the outside auditors. The legal department can play a positive role in helping the financial management of the company to adequately disclose to the auditors the company's warts, both present and future. The auditors' search letter plays an important, although circular, role in that process. So does the management representation letter.

SAS-19 provides for a standard form of management representation letter. As written, that form is inadequate. Thus, the standard representation letter requires the chief executive and financial officers to represent that there are "no possible violation of laws or regulations whose effect should be considered for disclosure." The key words are "*possible*" and "should be *considered*." All kinds of possible violations are routinely considered by management: must they all be discussed in writing to the auditors? An explanatory comment that the representation is limited to matters which *require* accrual or disclosure in the company's financial statement should be added to the management representation letter. The legal department should thus ensure that the management representation letter is properly limited, and that it is accurately drafted to disclose fully all material liabilities and contingencies.

The auditors' search letter and the lawyer's response are key cogs in the legal-financial balance wheel. The ABA-approved format appears to be working reasonably well; however, a problem in the lawyer-accountant accommodation often arises after the auditor receives the lawyer's response to the search letter. The typical scenario involves a call to the General Counsel from the audit partner requesting a meeting. After the usual amenities, the audit partner will thank General Counsel for this letter; will express appreciation for the approved format that was worked by the lawyers and the auditors; and then will ask the General Counsel to let him know "what's really going on." Essentially the audit partner hopes to engage in a discussion covering any material exposures, litigation, threatened litigation or other contingencies. After such a discussion, the audit partner will typically dictate a memorandum to his files. That memorandum is not privileged. It is never seen by the General Counsel unless the company is subsequently sued. It is likely to

Another area which raises the disclosure question relates to the exchange of papers between the attorney and client in the procuring of legal advice. In *SEC v. Texas International Airlines, Inc.*<sup>91</sup> the court considered whether the privilege covered "trust agreements, disclosure statements, and press releases . . . which were intended to be made public in their final form, but prior to such publication were to be screened by respondent's attorneys."<sup>92</sup> The court felt that a critical element of the inquiry was the role the client intended the attorney to play. If the attorney's role was "minor or perfunctory or . . . intended merely to immunize the documents from production,"<sup>93</sup> the SEC's argument that the required secrecy was lacking would be correct and the privilege would be unavailable. If, however, the client intended that the attorney play a major consultative role in determining the final contents of the documents, then the mere fact that the final product was to be made public would not strip the documents of the privilege. "[W]hen a client sends a draft to an attorney for review, his intention is to make public only such information as appears appropriate for publication in the context of and according to the lawyer's advice."<sup>94</sup>

### III. THE WORK-PRODUCT DOCTRINE IN CIVIL CASES

If the attorney-client privilege cannot be invoked to protect communications between counsel and the corporate client, the work-product exception of Federal Rules of Civil Procedure 26(b)(3) may be utilized to exclude certain communications from discovery:

*26(b)(3) Trial Preparations: Materials.* Subject to the provisions of subdivision (b)(4) of this rule, a party may obtain discovery of documents and tangible things otherwise discoverable under subdivision (b)(1) of this rule and prepared in anticipation of litigation or for trial by or for another party or by or for that other party's representative (including his attorney, consultant,

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have sweeping language to the effect that the General Counsel assured the audit partner that everything is fine, and that there are no possibilities for contingencies whatever.

That discussion should not be held . . . .

Kennedy, *Professional Responsibility and the Inside Lawyer*, 34 BUS. LAW. 867, 872-73 (1979).

<sup>91</sup> No. 79-0126 (D.D.C. Aug. 6, 1979).

<sup>92</sup> *Id.*, slip op. at 4.

<sup>93</sup> *Id.*

<sup>94</sup> *Id.* The court based its holding on *United States v. Schlegel*, 313 F. Supp. 177 (D. Neb. 1970), a tax fraud case. In *Schlegel*, the taxpayer delivered several summaries and schedules to his accountant for use in filling out the taxpayer's return. Upon receiving the completed return, the taxpayer returned it to the attorney with new schedules and summaries designed to produce a lesser tax liability. The taxpayer later attempted to have testimony by the attorney as to this transaction barred by the attorney-client privilege. The court held that the taxpayer's summaries were privileged.

surety, indemnitor, insurer, or agent) only upon a showing that the party seeking discovery has substantial need of the materials in the preparation of his case and that he is unable without undue hardship to obtain the substantial equivalent of the materials by other means. In ordering discovery of such materials when the required showing has been made, the court shall protect against disclosure of the mental impressions, conclusions, opinions or legal theories of an attorney or other representative of a party concerning the litigation.<sup>95</sup>

The federal rule specifically requires that the information be prepared "in anticipation of litigation or for trial."<sup>96</sup> "Advising a client about matters which may or even [more] likely will ultimately come to litigation does not satisfy the 'in anticipation of litigation' standard."<sup>97</sup> According to the majority of courts, a specific claim must have arisen that makes the prospect of litigation identifiable in order for the exception to be applicable.<sup>98</sup>

In the *Diversified* litigation the work-product doctrine was not recognized to prevent discovery of documents prepared a very short time before the lawsuit was filed because litigation had not commenced at the time of document preparation.<sup>99</sup> *Diversified's* board of directors had authorized special counsel to investigate and report on the company's business practices in light of some information which had surfaced during prior litigation. The law firm's association with the client commenced in June, 1975 and the lawsuit was filed by the plaintiff one month later. The court determined that a memorandum from the law firm to *Diversified* dated June 19, 1975 was not entitled to work-product protection because it "was not prepared in anticipation of litigation or for trial."<sup>100</sup>

In contrast to the narrow construction of the work-product exception followed in *Diversified*, the "litigation" requirement of the work-product doctrine has received a much broader interpretation in the context of patent law. In *Hercules, Inc. v. Exxon Corp.*,<sup>101</sup> a patent infringement action, the court held that "[i]f the primary concern of the attorney is with claims which would potentially arise in future litigation, the work pro-

<sup>95</sup> FED. R. CIV. P. 26(b)(3).

<sup>96</sup> *Id.*

<sup>97</sup> *In re Grand Jury Investigation*, 412 F. Supp. 943, 948 (E.D. Pa. 1976).

<sup>98</sup> *SCM Corp. v. Xerox Corp.*, 70 F.R.D. 508, 515 (D. Conn.), *appeal dismissed*, 534 F.2d 1031 (2d Cir. 1976).

<sup>99</sup> *Diversified Indus., Inc. v. Meredith*, 572 F.2d 596 (8th Cir. 1977).

<sup>100</sup> *Id.* It has also been ruled that documents prepared in anticipation of a tender offer which did not reach fruition are not protected from the work product doctrine, even though a tender offer has "obvious litigation potential." *Panter v. Marshall Field & Co.*, 80 F.R.D. 718, 725 n.6 (N.D. Ill. 1978).

<sup>101</sup> 434 F. Supp. 136 (D. Del. 1977).

duct immunity applies; if the . . . concern is claims which have arisen or will arise during the *ex parte* prosecution of the application, however, the work product rule does not apply."<sup>102</sup> The *Hercules* distinction was based on the nature of a patent application proceeding which lacks the "give and take" of an adversary proceeding.<sup>103</sup>

Another patent infringement action, *Burlington Indus. v. Exxon Corp.*,<sup>104</sup> held the work-product doctrine applicable to documents containing technical and legal analysis. In considering the applicability of the doctrine, the court stated "[i]n order to satisfy the requirement that documents be prepared in anticipation of litigation, it is not necessary that the documents be prepared after litigation has been commenced. The work product doctrine applies to material prepared *when litigation is merely a contingency*."<sup>105</sup>

The broad approach to the work-product doctrine applied in *Hercules* and *Burlington* seems more consonant with the objectives of Federal Rule 26(b)(3) than the narrow approach followed in *Diversified*. The work-product doctrine applies in order to protect from discovery the fruits of an attorney's labor. If the work-product exception were not available, attorneys would often be disinclined to engage in the pretrial analysis necessary to protect a client's interests.<sup>106</sup> In most cases where special counsel or outside counsel are conducting an investigation, it is reasonable to assume that the investigation might lead to the discovery of unlawful acts. Litigation would, therefore, be a contingency as in the *Burlington* case and the work-product doctrine should apply.<sup>107</sup> Under the narrow approach to the work-product doctrine employed in *Diversified*, however, there would not be a safe harbor for communications and impressions during the course of a special investigation because litigation will not have commenced at the time of preparation and analysis of the documents.<sup>108</sup>

<sup>102</sup> *Id.* at 152.

<sup>103</sup> *Id.* The *Hercules* decision is in conflict with an earlier decision of the same court, *In re Natta*, 48 F.R.D. 319 (D. Del. 1969) which held that documentary material relating both to *ex parte* applications for a patent, as well as patent interference proceedings, was subject to a claim of privilege. *Id.* at 321.

<sup>104</sup> 65 F.R.D. 26 (D. Md. 1974).

<sup>105</sup> *Id.* at 42 (emphasis added). The attorney-client privilege was also held applicable.

<sup>106</sup> "This work product immunity is the embodiment of a policy that a lawyer doing a lawyer's work in preparation of a case for trial should not be hampered by the knowledge that he might be called upon at any time to hand over the results of his work to an opponent." *Duplan Corp. v. Moulinage at Retorderre de Chavanoz*, 487 F.2d 480, 483 (4th Cir. 1973).

<sup>107</sup> The work-product doctrine is as equally applicable in grand jury proceedings as in civil litigation. *See In re Grand Jury Subpoena*, 599 F.2d 504, 509 (2d Cir. 1979) and authorities cited therein.

<sup>108</sup> *Diversified Indus., Inc. v. Meredith*, 572 F.2d 596 (8th Cir. 1977); *SCM v. Xerox Corp.*, 70 F.R.D. 508 (D. Conn.), *appeal dismissed*, 534 F.2d 1031 (2d Cir.



Courts will often recognize the work-product exception to exclude from discovery materials prepared during a prior litigation if the materials are sought in a subsequent and related cause of action. In *Republic Gear Company v. Borg-Warner Corp.*<sup>109</sup> the court held that documents protected under either the work-product doctrine or the attorney-client privilege were subject to continuing protection in a lawsuit related to the first litigation.<sup>110</sup> In both lawsuits the allegation made was that Borg-Warner had tortiously interfered with contractual relations established between Republic Gear and two Brazilian companies. The first suit had been dismissed for lack of jurisdiction and was on appeal when the decision regarding the application of the work-product doctrine was rendered. In finding the documents exempt from discovery, the *Republic Gear* court distinguished other cases which had allowed discovery of previously protected documents on the basis that they "dealt with material prepared for use in prior proceedings which had been fully completed before discovery [in the second litigation] was requested."<sup>111</sup>

Other courts have rejected the "related case" doctrine. For example, in *United States v. I.B.M.*<sup>112</sup> the court held "that for something to be considered 'trial preparation material' (work-product) . . . it must be prepared 'in anticipation of litigation or for trial' in the case in which the special immunity accorded to such material is sought."<sup>113</sup> The United States District Court for the Northern District of Illinois also rejected the doctrine in *Panter v. Marshall Field Co.*<sup>114</sup> but held the documents privileged because they were prepared in anticipation of a litigation. *Panter* involved alleged violations of Section 14(e) of the Securities Exchange Act of 1934<sup>115</sup> and breaches of fiduciary duties. In respect to the plaintiff's contention that the work-product doctrine extends only to documents prepared for the current litigation, the court responded that "[although] there is authority for limiting the availability of work-product protection to cases involving facts and issues related to the instant litigation, the weight of modern authority supports the conclusion that the work-product privilege extends to documents prepared in anticipation of prior, terminated litigation, regardless of the interconnectedness of the issues or facts."<sup>116</sup>

<sup>109</sup> 381 F.2d 551 (2d Cir. 1967).

<sup>110</sup> *Id.*

<sup>111</sup> *Id.* at 557 (citing *Hanover Shoe, Inc. v. United Shoe Machinery Corp.*, 207 F. Supp. 407, 410 (M.D. Pa. 1962) and *Tobacco & Allied Stocks, Inc. v. Transamerica Corp.*, 16 F.R.D. 534, 537 (D. Del. 1954)).

<sup>112</sup> 66 F.R.D. 154 (S.D.N.Y. 1974).

<sup>113</sup> *Id.* at 178.

<sup>114</sup> 80 F.R.D. 718 (N.D. Ill. 1978).

<sup>115</sup> 15 U.S.C. § 78n(e) (1976).

<sup>116</sup> *Panter v. Marshall Field Co.*, 80 F.R.D. 718, 724 (N.D. Ill. 1978) (citing *In re Murphy*, 560 F.2d 326, 333-35 (8th Cir. 1977) and cases cited therein).

In *United States v. Upjohn Co.*<sup>117</sup> the district court did not accept the defendant's claim that corporate counsel's notes of interviews with employees constituted material within the work-product exception. The court held the material subject to discovery because of a showing of substantial need on the plaintiff's part and an inability "without undue hardship" to obtain the material by other means.<sup>118</sup> Because the court determined that the doctrine was not a privilege but an exception to the discovery rules which applied when there were alternative methods available to obtain the necessary material,<sup>119</sup> the *Upjohn* decision was restricted to the application of the substantial needs test. *Upjohn*, therefore, neither dealt with the limits of the "anticipation of litigation" requirement as *Diversified* had<sup>120</sup> nor the related case doctrine rejected in *I.B.M.*<sup>121</sup> Even after *Upjohn* is decided by the Supreme Court, the work-product doctrine will undoubtedly continue to protect from discovery certain documents prepared in anticipation of litigation. The boundaries of the excluded category of work-product materials have been inconsistently defined by the lower federal courts.<sup>122</sup> Perhaps the Supreme Court's decision in the *Upjohn* circumstances will go beyond the "substantial need" exception to the application of the doctrine to define the class of materials the doctrine is designed to protect.<sup>123</sup>

#### IV. CONCLUSION

The need for the attorney-client privilege in the corporate setting is indisputable. In order to secure adequate legal advice, a corporation requires an atmosphere in which the employees knowledgeable of the facts relating to its legal problems will have the opportunity to discuss these facts with legal counsel.

Until, and unless, the Supreme Court provides some guidance in *Upjohn* one must be aware of the application of the attorney-client privilege to virtually all communications between a corporate agent and

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<sup>117</sup> 78-1 U.S.T.C. ¶ 9277, 41 A.F.T.R.2d 78-796 (W.D. Mich. 1978), *aff'd in part, rev'd in part*, 600 F.2d 1223 (6th Cir. 1979), *cert. granted*, 100 S. Ct. 1310 (1980) (No. 79-886).

<sup>118</sup> *Id.* at 83,604, 41 A.F.T.R.2d 78-804.

<sup>119</sup> *Id.*

<sup>120</sup> *Diversified Indus., Inc. v. Meredith*, 572 F.2d 596 (8th Cir. 1977).

<sup>121</sup> *United States v. I.B.M.*, 66 F.R.D. 154 (S.D.N.Y. 1974).

<sup>122</sup> *Compare Diversified Indus., Inc. v. Meredith*, 572 F.2d 596 (8th Cir. 1977) (communication protected when made for purpose of securing legal advice) to *Panter v. Marshall Field Co.*, 80 F.R.D. 718 (N.D. Ill. 1978) (more than remote possibility of litigation necessary).

<sup>123</sup> Waiver of the work-product doctrine can only be accomplished by the attorney and not by his client. *Panter v. Marshall Field & Co.*, 80 F.R.D. 718, 725 n.7 (N.D. Ill. 1978) (citing *Handgards v. Johnson & Johnson*, 413 F. Supp. 926, 929 (N.D. Cal. 1976)).

its attorney. Because of the potential application of the privilege the corporation should structure its communications with counsel in a manner which will permit the privilege to attach even under a narrow construction. Probably the safest test for determining the extent of the group encompassing the corporate "client" is the "modified *Harper & Row*" test employed in *Diversified Indus. v. Meredith*. Implementation of this test would restrict the class for which the privilege could be asserted or within which disclosure would not waive the privilege to those who "have a need to know" the legal advice procured subsequent to the disclosure.<sup>124</sup>

As far as activity that may possibly waive attorney-client privilege, it appears that future litigation will establish new boundaries to replace the general rule that any disclosure waives the privilege.<sup>125</sup> Until more guidance is provided by court decisions, lawyers and their corporate clients must recognize that the attorney-client privilege is designed to protect only communications made for the purpose of securing legal advice and not other services that an attorney may be called upon to perform.

The work-product doctrine may continue to be utilized to exclude material from discovery if the attorney-client privilege cannot be invoked. This exclusionary doctrine appears to be limited, however, to a narrow class of documents prepared, according to some courts, only after a lawsuit has been filed.<sup>126</sup> It does not appear, therefore, to be a privilege that can be invoked to exclude correspondence prepared in procuring normal corporate legal advice.

The Supreme Court's treatment of *Upjohn* may well mark the establishment of a uniform set of standards governing communications between the corporation and its attorneys. Such treatment will likely not go beyond the issue of waiver by disclosure; however, even the articulation of guidelines in this area will be instructive and beneficial.

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<sup>124</sup> See note 24 *supra* and accompanying text.

<sup>125</sup> See note 75 *supra* and accompanying text.

<sup>126</sup> *Diversified Indus., Inc. v. Meredith*, 572 F.2d 596 (8th Cir. 1977).