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Annuals & Perennials: The 2021 Ethics Potpourri for Corporate Counsel

Guest and Dorsey Panelists

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Program Materials

PowerPoint Presentation

Materials are Available on www.dorsey.com at

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Annals & Perennials: The 2021 Ethics Potpourri for Corporate Counsel

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Remote/Virtual Practice: Temporary Pandemic Fix or Here to Stay?

ABA Opinion 495 (12/16/20); *Lawyers Working Remotely*

- **Lawyers may practice remotely from a jurisdiction in which they are not licensed provided:**
 - They do not hold themselves out to the public as authorized to practice in the remote state.
 - They do not provide or offer legal services in the remote state.
 - They do not practice the law of the remote state.
 - The remote state has not taken the position that remote practice constitutes the Unauthorized Practice of Law (UPL).

Not Holding Oneself Out as Licensed

- **No letterhead, website, business card or advertising reflecting the lawyer's presence in the remote state.**
- **No signature block reflecting the lawyer's presence in the remote state.**
- **What about phone numbers with a local area code?**
- **What about establishing an office?**
- **The goal is to be "invisible" in terms of your continuous presence in the remote state.**

Some States Permitted Remote Practice Before COVID

- **Utah** – *“What interest does Utah have in regulating out-of-state lawyers for out-of-state clients simply because the lawyer has a home in Utah?”*
- **Maine Op #189** – Lawyer who lived in Maine and worked from home for law firm and clients in another state was not engaging in UPL.
- **New Hampshire** - New Hampshire’s modifications of ABA Rule 5.5 clarify that a lawyer licensed in another state, who does not practice New Hampshire law, need not obtain a New Hampshire license to practice law solely because the lawyer is present in New Hampshire.

More States Approve Remote Practice After COVID

- **Florida** – A state in which engaging in UPL is a felony – Florida Supreme Court upheld Florida Advisory Op 2019-4 that a New Jersey lawyer practicing remotely from Florida to his New Jersey law firm did not engage in UPL. The opinion is very detailed about what the New Jersey lawyer can and cannot do.
- **Pennsylvania** – Op #2021-100
- **California Proposed Formal Opinion 2020-0004** – out for public comment until 11/12/21.

ABA Opinion 498 (3/10/21) – *Virtual Practice*

- **Approves Virtual Practice addressing various risks of virtual practice including confidentiality, supervision and data security.**
- **Secure connections – Password protected Wi-Fi and VPN connections.**
- **Data – regular data back-up and use of reputable cloud platforms.**
- **Secure video-conferencing and virtual meeting platforms.**
- **BYOD policies, and ability to wipe devices if they are lost.**
- **Regular contact with inexperienced lawyers to ensure adequate supervision.**

With so many states approving remote practice is there any need to get licensed in the remote state?

Not if you know that: (1) you will never move to another state; (2) your company employer will never spin off your division or subsidiary; (3) the company will never merge with another out-of-state company; and (4) you never give any advice about the laws of the remote state.

Remote Practice Could Affect Getting Admitted or How You Get Admitted in Another State

Example: I don't want to take the bar exam again to get admitted in another state.

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Ways to Get Admitted in Another State

- **Take and pass the bar exam “again” (unless your only license to practice is from Wisconsin – then you will be taking it for the first time).**
- **Apply to be admitted without taking the bar exam based upon your admission and years of practice in another state.**
- **Use your admission and UBE or MBE score from the bar exam to get admitted in another state without taking that state's bar exam (limited to only 2 or 3 years after you take the bar exam).**

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2021 ETHICS POTPOURRI FOR CORPORATE COUNSEL

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Different Types of Available Law Licenses

- **Full Admission** – full authority to practice law without regard to who employs you – can appear in court and advise anyone.

House Counsel Admission – authority to practice is limited to only the employer you designate on your House Counsel Admission application. Authority expires if you change employment. Can appear in court only on behalf of your employer.

Admission without Taking the Bar: The Technical Requirements

The Devil is always in the details, and the details vary from state-to-state.

The “5 of 7 Rule”

- **Most require that 5 of the last 7 years preceding the application involved the active full-time practice of law.**
- **Some states, including Minnesota, have recently lowered the requirement to 3 of the last 5 years.**
- **The applicable rules are those of the state where you are applying for admission.**
- **Some states have shorter practice requirements for house counsel admission.**

Practice Must be “Full-Time”

- **Most states consider full-time to be at least 30 hours/week.**
- **Remember billable time is not the only yardstick to measure whether practice is full-time. Lawyers rarely can bill all of their time when they practice law.**
- **For lawyers whose company title is something other than “legal” or “counsel,” bar admission authorities will more closely review whether the lawyer’s years of practice qualify as full-time legal practice or whether it tips more to business.**

The Practice is NOT “Authorized” if:

- Your license during the time period is not in good standing (e.g., unpaid registration fees, bar dues in integrated bar states or CLE is delinquent).
- The most prevalent problem: Your years of practice occurred in a state where you did not have a license to practice law. Typically bar authorities look at where the applicant was physically located – the *continuous presence* standard.
- The federal law authorization exception: Since there is no federal licensing of lawyers, applicants whose practice is limited solely to federal law issues may be able to rely upon practice in state where they are not licensed, as long as they are licensed somewhere.

Conclusion

The safest and most flexible solution is to get licensed “where your butt sits” and as soon as your “butt begins sitting there.” By waiting you expose yourself to not authorized practice time that counts against the “5 of 7” or “3 of 5” admission requirement. In addition, getting licensed prevents UPL exposure if you provide advice on the remote state’s law.

Attorney-Client Privilege

Does privilege extend from the parent's legal department to subsidiaries when the advice or representation does not directly involve the parent?

Privilege Exists Across the Corporate Family

- ***Restatement Third, The Law Governing Lawyers* § 73, Cmt. d states that, where a parent corporation owns controlling interest in a subsidiary, the agents of each entity who are responsible for the affairs of the others are within the circle of privilege.**
- ***United States v. AT&T*, 86 F.R.D. 603, 616 (D. D.C. 1979) (recognizing that “[t]he cases clearly hold that a corporate “client” includes not only the corporation by whom the attorney is employed or retained, but also parent, subsidiary, and affiliate corporations.**

Extension of Privilege to Subsidiaries: It Can Also a Be a Problem

- *In re Teleglobe*, 493 F.3d (3rd Cir. 2007).
- BCE directed Teleglobe (wholly owned sub) to borrow \$2.4 billion, but a year later BCE ceased funding Teleglobe.
- Teleglobe files bankruptcy and brings adversary proceeding against BCE. Prior to bankruptcy Teleglobe has consulted with BCE house counsel on various matters. Teleglobe sought discovery of BCE's house counsel's files and BCE's outside counsel who had been retained by the parent regarding the bankruptcy.
- Circuit Court holds Teleglobe gets house counsel's files but only gets BCE's outside counsel files if lower court finds joint representation with Teleglobe.

Anticipate Privilege Issues with Subsidiaries

What to watch out for.

Situations Where the Interests Diverge

- **Bankruptcy of a subsidiary or affiliate.** The trustee will stand in the shoes of the subsidiary and control the attorney-client privilege for the subsidiary.
- **Zone of Insolvency** – where the subsidiary is insolvent but has not yet filed bankruptcy – the interests of the sub and the parent become adverse because of subsidiary obligations to creditors.
- **Sale of spin-off of the subsidiary.** Post closing the buyer will possess control of subsidiary. (Watch out for mail or data server transfer issues when selling a company.)

Can In-House Counsel advise the Subsidiary in a State where In-House Counsel is not Licensed

Is the advice still protected by attorney-client privilege?

Most Likely, But Not Always

- **Privilege is protected if an in-house lawyer provides legal advice to a subsidiary, even if the subsidiary is located in another state and the lawyer's advice would be an unauthorized practice of law in that state. E.g., *Le Bleu Corp. v. Fed. Mfg. LLC*, 2018 US Dist. LEXIS 56291 (E.D. Wis. 4/2/18).**
- **Rule 5.5, Rules of Professional Conduct, allows temporary transactional practice in most states provided the lawyer does not have a continuous presence (butt sitting) in the state.**

Problems to Watch Out For

- **Rule 5.5 temporary practice exceptions or permissions may not apply if you are residing or have a continuous presence in a state where you are not licensed – *Get licensed where your butt sits*.**
- ***Gucci America v. Guess?*, 2011 WL 9375 (S.D.N.Y 1/3/11) – Company's "reasonable belief" that in-house counsel was licensed was sufficient to preserve privilege. In-counsel's California license had lapsed after he began employment. However, what if the license had lapsed before he was employed?**
- **Some countries (e.g., EU countries, China) do not recognize attorney-client privilege for in-house counsel when advising foreign subsidiaries.**

Internal Investigations: Privilege and Work-Product Protection

Not all investigations are protected by attorney-client privilege or work product. Even in investigations protected by attorney-client privilege or work product, not all documents are protected from discovery.

Threshold Issue: Is the Investigation Business or Legal in Nature?

- ***In re Vioxx Products Liability Litigation*, 501 F. Supp.2d 789 (Ed. La. 2007) – In-house counsel’s internal comments after reviewing technical, scientific, promotional and marketing materials were determined to be more business advice than legal.**
- **Is the investigation part of a regular business process or requirement v. one that is directed and organized by in-house counsel or outside counsel.**

Underlying Facts are Not Likely Protected Even in a Privileged Investigation

- Two Types of Work Product protection; Fact Work Product and Opinion Work Product.
- Fact Work Product is discoverable upon a showing of substantial need by the plaintiff or the government. *Attorney General v. Facebook, Inc.*, No. SJC-12496 (March 24, 2021). This can include data compilations or data summaries prepared in an investigation.
- Opinion Work Product is typically not discoverable unless waived by other conduct (e.g., disclosure).
- Facts are not privileged just because they were disclosed to the lawyer running the investigation. The communications to the lawyer about the facts maybe privileged, but not the facts themselves.

Other Investigation Privilege Issues

- The lawyer conducting the investigation cannot be the ultimate decision maker as to what action should be taken. Example: Counsel is directed to investigate and fire any found to have violated company policy.
- Disclosing legal advice to persons who are not in the company decision making process regarding the investigation may constitute waiver – the “Reply All” problem.
- Notes and summaries of investigation interviews are usually privileged but notes should not be verbatim.
- Reports should reflect legal advice, strategy, recommendations or mental impressions.

Good Investigation Process Hygiene

- **Clear documentation at the beginning that the purpose of the investigation is legal and in anticipation of litigation.**
- **All persons interviewed should be apprised of the confidential nature of the investigation.**
- **Corporate Miranda Warnings should be given to employees who appear to misunderstand counsel's role in the matter.**
- **Investigation report should be distributed only to those who fall within the control group test.**
- **Counsel should anticipate whether the investigation results may be disclosed to others (e.g., in defense of government investigation) and the effect of waiver as to others.**

In-House Counsel and Non-Compete Agreements

Where in-house counsel is both a lawyer “to” the company and an employee “of” the company?

Rule 5.6 (a) Rules of Professional Conduct

- A lawyer shall not participate in offering or making:
 - (a) a[n] ... employment agreement that
“restricts the right of a lawyer to practice after termination of the relationship”.....
- Does this apply to house counsel employment agreements?

ABA Opinion 94-381 *Restrictions on Right to Practice*

- Rule 5.6 (a) prohibits non-compete agreements for a lawyer employed by a company as in-house counsel.
- Non-compete agreements have the effect of prohibiting a lawyer from representing others in any matter adverse to the corporation, even if that matter were unrelated to any representation of the corporation in which the lawyers had been involved.
- Non-compete agreements are more restrictive than what is required under Rule 1.9(a) – *the former client conflict ethics rule* - thereby restricting the lawyer’s practice.

A Permissible Form of Non-Compete?

- Non-Competes with a savings clause.
- “Savings Clause” = the non-compete language acknowledges it is subject to requirements of Rule 5.6.
- Effect of saving clause is to prevent a lawyer from taking a business position at a competitor.
- See Washington Bar Op. 2100 (2005); Connecticut Bar Association Op. 02-05.
- See also, *Greissman v. Rawlings and Assoc., PLLC*, 571 S.W.3d 561 (Ky. 2019) (finding the non-solicitation agreement valid and enforceable where it contained a “savings clause” that carved out all legal work and applied only to non-legal business).

Are Things Changing? Rule 5.6 does not apply?

- *Gaines v. Schneider Nat'l Inc.*, No. 18-C-898, 2018 WL 5282902 (E.D. Wis. Oct. 24, 2018) - “There are compelling reasons for treating in-house counsel differently under Rule 5.6(a), and the early history of the Rule suggests that it was designed for the law-firm context.”
- *DISH Network Corp. v. Shebar*, Case No. 2017-CV-31079 (Colo. Dist. Ct. May 9, 2017) (granting preliminary injunction in favor of employer against former general counsel who left to work for a direct competitor).

Probably Not, Unless Rule 5.6(a) is changed

- **Besides the ABA, Washington and Connecticut Opinions, many states have issued ethics opinions holding that Rule 5.6(a) applies to employment agreements with house counsel.**
- **Other state or local bar associations with similar opinions include, Nevada, New Jersey, South Carolina, District of Columbia, Virginia, New Hampshire, Ohio and Philadelphia.**
- **The Minnesota Office of Lawyers Professional Responsibility concurs with ABA Opinion 94-381 and its position that Rule 5.6(a) applies to house counsel employment agreements.**