The Attorney-Corporate Client Privilege

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It is my function to provide a brief survey of the history and purpose of the attorney-client privilege with special reference to its availability to corporations. I shall not attempt an original exposition. Instead, I shall attempt to summarize for you some of the extensive writings and significant cases which have dealt with our topic, in the hope that I can provide a general outline which can serve as a backdrop for the more practical insights into the current problems in the field which will be provided by my two distinguished colleagues on this panel.

Dean Wigmore has tersely summarized the essential requirements for the attorney-client privilege:

(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 his instance permanently protected (7) from disclosure by himself or by the legal adviser, (8) except the protection be waived.1

The privilege seems first to have been recognized in the Sixteenth Century. There was no need for it at an earlier time because courts lacked the power to compel witnesses to testify until the reign of Elizabeth I. Originally, the privilege seemed to be based upon the honor of the attorney and belonged to the attorney who could waive it. During the Eighteenth Century, the courts found a new rationale in protecting the client from apprehension that his confidences might be betrayed. By the middle of the Nineteenth Century,

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it was recognized that the privilege belonged to the client. At first it existed only when a confidence had been communicated to a lawyer during litigation. Ultimately it extended to any consultation for legal advice. The purpose of the privilege is expressed well in a comment to the Model Code of Evidence:

... In a society as complicated in structure as ours and governed by laws as complex and detailed as those imposed upon us, expert legal advice is essential. To the furnishing of such advice the fullest freedom and honesty of communication of pertinent facts is a prerequisite. To induce clients to make such communication, the privilege to prevent their later disclosure is said by courts and commentators to be a necessity. The social good derived from the proper performance of the functions of lawyers acting for their clients is believed to outweigh the harm that may come from the suppression of the evidence in specific cases.

The privilege has undergone periodic attack by academicians of repute—Bentham, Morgan, McCormick, Radin, to name a few. But the bar and the bench have been consistently alert to any attempt to narrow its scope.

Prior to 1962 there was no case which denied the availability of the privilege to a corporation if the requirements of the privilege were met. An impressive line of cases assumed that a corporation could assert the privilege. The American Law Institute's Model Code of Evidence and the Uniform Rules of Evidence included corporations in the definition of clients who could assert the privilege. Hence, two decisions by Chief Judge Campbell of the Northern District of Illinois which denied the availability of the privilege to a corporation in the Radiant Burners cases came as a considerable shock to most of us who thought the matter was free from doubt.

Chief Judge Campbell reasoned that (1) historically the attorney-client privilege, like the privilege against self-incrimination, was intended to be available only to natural persons; (2) the essential requirement of confidentiality could not exist within a corporation which necessarily must operate through agents; and (3) the visitatorial powers of the state weaken the bases for the assertion of the privilege by a corporation.

There followed a brief period of considerable consternation, highlighted by a number of highly critical comments in the law reviews. The furor subsided, however, when the Seventh Circuit reversed Radiant Burners. The opinion made clear what most observers has assumed previously—that, unlike the privilege against self-incrimination, the attorney-client privilege does not exist out of deference to a personal right, but as a rule to facilitate the working of justice. Specifically, the court held:

A corporation is entitled to the same treatment as any other "client"—no more and no less. If it seeks legal advice from an attorney, and in that relationship confidentially communicates information relating to the advice sought, it may protect itself from disclosure, absent its waiver thereof.
There seems little chance that Chief Judge Campbell's views will experience a renaissance. However, Radiant Burners has had a profound influence on the attitude of courts towards the assertion of the privilege. The reasons suggested by Judge Campbell as a basis for his conclusion that the privilege is never available to a corporation have been utilized by other courts to test the assertion of the privilege in particular cases. There seems to be a clear recognition that the difference between a corporation and a natural person affects whether in a given case a communication can be appropriately characterized as that of a corporation rather than its agent. There seems to be little doubt that the privilege will not be available to allow a corporation to immunize its records from disclosure by placing its papers and documents in the hands of its lawyers for custodial purposes. Nor is there any tendency by the courts to extend the privilege to business advice simply because it is given by a lawyer.

The cases provide some illuminating examples of the difficulty in determining when the privilege exists.

An initial question sometimes involves the issue of whether the corporation is the client when information is communicated to a lawyer by an agent of the corporation. In some cases, the agent may be only a witness; in others he may be speaking as the representative of the corporation. What test should be applied to determine whether the communication is privileged as to the corporation?

There have been suggestions that the client is the corporation whenever any agent originates a communication for the advice of company counsel on a matter concerning the interests of the corporation. Other decisions would stop short of all agents, but would clearly permit a fairly broad group to speak for the corporation. Others have suggested that the test should be whether the agent's communication related to his corporate responsibilities. On occasion it has been suggested that the rank in the corporation of the employee making the communication should be the determinant. Several courts have formulated a standard in terms of power to control. In City of Philadelphia v. Westinghouse Electric Corp., Judge Kirkpatrick stated the test in these terms:

Keeping in mind that the question is, Is it the corporation which is seeking the lawyer's advice when the asserted privileged communication is made?, the most satisfactory solution, I think, is that if the employee making the communication, of whatever rank he may be, is in a position to control or even to take a substantial part in a decision about any action which the corporation may take upon the advice of the attorney, or if he is an authorized member of a body or group which has the authority, then, in effect, he is (or personifies) the corporation when he makes his disclosure to the lawyer and the privilege would apply. In all other cases the employee would be merely giving information to the lawyer to enable the latter to advise those in the corporation having the authority to act or refrain from acting on the advice.
Thus, in a matter of overwhelming importance to a corporation, a department or division head might not be able to speak for the corporation, while in cases where an employee is actually authorized to make a decision after consultation with counsel—as, for example, the head of a claims department dealing with a minor personal injury claim—a communication to an attorney concerning the matter would be privileged as to the corporation. The statement of an agency outside the "control group" would simply be that of a witness. The corporation might still resist discovery on the "work product" concept of *Hickman v. Taylor*, but the statement would not be privileged.

The "control group" test has been vigorously criticized. It has been pointed out that the adoption of such a test may mean that outside counsel who engages in internal investigations as a part of a vigorous program of anti-trust compliance, may be developing evidence against a client when he exchanges communications with corporate agents who are not within the control group. Furthermore the test seems to deny the privilege to the corporation when the communication is made by middle management executives who may not qualify for inclusion in the control group, but who have responsibilities for making recommendations which are frequently ratified perfunctorily by higher management.

A second problem deals with the requirements of confidentiality. A communication which was not made in confidence, as when an oral communication is made in the presence of strangers, or a written communication is distributed generally throughout a corporation, will not be privileged. A corporation must operate through agents and, therefore, some agents of the corporations are necessarily privy to any communication with the attorney for the corporation. However, it does not follow that a communication may be disclosed indiscriminately within the corporation and still be protected. The best standard seems to recognize that disclosure may be made within the corporation on a "need-to-know" basis without destroying the privilege. It should, of course, be recognized that a communication which was originally confidential and thus privileged, may lose its status by subsequently being broadcast to a larger constituency. Indeed, it has been held that the privilege may be lost by filing a document in the general files of the corporation.

A third problem area involves the kind of advice which is sought or given. The privilege applies only when legal advice is sought from a professional legal adviser who is acting in that capacity. Normally, there is no problem when the ordinary citizen consults a lawyer. Frequently, however, lawyers render commercial and even technical advice to corporations in addition to advice concerning the law. Thus, it is sometimes necessary for the courts to characterize a communication as one seeking or providing business advice, and thus not privileged, or one seeking legal advice and, therefore, within the protection of the privilege. Frequently, however, the advice of a lawyer may involve mixed legal-business advice. As Judge Wysanski has pointed out:

"The modern lawyer almost invariably advises his client upon not only what is permissible but also what is desirable. And it is in the public interest that the lawyer should regard himself as more than
predicter of legal consequences. His duty to society as well as to his client involves many relevant social, economic, political, and philosophical considerations. And the privilege of nondisclosure is not lost merely because relevant nonlegal considerations are expressly stated in a communication which also includes legal advice.28

If predominantly legal advice is sought or given, the fact that business advice is also contained in the communication should not affect the privilege.29 But where a communication neither invited nor expressed any legal opinion or where the advice sought or given is largely of a business nature, the communication will not be protected.30

The problems seem to have arisen chiefly in cases involving house counsel and patent lawyers. Mr. Withrow will discuss the status of the patent lawyer. It has been suggested that the privilege should not apply where house counsel are involved.31 An argument can be made for the proposition that no incentive to disclosure is needed when the attorney is himself an officer of the corporation. However, it seems probable that there would be much greater reluctance in confiding in house counsel if there were no privilege. The need for frequent advice of counsel who is readily accessible provides a cogent reason for encouraging the use of house counsel.32

The fact that house counsel are paid annual salaries, occupy the corporation's buildings, are employees rather than independent contractors, and give advice to one regular client rather than a number of clients are not significant distinguishing characteristics insofar as the availability of the privilege is concerned.33 Consequently, the courts have refused to deny categorically the availability of the privilege to the corporation-house counsel communication.34

Whether the privilege applies to a communication to or from house counsel should depend primarily upon the function performed by the attorney in gathering or preparing the material in question. The suggestion has been made that whether a lawyer could receive a privileged communication depends on the relative amount of time spent in the role of attorney as compared to the amount of time spent in business affairs.35 A preferable approach would examine the function he performed with reference to each individual communication, appreciating that a lawyer who spends most of his time giving business advice may be consulted on some matters solely for legal assistance.36

Several distinguished commentators have made some cogent suggestions of administrative techniques to minimize the danger that the privilege would not protect communication to and from house counsel.37 I have consolidated their suggestions into one list:

1. Place legal responsibility of the corporation under one person. Patent counsel, tax counsel, claims counsel, and others in organizational responsibility should be under the supervision of the chief legal attorney.

2. Use legal titles for legal personnel.
3. Adopt special law department stationery, separate from company's business stationery.

4. Distinguish legal from business advice and label legal advice by an appropriate legend.

5. Be careful of sequence. Obtain reports directly and not indirectly.38

6. Segregate law department files and office files. Confidential communications should not be maintained in general files.

7. Communicate to as few people as possible. Corporate conferences at which confidential communication or legal advice is sought should be limited to necessary personnel who have a high degree of responsibility for the subject matter.

8. Where possible, each legal communication should be set up to deal with a single legal problem, preferably with facts and business problems set up and predicated for legal conclusions.

9. Beware of the copying machine. Mr. Thomas Austern goes so far as to recommend that the original be marked "Legal Opinion—Not to Be Copied—Return to Legal Division."39

10. Adopt and enforce record retention schedules. Mr. Austern suggests the adoption of "an accelerated program of document dispositions." He suggests that the rule should be that "in a documentary garden, an annual is not a perennial."40

11. Where possible, have attorneys admitted to local bar. Nonmembership has been held "highly probative" of the absence of the privilege.41

These matters have not been the subject of as extensive litigation during the last few years as during the 1962–1964 period. The problem area has shifted to the issue of Garner42 which Mr. Brereton will discuss. The problems to which I have briefly alluded cannot be answered by a formula. There is the constant conflict between the policy which seeks to ascertain the truth, and that which attempts to encourage the use of legal advice through the device of the privilege. The more deeply one is convinced of the social necessity of permitting corporations to consult frankly and privately with legal advisers the more willing one should be to accord them a flexible and generous privilege.43 The more convinced one is that the privilege is being used as a shield by the corporation to preclude access to the truth by immunizing vast quantities of relevant evidence, the more restrictive will be interpretation given to the privilege. In the long run, we may see a difference of attitude demonstrated in the "private" cases involving routine discovery than in the "public" cases involving government regulation. Only time will tell.
FOOTNOTES


4 See Gardner, supra n. 2 at 304–316.

5 Radiant Burners, Inc. v. American Gas Association, supra n. 2 at 319.

6 Ibid.


10 Ibid., see Maurer, Privileged Communications and the Corporate Counsel, 28 Ala. Law 532, 567–569 (1967); Gardner, A Personal Privilege for Communications of Corporate Clients—Paradox or Public Policy, 40 U. Det. L.J. 299, (1963).

11 The most significant comments are collected in the Radiant Burners opinion, supra n. 2, at 321; Maurer, supra n. 10 at 368–69.

12 See n. 2, supra.

13 320 F.2d 314, 324.


20 Ibid. at 486.


23 Burnham, supra n. 16, at 548.

24 Maurer, supra n. 10 at 375.


28 United States v. United Shoe Machinery Corp., supra n. 1, at 359.

29 Zenith Radio Corp. v. Radio Corporation of America, supra n. 15 at 794.

30 Ibid.

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33 United States v. United Shoe Machinery Corp., supra n. 1 at 360. See Heininger, supra n. 22 at 378-79.
35 American Cyanamid Co. v. Hercules Powder Co., supra n. 34 at 88.
36 See Garrison v. General Motors Corp., supra n. 18 at 520.
37 Haight, Keeping the Privilege Inside the Corporation, 18, BUS. LAW. 551 (1963); Maurer, supra n. 10, at 385; Burnham, supra n. 16 at 543-44; Heininger, supra n. 22 at 585-86.
38 The Alcoa case provides an example. The president of the corporation anticipated the informational demands of the attorney and wrote to an employee to secure information prior to consulting the attorney. The attorney then requested the president to provide the exact information. The employee wrote to the president with a copy to the lawyer. The court rules that the original request from the president was not privileged and the letter from the employee to the president was not privileged. If the attorney had written to the president, the privilege would apparently been recognized. United States v. Aluminum Co. of America, 193 F. Supp. 251 (N.D. N.Y. 1960) discussed in Heininger, supra n. 22 at 585-86.

40 Ibid.
41 American Cyanamid Co. v. Hercules Powder Co., supra n. 34.

MR. BRERETON

The relationship between counsel and employees of a corporation may well be the most interesting and confusing area of attorney-client privilege. In the famous case of Radiant Burners, Inc. v. American Gas Association,1 the question of whether there is such a thing as a corporate privilege was hopefully settled once and for all. But despite this case, various factors have caused the courts to dilute the corporate privilege; and recently a new problem with far-reaching implications has gained attention. On February 21, 1968, the District Court for the Southern District of Alabama in Garner v. Wolfinbarger, 280 Fed Supp 1018, held that in a suit brought by shareholders against a corporation and its directors, the corporation-defendant cannot claim the attorney-client privilege. Although the opinion of the court does not relate the factual background of the case, I understand that the case involves both a class action of the shareholders suing as individuals against the corporation and its directors, and a derivative action by shareholders. The complaint apparently alleges fraudulent sales of the corporation’s securities, harming the corporation and the shareholders. The decision by the District Court resulted from a motion by plaintiffs for the production of documents.
The District Court relied on two English Chancery cases, one decided in 1888 and the other in 1943. Both English cases were class actions by shareholders against the corporation. The Chancery Court applied the rules governing the relationship between a trustee and a beneficiary to the relationship between a corporation and its shareholders. In the earlier English case, the court stated that a trustee could not resist disclosure to a beneficiary of any documents, including attorney-client communications, obtained by funds of the trustee; and that the same rule should apply to disclosure of documents by a corporation to its shareholders.

In the later English case, dealing with the accountant-client privilege in England, the Chancery Court stated that a beneficiary was entitled to see any opinions submitted and taken by a trustee in the ordinary course of administration of a trust, and that shareholders had a similar right.

At least one thing can be said in favor of the English cases: They did not misstate the law of trusts. In his Treatise on Trusts, Scott states that a trustee is under a duty to allow beneficiaries complete rights of inspection, including opinions of counsel procured by the trustee to guide him in the administration of the trust.

There is also ample precedent both in the case law and in treatises comparing the duty of a director or officer of a corporation to that of a trustee.

However, despite the recognized similarities between the law of trusts and the law of corporations the leading writers have also recognized that there are differences between the two bodies of law—and differences which must be recognized. Fletcher, on corporations, states as follows:

“It is unfortunate . . . that the courts should even have attempted to classify directors either as trustees or as agents or both. . . . It would have been much better to have worked out the rules governing their duties and liabilities according to the nature of the particular office and the nature of the particular duty or liability involved, without regard to the rules either of trust or agency. . . . A director, strictly speaking, is neither a trustee or an agent: he resembles both. In some respects, the rules relating to trustees are applicable to him and in some respects they are not. . . . Whether in a given case the rule applicable to trustees or the rule applicable to agents, or neither of such rules, is applicable, is determined by no fast rule, but depends almost entirely upon the nature of the particular act or contract which is the subject of the controversy.”

State corporation statutes also make it plain that the law of trusts does not carry over lock, stock and barrel to the law of corporations. These statutes limit the circumstances under which shareholders can inspect corporate records and the types of records that shareholders can inspect. For example, in both New York and New Jersey, the law confines the right of inspection to limited records of account, minutes of shareholders and directors, and records containing the names and addresses and other information concerning shareholders.

Notwithstanding the recognized differences between the law of trusts and
the law of corporations, however, we are faced with the decision of the Alabama court, which apparently draws no distinction in the circumstances of that case.

It is discomforting to note that Garner v. Wolfinbarger is not alone. In January of 1967, the Supreme Court of Colorado limited the accountant-client privilege, recognized by Colorado statute, as follows, and I quote:

“Certified public accountants hired by a corporation are hired for the benefit of all of its stockholders, and such employment forbids concealment from the stockholders of information given the accountant by the corporation.”

In addition, a more recent case even than Garner v. Wolfinbarger, entitled Fisher v. Wolfinbarger, was decided by the District Court of Kentucky in December of 1968, denying the privilege to the defendant corporation. The plaintiff in both Wolfinbarger cases is represented by the same attorney, and the two cases are related. The Kentucky court was apparently faced with the same question facing the Alabama court, and decided the issue the same way.

I should note at this point that the order of the Court in Garner v. Wolfinbarger has been appealed to the Court of Appeals for the 5th Circuit, and briefs have been filed, including an amicus brief by the American Bar Association.

If, however, the lower court order is let to stand, the implications for the privilege in the corporate setting could be most serious. A literal adoption of the law of trusts to the law of corporations in this area could presumably make attorney-client communications available to stockholders in more than just a class action or derivative suit. Any outside adversary suing the corporation, who happened to own one or more shares of stock, could claim access to privileged material. Such a result would effectively eliminate the attorney-client privilege for the corporation.

But even if Wolfinbarger, and other like cases, are interpreted only to allow discovery of privileged communications in class actions by shareholders against corporations or in derivative suits, the potential consequences are still alarming. The corporation may suffer great harm by the disclosure of privileged communications. Information thus disclosed can be used by outsiders in subsequent law suits. The derivative or class action may even be a thinly veiled means of securing such information for an ulterior purpose.

It is not a satisfactory answer to say that even if future harm may occur to the corporation, the shareholders ought to have the right to harm what is really their alter ego. This argument presupposes that one group of shareholders represents the feelings, or the best interests, of the rest of the shareholders. This is not so. In fact, the active plaintiffs in a derivative action may well have social and economic interests far apart from other shareholders. It is possible, in fact, that the active plaintiffs have connections with more than one corporation, and are, therefore, in a position of conflict of interest.

Consequently, when a group of shareholders initiates a class action or derivative action, it cannot be said that the interest of this group justifies the
potential harm resulting from exposure to the public of the corporation's attorney-client communications.

I recognize that in a class action against a corporation—and almost always in derivative actions—directors and officers are defendants. Consequently, it can be argued that even if the corporation has a privilege, the individual defendants do not. However, the corporation's privilege, if it exists, does not depend on whether it is a real party defendant in the law suit. And to be at all meaningful, the corporation's privilege must be asserted by its board of directors—even if those directors are defendants in the law suit.

I should also at this time point out my disagreement with the position that because a director or officer receives advice as a corporate employee, that he is therefore unable to claim a personal privilege. Although a director or officer in receiving and seeking advice from house counsel or outside counsel is doing so as an employee, the actions which he takes after such advice, or the communications he makes to the attorney, may well subject him to personal liability. This personal liability may be of such a nature that the corporation cannot indemnify him, under existing statutes, by-laws of the corporation, or under common law standards of public policy.

Furthermore, disclosure of the officer's or director's communications can conceivably result in criminal proceedings against that person as an individual. Lastly, the officer or director faces a loss of reputation which may be equally damaging to his life.

It does not suffice to say that the corporate officer or director must sacrifice his security against such loss, if he is to accept a fiduciary position. Every law suit alleges some breach of duty which the defendant had toward the plaintiff. In a suit brought by one individual against another, the wrong alleged may just as easily be some sort of malfeasance, or breach of relationship, which has resulted in financial loss to the plaintiff. Yet, there seems to be some reluctance to protect the corporate officer, as opposed to the individual businessman. To the extent such a reluctance reflects less faith in the corporate officer, such reluctance is ill-founded.

I would like briefly to touch on some of the other problems facing corporate lawyers in the matter of attorney-client privilege. Firstly, are lawyers within a corporation more likely than outside counsel to include business considerations in their legal advice? Courts may approach this question with suspicion. I believe that in being suspicious the courts err. A lawyer, in private practice or as house counsel, must have regard for business consequences of his advice, or he is not doing his job properly. A proper view was taken by Judge Wyzanski in U.S. v. United Shoe Machinery Corporation,\(^2\) in which he stated:

"The modern lawyer almost invariably advises his client not only what is permissive but also what is desirable, and it is in the business interest that the lawyer should regard himself as more than predicter of legal consequences. His duty to society as well as to his client involves many relevant social, economic, and political considerations. And the privilege of non-disclosure is not lost merely because relevant
non-legal considerations are expressly stated in a communication which also includes legal advice."

It can be said that since a corporate lawyer is erroneously suspected by some courts as being more of a businessman than a lawyer, it behooves him to be particularly careful not to render written opinions which appear to mix "business" advice with "legal" advice. On the other hand, it can be said that a detailed knowledge of the facts and business considerations can often result in better legal advice.

The second problem involves defining what is the corporation—i.e. what employees can speak for the corporation, and receive advice for the corporation, within the cloak of the privilege. Several cases have limited the privilege to communications between counsel and employees who are members of the so-called "control group." The control group is defined as that group having the authority to control or substantially participate in a decision to be taken on the advice of the lawyer. The fact that such a test can lead to disturbing results is shown by one case, Garrison v. General Motors Corporation, where the court found that a Division Manager and his assistant, the Chief Engineer, were members of a control group, but that a Senior Project Engineer and an Assistant Chief Engineer were not. It would seem that a more proper approach would be that any employee of a corporation, acting within the scope of his job in seeking advice, should be able to communicate with a lawyer, and enjoy the same privilege of non-disclosure. The value in maintaining the confidentiality of the attorney-client relationship is equal in both circumstances.

The third problem is that of determining the subjects upon which house counsel may base privileged opinions. In United States v. United Shoe Machinery Corporation, Judge Wyzanski stated that the privilege does not apply to opinions by attorneys commenting on information coming from outside the corporation or from public documents. It would indeed be unfortunate if the attorney could not comment in confidence on a "public document," in the context of a specific confidential question from a specific employee. But the rule stated by Judge Wyzanski might mean that he cannot. Wyzanski's decision poses particularly difficult problems for in-house patent attorneys giving opinions on patents.

Going further with the problem of the subjects on which house counsel can render privileged opinions—one of the peculiarities of the corporate lawyer's job is that he seeks out the subjects on which to give opinions. It is very possible—though regrettable—that the corporate lawyer may not be protected in giving such opinions that are, so to speak, not "sought." The cases commonly state that the privilege only covers communications based on facts of which the attorney was informed by his client, for the purpose of securing legal advice.

Personally, I feel that it is a mistake to discourage lawyers in corporate legal departments from smelling out problems; and I also feel it is a mistake to discourage corporate lawyers from writing memoranda to one another, within the legal department. Frankness in both types of communications is necessary, if the corporation is to follow a proper legal path. The lawyers'
opinions, if disclosed, may implicate other people; and therefore, protection from disclosure is most important.

I will not discuss privilege insofar as patent attorneys' advice is concerned. I would like to revert to the Garner case again to mention some collateral points.

There is a fair degree of probability that either federal or state criminal statutes might be involved in connection with the Garner litigation. Even if the Court holds that a corporation has no privilege and cannot avail itself of the right against self-incrimination, there will be individuals who may very well be incriminated by compulsory discovery of counsel's opinion. Whether these issues will be clearly defined and answered by the Circuit Court will depend upon their decision on the basic question of corporate privilege. If that is denied, a whole host of collateral issues arise.

In conclusion, therefore, one may say that the confidence of corporate counsel in the outcome of the Radiant Burners case is being shaken and we await with baited breath the decision in the Fifth Circuit Garner case.

FOOTNOTES

1 320 F. 2d 314 (7th Cir. 1963).

MR. WITHROW

The modern law concerning the corporate client privilege is less than 20 years old. Judge Wyzanski in a separate opinion set forth his analysis in the course of ruling on the admissibility of about 800 exhibits offered by government counsel and objected to by United Shoe Machinery.1 Since that opinion in 1950, courts have been engaged primarily in refining Judge Wyzanski's approach.

The question of the corporate privilege usually arises as an evidentiary point in important litigation. As a result the courts perhaps have not spent as much effort in writing opinions on this problem as we would like. Actually, we know that in most instances no opinion is written or recorded. It also happens that most of the reported decisions relate to rulings by a trial judge sitting without a jury. This was the situation in the United Shoe case. So we have the court examining the documents to determine the question of privilege, and trying the case on the merits. In most instances, the court can easily protect itself from committing reversible error no matter what its ruling. Of course, if the privilege is overruled, the confidentiality is gone for-
ever, and this might be held to eliminate the possibility of asserting the privilege in a future case.

In the context of evidentiary rulings or discovery proceedings it seems that most courts are too preoccupied to appreciate fully that the purpose of the attorney-client privilege is to permit a person to explore his problems with his attorney and obtain trained legal advice. Every person, whether an individual or a corporation, needs the opportunity to engage in this dialogue in absolutely protected confidence.

The client is entitled to learn from his lawyer the strengths and weaknesses of his position. Indeed, it is the lawyer's obligation to present during this private dialogue the arguments against our client for his confidential consideration. This obligation is less well understood than our function of presenting in public hearings the arguments for our clients. Both are equally strong and imperative.

This dialogue between the client and his lawyer should be jealously protected for two reasons:

First: To encourage the client to freely divulge all the facts to his lawyer without fear of being prejudiced by their subsequent disclosure, and

Second: To discourage litigation which often arises when, because of a failure to disclose essential facts, a lawyer and his client remain adamant on issues where the law has already been clearly resolved.

Too often, this dialogue between a client and his attorney is thought of in terms of criminal law—as an adjunct to the 5th Amendment. As you all recall it was just in this area that Judge Campbell got himself off on the wrong track in the Radiant Burners Inc. In this he was soundly reversed by the 7th Circuit (320 F.2d 314, 322-33, 1963)—which said

"... the attorney-client privilege derives from a regard for the rights of a client, personal or impersonal in character, fostering a social policy concerned with facilitating the workings of justice."

Indeed, the appellate court held that no good reason exists why the impartial administration of Justice should not afford a corporation the protection of the privilege.

Nevertheless, it appears that the corporate privilege seems to be circumscribed by the concept “if it is really appropriate or necessary.” Protecting the privilege often appears to be merely obstruction to full and free discovery. Faced with such a conflict courts tend to rule in favor of what one judge called the “overriding interest in full disclosure.”

Despite such inroads the privilege still has considerable vitality—in all probability, substantially more now than it appeared to have just ten years ago. This does not mean that full discovery can be thwarted by the assertion of the privilege; it does mean that in most instances, where the attorney is asked for and is supplying legal advice, the dialogue between management and counsel will be protected.

As lawyers, all of us have probably damaged the efficacy of the privilege. Every Rule 34 Motion, C.I.D. and Grand Jury subpoena (and their state court equivalents) tempts us to assert that every document to or from an
attorney is privileged. As attorneys we perform a great many more functions than dispensing legal advice—and consequently the privilege does not apply to much that we do. It certainly does not apply to the vast number of the documents we write and even less to the much larger number that come to our attention.

Nevertheless, in the context of litigation both the corporation and its trial counsel would like to protect much more than the attorney-client privilege was ever intended to cover. This is a natural reaction to protect whatever can be protected from disclosure.

Three important areas where we try to extend the privilege are: patents and patent licensing; business advice; and material prepared in connection with litigation.

These areas present slightly different facets of the problem of corporate privilege.

The most unsettled of these areas is concerned with patents, patent applications and licensing. This is an area of quite conflicting results with some courts being heavily influenced by whether the attorney is on the corporate staff or serving as outside counsel.

Most of the cases can be reconciled on the basis of the answer to a single question of fact—What was the patent lawyer really doing? Was he advising on the law, or merely preparing legal and factual documents in connection with patent applications, patent proceedings or licensing programs?

A patent attorney (corporate or independent) usually first comes into the picture when the inventor (or his superior) submits the details of the invention and asks if it is patentable. If the resultant opinion expresses an opinion on the law, or merely preparing legal and factual documents in connection with patent applications, patent proceedings or licensing programs?

Patent lawyers at this point often seem prone to comment more upon the commercial value of the patent which might issue than upon whether as a matter of legal analysis it should be granted. This comment standing alone probably would not be privileged. On the other hand, this expression might of necessity so involve advice concerning mixed questions of law and business judgment that the privilege ought not to be jeopardized.

Once the basic legal question of patent-ability is answered, it would seem that the patent lawyer is rarely called upon to give legal advice. The applications, drawings, proceedings before the Patent Office may all be lawyer's work—but not of the type associated with the attorney-client privilege. Certain of this may be protected as trade secrets, and of course, there may be opinions concerning strategy and procedure prior to the issuance of the patent which would be protected.

Procedures in the Patent Office are such that patent counsel (both inside and out) are actually working for the individual inventor rather than the corporation until the patent has actually issued. This raises the question as to whose privilege are we talking about—the inventor's or the corporation's? With employee's changing jobs as often as they do today this might become of crucial importance. Judge Leahy in the *Zenith* case held that the corporation was the client, and therefore had the privilege.3
Once a patent is issued—patent counsel may be asked if someone is infringing. As we will see later the form of counsel's reply may well determine whether the privilege can be made to stand up in court. This may be a question of law, or fact, or a mixed question.

Most of a lawyer's work on a patent licensing program clearly would not be privileged, although he is employing his legal skills and judgments. At the inception of a program, counsel could well be asked as to its legality—as well as the legality of certain concepts in a license. These certainly could result in privileged opinions.

As we will see later this limited number of general situations for inside patent counsel to give legal advice has led some courts to at least appear to deny the existence of the attorney-client privilege in this entire area. It is submitted that such an approach is manifestly improper on the basis of legal theory.

We now turn to the area of business advice. It is clear that business advice is not protected by the privilege just because it is given by a lawyer. Since an attorney is today called upon to do much more than express cut-and-dried opinions as to the law, there is often a real question as to what advice should be protected. Judge Wyzanski seemed to sense this when he said in United Shoe:

"The modern lawyer almost invariably advises his client upon not only what is permissible but also what is desirable. And it is in the public interest that the lawyer should regard himself as more than a predictor of legal consequences."

Judge Wyzanski's statement lends some encouragement to the hope that perhaps the privilege might be somewhat extended. The cases indicate, of course, that the problem in reality is how to do so in the framework of communications concerning "legal advice" from a "legal adviser."

Court opinions (as well as ruling from the bench) indicate that this subject of attorney-client privilege is an area where form seems to triumph over substance. An example of this is found in the court's assuming that when the lawyer asks his clients for factual material it is for the purpose of rendering a legal opinion, with the result that the request and the reply are privileged. I could find no comparable assumption when the information was volunteered.

To the extent that such a presumption is indulged in by the courts (and it has been) certain communications bordering on pure business may be cloaked by the fact that the attorney asked for business materials. It would seem, however, that the party seeking production of this requested material should have the opportunity to rebut any such presumption that it was to aid the attorney in preparing his legal advice.

To put this in a practical context it would probably be easier to sustain the privilege under the following sequence:

1. Client: "Do you think I've violated the Sherman Act?"
2. Attorney: "Show me what you've done recently."
Client (having accumulated the data): “Here’s a compilation of our recent business.”

It would be more difficult were the client to send the attorney a copy of the factual letter or memorandum, thereby making only an implied request for legal comment should counsel choose to make any.

In view of the remarks by both speakers and particularly by Mr. Brereton concerning the problems engendered by the Garner case I shall pass over this area of the privilege concerning material prepared in that context or for specific litigation. It would be impossible to pursue this area any further without a detailed discussion of the work product rule, the basic protection in this area, a subject more for trial lawyers than most corporate law departments. Suffice it to say the much cited case of Hickman v. Taylor is the touchstone which provides what help there is aside from the privilege itself. In most courts this is weak protection indeed.

One problem frequently faced by litigants is that of protecting communications of experts who compile data for presentation at trial. If the fruits of the experts’ labor are clearly earmarked for transmission to an attorney pursuant to his request, in order that he might render an opinion or prepare his case, there may be some hope of gaining protection of the privilege. However, to date the courts have found it all too easy to override any claim of privilege in this area.

Corporate Law Departments, I assume, periodically review their procedures from the dual point of view of making their advice more effective and of protecting the privilege wherever possible. To a certain extent, the two goals may be at cross-purposes.

To be effective, communications to and from the “lawyers” seem to require broad distribution within the company. Yet this very practice has caused courts to hold that documents, whose confidentiality was not jealously safeguarded, were not privileged. Indeed, some cases raise grave doubts as to whether any document contained in the general files of a corporation. Unfortunately, the converse is not true—a document does not become privileged by virtue of being only in the Legal Department or in a lawyer’s files.

Handling documents in the requisite “highly confidential” manner often presents a very difficult problem. It is simple enough in the case of the formal legal opinion, if properly written as to form and content. A court would be hard pressed to rule against the privilege when the opinion clearly covers the following four points:

1. Addresses someone in the “control group.”
2. Recites that the lawyer has been asked for a legal opinion as to the specific proposal.
3. Discusses the applicable statutes and case law.
4. Expresses basically a legal conclusion.

Corporate executives seem to have little occasion (or inclination) to breach the confidentiality of such an opinion letter by overcirculating the opinion or by showing it to third parties.
Legal opinions of less formal character can be more easily protected as they approach this format. To the extent that the aura of legal advice can be imparted to a document, the privilege is more likely to be sustained. Indeed, a failure to pay attention to form may well result in a dissipation of what should be privileged.

To the extent that it is impossible for the lawyer to divorce legal advice from business advice, the privilege is in jeopardy. When it is possible to discuss them in separate memoranda this should be done. If it isn't feasible to separate advice in this manner, then nonprivileged material should be separated as much as possible so that the court may protect such parts as are privileged.

The attorney can also be of help in other ways. The wording of the advice may itself be controlling. As one court remarked after quoting extensively from the attorney's document in question:

"This is more than attorney-talk. It is big—as well as basic—business diction." 8

The court was impressed by the diction, in other words, the manner in which the advice was worded. It would not be surprising to find that a discussion of patent problems would not be protected when couched in terms of what patents the client owns compared to those of its competitors but that it would be protected if couched in terms of a legal analysis of "infringement" possibilities. Similarly, discussions of business plans would probably be privileged if set forth in terms of considerations under the antitrust laws rather than as general comments on plans for expanding operations.

Indeed, the conclusion is inescapable that the more an attorney acts like a lawyer and his dealings appear to be oriented to the rendering of legal advice, the better the chance that the privilege will be sustained.

Turning now to the problem of the privilege for documents prepared by the client. The general rule is simple enough: Those documents which were prepared "with a bona fide intention" of being laid before a lawyer for his legal advice are privileged.9 To this one could add that parts of a client's document may be privileged if it in reality is repeating the legal advice received from an attorney.10 Of course, this is only true if the confidentiality of such a document has been maintained.

I have heard it argued by lawyers in private practice that the privilege is one which should attach only to their communications with a corporation. This just is not correct as a matter of case law or of legal theory. The basic question is the nature of the services performed. If they are professional services involving the rendering of expert legal opinions, it should make no difference whether the communication was by an attorney on the staff of the corporation or by a member of the private bar.

Actually this area of the law has been clarified in recent years in favor of house counsel. Even Judge Wyzanski's apparent requirement of membership in the bar of their residence has been relaxed. It is today only one of the
factors to be considered in connection with the question of whether the attorney was “acting as a lawyer.” — It is not a sine qua non.\(^\text{11}\)

The “bar membership in the jurisdiction of residence” test originated with Judge Wyzanski when he was considering whether an attorney was “acting as a lawyer” in the context of the corporate patent department of *United Shoe* (89 F.Supp. at 360). The harsh rule which he espoused was rejected by Judge Leahy in the *Zenith* case (121 F.Supp. 792, 794). In that case the court in painstaking fashion delineated the two spheres of a patent lawyer’s work and decided to honor the privilege where legal advice was given.\(^\text{2}\) The Supreme Court in a dictum in *Sperry v. Florida*\(^\text{13}\) seems to have adopted an even more liberal approach than the *Zenith* case.

It is only fair to say, however, that the courts have accorded greater attorney-client protection to the work of the independent patent lawyer. The basis has been the belief that the outside lawyer is more concerned with the purely legal aspects of patent work while house counsel perform more routine work. Even if this were so, it should not be the criterion in the context of whether a document is privileged. A few recent cases in Delaware and Michigan (*Sperti Products, Inc. v. Coca-Cola Co.*\(^\text{14}\) and *Chore-Time Equipment, Inc. v. Big Dutchman*\(^\text{15}\)) have been cited as though they would conclusively deny the possibility of the attorney-client privilege to a corporate patent counsel. While these cases would impose a heavy burden to sustain such a privilege, the courts in reality coupled the fact of being house patent counsel “with the contents of the communications themselves.” However, it would appear that the federal district courts in California, Wisconsin and New York are more liberal in sustaining the privilege,\(^\text{16}\) than Delaware or Michigan would be.


These divergent decisions underscore the tough road that patent lawyers face in the area of attorney-client privilege primarily because the courts tend to think that patent practice is essentially business oriented.\(^\text{17}\)

It behooves members of the Patent Bar to make certain that their legal advice is in the form which has all the hallmarks of a legal opinion.

Perhaps we should not be surprised at finding this confusion in patent cases. Infringement and patent validity suits are routinely before a single judge who also will generally rule on questions of privilege. The court quite properly concludes that he will not be prejudiced by what he reads even though it is privileged. Furthermore, it would seem that few, if any, privileged documents should materially affect issues of validity or infringement. On the other hand, in the context of treble-damages cases in the patent field, real prejudice might result from denying the privilege to the corporate patent lawyer.

As I indicated earlier an important factor affecting problems or privilege is the work load of the courts. With judges feeling as harassed as they do, the wholesale assertion of the attorney-client privilege seems to result inevitably
in the court’s refusal to rule on a document by document basis. The trial
court may on the one hand set up general guidelines for counsel. In the in-
terests of full discovery these guidelines will of necessity impinge on the
privilege. As a second alternative some courts permit opposing counsel to
see these documents and leave the issue of privilege until the time of trial.
To avoid either of these unsatisfactory alternatives dictated by the court,
the client and his lawyer can adopt one of the following approaches:

1. Assert the privilege only as to those relatively few documents which
clearly meet the tests laid down by the courts.

2. Waive the privilege wherever its assertion is not in an area of ex-
treme importance to the client, having in mind that waiver has
some rather important consequences.

3. Work out a procedure with opposing counsel, with the court’s ap-
proval, if feasible, by which he may examine all the documents
under an agreement that this does not constitute a waiver of the
privilege.

No doubt this later procedure protects the privilege as between these par-
ties. I query what would be the result as to a third person in another pro-
ceeding. With the court’s desire to encourage solutions to such mechanical
problems as reviewing numerous documents, they may well decide there has
been no waiver—but apparently there have been no cases to date ruling on
this question.18

The area of the corporate attorney-client privilege does not appear to be
one which lends itself to scholarly treatment. Rather it is an area where the
extent and scope of the privilege and, indeed, even its very existence often
times depends on form rather than substance and invariably on factual de-
terminations. As a result this attorney-client privilege when litigated will
always be caught in the cross-fire between full and free discovery and the
reluctance of harassed judges to fully consider its proper scope and function.

FOOTNOTES

1950).
5 United States v. Aluminum Co. of America, 193 F.Supp. 231, 253 (N.D.N.Y.
1960). The court said: “When a lawyer requests factual information from a client,
it is ordinarily assumed that the same is to be evaluated for a legal purpose” and is
thus privileged, even though “the privilege is not lightly to be extended to business
matters.”
Wolfinbarger, CCH Fed. Sec. L. Rep. ¶192,439 (W.D. Ky., Dec. 18, 1968). The plain-
tiff in Garner charged the corporation and its officers with wrongdoing as to its
stockholders. The plaintiff in Fischer charged the corporation and its officers with
violations of the Federal securities laws. In both cases the courts held that, since the company belongs to its stockholders, any communications between it and its attorneys cannot be privileged as against them and upheld demands for discovery of such communications.


"The document is an interoffice communication between non-legal personnel and as such would not be privileged. The paragraph in question discloses legal advice given to the client. In other words, the paragraph simply submits to non-legal personnel legal advice already received. I would hold that the paragraph is privileged and its production may not be required."


18 The Fourth Circuit, however, may have indicated that there would be no waiver. In a recent case it directed that a possible "attorney-client" document be produced to a Grand Jury and then added, that the client was not foreclosed "from moving to suppress the evidence or otherwise objecting to its admission" if there should ever be a trial. Union Camp v. Oren Lewis, 1967 Trade Cases ¶72,277 (Nov. 2, 1967).