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Excerpts from *United States v. Supreme Court of New Mexico*, Nos. 14-2037 & 14-2049 (10th Cir. October 13, 2016)

Submitted by:
David Sarratt
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FILED
United States Court of Appeals
Tenth Circuit

October 13, 2016

Elisabeth A. Shumaker
Clerk of Court

PUBLISH

UNITED STATES COURT OF APPEALS

FOR THE TENTH CIRCUIT

UNITED STATES OF AMERICA,

Plaintiff - Appellee/Cross-Appellant,

v.

SUPREME COURT OF NEW MEXICO; THE DISCIPLINARY BOARD OF NEW MEXICO; OFFICE OF THE DISCIPLINARY COUNSEL OF NEW MEXICO,

Defendants - Appellants/Cross-Appellees.

THE AMERICAN BAR ASSOCIATION,

Amicus Curiae.

Nos. 14-2037 & 14-2049
(D.C. No. 1:13-CV-00407-WJ-SMV)
(D. N.M.)

ORDER

Before **TYMKOVICH**, Chief Judge, **HOLMES**, and **BACHARACH**, Circuit Judges.

This matter is before the court on the petition for rehearing filed by the state of New Mexico parties, as well as the United States' petition for rehearing en banc. Upon consideration of the New Mexico petition, the original panel grants panel rehearing in part and only to the extent of the changes made to page 18, footnote 6, and pages 21-23

of the attached revised opinion. The clerk is directed to file the revised decision *nunc pro tunc* to the original filing date of June 7, 2016.

With respect to the United States' petition, the original panel voted to deny any implicit request for panel rehearing. In addition, that petition was also circulated to all of the judges of the court who are in regular active service and who are not recused. As no judge on the panel or the court called for a poll, the United States' petition is denied.

In granting limited panel rehearing with respect to New Mexico's petition, we note and emphasize that the portion of the request seeking en banc review remains pending. That part of the petition remains under advisement.

Entered for the Court

Elisabeth A. Shumaker

ELISABETH A. SHUMAKER, Clerk

FILED
United States Court of Appeals
Tenth Circuit

June 7, 2016

Elisabeth A. Shumaker
Clerk of Court

PUBLISH

UNITED STATES COURT OF APPEALS

TENTH CIRCUIT

UNITED STATES OF AMERICA, Plaintiff-Appellee/Cross-Appellant, v. SUPREME COURT OF NEW MEXICO; THE DISCIPLINARY BOARD OF NEW MEXICO; OFFICE OF THE DISCIPLINARY COUNSEL OF NEW MEXICO, Defendants-Appellants/Cross-Appellees. THE AMERICAN BAR ASSOCIATION, Amicus Curiae.	Nos. 14-2037 & 14-2049

Appeal from the United States District Court
for the District of New Mexico
(D.C. No. 1:13-CV-00407-WJ-SMV)

Paul J. Kennedy of Paul Kennedy & Associates, P.C., Albuquerque, NM (Arne Leonard of Paul Kennedy & Associates, P.C., Albuquerque, NM, with him on the briefs) for Defendants-Appellants/Cross-Appellees.

Douglas N. Letter, Appellate Staff Civil Division, United States Department of Justice (Stuart F. Delery, Assistant Attorney General; Damon P. Martinez, United States Attorney for the District of New Mexico; and Jaynie Lilley, Appellate Staff Civil Division, United States Department of Justice, with him on the briefs), for

Plaintiff-Appellee/Cross-Appellant.

James R. Silkenat, President, American Bar Association, Chicago, IL, and Michael S. Greco, John Longstreth, and Molly Suda, K&L Gates, LLP, Washington, DC, on the brief of the American Bar Association, in support of Defendants-Appellants/Cross-Appellees.

Before **TYMKOVICH**, Chief Judge, **HOLMES**, and **BACHARACH**, Circuit Judges.

HOLMES, Circuit Judge.

New Mexico Rule of Professional Conduct 16-308(E) ("Rule 16-308(E)") prohibits a prosecutor from subpoenaing a lawyer to present evidence about a past or present client in a grand-jury or other criminal proceeding unless such evidence is "essential" and "there is no other feasible alternative to obtain the information." In a lawsuit brought against the New Mexico Supreme Court, and the state's Disciplinary Board and Office of Disciplinary Counsel ("Defendants"), the United States claims that the enforcement of this rule against federal prosecutors licensed in New Mexico violates the Supremacy Clause of the U.S. Constitution. U.S. Const., art. VI, § 2. The district court concluded, on cross-motions for summary judgment, that Rule 16-308(E) is preempted with respect to federal prosecutors practicing before grand juries, but is not preempted outside of the grand-jury context. We agree. Exercising jurisdiction under 28 U.S.C. § 1291, we **affirm**.

I

A

The roots of Rule 16-308(E) can be traced to the adoption by the American Bar Association ("ABA") of Model Rule of Professional Conduct 3.8(e) ("Model Rule 3.8(e)"). Faced with what was perceived to be an "increasing incidence of grand jury and trial subpoenas directed toward attorneys defending criminal cases," ABA Crim. Justice Section, Report with Recommendation to the ABA House of Delegates No. 122B, at 2 (Feb. 1988), the ABA issued Model Rule 3.8(e)[1] in 1990 "to limit the issuance of lawyer subpoenas in grand jury and other criminal proceedings to those situations in which there is a genuine need to intrude into the client-lawyer relationship," Model Rules of Prof'l Conduct r. 3.8(e) cmt. 4 (Am. Bar Ass'n 2015). As adopted, Model Rule 3.8(e) stated:

> The prosecutor in a criminal case shall: . . .
>
> ([e]) not subpoena a lawyer in a grand jury or other criminal proceeding to present evidence about a past or present client unless:
>
> (1) the prosecutor reasonably believes:
>
> (a) the information sought is not protected from disclosure by an applicable privilege;
>
> (b) the evidence sought is essential to the successful completion of an ongoing investigation or prosecution;

[1] Originally adopted as Model Rule 3.8(f), the rule was re-designated as Model Rule 3.8(e) in 2002. We refer to it throughout this opinion as Model Rule 3.8(e) to avoid any possible confusion.

(c) there is no other feasible alternative to obtain the information; and

(2) the prosecutor obtains prior judicial approval after an opportunity for an adversarial proceeding.

ABA Standing Comm. on Ethics & Prof'l Responsibility, Report with Recommendation to the ABA House of Delegates No. 118, at 1 (Feb. 1990). The rule, as originally adopted, thus consisted of two components. Subsection (e)(1) governed prosecutors' reasonable belief about the content of the information sought—i.e., that it was not privileged, was essential, and could not be obtained from any other feasible alternative. Subsection (e)(2) imposed a judicial preapproval requirement before a prosecutor could obtain an attorney subpoena.

Several states promulgated versions of Model Rule 3.8(e), and legal challenges to these rules produced conflicting outcomes. The Third Circuit, for example, concluded that the judicial preapproval requirement in Pennsylvania's version of Model Rule 3.8(e) conflicted with federal rules governing the issuance of subpoenas, and held that the enforcement of the rule against federal prosecutors was preempted. *See Baylson v. Disciplinary Bd. of Supreme Court of Pa.*, 975 F.2d 102, 111–12 (3d Cir. 1992). In contrast, the First Circuit found that Rhode Island's version of the rule created "no conflict with the Supremacy Clause." *Whitehouse v. U.S. Dist. Court for Dist. of R.I.*, 53 F.3d 1349, 1365 (1st Cir. 1995).

Before our court, the United States challenged Colorado's adoption of Model Rule 3.8(e). Specifically, we were called upon to review the district court's dismissal of the

United States's action on jurisdictional grounds—that is, "[t]he district court dismissed the complaint for lack of subject matter jurisdiction, stating that the United States did not have standing because it did not allege that federal prosecutors had suffered any actual or imminent injury from application of the rules." *United States v. Colo. Supreme Court* ("*Colorado Supreme Court I*"), 87 F.3d 1161, 1163 (10th Cir. 1996). We reversed, however, concluding that, even though no federal prosecutor had been sanctioned under Colorado's rule, the potential that it would "interfere with federal prosecutors in their conduct of criminal proceedings and change the nature of the federal grand jury in Colorado" was a sufficient injury in fact to render the case justiciable. *Id.* at 1165.

The case later returned to us after the district court ruled on the merits of the United States's challenge. *See United States v. Colo. Supreme Court* ("*Colorado Supreme Court II*"), 189 F.3d 1281 (10th Cir. 1999). In the interim, the legal landscape had been altered in two salient ways. First, following the ABA's lead,[2] the Colorado Supreme Court amended its Rule 3.8(e) in 1997 by removing the judicial preapproval requirement.[3] *Id.* at 1284. Second, in 1998, Congress stepped in and enacted the

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[2] In 1995, the ABA amended Model Rule 3.8(e) to remove the judicial preapproval requirement. *See Stern v. U.S. Dist. Court for the Dist. of Mass.*, 214 F.3d 4, 9 (1st Cir. 2000).

[3] Thus, by the time of *Colorado Supreme Court II*, Colorado Rule 3.8(e)—and the ABA's Model Rule 3.8(e) on which it was based—only contained the reasonable-belief requirement. It provided:

> The prosecutor in a criminal case shall: . . .
>
> (e) not subpoena a lawyer in a grand jury or other criminal

McDade Act, 28 U.S.C. § 530B, which requires that:

> (a) An attorney for the Government shall be subject to State laws and rules, and local Federal court rules, governing attorneys in each State where such attorney engages in that attorney's duties, to the same extent and in the same manner as other attorneys in that State.
>
> (b) The Attorney General shall make and amend rules of the Department of Justice to assure compliance with this section.

The Attorney General then promulgated regulations, pursuant to § 530B(b), stating that the statute "should not be construed in any way to alter federal substantive, procedural, or evidentiary law." 28 C.F.R. § 77.1(b).

As we framed it in *Colorado Supreme Court II*, the "question whether Rule 3.8 violate[d] the Supremacy Clause now turn[ed] on whether the rule [wa]s a rule of professional ethics clearly covered by the McDade Act, or a substantive or procedural rule that [wa]s inconsistent with federal law." 189 F.3d at 1284. In a nutshell, the essence of the inquiry was whether Rule 3.8 was preempted by federal law. Significantly,

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> proceeding to present evidence about a past or present client unless the prosecutor reasonably believes:
>
> (1) the information sought is not protected from disclosure by any applicable privilege;
>
> (2) the evidence sought is essential to the successful completion of an ongoing investigation or prosecution;
>
> (3) there is no other feasible alternative to obtain the information.

we only addressed there, however, the question of whether Colorado's Rule 3.8 was preempted outside of the grand-jury context—*viz.*, the "trial" context.[4] In this regard, in defining the scope of our analysis, we stated: "In its decision on remand, the district court determined that the restriction on grand jury proceedings violated the Supremacy Clause. Defendants have not appealed that determination and we do not address it here." *Id.*

Turning to the question at hand, we observed that Colorado's Rule 3.8, *inter alia*, prescribed "broad normative principles of attorney self-conduct," and we determined that "the rule in its current incarnation is a rule of ethics applicable to federal prosecutors by the McDade Act." *Id.* at 1288–89. Nevertheless, we proceeded to determine whether this ethics rule was otherwise "inconsistent with federal law" and thus preempted. *Id.* at 1289. We concluded that it was not, and therefore it could be "enforced by the state defendants against federal prosecutors." *Id.*

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[4] In *Colorado Supreme Court II*, we briefly intimated in a footnote that the universe of attorney subpoenas implicated by rules like Colorado's consists of "grand jury and trial subpoenas." 189 F.3d at 1286 n.6; *see also id.* at 1284 n.3 (describing the First Circuit as "holding federal courts could adopt a rule requiring a federal prosecutor at either the *grand jury or trial* stage to obtain judicial approval before serving a subpoena on counsel to compel evidence concerning a client" (emphasis added)). We did not define the term "trial subpoenas" there, and it seems likely that, similar to the First Circuit, we were "us[ing] the term 'trial subpoenas' as a shorthand for *all other subpoenas* (*e.g.*, subpoenas issued in the course of pretrial hearings)"—i.e., all attorney subpoenas issued by federal prosecutors in criminal proceedings other than grand-jury subpoenas. *Stern*, 214 F.3d at 18 n.5 (emphasis added). In any event, we deem this shorthand convention to be helpful. We note that the United States employs it, and Defendants do not object. Accordingly, as needed, we use it here.

B

Against this backdrop, in 2008, New Mexico adopted Rule 16-308(E), which provides that:

> A prosecutor in a criminal case shall: . . .
>
> E. not subpoena a lawyer in a grand jury or other criminal proceeding to present evidence about a past or present client unless the prosecutor reasonably believes:
>
> (1) the information sought is not protected from disclosure by any applicable privilege;
>
> (2) the evidence sought is essential to the successful completion of an ongoing investigation or prosecution; and
>
> (3) there is no other feasible alternative to obtain the information[.] . . .

N.M. Rules of Prof'l Conduct, N.M.R.A. 16-308(E). This rule is identical to the Colorado rule that we reviewed in *Colorado Supreme Court II*. Though the U.S. District Court for the District of New Mexico has generally adopted the New Mexico Rules of Professional Conduct, *see* D.N.M.LR-Cr. 57.2, it has chosen not to adopt Rule 16-308(E), *see* D.N.M. Admin. Order No. 10-MC-00004-9 (Mar. 23, 2010). Nonetheless, the rule continues to apply to the conduct of federal prosecutors licensed to practice in New Mexico, and a violation of the rule can form the basis for disciplinary sanctions. *See* N.M. Rules Governing Discipline, N.M.R.A. 17-205.

The United States filed suit against Defendants in April 2013, arguing that the second and third requirements of Rule 16-308(E)—i.e., the essentiality and no-other-

feasible-alternative conditions—were preempted by federal law. From the outset, these two provisions have been the only ones at issue in this litigation.[5] Defendants moved to dismiss the complaint for lack of subject-matter jurisdiction, arguing that the United States lacked standing and that the case was not ripe in the absence of an actual or threatened disciplinary action against a federal prosecutor. The district court rejected this argument and denied the motion. Relying in large part on our decision in *Colorado Supreme Court I*, it concluded that the complaint sufficiently alleged an injury in fact, to the extent that Rule 16-308(E) altered federal prosecutors' attorney-subpoena practice. It also determined that the case was ripe because "the preemption issue is purely a question of law." Aplts.' App. at 152 (Mem. Op. & Order Den. Mot. to Dismiss, filed Nov. 1, 2013).

The United States moved for summary judgment in June 2013, before the parties had engaged in any discovery. Attached to its summary-judgment motion, the United States submitted the affidavit of an Assistant U.S. Attorney in the District of New Mexico. The declaration described several instances in which prosecutors in the U.S. Attorney's Office ("USAO") had issued attorney subpoenas prior to the enactment of

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[5] It is undisputed that the United States does not challenge the first provision of Rule 16-308(E)—*viz.*, subsection (E)(1)'s directive that a federal prosecutor must have a reasonable belief that the information sought from an attorney is not protected from disclosure by a privilege. In other words, this subsection is not at issue here. Throughout this opinion, for convenience, we frequently refer in general terms to the United States's challenge to New Mexico's Rule 16-308(E), without segregating out the two provisions of the rule that are actually at issue. Nonetheless, we underscore that a challenge to subsection (E)(1) is not before us.

Rule 16-308(E); it suggested that, even though "[t]his evidence was obtained in a lawful manner [and] implicated no privilege," had Rule 16-308(E) been in effect, "it is unlikely the prosecutor would have served the subpoena[s]." *Id.* at 80–81 (Decl. of Sasha Siemel, filed June 28, 2013).

Addressing the rule's current effect on the USAO's work, the declarant noted that "Rule 11-308(E) has a 'chilling' effect on prosecutors." *Id.* at 83. After averring that there are "many examples of such situations," the declaration discussed, in general terms—with the aim of preserving grand-jury secrecy—several specific instances in which prosecutors "have already actually [been] hampered . . . in the performance of their otherwise lawful duties" by concerns that they would be disciplined for violating the essentiality or no-other-feasible-alternative conditions of Rule 16-308(E). *Id.* at 84. The declaration further provided:

> These situations demonstrate that well-meaning prosecutors using legal means of obtaining evidence of criminality are subject to discipline simply for performing their duties. Federal grand juries in the District of New Mexico will continue in the future to need evidence of crimes from lawyers. In many such cases, the most appropriate means of obtaining that evidence will be by subpoena. . . . If enforced against federal prosecutors, Rule 16-308(E) will interfere directly with efforts of this Office and the Department of Justice to enforce the criminal laws of the United States.

Id. at 88–89.

Defendants filed a motion pursuant to Federal Rule of Civil Procedure 56(d), asking the court to delay ruling on the United States's summary-judgment motion pending the completion of discovery. In the alternative, they moved for summary

judgment on the existing record, claiming that Rule 16-308(E) was a permissible ethics rule under the McDade Act and our opinion in *Colorado Supreme Court II*. The district court denied Defendants' Rule 56(d) motion, concluding that further factual development was unnecessary to decide the "purely legal question" of "whether or not Rule 16-308(E) is an ethical rule or a substantive rule." *Id.* at 261 (Order Den. Defs.' 56(d) Request for Extension of Time, filed Nov. 27, 2013).

After further briefing and argument, the court granted partial summary judgment in favor of the United States and partial summary judgment in favor of Defendants. Specifically, it determined that our decision in *Colorado Supreme Court II* compelled the conclusion that Rule 16-308(E) was not preempted by federal law as to criminal proceedings outside of the grand-jury context. However, it determined that the rule conflicted with "three strong governmental interests in grand jury proceedings of '[(1)] affording grand juries wide latitude, [(2)] avoiding minitrials on peripheral matters, and [(3)] preserving a necessary level of secrecy.'" *Id.* at 321 (Mem. Op. & Order, filed Feb. 3, 2014) (alterations in original) (quoting *United States v. R. Enters., Inc.*, 498 U.S. 292, 300 (1991)). In particular, the court noted that the rule imposed "a higher burden on federal prosecutors that is simply not warranted at the grand jury stage" and threatened grand-jury secrecy by forcing prosecutors to disclose details of confidential investigations in order to avoid disciplinary sanctions. *Id.* at 322.

The district court thus upheld the application of Rule 16-308(E) to federal prosecutors' issuance of attorney subpoenas for criminal proceedings *outside* of the

grand-jury context, but enjoined Defendants from "instituting, prosecuting, or continuing any disciplinary proceeding or action against any federal prosecutor for otherwise lawful actions taken in the course of a grand jury investigation or proceeding on the ground that such attorneys violated Rule 16-308(E) of the New Mexico Rules of Professional Conduct." *Id.* at 326–27 (Final J., filed Feb. 3, 2014).

II

Both parties appeal from the district court's judgment. Defendants challenge the district court's subject-matter jurisdiction, its denial of their request for further discovery, its holding that Rule 16-308(E) conflicts with federal law governing grand juries, and the scope of the injunction that the court issued. The United States challenges the district court's conclusion that Rule 16-308(E) is not preempted outside of the grand-jury context. The United States's appellate challenge, however, is primarily form, not substance. Though it seeks to "preserve [the preemption issue] for possible further review," Aplee.'s/Cross-Aplt.'s Reply Br. ("U.S. Reply Br.") at 12, the United States acknowledges the precedential force of *Colorado Supreme Court II* and thus concedes that Rule 16-308(E) is not preempted by federal law outside of the grand-jury context. Consequently, we resolve the United States's appeal in summary fashion below. The heart of the parties' dispute relates to whether Rule 16-308(E) is preempted relative to federal prosecutors' issuance of attorney subpoenas in the grand-jury context. Consequently, our analysis naturally focuses extensively on this issue. However, before reaching the merits of this question, we must address Defendants' threshold contentions

regarding subject-matter jurisdiction and the district court's refusal to allow them further discovery.

A

Defendants claim that the district court lacked subject-matter jurisdiction over this dispute because the United States does not have standing and because the case is not ripe for review. We review questions of justiciability—including standing and ripeness—de novo. *See Kan. Judicial Review v. Stout*, 519 F.3d 1107, 1114 (10th Cir. 2008); *accord Roe No. 2 v. Ogden*, 253 F.3d 1225, 1228, 1231 (10th Cir. 2001). We determine ultimately that there is an adequate legal basis for subject-matter jurisdiction here.

1

Standing, as "a component of the case-or-controversy requirement [of Article III], serves to ensure that the plaintiff is 'a proper party to invoke judicial resolution of the dispute.'" *Habecker v. Town of Estes Park*, 518 F.3d 1217, 1223 (10th Cir. 2008) (quoting *Warth v. Seldin*, 422 U.S. 490, 518 (1975)). In order to demonstrate standing, a plaintiff must show: "(1) that he or she has 'suffered an injury in fact,' (2) that the injury is 'fairly traceable to the challenged action of the defendant,' and, (3) that it is 'likely' that 'the injury will be redressed by a favorable decision.'" *Cressman v. Thompson*, 719 F.3d 1139, 1144 (10th Cir. 2013) (quoting *Awad v. Ziriax*, 670 F.3d 1111, 1120 (10th Cir. 2012)).

Defendants challenge the adequacy of the United States's allegations of injury at both the pleading and summary-judgment stages. They also claim that any harm that the

Pages intentionally omitted

state and local laws . . . ."). In engaging in our preemption inquiry, we focus on "the terms of [Rule 16-308(E)], not hypothetical applications." *See Doe*, 667 F.3d at 1127; *cf. Green Mountain R.R. Corp. v. Vermont*, 404 F.3d 638, 644 (2d Cir. 2005) ("[W]hat is preempted here is the permitting process itself, not the length or outcome of that process *in particular cases*." (emphasis added)).[19]

4

Having given content to the standards for the facial challenge at play here, we now proceed to apply the preemption test to the terms of the challenged provisions of Rule 16-308(E). Our analysis is guided by our reasoning in *Colorado Supreme Court II*, where we considered the constitutionality of an identical attorney-subpoena rule. *See* 189 F.3d at 1283 n.2. In resolving the preemption claim in that case, we framed the inquiry as follows: "whether [the rule] violates the Supremacy Clause . . . turns on whether the rule is a rule of professional ethics clearly covered by the McDade Act, or a substantive or procedural rule that is inconsistent with federal law." *Id.* at 1284. Even though we determined that the rule was an ethics rule, we nevertheless examined whether this ethics rule was otherwise "inconsistent with federal law" and thus preempted. *Id.* at 1289. We

[19] This approach of applying the preemption doctrine to the terms of Rule 16-308(E) rather than speculating about potential valid applications accords with how other circuit panels—including a panel of our own in *Colorado Supreme Court II*—have addressed preemption challenges to state ethics rules. *See, e.g.*, *Stern*, 214 F.3d at 20–21; *Colorado Supreme Court II*, 189 F.3d at 1288–89; *Baylson*, 975 F.2d at 111–12.

apply this analytical framework to the challenged provisions of Rule 16-308(E).[20]

a

The McDade Act explicitly subjects federal attorneys "to State laws and rules . . . governing attorneys in each State . . . to the same extent and in the same manner

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[20] Our esteemed colleague in dissent contends that our examination in *Colorado Supreme Court II* of whether Colorado's Rule 3.8—which we had determined was an ethics rule—was "inconsistent with federal law," 189 F.3d at 1289, was "a brief aside at the end of the opinion," Dissent at 7, without decisional significance. In this vein, the dissent contends that "the first and only question we must answer is: whether the rule is one governing ethics? If it is, considering the burden on federal interests is unnecessary because Congress has authorized the rule's application to federal prosecutors." Dissent at 3. We must respectfully disagree. The panel in *Colorado Supreme Court II* effectively engaged in a conflict-preemption analysis—an inquiry into the presence of impermissible inconsistency *vel non* with federal law—*after* determining that Colorado Rule 3.8 was an ethics rule, and expressly rendered a holding on the preemption question. In this regard, we stated there:

> [W]e *hold* that Rule 3.8, in its mandate that a federal prosecutor ought not to disturb an attorney-client relationship without a showing of cause, does not conflict with Fed. R. CIM. P. 17, which details only the procedures for issuing a proper subpoena. Rule 17 does not abrogate the power of courts to hold an attorney to the broad normative principles of attorney self-conduct. Accordingly, we *hold* that Rule 3.8 is not inconsistent with federal law and can be adopted and enforced by the state defendants against federal prosecutors.

Colorado Supreme Court II, 189 F.3d at 1288–89 (emphases added). It is pellucid that we considered our holding regarding the absence of an impermissible inconsistency (i.e., the absence of a conflict) with federal law essential to our conclusion that Colorado could enforce Rule 3.8 against federal prosecutors in the trial (i.e., non-grand-jury context). It was not an aside or casual piece of dictum that we may now disregard. Therefore, contrary to the dissent, in applying the rule of *Colorado Supreme Court II*, we do not believe that our analysis can end if we determine that Rule 16-308(E) is an ethics rule. Instead, we must still determine whether Rule 16-308(E) conflicts with relevant federal law.

as other attorneys in that State." 28 U.S.C. § 530B(a). In *Colorado Supreme Court II*, we considered whether the Colorado rule could be deemed an ethics rule—notably, a "normative legal standard[ ] that guides the conduct of an attorney"—such that it fell within the McDade Act's purview. 189 F.3d at 1285. We defined an ethics rule as one that: (1) "bar[s] conduct recognized by consensus within the profession as inappropriate"; (2) is phrased as "a commandment dealing with morals and principles"; (3) is "vague [and] sweeping" rather than highly specific; and (4) is "directed at the attorney herself" rather than "at the progress of the claim." *Id.* at 1287–88. Measured against these criteria, we concluded that the Colorado rule was an ethics rule of the type that the McDade Act contemplates. More specifically, as we saw it, the rule sought to safeguard the attorney-client relationship—which "by general consensus of our profession [is] worthy of protection"—and was phrased as a vague, sweeping commandment "directed at the prosecutor, not at the cause of action." *Id.* at 1288.

This reasoning applies with equal force to Rule 16-308(E). It contains identical language to that found in Colorado Rule 3.8(e), and, as the commentary to the rule makes clear, it is intended to limit the issuance of attorney subpoenas to only "those situations in which there is a genuine need to intrude into the client-lawyer relationship." N.M. Rules of Prof'l Conduct, N.M.R.A. 16-308(E) cmt. 4. As such, under *Colorado Supreme Court II*, Rule 16-308(E) is an ethics rule of the sort covered by the McDade Act.[21]

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[21] In contrast, in *Stern*, the First Circuit concluded that the Massachusetts rule at issue "clearly extend[ed] beyond the shelter that section 530B provides" because it

b

We must next determine whether the challenged provisions of Rule 16-308(E), despite being within the purview of the McDade Act, are otherwise inconsistent with (i.e., conflict with) federal law. As evident from the analysis in *Colorado Supreme Court II*, the fact that a challenged state rule is determined to be an ethics rule within the McDade Act's ambit does not necessarily mean that Congress intended that rule to trump or impede the effectuation of otherwise applicable federal law. *See Colorado Supreme Court II*, 189 F.3d at 1289 (proceeding to determine whether the ethics rule covered by the McDade Act was otherwise "inconsistent with federal law"); *see also Stern*, 214 F.3d at 19 ("[I]t simply cannot be said that Congress, by enacting section 530B, meant to empower states (or federal district courts, for that matter) to regulate government attorneys in a manner inconsistent with federal law."); *cf. United States v. Lowery*, 166 F.3d 1119, 1125 (11th Cir. 1999) ("When it comes to the admissibility of evidence in federal court, the federal interest in enforcement of federal law, including federal evidentiary rules, is paramount. State rules of professional conduct, or state rules on any subject, cannot trump the Federal Rules of Evidence. . . . There is nothing in the language or legislative history of the [McDade] Act that would support such a radical notion."). Indeed, courts have specifically concluded that a Supremacy Clause analysis may still be appropriate and necessary in instances where Congress has granted states regulatory

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"add[ed] a novel procedural step—the opportunity for a pre-service adversarial hearing." 214 F.3d at 20. New Mexico Rule 16-308(E) contains no such procedural hurdle.

authority through language similar to that employed by the McDade Act (e.g., "to the same extent . . . as"). *See Hancock v. Train*, 426 U.S. 167, 173, 182 n.41, 198 (1976) (holding with reference to 42 U.S.C. § 1857f, which requires federal agencies engaged in activities producing air pollution to comply with state "requirements respecting control and abatement of air pollution to the same extent that any person is subject to such requirements," that Congress did not "evince[ ] with satisfactory clarity" the intent to "subject[ ] federal installations to state permit requirements"); *Colo. Dep't of Pub. Health & Env't, Hazardous Materials & Waste Mgmt. Div. v. United States*, 693 F.3d 1214, 1217 (10th Cir. 2012) (noting, where "the federal government and its agencies must comply with an [Environmental Protection Agency] authorized state program regulating hazardous waste" under 42 U.S.C. § 6961 "to the same extent, as any person," that the congressional grant of regulatory authority to the states "does not insulate a state regulation from federal preemption").

i

The United States concedes that *Colorado Supreme Court II* dictates the answer to the otherwise-inconsistent-with-federal-law inquiry with respect to criminal proceedings in the trial (i.e., outside of the grand-jury) context. Specifically, the United States acknowledges that Rule 16-308(E) does not conflict with federal law governing trial subpoenas; therefore, it is not preempted. In this regard, in *Colorado Supreme Court II*, we determined that a Colorado ethics rule (i.e., Rule 3.8(e)) that had language identical to Rule 16-308(E) was not in conflict with Federal Rule of Criminal Procedure 17—which,

generally speaking, governs the process for subpoenaing testimonial and documentary evidence for trial—because Rule 17 was procedural and did "not abrogate the power of courts to hold an attorney to the broad normative principles of attorney self-conduct." 189 F.3d at 1289.[22] The United States wisely acknowledges that this holding is dispositive here. Therefore, we conclude that the district court appropriately determined that the challenged provisions of Rule 16-308(E) are not preempted relative to federal prosecutors' issuance of attorney subpoenas in criminal proceedings outside of the grand-jury context.[23]

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[22] Notably, we distinguished *Baylson*, in which the Third Circuit held that Pennsylvania's attorney-subpoena rule was preempted in the trial context, because the Pennsylvania rule contained a judicial preapproval requirement and Rule 17 makes "no allowances for the court's intervention in the subpoena procedures." *Colorado Supreme Court II*, 189 F.3d at 1286. Like the Colorado rule, Rule 16-308(E) contains no such preapproval requirement.

[23] We recognize that after we issued *Colorado Supreme Court II*, the First Circuit in *Stern* held that "the 'essentiality' and 'no feasible alternative' requirements [of the largely similar ethics rule at issue there] are substantially more onerous . . . than the traditional motion-to-quash standards" of Rule 17. 214 F.3d at 18. Specifically, the First Circuit held that essentiality is "a more demanding criterion than relevancy or materiality" and that "Rule 17 jurisprudence contains no corollary to the" no-other-feasible-alternative requirement. *Id*. It thus concluded that these "novel requirements . . . threaten[ed] to preclude the service of otherwise unimpeachable subpoenas and thus restrict[ed] the flow of relevant, material evidence to the factfinder." *Id.* In substance, the court concluded that the essentiality and no-other-feasible-alternative provisions conflicted with otherwise applicable federal law relative to trial subpoenas (i.e., subpoenas issued outside of the grand-jury context) and were thus preempted. Notwithstanding the First Circuit's contrary reasoning in *Stern*, we remain bound by our controlling decision in *Colorado Supreme Court II*, which concluded that a rule identical to Rule 16-308(E) did not run afoul of federal law governing trial subpoenas. *See Muscogee (Creek) Nation v. Okla. Tax Comm'n*, 611 F.3d 1222, 1230 n.5 (10th Cir. 2010) ("[T]he precedent of prior panels which we must follow includes not only the very narrow holdings of those prior cases, but also the reasoning underlying

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Though its mode of analysis is still relevant, *Colorado Supreme Court II*'s holding does not speak to the question before us: specifically, the court did not address whether the challenged provisions of Rule 16-308(E) are preempted in the grand-jury context. *See* 189 F.3d at 1284. Resolving this question as a matter of first impression, we conclude that Rule 16-308(E)'s challenged provisions are conflict-preempted[24] in the grand-jury setting because the essentiality and no-other-feasible-alternative requirements pose "an obstacle to the accomplishment and execution of the full purposes and objectives" of the federal legal regime governing grand-jury practice. *Arizona*, 132 S. Ct. at 2501 (quoting *Hines*, 312 U.S. at 67).

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those holdings, particularly when such reasoning articulates a point of law." (alteration in original) (quoting *Mendiola v. Holder*, 585 F.3d 1303, 1310 (10th Cir. 2009), *overruled on other grounds by Contreras-Bocanegra v. Holder*, 678 F.3d 811, 819 (10th Cir. 2012))).

[24] The United States does not argue that state ethics regulation of federal prosecutors practicing before grand juries is expressly preempted. Moreover, it appears to concede that Congress has not occupied the field of ethics regulation of federal prosecutors practicing before grand juries; in this regard, it has noted that, through the McDade Act, "Congress intended to require federal prosecutors to comply with state ethical rules and that those rules would apply to grand jury practice." U.S. Response Br. at 44. Notably, as to the latter (i.e., field preemption), we have previously expressed "considerable doubt" as to whether "Rules of Professional Conduct . . . apply to federal prosecutors' practice before a federal grand jury." *In re Grand Jury Proceedings*, 616 F.3d 1172, 1186 (10th Cir. 2010). Yet, given the United States's apparent concession regarding the applicability of at least some state ethics rules in the grand-jury context, and the clear conflict between the particular challenged provisions of Rule 16-308(E) and federal grand-jury law, we need not (and do not) endeavor to reach any definitive, categorical conclusions on whether state ethics rules are excluded from the field of federal prosecutors' practices before grand juries.

The law of the federal grand jury springs from the fertile and robust soil of the Anglo-American legal tradition and the Constitution itself. *See United States v. Williams*, 504 U.S. 36, 47 (1992) ("'[R]ooted in long centuries of Anglo–American history,' the grand jury is mentioned in the Bill of Rights . . . ." (citation omitted) (quoting *Hannah v. Larche*, 363 U.S. 420, 490 (1960) (Frankfurter, J., concurring in result)); *Costello v. United States*, 350 U.S. 359, 362 (1956) ("The grand jury is an English institution, brought to this country by the early colonists and incorporated in the Constitution by the Founders. There is every reason to believe that our constitutional grand jury was intended to operate substantially like its English progenitor."). And, significantly, this body of grand-jury law has a firm and explicit footing in the Constitution's text through the Grand Jury Clause of the Fifth Amendment of the Bill of Rights, which "provides that federal prosecutions for capital or otherwise infamous crimes must be instituted by presentments or indictments of grand juries." *Costello*, 350 U.S. at 361–62; *see* U.S. Const. amend. V ("No person shall be held to answer for a capital, or otherwise infamous crime, unless on a presentment or indictment of a Grand Jury . . . .").

By the Framers' explicit design, the federal grand jury occupies a uniquely independent space in the constitutional text, apart from the three branches of government. *See Williams*, 504 U.S. at 47 ("It [i.e., the grand jury] has not been textually assigned . . . to any of the branches described in the first three Articles. It '"is a constitutional fixture in its own right."'" (quoting *United States v. Chanen*, 549 F.2d 1306, 1312 (9th Cir. 1977))); *see also R. Enters., Inc.*, 498 U.S. at 297 ("The grand jury

occupies a unique role in our criminal justice system."); *Chanen*, 549 F.2d at 1312 ("[U]nder the constitutional scheme, the grand jury is not and should not be captive to any of the three branches. The grand jury is a pre-constitutional institution given constitutional stature by the Fifth Amendment but not relegated by the Constitution to a position within any of the three branches of the government." (citation omitted)); Roger A. Fairfax, Jr., *Grand Jury Discretion and Constitutional Design*, 93 CORNELL L. REV. 703, 727 (2008) ("Not only is the grand jury independent of the three branches of government, but it serves as a check on them."); *cf. United States v. Kilpatrick*, 821 F.2d 1456, 1465 (10th Cir. 1987) ("The separation of powers doctrine mandates judicial respect for the independence of both the prosecutor *and* the grand jury." (emphasis added)).

By creating this space, the Framers sought to ensure that federal prosecutions for serious crimes are commenced through a fair and thorough process by a body that is free of corrupting influences and vested with the broad investigative powers necessary to find the truth. *See Costello*, 350 U.S. at 362 ("The basic purpose of the English grand jury was to provide a fair method for instituting criminal proceedings against persons believed to have committed crimes. . . . Its adoption in our Constitution as the sole method for preferring charges in serious criminal cases shows the high place it held as an instrument of justice. And in this country as in England of old the grand jury has convened as a body of laymen, free from technical rules, acting in secret, pledged to indict no one because of prejudice and to free no one because of special favor."); *Williams*, 504 U.S. at 47 ("[T]he

whole theory of its [i.e., the grand jury's] function is that it belongs to no branch of the institutional Government, serving as a kind of buffer or referee between the Government and the people."); Fairfax, *supra*, at 729 ("Just as constitutional structure provides each of the branches with the prerogative to check the others, the grand jury, with its robust discretion, checks the judicial, executive, and legislative branches and represents a structural protection of individual rights." (footnote omitted)); Note, Susan M. Schiappa, *Preserving the Autonomy and Function of the Grand Jury:* United States v. Williams, 43 CATH. U. L. REV. 311, 330–31 (1993) ("The Framers of the Constitution intended the federal grand jury, like its English forerunner, to act as both a 'sword and a shield.' As a sword, the grand jury has extraordinary power to carry out its investigatory function, and acts free of procedural or evidentiary rules. . . . As a shield, the grand jury is designed 'to provide a fair method for instituting criminal proceedings.'" (footnotes omitted) (citations omitted)); *see also United States v. Sells Eng'g, Inc.*, 463 U.S. 418, 430 (1983) ("The purpose of the grand jury requires that it remain free, within constitutional and statutory limits, to operate 'independently of either prosecuting attorney or judge.'" (quoting *Stirone v. United States*, 361 U.S. 212, 218 (1960))).

As with most express provisions of the Constitution,[25] the Framers did not

[25] In 1819, the Supreme Court made clear that "there is no phrase in the [Constitution] which[ ] . . . requires that everything granted shall be expressly and minutely described." *M'Culloch v. State*, 17 U.S. 316, 406 (1819); *see also id.* at 406–07 ("The men who drew and adopted [the Constitution] had experienced the embarrassments resulting from the insertion of [certain] word[s] in the articles of confederation, and probably omitted [them], to avoid those embarrassments."). In an informative manner,

bequeath a detailed blueprint in the Fifth Amendment's Grand Jury Clause of how its textual constraint on the prosecution of serious crimes should be effectuated. Federal courts have endeavored, however, to adhere closely to the text and animating purposes of the Fifth Amendment's Grand Jury Clause in clarifying the scope of the grand jury's investigative power.[26] In this regard, the Supreme Court has recognized that the Framers

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the Court elaborated:

> A constitution, to contain an accurate detail of all the subdivisions of which its great powers will admit, and of all the means by which they may be carried into execution, would partake of the prolixity of a legal code, and could scarcely be embraced by the human mind. It would, probably, never be understood by the public. Its nature, therefore, requires, that only its great outlines should be marked, its important objects designated, and the minor ingredients which compose those objects, be deduced from the nature of the objects themselves. That this idea was entertained by the framers of the American constitution, is not only to be inferred from the nature of the instrument, but from the language.

Id. at 407; *see also Nat'l Fed'n of Indep. Bus. v. Sebelius*, --- U.S. ----, 132 S. Ct. 2566, 2615 (2012) (Ginsburg, J., concurring in part and dissenting in part) (observing that the Framers "recognized that the Constitution was of necessity a 'great outlin[e],' not a detailed blueprint, and that its provisions included broad concepts, to be 'explained by the context or by the facts of the case.'" 132 S. Ct. at 2615 (alteration in original) (citations omitted)).

[26] Indeed, the federal courts' grand-jury jurisprudence reflects a careful, ongoing effort to glean inferences from the text and history of the Constitution's Grand Jury Clause regarding the Framer's conception of the proper scope of the grand jury's investigative powers. For example, in *Costello*, the Court rebuffed a defendant's argument that indictments should be "open to challenge on the ground that there was inadequate or incompetent evidence before the grand jury." 350 U.S. at 363. The Court reasoned that the Fifth Amendment's vision of the proper functioning of the grand jury would not permit such a rule. In this regard, the court observed:

> [T]he resulting delay would be great indeed. The result of such

envisioned that the federal grand jury would possess a broad range of discretion; more specifically, the Court has held that the grand jury's function "is to inquire into all information that might possibly bear on its investigation until it has identified an offense or has satisfied itself that none has occurred." *R. Enters., Inc.*, 498 U.S. at 297. In carrying out its role in the criminal-justice system, a grand jury "paints with a broad brush," *id.*; unlike federal courts, it is not bound by Article III's case or controversy requirement or by "the technical procedural and evidentiary rules governing the conduct of criminal trials," *Williams*, 504 U.S. at 66–67 (quoting *United States v. Calandra*, 414 U.S. 338, 343 (1974)); *see also Costello*, 350 U.S. at 362 (noting that grand juries carry out their investigative function "free from technical rules"). Thus, while a grand jury may not "engage in arbitrary fishing expeditions," *R. Enters., Inc.*, 498 U.S. at 299, it has relatively broad power to run down available clues and examine all relevant witnesses to determine if there is probable cause to prosecute a particular defendant, *see Branzburg v. Hayes*, 408 U.S. 665, 701 (1972).

Of particular importance here is the Supreme Court's recognition that, in

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> a rule would be that before trial on the merits a defendant could always insist on a kind of preliminary trial to determine the competency and adequacy of the evidence before the grand jury. This is not required by the Fifth Amendment.

Id. As *Costello* illustrates, federal grand-jury law is firmly grounded in the text and history of the Grand Jury Clause of the Fifth Amendment. Accordingly, insofar as Rule 16-308(E) is determined to be preempted in the grand-jury context—a conclusion that we reach *infra*—the law effectuating that preemption through the Supremacy Clause would be the Grand Jury Clause of the Fifth Amendment.

performing its constitutionally sanctioned investigative role, a grand jury may issue subpoenas that do not meet the stringent requirements imposed on trial subpoenas. Specifically, in *United States v. R. Enterprises, Inc.*, the Court held that the standards for trial subpoenas announced in *United States v. Nixon*, 418 U.S. 683 (1974)—namely, relevancy, admissibility, and specificity—do not apply to grand-jury subpoenas. *See R. Enters., Inc.*, 498 U.S. at 298–99. Instead, where a grand-jury subpoena is challenged on relevancy grounds, it will only be quashed if "there is no reasonable *possibility* that the category of materials the Government seeks will produce information relevant to the general subject of the grand jury's investigation." *Id.* at 301 (emphasis added). The Court concluded that the more restrictive *Nixon* standards "would invite procedural delays and detours while courts evaluate[d] the relevancy and admissibility of documents." *Id.* at 298; *see also In re Grand Jury Subpoenas*, 906 F.2d 1485, 1496 (10th Cir. 1990) (stating that "the government is not required to make any further showing of need or lack of another source for the subpoenaed information").[27]

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[27] The Court in *R. Enterprises* also focused on the possibility that a higher relevance standard would require prosecutors to "explain in too much detail the particular reasons underlying a subpoena" and would thus "compromise 'the indispensable secrecy of grand jury proceedings.'" 498 U.S. at 299 (quoting *United States v. Johnson*, 319 U.S. 503, 513 (1943)); *see* Fed. R. Crim. P. 6(e) (imposing secrecy requirements on participants in the grand-jury process). In the context of challenges to the validity of state attorney-subpoena rules, some courts—including our own—have taken note of the rules' possible impact on grand-jury secrecy. *See, e.g.*, *Stern*, 214 F.3d at 16 (noting that the rule at issue "undermine[d] the secrecy of [grand-jury] proceedings"); *see also Colorado Supreme Court I*, 87 F.3d at 1166 (concluding that the allegation that the Colorado rule compromised grand-jury secrecy was sufficient to meet the injury-in-fact requirement for purposes of standing). We acknowledge that grand-jury secrecy may be an important

In light of the Supreme Court's indication—in construing the mandate of the Grand Jury Clause—that, for federal grand juries to properly carry out their investigative role, there must be no more than minimal limitations placed on the kinds of evidence that they can consider, we believe that Rule 16-308(E)'s rigorous standards—i.e., the requirements of essentiality and no-other-feasible-alternative—clearly create "an obstacle to the accomplishment and execution of" the federal grand jury's constitutionally authorized investigative function. *Arizona*, 132 S. Ct. at 2501 (quoting *Hines*, 312 U.S. at 67). To be sure, generally speaking, we do not question the proposition that Congress has considerable leeway to authorize states to regulate the ethical conduct of federal prosecutors practicing before grand juries. *Cf. In re Grand Jury*, 111 F.3d 1066, 1073 (3d Cir. 1997) ("Just as grand juries must operate within the confines of the Constitution, so too must they comply with the limitations imposed on them by Congress (*as long as those limitations are not unconstitutional*)." (emphasis added) (citation omitted)). However, we remain acutely aware of the fact that, by the Framers' express design, the federal grand jury has an independent constitutional stature and stands apart from all three branches of government. Consequently, it seems safe to reason that Congress's power to authorize states to burden the grand jury's investigative functions is not unbounded. At the very

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consideration in determining whether a state ethics rule is preempted. However, because Rule 16-308(E)'s heightened standards—and the concomitant restriction on evidence available to a grand jury—provide an ample basis for us to conclude that the challenged provisions of Rule 16-308(E) are preempted, we need not definitively opine on the merits of this alternative secrecy rationale.

least, we presume that Congress is not free to authorize states to eviscerate the grand jury and render it nugatory. *See Ex parte Wilson*, 114 U.S. 417, 426 (1885) ("The purpose of the [Grand Jury Clause of the Fifth] amendment was to limit *the powers of the legislature*, as well as of the prosecuting officers, of the United States. . . . [T]he constitution protect[s] every one from being prosecuted, without the intervention of a grand jury, for any crime which is subject by law to an infamous punishment[;] no declaration of congress is needed to secure or *competent to defeat* the constitutional safeguard." (emphases added) (citations omitted)); *accord Mackin v. United States*, 117 U.S. 348, 351 (1886).

We do not suggest that Rule 16-308(E)'s rigorous standards tread closely to this danger zone or have the foregoing nullifying effect. However, even assuming (without deciding) that Congress would be free to authorize states to regulate—through provisions like the challenged portions of Rule 16-308(E)—the ethical conduct of federal prosecutors practicing before grand juries, the significant burdens that such provisions would impose on grand juries' constitutionally authorized investigative functions, compel us to insist that, if Congress is to so act, that it speak more clearly than it has in the McDade Act.[28] *See Hancock*, 426 U.S. at 179 ("Because of the fundamental importance

[28] Unlike our dissenting colleague, given the unique, independent constitutional stature of the federal grand jury, we believe it would be inappropriate and especially unwise for us to infer from historical events preceding the passage of the McDade Act or the Act's "general reference to ethics rules," Dissent at 17, Congress's intent to permit states—through ethical rules—to impose such significant restrictions on the grand jury's investigative function. *Cf.* Antonin Scalia & Bryan A. Garner, READING

of the principles shielding federal installations and *activities* from regulation by the States, an authorization of state regulation is found only when and to the extent there is 'a clear congressional mandate,' 'specific congressional action' that makes this authorization of state regulation 'clear and unambiguous.'" (emphasis added) (footnotes omitted)); *accord Goodyear Atomic Corp. v. Miller*, 486 U.S. 174, 180 (1988) ("It is well settled that the *activities* of federal installations are shielded by the Supremacy Clause from direct state regulation unless Congress provides 'clear and unambiguous' authorization for such regulation." (emphasis added) (quoting *EPA v. State Water Res. Control Bd.*, 426 U.S. 200, 211 (1976))); *see also Stern*, 214 F.3d at 19 (insisting, under the authority of *Hancock*, on clear congressional authorization for state ethics rules to regulate federal grand-jury practice, and concluding that the McDade Act does not evince it).

Under Rule 16-308(E), a prosecutor must determine whether there is a reasonable basis to believe that an attorney subpoena is "essential" and that there is "no other feasible alternative" source from which to obtain the information; this is unquestionably a much greater burden than the federal requirement that there be only a "reasonable *possibility* that the [information] . . . [is] relevant to the general subject of the grand jury's investigation." *R. Enters., Inc.*, 498 U.S. at 301 (emphasis added). Holding federal

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LAW: THE INTERPRETATION OF LEGAL TEXTS 56 (2012) ("[T]he purpose must be derived from the text, not from extrinsic sources such as legislative history or an assumption about the legal drafter's desires.").

prosecutors licensed in New Mexico to this higher standard would invariably restrict the information a grand jury could consider, and thus would "impede its investigation and frustrate the public's interest in the fair and expeditious administration of the criminal laws." *Id.* at 299 (quoting *United States v. Dionisio*, 410 U.S. 1, 17 (1973)); *see also Stern*, 214 F.3d at 16–17 (concluding that the essentiality and no-other-feasible-alternative requirements would "encroach[ ] unduly upon grand jury prerogatives," as described in *R. Enterprises*); *Baylson*, 975 F.2d at 109–10 (concluding that substantive restraints on grand-jury subpoenas, including a no-other-feasible-alternative requirement, were inconsistent with *R. Enterprises*).

In sum, we conclude that the challenged provisions of Rule 16-308(E) impose on every federal prosecutor licensed in New Mexico who seeks to issue an attorney subpoena in the grand-jury context far more onerous conditions than those required by federal law. More specifically, because such heightened requirements for attorney subpoenas would impede the grand jury's broad investigative mandate—which the Framers specifically envisioned in enacting the Grand Jury Clause of the Fifth Amendment—the challenged provisions of Rule 16-308(E) conflict with federal law and are preempted.

D

Finally, Defendants challenge the scope of the injunction that the district court issued. We review this question for an abuse of discretion. *See ClearOne Commc'ns, Inc. v. Bowers*, 643 F.3d 735, 752 (10th Cir. 2011); *accord Rocky Mountain Christian*

Church v. Bd. of Cty. Comm'rs, 613 F.3d 1229, 1239–40 (10th Cir. 2010). That is, we reverse if the district court's injunction embodies an "arbitrary, capricious, whimsical, or manifestly unreasonable judgment." *ClearOne Commc'ns*, 643 F.3d at 752 (quoting *Rocky Mountain Christian Church*, 613 F.3d at 1239–40).

The district court's injunction in this case prohibits Defendants "from instituting, prosecuting, or continuing any disciplinary proceeding or action against any federal prosecutor for otherwise lawful actions taken in the course of a grand jury investigation or proceeding on the ground that such attorneys violated Rule 16-308(E) of the New Mexico Rules of Professional Conduct." Aplts.' App. at 326–27. Defendants claim that this injunction "is much broader than necessary to remedy the alleged conflict" in two respects. Aplts.' Opening Br. at 55.

First, Defendants argue that the injunction would be better tailored to concerns about grand-jury secrecy if it is limited to "particular instance[s]" where a federal prosecutor is able to make "an adequate showing that the grand jury proceedings [a]re both secret and relevant to the disciplinary charges." *Id.* at 56. On the basis that we resolve this case, this argument is unavailing: regardless of whether disciplinary proceedings would only compromise grand-jury secrecy in *certain* situations—a proposition we consider dubious—the essentiality and no-other-feasible-alternative requirements conflict overall with federal grand-jury practice because they impose overly restrictive standards for the issuance of attorney subpoenas in *every* instance. Thus, a broad injunction is appropriate to remedy such a conflict.

Second, Defendants claim that the injunction would also prohibit the enforcement of Rule 16-308(E)(1) against a federal prosecutor who knowingly subpoenas a lawyer for privileged information. While the district court's order does refer generally to "Rule 16-308(E)," *see, e.g.,* Aplts.' App. at 327, the language of the injunction and the context of the order make plain that the enforcement of Rule 16-308(E)(1) is not prohibited. *See Alley v. U.S. Dep't of Health & Human Servs.*, 590 F.3d 1195, 1208 (11th Cir. 2009) ("What the plain text of the . . . injunction indicates, the context in which that language was written reinforces; much of that context is provided in the opinion issued in tandem with the injunction."); *Youakim v. McDonald*, 71 F.3d 1274, 1283 (7th Cir. 1995) ("[T]he terms of an injunction, like any other disputed writing, must be construed in their proper context.").

Here, the United States has not challenged the constitutionality of Rule 16-308(E)(1)'s requirement that prosecutors possess a reasonable belief that information sought from attorneys by subpoena be non-privileged, and the district court expressly recognized that Rule 16-308(E)(1) was not at issue. Furthermore, the injunction is only limited to "otherwise lawful actions" taken by prosecutors, Aplts.' App. at 327, and the knowing issuance of subpoenas to obtain privileged information is inconsistent with federal law, *see In re Grand Jury Proceedings*, 616 F.3d at 1181–82 (examining whether information sought by subpoena was covered by the attorney-client privilege, which would "provide legitimate grounds for refusing to comply with a grand jury subpoena"); *In re Impounded*, 241 F.3d 308, 316 (3d Cir. 2001) (recognizing that "[t]he grand jury

may not 'itself violate a valid privilege'" and that "courts may quash an otherwise valid grand jury subpoena for an attorney's testimony under the attorney-client privilege" (quoting *Calandra*, 414 U.S. at 346)). The injunction should, therefore, reasonably be read as permitting the enforcement of Rule 16-308(E)(1) where a prosecutor engages in unlawful action by issuing a subpoena to an attorney without a reasonable belief that the information sought is not privileged.

Thus, read in light of "the relief sought by the moving party . . . and the mischief that the injunction seeks to prevent," *United States v. Christie Indus., Inc.*, 465 F.2d 1002, 1007 (3d Cir. 1972), we conclude that the district court's injunction did not evince an abuse of discretion because it only bars enforcement of the unconstitutional aspects of Rule 16-308(E)—namely, all applications of subsections (2) and (3) in the grand-jury context—and does not enjoin the enforcement of subsection (1).

III

In sum, we hold that (1) the district court had subject-matter jurisdiction because the United States had standing and the claim was ripe for review; (2) because the United States's preemption claim is a legal one, the district court did not abuse its discretion in denying discovery; (3) the district court correctly concluded that (a) under our decision in *Colorado Supreme Court II*, the challenged provisions of Rule 16-308(E) are not preempted outside of the grand-jury context, but (b) they are preempted in the grand-jury setting because they conflict with the federal-law principles—embodied in the Grand Jury Clause of the Constitution, as interpreted by the Supreme Court—that govern federal

prosecutors' attorney-subpoena practices before grand juries, and thereby stand as an obstacle to the effectuation of the grand jury's constitutionally authorized investigative functions; and (4) the district court's injunction appropriately prohibits the enforcement of Rule 16-308(E)(2) and (3) against federal prosecutors practicing before grand juries, while permitting the enforcement of Rule 16-308(E)(1). We **AFFIRM** the district court's judgment.

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NOTES

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ETHICS FOR COMMERCIAL LITIGATORS 2017/ETHICS FOR CORPORATE LAWYERS: MULTIJURISDICTIONAL PRACTICE AND OTHER CURRENT ISSUES 2017

17

Ethical Considerations in the Representation of Multiple Clients

Michael J. Dell

Kramer Levin Naftalis & Frankel LLP

Michael J. Dell, a litigation partner at Kramer Levin Naftalis & Frankel LLP, thanks his colleague Karen S. Kennedy and former colleague Deon Nossel for their work in preparing this outline.

BIOGRAPHICAL INFORMATION

Michael J. Dell
Kramer Levin Naftalis & Frankel LLP

Michael J. Dell is a leading trial and appellate lawyer who has been successfully resolving business disputes for his clients for more than 30 years. Mr. Dell represents corporations, accounting and financial services firms, and individuals in civil litigation in state and federal courts, in internal investigations, and in connection with investigations and enforcement proceedings before government and regulatory agencies, including the Securities and Exchange Commission and the Public Company Accounting Oversight Board. His work on behalf of his clients involves a broad range of business matters including securities, accountants' and auditors' liability, commercial, real estate and insurance, patents and intellectual property, false claims act, ERISA, fiduciary and employment, antitrust, and trusts and estates lawsuits. A skilled advocate, Mr. Dell has extensive experience representing clients in alternative dispute resolution proceedings, including arbitrations and mediations before FINRA (the Financial Industry Regulatory Authority), the American Arbitration Association, the International Center for Dispute Resolution, JAMS, the CPR Institute for Dispute Resolution and other ADR forums. Although he most often represents defendants, Mr. Dell has secured many judgments and settlements on behalf of plaintiffs.

Benchmark Litigation, *Chambers USA* and *Legal 500 US* have repeatedly recognized Mr. Dell as a leading litigator. *Chambers USA* lauded Mr. Dell for his broad litigation practice including his work in securities disputes, noting he draws praise for his experience in accountant liability matters and that observers describe him as "tremendously smart" (*Chambers USA* 2016) and "very efficient," and comment that he has "an excellent grasp of the issues and the facts" and "brings a lot of value" (*Chambers USA* 2015). *Benchmark Litigation* (2015) reports that "at the trial and appellate level [he] earns resounding praise, with one peer stating, 'Michael is a consummate pro, just into his work, not out there throwing bombs, just quietly doing a great job protecting his clients.'" *Legal 500* lists Mr. Dell as a leading lawyer in Securities Litigation and General Commercial Disputes, explaining "Trial lawyer Michael Dell does 'consistently high quality work and does a really good job developing consensus in a case,'" "is noted for his ability to 'anticipate how the other side will react'" (Legal 500 US 2016), is "client-oriented and highly experienced" (*Legal 500 US* 2012) and is "very knowledgeable, thorough, experienced and approachable" and an "'extremely effective

litigator,' who is praised for his 'excellent judgment' and 'combining excellent legal advice with a great deal of industry knowledge'" (*Legal 500 US* 2011). *Benchmark Appellate* named him a "Second Circuit Litigation Star" in 2013. Mr. Dell is listed in *Best Lawyers in America* as one of the leading lawyers in the U.S. in Commercial Litigation, Securities Litigation, Real Estate Litigation, Regulatory Enforcement and Appellate Practice.

Mr. Dell's recent arbitrations include prevailing in a purchase price adjustment arbitration on behalf of a large consumer company concerning the methodology to be used, and the successful defense of a "Big Four" accounting firm in a two-week professional liability arbitration, a financial services firm in a two-week securities arbitration, another financial services firm in a 25-day international securities arbitration that was dismissed at the close of the claimants' case, and a financial services firm in a 24-day securities arbitration.

Representative Matters

Accounting and Auditors Liability

- Representing accounting firms and individual accountants in PCAOB and SEC investigations, and in internal investigations.
- Obtained dismissal in arbitration of malpractice claims against "Big Four" accounting firm.
- Obtained summary judgment dismissing trustee's fraud claims for hundreds of millions of dollars relating to auditing and actuarial work. *RGH Liquidating Trust v. Deloitte & Touche LLP,* 2013 Misc. Lexis 2411 (Sup. Ct. N.Y. Co. 6/6/13).
- Defended accounting association against class action and other claims arising from the bankruptcy of Parmalat, with alleged losses exceeding $10 billion.

Financial Institutions, Securities and Shareholder Litigation

- Obtained dismissal of fraud and breach of contract claims concerning purchase of Synthetic CDO. *Rakuten Bank v. Royal Bank of Canada*, Index No. 652057-13 (Sup. Ct. N.Y. Co. 1/26/15), *affirmed* 136 A.D. 3d 481 (1st Dep't 2/9/16).
- Represented the Securities Industry and Financial Markets Association as amicus curiae in 12 appeals in the Second, Fifth, Ninth and Tenth Circuits and in the U.S. Supreme Court concerning claims related to the sale of more than $200 billion of mortgage backed securities by more than 15 financial institutions; represented The

Clearing House Association in five appeals and the American Bankers Association in three appeals. (2012-2016)

- Defended broker-dealers and other financial industry companies and professionals in customer and other securities- and derivatives-related arbitrations before FINRA and other arbitration tribunals and in court.
- Represented shareholders and companies in appraisal proceedings.
- Defended hedge fund and other administrators and directors against class action and other claims for stock manipulation, death-spiral financing and other alleged wrongdoing.
- Defended broker-dealers against class action and other claims of fraud and stock manipulation relating to stock loan trading.
- Defended underwriters in class actions arising from public offerings.

Intellectual Property and Patents

- Representing a biotech company in patent and breach of contract claims.
- Defended intellectual property development companies against fraud claims.

Commercial and Insurance Litigation

- Defended claims by trustees and liquidators of bankrupt companies for fraud, breach of fiduciary duty and negligence.
- Represented partners in partnership disputes.
- Defended telecommunications companies against claims for fraud and breach of contract.
- Defended insurance companies in RICO and fraud litigations, and various corporations and their officers and directors against securities fraud claims.
- Defended health care companies against claims for breach of contract and fraud.

Trusts and Estates Litigation

- Represented Executor in defense of claims.
- Represented beneficiary challenging estate administration.

Not-for-Profit

- Obtained dismissal of breach of contract and fraud claims against The Rashi Foundation. *Jonas v. Estate of Gustave Leven,* 116 F. Supp. 3d 314 (S.D.N.Y. 2015).
- Obtained dismissal of qui tam claims. *U.S. ex rel. Monaghan v. HPD,* 2012 U.S. Dist. Lexis 130884 (S.D.N.Y. 2012), *aff'd*, Case 12-4046 (2d Cir. 8/27/13).
- Obtained resolution of dispute concerning sale of property.

Pro Bono

- Represented four immigration rights lawyers and a clinical psychologist as amici curiae in support of petitioners challenging authority of Office of Refugee Resettlement to determine without due process that alien children should be detained because available parents or legal guardians are allegedly unfit to care for the children. *D.B., as next of friend of R.M.B. v. Cardall*, Index No. 15-1993 (4th Cir. 2016).
- Represented 10 women who had abortions as amici curiae in support of petitioners challenging Texas anti-abortion statute in *Whole Women's Health v. Hellerstedt*, Index No. 15-274 (U.S. Supreme Court 2016).
- Representing refugee applying for asylum.

Education

J.D., magna cum laude, Harvard Law School, 1978
Associate Editorial Director, *Harvard Law Review*, 1977-1978
Editor, *Harvard Law Review*, 1976-1977
B.A., with honors, Oxford University, Wadham College, 1975

Clerkship

Honorable Stanley A. Weigel, U.S. District Court, Northern District of California, 1978-1979

Honors and Distinctions

Benchmark Litigation (2007-2016)
Benchmark Appellate (2013)
Chambers USA (2014-2016)
Legal 500 (2011-2015)

Best Lawyers in America (2010-2016)
New York Super Lawyers (2006-2016)
NYSBA's Empire State Counsel honor (2015)

Professional Affiliations

New York City Bar Association
Practising Law Institute, Lecturer

Bar Admissions

District of Columbia, 1992
New York, 1979

Court Admissions

U.S. Supreme Court

Table of Contents

I. INTRODUCTION

This outline addresses some of the ethical issues that arise in connection with:

1. The joint representation of a corporation and its executives in a single matter;
2. Limitations on the no-contact rule and how they impact a company's outside counsel in representing the company's employees;
3. Potential conflicts arising out of prior, current or potential representations;
4. The "Hot Potato" Rule and so-called accommodation clients, vicarious clients and thrust-upon clients;
5. The use of advance waivers to deal with conflicts; and
6. Potential conflicts in representing multiple plaintiffs.

We are often called upon to represent multiple clients in the same matter.

1. The potential for conflicts in joint representation can be serious and should be considered at the outset of a representation.
    a. Most fundamentally, lawyers have a duty of loyalty to each client.
    b. Lawyers also have a duty to preserve the confidences of each client.
2. Even if there are no conflicts between clients at the outset of a representation, conflicts can develop between clients after the representation has begun.
    a. For example, two or more clients in a single matter may wish to take inconsistent positions.
    b. One client may disclose information to us or we may become aware of information that can hurt that client's position but help another client's position.
    c. These conflicts can create opposing duties on the part of the lawyer. For example, the question may arise whether we can or should disclose one client's confidences to the other, or take a position favored by one client but opposed by the other.

3. Such conflicts can form the basis for a motion to disqualify counsel, not only by current and former clients, but also by other parties to the litigation, or for professional discipline.

4. Conflicts can also lead to a lawsuit by a former client against a lawyer.

   a. The stakes can be large, as demonstrated by the $103 million malpractice verdict returned by a Mississippi jury against a law firm that represented the plaintiff and his partner in various business ventures, and then allegedly assisted the partner to obtain loans secured by the plaintiff's assets without informing the plaintiff, and in litigation against the plaintiff. *See* "$103 million verdict against Baker & McKenzie," *Chicago Tribune*, Oct. 26, 2010; "Baker & McKenzie Hit With $103 Million Malpractice Verdict," Law.com, Oct. 27, 2010.

II. AVOIDING CONFLICTS IN REPRESENTING A CORPORATION AND ITS EXECUTIVES

A. The Applicable New York Rules of Professional Conduct

1. The situation in which a lawyer is called upon to represent both a corporation and an executive or employee is addressed primarily in Rules 1.7 and 1.13 of the New York Rules of Professional Conduct and the comments on those rules.

2. Rule 1.7 permits joint or concurrent representation in certain circumstances:

> "(a) Except as provided in paragraph (b), a lawyer shall not represent a client if a reasonable lawyer would conclude that either:
>
> (1) the representation will involve the lawyer in representing differing interests; or
>
> (2) there is a significant risk that the lawyer's professional judgment on behalf of a client will be adversely affected by the lawyer's own financial, business, property or other personal interests.
>
> (b) Notwithstanding the existence of a concurrent conflict of interest under paragraph (a), a lawyer may represent a client if:
>
> (1) the lawyer reasonably believes that the lawyer will be able to provide competent and diligent representation to each affected client;
>
> (2) the representation is not prohibited by law;

(3) the representation does not involve the assertion of a claim by one client against another client represented by the lawyer in the same litigation or other proceeding before a tribunal; and

(4) each affected client gives informed consent, confirmed in writing."

3. Rule 1.13 explains when a lawyer for an organization, who deals with its employees, must explain that the lawyer is representing the organization and not the employees:

"(a) When a lawyer employed or retained by an organization is dealing with the organization's directors, officers, employees, members, shareholders or other constituents, and it appears that the organization's interests may differ from those of the constituents with whom the lawyer is dealing, the lawyer shall explain that the lawyer is the lawyer for the organization and not for any of the constituents.

. . .

"(d) 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 concurrent 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."

a. Comment 2A to Rule 1.13 states: "There are times when the organization's interests may differ from those of one or more of its constituents. In such circumstances, the lawyer should advise any constituent whose interest differs from that of the organization: (i) that a conflict or potential conflict of interest exists, (ii) that the lawyer does not represent the constituent in connection with the matter, unless the representation has been approved in accordance with Rule 1.13(d), (iii) that the constituent may wish to obtain independent representation, and (iv) that any attorney-client privilege that applies to discussions between the lawyer and the constituent belongs to the organization and may be waived by the organization. Care must be taken to ensure that the constituent understands that, when there is such adversity of interest, the lawyer for the organization cannot provide legal representation for that constituent, and that discussions between the lawyer for the organization and the constituent may not be privileged."

b. Comment 2B states: "Whether such a warning should be given by the lawyer for the organization to any constituent may turn on the facts of each case."

c. Comment 12 states: "Paragraph (d) recognizes that a lawyer for an organization may also represent a principal officer or major shareholder, subject to the provisions of Rule 1.7. If the corporation's informed consent to such a concurrent representation is needed, the lawyer should advise the principal officer or major shareholder that any consent given on behalf of the corporation by the conflicted officer or shareholder may not be valid, and the lawyer should explain the potential consequences of an invalid consent."

4. Other rules, such as Rule 1.4, which requires a lawyer to inform a client of material developments in the matter, and Rule 1.6, which requires an attorney to protect a client's confidential information, may also come into play in multiple representation situations.

B. The Applicable ABA Model Rules of Professional Conduct

1. The ABA Model Rules are similar.

2. Model Rule 1.7 provides:

> "(a) Except as provided in paragraph (b), a lawyer shall not represent a client if the representation involves a concurrent conflict of interest. A concurrent conflict of interest exists if:
>
> "(1) the representation of one client will be directly adverse to another client; or
>
> "(2) there is a significant risk that the representation of one or more clients will be materially limited by the lawyer's responsibilities to another client, a former client or a third person or by a personal interest of the lawyer.
>
> "(b) Notwithstanding the existence of a concurrent conflict of interest under paragraph (a), a lawyer may represent a client if:
>
> "(1) the lawyer reasonably believes that the lawyer will be able to provide competent and diligent representation to each affected client;
>
> "(2) the representation is not prohibited by law;
>
> "(3) the representation does not involve the assertion of a claim by one client against another client represented by the lawyer in the same litigation or other proceeding before a tribunal; and

"(4) each affected client gives informed consent, confirmed in writing."

3. Model Rule 1.13 provides in relevant part:

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

. . .

"(f) 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.

"(g) 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."

a. Comment 10 to Model Rule 1.13 states: "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."

b. Comment 11 states: "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."

c. Comment 12 states: "Paragraph (g) recognizes that a lawyer for an organization may also represent a principal officer or major shareholder."

C. Other Basic Principles

1. It is settled that "[r]equiring or permitting a single attorney to represent codefendants, often referred to as joint representation,

is not *per se* violative of constitutional guarantees of effective assistance of counsel." *Holloway v. Arkansas*, 435 U.S. 475, 482 (1978).

2. In 2008, the American Bar Association Standing Committee on Ethics and Professional Responsibility issued Formal Opinion 08-450 (April 9, 2008), "Confidentiality When Lawyer Represents Multiple Clients in the Same or Related Matters," which notes some of the potential problems inherent in multiple representations.

    a. For example, Model Rule 1.6 requires a lawyer to protect the confidentiality of information relating to each of his or her clients, but Model Rule 1.4(b) requires a lawyer to provide information to a client "to the extent reasonably necessary to permit the client to make informed decisions regarding the representation."

        - Thus, if a lawyer represents multiple clients in a related matter, her duty of confidentiality to one client may conflict with her duty of disclosure to another.

    b. The Opinion addresses the situation of an insurance company hiring a lawyer to defend both an insured employer and the employee whose conduct is at issue in a lawsuit.

        - What happens if the employee reveals facts to the lawyer that suggest that his conduct in question was outside the scope of his employment?

        - The insurance company may have a basis to deny coverage and the employer may have a defense to its own liability.

            i. The Opinion states this potential problem must be addressed by the lawyer at two points:

                - First, the issue should be addressed when the joint representation is undertaken.

                    - "[C]ounsel retained by an insurer or other third party should ensure that the clients(s) are fully informed at the inception of the relationship, preferably in writing, of any limitation inherent in the representation and any area of potential conflict."

- Second, the issue must also be addressed when the lawyer comes to understand that disclosure to one client will be harmful to the other client's interest:
    - Resolving what the lawyer should do requires balancing the lawyer's confidentiality obligation under Rule 1.6 and her disclosure obligation under Rule 1.4(b).
    - Absent an exception to the confidentiality obligation, the lawyer may not reveal the harmful information.
    - And if withholding the information from the other client would cause the lawyer to violate her disclosure obligation to the other client, then the lawyer "must withdraw from representing the other client."
    - The Opinion then notes the three circumstances when the confidential information may be revealed under Rule 1.6: informed consent, implied authority and an applicable exception.
    - However, in the example there is no informed consent, and none of the exceptions applies.
    - The Opinion also says there is nothing about the multiple representations that constitutes implied authority to the lawyer to disclose the information.

ii. The Opinion concludes that in this situation, the lawyer will generally be required to withdraw from any further representation of any clients in the matter.

c. While the Opinion suggests that an advance waiver may avoid this outcome, it indicates a good deal of skepticism: "Whether any agreement made before the lawyer understands the facts giving rise to the conflict may satisfy 'informed consent' (which presumes appreciation and 'adequate information' about those facts) is highly doubtful."

i. One commentator has suggested that this Opinion "probably goes too far," noting that "lawyers and firms often rely on consents given by employees in situations such as those addressed in the Opinion." Anthony Davis, "Professional Responsibility: The Perils of Representing Multiple Clients," *New York Law Journal*, July 7, 2008.

D. *Broadcom*

1. The Broadcom case, in which counsel represented both Broadcom Corp. and its CFO, William J. Ruehle, in related proceedings concerning Broadcom's alleged backdating of stock options, illustrates some of the hazards that can be presented by joint representation.

2. Chronology.

   a. On May 18, 2006, Broadcom's audit committee retained Irell & Manella to conduct an internal review of Broadcom's practices in granting stock options. This required collecting documents and records and interviewing past and present Broadcom employees.

   b. On May 25 and 26, 2006, two civil suits were commenced against Broadcom, Ruehle and other Broadcom officers and directors challenging the company's alleged backdating of stock options.

   c. On June 1, 2006, two Irell lawyers interviewed Ruehle regarding Broadcom's stock option practices. One of the lawyers had additional conversations with Ruehle in June 2006 regarding the same subject matter.

      i. Whether Irell provided Ruehle an *Upjohn* (or corporate *Miranda*) warning was subsequently disputed.

         (1) An *Upjohn* warning is a warning by an attorney for a company to an employee of the company that (a) the attorney represents the company, not the employee, (b) anything the employee reveals to the attorney is privileged, and the privilege belongs to the company, not to the employee, and (c) the company can waive the privilege without the consent of the employee.

(2) It is named for *Upjohn Co. v. United States*, which held that a company's attorney-client privilege applies to its counsel's communications with its employees. *See Upjohn Co. v. U.S.*, 449 U.S. 383, 386-96 (1981).

(3) A *New York Law Journal* article by Michael Mukasey and Andrew Ceresney provides a helpful overview of the rationale behind *Upjohn* warnings and a discussion of factors that a lawyer should consider in deciding whether to give such a warning to an employee when conducting an internal investigation on behalf of a corporate client. Michael B. Mukasey & Andrew J. Ceresney, "The Origins Of *Upjohn* Warnings," *New York Law Journal*, May 14, 2010. *See also* Paul Schoeman, Eric Tirschwell and Philip Ellenbogen, "Separate Representation for Employees In Investigations: A Delicate Line," New York Law Journal, Nov. 10, 2014.

d. On June 13, 2006, the SEC commenced an investigation of Broadcom's stock option practices.

e. In late June 2006, Irell advised Ruehle to retain independent counsel with respect to the civil lawsuits and investigations. Ruehle retained Wilson Sonsini Goodrich & Rosati to represent him individually.

f. In August 2006, at Broadcom's direction, Irell disclosed the information obtained from the internal investigation – including the substance of the June 1 interview with Ruehle – to Broadcom's outside auditors, Ernst & Young.

g. In January 2007, on the advice of its outside counsel and auditors, Broadcom restated its earnings to include $2.2 billion in previously undisclosed compensation expenses.

h. In May and June 2007, with Broadcom's consent, federal government investigators interviewed two Irell attorneys regarding their June 2006 interview with Ruehle.

i. On June 4, 2008, Ruehle was indicted on federal charges including conspiracy, securities fraud and wire fraud.

j. On January 12, 2009, the government moved for a hearing to resolve whether Ruehle's statements to Irell in the June 2006 interview were privileged communications.

3. On April 1, 2009, the district court issued a decision precluding the government from using Irell's interview with Ruehle in the criminal proceedings, criticizing Irell and referring the firm to the State Bar of California for discipline. *United States v. Nicholas*, 606 F. Supp. 2d 1109 (C.D. Cal.), *rev'd sub nom. United States v. Ruehle*, 583 F.3d 600 (9th Cir. 2009).

   a. The district court found that when Ruehle met with the Irell lawyers on June 1, 2006, he reasonably believed that Irell was representing him and that any information he provided to Irell would remain confidential. *Id.* at 1115.

      i. Before the interview, Ruehle received an email from Broadcom's general counsel confirming that Irell would represent him in the two civil litigations.

      ii. In the days leading up to the June 1, 2006 interview, the Irell lawyers frequently updated Ruehle on the progress of their investigation, discussed their strategy for defending the corporation and its directors and asked Ruehle for information that would be relevant to preparing a defense. *Id.*

   b. The Court also found that Ruehle reasonably understood the Irell lawyers were gathering facts and information for his defense as well as for the company's internal investigation. *Id.* at 1116.

      i. He was initially asked by the Irell lawyers to schedule a meeting with them in an email he received 4 minutes after receiving the email from Broadcom's general counsel informing him that Irell would represent him personally in the two pending lawsuits.

      ii. The Irell lawyers asked to discuss with him Broadcom's stock option practices, which were the subject of the two pending lawsuits.

      iii. Ruehle was not advised that he should have another lawyer to represent his interests at the meeting with Irell.

c. The Court further found that Ruehle intended his statements to be confidential and had no reason to believe his conversations with the Irell lawyers would be disclosed to third parties. *Id.*

   i. Ruehle testified that had he understood the Irell lawyers might disclose his statements to third parties, at a minimum he would have stopped and asked some serious questions.

   ii. Ruehle had substantial prior experience with civil litigation, knew he was being personally investigated and would never have agreed to provide information that Irell could turn over to the government for use in criminal proceedings.

d. Although the Irell lawyers testified that Ruehle was given an *Upjohn* warning, the Court was not persuaded that this testimony meant Ruehle's statements to Irell were not privileged communications. *Id.* at 1116.

   i. The Court expressed serious doubts that an *Upjohn* warning had been given, since Ruehle did not remember being given such a warning and no such warning was referenced in the notes taken by one of the Irell lawyers at the June 1, 2006 meeting.

   ii. Although one of the Irell lawyers testified that he advised Ruehle that the Irell lawyers were interviewing him on behalf of Broadcom in connection with their investigation of Broadcom's stock option practices, the Court found that supposed warning was woefully inadequate under the circumstances because Ruehle was not told that the Irell lawyers were not *his* lawyers or that he should consult with another lawyer, nor was Ruehle told that any statements he made could be shared with third parties including the government in a criminal investigation of him. *Id.* at 1117.

   iii. The Court ruled that in any event whether an *Upjohn* warning was given was irrelevant because it was undisputed that there was an attorney-client relationship between Irell and Ruehle and "[a]n oral warning, as opposed to a written waiver of the clear conflict presented by Irell's representation of both Broadcom and

Mr. Ruehle, is simply not sufficient to suspend or dissolve an existing attorney-client relationship and to waive the privilege." *Id.*

e. The Court determined that Irell breached its duty of loyalty to Ruehle in violation of the California Rules of Professional Conduct in at least three respects:

i. First, Irell failed to obtain Ruehle's informed written consent to Irell's simultaneous representation of Ruehle and Broadcom, as required, since Irell knew or should have known that Broadcom's interests and Ruehle's interests potentially or actually conflicted. *Id.* at 1117-18.

ii. "Second, Irell breached its duty of loyalty to Mr. Ruehle, a current client, by interrogating him for the benefit of another client, Broadcom." *Id.* at 1119.

iii. "Finally, Irell disclosed Mr. Ruehle's privileged communications to third parties without his consent." *Id.* at 1120.

4. After the government took an interlocutory appeal, the Ninth Circuit reversed the district court's order to the extent that it precluded the government from relying on Ruehle's statements to Irell. *United States v. Ruehle*, 583 F.3d 600 (9th Cir. 2009).

a. The Ninth Circuit's decision addresses only the issue of whether Ruehle's statements to Irell should be excluded from evidence based on the attorney-client privilege.

i. The portion of the district court's decision addressing whether Irell violated the California Rules of Professional Conduct was not before the Ninth Circuit on appeal. *Id.* at 612-13.

b. The Ninth Circuit held that the district court erred in relying almost exclusively on California state law, rather than federal common law, to define the scope of the attorney-client relationship and the attorney-client privilege:

> "The district court applied a liberal view of the privilege that conflicts with the strict view applied under federal common law, which governs here. [citation omitted.] By approaching the exclusion question with a presumption that the privilege attached, the district court inverted the burden of proof, improperly placing the onus on the government to show what information was not privileged." *Id.* at 608-09.

c. The Ninth Circuit held that Ruehle's statements to the Irell lawyers were not protected by the attorney-client privilege because they were not "made in confidence."

i. As CFO of a sophisticated corporate enterprise, Ruehle could not "credibly claim ignorance of the general disclosure requirements imposed on a publicly traded company with respect to its outside auditors or the need to truthfully report corporate information to the SEC." *Id.* at 610.

ii. The evidence demonstrated that Ruehle knew that the findings of Irell's internal investigation would be disclosed to Broadcom's outside auditors, Ernst & Young.

iii. The district court's reliance on Ruehle's claim that he never understood that Irell might disclose statements adverse to his interests to the government was misplaced because his understanding that all factual information would be provided to Ernst & Young defeated his claim of confidentiality necessary to support invoking the privilege. *Id.* at 611.

d. The Ninth Circuit also rejected Ruehle's argument that the District Court's finding that Irell breached its professional duties warranted suppression of the statements.

i. Breaches of state rules of professional conduct cannot provide a basis for a federal court to suppress otherwise admissible evidence and there was no allegation of any government misconduct in connection with Irell's alleged breaches of its ethical obligations. *Id.* at 613.

E. The Stanford Financial Group

1. Another cautionary tale is presented by the alleged joint representation of the Stanford Financial Group and its Chief Investment Officer in an SEC investigation, as reported in the *Wall Street Journal,* the *Wall Street Journal*'s Law Blog and the *American Lawyer*'s AmLaw Daily blog.

2. Thomas Sjoblom, who had worked for more than ten years at the SEC's enforcement division before going into private practice, was a partner of Proskauer Rose, outside counsel for the Stanford International Bank, in connection with an SEC investigation of

suspected fraud in connection with the alleged Ponzi scheme. *See* "The Stanford Affair: Top Lawyer's Withdrawal from Stanford Case Waves a Flag," *Wall Street Journal,* Mar. 6, 2009.

3. On February 10, 2009, the Stanford Financial Group's chief investment officer Laura Pendergest-Holt testified before the SEC.

    a. According to *The American Lawyer*, the only defense lawyer present was Sjoblom, who made clear that he was representing the Stanford Group and stated that he was representing Pendergest-Holt "insofar as she is an officer or director of one of the Stanford affiliated companies." *See* "Lessons from the Stanford Scandal: Bring Your Own Lawyer," Am Law Daily, Mar. 4, 2009.

4. On February 14, 2009, Sjoblom made a "noisy withdrawal" from his representation of the Stanford Group, stating in a note to the SEC, "I disaffirm all prior oral and written representations made by me and my associates to the SEC staff." *See* "Sizing Up Thomas Sjoblom's 'Noisy Withdrawal,'" WSJ.com Law Blog, Feb. 19, 2009; "The Stanford Affair: Madoff Case Led SEC to Intensify Stanford Probe," *Wall Street Journal,* Feb. 19, 2009.

5. In late February 2009, Pendergest-Holt was arrested and charged with obstruction of an SEC proceeding by providing false testimony at the February 10 proceeding. *See* "The Stanford Situation Heats Up: Pendergest-Holt Sues Sjoblom," WSJ.com Law Blog, Mar. 31, 2009; "The Stanford Affair: Top Lawyer's Withdrawal from Stanford Case Waves a Flag," *Wall Street Journal,* Mar. 6, 2009.

6. In March 2009, Pendergest-Holt sued Sjoblom and Proskauer for malpractice and breach of fiduciary duty, alleging that an attorney-client relationship had been created between her and defendants, and defendants breached their professional duties by failing to advise her (1) that they were not representing her individual interests in the SEC proceeding, (2) that she should retain her own counsel prior to the proceeding, (3) of her Fifth Amendment rights, and (4) that there was a conflict between her interests and those of the Stanford Group and other defendants. *See* "The Stanford Situation Heats Up: Pendergest-Holt Sues Sjoblom," WSJ.com Law Blog, Mar. 31, 2009.

a. However, she withdrew the malpractice action on April 9, 2009, very shortly after she filed it. *See* Lisa Cahill, "Cases Highlight Minefield in Internal Investigation," *New York Law Journal*, May 21, 2009.

7. On May 12, 2009, Pendergest-Holt was indicted on federal charges of conspiracy to obstruct an SEC investigation and obstruction of an SEC investigation. *See* "Indictment Cranks Up Heat on Proskauer's Sjoblom," WSJ.com Law Blog, May 14, 2009; "For Corporate Lawyers, There's Just One Client," *Wall Street Journal*, April 13, 2009.

   a. On March 6, 2012, Robert Allen Stanford was convicted of 13 counts of fraud. *See* Clifford Krauss, "Stanford Convicted by Jury in $7 Billion Ponzi Scheme," *New York Times*, Mar. 6, 2012.

   b. On June 21, 2012, Pendergest-Holt pled guilty to obstructing a U.S. Securities and Exchange Commission investigation into Stanford International Bank, the Antiguan offshore bank owned by Stanford.

F. Joint Representation of a Company and its Directors and Officers in Shareholder Derivative Litigation

1. A recent California federal court decision addresses the potential conflict arising from counsel's joint representation of a company and its directors in the defense of shareholder derivative litigation.

2. In shareholders' derivative actions, shareholders bring actions on behalf of a corporation, and often seek relief from its directors and officers for alleged wrongdoing that has harmed the corporation.

   a. The corporation is joined as a nominal defendant, and often eventually recast as a plaintiff, because the action is brought to benefit the corporation.

   b. This raises the question whether the corporation's counsel can represent the corporation and the individual defendants in the action.

   c. In practice, at least at the outset, the interests of the corporation and the director or officer defendants may be aligned. The individuals seek to dismiss the claims against them, and the corporation generally objects to the shareholders' attempt to control claims that belong to the company.

3. For these reasons the Delaware Chancery Court has approved the practice of the corporation's counsel jointly representing the company and the individual defendants at the motion to dismiss stage. *See Scattered Corp. v. Chi. Stock Exch. Inc.,* 1997 WL 187316, at *6-8 & n. 4 (Del. Ch. Apr. 7, 1997*), aff'd on other grounds,* 701 A.2d 70 (Del. 1997), *overruled on other grounds by Brehm v. Eisner,* 746 A.2d 244 (Del. 2000) (citing cases); *Respler v. Evans*, 17 F. Supp. 3d 418, 421 (D. Del. 2014).

4. In *Voss v. Sutardja*, No. 14-CV-05581-LHK, 14-CV-02523-LHK, 14-CV-03214-LHK, 2015 U.S. Dist. LEXIS 8795 (N.D. Cal. Jan. 26, 2015), a district court in California considered this practice.

    a. The plaintiff shareholders alleged that the company's directors and officers had engaged in fraud and breached their fiduciary duties by permitting the company to engage in willful patent infringement and failing to disclose it in periodic reports.

    b. The company and the individual defendants, represented by a single law firm, moved to dismiss the complaint. The individuals argued that the plaintiffs had failed to state a cause of action and the company argued that demand futility had not been sufficiently alleged.

    c. The plaintiffs argued that the court should not consider the company's argument for dismissal because it was advanced by conflicted counsel.

    d. The Court dismissed the complaint with leave to amend and addressed plaintiffs' argument about defense counsel.

    e. The Court concluded that "[a]t this stage of the litigation ... any potential conflict which may exist has no bearing on the Court's conclusion that, as a matter of law, Plaintiffs' claims must be dismissed." *Id*. at *38.

    f. The Court also observed that if the case proceeded beyond the motion to dismiss, the company "would be advised to obtain independent counsel in the future." *Id*.

G. Representing both a Shareholder Suing a Company and a Member of the Company's Board

1. The plaintiff in *Partners Healthcare Solutions Holdings v. Universal Am. Corp*., C.A. No. 9593-VCG, 2015 Del. Ch. LEXIS 168 (Del. Ch. June 17, 2015), was one of defendant UAM's largest stockholders and had a right to designate a director to its board.
2. Plaintiff's agreement with UAM stated the same law firm could represent plaintiff and its affiliates in any litigation with UAM.
3. Plaintiff retained a law firm to represent it in its litigation against UAM and asked that firm also to represent the director plaintiff designated to be a member of UAM's board in his capacity as a director.
4. UAM argued that the law firm could not represent the director. UAM reasoned that the director could not be an affiliate of plaintiff within the meaning of its agreement with UAM because plaintiff did not have the right to control the director and any such right would be repugnant to Delaware law.
5. UAM also argued that the director could not share UAM's information with the law firm without violating a fiduciary duty.
6. On June 17, 2015, the Court found "[t]he Board, in a faithful discharge of its fiduciary duties, recognized a conflict in the Designee engaging as counsel, in his capacity as a director and *on behalf of UAM* the same counsel that was *adverse to UAM* in the litigation." *Id.* at *28.
7. The Court also found acceptable the parties' agreement to permit the law firm to create ethical walls so that it could represent both the director and the shareholder. *Id.* at *29.

H. Representing a Corporation and Representing its CEO on Criminal Charges

1. In *United States v. Mazzo*, No. 8:12-cr-00269-AG, Doc. 441 (C.D. Cal. July 21, 2015), the court denied a motion to disqualify Skadden Arps from representing James Mazzo, the former CEO of Advanced Medical Optics ("AMO"), who was charged with providing inside information about the acquisition of AMO to former Baltimore Orioles player Doug DeCinces. Prosecutors alleged that DeCinces, a friend of Mazzo's, bought stock in AMO after receiving the inside information.

2. The government moved to disqualify Skadden from representing Mazzo in part because the firm had also represented AMO when it commenced its representation of Mazzo.

    a. Prosecutors asserted that Eric Waxman, then a Skadden attorney, tried to cover his tracks in dealing with both the company and Mazzo by concealing notes and other evidence that would prove he was working for both simultaneously.

3. Skadden argued that Waxman had corrected the record before leaving the firm, but also that he alone had been responsible for any potential transgressions. Because he was gone, Skadden maintained the firm could fairly defend Mazzo.

4. The court denied the motion to disqualify, concluding that the grounds for disqualification were not enough to overcome Mazzo's constitutional right to choose his defense attorney.

    a. "The Court is not convinced it needs to definitively resolve whom was represented by Skadden and at what point in early 2009." Slip Op. at 8.

    b. Mazzo has a Sixth Amendment right to choose his defense counsel, even if that counsel is conflicted. "Whether considering conflicts from successive representations or what the government might describe as a misconduct conflict, a criminal defendant's strong right to proceed with his counsel of choice requires the result here." *Id.*

    c. "The Court's decision is strengthened by Mazzo's waiver of conflict-free counsel, which is one of the best and most complete waivers the Court has ever seen." *Id.*

I. The Risks for In-House Counsel

1. The same principles apply to in-house counsel. In-house counsel must clarify whether she is representing the company, its employees, or its owners, and must be aware of the potential for conflicts.

2. In three companion cases, *Pennsylvania v. Spanier*, 132 A.3d 481 (Pa. Super. Ct. 2016), *Pennsylvania v. Schultz*, 133 A.3d 294 (Pa. Super. Ct. 2016), and *Pennsylvania v. Curley*, 131 A.3d 994 (Pa. Super. Ct. 2016), a Pennsylvania appellate court dismissed criminal charges against three former Penn State officials after finding that Penn State's former general counsel failed to provide *Upjohn* warnings to the officials and then breached the attorney-client

privilege by providing testimony to a grand jury concerning information received from the officials when they reasonably believed the general counsel was representing them individually.

a. The Pennsylvania Attorney General ("AG") subpoenaed former Penn State president Graham Spanier, finance officer Gary Schultz, and athletic director Timothy Curley to testify before the grand jury about alleged sexual assaults by Jerry Sandusky.

b. Penn State's General Counsel, Cynthia Baldwin, met with the officials before their testimony, accompanied them during a preliminary AG interview, and sat with them during their grand jury testimony.

c. The court found Baldwin did not provide *Upjohn* warnings to the officials, explain that she was not representing them in their individual capacities, or advise them of their Fifth Amendment right against self-incrimination. She did inform them that any information they gave her would not be confidential because she might inform Penn State's Board of Trustees.

d. When Baldwin and the officials appeared before a judge prior to their grand jury testimony, Baldwin did not inform the court whether she represented the officials in their individual capacities.

    i. The judge advised the officials of their rights as grand jury witnesses, including that they could confer with their counsel, referring to Baldwin.

    ii. Baldwin sat beside each official during his testimony.

    iii. Each official confirmed he was "accompanied by counsel," and Baldwin never indicated she represented the officials solely in an agency capacity.

e. After the officials testified before the grand jury, Pennsylvania charged them with perjury and failure to report suspected child abuse.

    i. The officials engaged private attorneys and notified Baldwin they considered her their lawyer and were not waiving their attorney-client privilege.

ii. Baldwin responded she was Penn State's counsel and did not represent them in their individual capacities.

f. Pennsylvania called Baldwin to testify before the grand jury. She testified about her communications with the officials. Based on her testimony, prosecutors filed additional charges against the officials for obstruction of justice and conspiracy.

g. The officials moved to quash those charges on the ground that Baldwin breached their attorney-client privilege by testifying without their authorization to waive the privilege.

h. The trial court denied the motions, but the appellate court reversed, holding Baldwin and the officials had an attorney-client relationship and their communications fell within the attorney-client privilege.

i. The court found Baldwin did not "adequately explain" her role. While the officials knew Baldwin was the university's general counsel, it was "unreasonable to conclude" that, as laypersons, they understood she represented them only in an agency capacity. *Pennsylvania v. Schultz*, 133 A.3d 294, 323.

ii. The court ruled "Baldwin did not provide anything akin to *Upjohn* warnings." *Id.* at 325. The court found Baldwin's statement to the officials that she might reveal their conversations to the Board of Trustees was "decidedly inadequate" to inform them she was not representing them in their individual capacities. *Id*

iii. Accordingly, the officials "reasonably believed she represented" them and the privilege therefore protected their communications. *Id.* at 325.

iv. The court found Baldwin breached that privilege by testifying before the grand jury with respect to her communications with the officials.

v. The court also held Baldwin failed to protect the officials' Fifth Amendment rights.

vi. Because of this conduct, the court quashed the perjury, obstruction of justice, and conspiracy charges.

3. *Yanez v. Plummer*, 221 Cal. App. 4th 180 (Cal. App. 3d Dist. 2013), demonstrates the need for in-house counsel to consider potential

conflicts of interest before taking on the representation of a fellow employee at a deposition.

a. The California Court of Appeal held a former employee who was represented by in-house counsel at his deposition in a personal injury lawsuit could pursue malpractice claims against that counsel for an alleged failure to disclose a purported conflict of interest created by counsel's dual representation of the employer and the employee.

b. A co-worker of Michael Yanez brought a personal injury lawsuit against their employer. Yanez was the only witness to the accident. He provided two statements, one that he did not witness the accident and another that he did.

c. In-house counsel represented both the employer and Yanez. Yanez asserted that while preparing for his deposition, he "expressed [to in-house counsel] concern about his job because his deposition testimony was likely to be unfavorable to [his employer]." *Id.* at 184.

    i. Yanez alleged in-house counsel told him counsel would represent him as his attorney for the deposition, and as long as he told the truth his job would not be affected.

    ii. Yanez then testified he did not witness the accident. In-house counsel did not question him as to why he made two conflicting statements concerning the accident.

    iii. The company then found Yanez violated its policy against dishonesty and fired him.

    iv. He sued in-house counsel for malpractice, breach of fiduciary duty and fraud.

d. The Court found that because Yanez and his employer occupied adverse positions, if counsel did not inform him of these conflicts or obtain his written consent, counsel may have violated the California State Bar Rules of Professional Conduct prohibiting concurrent representation of conflicting interests without each client's informed consent. *Id.* at 188.

e. In addition, because counsel did not give Yanez an opportunity to explain the apparent conflict between his two statements at his deposition, counsel may have been the "but for" cause of his termination.

J. Employees Asserting Advice-of-Company-Counsel Defense

1. In 2015, the Southern District of New York held that an employee is prohibited from disclosing the privileged information necessary to assert an advice-of-counsel defense where a company attorney provided the advice and the company does not waive its privilege. *See United States v. Wells Fargo Bank, N.A.*, No. 12-CV-2527 (JMF), 2015 U.S. Dist. LEXIS 84602 (S.D.N.Y. June 30, 2015) ("*Wells Fargo I*") and *United States v. Wells Fargo Bank, N.A.*, 132 F. Supp. 3d 558 (S.D.N.Y. 2015) ("*Wells Fargo II*").

   a. The government brought a civil fraud action against Wells Fargo and Kurt Lofrano, a mid-level employee, seeking millions of dollars in damages and penalties for alleged misconduct relating to government-issued home mortgage loans.

   b. Lofrano asserted an advice-of-counsel defense that Wells Fargo counsel informed him it was lawful to engage in the conduct the government challenged.

   c. Lofrano did not dispute that the asserted privilege belonged to the bank.

   d. In *Wells Fargo I*, the Court held (at *3-4) that Lofrano did not impliedly waive Wells Fargo's privilege merely by invoking an advice-of-counsel defense:

      - Although Lofrano's mere statement that he intends to pursue such a defense — which is essentially all that has occurred thus far — does not waive Wells Fargo's privilege, Wells Fargo's failure to object to Lofrano's disclosure of privileged information in support of that defense at trial very well might." *Id.* at *11-12.

   e. Wells Fargo then moved for a protective order precluding Lofrano from disclosing any of the advice he received from the bank's counsel.

   f. Lofrano argued that since disclosing the advice of the bank's counsel was a prerequisite to asserting an advice-of-counsel defense, his constitutional right to defend himself would be violated if he were precluded from doing so.

   g. The Court therefore had to decide whether "Lofrano's right to present an advice-of-counsel defense . . . override[s]

Wells Fargo's privilege," and ruled it does not, *Wells Fargo II*, at 563:

- "[T]o hold that Lofrano can pursue his defense over the Bank's objection would render the privilege intolerably uncertain and prejudice Wells Fargo, which would lose the attorney-client privilege because of the litigation strategy deployed by its former employee." *Id.* at 564 (internal quotation and citation omitted).
- The Court explained that while this result is "arguably harsh" to Lofrano, it is Wells Fargo's privilege that is at issue and it is "the price that must be paid for society's commitment to the values underlying the attorney-client privilege." *Id.* at 559, 567.

2. The *Wells Fargo* decisions raise the question whether an *Upjohn* warning should be given whenever company counsel gives advice regarding compliance issues, the company's disclosure obligations or any other matters, and whether the warning should include the statement that the company might refuse to permit employees to disclose privileged communications.

III. LIMITATIONS ON THE NO-CONTACT RULE AND HOW THEY IMPACT A COMPANY'S OUTSIDE COUNSEL IN REPRESENTING THE COMPANY'S EMPLOYEES

A. General Principles

1. Under the New York Rules of Professional Conduct and the ABA's Model Rules of Professional Conduct, a lawyer is generally prohibited from communicating ex parte with a party that is represented by counsel.
   a. When the represented party is a corporation or other organization, this prohibition extends to some – but not all – of the organization's current employees.
   b. Although a company's outside counsel commonly represents its employees at depositions and otherwise (typically at the company's expense), New York decisions have questioned the "solicitation" of such representation by outside counsel.

B. The Applicable New York Rules of Professional Conduct

1. Rule 4.2(a) of the New York Rules of Professional Conduct provides: "In representing a client, a lawyer shall not communicate or cause another to communicate about the subject of the representation with a party the lawyer knows to be represented by another lawyer in the matter, unless the lawyer has the prior consent of the other lawyer or is authorized to do so by law."

2. Although the Rule refers to "a *party* the lawyer knows to be represented by another lawyer," Comment 2 states that "[t]his Rule applies to communications with any *person* who is represented by counsel concerning the matter to which the communication relates." (Emphasis added).

    a. The New York City Bar Association's Formal Ethics Opinion 2010-2, "Obtaining Evidence From Social Networking Websites," explains that the term "party" in Rule 4.2(a) "is generally interpreted broadly to include represented witnesses, potential witnesses and others with an interest or right at stake, although they are not nominal parties."

3. Comment 7 states: "In the case of a represented organization, paragraph (a) ordinarily prohibits communications with a constituent of the organization who: (i) supervises, directs or regularly consults with the organization's lawyer concerning the matter, (ii) has authority to obligate the organization with respect to the matter, or (iii) whose act or omission in connection with the matter may be imputed to the organization for purposes of civil or criminal liability. Consent of the organization's lawyer is not required for communication with a former unrepresented constituent. If an individual constituent of the organization is represented in the matter by the person's own counsel, the consent by that counsel to a communication will be sufficient for purposes of this Rule. In communicating with a current or former constituent of an organization, a lawyer must not use methods of obtaining evidence that violate the legal rights of the organization. *See* Rules 1.13, 4.4."

C. The No-Contact Rule and Social Media

1. In June 2015, the Commercial and Federal Litigation Section of the New York State Bar Association ("NYSBA") revised its nationally recognized social media ethics guidelines to opine that

the no-contact rule applies to contacts via social media. *See* NYSBA, Social Media Ethics Guidelines of the Commercial and Federal Litigation Section of the New York State Bar Association, Updated June 9, 2015, available at http://www.nysba.org/socialmediaguidelines/.

2. The NYSBA explained that reading the public portion of a person's social media page, or any other public information, is permissible. NYSBA Guideline No. 4.A.

3. However, according to the NYSBA, the no-contact rule precludes an attorney from contacting a represented person to request access to her restricted site unless an express authorization to do so has been given. NYSBA Guideline No. 4.C.

    a. "A lawyer shall not contact a represented person to seek to review the restricted portion of the person's social media profile unless an express authorization has been furnished by the person's counsel."

D. The Applicable ABA Model Rules

1. Model Rule 4.2 provides: "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."

    a. Comment 7 states: "In the case of a represented organization, this Rule prohibits communications with a constituent of the organization who supervises, directs or regularly consults with the organization's lawyer concerning the matter or has authority to obligate the organization with respect to the matter or whose act or omission in connection with the matter may be imputed to the organization for purposes of civil or criminal liability. Consent of the organization's lawyer is not required for communication with a former constituent. If a constituent of the organization is represented in the matter by his or her own counsel, the consent by that counsel to a communication will be sufficient for purposes of this Rule. Compare Rule 3.4(f). In communicating with a current or former constituent of an organization, a lawyer must not use methods of obtaining evidence that violate the legal rights of the organization. See Rule 4.4."

2. In addition, Model Rule 3.4(f) provides that a lawyer shall not "request a person other than a client to refrain from voluntarily giving relevant information to another party unless: (1) the person is a relative or an employee or other agent of a client; and (2) the lawyer reasonably believes that the person's interests will not be adversely affected by refraining from giving such information."

   a. Comment 4 explains: "Paragraph (f) permits a lawyer to advise employees of a client to refrain from giving information to another party, for the employees may identify their interests with those of the client. See also Rule 4.2."

   b. The New York Rules do not contain a provision corresponding to Model Rule 3.4(f).

E. New York Cases Applying the No-Contact Rule

1. Rule 1.7 of the New York Rules reflects the approach taken by the Court of Appeals in *Niesig v. Team I*, 76 N.Y.2d 363, 559 N.Y.S.2d 493 (1990) ("*Niesig II*"), which modified the Second Department's decision in *Niesig v. Team I*, 149 A.D.2d 94, 545 N.Y.S.2d 153 (2d Dep't 1989) ("*Niesig I*").

   a. In *Niesig II*, the Court of Appeals held that the attorney for an injured worker suing his employer could conduct ex parte interviews of company employees who were witnesses to the accident.

   b. Plaintiff had moved for permission to have his counsel conduct ex parte interviews of all of defendants' employees who were on the site at the time of the accident.

   c. Rejecting a blanket prohibition on ex parte communications with any of the employer's current employees imposed by the Appellate Division, Second Department, the Court of Appeals held that DR 7-104(A)(1) of the former New York Lawyer's Code of Professional Responsibility applied only to current employees "whose acts or omissions in the matter under inquiry are binding on the corporation (in effect, the corporation's 'alter egos') or imputed to the corporation for

purposes of its liability, or employees implementing the advice of counsel." 76 N.Y.2d at 374, 559 N.Y.S.2d at 498.[2]

d. The Court of Appeals agreed with the Appellate Division's holding that DR 7-104(A)(1) applies only to current employees and not to former employees. *Id.* at 369, 559 N.Y.S.2d at 495.

e. The Court concluded that this approach best balances the competing interests in (a) permitting "informal discovery of information that may serve both the litigants and the entire justice system by uncovering relevant facts, thus promoting the expeditious resolution of disputes," *id.* at 372, 559 N.Y.S.2d at 497, (b) protecting the corporation from "[t]he potential unfair advantage of extracting concessions and admissions from those who will bind the corporation" and (c) protecting the attorney-client privilege, *id.* at 374, 559 N.Y.S.2d at 498.

f. *Niesig II* has been criticized on a number of grounds including the following:

   i. A lawyer who wishes to interview a current employee may have great difficulty ascertaining in advance whether that employee is a corporate "alter ego."

   ii. The "alter ego" test can be uncertain in its application and spawn additional litigation over which employees are covered.

   iii. *Niesig II* undermines the attorney-client privilege by permitting the ex parte questioning of employees who are considered "clients" for privilege purposes but not "parties" for purposes of the no-contact rule. *See* C. Evan Stewart, "How One Bad Ruling Can Spoil a Whole Bunch of Cases," *New York Law Journal*, Jan. 8, 2009, at 5, col. 2.

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2. At the time *Niesig II* was decided, DR 7-104(A)(1) provided: "During the course of [the] representation of a client a lawyer shall not . . . [c]ommunicate or cause another to communicate with a party [the lawyer] knows to be represented by a lawyer in that matter unless [the lawyer] has the prior consent of the lawyer representing such other party or is authorized by law to do so." 76 N.Y.2d at 368, 559 N.Y.S.2d at 494.

2. In *Muriel Siebert & Co. v. Intuit, Inc.*, 8 N.Y.3d 506, 836 N.Y.S.2d 527 (2007), the Court of Appeals reiterated the policy considerations underlying *Niesig II* in declining to disqualify defendant's counsel for conducting an ex parte interview of a former high-level executive of plaintiff.

   a. In September 2003, Muriel Siebert & Co. ("Siebert") sued Intuit for breach of contract and breach of fiduciary duty based on Intuit's alleged failure properly to promote a jointly owned and operated online brokerage service.

   b. Nicholas Dermigny, Executive Vice President and COO of Siebert, was an important participant in the events underlying the lawsuit and in the formation and implementation of Siebert's litigation strategy for the Intuit lawsuit.

   c. In May 2005, Dermigny took a leave of absence to negotiate the terms of his separation from Siebert.

   d. Dermigny refused to permit Siebert's counsel to represent him at his scheduled deposition in the Intuit lawsuit, and Intuit subpoenaed him for a rescheduled deposition.

   e. Before the rescheduled deposition Siebert terminated Dermigny's employment. Intuit's attorneys then contacted him without Siebert's knowledge and arranged for an interview.

      i. Before commencing the interview, Intuit's attorneys advised Dermigny that he should not disclose any privileged or confidential information or offer any information concerning Siebert's legal strategy.

      ii. "Intuit's attorneys then questioned Dermigny about the underlying facts of the case, but did not elicit any privileged information nor inquire about Siebert's litigation strategy." 8 N.Y.3d at 510, 836 N.Y.S.2d at 529.

   f. After learning of the interview, Siebert moved to disqualify Intuit's attorneys from the case and enjoin them from using any information provided by Dermigny.

   g. The Court of Appeals held that disqualification of Intuit's attorneys was not warranted: "The policy reasons articulated in *Niesig* concerning the importance of informal discovery underlie our holding here that, so long as measures are taken to steer clear of privileged or confidential information, adversary counsel may conduct ex parte interviews of an

opposing party's former employee." *Id.* at 511, 836 N.Y.S.2d at 530.

i. There was no disciplinary rule prohibiting the interview.

ii. Moreover, Siebert's counsel conformed to the applicable ethical standards in conducting the interview: "Intuit's attorneys properly advised Dermigny of their representation and interest in the litigation, and directed Dermigny to avoid disclosing privileged or confidential information. They also directed Dermigny not to answer any questions that would lead to the disclosure of such information. Dermigny stated that he understood the admonitions and, on this record, no such information was disclosed. Thus, there is no basis for disqualification." *Id.* at 512, 836 N.Y.S.2d at 530.

F. Decisions in Other Jurisdictions Concerning the No-Contact Rule

1. In *Dream Team Holdings v. Alarcon*, No. CV-16-01420-PHX-DLR, 2016 U.S. Dist. LEXIS 133385 (D. Az. Sept. 28, 2016), the court declined to disqualify plaintiff's attorney who contacted a defendant's employees, but the court excluded from evidence the statements obtained from the employees.

   a. Plaintiff Dream Team, a holding company that invested in the medical marijuana business, sued several defendants for breach of contract. *Id.* at *3.

   b. Defendants moved to disqualify Dream Team's counsel, John Armstrong, alleging he engaged in improper *ex parte* communications with five current employees of defendant Energy Clinics in violation of Arizona Rule of Professional Conduct 4.2.

   c. Arizona Rule 4.2 prohibits attorneys from communicating with employees of an opposing party organization: (1) who have a managerial responsibility on behalf of the organization; (2) whose act or omission in connection with the matter may be imputed to the organization; or (3) whose statements may constitute an admission on the part of the organization. *Id.* at *5.

d. Armstrong admitted he engaged in *ex parte* contacts with the employees, but explained that several employees contacted him about their concerns regarding their employer's illegal practices and none of them were managerial employees. *Id.* at *3.

e. The court nevertheless found that Armstrong violated Arizona Rule 4.2 by communicating with the employees, because their statements would qualify as party admissions. *Id.* at *9-10.

f. The court ruled the remedy of disqualifying Armstrong would be too extreme, however, but suppressed the three witness statements Armstrong obtained from the employees. *Id.* at *10-11.

G. New York Cases Applying the No-Solicitation Rule to Former Employees of a Party Organization

1. In *Rivera v. Lutheran Med. Ctr.*, 22 Misc. 3d 178, 866 N.Y.S.2d 520 (Sup. Ct. Kings Co. 2008), *aff'd*, 73 A.D.3d 891, 899 N.Y.S.2d 859 (2d Dep't 2010), the court relied on *Niesig II* in disqualifying Morgan, Lewis & Bockius from representing two current and two former employees of its client Lutheran Medical Center ("LMC") who were potential non-party witnesses in a retaliatory and discriminatory discharge case.

   a. In response to plaintiff's interrogatory requesting defendants to identify witnesses, Morgan Lewis identified two former employees and two current employees and requested that all contact by plaintiff proceed through Morgan Lewis.

   b. At LMC's request, Morgan Lewis contacted all four witnesses and offered to represent them in the matter at LMC's request and all four agreed to be represented by Morgan Lewis.

   c. Plaintiff contended that (a) Morgan Lewis's representation of the LMC and these witnesses created a conflict of interest in violation of DR 5-105, and (b) Morgan Lewis solicited these witnesses as clients in violation of DR 2-103(a)(1) of the former New York Lawyer's Code of Professional Responsibility in order to prevent plaintiff from informally interviewing them as permitted under *Niesig II*.

d. The Court found that plaintiff did not provide any evidence of a conflict of interest.

e. However, the court held that Morgan Lewis "actively solicited the non-party witnesses in clear violation of DR 2-103(A)(1) of the Code which states: '(a) A lawyer shall not engage in solicitation: (1) by in-person or telephone contact, or by real time or interactive computer-accessed communication unless the recipient is a close friend, relative, former client or existing client . . . .'" 22 Misc. 3d at 185, 866 N.Y.S.2d at 525-26.[3]

f. The Court further found that Morgan Lewis's solicitation of the witnesses was based on an improper motive: "These witnesses are not parties to the litigation in any sense and there is no chance that they will be subject to any liability. They were clearly solicited by Morgan Lewis on behalf of LMC to gain a tactical advantage in this litigation by insulating them from any informal contact with plaintiff's counsel. This is particularly egregious since Morgan Lewis, by violating the Code in soliciting these witnesses as clients, effectively did an end run around the laudable policy consideration of *Niesig* in promoting the importance of informal discovery practices in litigation, in particular, private interviews of fact witnesses. This impropriety clearly affects the public view of the judicial system and the integrity of the court." *Id.* at 185-86, 866 N.Y.S.2d at 526.

g. Relying on (a) what it characterized as Morgan Lewis's "history in this litigation of improperly thwarting plaintiff's attempts to obtain discovery," 22 Misc. 2d at 186, 866 N.Y.S.2d at 526, and (b) *United States v. Occidental Chem. Corp.*, 606 F. Supp. 1470 (W.D.N.Y. 1985), in which the court enjoined Occidental and its attorneys from sending letters to former employees of Occidental offering to represent the employees free of charge in the event the former employees were asked to appear for depositions, but refused to enjoin the attorneys from actually representing the former employees, the *Rivera* court held that "Morgan Lewis must

3. Rule 7.3(a)(1) of the New York Rules of Professional Conduct contains the same prohibition as did DR 2-103(A).

be disqualified from representing [the four witnesses] due to their misconduct." 22 Misc. 2d at 187, 866 N.Y.S.2d at 527.

i. The Court further stated that it "has no alternative but to report Morgan Lewis's misconduct to the Disciplinary Committee." *Id.* at 187 n.6, 866 N.Y.S.2d at 527 n.6.

h. In May 2010, the Appellate Division, Second Department, affirmed in a brief opinion that stated in relevant part:

> "Contrary to the contention of the nonparty-appellant, the record supports the Supreme Court's determination that it engaged in acts of solicitation of professional employment, in violation of former Code of Professional Responsibility DR 2-103(A)(1) (22 NYCRR 1200.8[a][1]), now Rules of Professional Conduct (22 NYCRR 1200.0) Rule 7.3. Accordingly, the Supreme Court properly granted that branch of the plaintiff's motion which was to disqualify the nonparty-appellant from representing certain witnesses in this action." *Rivera v. Lutheran Med. Ctr.*, 73 A.D.3d 891, 891, 899 N.Y.S.2d 859, 859 (2d Dep't 2010).

i. *Rivera* has been sharply criticized. As Evan Stewart put it:

> "Many observers (including this author) waited anxiously for *Rivera* to be reversed. Why? Well, for starters: (i) the 'non-solicitation' rule clearly has nothing to do with this type of situation; (ii) even if the rule were somehow applicable, the trial court had not even considered the issue of 'pecuniary gain' (presumably, because there was none to the law firm); and (iii) query how the *Niesig* policy in favor of 'informal discovery' had any relevance to this situation." C. Evan Stewart, "Just When Lawyers Thought It Was Safe to Go Back into the Water," *New York Business Law Journal*, Winter 2011, Vol. 5, No. 2, at 24.

j. On June 9, 2014, the New York County Lawyers' Association's Professional Ethics Committee (the "NYCLA Committee") issued its Formal Opinion 747, in an apparent effort to narrow the scope of *Rivera*.

i. The opinion assumes that, in the normal course of litigation, a corporation's attorney does not interview former or current employees with the intent to offer representation, but instead approaches those individuals, at least initially, to investigate the underlying claim on behalf of the company.

ii. When that assumption is true, the opinion explained, the corporation's attorney is not motivated by a desire to "offer the lawyer's services to the employee, but to interview the employee as a potential witness." *Id.* at 3.

iii. Therefore, the attorney's "'primary purpose' is not to secure legal fees from a new client, but to render competent representation to a current corporate client by enabling it to fulfill its objective…of making legal assistance available to an employee who may need counsel." *Id.* at 4.

iv. The opinion concluded that in these circumstances if the attorney decides that co-representation would be beneficial to both the company and the employee, and no conflict exists or the necessary waivers are obtained, offering to represent the employee at the company's expense does not constitute impermissible solicitation and is not otherwise prohibited by the Rules of Professional Conduct.

v. Opinion 747 expressly distinguished *Rivera* on the ground that there, "the firm's motivation for offering to represent the individuals was not to provide them necessary legal services but 'to gain a tactical advantage in th[e] litigation by insulating them from any informal contact with plaintiff's counsel.'" *Id.* at 4.

2. In *Matusick v. Erie County Water Authority*, No. 07CV489A, 2010 U.S. Dist. LEXIS 15161 (W.D.N.Y. Feb. 22, 2010), a magistrate judge cited *Occidental* and *Rivera* with approval in holding that Erie County Water Authority's ("ECWA's") counsel could not advise non-party, non-policymaking ECWA employees not to meet with or talk to plaintiff's counsel.

   a. Plaintiff sued ECWA and certain of its executives and employees alleging employment discrimination. *Id.* at *1.

   b. Plaintiff sought to disqualify defendants' counsel based on allegations that defendants' counsel interfered with and obstructed plaintiff's efforts to communicate with non-party ECWA employees. *Id.*

   c. After briefly discussing *Occidental* and *Rivera*, the magistrate judge held that disqualification of defendants' counsel was not warranted. *Id.* at *3.

   d. However, the Court imposed significant limitations on defendants' counsel's dealings with ECWA employees:

i. "While the plaintiff has not presented a basis warranting disqualification of defendants' counsel, defendants' counsel may not advise ECWA non-party, non-policymaking employees that they cannot meet with or talk to plaintiff's counsel." *Id.*

ii. "Defendants' counsel shall not solicit to represent any non-party non-policymaking ECWA employee at a deposition or meeting with plaintiff's counsel. If the witness approaches the defendants' counsel for representation, such representation would not present an inherent conflict of interest. *Occidental*, 606 F. Supp. at 1474, 1477." *Id*.

e. The Court also set forth the parameters under which plaintiff's counsel could communicate with non-party ECWA employees:

i. "Further, the plaintiff cannot approach ECWA employees who are in policymaking positions or who can bind the corporation.

ii. "The plaintiff is free to approach, without prior approval or notice to defendants' counsel, any ECWA non-party, non-policymaking employees who may be witnesses relating to the issues in this case.

(1) "These individuals are not parties to this action and are not represented by defendants' counsel (unless the employee seeks such representation).

(2) "These non-party, non policymaking employees of the ECWA do not need prior permission from the ECWA or defendants' counsel before speaking or meeting with plaintiff's counsel.

(3) "The Court declines to Order that the defendants send a written notice to all ECWA employees. The plaintiff is free to share a copy of this Order with any non-party, non-policymaking ECWA employee." *Id.*

3. In *Grech v. HRC Corp*., 48 Misc. 3d 859, 13 N.Y.S.3d 822 (Sup. Ct. Queens Co. 2015), a personal injury action, the court followed the same reasoning in disqualifying plaintiff's counsel from representing two nonparty witnesses.

a. Defendant's investigator contacted the witnesses, but plaintiff's counsel told the investigator its meeting with one witness was cancelled and the other witness did not wish to be contacted.

b. Defendant then noticed depositions of the witnesses and was informed that plaintiff's counsel would represent them.

c. Defendant moved to disqualify plaintiff's counsel from representing the witness, and the court granted the motion.

d. The court concluded that the lawyer should be disqualified from representing the witnesses "[u]nder the circumstances of this case, which include the fact that: at least one of the witnesses was willing, at one point, to speak with defendants' investigator; there was no written retainer agreement executed between the witnesses and plaintiff's counsel; plaintiff's counsel's representation of these witnesses did not come about until attempts were made by defense counsel to informally question them, despite the fact that they were noticed as fact witnesses years prior; plaintiff's counsel took statements from one of these witnesses prior to her having represented them, as admitted by her during oral argument before the court; plaintiff's counsel essentially conceded during oral argument that she would have the benefit, at deposition of these witnesses, of acting as both counsel for plaintiff and counsel for the witnesses; and plaintiff's counsel admitted that it is her common practice to represent witnesses noticed by her clients as part of the scope of representation of her clients." 48 Misc. 3d at 861-62, 13 N.Y.S.3d at 824.

e. The court reasoned that the "representation of these witnesses is no more than a pretext to permit plaintiff to gain a 'tactical advantage' by foreclosing the 'laudable policy consideration of ... promoting the importance of informal discovery practices in litigation, in particular, private interviews of fact witnesses,' i.e., it was done solely to impede defendants' rights to conduct informal discovery." 48 Misc. 3d at 862, 13 N.Y.S.3d at 824-25.

f. The court believed that "by virtue of her dual representation, counsel would obtain yet another tactical advantage which would permit her to make objections at the depositions for

the non-party witnesses that she would not otherwise be entitled to make were she not also counsel for plaintiff." 48 Misc. 3d at 862, 13 N.Y.S.3d at 825.

H. Decisions in Other Jurisdictions Applying the No-Solicitation Rule to Former Employees of a Party Organization

1. In *Wells Fargo Bank, N.A. v. LaSalle Bank Nat'l Ass'n*, No. CIV-08-1125-C, 2010 U.S. Dist. LEXIS 38279 (W.D. Okla. Apr. 19, 2010), plaintiff asserted that defendant's counsel solicited defendant's former employees to represent them at their depositions, but the court refused to disqualify defendant's counsel.
    a. Plaintiff noticed the depositions of former employees of the corporate defendant. Counsel for defendant then contacted the former employees and offered to represent them without charge in the litigation. *Id.* at *1.
    b. Plaintiff moved to disqualify defendant's counsel from representing the former employees. *Id.*
        i. Plaintiff argued that defendant's counsel violated Rule 7.3 of the Oklahoma Code, which bars improper telephone solicitation. *Id.*
        ii. Plaintiff also argued that the representation hindered his ability to conduct discovery. *Id.*
    c. The Court rejected plaintiff's arguments.
        i. It found defendant's attorney was motivated not by financial gain but by the desire to represent a corporate client and protect the interests of its former employees. *Id.*
        ii. The court also found plaintiff did not show defense counsel was obstructing plaintiff's ability to discover the facts. *Id.* at *2.

I. Representation of a Party and Non-Party Witnesses Who Were Not Presently or Formerly Employed by the Party

1. In *Adkisson v. Jacobs Engineering Group, Inc.*, 3:13-CV 505-TAV-HBG (E.D. Tenn.), Jacobs Engineering employees sued the company and alleged it is responsible for illnesses they contracted due to their work on a cleanup site.

a. On September 1, 2016, plaintiffs moved to disqualify Jacobs Engineering's counsel, Covington & Burling, alleging counsel contacted witnesses who were not present or former Jacobs Engineering employees and offered to represent them at their scheduled depositions.

   i. According to the motion, "Covington & Burling attorneys prepared the witnesses by meeting with them prior to the depositions, thus giving the appearance that the lawyers were trying to influence the witnesses' testimony." *Adkisson v. Jacobs Engineering Group, Inc.*, 3:13-CV 505-TAV-HBG, Doc. 94, at 3-4 (E.D. Tenn. Sept. 1, 2016).

   ii. Plaintiffs also argued that:

   - "[A] lawyer who represents a nonparty witness in litigation in which he represents a party runs the risk that the testimony of one client may contradict the testimony of the other client, in which case his duty to the party whom he represents may dictate that he impeach the credibility of the nonparty witness, but doing so might violate his duty to the nonparty witness." *Id.* at 9.

   - "If a lawyer for a party interviews a witness, the lawyer is free to tell the client what the witness said, and he may even be obligated to do so, but if the lawyer represents the witness, the lawyer may be prohibited from telling anyone, including his client who is a party in the case, what the witness said." *Id.*

   - "If a lawyer for a party to a case could solicit nonparty witnesses to be his clients, he could effectively prohibit opposing counsel from communicating with witnesses except through him, and if that were permitted litigation could turn into an unseemly scramble by lawyers for the parties to solicit nonparty witnesses as their clients." *Id.*

b. Defendant opposed the motion to disqualify on the ground that "there was no solicitation; there was no obstruction of information; and there was no violation of the ethical or civil rules," and plaintiffs' motion was "based on unproven and

entirely speculative accusations." *Adkisson v. Jacobs Engineering Group, Inc.*, 3:13-CV 505-TAV-HBG, Doc. 100, at 1 (E.D. Tenn. Sept. 15, 2016).

c. After a hearing, defendant filed a one-page supplement, continuing to oppose disqualification, but stating it is "mindful" of the concerns raised by the Magistrate Judge and promising that Covington "will not in the future represent nonparty witnesses in these cases during depositions or otherwise" *Adkisson v. Jacobs Engineering Group, Inc.*, 3:13-CV 505-TAV-HBG, Doc. 107, at 1 (E.D. Tenn. Oct. 3 2016).

d. On November 1, 2016, the Court denied the motion to disqualify Covington, but admonished the Firm for representing both the defendant and non-party witnesses. *Adkisson v. Jacobs Engineering Group, Inc*., 3:13-CV 505-TAV-HBG, Doc. 110 (E.D. Tenn. Nov. 1, 2016).

i. The court explained it could not "make a definitive finding of conflict that would require immediate removal of Covington as counsel in this action." *Id.* at 10.

ii. But the court found "Covington's actions troubling and that such actions are inconsistent with the practices in this district." *Id.*

iii. The court admonished Covington and ordered that "if any counsel in these actions undertakes the representation of nonparty witnesses in the future, the attorney shall first secure informed consent, execute a written waiver of potential or actual conflict, and execute a representation agreement that clearly describes the dual representation and dual loyalty between the party and the nonparty witness." *Id. at 11*.

2. In *FHFA v. Nomura Holdings Am., Inc*., No. 11 Civ. 6201, 2015 U.S. Dist. LEXIS 26811 (S.D.N.Y. Mar. 4, 2015), Judge Cote of the Southern District of New York rejected an effort to limit a counsel's representation of a party and non-party witnesses who were not former employees of the party.

a. Defendants' counsel listed four non-party appraisers as fact witnesses for the trial. After the Court granted plaintiff FHFA's request to depose the appraisers, defendants' counsel

notified FHFA's counsel that it represented the appraisers in connection with their depositions and testimony. *Id*. at *2-3.

b. FHFA requested the Court to order defendants' counsel to establish that their representation of the appraisers "is a 'bona fide' representation made for the purposes of rendering legal advice, and to disclose all communications between them and the Appraiser Witnesses, including any drafts of the affidavits submitted by the Appraiser Witnesses as direct testimony in this Action." *FHFA v. Nomura Holdings*, No. 11 Civ. 6201, Doc. 1342, at 1 (S.D.N.Y. Mar. 3, 2015).

c. FHFA argued that defendants' "counsel's representation of these allegedly independent Appraiser Witnesses is not a proper attorney-client relationship, but rather a strategic relationship solely designed to allow Defendants to coach the witnesses for their deposition and trial testimony, even as they offer those witnesses to the Court for their supposed objectivity and lack of bias." *Id.*

d. Defendants' counsel denied they had taken on the representation of the Appraiser Witnesses to engage in witness coaching, and said the appraisers were not parties to the suit and its representation of them was "uncontroversial." Counsel argued the request that it explain the representation has "no basis in Second Circuit case law" and FHFA's attorneys "cannot come close to meeting the high standard of proof necessary to disqualify." *FHFA v. Nomura Holdings*, No. 11 Civ. 6201, Doc. 1357, at 1 (S.D.N.Y. Mar. 4, 2015).

    i. Defendants' counsel explained that "[i]n the Second Circuit, courts repeatedly have found simultaneous representation of party and nonparty witnesses appropriate in the absence of an actual conflict of interest," and FHFA does "not even suggest that a conflict of interest exists between the appraiser witnesses and defendants." *Id.* at 1, 2.

e. The Court rejected FHFA's arguments and denied its motion. It stated FHFA did not move to disqualify defendants' counsel from representing the appraisers, and "cites no controlling authority, and none has been found, in support of its request for an order directing an adverse party's counsel to provide information sufficient to determine if its representation of a

third-party trial witness is a bona fide attorney-client representation." 2015 U.S. Dist. LEXIS 26811, at *3.

3. In *Montvale Surgical Center LLC v. Conn. Gen. Life Ins. Co.*, No. 2:12-cv-05257, 2016 U.S. Dist. LEXIS 51250 (D.N.J. Apr. 12, 2016), the court denied a motion to disqualify Gibbons PC from representing both the defendant, insurer Cigna, and non-party health plan administrators who the plaintiff subpoenaed to provide discovery in the lawsuit.

   a. The plaintiff, Montvale Surgical Center, an outpatient clinic with one operating room that performs procedures on an out-of-network basis, sued Cigna on behalf of 41 insured patients, alleging it failed to pay more than $1.3 million in benefits. Plaintiff sued as an assignee of those patients for breach of contract, violation of the Employee Retirement Income Security Act of 1974, and breach of fiduciary duty under ERISA.

   b. Plaintiff subpoenaed the health plans in which the 41 patients participated for information on plan limitations. Gibbons appeared as counsel for the plans.

   c. Plaintiff moved to disqualify Gibbons on the ground that it had a conflict in representing both Cigna and the plan administrators because plaintiff's complaint alleged Cigna had adjudicated the 41 patients' claims in violation of the plan benefits.

   d. Gibbons argued there was no conflict because Cigna and the plans were co-fiduciaries of the same entities and Gibbons' representation of the plans was limited to responding to subpoenas.

   e. On February 22, 2016, the Magistrate Judge denied the motion to disqualify, *Montvale Surgical Center LLC v. Connecticut General Life Insurance Co.*, No. 2:12-cv-05257, Doc. 99 (D.N.J. Feb. 22, 2016). On April 8, 2016, the District Court agreed. *Montvale*, 2016 U.S. Dist. LEXIS 51250 (D.N.J. Apr. 12, 2016). The District Court explained:

      - "Plaintiff has failed to provide any basis for this Court to believe, much less conclude, that the Magistrate Judge's decision to deny the motion to disqualify was clearly erroneous. Plaintiff has offered

nothing to suggest that there is even the appearance of a conflict of interest in the concurrent representation of Defendants and the benefit plans by the Gibbons firm." 2016 U.S. Dist. LEXIS 51250, at *5.

IV. AVOIDING CONFLICTS DUE TO PRIOR, CURRENT OR POTENTIAL REPRESENTATIONS

A. Patent Litigation

1. A number of recent district court decisions on disqualification motions in patent litigation cases illustrate the risks of potential conflicts arising from prior potential or actual representations.

2. In *Audio MPEG, Inc. v. Dell, Inc.,* No. 2:15-cv-000738, Doc. 268 (E.D. Va. Sept. 7, 2016), the court disqualified Winston & Strawn from representing Dell, Inc. in defense of Audio MPEG's patent suit.

   a. Audio MPEG argued that Winston & Strawn partner Steven Anzalone had represented Audio MPEG in patent infringement lawsuits when he worked for another law firm, including in a lawsuit that was nearly identical to the current case. *Audio MPEG, Inc. v. Dell, Inc.,* No. 2:15-cv-000738, Doc. 234 (E.D. Va. Aug. 22, 2016) (memo of law in support of motion to disqualify).

   b. Winston & Strawn argued that Mr. Anzalone was not involved in the current case, and Audio MPEG could not show that Mr. Anzalone had shared information about Audio MPEG with his colleagues representing Dell. *Audio MPEG, Inc. v. Dell, Inc.,* No. 2:15-cv-000738, Doc. 256 (E.D. Va. Aug. 31, 2016) (opposition to motion to disqualify).

   c. The Judge called Mr. Anzalone as a witness, questioned him, and then granted the motion to disqualify. *Audio MPEG, Inc. v. Dell, Inc.*, No. 2:15-cv-00073, Doc. 268 (E.D. Va. Sept. 7, 2016) (minutes of proceedings).

3. In *Parallel Iron LLC v. Adobe Systems Inc.*, No. 12-874-RGA, 2013 U.S. Dist. LEXIS 29382 (D. Del. Mar. 4, 2013), the court disqualified Russ August & Kabat ("RAK") from representing Parallel Iron LLC in its patent infringement action against Adobe.

a. Parallel Iron brought actions against several companies, including Adobe, alleging that they infringed Parallel Iron's patents by using certain data storage technology.

b. Adobe moved to disqualify RAK on the ground that it was serving as Adobe's opinion counsel when Parallel Iron filed its suit.

    i. Adobe had retained RAK on three occasions over a six-year period to prepare opinion letters that certain Adobe products did not infringe on patents held by other companies, but the last opinion letter was delivered in February 2012, five months before Parallel Iron sued Adobe in July 2012. *Id.* at *1-4.

    ii. RAK argued that each opinion letter was a discrete engagement with an agreed budget and that its relationship with Adobe ended when it delivered the final opinion letter. *Id.* at *4. However, Adobe said it expected that it could continue to rely on RAK as opinion counsel in the third matter, that RAK was still its counsel when Parallel Iron sued Adobe, and that RAK therefore had a conflict of interest under ABA Model Rule 1.7. *Id.* at *4-5.

c. The Court explained that even though the role of opinion counsel is limited, "opinion counsel is still counsel, complete with fiduciary duties to clients and professional obligations under the Model Rules." *Id.* at *8. When there is no formal retainer agreement, courts look at the contacts between the parties to determine whether it would have been reasonable for a client to believe that an attorney was still acting as its counsel. *Id.* at *6-7.

d. According to the Court: "The determination of whether an attorney-client relationship exists thus requires a client-centric focus. . . . The reasonableness of the client's belief is a fact-specific inquiry that depends on the client's history with the law firm." *Id.* at *7.

e. Applying this rule, the Court found that because RAK had performed work for Adobe over a six-year period, it was reasonable for Adobe to believe that it would not be sued by RAK without prior notice that RAK would no longer be available to serve as its opinion counsel.

i. The Court found that RAK was free to drop Adobe as a client and did not act in bad faith, but the firm had to notify Adobe that their attorney-client relationship was over before suing Adobe. *Id.* at *11.

ii. The Court noted that RAK did not end the attorney-client relationship merely by asking whether anything further was needed. "Such a customary gesture to conclude a conversation is not sufficient to terminate Adobe's expectations." *Id.*

f. Accordingly, the Court found that when RAK filed the Parallel Iron suit, RAK had an ongoing attorney-client relationship with Adobe, and therefore a concurrent conflict of interest under Rule 1.7. The Court held that when Rule 1.7 is breached, a per se disqualification rule is applied.

g. The Court also cautioned that "Law firms must be aware of the importance of conducting thorough conflict analyses, especially when filing multiple suits against dozens of defendants. When it became apparent to RAK that Adobe was a tenable target of Parallel Iron's patent suit, RAK should have been more alert to the delicateness of the situation and been more proactive in extinguishing any questions regarding the existence and extent of the Adobe relationship." *Id.* at *12.

4. In *j2 Global Communications, Inc. v. Captaris Inc.*, No. CV 09-04150, 2012 U.S. Dist. LEXIS 179670 (C.D. Cal. Dec. 19, 2012), the Central District of California imputed Crowell & Moring's conflict of interest to Perkins Coie, its co-counsel for defendant Open Text.

a. A Crowell & Moring attorney had represented j2 Global while he was a junior associate at another law firm. He had billed more than 200 hours over fifteen months on three patent-related matters that concerned three of the four patents at issue in j2 Global's current lawsuit against Open Text. *Id.* at *5-7.

b. However, even though Crowell & Moring was aware of the attorney's prior representation of j2 when that attorney joined Crowell & Moring, the firm assigned him to work as in-house counsel for its client Open Text, which was known to be adverse to j2. *Id.* at *10-11.

c. j2 moved to disqualify Perkins on the grounds that the Crowell attorney who had previously represented j2 had "contact with Perkins." *Id.* at *5.

d. The Court applied an irrebuttable "Vicarious Presumption Rule," under which Perkins' possession of confidential information should be presumed, *id.* at *8, and therefore its disqualification was mandatory. *Id.* at *11.

i. The Court found "there is not a molecule of evidence that Perkins did anything other than act with integrity and in a manner consistent with the highest traditions of the legal profession." *Id.* at *5.

ii. Nevertheless, the Court found that Perkins had to be disqualified because the conflicted Crowell attorney had been involved with Perkins in many aspects of the case. *Id.* at *23-24.

iii. The Court presumed that the Crowell attorney had confidential information about j2 because "a *de minimis* level of involvement with a prior case is sufficient for presuming that an attorney acquired confidential information about the prior case." *Id.* at *22.

iv. The Court further found that the Crowell attorney's former representation of j2 was substantially related to the current representation of Open Text because three of the same patents were involved. *Id.* at *20.

e. The Court also faulted Crowell & Moring's conflict of interest disclosure to j2, because it did not include a request to j2 to sign a conflict letter allowing the Crowell attorney to work for Open Text. *Id.* at *11. In addition, the Court found that Crowell's disclosure to Open Text was deficient because it did not state that the attorney had previously worked for j2. *Id.*

5. In *Cascades Branding Innovation, LLC v. Walgreen Co.*, No. 11 C 2519, 2012 U.S. Dist. LEXIS 61750 (N.D. Ill. May 3, 2012), the court disqualified lawyers at Robins, Kaplan, Miller & Ciresi from defending Best Buy Corporation against patent infringement claims brought by a Cascades subsidiary.

a. Cascades sued a number of companies, including Best Buy, alleging that they infringed a patent for a smartphone store

locator application. *Id*. at *1-2. Best Buy hired Robins Kaplan for the defense. *Id*. at *2-3.

b. Cascades moved to disqualify Robins Kaplan on the ground that the firm learned confidential information about Cascades' patents and litigation strategy in 2010, when the Cascades CEO approached Ronald Schutz, the head of Robins Kaplan's IP litigation group, for advice on litigation over a patent portfolio that Cascades acquired from Russian inventor Boris Babaian. *Id*. at *3.

c. Robins Kaplan argued that (a) it never agreed to advise Cascades concerning the Boris Babian portfolio, and (b) its communications with the Cascades CEO concerned a different set of patents than those at issue in Cascades' lawsuit against Best Buy. *Id*. at *3-4.

d. The Court rejected that argument, while explaining that "it does not intend to impugn Schutz, . . . It is simply a fact of life that knowledge, once gained, cannot be completely flushed out of someone's head. . . . It would not be fair to either Cascades Ventures or Best Buy to ask [Schutz] to operate without use of that knowledge." *Id*. at *25.

6. In *Talon Research, LLC v. Toshiba Am. Elec. Components, Inc.,* No. C 11-04819 WHA, 2012 U.S. Dist. LEXIS 23109 (N.D. Cal. Feb. 23, 2012), the court disqualified Feinberg, Day from representing Talon Research in patent litigation because the law firm had represented Toshiba, the defendant, in earlier litigation.

   a. The Court ruled that Feinberg, Day had a conflict of interest because six of the seven Feinberg, Day attorneys previously represented Toshiba when they worked at DLA Piper. *Id.* at *2, *5-10.

   b. Those attorneys had represented Toshiba in seven unrelated patent litigations against a different entity involving different patents. *Id.* at *12-18. But all of the litigations related to Toshiba's flash memory products, which were at issue in the current litigation. *Id.*

7. However, in another case decided the same day, *Secure Axcess, LLC v. Dell, Inc.*, No. 6:11-CV-338, 2012 U.S. Dist. LEXIS 61152 (E.D. Tex. Feb. 23, 2012), the Court denied Dell's motion to disqualify plaintiff's counsel, Antonelli, Harrington & Thompson

("AHT"), in similar circumstances in a patent suit concerning encryption technology. *Id.* at *3-4.

a. The three AHT partners had previously worked at Weil, Gotshal & Manges, where two of them represented Dell in patent litigation. *Id.* at *4.

b. But the Court denied Dell's motion because it found that the connection between the Secure Axcess suit and the AHT lawyers' prior representation of Dell was too tenuous to warrant disqualification. *Id.* at *11-18.

c. The Court rejected Dell's threshold argument that the firm must be disqualified if its past representation bore "more than a superficial relationship" to the present case. He ruled that disqualification requires a "substantial relationship" between the cases. *Id.* at *9-10.

d. Although Dell argued that the cases were substantially related because all three were patent infringement suits and involved computers communicating over a network, and that counsel had learned of Dell's confidential strategies for such litigation, the Court found that Dell had not proven that there was more than a superficial relationship between the former cases and the current suit. *Id.* at *11-12.

e. The Court explained, "Dell has failed to prove that the instant litigation is substantially related to either [former suit] because it only recites generalities that would be applicable to a large array of potential cases. Cases are not substantially related just because they involve the same general subject matter and area of the law." *Id.* at *11.

8. In another recent decision, *Sonos, Inc. v. D&M Holdings, Inc.*, No. 14-1330-RGA, 2015 U.S. Dist. LEXIS 119718 (D. Del. Sept. 9, 2015), the Court also denied a motion to disqualify counsel in a patent litigation.

a. In October 2014, plaintiff Sonos brought an action against defendant D&M for alleged infringement of patents for wireless audio technology. *Id.* at 1.

b. Sonos was represented by Lee Sullivan, Shea & Smith ("Lee Sullivan"). Three of the partners of that firm had previously worked on patent matters for D&M while at their prior firm, one from 2002 to 2009, another from 2003 to 2007, and the

third in 2005 and 2006. *Id.* at *2. Citing those prior representations, D&M moved to disqualify Lee Sullivan from representing Sonos.

c. The court denied the motion, finding the attorneys' prior representation of defendants on patent matters was not substantially related to the current action. *Id.* at 12-13.

i. "Although the Lee Sullivan attorneys' prior representation of Defendants involved matters relating to patent litigation, it involved different patents and different products. Defendants were not operating in the field of wireless audio technology until Defendants launched their HEOS product in June 2014. . . Thus, anything the Lee Sullivan attorneys worked on for Defendants prior to March 2009 (as they did no work for Defendants after then) is not substantially related to their representation of Plaintiff. The present litigation is solely related to the asserted patents and the accused HEOS technology. Any confidences that Defendants disclosed to the Lee Sullivan attorneys during their prior representation occurred before March 2009 and involved unrelated patents and technology. Thus, no confidential information disclosed in prior cases would be relevant to the patents or technology in suit." *Id.* at 12.

ii. The court also rejected the idea that any disclosure by defendants of their general strategy warranted disqualification: "At most, Defendants disclosed their general strategy for handling patent litigation, which is not enough to warrant disqualification." *Id.*

B. The Narrow "Substantial Relationship" Test in New York State Court

1. In *Becker v. Perla*, 125 A.D.3d 575, 5 N.Y.S.3d 34 (1st Dep't 2015), the Appellate Division, First Department, reversed the disqualification of an attorney based on a prior representation.

a. The plaintiffs brought claims that defendant Perla misappropriated investments plaintiffs made in a real estate development in the Dominican Republic.

b. The Appellate Division reversed the lower court's disqualification of Saul Feder and his firm, Regosin, Edwards, Stone & Feder, which was counsel to the lead plaintiff.

c. While Feder had represented Perla in a prior matter, the Appellate Division found "the present and prior matters are not substantially related, and [Feder] did not obtain confidential information from the defendants during the prior matter." 125 A.D.2d at 575.

d. The Court explained that "In order to show that the matters are 'substantially related,' defendants must show that the issues in the matters are identical or essentially the same," and ruled that defendants failed to make that showing. *Id*.

2. Many courts take a different approach and ask whether, under the circumstances, a reasonable lawyer would conclude there is a substantial risk that confidential factual information that would normally have been obtained in a prior representation would materially advance a different client's position in a subsequent matter.

3. The *Becker v. Perla* decision is short and does not announce a break with prior precedent. But it suggests that the First Department may be inhospitable to motions to disqualify based on prior representations.

C. The Playbook Theory

1. Some federal courts have relied on a somewhat more expansive "playbook" theory of conflicts: that a lawyer who has insights into a former client's litigation strategies and internal decision-making should be barred from representing clients that are adverse to the former client, even if the new lawsuit is not substantially related to the matters in which the lawyer represented the former client.

2. In *Radware, Ltd. v. A10 Networks, Inc.*, No. C-13-02021, 2014 U.S. Dist. LEXIS 29839 (N.D. Cal. Mar. 5, 2014), for example, the Northern District of California barred Irell & Manella from representing defendant A10 Networks in a patent lawsuit brought by Irell's former client Radware.

   a. Radware sued F5 Networks and A10 for infringing two patents.

i. Irell had previously represented Radware twice in disputes relating to other patents.

ii. Radware moved to disqualify Irell as A10's counsel on the ground that Irell had obtained confidential information about Radware's products, financing and decision-making when it represented the company in the two patent matters.

iii. Irell argued it had no conflict because its work for Radware involved different patents.

b. The Court, applying a "substantial relationship" test under California Rule of Professional Conduct 3-310(E), rejected Irell's argument and granted Radware's motion to disqualify Irell from representing A10. *Id*. at *10.

i. The Court did not find that Irell had acquired confidential Radware information, but concluded that the firm's past work for Radware was too similar to its new work for A10.

ii. The Court also noted that Irell had access to key decision makers at Radware and may have gained information that would be relevant to damages calculations.

iii. "None of this is to say that Irell has acted unethically or would intend to do so in the representation of A10," the court wrote. "In the end, the court takes a different, broader view than Irell on what constitutes a 'substantial relationship' and finds that the firm must be disqualified." *Id.* at *10.

3. A few days after the *Radware* decision, the Northern District of Texas, on similar grounds, disqualified Matthew Powers, Steven Cherensky and the Tensegrity Law Group from representing plaintiff Micrografx in *Micrografx v. Samsung Telecomms. Am., LLC*, No. 3:13-cv-03599-N (N.D. Tex. Mar. 7, 2014).

a. Samsung had moved to disqualify Powers, Cherensky and the Tensegrity Law Group because Powers and Cherensky had represented Samsung in several patent infringement lawsuits over the course of 10 years when they worked at Weil, Gotshal & Manges, including in litigation between Samsung and Vertical Computer Systems, Inc. involving

patents relating to software on Samsung's Galaxy smartphones and tablets.

i. When Powers and Cherensky left Weil in 2011 to form the Tensegrity Law Group, they continued to represent Samsung.

ii. In 2013, Micrografx, represented by Powers, Cherensky and the Tensegrity Law Group, sued Samsung, alleging that its Galaxy smartphones and tablets infringed three patents relating to graphics. Tensegrity did not notify Samsung of the potential conflict or seek a waiver.

b. The Court applied the "substantial relationship" test to determine whether there was a conflict of interest that required disqualification due to a former representation: a "party seeking to disqualify opposing counsel . . . must establish two elements: (1) an actual attorney-client relationship between the moving party and the attorney he seeks to disqualify and (2) a substantial relationship between the subject matter of the former and present representations." Slip Op. at 4.

i. The Court found there was a substantial relationship because the Vertical Computer litigation and the current case both involved patent claims relating to similar technology used on Samsung's Galaxy smartphones and tablets. It found the patented technology in the two cases was similar enough that certain issues and evidence may be relevant in both litigations.

4. The Tensegrity Law Group was also disqualified from a significant patent case in *Innovative Memory Solutions, Inc. v. Micron Tech., Inc.*, No. 14-1480-RGA, 2015 U.S. Dist. LEXIS 63861 (D. Del. May 15, 2015).

a. Before Powers and Cherensky left Weil, Gotshal in 2011 to form Tensegrity Law Group, they had represented Micron (and a company Micron acquired in 2006) in several patent cases and a trade secret case, one of which led to a 7-week public trial.

b. In the *Innovative Memory* action, Tensegrity represented plaintiffs who were suing Micron for patent infringement in connection with its NAND flash products.

c. Micron moved to disqualify the firm, and the Court posed the following questions to determine whether the prior representations and the current one were "substantially related":

- To determine whether a current matter is "substantially related" to a matter involved in a former representation, and, thus, whether disqualification under Rule 1.9 is appropriate, the Court must answer the following three questions: "(1) What is the nature and scope of the prior representation at issue? (2) What is the nature of the present lawsuit against the former client? (3) In the course of the prior representation, might the client have disclosed to his attorney confidences which could be relevant to the present action? In particular, could any such confidences be detrimental to the former client in the current litigation?" [citation omitted] 2015 U.S. Dist. LEXIS 63861, at *4.

d. The Court explained that the required inquiry involves "a painstaking analysis of the facts." *Id.* at *6. Most of the facts were submitted by the parties under seal. But the Court noted that while at Weil, the attorneys now adverse to Micron had previously billed Micron (and a company Micron had acquired) for approximately 4,000 hours devoted to litigating cases involving NAND technology. *Id.* at *7.

e. The Court held that the factual overlap between the prior representations and Micron's invalidity defenses in Innovative's patent action raised "a common-sense inference" that what the attorneys learned from their former client could be used against it, and "[t]he fact that there was a lengthy public trial does not mean that all confidences became public." *Id.* at *12.

f. The Court was also concerned about the appearance of "switching sides" because the two attorneys "might be required to depose and cross examine the very same witnesses they previously represented." *Id.* at *13.

5. Other courts have rejected the "playbook" theory.

a. In December 2013, the Southern District of New York, in denying a motion to disqualify in *In re Credit Default Swaps*

Antitrust Litig., No. 13 MD 2476 (S.D.N.Y. Dec. 5, 2013), explicitly rejected the "playbook" theory.

i. Plaintiff Salix Capital US, Inc., represented by Quinn Emanuel Urquhart & Sullivan LLP, brought a class action antitrust suit against the International Swaps and Derivatives Association Inc. ("ISDA"), alleging that the ISDA worked with many of its member banks to eliminate competition in the credit default swaps market by overcharging and underpaying less-informed participants.

ii. ISDA moved to disqualify Quinn Emanuel because one of its partners had previously served as the primary outside counsel to the ISDA for 20 years. During that time he advised the ISDA on its master agreements and other derivatives documentation.

iii. Quinn Emanuel did not deny that its partner had obtained confidential information during his representation of the ISDA, but said he had not shared that information with anyone at the firm.

iv. The Court found the partner's work did not have a substantial relationship to the antitrust suit, explaining: "I reject the playbook rationale which is argued," and "most counsel here would be horrified if I adopted that test." Tr. 34.

v. The Court also found that even if it adopted the playbook theory, it would deny the motion to disqualify. The partner was a corporate lawyer for the ISDA, not a litigator, his representation of the ISDA ended "years ago," and he never assisted the organization in litigation similar enough to the Salix action to provide him with any special insight into confidential strategies. Tr. 34.

(1) Finally, the Court held that even if the partner had a conflict, Quinn Emanuel would not have a conflict because it showed that it successfully walled the partner off from ISDA matters and thus rebutted the presumption that any conflict he had should be imputed to the firm:

- "I have no reason to believe that Mr. Cunningham has already shared any privileged information received from the ISDA. . . . A formal screen has now been erected. I am confident it will work as counsel intended it to work." Tr. 35.

b. More recently, in *Sonos, Inc. v. D&M Holdings*, No. 14-1330-RGA, 2015 U.S. Dist. LEXIS 119718 (D. Del. Sept. 9, 2015), the Court, in denying a motion to disqualify plaintiff's counsel in a patent litigation, implicitly rejected the playbook theory. After finding that counsel's prior work for defendants was not substantially related to the pending action, the court rejected the idea that any disclosure by defendants of their general strategy warranted disqualification: "At most, Defendants disclosed their general strategy for handling patent litigation, which is not enough to warrant disqualification." *Id.* at 12.

D. Intervention by a Non-Party to Disqualify its Present or Former Counsel

1. In some recent cases, non-parties have intervened in an action and sought, sometimes successfully, to disqualify their counsel from representing a party whose interests in the action were adverse to the non-party's interests.

2. In *Celgard, LLC v. LG Chem., Ltd.*, 594 Fed. App'x 669 (Fed. Cir. 2014), for example, the court disqualified Jones Day from representing battery manufacturer Celgard, LLC, in its patent infringement lawsuit against LG Chem, Ltd., which supplies Apple with lithium ion batteries used in its iPhones and iPads, because Jones Day also represented Apple and the law firm's position in the litigation was adverse to Apple.

   a. In January 2014, Celgard sued LG in the Western District of North Carolina alleging infringement of a patent for lithium battery technology.

   b. The Court granted Celgard a preliminary injunction barring LG from supplying companies, including Apple, with batteries using the technology, but stayed the injunction pending an appeal by LG.

i. After the injunction was issued, Celgard retained Jones Day to represent Celgard in the litigation. Celgard agreed that Jones Day would not represent Celgard if it sought relief from Apple or other Jones Day clients.

c. Non-party Apple then moved in the appellate court to intervene and disqualify Jones Day. Apple argued that the law firm should not be permitted to represent Celgard in a case adverse to Apple's interests because it represented Apple in other cases. Apple said it repeatedly asked Jones Day to withdraw from representing Celgard but was rebuffed.

d. The Federal Circuit granted Apple's motion. The court ruled that Jones Day's representation of Celgard conflicted with its representation of Apple in the other cases.

e. The Court explained "it is the total context, and not whether a party is named in a lawsuit, that controls whether the adversity is sufficient to warrant disqualification." *Id.* at 672.

3. Similarly, in *Toshiba Corp. v. Paul Hastings LLP,* No. 1-14-cv-267609 (Cal. Super. Ct. Santa Clara Co. Sept. 5, 2014), non-party Toshiba successfully moved to disqualify a law firm from representing a defendant in an action alleging the defendant stole trade secrets, because Toshiba was a joint venture partner with the plaintiff and the law firm had previously represented Toshiba in negotiating agreements for the technology in question with the plaintiff.

a. In *SanDisk Corp. v. SK Hynix Inc.*, No. 14-CV-04940-LHK (N.D. Cal), SanDisk sued Hynix, alleging it stole information about SanDisk flash drives from a former SanDisk engineer.

b. Paul Hastings appeared for Hynix in that action.

c. Toshiba moved to intervene in the action for the purpose of obtaining an injunction disqualifying the law firm for breach of its duties of loyalty and confidentiality.

i. Toshiba argued Paul Hastings had been counsel for Toshiba for 15 years, and although Toshiba was not a party to the *SanDisk v. Hynix* lawsuit, Paul Hastings had represented Toshiba in negotiating agreements with SanDisk for the technology at issue in the lawsuit.

ii. Toshiba argued Paul Hastings had therefore breached Rule 3-310(C)(3) of the California Rules of Professional Conduct which bars an attorney from representing "a client in a matter and at the same time in a separate matter accept[ing] as a client a person or entity whose interest in the first matter is adverse to the client in the first matter." *See* Toshiba Corporation's Memorandum of Points and Authorities in Support of Preliminary Injunction, at 6 (July 28, 2014).

d. Paul Hastings argued Toshiba raised only a hypothetical conflict concerning vague interests in unidentified trade secrets.

e. On September 5, 2014, Judge Peter Kirwan of the Superior Court of Santa Clara County granted Toshiba's motion to disqualify Paul Hastings. *Toshiba Corp. v. Paul Hastings LLP*, No. 1-14-cv-267609 (Cal. Super. Ct. Santa Clara Co. Sept. 5, 2014). The judge explained:

- "Here, Toshiba demonstrates that Paul Hastings concurrently represents two parties with conflicting interests with respect to stolen technologies at issue in the SanDisk litigation. Simply put, Paul Hastings is actively litigating against its current client and Toshiba wants it to stop." Slip Op. at 6.

f. On September 30, 2014, in a one-sentence order, the California state appeals court denied Paul Hastings' petition for a writ of mandate, prohibition or other appropriate relief, and its request for a stay of the judge's order. *Paul Hastings LLP v. the Superior Court of Santa Clara County*, No. H041456 (Cal. App. 6th App. Dist. Sept. 30, 2014).

4. In *United States v. Prevezon Holdings*, No. 13-cv-06326 (S.D.N.Y.), a non-party initially succeeded in disqualifying its former counsel from representing the defendants in a civil forfeiture action alleging the defendants laundered proceeds of a $230 million Russian tax fraud scheme. The district court then reversed its ruling and denied disqualification, but the Court of Appeals, on a writ of mandamus, has ordered the district court to disqualify the firm.

a. The Government alleged that funds stolen from the Russian treasury passed through several shell companies into Prevezon

Holdings. John Moscow of Baker & Hostetler appeared on behalf of Prevezon and other defendants.

b. Non-party Hermitage Capital Management Ltd. moved to disqualify Mr. Moscow and his law firm due to his prior representation of Hermitage's co-founder, William Browder.

c. On December 18, 2015, Judge Griesa granted the motion. Judge Griesa explained it was clear that "one of BakerHostetler's primary defense strategies in the present case involves asserting that Hermitage had substantial responsibility for what is well known as the Russian Treasury Fraud." *United States v. Prevezon Holdings*, No. 13-cv-06326, Doc. 495, Slip Op. at 1 (S.D.N.Y. Dec. 18, 2015).

    i. Judge Griesa found "BakerHostetler's change in defense strategy now makes the subjects of its former and current representation 'substantially related,'" because of the possibility that "BakerHostetler will be in a position where it would be trying to show that its current clients (the Prevezon defendants) are not liable and showing this by attacking its former client (Hermitage) on the very subject of BakerHostetler's representation of that former client." Slip Op. at 2.

d. A few weeks later, after further briefing, Judge Griesa reversed his ruling and reinstated the law firm and partner as counsel to the defendants. *United States v. Prevezon Holdings*, No. 13-cv-06326, 2016 U.S. Dist. LEXIS 2921 (S.D.N.Y. Jan. 8, 2016).

    i. The court applied a multi-factor inquiry "to determine if an attorney's earlier representation conflicts with a current representation." *Id.* at *7. The court said an attorney may be disqualified if:

        - "(1) the moving party is a former client of the adverse party's counsel; (2) there is a substantial relationship between the subject matter of the counsel's prior representation of the moving party and the issues in the present lawsuit; and (3) the attorney whose disqualification is sought had access to, or was likely to have had access to, the relevant privileged information in the course of his prior representation of the client." *Id.* at *7-8.

ii. However, even if those elements are satisfied, disqualification is appropriate only where continued representation "poses a significant risk of trial taint." *Id.* at *10.

iii. Weighing all these factors, Judge Griesa found they tipped toward denying disqualification:

- "If the court denies the disqualification motion, the risk of trial taint would be speculative at best. Should the court grant the motion, however, the harm to Prevezon is both certain and grave. Prevezon would have to retain new counsel and bring them up to date on this lengthy, complex litigation. This would mean added expense and additional trial adjournments. It would further defer Prevezon's right to its day in court and lengthen the time that Prevezon's funds remain under pre-trial restraint. But perhaps most importantly, disqualification would mean depriving Prevezon of its right to the counsel of its choice." *Id.* at *15-16.

e. On October 17, 2016 the Second Circuit granted Hermitage a writ of mandamus, found that the district court abused its discretion, and ordered the district court to disqualify BakerHostetler. *United States v. Prevezon Holdings*, No. 16-132-cv 2016 U.S. App. LEXIS 18614 at *1 (2d Cir. Oct. 17, 2016).

i. The Second Circuit explained that it granted mandamus because "Hermitage is without other viable avenues for relief and the district court misapplied well-settled law" and "committed clear error in analyzing the substantial relationship between the two representations." *Id.* at *2, *24.

ii. The Second Circuit applied the "substantial relationship" test, finding disqualification is warranted where: "(1) the moving party is a former client of the adverse party's counsel; (2) there is a substantial relationship between the subject matter of the counsel's prior representation of the moving party and the issues in the present lawsuit; and (3) the attorney whose disqualification is sought had access to, or was likely to have

had access to, the relevant privileged information in the course of his prior representation of the client." *Id.* at *29.

(1) The court ruled there was a substantial relationship because "Prevezon's trial strategy turns on proving Hermitage is not the victim of the Russian Treasury Fraud, but the perpetrator," and BakerHostetler's prior representation of Hermitage included investigating the Russian Treasury Fraud. *Id.* at *31.

(2) The court found the "district court erred in shifting the burden to Hermitage to identify confidences it had shared with its counsel." *Id.* at *33.

E. Prior Relationships that Contain "Aspects of an Attorney-Client Relationship"

1. In *Utica Mutual Ins. Co. v. Employers Ins. Co. of Wausau and Nat'l Cas. Co.*, No. 6:12-CV-1293 (NAM/TWD), 2014 U.S. Dist. LEXIS 132271 (N.D.N.Y. Sept. 22, 2014), two reinsurers, Wausau and National Casualty, moved to disqualify Hunton & Williams from representing an insurer, Utica Mutual, in an arbitration against the reinsurers.

   a. Hunton & Williams had previously represented Utica in an insurance coverage litigation brought by its insured, and negotiated the settlement of that litigation. Wausau and National Casualty were reinsurers of Utica and covered the insurance dispute.

   b. After Hunton & Williams settled the insurance coverage litigation, Utica engaged the firm to commence an arbitration against the reinsurers, seeking reimbursement of the insurance settlement.

   c. Utica brought an action asking the court to appoint an arbitrator, and the reinsurers brought a counterclaim seeking to disqualify Hunton & Williams from representing Utica against them in the arbitration because of its prior representation in the underlying insurance dispute.

   d. The reinsurers argued the firm represented their interests as well as those of Utica in the coverage litigation and thus could not represent Utica in its arbitration against them.

e. The Court denied Utica's motion to dismiss the counterclaim, rejecting Utica's argument that Hunton & Williams did not represent the reinsurers in the underlying coverage dispute.

f. The Court explained that a formal attorney-client relationship in the traditional sense is not required for disqualification based on the successive representation of adverse interests if the attorney previously represented the moving party, there is a substantial relationship between the issues in the two cases, and the attorney had access to relevant information in the prior representation.

g. According to the Court, the party seeking disqualification must show only that the law firm represented the interests of the party with "sufficient aspects of an attorney-client relationship." *Id.* at *13. The Court found those aspects existed because Hunton & Williams represented all of the insurers' common interests in the underlying litigation and Utica shared information with the reinsurers in the underlying litigation only as part of a joint defense privilege involving Hunton & Williams.

h. The Court rejected Utica's argument that the reinsurers must identify the specific relevant privileged information that the attorneys saw. It found the reinsurers need only show that the attorneys "had access to or were likely to have had access to" relevant privileged information. *Id.* at *12.

i. Utica and the reinsurers subsequently settled the dispute concerning disqualification. *Utica Mutual Ins. Co. v. Employers Ins. Co. of Wausau and Nat'l Cas. Co.*, No. 6:12-CV-1293 (NAM/TWD), Doc. 92 (N.D.N.Y. Dec. 18, 2014) (stipulation and order of dismissal).

F. Representing a Surety and its Indemnitee

1. In *Travelers Cas. & Surety Co. of Am. v. DiPizio Constr. Co.*, No. 14-CIV-576A (Sr), 2015 U.S. Dist. LEXIS 87165 (W.D.N.Y. July 6, 2015), the court denied a motion to disqualify counsel for Travelers Casualty and Surety Co. of America in its lawsuit against DiPizio Construction concerning several performance bonds.

   a. In 2013, DiPizio brought two actions in state court against Erie Canal Harbor Development Corp. ("ECHDC") concerning

ECHDC's plans to terminate its contract with DiPizio, which was insured by a $19.7 million bond from Travelers.

b. Travelers then sued DiPizio and others in federal court, alleging they had caused more than $1.6 million in losses on performance bonds related to public improvement contracts with the New York Department of Transportation and Erie County, New York. Travelers later amended its complaint to assert an additional $20 million claim against DiPizio for losses arising from the ECHDC project.

c. In August, Travelers intervened in DiPizio's state actions against ECHDC, alleging that DiPizio was improperly terminated from the ECHDC contract. The judge in that case assigned DiPizio's claims to Travelers, finding Traveler's was the real party in interest and dismissed DiPizio as a plaintiff.

d. DiPizio then moved to disqualify Travelers' counsel in the federal court action. DiPizio argued that the firm was engaging in concurrent adverse representations because it was representing Travelers in federal litigation while also representing DiPizio's claims in state litigation and that it therefore had a conflict of interest and improper access to privileged information.

e. However, the court denied the motion because "[t]he assignment of DiPizio's claims against ECHDC to Travelers does not create an attorney-client relationship between DiPizio and Travelers' counsel." 2015 U.S. Dist. LEXIS 87165, at *9-10.

f. The court noted that "DiPizio has proffered no facts to suggest that Travelers' counsel currently represents or previously represented DiPizio. Absent an attorney-client relationship, DiPizio cannot claim breach of privilege with respect to any information provided to Travelers." *Id.* at *9.

G. Representing an Insolvent Corporation and its Investors

1. The Examiner's Final Report in the bankruptcy case, *In re Caesars Entertainment Operating Co.*, No. 15-01145 (ABG), Doc. 3406 (Bankr. S.D.N.Y. Mar. 16, 2016), addresses the question whether a law firm has a conflict if it represents both an insolvent corporation and the owners of that corporation's equity.

2. The Examiner found that Paul Weiss Rifkind Wharton & Garrison LLP's dual representation of Caesars Entertainment Operating Co. ("CEOC") and its private equity owner Apollo Global Management LLC created a conflict of interest.

3. CEOC had been represented by O'Melveny & Myers LLP before July 2011, when the lawyers handling that representation moved to Paul Weiss. At the same time Apollo "was a very significant client of Paul Weiss on matters unrelated to Caesars." *Id.* at 28.

4. The Examiner concluded that though it is not unusual for a law firm to represent both a private equity investor and companies that are in the private equity client's portfolio, conflict problems arise when a portfolio company becomes insolvent, because at that juncture the creditors, typically noteholders, have priority over the owners of the equity. *Id.* at 28-29.

H. Representing a Criminal Defendant

1. In *United States v. Davidson*, Case 1:15-cr-00252-PKC-RML, Doc. 450 (E.D.N.Y. Oct. 18, 2016), the Government asked the Court to inform a criminal defendant of a possible conflict of the law firm representing the defendant.

    a. The Government said Chadbourne & Parke, LLP ("C&P"), counsel for Aaron Davidson, a defendant in the FIFA bribery proceeding, also represented an unnamed soccer-focused cable television network that might have claims against a soccer conference because the network failed to secure the rights to a conference tournament due to the alleged conduct of some of the defendants. *Id.* at 2.

    b. The Government said it expected Davidson to waive the conflict but asked the judge to inform him of the potential conflict and of his opportunity to consult with his other, non-conflicted, counsel concerning the potential conflict. *Id.* at 5.

    c. The Government explained its view of the law governing conflicts of interest of attorneys representing criminal defendants.

        i. Consideration must be given to how potential conflicts affect a criminal defendant's constitutional right to the effective assistance of counsel. *Id.* at 3.

ii. Only two categories of conflicts of attorneys representing criminal defendants are not waivable: "where 'counsel' is not admitted to the bar of any court, and where counsel is implicated in the defendant's crimes." *Id.*

iii. In other circumstances, if a dual representation creates the possibility of a conflict of interest, a criminal defendant can generally waive the potential conflict in accordance with the procedures set forth in *United States v. Curcio*, 680 F.2d 881, 888-90 (2d Cir. 1982). *Id.* at 4.

iv. *Curcio* requires the Court to:

(1) inform the defendant of the risks arising from the particular conflict;

(2) determine through questions to the defendant that are likely to be answered in narrative form whether the defendant understands those risks and freely chooses to incur them; and

(3) give the defendant time to digest and contemplate the risks after encouraging him or her to seek advice from independent counsel. *Id.* at 5.

d. The *Davidson* court held a *Curcio* hearing and found "defendant fully understands the nature of the potential conflict(s) and has made a voluntary decision to continue to have C&P represent him." *United States v. Davidson*, Case 1:15-cr-00252-PKC-RML (E.D.N.Y. Oct. 20, 2016).

I. Coordinating Discovery Attorneys for Defendants in a Criminal Case

1. A recent Second Circuit decision highlighted the ethical issues raised by a trend in multi-defendant federal criminal cases to appoint a "Coordinating Discovery Attorney," or CDA. In February 2012, this trend was endorsed by a technology working group of the Department of Justice and the Administrative Office of the U.S. Courts in a report entitled "Recommendations for Electronically Stored Information (ESI) Discovery Production in Federal Criminal Cases."

a. The report recommended that "[i]n cases involving multiple defendants, the defendants should authorize one or more counsel to act as the discovery coordinator(s) or seek the

appointment of a Coordinating Discovery Attorney and authorize that person to accept, on behalf of all defense counsel, the ESI discovery produced by the government."

2. However, in *United States v. Hernandez*, No. 14 Cr. 499 (KBF), 2014 U.S. Dist. LEXIS 128218 (S.D.N.Y. Sept. 12, 2014), Judge Katherine Forrest denied nine defendants' motion to "appoint a tenth attorney to act as a Coordinating Discovery Attorney ("CDA") on behalf of all nine defendants."

   a. The Court noted that since 2012, an "increasing number" of courts have appointed CDAs, but none have discussed the potential ethical and legal implications of those appointments, nor has any one set of appropriate responsibilities been identified. *Id.* at *5.

   b. The Court then undertook to examine the implications of appointing a CDA and denied the motion.

   c. The Court first identified several "[f]undamental legal principles critical to adequate defense of a criminal charge," including that "each defendant is entitled to the undivided loyalty of his attorney." *Id.* at *6.

   d. The Court next discussed the importance of discovery in revealing the details of each defendant's story and noted that not all defendants in a case "necessarily share the same legal interests." *Id.* at *8.

   e. Turning to appointing a CDA, the Court acknowledged that "central management" of voluminous discovery would "seem" to make sense, but questioned how an attorney's duty of undivided loyalty could be "squar[ed]" with the duty to manage discovery of multiple defendants. *Id.* at *10.

      i. For example, if a CDA is an attorney, it is "unclear whether the CDA is ever expected to act as an attorney – and if so, on whose behalf." *Id.* at *11-12.

      ii. "If, on the other hand," "a CDA will not act as an attorney, then one wonders why a CD-'A' – that is, an attorney – should be appointed to this position at all. Indeed, appointing an attorney to centrally manage discovery only serves to raise serious concerns." *Id.* at *12-13.

iii. The Court questioned who would bear responsibility for mistakes made in the course of the discovery management. *Id.* at *15.

iv. The Court also raised the possibility of instead hiring "technology vendors" whose technical capabilities could be "readily understood and relied upon," who typically enter into a contract that ensures clarity in the roles of each party, and who, "most importantly," "cannot be confused with a lawyer." The Court concluded, "[t]he vendor's failures in the discovery process are clearly the problem of the counsel of record." *Id.* at *15-16.

f. The Court acknowledged that "[t]here may be" a role for a CDA "with safeguards and an appropriate hearing." The Court concluded, however, that:

- "If a CDA clearly is not acting as an attorney, then—since a CDA is an attorney—the relationship must be clearly defined and explained to each defendant (who might otherwise wonder why an attorney who is performing tasks on his or her behalf is not *his or her* attorney). The very need to so carefully define the role of the CDA begs the question of why parties need to hire an attorney at all. A vendor with an arms-length contract is clearly preferable." *Id.* at *19.

J. Applying Conflict Rules to Law Firms' Affiliates

1. In *In re Certain Laser Abraded Denim Garments, Inc.*, No. 337-TA-930, 2015 ITC LEXIS 359 (ITC May 7, 2015), a U.S. International Trade Commission judge disqualified Dentons US from representing RevoLaze LLC in a patent lawsuit against The Gap, Inc. because the law firm was a member of a Swiss verein and another member of the verein, Dentons Canada, represented Gap.
2. Dentons US filed complaints before the Trade Commission against Gap on behalf of RevoLaze to try to bar certain Gap imports into the U.S.
3. Gap moved to disqualify Dentons US because, according to Gap, other members of the verein of which the law firm is a member represent Gap in fourteen open matters and have represented Gap for more than two decades, and Dentons US therefore has

unfettered access to Gap's confidential and privileged information relating to Gap's claims and defenses before the Trade Commission.

a. Gap argued the verein cannot hold itself out to the world as one firm and then act as multiple firms for conflict purposes.

b. According to Gap, all of the members of the verein owe it a duty of undivided loyalty, and Dentons US is ethically barred from handling a matter adverse to Gap.

c. Gap noted that Dentons US itself identified Gap as an "existing conflict" in its retainer agreement with the complainant in the Trade Commission matter.

4. The Trade Commission investigative staff joined Gap's motion.

a. The staff argued that Dentons US's continued representation of RevoLaze would create a serious risk of taint to the Commission's investigation.

5. Dentons US responded that it is separate from the other members of the verein, because:

- The verein members do not have access to each other's files;
- They do not share confidential information unless they are acting as co-counsel;
- They do not share profits and losses; and
- They are financially and operationally separate.

a. Dentons US said there is effectively an ethical screen between itself and the other members of the verein.

b. Dentons US also maintained it intended its reference to Gap as an "existing conflict" in its retainer agreement to mean a "potential business conflict" and not an ethical conflict.

6. On May 7, 2015, Chief Administrative Law Judge Charles Bullock granted the motion to disqualify.

a. The Judge explained that the American Bar Association's Model Rules of Professional Conduct "reflect a national consensus" and are instructive. 2015 ITC LEXIS 359, at *10.

b. The Model Rules define a "law firm" to include, among other things, an "other association authorized to practice law." *Id.*

c. The Judge reasoned that definition is broad enough to include a Swiss verein. *Id.* at *17.

d. Accordingly, the Model Rules regarding conflicts with a current client and imputed conflicts among members of a law firm apply. *Id.* at *18-19.

e. The representation of Gap by other members of the verein is therefore imputed to Dentons US. *Id.*

f. Accordingly, the Judge found that Dentons US committed an ethical violation by bringing the Trade Commission complaint against Gap. *Id.* at 19.

7. The Judge explained that "a violation of the ethical rules does not result in *per se* disqualification of the attorney involved. Rather, the crucial issue is whether the continued representation will cause prejudice to or adversely impact the rights of another party in the matter and whether such prejudice outweighs the prejudice caused by disqualification of another party's choice of counsel." *Id.* at *13.

8. The Judge found the ethical violation did taint the Trade Commission investigation and disqualification was therefore warranted. *Id.* at *20-23.

   a. The Judge reasoned that Dentons US owed Gap a duty of loyalty, but stood to benefit in terms of legal fees and a share in proceeds by seeking to bar Gap's imports into the U.S. *Id.* at *19.

   b. Although the law firm "apparently realized that there was a conflict, it did not attempt to obtain Gap's informed consent. This inaction shows disregard for the rules of professional conduct." *Id.* at *20.

   c. The Judge acknowledged that weighing against disqualification was the law firm's representation that its lawyers had not accessed any confidential information of Gap and that disqualification would harm RevoLaze in the Trade Commission matter. *Id.* at *21-22.

d. But the Judge found "the public's perception of the profession is also significant. [The verein] holds itself out to the public as a unified global law firm in order to attract business. The [law firm's] continued representation in the face of a direct conflict would both contradict this public image and impact negatively on the profession as a whole." *Id.* at *22.

e. The Judge concluded he "cannot condone the continued violation of an ethical rule and therefore disqualification is necessary." *Id.* at *23.

9. The law firm filed a petition asking the Commission to review the disqualification.

   a. The parties then settled and the Trade Commission terminated its investigation. *In re Certain Laser Abraded Denim Garments, Inc.*, No. 337-TA-930, 80 Fed. Reg. 73209, 73210 (ITC Nov. 24, 2015).

   b. The Commission determined that it should therefore vacate the disqualification as moot. *In re Certain Laser Abraded Denim Garments, Inc.*, No. 337-TA-930, 81 Fed. Reg. 22632 (ITC April 12, 2016). The Commission explained that the disqualification question turned on whether Dentons US and Dentons Canada, as members of the Dentons verein, should be treated as a single law firm under the Model Rules, and that answering that question would require further proceedings and possibly additional fact-finding.

10. Shortly before the ITC vacated its disqualification order, RevoLaze sued Dentons US in Ohio state court. *Revolaze LLP v. Dentons US LLP*, No. CV 16 861410 (Ohio Ct. Common Pleas, Cuyahoga Co. filed 4/4/16).

    a. RevoLaze alleges in its complaint that Dentons US breached the standard of care and its fiduciary duties to RevoLaze by simultaneously representing one of its litigation opponents and that Dentons US deliberately decided as a business strategy to disregard the conflict of interest.

    b. The complaint also alleges that Dentons US deviated from its duty of care in other ways in the ITC matter, such as by failing to conduct adequate discovery or engage necessary experts.

c. RevoLaze alleges these breaches forced it to renegotiate a funding deal on unfavorable terms and settle its patent claims for a fraction of their true value.

d. The complaint seeks more than $52 million in damages on the claim for legal malpractice and $6.5 million on the claim for breach of fiduciary duty.

K. Applying Conflict Rules to Co-Counsel

1. In *Dietrich v. Dietrich*, 136 A.D.3d 461, 25 N.Y.S.3d 148 (1st Dep't 2016), the Appellate Division, First Department reversed an order in a divorce case disqualifying the husband's attorney, where the attorney was co-counsel in an unrelated case with an attorney in the wife's attorney's law firm.

   a. The wife was represented by two lawyers at Cohen Clair Lans Greifer & Thorpe LLP ("Cohen Clair").

   b. The husband's lawyer, a sole practitioner, was co-counsel with another attorney at Cohen Clair on an unrelated pending matter.

   c. The husband had executed a conflict waiver, but the wife had not.

   d. The wife moved to disqualify the husband's attorney. The lower court granted the motion, but the First Department reversed.

      i. The appellate court held "the wife did not meet her 'heavy burden' of showing that disqualification is warranted." 136 A.D.3d at 462, 25 N.Y.S.3d 150.

      ii. It found that to impute a conflict of interest to the husband's attorney "by virtue of his being co-counsel on one unrelated matter with the firm of attorneys representing the wife . . . would mean that attorneys from different firms could never work together —even on a single case— without having the conflicts of interest of each firm imputed to the other." 136 A.D.3d at 463, 25 N.Y.S.3d 150.

      iii. The court explained "the wife's concerns can be easily addressed" by having her attorneys ensure that she and her husband's attorney are never scheduled to be in

Cohen Clair's offices at the same time" and by creating "an appropriate wall to ensure that her confidential information is not leaked." 136 A.D.3d at 463, 25 N.Y.S.3d 150.

L. Applying Conflict Rules to In-House Counsel

1. In-house counsel may also face potential conflicts arising from prior employment.

2. For example, *Dynamic 3D Geosolutions, LLC v. Schlumberger Limited*, No. A-14-CV-112-LY, 2015 U.S. Dist. LEXIS 67353 (W.D. Tex. Mar. 31, 2015), shows that in-house legal departments can and will be treated like traditional law firms when it comes to imputation of conflicts and the resulting potential for disqualification. A federal court in Texas disqualified in-house counsel for an Acacia Research Group subsidiary and as a result disqualified the outside law firm with which they were dealing and dismissed the lawsuit without prejudice.

   a. In February 2014 plaintiff Dynamic 3D Geosolutions LLC ("Dynamic 3D"), a subsidiary of Acacia, sued Schlumberger, alleging that its "Petrel" software infringed a patent held by Dynamic 3D. *Id.* at *3-4.

   b. A Senior Vice President and Associate General Counsel at Acacia, Charlotte Rutherford, had worked for Schlumberger as an assistant general counsel for intellectual property from 2006 through 2013, when she left to join Acacia. *Id.* at *4*5.

   c. Schlumberger moved to disqualify Rutherford, who it alleged had represented Schlumberger on substantially related matters; all of Acacia's in-house counsel on the ground that Rutherford's alleged conflict should be imputed to her in-house colleagues; and Dynamic 3D's outside counsel because it communicated with Rutherford and other Acacia in-house counsel. *Id.* at *4.

   d. Schlumberger argued that Rutherford (i) participated in plaintiff's decision to acquire the software patent it was seeking to enforce in its lawsuit against Schlumberger, (ii) had direct knowledge from her previous employment at Schlumberger of its software that plaintiff claimed infringed the patent and its legal risks, and (iii) personally approved plaintiff's decision to sue Schlumberger. *Id.* at *5-6.

e. Dynamic 3D argued that Rutherford had limited involvement with the Petrel software while at Schlumberger and did not disclose any Schlumberger matters to Dynamic 3D's outside counsel.

f. The Court granted the motion to disqualify. The Court found that Rutherford had to be disqualified because her role at Schlumberger gave her a "substantial relationship" to its software in question and created an irrebuttable presumption that she acquired Schlumberger confidential information:

- "This evidence establishes that Rutherford worked on matters that are more than tangentially related to the issues in Dynamic Geo's present action against Schlumberger." *Id.* at *12.
- "The court concludes that Schlumberger has satisfied the substantial-relationship test and … irrebuttably presumes Rutherford acquired confidential information requiring that she be disqualified." *Id.* at *12-13.

g. The Court also disqualified all in-house counsel for plaintiff because it found that Rutherford acknowledged attending two Dynamic 3D meetings where its patent and Schlumberger's software were discussed, and participated in the decision to hire outside counsel to bring the lawsuit, and Dynamic 3D did not rebut the "presumption that [in-house counsel] shared the confidential information she acquired from Schlumberger with [Dynamic 3D's] legal team." *Id.* at *17.

h. Finally, the Court disqualified outside counsel and dismissed the lawsuit without prejudice.

i. On September 12, 2016, the Federal Circuit affirmed, finding Rutherford's work for Schlumberger had a substantial relationship to her work for Dynamic 3D, including on a project evaluating the "Petrel" system that was the subject of Dynamic 3D's lawsuit against Schlumberger, and her discussion of the risks of bringing the lawsuit, required her disqualification under the rules of Texas and the American Bar Association. *Dynamic 3D Geosolutions LLC v. Schlumberger Ltd.* (Schlumberger N.V.), Nos. 2015-1628, 2015-1629, 2016 U.S. App. LEXIS 16645 (Fed. Cir. Sep. 12, 2016).

(1) The Federal Court also ruled that other counsel for Dynamic 3D who interacted with Rutherford on the matter had to be disqualified: "[a]ll aspects of the case were contaminated by Rutherford's actions, from the purchase of the '319 patent, to preparation for suit against Schlumberger, to the actual filing of the suit." *Id.* at *27.

3. *US ex rel. Bahnsen v. Boston Scientific*, No. 11-1210, 2015 U.S. Dist. LEXIS 160030 (D.N.J. Nov. 30, 2015), addressed conflicts that arose when an in-house lawyer was seconded to a law firm.

   a. An attorney was in-house counsel for Boston Scientific, where she worked on an internal investigation relating to whistleblower complaints. *Id.* at *2.

   b. The in-house attorney then left Boston Scientific to work for another company. Later, that company's outside counsel hired her and "seconded" her back to that company. *Id.* at *2-3.

   c. The outside counsel that hired the attorney was also representing the plaintiffs in a qui tam lawsuit against Boston Scientific. The claims involved matters the attorney investigated when she was working at Boston Scientific. However, since the attorney had been seconded from the law firm, she did not have access to confidential information at the firm. *Id.* at *3.

   d. The Magistrate Judge granted a motion to disqualify the former in-house counsel, but denied the motion to disqualify the law firm.

      i. The Magistrate Judge found the lawsuit was substantially related to work the in-house counsel performed for her original employer, Boston Scientific. *Id.* at *3-4.

      ii. But the Magistrate Judge ruled the conflict could not be imputed to the law firm because a "functional analysis" was appropriate, and it found the former in-house counsel did not disclose Boston Scientific's confidential information to the law firm and did not have access to the law firm's confidential information related to the case. *Id.* at *4.

e. The District Judge reversed and disqualified the law firm as well.

i. The Court found a "functional analysis" was inappropriate because the former in-house counsel was not a temporary employee and the law firm held her out as having a general and continuing relationship with the firm. *Id.* at *10.

ii. The Court held the former in-house counsel's conflicts should therefore be imputed to the law firm unless (1) the matter did not involve a proceeding in which she had primary responsibility, (2) she was timely screened from any participation in the matter and did not receive any part of the fee from the matter, and (3) written notice was promptly provided to Boston Scientific or any other affected former client to enable it to ascertain compliance with the provisions of the rule. *Id.* at *16-17.

iii. The Court found this exception to imputation did not apply because the law firm did not implement the screen until substantially after the former in-house lawyer's employment became known to Boston Scientific and did not provide prompt written notice to Boston Scientific. *Id.* at *18-19.

f. In a later decision, the District Judge held Boston Scientific was not entitled to attorneys fees on its successful motion to disqualify:

- "The motion raised a novel conflict issue not previously addressed by any court." "Accordingly, Blank Rome's failure to withdraw did not 'unreasonably and vexatiously' prolong the proceedings." *US ex rel. Bahnsen v. Boston Scientific*, No. 11-1210, Doc. 206 (D.N.J. Dec. 22, 2015).

M. Applying Conflict Rules to Paralegals

1. The Supreme Court, Bronx County, recently addressed in *USA Recycling Inc. v. Baldwin Endico Realty Associates*, No. 305816-2013 (Sup. Ct. Bronx Co. July 2, 2015), the steps that must be taken to check whether a paralegal has worked for, or has confidential information of, any persons or entities to whom the law firm employing the paralegal is adverse.

a. The plaintiff brought an action arising out of a lease/purchase agreement and the action was settled. Slip Op. at 1.

b. But defendants moved to stay the proceeding and the settlement and to disqualify plaintiff's counsel on the ground that he had access to confidential information from a newly-hired paralegal "who had formerly been employed by, or concerned in the affairs of, attorneys representing [the defendant], its principals and related entities." *Id.* at 2.

   i. Defendants argued that plaintiff's counsel failed to properly screen the paralegal after hiring him. *Id.* at 5-6.

c. On July 2, 2015, the Court granted the motion to disqualify.

   i. The Court stressed several times the "unusual circumstances of this case" due to:

      - The "extraordinary nature and extent of [the paralegal's] involvement", including as a potential witness, *id.* at 15;
      - The "appearance of impropriety," *id.* at 10, 15;
      - The fact that the paralegal was a law school graduate awaiting admission, *id.* at 7; and
      - The paralegal was a convicted felon who had served time for involvement in computerized gambling and money laundering, *id.* at 7.

d. But the Court's statements about the law firm's duties were arguably not limited to the unusual facts.

   i. The Court found plaintiff's lawyer "had an ethical obligation to make inquiry with respect to [the paralegal's] prior employment on behalf of the defendants, their attorneys, and associates." *Id.* at 8.

   ii. The Court explained: "While the Code of Professional responsibility does not explicitly apply to non-lawyers, it does place a heavy burden on attorneys to ensure that their employees conduct themselves in accordance with the Code." *Id.* at 12.

   iii. "A law firm which hires a secretary, paralegal or other non-lawyer employee who has previously worked at another firm must adequately supervise the non-lawyer

not to disclose protected information obtained at the former law firm. This supervision may include instructing the non-lawyer not to disclose protected information or not to exploit such information. It is advisable that the firm conduct an inquiry, or comprehensive conflict check based on the non-lawyer's prior employment." *Id.* at 13.

e. The Court concluded that, "[d]ue to the disqualification of [plaintiff's counsel] … the stipulation of settlement must be vacated … [because of] the taint surrounding the negotiation and execution of [the] stipulation …. which was negotiated and executed at a time when [the paralegal] was [plaintiff's counsel's] part time and then full time employee." *Id.* at 15.

N. Conflict Rules Extend to Informal Advice Even to the Lawyer's Spouse

1. The limitations on multiple representations apply even to informal legal advice when the lawyer providing the advice has not been formally retained as counsel.

2. In *Flatworld Interactives LLC v. Apple Inc.*, No. 12-CV-01956, 2013 U.S. Dist. LEXIS 111496 (N.D. Cal. Aug. 7, 2013), a patent infringement suit, the Northern District of California denied Apple's motion to disqualify Flatworld's outside counsel, Hagens Berman Sobol Shapiro LLP ("Hagens Berman") in a patent litigation, despite the firm's contacts with an attorney whose firm was representing Apple in other IP matters.

   a. Flatworld contended that Apple products infringed Flatworld's patents for touch screen technology.

      i. Flatworld's founder, who was a Flatworld director, discussed with her husband, a lawyer, the possibility of Flatworld suing Apple or finding a buyer for its patents who could sue Apple. The lawyer helped his wife and Flatworld retain Hagens Berman on a contingent fee basis to sue Apple.

      ii. However, the husband was a partner at Morgan Lewis, which had represented Apple for many years, including concerning patent prosecutions based on the touch screens of Apple devices.

iii. During the litigation, when Apple saw the husband's name on Flatworld's privilege log, it e-mailed a Morgan Lewis lawyer expressing concern and questioning the assertion of privilege. That lawyer forwarded the e-mail to the husband, who informed his wife and Hagens Berman.

(1) Hagens Berman asserted that this was the first time it became aware that Morgan Lewis worked for Apple.

iv. Apple then moved to disqualify Hagens Berman from representing Flatworld in the patent litigation.

b. The Court found that the husband "acted as an attorney for Flatworld contrary to his legal and professional duty" to Apple by assisting his wife and her company in planning their lawsuit against Apple. *Id*. at *3.

i. The Court determined that the husband had a conflict of interest because he was a partner in a law firm that represented Apple in other matters.

ii. It was irrelevant that the husband acted informally without charging any fee, because he took part in numerous communications adverse to Apple as an attorney both before and after the litigation was filed.

c. But the Court denied the motion to disqualify Hagens Berman. The court concluded that Hagens Berman was not tainted by the husband's conflict because there was no evidence that the husband received material confidential information about Apple while working at Morgan Lewis — let alone transmitted any such information to Hagens Berman — except for the e-mail in which a Morgan Lewis attorney conveyed Apple's concerns about assertions of privilege concerning communications involving the husband.

i. To succeed on its disqualification motion, Apple had to make a threshold showing that the husband had confidential information about Apple, but it failed to make that showing.

(1) The husband never worked on any Apple matters. He focused on environmental matters and did not

work in the office where Apple's patent matters were handled.

(2) Also, an extensive forensic investigation of Morgan Lewis's computer system indicated that the husband never accessed or received any confidential information about Apple.

d. The court cited the husband's minimal involvement in the case against Apple as a further reason not to disqualify Hagens Berman.

(1) The husband did not play any substantive role. According to the Court, he and Hagens Berman merely discussed the terms of the firm's retainer agreement with Flatworld, engaged in small talk about a deposition at a social lunch, and discussed the privilege log concerns that Apple had raised.

O. Prospective Clients and Beauty Contests

1. An attorney speaking to a potential client should take steps to ensure that she or her firm will not be disqualified from representing another interested party in the matter if the consultation does not result in the engagement of the firm.

2. In January 2013, the New York City Bar Association issued Formal Opinion 2013-1, which considered the impact of New York Rule of Professional Conduct 1.18 on a lawyer who has participated in a "beauty contest" with a prospective client, but was not retained by the prospective client. The Committee concluded:

- Such lawyers are "restricted from using or revealing information learned in the consultation to the same extent that a lawyer would be restricted with regard to information of a former client." Opinion at 3.
- Such lawyers "may not represent a client with materially adverse interests in the same or a substantially related matter if the information received from the prospective client could be significantly harmful to the prospective client in that matter." *Id.*
- Such lawyers are bound to maintain the confidentiality of information received from a prospective

client and should be disqualified from taking on the representation of a client that is adverse to the prospective client if it provided the lawyers with "significantly harmful" information.

3. In *Kaplan v. SAC Capital Advisors LP*, No. 1:12-cv-09350 (S.D.N.Y. filed Dec. 21, 2012), a class action brought by shareholders of Elan Corporation against SAC Capital Advisors and its former employees, including Mathew Martoma, Quinn Emanuel agreed to stop representing the plaintiff class because Martoma had previously talked to the law firm about the possibility of representing him in his appeal of his related criminal conviction, and that created a potential conflict.

   a. In September 2016, Martoma's lawyers asked the court to disqualify Quinn Emanuel because "Mr. Martoma had multiple calls, email exchanges, and at least one in-person meeting (on September 16, 2014) with a Quinn partner, Christine Chung, to discuss retaining Quinn as his appellate counsel in the related criminal proceedings." *Kaplan v. SAC Capital Advisors LP*, No. 1:12-cv-09350, Doc. 303, at 1 (S.D.N.Y. Sept. 12, 2016).

   b. Martoma's lawyers alleged that "[i]n the course of his discussions with Quinn, Mr. Martoma shared attorney-client information, including thoughts on his criminal trial, strategy as to his appeal, and a privileged draft motion for bail pending appeal." *Id.*

   c. Quinn Emanuel's response denied that Martoma provided any nonpublic information to the Quinn Emanuel partner he met with, and said she had never been in contact with the *Kaplan* plaintiffs or co-counsel. *Kaplan. v. SAC Capital Advisors LP*, No. 1:12-cv-09350, Doc. 328, at 1 (S.D.N.Y. Sept. 19, 2016).

   d. Nonetheless, after consulting with the plaintiffs and its co-counsel, Quinn Emanuel asked to withdraw as class counsel to avoid "undue distraction and potential delay in the litigation." *Id.* at 2.

4. In *Mayers v. Stone Castle Partners,* 126 A.D.3d 1, 1 N.Y.S.3d 58, 62 (1st Dep't 2015), the First Department ruled that it would not disqualify Quinn Emanuel, counsel to Stone Castle, on the basis of a single phone call from opposing party Mr. Mayers to a

Quinn Emanuel partner in which Mr. Mayers sought to retain Quinn Emanuel to represent him.

a. The Court explained that New York Rule of Professional Conduct 1.18 gives "prospective clients" who never become actual clients certain rights, including the right to seek disqualification where confidential information was exchanged in the initial consultation which could be "significantly harmful" in the matter.

b. But the Court found that while Mr. Mayers provided confidential information to Quinn Emanuel, that information could not be "significantly harmful" to him.

5. Similarly, in *In re Eliopoulos*, No. 11-19665-EPK, Doc. 392 (Bankr. S.D. Fla. July 27, 2015), a federal court in Florida ruled it would not disqualify a law firm that represented the debtor architect on the basis of a single phone call.

a. A creditor suing the architect had made the call to a "very junior" bankruptcy attorney "about the possibility of legal representation with respect to this bankruptcy case." The junior attorney later joined the firm representing the debtor. Slip Op. at 2.

b. The court found "no confidential information was conveyed during the telephone call." *Id.*

c. The court also sanctioned the creditor's attorney for continuing to pursue the motion: "The continued pursuit of the Motion to Disqualify through trial was an exercise in hubristic pique by Halmos and PAH in a deliberate attempt by them to disrupt the bankruptcy proceeding and to inflict as much expense, delay and emotional pain on the Debtor and his lawyers as possible." *Id.* at 5.

6. In *In re Kaufman*, 40 Misc. 3d 1234(A), 980 N.Y.S.2d 276 (Surr. Ct. Nassau Co. 2013), the Nassau County Surrogate's court disqualified the law firm Farrell Fritz from representing a client in estate litigation against his brother because the brother had consulted a Farrell Fritz lawyer about the litigation, even though he did not hire the firm.

a. Kenneth Kaufman was engaged in litigation against his brother Allen Kaufman concerning their parents' estate.

Kenneth consulted two Farrell Fritz attorneys about the dispute but did not retain the firm.

b. 16 months later, Allen Kaufman hired a different Farrell Fritz attorney who was not aware of Kenneth's prior consultation with his colleagues.

c. Kenneth moved to disqualify Farrell Fritz and the court granted the motion.

   i. Although the two attorneys argued they did not recall the details of the meeting and had never discussed it with their colleagues, the Court rejected their arguments.

   ii. It explained that the initial consultation created an attorney-client relationship even if the lawyer was not retained. The Court observed that Farrell Fritz's consultation with Kenneth and later representation of Allen related to the same matter and that it was undisputed that the brother's interests were adverse.

   iii. Finally, the Court said that a conflict may be imputed to an entire firm (not just the two lawyers consulted) because there is a presumption of shared confidences within a law firm. This presumption can be rebutted if the firm can show that the information obtained by the disqualified attorney is unlikely to be significant or material. However, Farrell Fritz could not rebut the presumption because Kenneth showed that the information he shared in the consultation was confidential and valuable.

P. Pro Hac Vice Motions

1. The Delaware Chancery Court recently warned counsel moving for admission pro hac vice that they must candidly disclose conflicts.

2. In *Manning v. Vellardita*, No. 6812-VCG, 2012 Del. Ch. LEXIS 59 (Del. Ch. Mar. 28, 2012), the Delaware Chancery court addressed whether lack of complete candor regarding potential conflicts in a Motion for Admission Pro Hac Vice is a basis either: (i) to disqualify counsel, or (ii) to revoke the admission pro hac vice.

a. The case was a summary proceeding to determine the members of the Board of Directors of ValCom, Inc. That determination depended in part on whether the Board approved the terms of a loan. *Id.* at *1-2. Shiboleth, LLP represented ValCom in the loan transaction. *Id.* at *2.

b. A non-Delaware attorney was admitted pro hac vice to represent the plaintiffs, but he did not include in his pro hac vice motion the fact that he is the head of litigation for the Shiboleth firm. Instead he merely listed himself as a member of his own law firm. *Id.* at *3.

c. Defendant argued that the attorney should be disqualified under Rule 1.9 on the ground that he was a member of the Shiboleth firm which had represented ValCom in connection with the disputed loan transaction at the heart of the proceeding. *Id.*

d. The Court ruled that an attorney seeking admission pro hac vice must disclose conflicts under Delaware Rule of Professional Conduct Rule 1.9. *Id.* at *9. The Court explained that "to maintain the value to this Court of extending the privilege of pro hac vice admission to attorneys from other jurisdictions, it is necessary that those attorneys accorded this privilege are held to a high level of conduct including, importantly, candor with the Court." *Id.* at *8.

e. Nevertheless, the Court denied the defendant's motion to disqualify because it found that the defendant did not meet its burden to show a violation so extreme that it calls into question the fairness or efficiency of the proceeding. However, the Court referred the matter to the Office of Disciplinary Counsel in Delaware and the corresponding legal ethics enforcement agency in New York, the home state of the attorney. *Id.* at *10.

Q. Attorneys Moving to New Law Firms, and the Role and Limits of Ethical Screens

1. Attorneys moving to new law firms can create conflicts of interest for both their old firms and their new firms. Courts have sometimes found these issues can be addressed by the use of an ethical screen.

2. In *In re US Bentonite, Inc.*, No. 13-20211, 536 B.R. 948 (D. Wyo. Sept. 3, 2015), for example, an associate at a law firm representing the debtor was offered a job at the firm that represented one of the debtor's two secured creditors. *Id.* at 953.

    a. The associate accepted the job on March 11, 2015, but failed for six weeks to disclose the accepted offer to the attorney supervising him. Even after informing his current firm of his impending departure, the associate continued to sign and file pleadings on behalf of the debtor for almost three months after accepting the job offer from the creditor's firm. *Id.*

    b. During this three month period, the debtor and creditors reached a settlement dividing the debtor's assets and stipulated to the dismissal of the bankruptcy case. *Id.*

    c. On June 5, the associate moved to withdraw as the debtor's counsel without disclosing the conflict. Finally, on June 15, the associate's supervisor disclosed to the court that the associate had accepted an offer of employment with the law firm that represented the creditor. *Id.*

    d. The U.S. trustee moved to disqualify the firm from representing the debtor and to deny it any compensation. *Id.* at 951.

    e. The court concluded that "accepting a position at a law firm representing one of the largest creditors in a case where one represents the debtor must be disclosed, [and] ... the connections between the firms and the parties at a minimum created the appearance of impropriety." *Id.* at 953. It found that the firm representing the debtor had to disgorge its fees from the date the associate accepted the job offer — even though the firm hadn't known about the situation for the first month. *Id.* at 960.

    f. However, the court also ruled that the firm should not be disqualified as counsel for the debtor because: (1) the lawyer who created the conflict had left the firm representing the debtor; (2) the case was nearly concluded, and the cost and delay for the debtor to retain new lawyers at that point would be "of no benefit," particularly since there was insufficient money to satisfy all claims; (3) the settlement agreement itself was not tainted because the evidence established it was reached among four different parties at arms-length;

and (4) the lawyer had been screened from participation in the case after he arrived at his new firm (the Court ordered the new firm to continue to screen the attorney from the case). *Id.* at 960.

3. In some situations, courts have found that an ethical screen cannot eliminate a conflict, because the conflict is too direct or for other reasons.

4. In *Dorfman v. Reffkin*, No 652269/2014, Doc. 170 (Sup. Ct. N.Y. Co. Sept. 10, 2015), for example, Avi Dorfman sued his former business partner Robert Reffkin and Urban Compass, the rental search company he alleged he helped to create.

    a. In October 2014, Urban Compass hired Kirkland & Ellis to defend it in the action. In January 2015, one of the Kirkland & Ellis attorneys who did work for Urban Compass, including spending about 50 hours on the defense of the Dorfman action, moved to Quinn Emanuel. The attorney had worked on Urban's motion to dismiss and interviewed its executives to develop strategies.

    b. In April 2015, Dorfman hired Quinn Emanuel to work on the case, but defendants moved to disqualify Quinn Emanuel from representing Dorfman. Quinn Emanuel responded that it had set up a "really, really tough" ethical screen.

    c. Nevertheless, the court granted the motion to disqualify. *Dorfman v. Reffkin*, No 652269/2014, Doc. 172, at 21 (Sup. Ct. N.Y. Co. Sept. 10, 2015) (transcript). The court explained that even if the attorney worked for Urban for only a few dozen hours, it was impossible for the court or the litigants to know exactly what "Aha!" moments the attorney had about the case before moving to Quinn. *Id.* at 43. The judge was also concerned that the defense would be disadvantaged by the belief that plaintiff Dorfman and his legal team had a "slam dunk" in the lateral Quinn attorney. *Id.* at 41. Finally, the court observed that Quinn's offer to provide monthly affidavits to the court attesting that client confidences were being maintained would be "a lot of work." *Id.* at 46.

5. In *In re City of San Bernardino*, California, No. 6:12-bk-280006-MJ (Bankr. C.D. Cal. June 13, 2013), the court disqualified a law firm from representing a bond insurer, National Public Finance Guarantee Corp., in the bankruptcy of the City of San Bernardino,

after the firm hired five lawyers who were representing the California Public Employees' Retirement System ("CalPERS") in the same bankruptcy action from the Charlotte, North Carolina office of K&L Gates.

a. National Public Finance Guarantee Corp. and CalPERS were both litigating for a share of San Bernardino's assets.

b. CalPERS moved to disqualify the law firm, but the firm argued that it could set up an effective confidentiality screen between Parrish and the lawyers representing National Public Finance Guarantee Corp.

c. The court disagreed, and found the firm could not overcome the attorneys' potential breach of duty to CalPERS under California Rules of Professional Conduct.

d. Under California law, a lateral partner's knowledge is presumptively imputed to his or her new firm, but the firm can rebut that presumption by showing that it walled off the confidential information. *See Kirk v. First American Title Ins. Co.*, 183 Cal. App. 4th 776 (2d Dist. 2010).

e. However, the court ruled that when a lawyer switches from one side to another while a case is under way, that "direct conflict" means the new firm is automatically disqualified regardless of any ethical walls or other protections it has created.

6. In *Energy Intelligence Grp. v. Cowen & Co. LLC*, No. 1:14-cv-03789-NRB, 2016 U.S. Dist. LEXIS 92176 (S.D.N.Y. July 15, 2016), the court found an ethical screen was insufficient protection because the law firm was small.

   a. Plaintiffs sued defendant Cowen for copyright infringement.

   b. After the lawsuit was filed, Cowen retained two Reed Smith lawyers to advise Cowen on its copyright policies and practices. *Id.* at *2-3. Following the conclusion of that representation, one of the two Reed Smith lawyers joined Powley & Gibson ("P&G"), a 14-lawyer firm that was representing the plaintiffs in the copyright infringement litigation against Cowen. *Id.* at *6.

   c. P&G immediately created an ethical wall to screen the former Reed Smith lawyer from the copyright infringement lawsuit against Cowen by:

i. sending a memo to the entire firm on the day the former Reed Smith attorney started work at the firm, instructing that no one should discuss the copyright infringement case with him;

ii. instructing the former Reed Smith attorney not to discuss any work Reed Smith had performed for Cowen;

iii. physically segregating the case files and putting a label on them that they were subject to an ethical screen; and

iv. configuring the firm's computer system to prevent the former Reed Smith attorney from accessing the Cowen electronic case files. *Id.* at *7.

d. P&G also notified Cowen's litigation counsel that the former Reed Smith attorney had joined the law firm. *Id.* at *6-7.

e. Cowen moved to disqualify the law firm and the court granted the motion.

i. The court rejected plaintiff's argument that the former Reed Smith lawyer's representation of Cowen was unrelated to the subject matter of the litigation. *Id.* at *13-15.

ii. The court also concluded that P&G's ethical wall was insufficient to rebut the imputation of the former Reed Smith lawyer's conflict to the rest of the firm for two principal reasons:

(1) First, the small size of the firm "by its nature imperils an ethical screen." *Id.* at *17.

(2) Second, the former Reed Smith lawyer was currently representing at P&G the same plaintiffs in a substantially similar case against a different defendant. *Id.* at *18.

iii. The court mentioned that several other factors caused concern:

(1) The 14-lawyer firm waited three weeks to inform Cowen of the potential conflict;

(2) The firm took the position at oral argument that the former Reed Smith lawyer could represent the plaintiffs in that very case; and

(3) Despite appearing as counsel of record for the same plaintiffs in another litigation, the new lawyer denied "actively litigating" claims for the plaintiffs." *Id.* at *18-19.

R. The Question Whether Client Confidences Were Acquired

1. Courts sometimes focus on whether client confidences were acquired in deciding whether to disqualify an attorney.

2. In *Hutton v. Parker-Hannifin Corp*., No. 4:15-cv-03759, 2016 U.S. Dist. LEXIS 102176 (S.D. Tex. Aug. 4, 2016), a court disqualified a law firm from representing plaintiffs after finding it was likely that an attorney at the firm received confidential information as a result of prior work for defendant, even though the two matters were not substantially similar.

   a. Plaintiffs sold their company, Phoenix, to Parker-Hannifin, but later sued Parker-Hannifin for breach of their employment and non-compete agreements. *Id.* at *1-3.

   b. Pavelko, an attorney at the Novak Druce law firm, had represented plaintiffs and their companies for years. After they sold their company to Parker-Hannifin, he and his colleagues handled some patent and other IP legal work for Parker-Hannifin. *Id.* at *4.

   c. Another Novak Druce attorney, Towns, then represented plaintiffs in their lawsuit against Parker-Hannifin. Towns and several Novak Druce attorneys, including Pavelko, subsequently moved to a new law firm, Polsinelli PC. *Id.* at *4-5.

   d. Parker-Hannifin moved to disqualify Polsinelli, and the court granted the motion.

      i. The court found there was "no substantial relationship between Novak Druce's prior representation of Parker-Hannifin and the current case." *Id.* at 12.

      ii. However, the court concluded that Polsinelli had to be disqualified because "there is a reasonable probability that relevant confidential information obtained by Novak Druce during its prior representation of Parker-Hannifin will be used against Parker-Hannifin in this case." *Id.* at 21.

3. Conversely, in *Victorinox AG v. B&F Sys., Inc.*, No. 1:13-cv-04534-JSR, 2016 U.S. Dist. LEXIS 99918 (S.D.N.Y. July 29, 2016), Judge Rakoff denied a motion to disqualify Locke Lord from representing plaintiff Victorinox, which makes Swiss Army knives, in a trademark infringement lawsuit against B&F.
    a. The law firm that brought Victorinox's lawsuit against B&F merged with Locke Lord LLP in January 2015 and joined its New York office. But a Locke Lord lawyer in Texas already represented B&F on various intellectual property matters that were unrelated to the Swiss Army Knife lawsuit.
        i. Thus, after the merger, Locke Lord represented both plaintiff Victorinox in its lawsuit against defendant B&F (through firm attorneys in New York) and defendant B&F in other matters (through a firm attorney in Texas).
        ii. Locke Lord did not notice this conflict when it merged with the law firm that represented Victorinox, because it limited its conflict check to matters on which that firm had billed $100,000 or more in at least one of the prior two years.
        iii. The Locke Lord Texas attorney who did work for B&F attorney learned of the conflict and wrote to B&F to terminate the representation without mentioning the conflict. *Id.* at *5
        iv. Locke Lord did not create an ethical wall, but the Locke Lord Texas lawyer who had performed legal work for B&F testified he set up his "own wall" separating himself from the New York lawyers who were handling the lawsuit against B&F. *Id.* at *9.
    b. B&F moved to disqualify Locke Lord, and the Court denied the motion.
        i. Judge Rakoff held that Locke Lord's representation of Victorinox in its lawsuit against B&F violated Rule 1.7 of the New York Rules of Professional Conduct, and the court's Local Rule 1.5(b)(5), and the violation resulted from the firm's gross negligence in failing to conduct a conflict check with respect to matters on which the

merging firm billed less than $100,000 in the prior two years. *Id.* at *6-7.

ii. The court also found that the letter from the Texas Locke Lord lawyer terminating his representation of B&F was "misleading on its face," because it gave economic reasons for ending the relationship when the conflict was real reason. *Id.* at *8.

iii. Nevertheless, Judge Rakoff denied B&F's to disqualify Locke Lord because he concluded the Texas Locke Lord lawyer's conflict should not be imputed to the firm since B&F did not present any evidence that the Texas lawyer and the New York Locke Lord lawyers exchanged any pertinent information, and the Texas lawyer's matters for B&F were "very substantially different" than the lawsuit in New York, and the concurrent representation ended in December 2015. *Id.* at *8-10.

c. B&F has appealed and Locke Lord has intervened in the appeal. *Victorinox AG v. The B&F Sys., Inc.*, No. 15-4032, Doc. 173-2 (2d Cir. Aug. 2, 2016); Y. Peter Kang, "2nd Cir. Lets Locke Lord Weigh In On Swiss Knife DQ Fight," Law360.com, Oct. 20, 2016.

4. Similarly, in *Sharifi-Nistanak v. Coccia*, 119 A.D.3d 765, 989 N.Y.S.2d 141 (2d Dep't 2014), the Second Department denied a motion to disqualify a law firm that represented the plaintiff, even though the firm hired a lateral lawyer who had represented the defendant in the very same action, because the lateral had not acquired any client confidences.

a. A lawyer associated with counsel for the defendant, signed the verifications of the defendant's answer and bill of particulars, and prepared discovery demands in defense of a personal injury action.

b. The lawyer then went to work for counsel for the plaintiff.

c. The defendant moved to disqualify the plaintiffs' law firm.

d. The Court denied the motion, explaining "[w]hile generally, a party seeking to disqualify an opponent's attorney 'must prove: (1) the existence of a prior attorney-client relationship between the moving party and opposing counsel,

(2) that the matters involved in both representations are substantially related, and (3) that the interests of the present client and former client are materially adverse' (*Tekni-Plex, Inc. v. Meyner & Landis*, 89 NY2d 123, 131 [1996]), 'no presumption of disqualification will arise if either the moving party fails to make any showing of a risk that the attorney changing firms acquired any client confidences in [his or her] prior employment (*see, Jamaica Pub. Serv. Co. v AIU Ins. Co*., 92 NY2d 631, 638[1998]) or the nonmoving party disproves that the attorney had any opportunity to acquire confidential information in the former employment (*Kassis v Teacher's Ins. & Annuity Assn.*, 93 NY2d 611, 617 [1999])." 119 A.D.3d at 765, 989 N.Y.S.2d at 143.

e. The Court found the defendant failed to make any showing that the lateral lawyer acquired any client confidences during his prior employment.

   i. The Court observed that the lawyer swore he had "no independent recollection" of signing the verifications, of any of the other documents which he described as "pro-forma" and "computer generated," or of having spoken to the defendant while preparing those documents. 119 A.D.3d at 766, 989 N.Y.S.2d at 143.

   ii. As a result, since the plaintiff's law firm was not using him in the action, there was no need to disqualify the firm.

S. Pro Bono Clients

1. The conflict rules apply equally where one of the clients involved was or is a pro bono client.

2. In *Highsmith v. Getty Images (US) Inc*., No. 1:16-cv-05924 (S.D.N.Y. filed July 25, 2016), Carol Highsmith sued Getty for allegedly demanding licensing fees for her photos that were donated to the Library of Congress.

   a. Getty's counsel, Jenner & Block, had previously performed pro bono work for Ms. Highsmith.

   b. In a conference with the court, Jenner & Block informed the court that it had erected an ethical screen between the Getty defense and anyone who had performed pro bono work for

Ms. Highsmith, none of her confidences were accessed by law firm personnel working on the Getty lawsuit, and there had been no communication between the two sets of firm attorneys before the wall was established. William Gorta, "Jenner & Block Says There's No Conflict In Getty Photos Suit," Law360.com, Aug. 24, 2016.

c. Based on this assurance, Highsmith's counsel declined to seek the disqualification of Jenner & Block. *Id.*

T. Inconsistent Positions, or Issues Conflicts

1. In *Steelworkers Pension Trust by Daniel A. Bosh, Chairman v. The Renco Group, Inc.*, No. 2:16-cv-00190-TRM-RCM, 2016 U.S. Dist. LEXIS 88001 (W.D. Pa. July 7, 2016), the court declined to disqualify Proskauer from representing a company that withdrew from a multiemployer pension fund and has been sued for an $86 million withdrawal liability, even though Proskauer regularly represents multiemployer pension funds suing companies that withdraw from the funds to compel them to pay their withdrawal liability.

   a. The plaintiff, Pension Trust, moved to disqualify Proskauer from representing the defendant on the ground that Proskauer had for many years represented and currently represents more than a dozen multiemployer pension plans, including in their efforts to collect withdrawal liability. *Id.* at *12.

   b. Pension Trust argued Proskauer was asserting arguments in defense of the case that, if successful, would create precedents likely to seriously weaken the ability of Proskauer's pension plan clients to litigate their own claims. *Id*.

   c. The Magistrate Judge rejected Proskauer's argument that Pension Trust lacked standing to bring the motion to disqualify.

      i. Proskauer pointed out that Pension Trust did not argue it was a client of Proskauer or in privity with Proskauer's pension plan clients.

      ii. The Magistrate Judge reasoned, however, that plaintiff's counsel had a responsibility to alert the Court to ethical conflicts, and the Court had the inherent authority to

supervise the professional conduct of attorneys appearing before it. *Id.* at *13-14.

d. The Magistrate Judge nevertheless denied the motion to disqualify.

i. The Court explained the motion was based on Pennsylvania Rule of Professional Conduct 1.7, which tracks ABA Model Rule of Professional Conduct 1.7, and arises out of the fundamental proposition that an attorney owes a duty of undivided loyalty to his or her clients. *Id.* at*16-17.

ii. The Court looked to Comment 24 to ABA Rule 1.7 for guidance on the issue conflict alleged by plaintiff:

- "Ordinarily a lawyer may take inconsistent legal positions in different tribunals at different times on behalf of different clients. The mere fact that advocating a legal position on behalf of one client might create precedent adverse to the interests of a client represented by the lawyer in an unrelated matter does not create a conflict of interest. A conflict of interest exists, however, if there is a significant risk that a lawyer's action on behalf of one client will materially limit the lawyer's effectiveness in representing another client in a different case, for example, when a decision favoring one client will create a precedent likely to seriously weaken the position taken on behalf of the other client. Factors relevant in determining whether the clients need to be advised of the risk include: where the cases are pending, whether the issue is substantive or procedural, the temporal relationship of the matters, the significance of the issue to the immediate and long-term interests of the clients involved and the clients' reasonable expectations in retaining the lawyer. If there is significant risk of material limitation, then absent informed consent of the affected clients, the lawyer must refuse one of the representations or withdraw from one or both matters." *Id.* at *16-17 (emphasis added).

iii. Applying these principles, the Court noted that Proskauer had not presented conflict waivers from its pension plan clients.

iv. But Proskauer did provide a sworn declaration of one of its partners that while Proskauer is currently handling nine withdrawal liability lawsuits on behalf of pension plan clients, it was not in any of those cases taking a position opposite to the position it was taking in this case for its client. *Id.* at *17-18.

e. The Court found Pension Trust had not met its burden of identifying a lawsuit Proskauer was currently handling in which its clients' interests would be adversely affected if Proskauer prevailed on the argument it was making in this case, and therefore had not shown there was a serious risk that Proskauer's actions in this case would materially limit its effectiveness in representing another client in a different case such that the attorney-client relationship in this case should be severed. *Id.* at *19.

U. Seeking Disqualification Based on an Asserted Violation of a Protective Order in Another Litigation

1. A party may seek to disqualify counsel for violating a protective order by using material obtained in a prior litigation.

2. For example, in *Zurich Am. Ins. Co. v. Fluor Corp*., 4:16CV00429 ERW, 2016 U.S. Dist. LEXIS 143687 (E.D. Mo. Oct. 18, 2016), an insurance coverage dispute, Zurich moved to disqualify Latham & Watkins as counsel for defendant Fluor for precisely that reason, and the court denied the motion.

   a. Fluor and its successor, Doe Run, owned a lead smelter. Zurich insured the business. Id. at *2.

   b. Fluor sued Doe Run in state court concerning claims against the smelter business. Latham represented Fluor, issued a non-party subpoena to Zurich, and obtained its confidential documents, which were subject to a protective order. *Id*. at *3-4.

   c. Zurich then brought a federal action against Fluor, and Fluor filed a counterclaim.

d. Zurich moved to disqualify Latham in the federal action on the ground that the law firm relied on facts it learned from the documents it subpoenaed from Zurich in the state court action to assert the counterclaim against Zurich. Zurich alleged that use of the subpoenaed documents violated the state court protective order which directed that the documents subpoenaed from Zurich were to be used only in the state court action. *Id.* at *5.

e. However, the federal court reviewed the documents in question and the counterclaim and concluded "[t]here is no evidence presented before this Court to suggest Fluor violated the terms of the protective order or acted improperly before the Court to warrant disqualification or sanctions." *Id*. at *7. "Zurich has failed to show Fluor's knowledge of the protected discovery has tainted this litigation when it is clear Fluor has taken steps to ensure the information it learned was not used in the counterclaim." *Id*.

V. THE "HOT POTATO" RULE

A. The General Rule

1. When a lawyer represents multiple clients, and a conflict arises that prevents further joint representation, can the lawyer drop one client in favor of the other, more lucrative client?

2. The courts have generally answered "no." *See Picker Int'l, Inc. v. Varian Assocs.*, 670 F. Supp. 1363, 1365 (N.D. Ohio 1987), *aff'd*, 869 F.2d 578 (6th Cir. 1989). This has been called the "Hot Potato" rule.

3. But some courts have carved out exceptions.

B. The *Markham Concepts* Decision

1. In *Markham Concepts, Inc. v. Hasbro, Inc.*, C.A. No. 15-419-S, 2016 U.S. Dist. LEXIS 96000 (D.R.I. July 22, 2016), the court applied the hot potato rule to disqualify Greenberg Traurig ("GT") from representing Lorraine Markham in a lawsuit against Hasbro.

   a. GT had provided Hasbro with legal advice on general sales promotion since 2008, and had performed patent prosecution

work for Hasbro since 2011, with bills not exceeding $25,000 annually for that work. *Id.* at *5-6.

b. GT's retainer agreement said Hasbro would not unreasonably withhold a waiver of a conflict of interest if (i) the potentially adverse representation is substantially unrelated to GT's work for the toy company, (ii) an ethical wall is created, and (iii) GT does not disclose to the adverse persons and entities any confidential information it obtains from the toy company. *Id.* at *5.

c. Markham sued Hasbro for breach of contract for failure to pay royalties due on sales of the Game of Life, and for a determination that Hasbro does not control the intellectual property for that game and does not have the right to commission derivative works based on the game. *Id.* at *4.

    i. Markham was represented by several Cadwalader lawyers, who moved as laterals to GT.

d. Shortly before bringing in the laterals, GT met with Hasbro to try to expand their relationship. *Id.* at *6.

e. After GT announced that the laterals were joining the firm, it asked Hasbro to waive the conflict so they could continue to handle the litigation adverse to Hasbro. But Hasbro declined. *Id.*

f. Four days later, GT informed Hasbro it was withdrawing as their counsel in any open matters. *Id.* at *6-7.

g. Hasbro moved to disqualify GT from handling the litigation adverse to Hasbro. *Id.* at *7.

h. On July 22, 2016, the Court granted Hasbro's motion to disqualify GT.

    i. The Court rejected GT's argument that Hasbro was a former client and the Court should therefore determine the motion to disqualify based on the Rules of Professional Conduct applicable to former clients. *Id.* at *7-8.

    ii. The Court accepted Hasbro's argument that GT's conduct fell squarely under the "hot potato" doctrine, a "judicially created rule which bars an attorney and law firm from curing the dual representation of clients by

expediently severing the relationship with the preexisting client." *Id.* at *7-8.

iii. The Court found that although this doctrine does not create a per se disqualification rule, it comports with the attorney's duty of loyalty to his or her client, and should be applied in the circumstances of the case. *Id.* at *8-9.

(1) GT had represented Hasbro for 8 years, was seeking to expand the relationship, and dropped Hasbro only because it would not waive the conflict. *Id.* at *9.

(2) If GT could convert Hasbro into a former client by dropping it in the face of an imminent conflict, then any firm could avoid Professional Rule of Conduct 1.7 by simply converting a present client into a former client. *Id.*

iv. The Court then found that although Hasbro had not shown that the *Markham* litigation was related to GT's prior work for Hasbro or that GT could use confidential information from its representation of Hasbro in the *Markham* case, the facts of the case were sufficiently egregious to require disqualification because GT identified the conflict before the laterals joined the firm, but then chose without good cause not to remain loyal to Hasbro. And the laterals chose to risk the consequences of a known conflict of interest to join GT. *Id.* at *15-16.

v. The Court rejected the argument that the potential consequences to Markham meant the motion to disqualify should be denied. The Court reasoned that any prejudice to Markham resulted from it and/or its lawyers' own decisions and did not outweigh GT's duty of loyalty to Hasbro. *Id.* at *16-17.

vi. The Court concluded that any perceived disloyalty to even a sporadic client besmirches the reputation of the legal profession and has the potential to erode the public confidence in attorneys. *Id.* at *18.

C. The *Mylan* Decision

1. A federal magistrate judge in Pennsylvania recently applied the hot potato doctrine in recommending the disqualification of Kirkland & Ellis from representing Teva in its takeover battle for Mylan. *See Mylan Inc. v. Kirkland & Ellis LLP*, No. 2:15-cv-00581-JFC-LPL, Doc. 96 (W.D. Pa. June 9, 2015).
2. Kirkland had also been counsel to several Mylan entities, though not the Mylan parent which was the subject of the bid. The court stated that:
    a. Kirkland's representation of its Mylan clients included work on many drug products, for which total revenue was approximately $4 billion, as well as commercial and contract work.
    b. The Mylan clients provided Kirkland with sensitive, confidential, proprietary information, and Kirkland billed substantial fees for its work.
    c. Kirkland set up an ethical wall between its Teva team and its Mylan team.
3. When Mylan learned of Kirkland's representation of Teva, it sued Kirkland for violating its fiduciary duties and the Pennsylvania Rules of Professional Conduct.
    a. Mylan sought an injunction barring Kirkland from continuing to represent Teva in the tender offer.
4. On June 9, 2015, Magistrate Judge Lenihan issued a Report and Recommendation that Mylan's motion for a preliminary injunction should be granted.
5. The Report observed that Rule 1.7 of the Pennsylvania Rules of Professional Conduct states that: "A concurrent conflict of interest exists if: (1) the representation of one client will be directly adverse to another client."
6. The Report also cited comment 6 of the American Bar Association's Model Rule 1.7, which states "Loyalty to a current client prohibits undertaking a representation directly adverse to that client without that client's informed consent. *Thus, absent consent, a lawyer may not act as an advocate in one matter against a person the lawyer represents in some other matter, even when the matters are wholly unrelated."*

a. And the Report cited an illustration to the comment: "Directly adverse conflicts can also arise in transactional matters. For example, if a lawyer is asked to represent the seller of a business in negotiations with a buyer represented by the lawyer, not in the same transaction but in another, unrelated matter, the lawyer could not undertake the representation without the informed consent of each client."

7. The Report then explained: "Under Rule 1.7, counsel is unequivocally prohibited from acting as an advocate against a current client…. In addition, authorities interpreting Rule 1.7, … conclude that an adverse effect on a client stemming from representation adverse to its affiliate is 'directly adverse' to the client in violation of Rule 1.7 where the adverse representation is related to the counsel's services to the client. These limitations on adverse representation under Rule 1.7 are subject to modification by agreement of the parties."

8. The Report rejected Kirkland's argument that it was not acting adversely to Mylan because the tender offer offered 48% more than the trading price of Mylan stock before the offer was announced:

> "An unsolicited acquisition/rejected offer, a 'hostile takeover attempt', is inherently what its name reflects – 'hostile', *i.e.*, 'contrary, adverse, antagonistic', as derived from the Latin "*hostilis*" and Old French "*hostis*" meaning 'enemy'. And an adverse representation is also inherently what its name reflects – 'adverse', *i.e.*, 'acting against or in opposition to, opposing, contrary, antagonistic, actively hostile', as derived from the Latin '*adversus*' meaning 'turned against, hostile.' As Plaintiffs duly note, it would be hard to imagine a representation more opposed to a current client's interests, more in breach of a fiduciary duty toward those interests, than one in which the client's counsel sells his professional services to advance the interests of a competitor in a hostile takeover attempt of the clients' entire corporate affiliate group. The Court does not accept Defendant's attempt to cabin the ethical rule's prohibition of a 'representation . . . directly adverse' to a client's showing of detrimental outcome. The plain language of Rule 1.7 looks to the lawyer's representation - his *advocacy against* his client - not merely the potential detrimental effect on the client."

9. The Court also rejected Kirkland's argument that it should be allowed to represent Teva in the tender offer because it never represented the Mylan parent entity that was the target of the tender offer:

> "Defendant's contention that the fortuitous circumstance of a recent reorganization adding a tier of holding-company ownership to the Mylan corporate affiliate structure now relieves it of an important component of its fiduciary duty is disquieting. The sacrosanct duties that characterize an attorney's faithfulness to his/her client are not so easily forfeited. Teva is not only after the bag (*i.e.*, the quite-recently-formed holding company); it is after the contents (*i.e.*, Kirkland's clients of several years, Mylan, Inc. and its wholly-owned subsidiaries, owners of the revenue-generating pharmaceutical products). The Court observes that Defendant's crabbed view of the potential 'adverse effect on the interests' of its clients (*i.e.*, a higher or lower stock offer) should Kirkland have breached/ breach its fiduciary duty ignores both the moral/ ethical considerations and effects to a client of its counsel's betrayal and the true spectrum of potential adverse business/ economic effects flowing from abuse of client trust/ misuse of information received in a fiduciary capacity."

10. The Report further found that: "Defendant's suggestions that if Plaintiffs were truly concerned about the loyalty of Kirkland they should/would have fired Defendant from its current engagements are inappropriate at best."

11. The Report concluded that the tender offer representation would be adverse to Kirkland's Mylan clients: "Defendant's protestations notwithstanding, it is clear that confidential and proprietary information received and reviewed, and matters advised upon, in the course of Defendant's fiduciary relationship as counsel to the Mylan Clients are pertinent to the Subject Representation."

12. The Report further found that even if the Rules of Professional Responsibility did not bar the tender offer representation, it would be barred by Kirkland's engagement agreement with its Mylan clients because the firm undertook not to represent other clients "adversely to … any [Mylan] affiliates on matters related to its legal services for the Mylan Clients."

13. The Report found that by specifying the circumstances in which Kirkland could be adverse, the engagement letter precluded other circumstances under the principle of *expressio unius est exclusio alterius*, and that any ambiguity must be interpreted against Kirkland because it drafted its engagement agreement.

14. Finally, the Report found that injunctive relief was warranted because Mylan had made a compelling showing of an injury to a legally-protected interest that cannot adequately be remedied at law.

15. The Report rejected Kirkland's argument that it would suffer irreparable injury if barred from the representation because it would lose substantial fees and an injunction would impugn its reputation.

16. The Report found that to the extent the public interest is concerned, it must be deemed to favor the enforcement of ethical rules and contractual undertakings.

17. The lawsuit was then settled when Teva abandoned its takeover bid for Mylan. *See Mylan Inc. v. Kirkland & Ellis LLP*, No. 2:15-cv-00581-JFC-LPL, Doc. 115 (W.D. Pa. Aug. 6, 2015) (stipulation and order).

D. The Delaware Court of Chancery's Denials of Motions to Disqualify

1. Several years ago, the Delaware Court of Chancery denied three motions to disqualify based on asserted violations of the "Hot Potato" rule, without deciding whether the law firm's conduct violated the applicable Delaware rules of professional conduct. It seems the Delaware Chancery Court will not grant disqualification motions based on the "Hot Potato" rule unless it finds that the conflict impinges on the integrity of the proceedings.

2. In *Air Products & Chemicals, Inc. v. Airgas, Inc.*, Civ. Action No. 5249-CC, 2010 Del. Ch. LEXIS 35 (Del. Ch. Mar. 5, 2010), the court granted Air Products' motion for a declaration that Cravath, Swaine & Moore could continue to serve as Air Products' counsel in the action.

    a. As of October 2009, both Air Products and Airgas had been long-time clients of Cravath.

        i. Cravath had represented Air Products on a wide variety of matters, including acquisitions and divestitures, for 21 years.

        ii. Cravath had represented Airgas, solely on debt financing-execution matters, for 8 years.

    b. In October 2009, Air Products contacted Airgas regarding its interest in pursuing a friendly acquisition of Airgas by Air Products.

c. On October 28, 2009, Cravath informed Airgas that it would not undertake new representations from Airgas due to the risk of a conflict developing with a different client.

d. On February 4, 2010, after Air Products' approaches to Airgas proved unfruitful, Air Products publicly announced that it intended to offer to purchase all outstanding Airgas stock for $60 per share. On that same day, Air Products, represented by Cravath, commenced an action in the Delaware Court of Chancery against Airgas and its board seeking declaratory and injunctive relief for an alleged breach of fiduciary duty by the Airgas board. *Id.* at *3.

e. On February 5, Airgas commenced an action against Cravath in the Court of Common Pleas of Pennsylvania, where Airgas is headquartered, alleging that Cravath breached its fiduciary duty and should be enjoined from representing Air Products in connection with the proposed Airgas transaction. *Id.*

f. The Pennsylvania Court of Common Pleas denied Airgas's application for a TRO, and Cravath successfully removed the action to the federal court in the Eastern District of Pennsylvania. *Id.*

g. Air Products moved in the Delaware Court of Chancery for a declaration that Cravath could continue to serve as Air Products' counsel in the action it had brought there; the Eastern District of Pennsylvania then stayed Airgas's action until the Court of Chancery could decide that motion. *Id.*

h. On March 5, 2010, Chancellor William Chandler issued an oral decision granting Air Products' motion.

    i. Chancellor Chandler first noted that under Delaware's choice of law rules, the rules of the tribunal govern an effort to disqualify counsel appearing before that tribunal, and accordingly the Delaware's Lawyers Rules of Professional Conduct (which are based on the ABA's Model Rules) apply. *Id.* at *4-5.

    ii. Noting that the parties had submitted conflicting expert testimony as to whether Cravath had complied with Rules 1.7 and 1.9, the court found it unnecessary to decide that question to dispose of the motion before it. *Id.* at *6-7.

iii. The court explained that under Delaware Supreme Court precedent a party seeking the "draconian" and "drastic" relief of disqualification "must come forward with clear and convincing evidence establishing a violation of the Delaware Rules of Professional Conduct so extreme that it calls into question the fairness or the efficiency of the administration of justice." The court also observed that motions seeking disqualification "are often viewed with suspicion as they are known to be filed for tactical reasons" and that "courts recognize that a litigant should be able to use the counsel of his or her choice." *Id.* at *7.

iv. The court noted that in *Rohm & Hass v. Dow Chemical* it had "refused to disqualify counsel when there was no showing that counsel's participation as an advocate unfairly benefited its present client . . . or unfairly prejudiced its former client . . . even though the representation of the two clients may have overlapped." *Id.* at *8.

v. The court determined that Airgas "has not demonstrated even simply persuasively, let alone clearly and convincingly, that it would be disadvantaged" by Cravath's representation of Air Products. *Id.*

(1) There was no evidence that Cravath had been given Airgas's confidential information, corporate strategies or defensive tactics "during the course of its narrowly focused work for Airgas from 2001 until late October of 2009, or that such information, even if available to Cravath, would prejudice the fairness or the integrity of this proceeding." *Id.*

(2) The evidence showed that Cravath's work for Airgas was limited in scope and nature "and involved neither contact nor advice regarding corporate governance, litigation matters, charter or by-law issues, merger and acquisition advice, defensive tactics or corporate counseling." *Id.* at *8-9.

(3) Cravath did not advise or meet with the most senior Airgas executives or its board, and Airgas "had other long-standing counsel advising it on

litigation, corporate governance and mergers and acquisitions issues." *Id.* at *9.

(4) "Cravath has erected an ethical wall to seal off those members of the firm who worked on the Airgas debt financings from those members of the firm working on the proposed business combination with Airgas." *Id.*

(5) Airgas was represented by highly skilled counsel in this takeover battle, while "[d]isqualification of Cravath, which has been the long-time counsel to Air Products on a wide range of matters, including mergers and acquisitions, would be a serious blow, forcing Air Products to search out and retain new counsel in the heat of an already launched hostile acquisition contest." Accordingly, "the threat of harm to Air Products from disqualification far outweighs the threat of harm to Airgas from a failure to disqualify." *Id.* at *10.

vi. "For all these reasons, I find and conclude that disqualification of Cravath is not necessary to protect the integrity or the fairness of the proceedings before me or to maintain public confidence in the judicial system." *Id.*

i. However, Chancellor Chandler's ruling was not the end of the story on the conflict of interest issue. In Airgas's breach of fiduciary duty lawsuit against Cravath in the Eastern District of Pennsylvania, the district court, in August 2010, denied the law firm's motion for judgment on the pleadings. *Airgas, Inc. v. Cravath, Swaine & Moore LLP*, Civ. Action No. 10-612, 2010 U.S. Dist. LEXIS 78162 (E.D. Pa. Aug. 3, 2010). The Court rejected Cravath's argument that Airgas's complaint failed to establish that it suffered any legally cognizable injury as a result of the law firm's conduct, and held that Airgas stated a claim that it was harmed by Cravath's conduct in four respects:

i. Airgas was forced to retain outside counsel to protect itself against Cravath's alleged breach of loyalty. *Id.* at *5.

ii. Airgas was forced to hire new counsel to replace Cravath in handling its financings. *Id*.

iii. Airgas lost financing opportunities as a result of Air Products' takeover bid which Cravath knew was launched at a time when Airgas was planning to seek additional financing. *Id.*

iv. Airgas paid Cravath fees for services rendered while Cravath was breaching its fiduciary duties by simultaneously working for and against Airgas. *Id.*

j. Airgas announced on June 17, 2011, that it had settled the action. *See* Sophia Pearson, "Airgas Settles Suit Against Cravath Swaine Over Air Products," Bloomberg.com, June 17, 2011.

3. In 2009, the Delaware Court of Chancery, relying on grounds similar to those cited by Chancellor Chandler in his decision in *Air Products*, denied Dow Chemical's motion to disqualify Wachtell, Lipton, Rosen & Katz from representing Rohm and Haas Co. in its suit for specific performance of a merger agreement. *Rohm & Haas Co. v. Dow Chem. Co.*, No. 4309-CC, 2009 WL 445609 (Del. Ch. Feb. 12, 2009); *see also Express Scripts Inc. v. Crawford*, No. 2663-N, 2007 Del. Ch. LEXIS 18 (Del. Ch. Jan. 25, 2007) (denying defendants' motion to disqualify Skadden, Arps, Slate, Meagher & Flom from representing plaintiff in a lawsuit challenging a proposed merger).

E. 3M's Motion to Disqualify

1. In contrast, a Minnesota Court granted a motion to disqualify based on the "hot potato" rule, but that decision was overturned because the court found the movant waited too long to bring the motion.

a. Covington & Burling had represented the Minnesota-based 3M in the 1990s and early 2000s concerning flourochemicals in food packaging, including in connection with regulatory matters before the Food and Drug Administration.

b. The firm had also handled an employee benefits matter for 3M that ended in September 2010.

c. Soon afterward in 2010, Covington filed a lawsuit against 3M on behalf of the state of Minnesota in Minnesota state court alleging that 3M had polluted the water with flourochemicals.

d. More than a year later, 3M moved to disqualify Covington.

   i. The State of Minnesota and Covington opposed the motion, contending that Covington's representation of 3M before the FDA was limited to advising on whether packaging of food products under the Scotchban brand was microwave-safe.

   ii. 3M argued, however, that Covington was 3M's "principal advocate" that the flourochemicals did not have adverse health effects in communications and disclosures to the EPA and the FDA. 3M said it also turned to Covington for advice when it decided to stop manufacturing certain chemical products in 2000. 3M argued that Covington had thus gained access to 3M's confidential information at the center of Minnesota's lawsuit.

   iii. 3M also argued that Covington should be disqualified because it dropped 3M like a "hot potato" to take on the potentially more lucrative representation of the State of Minnesota. According to 3M, Covington sued 3M for the State of Minnesota only eight days after Covington formally terminated its client relationship with 3M.

e. On October 11, 2012, the Minnesota state court disqualified Covington. *See Minnesota v. 3M Co.*, No. 27 CV10-28862, 2012 Minn. Dist. LEXIS 217 (Minn. Dist. Ct. Hennepin Co., Oct. 11, 2012). The Court ruled that:

   - "Covington has exhibited a conscious disregard for its duties of confidentiality, candor, full disclosure, and loyalty to 3M by failing to raise its conflicts arising from the fact that it previously advised and represented 3M on (fluorochemical) matters." *Id*. at *23.

   - 3M established that Covington's prior representation of 3M was "substantially related" to the Minnesota lawsuit.

   - "Covington has 'switched sides' by representing a client who is now suing its former client." "By representing [Minnesota], Covington will benefit by contradicting the very positions it had long advocated on 3M's behalf." *Id*. at *17.

- Minnesota failed to overcome the presumption that Covington received relevant confidential information from 3M and shared it among the lawyers in the firm.

- Covington acknowledged it was not imposing any screens to safeguard 3M's information.

f. In an unpublished opinion, the Court of Appeals affirmed the order disqualifying Covington. *Minnsota v. 3M Co.*, No. A 12-1856, A 12-1867, 2013 Minn. App. Unpub. LEXIS 602 (Minn. App. July 1, 2013).

i. The Court of Appeals found a clear conflict: "Although Covington's former representation of 3M in the FDA regulatory matters had a different focus than its current representation of the state …, both matters at their heart concern the risk that PFCs pose to human health, and at least facially, the matters are 'substantially related'." *Id*. at *14.

ii. The appellants argued that, even if Covington's prior representation of 3M on PFCs was substantially related to its current representation, disqualification was inappropriate because 3M waited 15 months after the lawsuit was initiated to seek disqualification. Appellants argued this delay was tantamount to informed consent under the ethics rules or waiver under common law.

iii. The Court of Appeals found the delay, "might well be perceived as tactical maneuvering. And 3M's claim that it only realized at that late date that there may be a conflict is contradicted by the record." *Id.* at *20. However, the Court ruled that "knowledge of the conflict, by itself, is not sufficient to avoid disqualification." *Id*.

2. Covington appealed to the Minnesota Supreme Court.

a. On April 30, 2014, the Court reversed and remanded. The Court explained that "the district court abused its discretion by failing to consider all legally relevant factors." "Moreover, the district court's consideration . . . does not include sufficient factual findings or legal analysis to permit effective appellate review. Accordingly, we remand to the district court to

evaluate the evidence using the proper legal standard." *Minnesota v. 3M Co.*, 845 N.W.2d 808, 817 (Minn. 2014).

b. The Supreme Court said the trial court should have considered whether 3M waived its attorney-client privilege or confidentiality with respect to information it disclosed to Covington by disclosing that information to the FDA or by filing a separate, concurrent lawsuit against the firm for breach of fiduciary duty.

c. The Supreme Court also found the trial court did not analyze whether the information Covington obtained during its representation of 3M would materially advance the State's case.

d. The Supreme Court concluded that Minnesota conflict rules allow a party to waive the right to disqualify opposing counsel. The court said that on remand, the trial court should consider whether 3M waived that right by waiting to seek to bar Covington from the case until extensive discovery had been taken.

3. On remand, the trial court found Covington received during its representation of 3M confidential information that goes "to the core legal issues" in the case it was now pursuing against 3M on behalf of Minnesota.

   a. But the court declined to disqualify Covington, because it found 3M did not file its disqualification motion until 16 months after 3M had constructive knowledge of the information on which it grounded the motion, *Minnesota v. 3M Co.*, No. 27-CV-10-28862, 2016 Minn. Dist. LEXIS 1 (Minn. Dist. Ct. Hennepin Co. Feb. 5, 2016):

      - "In January 2011, 3M had constructive knowledge of all the information that it now says leads inexorably to the conclusion that Covington should be disqualified." *Id.* at *49.

      - To wait 16 months to act "is an extraordinarily long delay, given the amount of pretrial preparation and discovery that was done during that period of time and the amount of time that would be required by a new law firm to assimilate that information. This presupposes that another firm would be willing to undertake the representation. Covington agreed

to take this matter on a contingency basis. It is unknown if another firm would be willing to do the same." *Id.* at *49-50.

4. 3M has sued Covington for breach of fiduciary duty and breach of contract. 3M alleges Covington dropped 3M as a client so it could represent the State of Minnesota in the contingency fee case against 3M. *3M Co. v. Covington & Burling LLP*, No. 62-cv-12-6607 (Minn. 2d Jud. Dist. Ramsey Co. filed Aug. 17, 2012).

    a. On September 2016, the court granted 3M's motion to amend its complaint against Covington to seek punitive damages.

        i. The court found "the purpose of the fiduciary duty rule … is to maintain the confidence of the public in the confidentiality of a legal representation . . . for an attorney to turn around and represent then an adverse party with information gleaned during the previous representation more than undermines the purpose of that rule. … This is serious when you're talking about attacking the integrity of the legal profession." *3M Co. v. Covington & Burling LLP*, No. 62-cv-12-6607 (Minn. Second Judicial District, Ramsey Co. Sept. 12, 2016) (transcript of motion hearing, at 80).

F. "Accommodation Clients"

1. Some courts have made an exception to the "Hot Potato" rule for so-called "accommodation clients," also known as "secondary clients."

    a. In essence, an "accommodation" client is one who has an insubstantial relationship to the lawyer – a client who the lawyer represents either in some nominal capacity or as an accommodation to a long-established "primary" client.

    b. Lawyers have argued that for conflict of interest purposes, accommodation "clients" should be treated as if they are not and never were the lawyer's clients, and a lawyer should be able to drop such a client in favor of another client. However, the case law has limited the "secondary client" label to the rare circumstance in which the client has no financial stake in the

outcome, no involvement in the representation, and perhaps has a "primary" lawyer of its own.

2. *Allegaert v. Perot*, 565 F.2d 246 (2d Cir. 1977), was one of the first cases to at least partially validate this concept.

   a. In *Allegaert*, the trustee in bankruptcy of Walston, a defunct brokerage firm, sued DGF and Ross Perot's firm, EDS, in connection with a realignment agreement between Walston and DGF.

   b. Walston moved to disqualify the two law firms that were representing the defendants, Weil Gotshal & Manges and Leva, Hawes, on the ground that both firms had previously represented Walston.

      i. Walston was represented in the realignment by Shearman & Sterling which then continued as Walston's main outside counsel, with Weil and Leva also representing Walston on various matters, including a class action involving allegations similar to those in the Trustee's lawsuit.

   c. The district court denied the Trustee's disqualification motion, and the Second Circuit affirmed.

      i. The Court of Appeals ruled that the law firms could be disqualified only if they had obtained confidential information from Walston.

      ii. Ordinarily, this would be presumed from a "substantial relationship" between the current and former representations. *Allegaert*, 565 F.2d at 250.

      iii. But the Court ruled that the "substantial relationship" test would not apply unless Walston could show "that the [law firms were] in a position where [they] could have received information which [their] former client [Walston] might reasonably have assumed [they] would withhold from [their] present client[s]."

      iv. The Court concluded that Walston had failed to make this showing "[b]ecause Walston necessarily knew that information given to [Weil and Leva] would certainly be conveyed to their primary clients in view of the realignment agreement." *Id.* "Integral to our conclusion that [Weil and Leva] were not positioned to receive

information intended to be withheld from DGF [the other brokerage] is the law firms' continuous and unbroken legal relationship with their primary clients." *Id.* at 251.

v. The Court also noted that Walston had a primary lawyer of its own, Shearman, which continued to advise Walston "at every step." *Id.* at 250.

vi. Therefore, although Weil and Leva had represented Walston, and had done so on matters substantially related to the Trustee's lawsuit, they would not be disqualified because Walston was only their "secondary" client and could not expect them to keep client information they received from Walston confidential from their "primary" clients, DGF and EDS.

3. Cases applying the "secondary client" analysis.

a. Other Courts have followed *Allegaert* in holding that the relationship between a lawyer and a "secondary" or "accommodation" client does not create a conflict.

b. *Kempner v. Oppenheimer & Co.*, 662 F. Supp. 1271, 1278 (S.D.N.Y. 1987), for example, allowed a law firm that had represented a brokerage firm and two of its brokers, who were defendants in an action brought by a customer, to continue to represent the brokerage firm after a conflict arose between the brokers and the firm due to allegations by the brokers of forgery, document destruction and other wrongdoing at the brokerage firm.

i. The Court denied a motion by the plaintiff and one of the brokers to disqualify the brokerage firm's counsel from representing the firm in the action.

ii. The Court found the brokers initially had failed to disclose the true facts and the brokerage firm, with which the law firm had its "primary" relationship, "had no expectation that [the two former brokers'] interests would become adverse." *Id.* at 1278.

iii. The Court framed the issue as: "it is a client, not an attorney, who has 'changed sides.'" *Id.* at 1277.

c. *In re Rite Aid Corp. Sec. Litig.*, 139 F. Supp. 2d 649, 658-59 (E.D. Pa. 2001), on similar facts, denied disqualification

after concluding that the corporation was the law firm's "primary client," the corporation retained the law firm also to represent its officers and employees in a securities class action against Rite Aid and its officers and employees, and the law firm had had no direct communications with the individuals.

i. The conflict issue arose when it was revealed that two former officers had apparently breached their duties to Rite Aid, counsel told them his firm could no longer represent them, and they moved to disqualify him from continuing as Rite Aid's counsel.

d. In *Rocchigiani v. World Boxing Counsel*, 82 F. Supp. 2d 182, 187-89 (S.D.N.Y. 2000), a dispute between a boxer and his promoter, the court denied a motion by the boxer to disqualify a law firm that previously had represented both the boxer and the promoter in an action against the World Boxing Council.

i. In the prior action, the boxer and his promoter sued the Boxing Council to have a title awarded to the boxer.

ii. In the current action, the promoter sued the boxer for negotiating on his own with television networks.

iii. In denying the motion to disqualify, the Court reasoned that the boxer understood that the promoter was the lawyer's "primary client" and that the lawyer would continue to represent the promoter.

4. The Restatement Comment

a. The Restatement (Third) of the Law Governing Lawyers has adopted the "accommodation" or "secondary" client concept in Comment (i) to Section 132.

b. The Comment states that, with the informed consent of both clients, a lawyer may undertake representation of another client as an accommodation to the lawyer's regular client and:

> "If adverse interests later develop between the clients, even if the adversity relates to the matter involved in the common representation, circumstances might warrant the inference that the 'accommodation' client understood and impliedly consented to the lawyer's continuing to represent the regular client in the matter."

5. Criticism of the "Accommodation Client" Idea

   a. Other courts have criticized the notion of an "accommodation client" as not giving enough weight to a lawyer's duty of loyalty to all of his clients.

   b. For example, in *In re I Successor Corp.*, 321 B.R. 640 (Bankr. S.D.N.Y. 2005), plaintiff, the successor to the bankrupt Interliant, sued Interliant's directors and officers for engaging in an alleged scheme to funnel Interliant's money to the directors and officers. The attorney representing the officers and directors had previously worked for Interliant in connection with various corporate transactions.

      i. The Court found the prior work was substantially related to the current lawsuit because the prior transactions were part of the alleged scheme.

      ii. The Court then granted a motion to disqualify the officers' counsel on the ground that the representation would violate the firm's duty of loyalty to its former client. The court ruled that "the substantial relationship test is meant to protect not only confidences but also the expectation of loyalty by a prior client." *Id.* at 656.

      iii. The Court distinguished *Allegaert* as an exception to the "substantial relationship test" that did not address the duty of loyalty, but only the duty of confidentiality.

   c. In *Securities Investor Prot. Corp. v. R.D. Kushnir & Co.*, 246 B.R. 582, 588-89 (N.D. Ill. 2000), SIPC, as trustee for a brokerage firm, moved to disqualify counsel for one of its former brokers on the ground that counsel had previously represented the firm in customer actions, and a conflict between the debtor and the broker was likely.

      i. The Court granted the motion. The court noted that because *Allegaert* addressed only Canon 4 of the ABA Code of Professional Responsibility, which governs confidentiality, courts in other jurisdictions have rejected it because Model Rule 1.9(a) offers much broader protection that extends beyond the preservation of confidential information and requires the protection of an independent duty of loyalty.

- Model Rule 1.9(a) states: "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."
- Rule 1.9(a) of the new New York Rules is the same.

d. In *Felix v. Balkin*, 49 F. Supp. 2d 260, 270 (S.D.N.Y. 1999), plaintiffs sued Saks, a supervisor, and various perfume companies, including Clarins, that sold their products in its cosmetics and fragrance department, on the ground that there was a hostile work environment.

   i. The firm representing one of the perfume company defendants had previously represented one of the plaintiffs and Clarins in a related sexual harassment complaint brought by another employee.

   ii. That plaintiff moved to disqualify the firm, and the Court granted the motion.

   iii. The Court acknowledged that the *Allegaert* rule would normally apply to clients the lawyer once represented jointly – but found the lawyer had not done enough to warn the clients of the risks inherent in the joint representation.

e. In *Universal City Studios, Inc. v. Reimerdes*, 98 F. Supp. 2d 449 (S.D.N.Y. 2000), a law firm represented Scholastic, Inc. and Time Warner in a lawsuit claiming that the Harry Potter books infringed the plaintiffs' copyright.

   i. The firm then sought to represent a defendant being sued by Time Warner in a separate lawsuit for unrelated violations of the Digital Millennium Copyright Act.

   ii. Time Warner moved to disqualify, and the firm argued that Time Warner was a "secondary client" in the Harry Potter action because Scholastic had all the direct dealings with counsel and made all litigation decisions while Time Warner had its own counsel.

iii. The Southern District rejected this argument. It explained that Time Warner was the owner of the copyright on the first four Harry Potter books and thus "ha[d] substantial interests at stake," had a role in reviewing legal filings, and had the right to control the law firm. *Id.* at 452-53.

6. For a critical discussion of this doctrine, *see* Douglas R. Richmond, *Accommodation Clients*, 35 Akron L. Rev. 59 (2001) (critical of creating a new breed of client).

G. Vicarious Clients

1. A vicarious client is a client who the lawyer represents *through* another client.
   a. Normally, it is "a member of an organization or entity that is being represented by the attorney." *Ives v. Guilford Mills, Inc.*, 3 F. Supp. 2d 191, 202 (N.D.N.Y. 1998).
   b. Some courts have found that this type of client is entitled to some protection under the conflicts rules, but the degree of protection is not the same as for a traditional client.
2. One of the first cases to discuss the concept of a vicarious client was *Glueck v. Jonathan Logan, Inc.*, 653 F.2d 746 (2d Cir. 1981):
   a. Glueck, who had worked at Logan, sued Logan for breach of his employment contract.
   b. Logan moved to disqualify Glueck's attorney because the firm had represented the Apparel Manufacturer's Association, of which Logan was a member, and a president of a division of Logan was a vice president of the Association who had often met with the law firm to discuss strategy.
   c. The district court granted the motion and the Second Circuit affirmed, but in doing so, it distinguished between a "traditional" attorney-client relationship and a non-traditional, vicarious relationship.
   d. The Second Circuit ruled that in a non-traditional, vicarious setting, the attorney must be disqualified only if there is a "substantial relationship" between the work the attorney is doing for the organization and the work being done for the individual member.

e. Here, the firm's work for the association involved collective bargaining issues that might relate to Glueck's termination.

3. Other cases have applied the same principle:

   a. In *Ives*, plaintiff brought claims for tortious interference and slander, including against a company called Advisory Research.

      i. Advisory Research had been a partner in a partnership called Twin Rivers, and plaintiff's attorney, Richard Weicz, had represented Twin Rivers. Defendant moved to disqualify Weicz.

      ii. The Court denied the motion. It reasoned that Advisory Research was merely a vicarious client of Weicz, not a traditional client, and that defendants had not made a sufficient showing of a substantial relationship. *Ives,* 3 F. Supp. 2d at 202.

   b. In *Brown & Williamson Tobacco Corp. v. Pataki*, 152 F. Supp. 2d 276 (S.D.N.Y. 2001), the Court found that the firm representing a state agency represents only that agency, not the state as a whole.

      i. In that action, New York State moved to disqualify counsel for Brown & Williamson in a lawsuit challenging a state law restricting internet cigarette sales, on the ground that counsel also represented New York State agencies in connection with litigation over federal funding for Medicaid and other programs.

   c. In *Clear Channel Spectacolor Media L.L.C. v. Times Square JV, LLC*, 16 Misc. 3d 1141(A), 851 N.Y.S.2d 57 (Sup. Ct. N.Y. Co. 2007), plaintiff sued defendants, including the City Investment Fund, concerning a lease of billboard space in Times Square.

      i. The City Investment Fund was an equity fund that created subsidiaries that became part of a joint venture that was represented by plaintiff's counsel.

      ii. The Court denied defendants' motion to disqualify, finding that City Investment Fund was at most a "vicarious client" of plaintiff's counsel, and defendants had not shown that the representations were substantially related.

d. However, in *Blue Planet Software, Inc. v. Games Int'l,* 331 F. Supp. 2d 273 (S.D.N.Y. 2004), plaintiffs sued Games International concerning ownership of the intellectual property rights to the game Tetris.

i. Games International moved to disqualify plaintiff's counsel because, at a prior firm, he had represented Nintendo in an earlier action defending the intellectual property rights to Tetris, which Nintendo had licensed from Games International's predecessor. That predecessor and Nintendo had worked together to defeat the action, and the attorney had been granted access to the predecessor's documents.

ii. The motion to disqualify was granted. The Court reasoned that it need not find that counsel and the predecessor had a formal attorney-client relationship in order to disqualify the lawyer.

H. "Thrust Upon" Clients

1. Efforts have been made to carve an exception to the usual rules of loyalty when a conflict is "thrust upon" the lawyer, for example because an existing or former client acquires or is acquired by another entity and the lawyer is representing another client in a matter adverse to that other entity.

a. Factors considered in this regard include:

i. The prejudice the withdrawal or continued representation would cause the parties, which principally is a matter of whether continued representation of one party would give it an unfair advantage over the other party;

ii. What caused the conflict;

iii. Whether the conflict was created or is being used to gain any advantage; and

iv. The costs and inconvenience to the party who would have to retain new counsel.

2. The Court addressed this issue in *Univ. of Rochester v. G.D. Searle & Co.*, No. 00-CV-6161LB, 2000 US. Dist. LEXIS 19030 (W.D.N.Y. Dec. 11, 2000).

a. The university sued for infringement of a patent on "super aspirin." *Id.* at *3.

b. Defendant Pharmacia moved to disqualify the university's counsel because that counsel had previously been hired by another firm to defend a group of companies, including Pharmacia, in unrelated litigation about warning labels on nicotine gum. *Id.*

c. The Court denied the motion, finding that disqualification of the law firm was not required under the "substantial relationship" or the "per se" test.

   i. Pharmacia was not a continuing client of the law firm in the traditional sense. *Id.* at *21.

   ii. The firm was not Pharmacia's counsel of choice in the nicotine litigation. *Id.*

   iii. That representation had lasted less than a year and was now over. *Id.*

   iv. The nicotine case was completely unrelated to the current case. *Id.* at *22-23.

   v. Finally, the conflict arose after plaintiff hired the law firm, and only by virtue of Pharmacia's acquisition of an interest in the super aspirin due to a merger between Pharmacia and Monsanto, whose subsidiary Searle manufactured the allegedly infringing super aspirin. *Id.* at *23.

VI. ADVANCE CONFLICT WAIVERS

A related question is under what circumstances may a lawyer obtain from a client an advance waiver of a conflict of interest, and when will such a waiver be enforceable? Once again the key considerations are:

- The lawyers' duties of loyalty, independent professional judgment and preserving the client's confidence; and
- The requirement of full disclosure to and informed consent by the client.

A. The Applicable New York Rules of Professional Conduct

1. Rule 1.7(b) provides that a client may waive an **existing** conflict of interest if:

> "(1) the lawyer reasonably believes that the lawyer will be able to provide competent and diligent representation to each affected client;
>
> "(2) the representation is not prohibited by law;
>
> "(3) the representation does not involve the assertion of a claim by one client against another client represented by the lawyer in the same litigation or other proceeding before a tribunal; and
>
> "(4) each affected client gives informed consent, confirmed in writing."

2. Comments 22 and 22A to Rule 1.7 address **advance** waivers.

Comment 22:

"Whether a lawyer may properly request a client to waive conflicts that might arise in the future is subject to the conditions set forth in paragraph (b) [of Rule 1.7]. The effectiveness of advance waivers is generally determined by the extent to which the client reasonably understands the material risks that the waiver entails. At a minimum, the client should be advised generally of the types of possible future adverse representations that the lawyer envisions, as well as the types of clients and matters that may present such conflicts. The more comprehensive the explanation and disclosure of the types of future representations that might arise and the actual and reasonably foreseeable adverse consequences of those representations, the greater the likelihood that the client will have the understanding necessary to make the consent 'informed' and the waiver effective. *See* Rule 1.0(j). The lawyer should also disclose the measures that will be taken to protect the client should a conflict arise, including procedures such as screening that would be put in place. *See* Rule 1.0(t) for the definition of 'screening.' The adequacy of the disclosure necessary to obtain valid advance consent to conflicts may also depend on the sophistication and experience of the client. For example, if the client is unsophisticated about legal matters generally or about the particular type of matter at hand, the lawyer should provide more detailed information about both the nature of the anticipated conflict and the adverse consequences to the client that may ensue should the potential conflict become an actual one. In other instances, such as where the client is a child or an

incapacitated or impaired person, it may be impossible to inform the client sufficiently, and the lawyer should not seek an advance waiver. On the other hand, if the client is an experienced user of the legal services involved and is reasonably informed regarding the risk that a conflict may arise, an advance waiver is more likely to be effective, particularly if, for example, the client is independently represented or advised by in-house or other counsel in giving consent. Thus, in some circumstances, even general and open-ended waivers by experienced users of legal services may be effective."

Comment 22A:

"Even if a client has validly consented to waive future conflicts, however, the lawyer must reassess the propriety of the adverse concurrent representation under paragraph (b) when an actual conflict arises. If the actual conflict is materially different from the conflict that has been waived, the lawyer may not rely on the advance consent previously obtained. Even if the actual conflict is not materially different from the conflict the client has previously waived, the client's advance consent cannot be effective if the particular circumstances that have created an actual conflict during the course of the representation would make the conflict nonconsentable under paragraph (b). *See* Comments [14]-[17] and [28] addressing nonconsentable conflicts."

B. The Applicable ABA Model Rules

1. Rule 1.7(b) of The ABA Model Rules is identical to Rule 1.7(b) of the New York Rules.

2. Comment 22 to Model Rule 1.7 addresses **advance** waivers.

   Comment 22:

   "Whether a lawyer may properly request a client to waive conflicts that might arise in the future is subject to the test of paragraph (b) [of Model Rule 1.7]. The effectiveness of such waivers is generally determined by the extent to which the client reasonably understands the material risks that the waiver entails. The more comprehensive the explanation of the types of future representations that might arise and the actual and reasonably foreseeable adverse consequences of those representations, the greater the likelihood that the client will have the requisite understanding. Thus, if the client agrees to consent to a particular type

of conflict with which the client is already familiar, then the consent ordinarily will be effective with regard to that type of conflict. If the consent is general and open-ended, then the consent ordinarily will be ineffective, because it is not reasonably likely that the client will have understood the material risks involved. On the other hand, if the client is an experienced user of the legal services involved and is reasonably informed regarding the risk that a conflict may arise, such consent is more likely to be effective, particularly if, e.g., the client is independently represented by other counsel in giving consent and the consent is limited to future conflicts unrelated to the subject of the representation. In any case, advance consent cannot be effective if the circumstances that materialize in the future are such as would make the conflict nonconsentable under paragraph (b)."

C. Other Guidance

1. In 1998 the New York County Lawyers' Association Committee on Professional Ethics issued Formal Opinion 724 (Jan. 28, 1998) approving advance waivers:

> "A lawyer can seek and a client or prospective client can give an advance waiver with respect to conflicts of interest that may arise in the future.
>
> - [1] The lawyer must first evaluate whether the future representation is likely to give rise to a non-consentable conflict.
> - [2] If the lawyer determines that the prospective conflict is consentable, he or she can proceed to make full disclosure to the client or prospective client and obtain that person or entity's consent.
> - [3] The validity of the waiver will depend on the adequacy of disclosure given to the client or prospective client under the circumstances, taking into account the sophistication and capacity of the person or entity giving consent."
>
> a. The County Lawyers' opinion places significant weight on the sophistication of the client and suggests that a "blanket" waiver of future conflicts involving adverse parties "may be informed and enforceable depending on the client's sophistication, its familiarity with the law firm's practice, and the reasonable expectations of the parties at the time consent is obtained. For example, a subsequent representation may be said to have been reasonably contemplated by a sophisticated client, advised by in-house counsel, who is familiar with a law firm's multi-disciplinary practice and wide variety of clients. In those circumstances, it may be foreseeable that one or more

> of such clients may in the future be adverse to the current client in an unrelated matter."

2. In 2006, the Association of the Bar of the City of New York Committee on Professional and Judicial Ethics issued Formal Opinion 2006-1 (Feb. 17, 2006), which also approves advance waivers:

> "When a law firm agrees to represent a client in a particular matter, it may ethically request that the client waive future conflicts of interest, including that the client consent to allow the law firm to bring adverse litigation on behalf of another current client, if (a) the law firm appropriately discloses the implications, advantages, and risks involved and if the client can make an informed decision whether to consent; and (b) a disinterested lawyer would believe that the lawyer can competently represent the interests of all affected clients. *See* DR 5-105(c)."

   a. "At least for a sophisticated client, blanket advance waivers and advance waivers that include substantially related matters (with adequate protection for client confidences and secrets) also are ethically permitted."

   b. The City Bar opinion also contains model language that can be used in advance waivers.

3. In 2006, the ABA issued Formal Ethics Opinion 05-436 (May 11, 2005), titled "Informed Consent to Future Conflicts of Interest," which provides additional guidance regarding Comment 22 to Model Rule 1.7, and states that Model Rule 1.7, as amended in February 2002, "permits a lawyer to obtain effective informed consent to a wider range of future conflicts than would have been possible under the Model Rules prior to their amendment." For that reason, Formal Opinion 93-372, titled "Waiver of Future Conflicts of Interest," which took a more restrictive view of advance waivers, was withdrawn.

4. On April 21, 2009, the New York State Bar Association Committee on Professional Ethics issued Opinion 829, which addressed whether attorneys who obtained consent to a conflict before April 1, 2009, the effective date of New York's Rules of Professional Conduct, must obtain a new consent.

   a. The Committee was asked to construe the terms of a retainer agreement (signed by both parties) that anticipated that conflicts might arise in the course of the lawyer-client relationship, and contained a waiver by the client of some of those conflicts.

b. The lawyer asked the Committee whether he needed to obtain a new consent that met the requirements of new Rule 1.7(b), requiring that the consent be "informed" and "confirmed in writing."

c. The Committee concluded that Rule 1.7(b) was not intended to be applied retroactively. If a consent was valid when given, and by its terms continues to apply to ongoing or new representations, there is no need to obtain a new consent "solely on account of the adoption of the New Rules."

D. Limiting a Representation of One Client to Obtain a Conflict Waiver by Another Client

1. On January 28, 2013, the Michigan State Bar Committee on Professional and Judicial Ethics issued an opinion that an attorney may not agree to restrictions on its representation of one client in order to obtain a conflict waiver from another client unless several prerequisites are satisfied. Informal Op. RI-358, Jan. 28, 2013.

   a. A lawyer was outside counsel for a bank on some matters but not the bank's primary outside counsel. The lawyer also represented borrowers, bankruptcy debtors, and secured creditors and thus sometimes sought a conflict waiver from the bank and another client or prospective client.

   b. The bank agreed to waive a conflict only if the lawyer agreed that she would not take an "adversarial" position to the bank, assist the other client in challenging a security interest, claim priority over the bank's security interest, pursue a lender liability claim against the bank, or represent the other client in litigation involving the bank.

   c. Applying the Michigan Rules of Professional Conduct, the Committee advised that the lawyer could limit her representation as demanded by the Bank only if the lawyer could:

      i. clearly understand the limitations to be imposed;

      ii. reasonably determine that he or she would be able to provide competent representation within the limitations;

      iii. reasonably determine that neither representation would be adversely affected; and

iv. obtain informed consent from each client.

d. The lawyer could not agree to a limitation imposed by one client if it would preclude her from disclosing to the other client information necessary to pursue the objectives of the representation.

E. SIFMA's Advance Conflict Waiver Language

1. Following New York's adoption of the new Rules of Professional Conduct effective April 1, 2009, the Capital Markets Committee of the Securities Industry and Financial Markets Association ("SIFMA"), after working with several law firms, issued a form of advance conflict waiver "intended to reflect how business is normally conducted" between industry clients and their law firms.

2. The SIFMA form language specifies the situations in which a law firm "may represent others with interests that are different from, inconsistent with or adverse to" the client's interests:

   - "We may act as 'designated underwriters' counsel' or 'designated counterparty counsel' for a company, where the company expects us to act for any financial institution that is ultimately hired to assist the company in capital raising or act as counterparty to the company in a transaction. In any such case more than one financial institution may be competing for an assignment, and we are generally not able to disclose to any client that we are advising other financial institutions on similar or different financing alternatives."

   - "We may represent more than one potential financing source or derivative counterparty, such as a bank, investment bank or other financial institution, pursuing potential business relating to the same company, transaction or situation in the credit, capital markets, advisory and derivatives business areas. When we are hired by more than one client in such situations, we are generally not able to disclose the multiple representations to any client."

   - "We may represent corporate, financial, private equity or other clients in commercial transactions in which you are also involved in the credit, capital markets, advisory and derivatives business areas, including: a client that is borrowing money from you as a lender or from a syndicate of which

you are a member; a client raising money in the capital markets in a transaction underwritten or placed by you; a client buying or selling assets from or to you or your affiliated investment fund or a third party for whom you are acting as financial advisor; a client that is a co-investor alongside you; a client that is an investor or creditor in a company or an underwriter of securities or arranger of credit for a company in which you are also an investor or creditor or for which you are also an underwriter of securities or arranger of credit; or a client in which you are an investor; or in each case providing advice with respect to such a transaction previously entered into."

- "We may represent a debtor or other party in a reorganization or bankruptcy in which you are a creditor or adviser (provided that we acknowledge that your advance consent stated below will not extend to such situations in which we represented you as administrative agent, or in a similar capacity as lead agent, on a particular credit)."
- "Where we are advising you in a transaction facing a company or other counterparty, we may represent that counterparty in unrelated matters."
- "In these specific examples," the client consents in advance to the firm's representation of other clients, and the client's consent "does not extend to situations other than those described above."
- The advance consent is not intended to allow the firm to "represent, in the same transaction, multiple parties facing each other as counterparties," or "represent other clients in making claims or seeking equitable remedies" against the client, or defending against any claim by the client in litigation or other adversarial proceedings without the client's specific consent at the time.
- The firm will not accept an engagement from another client in the specified situations "unless we believe that our representation of that other client will not have an adverse effect on the exercise of our independent professional judgment on your behalf in the matters in which we represent you."

- "Where we represent more than one potential financing source pursuing potential financing business relating to the same company, transaction or situation (other than in the 'designated underwriters' counsel' or 'designated counterparty counsel' situations), the lead partner representing you and any core team working with that partner will not be part of the core team representing any other potential financing source, but certain matters may be handled by a 'shared' team (e.g. due diligence), and members of the team representing you may consult with other lawyers at the firm, including lawyers who may be on or consulting with the core team representing another party, with respect to issues raised by the potential transaction, either in order to provide consistent legal advice to all of our clients or because the issue relates to a specialty area (e.g. tax, ERISA, industry-specific regulation) in which we have limited resources."
- The firm will maintain the confidentiality of all confidential information received from the client and not use any such information for another client's benefit without express consent, and the client will not assert that the firm's possession of such information is a basis for disqualifying the firm from representing another client or that the firm's failure to share another client's confidential information constitutes a breach of any duty the firm owes the client.
- The advance consent is reciprocal: "We acknowledge that your consent is based on the assumption that any other client that engages us in such situations will agree not to use such engagement as grounds to object to our representation of you on unrelated matters. In addition, you agree that if you engage us in such situations where another of our clients is involved, you will not use that engagement as grounds to object to our representation of that other client on unrelated matters."
- The client has the right to withdraw its advance consent at any time, in which event the advance consent will not apply to any engagements entered into subsequently. The client may also inform the firm prior to the firm's acceptance of any engagement that the particular engagement will not be subject to the advance consent.

F. Arguments For and Against Enforcing Waivers

1. The treatment of advance conflict waivers in the Courts has been mixed.
2. The arguments advanced in favor of broad enforceability of advance waivers are generally that:
    a. Upholding advance waivers expands all parties' choice of counsel, as the client giving the waiver will be able to retain a firm that would otherwise decline the engagement, while the client invoking the waiver will be able to continue using its chosen firm.
    b. A sophisticated client that is aware of the scope of a firm's practice and wide variety of clients should be expected to foresee that some such clients may be adverse to it in an unrelated future matter.
    c. Parties should not be permitted to engage in strategic behavior to prevent adversaries from being represented by the counsel of their choice.
    d. Law firms should not be precluded from representing a longstanding client in an important matter because of an entirely unrelated representation of the adversary in a minor matter.
3. The arguments for narrow enforceability of advance waivers are generally that:
    a. Relaxing the conflict of interest standards undermines the fundamental professional values of undivided loyalty and independent professional judgment.
    b. When a waiver is prospective a client may not be in a position to understand its implications at the time it is provided. The lawyer should have to obtain a waiver at the time the conflict arises.
    c. Where a waiver is not specific it should not be enforced because law firms have the most to gain from waiver provisions and are in the best position to know about potential conflicts that may arise.

G. Court Decisions Enforcing Advance Waivers

1. Courts have enforced advance waivers in cases in which they have concluded that the applicable professional conduct standards have been satisfied.

2. In *GEM Holdco, LLC v. Changing World Tech., L.P.*, No. 650841/2013, 2015 N.Y. Misc. LEXIS 20, 46 Misc. 3d 1207(A), 7 N.Y.S.3d 242 (Sup. Ct. N.Y. Co. Jan. 9, 2015), for example, a New York State court found an advance waiver enforceable and denied a motion to disqualify Schlam Stone as counsel for certain defendants.

   a. Defendants Danzik and Ridgeline (the "Ridgeline Defendants") were co-defendants with the CWT Defendants in the litigation, and they were all represented by Schlam Stone.

   b. In May 2013, the Ridgeline Defendants had signed a conflict waiver expressly acknowledging that a conflict might arise between Schlam Stone's representation of them and the CWT Defendants. The Ridgeline Defendants agreed that if that happened, Schlam Stone could withdraw from representing them and continue to represent the CWT Defendants in the litigation.

   c. The engagement letter also stated that, during the course of the joint representation, Schlam Stone would share with each client the privileged and confidential information that the other clients provided it.

   d. About 14 months after the engagement letter was signed, Schlam Stone withdrew from representing the Ridgeline Defendants because of an apparent conflict with the CWT Defendants.

   e. The Ridgeline Defendants brought claims against the CWT Defendants in Canada and settled with the plaintiffs in the New York state court action. The CWT Defendants asserted cross-claims against the Ridgeline Defendants in that litigation.

   f. The Ridgeline Defendants then moved to disqualify Schlam Stone because it was representing the CWT Defendants against the Ridgeline Defendants.

      i. The Ridgeline Defendants argued that while they may have waived a conflict, they did not waive the separate obligation by Schlam Stone not to use against them the

confidential information it had obtained from them in the course of the joint representation.

g. The trial court rejected this argument: "If the transmission of confidential information in a joint representation vitiated the validity of conflict waiver, notwithstanding the Retainer Letter's disclaimers to the contrary, virtually all conflict waivers would be ineffectual. Unsurprisingly, as a result, New York courts have recognized that, where a valid conflict wavier exists, the traditional concerns about confidential information are inapposite. Indeed, the validity of conflict waivers is well established. For a conflict waiver to be valid, the former client must provide informed consent." *Id.* at *15.

3. *In Macy's Inc. v. J.C. Penney Corp.*, 107 A.D.3d 616, 968 N.Y.S.2d 64 (1st Dep't June 27, 2013), for another example, the Appellate Division, First Department, of the New York State Supreme Court found that an unsigned advance conflict waiver was enforceable.

   a. The court affirmed the denial of J.C. Penney's motion to disqualify Jones Day from representing Macy's in litigation between the two retailers over Martha Stewart products.

   b. The court held that J.C. Penney waived the conflict in its March 2008 engagement letter that hired Jones Day to perform intellectual property litigation and trademark registration in Asia, even though J.C. Penney never signed the letter.

      i. The engagement letter informed J.C. Penney that the law firm's clients, including future clients, may be direct competitors of or have interests contrary to J.C. Penney.

      ii. The letter also informed J.C. Penney that its clients might seek to retain the law firm in transactions and litigation adverse to the retailer.

      iii. The court found the "agreement unambiguously explained" that the firm would not represent J.C. Penney unless the retailer agreed to the firm's arrangement, thereby "waiv[ing] any conflict of interest" and the right to disqualify the firm in potential future matters adverse to J.C. Penney. *Id.* at 616, 968 N.Y.S.2d at 65.

      iv. The agreement also explained that J.C. Penney's instructions in the 2008 matter "will constitute your full

acceptance of the terms" and create an advance conflict waiver. *Id.* at 616, 968 N.Y.S.2d at 65.

v. J.C. Penney did not dispute that after it received the retainer letter it continued to instruct the law firm regarding J.C. Penney's Asian trademark portfolio.

vi. The court found that the retailer therefore accepted the terms of the agreement, and waived the future conflict, even though J.C. Penney never returned the engagement letter countersigned as requested by the law firm.

vii. In addition, the court found that the purported conflict involved two wholly unrelated matters. J.C. Penney's interests in the Asian intellectual property matters "are entirely unrelated" to J.C. Penney's interests in the dispute over Martha Stewart home products. *Id*. at 617, 968 N.Y.S.2d at 66.

c. New York's current rules of professional responsibility require a signature on this kind of waiver, but the Code of Professional Responsibility did not have that requirement.

i. ABA Model Rule of Professional Conduct 1.7(b)(4) allows concurrent conflicts of interest if each "client gives informed consent, confirmed in writing."

ii. Because New York did not adopt the Model Rules until December 2008, J.C. Penney's March 2008 retainer agreement was governed by the Code of Professional Responsibility. DR 5-105(c) allowed concurrent adverse representation "if a disinterested lawyer would believe that the lawyer can competently represent the interest of each" client and the clients consent after full disclosure of the relevant implications, advantages, and risks.

4. In *Galderma Labs., L.P. v. Actavis Mid Atlantic LLC*, 927 F. Supp. 2d 390 (N.D. Tex. 2013), the Court recently enforced a broad, general advance waiver of future conflicts, because the client was sophisticated and had independent counsel.

a. Galderma, a plaintiff in intellectual property litigation, moved to disqualify Vinson & Elkins, LLP ("V&E") from representing the defendant Actavis because V&E was still representing Galderma in other unrelated matters when it started representing Actavis in the litigation.

b. In 2003, when Galderma retained V&E to provide legal advice on employment law and employee benefit issues, Galderma's general counsel signed a V&E engagement letter that contained a broad advance waiver:

> "We [V&E] understand and agree that this is not an exclusive agreement, and you [Galderma] are free to retain any other counsel of your choosing. We recognize that we shall be disqualified from representing any other client with interest materially and directly adverse to yours (i) in any matter which is substantially related to our representation of you and (ii) with respect to any matter where there is a reasonable probability that confidential information you furnished to us could be used to your disadvantage. You understand and agree that, with those exceptions, we are free to represent other clients, including clients whose interests may conflict with yours in litigation, business transactions, or other legal matters. You agree that our representing you in this matter will not prevent or disqualify us from representing clients adverse to you in other matters and that you consent in advance to our undertaking such adverse representations." *Id.* at 393.

c. In June 2012, represented by DLA Piper, Galderma filed an IP lawsuit against Actavis. V&E filed an answer and counterclaim for Actavis, which V&E had represented for six years.

d. Galderma asked V&E to withdraw, but V&E refused, citing the advance waiver, and terminated its representation of Galderma.

e. Galderma then moved to disqualify V&E from representing Actavis in the IP lawsuit.

f. The Court found that disqualification turned on "whether or not Galderma, a sophisticated client, represented by in-house counsel gave informed consent when it agreed to a general, open-ended waiver of future conflicts of interest in V&E's 2003 engagement letter." *Id.* at 394. The Court found that the advance waiver satisfied ABA Model Rule 1.7 for five reasons:

- First, the waiver gave V&E "wide ranging freedom to represent other clients, including those whose interests conflict with Galderma," as long as the matter giving rise to the conflict was not "substantially related to the representation of Galderma" and there was no "reasonable

probability that confidential information Galderma furnished could be used to its disadvantage." *Id.* at 399.

- Second, the advance waivers need not specify potential adverse parties or representations: "While specifying a particular party or type of legal matter does make it more likely that the waiver will be effective for a wider range of clients, using a general framework for determining a course of conduct does not render the waiver unenforceable." *Id.* at 400.
- Third, V&E's engagement agreement told Galderma was "free to retain any other counsel of [its] choosing." *Id.*
- Fourth, Galderma was a global leader in its industry and employed a variety of legal counsel, including several large firms, had filed more than 5500 patent applications, and had litigated numerous cases (including very complex intellectual property cases) in numerous state and federal courts. *Id.* at 402.
- Fifth, Galderma had independent counsel evaluate the waiver, and Galderma's general counsel, a sophisticated lawyer with twenty years' experience, had signed the engagement agreement. *Id.* at 403.

g. Although the Court decided the case under the Model Rules, it observed that the Texas Rules of Professional Conduct do not require informed consent for the concurrent representation of adverse parties in unrelated matters.

5. In *In re Shared Memory Graphics LLC*, 659 F.3d 1336 (Fed. Cir. 2011), Shared Memory Graphics (SMG), represented by the firm Floyd & Buss (F&B), sued Nintendo for patent infringement. *Id.* at 1338.

   a. Nintendo moved to disqualify F&B as counsel for SMG on the ground that one of F&B's attorneys, Kent Cooper, received Nintendo confidential information during his previous employment with Advanced Micro Devices (AMD). *Id.* at 1338-39.

   b. Cooper received that information pursuant to a joint defense agreement between AMD and Nintendo in connection with a prior litigation in which they were co-defendants that allegedly concerned the same microchip that SMG now contended infringed its patent. *Id.*

c. The joint defense agreement contained a waiver provision that stated "compliance with the terms of this Agreement by either party [shall not] be used as a basis to seek to disqualify the respective counsel of such party in any future litigation."

d. Nevertheless, the district court granted Nintendo's motion and disqualified F&B from representing SMG against Nintendo. *Id.* at 1339.

e. F&B petitioned the Federal Circuit for a writ of mandamus. *Id.* at 1338. The Court granted the petition and vacated the district court's decision disqualifying F&B. *Id.* at 1342.

f. The Court found that California law applies to disqualification motions brought in the U.S. District Court for the Northern District of California, and that under California law an advance waiver of future conflicts is generally enforceable if a non-attorney-client relationship exists in a matter involving sophisticated parties. *Id.* at 1340-41.

g. The Court then considered the language of the joint defense agreement and rejected Nintendo's argument that the agreement did not apply to Cooper because he was no longer employed by AMD. *Id.* at 1341. The Court explained that Nintendo should have had the expectation that Cooper was a "respective counsel" who would be bound by the agreement's confidentiality provisions, and that he was also a "respective counsel" for purposes of the agreement's waiver provision. *Id.* at 1341-42.

6. In *St. Barnabas Hosp. v. N.Y.C. Health and Hosp. Corp*, 7 A.D.3d 83, 775 N.Y.S.2d 9 (1st Dep't 2004), the Appellate Division applied DR 5-108(A)(1) of the former New York Lawyer's Code of Professional Responsibility to uphold an advance waiver and reverse the Bronx County Supreme Court's grant of St. Barnabas's motion to disqualify defendant's counsel.

   a. Counsel had represented defendant for 20 years. In December 1996, defendant selected St. Barnabas to act as an "affiliate" for Lincoln Hospital, a unit of defendant. *Id.* at 85, 775 N.Y.S.2d at 11.

   b. In March 1998, while defendant's counsel was representing it in the Lincoln affiliation negotiations, St. Barnabas retained defendant's counsel to represent it in certain employment

litigation matters. *Id.* The retention agreement letter expressly referenced counsel's representation of defendant in connection with the negotiation with St. Barnabas of a new Lincoln affiliation agreement. The agreement letter further stated:

"Although we do not believe that any actual conflict of interest is presented by our present and future representation of [defendant] and our proposed retention by St. Barnabas with respect to employment matters, we request that you hereby consent to our representation of [defendant]. Should we determine that an actual conflict of interest has arisen, we reserve the right to discontinue our representation of St. Barnabas, as to the particular matter in issue or generally, and to continue to represent [defendant]." *Id.* at 86, 775 N.Y.S.2d at 12.

c. Counsel then represented St. Barnabas in a number of different employment matters having nothing to do with the Lincoln affiliation matter.

d. For three months in 2000, counsel also represented St. Barnabas in a dispute with SMS, a billing vendor St. Barnabas had retained to bill for services St. Barnabas physicians rendered at Lincoln Hospital. *Id.* In response to St. Barnabas's complaints about SMS's collection efforts, SMS asserted that its collection difficulties were caused, in part, by defendant's failure to provide SMS with complete and accurate patient identification data, as defendant was required to do under the terms of St. Barnabas's affiliation with Lincoln. *Id.* at 86-87, 775 N.Y.S.2d at 12.

   i. When SMS commenced a breach-of-contract action against St. Barnabas in May 2000, counsel withdrew from representing St. Barnabas in the matter because St. Barnabas needed to consider impleading defendant in that action. *Id.* at 87, 775 N.Y.S.2d at 12-13.

   ii. St. Barnabas, represented by a different firm, decided not to implead defendant in the SMS action. *Id.* at 87 n.2, 775 N.Y.S.2d at 13 n.2. Instead, on May 1, 2001, it commenced a separate action against defendant, asserting, among other things, that defendant had not provided full and accurate patient data. *Id.* at 87-88, 775 N.Y.S.2d at 13.

iii. Counsel appeared on behalf of defendant and filed an answer and counterclaims on June 28, 2001. *Id.* at 88, 775 N.Y.S.2d at 13.

iv. A year later, after settlement negotiations broke down, and while discovery was in progress, St. Barnabas moved to disqualify counsel. *Id.* (At that point, counsel was apparently no longer representing St. Barnabas in any matters.) St. Barnabas contended that the SMS matter in which counsel had represented it was substantially related to the Lincoln disputes in its action against defendant, and therefore required counsel's disqualification. *Id.*

e. The First Department reversed the Supreme Court's decision granting St. Barnabas's motion. The Appellate Division agreed that St. Barnabas had made out a colorable claim that the present matter and a prior matter in which counsel represented plaintiff were substantially related. *Id.* at 89-90, 775 N.Y.S.2d at 14. But the court enforced St. Barnabas's waiver of any objection to counsel's representation of defendant adverse to St. Barnabas in matters arising from St. Barnabas's affiliation with Lincoln Hospital. *Id.* at 90, 775 N.Y.S.2d at 14-15.

i. The Court rejected St. Barnabas's contention that counsel's representation of defendant gave rise to such an irreconcilable conflict that St. Barnabas's objection to the representation was non-waivable as a matter of law. Instead, the court held that even in a matter substantially related to a prior representation, DR 5-108(A)(1) forbids an attorney from representing interests adverse to a client only where the representation is undertaken without the consent of the former client after full disclosure. *Id.* at 90-91, 775 N.Y.S.2d at 15-16.

ii. The First Department also rejected St. Barnabas's arguments that the March 1998 retention letter did not constitute such consent. The Court found significant the fact that the retention letter specifically referenced counsel's representation of defendant in connection with the then ongoing negotiation of an affiliation agreement with St. Barnabas regarding Lincoln, and its contemplation that in the event a conflict subsequently arose,

counsel would withdraw from representing St. Barnabas and continue to represent defendant. *Id.* at 92, 775 N.Y.S.2d at 16.

iii. The Court further rejected St. Barnabas's contention that the retention letter waived only future conflicts that might arise from the employment matters for which St. Barnabas retained counsel at that time. The Court noted that the waiver letter did not limit the source of the future conflicts that St. Barnabas was agreeing to waive. The Court further explained that St. Barnabas, as a sophisticated, institutional client, must be deemed to have been fully aware of counsel's adverse representation of defendant in the Lincoln negotiations at the time it retained counsel. In addition, the Court observed that it was undisputed that the partner in charge of the SMS matter reminded St. Barnabas's officials at the first meeting regarding the matter that counsel was representing defendant in the Lincoln negotiations and could not be involved in any matters adverse to defendant. *Id.* at 92-93, 775 N.Y.S.2d at 16-17.

iv. Finally, the Court rejected St. Barnabas's contention that the waiver should not be given effect because counsel did not make the "full disclosure" required by DR 5-108(A)(1) before St. Barnabas retained it in the SMS matter. The Court concluded that St. Barnabas had all the information it needed to make an informed decision when it chose to retain counsel for the SMS matter. *Id.* at 94, 775 N.Y.S.2d at 17-18.

v. The Court stated that its conclusion that St. Barnabas had waived its objection to the representation of defendant in the matter was strengthened by the fact that St. Barnabas inexcusably waited 12 months from the time counsel served defendant's answer and counterclaims before serving its disqualification motion, because the delay suggested that the motion may have been made to gain tactical advantage. *Id.* at 94-95, 775 N.Y.S.2d at 18.

vi. The Court also found it significant that St. Barnabas was unlikely to be materially disadvantaged by counsel's representation of defendant because there had been no

overlap in the staffing of the Lincoln matters for defendant and the SMS matter for St. Barnabas. Moreover, the two attorneys who conducted the vast majority of the representation of St. Barnabas in the SMS matter had left the firm. *Id.* at 95-96, 775 N.Y.S.2d at 18-19.

7. More recently, the First Department upheld the use of an advance waiver in a short opinion in *Centennial Ins. Co. v. Apple Builders & Renovators*, *Inc.*, 60 A.D.3d 506, 875 N.Y.S.2d 466 (1st Dep't 2009), affirming the denial of defendants' motion to disqualify plaintiff's attorneys.

   a. The Court explained that defendant "had executed a written waiver in its retainer agreement with the same law firm specifically waiving any conflict of interest that might arise from the firm's representation of Centennial and Apple," and held, citing *St. Barnabas*, that "Apple cannot compel the disqualification of plaintiff's counsel simply because the representation to which it consented has since devolved into litigation." *Id.* at 506, 875 N.Y.S.2d at 467.

   b. The Court also found that "Apple's claim that it did not understand the implications of the waiver is unsupported by the clear language of the retainer agreement and the record evidence." *Id.*

8. In *Visa U.S.A., Inc. v. First Data Corp.*, 241 F. Supp. 2d 1100 (N.D. Cal. 2003), the Court applied the California Rules of Professional Conduct to uphold another advance waiver and deny First Data's motion to disqualify Heller, Ehrman from representing Visa, because the Court found that First Data had been given sufficient information about potential conflicts with Visa at the time it agreed to the advance waiver, and as a sophisticated user of legal services gave informed consent to the waiver.

   a. In March 2001, First Data, which processed financial transactions for Visa and other credit card companies, was sued in a patent infringement action in the District of Delaware. First Data sought to retain Heller's Silicon Valley office to represent it. Heller informed First Data that it had a long-standing relationship with Visa and that while it did not see any conflicts between the two at that time, Heller could not represent First Data in the patent infringement case unless First Data agreed to permit Heller to represent Visa in

any future disputes, "including litigation" that might arise between the two companies. *Id.* at 1102. First Data agreed to these terms, which were memorialized in an engagement letter that stated in part:

"Given the nature of our relationship with Visa, however, we discussed the need for the firm to preserve its ability to represent Visa on matters which may arise in the future including matters adverse to First Data, provided that we would only undertake such representation of Visa under circumstances in which we do not possess confidential information of yours relating to the transaction, and we would staff such a project with one or more attorneys who are not engaged in your representation. In such circumstances, the attorneys in the two matters would be subject to an ethical wall, screening them from communicating from [sic] each other regarding their respective engagements. We understand that you do consent to our representation of Visa and our other clients under those circumstances." *Id.* at 1103.

b. A few months later, First Data announced its intention to launch a new "private arrangements" business initiative permitting it to bypass Visa's regulation on the processing of certain Visa-related transactions. Visa sued First Data for trademark infringement and breach of contract. First Data moved to disqualify Heller as counsel for Visa in the lawsuit. Heller offered to withdraw as counsel for First Data in the patent litigation, but First Data insisted that Heller stay on. *Id.*

c. The Court denied First Data's motion. The court first rejected First Data's argument that Heller's use of a prospective waiver purporting to waive all future conflicts between Visa and First Data was improper without a second disclosure and waiver once the situation between Visa and First Data developed into an actual conflict. The court explained that a second waiver is necessary only when the first waiver was insufficiently informed, but First Data's waiver was fully informed. In the waiver letter, Heller fully explained to First Data the nature of the conflict waiver, identified Visa as a potential adverse client and made clear Heller's potential representation of Visa against First Data in matters "including litigation." *Id.* at 102.

d. The Court also found there was substantial evidence that First Data was aware of the potential conflict when it signed the waiver letter. First Data admitted it first contemplated its private arrangements initiative in 1999 and foresaw antitrust concerns in 2000 regarding Visa's position on private arrangements. The court found that First Data's contention that it did not realize that Heller would represent Visa in those matters lacked credibility given First Data's awareness of Heller's history of representing Visa in prior comparable matters.

e. The Court explained that First Data was a Fortune 500 company and a knowledgeable and sophisticated user of legal services that should be expected to have understood the full extent of its waiver when it executed the waiver letter.

f. Finally, when Heller was retained by Visa to sue First Data, Heller immediately put in place an ethical wall barring contact between the Heller attorneys representing First Data and those representing Visa. While the court stated that such an ethical wall cannot cure a breach of the duty of loyalty, the court held there was no such breach here and the wall was instead instituted to protect the duty of confidentiality Heller owed to First Data.

9. In *Gen. Cigar Holdings v. Altadis, S.A.*, 144 F. Supp. 2d 1334 (S.D. Fla. 2001), *aff'd*, 54 Fed. App'x 492 (11th Cir. 2002), the court applied the Rules Regulating the Florida Bar to uphold an advance waiver.

   a. Latham & Watkins had served as outside counsel to General Cigar Holdings for a number of years and was retained by General Cigar and several other cigar manufacturers including the predecessors to Altadis in an action challenging Massachusetts tobacco sales regulations. *Id.* at 1336. The other manufacturers, each represented by outside counsel, signed an advance waiver covering matters not substantially related to the Massachusetts action, which attached a list of existing Latham clients. *Id.* Altadis agreed to the terms of the original waiver after it was created by the merger of its two predecessors. Less than a month later General Cigar, represented by Latham, filed an antitrust action against Altadis.

b. In denying Altadis's disqualification motion the Court rejected Altadis's arguments that the waiver was insufficient because it did not explicitly mention that Latham might bring an action against one of the companies challenging the Massachusetts regulation, and that the letter to the newly formed Altadis should have been more specific since it was sent less than one month before the suit against Altadis was filed. *Id.* at 1339. Explaining that the waiver was reviewed by outside counsel, the parties were sophisticated and Altadis's predecessors were aware of Latham's relationship with General Cigar, the court concluded that while the engagement letter could have been more explicit, it did represent informed consent for potential adverse actions. *Id.*

c. The Court also rejected Altadis's argument that the waiver was inapplicable because the Massachusetts action and the antitrust action were substantially related. Although both actions involved the marketing of cigars, the legal issues were unrelated. *Id.* at 1339-40.

d. The Court further concluded that Latham's representation of General Cigar in the antitrust matter would not diminish its ability to represent Altadis in the Massachusetts matter. The Court explained that the interests of all the cigar companies in the Massachusetts action were identical, all of the legal arguments and factual issues in that action were common to all of the companies, and Latham had not undertaken any independent services on behalf of Altadis. *Id.* at 1340-41.

e. Finally, the antitrust action did not involve allegations of fraud so as to implicate the character of Altadis and thus undermine Latham's ability to adequately represent it in the Massachusetts action. *Id.*

H. Court Decisions Finding Advance Waivers Inapplicable

1. Recent decisions finding advance waivers invalid demonstrate the need for care in drafting advance conflict waivers and the narrow manner in which they can be construed.

2. In *Sheppard, Mullin, Richter & Hampton, LLP v. J-M Mfg. Co.,* 244 Cal. App. 4th 590, 198 Cal. Rptr. 3d 253 (Cal. App. 2d Dist. 2016), for example, the court declined to apply an advance

conflict waiver and the law firm was later ordered to repay the fees it received from its client.

a. Sheppard Mullin represented South Tahoe Public Utility District ("South Tahoe") in employment matters for eight years under a general retainer agreement that was terminable by either party at any time. During the 5 years before the alleged conflict arose, Sheppard Mullin billed a total of 119 hours. 244 Cal. App. 4th at 598-99.

b. The Los Angeles Federal Court unsealed a qui tam action, *United States v. J-M Mfg. Co.,* No. 5:06-cv-00055-GW-PJW (C.D. Cal.), that accused J-M Manufacturing Company ("J-M") a pipe manufacturing company, of selling defective pipes. *Id.* at 598.

c. South Tahoe intervened as one of 48 intervenor plaintiffs and approximately 150 named parties.

    i. South Tahoe accounted for only a tiny fraction of the damages sought — it purchased less than .0004% of the pipes sold during the 10 years before the lawsuit, and less than .04% of the pipes sold in California.

    ii. When South Tahoe intervened, Sheppard Mullin had no active matters for South Tahoe. Moreover, South Tahoe had signed an advance conflict waiver that states Sheppard Mullin may "represent another client in a matter in which we do not represent [South Tahoe] . . . even if the interests of the other client are adverse to" those of South Tahoe "including [an] appearance on behalf of another client adverse to [South Tahoe] in litigation or arbitration," "provided the other matter is not substantially related to our representation of [South Tahoe] and in the course of representing [South Tahoe] we have not obtained confidential information of [South Tahoe] material to the representation of the other client." *Id.* at 599-600.

d. J-M asked Sheppard Mullin to defend J-M in the qui tam lawsuit. Sheppard Mullin accepted the engagement. The law firm concluded that the advance conflict waiver signed by South Tahoe permitted Sheppard Mullin to represent J-M and made it unnecessary to seek another waiver. *Id.* at 599.

i. J-M too signed an advance conflict waiver. That waiver permitted Sheppard Mullin to appear on behalf of another client adverse to the pipe manufacturer if the matter was not substantially related to Sheppard Mullin's representation of J-M. *Id.*

e. Shortly after Sheppard Mullin took on its representation of J-M in the qui tam action, South Tahoe asked Sheppard Mullin for additional employment law advice on several matters that were unrelated to the qui tam action. *Id.* at 600.

i. Sheppard Mullin's employment lawyers handled those matters, unaware that their firm was representing another client in a litigation adverse to South Tahoe. None of them worked on that litigation.

f. Two months later, Sheppard Mullin sent South Tahoe a request for documents in the qui tam action.

g. The following year, South Tahoe's counsel informed Sheppard Mullin it had a conflict. After the law firm refused to withdraw, South Tahoe moved to disqualify Sheppard Mullin. *Id.* at 600.

i. By then, the qui tam case was 6 months from the scheduled trial date. Sheppard Mullin was also representing J-M in class and state court actions raising the same issues. The law firm had billed J-M for more than 10,000 hours on the cases, and received millions of dollars in fees.

h. South Tahoe argued Sheppard Mullin should be disqualified because it knowingly chose to represent a new client, from which the firm expected to receive millions of dollars in fees, in a matter adverse to a current client without the knowing consent of the current client.

i. According to South Tahoe, Sheppard Mullin should have contacted South Tahoe and asked for its informed consent, but the law firm concluded it could not risk hearing the response it expected South Tahoe would make to that request. South Tahoe maintained that Sheppard Mullin instead chose to ignore its duty of loyalty to its existing client.

ii. South Tahoe also asserted the advance conflict waiver it signed was inadequate because it was too general and unlimited in time and because Sheppard Mullin did not discuss it with South Tahoe and therefore did not obtain its informed consent.

iii. South Tahoe further complained that Sheppard Mullin did not erect an "ethical wall" between its lawyers handling the qui tam lawsuit and its lawyers representing South Tahoe on employment matters until after it received South Tahoe's letter asserting a conflict one year after Sheppard Mullin took on its representation of J-M.

iv. Finally, South Tahoe argued it did not waive the conflict by waiting one year to raise it, because the conflict could not be waived.

i. Sheppard Mullin maintained the motion to disqualify should be denied for four reasons:

- South Tahoe was not a current client when Sheppard Mullin appeared as counsel in the qui tam action;
- South Tahoe was a sophisticated party that knowingly consented to what Sheppard Mullin was doing by signing an advance conflict waiver that expressly permitted the law firm to represent clients in future litigations adverse to South Tahoe that were unrelated to the matters in which the law firm represented South Tahoe;
- The qui tam action was wholly unrelated to the employment matters in which Sheppard Mullin represented South Tahoe, and Sheppard Mullin had no confidential information of South Tahoe that was related to the qui tam action; and
- The disqualification motion was an obvious tactical ploy that would unfairly prejudice the pipe manufacturer because South Tahoe brought it far too late, 15 months after it learned Sheppard Mullin had appeared in the qui tam action.

i. Sheppard Mullin argued in the alternative that South Tahoe's claims should be severed, or J-M should be

permitted to retain conflict counsel to defend against South Tahoe's claims.

j. The California Federal District Court rejected Sheppard Mullin's arguments (1) that South Tahoe was not a current client, (2) that South Tahoe gave its informed consent and waived any conflict, and (3) that South Tahoe purposefully and excessively delayed raising any conflict issue. The court disqualified Sheppard Mullin. *Id.* at 601.

k. J-M then refused to pay Sheppard Mullin approximately $1.2 million in unpaid fees incurred after South Tahoe moved to disqualify Sheppard Mullin. Sheppard Mullin brought an arbitration to recover the fees. *Id.* at 602.

   i. J-M filed a cross-claim seeking the return of the $2.7 million in fees it had already paid Sheppard Mullin, together with compensatory damages for the cost of preparing Sheppard Mullin's successors and punitive damages. *Id.*

   ii. J-M alleged Sheppard Mullin concealed the conflict from J-M to secure its own gain. J-M argued Sheppard Mullin was aware that had it disclosed the conflict to J-M, J-M would not have retained the law firm.

   iii. J-M argued that because Sheppard Mullin violated California's ethic rules, its contract with J-M was unenforceable as contrary to public policy.

   iv. The arbitration panel ruled for Sheppard Mullin, and ordered J-M to pay the $1.2 million in fees requested by Sheppard Mullin. *Id.* at 603.

l. J-M moved to vacate the arbitration award. On January 29, 2016, the California Court of Appeal, Second District reversed. *Sheppard, Mullin, Richter & Hampton, LLP v. J-M Mfg. Co.*, 244 Cal. App. 4th 590, 198 Cal. Rptr. 3d 253 (Cal. App. 4th Dist. 2016).

   i. The Court found Sheppard Mullin's representation of both J-M and South Tahoe violated the California Rules of Professional Conduct and made Sheppard Mullin's contract with J-M unenforceable as contrary to public policy. *Id.* at 608.

ii. The Court found Sheppard Mullin did not disclose the conflict to J-M, and the firm's violation of the Rules of Professional Conduct undercut the very purpose for which J-M hired Sheppard Mullin because the conflict caused the law firm to be disqualified. *Id.* at 618.

iii. For these reasons Sheppard Mullin was not entitled to its fees from the day the conflict started, and had to return approximately $2.8 million in fees.

m. On April 27, 2016, the California Supreme Court granted Sheppard Mullin's petition for review. Sheppard Mullin has asked the Court to consider the validity of its advance conflict waiver with J-M, and whether the appellate court's decision overly expanded the illegality exception to the enforceability of an arbitration award. *Sheppard, Mullin, Richter & Hampton, LLP v. J-M Mfg. Co.,* 368 P.3d 922, 201 Cal. Rptr. 254 (Cal. 2016).

3. In *Mylan Inc. v. Kirkland & Ellis LLP*, No. 2:15-cv-00581-JFC-LPL, Doc. 96 (W.D. Pa. June 9, 2015), a magistrate judge issued a decision recommending that Kirkland & Ellis be disqualified from representing Teva Pharmaceuticals in its hostile takeover bid for Mylan NV and found that an advance waiver did not apply.

   a. Kirkland had represented Mylan subsidiaries concerning certain drugs, and had obtained an advance conflict waiver from Mylan that permitted the firm to take on matters adverse to Mylan as long as they were not "related" to those representations.

      i. The Magistrate Judge attached significance to its finding that Kirkland initially requested Mylan to permit it to work on matters not "substantially" related to its work for Mylan, but deleted that word from the waiver during its negotiations with Mylan. Slip Op. at 11.

   b. The Magistrate Judge found Kirkland's representation of Teva in its attempt to takeover Mylan was "related" to Kirkland's work for Mylan on certain drugs because Mylan gave confidential strategic and other information to Kirkland that was "pertinent" to the takeover representation. *Id.* at 33.

c. The Magistrate Judge also ruled that even if Kirkland's work for Teva on the takeover had not been "related" to Kirkland's work for Mylan on its drug products, Kirkland still would not have been permitted to represent Teva because the ethical rules require that consent to a conflict must be "informed." *Id.* at 40-46. The waiver must specifically reference the proposed adverse representations that are permitted. The Magistrate Judge found "K&E elected to omit reference to any retained right of conflicting representation in that [hostile takeover] area of the law." *Id.* at 42-43.

d. The Magistrate Judge concluded: "If Kirkland intended to retain a right to act as an advocate against the Mylan clients in such a fundamental way, it was incumbent upon it to make certain that the clients knew and agreed to such an arrangement." *Id.* at 43.

e. Mylan sued Kirkland for breach of fiduciary duty. That lawsuit was resolved when Teva abandoned its takeover bid for Mylan. *Mylan Inc. v. Kirkland & Ellis LLP*, No. 2:15-cv-00581-JFC-LPL, Doc. 115 (W.D. Pa. Aug. 6, 2015) (stipulation and order).

4. Similarly, in *Western Sugar Coop. v. Archer Daniels Midland Co.*, 98 F. Supp. 3d 1074 (C.D. Cal. 2015), the Court disqualified Squire Patton Boggs LLP from representing the plaintiffs in a false advertising case because its predecessor, Patton Boggs LLP, had previously represented two of the defendants in the case, Tate & Lyle and Ingredion.

   a. The conflict arose from the merger of Squire Sanders and Patton Boggs in June 2014. Squire Sanders had been representing several sugar industry trade groups and manufacturers as plaintiff in their 2011 lawsuit against corn syrup makers over the use of the term "corn sugar." The defendants included Tate & Lyle and Ingredion, both long-standing Patton Boggs clients. Tate & Lyle was accidentally left off the client list when Squire Sanders and Patton Boggs engaged in merger talks.

   b. Squire Patton Boggs withdrew from its representation of Tate & Lyle, but Tate & Lyle refused to waive the conflict, even though its original engagement letter contained the following paragraph:

- "It is possible that some of our current or future clients will have disputes with you during the time we are representing you. We therefore also ask each of our clients to agree that we may continue to represent or may undertake in the future to represent existing or new clients in any matter that is not substantially related to our work for you, even if the interest of such clients in those unrelated matters are directly adverse to yours."

i. The court found this "open-ended" clause lacked "specificity." *Id.* at 1083.

c. The other Patton Boggs client, Ingredion, had worked with Patton Boggs consistently but less frequently than Tate & Lyle. Ingredion's agreement with Patton Boggs specified that once a matter concluded, the attorney-client relationship ended. *Id.* at 1085.

i. The judge accepted that such "episodic client" agreements are valid.

d. Plaintiffs argued that Squire Patton Boggs and its predecessor, Squire Sanders, had spent more than 20,000 hours working on the case and billed $12 million in fees, and that no replacement firm could master the issues without the same effort.

e. The Court agreed disqualification at that late stage would impose a hardship on plaintiffs, but ruled it was nevertheless the only option:

- "Tate & Lyle did not consent to the concurrent representation, and SPB's withdrawal from its representation of Tate & Lyle did not cure the conflict or convert Tate & Lyle into a former client for purposes of disqualification. SPB is therefore subject to disqualification from the present action." *Id.* at 1085.

f. The Court also found Ingredion had proved there was a "substantial relationship" between the law firm's current representation of the plaintiffs in the *Western Sugar Corp.* action and Patton Boggs' prior representation of Ingredion. Squire Patton Boggs was therefore presumed to possess

relevant confidential information and was subject to automatic disqualification. *Id.* at 1086 n.9.

g. "Having considered the competing interests of Plaintiffs' right to chosen counsel and the prejudice they would face if SPB were disqualified against the paramount concern of preserving public trust in the scrupulous administration of justice and the integrity of the bar, the Court finds that no alternative short of disqualification will suffice." *Id.* at 1093.

5. In *GSI Commerce Solutions, Inc. v. BabyCenter, L.L.C*, 618 F.3d 204 (2d Cir. 2010), the Second Circuit affirmed Judge Rakoff's order granting a motion by BabyCenter, a wholly-owned subsidiary of Johnson & Johnson, Inc. ("J&J"), to disqualify Blank Rome as counsel for GSI in a breach of contract arbitration after finding an advance conflict waiver did not apply.

a. In 2004, Blank Rome entered into an engagement agreement with J&J that stated the scope of the law firm's representation of J&J and its affiliates would be limited to compliance issues in connection with data privacy laws. J&J waived two specific conflicts arising from Blank Rome's concurrent representation of Kimberly-Clark in a patent matter adverse to one of J&J's affiliates, and the law firm's prospective representation of Kimberly-Clark in patent matters adverse to J&J or its related entities. The engagement agreement also provided: "Unless otherwise agreed to in writing or we specifically undertake such additional representation at your request, we represent only the client named in the engagement letter and not its affiliates, subsidiaries, partners, joint venturers, employees, directors, officers, shareholders, members, owners, agencies, departments or divisions. If our engagement is limited to a specific matter or transaction, and we are not engaged to represent you in other matters, our attorney-client relationship will terminate upon the completion of our services with respect to such matter or transaction whether or not we send you a letter to confirm the termination of our representation." *Id.* at 206-07.

b. In 2005, the engagement agreement was amended to add J&J's prospective consent to Blank Rome's "representation of generic drug manufacturers in patent-related proceedings involving Johnson & Johnson and its affiliates and subsidiaries." *Id.* at 207.

c. In August 2006, J&J subsidiary BabyCenter entered into an e-commerce agreement with GSI under which GSI was to run the operations of BabyCenter's online store and receive a percentage of the store's sales revenue. The parties agreed they would attempt to resolve any dispute through mediation and, if mediation was unsuccessful, the parties would proceed to arbitration.

d. When BabyCenter closed its online store in 2009, GSI contended that constituted a wrongful termination of their e-commerce agreement before the expiration of its five-year term and demanded mediation.

   i. Blank Rome represented GSI in the mediation.

   ii. When the mediation was unsuccessful, BabyCenter informed GSI it would not arbitrate the dispute if Blank Rome represented GSI, and J&J informed Blank Rome of its opposition to the law firm's representation of GSI.

e. On April 6, 2009, GSI filed a motion in the Southern District of New York to compel arbitration. BabyCenter cross-moved to disqualify Blank Rome as counsel on the ground that the law firm's representation of GSI was a concurrent conflict to which J&J had not consented.

f. The district court granted BabyCenter's motion and disqualified Blank Rome. *GSI Commerce Solutions, Inc. v. BabyCenter, L.L.C.*, 644 F. Supp. 2d 333 (S.D.N.Y. 2009), *aff'd*, 618 F.3d 204 (2d Cir. 2010). The Second Circuit affirmed.

g. Relying on Rule 1.7 of the ABA Model Rules and federal case law, the Second Circuit held first that the district court did not abuse its discretion when it treated J&J and BabyCenter as a single entity because:

   i. "BabyCenter substantially relie[d] on J&J for accounting, audit, cash management, employee benefits, finance, human resources, information technology, insurance, payroll, and travel services and systems." 618 F.3d at 211.

   ii. BabyCenter relied on J&J's in-house legal department which helped negotiate BabyCenter's e-commerce agreement with GSI, was involved in the dispute between BabyCenter and GSI from its inception and dealt

directly with Blank Rome in attempting to settle the dispute. *Id.* at 211-12.

iii. BabyCenter was a wholly-owned subsidiary of J&J and J&J exercised some management control over BabyCenter's business decisions. *Id.* at 212.

h. The Second Circuit next held J&J did not waive the conflict.

i. The Court found Blank Rome's representation of GSI did not fit within the narrow category of cases — patent litigation in which Blank Rome represented Kimberly-Clark or generic drug manufacturers — that were addressed in the waiver provisions of its engagement agreement with J&J. *Id.* at 213.

ii. The Second Circuit rejected GSI's argument that the provision in Blank Rome's engagement agreement with J&J that "[u]nless otherwise agreed to in writing or we specifically undertake such additional representation at your request, we represent only the client named in the engagement letter and not its affiliates, subsidiaries, partners, joint venturers, employees, directors, officers, shareholders, members, owners, agencies, departments or division," permitted Blank Rome to represent GSI in the arbitration for several reasons:

(1) "The waiver provisions unambiguously state that the contemplated conflicts arise out of Blank Rome's representation of J&J and third-parties in matters adverse to J&J affiliates, and not out of some separate representation of those affiliates" and thus the plain language of the agreement "contradicts GSI's argument that the waivers do not address corporate affiliate conflicts." *Id.*

(2) GSI's interpretation would violate basic canons of contract construction because "[i]f the broadly-worded, standard language of the [agreement] actually waives all corporate affiliate conflicts, then there is no possible purpose served by the non-standard waiver provisions waiving only certain corporate affiliate conflicts." *Id.* at 213-14.

(3) Construing the language of the agreement to waive all corporate affiliate conflicts involving "affiliates, subsidiaries, partners, joint venturers, employees, directors, officers, shareholders, members, owners, agencies, departments or divisions" would present a serious ethical problem. *Id.* at 214. "Specifically, Blank Rome cannot, consistent with its duty of loyalty to J&J, sue unincorporated departments or divisions of J&J. GSI conceded as much at oral argument but could not then explain why that same language grants Blank Rome authority to accept representation adverse to the other entities listed therein, such as affiliates." *Id.*

i. Finally, the Court held disqualification was the appropriate remedy because GSI failed to adduce any evidence that Blank Rome's representation of GSI would not result in an actual or apparent conflict of interest. *Id.*

6. In *Brigham Young Univ. v. Pfizer, Inc.*, No. 2:06-CV-890 TS BCW, 2010 U.S. Dist. LEXIS 104164 (D. Utah Sept. 29, 2010), the court granted the motion of Brigham Young University ("BYU") to disqualify Winston & Strawn from representing Pfizer in BYU's lawsuit against Pfizer regarding the Celebrex drug and found an advance conflict waiver did not apply.

a. In 2001, Gene Schaerr, then a partner at Sidley & Austin, began representing BYU in connection with certain legislative and regulatory proceedings unrelated to pharmaceuticals.

i. Around that time Sidley was asked to represent Pfizer (or its predecessors in interest Searle and Pharmacia) in a dispute with BYU relating to Celebrex.

ii. At Schaerr's request, BYU signed a conflict waiver permitting Sidley to represent Pfizer.

b. In 2005 Schaerr left Sidley to join Winston & Strawn. To enable Schaerr to continue to represent BYU, Winston required BYU to sign an engagement letter containing the following provision:

- "*Advance Patent Waiver*: As you may know, universities frequently hold patents in the products and inventions developed at such universities.

> Winston & Strawn LLP currently represents multiple pharmaceutical and other companies with respect to patent and intellectual property matters (collectively, the 'Other Clients'), including litigation (the 'Patent Matters'). Winston & Strawn LLP is not currently representing any Other Clients in matters adverse to the University. Because of the scope of our patent practice, however, it is possible that Winston & Strawn LLP will be asked in the future to represent one or more Other Clients in matters, including litigation, adverse to the University. Therefore, as a condition to Winston & Strawn LLP's undertaking to represent you in the BYU Matters, you agree that this firm may continue to represent the Other Clients in the Patent Matters, including litigation, directly adverse to the University and hereby waive any conflict of interest relating to such representation of Other Clients." *Id.* at*5-6.

c. After BYU signed the engagement letter in March 2005, Schaerr and Winston represented BYU in several matters.

d. In October 2006, BYU filed a lawsuit against Pfizer in connection with Celebrex, in federal district court in Utah. Sidley represented Pfizer in the lawsuit.

    i. It is unclear when Schaerr became aware of BYU's lawsuit against Pfizer, but in the summer of 2008 he signed up with an online service to receive docket notices for the case.

    ii. Schaerr also had numerous conversations with BYU's general counsel regarding the lawsuit.

e. In January 2010, Schaerr telephoned BYU's general counsel to inform him that Winston intended to appear as counsel for Pfizer in BYU's lawsuit. Schaerr said that although Winston continued to represent BYU in other matters, the advance waiver BYU signed in 2005 permitted Winston to represent Pfizer in the lawsuit.

    i. Schaerr also told BYU that Winston would be more cooperative and would not engage in the same "discovery games" as Sidley.

ii. Schaerr offered to help broker a settlement between BYU and Pfizer, believing that the friendship he had developed with BYU's general counsel might enable him to act as a go-between for the two parties.

f. Shortly thereafter, BYU moved to disqualify Winston from representing Pfizer.

g. The magistrate judge rejected Winston's contention that the 2005 advance conflict waiver applied to its representation of Pfizer, held the law firm's concurrent representation of BYU and Pfizer violated Rule 1.7 of the Utah Rules of Professional Conduct and the ABA Model Rules, and ruled disqualification was the appropriate remedy.

i. The Court reasoned that the advance waiver provision applied only to Winston's representation of "Other Clients," defined as companies that Winston "currently represents . . . with respect to patent and intellectual property matters."

(1) Applying the plain language of the agreement and the rules of construction that a conflict waiver should be construed against its drafter, and must be explicit, unequivocal and inconsistent with any interpretation other than a waiver, the court held "the waiver only applies to clients that Winston was representing with respect to patent and intellectual property matters as of the date of the agreement."

(2) The Court found that although Pfizer had been a long-time client of Winston there was no evidence that as of the date of the engagement letter Winston represented Pfizer or its predecessors in interest with respect to patents or intellectual property matters.

ii. The Court found disqualification was the appropriate remedy because:

(1) The Rule 1.7 violation was egregious in light of the length of Schaerr's relationship with BYU, the significant fees BYU paid Sidley and Winston for Schaerr's work, Schaerr's failure to inform BYU after commencement of the Celebrex lawsuit that

Winston represented Pfizer in other matters and the court's interpretation of an email from Schaerr as indicating that he "is willing to leave his loyalty for a current client behind if a more lucrative offer comes along."

(2) BYU would suffer significant prejudice if Winston were not disqualified because BYU's general counsel shared with Schaerr confidential information and his thoughts and impressions about the Pfizer litigation (although there was no evidence Schaerr disclosed that information to others at Winston).

(3) Winston's inability effectively to represent Pfizer in the Celebrex litigation and BYU in other matters was demonstrated by Schaerr's attempt to use his position of trust to further a settlement between BYU and Pfizer.

(4) Disqualification would not cause a hardship to Pfizer because Winston had been retained only recently and Pfizer could obtain high-quality representation from Sidley or another law firm.

(5) Disqualification would not unduly delay the trial because Winston had not been involved in the discovery process and trial was more than one year away.

h. On September 29, 2010, the district judge overruled Winston's objections to the magistrate judge's decision and order because the legal conclusions were correct and the factual determinations were not clearly erroneous. *Brigham Young Univ. v. Pfizer, Inc.*, No. 2:06-CV-890 TS BCW, 2010 US Dist. LEXIS 104164 (D. Utah Sept. 29, 2010).

7. Similarly, in *Concat LP v. Unilever, PLC*, 350 F. Supp. 2d 796 (N.D. Cal. 2004), the Court granted the plaintiffs' motion to disqualify Morgan Lewis & Bockius from representing Unilever in an intellectual property action because the law firm was representing the plaintiffs' managing partner in estate planning matters, and an advance conflict waiver signed by the managing partner was too broad and general to make informed consent possible.

a. The Court first rejected the argument that the plaintiffs lacked standing to seek disqualification because Morgan Lewis had never represented them directly. The court found plaintiffs had standing because the managing partner's disclosures to the law firm in connection with the estate planning process regarding his intellectual property and the plaintiffs' business structure "were inextricably intertwined with the business and financial matters of" the plaintiffs. *Id.* at 819.

b. The Court then concluded that the advance waiver signed by the managing director was insufficient to establish informed consent because of its extremely broad and general nature. The waiver stated in part:

"Morgan, Lewis & Bockius is a large law firm, and we represent many other companies and individuals. It is possible that some of our present or future clients will have disputes or other dealings with you during the time that we represent you. Accordingly, as a condition of our undertaking of this matter for you, you agree that Morgan, Lewis & Bockius may continue to represent, or may undertake in the future to represent, existing or new clients in any matter, including litigation, that is not substantially related to our work for you, even if the interests of such clients in those other matters are directly adverse to you." *Id.* at 801.

c. The waiver also stated that Morgan Lewis was not required to notify the managing partner of unrelated conflicting representations as they arose, but the waiver would not apply to instances where the law firm obtained confidential information that, if known to another client, could be used to his disadvantage.

d. The Court explained that when the law firm was asked to represent Unilever it should have notified the managing partner and plaintiff and requested a second, more specific waiver, because the prior advance waiver did not sufficiently disclose the nature of the conflict that subsequently arose between the parties.

8. Finally, in *New York and Presbyterian Hosp. v. New York State Catholic Health Plan*, No. 603640-04 (Sup. Ct. N.Y. Co. May 25, 2006) (Slip Op.), Justice Karla Moskowitz declined to give effect

to a blanket advance waiver executed by Brooklyn Hospital when it retained McDermott, Will & Emery to represent it in a labor law matter.

a. Only engagements substantially related to the subject matter of the labor law retention were excluded from the waiver. Over the next four years the law firm represented Brooklyn Hospital in additional labor law matters, including one that was still pending when Brooklyn Hospital filed an unrelated lawsuit against N.Y. State Catholic Health Plan. Brooklyn Hospital moved to disqualify the law firm from representing the Health Plan.

b. The Court refused to enforce the advance waiver because the court found it did not apply when the law firm sought simultaneously to represent Brooklyn Hospital in a labor matter and the Health Plan in an action adverse to Brooklyn Hospital. The court concluded that once the conflict between Brooklyn Hospital and the Health Plan arose, the law firm was required to obtain consent from Brooklyn Hospital to represent the Health Plan and that prior to the existence of the conflict Brooklyn Hospital could not have given a knowing waiver of the conflict.

I. Implied Waivers and Their Limits

1. If a party knows about an opposing attorney's conflict of interest or other misconduct but delays filing a motion to disqualify, courts may find the party impliedly waived the disqualification remedy.

2. In *Residential Funding Co. v. Decision One Mortgage Co.*, Civ. No. 14-1737 (MJD/JSM), Doc. 110 (D. Minn. Jan. 23, 2015), however, the District of Minnesota rejected an implied waiver argument, and found that Mayer Brown was disqualified from representing defendant HSBC Finance Corporation.

   a. Mayer Brown had previously represented the plaintiff Residential Funding Company (RFC), and the Court found "RFC presented extensive evidence that the matters on which Mayer Brown previously represented RFC were substantially related to the instant litigation and, as a result, Mayer Brown was precluded from representing HSBC against RFC, absent its consent or waiver of its right to seek disqualification." Slip Op. at 15 n.7.

b. Mayer Brown argued that RFC waived its right to seek disqualification by waiting six months to bring the motion. The law firm based its argument that RFC had knowledge of the law firm's allegedly conflicted representation on a voicemail it left for RFC's counsel asking for his reaction, "if only informally," to Mayer Brown's representation of HSBC. Slip Op. at 7.

c. The Court did not agree that this voicemail put RFC on notice of the conflicted representation:

> "While HSBC construed [RFC's counsel's] failure to return the call as some sort of evidence of consent by [RFC], in light of the obvious conflict of interest, the court found [his] explanation — that he did not return the call because the conflicts were so obvious that he believed that Mayer Brown would simply conclude that it could not accept the engagement — to be credible." Slip Op. at 25-26.

d. Since RFC took only two months from Mayer Brown's notice of appearance to file its motion to disqualify, the Court found RFC had not waived its right to that relief.

J. Unwaivable Conflicts

1. Some conflicts cannot be waived.

2. For example, in *State Comp. Ins. Fund v. Drobot*, No. 8:13-cv-00956 (C.D. Cal.), and *State Comp. Ins. Fund v. Capen*, No. 8:15-cv-01279 (C.D. Cal.), the court found a conflict was "so egregious that it is unwaivable," and issued a preliminary ruling disqualifying Hueston Hennigan.

   a. John Hueston of Hueston Hennigan represented the California State Compensation Insurance Fund in civil Racketeer Influenced and Corrupt Organizations Act lawsuits against Drs. Lokesh Tantuwaya and Daniel Capen that alleged they took kickbacks in exchange for illegal referrals. The Fund claimed the complex kickback and fraudulent billing scheme started in the 1990s and cost the Fund hundreds of millions of dollars.

   b. At the same time, Hueston's partner, Brian Hennigan of Hueston Hennigan, represented health care marketer Paul Richard Randall, who had pled guilty in April 2012 in a related criminal case in which he admitted he participated in the scheme to defraud the Fund by recruiting doctors and chiropractors to accept kickbacks.

c. On March 21, 2016, the court issued a tentative order stating: "The Court now faces a relatively simple question: Can a single law firm represent both the victim and the victim's alleged perpetrator at the same time and in the same litigation? The answer is clear: No. . . . But for some reason, the lawyers at Hueston Hennigan did not see the clarity of that answer. In doing so, they may have lost sight of a bedrock of our adversary legal system: the duty of loyalty." "Litigation Boutique May Be Disqualified for 'Egregious Conflict,'" Bloomberg Law, Big Law Business blog, Mar. 21, 2016.

d. The court issued two-page disqualification orders in both actions and stated it would issue a "19-page Tentative Order no sooner than May 19, 2016." *Drobot*, No. 8:13-cv-00956, Doc. 1022 (C.D. Cal. Mar. 22, 2016), and *Capen*, No. 8:15-cv-01279, Doc. 223 (C.D. Cal. Mar. 22, 2016).

e. On June 24, 2016, the court denied the Fund's motions for reargument. *State Comp. Ins. Fund v. Drobot*, Nos. SACV 13-0956 AG (JCGx), SACV 15-1279 AG (JCGx), 2016 U.S. Dist. LEXIS 83319 (C.D. Cal. June 24, 2016).

   i. In a lengthy order, which Judge Andrew J. Guilford stated was his "longer opinion further explaining the decision to disqualify," *id.* at *25, he declined to reconsider his disqualification of Hueston Hennigan.

   ii. The court noted the Fund's argument that a conflict is unwaivable only if a law firm represents two clients with an actual conflict in the same hearing, and that the Fund had expressly waived the potential conflict in writing "on at least four occasions." But the court found that the civil suit and related criminal action "were and are effectively the same case for the purposes of this analysis." *Id. at *51.*

   iii. The court further found that "Hueston Hennigan's concurrent representation of Randall and SCIF threatened the parties' and public's interest in obtaining a just process in a way that even informed, written consent couldn't fix." *Id.* at *55-56.

   iv. Furthermore, the "waivers here just didn't cut it," *id.* at *99, because they contained "questionable terms," featured boilerplate language and did not "reflect any

careful contemplation of the particular implications of the conflict here." *Id.* at *93, *94, *99.

VII. AVOIDING CONFLICTS IN REPRESENTING MULTIPLE PLAINTIFFS

A. Class Actions

1. Recent federal court decisions have addressed issues that can arise from prior or concurrent representations or other conflicts in the context of class actions.
2. One key question is whether diverse groups and individuals within a class have fair and adequate representation.
3. For example, in *In re Payment Card Interchange Fee and Merchant Disc. Antitrust Litig.*, 827 F.3d 223 (2d Cir. 2016), the Second Circuit rejected a $7.25 billion settlement of antitrust claims brought by millions of merchants against Visa, MasterCard and various banks, because plaintiffs' attorneys represented two classes with different interests in negotiating the settlement.
    a. Plaintiffs filed an antitrust class action against Visa and MasterCard and issuing banks on behalf of approximately 12 million merchants who accepted those cards. The plaintiffs alleged the card companies and banks engaged in a conspiracy to violate Section 1 of the Sherman Act by establishing rules that required the merchants to pay higher fees than they would have paid if the market was competitive.
    b. The parties' proposed settlement terms contemplated the certification of (i) a Rule 23(b)(3) class of plaintiff merchants that accepted the cards up to the time of settlement who would be eligible to receive up to $7.25 billion in monetary relief and to opt out of the class, and (ii) a Rule 23(b)(2) class of merchants that accepted the cards after that date and would accept the cards in the future who would receive injunctive relief in the form of changes to the card companies' rules and would have the option to opt out.
    c. The Second Circuit found the two plaintiff classes were improperly certified, and the proposed settlement was unreasonable and inadequate, because members of the second class were inadequately represented in violation of Rule 23(a)(4) and the Due Process Clause.

d. Accordingly, the settlement and the release provided by the plaintiffs were nullities.

e. The Court explained Rule 23(a)(4)'s requirement of adequacy means a proposed class representative must have an interest in vigorously pursuing the claims of the class and must have no interests antagonistic to the interests of other class members.

    i. That means there cannot be a fundamental conflict that goes to the very heart of the litigation, and there must be a structural assurance of fair and adequate representation for the diverse groups and individuals among the plaintiffs. 827 F.3d at 231.

    ii. It also means the class must be divided into subclasses with separate legal representation to eliminate conflicting interests of counsel. *Id.* at 232.

f. In contrast, counsel in this case represented both classes of plaintiffs, and the class representatives had interests antagonistic to those of some of the class members they were representing.

    i. The first group of plaintiffs wanted to maximize cash compensation for past harm, but the second group wanted to maximize restraints on network rules to prevent harm in the future.

    ii. The Court found those divergent interests required separate counsel because they impacted the essential allocation decisions of plaintiffs' compensation and defendants' liability.

    iii. For example, the Court observed that the principal relief obtained by the second class was the ability to increase the price of goods to customers who use the Visa card or a MasterCard, but the value of that relief is limited because many states, including New York, California and Texas, prohibit such surcharges as a matter of state law. And the problem was exacerbated because members of the second class could not opt out. *Id.* at 234.

    iv. In addition, class counsel stood to gain enormously from benefitting the first class, because their fees were set as a percentage of that recovery. In contrast, the

district court's calculation of their fees did not explicitly rely on any benefit to the second class. According to the Court, this "sapped class counsel of the incentive to zealously represent the latter class." *Id.* at 236.

g. The Court found these problems of inadequate representation were not remedied by the assistance of judges and mediators in the settlement bargaining process. Even an intense, protected, adversarial mediation involving multiple parties and highly respected and capable mediators does not compensate for the absence of independent representation. *Id.* at 235.

4. In contrast, in *Radcliffe v. Hernandez*, 818 F.3d 537 (9th Cir. 2016), the Ninth Circuit affirmed the denial of a motion to disqualify the attorneys for plaintiffs in a class action against the major credit-reporting agencies even though it found that one group of class counsel had a conflict of interest.

   a. Starting in 2005, several class actions were filed against Experian Information Solutions and others, alleging their credit reports contained errors.

   b. The cases were consolidated and plaintiffs' lawyers were split into two groups which the court referred to as the "White" counsel and the "Hernandez" counsel.

   c. A $45 million settlement was reached in 2009 that included $5,000 incentive fee awards for class representatives who were "in support of the settlement." In May 2009, the agreement was preliminarily approved.

   d. However, the "White" attorneys objected to the settlement. They argued that conditioning the incentive awards on the class representatives' agreement to the settlement created a conflict of interest, because lawyers were then put in the position of representing two distinct classes: the class representatives and the absent class of consumers, whose interests were not necessarily the same.

   e. The Ninth Circuit ultimately agreed that the "Hernandez" counsel was "simultaneously representing clients with conflicting interests," *id.* at 540, and did not approve the settlement or the award of costs and attorneys fees.

f. On remand in June 2013, the "White" counsel filed a motion to disqualify the Hernandez counsel and to serve as interim class counsel. The "White" group argued disqualification was mandatory under California law "because any counsel's simultaneous conflict of interest in its representation of multiple clients must result in automatic disqualification." *Id.* at 541.

g. The district court denied the motion and the Ninth Circuit affirmed. The Ninth Circuit acknowledged that the "White" counsel had had a conflict of interest, but found "the policy justifications that the California Supreme Court advanced for the automatic disqualification rule are not fully transferrable to class action cases." *Id.* at 544. "Indeed, the language of their opinions makes clear that they envisioned simultaneous conflicts of interest as they generally occurred in individual litigant suits rather than in class actions." *Id.*

h. Accordingly, the Ninth Circuit ruled trial courts have discretion to disqualify in class actions on a case-by-case basis. It explained that "given the unique ethical and due-process concerns involved in class actions, district courts must have the discretion to address attorney representation and disqualification issues based on details of each case, and we further believe the California Supreme Court would agree." *Id.* at 549.

5. In *Rodriguez v. Disner*, 688 F.3d 645 (9th Cir. 2012), the Ninth Circuit found there was a conflict between counsel's representation of the class representatives and the rest of the class.

a. Five representative plaintiffs brought a class action alleging that West Publishing, the owner of BARBRI, and Kaplan, the owner of an LSAT preparation course, engaged in anti-competitive conduct. The parties entered into a settlement agreement under which West Publishing and Kaplan agreed to pay $49 million to the class.

b. Class counsel McGuireWoods then sought attorney's fees for its own work and $75,000 in incentive awards for the five representative plaintiffs in accordance with an incentive agreement between counsel and those plaintiffs that stated they would receive the $75,000 if the settlement was greater than $10 million.

c. The district court approved the settlement and awarded attorney's fees to class counsel and incentive awards to the class representatives.

d. Several class members who had objected to the incentive awards and class counsel's fee request appealed to the Ninth Circuit.

e. In 2009, the Ninth Circuit affirmed the approval of the settlement, but found the incentive award agreements created conflicts of interest that affected the propriety of an award of attorney's fees. *Rodriguez v. W. Publ'g Corp. (Rodriguez I)*, 563 F.3d 948 (9th Cir. 2009). The court explained that "[o]nce the threshold cash settlement was met, the agreements created a disincentive to go to trial; going to trial would put [the representative plaintiffs'] $75,000 at risk in return for only a marginal individual gain even if the verdict were significantly greater than the settlement." *Id.* at 959-60. Accordingly, the Ninth Circuit reversed the award of attorney's fees and directed the district court to reconsider the award in light of this conflict of interest.

f. On remand, the district court ruled that class counsel was not entitled to any fees because the incentive agreements between class counsel and the five named plaintiffs breached the California Rules of Professional Conduct by creating conflicts of interest between the class representatives and the rest of the class. Class counsel appealed to the Ninth Circuit.

g. On August 10, 2012, the Ninth Circuit affirmed the district court's ruling, and reversed its order denying fees to the objectors who brought the conflict of interest to the court's attention. *Rodriguez v. Disner (Rodriguez II)*, 688 F.3d 645 (9th Cir. Aug. 10, 2012). The Court explained:

    - "We [previously] noted that class counsel's agreement to request incentive awards based on the amount of recovery 'put class counsel and the contracting class representatives into a conflict position from day one,' and that the effect of the incentive agreements 'was to make the contracting class representatives' interests actually different from the class's interests in settling a case instead of trying it

to verdict, seeking injunctive relief, and insisting on compensation greater than $10 million.'" *Id.* at 651.

- "The representation of clients with conflicting interests and without informed consent is a particularly egregious ethical violation that may be a proper basis for complete denial of fees." *Id.* at 656.

6. In *Johnson v. Nextel Communications, Inc.*, 660 F.3d 131 (2d Cir. 2011), the Second Circuit found a class of plaintiffs stated a claim for breach of fiduciary duty against Leeds, Morelli & Brown ("LMB"), a law firm they had hired to bring employment discrimination actions against Nextel. *Id.* at 134-35.

   a. Shortly after LMB was retained, and while lawsuits it had filed on behalf of plaintiffs against Nextel were pending, LMB and Nextel entered into a Dispute Resolution and Settlement Agreement ("DRSA"). *Id.* at 135.

   b. Under the DRSA, Nextel agreed, among other terms, to pay LMB substantial fees if LMB persuaded its clients to dismiss pending claims against Nextel, waive rights to a jury trial and punitive damages, and agree to an expedited alternative dispute settlement procedure set out in the DRSA. *Id.* Full payment to LMB was contingent on the settlement of all pending claims within specified time frames. *Id.* Under the DRSA, Nextel also agreed to pay substantial fees to LMB as a consultant for two years. *Id.* at 136.

   c. According to the plaintiffs, after the DRSA was signed, LMB provided them with a document summarizing the terms of the DRSA, including that the DRSA "posed a conflict of interest" to LMB. LMB allegedly asked them to sign individual agreements stating they had reviewed the DRSA, discussed it with LMB or other counsel, and agreed to comply with its terms. *Id.*

   d. All but fourteen plaintiffs signed the individual agreements, although they allege they were not provided with the full DRSA and the summary they reviewed did not include the amounts to be paid to LMB or the conditions for payment. *Id.*

   e. Plaintiffs filed suit individually and as class representatives against LMB and Nextel alleging, in essence, that the DRSA

was a conspiracy through which Nextel "secretly bought LMB's loyalty through payment" of substantial fees. *Id.* at 137. The plaintiffs sought damages on several claims including that LMB had breached its fiduciary duty and that Nextel had aided and abetted the breach. *Id.* The District Court granted a motion to dismiss the complaint for failure to state a claim. *Id.*

f. On appeal, the Second Circuit vacated the dismissal. *Id.* at 138. The Court concluded that the DRSA was a "knowing and intentional" breach of LMB's fiduciary duty to the plaintiffs due to the inherent and "unconsentable" conflict of interest it created for LMB, and that Nextel knowingly aided and abetted the breach. *Id.* at 138-42.

- The Court explained "[i]t cannot be gainsaid that, viewed on its face alone, the DRSA created an enormous conflict of interest between LMB and its clients. Such a conflict is permissible only if waivable by a client through informed consent." *Id.* at 139.

g. The Court also found "the opportunity for the claimants to give informed consent was so burdened that the DRSA is not consentable for that reason as well." *Id.* at 141. "On the face of the DRSA, its inevitable purpose was to create an irresistible incentive – millions of dollars in payments having no relation to services performed for, or recovery by, the claimants – for LMB to engage in an en masse solicitation of agreement to, and performance of, the DRSA's terms from approximately 587 claimant clients." *Id.* at 140.

7. Another key question is whether class counsel have divided loyalties due to the law firm's own prior relationships.

8. In *Li v. EFT Holdings*, No. 2:13-cv-08832, Doc. 218 (C.D. Cal. July 28, 2015), for example, a California federal court held that Locke Lord LLP was not adequate class counsel for plaintiffs, because a malpractice lawsuit against Locke Lord's predecessor law firm had created a conflict.

a. Locke Lord's predecessor had represented plaintiffs in the original putative class action in the consolidated case, which accused EFT Holdings of running a pyramid scheme that sold nutritional supplements that had a high lead content.

b. But the plaintiffs filed a proposed malpractice class action in California state court after the predecessor firm failed to file a motion for class certification on time, and that failure led to the dismissal of the class's claims.

c. The court explained that a "lawsuit against a firm arising from the firm's conduct in the identical case where the firm is seeking to represent absent class members certainly creates at least the 'appearance of divided loyalties of counsel.'" Slip Op. at 1-2.

d. The court also found that Locke Lord may have an incentive to downplay the viability of the state class action in an attempt to show that the state plaintiffs suffered no harm from the firm's failure to file for class certification: "Obviously, Locke Lord could also undercut the harm argument by actually achieving certification in this case. But that does not negate the existence of a conflict — that Locke Lord could find that it is easier to defend the state court case by attacking the merits of this case than by proving the merits of this case." *Id.* at 2.

e. The Court denied the motion to disqualify Locke Lord's co-counsel, Howarth & Smith.

9. In *Kaplan, et al, v. SAC Capital Advisors LP, et al.*, No. 1:12-cv-09350 (S.D.N.Y. filed Dec. 21, 2012), Quinn Emmanuel agreed to stop representing a plaintiff class in a lawsuit against SAC Capital Advisors LP, Mathew Martoma, and others because Martoma had previously interviewed the law firm to discuss retaining it to represent him on the appeal of his criminal conviction and allegedly shared attorney-client information. (Dec. 303, at 1).

10. In *Beltran v. Avon Products, Inc*., 867 F. Supp. 2d 1068 (C.D. Cal. 2012), the Court rejected the use of an ethics screen to avoid disqualification of a law firm representing the plaintiff in a putative class action and imputed that firm's conflict to a co-counsel.

    a. The Court disqualified the law firm from representing the plaintiff because a member of the firm was privy to the defendant's confidential information in his earlier work for another law firm.

    b. Applying California law, the Court ruled that an ethics screen does not avoid disqualification when a lawyer in the

firm has key confidential information relating to the defendant's "playbook" concerning business practices, product testing protocols and defense strategy.

c. The Court explained that even if screening could work, the procedures implemented by the law firm were inadequate because they were not set up quickly enough, the former client was not notified of the screen in writing, and the firm was small.

d. The Court imputed the conflict not only to the lawyer's new firm, but also to another firm that was co-counsel for the plaintiff.

e. The decision did not mention *Kirk v. Great Am. Title Ins. Co*., 183 Cal. App. 4th 776, 108 Cal. Rptr. 3d 620 (2010), which held that a law firm's use of effective screening measures may in some circumstances enable the firm to avoid vicarious disqualification based on an incoming lawyer's knowledge of client confidences acquired at another firm.

11. However, in *Mahoney v. Endo Health Solutions, Inc.*, No. 1:15-cv-09841, Doc. 66 (S.D.N.Y. Apr. 4, 2016), the Court denied a motion to disqualify plaintiffs' counsel in a putative class action against Endo Health Solutions Inc. alleging mislabeling of the amount of fluoride in its multivitamins.

a. The plaintiffs' counsel had previously represented the qui tam relator in a whistleblower suit concerning the alleged mislabeling of fluoride in multivitamins made by Endo. Endo paid approximately $22.4 million plus interest to the federal government to resolve the lawsuit.

b. But the Court found plaintiffs' counsel's involvement in the qui tam action did not require disqualification under the guidelines outlined by the ABA Model Rules of Professional Conduct for circumstances where the "information that the lawyer knows is confidential government information."

c. "The Rule is clear that it applies to lawyers who were themselves 'public officer[s] or employee[s]' … [or] had access to 'confidential government information.'" But "the information that [plaintiffs' counsel] accessed that related to the [qui tam] investigation was information provided by his client to the government." Slip Op. at 5.

d. The court also noted that the government and plaintiffs' counsel did not have a document sharing agreement in the qui tam action, so the risk of counsel having inappropriate information was remote. *Id.*

12. In *Fletcher v. Boies, Schiller & Flexner LLP*, 44 Misc. 3d 1216(A), 997 N.Y.S.2d 98 (Sup. Ct. N.Y. Co. 2014), a New York state court dismissed a malpractice claim against Boies, Schiller by a client who alleged the firm concealed a conflict between her and existing state and federal classes the firm was representing in a price-fixing action.

    a. The plaintiff, a fashion model, accused the firm of malpractice in part because it represented her individually in claims against modeling agencies, while also representing a class of models in class actions alleging price-fixing by modeling agencies.

    b. She contended her "individual claims lessened the potential recovery for the class, and conversely, the class claims lessened the recovery for [her] individually." 997 N.Y.S.2d at 98.

    c. The Court granted summary judgment dismissing this claim, finding that even "accepting *arguendo* that such a conflict of interest existed, Plaintiff's claim nonetheless merits dismissal. Plaintiff's assertion that Defendants violated a rule of ethical conduct does not, in and of itself, establish a malpractice claim." *Id.*

    d. Rather, plaintiff would have to make the same showing required for any legal malpractice claim (negligence, proximate cause and actual damages), and failed to do so. The court found, "[p]laintiff's invocation of the ethical rules does not cure the deficiencies of her underlying claims." *Id.*

13. Another issue is whether unnamed class members are considered to be "parties" for conflict purposes.

14. In *In re Rail Freight Fuel Surcharge Antitrust Litig.*, 965 F. Supp. 2d 104 (D.D.C. Sept. 3, 2013), the Court found unnamed class members are not parties for conflict purposes and denied a motion by a class member to disqualify Latham & Watkins as counsel for a key defendant.

a. Latham represented Union Pacific Railroad Company in many matters. Latham also represented Oxbow Carbon & Minerals in transactional matters beginning in 2004, but none related to Oxbow's relationship with Union Pacific or its rail freight needs.

b. In 2007, purchasers of rail freight services brought class actions alleging the four largest rail freight carriers, including Union Pacific, violated the antitrust laws. These class actions were centralized in the *Rail Freight* multidistrict litigation.

c. Oxbow later filed a separate action against Union Pacific, making the same antitrust allegations.

d. Latham was Union Pacific's counsel in the *Rail Freight* class actions but not in the *Oxbow* case.

e. Oxbow moved to disqualify Latham from representing Union Pacific in the class actions, even though Oxbow was not a named party in the class actions.

f. Oxbow argued Latham could not represent Union Pacific in the class actions because Oxbow was an unnamed class member. The court rejected this argument because unnamed class members are not "parties" for conflicts purposes.

g. Oxbow also argued Latham's representation of Union Pacific in the class actions violated Rule 1.7(b) of the D.C. Rules of Professional Conduct because the class actions and the *Oxbow* case are the "same matter" and thus Latham's representation of Union Pacific in the class actions would be directly adverse to Oxbow.

h. The Court rejected this argument too, and found there was no conflict.

    i. The Court explained that although "Latham's defense of [Union Pacific] in the [class actions] may involve the development of arguments or the taking of positions that ultimately establish negative precedent for Oxbow in" the *Oxbow* case, they are nevertheless distinct matters for purposes of Rule 1.7(b)(1). *Id*. at 114.

    ii. The Court also found no evidence that Oxbow shared confidential information with Latham that Latham could use in its representation of Union Pacific, and therefore, Latham's representation of Union Pacific in the class

actions provided "no reason to doubt Latham's loyalty to either [Union Pacific] or Oxbow in the matters in which Latham represents those clients." *Id*. at 116.

iii. Because the class actions and the *Oxbow* case were separate, and there was no reason to believe that Latham had breached the ethical rules regarding loyalty or confidentiality, the court refused to disqualify Latham.

B. Aggregate Settlements

1. The New York City Bar Association and several recent disciplinary proceedings have addressed the conflict issues raised by aggregate settlements for multiple clients.
2. Rule 1.8(g), the Aggregate Settlement Rule, states:
    - "A lawyer who represents two or more clients shall not participate in making an aggregate settlement of the claims of or against the clients, absent court approval, unless each client gives informed consent in a writing signed by the client. The lawyer's disclosure shall include the existence and nature of all the claims involved and of the participation of each person in the settlement."
3. The New York City Bar Association's Formal Opinion 2009-6, "Aggregate Settlements," interprets Rule 1.8(g) as prohibiting attorneys from asking jointly represented clients either to waive their right to approve a proposed aggregate settlement or to bind themselves to an aggregate settlement if it is approved by a specified percentage of the other clients.
    a. The Committee concluded "informed consent to an advance waiver is virtually a contradiction in terms."
    b. The Committee also opined that it was not appropriate for counsel (1) to persuade the clients to delegate authority to the attorney to negotiate and bind them collectively to a proposed aggregate settlement without the right of review, or (2) to obtain the clients' agreement to be bound collectively to any aggregate settlement approved by a specified number or percentage of those clients.
4. In *In re Ross*, 982 N.E.2d 295 (Ind. 2013), for example, 64 homeowners hired a lawyer to bring claims against a company after its factory exploded.

a. The company paid a fixed sum into an account controlled by the lawyer, and the lawyer then devised a formula for distributing the aggregate settlement fund to the homeowners and explained how the formula worked.

b. However, the lawyer did not disclose the terms of the settlement nor the total amount paid by the company.

c. The Indiana Supreme Court Disciplinary Commission issued a public reprimand of the lawyer, and the Indiana Supreme Court upheld it.

5. In *Tax Authority, Inc. v. Jackson Hewitt, Inc.*, 898 A.2d 512 (N.J. 2006), the New Jersey Supreme Court held that an engagement letter signed by 154 joint plaintiffs that stated that a majority could bind all of them to a settlement violated New Jersey's version of Model Rule 1.8(g).

   a. The court also held that its interpretation of Rule 1.8(g) should be applied only prospectively, and the agreement should be honored in that case.

C. Prior Service as Mediator

1. In an unpublished decision, *Nevarez v. Foster Farms*, No. F070316, 2016 Cal. App. Unpub. LEXIS 1956 (Cal. App. 5th Dist. Mar. 15, 2016), a California appellate court affirmed an order disqualifying plaintiff's counsel because he was consulting with an attorney who had mediated a similar case against the defendant.

2. The Whelan Law Group ("Whelan") represented Jose Nevarez and a proposed plaintiff class which sued Foster Farms of failing to pay wages, failing to provide an accurate accounting of wages, and unfair competition.

3. Whelan retained as a consultant another attorney, David Lowe, who had recently mediated a similar wage and hour lawsuit against Foster Farms.

4. After learning of Lowe's involvement, Foster Farms moved to disqualify Whelan. Foster Farms argued it had revealed sensitive information to Lowe in the mediation.

a. Lowe later testified he was never informed that Foster Farms was a party to the *Nevarez* case and did not ask for that information to run a conflicts check.

5. The trial court disqualified Whelan. For the purpose of its conflict of interest analysis, the Court treated Lowe as having established an attorney-client relationship with Foster Farms, and found Lowe's conflict extended to Whelan.

6. On appeal, Whelan argued that the trial court should not have applied the substantial relationship test to determine whether it should be disqualified, and should have allowed the firm to show that Lowe never disclosed any confidential information about Foster Farms to Whelan.

7. The appellate court affirmed the disqualification. It explained it did not find any abuse of discretion or legal error in the trial court's conclusion that "the evidence satisfied the substantial relationship test." 2016 Cal. App. Unpub. LEXIS 1956, at *31-32.

VIII. CLAIMS AND SANCTIONS AGAINST LAW FIRMS ARISING FROM CONFLICTS

A. Conflicts May Lead to Breach of Fiduciary Duty, Malpractice and Other Claims Against Counsel

1. Some recent malpractice actions have been grounded on alleged conflict issue.

2. In *Wachtell, Lipton, Rosen & Katz v. CVR Energy, Inc.*, No. 2015-1580 and No. 2015-3017, 2016 N.Y. App. Div. LEXIS 6975 (1st Dep't Oct. 27, 2016), the Appellate Division, First Department, reversed the dismissal of a malpractice claim by CVR Energy against Wachtell, Lipton, Rosen & Katz seeking about $37 million.

   a. CVR Energy, Inc. originally filed a malpractice complaint against Wachtell in federal court in Kansas on October 24, 2013. *CVR Energy, Inc. v. Wachtell Lipton Rosen & Katz et al.*, 2:13-cv-02547-JAR-DJW, Doc. 1 (D. Kan. Oct. 24, 2013).

      i. CVR alleged that Wachtell advised it in its 2012 defense of a hostile tender offer by Carl Icahn. Icahn won the takeover fight, and now controlled CVR. CVR alleged Wachtell failed to disclose to the CVR board

the terms of the company's fee agreements with Goldman and Deutsche Bank, and Wachtell should have informed CVR's board that under the company's second engagement letters with the banks, they would earn millions of dollars more in fees if they were unsuccessful and CVR's takeover defense failed than if they succeeded. *Id.* at ¶ 3.

ii. The complaint also alleged that "Wachtell has worked on numerous occasions in tandem with, and has represented, Goldman," *id.*, and that "Wachtell's long-standing relationship with Goldman in jointly representing companies that were the targets of proxy contests and hostile tender offers, affected its professional competence and judgment in its representation of CVR regarding the fee terms of the Second Engagement Letters" *Id.* at ¶ 43.

iii. The action was transferred to federal court in New York. *See Wachtell Lipton Rosen & Katz v. CVR Energy, Inc.*, No. 654343/2013, 2015 N.Y. Misc. LEXIS 554, at *5 (Sup. Ct. N.Y. Co. Feb. 24, 2015).

b. Meanwhile, on December 18, 2013, Wachtell sued CVR in New York State court for a declaratory judgment that it is not liable to CVR for malpractice, and CVR counterclaimed in that action for malpractice. *See id.* at *5-6.

i. CVR moved to dismiss Wachtell's declaratory judgment claim on the ground that the federal court action should take precedence. The state court denied the motion. *Wachtell Lipton Rosen & Katz v. CVR Energy, Inc.*, No. 654343/2013, Doc. 34 (Sup. Ct. N.Y. Co. Oct. 2, 2014).

ii. Wachtell moved to dismiss the malpractice counterclaim, arguing CVR had ratified the engagement letters it was complaining about. The state court granted that motion and dismissed that malpractice action. 2015 N.Y. Misc. LEXIS 554, at *10.

iii. The federal court then dismissed CVR's federal claim on the ground of res judicata. *CVR Energy, Inc. v. Wachtell*, No. 14-cv-6566 (RJS), 2016 U.S. Dist. LEXIS 42282 (S.D.N.Y. Mar. 29, 2016).

c. The Appellate Division, First Department, reversed both of the lower court's orders. *Wachtell, Lipton, Rosen & Katz v. CVR Energy, Inc.*, No. 2015-1580 and No. 2015-3017, 2016 N.Y. App. Div. LEXIS 6975 (1st Dep't Oct. 27, 2016).

i. The First Department found that Wachtell's claim for a declaratory judgment should have been dismissed because "CVR's choice of a federal forum for its earlier filed legal malpractice action" "is entitled to comity." *Id.* at *1-2.

ii. The Appellate Division further found that CVR adequately pled "a legal malpractice claim against Wachtell for conduct that allegedly caused and/or contributed to CVR's ratification [of the Second Engagement Letters with the banks] and kept CVR from taking appropriate action to negate the effects of the ratification". *Id.* at *2.

3. In September 2016, a Minnesota state court granted 3M's motion to amend its complaint to seek punitive damages against its former counsel, Covington & Burling. 3M alleged Covington breached its fiduciary duty to 3M, and breached their contract, by dropping 3M as a client so the law firm could represent the State of Minnesota in a contingency fee case against 3M. *3M Co. v. Covington & Burling LLP,* No. 62-cv-12-6607 (Minn. 2d Jud. Dist. Ramsey Co. filed Aug. 17, 2012).

a. The court found that "the purpose of the fiduciary duty rule … is to maintain the confidence of the public in the confidentiality of a legal representation . . . for an attorney to turn around and represent then an adverse party with information gleaned during the previous representation more than undermines the purpose of that rule. … This is serious when you're talking about attacking the integrity of the legal profession." 3M Co. v. Covington & Burling LLP, No. 62-cv-12-6607 (Minn. Second Judicial District, Ramsey Co. Sept. 12, 2016) (transcript of motion hearing, at 80).

4. In *Armstrong v. Blank Rome LLP*, No. 651881/13, 2014 N.Y. Misc. LEXIS 978, at *2 (Sup. Ct. N.Y. Co. Mar. 6, 2014), the Court denied a motion to dismiss a $25 million lawsuit by a former client against a law firm that represented her in divorce proceedings while representing her husband's employer, Morgan

Stanley. The plaintiff claimed this presented a conflict and led to the mishandling of the divorce.

a. The plaintiff brought claims for malpractice, and violations of New York State Judiciary Law § 487, which bars deceit by attorneys, and New York State General Business Law § 349, a consumer protection statute.

b. Plaintiff alleged that she filed for divorce from her husband in 2009 and hired Blank Rome to represent her. According to her complaint, Blank Rome did not inform her that the firm was simultaneously representing Morgan Stanley in a $400 million financing.

c. According to the complaint, plaintiff's husband was a managing director of Morgan Stanley, head of global and U.S. Private Wealth Management and a member of the firm's management committee, which controlled the operations of Morgan Stanley and set out its policies.

d. Plaintiff alleged that Blank Rome had a conflict of interest because of "the professional relationship between defendant Blank Rome and her ex-husband's employer, Morgan Stanley, for which Blank Rome was engaged in lucrative transactional representation in Pennsylvania."

e. She further alleged that Blank Rome "advised plaintiff to waive valuation, for distributive purposes, of Mr. Armstrong's professional securities licenses," an asset allegedly worth $16 million, and thereby deprived her of her 50% marital share. *Id.* at *2.

f. The Court found that plaintiff adequately pled her claims for malpractice and violation of Judiciary Law § 487, and denied Blank Rome's motion to dismiss those claims.

g. In March 2015, the Appellate Division affirmed the lower Court's ruling. *Armstrong v. Blank Rome LLP*, 126 A.D.3d 427, 428, 2 N.Y.S.2d 346 (1st Dep't 2015), finding "[t]he complaint alleges numerous acts of deceit by defendants, committed in the course of their representation of plaintiff in her matrimonial action."

5. Similarly, web translation firm MotionPoint brought a malpractice action against its former attorneys for failing to disclose or obtain its informed consent to a conflict.

a. In 2010, the law firm began representing MotionPoint in defense of a patent infringement case brought by its competitor Transperfect Global.

b. However, in 2011, the law firm hired a lateral partner who performed estates work for Transperfect's co-owners.

c. The law firm was therefore representing MotionPoint in defense of the lawsuit brought by Transperfect at the same time it was representing Transperfect's owners.

d. Transperfect moved to disqualify the law firm in the action against MotionPoint, and a federal magistrate judge granted the motion.

    i. The law firm asserted that it ran a conflict check on the clients the lateral partner brought to the firm, but there was no conflict to detect because her work was for Transperfect's owners in their personal capacities only.

    ii. However, Transperfect argued that her work for its owners related to its finances, and it paid the law firm's bills.

e. MotionPoint then brought a lawsuit against the law firm for breach of duty, fraud and malpractice. MotionPoint sought more than $10 million in damages, which it alleged was its cost to hire new lawyers and bring them up to speed in the patent litigation. *MotionPoint Corp. v. McDermott Will & Emery LLP*, No. CIV 521102 (Cal. Super. Ct. San Mateo Co. filed Sept. 20, 2013).

    i. The case was scheduled for trial in August 2016 and then settled. *MotionPoint Corp. v. McDermott Will & Emery LLP*, No. CIV 521102 (Cal. Super. Ct. San Mateo Co. filed Sept. 20, 2013) (docket sheet).

6. In *Axcess Int'l v. Baker Botts L.L.P.*, No. 00-13-013016 (Texas County Ct. Dallas Co. filed Feb. 28, 2013), Axcess International, which provides radio frequency identification ("RFID") systems, brought claims for breach of fiduciary duty, material nondisclosure and negligence against its former counsel, Baker Botts.

    a. Axcess alleged in its complaint that it hired Baker Botts in 1998 to provide intellectual property advice and strategy, and to draft and file patent applications for its inventions.

b. Axcess asserted it did not know that in 1999 Baker Botts agreed to represent Savi Technology Inc., Axcess's competitor in the RFID industry. Axcess maintained that Baker Botts filed multiple patent applications for Savi, including some with claims that resembled claims in the patent applications the law firm had already filed on behalf of Axcess.

c. Axcess also alleged that in 2001, after Savi announced a new product that Axcess believed infringed its patents, Axcess asked Baker Botts for advice, but the firm responded by "deflecting the issue" and failed to disclose that it represented Savi.

d. Axcess then hired Haynes and Boone for the limited purpose of sending a letter to Savi about licensing Axcess' patents. Savi forwarded that letter and the attached patents to Baker Botts, which performed an analysis for Savi. Even though the patents attached to the letter allegedly made clear that Baker Botts had prosecuted them, it purportedly still failed to inform Axcess that it represented Savi.

e. Baker Botts advised Axcess about patent matters on numerous occasions in subsequent years, but Axcess says the firm failed to inform it of the alleged conflict of interest. Meanwhile, Savi became the biggest provider of RFID technology to the government.

f. Axcess's complaint alleged that Baker Botts' actions have cost Axcess millions of dollars: "B.B. failed to recommend that Axcess pursue patent claims against Savi, failed to alter Axcess' patent application strategy based upon Savi's use of Axcess' prior invention, failed to inform Axcess of the conflict that existed, actively concealed its knowledge of the conflict and failed to make any effort to inform Axcess of its rights." *Id*. ¶ 28.

g. Following a three-week trial in 2014, the jury found Baker Botts was negligent and its negligence caused Axcess to incur more than $40 million in damages.

h. But the jury also found Axcess should have known about Baker Botts' representation of Savi in 2007. Axcess's negligence claim was therefore untimely.

i. Axcess appealed. On March 24, 2016, the appeals court held Axcess failed to prove Baker Botts was negligent in representing both Axcess and its chief competitor in patent prosecutions. *Axcess Int'l, Inc. v. Baker Botts, L.L.P.,* No. 05-14-01151-cv, 2016 Tex. App. LEXIS 3081 (Tex. App. 5th Dist. Mar. 24, 2016), *review denied*, 2016 Tex. LEXIS 874 (Tex. Sept. 23, 2016).

i. The appeals court also found that even if there had been a conflict of interest in the dual representation, Axcess would not be entitled to damages because it failed to prove it would have obtained expanded patent protections or prevailed in an interference proceeding in the U.S. Patent and Trademark Office due to Baker Botts' involvement with both companies. *Id.* at *12-18.

ii. The appeals court further ruled that Axcess failed to prove it would have been able to secure a licensing deal from its competitor if it had obtained stronger patents. *Id.* at *18-21.

7. In September 2013, National Union Fire Insurance Company brought a malpractice action in New York State Supreme Court, seeking $23 million in damages, from Edwards Wildman Palmer LLP and attorney John Hughes, which represented National Union in a coverage lawsuit. *See Nat'l Union Fire Ins. Co. v. Edwards Wildman Palmer LLP*, No. 653188/2013 (Sup. Ct. N.Y. Co. Feb. 3, 2014).

a. The underlying coverage lawsuit arose from a fatal 2006 accident in which ceiling tile from Boston's Big Dig highway tunnel project fell on a vehicle traveling through the tunnel nearly a decade after the project was completed.

b. National Union provided commercial liability insurance coverage to Modern Continental Construction, a company that installed the ceiling tile in the tunnel, and asked Edwards Wildman to determine whether National Union should defend and pay a claim against that policyholder.

c. National Union alleged it was unaware that Edwards Wildman also represented The Travelers Cos., a competing carrier which, through a subsidiary, provided a performance bond concerning Modern Continental's work on the Big Dig project. National Union alleged that this dual representation created

a conflict that precluded Edwards Wildman from representing National Union, but the law firm failed to disclose the conflict for at least two years.

d. National Union alleged it was therefore required to spend millions of dollars to retain a second law firm and bring that new firm up to speed.

e. National Union's complaint sought $10 million in damages, attorneys fees and costs; disgorgement of $3 million in legal fees previously paid to Edwards Wildman; punitive damages; and either treble damages or $30 million under a New York law that punishes lawyers who have engaged in deceit or collusion.

f. On February 14, 2014, the New York State Supreme Court dismissed the complaint on the ground that New York was an inconvenient forum.

8. In *Geo Specialty Chemicals, Inc. v. Husisian*, 951 F. Supp. 2d 32 (D.D.C. 2013), the court dismissed a malpractice action by a former client against Foley & Lardner LLP and attorney Gregory Husisian after finding that a new matter was not the same or substantially related to a prior representation.

a. Geo was the largest producer of glycine in the United States and was therefore very interested in the tariffs, or "anti-dumping duties," imposed by the Commerce Department on Chinese glycine manufacturers. *Id*. at 35.

b. Husisian was a partner at Thompson Hine, where in 2007 and 2008 he devoted more than 300 hours to representing Geo in proceedings before the Commerce Department to adjust the antidumping duties imposed on two Chinese glycine shippers. Geo opposed a reduction in the duties; the Chinese companies favored it.

c. In 2012, Geo learned that Husisian, now at Foley & Lardner, was representing two different Chinese glycine companies that were seeking to enter the U.S. market. Geo requested review from the Commerce Department.

d. Geo demanded that Foley withdraw. When Foley refused, Geo brought an action alleging that Foley's representation of the new Chinese companies violated D.C. Rule of Professional Conduct 1.9 and breached its fiduciary duties.

e. The D.C. Circuit dismissed the action. The court explained that "a fact finder could not possibly conclude that the [law firm's] new shipper review [for the Chinese companies] is 'the same or [] substantially related' to the proceedings in which Husisian represented GEO." *Id*. at 39.

i. The court found Geo did not allege facts that showed that Husisian, in representing Geo, received information that might be useful to his representation of the new Chinese companies.

ii. The court also noted that "even if the complaint adequately alleged a breach of duty, plaintiffs' claim would still fail because GEO does not allege that the breach has caused any injury." *Id*. at 44.

B. Conflicts May Also Lead to Sanctions

1. In *Madison 92nd St. Assocs. v. Marriott, Inc.*, No. 13 Civ. 291, 2013 U.S. Dist. LEXIS 160290 (S.D.N.Y. Oct. 31, 2013), the Southern District of New York issued a sharply worded opinion awarding sanctions against a law firm for failing to withdraw as counsel when asked to do so by former client Host Hotels & Resorts.

a. The law firm had previously represented Host, which owns hotel buildings in New York City, including two Marriott hotels. From 2000 to at least 2004, the firm represented Host in various matters, including the negotiation and execution in 2002 of a global settlement of a long-running dispute between Host and Marriot that included new agreements governing the future relationship between the two companies: the "attorneys spent almost two years undertaking with others an all-encompassing review of the relationship between Marriott and Host." *Id.* at *5. The firm billed Host $1.25 million for more than 3700 hours of work. *Id*.

b. In December 2012, Host learned that the law firm was representing Madison 92nd Street Associates ("Madison"), which had owned another New York Marriott hotel, in threatened litigation against Host and Marriott. Madison's draft complaint alleged that in mid-2002 Host and Marriott entered into a conspiracy against their non-union competitors.

c. After receiving the draft complaint, Host's general counsel contacted the law firm and asserted the conflict, but the law firm responded that the new litigation was not the same or substantially related to its prior work for Host.

d. The parties continued discussions, and the law firm turned over to Host some documents from its prior representation.

e. When the law firm nevertheless filed Madison's complaint against Host, Host prepared a motion to disqualify. Before filing the motion, Host had a final meeting with the law firm and provided specific documents concerning the conflict. At that point the firm acknowledged the conflict and withdrew as counsel.

f. Host then moved for sanctions in the amount of the fees it incurred to persuade the firm to withdraw.

g. The Court granted the motion, finding the conflict should have been obvious because the complaint against Host and Marriott accused them of "entering into an agreement in mid-2002 — the very time when Host, advised by [the law firm], entered into multiple agreements with Marriott that restructured and extended their relationship. . . . The coincidence in timing means that the purported conspiracy would at a minimum have been entered into in the context of the 2002 Settlement, and might well have been part of it." *Id*. at *13-14.

   i. The court concluded: "A clearer conflict of interest cannot be imagined. A first year law student on day one of an ethics course should be able to spot it." *Id*. at *3.

   ii. The Court also stated that:

      - The law firm rejected Host's complaint about the conflict before reviewing its files concerning its past work for Host, even though the files contained documents revealing the conflict.

      - The law firm said its own deputy general counsel and outside counsel personally reviewed its files, but both lawyers missed the "obvious conflict." *Id*. at *37.

- The law firm filed Madison's complaint while discussions about the conflict were still in progress.
- "Serious and detailed scrutiny [of whether there was a conflict] meant doing more than (1) conducting what can only have been perfunctory interviews with lawyers about a matter about which they had not thought for ten years, and (2) rummaging among electronic documents using keywords that appear designed to uncover nothing at all. At a minimum [the law firm] had an obligation, before taking a position that there was no conflict, to retrieve and read the critical documents relating to its prior representation – including specifically any and every document describing the scope of the representation and any and every attorney-client memorandum or opinion letter. As for the document review that did take place: to describe it as incompetent is no overstatement." *Id*. at *40-41.

h. On March 11, 2015, the Second Circuit affirmed in a summary order, finding no abuse of discretion "for substantially the reasons stated" by the District Court, "without endorsing all of the tonalities of the district court's opinion." *Boies, Schiller & Flexner LLP v. Host Hotels & Resorts, Inc.*, 603 Fed. App'x 19, 20 (2d Cir. Mar. 11, 2015).

C. Claims Arising From an Alleged Failure to Define the Client Even Where There Is No Conflict

1. Even where there is no conflict it is important to define who is the client.

2. For example, in *Mawere v. Landau*, 130 A.D.3d 986, 15 N.Y.S.3d 120 (2d Dep't 2015), the Appellate Division, Second Department, in New York addressed a claim by Jonathan Mawere against a law firm for malpractice and breach of fiduciary duty for putting together a joint venture and acquisition of two nursing homes that did not include him, despite his objection.

   a. Mawere alleged that the law firm sent its proposed retainer agreement to him and his business partners, and he believed the law firm represented him as well as his partners even though he is not specifically named in the retainer agreement.

b. The trial court dismissed the claim against the law firm because Mawere was not mentioned in the retainer agreement.

c. But the Appellate Division reversed. The Court explained that the documentary evidence the law firm "submitted did not conclusively establish that no attorney-client relationship existed between [the law firm] and the plaintiff. Furthermore, granting all favorable inferences to the plaintiff, the allegations in the complaint were sufficient to plead the existence of an attorney-client relationship between the law firm defendants and the plaintiff, and that the law firm defendants committed legal malpractice and breached their fiduciary duty to the plaintiff." 130 A.D.3d at 990, 15 N.Y.S.3d at 124.

3. For another example, in *Bayit Care Corp. v. Einbinder*, 41 Misc. 3d 1202(A), 977 N.Y.S.2d 665 (Sup. Ct. N.Y. Co. 2013), the New York State Supreme Court, New York County, refused to dismiss a legal malpractice action brought by the 50% owner of a corporation who claimed that the lawyer defendant jointly represented him and the corporation.

   a. Bayit Care Corp. managed a healthcare center as a franchisee. Bayit and its 50 percent co-owner, who was also its president, brought a legal malpractice action against Bayit's law firm, alleging that it failed to take certain actions to renew Bayit's franchise.

   b. The law firm moved to dismiss the claim by the 50% owner on the ground that its only client was Bayit.

   c. But the court denied the motion, finding that the language of the retainer agreements and defendant's conduct were sufficiently ambiguous to create an issue of fact regarding the identity of its client.

      i. For example, the retainer agreement was addressed to the 50% owner personally, and did not clearly reference Bayit as the client, and the attorneys made multiple references to him as their client during a hearing in a consolidated action against the franchisor.

4. In *Kentucky Bar Ass'n v. Hines*, 399 S.W.3d 750 (Ky. 2013), the Kentucky Supreme Court found an attorney, Ronald Hines, violated his duty of loyalty to his corporate client when he sued

some of its officers and directors in the name of the corporation against the wishes of a majority of the board.

a. Hines represented Cody Properties Inc., which was formed in 1991 by about 100 heirs to a large tract of property to own and manage the property.

b. In the late 1990s, the heirs split into two factions. Marie Spencer, the president of the company led one faction, and Hines represented the other.

c. At a board meeting in September 2000, the Cody shareholders re-elected all but one of the directors and officers.

d. The board then hired a different attorney, O'Brien, as the new general manager of the corporation and an LLC it was forming to succeed the corporation. In October 2000 he informed Hines that Spencer had terminated his services except in one ongoing litigation.

e. Hines responded that the elections of the directors and officers were illegal, because no notice had been given of certain changes in the election process, and thus O'Brien had not been hired by a legal board, and the LLC had been created with fraudulent papers.

f. In 2001, the board met and authorized O'Brien to replace Hines in the one litigation he was handling. Spencer wrote to Hines informing him his services were completely terminated, including in the litigation.

g. Hines responded that the termination was illegal, and he continued to hold himself out as counsel for the corporation.

h. Spencer filed two complaints with the bar against Hines. Hines argued his conduct was appropriate in the context of what was happening in the corporation at the time, that legitimate questions existed as to who was lawfully authorized to act on behalf of the company, and that his decision-making was difficult because of the volatile situation.

i. A trial commissioner found Hines breached ethical provisions relating to a lawyer's obligations as corporate counsel, as well as rules relating to lawyer-client communication, the duty of confidentiality, and a lawyer's responsibilities when a representation ends.

j. Hines appealed, but the Kentucky Supreme Court upheld most of the commissioner's findings, including the recommended sanction. The Court ruled:

- Hines breached his obligation to communicate with Cody by not responding to requests from the company's authorized agents to explain why he believed the board was not lawfully elected.
- Hines acted unethically by turning over the client's files to an attorney representing the dissident shareholders.
- By siding with the dissident heirs, Hines violated Rule 1.13(a), which stated that "a lawyer employed or retained by an organization represents the organization acting through its duly organized constituents."
- Hines violated his duty of loyalty to the corporation: "[T]he simple fact is that Hines was hired by the corporation, which acts through its board and officers." *Id*. at 769.
- The remedy for dissatisfied board members and shareholders was to file a shareholder derivative suit, yet Hines filed suit directly on behalf of the corporation without the required authorization from the board of directors, the court observed. *Id*.

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