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Emerging Ethics 2022: Conflicts with Clients and Adversaries Over the Ethics Conflict Rules

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Ethics 2022: Conflicts with Clients and Adversaries Over the Rules of Conflicts

Current Hot Button Issues and How to Cope with Them

- **Material Limitation Conflicts**
- **Joint Representation**
- **Lateral Movement and Long Ago Legal Work**
- **Client Affiliates, Client Guidelines and Engagement Letters**

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FIRST, A FEW CONFLICTS BASICS
IN CONFLICT DISPUTES, NO HAPPY ENDINGS

- Basis or Part of Malpractice Claim – *Revolaze, LLC v. Dentons US LLP* (Ohio App. April 28, 2022) (review denied by Ohio Supreme Court in August, 2022) *Potter v. Cozen & O'Connor*, No. 21-2258 (3d Cir. March 13, 2022) (reinstating suit by shareholder based on alleged conflict of law firm representing corporation); Restatement (Third) of The Law Governing Lawyers § 121 (2000)
- Breach of Fiduciary Duty or "Constructive Fraud" Theories
  SAS Inst., Inc. v. Akin Gump Strauss Hauer & Feld, LLP, No. 5:10-CV-101-H, 2015 WL 1476818 (E.D.N.C. Feb. 6, 2015); *State ex rel. Swanson v. 3M Co*., 845 N.W. 2d 808 (Minn. 2014)
  - In both cases damage theories were sustained — including in one case an award of double compensatory damages—even though DQ had not occurred because of waiver or for other reasons
- Sanctions — *Madison 92nd St. Assocs. v. Marriott Int., Inc*., No. 13 Civ. 291(CM), 2013 WL 5913382 (S.D.N.Y. Oct. 31 , 2013), *aff'd sub nom. Boies Shiller & Flexner LLP v. Host Hotels & Resorts, Inc.*, 603 F. App'x 19 (2d Cir. 2015) ($270,000 sanction)
- Return of fees and forfeiture of unpaid fees — *Sheppard, Mullin, Richter & Hampton, LLP v. J-M Mfg*. Co., 425 P.3d 1 (Cal. 2018) (forfeiture and non-payment of almost $5 million in contractual fees, remanding on *quantum meruit*); *Jay Dietz & Assocs. of Nassau Cnty., Ltd. v. Breslow & Walker, LLP*, 153 A.D.3d 503 (N.Y. App. Div. 2017)
- Disciplinary proceedings — rare but can happen — *In re Hodge*, 407 P.3d 170 (Kan. 2017) (disbarment); *In re Rosanna*, 395 B.R. 697 (Bankr. D. Nev. 2008)
- Expensive and disruptive for firm and client, loss of clients, bad for reputation — *Western Sugar Coop. v. Archer-Daniels-Midland Co*., 98 F. Supp. 3d 1074 (C.D. Cal. 2015) (disqualifying law firm as a result of law firm merger after 20,000 hours of legal work and $12 million in fees); *Dynamic 30 Geosolutions LLC v. Schlumberger Ltd*., No. A-14-CV-1 12--LY, 2015 WL 4578681 (W.D. Tex. Sep. 12, 2016) (all plaintiffs counsel not only DQed but complaint dismissed)

No Happy Endings: Sheppard, Mullin, Richter & Hampton, LLP 425 P3d 1 (Cal. 2018)

One Firm lawyer represents a local utility U on employment issues including an arbitration for over a decade. Two pre-existing engagement letters have broad but general waivers of future and current conflicts.

March 5, 2010:

Other lawyers at Firm hired to represent pipe manufacturer P in major *qui tam* action; U is one of many intervenors with modest claim against P. Firm's representation of U disclosed in conflict check, but at time Firm had done no work for U for five months. Engagement letter with broad conflict waiver language entered with general counsel for P after negotiations and edits on fee provisions. Some discussion of Firm's representation of another intervenor but no discussion of representation of U.

March 29, 2010:

Firm commences small amount of work for U (12 hours of work over next year); relying on waiver letters, it does not discuss adversity in the *qui tam* action with either U or P.

Sheppard, Mullin, Richter & Hampton, LLP 425 P.3d 1 (Cal. 2018) (Continued)

16 months later:

U gets Firm DQed on ground that former engagement letters did not constitute informed consent to new, actual conflict. Court won't accept Firm's proposal to drop U as a client (hot potato doctrine). Possible bifurcation and use of separate counsel for issues involving U suggested but rejected by counsel representing U and other intervenors.

In intervening 16 months Firm does 10,000 hours of work on *qui tam* action for P; bills it $3.8 million. P refuses to pay last $1.1 million and demands forfeiture of fees from inception of relationship.

Firm seeks to preserve its fees:

Firm sues P and moves for arbitration under arbitration clause in engagement letter. Distinguished panel of arbitrators finds Firm's conduct not so serious or egregious as to make disgorgement or forfeiture of fees appropriate. Trial court confirms award.

Intermediate appellate court reverses: advance waiver language unenforceable under California law because not based on informed consent; known actual or imminent conflicts must be disclosed. Relying on waiver in these circumstances violates public policy, making the entire contract (including the arbitration clause) unenforceable. Fee forfeiture sustained.

Sheppard, Mullin, Richter & Hampton, LLP 425 P.3d 1 (Cal. 2018) (Continued)

Firm appealed to California Supreme Court, with 51 firms, ACCA, several companies, association of disciplinary counsel, law professors and malpractice insurers filing amicus briefs.

California Supreme Court:

- California Supreme Court agreed that Firm's broad and non-specific waiver would be ineffective because it failed to disclose a known existing conflict, and as a result voided Firm's entire engagement agreement
- With two dissenting justices, the Court found that the Firm might still be allowed to create a record to establish a quantum meruit entitlement to some lower amount of fees, and remanded
  - "[B]efore the trial court may award compensation, it must be satisfied that the award does not undermine incentives for compliance with the Rules of Professional Conduct. Although the law firm may be entitled to some compensation for its work, its ethical breach will ordinarily require it to relinquish some or all of the profits for which it negotiated."
- The parties ultimately settled before trial in 2019

Review of Basic Conflict Rules
Current Client Conflicts (Rules of Professional Conduct 1.7)

- A lawyer or *Firm* cannot represent a current client against another current client having adverse interests in a transaction or legal proceeding without informed consent of both affected clients (regardless of whether proceedings are related)
  - Duty of loyalty
  - Duty of confidentiality
- Substantial or indeed *any* relationship among matters not required in any U.S. jurisdiction other than Texas - different from many European and other jurisdictions
- Cannot represent clients having “differing interests” (NY standard) or “materially adverse interests” (ABA Model Rules and most other states) without informed consent

Former Client Conflicts (Rule 1.9)

- Cannot represent interest adverse to former client in "the same or a substantially related matter"
- Cannot represent new, adverse client if the lawyer (whether at present or former firm) acquired "material" confidential information of former client. *Cypress Holdings III, LP v. Sport-BLX, Inc.* No. 22 C.V. 1243 (LGS) (S.D.N.Y. Aug, 23, 2022); *In re Estate of Krivikula,* No. A-0S63-20 (Sup. Ct. N.J., Aug, 22, 2022).
- Presumed that attorney on a matter had access to some confidential client information from former client and that it will be used or shared with new client – question is whether confidential information *could have been* shared
  - Possibly rebuttable under "modified substantial relationship" approach on a DQ motion in some jurisdictions but not others.
  - *Moray v. UFA Indus., Inc.*, 156 A.D.3d 781 (N.Y. App. Div. 2017) (associate who was formerly paralegal to estate of late principal of defendant created irrebuttable presumption that associate must be disqualified as plaintiff's counsel and rebuttable presumption that his entire firm must be disqualified)

Imputation of Conflicts (Rule 1.10)

- Basic rule: if one lawyer at a firm is conflicted, all lawyers "associated in the firm" are deemed conflicted, absent consent by all affected clients
- If a lawyer leaves and takes the client, old firm remains conflicted if the firm still "has" confidential information that is "material to the matter"
  - "has" means actual access by remaining lawyers, not information in electronic storage non-accessible to most of them, according to New Jersey case — *Estate of Kennedy v. Rosenblatt,* 149 A.3d 5 (N.J. App. Div. 2016)
- If a lateral individually has confidential information "material to the matter," the new firm may not be adverse to the former client of the lateral in the same or a substantially related matter absent consent
- *Revolaze, LLC v. Dentons US LLP,* No. 109742 (Ohio App. April 28, 2022): Conflict of lawyers at Canadian member of verein imputed to U.S. firm; Firm disqualified in the midst of intensive ITC proceedings and found liable for malpractice.

Prospective Client Conflicts (Rule 1.18)

- Conflict if lawyer actually receives information both material to the same or a substantially related matter and that could be significantly harmful to person disclosing it
  - "significantly harmful": more stringent test than confidentiality standard under former rule. *See* NY State Bar Ops. 960 (2013) and 1067 (2015); *Mayers v. Stone Castle Partners,* 1 N.Y.S.3d 58 (App. Div. 1st Dep't 2015)
  - ABA Op. 492: "significantly harmful" depends on duration of communication, topics discussed, whether lawyer reviewed documents, whether information is known by others, and relationship between information and other matter
  - Examples of "significantly harmful" information include views of prospective client on litigation management strategy, trial or settlement issues such as amounts or timing, personal accounts of relevant events, or sensitive personal or financial information
- Both client and prospective client must waive
- Interested lawyer can be screened if lawyer took reasonable measures to avoid exposure to more information than reasonably necessary, screen is timely, and prospective client receives prompt written notice (BUT N.B. all too often the screened lawyer is the one lawyer at the firm that client wants to hire)

WITH THOSE BASICS IN MIND, WE TURN TO SOME SUBTLE, EMERGING CONFLICTS AND THEORIES

FIRST, THE NEW NORMAL IN CONFLICTS ANALYSIS--

INDIRECT CONFLICTS, INCLUDING:

“MATERIAL LIMITATION,” PERSONAL AND OTHER CONFLICTS

Positional or Indirect Conflicts

- An emerging issue in IP where parties with competing technologies represented by same firm end up with opposing positions in the PTO or other contexts
- Continuing to act could lead to state malpractice or similar theories of liability.
- *Maling v. Finnegan, Henderson, Farabow, Garret, and Dunner, LLP,* 473 Mass. 336 (2015): simultaneous prosecution of patents for two entities in same tech area not per se violation of Rule 1.7 or ground for malpractice.
  - BUT rule different if interference declared, if opine for one client on another client's patent position, or if become involved in "patent claim shaving." *See Vaxiion Therapeutic, Inc v. Foley & Lardner LLP*, 07CV280 — IEG (RBB), 2008 WL 5122196 (S.D. Cal Dec. 4.2008) (denying much of summary judgment motion by patent lawyers accused of breach of fiduciary duty when they prosecuted patents for plaintiff and a competitor)
  - Conflict may be found from undertaking invalidity or non-infringement opinion regarding a patent owned by or licensed to another firm client absent waiver by both clients. *Andrew Corp. v. Beverly Mfg*., 415 F. Supp.2d 919 (N.D. Ill. 2006); VA. Legal Ethics Op. 1774 (2003)
- Could also be liability based on non-disclosure or fiduciary duty breach, even when no DQ — *SAS Inst., Inc. v. Akin Gump Strauss Hauer & Feld, LLP,* No. 5:10-CV-101-H, 2015 WL 12861349 (E.D.N.C. Feb. 6, 2015)

Positional or Indirect Conflicts

- *Bridgepoint Const. Servs., Inc. v. Newton*, 237 Cal. Rptr.3d 598 (Cal. Ct. App. 2018) (affirming disqualification of counsel from representing corporation and business associate, who both sought damages from same pool of money).
- *Oxbow (In re Rail Freight Fuel Surcharge Antitrust Litigation),* 965 F. Supp. 2d 104 (D.D.C. 2013) — No conflict even though position lawyer would take in class action for defendant would be detrimental to a client with parallel opt-out case; separate conflicts counsel retained for opt-out case
- But *see Celgard, LLC v. LG Chem, Ltd.,* 594 Fed. Appx. 669 (Fed. Cir. 2014) (citing *Freedom Wireless, Inc. v. Boston Commc'ns Grp., Inc.*, Nos. 2006-1020 et al., 2006 WL 8071423 (Fed. Cir. Mar. 20, 2006))
  - Firm represented client with IP position entitling it to injunctive relief which would affect many industry players, one of which (Apple) was also a client
  - As in *Oxbow,* firm stipulated it would not appear or negotiate against Apple, but in non-precedential opinion Fed. Circuit disqualified firm because of inevitable adverse effect.

ABA FORMAL OPINION 497 (Feb. 10, 2021)

- Material Adverse Interest Standard for Conflicts Involving Former and Prospective Clients
  - Encompasses more than direct conflicts
  - Mere harm to economic interest not enough – not “materially” adverse
  - BUT suing or negotiating against former client on same or substantially related matter is materially adverse (a familiar concept)
  - SO is attacking or undermining lawyer’s (or firm’s) own prior work – an important and useful clarification
- N.B. For prospective clients, relationship must be not only materially adverse but use of information must be significantly harmful to prospective client

Underlying Concern: Pulling Punches When Lawyer's or Firm's Client or Former Client Becomes a Witness in Litigation for Another Client

- Recent DC Bar Opinions 380 and 381
  - Subpoenaing current or former client not a per se conflict – but non-waivable if that party objects to becoming a witness (see also ABA Op. 497, supra).
- When former client does become involved, even voluntarily, potential conflicts may arise
  - Can sometimes be waived – if ramifications can be anticipated and confidentiality obligations to both parties permit disclosures.
  - But, as with claim shaving in patent prosecution, counsel must be wary of pulling punches against one client out of loyalty to the other
  - Can be personal interest conflict (e.g. lawyer doesn't want to jeopardize future work from major client that becomes a witness).
  - But this could mean conflict not always imputed to all other lawyers at the firm
  - Opinions do endorse use of conflicts counsel to cure many of these problems

Recent Example of How These Issues Can Play Out in Non-IP Context

- *Stevens v. Brigham Young University - Idaho*, No. 4:16-cv-00530-BLW (D. Idaho April 23, 2021)
- An issue in a sexual harassment case against BYU-I was the University's effort to obtain and use conversations between plaintiff and religious leaders of the church.
- BYU claimed any priest - penitent privileged had been waived; the Church had successfully intervened to support the privileged status of the communications.
- Four years into the litigation, attorneys from the firm representing the Church (but not themselves involved in that representation) moved to the firm representing BYU-I.
- The court found that a conflict existed but that the communication at issue was not central to the case and that the conflict could be cured with an ethics screen that counsel had promptly put in place.
- Court added a few additional precautions including a litigation hold, prompt reporting of any inadvertent disclosures of privileged information and a ban on dissemination, as well as use, of any privileged information. See also *Metro Container Group v. ACT & Co.,* No. 18-3623 (E.D. Pa. May 31, 2022) (screening allowed as remedy "proportionate" to any appearance of impropriety from former representation).

Personal Interest Conflicts

- Avoid risk that “professional judgment” could be affected by lawyer's financial or personal interests (Comments [10-12] to Rule 1.7; Rule 1.8) N.J. Advisory Committee on Professional Ethics Op. 743 (June 23, 2002) (lawyer’s ownership of 50% of client creates conflict imputed to lawyer’s law firm)
- Third party payment of fees can’t override duty of loyalty to client
- Neither can lawyer’s own interest — whether property interest or concern for potential liability
- *Flatworld Interactives LLC v. Apple Inc.,* No. 12-cv-01956, 2013 WL 4039799 (N.D. Cal. 2013) (partner’s wife as principal in company suing firm’s client for IP infringement); *SAS Inst., Inc. v. Akin Gump Strauss Hauer & Feld, LLP,* No. 5:10-CV-101-H, 2015 WL 12861349 (E.D.N.C. Feb. 6, 2015) (adverse pecuniary interest created by possible percentage recovery from non-targets of suit, including one then-current client on unrelated matters); *Att’y Grievance Comm’n of Maryland v. Powell*, 192 A.3d 633 (Md. 2018) (conflict between attorney and client found jointly and severally liable for commencing frivolous litigation, since attorney’s incentive to lessen his liability would increase his client’s)

Possible Personal Interest Conflicts Arising From Personal Relationships

- ABA Op. 494 on Rule 1.7(a)(2) details recommendations for assessing and responding to potential personal conflicts
- Acquaintances – may but do not need to disclose the relationship
- Friendships – disclosure and informed consent depend on the closeness of the friendship
  - "[Lawyers who] exchange gifts at holidays and special occasions; regularly socialize together; regularly communicate and coordinate activities because their children are close friends and routinely spend time at each other's homes; vacation together with their families; share a mentor-protégé relationship developed while colleagues . . . [or] share confidences and intimate details of their lives."
- Intimate relationships – "cohabiting, engagement, exclusive intimate relationships" must be disclosed and require written informed consent

Bankruptcy Conflicts and "Disinterestedness"

- In addition to normal conflict rules, an attorney seeking to represent a debtor or trustee in bankruptcy must be "disinterested" within meaning of 11 U.S.C. § § 101(14), 327(a) and Rule 2014(a)
  - Cannot hold interest adverse to estate
  - Must disclose all actual or potential conflicts in terms of creditors or others who may have claims adverse to estate
  - Court must approve, affidavit reviewed by U.S. Trustee's office; debtor's or trustee's consent does not resolve issue (though of course, as with any conflict, consent of both clients is required)
  - Consequences of failure to disclose can be severe (attorney from prominent firm disbarred several years ago; forfeiture of $1.5 million in fees by another New York firm in 2013).
  - E.g. *In re Vascular Access Ctrs., L.P.,* 613 B.R. 613 (E.D. Pa. 2020) (although finding no actual conflict, sanctioning attorney for failure to disclose by denying portion of fees).
  - Use of separate, conflict-free counsel widely accepted as cure

Settlement of Aggregate and Interdependent Claims Against Limited Assets

- *Bridgepoint Const. Servs.,* 237 Cal. Rptr.3d 598 (affirming disqualification of counsel from representing corporation and associate, who both sought damages from same pool of money).
- Rule 1.8(g) requires each client's written informed consent for aggregate settlement of claims, with disclosure of the "existence and nature of all the claims or pleas involved and of the participation of each person in the settlement"
- "Aggregate settlement" not defined
  - Grouping together of separate but related lawsuits for purpose of settlement qualifies as aggregate settlement
- NYC Bar Op. 2020-3: Disclosure also required for settlement of one lawsuit dependent on or capable of significantly impacting another lawsuit handled by the lawyer for a different client with written informed consent from each client
  - NY Rule 1.8(g) court-approval exception should be used only where client consent not feasible *e.g.* class or derivative action settlement

Second Source of Emerging Conflict Issues
Joint Representations

- Joint representations are problematical whenever the lawyer may be unable to provide fully effective representation of clients' differing or adverse interests
- Joint representation is possible if potential differences are not so severe that lawyer cannot objectively and subjectively represent both
  - But may not be possible if severely competing interest, if confidentially prevents lawyer from making full disclosure or if lawyer would have a material limitation conflict.
  - And lawyer must obtain actual, informed, written consent. *See In re Flint Water Cases*; No. 5: 16-CVV-10444 (JEL) (E.D. Mich April 15, 2022)

Basic Examples of Joint Representations Gone Wrong

Office of Disciplinary Counsel v. Baldwin, 225 A.2d 817 (Pa. 2020) (Penn State GC, a former state Supreme Court judge, publicly reprimanded for appearing for two school officials as well as university in grand jury investigation with result that indictments had been dismissed because of inadequate, compromised representation)

Yanez v. Plummer, 221 Cal. App. Div. 180 (3d Dist. 2013) (rejecting summary judgment for defendant attorney in malpractice action stemming from having represented both employer and employee in personal injury case; attorney had taken steps detrimental to employee in preparation for testimony. Attorney also received a private admonition from California bar).

Joint Representations Gone Wrong

Even when possible, all clients must consent and consent must be knowing and voluntary and based on a full understanding of facts and possible consequences

Interests of parties can change in sometimes unpredictable way and situation must be reevaluated

- Initial consent might not be deemed informed or sufficient if circumstances have changed materially. In Baldwin and Yanez, circumstances were not explained adequately and individuals could not knowingly evaluate the possible adverse consequences .

Special Care Required in Representing Employee Witness and Company in Litigation

- In addition to cases of prejudice such as Baldwin and Yanez, courts do not like use of possibility of joint representation as means of keeping lower-level fact witnesses away from adversary
  - *E.g., Smart Insurance* Co. *v. Benecard,* No. 15-CV-4384 (KBF), 2016 WL 3620789 (S.D.N.Y. June 29, 2016) (trial court subsequently vacated penalties against lawyers but had prohibited attorneys from telling witnesses not to talk to adversary's counsel)
  - *Newman v. Highland School District No. 203,* No. 90194-5 (Wash. Oct. 20, 2016) (lawyer for school district purporting to represent former high school football coaches in concussion case)
- Issues compounded by *Rivera v. Lutheran Med. Cent.*, 73 A.D. 3d 891 (N.Y. App. Div. 2010), *affirming* 866 N.Y.S.2d 520 (Sup. Ct. 2008)
  - Prohibiting lawyer for hospital from reaching out to lower level former and current employees en masse to offer representation under solicitation and advertising rules
- See NYCLA Ethics Op. 747 and NY City Bar Op. 2016-2 for steps to avoid the pitfalls
  - *Adkisson v. Jacobs Engineering,* No.: 3:13-CV-505, 2016 WL 6534273 (E.D. Tenn. Nov. 1, 2016) (firm formally admonished by court for not following procedures such as those outlined in above opinions).
- *See* the recent *Big Lots* decisions, *Big Lots Stores, Inc. v. Super. Ct.*, No. 37-2019-00024738, 2020 BL 452544 (Cal. Ct. App. Nov. 20, 2020); *Wellons v. PNS Stores, Inc.*, No. 18-CV-2913, 2020 U.S. Dist. Lexis 110030 (S.D. Cal. May 11, 2020).

Some Ground Rules for All Joint Representation Issues

- Spell out what happens if conflict develops — which side, if either, will lawyer then represent
- Client always has the right to terminate and retain and consult with separate counsel
- Spell out privilege and confidentiality risks; information confidential and privileged vis a vis third parties but, absent very specific agreement, not as between parties to joint representation
- Guidance in Comments [29] - [33] to Rule 1.7 and NY State Bar Ops. 823, 903, and 1070
- May consider additional (conflict) counsel for particular issue or aspect of matter
- Similar Issues in real estate, family, estate planning, criminal and other contexts
  - *In re Symkowicz*, 195 A.3d 785 (D.C. 2018) (publicly censuring attorney who relied on mother's POA and failed to obtain informed consent for joint representation of mother and son in estate planning matter).
  - *U.S. v. Assad*, No. 2:18-CR-140 (E.D. Tenn. Nov. 20, 2020) (finding knowing waiver of conflict among criminal defendants represented by same attorney in successive cases; and court usefully noted possible use of separate, conflict-free counsel for cross-examination as curative measure).

A THIRD AREA WHERE UNEXPECTED CONFLICTS MAY EMERGE:

- IMPUTATION OF CONFLICTS AND SURPRISES FROM LATERAL HIRES AND LONG-AGO LEGAL WORK

Potential Conflict When Any Lawyer in Firm Has Ever Worked on Same or Substantially Related Matter Anywhere or At Any Time

- Concern is Access to Confidential Information which is presumed to Exist if there Is a Substantial Relationship
  - Conflict can arise from work many years before, early in a lawyer's career (J2 Glob. Commc'ns Inc. v. Captaris Inc., No. CV 09-04150, 2012 WL 6618272 (C.D. Cal. Dec. 19, 2012) — seven years); EON Corp. IP Holdings LLC v. Flo TV Inc., No. 10-812- RGA, 2012 WL 4364244 (D. Del. Sept. 24, 2012) — unrelated work for parent by different lawyers in a different office 20 years before)
  - Law firm merger (W. Sugar Coop. v. Archer-Daniels-Midland Co., 98 F. Supp. 3d 1074 (C.D. Cal. 2015): Squire Sanders/Patton Boggs merger)
  - Arguments sometimes made – not always successfully – that participation in joint defense or information sharing agreement creates material limitation on counsel in subsequent litigation between parties to the agreement. (*Centripetal Networks, Inc. v. Palo Alto Networks, Inc.*, No. 2-21-CV-137 (PCY) (ED Va. March 1, 2022)
  - In NJ substantial relationship test requires "fact-sensitive analysis to ensure…congruity of facts, not merely similar theories." *Atlantic City v. Troup*, 201 N.J. 447, 467 (2010). Courts in California apply "Modified Substantial Relationship" test on DQ motions with screening to determine whether access to material confidential information was likely. *Master Objects, Inc. v. Amazon.Com, Inc.* No. C-20-8103 (WHA) (N.D. Cal. June 13, 2022).

Confidentiality and Conflicts

- As noted, receipt or possession of confidential information from former or prospective client can create conflict
- Duty of confidentiality to client, former client or prospective client can prevent lawyer from making disclosures to seek consent of existing client (Rule 1.6)
- Duty of confidentiality may affect extent of disclosure in lateral movements and law firm merger discussions
  - Issue noted in ABA Model Rule 1.6(b)(7) and comments [13]-[14] adopted in 2012
  - Some limited guidance and discussion in Comments [18A-18F] to NY Rule 1.6 and Comments 9H and 9I to NY Rule 1.10 (e) adopted in 2014
  - Additional guidance in ABA Op. 489 on ethical obligation for orderly transition of client matters
  - Protocols or rules for informing client of lawyer's departure for a new firm now exist in FL, VA, and OH and in comments to Rules of Professional Responsibility recently approved by NY State Bar Association.

Receipt of Confidential Information from Prospective or Implied Client Relationship

- Conflict if lawyer actually receives info both material to the same or substantially related matter and could be significantly harmful to person disclosing it
  - "significantly harmful": more stringent test than confidentiality standard under former rule; See NY State Bar Ops. 960 (2013) and 1067 (2015); *Mayers v. Stone Castle Partners,* 1 N.Y.S. 3d 58 (App. Div. 1st Dep't 2015)
  - ABA Op. 492 "significantly harmful" information includes views of prospective client on situation management strategy, trial or settlement issues such as price or timing, personal accounts of relevant events, sensitive personal or financial information
  - Interested lawyer can be screened if lawyer took reasonable measures to avoid exposure to more information than reasonably necessary, screen is timely, and prospective client receives prompt written notice (but screened lawyer may be the one lawyer at the firm that clients wants to hire)

Receipt of Confidential Information from Prospective or Implied Client Relationship (cont'd)

- In *Application of VUZ-BANK JSC,* NO. 1:21-8V-0404-VMC-JCH (N.D.Ga. Aug. 31, 2022) these procedures were not followed with respect to brief preliminary discussions and a prominent law firm was disqualified from representing a client seeking discovery against closely related parties.
- See *HP Ingredients Corp. v. Sabinsa Corp.,* No. 21-CV-16800 (GC) (RLS) (D.N.J. Aug. 10, 2022). Attorney disqualified under Rule 1.9 based on attorney-client relationship arising from discussions with principal of formerly represented LLC

A Key Question: What Is "Confidential" and "Material to the Matter" Information (Rule 1.6)

- "Confidential" in NY includes attorney-client communications and anything that could be "embarrassing or detrimental" if disclosed
- "Material to the matter" is not defined
- The "Game Plan" issue — knowing a client's general strategic approach rather than information about a particular case
  - *See* Comment [3] to Rule 1.9 (general knowledge of organization's policies and procedures ordinarily will not preclude a subsequent adverse representation)
  - *But see*, *e.g.*, *Kim Funding LLC v. Chicago Title Co.*, No. 37-2019-00066633 (Cal. Super. Ct. Aug. 31, 2020) (knowledge of insurer's approach to settlement and strategy considered material)

BYU v. Pfizer, Inc., No. 2:06-cv-890, 2010 WL 3855347 (Sept. 29, 2010): Example of a Lateral Hot Potato

- Partner S represents BYU while at Firm X
- BYU sues Pfizer over Celebrex patent
- S then joins Firm Y, with BYU as a client, billing $450k over 5 years
- Pfizer taps other lawyers at Firm Y as lead defense counsel in Celebrex, a huge litigation with billions at stake
- Court: Y cannot "suddenly shift all allegiances for the sake of monetary gain"

BYU v. Pfizer, Inc., No. 2:06-cv-890, 2010 WL 3855347 (Sept. 29, 2010): Why a Waiver Did Not Work

- When S joined Firm Y, the engagement letter with BYU contained an "advance patent waiver."
- Waiver covered clients in patent and IP matters that Firm Y "currently represents," termed the "Other Clients."
- Firm Y did represent Pfizer at the time, but not in patent and IP matters.
- Pfizer thus not an "Other Client" within the waiver.

Another Key Question: When Does Client Relationship Terminate? Does Issue Involve a Current Client or Former Client?

- The expectation of continuing representation
- Termination letters; always a good idea but lawyers hate sending them
- Without letters a mixed question of law and fact that depends largely on reasonable expectations of client (NY State Bar Op. 1008 (2014))
- Parallel Iron, 2013 WL 789207 (series of unrelated opinion letters for one client disqualified firm from handling major litigation against it; last letter delivered five months before engagement for prospective new client)
- The “Hot Potato” Rule: Firm cannot suddenly shift allegiances from one client for sake of more substantial new engagement with another client. Markham Concepts, Inc. v. Hasbro, Inc., 196 F. Supp.3d 345 (D.R.I. 2016); Howell v. Morisy, No. W2020-00343-COA-R9-CV, 2020 WL 6821698 (Tenn. Ct. App. Nov. 20, 2020).

"Infectious" Imputation

- Imputation sometimes extended to any attorney "associated" in matter: can include co-counsel or local counsel. See Westinghouse Electric Co. v. Curtis-Wright, SIC v 2021 (059) (Procedural Order II in Swedish arbitration). See also *Mirch Law Firm, LLP v. Nakhleh,* No. 20-56207 (9th Circuit, May 12, 2022) (knowledge of witness for law firm whom adversary had relied on as counsel imputed to firm and firm DQed).
- Same issue with inside counsel. *Dynamic 30 Geosolutions, LLC,* 2015 WL 4578681
  - Same issue with consultants, experts, even paralegals; screening may cure but not provided for in rules and some inconsistent rulings (*O'Gara Coach Co., LLC v. Ra*, 242 Cal. Rptr.3d 239 (Cal. Ct. App. 2019); *Moray*, 156 A.D.3d 781, *supra*; *Hodge v. UFRA-Sexton LP,* 758 S.E.2d 314 (Ga. 2014); NY State Bar Op. 905; Texas State Bar Op. 644; Ohio State Bar Op. 2016-4)
- Some seemingly arbitrary results
  - *CMH Homes,* 2013 WL 2446724
  - Lead counsel firm DQed because company's liaison counsel from another firm had worked with adverse party 7 years before at yet a third firm (*J2 Glob. Commc'ns Inc.,* 2012 WL 6618272)

Imputation Rules and Screening

- Rules do not permit screening to cure intra-firm conflict other than for discussions with prospective client
- Screening of laterals with notice to former client may sometimes cure conflicts under ABA Model Rule 1.10 but *not yet* provided for in rules in NY, or in rules in CA or 15 other states
  - Detailed new version of Rule 1.10 screening requirements in District of Columbia
  - NY State Bar has proposed lateral screening rule similar to New Jersey's but not yet adopted by courts
  - Firm disqualified in San Bernardino Bankruptcy when five attorneys representing Calpers moved to firm representing adversary; court would not accept screening in case of "side-switching" attorneys. *In re City of San Bernardino,* Case No. 6, 12-bk-28006-MJ (Bankr. C.D. Cal. 2013)
- Courts may go beyond ethics rules in exercising discretion to permit (or not permit) screens in particular cases. *E.g., Intellicheck, Inc. v. Tricom Card Technologies, Inc.,* No. 03 CV 3706, 2008 WL 4682433 (E.D.N.Y. Oct. 21 , 2008). *Metro Container Group, supra Slide 15; Manassa v. NCAA,* No. 1:20-CV-03172-RLY-MJD (U.S.D.C. S.D. Ind, June 16, 2022) (Mag. Judge decision) (denying DQ where,unknown to firm employing him, associate became contract reviewer for adversary's outside document review firm but had no opportunity to share any confidences).

Ethics Wall That Worked: Maxwell, Ltd. V. Apple Inc., Civ. Action No. 5:19-cv-00036 (Mar. 2, 2021)

- Attorney involved in Maxwell's IP matters at Firm 1 transferred to the Washington D.C. office of Firm 2. Six months later, CA and TX teams of Firm 2 began representing Apple in litigation and related matters adverse to Maxwell.
- Court began with Fifth Circuit rebuttable presumption that lateral attorney shares confidences with other members of firm but rejected Maxwell's motion to disqualify Firm 2 weeks before trial.
- Firm 2 instituted its ethics screen as soon as it discovered the conflict and the screen was fully in place before it was retained by Apple in the matter.
- Court rejected Maxwell's argument that the screen was ineffective, finding lateral attorney's comment to a lawyer at Firm 2 that members of Firm 1 "were good lawyers" did not reveal confidential information.
- Although lateral attorney inadvertently took Maxwell emails as part of unrelated client file transfer, Court gave weight to Firm 2's IT investigation confirming that those document were never accessible or accessed by anyone at Firm 2.

Another Court Takes A Realistic Approach to Imputation

- Attorney served as chair of firm health care department, participating in defense of employers in Self-Insurer's Fund collection action, and becoming privy to communications discussing common defense strategy with other defendants
- Attorney leaves firm to join Nixon Peabody, counsel for Self-Insurers Fund
- At Nixon, attorney was employed at an office different from the one where the team representing the Self-Insurers Fund was located, Nixon put up an ethical screen, and attorney left Nixon several weeks later and before filing of DQ motion
- California Court of Appeals rejected automatic DQ of Nixon:
  - "Gone are the days when attorneys (like star athletes) typically stay with one organization throughout their entire careers….Individual attorneys today can work for a law firm and not even know, let alone have contact with, members of the same firm working in a different department across the hall or a different branch across the globe."

Cal. Self-Ins.' Sec. Fund v. Super. Ct., 228 Cal. Rptr.3d 546 (2018)

How Far Do Client Interests Extend? Affiliates, Competitors, Client Guidelines and Engagement Letters

- An Illustration of the Basic Problem: *Baby Center*. 618 F3d 204
  - Firm did patent work for Johnson & Johnson and thought it could sue an indirect subsidiary on an unrelated matter
  - Engagement Letters with J&J stated that Firm represented "only the client named" in the letter – J&J itself
  - The indirect sub was BabyCenter, which shared corporate infrastructure with J&J (legal, accounting, etc.)
  - Judge Rakoff disqualifies with strong criticism of Firm
  - "We are unpersuaded" by Firm's argument was the 2d Cir.'s more polite way of saying that BabyCenter in fact was "the client" because of "operational commonality" with J&J
  - Two-part test
    - Sharing functions such as HR, IT, treasury
    - Sharing or direct reporting to in-house lawyers

Baby Center, L.L.C., 618 F.3d 204: Why the Waiver Did Not Work

- Engagement letters waived specific types of future conflicts, focusing on patent litigation and generic drugs
- Express waivers limited to the described situations
- Catch-all affiliate waiver did not work
- 2d Cir: if the “only the named client” clause permits any and all affiliate adversity, this would raise a “serious ethical problem”
- BabyCenter was very small affiliate with part-time J&J lawyer who reported to J&J GC

Engagement Letters, Client Consent and the Question of Who is the Client (Rule 1.7(b))

- Corporate Affiliates vis a vis parent or other affiliate: See Comment [34] to Rule 1.7 and Comments [34 and 34A-B] in New York Rules for Professional Conduct rule 1.7
- As *BabyCenter* illustrates, advance waivers permissible but do not resolve all issues (Comment [22] to Rule 1.7)
- Some cases find parent and affiliates one entity and waivers ineffective. Others do not regard all affiliates as part of same client and uphold advance waiver language in letters with sophisticated clients having their own general counsel. *Compare GSI Commerce Solutions, Inc. v. Baby Center, L.L.C.*, 618 F.3d 204 (2d Cir. 2010), *McKesson v. Duane Morris LLP*, No. 2006 CV 12210 (Ga. Super Ct. 2006), and *Celgene Corp. v. KV Pharm. Corp.*, Civil Action No. 07-4819, 2008 WL 2937415 (D.N.J. July 29, 2008) (subsidiaries and parent considered same entity), with *Galderma Labs,. L.P. v. Actavis Mid Atlantic LLC*, 927 F. Supp. 2d 390 (N.D. Tex. 2013) and *Macy's Inc. v. J.C. Penney Corp.*, 968 N.Y.S. 2d 64 (App. Div. 2013)
- Some authority for treating affiliates as vicarious clients and applying the substantial relationship test, much as if they were a former client. E.g., *Glueck v. Jonathan Logan, Inc.*, 653 F.2d 746 (2d Cir. 1981)
- In litigation, waiver sometimes implied from delay in raising conflict. See *State ex rel. Swanson*, 845 N.W. 2d 808; *Robert Bosch Healthcare Systems, Inc., v. Cardiocom, LLC*, No. C-14-1575 EMC, 2014 WL 2703807 (N.D. Cal. June 13, 2014) (two year delay)

How Client Guidelines May Seek to Extend the Ethics Rules and Exacerbate Tensions in Lawyer-Client Relationships

Current rules can be exploited by large users of legal services to limit client choice and frustrate competitive, efficient methods of delivering legal services

- Rude surprises for long-time firm clients
- Firms reluctant to represent new clients on small or low bono/pro bono matters absent assurance they won't be conflicted out of future, unrelated matters

Clients have legitimate interests in ensuring confidences are protected and lawyers act with loyalty on matters on which they are retained

But professional responsibility rules already protect these interests

Client guidelines may go far beyond rules in defining clients to include all affiliated entities, even unnamed ones, and in forbidding lawyer from representing any competitor or taking any position contrary to positions client may take or consider taking in other unrelated matters

Thoughts and Recent Recommendations on Client Guidelines and Related Issues

These restrictions often operate unreasonably, may not be negotiable, and interfere with other clients' ability to retain counsel of their choice

In essence, they violate at least the spirit of Rule 5.6(a) in restricting a lawyer's freedom to compete for and offer fully effective service to other clients

D.C. Committee on Professional Conduct recently issued a report recommending that the D.C. Court of Appeals adopt changes to a number of rules in light of the potentially overreaching nature of some client guidelines and their potentially perverse effect on the lawyer-client relationship. These include recommended changes to Rules 1.7 and 5.6 to prevent lawyers from agreeing to and, in the case of client's in house counsel, seeking to impose, provisions far broader than what the actual conflicts rules permit. D.C. Bar Comm. Professional Conduct Review Committee Report to the Board of Governors January 2022).

Thoughts and More Recent Recommendations on Client Guidelines and Related Issues

There has been no action to date on the DC Bar recommendations but the Bar recently issued an Opinion 383 raising ethics issues with other aspects of some client guidelines. These include:

- A lawyer being asked to agree to advise client of a request to represent a competitor or party raising an issue of potential concern to the client when confidences of the other client or prospective client (including the need or desire for representation on the issue) might be revealed.
- A lawyer being asked to provide a client audit or access rights to all its information and records which might include confidential information of other clients
- And most relevant to today's discussion, a lawyer being asked to agree in advance to drop another client in the event a conflict that was not reasonably foreseeable arises after an engagement has begun. The opinion warns that under the DC version of Rule 1.7(a) a lawyer is required to withdraw from these "midstream" conflicts only if there is an "adverse effect" on at least one of the clients and the lawyer *may not* withdraw from representation if the withdrawal would have a material adverse effect on the other client. Agreeing to anything else could therefore violate this rule.

Some Closing Observations

- Rules and agreements with clients should be concerned with real disloyalty and breaches of confidences, not trivial adversities or unlikely possibilities
- Loyalty is an important value but it should be reciprocal
- One client's choice of counsel for limited matters should not preempt other clients' choices for other matters or intrude on attorney's relationships with those clients.
- More professional approach by both law firms and in-house counsel