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The Attorney-Client Privilege for In-House Counsel When Negotiating Contracts: A Response to Georgia-Pacific Corp. v. GAF Roofing Manufacturing Corp.

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THE ATTORNEY-CLIENT PRIVILEGE FOR IN-HOUSE COUNSEL WHEN NEGOTIATING CONTRACTS: A RESPONSE TO *GEORGIA-PACIFIC CORP. V. GAF ROOFING MANUFACTURING CORP.*

Traditionally, corporate executives in need of legal advice turned to private, outside law firms. Today, however, executives increasingly are seeking legal advice from "corporate" or "in-house" attorneys.[1] Studies estimate that ten percent of all practicing attorneys work for corporations.[2] The work of these attorneys has changed significantly in recent years. They routinely perform more substantive work, including litigation.[3] Corporations have found that in-house counsel can provide fast, effective legal advice for less cost than outside law firms because an in-house counsel has greater knowledge of the corporation and the issues that it routinely faces.[4]

Corporations turn to in-house counsel, as they do with all attorneys, in part because of the assurance that the attorney-client privilege will guard from public view communications between attorneys and corporate executives.[5] For in-house counsel, however, defining and maintaining that privilege involves unique risks and problems.[6] In-house counsel often perform dual roles, acting as both executives and attorneys.[7] Additionally, attorneys

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1. *See* Grace M. Giesel, *The Business Client Is A Woman: The Effect of Women As In-House Counsel on Women in Law Firms and the Legal Profession*, 72 NEB. L. REV. 760, 790-92 (1993) (describing the changing role of in-house counsels); Susan Adams, *Catch-22*, FORBES, May 6, 1996, at 49.

2. *See* Thomas B. Metzloff, *Ethical Consideration for the Corporate Legal Counsel, in* THE ROLE OF CORPORATE COUNSEL IN LITIGATION 109, 111 (ALI-ABA Course of Study Materials No. C566, 1990).

3. *See id.*

4. *See* EVE SPANGLER, LAWYERS FOR HIRE: SALARIED PROFESSIONALS AT WORK 71 (1986) (estimating that the cost of legal work done in-house is 35% to 50% less than the cost of comparable work referred out).

5. The privilege shields communications involving legal advice between attorneys and their clients from the discovery process. *See* PAUL R. RICE, ATTORNEY-CLIENT PRIVILEGE IN THE UNITED STATES § 2:1 (1993).

6. *See infra* notes 63-67 and accompanying text.

7. *See* Scott R. Flucke, Comment, *The Attorney-Client Privilege in the Corporate*

without formal business duties often intermingle business advice with legal advice.[8] Although courts have held that the attorney-client privilege does not protect business advice provided by an attorney,[9] these same courts have failed to articulate clearly when the privilege protects communications containing mixed legal and business advice.[10] Apart from vague generalities and vacuous oracular statements,[11] courts have failed to establish a useful set of principles that would enable attorneys and clients to determine when the attorney-client privilege will shield mixed legal and business communications.[12] An in-house counsel's plight is even more precarious because courts are reluctant to presume that the attorney-client privilege will protect an in-house counsel's communications—a presumption enjoyed by outside attorneys.[13] Given the difficulty defining what is a protected mixed business and legal discussion and the apparent judicial prejudice against in-house counsel, corporations and their in-house counsel confront great uncertainty about the scope of the attorney-client privilege.

An effective evidentiary privilege cannot exist in a sea of uncertainty. As then-Justice William Rehnquist stated in his majority opinion in *Upjohn Co. v. United States*:[14] "An uncertain privilege, or one which purports to be certain but results in widely varying applications by the courts, is little better than no privilege at all."[15] The uncertainty surrounding the attorney-client privilege for in-house counsel threatens to vitiate the benefits of the privilege for corporate clients and to lessen the benefits corporations receive from maintaining in-house legal departments.[16]

Setting: Counsel's Dual Role as Attorney and Executive, 62 UMKC L. REV. 549 (1994).

8. *See* Shira A. Scheindlin, *Legal/Business Advice Dichotomy*, N.Y. L.J., Aug. 5, 1993, at 7.

9. *See* 8 JOHN HENRY WIGMORE, EVIDENCE §§ 2296-312 (McNaughton rev. 1961).

10. *See* RICE, *supra* note 5, § 7:6, at 508-10.

11. *See id.* § 7:9, at 522.

12. *See id.*

13. *See In re* Sealed Case, 737 F.2d 94, 99 (D.C. Cir. 1984) (protecting communications of an in-house counsel "only upon a clear showing that [an in-house counsel] gave [advice] in a professional legal capacity"); RICE, *supra* note 5, § 7:1.

14. 449 U.S. 383 (1981).

15. *Id.* at 393.

16. *See* Grace M. Giesel, *The Legal Advice Requirment of the Attorney-Client Privi-*

The uncertainty faced by in-house counsel was highlighted by the *Georgia-Pacific Corp. v. GAF Roofing Manufacturing Corp.*[17] decision. *Georgia-Pacific* held that the attorney-client privilege did not apply to conversations between corporate officers and an in-house counsel who negotiated a complex environmental liability provision of a commercial contract.[18] This decision sent shock waves through the corporate legal community,[19] raising new concerns about an attorney's ability to serve as a negotiator while retaining the protections of the attorney-client privilege.[20]

This Note examines the *Georgia-Pacific* decision and argues that courts should adopt a new standard for determining when the attorney-client privilege protects a mixed business and legal discussion between a client and an in-house counsel serving as a negotiator. After exploring the history and rationale for the attorney-client privilege,[21] this Note identifies the unique problems faced by corporations and in-house counsel.[22] This discussion is followed by an outline of the decisions applying the attorney-client privilege to corporations and in-house counsel.[23] Next, this Note examines the role of the attorney-negotiator[24] and focuses on the few cases that have applied the attorney-client privilege in this context.[25] The next section discusses *Georgia-Pacific* and its variance from established precedent,

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lege: A Special Problem for In-House Counsel and Outside Attorneys Representing Corporations, 48 MERCER L. REV. 1169, 1171-72 (1997).

17. No. 93 Civ. 5125 (RPP), 1996 WL 29392, at *1 (S.D.N.Y. Jan. 25, 1996).

18. *See id.* at *5.

19. *See, e.g.*, Adams, *supra* note 1, at 49; Kenneth J. Berke, *Erosion of Attorney-Client Privilege*, ENVTL. COMPLIANCE & LITIG. STRATEGY, Oct. 1996, at 5; *Dual Role Hurts: Contract Negotiator Loses Attorney-Client Privilege*, CORP. COUNS., Feb. 1996, at 1; David G. Keyco, *Privilege for Inside Counsel Communications: The Problem of Dual Roles*, INSIGHTS, July 1996, at 30; Claudia MacLachlan, *Corporate Counsel Defend Attorney-Client Privilege*, NAT'L L.J., July 29, 1996, at B1; Lori Tripoli, *Privilege Narrows for In-House Counsel*, ENVTL. COMPLIANCE & LITIG. STRATEGY, Feb. 1996, at 1.

20. *See* Berke, *supra* note 19, at 5 (arguing that the *Georgia-Pacific* decision "single-handedly decimated the attorney-client privilege for communications between in-house counsel and management during contract negotiations").

21. *See infra* notes 29-49 and accompanying text.

22. *See infra* notes 50-84 and accompanying text.

23. *See infra* notes 85-160 and accompanying text.

24. *See infra* notes 161-65 and accompanying text.

25. *See infra* notes 166-91 and accompanying text.

arguing that the uncertainty evident in the decision beckons a new legal standard.[26] This Note concludes by articulating a new test for determining when an attorney-negotiator should be covered by the attorney-client privilege: the "significant amount" standard.[27] Because this new standard will provide certainty to corporations and in-house counsel, it will better fulfill the policy behind the corporate attorney-client privilege: encouraging corporations to seek legal advice so that in-house counsel can practice "preventive law."[28]

THE HISTORY AND RATIONALE OF THE ATTORNEY-CLIENT PRIVILEGE

The attorney-client privilege is the oldest common law privilege granting confidentiality to communications.[29] Commentators have traced the privilege's roots to the Roman Republic,[30] and it was established firmly in Anglo jurisprudence by the reign of Elizabeth I in the 1600s.[31] The privilege shields communications between a client and his attorney from discovery, providing an environment within which a client can discuss candidly his legal problems.[32] Wigmore defined the privilege 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.[33]

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26. *See infra* notes 192-268 and accompanying text.

27. *See infra* notes 269-92 and accompanying text.

28. "Preventive law" entails providing advice to corporations so that they can avoid legal disputes and regulatory infractions. *See* JOHN WILLIAM GERGACZ, ATTORNEY-CORPORATE CLIENT PRIVILEGE, ¶ 1.03[1], at 1-9 (2d ed. 1990).

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

30. *See* Max Radin, *The Privilege of Confidential Communication Between Lawyer and Client*, 16 CAL. L. REV. 487, 487-88 (1928).

31. *See* 8 WIGMORE, *supra* note 9, § 2290.

32. *See* Thomas W. Hyland & Molly Hood Craig, *Attorney-Client Privilege and Work Product Doctrine in the Corporate Setting*, 62 DEF. COUNS. J. 553, 553 (1995).

33. 8 WIGMORE, *supra* note 9, § 2292, at 554 (emphasis deleted).

The privilege was based originally on "*the oath and the honor* of the attorney" and the notion that the attorney as a gentleman would not reveal the confidences of his clients.[34] By the eighteenth century, the privilege had begun to fall out of favor because judges believed it was an impediment to the judicial search for truth—a concern that lingers today.[35]

By the nineteenth century, the privilege regained vigor as courts recognized its utilitarian benefits.[36] Wigmore suggested that the privilege regained its lost prominence because the privilege "promote[s] freedom of consultation of legal advisers by clients."[37] The U.S. Supreme Court approved of the "encouragement of open discussion" rationale in *Upjohn*, in which the Court stated:

> [The attorney-client privilege's] purpose is 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. The privilege recognizes that sound legal advice or advocacy serves public ends and that such advice or advocacy depends upon the lawyer's being fully informed by the client.[38]

Although commentators and courts have recognized the theoretical benefits of the privilege for decades, the privilege is constrained by a tension between the more ephemeral goal of encouraging a free flow of information between client and attorney and the very concrete impediments the privilege poses to the discovery process.[39] The benefits of the privilege are indirect, but "its obstruction is plain and concrete."[40] As one commentator notes: "a tension exists between the secrecy required to effec-

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34. *Id.* § 2290, at 543; *see also* John E. Sexton, *A Post-*Upjohn *Consideration of the Corporate Attorney-Client Privilege*, 57 N.Y.U. L. REV. 443, 445-46 (1982) (discussing the historical background of and justifications for the privilege).

35. *See* Sexton, *supra* note 34, at 446.

36. *See id.*

37. 8 WIGMORE, *supra* note 9, § 2291, at 545.

38. Upjohn Co. v. United States, 449 U.S. 383, 389 (1981).

39. *See* Sexton, *supra* note 34, at 446.

40. 8 WIGMORE, *supra* note 9, § 2291, at 554.

tuate the privilege and the openness demanded by the fact-finding process."[41]

Nevertheless, the privilege itself does not hide facts from a court; it only protects communications between an attorney and a client.[42] As the Supreme Court noted in *Upjohn*: "The privilege only protects disclosure of communications; it does not protect disclosure of the underlying facts by those who communicated with the attorney . . . ."[43] The privilege may make a court's discovery of relevant facts more cumbersome, but the privilege does not forever shield the facts from the judge and jury—it only requires more vigorous lawyering.[44] As Justice Jackson noted in his concurring opinion in *Hickman v. Taylor*:[45] "Discovery was hardly intended to enable a learned profession to perform its functions on wits borrowed from the adversary."[46]

Courts have dealt unsuccessfully with the thorny task of striking a balance between clients' interest in confidential communications and the justice system's interest in full disclosure.[47] As John William Gergacz states in *Attorney-Corporate Client Privilege*: "it is clear that too much information protected by the privilege doctrine will be an obstacle to justice; as will too great a client risk of attorney disclosure."[48] Owing to this uncertainty, judges have been reluctant to expand the privilege, and Wigmore encouraged courts to confine it to "the narrowest possible limits consistent with the logic of its principle."[49]

THE UNIQUE ROLE OF CORPORATIONS AND IN-HOUSE COUNSEL

When corporations have sought to enforce the privilege, courts have been even more reluctant to shield communications from the discovery process.[50] A fundamental source of judicial ambiv-

41. Sexton, *supra* note 34, at 446.
42. *See Upjohn*, 449 U.S. at 395.
43. *Id.*
44. *See id.*
45. 329 U.S. 495 (1947).
46. *Id.* at 516 (Jackson, J., concurring).
47. *See* GERGACZ, *supra* note 28, ¶ 1.04[1].
48. *Id.*
49. 8 WIGMORE, *supra* note 9, § 2291, at 554.
50. *See* Giesel, *supra* note 16, at 1203-07.

alence to protecting corporate-attorney communications is the nature of corporations.[51] They are inanimate, artificial entities lacking human qualities respected by the legal system, such as personal dignity and privacy.[52] Chief Justice John Marshall's classic definition of the corporation touches on this difference:

> A corporation is an artificial being, invisible, intangible, and existing only in contemplation of law. Being the mere creature of law, it possesses only those properties which the charter of its creations confers upon it, either expressly, or as incidental to its very existence. These are such as are supposed best calculated to effect the object for which it was created. Among the most important are immortality, and, if the expression may be allowed, individuality . . . .[53]

A crucial difference between a corporation and a natural individual arises in the context of confidentiality. A corporation has many different avenues that can be used to communicate with counsel, from management to line workers to outside advisors.[54] Because a corporation is a creation of law, it cannot communicate directly with counsel. An individual, however, communicates directly with counsel.[55] This difference renders the need for confidentiality between counsel and the corporation less convincing. Additionally, because so many people are involved in corporations,[56] there is a higher likelihood that a corporation will lose an established privilege through waiver by one of its many agents.[57]

An additional concern regarding the privilege's application to corporations is the special ability of a corporation, as opposed to an individual, to construct policies to keep information purposely

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51. *See* Michael L. Waldman, *Beyond* Upjohn*: The Attorney-Client Privilege in the Corporate Context*, 28 WM. & MARY L. REV. 473, 475-76 (1987).

52. *See id.* at 475.

53. Trustees of Dartmouth College v. Woodward, 17 U.S. (4 Wheat.) 518, 636 (1819).

54. *See* Waldman, *supra* note 51, at 475-76.

55. *See id.*

56. *See id.* at 476.

57. For an extensive treatment of the waiver doctrine, see RICE, *supra* note 5, §§ 9:1-9:94.

and unnecessarily under the privilege.[58] As one court noted: "in the corporate context, given the large number of employees, frequent dealings with lawyers and masses of documents, the 'zone of silence grows large.'"[59]

The nature of corporate activities, however, makes access to attorneys imperative. As the Supreme Court observed in *Upjohn*: "In light of the vast and complicated array of regulatory legislation confronting the modern corporation, corporations, unlike most individuals, 'constantly go to lawyers to find out how to obey the law.'"[60] This pressing corporate need for legal advice has led some commentators to argue that corporations have enough incentives to seek legal advice and, thus, do not need the same protections from the attorney-client privilege.[61] Fiduciary and statutory duties requiring management to keep informed about activities within an organization and the duty to avoid decisions that would subject the corporation to legal problems, it is argued, provide sufficient encouragement for corporate management to seek legal advice, irrespective of the confidentiality protection provided by the attorney-client privilege.[62]

As if a corporation's ability to maintain the attorney-client privilege was not difficult enough, the problems increase when a corporation seeks to shield a communication with an in-house counsel. In-house counsel often find themselves performing multiple roles, involving both legal and nonlegal matters.[63] When attorneys act in these dual roles, courts have great difficulty distinguishing between activities that involve providing legal advice and those that are grounded in the attorney's role as a

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58. *See* Sexton, *supra* note 34, at 478.

59. Consolidation Coal Co. v. Bucyrus-Erie Co., 432 N.E.2d 250, 256-57 (Ill. 1982) (quoting David Simon, *The Attorney-Client Privilege as Applied to Corporations*, 65 YALE L.J. 953, 955 (1956)).

60. Upjohn Co. v. United States, 449 U.S. 383, 392 (1981) (quoting Bryson P. Burnham, *The Attorney-Client Privilege in the Corporate Arena*, 24 BUS. LAW. 901, 913 (1969)).

61. *See* Glen Weissenberger, *Toward Precision in the Application of the Attorney-Client Privilege for Corporations*, 65 IOWA L. REV. 899, 902-06 (1980); Comment, *Attorney-Client Privilege for Corporate Clients: The Control Group Test*, 84 HARV. L. REV. 424, 427-29 (1970); Note, *The Attorney-Client Privilege: Fixed Rules, Balancing and Constitutional Entitlement*, 91 HARV. L. REV. 464, 473-77 (1977).

62. *See* GERGACZ, *supra* note 28, ¶ 1.04[1][b][i].

63. *See* Flucke, *supra* note 7, at 549.

business executive.[64] This ambiguity has created problems maintaining the attorney-client privilege, but corporations have nevertheless increased their use of in-house counsel for both legal and business advice.[65]

Beyond the concerns about in-house counsel providing both business and legal advice, some judges have been reluctant to apply the privilege to in-house counsel because they fear that in-house counsel do not have the independence required to provide balanced legal advice.[66] As one commentator observes:

> Not only must [the in-house lawyer] be sensitive to the interest and activities of his employer, but he must take due account of the opinions and attitudes of his superiors . . . . [P]ermanent involvement with the activities of one firm and direct dependence on this firm for their salary is thought to lead in-house lawyers to identify themselves with the firm's interests to the detriment of their independence . . . .[67]

Concerns about the independence of in-house counsel, however, are misplaced. In many situations, outside counsel may be so dependent upon an individual client that he is no more "independent" than an in-house attorney.[68] Furthermore, the Model

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64. *See id.*; Giesel, *supra* note 16, at 1171.

65. *See* SPANGLER, *supra* note 4, at 71; Adams, *supra* note 1, at 49; Scheindlin, *supra* note 8, at 7.

66. In fact, the European Court of Justice, the European Community's highest judicial body, decided that in-house counsel would not be given the attorney-client privilege primarily because of independence concerns. *See* Case 155/79, AM & S Europe Ltd. v. Commission, 1982 E.C.R. 1575, 1611. The court held that the attorney-client privilege "emanate[s] from independent lawyers, that is to say, lawyers who are not bound to the client by a relationship of employment." *Id.* For a discussion of the *AM & S* case and the attorney-client privilege's application to in-house counsel in the European Community, see Alison M. Hill, Note, *A Problem of Privilege: In-House Counsel and the Attorney-Client Privilege in the United States and the European Community*, 27 CASE W. RES. J. INT'L L. 145 (1995).

67. Theofanis Christoforou, *Protection of Legal Privilege in EEC Competition Law: The Imperfections of a Case*, 9 FORDHAM INT'L L.J. 1, 16 (1985-86).

68. *See* Hill, *supra* note 66, at 189-90; Morris W. Hirsch, *The Pendulum Swings Back:* General Dynamics *and Other Signs of Changing Fortunes of In-House Counsel*, NEV. LAW., Mar. 1995, at 13, 15 ("Thus, as a practical matter in this highly competitive environment, law firms generally are more subject to pressure to conform to the desires of individual employees (the more senior the employee, the greater the pressure) than are in-house lawyers.").

Rules of Professional Conduct do not differentiate between outside and inside counsel.[69] In-house counsel are bound by the same ethical constraints as an attorney at an "independent" law firm.[70] Additionally, in-house counsel have won suits for retaliatory discharge after being fired for providing undesirable advice to their supervisors.[71] This newfound employment law protection for in-house counsel suggests that they have a high measure of independence from their employer regarding the content of their legal advice. Despite these mitigating factors, which should alleviate judges' concerns regarding the independence of in-house counsel, courts have continued to give outside counsel the presumption that their activities are legal in nature, while denying that same presumption to in-house counsel.[72]

Applying the attorney-client privilege to in-house counsel, however, has significant benefits for both the corporation and society.[73] If the privilege did not apply to in-house counsel, corporate officers would be less likely to consult, or even hire, in-house counsel because, absent the privilege, in-house counsel could become a repository of easily discoverable facts for opposing counsel.[74] As Gergacz states:

> [The privilege] encourages intraorganizational candor by making counsel a protected source for giving legal advice. The basis for this candor is management's perception of the value of legal advice and the realization that its costs will not include creating a reservoir of information that would be readily available to be used against the corporation.[75]

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69. *See* MODEL RULES OF PROFESSIONAL CONDUCT terminology (1995) (defining "[f]irm" and "law firm" to encompass "the legal department of a corporation or other organization").

70. *See* Hill, *supra* note 66, at 184.

71. *See, e.g.*, General Dynamics Corp. v. Superior Court, 876 P.2d 487 (Cal. 1994); Sara A. Corello, Note, *In-House Counsel's Right to Sue for Retaliatory Discharge*, 92 COLUM. L. REV. 389, 402 (1992) (summarizing cases).

72. *See* RICE, *supra* note 5, § 7:1. For a discussion of the judicial bias against in-house counsel, see Giesel, *supra* note 16, at 1206-15.

73. *See* GERGACZ, *supra* note 28, ¶ 1.03[1].

74. *See id.* ¶ 1.04[1][b][i].

75. *Id.* ¶ 1.04[1][b][ii], at 1-16 to 1-17.

As opposed to a confidential source of valuable legal advice provided at a low cost, an in-house counsel without the attorney-client privilege would be a ticking time bomb waiting to explode when the corporation is sued.[76] Opposing counsel would know that they could discover information about all potential legal conflicts by subpoenaing the in-house counsel because the privilege would not protect information flowing through the general counsel's office.[77] Such a scenario brings to life Justice Jackson's fear that "a learned profession [would] perform its functions . . . on wits borrowed from the adversary."[78]

The fiduciary and statutory duties of corporate officers and directors provide some incentives for consulting with attorneys.[79] Absent the attorney-client privilege, however, the in-house counsel likely would be viewed more as a litigation liability than as an aid to business.[80] The fiduciary incentives to seek advice from in-house counsel nearly would be eliminated if the corporation came to view the in-house counsel not as a useful counselor, but as an organizational threat.[81]

Furthermore, applying the privilege to in-house counsel encourages these attorneys to provide their most socially valuable activity: practicing preventive law.[82] In-house counsel, given the candor created by the attorney-client privilege, can help a corporation by reviewing business practices to make sure they comply with the law and by ensuring that business transactions protect a corporation's interests.[83] Absent the in-house counsel performing these functions, regulatory infractions would be more frequent and the interests of corporations would not be protected adequately. Both of these results likely would cause corporations to turn to an already strained judicial system to resolve their disputes. If, however, the attorney-client privilege can enhance

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76. *See id.*
77. *See id.*
78. Hickman v. Taylor, 329 U.S. 495, 516 (1947) (Jackson, J., concurring); *see supra* text accompanying note 46.
79. *See supra* notes 61-62 and accompanying text.
80. *See* GERGACZ, *supra* note 28, ¶ 1.04[1][b][i].
81. *See id.*
82. *See supra* note 28 and accompanying text.
83. *See* GERGACZ, *supra* note 28, ¶ 1.03[1], at 1-9.

the ability of in-house counsel to perform preventive law, then "fewer problems [will] arise for clients and the more efficiently the legal system will operate."[84] The corporate attorney-client privilege thus serves the vital role of preserving judicial resources, even when the in-house counsel navigates the dreary world of corporate transactions, far removed from the likelihood of pending litigation.

THE ATTORNEY-CLIENT PRIVILEGE APPLIED TO CORPORATIONS AND IN-HOUSE COUNSEL

Although the U.S. Supreme Court had, without much discussion, applied the attorney-client privilege to a corporation in a 1915 opinion,[85] the modern jurisprudence on the corporate attorney-client privilege began in earnest with Judge Campbell's opinion in *Radiant Burners, Inc. v. American Gas Ass'n.*[86] Claiming that no previous court had addressed the issue expressly, Judge Campbell held that "a corporation is not entitled to make claim to the [attorney-client] privilege."[87] Judge Campbell refused to apply the privilege to the corporation because, in his opinion, the privilege was "fundamentally personal in nature."[88] He further opined that the flow of information through the many avenues of the corporate structure undermined the need to protect the confidentiality of communications with attorneys.[89]

The U.S. Court of Appeals for the Seventh Circuit unanimously reversed Judge Campbell's decision, holding that "[a] corpora-

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84. *Id.*

85. *See* United States v. Louisville & Nashville R.R. Co., 236 U.S. 318, 336 (1915). The Court applied the privilege to a corporation and its outside lawyers, noting only that:

> The desirability of protecting confidential communications between attorney and client as a matter of public policy is too well known and has been too often recognized by text-books and courts to need extended comment now. If such communications were required to be made the subject of examination and publication, such enactment would be a practical prohibition upon professional advice and assistance.

Id.

86. 207 F. Supp. 771 (N.D. Ill. 1962), *rev'd en banc*, 320 F.2d 314 (7th Cir. 1963).

87. *Id.* at 773.

88. *Id.*

89. *See id.* at 773-74

tion is entitled to the same treatment as any other 'client'—no more and no less."[90] Although the Seventh Circuit decisively rebuked Judge Campbell, his opinion articulated many of the concerns about applying the privilege to corporations, and modern courts that restrict the corporate attorney-client privilege often echo Judge Campbell's reasoning.[91] His opinion prompted other courts to reexamine the policies underlying the privilege, and his refutation of the confidentiality rationale weakened the privilege's justification in the corporate context.[92] Despite the rebuke from the Seventh Circuit, Judge Campbell's reasoning has had "significant doctrinal consequences" on the development of the corporate attorney-client privilege.[93]

Once courts established that a corporate attorney-client privilege existed, they grappled with what communications within a corporation should be protected. During the 1960s and 1970s, lower courts developed two tests to determine whether the privilege covered a corporate officer's discussion with an attorney: the "control group" test and the "subject matter" test.

The control group test was established in *City of Philadelphia v. Westinghouse Electric Corp.*[94] At issue were interviews conducted by the General Electric Company's general counsel in the course of an internal investigation involving a pending indictment of the corporation.[95] The court rejected the analysis and holding of *United States v. United Shoe Machinery Corp.*,[96] which extended the attorney-client privilege to communications from every employee to an in-house counsel.[97] Relying heavily on *Hickman v. Taylor*,[98] the court focused its analysis on the communicating employee's position within the company.[99] As the court stated:

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90. Radiant Burners, Inc. v. American Gas Ass'n, 320 F.2d 314, 324 (7th Cir. 1963) (en banc).

91. *See* R. David White, Radiant Burners *Still Radiating: Attorney-Client Privilege for the Corporation*, 23 S. TEX. L.J. 293, 294 (1982).

92. *See* Waldman, *supra* note 51, at 479-81.

93. *Id.* at 479.

94. 210 F. Supp. 483 (E.D. Pa. 1962).

95. *See id.* at 484.

96. 89 F. Supp. 357 (D. Mass. 1950).

97. *See id.* at 360.

98. 329 U.S. 495 (1947) (establishing the work-product doctrine).

99. *See Westinghouse Elec.*, 210 F. Supp. at 485.

> [I]f the employee making the communication, of whatever rank he may be, is in a position to control or even to take a substantial part in a decision about any action which the corporation may take upon the advice of the attorney, or if he is an authorized member of a body or group which has that authority, then, in effect, he is (or personifies) the corporation when he makes his disclosure to the lawyer and the privilege would apply.[100]

In the first application of the control group test, the court declined to apply the privilege to communications between the general counsel and the employees regarding answers to interrogatories.[101] This new test ushered in an era of uncertainty because it required courts to determine who was in the control group with regard to each decision.[102] Making this determination proved difficult because the control group differed for each corporation and, indeed, for each corporate decision.[103] As Paul Rice states in *Attorney-Client Privilege in the United States*, the "inherent ambiguity [of the definition of control group] . . . diminishe[d] the predictability that the application of the privilege must have in order to effectively achieve its goal of encouraging open communications."[104] Although courts criticized the test for limiting the free flow of information to in-house counsel and for its other flaws, before *Upjohn* most courts employed the control group test.[105]

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100. *Id.*

101. *See id.* at 486.

102. *See* RICE, *supra* note 5, § 4:13.

103. The *Westinghouse Electric* court noted that even a lower level employee such as "the head of the Claims Department" might claim the privilege if he had the power to act on advice without consulting the Board of Directors. *Westinghouse Elec.*, 210 F. Supp. at 486. Necessarily, the head of claims might have the privilege with regard to some decisions, but not to others. The control group test would require the in-house counsel to analyze the power structure for each management decision before knowing whether a communication would receive the protection of the attorney-client privilege. *See* RICE, *supra* note 5, § 4:13.

104. RICE, *supra* note 5, § 4:13, at 4-35.

105. *See* Upjohn Co. v. United States, 449 U.S. 383, 392 (1981); GERGACZ, *supra* note 28, ¶ 3.02[3][a][i].

The competing analysis was the subject matter test developed in *Harper & Row Publishers, Inc. v. Decker*.[106] The dispute in *Harper & Row* involved memoranda prepared by defense attorneys upon debriefing the defendant's employees and former employees after each had testified before a federal grand jury.[107] The court summarily dismissed the control group test as "not wholly adequate."[108] As an alternative to the control group test, the court held that the privilege applied when

> an employee of a corporation, though not a member of its control group, is sufficiently identified with the corporation so that his communication to the corporation's attorney is privileged where the employee makes the communication at the direction of his superiors in the corporation and where the subject matter upon which the attorney's advice is sought by the corporation and dealt with in the communication is the performance by the employee of the duties of his employment.[109]

The subject matter test significantly expanded the attorney-client privilege and improved upon the control group test because it recognized that even low-level corporate employees could have information important to the in-house counsel.[110] Commentators and courts, however, feared that this test encouraged the funneling of information to in-house counsel by corporate employees and could be used by a crafty corporation to shield relevant information from the fact-finder.[111] Although other courts modified and applied the subject matter approach, the test did not receive universal acceptance.[112]

In *Upjohn Co. v. United States*,[113] the Supreme Court addressed the split among the circuits regarding the scope of the

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106. 423 F.2d 487 (7th Cir. 1970), *aff'd by an equally divided Court*, 400 U.S. 348 (1971).
107. *See id.* at 490.
108. *Id.* at 491.
109. *Id.* at 491-92.
110. *See* GERGACZ, *supra* note 28, ¶ 3.02[3][a][ii].
111. *See id.*
112. *See id.*
113. 449 U.S. 383 (1981).

corporate attorney-client privilege. The case arose because of Upjohn's internal investigation of allegations that its officers used bribes and kickbacks to secure contracts from foreign governments.[114] As part of this investigation, a questionnaire was sent to "All Foreign General and Area Managers," over the chairman of the board's signature, asking for detailed information about any payments to foreign officials.[115] The questionnaires were returned directly to Upjohn's general counsel.[116] The general counsel compiled a report on foreign payments and sent it to the U.S. Securities and Exchange Commission and the Internal Revenue Service (IRS).[117] The IRS subsequently issued a summons for the written questionnaires sent to the managers, but Upjohn refused to provide them, claiming that the attorney-client privilege protected the documents.[118]

Justice Rehnquist's majority opinion explicitly rejected the control group test.[119] He observed that the privilege exists not only for conversations that convey professional legal advice, but also for those conversations that provide an attorney with the information needed to render sound and informed counsel.[120] The Court noted that an in-house counsel needs to gather information from lower-level employees to give effective advice to upper-level management.[121] Absent the protections of the attorney-client privilege, lower-level employees would be reluctant to provide information to counsel.[122] These factors led the Court to reject the control group test, stating:

> [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 narrow scope given the attorney-client privilege by the court below

114. *See id.* at 386.
115. *See id.* at 386-87.
116. *See id.* at 387.
117. *See id.*
118. *See id.* at 387-88.
119. *See id.* at 392-97.
120. *See id.* at 390.
121. *See id.* at 391.
122. *See id.* at 391-92.

> not only makes it difficult for corporate attorneys to formulate sound advice when their client is faced with a specific legal problem but also threatens to limit the valuable efforts of corporate counsel to ensure their client's compliance with the law.[123]

The Court also faulted the control group test because it was difficult to apply in practice.[124] Although no judicial standard could decide the issue with "mathematical precision," Justice Rehnquist noted that "if the purpose of the attorney-client privilege is to be served, the attorney and client must be able to predict with some degree of certainty whether particular discussions will be protected."[125] The search for certainty was a major factor in the Court's rejection of the control group test.

The Court set as its goal the achievement of a certain and easily applied rule,[126] but it failed to add a needed dose of predictability to the application of the attorney-client privilege.[127] In the end, the Court held that the privilege covered the questionnaires[128] without explicitly adopting the subject matter test.[129] Instead, Justice Rehnquist stated: "We are acutely aware, however, that we sit to decide concrete cases and not abstract propositions of law. We decline to lay down a broad rule or series of rules to govern all conceivable future questions in this area, even were we able to do so."[130]

The Court's failure to articulate a standard for the corporate attorney-client privilege prompted vigorous criticism. Chief Justice Burger's concurring opinion chastised the Court for failing to meet its self-imposed goal of achieving certainty.[131] Addi-

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123. *Id.* at 392.
124. *See id.* at 393.
125. *Id.*
126. *See id.*
127. *See id.* at 402-04 (Burger, C.J., concurring in part and concurring in the judgment); Jacqueline A. Weiss, Note, *Beyond* Upjohn: *Achieving Certainty by Expanding the Scope of the Corporate Attorney-Client Privilege*, 50 FORDHAM L. REV. 1182, 1184 (1982).
128. *See Upjohn*, 449 U.S. at 396.
129. *See id.* at 392.
130. *Id.*
131. *See id.* at 402-04 (Burger, C.J., concurring in part and concurring in the judg-

tionally, some have criticized the majority decision for failing to explain properly the rationale behind the corporate attorney-client privilege.[132] Furthermore, commentators faulted *Upjohn* for basing its holding on the assumption that companies will try to voluntarily comply with the law, but not requiring voluntary compliance with the law to receive the benefits of the privilege.[133] The privilege thus extends to situations in which this underlying assumption is not valid, such as when a corporation is trying to circumvent the law.[134]

Nevertheless, the opinion is a milestone in the development of the corporate attorney-client privilege and gives some explanation of the rationale for the privilege. As one commentator states, the Court in *Upjohn* "utilized a functional mode of analysis . . . it asked whether the application of the privilege in circumstances of the kind at issue would enhance the flow of information to corporate counsel regarding issues about which corporations seek legal advice."[135] The Court answered that question in the affirmative and further grounded the corporate attorney-client privilege in precedent, making a small step toward defining when the privilege would cover some conversations within a corporation.

Although the Court has grappled with the issue of which employees are covered by the corporate attorney-client privilege, it has never addressed when the privilege should cover an attorney's mixed business and legal advice. The privilege has not been extended to any member of the bar who doles out

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ment). Chief Justice Burger recommended that the privilege apply when an attorney is authorized by management to inquire into a subject and the information is sought to help: (1) evaluate whether the employee's conduct has or would bind the corporation, (2) assess the legal consequences, if any, of that conduct, or (3) formulate appropriate legal responses to actions that have been or may be taken by others with regard to that conduct. *See id.* (Burger, C.J., concurring in part and concurring in the judgment).

132. *See* Waldman, *supra* note 51, at 491-93 (complaining that the Court did not address the *Radiant Burner* rationale for limiting the privilege and further criticizing the Court for (1) making "no attempt to justify its primary assumption that the attorney-client privilege should apply in the corporate context" and (2) ignoring the costs to society of extending the attorney-client privilege to corporations).

133. *See* Sexton, *supra* note 34, at 471.

134. *See id.*

135. *Id.* at 462.

business advice; courts have consistently denied the attorney-client-privilege protection's to such nonlegal communications.[136] Courts, however, are less adept at deciding when mixed business and legal advice should receive the privilege's protections.[137] As one commentator noted, courts "are unable to discern whether the lawyer's role was solely, predominantly, or marginally for legal purposes."[138] Part of the courts' difficulty is that almost every transaction a corporation engages in, from personnel changes to creating complex commercial agreements, has some legal ramifications.[139]

Applying the attorney-client privilege in the corporate setting creates several problems. First, what is legal advice? Rice notes that the following two factors have been considered indicative: (1) interpretation and application of legal principles to specific facts in order to guide future conduct and (2) performance of the type of services that the attorney's education and certification qualify him to render for compensation.[140] Nevertheless, to gain the privilege's protection an attorney need not prove that the task could not have been accomplished easily by a nonlawyer[141] or that the task was completed in anticipation of litigation.[142] Rice notes that "beyond these generalities" the "law provides no standards . . . for distinguishing legal advice from nonlegal advice."[143]

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136. *See* 8 WIGMORE, *supra* note 9, §§ 2300-312.

137. *See* Giesel, *supra* note 16, at 1171; Waldman, *supra* note 51, at 494.

138. Waldman, *supra* note 51, at 494.

139. *See id.*

140. *See* RICE, *supra* note 5, § 7:9.

141. *See, e.g.*, Attorney General v. Covington & Burling, 430 F. Supp. 1117, 1121 (D.D.C. 1977); Chore-Time Equip., Inc. v. Big Dutchman, Inc., 255 F. Supp. 1020, 1023 (W.D. Mich. 1966); *see also* Ellis-Foster Co. v. Union Carbide & Carbon Corp., 159 F. Supp. 917, 920 (D.N.J. 1958) (considering a nonlawyer's ability to perform the task as a factor, but not as a requirement for the application of the privilege).

142. *See* Coastal States Gas Corp. v. Department of Energy, 617 F.2d 854, 862 (D.C. Cir. 1980) ("The privilege is not limited to communications made in the context of litigation or even a specific dispute, but extends to all situations in which an attorney's counsel is sought on a legal matter.").

143. RICE, *supra* note 5, § 7:9, at 522. Part of the problem with defining "legal advice" is that courts' attempts to do so provide little practical guidance. For instance, a less-than-insightful federal district judge opined that legal advice requires the "involve[ment of] the judgment of a lawyer in his capacity as a lawyer." Ball v. United States Fidelity & Guar. Co., No. M8-85(RWS), 1989 WL 135903, at *1 (S.D.N.Y.

United States v. United Shoe Machinery Corp.,[144] a seminal decision on the breadth of the attorney-client privilege in the realm of corporate transactions, gave an indication that courts would review sympathetically the plight of the attorney providing mixed legal and business advice.[145] The court stated:

> The modern lawyer almost invariably advises his client upon not only what is permissible but also what is desirable. And it is in the public interest that the lawyer should regard himself as more than predicter of legal consequences. His duty to society as well as to his client involves many relevant social, economic, political and philosophical considerations. And the privilege of nondisclosure is not lost merely because relevant nonlegal considerations are expressly stated in a communication which also includes legal advice.[146]

Additionally, the fact that a document or communication contains nonprivileged, nonlegal information will not, in and of itself, destroy the privilege.[147] In the area of tax advice, many courts accept that a measure of business advice is inherent in the protected legal communication.[148] For example, the court in *Grand Jury Subpoena Duces Tecum Dated September 15, 1983 v. United States*[149] protected an outside law firm's tax advice concerning "the mechanics and consequences of alternative business strategies."[150]

Courts have also accepted that patent lawyers must dispense both legal and nonlegal advice.[151] Because patent lawyers necessarily must assess the business impact of a company's patent positions, the patent attorney's communications often involve discussion of the company's market position, marketing strate-

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Nov. 8, 1989). For a discussion of the problem of determining what is legal advice in the corporate context, see Giesel, *supra* note 16.

144. 89 F. Supp. 357 (D. Mass. 1950).

145. *See id.* at 359.

146. *Id.*

147. *See* Spectrum Sys. Int'l Corp. v. Chemical Bank, 581 N.E.2d 1055, 1060 (N.Y. 1991).

148. *See* RICE, *supra* note 5, § 7:24.

149. 731 F.2d 1032 (2d Cir. 1984).

150. *Id.* at 1038.

151. *See* RICE, *supra* note 5, § 7:5; Giesel, *supra* note 16, at 1214-15.

gies, and licensing policies.[152] Furthermore, patent attorneys often draw upon their extensive scientific knowledge in their work.[153] Although these business and scientific considerations are part of the patent attorney's discourse, they do not vitiate the privilege.[154] One court, applying the attorney-client privilege to a patent attorney, stated:

> Where a lawyer possesses multifarious talents, his clients should not be deprived of the attorney-client privilege, where applicable, simply because their correspondence is also concerned with highly technical matters. Patent lawyers should not be banished to the status of quasi-lawyers by reason of the fact that besides being skilled in the law, they are also competent in scientific and technical areas.[155]

As can be seen from the tax and patent context, courts have tolerated a mixture of legal and business advice without eliminating the protections of the attorney-client privilege.

After determining that a communication may contain some business advice, courts must determine how much business advice will be allowed. The most prevalent test used by courts is the "predominant purpose" test, which protects a communication if its predominant purpose was to provide legal advice.[156] Courts, unfortunately, have failed to identify the precise degree of legal advice necessary to satisfy this test.

A final problem in applying the attorney-client privilege is determining who in the corporation can assert its protections: shareholders, the board of directors, upper-level management, line-employees, or suppliers? In *Garner v. Wolfinbarger*,[157] the

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152. *See* RICE, *supra* note 5, § 7:5.
153. *See id.*
154. *See id.*
155. Chore-Time Equip., Inc. v. Big Dutchman, Inc., 255 F. Supp. 1020, 1023 (W.D. Mich. 1966).
156. *See In re* Subpoena to Ford Aerospace & Communications Corp., 27 Fed. R. Serv. 2d (Callaghan) 402, 404 (E.D. Pa. 1979); SCM Corp. v. Xerox Corp., 70 F.R.D. 508, 517 (D. Conn. 1976); United States v. International Bus. Machs. Corp., 66 F.R.D. 206, 213 (S.D.N.Y. 1974); Rossi v. Blue Cross & Blue Shield, 540 N.E.2d 703 (N.Y. 1989); Montebello Rose Co., Inc. v. Agricultural Labor Relations Bd., 173 Cal. Rptr. 856, 873-74 (Cal. Ct. App. 1981).
157. 430 F.2d 1093 (5th Cir. 1970).

Fifth Circuit held that in a shareholder derivative suit, corporate management could invoke the attorney-client privilege against its own shareholders, the owners of the corporation.[158] The court, however, held that the shareholders could overcome the privilege by presenting evidence of "good cause" and listed nine factors that indicated when "good cause" existed.[159] Unfortunately, courts have not applied the good cause, or *Garner*, exception either consistently or predictably.[160] Even if a corporate officer has a legitimate reason to consult an attorney, the unpredictability of the *Garner* exception is another factor inducing the officer to pause before seeking legal advice, a decision that may have disastrous implications for the corporation and possibly detrimental consequences for society. This problem is particularly apparent in the negotiation context.

THE ATTORNEY-NEGOTIATOR[161]

An attorney moves through three phases during a negotiation. The attorney first gathers information about the negotiation, i.e., he identifies the party's true interest and the critical problems

158. *See id.* at 1103-04.

159. *See id.* at 1104. The nine factors identified by the Fifth Circuit are:

> [1] the number of shareholders [requesting allegedly privileged communications] and the percentage of stock they represent; [2] the bona fides of the shareholders; [3] the nature of the shareholders' claim and whether it is obviously colorable; [4] the apparent necessity or desirability of the shareholders having the information and the availability of it from other sources; [5] whether, if the shareholder's claim is of wrongful action by the corporation, [such] action [is] criminal, or illegal but not criminal, or of doubtful legality; [6] whether the communication related to past or to prospective actions; [7] whether the communication is of advice concerning the litigation itself; [8] the extent to which the communication is identified versus the extent to which the shareholders are blindly fishing; [9] the risk of revelation of trade secrets or other information in whose confidentiality the corporation has an interest for independent reasons.

Id.

160. *See* Robert R. Summerhays, *The Problematic Expansion of the* Garner v. Wolfinbarger *Exception to the Corporate Attorney-Client Privilege*, 31 TULSA L.J. 275, 317 (1995).

161. The attorney-negotiator, as discussed in this Note, refers to the attorney who represents his client in negotiations with other corporations or with government agencies.

in the dispute.[162] These activities are similar to the gathering of information in an internal investigation or asking a client the basic facts before initiating a lawsuit. As the Court stated in *Upjohn*: "The first step in the resolution of any legal problem is ascertaining the factual background and sifting through the facts with an eye to the legally relevant."[163] In the information-gathering and issue-identifying phase of the negotiations, the attorney has a strong case that the attorney-client privilege should apply.

In the second phase, the attorney conducts the negotiation. During the negotiation the attorney's role is largely ministerial. Any communications that occur with the client at the negotiating table are not covered by the privilege because they are not confidential.[164] Nor does the privilege cover discussions between opposing parties because these communications are not confidential client communications. This phase is most analogous to a trial, and the attorney's claim to the privilege in this phase is the weakest, if it exists at all.

In the third and final phase, the attorney must weigh options with the client either during the negotiations or upon a proposed settlement. The attorney-client communications in this phase are analogous to a trial attorney's discussions with a client about the trial proceedings. The types of activities that occur in this context range from a discussion of the client's options to the drafting of settlement documents. If the matters discussed during the negotiating process or discussions of the negotiated compromise involve legal matters, then the attorney-client privilege should apply.[165]

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162. *See* JAMES C. FREUND, SMART NEGOTIATING 98-111 (1993).

163. Upjohn Co. v. United States, 449 U.S. 383, 390-91 (1981).

164. *See* Note Funding Corp. v. Bobian Inv. Co., N.V., No. 93 CIV. 7427 (DAB), 1995 WL 662402, at *4 (S.D.N.Y. Nov. 9, 1995) (holding that the "reporting of developments in negotiations, if divorced from legal advice, is not protected by the privilege under New York law"); *Don't Be Underprivileged! Protect Yourself*, ENVTL. COMPLIANCE & LITIG. STRATEGY, Oct. 1996, at 6.

165. *Cf.* FREUND, *supra* note 162, at 178-80 (putting forth a spectrum of negotiation situations, ranging from issues in which the negotiating agent has expertise, i.e., legal issues, to issues in which the negotiator has no expertise, i.e., "essentially business judgments").

Of the three phases, the communications during the negotiation phase are least likely to merit the protections of the attorney-client privilege. The first and third phases, involving gathering information and explaining alternatives to the client, however, are the more appropriate contexts in which to apply the privilege.

THE ATTORNEY-CLIENT PRIVILEGE APPLIED TO THE ATTORNEY-NEGOTIATOR

Only a limited number of cases have applied the attorney-client privilege to the attorney-negotiator. Unfortunately, many of these decisions contain only limited descriptions of the transactions involved and provide limited analysis of why the privilege was denied or granted to a particular communication.[166] The pre-*Upjohn* decisions generally denied the privilege to the attorney-negotiator's communications, but these decisions did not explain the level of legal discussion involved in the communications.[167]

Two recent cases provided more enlightening discussions of the privilege's application to the attorney-negotiator. In *Diversey U.S. Holdings, Inc. v. Sara Lee Corp.*,[168] Diversey sought the disclosure of four documents sent by Sara Lee executives to counsel who were negotiating on Sara Lee's behalf.[169] The controversy concerned whether Sara Lee or Diversey was responsible under a Stock Purchase Agreement (SPA) for remediating the environmental contamination at a site owned by a company

166. Three pre-*Upjohn* cases briefly discuss the attorney-negotiator but provide little guidance. *See* Montebello Rose Co., Inc. v. Agricultural Labor Relations Bd., 173 Cal. Rptr. 856, 873-74 (Cal. Ct. App. 1981) (reserving the privilege for those communications whose "dominant purpose" was to secure or render legal advice and finding that evidence of the corporation's reaction to the union's petition for extension of certification "appears to fall within the attorney-client privilege"); Gallagher v. Akoff Realty Corp., 95 N.Y.S.2d 796, 797 (N.Y. Sup. Ct. 1950) (suggesting that an attorney who negotiated a real estate transaction could still be questioned on behalf of the corporation if he had not left the company's employ); Myles E. Rieser Co. v. Loew's, Inc., 81 N.Y.S. 2d 861, 862 (N.Y. Sup. Ct. 1948) (holding that counsel "acted as negotiators in seeking to bring about agreement on the sundry details necessarily involved in consummating a transaction of considerable size," and denying the privilege in part because *"only some of the letters concerned themselves with matters legal"*) (emphasis added).

167. *See* discussion *supra* note 166.

168. No. 91 C 6234, 1994 WL 71462, at *1 (N.D. Ill. Mar. 3, 1994).

169. *See id.* at *1.

jointly held by Sara Lee and Diversey.[170] The parties disputed the meaning of an SPA provision.[171] The four documents sought by Diversey concerned the interpretation of the disputed contract provision by Sara Lee executives during the negotiation of the SPA.[172]

Diversey claimed that the attorneys[173] acted in a business capacity and that the documents should not be covered by the privilege.[174] Additionally, Diversey claimed that Sara Lee was not "seeking legal advice" from the attorneys.[175] Sara Lee had enlisted its attorneys to negotiate the contract language implementing an agreement in principle already reached by the executives of Diversey and Sara Lee.[176] The attorneys sent drafts of the contract to various officers of the company to solicit their concerns about how the contract language would affect matters under the officers' control.[177] The documents at issue in *Diversey* discussed the potential problems identified by the corporate officers regarding the proposed contract.[178]

The court ordered Sara Lee to disclose the documents because Sara Lee had waived the attorney-client privilege.[179] Nevertheless, the court found that before the waiver the communications in the four documents were privileged. The court noted: "This strikes us as the gathering of information by an attorney from the client to enable the attorney to provide competent legal services—in this case, the drafting of a contract."[180] The court applied the privilege to those documents because "[d]rafting legal

170. *See id.*
171. *See id.*
172. *See id.*
173. The opinion does not make clear whether the attorneys were in-house counsel or outside counsel.
174. *See Diversey*, 1994 WL 71462, at *1.
175. *Id.* at *2.
176. *See id.* at *1.
177. *See id.* at *2.
178. *See id.* at *1.
179. The court found that the corporation voluntarily had disclosed information protected by the attorney-client privilege involving the same subject matter as the four documents. *See id.* at *2. The court held that the corporation had waived the privilege because it had disclosed information about earlier drafts of the contract and that the earlier drafts constituted the same subject matter as the later drafts. *See id.*
180. *Id.* at *1.

documents is a core activity of lawyers, and obtaining information and feedback from clients is a necessary part of the process."[181] Additionally, the court held that the corporate executives were "seeking legal advice" because Sara Lee was "identifying to the attorneys certain concerns that it wanted the contract language to address."[182] The court's analysis tracked the analysis of the Court in *Upjohn*, applying the attorney-client privilege to the gathering of information for the dispensing of legal advice.[183] The court in *Diversey* simply applied the *Upjohn* rationale in the attorney-negotiator context, recognizing that attorney-negotiators often dispense legal advice.

In *Note Funding Corp. v. Bobian Investment Co.*,[184] the court conducted a detailed and thorough analysis regarding whether the privilege applied to documents compiled during the negotiation of a complex commercial transaction.[185] The court recognized that in "large and complex financial transactions" corporations naturally seek "the assistance of attorneys who are well equipped both by training and by experience to assess the risks and advantages in alternative business strategies."[186] To effectively serve their clients, these attorney-negotiators

> will often be required to assess specific tactics in putting together transactions or shaping the terms of commercial agreements, and their evaluation of alternative approaches may well take into account not only the potential impact of applicable legal norms, but also the commercial needs of their client and the financial benefits or risks of these alternative strategies.[187]

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 'predominantly' on his assessment of the requirements imposed,

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181. *Id.*
182. *Id.* at *2.
183. *See* Upjohn Co. v. United States, 449 U.S. 383, 390-91 (1981); *Diversey*, 1994 WL 71462, at *1-*2.
184. No. 93 CIV. 7427 (DAB), 1995 WL 662402 (S.D.N.Y. Nov. 9, 1995).
185. *See id.* at *1-*3.
186. *Id.* at *2.
187. *Id.*

or the opportunities offered, by applicable rules of law, he is performing the function of a lawyer."[188] The court then separately analyzed the documents in question, denying the privilege to those that primarily dealt with the "calculus of business considerations" and extending the privilege to those that *"at least in part"* involved legal judgments, i.e., a judgment "depend[ing] principally on [the attorney's] knowledge of or application of legal requirements or principles."[189]

The *Note Funding* decision demonstrates that thoughtful, painstaking analysis is needed to apply the "predominant purpose" test properly. The opinion, however, did not apply that test narrowly—the court extended the privilege to documents that contained "extensive discussions of financial questions and issues of commercial strategy and tactics" so long as they were made "with an obvious eye to the constraints imposed by applicable law."[190]

Courts have neither categorically rejected nor applied the privilege to an attorney-negotiator. As Rice states: "Negotiation services provided by an attorney are neither inherently legal nor nonlegal. The nature of the negotiations turns on their subject matter and their relationship to other services provided to the client."[191] In order to make that determination, the current predominant purpose test requires courts to engage in a detailed, protracted analysis of the business and legal aspects of the communications to determine whether the privilege applies.

THE *GEORGIA-PACIFIC* CASE

Unfortunately, the predominant purpose test has not been uniformly applied.[192] *Georgia-Pacific Corp. v. GAF Roofing Manufacturing Corp.*[193] highlights the practical problems with applying the standard to a complex negotiation. The decision also demonstrates that the time has come to reformulate the

188. *Id.* at *3 (emphasis added).
189. *Id.*
190. *Id.*
191. RICE, *supra* note 5, § 7:22, at 541.
192. *See* Giesel, *supra* note 16, at 1202.
193. No. 93 Civ. 5125 (RPP), 1996 WL 29392 (S.D.N.Y. Jan. 25, 1996).

standard to provide greater certainty and to better serve the principles of the attorney-client privilege.

Georgia-Pacific arose out of a breach of contract claim brought by Georgia-Pacific against GAF.[194] Under the contested contract, GAF bought properties and other assets related to Georgia-Pacific's roofing business.[195] After a dispute regarding Georgia-Pacific's responsibility to remediate one of the properties, Georgia-Pacific sued GAF.[196] Georgia-Pacific requested that the court compel Michael D. Scott, in-house environmental counsel for GAF, to answer certain deposition questions.[197]

Scott's involvement in the negotiations began in January or February of 1993 when GAF requested that he review a proposed asset purchase agreement and comment on the environmental issues raised by the proposal.[198] Scott feared that the proposed agreement did not cover certain types of claims that would arise in an environmental audit and that some provisions of the contract were "unusual" in nature.[199] He suggested ways to negotiate the agreement to a senior executive at GAF and to the other GAF in-house counsel.[200] Scott subsequently negotiated the environmental issues related to the transaction for GAF and was present at the execution of the agreement.[201]

The agreement required GAF to conduct an environmental audit of the properties and to propose additional properties that Georgia-Pacific would agree to remediate and for which Georgia-Pacific would assume liability.[202] After the audit, Scott requested that Georgia-Pacific agree that an issue relating to the detection of trichloroethylene, a hazardous substance present at one of the properties, be "carved out" from the environmental agreement.[203] Scott advanced GAF's position that either the "carve out" provision or "straight indemnification" should be used to

194. *See id.* at *1.
195. *See id.*
196. *See id.* at *2.
197. *See id.* at *1.
198. *See id.*
199. *Id.*
200. *See id.*
201. *See id.*
202. *See id.*
203. *Id.* at *2.

eliminate this asset purchase problem for GAF.[204] Georgia-Pacific, however, opposed both of these alternatives.[205] Although preliminary investigations were undertaken by Scott, GAF canceled the agreement before negotiations could resolve the issue.[206] Georgia-Pacific subsequently filed suit.[207]

Georgia-Pacific requested that Mr. Scott answer three questions:

> 1. What recommendations, if any, did Mr. Scott make to the GAF negotiators of the Agreement in February-March 1993 as to how the provisions of the proposed agreement could be changed and the impact of such changes on the proposed provisions.
> 2. Whether, after his June 7, 1993 meeting with [Georgia-Pacific], Mr. Scott made a recommendation to anyone in GAF's senior management that they should consider options other than "straight indemnification" or "carve out" as a negotiating strategy.
> 3. Whether [a senior executive at GAF] asked Mr. Scott to cancel Mr. Scott's planned meeting for July 19 or July 20, 1993 with [a Georgia-Pacific environmental lawyer].[208]

The court compelled Scott to answer question three, regarding whether he was told to cancel the meeting, and requested counsel to submit briefs on the issue of whether Mr. Scott should be compelled to answer the first two questions.[209]

As a diversity case governed by New York law, the court in *Georgia-Pacific* relied heavily on *Note Funding* and the New York Court of Appeals' decision in *Rossi v. Blue Cross & Blue Shield*.[210] Given the *Georgia-Pacific* court's reliance on *Rossi*, a brief discussion of the case is warranted.[211]

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204. *Id.*
205. *See id.*
206. *See id.*
207. *See id.*
208. *Id.* at *2-*3 (citations omitted).
209. *See id.* at *3.
210. 540 N.E.2d 703 (N.Y. 1989).
211. *Note Funding* was discussed previously. *See supra* notes 184-90 and accompanying text.

The dispute in *Rossi* concerned an internal memorandum sent by the defendant's in-house counsel to corporate officers and directors in response to a defamation complaint.[212] The defendant, Blue Cross & Blue Shield, sent notices to 2000 of the physician-plaintiff's patients rejecting the patients' claims for reimbursement for a medical procedure that was allegedly "experimental or whose effectiveness is not generally recognized by an appropriate government agency."[213] The procedure, however, had been approved by the Food and Drug Administration's National Center for Devices and Radiological Health.[214] The physician-plaintiff sued for defamation.[215] On the day the complaint arrived, a Blue Cross staff counsel wrote the memorandum at issue, which discussed a conversation between the attorney and opposing counsel, the plaintiff's medical procedure, Blue Cross's reimbursement policy, and the attorney's opinion and advice about the notices' rejection language.[216] The plaintiff requested a copy of the memorandum, and Blue Cross claimed that the attorney-client privilege protected the document.[217]

The New York Court of Appeals agreed with Blue Cross.[218] Acknowledging that the attorney-client privilege applied to the in-house counsel, the court warned that it would still "apply [the privilege] cautiously and narrowly."[219] Although "no ready test exist[ed] for distinguishing between protected legal communications and unprotected business or personal communications," the court used several "guideposts" to determine whether the privilege should apply.[220] The court found persuasive that (1) the memorandum was an internal, confidential document and (2) "there is no dispute as to the author's status or role. [The in-house counsel] functioned as a lawyer, and solely as a lawyer, for defendant client."[221] Additionally, the court observed that

212. *See Rossi*, 540 N.E.2d at 703-04.
213. *Id.* at 704.
214. *See id.*
215. *See id.*
216. *See id.*
217. *See id.*
218. *See id.* at 703-04.
219. *Id.* at 705.
220. *Id.*
221. *Id.*

communications concerning the context of imminent litigation "generally will fall into the area of legal rather than business or personal matters."[222] The court, nevertheless, observed that the "privilege is not lost merely by reason of the fact that it also refers to certain nonlegal matters."[223] The court's primary concern was whether the predominant purpose of the communication concerned legal matters.[224] The court concluded that Blue Cross's attorney was "exercising a lawyer's traditional function in counseling his client regarding conduct that had already brought it to the brink of litigation."[225]

The *Georgia-Pacific* court appears to have taken *Rossi*'s "guideposts" and turned them into requirements, unnecessarily restricting the attorney-client privilege. Echoing the New York Court of Appeals in *Rossi*, the court in *Georgia-Pacific* stated that the need to apply the privilege "cautiously and narrowly" is more acute in the case of in-house counsel, "lest the mere participation of an attorney be used to seal off disclosure."[226] The court held that the privilege did not protect communications that "expressed substantial non-legal concerns"[227] and that were not given by a lawyer "exercising a lawyer's traditional function."[228] The court, however, did not address specifically whether serving as a negotiator is a traditional legal function.

The court found that because the advice given by Scott was "not in the context of imminent litigation" and "[s]ince Mr. Scott negotiated the environmental terms of the Agreement,"[229] the privilege did not apply, and Georgia-Pacific was "entitled to know what environmental matters he determined would not be covered in the proposed agreement."[230] The court dismissed Scott's averment that he was rendering legal advice by noting

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222. *Id.* at 706.
223. *Id.*
224. *See id.*
225. *Id.*
226. Georgia-Pacific Corp. v. GAF Roofing Mfg. Corp., No. 93 Civ. 5125 (RPP) 1996 WL 29392, at *4 (S.D.N.Y. Jan. 25, 1996).
227. *Id.* (quoting Cooper-Rutter Assocs. v. Anchor Nat'l Life Ins. Co., 563 N.Y.S.2d 491, 492 (N.Y. App. Div. 1990)).
228. *Id.* (quoting *Rossi*, 540 N.E.2d at 706).
229. *Id.* at *5.
230. *Id.*

that his argument "although considered, does not overcome *the nature of his role in the transaction.*"[231] The court concluded that "[i]t seems clear Mr. Scott acted as a negotiator . . . and that his conversation . . . as regards the status of the negotiations, the tradeoffs that Mr. Scott perceived [Georgia-Pacific] was willing to make, and GAF's options, involved business judgments of environmental risks."[232]

The *Georgia-Pacific* decision, at best, narrowly read *Rossi*'s predominant purpose test and, at worst, was so blinded by Scott's "role" as a negotiator that it failed to analyze whether the communications between Scott and his employer were primarily legal in character. The court appears to have turned *Rossi*'s guideposts into requirements, making errors in law that undermine the attorney-client privilege. *Rossi*'s "guideposts" are themselves dangerous and inexact proxies for determining whether the privilege should apply—as shown by the *Georgia-Pacific* case.

First, the attorney need not act "solely as a lawyer" for the attorney-client privilege to apply to a communication.[233] As the court noted in *Rossi*, the role performed by the attorney may increase the likelihood that the communication concerns legal matters, but that is not the end of the inquiry.[234] *Georgia-Pacific* failed to recognize that an attorney not acting solely as an attorney can still engage in communications deserving the protections of the attorney-client privilege.[235] In fact, the court stated explicitly that the privilege would not apply to any of the legal advice given by Scott because of "the nature of his role in the transaction."[236] *Georgia-Pacific*'s, and to a lesser extent *Rossi*'s, overemphasis on the "role" of an attorney encourages future courts to rely on an attorney's position on an organizational chart when deciding whether to apply the privilege rather

231. *Id.* (emphasis added).
232. *Id.*
233. *See* RICE, *supra* note 5, § 7:9.
234. *See* Rossi v. Blue Cross & Blue Shield, 540 N.E.2d 703, 705-06 (N.Y. 1989).
235. *See* Note Funding Corp. v. Bobian Inv. Co., No. CIV. 7427 (DAB), 1995 WL 662402, at *3 (S.D.N.Y. Nov. 9, 1995); United States v. United Shoe Mach. Corp., 89 F. Supp. 357, 359 (D. Mass. 1950).
236. *Georgia-Pacific*, 1996 WL 29392 at *5.

than focusing on whether the communication was the type of legal discussion that the privilege should protect.

Second, the court in *Rossi* mentioned the lawyer's traditional role as a "guidepost" to determining whether a communication is privileged, but the gravamen of the decision was whether the "communication is primarily or predominantly of a legal character."[237] The attorney's function may have some relevance, but the cardinal consideration is the content of the communication. An attorney performing a nontraditional function may discuss nonlegal matters in his communications, but so may an attorney performing a traditional function.[238] Moreover, courts have held since *United Shoe* and as recently as *Note Funding* that a protected communication can, and often must, contain substantial nonlegal discussions.[239] Prior cases focused on whether the attorney was rendering legal advice, not on the attorney's "role."[240]

Third, whether the advice was given in the context of imminent litigation has not been a dispositive factor for the application of the attorney-client privilege.[241] The *Georgia-Pacific* decision rejected the privilege partly because "Mr. Scott's discussion with management concerning these issues was prior to the Agreement being entered into and not in the context of imminent litigation."[242] Although imminence of litigation is necessary for the work product doctrine,[243]litigation need not be im-

237. *Rossi*, 540 N.E.2d at 706.

238. *See supra* notes 151-55 and accompanying text (discussing application of the attorney-client privilege to patent attorneys).

239. *See Note Funding*, 1995 WL 662402, at *3 ("The fact that an attorney's advice encompasses commercial as well as legal considerations does not vitiate the privilege."); *United Shoe*, 89 F. Supp. at 359.

240. *See e.g., Note Funding*, 1995 WL 662402, at *1; Diversey U.S. Holdings, Inc. v. Sara Lee Corp., No. 91 C 6234, 1994 WL 71462, at *2 (N.D. Ill. Mar. 3, 1994); *United Shoe*, 89 F. Supp. at 359; Spectrum Sys. Int'l Corp. v. Chemical Bank, 581 N.E.2d 1055, 1061 (N.Y. 1991); GERGACZ, *supra* note 28, ¶ 3.02[2][a][iv].

241. *See Spectrum Sys.*, 581 N.E.2d at 1061 (rejecting the requirement that to receive the protections of the privilege the advice must be given in the context of imminent litigation); GERGACZ, *supra* note 28, ¶ 3.02[2][a][iv]; Berke, *supra* note 19, at 5.

242. Georgia-Pacific Corp. v. GAF Roofing Mfg. Corp., No. 93 Civ. 5125 (RPP), 1996 WL 29392, at *4 (S.D.N.Y. Jan. 25, 1996).

243. *See* Hickman v. Taylor, 329 U.S. 495, 510-12 (1947).

minent for the attorney-client privilege to apply.[244] Imminence of litigation was one of *Rossi*'s guideposts,[245] but has never been a requirement. In addition, by suggesting that the privilege did not protect Scott's discussion because the discussion occurred before an agreement was reached,[246] the court ignored that in-house counsel provide their greatest service during the creation of legal rights and responsibilities.[247] Denying the privilege in the formation of legal duties unnecessarily restricts the privilege at this critical phase.

Finally, the court misapplied the predominant purpose test to Scott's discussions. The court found that the discussion of environmental risks involved a business judgment, not a legal judgment.[248] Yet, as one commentator on the case states: "environmental risks almost by definition include the potential for litigation with third parties or the government."[249] Much like communications involving patent and tax advice,[250] an attorney advising a client about environmental problems in most instances will, of necessity, discuss complicated legal matters, even if the communications also involve business considerations.[251] Scott did provide mixed business and legal advice, but the *Georgia-Pacific* analysis appears to have placed form over substance by denying the privilege to an in-house attorney who served a dual role as a negotiator and counselor but still dispensed significant legal advice.

Moreover, the focus of the *Rossi* and *Georgia-Pacific* courts on the "lawyer's traditional role" provides little guidance for future courts and threatens to restrict the evolution of the attorney-client privilege to the mores of the seventeenth-century Inns of Court. Courts should not restrict the privilege to the "traditional functions" of an attorney because this would confine the privilege to a narrow set of activities. The services provided by attorneys are changing constantly, with attorneys performing functions in

244. *See supra* note 241 and accompanying text.
245. *See* Rossi v. Blue Cross & Blue Shield, 540 N.E.2d 703, 706 (N.Y. 1989).
246. *See Georgia-Pacific*, 1996 WL 29392, at *4-*5.
247. *See supra* notes 82-84 and accompanying text.
248. *See Georgia-Pacific*, 1996 WL 29392, at *5.
249. Berke, *supra* note 19, at 6.
250. *See supra* notes 148-55 and accompanying text.
251. *See* Berke, *supra* note 19, at 6.

legal contexts that were never imagined. For example, a fundamental skill of a modern attorney is the ability to manipulate an electronic database to conduct research. A court obsessed with the traditional role of an attorney might find that the use of computers was not part of the attorney's function—a foolhardy result. Likewise, if courts restrict the privilege to the performance of traditional functions, then communications made as part of many new and innovative legal services may be exposed to the dangers of the discovery process. This outcome might prevent potential clients from turning to attorneys for legal advice, undermining an important justification for the attorney-client privilege: encouraging clients to seek legal advice.[252]

Nevertheless, the functions of a negotiator are part of the lawyer's traditional function. Indeed, the Court in *Diversey* found that drafting documents, a vital part of negotiating a commercial agreement, "is a core activity of lawyers, and obtaining information and feedback from clients is a necessary part of the process."[253] Additionally, one of the matters the *Georgia-Pacific* court forced Scott to disclose, his discussion of the possible positions GAF could take in the negotiations,[254] involved a traditional function. As the New York Court of Appeals stated in *Spectrum Systems*: "[l]egal advice often begins—and may end—with a preliminary evaluation and a range of options."[255] Advising clients about the range of opportunities available, especially in the complex universe of environmental liability, is a part of the lawyer's traditional role.[256] Although not recognized by the *Georgia-Pacific* court, both drafting documents and advising clients about the range of potential options in a legal context are crucial parts of negotiating commercial contracts and part of a lawyer's traditional function.[257]

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

253. Diversey U.S. Holdings, Inc. v. Sara Lee Corp., No. 91 C 6234, 1994 WL 71462, at *1 (N.D. Ill. Mar. 3, 1994).

254. *See* Georgia-Pacific Corp. v. GAF Roofing Mfg. Corp., No. 93 Civ. 5125 (RPP), 1996 WL 29392, at *2 (S.D.N.Y. Jan. 25, 1996).

255. Spectrum Sys. Int'l Corp. v. Chemical Bank, 581 N.E.2d 1055, 1061 (N.Y. 1991); *see also Upjohn*, 449 U.S. at 390-91 ("The first step in the resolution of any legal problem is ascertaining the factual background and shifting though the facts with an eye to the legally relevant.").

256. *See* Berke, *supra* note 19, at 6.

257. Professor Giesel argues:

Georgia-Pacific's departure from precedent prompted a flurry of commentary lamenting the further restriction of the attorney-client privilege for in-house counsel.[258] The case heightened in-house counsels' concerns that their communications are under increased attack[259] and spurred business writers to question whether it would be wiser to send such work outside the corporation.[260] Some also suggested that the attorney-client privilege would have applied if the attorney-negotiator was an outside attorney.[261] Most commentators agreed that the "broad scope of the denial"[262] posed a particular threat to in-house counsel, more so than other recent cases that have narrowed the privilege.[263] One commentator claimed that *Georgia-Pacific* "single-handedly decimated the attorney-client privilege for communications between in-house counsel and management during contract negotiations."[264] Additionally, some argued that the decision, far from making the application of the privilege more certain, would require corporations to spend more money on legal advice to determine whether the advice they received from their in-house counsel was "legal advice."[265]

As some of the press reports noted, the traditional analysis of whether the attorney-client privilege applies to a mixed business/legal communication does not focus on buzz phrases such as "lawyer's traditional role" or on the "role" played by the attorney.[266] As Gergacz states:

> [N]egotiating and drafting contracts for clients *may* not have been a traditional function for attorneys. In the latter part of the twentieth century, attorneys frequently negotiate and draft contracts for clients and use legal expertise and training in doing so. Courts should not deny the privilege to client disclosures to obtain such lawyer services simply because the services rendered do not resemble litigation assistance or work typically done by an attorney in 1900 or even 1950.

Giesel, *supra* note 16, at 1195 (emphasis added) (footnote omitted).

258. *See supra* note 19 and accompanying text.
259. *See, e.g.*, Adams, *supra* note 1, at 49; MacLachlan, *supra* note 19, at B1.
260. *See, e.g.*, Adams, *supra* note 1, at 49.
261. *See, e.g., id.*
262. MacLachlan, *supra* note 19, at B1.
263. *See id.*; Berke, *supra* note 19, at 5.
264. Berke, *supra* note 19, at 5.
265. *See, e.g.*, Adams, *supra* note 1, at 49.
266. *See, e.g.*, Berke, *supra* note 19, at 6.

> The focus of the inquiry should be on the function that the lawyer is predominantly performing: applying law to a set of facts, reviewing client conduct based on the effect of laws or regulations, advising the client about status or trends in the law, and other similar lawyer-related tasks.[267]

This standard is not easy to apply.[268] The court in *Georgia-Pacific* relied on imprecise phrases such as the "lawyer's traditional role," imposing what appears to be a per se bar on the application of the attorney-client privilege to the negotiator and highlighting the problems with the current predominate purpose test. The decision demonstrates that the time has come to reevaluate that test and to reexamine when to apply the attorney-client privilege to the attorney-negotiator to best achieve the goals of the privilege.

A NEW STANDARD FOR APPLYING THE ATTORNEY-CLIENT PRIVILEGE TO THE ATTORNEY-NEGOTIATOR

The predominant purpose test has proven to be an unclear, uncertain, and unworkable mechanism for determining when the attorney-negotiator should receive the protections of the attorney-client privilege. *Georgia-Pacific* demonstrates the need for a significant expansion of the attorney-client privilege to cover the communications between in-house counsel and corporate officers and directors in two contexts: (1) communications initiated before the commencement of negotiations that involve determining what the company's prenegotiation standing is and determining what positions the company can and should take (the "consultation phase"), and (2) communications between in-house counsel and corporate officials during the negotiations that involve discussions of the alternatives that the corporation can and should pursue in light of negotiation developments (the "negotiation phase").[269]

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267. GERGACZ, *supra* note 28, ¶ 3.02[2][a][iv], at 3-23.

268. *See* Giesel, *supra* note 16, at 1202; Berke, *supra* note 19, at 6.

269. The expansion argued for in this Note would not include the actual discussions during the negotiations nor reports on the bargaining positions taken by the negotiators.

Wigmore articulated a balancing test to determine whether an evidentiary privilege should be recognized.[270] Although Wigmore designed his balancing test to be used when deciding whether to establish the existence of a privilege, this Note will use the test to analyze an expansion of a privilege. According to Wigmore, a court should recognize a privilege, and thus deny the fact-finder information, if "[t]he *injury* that would inure to the relation by the disclosure of the communications [is] *greater than the benefit* thereby gained for the correct disposal of litigation."[271] Under this standard, a court must weigh the costs and benefits of the expansion, both to the individuals claiming the privilege and to society at large.[272] When Wigmore's balancing test is applied to the attorney-negotiator, the benefits that would accrue to society outweigh the harms.

First, applying the privilege to the consultation and negotiation phases does not pose significant problems for the discovery process. The privilege only protects communications not facts.[273] An adversary likely could discover the range of options considered by an in-house counsel through an examination of the positions taken in the actual face-to-face negotiations, which should remain unprotected. Not all of the information that the fact-finder may desire, however, will be available through extrapolation based on maneuvers at the negotiating table. This small amount of lost information is the most obvious cost of expanding the attorney-client privilege further.

Second, significant benefits accrue from expanding the privilege. A broad privilege ensures that corporations continue to consult and use lawyers in negotiations so that corporations can avoid regulatory infractions and misunderstandings in commercial transactions,[274] both of which may lead to the use of already-strained judicial resources. In addition to problems for the judicial system caused by corporations failing to seek attorneys'

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270. *See* Summerhays, *supra* note 160, at 280.

271. 8 WIGMORE, *supra* note 9, § 2285, at 527.

272. *See id.*; Summerhays, *supra* note 160, at 280 ("Wigmore believed that evidentiary privileges should only be recognized if the benefits produced by the privileges outweigh the associated costs from the loss of relevant evidence.").

273. *See* Upjohn Co. v. United States, 449 U.S. 383, 395-96 (1981).

274. *See* RICE, *supra* note 5, § 4:10.

advice, corporations may also waste resources on litigation that could have been prevented by competent legal advice received during the negotiations. By encouraging in-house counsel to practice preventive law,[275] an expanded and more certain privilege would provide societal benefits by conserving judicial and corporate resources.

Third, preventive-law counsel from in-house counsel is more economically efficient for the corporation because of the lower costs of in-house counsel legal advice.[276] Furthermore, in-house counsel, given their institutional positions within the corporation, are often more successful at changing the behavior of their clients than outside attorneys.[277] As one commentator observes:

> [I]n-house attorneys differ from outside corporate counsel in that they have better access to the facts, their personal and professional ties are to their client, and they are often asked to make decisions, rather than give advice. Therefore in-house counsel has greater ability to alter her client's behavior and thus a corresponding duty to use that ability to promote constructive behavior by the client.[278]

In-house counsel, therefore, are precisely the attorneys with whom the law should encourage corporations to consult. For both corporations and society, the use of in-house counsel should be encouraged by the attorney-client privilege. The predominant purpose test and its application in *Georgia-Pacific*, however, discourages the use of in-house counsel.

Finally, encouraging corporate clients to seek the aid of in-house counsel during negotiations is supported by the classic rationale of the attorney-client privilege: encouraging clients to disclose information to their attorneys.[279] Expanding the privilege is in line with the rationale the Supreme Court used to jus-

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275. *See supra* note 28 and accompanying text.

276. *See* SPANGLER, *supra* note 4, at 71.

277. *See* Hill, *supra* note 66, at 186-89.

278. Corello, *supra* note 71, at 409 (citations omitted); *see also* Hill, *supra* note 66, at 188 ("[I]n-house counsel's unique position and early involvement in situations may make it even more likely that they can encourage lawful behavior by their employers.").

279. *See* 8 WIGMORE, *supra* note 9, § 2291.

tify the privilege in *Upjohn*. As one commentator observes, the Court in *Upjohn* applied the privilege because it found that "circumstances of the kind at issue would enhance the flow of information to corporate counsel regarding issues about which corporations seek legal advice."[280] Expansion of the corporate attorney-client privilege argued for by this Note would further encourage corporations to consult attorneys in the negotiation process. This would increase the flow of information to in-house counsel and allow them to provide better legal advice.[281] Absent the protection of the privilege, corporations might fail to consult in-house counsel or, possibly worse, seek legal advice without providing the attorney with a complete understanding of all the facts.

The benefits that follow from preserving judicial resources, allowing in-house counsel to continue to provide efficient, effective legal services, and increasing the flow of information to in-house counsel far outweigh the cost associated with denying a limited amount of information to the fact-finder. Applying Wigmore's classic balancing test to the attorney-negotiator, the expansion of the privilege is justified.

When a court encounters a corporation claiming the attorney-client privilege for an in-house counsel who has negotiated for the corporation, the court should ask whether the communication contains a *significant amount* of legal advice. In answering this question, the court should consider whether, in the commercial context, the information impacts the formation of legal rights and obligations or whether, in the regulatory context, the information affects the determination of legally permissible behavior. Courts should still deny the protections of the privilege to communications about the "calculus of business considerations."[282] If the court finds that the communication impacts legal rights and obligations, then the privilege should apply to the communication. By lowering the amount of legal advice from

280. Sexton, *supra* note 34, at 462.

281. *Cf.* Upjohn Co. v. United States, 449 U.S. 383, 392 (1981) (rejecting the control group test because it deprived in-house counsel of all relevant information and encouraged inaccurate legal advice).

282. Note Funding Corp. v. Bobian Inv. Co., No. 93 CIV. 7427 (DAB), 1995 WL 662402, at *3 (S.D.N.Y. Nov. 9, 1995).

"predominant" to "significant," this new test would provide more certainty because in-house counsel and judges should find it easier to determine if a discussion is "tainted" by legal advice as opposed to being mainly or predominantly involving legal advice. In essence, it would be easier for a judge to determine if twenty percent of a discussion is about legal issues as opposed to determining whether forty-five percent or sixty percent of a discussion involves legal advice.

When applying this new test, the presumption that in-house counsel are not engaged in legal advice[283] should be rebutted if the attorney is negotiating a matter in which a lawyer's skills would be particularly helpful. For example, negotiations involving complex regulatory regimes, such as patent, tax, securities, and environmental laws, are likely to involve significant legal advice and are areas in which a presumption that the in-house counsel is acting as an attorney is appropriate. Additionally, the corporation's economic incentives will encourage it to use an attorney in situations in which a lawyer's skill is most needed as opposed to using a nonattorney, and this specialization should signal a legal discussion to courts. The economic pressure on the corporation to use in-house counsel is an appropriate proxy for courts to rely on to extend the privilege. Indeed, reliance on economic incentives is not new to the law of evidence—this is the same rationale behind the "Records of Regularly Conducted Activity" exception to the hearsay rule under the Federal Rules of Evidence.[284] Accordingly, corporations' economic incentives to use in-house counsel as attorneys provide sufficient assurance to warrant the presumption that the attorney-client privilege should apply when attorneys discuss complex regulatory regimes.

Also, when applying the proposed "significant amount" test, courts should jettison several indices relied upon in prior opinions. First, courts should avoid discussions of a "lawyer's traditional function."[285] This is an almost meaningless phrase in the

283. *See In re* Sealed Case, 737 F.2d 94, 99 (D.C. Cir. 1984).

284. FED. R. EVID. 803(6) and advisory committee's note (relying on a corporation's economic incentives to keep accurate business records as a basis for making an exception to the prohibition on hearsay).

285. Georgia-Pacific Corp. v. GAF Roofing Mfg. Corp., No. 93 Civ. 5125 (RPP), 1996 WL 29392, at *4 (S.D.N.Y. Jan. 25, 1996) (quoting Rossi v. Blue Cross & Blue

context of an ever-evolving, specialized corporate legal practice. The mores of the Inns of Court should not dictate what communications deserve protecting in light of the utilitarian benefits of the attorney-client privilege. If the privilege is to retain its vitality, then it must adapt to changes in the practice of law.[286]

Furthermore, a court should not, as was done in *Georgia-Pacific*,[287] place weight on whether the advice was given in the context of imminent litigation.[288] Imminent litigation is a requirement for application of the work-product doctrine[289] and can be a factor in the *application* of the attorney-client privilege,[290] but it is not a *requirement* of the privilege.[291] In fact, the in-house counsel provides his most valuable legal advice when practicing preventive law, the very purpose of which is the avoidance of litigation. It is, thus, imperative that the attorney-client privilege be available to in-house counsel at a time far removed from imminent litigation: when negotiations are forming legal relationships and duties.

Finally, a court should not be blinded by the "role" performed by the attorney. Although relevant, the attorney's role is not a proper proxy for application of the privilege.[292] If courts continue to overemphasize the attorney's role, then they will issue more decisions that fail to actually investigate what information was provided to the attorney, as occurred in *Georgia-Pacific*.

Shield, 540 N.E.2d 703, 706 (N.Y. 1989)).

286. *See* Giesel, *supra* note 16, at 1195.

287. *See Georgia-Pacific*, 1996 WL 29392, at *4.

288. *See* Spectrum Sys. Int'l Corp. v. Chemical Bank, 581 N.E.2d 1055, 1061 (N.Y. 1991) (rejecting the requirement that to receive the protections of the privilege the advice must be given in the context of imminent litigation); Berke, *supra* note 19, at 6.

289. *See* Hickman v. Taylor, 329 U.S. 495, 510-12 (1947).

290. *See Rossi*, 540 N.E.2d at 705.

291. *See id.*

292. *See supra* notes 233-40 and accompanying text.

CONCLUSION

An uncertain privilege is a worthless privilege.[293] This Note advocates changing the current test for applying the attorney-client privilege in the attorney-negotiator context from the predominate purpose test to the significant amount test. The attorney-client privilege's value to society is dependent on the ease with which courts and attorneys can apply it.[294]

The recent *Georgia-Pacific* decision highlighted a new area of uncertainty with the attorney-client privilege: the attorney-negotiator working for a corporation. Courts historically have been hostile to in-house counsel,[295] but these attorneys provide a significant benefit to society by practicing preventive law. Contract negotiation and settlement agreements by in-house counsel can involve the dispensing of significant legal advice. The recent application of the predominant purpose test in *Georgia-Pacific*, however, did not provide the certainty needed to encourage corporations to use in-house counsel in negotiations. Changing the current test from a predominant purpose to a significant amount inquiry would provide heightened certainty. By expanding the privilege, in-house counsel would have a more certain understanding of what conversations are covered by the privilege. Corporations thus would be more likely to consult in-house counsel. By encouraging in-house counsel to practice preventive law in negotiations, courts could conserve scarce judicial resources because the increased use of attorneys would avoid commercial disputes and encourage compliance with the law. The benefits that would accrue from the expansion of the privilege would far outweigh the costs.

Mark C. Van Deusen

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293. *See* Upjohn Co. v. United States, 449 U.S. 383, 393 (1981).
294. *See* Berke, *supra* note 19, at 6.
295. *See* Giesel, *supra* note 16, at 1203-15; Berke, *supra* note 19, at 6.