

Everyday Ethics for In-house Counsel

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Trial Run: Which of the following categories best fits you?

- 1) Private Company or Firm?
- 2) Public Company or Firm?
- 3) Government?
- 4) Other?



Corporate Investigations; Joint Representation; Client Identity

- Company becomes the subject of adverse publicity due to alleged back-dating of options. Company hires law firm A to conduct investigation of back-dating practices and to prepare for SEC investigation that appears imminent. Simultaneously, lawsuits are filed over the back-dating practices naming both the Company and its CFO as defendants. Law firm A agrees to jointly defend the Company and the CFO against the lawsuits. Law Firm A is also representing CFO.
- During the law firm's investigation, various Company employees, including CFO, are interviewed. Law firm does not give CFO an "Upjohn" or "Miranda" warning despite the fact that law firm jointly represents company and CFO jointly in the related civil lawsuits. Within weeks after interviewing CFO, law firm advises CFO to retain separate counsel with respect to the investigation and the pending civil suits.



The Rest of the Facts

- Later, SEC investigation commences. Company agrees to waive attorney-client privilege and provides information gathered by law firm during its investigation. SEC also interviews law firm lawyers who conducted investigation and obtains from lawyers information acquired from CFO during investigation interview.
- CFO is later indicted based upon information provided to the SEC during its investigation. Lawyers for CFO bring motion to suppress statements obtained from CFO claiming CFO had an attorney-client relationship with the law firm and the statements provided were privileged.



Question: Should the court suppress the statements made by CFO during the Company's investigation?

1. No, the law firm represented the Company and not the CFO during the investigation and therefore no attorney-client privilege exists between lawyers and CFO.
2. Yes, the failure by the lawyers to provide the CFO with an "Upjohn" warning caused him to reasonably understand that his statements were privileged.
3. Yes, because the lawyers should have never undertaken to jointly represent the Company and the CFO in the civil lawsuits.
4. No, due to his sophistication as CFO and his understanding that the facts discovered during the Company's investigation would be disclosed to the Company's auditors, CFO had no reasonable expectation that his conversations with the lawyers would remain privileged, even though there was no "Upjohn" warning.



Correct Answer: No. 4

- ...but only after the Circuit Court reversed the District Court's decision to suppress the statements finding:
 - CFO was sophisticated client. He understood that information gathered during the investigation would be turned over to Company auditors and privilege therefore waived even though no Upjohn warning was given.
 - Despite the fact that an attorney-client relationship existed between the lawyers and the CFO, California federal law does presume privilege as to communications between a lawyer and a client.
 - CFO failed to meet his burden that his statements made to the lawyers were “made in confidence” and rather the statements for the purpose of disclosure to outside auditors. *U.S. v. Ruehle*, No. 09-50161 (9th Cir. 9/30/09).



Rule 1.13: Organization as Client

- a) A lawyer employed or retained by an organization represents the organization acting through its duly authorized constituents.

- e) In dealing with an organization's directors, officers, employees, members, shareholders, or other constituents, **a lawyer shall explain the identity of the client** when the lawyer knows or reasonably should know that the organization's interests are adverse to those of the constituents with whom the lawyer is dealing.
- f) A lawyer representing an organization may also represent any of its directors, officers, employees, members, shareholders, or other constituents, subject to the provisions of Rule 1.7. If the organization's consent to the dual representation is required by Rule 1.7, the consent shall be given by an appropriate official of the organization, other than the individual who is to be represented, or by the shareholders.



Comments to Rule 1.13

- **Clarifying the Lawyer's Role**

- [9] There are times when the organization's interest may be or become adverse to those of one or more of its constituents. In such circumstances the lawyer should advise any constituent, whose interest the lawyer finds adverse to that of the organization of the conflict or potential conflict of interest, that the lawyer cannot represent such constituent, and that such person may wish to obtain independent representation. **Care must be taken to assure that the individual understands that, when there is such adversity of interest, the lawyer for the organization cannot provide legal representation for that constituent individual, and that discussions between the lawyer for the organization and the individual may not be privileged.**
- [10] Whether such a warning should be given by the lawyer for the organization to any constituent individual may turn on the facts of each case.



Rule 4.3: Dealing with Unrepresented Person

- In dealing on behalf of a client with a person who is not represented by counsel:
 - a) a lawyer shall not state or imply that the lawyer is disinterested;
 - b) a lawyer shall **clearly disclose that the client's interests are adverse to the interests of the unrepresented person**, if the lawyer knows or reasonably should know that the interests are adverse;
 - c) when a lawyer **knows or reasonably should know that the unrepresented person misunderstands the lawyer's role in the matter**, the lawyer shall make reasonable efforts to correct the misunderstanding; and



Lessons from the Broadcom case

- 1. *Written Upjohn Warnings.*** The two lawyers who interviewed CFO claimed a verbal Upjohn warning was given. CFO denied. Trial Court and Appellate Court found that Upjohn warning was not given.
- 2. *Ethics Complaint Potential.*** District Court in its suppression order referred the lawyers to the lawyer discipline authorities for ethics violations. Note: House Counsel was instrumental in arranging the investigation interviews and keeping the individual defendants, including CFO, apprised of developments and procedures in the civil suits.
- 3. *Different Standards for Different Corporate Constituents.*** Sophistication of the constituent may be a consideration in determining whether a Company employee or officer “reasonably believed” his or her discussions were protected by the attorney-client privilege, but is not dispositive of the issue.



Corporate Investigations With Represented Employees

- Company has received a number of employee complaints alleging sexual harassment by Employee A over the years. None of the company investigations have sustained the complaints. Another complaint was recently lodged and an investigation was commenced. The only neutral witness to the alleged harassment is an employee who historically has had performance problems and often complains to management about supervisors holding her to higher standards than other similarly situated employees.



The Rest of the Facts

- The Human Resources Officer conducting the investigation sends an email to the neutral witness employee scheduling a meeting as part of the investigation. The employee responds that she does not wish to meet with the HR Officer. When reminded that the terms of her employment require cooperation with internal investigations, the employee responds that she is again being treated disparately and therefore has hired Lawyer X to represent her. The HR Officer refers the matter to an employment lawyer in the General Counsel's Office with a memo that states "since litigation has now been commenced, it would be best if the employee is interviewed by a company lawyer in order to maintain attorney-client privilege in the litigation."



Question: Can the company direct the employee to attend the interview without her counsel and threaten termination if she refuses?

1. Yes, since this is only an internal investigation, the employee can be forced to attend without her counsel.
2. Maybe, but it would be nice to know who is going to conduct the interview on behalf of the company.
3. Yes, since the employee is not a “party” to the lawsuit, Rule 4.2 which governs communications with persons represented by counsel does not apply in this instance.
4. No, compelling the employee to attend the interview without counsel violates the 6th Amendment Right to Counsel.



Correct Answer: No. 2

- Rule 4.2 applies to any person who is known to be represented by counsel “in the matter” regardless of whether that person is a formal party to an action or proceeding.
- If the company’s counsel insists on being present for the interview and the employee’s counsel is not permitted to attend, counsel runs the risk of an ethics complaint alleging violation of Rule 4.2. If the company’s counsel is not present for the interview then Rule 4.2 does not apply.



Rule 4.2: Communication with Person Represented by Counsel

- In representing a client, a lawyer shall not communicate about the subject of the representation with a person the lawyer knows to be represented by another lawyer in the matter, unless the lawyer has the consent of the other lawyer or is authorized to do so by law or a court order.



Comment to Rule 4.2

1. This rule contributes to the proper functioning of the legal system by protecting a person who has chosen to be represented by a lawyer in a matter against possible overreaching by other lawyers who are participating in the matter, interference by those lawyers with the client-lawyer relationship and **the uncounselled disclosure of information relating to the representation.**
2. This rule applies to communications with **any person who is represented by counsel concerning the matter** to which the communication relates.



Question: Who should be present at the interview on behalf of the company?

1. A lawyer from General Counsel's office since this will preserve the attorney-client privilege.
2. The company should hire outside counsel because hiring outside counsel more clearly demonstrates that discussions with the employee are privileged.
3. The HR Officer because then the company can make a better case for requiring employee to attend to the interview without her counsel.
4. It depends upon the relative importance of interviewing the employee without counsel versus maintaining privilege in the matter.



Correct Answer: No. 4

- If counsel for the company insists on being present for the interview, it likely requires that the employee's counsel be permitted to attend. Opposing counsel's representation of the employee at the interview may impede the company's ability to learn the employee's account of what happened outside of a formal deposition.
- If counsel is not present, then the ability to compel the employee to attend without counsel and obtain unvarnished information is enhanced, but maintaining the attorney-client privilege may be diminished.



Restatement of the Law Governing Lawyers § 68

1. “The attorney-client privilege may be invoked with respect to:
2. a communication
3. made between privileged persons
4. in confidence
5. for the purpose of obtaining or providing legal assistance for the client.”



Restatement Third, The Law Governing Lawyers § 70

- “Privileged persons within the meaning of § 60 are the client (including a prospective client), the client's lawyer, agents of either who facilitate communications between them, and agents of the lawyer who facilitate the representation.”



Mergers & Acquisitions

- Stan Olson hired Lawyer A to sell his one of companies, Olson Inc. to a competitor. Lawyer A represented Olson Inc. in all of the negotiations with buyer and had a number of privileged and confidential conversations with Stan about the transaction and its effect upon several of Stan's other companies.
- Some of these conversations are contained in emails that were printed and became part of a rather large client file that resulted from the transaction. Other Olson Inc. files going back several years contain trade secret and customer list information relating to contracts that have been taken over by other companies that Stan spun off from Olson Inc. and which Stan intends to continue to operate.



The Rest of the Facts

- Shortly after the sale of Olson Inc. is completed, the new CEO writes Lawyer A and makes a demand for the transfer of all client files relating to Olson Inc. Stan objects to the transfer and is concerned about the trade secret and customer list information relating to his other companies. Stan is also concerned that his privileged conversations with Lawyer A about his other companies will be disclosed to others outside of new Olson Inc.



Question: Does Lawyer A forward the Olson Inc. files to the new CEO or can he honor Stan's request to keep the files?

1. Since Lawyer A never represented the new Olson Inc., there is no need to forward the files.
2. Lawyer must forward all of the client files to Olson Inc.
3. Lawyer A should forward the sale transaction file to new Olson Ltd., but the other files can be retained.
4. Lawyer A should condition transfer of the Olson Inc. files upon his being retained as counsel by the new Olson Inc.



Correct Answer: No. 2

- **The files created and maintained by Lawyer A, including the transaction file, were in his capacity as counsel for the organization (Olson Inc.). A lawyer for an organization represents the organization and not its constituents. See Rule 1.13 (a). Since the organization continues to exist, it is entitled to its client files. See Rules 1.16 (d) & (e).**



Rule 1.13: Organization as Client

- a) A lawyer employed or retained by an organization **represents the organization** acting through its duly authorized constituents.

- e) In dealing with an organization's directors, officers, employees, members, shareholders, or other constituents, a lawyer shall explain the identity of the client when the lawyer knows or reasonably should know that the organization's interests are adverse to those of the constituents with whom the lawyer is dealing.



Rule 1.16: Declining or Terminating Representation

- d) Upon termination of representation, a lawyer shall take steps to the extent reasonably practicable to protect a client's interests, such as giving reasonable notice to the client, allowing time for employment of other counsel, surrendering papers and property to which the client is entitled, and refunding any advance payment of fees or expenses that has not been earned or incurred.
- e) Papers and property to which the client is entitled include the following, whether stored electronically or otherwise:
 - (1) in all representations, the papers and property delivered to the lawyer by or on behalf of the client and the papers and property for which the client has paid the lawyer's fees and reimbursed the lawyer's costs;



Question: After being told that the files must be transferred to new Olson Inc.'s CEO, Stan asks whether Lawyer A can redact the privileged information from the file(s) prior to transfer?

1. The files must transfer without redacting any information.
2. Only the information protected by the attorney-client privilege can be redacted.
3. Both the trade secret and the attorney-client privileged information can be redacted.
4. Lawyer A should condition transfer of the protected information upon payment of further amounts to Stan since transfer of the information was not addressed in the sale transaction documents.



Correct Answer: No. 1

- Control of the privilege passes with control of the corporation. *Commodity Futures Trading Commission v. Weintraub*, 471 U.S. 343, 350, 105 S.Ct. 1986, 85 L.Ed.2d 372 (1985). Unless the sale documents provided otherwise, the privilege information belongs to Olson Inc. and not Stan.
- How to reduce exposure to privilege loss? Include provision in sale documents stating that privileged information transferred to seller will not be waived without first providing to notice and opportunity to object by buyer.



Question: Post closing, a dispute arises over an escrow provision in the sale transaction. Can Lawyer A represent Stan in the escrow dispute?

1. Since Lawyer A has never represented new Olson, Inc., there is no conflict and he may represent Stan.
2. Whether Lawyer A can represent Stan may depend upon whether his testimony will be needed as a witness if the escrow dispute proceeds to litigation.
3. Lawyer A cannot represent Stan without obtaining the consent of Olson Inc.
4. Lawyer A cannot represent Stan under any circumstances because Lawyer A was involved in the sale.



Correct Answers: Nos. 2 and 3

- If the escrow dispute arises from some ambiguity of the escrow terms, Lawyer A may be a necessary witness at trial. Rule 3.7 prohibits lawyers from acting as advocate and witness at trial, although in Minnesota, representation during the pre-trial stages is generally permitted.
- Rule 1.9 prohibits lawyers from accepting representation that is materially adverse to a former client, if the matters are substantially related. Here Lawyer A represented Olson Inc., in the sale and the matters are substantially related, if not the same matter. Lawyer A would need Olson, Inc.'s consent prior to undertaking any representation of Stan in the escrow dispute.



Rule 1.9: Duties to Former Clients

- a) A lawyer who has formerly represented a client in a matter shall not **thereafter represent another person in the same or a substantially related matter** in which that person's interests are materially adverse to the interests of the former client unless the former client gives informed consent, confirmed in writing.

- c) A lawyer who has formerly represented a client in a matter or whose present or former firm has formerly represented a client in a matter shall not thereafter:
- 1) use information relating to the representation to the disadvantage of the former client except as these rules would permit or require with respect to a client, or when the information has become generally known; or
 - 2) reveal information relating to the representation except as these rules would permit or require with respect to a client.



Rule 3.7: Lawyer as Witness

- a) A lawyer shall not act as advocate at a trial in which the lawyer is likely to be a necessary witness unless:
 - 1) the testimony relates to an uncontested issue;
 - 2) the testimony relates to the nature and value of legal services rendered in the case; or
 - 3) disqualification of the lawyer would work substantial hardship on the client.

- b) A lawyer may act as an advocate in a trial in which another lawyer in the lawyer's firm is likely to be called as a witness unless precluded from doing so by Rule 1.7 or Rule 1.9.



Conflicts of Interest; House Counsel Working for a Competitor

- Bert used to work as House Counsel for Pools R Us Corporation. One of Bert's responsibilities was supervising and monitoring litigation, which primarily involved intellectual property disputes with a competitor Spa and Patio Inc. Much of the litigation during Bert's tenure related to pool heaters and pumps, although one particular piece of litigation related to pool filtering systems. About 18 months ago, Bert left Pools R Us and took a position as House Counsel for Spa & Patio.



The Rest of the Facts

- Yesterday, Pools R Us was served with a summons and complaint authored by Bert alleging that certain filters manufactured by Pools employed recently developed technology licensed exclusively to Spa & Patio. Pools R Us intends to bring a motion to disqualify Bert from participating in the litigation. Pools is also considering what to do about a provision in Bert's employment contract with Pools that included a liquidated damages clause in the amount of 5 years salary if Bert left Pools and became employed by a competitor within two years.



Question: Is Pools likely to prevail in its disqualification motion?

1. Maybe, maybe not. It will depend upon the facts and circumstances of the new litigation and their relationship to matters for which Bert was responsible while at Pools R Us.
2. Because Bert supervised and monitored IP litigation for Pools R Us there is a presumption that he possesses confidential Pools R Us information on IP matters and there he will likely be disqualified.
3. The timing of the development of the filter technology at issue in the current suit will be a relevant factor in the disqualification analysis.
4. Bert will be disqualified because the prohibition against employment with a competitor in his Pool R Us employment is reasonable in terms of time, scope and manner.



Correct Answers: Nos. 1 and 3

- The issue will turn upon whether the matters supervised by Bert at Pools are substantially related to the current suit by Spa against Pools. Simply because Bert supervised patent matters while at Pools is likely not enough.
- The fact that the technology at issue in the lawsuit was not developed until after Bert left Pools is extremely significant, although not always dispositive, in determining substantial relationship.



Rule 1.9 (a)

- A lawyer who has formerly represented a client in a matter shall not thereafter:

(a) represent another person in the **same or a substantially related matter** in which that person's interests are materially adverse to the interests of the former client unless the former client consents after consultation.”



Rule 1.9 Comment

- “The scope of a “**matter**” for purposes of Rule 1.9(a) may depend on the facts of a particular situation or transaction.

[A] lawyer who recurrently handled a type of problem for a former client is not precluded from later representing another client in a wholly distinct problem of that type even though the subsequent representation involves a position adverse to the prior client... **The underlying question is whether the lawyer was so involved in the matter that the subsequent representation can be justly regarded as a changing of sides in the matter in question.**”



Minnesota Disqualification Case Law

- Services in the same area of law are not necessarily substantially related. See *Arctic Cat, Inc. v. Polaris Industries Inc.*, WL 2944110 (D. Minn. Dec. 20, 2004). The Robins firm performed over \$10,000,000 in patent law services for Polaris from 1995-99. Robins appeared adverse to Polaris on a patent law matter for Arctic Cat. Claims that Robins was effectively the equivalent of patent law general counsel are rejected.
- For disqualification legal advice must be relative either to the pending dispute or to matters so closely related to subject matter of the present suit that it is readily apparent that it is substantially and essentially akin to the pending matter. *Production Credit Ass'n v. Buckentin*, 410 N.W.2d 820 (Minn. 1987).



ABA Formal Opinion 99-415 “Representation Adverse to Organization by Former In-House Lawyer”

- Where a former in-house lawyer was personally involved in a matter, neither he nor his new firm may undertake a representation adverse to his former employer in the same or a substantially related matter absent the former employer’s consent
- [I]f the former in-house lawyer did not personally represent his former employer in a matter, but obtained protected information concerning that matter while it was being handled by others in his legal department, he will be disqualified and his disqualification will be imputed to his new firm.
- [S]upervisory responsibility for a matter without some personal involvement does not necessarily mean that the former in-house lawyer personally represented his former employer with respect to that matter. Similarly, the fact that he was responsible for matters of a particular type will not by itself preclude him from representing a client in a similar matter in which the former employer is an adverse party.



Question: Can Pools bring an action to restrain Bert from working for Spa for the remainder of his non-compete?

1. The action will likely prevail because the limitations placed upon Bert in the employment agreement are reasonable in time place and manner.
2. The action is unlikely to prevail because Bert position with Spa & Patio is as a lawyer.
3. Both Bert and the lawyer who drafted the Pools R Us employment agreement could be subject to professional discipline.
4. The employment agreement would be enforceable if Bert were to take a position other than a lawyer with a competitor.



Correct Answers: Nos. 2, 3 and 4

- “A lawyer shall not participate in offering or making: (a) a partnership, shareholder, operating, employment, or other similar type of agreement that restricts the right of a lawyer to practice after termination of the relationship, except an agreement concerning benefits upon retirement. . . .” Minn. R. Prof. Conduct 5.6.
- Employment agreements for in-house lawyers are subject to Rule 5.6 and may not include restrictive employment provisions or non-compete covenants. See New Jersey Sup. Court Advisory Comm. on Prof’l Ethics, Op. 708, 2006.



But Non-Competes May Have Some Value

- Washington and Connecticut Ethics Opinions opine that in-house counsel may be required to sign a non-compete agreement but the non-compete is only enforceable if lawyer obtains a non-lawyer position with a competitor. The non-competes in both opinions had a saving clause stating that the non-compete was subject to the limitations imposed by Rule 5.6. Therefore, lawyer is free to provide legal service to a competitor per Rule 5.6. See Washington Bar Op. 2100 (2005); Connecticut Bar Association Op. 02-05.



THE END

