PANEL I: BATTEN DOWN THE HATCHES – BEING PREPARED FOR STORMY SEAS

ATTORNEY-CLIENT PRIVILEGE AND THE WORK PRODUCT DOCTRINE IN THE CORPORATE CONTEXT

Byron F. Egan
Jackson Walker L.L.P.
901 Main Street, Suite 6000
Dallas, Texas 75202-3797
began@jw.com

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by
Byron F. Egan*

Thrust to the forefront of the public's attention by recent events in Washington, D.C.,[1] the attorney-client privilege should always be in the mind of corporate counsel. Filled with traps for the unwary, navigating the protections of the privilege is not easy, especially for legal counsel who serve in more than one role (for example, as corporate secretary, operating officer and general counsel). This paper discusses the general parameters of the attorney-client privilege and the work product doctrine, addressing each of the elements specifically, with particular focus on recent changes in Texas rules that have wide-ranging implications for corporate counsel.

I. INTRODUCTION

Our system of jurisprudence is designed to facilitate resolving lawsuits based on what the facts reveal, not by what lawyers conceal. So that the real facts may be made known to all parties, the parties are permitted discovery from their opponents before trial begins. Each party may be called upon by his adversary or the court to, in effect, lay his cards on the table so that the dispute may be resolved on the basis of what all the cards show, rather than on the relative skill of the players. This philosophy is intended to level the tables between institutional litigants, perceived to have greater resources, and the individuals against whom they are often aligned. Countervailing considerations in the interests of fairness have produced a few limited exceptions to this policy of openness.

The attorney-client privilege is the oldest recognized privilege against discovery known to the common law. It traces its roots back to the reign of Elizabeth I in the 16th century[2] during

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Byron F. Egan is a partner of Jackson Walker L.L.P. in Dallas, Texas. Mr. Egan is a former Chairman of the Texas Business Law Foundation and is also former Chairman of the Business Law Section of the State Bar of Texas and of that Section's Corporation Law Committee. Mr. Egan is a Co-Chair of the Asset Acquisition Agreement Task Force of the ABA Business Law Section's Negotiated Acquisitions Committee, a director of the Texas General Counsel Forum and a member of the American Law Institute.

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1 *See* France, *"Weighty Reasons for Secrecy" — Effort to Acquire Posthumous Notes Spurs Attorney-Client Privilege Ruling*, ABA Journal 44 (Aug. 1998), commentary on 1998 decision by U. S. Supreme Court in *Swidler & Berlin v. United States* holding that communications with a lawyer remain privileged after the client's death; Berkman, *Psst! Were White House Talks on the Q.T.? Starr Could Seek to Skirt the Attorney-Client Privilege*, 20 National Law Journal No. 49 at 1 (Aug. 3, 1998), discussing whether President Clinton's attorney-client privilege could be destroyed by the presence of staff members and advisers at the President's meetings with his personal counsel.

2 *See Kelway v. Kelway*, 21 Eng. Rep. 47 (Ch. 1580).

the days when a lawyer's honor as a gentleman was paramount.[3] The policy behind recognition of the privilege was most simply expressed by the United States Supreme Court in *Upjohn Co. v. United States*,[4] where the Court characterized the purpose of the privilege as being "to encourage full and frank communication between attorneys and their clients and thereby promote broader public interests in the observance of law and administration of justice."[5] A more eloquent justification is found in the comment to Rule 210 of the American Law Institute's *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 communications, 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.[6]

Unfortunately, one of the complex and detailed laws referred to in the aforementioned comment turns out to be the attorney-client privilege itself.

The attorney-client privilege protects communications of legal advice between attorneys and clients, including communications between corporate employees and a corporation's attorneys to promote the flow of information between clients and their attorneys. Although the attorney-client privilege does not require ongoing or threatened litigation, it covers only "communications" between the lawyer and his client for the purposes of legal assistance.

The core requirement of the attorney-client privilege is that the confidentiality of the privileged information be maintained. Therefore, the privilege is typically waived when the privilege holder discloses the protected information to a third party. A waiver of attorney-client privilege destroys the attorney-client privilege with respect to all future opposing parties and for the entire subject matter of the item disclosed.

Unlike the attorney-client privilege, the work product doctrine only protects documents prepared by an attorney in anticipation of litigation or for trial. The work product doctrine focuses on the adversary system and attorney's freedom in preparing for trial. The threshold determination is whether the material sought to be protected was prepared in anticipation of litigation or for trial. Work product protection allows protected material to be obtained by the opposing party only upon a showing of substantial need and undue hardship. This form of protection relates strictly to documents prepared in anticipation of litigation or for trial.

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[3] Because divulging confidences entrusted to him would do him dishonor, it was the attorney, not the client who could exercise the privilege. The privilege now is considered to belong to the client, and not the lawyer. *See Apex Mun. Fund v. N-Group Securities*, 841 F. Supp. 1423 (S.D. Tex. 1993).

[4] 449 U.S. 383 (1981).

[5] *Id*. at 389.

[6] A.L.I. MODEL CODE OF EVID., Rule 210, comment (quoted in *United States v. United Shoe Mach. Corp.*, 89 F. Supp. 349, 358 (D. Mass. 1950)).

Therefore, in absence of any anticipated or pending litigation, documents prepared for the purposes of a specific business transaction are not protected by the work product doctrine.

The risk of waiver of the work product protection is more limited than the risk of waiver of attorney-client privilege. Work product waiver occurs only where it substantially increases the opportunity for adversaries to obtain the information.

An explication of these limitations on a party's rights to discover documents from an opponent follows.

II. OVERVIEW OF ATTORNEY-CLIENT PRIVILEGE ELEMENTS

A. Common Law. As recognized by the common law, the attorney-client privilege has been expressed in a variety of ways. An oft-quoted definition is found in *United States v. United Shoe Mach. Corp.*,[7] authored by Judge J. Wyzanski:

> The privilege applies only if (1) the asserted holder of the privilege is or sought to become a client; (2) the person to whom the communication was made (a) is a member of the bar of a court, or his subordinate and (b) in connection with this communication is acting as a lawyer; (3) the communication relates to a fact of which the attorney was informed (a) by his client (b) without the presence of strangers (c) for the purpose of securing primarily either (i) an opinion on law or (ii) legal services or (iii) assistance in some legal proceeding, and not (d) for the purpose of committing a crime or tort; and (4) the privilege has been (a) claimed and (b) not waived by the client.[8]

Wigmore expressed the privilege in somewhat less complex form as follows:

> (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.[9]

B. Texas Evidence Rule 503. The attorney-client privilege in Texas is found in Rule 503 of the Texas Rules of Evidence (*"Rule 503"*). An examination of the elements confirms that it is essentially a codification of the common law privilege as stated by both Wigmore and in *United Shoe*. In particular, Rule 503 sets forth the following elements of the privilege:

> A client has a privilege to refuse to disclose and to prevent any other person from disclosing confidential communications made for the purpose of facilitating the rendition of professional legal services to the client:

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7 89 F. Supp. 357 (D. Mass. 1950).

8 *Id.* at 358-59.

9 8 J. WIGMORE, EVIDENCE § 2292, at 554 (McNaughton rev. ed. 1961).

(A) between the client or a representative of the client and the client's lawyer or a representative of the lawyer;

(B) between the lawyer and the lawyer's representative;

(C) by the client or a representative of the client, or the client's lawyer or a representative of the lawyer, to a lawyer or a representative of a lawyer representing another party in a pending action and concerning a matter of common interest therein;

(D) between representatives of the client or between the client and a representative of the client; or

(E) among lawyers and their representatives representing the same client.[10]

Rule 503 also provides for various exceptions to the privilege[11] and sets forth several important definitions, including for the terms "client,"[12] "representative of the client,"[13] "lawyer,"[14] "representative of the lawyer,"[15] and "confidential."[16]

Thus, the elements of the attorney-client privilege can be best understood as follows:

(1) A confidential communication;

(2) Between or among an attorney, his client, and/or their representatives;

(3) For the purpose of seeking, obtaining, or facilitating the rendition of legal advice;

(4) If the privilege has been asserted, and not waived; and

(5) No exception applies to vitiate the privilege.

A detailed examination of each of these elements follows in subsequent sections.

C. Rules of Professional Conduct. The concept of privilege as a matter of ethical responsibility is somewhat different from the concept of privilege as a matter of admissibility of evidence. The Texas Disciplinary Rules of Professional Conduct (the "*Texas Disciplinary Rules*") set forth a broader definition of confidences and secrets. "*Confidential information*" is defined in the Texas Disciplinary Rules to include the notion of privilege as pronounced in Rule

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10 TEX. R. EVID. 503(b)(1).

11 *See* TEX. R. EVID. 503(d).

12 TEX. R. EVID. 503(a)(1).

13 TEX. R. EVID. 503(a)(2).

14 TEX. R. EVID. 503(a)(3).

15 TEX. R. EVID. 503(a)(4).

16 TEX. R. EVID. 503(a)(5).

5.03 and add the concept of "*unprivileged client information*," which is **all** information relating to a client acquired during the course of representation.[17]

Under Rule 1.05 of the Texas Disciplinary Rules, a lawyer is precluded from **knowingly** disclosing "confidential information" or using "confidential information" to the disadvantage of the client or for the advantage of the lawyer or for the advantage of a third person.[18] The Texas scienter requirement — "knowingly" – is not part of the ABA Model Rules of Professional Conduct.[19]

There are a few exceptions to this rule. Two major exceptions are that a lawyer may reveal "confidential information" when reasonably necessary to enforce a claim or establish a defense on behalf of the lawyer in a controversy between the lawyer and the client, and shall do so when necessary in order to prevent the client from committing a criminal or fraudulent act.[20]

D. Procedure for Asserting Privilege. Attorney-client privilege issues are raised when counsel for one party to a lawsuit serves a written discovery request[21] on counsel for an opposing party, or during testimony in a deposition or at trial, and the responding party desires to

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[17] Rule 1.05 of Texas Disciplinary Rules defines "*confidential information*" as follows:

> (a) "Confidential information" includes both "privileged information" and "unprivileged client information." "Privileged information" refers to the information of a client protected by the lawyer-client privilege of Rule 503 of the Texas Rules of Evidence or of Rule 503 of the Texas Rules of Criminal Evidence or by the principles of attorney-client privilege governed by Rule 501 of the Federal Rules of Evidence for United States Courts and Magistrates. "Unprivileged client information" means all information relating to a client or furnished by the client, other than privileged information, acquired by the lawyer during the course of or by reason of the representation of the client.

[18] Rule 1.05 (b) of Texas Disciplinary Rules provide as follows:

> (b) Except as permitted by paragraphs (c) and (d), or as required by paragraphs (e) and (f), a lawyer shall not knowingly:
>
> (1) Reveal confidential information of a client or a former client to:
>
> (i) a person that the client has instructed is not to receive the information; or
>
> (ii) anyone else, other than the client, the client's representatives, or the members, associates, or employees of the lawyer's law firm.
>
> (2) Use confidential information of a client to the disadvantage of the client unless the client consents after consultation.
>
> (3) Use confidential information of a former client to the disadvantage of the former client after the representation is concluded unless the former client consents after consultation or the confidential information has become generally know.
>
> (4) Use privileged information of a client for the advantage of the lawyer or of a third person, unless the client consents after consultation.

[19] *See* Rule 1.6 of the ABA Model Rules of Professional Conduct.

[20] Rule 1.05 (c) (5), (7) of Texas Disciplinary Rules.

[21] TEX. R. CIV. PROC. 192.7(a) defines written discovery to be "requests for disclosure, requests for production and inspection of documents and tangible things, requests for entry onto property, interrogatories, and requests for admission."

resist production on the grounds of privilege. The responding attorney claiming privilege may and should withhold production of the privileged materials, but must comply with the applicable Federal[22] or state procedures.[23] Failure to follow the prescribed procedures in withholding

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[22] Under the Federal rules, two procedures may be followed in resisting discovery of privileged documents. One procedure requires that the resisting party file with the court objections to requests for privileged information within the time allowed for the response to the discovery requests. *See Marx v. Kelly, Hart & Hallman, P.C.*, 929 F.2d 8, 10 (1st Cir. 1991). The party objecting to discovery on the basis of privilege must notify the other party that it is withholding materials, describing the nature of the documents, communications, or things not produced or disclosed in a manner that will enable other parties to assess the applicability of the privilege or protection, commonly referred as a privilege log. FED. R. EVID. 26(b)(5). After that, the party seeking discovery may file a motion to compel asking the court for an order compelling disclosure or discovery of privileged information or materials. Fed. R. Civ. Proc. 37(a).

Instead of filing an objection or alleging privilege resisting a discovery request, a party may file a motion for protective order seeking an order from the court narrowing the scope of discovery. Fed. R. Civ. Proc. 26(c).

Failure to comply with the above procedures in a timely manner results in a waiver of the responding party's objections and privileges. Fed. R. Civ. Proc. 33(b)(4); *Marx*, 929 F.2d at 12. Additionally, Fed. R. Civ. Proc. 26(g) provides that an attorney's signature on a discovery response or objection constitutes a certification that "to the best of the signor's knowledge, information, and belief, formed after a reasonable inquiry, the request, response, or objection is ... consistent with [the rules of procedure] and warranted by existing law or a good faith argument for the extension, modification, or reversal of existing law." If an attorney signs a discovery response which asserts a privilege to documents which is not consistent with the rules or warranted by the extension of law, the court can impose upon that attorney and/or the party on whose behalf the response or objection is made, an appropriate sanction.

[23] Under the Texas discovery rules, as amended effective January 1, 1999, a party resisting discovery based on privilege cannot object to discovery requests on that ground, but must follow the procedures set fourth in TEX. R. CIV. PROC. 193, although objecting on the ground of privilege does not waive privilege, as long as the procedures are properly complied with after the error of objecting is pointed out. Additionally, motions for protective orders may no longer preserve assertions of privilege if Rule 193 is not complied with. *But cf.* TEX. R. CIV. PROC. 192.6(a).

TEX. R. CIV. PROC. 193.3(a) provides that a party asserting a privilege may withhold the privileged document or information, and then must include in a response to the discovery request a statement that "(1) information or material responsive to the request has been withheld, (2) the request to which the information or material relates, and (3) the privilege or privileges asserted." Once the party seeking discovery receives this response, that party may serve a written request for a privilege log similar to its counterpart under the Federal rules.

This procedure is avoided for most documents and information in which a party claims the attorney-client privilege. TEX. R. CIV. PROC. 193.3 provides an exemption from compliance with this procedure for "privileged communications to or from a lawyer or lawyer's representative or a privileged document of a lawyer or lawyer's representative -- (1) created or made from the point at which a party consults a lawyer with a view to obtaining professional legal services from the lawyer in the prosecution or defense of a specific claim in the litigation in which discovery is requested, and (2) concerning the litigation in which the discovery is requested."

TEX. R. CIV. Proc. 193.3(d) provides a procedure to reclaim privileged documents inadvertently disclosed. The rule states that:

> A party who produces material or information without intending to waive a claim of privilege does not waive that claim under these rules or the Rules of Evidence if--within ten days or a shorter time ordered by the court, after the producing party actually discovers that such production was made--the producing party amends the response, identifying the material or information produced and stating the privilege asserted. If the producing party thus amends the response to assert a privilege, the requesting party must promptly return the specified material or information and any copies pending any ruling by the court denying the privilege.

production violates the attorney's ethical obligations[24] and can subject both the attorney and the client to sanctions.

III. A CONFIDENTIAL COMMUNICATION

In order for any communication, whether between attorney and client, physician and patient, clergy and penitent, or even husband and wife, to be privileged, the communication must be made privately.[25] This stems from the obvious concern that one ought not be to able to withhold relevant evidence from a court or other tribunal if it was never intended to be private in the first place.

A. Communication. The question of what constitutes a communication is not a particularly difficult one. It has been held that a "*communication*" for purposes of the privilege, includes both written and oral communications, as well as gestures, such as nodding, and even silence, where it serves to communicate. Lawyers, however, may be called upon to reveal observations that are not communicative, for example, the client's demeanor or appearance,[26] and to authenticate his signature[27] or the car he drives.[28]

B. Confidential. The Texas Rules of Evidence provide the following definition of "*confidential*":

> A communication is "confidential" if not intended to be disclosed to third persons other than those to whom disclosure is made in furtherance of the rendition of professional legal services to the client or those reasonably necessary for the transmission of the communication.[29]

After the responding party's assertion of privilege, the party seeking discovery has the burden to secure a hearing on the discovery dispute. *McKinney v. National Un. Fire Ins. Co.*, 772 S.W.2d 72, 75 (Tex. 1989).

TEX. R. CIV. PROC. 13 states that "[t]he signatures of attorneys constitute a certificate by them that they have read the pleading, motion, or other paper; that to the best of their knowledge, information, and belief formed after reasonable inquiry the instrument is not groundless and brought in bad faith or groundless and brought for the purpose of harassment." Rule 13 continues to define "groundless" to mean "no basis in law or fact and not warranted by good faith argument for the extension, modification, or reversal of existing law." If an attorney signs a discovery response which asserts a privilege to documents which is groundless, the court can impose an appropriate sanction upon the person who signed the discovery response as well as the party represented.

[24] The ABA Model Rules of Professional Conduct also contain rules relevant to the assertion of privilege. Rule 3.4 of the ABA Model Rules states that "[a] lawyer shall not: (a) unlawfully obstruct another party's access to evidence or unlawfully alter, destroy or conceal a document or other material having potential evidentiary value," or "(c) knowingly disobey an obligation under the rules of a tribunal except for an open refusal based on an assertion that no valid obligation exists." The assertion of a privilege which the attorney knows is not in good faith is clearly in violation of this ethical obligation.

[25] *See* TEX. R. EVID. 503(a)(5) (attorney-client privilege); TEX. R. EVID. 504(a) (spousal privilege); TEX. R. EVID. 505(a) (clergy communication privilege); TEX. R. EVID. 509(a)(3) (physician patient privilege).

[26] *In re Walsh*, 623 F.2d 489, 494 (7th Cir.), *cert. denied*, 449 U.S. 994 (1980).

[27] *In re Grand Jury Proceedings*, 791 F.2d 663, 665 (8th Cir. 1986).

[28] *United States v. Pape*, 144 F.2d 778, 782 (2d Cir.), *cert. denied*, 323 U.S. 752 (1944).

[29] TEX. R. EVID. 503(a)(5).

Generally speaking, therefore, the presence of third parties during the communication will destroy confidentiality. This does not, however, include those situations where the participants did not know that a communication was being overheard, so long as there was a reasonable expectation of privacy for the communication.[30] Communications made to counsel that are intended to be disclosed to others are not generally privileged.[31]

C. Electronic Communications. The privacy of communications has become an issue where attorney and client communicate via electronic mail, cellular phone and other devices that are susceptible to eavesdropping or interception. Much has been written about whether these communications should be considered private.[32] For the most part, because interception of these communications is illegal,[33] privacy is not destroyed by using them. The danger of interception, however, has caused some concern about the advisability of using these means when communicating confidential information.[34]

D. Privacy vs. Waiver. The privacy of the communication when made must be distinguished from waiver of a privilege by subsequent disclosure. A communication that was not confidential or private in the first place was never privileged. On the other hand, a communication that is private when made, but which is later disclosed, was privileged, but the privilege has been lost. Although perhaps a technical distinction in many circumstances, there are times when this difference is important. For example, if the privilege has attached but the communication is later disclosed, it may or may not constitute a waiver, depending upon to whom and how the disclosure is made. Also, some waivers can be rescinded by prompt action, whereas a communication that is not privileged cannot be transformed into a privileged communication.

E. Privilege for Communications, Not Facts. It is the communication that is privileged and not the facts communicated. As explained by the *Upjohn* Court:

> [T]he protection of the privilege extends only to *communications* and not to facts. A fact is one thing and a communication concerning that fact is an entirely different thing. The client cannot be compelled to answer the question, "What did

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30 *In re Grand Jury Subpoena Duces Tecum*, 112 F.3d 910, 923 (8th Cir. 1997). The court there distinguished between the client's reasonable mistake of fact as to who was listening and the client's mistake of law as to whether the privilege extends to third persons who are not the client's lawyers or their representatives. While the privilege is not defeated in the former circumstance, it does not attach in the latter.

31 *See, e.g., Clayton v. Canida*, 223 S.W.2d 264, 266 (Tex. Civ. App. — Texarkana 1949, no writ) (communications of information to be disclosed on income tax returns is not privileged); *League v. Galveston City Co.*, 192 S.W. 350, 353 (Tex. Civ. App. -- Galveston 1917, writ ref'd n.r.e.) (statements made in letter from client to attorney are not privileged where intended to be incorporated into interrogatory answers). *See also In re Grand Jury Proceedings*, 727 F.2d 1352, 1358 (4th Cir. 1984) (information conveyed to attorney for inclusion in prospectus is not privileged).

32 *See, e.g.*, David Hricik, *Confidentiality and Privilege in High-Tech Communications*, 60 TEX. BAR J. 104 (1997); Stuart J. Chanen, *"Return to Sender" Won't Cut It*, A.B.A. J. 85 (March 1998).

33 *See generally* Hricik, *supra* note 32 (collecting statutes).

34 *See generally* Joan C. Rogers, *Ethics, Malpractice Concerns Cloud E-mail, On-Line Advice*, ABA/BNA MANUAL ON PROF. CONDUCT (March 6, 1996).

> you say or write to the attorney?" but may not refuse to disclose any relevant fact within his knowledge merely because he incorporated a statement of such fact in his communication to his attorney.[35]

A client does not protect information when he communicates it to his lawyer, but rather only protects the substance of the communication itself. This rule also applies generally to documents and other tangibles transmitted from clients to attorneys.[36] But facts intermingled in the communication are as protected as the legal advice itself.[37] Factual information, standing alone, is not privileged and is discoverable from either the client or the attorney.[38]

IV. BETWEEN OR AMONG ATTORNEY AND CLIENT

A. Persons Whose Communications May Be Privileged. The Texas Rules of Evidence broadly categorize the people between or among whom communications must be made in order to be privileged. These categories have been quoted above.[39] Before these categories can be applied with any degree of precision, however, one must understand the definitions of "*lawyer*," "*representative of the lawyer*," "*client*," and "*representative of the client*." These definitions are set forth in Rule 503 and will be discussed in turn. Only the last of these definitions carries any complexity or controversy.

A "*lawyer*" is defined as "a person authorized, or reasonably believed by the client to be authorized, to engage in the practice of law in any state or nation."[40] There are two important observations about this definition. First, it is based on the client's reasonable expectation, and not reality, insofar as it applies to communications made even to non-lawyers if the client believed the person to be an attorney.[41] Second, the lawyer need not be actively engaged in the practice of law, and need not be licensed in the jurisdiction in which the communication occurs.[42]

A "representative of the lawyer" is defined as:

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35 *Upjohn*, 449 U.S. 383, 395-96 (1981) (citations omitted; emphasis original).

36 *Methodist Home v. Marshall*, 830 S.W.2d 220 (Tex. App. —Dallas 1992, no writ). *See also MortgageAmerica Corp. v. American Nat'l Bank*, 651 S.W.2d 851, 858 (Tex. App. — Austin 1983, writ ref'd n.r.e.) (distinguishing documents drafted for the purpose of obtaining counsel or legal advice, which would be privileged).

37 *Marathon Oil Co. v. Moye*, 893 S.W.2d 585 (Tex. App. — Dallas 1994, no writ).

38 *Huie v. DeShazo*, 922 S.W.2d 920, 923 (Tex. 1996).

39 *See* text accompanying footnote 10.

40 TEX. R. EVID. 503(a)(3).

41 *See United States v. Boffa*, 513 F. Supp. 517, 523-25 (D.Del. 1981), *modified on other grounds*, 688 F.2d 919 (3d Cir. 1982), *cert. denied*, 460 U.S. 1022 (1983). The court noted that a "respectable degree of precaution" must have been exercised by the client in retaining the presumed lawyer.

42 *See Renfield Corp. v. E. Remy Martin & Co., S.A.*, 98 F.R.D. 442 (D.Del. 1982) (holding that in-house counsel based in France constituted a "lawyer" where communications were made from the United States); *Georgia-Pacific Plywood Co. v. United States Plywood Corp.*, 18 F.R.D. 463 (S.D.N.Y. 1956) (recognizing a privilege for communications with corporate counsel who cannot be expected to be licensed in every state in which the corporation has litigation).

> (A) one employed by the lawyer to assist the lawyer in the rendition of professional legal services; or
>
> (B) an accountant who is reasonably necessary for the lawyer's rendition of professional legal services.[43]

This definition accommodates the fact that a lawyer often requires assistance, from clerical help to experts, in order to render legal advice to a client. It is generally held that communications to, with or among such representatives are privileged.[44]

The definition of "*client*" is sufficiently broad to recognize that clients may take a variety of forms. The definition includes

> a person, public officer, or corporation, association, or other organization or entity, either public or private, who is rendered professional legal services by a lawyer, or who consults a lawyer with a view to obtaining professional legal services from that lawyer.[45]

The definition explicitly, therefore, applies to corporations and other business entities.

B. "Representative of the Client": "Subject Matter" vs. "Control Group" Tests. The definition of "*representative of the client*," as applied to the corporate[46] client, determines which employees can communicate with the corporation's lawyer in a manner that is privileged. In recent years this definition has been the source of much controversy. Indeed, that controversy led to an amendment to the Texas Rules of Evidence in 1998, which essentially legislatively overruled the definition previously applied by Texas courts. In order to understand the importance of the change, some historical perspective is appropriate.

It has long been recognized that a corporation enjoys the status of client and may invoke the attorney-client privilege.[47] It also has been recognized, though, that a corporation may only act through its agents. This inevitably led to the question of which of a corporation's agents, from the lowliest employee to the highest level officer, constituted "representatives" of the client for purposes of the attorney-client privilege. From the outset, courts focused on two possible tests. The first test was the "*subject matter*" test. Under this test,

> an employee's statement is deemed to be that of the corporation if:
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> > the employee makes the communication at the direction of his superiors in the corporation and where the subject matter upon

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43 TEX. R. EVID. 503(a)(4).

44 *See* J. WEINSTEIN & M. BERGER, WEINSTEIN'S EVIDENCE, § 503(a)(3)[01] (1993).

45 Tex. R. Evid. 503(a)(1).

46 For ease of reference, this paper shall refer only to corporations, but, unless otherwise indicated, the discussion applies generally to other business entities.

47 *See, e.g., Radiant Burners, Inc. v. American Gas Ass'n*, 320 F.2d 314, 322-23 (7th Cir. 1963).

> 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.[48]

The second test is the "*control group*" test. Under the control group test,

> a corporation could claim the attorney-client privilege only as to statements made by employees "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."[49]

The Federal courts, which have no codified attorney-client privilege, were split on which test to follow until the Supreme Court decided the landmark case of *Upjohn Co. v. United States*.[50]

The *Upjohn* case arose out of Upjohn's internal investigation into payments made to foreign officials in order to secure government business. These payments, which might more appropriately be called "kickbacks," exposed the company to increased tax liability, and it was the company that brought the issue to the attention of both the Securities and Exchange Commission (*"SEC"*) and the Internal Revenue Service (*"IRS"*). In response, the IRS issued a subpoena seeking documents related to the internal investigation, including questionnaires that had been completed by company employees and submitted to its in-house and outside counsel for their consideration. The company declined to produce the questionnaires on the basis of the attorney-client privilege, and the IRS sought to enforce the subpoena.

In considering the question of whether the privilege attached, the U.S. Supreme Court reiterated the longstanding veneration for the attorney-client privilege.[51] The Court likewise noted that communications from the attorney to the client are no more important than communications from the client to the attorney, where the latter communications provide the attorney with the requisite knowledge and context on which to base his legal advice.[52] In recognition of this, the Court embraced the subject matter test for the Federal common law attorney-client privilege. According to the Court,

> The control group test . . . frustrates the very purpose of the privilege by discouraging the communication of relevant information by employees of the client to attorneys seeking to render legal advice to the client corporation. The attorney's advice will also frequently be more significant to noncontrol group members than to those who officially sanction the advice, and the control group

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48 *National Tank Co. v. Brotherton*, 851 S.W.2d 193, 198 (Tex. 1993) (quoting *Harper & Row Pubs., Inc. v. Decker*, 423 F.2d 487 (7th Cir. 1970), *aff'd per curiam by an equally divided court*, 400 U.S. 348 (1971)).

49 *Id.* at 197 (quoting *General Elec. Co. v. Kirkpatrick*, 312 F.2d 742 (3d Cir. 1962), *cert. denied*, 372 U.S. 943 (1963)).

50 449 U.S. 383 (1981).

51 *Id.* at 387.

52 *Id.* at 390-91.

> test makes it more difficult to convey full and frank legal advice to the employees who will put into effect the client corporation's policy.[53]

Thus, the Supreme Court rejected the control group test and embraced the subject matter test.

When faced with the same dilemma, the Texas Supreme Court in *National Tank Co. v. Brotherton* was led to a different conclusion.[54] In that case, which like *Upjohn* arose out of an internal investigation directed by counsel, the Texas Supreme Court engaged in little analysis of the respective virtues of the two possible tests. Rather, the Court concluded that it was bound by the Texas Rules of Civil Evidence to apply the "control group" test, to the extent that it was then embodied in Rule 503 ("*Old Rule 503"*).[55] "In deciding this cause," the Supreme Court wrote, "we are not free to choose one [test] over the other. [Old Rule] 503, which was promulgated in November 1982, almost two years after the *Upjohn* decision, clearly adopts the control group test."[56]

The control group test imposed upon corporations a significant burden to monitor discussions between and among all employees other than senior management and counsel. When the control group test is operative and absent the applicability of some other privilege, communications between such employees and counsel for the corporation, whether in-house or outside, would not be privileged, the attorney's notes could be discovered, and both the attorney and the employees could be required to testify about their communications, unless another privilege were available.[57] The exclusion of these employees from interface with counsel had at least three serious consequences: (1) the employees did not have the benefit of interaction with counsel in dealing with the problem, (2) counsel were limited in access to these employees in the dialogue that leads to the formulation of the best legal advice, and (3) management would be receiving legal advice which might not be based on the best factual predicate. One commentator has gone so far as to conclude that, practically speaking, a corporation has no attorney-client privilege under the control group test.[58]

This was a situation needing remediation, and once again the Texas Business Law Foundation ("*TBLF"*)[59] came to the rescue by proposing a legislative solution. In the 75th Session of the Texas Legislature which adjourned *sine die* on June 2, 1997, the TBLF caused to be introduced legislation that sought to disapprove Old Rule 503's "control group" test and

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53 *Id.* at 392.

54 851 S.W.2d 193 (Tex. 1993).

55 *Id.* at 197 (quoting TEX. R. CIV. EVID. 503(a)(2) (repealed)).

56 *Id.* at 198.

57 *See* Section VIII. Work Product Privilege *infra*.

58 Cullen M. Godfrey, *The Revised Attorney-Client Privilege for Corporations in Texas*, 30 TEXAS TECH LAW REVIEW 139, 144 (1999).

59 The Texas Business Law Foundation is a non-profit corporation organized in 1988 and supported by businesses, professional firms and individuals throughout Texas. The TBLF's objective is to help create a favorable business climate in Texas through the maintenance of a modern system of business laws. The TBLF encourages the drafting of legislation to cure particular problems, monitors state legislative and administrative proposals of interest to TBLF members, and endorses or opposes those proposals.

replace it with a "subject matter" test, for determining the availability of the attorney-client privilege.[60] The legislation did not pass, but it opened the doors to communications that led to the Supreme Court's decision to amend Old Rule 503 to replace its "control group" test with a "subject matter" test.[61]

C. New Texas Rule 503. Effective March 1, 1998, the Texas Rules of Civil Evidence were repealed and replaced with the new Texas Rules of Evidence. Among other changes found in the new rules is a modification to the definition of "representative of the client." The new definition is in current Rule 503 and provides as follows:

> A "*representative of the client*" is:
>
> (A) a person having authority to obtain professional legal services, or to act on advice thereby rendered, on behalf of the client, or
>
> (B) any other person who, for the purpose of effectuating legal representation for the client, makes or receives a confidential communication while acting in the scope of employment for the client.[62]

As explained in the comment to the 1998 change: "The addition of subsection (a)(2)(B) adopts a subject matter test for the privilege of an entity, in place of the control group test previously used."[63] The significance of this change is that a lawyer representing a corporate client can now communicate with any employee of the client — from janitor to chief executive officer — with confidence that the attorney-client privilege will be available if the other requirements for the privilege are met.

Subsection (a)(2)(A) retains the control group test, which means that the privilege will be available in Texas if either the control group or the subject matter test is satisfied. Arguably, the decision by the Texas Supreme Court to retain the "control group" test, while simultaneously adopting the "subject matter" test, was made to expand the scope of the attorney-client privilege in the corporate context.

D. Derivative Actions. There is a further consideration with respect to the definition of representative of the client that is pertinent to this discussion: whether a shareholder or a partner may compel disclosure of privileged matters on the theory that he is the "client" or at least a "representative of the client." The leading shareholder case on this issue is *Garner v. Wolfinbarger*.[64] In that case, the Fifth Circuit concluded that a shareholder maintaining a derivative action may have access to privileged matters if he can show "good cause." The court set forth the circumstances by which good cause is to be judged, which include such factors as,

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60 Cullen M. Godfrey, *The Revised Attorney-Client Privilege for Corporations in Texas*, 30 TEXAS TECH LAW REVIEW 139, 150 (1999).

61 *Id.*; 26 Tx. B. J. 1129 (Dec. 1997).

62 TEX. R. EVID. 503(a)(2).

63 TEX. R. EVID. 503, comment to 1998 change.

64 430 F.2d 1093 (5th Cir. 1970), *cert. denied*, 401 U.S. 974 (1971).

the number of shareholders involved, the percentage of ownership they represent, the nature of the claim being made and the allegations made against the corporate officers, and similar concerns.[65] The *Garner* doctrine has been followed by some courts,[66] but has been rejected as unnecessary by other courts, especially in light of the other exceptions to the attorney-client privilege, most notably the crime/fraud exception.[67] In the partnership context, the courts have consistently held that the attorney-client privilege may not be used to deny a partner the right to inspect partnership records.[68]

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65 *Id.* at 1103-04.

66 *In re Fuqua Industries, Inc. Shareholders Litigation*, Civ. Act. No. 11974, Del. Ch. May 2, 2002 (in the context of a derivative claim arising out of the Fuqua directors' decision to except its principal shareholder from Delaware General Corporation Law § 203 (which restricts certain transactions with a 15% shareholder) and to authorize the repurchase of Fuqua shares allegedly for the purpose of enhancing the principal shareholder's control without paying a change in control premium and entrenching the directors, Chancellor Chandler wrote *Garner* requires "mutuality of interest between the parties" at the time of the disputed communication; "because the director is obligated to act in the best interests of the corporation and its shareholders, there is a mutuality of interest among the director, the corporation and the shareholders when such legal advice is sought . . . upon a showing of good cause, the attorney-client privilege does not attach to prevent a plaintiff-shareholder – for whose ultimate benefit that advice was sought – from discovering the contents of the communication . . . when the interests of the fiduciary diverge, however, there is no longer a mutuality of interest and a *Garner* analysis is not appropriate . . . that divergence must necessarily occur when the parties can reasonably anticipate litigation over a particular action"; "there is no *Garner* exception to the work product privilege"); *Deutsch v. Cogan*, 580 A.2d 100, 108 (Del. Ch. 1990) ("A fiduciary owes an obligation to his beneficiaries to go about his duties without obscuring reasons from the legitimate inquiries of the beneficiaries"); *cf. Commodity Futures Trading Comm'n v. Weintraub*, 471 U.S. 343, 348 (1985).

67 *See, e.g., Shirvani v. Capital Investing Corp.*, 112 F.R.D. 389, 390 (D. Conn. 1986).

68 The courts that have considered the question whether a general partner may shield documents from its limited partner have consistently held that it cannot. *See Roberts v. Heim*, 123 F.R.D. 614, 625 (N.D. Cal. 1988) (limited partners of a partnership sued the partnership's general partners and its law firm to compel production of certain documents the defendants claimed were privileged; rejecting the defendant's argument that, for purposes of the attorney-client privilege, the law firm's clients were the general partners, the court held that the limited partners were clients of the law firm and were entitled to inspect all of the partnership's records, <u>including</u> the documents generated by and sent to the partnership's attorneys); *McCain v. Phoenix Resources, Inc.*, 230 Cal. Rptr. 25, 26-28 (Cal. Ct. App. 1986) (court concluded that "a limited partner has the right to inspect all documents and papers affecting the partnership, including those held by the partnership's attorney;" while recognizing that the attorney-client privilege could be asserted as to records relating to the "purely private or personal interest" of one of the partners, the court held the privilege would not bar disclosure of matters related to a partnership business "simply because such business was conducted through a law firm"); *Wortham & Van Liew v. Superior Court*, 233 Cal. Rptr. 725, 728 (Cal. Ct. App. 1987) (the court framed the issue as whether "the attorney for the partnership [could] withhold from a partner important information received from another partner concerning partnership transactions claiming the information is confidential under the attorney-client privilege," held that "[a]ll partners are entitled to access to a wide range of partnership information, whether or not that information is generated under the aegis of the partnership's attorney," and ordered the attorney to "divulge <u>all</u> partnership information to <u>all</u> partners"); *Abbott v. The Equity Group*, 1988 WL 86826 (E.D. La. 1988) ("We begin by stating that a member of a partnership is entitled to disclosure of communications to and from an attorney representing the partnership in connection with partnership matters. Because of the relationship existing between partners in the creation of a partnership, which we view as stronger than that existing between stockholder and corporation, we conclude that the bar preventing disclosure of attorney communications, as between partners, is not simply relaxed, but non-existent. Partners therefore need not establish "cause" to discover privileged communications of an attorney in matters in which the partnership, of which they are members, is the client"); *Adell v. Somers*, 428 N.W.2d 26 (Mich. App. 1988) (limited partner is "client" of partnership's law firm and has standing to assert malpractice claim against attorney); *Bronson v. Superior Court*, 29 Cal. Rptr. 2d 268 (Cal. Ct. App. 1994) (because of mere

V. FOR THE PURPOSE OF LEGAL ADVICE

A. Legal Advice Purpose. At the heart of the privilege is the notion that communications are privileged in order to facilitate the delivery of legal advice. The privilege necessarily has encompassed communications that actually constitute legal advice as well as communications made for the purpose of seeking, obtaining or facilitating the rendition of legal advice. But the privilege does not protect all communications to or from an attorney.[69] Accordingly, sending copies of documents to an attorney or including an attorney in a meeting will not automatically trigger the privilege.[70] It is only where the attorney is acting in his capacity as an attorney, that is, as a legal adviser, that the privilege is applicable.[71]

B. Dual Roles. In many circumstances, especially for in-house counsel, the determination of whether an attorney is acting in his capacity as a legal adviser, or in some other role, will be difficult. The difficulty may be increased when the attorney (whether in-house or outside counsel) also serves as a director of the corporation, because business advice is not privileged.[72]

ABA Formal Opinion 98-410 holds that a lawyer may serve as a director of client-business entities provided the following precautions are taken:

> The Committee acknowledges that lawyers will continue to be asked and many will accept engagements as directors of client business entities and that it is not

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"potential presence of implied attorney-client duties," limited partner is entitled to production of documents concerning partnership business over privilege objection); *but see Continental Ins. Co. v. Rutledge & Co., Inc.*, 1999 WL 66528 (not reported in A.2nd) (Del. Ch. Jan. 26, 1999) (in dispute between general and limited partners over whether limited partners had right to withdraw from partnership pursuant to partnership agreement, limited partners sought to compel production by general partner of documents containing legal advice regarding the formation and internal affairs of the partnership; the Delaware Chancery Court found an absence of Delaware precedent and followed the Fifth Circuit's corporate derivative action holding in *Garner v. Wolfinbarger* that allowed production upon a showing of "good cause" and the existence of a mutuality of interest between the parties; the required mutuality of interest was found lacking as to advice in connection with the formation of the partnership and after a dispute had arisen between the parties over the withdrawal issue that was the subject of the litigation).

69 *See Thacker v. State*, 852 S.W.2d 77 (Tex. App. — Austin 1993, writ denied).

70 *See, e.g., U.S. Postal Serv. v. Phelps Dodge Ref. Corp.*, 852 F. Supp. 156, 163-64 (E.D.N.Y. 1994) (stating that "[a] corporation cannot be permitted to insulate its files from discovery simply by sending a 'cc' to in-house counsel"); *International Tel. & Tel. Corp. v. United Tel. Co. of Fla.*, 60 F.R.D. 177, 185 (M.D. Fla. 1973) (finding that "the mere attendance of an attorney at a meeting, even where the meeting is held at the attorney's instance, does not render everything done or said at that meeting privileged").

71 *See USA v. Ackert*, 169 F.3d 136 (2nd Cir. 1999) (attorney functioning as investment banker for Goldman Sachs & Co. provided information as to tax implications of a proposed transaction to tax counsel for Paramount; recognizing that attorney-client privilege applies only to communications between an attorney and his client, court held that the attorney at Goldman Sachs was not functioning as an attorney and that the attorney-client privilege was not applicable even though the communication did assist Paramount's attorney in representing his client); *Teltron, Inc. v. Alexander*, 132 F.R.D. 394 (E.D. Pa. 1990).

72 Harris and Valihura, *Outside Counsel as Director: The Pros and Potential Pitfalls of Dual Service*, 53 The Business Lawyer 479, 483-89 (Feb. 1998).

unethical for them to do so. It nevertheless is essential that lawyer-directors and their clients continue to be sensitive to the issues discussed in this opinion.

Though a lawyer serving in the dual role of corporate counsel and director is not subject to discipline absent a violation of a specific Rule, the following suggestions . . . should help to avoid a disciplinary infraction. The lawyer-director should:

1. Reasonably assure that management and the board of directors understand (i) the different responsibilities of legal counsel and director; (ii) that when acting as legal counsel, the lawyer represents only the corporate entity and not its individual officers and directors; and (iii) that at times conflicts of interest may arise under the rules governing lawyers' conduct that may cause the lawyer to recuse herself as a director or to recommend engaging other independent counsel to represent the corporation in the matter, or to serve as co-counsel with the lawyer or her firm.

2. Reasonably assure that management and the board of directors understand that, depending upon the applicable law, the attorney-client evidentiary privilege may not extend to matters discussed at board meetings when the lawyer-director is not acting in her corporate counsel role and when other lawyers representing the corporation are not present in order to provide legal advice on the matters.

3. Recuse herself as a director from board and committee deliberations when the relationship of the corporation with the lawyer or her firm is under consideration, such as issues of engagement, performance, payment or discharge.

4. Maintain in practice the independent professional judgment required of a competent lawyer, recommending against a course of action that is illegal or likely to harm the corporation even when favored by management or other directors.

5. Perform diligently the duties of counsel once a decision is made by the board or management, even if, as a director, the lawyer disagrees with the decision, unless the representation would assist in fraudulent or criminal conduct, self-dealing or otherwise would violate the Model Rules.

6. Decline any representation as counsel when the lawyer's interest as a director conflicts with her responsibilities of competent and diligent representation, for example, when the lawyer is so concerned over her personal liability as a director resulting from the course approved by management or the board that her representation of the corporation in the matter would be materially and adversely affected.[73]

[73] ABA Formal Opinion 98-410 (February 1998).

C. Predominate Purpose. No bright-line tests have been developed for determining whether the attorney is acting as a legal advisor, and Texas has only one reported decision on the issue. In *In re Texas Farmers Insurance Exchange*,[74] the Texarkana Court of Appeals held that communications between an insurance company and an attorney conducting for it a routine investigation of a fire of suspicious origin to determine whether a claim should be paid were not privileged because the attorney was not functioning as such at the time of the communications and the communications concerned bare facts, but that the privilege would apply to communications with the attorney concerning legal strategy, assessments and conclusions.

There are numerous cases from other jurisdictions that also provide guidance, although it is less than clear. Most courts have stated that, for a communication to be privileged, the lawyer must be acting "primarily" or "predominantly" as a lawyer,[75] although business advice may be intermingled with the legal advice and still be privileged.[76] One court defined "primarily legal" as requiring a showing that the communication "would not have been made but for the corporation's need for legal advice or services."[77] Another court has stated that the "critical inquiry is whether, viewing the lawyer's communication in its full content and context, it was made in order to render legal advice or services to the client."[78] By contrast, another court has held that legal advice may not be privileged if it is only incidental to business advice.[79]

Attorneys and clients recognize that statements made by an attorney to his client's adversary in a negotiation are not privileged, but would expect that private communications between attorney and client in respect of the negotiation would be privileged. Many courts, however, have held that a lawyer conducting negotiations is not acting in a legal capacity and his communications and advice to his client, therefore, are not privileged.[80] Undoubtedly, the notion that a negotiating lawyer is not acting in a legal capacity is surprising and alarming to all lawyers, not just to corporate counsel. The courts that have so held generally base their decision on the idea that the negotiation involves business judgment, not legal judgment. Fortunately, some courts have been more painstaking in their analysis and have concluded that the negotiation did, in fact, involve a preponderance of legally significant issues, and therefore, was a privileged act. In *Note Funding Corp. v. Bobian Investment Co.*,[81] the court reasoned that "[i]f the attorney's advice is sought, at least in part, because of his legal expertise and the advice rests

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74 1999 WL 74099 (Tex. Civ. App. - Texarkana Feb. 18, 1999).

75 *See, e.g., Sedco Int'l. S.A. v. Cory*, 683 F.2d 1201, 1205 (8th Cir.), *cert. denied*, 459 U.S. 1017 (1982) ("primarily"); *Arcuri v. Trump Taj Mahal Assocs.*, 154 F.R.D. 97, 102 (D.N.J. 1994) ("primarily"); *Zenith Radio Corp. v. Radio Corp. of Am.*, 121 F. Supp. 792, 794 (D. Del. 1954) ("predominantly").

76 *See Pittsburgh Corning Corp. v. Caldwell*, 861 S.W.2d 423 (Tex. App. — Houston [14th Dist.] 1993, no writ) (holding that the court was without authority to order privileged legal advice, opinions, or mental analysis in documents redacted and remainder produced).

77 *Leonen v. Johns Manville*, 135 F.R.D. 94, 99 (D.N.J. 1990).

78 *Spectrum Sys. v. Chemical Bank*, 581 N.E.2d 1055, 1061 (N.Y. 1991).

79 *United States v. IBM*, 66 F.R.D. 206, 210 (S.D.N.Y. 1974).

80 *See, e.g., United States v. Wilson*, 798 F.2d 509 (1st Cir. 1986); *Georgia-Pacific Corp. v. GAF Roofing Mfg. Corp.* 1996 WL 29392 (S.D.N.Y. 1996); *J.P. Foley & Co. v. Vanderbilt*, 65 F.R.D. 523 (S.D.N.Y. 1974).

81 No. 93 CIV. 7427 (DAB), 1995 WL 662402 (S.D.N.Y. Nov. 9, 1995).

"predominantly" on his assessment of the requirements imposed, or the opportunities offered, by applicable rules of law, he is performing the function of a lawyer."[82] This idea is often referred to as "predominant purpose" test.[83] Unfortunately, there are no bright line rules to identify the precise degree of legal advice necessary to satisfy the predominant purpose test.

D. Internal Investigations. It is no coincidence that the two landmark cases on attorney-client privilege, *Upjohn* and *National Tank*, arose out of internal investigations conducted by legal counsel. These types of investigations have been particularly troublesome. The adoption of the subject matter test does not eliminate the difficulty of determining whether communications made during an internal investigation are privileged. Most courts agree in principle that an investigation conducted by counsel for the purpose of rendering legal advice is privileged. Generally speaking, though, the fact that a lawyer is involved in an investigation does not, standing alone, render the privilege applicable. However, determining whether an investigation is conducted for that purpose, or some other, can be difficult.

There are a number of cases involving the application of the attorney-client privilege[84] to investigations conducted by counsel. In *Upjohn*, the privilege was held applicable when the investigation was conducted by "counsel for Upjohn acting as such, at the direction of corporate superiors in order to secure legal advice from counsel."[85] The Supreme Court quoted from the findings of the magistrate, who found:

> "[Counsel] consulted with the Chairman of the Board and outside counsel and thereafter conducted a factual investigation to determine the nature and extent of the questionable payments *and to be in a position to give legal advice to the company with respect to the payments*."[86]

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82 *Id.* at 6.

83 *See, e.g. McCormick, Barstow, Shepheer, Wayte & Carruth v. Superior Court*, Cal. Court. App. 5th Dist. No. F029503 (1998) (internal memos prepared by law firm in anticipation of becoming a defendant in a malpractice case held not privileged).

84 Other privileges, more appropriate to rely upon, are often implicated, but are not discussed here. These might include the work product doctrine and the party communication privilege. There is no general "privilege of self-critical analysis" applicable to compliance manuals, internal audit findings, outside accountants' reports, management letters, and an outside accounting firm's review of internal controls and compliance. *See Dowling v. American Hawaii Cruises, Inc.*, 971 F.2d 423, 425-26 (9th Cir. 1992) (no protection for routine internal safety reviews prior to the accident); Note, *The Privilege of Self-Critical Analysis*, 96 HARV. L.R. 1083 (1983). *But see In re Crazy Eddie Securities Litigation*, 792 F. Supp. 197, 205-06 (E.D.N.Y. 1992) (accounting firm's internal review of its audit, peer review report and letter of comments on internal quality controls protected). The Texas Legislature has recognized the value of critical self evaluation in certain areas when it adopted the Environmental, Health, and Safety Audit Privilege Act which appears at Tex. Rev. Civ. Stat. Ann. art. 4447cc (Vernon 1998); other states have similar statutes but the Environmental Protection Agency does not recognize the privilege. *See* Egan, *Miscellaneous Updates--"Ten Other Laws You Should Know About"*, State Bar of Texas Professional Development Legislative Update Institute (Sept. 1995).

85 *Upjohn*, 449 U.S. at 394.

86 *Id.* (emphasis original).

By contrast, the court in *Mission Nat'l Ins. Co. v. Lilly*[87] found the results of an investigation conducted by outside counsel not privileged. There, the outside lawyers were hired by an insurance company "as a matter of course to conduct its claims adjustment investigations in a geographic area including Minnesota for all claims exceeding $25,000."[88] Thus, the court concluded that the lawyers were simply performing the business function of claims investigation, as opposed to any legal function.[89]

The touchstone of an investigation that constitutes an attorney-client privileged exercise seems to be the attorney's role as legal adviser. Where the investigation truly can be shown to have been conducted for the purpose of collecting the data necessary to render legal advice, then communications made during the investigation will be deemed privileged.[90] On the other hand, when a lawyer is used merely in the hope that the investigation will be privileged, most courts will not so find.[91] The safest practice is to document the reason for conducting the investigation, and include in all written communications some prefatory notation regarding the purpose for the communication along with the requirement that it be kept confidential.[92]

E. "Privileged Communication" Legends. It is good and common practice to affix to documents intended to be privileged a conspicuous legend to that effect, such as the following:

"CONFIDENTIAL ATTORNEY WORK PRODUCT
SUBJECT TO ATTORNEY-CLIENT PRIVILEGE"

The placing of such a conspicuous legend on a document that it is intended to be privileged is not determinative of whether a privilege exists. The legend, however, helps litigators recognize where to claim privilege. Further, it gives them something to point out to the judge as manifesting intent that the legended document be kept confidential and privileged. In the event of inadvertent disclosure, and an opponent's assertion that any privilege has been waived, the legend can be pointed to as a reasonable precaution taken (albeit perhaps unsuccessfully) to maintain the confidentiality of the communication.[93]

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87 112 F.R.D. 160 (D. Minn. 1986).

88 *Id.* at 162.

89 *See also In re Texas Farmers Insurance Exchange*, 990 S.W.2d 337 (Tex. App. - Texarkana 1999, no pet.) (communications between insurance company and an attorney functioning as an investigator were not privileged because the attorney was not functioning as such at the time of the communications).

90 *See, e.g., In re LTV Securities Lit.*, 89 F.R.D. 595 (N.D. Tex. 1981); *Spectrum Systems Int'l Corp. v. Chemical Bank*, 581 N.E.2d 1055 (N.Y. 1991).

91 *But see Diversified Indus., Inc. v. Meredith*, 572 F.2d 596 (8th Cir.), *rev'd on reh'g en banc*, 572 F.2d 609 (8th Cir. 1978) (finding that use of an attorney is prima facie evidence of privilege).

92 *E.g.* "This interview is conducted by counsel for XYZ, Inc. for the purpose of ascertaining facts needed in order to render legal advice to XYZ, Inc. This document is a confidential, attorney-client privileged communication; the contents of this document should not be disclosed other than to [insert names or titles]." In addition, inclusion of statements relevant to showing work product also might be helpful. *E.g.* "This document is prepared by counsel in anticipation of litigation for the purpose of facilitating the defense or prosecution of litigation."

93 *See* Section VI.B Waiver – Inadvertent Disclosure *infra*.

F. Generally Unprivileged Items. Consistent with the idea that the communication must be for the purpose of rendering or facilitating legal advice, various types of information relating to the attorney-client relationship or otherwise in the possession or knowledge of the attorney are not considered privileged. These include the identity of the client,[94] fee arrangements,[95] factual circumstances surrounding the communication,[96] and billing statements.[97]

VI. WAIVER

A. Generally. It is elementary that the privileged nature of an attorney-client communication must be preserved. Waiver will, at least partially if not totally, vitiate the privilege. There are a variety of ways in which the privilege may be waived.[98] The Texas Rules of Evidence provide the circumstances under which waiver occurs. For purposes of this discussion, the usual instance of waiver is when

> the person or a predecessor of the person while holder of the privilege voluntarily discloses or consents to disclosure of any significant part of the privileged matter unless such disclosure itself is privileged.[99]

Thus the question of waiver focuses not on inadvertent disclosure, but on the voluntariness of the disclosure.

B. Inadvertent Disclosure. The leading case on waiver in Texas is *Granada Corp. v. First Court of Appeals*,[100] where the Court found that an inadvertent disclosure was "voluntary" in light of the relevant factors. These factors were explained as:

(1) The precautionary measures taken to avoid inadvertent disclosure, including whether the disclosing party employed "efforts reasonably calculated to prevent the disclosure";[101]

(2) The delay in rectifying the error once disclosure was discovered;[102]

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94 *See In re Grand Jury Subpoena Served upon Doe*, 781 F.2d 238 (2d Cir.) (en banc), *cert. denied sub nom., Roe v. United States*, 475 U.S. 1108 (1986); *Humphreys, Hutcheson and Mosely v. Donovan*, 755 F.2d 1211 (6th Cir. 1985). *But see In re Grand Jury Proceedings (Jones)*, 517 F.2d 666 (5th Cir. 1975) (identity protected to the extent it constitutes last link to inculpate client).

95 *See In re Two Grand Jury Subpoenae Duces Tecum*, 793 F.2d 69 (2d Cir. 1986).

96 *See Condon v. Petacque*, 90 F.R.D. 53 (N.D. Ill. 1981).

97 *See Clarke v. American Commerce Nat'l Bank*, 974 F.2d 127 (9th Cir. 1992).

98 *See, e.g., United States v. El Paso Co.*, 682 F.2d 530, 540-41 (5th Cir. 1982), *cert. denied*, 466 U.S. 944 (1984) (disclosure to outside auditors of internal tax analysis in which attorneys participated constituted waiver of privileges); *In re John Doe Corp.*, 675 F.2d 482, 488-89 (2nd Cir. 1982) (disclosure of internal report to outside auditors and underwriters constituted waiver of the privilege).

99 TEX. R. EVID. 511(1).

100 844 S.W.2d 223 (Tex. 1992).

101 *Id.* at 226.

(3) The extent of the disclosure;[103] and,

(4) The scope of the discovery.[104]

The burden rested upon the party seeking to claim the privilege to demonstrate that the *Granada* factors[105] militate in favor of involuntariness.[106]

Rule 193.3(d) was adopted effective January 1, 1999 to provide that a party inadvertently producing privileged documents during discovery may "re-claim" the privilege within 10 days of discovering the production (or such shorter period of time ordered by the court) if he amends his discovery responses and asserts the privilege.[107] Then the party who received the documents must return them, pending a ruling by the court on the claimed privilege. This is a significant change from prior law, under which the receiving party had no obligation to return the documents or even refrain from using them.

C. Ethical Considerations. The Texas Supreme Court recently explained the ethical duties incumbent upon a lawyer who receives obviously privileged material. In *In re Meador*,[108] the Court adopted the standard enunciated in ABA Formal Opinion 94-382, as follows:

> A lawyer who receives on an unauthorized basis materials of an adverse party that she knows to be privileged or confidential should, upon recognizing the privileged or confidential nature of the materials, either refrain from reviewing such materials or review them only to the extent required to determine how appropriately to proceed; she should notify her adversary's lawyer that she has such materials and should either follow instructions of the adversary's lawyer with respect to the disposition of the materials, or refrain from using the materials until a definitive resolution of the proper disposition of the materials is obtained from a court.[109]

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102 *Id.*

103 *Id.*

104 *Id.*

105 The Fifth Circuit follows *Granada* but also considers a fifth factor, namely, "the overriding issue of fairness." *Alldread v. City of Grenada*, 988 F.2d 1425 (5th Cir. 1993).

106 *Id. See also* TEX. R. CIV. P. 166b(4) (repealed effective January 1, 1999).

107 TEX. R. CIV. P. 193.3(d).

108 968 S.W.2d 346 (Tex. 1998).

109 ABA Formal Opinion 94-382 (quoted in *In re Meador*, 968 S.W.2d at 349). The Court noted that this procedure is not mandated when a party obtains privileged materials inadvertently produced during discovery. In that situation, the party may proceed to use the materials until such time as the disclosing party has established that the privilege has not been waived. *Meador*, 968 S.W.2d at 351.

D. No Waiver Where Common Interest. One type of voluntary disclosure[110] does not constitute waiver. That is when the disclosure is to a person with a common interest.[111] This principle is embodied in Rule 503(b)(1)(C), which defines people among whom privileged communications may be made.[112] Thus, communications between a lawyer for a parent corporation and an employee of a wholly-owned subsidiary usually are considered privileged.[113] Similarly, multiple clients represented by the same attorney may talk freely with their attorney without fear that the presence of more than one client will constitute a waiver as to third parties.[114]

Disclosure to lawyers or clients in a joint defense situation also does not create waiver.[115] In the event the clients in the joint defense arrangement later become adverse to each other, their

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110 Compelled disclosure does not constitute waiver. *See* Tex. R. Evid. 512. *See also In re Grand Jury Proceedings (Vargas)*, 723 F.2d 1461 (10th Cir. 1983) (production of documents in response to a court order is not necessarily a voluntary disclosure constituting waiver).

111 *See USA v. Zolin*, 809 F.2d 1411, 1417 (9th Cir. 1987) (in tax fraud case involving L. Ron Hubbard, court found attorney-client privilege had not been waived by presence of members of Church of Scientology at meetings with attorney because the persons present had a common interest in sorting out the respective affairs of the Church and Mr. Hubbard, commenting that "[e]ven where the non-party who is privy to the attorney-client communications has never been sued on the matter of common interest and faces no immediate liability, it can still be found to have a common interest with the party seeking to protect the communications.").

112 Tex. R. Evid. 503(b)(1)(C).

113 *See In re Grand Jury Subpoenas, 89-3 and 89-4*, 902 F.2d 244 (4th Cir. 1990); *Admiral Ins. Co. v. U.S. Dist. Ct.*, 881 F.2d 1486 (9th Cir. 1989); *Bowne of New York City, Inc. v. AmBase Corp.*, 150 F.R.D. 465 (S.D.N.Y. 1993).

114 *See In re Auclair*, 961 F.2d 65 (5th Cir. 1992).

115 The courts have developed two doctrines of exceptions to the waiver of the privilege through voluntary disclosure. *Wilson P. Abraham Constr. Corp. v. Armco Steel Corp.*, 559 F.2d 250, 253 (5th Cir. 1977); *Ryals v. Canales*, 767 S.W.2d 226 (Tex. App. — Dallas 1989, no writ). The joint defendant rule, embodied in UNIF. R. EVID. 502(b)(5), protects communications relevant to a matter of common interest between two or more clients of the same lawyer from disclosure. UNIF. R. EVID. 502 (d)(5). This widely accepted doctrine applies strictly to clients of the same lawyer who are joint defendants in litigation. Several courts have expanded the joint defense doctrine in order to create another exception to the waiver of attorney-client privilege: the doctrine of common-interest. Under the common interest doctrine, privileged information can be disclosed to a separate entity that has a common legal interest with the privilege holder, whether or not the third party is a co-defendant.

Federal circuit courts and state courts diverge in their interpretation and application of the common interest and joint defendant doctrine. *U.S. v. Weissman*, 1996 WL 737042 *7 (S.D.N.Y. 1996). In the most expansive application of the common interest doctrine, courts exclude a waiver of the attorney-client privilege when there is a common interest between the disclosing party and the receiving party, and parties have a reasonable expectation of litigation concerning their common interest. *See Hewlett-Packard Co. v. Bausch & Lomb*, 115 F.R.D. 308, 309 (N.D.Cal. 1987). More restrictive courts require that the parties share an identical legal, as opposed to purely commercial, interest. *See Duplan Corp. v. Deering Milliken*, 397 F. Supp. 1146, 1172 (D.S.C. 1974). Finally, some courts persist in rejecting the common interest theory absent actual or pending litigation in which both parties are or will be joint defendants. See *Int'l Ins. v. Newmont Mining Corp.*, 800 F.Supp. 1195, 1196 (S.D.N.Y. 1992).

Although there is no uniform test for application of the common interest doctrine, courts have consistently examined three elements when applying the doctrine: (1) whether the confidentiality of the privileged information is preserved despite disclosure; (2) whether, at the time that the disclosures were made, the parties were joint defendants in litigation or reasonably anticipated litigation; and (3) whether the legal interests of the parties are identical or at least closely aligned at the time of disclosure. *See, e.g. U.S. v. Gulf Oil Corp.*, 760 F.2d 292, 296 (Temp. Emer. Ct. App. 1985).

communications which were privileged as to third parties are not privileged in the controversy between them.[116] As a consequence, attorneys whose clients are entering into a joint defense arrangement and sharing otherwise privileged information have an ethical duty to advise their clients of this risk of privilege loss.

E. Issue Injection. Another means of waiver is through offensive use, sometimes also called issue injection. The rule is simple, although sometimes difficult to implement. A client may not make an affirmative claim for relief, assert privilege as to an outcome determinative matter, and deny the adverse party its only means of discovering the information.[117] The key to this test is whether the privileged matter is outcome determinative. If so, the client is given the choice of disclosing the privileged information or abandoning his claim.[118]

Clients may assert a defense based on their good faith belief that their actions were in conformity with applicable laws. Often the good faith can be shown only by showing that the action was in reliance on advice of counsel. Once the client opens the issue of the advice received by selectively revealing any of the advice it received, the client risks placing at issue, and waives the privilege as to, all steps it took to comply with the law at issue.[119] Such a waiver

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The core requirement of the common interest doctrine is the existence of a shared legal interest. Courts will have less difficulty in finding an exception to a waiver when the parties actively pursue common legal goals. *See U.S. v. Schwimmer*, 892 F.2d 237, 244 (2nd Cir. 1989). An asset purchase agreement in which the buyer does not assume the litigation liability of the seller does not demonstrate an alignment of the parties' interests. A common business enterprise, such as the sale of assets, or a potential merger, will not suffice unless the parties' legal interests are at least parallel and non-adverse. *Jedwab v. MGM Grand Hotels*, 1986 WL 3426 * 2 (Del. Ch. 1986). Disclosures by a corporation and its counsel to the corporation's investment banking firm during merger discussions have resulted in a waiver of the attorney-client privilege because the common interest rule did not apply. *See Blanchard v. EdgeMark Financial Corp.*, 192 F.R.D. 233 (N.D. Ill. 2000). The court said the common-interest rule protects from disclosure those communications between one party and an attorney for another party "where a joint defense effort or strategy has been decided upon and undertaken by the parties and their respective counsel," noting that the common interest must be a legal one, not commercial or financial. Id at 236. The court concluded, however, that the common interest rule did not apply because the defendants did not demonstrate that the investment banking firm's legal interest in the threatened litigation was anything more than peripheral. Id at 237.

116 *See Garner V. Wolfinbarger*, 430 F.2d 1093, 1103 (5th Cir. 1970) ("In many situations in which the same attorney acts for two or more parties having a common interest, neither party may exercise the privilege in a subsequent controversy with the other. This is true even where the attorney acts jointly for two or more persons having no formalized business arrangement between them.").

117 *Republic Ins. Co. v. Davis*, 856 S.W.2d 158 (Tex. 1993).

118 *Cf. Texas Dept. of Pub. Safety Officers Ass'n v. Denton*, 897 S.W.2d 757 (Tex. 1995) (involving offensive use of fifth amendment privilege).

119 *See Nguyen v. Excel Corp.*, 197 F.3d 200, 206-7 (5th Cir. 1999):

> A corporate client has a privilege to refuse to disclose, and prevent its attorneys from disclosing, confidential communications between its representatives and its attorneys when the communications were made to obtain legal services. A client waives the attorney-client privilege, however, by failing to assert it when confidential information is sought in legal proceedings. Inquiry into the general nature of the legal services provided by counsel does not necessitate an assertion of the privilege because the general nature of services is not protected by the privilege. Further inquiry into the substance of the client's and attorney's discussions does implicate the privilege and an assertion is required to preserve the privilege. A client's specific request to an attorney and pertinent

can result in both the client and the attorney being compelled to submit to deposition and testimony at trial.[120]

F. Scope of Waiver. Concerns about waiving privilege surround communications with accountants, underwriters and prospective merger partners regarding litigation loss contingencies. In each of those communications, there is a voluntary disclosure that is necessary for the corporation to accomplish its business. Yet, when documents or other communications are disclosed to persons outside the scope of the attorney-client privilege, waiver of the privilege occurs. The issue involves how far the waiver goes.

The scope of waiver is broad. It is generally considered to be permanent, that is, the privilege cannot be reclaimed in another circumstance or proceeding.[121] Furthermore, the waiver

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information related thereto fall within the reaches of the privilege. Additionally, the research undertaken by an attorney to respond to a client's request also falls within the reaches of the privilege.

Though Excel raised some privilege-based objections, it did not object to all questions designed to elicit information about privileged communications. The district court observed that Excel did not object to all questions designed to elicit information about confidential communications, and that Excel did not halt its executives' responses to all such questions. * * * Excel waived the attorney-client privilege by its failure to assert the privilege.

As related, but alternative, grounds for affirming the district court's order, Excel waived the attorney-client privilege by selectively disclosing confidential communications. When relayed to a third party that is not rendering legal services on the client's behalf, a communication is no longer confidential, and thus it falls outside of the reaches of the privilege. Therefore, a client implicitly waives the attorney-client privilege by testifying about portions of the attorney-client communication.

[120] *See Excel, supra* note 119, at 208-210:

Excel next maintains that, even if it waived the privilege, its executives rather than its counsel should be deposed regarding matters no longer privileged. Excel encourages this court to adopt the inquiry of the Eighth Circuit [in *Shelton v. Am. Motors Corp.*, 805 F.2d 1323 (8th Cir. 1986)] and forbid a party from deposing opposing counsel unless (1) no other means exist to obtain the information, (2) the information sought is relevant and non-privileged, and (3) the information is crucial to the preparation of the case. Excel contends that appellees cannot establish any of the three criteria.

* * *

Because depositions of opposing counsel are disfavored generally and should be permitted in only limited circumstances, one would suspect that a request to depose opposing counsel generally would provide a district court with good cause to issue a protective order. The district court, however, did not abuse its discretion in authorizing the depositions of defense counsel, even assuming the applicability of the *Shelton* inquiry.

* * *

The second sentence of the magistrate judge's order permits inquiry into counsels' understanding of defendant's perceptions, and the third sentence of the order permits inquiry into counsels' opinions. These inquiries are impermissible. "An attorney's thoughts [are] inviolate . . . ." Even though an attorney's mental impressions and opinions fall outside of the attorney-client privilege, they also "fall[ ] outside the arena of discovery [as their disclosure would] contravene[ ] the public policy underlying the orderly prosecution and defense of legal claims."

[121] *See United States v. Suarez*, 820 F.2d 1158 (11th Cir. 1987).

may extend not only to the document or communication specifically disclosed, or to which the privilege was waived, but to all communications on the "**subject matter**."[122]

In *In re Grand Jury Proceedings*,[123] the Court addressed the issue of whether a corporate officer inadvertently waived attorney-client privilege *to the entire **subject matter** of communications with their lawyer about a particular matter* when they disclosed *certain portions* of the attorney's advice to a government agent. In making their determination, the court allowed discovery of certain information, disallowed discovery of other information, and specifically instructed the lower court to conduct further proceedings in order to determine what other information came within the "subject matter" of the information disclosed:

> [T]wo government investigators met with [a company's] owner and president. Shortly after the meeting began, the owner and president informed the agents that they had met with a Washington, D.C. attorney who specializes in Medicare law, and they told the investigators the attorney's name. They told the agents that they brought their twenty-four point marketing plan to the attorney and that they described the various elements of the plan to her in detail.
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> * * *
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> The owner and president told the investigators that their attorney was concerned that providing free Sharps needle disposal containers could constitute an illegal inducement or kickback. But, the president noted, the attorney had no problem with the laboratory billing Medicare for tests done by nursing home personnel or with providing nursing homes free glucose testers and lancets. When asked by the agents about the apparent inconsistency between the lawyer's advice regarding free Sharps disposal containers and free glucose testers, the president responded, "That's the advice I had of the attorney at the time."
>
> The District Court held that the owner and president had waived the attorney-client privilege by voluntarily disclosing the substance of their attorney's advice to the government agents. The District Court also held that "the government's motion to compel is granted to the extent of the legal advice and documents relating to [the laboratory's] marketing plan."
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> Having concluded that the attorney-client privilege was waived as to specific elements of the marketing plan, we must now determine the scope of that waiver.
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> * * *

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122 8 J. WIGMORE, EVIDENCE § 2328, at 638 (McNaughton rev. ed. 1961). *See also United States v. Davis*, 636 F.2d 1028, 1043 n. 18 (5th Cir.), *cert. denied*, 454 U.S. 862 (1981); *Zielinski v. Clorox Co.*, 504 S.E.2d 683 (Ga. 1998) (the court held that attorney-client privilege was waived as to the subject matter of certain documents turned over to the district attorney's office as part of an ongoing embezzlement investigation).

123 78 F.3d 251 (6th Cir. 1996).

> In support of the District Court's order, the Government argues that "[i]t is well established that voluntary disclosure of the content of a privileged communication constitutes a waiver of the privilege as to all other such communication on the same subject matter." The government relies on several cases to support its claim that in view of the waiver on specific items of the marketing plan, the laboratory waived its privilege with respect to the rest of the plan. *See, e.g., United States v. Jones*, 696 F.2d 1069, 1072 (4th Cir.1982) ("Any voluntary disclosure by the client to a third party waives the privilege not only as to the specific communication disclosed, but often as to all other communications relating to the same subject matter."); *In re Sealed Case*, 676 F.2d 793, 818 (D.C.Cir.1982) ("When a party reveals part of a privileged communication in order to gain an advantage in litigation, it waives the privilege as to all other communications relating to the same subject matter...."); *Edwards v. Whitaker*, 868 F.Supp. 226, 229 (M.D.Tenn.1994) ("[V]oluntary disclosure of the content of a privileged attorney communication constitutes waiver of the privilege as to all other such communications on the same subject.").
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> * * *
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> [T]he government may ask questions that clearly pertain to the subject matter of the specific points on which a waiver did occur. *The District Court will have to decide whether the remaining points in the marketing plan are truly the same subject matter as those in the specific marketing plan points on which there was a waiver and approve or disallow questions on that basis.*[124]

While *In re Grand Jury Proceedings* adopts the subject matter test, only one court has given much guidance in determining what is and what is not in the same subject matter when disclosure of some privileged communications has taken place. In a series of opinions arising from the case styled *U.S. v. Skeddle*,[125] a U.S. District Court in Ohio addressed the scope of a corporation's waiver to its claim of attorney-client privilege. The case arose in the context of a criminal charge of wire and mail fraud against former employees of Libbey Owens Ford Co. ("LOF") arising out of their allegedly improper self-dealing transactions with LOF. LOF's general counsel became suspicious of defendants' activities and began an internal investigation which led to LOF commencing civil litigation against the criminal defendants and others. In connection with the general counsel's trial testimony in the criminal case, LOF agreed to waive its attorney-client privilege as to communications between the general counsel and LOF management prior to his discovery of the allegedly fraudulent activities, but refused to waive the privilege as to communications related to its internal investigation and litigation against defendants.[126] The general counsel then testified at the criminal trial of the former LOF employees regarding conversations he had with other LOF officials as to which LOF had expressly waived its attorney-client privilege. The defendants claimed that this testimony

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[124] *Id.* [emphasis added]

[125] 989 F.Supp. 905, 989 F.Supp. 913, 989 F.Supp. 917 (N.D. Ohio 1997).

[126] 989 F.Supp. at 908.

waived the corporation's attorney-client privilege as to the entire contents of the investigative file.[127]

Exhibiting a judicial tendency to narrowly construe the subject matter as to which the privilege has been waived, the court noted that the general counsel's file covered three stages in respect of the case: (i) an "implementation" phase during which the legal department was communicating with management as the transactions at issue were being developed in the apparent ordinary course of business, (ii) an "investigatory phase" that began when LOF had significant reason to believe wrongdoing had occurred, and (iii) a "litigation" phase after LOF had decided to file suit to recover the value defendants had wrongfully obtained. The court then held that LOF could waive its privilege as to the implementation phase without any waiver as to the investigatory and litigation phases. The court noted that in the implementation phase, the legal department lawyers were working with defendants in the transaction in the ordinary course, perhaps acting in the dual role of lawyer and businessman, and were involved as the facts at issue were developing. In the investigatory and litigation phases, the legal department was endeavoring to assert the interests of LOF against defendants. In so holding, the court explained the subject matter test as follows:

> As a general rule, waiver of the privilege with regard to some communications waives the privilege as to all other communications relating to the "same subject matter." *In re Grand Jury Proceedings*, 78 F.3d at 255-256; *United States v. Mendelsohn*, 896 F.2d 1183, 1189 (9th Cir. 1990). This rule seeks to avoid the unfairness that might result from selective disclosure while, at the same time, upholding the privilege and preserving the interests it protects form excessive exposure.
>
> Despite the centrality of the term, "same subject matter," to this inquiry, courts have not defined its meaning and content precisely. Aside from a general instruction to construe "same subject matter" narrowly, . . . no guidance has been given about how a trial court is to determine what is and what is not within the same subject matter when disclosure of some privileged communications has taken place.
>
> Among the factors which appear to be pertinent in determining whether disclosed and undisclosed communications relate to the same subject matter are: 1) the general nature of the lawyer's assignment; 2) the extent to which the lawyer's activities in fulfilling that assignment are undifferentiated and unitary or are distinct and severable; 3) the extent to which the disclosed and undisclosed communications share, or do not share, a common nexus with a distinct activity; 4) the circumstances in and purposes for which disclosure originally was made; 5) the circumstances in and purposes for which further disclosure is sought; 6) the risks to the interests protected by the privilege if further disclosure were to occur; and 7) the prejudice which might result if disclosure were not to occur. By applying these factors, and such other factors as may appear appropriate, a court

[127] 989 F.Supp. at 919.

> may be able to comply with the mandate that it construe "same subject matter" narrowly while accommodating fundamental fairness.[128]

The *Skeddle* court then applied these factors to the specifics of the general counsel's testimony. While the general counsel did testify regarding telephone conversations and meetings with certain corporate officers and other facts acquired during the general counsel's investigation into the scheme, the court concluded that the subject of the general counsel's limited testimony could not be found to cover the entire investigative file of the corporation, finding that the testimony referred to only a small portion of the general counsel's activities for the corporation, activities consisting of distinct and severable activities, all self-contained and unitary in focus.[129] The court further stated that the testimony did not have a common nexus with every other attorney-client communication in the corporation's investigative file, and that to use the limited, factual disclosures as a bootstrap to discover the entire investigative file would run counter to the principles underlying the narrow waiver of the attorney-client privilege.[130]

The *Skeddle* court even found that the disclosure of documents which made references to discussions that were otherwise privileged did not waive privilege as to those discussions, finding that the referenced discussions related to a subject distinct from the subject of the documents disclosed.[131] The court noted the jeopardy in which privileged documents would be placed if partial disclosure waived privilege as to the entire matter, stating:

> "If . . . disclosure of the notes exposed every otherwise privileged communication as to the matters referenced . . . , the privilege would be withdrawn from dozens, if not hundreds of communications as to which all participants had expected confidentiality. Interests protected by the privilege would be placed in great jeopardy if the subject matter of the . . . notes were deemed to be every topic mentioned in those notes."[132]

One document addressed in this opinion is of particular relevance. A letter from the corporation's outside counsel to an attorney for liability insurers of corporate directors and officers, which set forth the corporation's basis for an insurance claim arising from the defendants' alleged misconduct, was disclosed at trial.[133] While the letter itself was found not privileged, the court found privileged the communications which underlay the conclusions of the letter because allowing such disclosure would undermine substantially, if not completely, the purpose of the attorney-client privilege.[134] The court stated that, "requiring such disclosure

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128 989 F.Supp. at 908-9.

129 *Id.* at 920.

130 *Id.*

131 989 F. Supp. at 911. A close examination of this series of opinions illustrate the court's effort to find the undisclosed statements privileged. For example, relating to one particular document, the court found that the subject matter of the document was the author's understanding of the significance of certain events rather than being the subject matter of the events themselves.

132 *Id.*

133 *Id.*

134 *Id.* at 911-912.

would permit discovery of underlying privileged communications whenever an attorney states an opinion based on such communications. Such broad waiver runs counter to the protection generally afforded to attorney-client relationship."[135]

In light of the potential danger of a broad scale waiver of attorney-client privilege under the subject matter test, counsel should be particularly attentive to opportunities to stress the confidential nature of attorney-client communications with the officers and representatives of their clients. When disclosing information that may be privileged, counsel may endeavor to limit the scope of any waiver by stating in writing that no waiver of the attorney-client privilege is intended thereby.

In one unreported case, a corporation avoided waiving the attorney-client privilege in certain documents, and as to all other documents covering the same subject matter, by specifically not waiving the attorney-client privilege in the process of disclosing the documents:

> Ernst & Young next claims that ShareAmerica's "disclosure of communications with and among attorneys from K & L regarding the SEC's inquiry and the planned public offering constitutes a waiver of the attorney-client and work product privileges with respect to those documents *and all other documents covering the same subject matter*." (Defendant's brief dated 5/30/97 at p. 13.) ShareAmerica, however, has submitted an affidavit from Attorney Daniel Shepro that shows the document production and testimony occurred without a waiver of ShareAmerica's privileges . . .The motion to compel is denied.

ShareAmerica, Inc. v. Ernst & Young, (1998 WL 90731 (Conn. Super. Not Reported in A.2d) [emphasis added].

G. Letters to Auditors. A grand compromise or treaty was reached in 1976 between the lawyers and the accountants that is reflected in the ABA Statement of Policy regarding Lawyers' Response to Auditors Requests for Information (the "*ABA Statement*"),[136] which is intended to minimize the risk of loss of attorney-client privilege in connection with the lawyers providing information to auditors regarding loss contingencies in connection with financial statement preparations. The ABA Statement attempts to balance the attorney's need to avoid inadvertent waivers of the attorney-client privilege in responding to the auditors' letter with the auditors' need for complete and accurate information in audited financial statements, and addresses the privilege waiver concern as follows:

> To the extent that the lawyer's knowledge of unasserted possible claims is obtained by means of confidential communications from the client, any disclosure thereof might constitute a waiver as fully as if the communication related to pending claims.
>
> A further difficulty arises with respect to requests for evaluation of either pending or unasserted possible claims. It might be argued that any evaluation of a

[135] *Id.* at 912.

[136] 31 Bus. Law. 5 (April 1976).

> claim, to the extent based upon a confidential communication with the client, waives any privilege with respect to that claim.
>
> Another danger inherent in a lawyer's placing a value on a claim, or estimating the likely result, is that such a statement might be treated as an admission or might be otherwise prejudicial to the client.
>
> The Statement of Policy has been prepared in the expectation that judicial development of the law in the foregoing areas will be such that useful communication between the lawyers and the auditors in the manner envisaged in the Statement will not prove prejudicial to clients engaged in or threatened with adversary proceedings. If developments occur contrary to this expectation, appropriate review and revision of the Statement of Policy may be necessary.[137]

There is no consensus among the courts that have addressed the discoverability of audit response letters. Litigants who have been confronted with a discovery request seeking an audit response letter, and who have resisted discovery, have argued attorney-client privilege, work product exclusion, or relevance as bases for refusing to produce the audit response letter.[138] Even though the lawyer's letter to the auditor may not be protected by the attorney-client privilege, any waiver should be limited to the contents of the letter, rather than the contents of the attorney's entire file on the matter covered by the letter.[139]

Attorney letters under the ABA Statement[140] differentiate between unasserted claims and pending litigation.[141] As to unasserted claims, the attorneys usually only confirm that they are

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137 *Id.* at 12-13.

138 In *Tronitech, Inc. v. NCR Corporation*, 108 FRD 655, 3 Fed.R.Ser.3rd 1265 (S.D. Ind. 1985), the Court held (i) the audit response letter was not relevant because it was clearly inadmissible at trial and contained only opinions which could not conceivably lead to admissible evidence, and (ii) while acknowledging that work product protection applies only to materials prepared in anticipation of litigation or for trial, held that an audit letter "is not prepared in the ordinary course of business but rather arises only in the event of litigation," and therefore constituted work product that was not discoverable.

Two other courts, when confronted with disputes regarding discovery of lawyer's responses to auditor's requests, found the letters to be discoverable. In *United States v. Gulf Oil Corp*, 760 F.2d 292 (Temp. Emer. Ct. App. 1985), the court dismissed a claim that the audit letters constituted work product, holding "that these documents do not constitute attorney work product because they were created primarily for the business purpose of compiling financial statements which would satisfy the requirements of the federal securities laws." In *Independent PetroChemical Corp. v. Aetna Casualty & Surety Co.*, 117 FRD 292 (D. D.C. 1987), the court further held that any attorney-client privilege associated with the audit response letter was waived when the letter was furnished to the auditor and that the work product exclusion was not applicable.

139 *See United States v. Upjohn Company*, 600 F.2d 1223, 1227 n.12 (6th Cir. 1979), *rev'd on other grounds*, 449 U.S. 383 (1981) ("The corporation's voluntary disclosure to the SEC amounts to a waiver of the privilege only with respect to the facts actually disclosed.").

140 Annex A to the ABA Statement sets forth the following illustrative form of letter to auditors for use by an outside practitioner or law firm:

[Name and Address of Accounting Firm]

Re: [Name of Client] [and Subsidiaries]

Dear Sirs:

By letter dated [*insert date of request*] Mr. [*insert name and title of officer signing request*] of [*insert name of client*] [(the "Company") or (together with its subsidiaries, the "Company")] has requested us to furnish you with certain information in connection with your examination of the accounts of the Company as at [*insert fiscal year-end*].

[Insert description of the scope of the lawyer's engagement; the following are sample descriptions:]

* * *

Subject to the foregoing and to the last paragraph of this letter, we advise you that since [*insert date of beginning of fiscal period under audit*] we have not been engaged to give substantive attention to, or represent the Company in connection with, [*material*] * loss contingencies coming within the scope of clause (a) of Paragraph 5 of the Statement of Policy referred to in the last paragraph of this letter, except as follows:

[Describe litigation and claims which fit the foregoing criteria.]

[If the inquiry letter requests information concerning specified unasserted possible claims or assessments and/or contractually assumed obligations:]

With respect to the matters specifically identified in the Company's letter and upon which comment has been specifically requested, as contemplated by clauses (b) or (c) of Paragraph 5 of the ABA Statement of Policy, we advise you, subject to the last paragraph of this letter, as follows:

[Insert information as appropriate]

The information set forth herein is [as of the date of this letter] [as of [*insert date*], the date on which we commenced our internal review procedures for purposes of preparing this response], except as otherwise noted, and we disclaim any undertaking to advise you of changes which thereafter may be brought to our attention.

[Insert information with respect to outstanding bills for services and disbursements.]

This response is limited by, and in accordance with, the ABA Statement of Policy Regarding Lawyers' Responses to Auditors' Requests for Information (December l975); without limiting the generality of the foregoing, the limitations set forth in such Statement on the scope and use of this response (Paragraphs 2 and 7) are specifically incorporated herein by reference, and any description herein of any "loss contingencies" is qualified in its entirety by Paragraph 5 of the Statement and the accompanying Commentary (which is an integral part of the Statement). Consistent with the last sentence of Paragraph 6 of the ABA Statement of Policy and pursuant to the Company's request, this will confirm as correct the Company's understanding as set forth in its audit inquiry letter to us that whenever, in the course of performing legal services for the Company with respect to a matter recognized to involve an unasserted possible claim or assessment that may call for financial statement disclosure, we have formed a professional conclusion that the Company must disclose or consider disclosure concerning such possible claim or assessment, we, as a matter of professional responsibility to the Company, will so advise the Company and will consult with the Company concerning the question of such disclosure and the applicable requirements of Statement of Financial Accounting Standards No. 5. [Describe any other or additional limitation as indicated by Paragraph 4 of the Statement.]

Very truly yours,

[141] The Preamble to the ABA Statement provides in part:

> Consistent with the foregoing public policy considerations, it is believed appropriate to distinguish between, on the one hand, litigation which is pending or which a third party has manifested to the client a present intention to commence and, on the other hand, other contingencies of a legal nature or having legal aspects. As regards the former category, unquestionably the lawyer representing the client in a litigation matter may be the best source for a description of the claim or claims asserted, the client's position (e.g. denial, contest, etc.), and the client's possible exposure in the litigation (to

aware of their professional responsibility not to knowingly participate in any violation by the client of the disclosure requirements of the securities laws and have consulted with the client regarding the client's disclosure obligations.[142] As to pending litigation, the attorneys typically describe the litigation but are unable to reach a conclusion as to the outcome or range of damages.[143] By so responding, the likelihood of any waiver as to unasserted claims is reduced

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the extent the lawyer is in a position to do so). As to the latter category, it is submitted that, for the reasons set forth above, it is not in the public interest for the lawyer to be required to respond to general inquiries from auditors concerning possible claims.

[142] Paragraph 6 of the ABA Statement provides:

> (6) *Lawyer's Professional Responsibility*. Independent of the scope of his response to the auditor's request for information, the lawyer, depending upon the nature of the matters as to which he is engaged, may have as part of his professional responsibility to his client an obligation to advise the client concerning the need for or advisability of public disclosure of a wide range of events and circumstances. The lawyer has an obligation not knowingly to participate in any violation by the client of the disclosure requirements of the securities laws. In appropriate circumstances, the lawyer also may be required under the Code of Professional Responsibility to resign his engagement if his advice concerning disclosures is disregarded by the client. The auditor may properly assume that whenever, in the course of performing legal services for the client with respect to a matter recognized to involve an unasserted possible claim or assessment which may call for financial statement disclosure, the lawyer has formed a professional conclusion that the client must disclose or consider disclosure concerning such possible claim or assessment, the lawyer, as a matter of professional responsibility to the client, will so advise the client and will consult with the client concerning the question of such disclosure and the applicable requirements of FAS 5.

[143] Paragraph 5 of the ABA Statement provides in part:

> In view of the inherent uncertainties, the lawyer should normally refrain from expressing judgments as to outcome except in those relatively few clear cases where it appears to the lawyer that an unfavorable outcome is either "probable" or "remote;" for purposes of any such judgment it is appropriate to use the following meanings:
>
> (i) *probable* - an unfavorable outcome for the client is probable if the prospects of the claimant not succeeding are judged to be extremely doubtful and the prospects for success by the client in its defense are judged to be slight.
>
> (ii) *remote* - an unfavorable outcome is remote if the prospects for the client not succeeding in its defense are judged to be extremely doubtful and the prospects of success by the claimant are judged to be slight.
>
> If, in the opinion of the lawyer, considerations within the province of his professional judgment bear on a particular loss contingency to the degree necessary to make an informed judgment, he may in appropriate circumstances communicate to the auditor his view that an unfavorable outcome is "probable" or "remote," applying the above meanings. No inference should be drawn, from the absence of such a judgment, that the client will not prevail.
>
> The lawyer also may be asked to estimate, in dollar terms, the potential amount of loss or range of loss in the event that an unfavorable outcome is not viewed to be "remote." In such a case, the amount of range of potential loss will normally be as inherently impossible to ascertain, with any degree of certainty, as the outcome of the litigation. Therefore, it is appropriate for the lawyer to provide an estimate of the amount or range of potential loss (if the outcome should be unfavorable) only if he believes that the probability of inaccuracy of the estimate of the amount or range of potential loss is slight.

In the commentary on Paragraph 5, the ABA Statement on page 14 states:

and, as to pending litigation, any waiver as to the letter itself would likely not be harmful because the lawyer ordinarily would not be making an assessment of the case which could be construed as an admission against interest. Since a letter regarding pending litigation would be at a time when the work product privilege would be applicable to the litigation work product and work product waiver ordinarily is limited to the specific documents disclosed,[144] a letter to auditors describing the case should not result in the attorney having to turn over the firm's litigation file to the other side.

H. Legal Fee Audits. Insurers routinely audit bills from outside defense counsel to measure compliance with billing guidelines and reduce costs. Disclosure of itemized billings to outside auditors may waive the attorney-client privilege for the documents disclosed.[145] Under the subject matter standard discussed above under "F. Scope of Waiver," the waiver might (but should not) be extended beyond the bills themselves to the items referred to therein.

Issues have been raised in ethics opinions in a number of states regarding the propriety of an attorney's submission of legal bills for outside audit review. The typical conclusion is that law firms may submit their bills directly to an audit company after an informed consent is obtained from the client.[146]

I. Mergers and Acquisitions. One of the more troublesome problems related to the disclosure of confidential information in the context of negotiating a business combination is how to disclose information to facilitate a meaningful evaluation of litigation-related confidential information without waiving any work-product protections, attorney-client privileges, and similar protections and privileges. The issue can arise either prior to or after closing of a proposed transaction. In an attempt to allow the seller to furnish to the buyer confidential information without waiving the seller's work product, attorney-client privilege and similar protections by demonstrating that the buyer and seller have or should be presumed to have common legal and commercial interests, or are or may become joint defendants in litigation, Section 12.6 of the ABA Model Asset Purchase Agreement with Commentary (2001) provides:

> **12.6 ATTORNEY-CLIENT PRIVILEGE.**
>
> The Disclosing Party is not waiving, and will not be deemed to have waived or diminished, any of its attorney work product protections, attorney-client privileges, or similar protections and privileges as a result of disclosing its Confidential Information (including Confidential Information related to pending or threatened litigation) to the Receiving Party, regardless of whether the Disclosing Party has asserted, or is or may be entitled to assert, such privileges and protections. The parties (a) share a common legal and commercial interest in

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> [S]tatements that litigation is being defended vigorously and that the client has meritorious defenses do not, and do not purport to, make a statement about the probability of outcome in any measurable sense.

144 *But cf. U.S. v. Skeddle, supra*, 989 F.Supp. at 921.

145 *See United States of America v. Massachusetts Institute of Technology*, 129 F.3rd 687 (1st Cir. 1997).

146 K. Hansen and L. Marema, *Confidentiality Issue Sparks Controversy*, Bests Review '77 (Feb. 1999).

> all of the Disclosing Party's Confidential Information that is subject to such privileges and protections, (b) are or may become joint defendants in Proceedings to which the Disclosing Party's Confidential Information covered by such protections and privileges relates, (c) intend that such privileges and protections remain intact should either party become subject to any actual or threatened Proceeding to which the Disclosing Party's Confidential Information covered by such protections and privileges relates, and (d) intend that after the Closing the Receiving Party shall have the right to assert such protections and privileges. No Receiving Party shall admit, claim or contend, in Proceedings involving either party or otherwise, that any Disclosing Party waived any of its attorney work product protections, attorney-client privileges, or similar protections and privileges with respect to any information, documents or other material not disclosed to a Receiving Party due to the Disclosing Party disclosing its Confidential Information (including Confidential Information related to pending or threatened litigation) to the Receiving Party.

There may be instances when the receiving party is an actual or potentially adverse party in litigation with the disclosing party (*e.g.*, when litigation is the driving force behind an acquisition). In those cases, the language of Section 12.6 is intended to bolster a claim by the disclosing party that the recipient is later precluded from using disclosure as a basis for asserting that the privilege was waived.

Whether work product protections and attorney-client privileges will be deemed to be waived as a result of disclosures in connection with a consummated or unconsummated asset purchase depends on the law applied by the forum jurisdiction and the forum jurisdiction's approach to the joint defendant and common interest doctrines.[147] In most jurisdictions, work product protection will be waived only if the party discloses the protected documents in a manner which substantially increases the opportunities for its potential adversaries to obtain the information. By contrast, the attorney-client privilege will be waived as a result of voluntary disclosure to any third party, unless the forum jurisdiction applies a form of the joint defense or common interest doctrines.

Although the consummation of a transaction is not determinative of the existence of a waiver, the interests of the parties may become closely aligned as a result of the closing. As a result, there is a higher probability that information will remain protected in a transaction that closes, and in which the buyer assumes liability for the seller's litigation, than in a transaction that does not close and in which the buyer does not assume liability for the seller's litigation.[148] Generally, (i) in a statutory merger the surviving corporation can assert the attorney-client privilege, (ii) in a stock-for-stock deal the privilege goes with the corporation, although in some cases the buyer and seller may share the privilege, and (iii) in the case of an asset sale most cases

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147 *See* Subsection D. No Waiver Where Common Interest, *supra*, and Section VIII. Work Product Privilege, *infra*.

148 *See* Hundley, "*White Knights, Pre-Nuptial Confidences, and the Morning After: The Effect of Transaction-Related Disclosures on the Attorney-Client and Related Privileges*," 5 DEPAUL BUS. L.J. 59 (Fall/Winter, 1992/1993); *cf. Cheeves v. Southern Clays*, 128 F.R.D. 128, 130 (M.D. Ga. 1989) ("Courts have found a community of interest where one party owes a duty to defend another, or where both consult the same attorney".)

hold no privilege passes because the corporate holder of the privilege has not been sold.[149] In an asset sale, including a sale of a division, the parties could provide contractually for the buyer to have the benefit of the privilege, as Section 12.6 does, and, by analogy to joint defense and common interest cases, the privilege agreement should be upheld. Further, by analogy to those cases and the principle that the privilege attaches to communications between an attorney and prospective client prior to engagement, parties should be able to provide that due diligence information provided is protected by the attorney-client privilege.[150]

Courts may also maintain the attorney-client privilege when the interests of both parties are aligned through specific contractual relationships.[151] Therefore, the parties may find some comfort in provisions that align their legal interests and burdens, such as provisions pursuant to which buyer assumes the litigation liability of seller, indemnification provisions or assistance provisions which may facilitate a court's application of the common interest doctrine. If appropriate, the parties also should consider signing a "common interest agreement" or a "joint defense plan" that evidences their common legal interests and stipulates a common plan for litigation.

VII. EXCEPTIONS TO THE PRIVILEGE

The Texas Rules of Evidence recognize the following five exceptions to the attorney-client privilege:

> (1) *Furtherance of Crime or Fraud.* If the services of the lawyer were sought or obtained to enable or aid anyone to commit or plan to commit what the client knew or reasonably should have known to be a crime or fraud;
>
> (2) *Claimants Through Same Deceased Client.* As to a communication relevant to an issue between parties who claim through the same deceased client, regardless of whether the claims are by testate or intestate succession or by *inter vivos* transactions;
>
> (3) *Breach of Duty by a Lawyer or Client.* As to a communication relevant to an issue of breach of duty by a lawyer to the client or by a client to the lawyer;
>
> (4) *Document Attested by a Lawyer.* As to a communication relevant to an issue concerning an attested document to which the lawyer is an attesting witness; or
>
> (5) *Joint Clients.* As to a communication relevant to a matter of common interest between or among two or more clients if the communication was made by any of

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149 *Id.*; *In re Cap Rock Electric Cooperative, Inc.*, 35 S.W.3d 222 (Tx. App. Texarkana 2000).

150 *Id.*

151 *See In Re Regents of Univ. of Cal.*, 101 F.3d 1386, 1390 (Fed. Cir. 1996) (holding that parties to an exclusive license agreement have a substantially identical legal interest).

them to a lawyer retained or consulted in common, when offered in an action between or among any of the clients.[152]

In contrast to other aspects of the attorney-client privilege, the exceptions are relatively straightforward and have yielded remarkably little litigation. Of the five, the crime/fraud exception has resulted in the most controversy in terms of its applicability. The U.S. Supreme Court has explained that the "privilege takes flight if the relation is abused. A client who consults an attorney for advice that will serve him in the commission of a fraud will have no help from the law. He must let the truth be told."[153]

Some plaintiffs have tried to pierce the attorney-client privilege by simply asserting a fraud cause of action and then arguing that the crime/fraud exception applies to all legal advice the adverse party received. This tactic has been rejected, with courts holding that the plaintiff must first prove a prima facie case of fraud and then show that the attorney-client communication was in furtherance of the fraud in order to commit the fraud.[154] Key to the application of the crime/fraud exception is the timing of the communication. In order for the exception to apply, it is usually necessary for the communication to have been made in contemplation of the fraud[155] and either before or during the commission of the fraud.[156] Recently, several courts have applied the exception in situations where the attorney's advice was alleged to have assisted in covering up the fraud.[157]

VIII. WORK PRODUCT PRIVILEGE

The work product privilege[158] is a common law doctrine now codified in the federal and Texas Rules of Civil Procedure that protects the privacy of an attorney's trial preparations, and may protect an attorney's work product from discovery by opposing counsel where the attorney-client privilege is not available. Generally, the work product privilege exemption only protects from unwarranted disclosure materials prepared by an attorney, or under an attorney's direction, "in anticipation of litigation or for trial."[159]

The work product doctrine was first recognized by the U. S. Supreme Court in *Hickman v. Taylor*[160] wherein, finding no existing privilege that applied, the Court created a new common

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152 TEX. R. EVID. 503(d).

153 *Clark v. United States*, 289 U.S. 1, 15 (1933).

154 *Cigna Corp. v. Spears*, 838 S.W.2d 561 (Tex. App. — San Antonio 1992, no writ).

155 *Arkla, Inc. v. Harris*, 846 S.W.2d 623, 630 (Tex. App. — Houston [14th Dist.] 1993, orig. proceeding).

156 *Freeman v. Bianchi*, 820 S.W.2d 853, 861-62 (Tex. App. — Houston [1st. Dist.] 1991), *approved sub nom., Granada Corp. v. First Ct. of Appeals*, 844 S.W.2d 223, 225 (Tex. 1992).

157 *See, e.g., American Tobacco Co. v. Florida*, 697 So.2d 1249 (Fla. App. 4th Dist. 1997); *In re A. H. Robbins Co., Inc.*, 107 F.R.D. 2 (D. Kan. 1985).

158 Some courts prefer to use the term "doctrine" rather than "privilege" because of the more limited protection given to work product in certain situations. *See Westinghouse Elec. Corp. v. Republic of The Philippines*, 951 F.2d 1414, 1417 n. 1 (3rd Cir. 1991).

159 *See* Fed. R. Civ. P. 26(b)(3); Tex. R. Civ. P. 192.5.

160 329 U.S. 495 (1947).

law privilege for what it termed the "work product of the lawyer," consisting of interviews, memoranda, briefs and other materials prepared "with an eye toward litigation."[161] The Court justified the privilege as follows:

> Proper preparation of a client's case demands that [the attorney] assemble information, sift what he considers to be the relevant from the irrelevant facts, prepare his legal theories and plan his strategy without undue and needless interference. That is the historical and the necessary way in which lawyers act within the framework of our system of jurisprudence to promote justice and to protect their clients' interests.[162]

The Court indicated that the privilege could be overcome as to factual information otherwise unavailable to the opposing party, but not as to the attorney's "mental impressions."[163]

The *Hickman* work product doctrine was codified in Rule 26(b)(3) of the Federal Rules of Civil Procedure in 1970. The rule maintains the distinction between ordinary work product, which is discoverable upon a showing of "substantial need" and "undue hardship," and an attorney's "mental impressions, conclusions, opinions, or legal theories," which are discoverable, if at all, only upon a much higher showing. This latter category has come to be known as "opinion" or "core" work product.[164] Rule 26(b)(3) has been adopted verbatim by 34 states, and in substantial part by 10 others.[165]

With the enactment of amendments effective January 1, 1999, the work product doctrine has been more specifically and comprehensively incorporated into Texas Rules of Civil Procedure.[166] For the first time, "*work product*" is defined.[167] Not surprisingly, the definition is

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161 *Hickman*, 329 U.S. at 511.

162 *Id.*

163 *Id.* at 512.

164 *See In re Murphy*, 560 F.2d 326, 329 n. 1 (8th Cir. 1977); Jeff A. Anderson et al., Special Project, *The Work Product Doctrine*, 68 Cornell L.Rev. 760, 817-20 (1983).

165 See Elizabeth Thornburg, *Rethinking Work Product*, 77 Va.L.Rev. 1515, 1520-21 (1991).

166 See Tex. R. Civ. P. 192.5 (1999). The party communication privilege, previously codified separately in the Texas Rule of Civil Procedure 166b(3)(d), has been incorporated into the work product rule as Rule 192.5(a)(2). The Texas Supreme Court has previously held under old Tex. R. Civ. P. 166(3)(d) that the party communications privilege is case specific (i.e. to be privileged, the communication must "occur during or in anticipation of the particular suit in which the privilege is asserted") in *Republic Insurance Co. v. Davis*, 856 S.W.2d 158, 164-65 (Tex. 1993), but this result was based on specific wording of the old rule that is different in new Rule 192.5(a)(2) and should not be the result under the wording of the new rule.

167 Tex. R. Civ. P. 192.5(a) (1999) provides:

> **192.5 Work Product.**
>
> (a) *Work product defined*. Work product comprises:
>
> (1) material prepared or mental impressions developed in anticipation of litigation or for trial by or for a party or a party's representatives, including the party's attorneys, consultants, sureties, indemnitors, insurers, or agents; or

consistent with the Federal Rules of Civil Procedure and interpretations of the prior Texas rules. For example, the new Texas rule formalizes the distinction between "*core*" work product (the attorney work product that contains his mental impressions, opinions, conclusions or legal theories) and "*other*" work product, providing that the former is not discoverable while the latter is discoverable upon a showing of "*substantial need*" and "*undue hardship*."[168] Furthermore, the new rule codifies prior case law requiring that "work product" be created in anticipation or during litigation.[169] The work product privilege, however, is not case specific.[170]

The new rule does not expressly adopt the Texas Supreme Court's test for "anticipation of litigation," but that interpretation clearly still applies. In *National Tank*, the Court decided that an investigation is conducted in anticipation of litigation if it meets a two-prong test. In the *first prong*, the court is required to determine whether a reasonable person, based on the circumstances existing at the time of the investigation, would have anticipated litigation, even if litigation is not imminent. The *second prong* is subjective and requires a finding that the party invoking the privilege must have had a good faith belief that there is a substantial chance that litigation would ensue. Because of this test, it is wise to preface all work product communications with statements regarding the reasons for and circumstances surrounding the communication.

Like the attorney-client privilege, the work product privilege is subject to waiver, but the scope of a work product waiver is more limited. Work product protection can be destroyed or waived only by an action that substantially increases the possibility that an adversary in litigation will gain access to the work product documents.[171] For example, waiver will not result from

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(2) a communication made in anticipation of litigation or for trial between a party and the party's representatives or among a party's representatives.

[168] *See* Tex. R. Civ. P. 192.5(b) (1999), which provides in relevant part as follows:

(b) *Protection of work product.*

(1) *Protection of core work product -- attorney mental processes.* Core work product -- the work product of an attorney or an attorney's representative that contains the attorney's or the attorney's representative's mental impressions, opinions, conclusions, or legal theories -- is not discoverable.

(2) *Protection of other work product.* Any other work product is discoverable only upon a showing that the party seeking discovery has substantial need of the materials in the preparation of the party's case and that the party is unable without undue hardship to obtain the substantial equivalent of the material by other means.

[169] *See* Tex. R. Civ. P. 192.5(a) (1999).

[170] In *Owens-Corning Fiberglas v. Caldwell*, 818 S.W.2d 749, 751-52 (Tex. 1991), the Texas Supreme Court rejected the argument that the work product privilege applies only in the particular case in which it was generated, writing "we hold that the work product privilege in Texas is of continuing duration."

[171] In most jurisdictions, a waiver of the work-product protection can occur where the protected communications are disclosed in a manner which "substantially increases the opportunity for potential adversaries to obtain the information." *See Behnia v. Shapiro*, 176 F.R.D. 277, 279 (N.D.Ill. 1997); *see also* 8 WRIGHT, MILLER & MARCUS, FEDERAL PRACTICE AND PROCEDURE: CIVIL, § 2024, at 369 (1994). The question is whether the particular disclosure was of such a nature as to enable an adversary to gain access to the information. *See Behnia*, 176 F.R.D. at 279-80; *U.S. v. Amer. Tel. & Tel.*, 642 F.2d 1285, 1299 (D.C.Cir. 1980); *United States v. Gulf Oil Corp.*, 760 F.2d 292, 295 (Temp. Emer. Ct. App. 1985); *In re Grand Jury Subpoenas*, 561 F. Supp. 1247, 1257 (E.D.N.Y. 1982). In a minority of jurisdictions, the waiver of work product protection depends on whether the

disclosing work product information to a non-adversarial party with a common interest.[172] Disclosure under a confidentiality agreement militates against a finding of waiver, for it is evidence the party took steps to insure that its work product did not land in the hands of its adversaries.[173] Widespread disclosure, however, might prompt a court to find waiver from substantially increasing the probability that privileged information will fall into the hands of an adversary.[174] Disclosing work product documents to a government body, particularly where the government is an adversary, can result in privilege waiver.[175]

Rule 192.5 contains several limitations on the applicability of the work product doctrine. For example, Rule 192.5(c) lists five exceptions to the privilege, even if the material was created in anticipation of litigation.[176] These include trial exhibits, the identities of potential parties or witnesses, photographs, or information made specifically discoverable under other rules.[177] The rule also incorporates the exceptions applicable to the attorney-client privilege, such as crime-fraud.[178]

Work product has applied only to the work of attorneys and their representatives.[179] Rule 192.5 makes clear that material prepared, mental impressions developed and communications made in anticipation of litigation or for trial are privileged even if an attorney is not involved.[180] It is not clear how courts will interpret the scope of this type of work product, but it is conceivable that meetings of employees, directors or officers — without attorneys present — for the purpose of litigation strategy, preparation or investigation will be protected work product. One could argue that the new definition allows corporate clients to engage in critical self-evaluation and investigation on a confidential basis. On the other hand, this type of work product will be subject to disclosure under the substantial need/undue hardship exception, so the safer course would be to include an attorney in these meetings in order to invoke not only the work product doctrine but also the attorney-client privilege.

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parties share a common legal interest. In such jurisdictions, the courts will apply the same analysis as for the waiver of attorney-client privilege. *See In re Grand Jury Subpoenas 89-3 v. U.S.*, 902 F.2d 244, 248 (4th Cir. 1990).

172 *Gulf Oil*, 760 F.2d at 295; *In re Grand Jury*, 561 F. Supp. at 1257.

173 *Blanchard v. EdgeMark Financial Corp.*, 192 F.R.D., 233, 237 (N.D.Ill. 2000).

174 *Id.*

175 *See Westinghouse Elec. Corp. v. Republic of The Philippines*, 951 F.2d 1414, 1423-31 (3rd Cir. 1991); *In re Subpoenas Duces Tecum*, 738 F.2d 1367, 1369-75 (D.C. Cir. 1984); *United States v. Jones*, 696 F.2d 1069, 1072 (4th Cir. 1982); *but see Diversified Industries, Inc. v. Meredith*, 572 F.2d 596, 611 (8th Cir. 1977) (voluntary disclosure to a government agency waives the privilege only for the purpose of litigation against that government agency) and *Teachers Ins. and Annuity Ass'n v. Shamrock Broadcasting Co.*, 521 F.Supp. 638, 644-45 (S.D.N.Y. 1981) (disclosure waives the privilege only for the purpose of litigation against the agency if the disclosing party expressly reserves the privilege; otherwise, complete waiver occurs).

176 See Tex. R. Civ. P. 192.5(c) (1999).

177 *Id.*

178 See Tex. R. Civ. P. 192.5(c)(5) (1999) (incorporating the exceptions of Tex. R. Evid. 503(d)).

179 See Tex. R. Civ. P. 166b-3(a) (1998) (repealed) (stating that "the work product of an attorney" is protected from discovery).

180 See Tex. R. Civ. P. 192.5(a) (1999).

IX. THE PROBLEM OF THE INDEMNIFIED LAWYER - DIRECTOR

Frequently corporations indemnify officers and directors from liability that may result from their acts on behalf of the corporation. A lawyer serving the dual role of counsel and director may be prohibited from accepting the indemnity because lawyers are constrained in their ability to limit their liability for legal malpractice.[181]

X. THE SPECIAL PROBLEM OF CORPORATE COMPLIANCE

Corporate general counsel are frequently involved in creating the organizational management techniques designed to implement statutory compliance programs. There is a strong argument that this activity is a management activity and therefore no attorney-client privilege should attach to conversations and documents pertinent to this work. So far very little has been written about this problem.

At minimum, counsel must have substantial involvement in compliance efforts before the attorney-client privilege is even arguably applicable. If counsel neither directs nor conducts a compliance program, then the output of that program is unlikely to qualify for the privilege. In the final analysis, the objective of the general counsel's office in all compliance activity must be rendering legal advice in order for the privilege to attach,

One way to deal with the risk of losing the attorney-client privilege is to divide carefully the work of the general counsel's office into two distinct parts, physically separated and labeled to the extent possible:

A. The first part of this divided activity (probably privileged) would be the analysis of what the statutes require by way of compliance programs, and how those requirements translate to the daily business of the company;

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[181] *See* Rule 1.08 (g) Texas Disciplinary Rules (lawyer shall not "make an agreement prospectively limiting the lawyer's liability to a client for malpractice.....unless the client is independently represented in making the agreement..."); see also South Carolina Ethics Op. 85-30 (undated):

> A salaried lawyer employed by a corporation to provide legal counsel may not enter into an agreement with the corporation which provides that the lawyer is indemnified from any claims brought by the corporation or a third party that may arise as a result of any action taken by the lawyer during his employment. The agreement is improper with regard to limiting the lawyer's liability to his client, the corporation.

Virginia Legal Opinion No. 1211 (1989) agrees:

> Lawyers who are employed as in-house counsel may not enter into an agreement with their employer where the employer would agree to hold them harmless for personal malpractice committed in the course of their employment even if the employer engaged independent legal counsel. This is not permitted because the in-house counsel have an attorney-client relationship with their employer.

But cf. District of Columbia Ethics Opinion 193 where the committee argues that such indemnification is permitted since the corporate employer, a "sophisticated business entity," has made a "careful 'business judgment' in that it prefers to waive its rights of legal redress against its employees."

Note that the situation is different where the lawyer is being indemnified by the corporate client against claims of third parties for malpractice resulting from the attorney rendering advice to third parties at the corporate employer's request. Virginia Legal Opinion No. 877 (1987).

B. The second part of this divided activity (may not be privileged) would be the analysis of how to best translate particular legal requirements or liability standards into corporate conduct through compliance programs.

One common aspect of a statutory compliance scheme is an in-house mechanism for employees to report violations that they observe — whistleblower reports. As part of the compliance program it may be a requirement that these reports be made to the general counsel's office. The attorney-client privilege may not apply to such reports as they do not seem to be connected to some aspect of giving or seeking legal advice, and they are not created in anticipation of some particular litigation.

The Committee on Professional Ethics of New York State Bar[182] ruled on some aspects of a compliance program in which the involvement of the attorneys was first to answer a company help line and to receive complaints and reports of specific misconduct. In some cases, the callers were whistleblowers describing the misconduct of others, and in some cases the callers were individuals seeking advice about their own misconduct. The Committee found four types of ethical problems that might arise in this context:

> *First*, whenever it is apparent that a caller's individual interests may differ from those of the corporation, corporate counsel must identify himself as a representative of the corporation and not of any individual employee.
>
> *Second*, if an actual or potential conflict between the interests of the corporation and the caller is apparent the lawyer is precluded from giving the individual any advice other than to secure separate counsel.
>
> *Third*, if an actual or potential conflict is apparent and the lawyer knows that the caller is represented by a lawyer, counsel must not communicate without the consent of the individual's lawyer.
>
> *Fourth*, if counsel uses paralegal or legal assistants to undertake an investigation, counsel must maintain close oversight to avoid violation of any of the three principles set forth above.

In the case considered by the Committee, the corporation had a practice of requiring its attorneys to read a specific warning statement when the lawyer determined that a conflict of interest might exist. If the caller was not represented by counsel, the attorney's warning statement was as follows:

> *I want to caution you that I am an attorney for the Company and not for you or other employees. Therefore, while I can record your complaint, I cannot and will not give you legal advice, and you should not understand our conversation to consist of such advice. I do advise you to seek your own counsel, however, as your interests and the Company's may differ. Having said this, I would be happy to listen to your complaint.*

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[182] NY Eth. Op. 650 (1993).

The Committee concluded that this warning statement sufficiently informed employees about possible conflicts of interest and available courses of action.